Corporate Governance, Market Economy and Accountability

Corporate Social Responsibility – The Role of the Private Sector and International Financial Institutions

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Setting the Stage and the Big Picture
Background: Fragile, Complex, and Dangerous World

“Never before in the 33 years of the World Economic Forum’s history has the situation in the world been so fragile, as complex and as dangerous as this year. We feel that we are living in a new world – with new rules and new dangers – but certainly also with new opportunities… Today we need a new, enlarged concept of business leadership!”

Klaus Schwab, Executive Chairman

World Economic Forum, Davos, 2003
Background: Our World Out of Balance
Background: Dual Inequalities

1. Wealth Gap
2. Generational Gap
Background: Global Wealth Gap

• ½ of the world’s population lives on less than $2/day
• 1.2 Billion live on less than $1/day
• Top 25% of world’s population controls:
  – 86% of the world’s gross domestic product
  – 82% of global trade
  – 68% of all foreign direct investment
Some statistics

• Of the world's 6 billion people, 1.2 billion live on less than $1 a day
• 2.8 billion people live on less than $2 a day
• Another three billion people will be added to the world's population in the next 50 years.
• Of the next one billion people, 97 percent will be in developing countries, the majority of them in urban areas.
Background: Generation Gap

• ½ of global population is under 25
• 1/3 of global population between 15-25
• Trend is especially acute in developing world
Background: Italy

European Nation with a pronounced generation gap
Background: Egypt
Changing Context

• Globalization.
• New role of the private sector.
• Need for multi-sectoral partnerships.
• Need to satisfy stakeholders.
• Need to manage risk to stay competitive.
Corporate Social Responsibility (CSR)

*CSR is a mechanism by which businesses can accept greater social and environmental responsibility for their actions – globally, regionally and locally.*
Corporate Social Responsibility (CSR) cont’d

• Integral part of wealth creation process.
• Means to enhance competitiveness.
• Part of long-term strategy.
The New Role of PS: Increased Powers of MNCs

- Companies command significant economic influence
- Business is the principal motor for growth and development
- However, investment in the developing world remains small compared to industrialized countries
- Investment flows represent both capital flow and also the needed skills and know-how to compete

<table>
<thead>
<tr>
<th>COUNTRY/CORPORATION</th>
<th>GDP/SALES ($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 USA</td>
<td>8,708,870</td>
</tr>
<tr>
<td>2 Japan</td>
<td>4,395,083</td>
</tr>
<tr>
<td>5 UK</td>
<td>1,373,612</td>
</tr>
<tr>
<td>11 Mexico</td>
<td>474,951</td>
</tr>
<tr>
<td>14 Australia</td>
<td>389,691</td>
</tr>
<tr>
<td>23 <strong>General Motors</strong></td>
<td>176,558</td>
</tr>
<tr>
<td>24 Denmark</td>
<td>174,363</td>
</tr>
<tr>
<td>25 <strong>Walmart</strong></td>
<td>166,809</td>
</tr>
<tr>
<td>27 Ford Motor Co.</td>
<td>162,558</td>
</tr>
<tr>
<td>28 DaimlerChrysler</td>
<td>159,985</td>
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<td>29 Poland</td>
<td>154,146</td>
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<tr>
<td>31 Indonesia</td>
<td>140,964</td>
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<tr>
<td>37 <strong>Mitsui</strong></td>
<td>118,555</td>
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<td>38 <strong>Mitsubishi</strong></td>
<td>117,765</td>
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<td>40 GE</td>
<td>116,630</td>
</tr>
<tr>
<td>42 Portugal</td>
<td>107,716</td>
</tr>
<tr>
<td>43 <strong>Royal Dutch/Shell</strong></td>
<td>105,366</td>
</tr>
</tbody>
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The New Role of the Private Sector (PS): Some Broader Issues

• Growing gap between:
  – (1) The Scope and Power of PS Institutions, and
  – (2) Public Institutions

• Market-Based Solutions: The Role of the Markets Has Expended Steadily in US and Abroad
PS: The Market Based Solutions: Global Imbalances

- Imbalance System of Global Rule Making
- Rules that support Market Expansions are more robust and enforceable, such as:
  - Intellectual property Rights
  - Trade Despite Resolution through the WTO
- Rules Addressing Social Concerns are less enforceable, such as
  - Health and Labor Standards,
  - Environmental Quality
  - Poverty Reduction
- This Reflects Social Demands for Recalibration of the power of Decision-Makers
PS: The Market Based Solutions: The Social Legitimacy

Building Broader Social Capacity

Sustainable Markets

Environmental Sustainability

- The social legitimacy of Sustainable Markets (including capturing new market opportunities) depends on how efficiently social causes are addressed
- Without Sustainable Markets there is very limited role of the Private Sector in Environmental Health
PS: Decision Making

• Global Reach and Capacity to Making and Implementing Decisions at a pace that neither Governments nor IFI’s can possibly Match

• At Local Level to help:
  – Fill Governance Gaps and Compensate for Governance Failures
  – Build Capacity for Other Actors to Advance Broader Social Objectives
A New Mind Set: Beyond “CSR Pays”- Adding Value

From: Separation and Competition

To: Enlargement and Overlapping
Changing Expectations

• What is corporate performance?
• How can it be achieved?

• Answers are critically influenced by
  – Globalization
  – Widespread liberalization
  – Massive privatization
  – Sweeping deregulation
  – Advances in technology and knowledge

• The shift is toward pooling capital to actors of social change.
Convergence of Interests

• Is not automatic nor will it naturally occur
• Will not collapse into each other
• Not sustainable on its own
• Vulnerable to challenges by stakeholders and regulators
• The question is not whether there is or there is no business case for CSR but **how to make it happen**
Convergence of Interests

Depends on
• Societal expectations
• Strength of supporting institutions
• The chosen time frame
• Understanding consequences that are more remote in time
• Mentality- One-time transactions or longer term commitments
  – Particularly relevant for social implications
A New Mindset / Framework

• Looking at longer term profit-by improving longer term economic prospects
• Bigger picture—importance of local conditions for company’s ability to compete
• Understanding the benefits of influencing the quality of business environment
• Focus on the alignment of economic, social and environmental goals
• Importance of specialized knowledge
• Importance of partnership
  – Common language
  – Common ground
  – Negotiation skills—co-opetition
Benefits will vary

• Different reasons in different countries, industries, and companies
• And these reasons change over time
• At corporate, level it usually starts with “damage control” and PR exercise
• Well established companies: protecting reputation and brands
• New companies: building reputation and establishing brands
• Societal factors—law and media (strong institutions in developed countries, corruption in developing countries)
Corporate Social Responsibility: A New Framework

• Is Not Only a Business Challenge - It's Very Much about the **New Role of Business** in Society and Development and New Forms of **Multi-Sector Partnership**
• Realign the Efficiency of **Markets** with **Societal Expectations**
• Overcome the Constraints Imposed by Inter-Governmental Structures and Boundaries
• **Limits of Voluntarism** without a Level Playing Field Requires Involvement of **Government and Society**.
CSR – A New Paradigm

To think comprehensively and systematically about
• The role of business in development
• The manner in which the business is conducted
• Corporate governance
• Poverty alleviation
• Corporate contribution to peace and war against terror
• Business, government and civil society partnership-common ground and collective action
PS: A Need for Multisectoral Partnership

• Economic, environments, and social issues are becoming too complex and the resources and competences needed for addressing them too dispersed for one sector to have all the solutions.

• There is growing expectation that the PS can and will play a role in helping to address environmental health challenges.

• The critical issue for business, and public sector leaders to define appropriate and realistic boundaries of this role.
Multisectoral Partnership: WEF’s Global Governance Initiative

• To review the program that governments, business, and civil society are making in:
  – peace and security
  – human rights
  – poverty
  – hunger
  – the environment
  – education, and health

• No group scored higher than 4 on scale of 1 to 10.

• What can we learn from business-led or business-supported partnership on CSR initiatives? What was the role of PS in determining economic, social, and environmental outcomes? Many of them depended on conscious choices made by various stakeholders.
Multisectoral Approach to Capacity Building

- To better understand the linkages between the economic, environmental, and social impact.
- New forms of partnership across sectors and institutions to Build Social Capacity
- This will also help PS to better understand the rich set of issues, challenges, and opportunities that companies face in determining their appropriate role in society and development.
- A Need for a Viable Strategy for PS to Contribute to Capacity Building of the Government and Civil Society to Deal with these Issues
- Provide Incentives to the PS for Collective Actions and Scaling Up: from Individual Initiatives to Systematic Interventions
Competitiveness

• The Fundamental Challenge for Business is to Remain Profitable and Competitive.

• Operate under increasingly complex, competitive and economically and socially uncertain conditions.

• Publicly listed companies: huge pressure to deliver robust and growing quarterly earnings.

• Pressure to establish cooperation with nontraditional partners and competitors, as well as focus on unfamiliar issues.
Why Competitiveness Framework?

• Corporations
  – Better relate CSR to their competitive strategy and competitive context
  – Better communicate and collaborate with government and civil society

• Government
  – Better understand corporate intent and the drivers behind corporate success
  – Improved business environment
Why Competitiveness Framework?

• Civil Society
  – Better understand corporate intent and the drivers behind corporate success
  – Strengthen their relevance and credibility through
    • Improved governance structure
    • Relevant knowledge

• Youth
  – Sustainability and long term impact
  – Today’s decisions and tomorrow’s consequences
  – Relevant education and knowledge
  – Governance structure for relevance and credibility
Why Competitiveness Framework?

• Key Stakeholders
  – Develop shared understanding of the challenges
  – Develop common languages
  – Understanding priorities and constraints of other stakeholders
  – Create incentives for coalition building and action
  – Dynamic and strategic problem solving and division of labor
  – Better understanding of the big picture and time horizon
Corporate Social Responsibility Supports Corporate Strategy

• Cannot substitute for bad or lack of corporate strategy
• But can increase effectiveness if aligned with company strategy
• Should support not drive corporate strategy

• “The more tightly corporate philanthropy is linked to the strategy and expertise of the firm, the more effective it will be in creating social and corporate value simultaneously.”

~Michael Porter
The World Bank
World Bank as Knowledge Bank

1. See the big picture and underlying principles behind them, which allows for more successful adjustments to meet local needs

2. Attract people with ideas to be part of the global experience in designing and implementing projects

3. Access to global practices and perspectives, thus facilitating an exchange of best practices
World Bank Value Added

- Better understanding of “what is good practice”
- Experiences of more blended activities, related to the policy issues, good governance and institutions
- Capabilities to incorporate learning and technical assistance component
World Bank Value Added
(Cont’d)

• Contextualizing - the Bank can put particular PPP in context of global developments, bring enormous amount of background information to the table, situate the partnership in particular country / regional context
• Convincing and Convening - through its networks and stature, WB can bring important stakeholders to the table, convince them to participant, and deepen the conversation
• Compiling and Comparing – can document good practices, emerging practices, best practices, compare, contrast and disseminate
Involving Other Donors

- Mitigation of free rider problem.
- Establish partnerships.
  - Multi-sectoral.
  - Intra-sectoral.
- Increases impact of donation.
- Increases reputation & credibility.
- Creates access to other stakeholder groups.
- Spreads out liability & responsibility.
World Bank Institute Program
CSR – A New Paradigm

To think comprehensively and systematically about
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World Bank Institute – Facilitation Role

• Partner with local companies, with business associations, entrepreneurs
• Partner also with multinational companies to incorporate their expertise and resources
• Link with business school faculties and students and blend cutting edge knowledge with local contextual understanding and knowledge
Sharing of Knowledge and Best Practices –
Raising Awareness and Building
Capacity for Change

• Global E-Conferences
• Video-Conferences
• Web-Based Learning Courses
• Virtual Resource Center
• Curriculum Development
• Case Study Research and Application
• International Essay Competition
Partnerships

• Private Sector:
  – Global and Local companies
  – Business Associations

• Business Schools and Universities, such as UAG

• International Organizations; e.g. UN

• Government

• Civil Society

• Young People:
  – Student Groups
  – Young Entrepreneurs

• Media
Courses on Corporate Social Responsibility

• 30,000 participants / Over 90 countries
• Key partners vital in this outreach:
  • Corporate World
  • Academia: Zicklin Center for business Ethics Research
    Wharton School of Business, Higher School of Economics
    (Moscow)
  • UN institutions: UNDP, UN Global Compact, UNIDO, UN
    Staff College
  • Civil Society
  • Young People: AIESEC, YABT, Net Impact
  • Media
CSR Course Main Modules

• CSR: Main Concepts
• Decision-Making Frameworks
• Corporate Social Responsibility Diamond
• Building Sustainable Competitiveness through CSR
• CSR and the Poor
• An Introduction to Coalition-Building and Action Plans
“Social responsibility is not a question of charity; it’s a question of enlightened self-interest. It’s an issue of how we’re going to keep our planet stable so that your businesses survive.”

– James D. Wolfensohn, President, The World Bank

TransAtlantic Business Dialogue, 2002
New challenge for current and future business and public sector leaders: how to capitalize on business opportunities while ensuring sustainability through addressing global development challenges?
Thank You

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