UNRISD United Nations Research Institute for Social Development

CONFERENCE NEWS

Business, Social Policy and Corporate Political Influence in Developing Countries

Report of the UNRISD Conference
12-13 November 2007, Geneva

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Overview

Expectations about the role of the private sector in development have changed considerably in recent decades. Transnational corporations (TNCs) in particular are being urged to play a more proactive role in social development. Within the United Nations system, and the wider international development community, the focus in this field is generally on voluntary initiatives related to corporate social responsibility (CSR) and public-private partnerships (PPPs). Far less attention has been paid to the question of whether organized business interests support or undermine "transformative social policy".[1] What are the social policy preferences of firms and business associations? Are they necessarily at odds with progressive aspects of social policy? How do governments and regulatory institutions respond and adapt to the increasing structural and instrumental power of business? In a context where CSR and PPPs are often treated in a technocratic way, or are packaged in a discourse that emphasizes "win-win" situations and participatory governance, it is important to consider issues of power and the roles of contestation and collective action in processes of institutional reform.

To examine these questions, the United Nations Research Institute for Social Development (UNRISD) launched a Call for Papers for a conference on Business, Social Policy and Corporate Political Influence in Developing Countries, under the Institute's research programme on Markets, Business and Regulation.[2] Funded by the Department for International Development (DFID), United Kingdom, the event was held on 12–13 November 2007. The two main objectives of this conference were (i) to bring key findings and debates from academia to the attention of United Nations agencies, governments, business and civil society organizations, and the international development research community; and (ii) to draw on insights from different disciplines to better understand

1 UNRISD defines transformative social policy as state intervention that aims to improve social welfare, social institutions and social relations. It involves overarching concerns with redistribution, production, reproduction and protection, and works in tandem with economic policy in pursuit of national social and economic goals. An important feature of transformative social policy is also the establishment and enforcement of standards and regulations that shape the role of non-state actors and markets in social provisioning and protection.

2 This research programme is concerned with the social implications of economic liberalization, privatization, commodification, and new approaches to regulation and governance. Work on these issues is organized under the following research areas: the role of business in poverty reduction; business influence on social policy and development; and the social effects of privatization of public services.

the role of business in development and move toward more integrated, coherent policy approaches. Twenty-seven papers were presented at the conference. The 31 authors involved ranged from senior academics to doctoral candidates from 15 countries and included seven researchers from civil society organizations and the business sector. Among the 150 participants were senior staff members from United Nations agencies, including the International Labour Office (ILO), United Nations Conference on Trade and Development (UNCTAD), United Nations Department of Economic and Social Affairs (UNDESA), UN Global Compact Office and UNRISD.

Conference participants addressed a number of key questions, such as:

- How are changes in state-business-society relations affecting development strategies, and social and labour market policies?
- Do new forms of partnership advance social development outcomes and improve the effectiveness of governance institutions?
- What institutional, political and economic conditions encourage organized business interests to support "progressive" social, labour market and industrial policies that favour inclusive and rights-based development?

This report summarizes the presentations, discussions and debates that spanned six sessions over the course of two days. The three main themes covered during the conference—business and public policy, private regulation and partnerships, and collective action—have profound implications for social well-being, equity and democratic governance across national and international boundaries.

Business and public policy

The first theme taken up at the conference concerned the relationship between organized business interests and social policy, and the implications for public policy of the changes occurring in business-state relations in contexts of globalization and liberalization. The rise of large domestic and transnational corporations, as well as business associations, has major implications for public policy in terms of lobbying and "institutional capture", particularly in weaker states. Presentations referring to Brazil, Chile, India, Peru, Russia and South Africa examined how business interests actively shape policy in a variety of ways, including corruption, lobbying, technical expertise and "revolving doors" (that is, appointing civil servants with strong links to business, thereby creating conflicts of interest). CSR discourse is often contradicted by the lobbying practices of corporations and business associations that frequently urge governments to adopt policies and laws that are socially and environmentally regressive.

However, the "structural power" of business permits indirect influence over policy via investment decisions. It can limit the policy options governments allow themselves and may therefore be more influential in shaping policy than actual business voices or "instrumental power", which attempts to influence government policy directly. Governments often make assumptions concerning business needs based on the structural power of specific business actors. Such assumptions may distort fiscal, industrial and social policy in ways that benefit particular sectors of business to the detriment of the wider business community. The rise of technocracies has exacerbated this situation. Several presentations highlighted the considerable variation in business preferences and patterns of policy influence. They cautioned against broad generalizations that assume business is inherently hostile to transformative social policy, various aspects of which can be conducive to both the short- and long-term interests of business. This is particularly evident in relation to human capital formation, a healthy workforce, social cohesion and stability. Some papers suggested reasons why business engagement in social policy processes in some countries remains quite restricted, and how this may be remedied, often by the state's involvement and active provision of incentives.

Private regulation and partnerships

A second set of issues concerned the participation of companies in public-private partnerships, and new modes of governance involving "private regulation". The conference was particularly interested in the political economy of CSR and PPPs, and how both approaches are affected by the power relations between business, states and civil society, as well as workers, communities and suppliers in developing countries. The potential of CSR and PPPs is constrained by structural economic, political and legal changes related to labour market flexibilization, subcontracting, the new legal architecture that protects and promotes corporate rights and foreign direct investment, and new forms of supply chain management that reinforce corporate power and disadvantage suppliers in the developing world.

Various concerns emerged specifically in relation to the contemporary PPP agenda that is being promoted internationally. Although certain types of PPPs can be useful in pooling core competencies and mobilizing additional resources for development, the outcomes of many of these initiatives often fail to live up to expectations. Panellists outlined how a lack of clear rules of engagement between business and civil society organizations can undermine stakeholder dialogue, and how imbalances in power relations reinforce the commercial and competitive opportunities of TNCs rather than contribute to development objectives. Similarly, the growing importance of private standards and regulatory approaches raises significant legitimacy issues.

Several policy implications emerged from this analysis. First, efforts to engage business in social development via CSR and PPPs require a solid framework, which can be provided by national planning processes, public social policy or institutions of social dialogue involving state, business and civil society. Second, it is time to move beyond the focus on promoting dialogue between firms and their stakeholders on CSR, to engage the corporate sector and business associations in a "scaled-up" dialogue on national development strategies and poverty reduction. However, third, governments and international NGOs involved in the promotion of PPPs need to be far more aware of the power and information asymmetries that can lead to potentially negative outcomes. Fourth, mechanisms to enhance accountability and the participation of weaker stakeholders or intended beneficiaries need to be strengthened. (Several papers noted the conditions under which some PPPs, at both an industry and national level, had played a constructive role in reducing poverty.)

Collective action

Third, the conference looked at what can be done to enhance the contribution of business to social development in contexts where the structural power of business has increased, where the rise of global value chains challenges or weakens the institutional environment regulating corporations, and where CSR and PPPs exhibit serious constraints as an effective approach to both business regulation and social development. Various papers focused on the crucial role of collective action in various guises: at the level of business organizations; the institutions of representative democracy; and civil society activism.

In particular industries, such as apparel, CSR instruments and practice have in certain contexts been more effective when dominant firms collaborate with government and civil society organizations and networks, rather than act independently. "Encompassing" business associations (those representing diverse sectors of business) can ensure that the voice of the business community is not only that of corporate elites. Their ability to integrate and articulate the views and interests of other groups such as SMEs (small and medium enterprises), whose workforce often comprises the poorest segments of society, may be essential to the promotion of more inclusive social policy. In relation to democratic institutions, presentations referring to state-business relations in Peru and India revealed how parliamentary oversight and other institutions of representative democracy can mitigate institutional capture or the deregulatory effects associated with the growing structural power of business, and ensure that the interests of weaker groups in society are defended.

The role of social activism and alliances in re-regulating global capitalism and promoting CSR was addressed in several papers. Global activist networks that adopt multiple tactics, involving both confrontation and cooperation with business, are particularly important for strengthening the collective identity and organizational links between disparate actors concerned with and affected by global value chains; designing and implementing new standards and rules; and forcing corporations to respond individually and collectively to social concerns. Trade unions, NGOs and civil society networks can exert significant pressures on firms, the state and public opinion in an attempt to ensure that corporations act responsibly and are held accountable. Papers referring to attempts to contain "the race to the bottom" in China, and to promote corporate accountability in certain industries in South Africa, stressed the importance of "multi-playered" and "multiscalar" governance and contestation. This encompasses various institutional and political arrangements, including stronger alliances between labour organizations and the state; "institutional thickening", whereby different types of regulatory institutions—at international, regional, national and local levels—act in ways that are complementary and synergistic; and the need to move beyond a focus on individual firms and countries to target industries and regions.

Opening Session

In opening the conference, UNRISD Director Thandika Mkandawire highlighted the importance of the concept of the developmental state in a context where the Washington consensus is in crisis, and concerns of equity and welfare are prominent once again. Suggesting that the key challenges to current development approaches involve "rethinking CSR in a developmental context" and reconsidering the relationship between the state and the private sector, he emphasized the need to broaden the current discourse on CSR by engaging with ongoing debates on business-state relations and social policy. He highlighted the important lessons that have been drawn from UNRISD research on successful developmental states—particularly how social policy is not an outcome of successful economic development, but rather a means by which development occurs. This developmental role is clearly evident in the accumulation of pension funds and savings, political and social stability, and human capital formation.

Transformative social policy, however, entails reciprocal responsibilities between government and the private sector. During the era of "embedded liberalism" (from the end of the Second World War until the 1970s), foreign direct investment (FDI) was much more prominent than financial capital, and developing countries had a number of instruments that they could use to bargain with the private sector. Debates on the resulting business-state pacts have, however, largely disappeared—partly as a result of globalization and a weakening of the state. Thus, CSR should be viewed as a reflection of the diminished regulatory capacity of the state. Mkandawire concluded by inviting participants to view CSR through the lens of a normative framework suited to developing countries, by keeping several questions in mind during the conference proceedings: What is a developmental state? What should a developmental state expect from the private sector? What should the private sector expect from a developmental state?

Peter Utting, UNRISD Deputy Director and Co-ordinator of the Markets Business and Regulation research programme, further addressed the idea that the need to engage business in inclusive social development agendas is inadequately addressed by the current focus on CSR. There is a pressing need to understand how business might play a more constructive role in supporting, or at least not resisting, social and labour market policies fundamental to inclusive and equitable development. Contemporary debates must address not only the potential and limits of CSR and PPPs, but also how business interests influence and are shaped by government policy on social welfare, social provisioning and labour markets. Issues of power and politics, lobbying practices of TNCs and business associations, as well as the unequal power relations between the different actors involved in multi-stakeholder initiatives and PPPs, must not remain peripheral concerns.

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Drawing attention to the purpose and multidisciplinary nature of the conference, Utting explained how a greater understanding of the conditions and contexts in which business can play a more constructive development role requires greater interaction between various disciplines and literatures. The scholarship on CSR, private regulation and governance associated with management studies, development studies and international relations would benefit from greater interaction with the literature on business-state relations, social policy and varieties of capitalism (VoC) associated with political science or political sociology. Both bodies of knowledge provide insight on the question of how business can facilitate, support or obstruct social development.

Session 1—Business Strategies and Social Policy

Chaired by Susan Hayter (International Labour Office/ ILO), speakers in the first session focused on the need to recognize that business does not hold a standardized position on social policy. Highlighting the importance of context and the dynamic nature of the relationship between social policy, business strategy and political setting, presenters emphasized the variety of factors shaping, channelling and at times constraining the social policy preferences of firms. Presentations by the panel addressed whether business competitiveness is compatible with expansive social policies, and factors that might explain how and why the social policy preferences of firms differ across countries, industries and time periods. They also addressed how these dynamics lead to policy contestation or lack of engagement.

Proposing that lightly regulated markets with minimalist social policies are inappropriate for developing country economies, Kevin Farnsworth (University of Sheffield) argued that intergovernmental organizations and governments tend to selectively promote "taken-for-granted" views of business, rather than considering the full range of business preferences and needs. Though globalization increases the significance of both business structural power and voice, it is structural power that tends to be most important in influencing fiscal and social policy in developing countries. As a result, governments respond selectively to the structural pressures of certain types of firms and investors, thereby locking themselves into a social policy agenda that can harm both the welfare of individuals and the interests of the business community as a whole.

Drawing together insights from various streams of literature on the political economies of the United States, Northern Europe and East Asia, José Carlos Marques (United Nations Research Institute for Social Development/UNRISD) examined the political, economic and institutional conditions under which business has contributed to progressive social policies and the promotion of more inclusive patterns of development in these regions. His analysis suggested that progressive social policies are prevalent when business has low structural and instrumental power relative to other social actors; industrial production is heavily dependent on a highly skilled labour force; social pressures affect a large cross-section of the business community; and collaborative institutions, including encompassing business associations, facilitate social dialogue and policy making.

Ben Ross Schneider (Northwestern University) argued that although theories of power resources and cross-class alliances both predict significant business engagement in social policy, there is little evidence in studies of social policy or of business politics in developing countries to support this claim. In Latin America, for example, business-state relations have been characterized by a lack of engagement on social policy issues. Schneider proposed three explanations for this phenomenon. First, in line with the VoC literature, big firms lack strong demand for education policy due to the fact that few of their activities are concentrated in high-skill, high-quality sectors, and they are often self-sufficient in the provision of training and education to their own employees. Second, business participation in social policy is more difficult than in other policy areas because of its broad scope, long-term implementation horizon, and uncertain outcomes. Third, encompassing business associations that might facilitate collective participation in policy making are often lacking, displaced instead by individual firm lobbying.

Kanta Murali (Princeton University) outlined the evolution of business-government relations in the era of economic reforms in India, and the subsequent impact on public policy, particularly labour policy. Liberalization has both resulted in competition for private capital among state governments offering "investor-friendly environments", and provided a major impetus for business collective action. As a result, the ability of the private sector to articulate common interests, and its channels of access to government, have increased significantly. Although the business reform lobby has been driven by competitiveness concerns, it has had mixed results, with few legislative changes and a trend of de facto reform in some areas such as labour market flexibility that is optimal neither for labour nor for business. Murali proposed two factors that constrain the influence of business on labour policy liberalization: India's vibrant democracy, and the difficulty of policy reform posed by India's constantly shifting coalition politics at the national level. In effect, although the Indian state and political system struggle to respond to the needs of the masses, democratic politics provide an effective obstacle to the introduction of potentially harmful social policies.

The policy implications that emerged from this first panel centred on the role of the state in facilitating business-state interactions amenable to both business needs and social development. Summarizing the discussion, Hayter stressed the crucial role played by collaborative institutions. Farnsworth highlighted how widely varying welfare models are compatible with globally competitive firms, and proposed paying greater attention to the range of business voices on international and domestic scenes. Although some companies actively seek out low-tax and low-wage regimes for the production of export goods, others are attracted to productive and skilled labour, stability in labour markets and access to growing consumer markets. He suggested that different "investment regimes" (the socioeconomic policy orientations adopted by governments to attract to external investment) can respond to, or influence, business social policy needs rather than take the social policy preferences of business as a given.

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Schneider and Marques both suggested the need to understand the social policy preferences of business against a broader political, social and industrial backdrop. Empirical evidence drawn from numerous countries points to the prominent role played by consultative councils and encompassing business associations in social pacts and socioeconomic development. Two specific elements seem to have ensured the alignment of interests between business and the state. First, the fact that business demand for social policies was in large part driven by the need to build the human capital required for a large proportion of industries to successfully compete in product markets requiring skilled labour. And second, the state's active direction of policy, which served to reduce the uncertainty of policy outcomes and appease social tensions.

Where these conditions are not met, the result is a low level of business engagement and a lack of demand for transformative social policy, such as in many countries in Latin America, or a focus on more immediate and narrow policy concerns that benefit neither labour nor business, such as in India. Murali suggested steps that could be taken by the Indian government to address the needs of both labour and business. These include rationalizing labour laws so that they are easier both to comply with and to enforce, and simultaneously instituting social security provisions, regulating working conditions and easing employer restrictions. She added that state governments might also want to consider tying affirmative action measures to tax breaks and subsidies.

The questions and remarks following the presentations focused on labour market policy, and the role of international institutions and business associations. A participant reminded the audience how the formal sector in many developing countries, and specifically in India, represents a small portion of the overall labour market. Responding to a question on the influence of the International Monetary Fund and World Bank on social policy, Farnsworth highlighted the close relationship between intergovernmental organizations and business, arguing that these organizations increase the structural power of business by promoting an agenda that prioritizes specific issues and concerns. Addressing a question on how the "common voice" of business is determined by business associations, Schneider explained how different patterns of business activity are often the result of government invitations to business that encourage more collective forms of participation, capacity building, expertise development and the ability to reconcile conflicting interests. He highlighted how the form of policy making should be an important consideration of the policy process—forums and councils may be important ways to draw business into collective policy-making processes.

Session 2—Changing Patterns of State-Business Relations

State-business relations have undergone significant changes in contexts of economic liberalization, democratic transition and the emergence of social entrepreneurship. Presenters in this session addressed the effects of these developments on "rent-seeking" and the "capture" of state institutions by business interests, state provisioning of social services, and policy making in specific country contexts.

Introductory remarks by Jomo Kwame Sundaram (United Nations Department of Economic and Social Affairs/UNDESA), the session chair, framed the presentations with a brief statement on the nature of liberal capitalism, its inherent contradictions, and the resulting consequences for public policy in developing countries. Liberalization under circumstances of inequality may well compound inequality, he stated. The relationship between the state and the private sector is critical and, for that reason, CSR should be considered in relation to the regulatory role of the state, and the necessity of clearly delineating the public policy responsibilities of the state and the private sector.

Jomo also questioned the assumptions underlying calls for "good governance" in a development context:

> Reducing corruption and achieving a more equitable society are important development objectives. But these objectives are now being recast as pre-conditions for development, and this has become very problematic in terms of shaping the discussions concerning the development process and the relationship between the state and the private sector.

The issue of political corruption following Peru's dual economic and political transitions was the focus of Francisco Durand's (University of Texas at San Antonio) presentation, in which he drew on data concerning the investigation by congressional committees of tax exoneration practices during and following President Alberto Fujimori's regime. Durand illustrated the evolution of state capture from a more extreme mode, during the authoritarian Fujimori administration, to a more moderate mode, in the post-Fujimori democratic and liberal context—a situation he referred to as "stronger corporations operating within weaker states". Corporations, the most powerful economic actors in the new liberalized democracy, obtained privileged access and undue influence over the most important branches of the state apparatus. Specific conditions, such as revolving doors and control over the appointment process in key branches, allowed the concentration of economic power to persist despite newly invigorated democratic institutions and a resurgent civil society. Calls for the elimination of corporate privileges made it more difficult but not impossible for both national and international corporations to defend economic rents, in the form of tax exonerations, that amounted to billions of dollars and a significant share of the country's GDP.

In an analysis of the rise of business associations in post-socialist Russia, David O'Brien (International Development Research Centre/IDRC) depicted a situation where a similar dual transition of economic liberalization within a newly emergent democracy led to co-optation and capture of the state. The disproportionate voice of big business and its influence within the embryonic business associations operating across the countries of the former Soviet Union aggravated already deteriorating social circumstances and dismal government social policies. However, against this backdrop, O'Brien highlighted how the implementation of a state-led national management training programme for young entrepreneurs provided unexpected impetus for the formation of local business associations that established links to local government officials as a means of influencing policy, including social concerns.

Martin Kaggwa's (University of Pretoria) presentation on the South African automotive industry provided sector-level insight into the nuances of institutional capture within a newly democratic and liberalizing state. He portrayed a partnership between government, industry and labour co-opted by business concerns, despite concerted government efforts to address and prioritize social objectives. The resultant policy framework enabled local industry to successfully integrate into the global automotive value chain but resulted in poor social outcomes, obliging the government to periodically reassess its support for the initiative and leading to policy instability.

The vulnerability of new democracies to business interests was, however, not presented from a deterministic perspective. A variety of suggestions for balancing private and public interests were offered throughout the presentations. Durand surmised that circumstances where government officials "bend to pressure" and defend the most powerful private interests at the expense of the public one could be controlled. He suggested tighter controls over government appointment processes, as well as reforms that strengthen the relative autonomy, powers and quality of the revenue service and regulatory agencies. He also emphasized the need for business participation in policy debates to rest less on private institutes and firms and more on associations, something for which the government can provide incentives. Along similar lines, O'Brien suggested that progressive business-state relations might be brought about by governments facilitating new forms of social organization that, in turn, could lead to innovative institutional frameworks with a bearing on business objectives. For his part, Kaggwa emphasized how social partnerships can play an important role in formulating successful sector development policies in developing countries. But, he said, keeping social outcomes on the agenda requires that government and labour develop the capacity and tools to "rigorously interrogate" development models proposed by the corporate sector during negotiations.

Tahmina Rashid's (RMIT University) presentation on Bangladesh, a country with huge donor presence yet persisting poverty and increasing social tensions, provided a different perspective with its focus on the changing role of large not-for-profit organizations

remain unregulated, receive financial assistance due to their classification as "development organizations" and, with few exceptions, are exempt from paying taxes. Rashid suggested that rather than relying so heavily on NGOs and bypassing the state, efforts should be focused on dealing with corruption and building state capacity.

During the question-and-answer period, Durand replied to several queries about the profile of the business segments that engage in state capture and the role played by business associations in curbing or promoting this behaviour. Stating that tax exonerations are, in his view, the most important form of rent in the neoliberal era, Durand suggested that the pattern of capture described in his presentation is driven by the state's prioritization of dialogue with individual companies. This has generally acted as a disincentive for companies to invest in collective discussions, limiting the involvement of business associations in business-state policy dialogue. He added that international capital has largely displaced local capital, and many remaining large domestic firms are involved in partnerships with international players. Durand ended by suggesting the need to better understand how state capture is organized and the role played by think tanks, economists, bureaucrats and business actors.

Also responding to questions, Kaggwa noted that significant increases in productivity are the likely cause of rising unemployment, an unforeseen consequence of government subsidies and one of the probable reasons for the state's reassessment of policy in the automotive sector. He added that a key lesson to be