

TRANSNATIONAL CORPORATIONS: DRIVING, IGNORING OR VIOLATING SUSTAINABLE HUMAN DEVELOPMENT?

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1 SUSTAINABILITY: A NEW PART OF CORPORATE STRATEGIES	S. 84
2 SCIENTIFIC EVALUATIONS: NECESSARY TO IDENTIFY WIN-WIN STRATEGIES	S. 84
3 TRANSNATIONAL CORPORATIONS: CAN DRIVE SUSTAINABLE HUMAN DEVELOPMENT DUE TO WIN-WIN-POTENTIALS	S. 85
4 TRANSNATIONAL CORPORATIONS: RISKS OF NEGLECTING IMPORTANT SUSTAINABLE HUMAN DEVELOPMENT ISSUES	S. 86
5 TRANSNATIONAL CORPORATIONS: DANGERS OF VIOLATING SUSTAINABLE HUMAN DEVELOPMENT	S. 86
6 CIVIL SOCIETY: NEW, IMPERFECT MONITORING SUBSTITUTES	S. 87
7 EFFECTIVE AND LEGITIMATE POLITICAL FRAMEWORKS: STILL OR AGAIN NECESSARY	S. 87
8 CONCLUSIONS: IMPACTS ON CURRICULA, RESEARCH AND STAKEHOLDER DIALOGUE AT PFORZHEIM UNIVERSITY	S. 88

1. Sustainability: a new part of corporate strategies

More than four decades ago, **Milton Friedman** made his well-known statement: the only “social responsibility of business is to increase its profits.”¹ For Friedman, companies must not engage in social issues like sustainability strategies. He argues that the state is responsible for establishing an economic and legal framework. This framework is supposed to direct corporate behavior towards socially desirable results as long as companies maximize their profits in accordance with existing laws.

Meanwhile, corporate perceptions seem to have moved far away from Friedman’s economic position. By 2013, over 7,000 business participants had signed the United Nations Global Compact. They voluntarily commit to align their business with these UN principles in areas like human rights, labor, environment and anti-corruption.² 93 % among the 766 CEOs of transnational corporations interviewed for a survey emphasized that sustainability issues will be critical to the future success of their business; even 96 % believed that sustainability issues should be fully integrated into strategy and operations of their company.³

An example for a transnational corporation project that aims at creating a “win-win situation” for the company, but also for the villagers in rural Karnataka (India), is the “Model Village Project” of Bayer CropScience which was initiated in 2010. While doing business with the farmers when buying cotton seeds, the firm hopes

to be able to implement a set of measures that contribute to sustainable human development⁴ in the village, but also to the success of the company.⁵ Our paper aims at discussing and illustrating the possible impact of Bayer’s cotton seed business on sustainable human development and at drawing further conclusions for transnational corporations in general.

2. Scientific evaluations: necessary to identify win-win strategies

To be able to gain profound insights into the effectiveness of the actions taken and to be able to continuously improve their strategy, Bayer CropScience decided to cooperate from the beginning with an independent scientific evaluator. A team of economists at Pforzheim University (the authors of this contribution and Regina Moczadlo) therefore is responsible for the project evaluation and shall answer the question whether the set of measures implemented by the company is or is not able to drive sustainable human development.

The evaluation approach is based upon a combination of quantitative and qualitative methods. In two model villages in rural Karnataka where Bayer CropScience started doing business and in two control villages, a baseline household survey was conducted in summer of 2011. In total, almost 1,000 households (75% of all households in the villages) of all castes have been covered by the baseline survey comprising information of more than 5,800 people. The survey allowed assessing

1 Friedman, M. (1970): “The Social Responsibility of Business Is to Increase Its Profits,” *New York Times Magazine*, September 13, 1970, pp 32-32 and 122-126.

2 See United Nations Global Compact (2012): *Annual Review of Business Policies & Actions to Advance Sustainability: 2011 Global Compact Implementation Survey*, New York, June 2012.

3 Major relevant sustainability issues mentioned were education, climate change and poverty. See Accenture & United Nations Global Compact (2010): *A New Era of Sustainability*, UN Global Compact-Accenture CEO Study 2010, New York.

4 Further developing the Brundtland-concept, “sustainable human development” can be defined as “the expansion of the substantive freedoms of people today while making reasonable efforts to avoid seriously compromising those of future generations”; United Nations Development Programme (UNDP 2011): *Human Development Report. Sustainability and Equity: a better Future for all*, New York, p. 2.

5 In an internal communication of Bayer CropScience the goal of the Model Village Project has been specified as follows: The project is aiming at “development of the villages in a clear win-win context by developing economically sustainable business in a triple bottom line perspective, by also providing and preserving social and environmental bottom lines.”

the situation before the project started. To be able to follow development over time, the same households and individuals will be interviewed again every second year. Moreover, qualitative focus group discussions and intense case studies shall provide deeper insights into the needs, priorities, opinions and experiences of the villagers. In the summer of 2012, we therefore conducted focus group discussions with about 200 men and women from different castes.

3. Transnational Corporations: can drive sustainable human development due to win-win-potentials

Lack of financial means in the villages considered is extreme. Using the \$ 1.25-poverty line of the World Bank, more than 50 % of the villagers suffer from extreme expenditure poverty.⁶ In our focus group discussions, many villagers mention this lack of income as the core problem as it does not only limit their opportunities to buy food and to afford medicine, but also their ability to invest in their agricultural business (e.g. for better seeds or crop protection). Thus being poor is increasing the risk of remaining poor. In case of extreme poverty, there is also always the risk that families use child labor to compensate for the lack of income. From the company perspective, however, this lack of income and the low agricultural productivity may at the same time negatively affect business. On the one hand, weak and vulnerable suppliers with insufficient human and financial capital and low productivity impose risks for a well-functioning corporate supply-chain. On the other hand, a lack of income also keeps the villagers' demand for the company's products lower than it could be.

Measures to increase income and productivity which have partly been implemented by Bayer

CropScience are the provision of drip irrigation at affordable prices, the organization of knowledge-transfer workshops, or the supply of crop protection products and adequate information how to use it. All these measures at least have the potential to create a win-win situation. The evaluation will have to analyze which measures can be effective for improving sustainable human development, and, at the same time, whether Bayer CropScience may also profit as the costs of implementing and conducting a measure can be compensated by additional revenues.

The lack of income does not only stem from low labor productivity in agricultural business, but also from a lack of economic facilities, notably jobs in non-agricultural business. A recent World Bank study⁷ even emphasizes that the potential for income generation in non-agricultural business can be particularly high. As only less than one third of the population aged 15 to 64 years in the villages is employed the whole year, it is not surprising that the villagers also complain about the substantial lack of job opportunities in non-agricultural business. Missing job opportunities on the local labor market force family members into travelling far to work or even migrating to urban areas. A joint family life at home, the opportunity to take care of their children and to give them necessary assistance and guidance therefore suffer. Measures by Bayer CropScience that stimulate the creation of non-agricultural jobs in or close to the villages (e.g. by finding partners for the further processing of vegetables) could create win-win situations.

Another severe problem for the villagers is malnutrition. Our baseline survey revealed that e.g. almost three out of four children below five years are malnourished according to the definition of the World Health Organization, some of them even severely malnourished. Although the

⁶ See for more details e.g. Volkert, J.; Strotmann, H. (2012): Potential Corporate Impacts on Sustainable Human Development (SHD). The Case of Bayer CropScience's seed production in rural Karnataka (India), Paper presented at the 12th annual conference of the HDCA association, Jakarta, September 7-9.

⁷ World Bank (2011): Perspectives on Poverty in India. Stylized Facts from Survey Data, Washington D.C., pp.14-17.

villagers themselves do not consider health issues as one of their major concerns, a professional health camp by a group of doctors identified substantial health problems in the villages. For Bayer CropScience, diseases and malnutrition can imply higher absence from work, a lower resilience of people and thus lower productivity. It also may at the same time negatively affect the expected return on agricultural and non-agricultural investment described above. Options for action to create a win-win situation which have partly been initiated by the company are awareness raising workshops, facilitation of the disposal and demand for adequate cooking stoves, selling reverse osmosis purified water and fostering school participation by a grant scheme.

4. Transnational Corporations: risks of neglecting important sustainable human development issues

Whether the described and further opportunities will result in contributions to sustainable human development depends on the respective cost-benefit ratios. Even important issues cannot be durably addressed by transnational corporations if benefits are lower than costs. In India, most vulnerable groups, e.g. the disabled population, suffer from severe impairments of their well-being.⁸ For a strategy to improve sustainable human development it is necessary to improve their situation. However, regarding the limited economic benefits and usually substantial costs, overcoming disability driven impediments may often be out of reach for a business case strategy.

Also, in 2012, the qualitative evaluation of the Bayer CropScience Model Villages has revealed that domestic violence causes a major loss of well-being for women and thus is a severe obstacle to

improve sustainable human development. From a business case perspective, however, it is questionable whether corporate activities against domestic violence can increase net corporate benefits.⁹ As such, economically sustainable business case strategies will often fail to address those substantial sustainable human development issues that go beyond corporate business cases.

5. Transnational Corporations: dangers of violating sustainable human development

Companies are not only at risk of neglecting sustainable human development issues, but in some cases they may even violate sustainable human development and labor rights.

In 2002 Bayer CropScience acquired a French corporation with a subsidiary operating in the Indian cotton seed production.¹⁰ In 2003, a substantial share of children was shown to be working in the newly acquired cotton seed production. The Financial Times Deutschland, in a recent article, states that due to child labor incidences, children missed education and some of them became very sick or even died as a result of inappropriate use of pesticides.¹¹ However, overcoming the child labor challenges is very complex, expensive and usually not a direct business case for a corporation. As such, a direct business case perspective may explain why some competitors of Bayer CropScience continued employing children and violating human rights and sustainable human development. They have continued to profit from the failure of governments to implement and enforce a legal and economic framework that ensures that no company neglects

8 Institute of Applied Manpower Research Planning Commission, Government of India (2011): India Human Development Report. Towards Social Inclusion, Oxford University Press: New Delhi, pp. 235-239.

9 This may be the case when fierce domestic violence is stopped that has significantly reduced the health and productivity of women.

10 Bayer CropScience (2011): Investing in the future of our children. The Bayer CropScience Child Care Program, Monheim.

11 Kubsova, J. (2012): Der Feldversuch, Financial Times Deutschland, February 3, p. 25.

major sustainable human development issues and that public action is provided where necessary. Moreover, in an ongoing controversy, the agricultural industry is being accused of severely violating environmental sustainability.¹²

6. Civil society: new, imperfect monitoring substitutes

Contrary to some of its competitors, Bayer CropScience has been confronted with civil society actors, like NGOs, activists and media that have considerably increased in numbers in recent years. They try to fill the governance gaps resulting from national and global state failure and perceive themselves as monitoring, controlling and sanctioning devices for companies. This induces corporations to widen their business case calculus to a strategic Corporate Social Responsibility perspective that includes less tangible benefits and costs like transaction costs as well as reputation risks and opportunities.¹³

Bayer – a corporate founding member of the UN Global Compact – became a target for NGOs like German Watch, the Global March against Child Labor and the “Coalition against Bayer Dangers” which filed an OECD complaint in 2004 against Bayer for violating the OECD guidelines for corporations. The Norwegian Pension Fund – an influential shareholder – also insisted on solving the problems.¹⁴

Bayer immediately took action but was initially not able to mitigate the problems and pressure on the company increased substantially. In the end, Bayer CropScience successfully solved the

challenges by substantially engaging in the fight against child labor by introducing the “Child Care Program” that goes well beyond Bayer CropScience’s core business. Formerly critical stakeholders but also the German government in its 9th Human Rights Report¹⁵, in the meantime acknowledged the success of this program: between 2005 and 2011 it reduced the incidence of child labor from 14.3 % to 0.03 % of the labor force.¹⁶ This case shows that civil society pressure may contribute to achieve major improvements of sustainable human development. However, also shortcomings of civil society pressure become obvious. NGOs and other pressure groups have limited financial means, staff and time and therefore concentrate on single companies. Other competitors may have similar problems but less pressure to address them. Therefore, casuistic civil society pressure inducing corporate responses is at risk of distorting competition and of failing to comprehensively foster sustainable human development.¹⁷

7. Effective and legitimate political frameworks: still or again necessary

Stakeholder pressure faces even more difficulties when the goal is not to make business processes more sustainable, but when the corporate core business as such may violate sustainability. For instance, in a global World Bank and UN report about 400 scientists have concluded that the present industrial agro-business violates sustainable human development. They have called for a re-direction towards biological agriculture which, according to the report, is sustainable and allows

¹² See section 7.

¹³ See Anstätt, K.; Volkert, J. (2011): UN Principles for Responsible Management Education. Potenziale, Herausforderungen und Perspektiven. In: Grüninger, S.; Fürst, M.; Pffor, S.; Schmiedeknecht M. (eds.): Verantwortung in der globalen Ökonomie gestalten – Governanceethik und Wertemanagement, Metropolis, Marburg, pp. 501-526.

¹⁴ Subramanian, S. (2011): Bayer CropScience in India: Value Driven Strategy, Richard Ivey School of Business Foundation, University of Western Ontario, London ON, January 2011.

¹⁵ Auswärtiges Amt (2010): 9. Bericht der Bundesregierung über ihre Menschenrechtspolitik, Berlin, p. 146.

¹⁶ Measures include incentives for farmers to send their children to school as well as controls, but also improvements of school quality and optimizing school curricula; results verified by Ernst & Young; see Bayer CropScience (2011): op cit., p. 27.

¹⁷ Moczadlo, R.; Volkert, J. (2012): Wettbewerb und Nachhaltigkeit bei globalen Governancelücken. In: Enke, H.; Wagner, A. (eds.): Zur Zukunft des Wettbewerbs: in memoriam K. Brandt und A. E. Ott, Metropolis, Marburg, pp. 275-296.

providing sufficient nutrition for a growing world population.¹⁸ For the conventional agricultural industry, this would imply a radical change of the whole core business. It is questionable whether civil society stakeholders would have sufficient abilities to induce such changes even against corporate business cases and without major distortions of economic competition. Here, common mandatory rules become necessary again. Such rules, in the sense of minimum requirements derived from democratic political decision making, would also be politically more legitimate than voluntary private agreements as corporations and civil society actors often lack democratic legitimization.¹⁹

8. Conclusions: impacts on curricula, research and stakeholder dialogue at Pforzheim University

Since the time of Friedman's statement in 1970, national and global governance gaps have caused major lacks of legal and economic frameworks. Overcoming the resulting market failures and imperfections can contribute to new opportunities and lower risks for corporate business and for sustainable human development. However, the sustainable human development governance that has emerged based on voluntary standards in stakeholder dialogues, including companies and civil society actors, suffers from systematic problems and limitations. Strengthening democratically legitimate, mandatory governance systems and common rules is a major challenge for comprehensively enhancing sustainable human development.

In their future business careers, our students at Pforzheim University will be confronted with all these new opportunities, risks and limitations of corporate sustainability strategies. Therefore, we do and will continue to critically address these

new realities in our curricula and applied research and discuss them with experienced practitioners. These steps are necessary to provide up-to-date, profound study programs and learning experiences. Therefore, Pforzheim University has also signed the United Nations Principles for Responsible Management Education (PRME) as one of the first 100 universities worldwide and one of the first twenty universities globally to submit a PRME report to the UN.²⁰

The Bayer CropScience Model Village Project contributes to our PRME strategy with numerous mutually beneficial forms of cooperation.²¹ This and a variety of other initiatives within our PRME-strategy allow for continuously developing and improving the education of our students as our main task.

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²⁰ See Anstätt, K.; Volkert, J. (2011): op cit. For recent developments visit our PRME homepage at: <http://www.hs-pforzheim.de/de-de/wirtschaft-und-recht/fakultaet/prme/seiten/inhaltseite.aspx> as well as <http://www.unprme.org/>

²¹ In just two years our cooperation has included five internships of our students at Bayer CropScience including fieldwork in India, three company and interdisciplinary projects, two company visits with students, various thesis projects, five presentations of German and Indian Bayer CropScience representatives complementing our sustainability courses and the activities of our student initiative sneep. These and a further presentation of BELAKU, an Indian NGO involved in the project, were also of interest for the Pforzheim University's evaluation of the project.

¹⁸ UNDP, UNEP, UNESCO, WHO, World Bank and Global Environmental Facility (2009): *Agriculture at a Crossroads*, Washington D.C.

¹⁹ Moczadlo, R.; Volkert, J. (2012): op cit.