

7

GLOBAL CORPORATIONS, GLOBAL IMPACT

BROOKINGS GLOBAL EXPERTS

- DAVID CAPRARA
- JANE NELSON

The private sector is becoming a significant player—indeed, some might say the dominant player—in shaping the global economic and development agenda. Multinational corporations with operations spanning the globe, and in some cases capacities and networks that match those of governments, have a particularly important role to play in helping to spread the opportunities of globalization and in mitigating some of its risks.

THE GLOBAL CONTEXT

Multinational corporations are driving the emergence of new markets, industries, technologies and business models as well as unprecedented cross-border financial flows and expanded global value chains. Some are also supporting innovative market-driven approaches and public-private partnerships with the potential to address challenges that have traditionally been the purview of the public sector—most notably in the areas of poverty reduction, economic exclusion, environmental

sustainability, humanitarian relief, health and human rights. At the same time, multinational corporations and their leaders are facing heightened public expectations and censure in terms of their negative impact in these areas, corporate governance scandals, and accountability for non financial performance—all in the face of unremitting competitive pressures and investor demands.

Though new market-driven approaches and public-private partnerships offer potential to mobilize untapped private sector resources, networks and problem-solving skills, they also create new risks as well as governance and accountability challenges for both business and government leaders. This is especially the case when corporations are operating under conditions of bad governance, conflict, weak public administration, inadequate infrastructure or other governance gaps and market failures. The challenges of corporate responsibility and good public governance are nearly always intertwined, but they are particularly interconnected under such circumstances.

THE CHALLENGE

New business models, market mechanisms, and governance

frameworks are needed to more effectively harness the opportunities and address the risks of growing corporate investment in developing countries and engagement in global issues. New approaches, led by business or where companies partner with others, can play a crucial role in three areas:

- > To mobilize, reward and scale up the positive contributions that corporations can make, especially through innovations in their core business operations and investments, and through mobilizing corporate competencies, such as the skills of employees as part of volunteering initiatives and community investment.
- > To identify, mitigate and monitor any negative impact and externalities arising from corporate activities, through initiatives such as industry-wide standards and guidelines, integrity pacts and multistakeholder monitoring and dispute resolution mechanisms.
- > To enable the private sector to play a legitimate role in improving the broader enabling environment at a national or regional level, in particular through efforts to strengthen public governance and public institutions, not only in the economic sphere but also in areas such as anticorruption and strengthening public health systems.

Designing and implementing these new approaches to engage corporations in an effective and accountable manner is a challenge for business and government leaders alike, as well as leaders of labor and civil society.

This is a leadership challenge that goes far beyond corporate compliance and philanthropy, although both have an important role. It requires the engagement of companies and their leaders at the most strategic level to harness their core competencies and resources along the corporate value chain, and to mobilize business leadership at both the operational and policy levels. It requires regular communication and consultation with key corporate stakeholders, ranging from employees, consumers, investors and business partners to regulators, NGOs, foundations and local community leaders. It requires individual corporations to identify and manage the key development contributions and risks arising from their own operations, while at the same time working with their industry peers and leaders in other sectors to tackle more intractable development challenges that require concerted collective action.

RECOMMENDATIONS FOR ACTION

Encouraging examples in these areas already exist and many more are emerging. There are more and more new individual business models and products, industry-wide efforts, and global multisector alliances and financing mechanisms—to

create greater economic opportunity, deliver services to low-income communities, respond to complex emergencies, uphold human rights, tackle global health challenges, manage the risk of pandemics, address climate change and water scarcity, support education reform and overcome corruption.

These examples are in the early days, and much needs to be learned about these innovations in terms of their drivers, their scalability and their impact, both on the companies themselves and on the development challenges they aim to address. Yet they offer potential for helping to transform the development landscape, especially if they can achieve greater scale and incorporate more of the world's leading corporations. Three recommendations for moving in this direction are as follows:

- > **Increase collective efforts.** Though it is essential that major corporations get their individual operations in order and focus on what they are best equipped to deliver, there is potential to scale up impact and address more systemic challenges through collective initiatives with other companies, governments and development partners. These initiatives can be focused on a particular country or region, a specific development challenge or policy, or a particular industry sector. Examples include: South Africa's National Business Initiative; Philippines Business for Social Progress; Business Action for Africa; the Global Business Coalition Against HIV/AIDS, TB and Malaria; the Global Alliance for Improved Nutrition; the Extractive Industries Transparency Initiative; the Marine and Forest Stewardship Councils; the Equator Principles; and the Brookings Initiative on International Volunteering and Service.
- > **Analyze initiatives that have achieved scale.** A number of individual corporations and collective initiatives can claim to have achieved scale in tackling a specific development challenge or set of challenges at either a national or global level, in some cases reaching millions of people. These require greater analysis in terms of what has worked and what has not, and whether they can either be replicated elsewhere or scaled-up further.
- > **Actively engage emerging market multinationals.** There is an urgent need to better understand and partner with the emerging multinational corporations and state-owned enterprises from India, China, elsewhere in Asia, Brazil, Mexico, the Middle East and Africa, especially those that are investing heavily in other developing countries. The growing reach, impact and influence of multinational corporations, both individually and collectively, are unlikely to diminish. The leadership challenge is to develop new business models, market mechanisms and governance frameworks that serve the public interest while making sound business sense and that mobilize corporations with-

out replacing or undermining the role of governments or destroying the ability of the private sector to create long-term value.

WANT TO READ MORE?

Caprara, David. “The Best Diplomats: American Volunteers,” *Washington Post*, January 7, 2007.

Caprara, David, John Bridgeland and Harris Wofford. “America’s Volunteers: Building Bridges to Reduce Global Conflict.” Brookings Policy Brief, 2007 (forthcoming).

Nelson, Jane. “Building Linkages for Competitive and Responsible Entrepreneurship.” CSR Initiative Report 8, Harvard University and United Nations Industrial Development Organization, 2007.

Nelson, Jane. “Operating in Insecure Environments,” in *Too Poor for Peace? Global Poverty, Conflict and Security in the 21st Century*, ed. Lael Brainard and Derek Chollet. Brookings Institution Press, 2007 (forthcoming).

Nelson, Jane. “A Responsibility for Government—How Far Should Companies Go?” in *Whose Responsibility? The Role of Business in Delivering Social and Economic Change*, ed. Amanda Jordan and Amy Lunt. Smith Institute, 2006.

Nelson, Jane. “Leveraging the Development Impact of Business in the Fight Against Global Poverty,” in *Transforming the Development Landscape: The Role of the Private Sector*, ed. Lael Brainard. Brookings Institution Press, 2006.

Van Agtmael, Antoine. *The Emerging Markets Century: How a New Breed of World-Class Companies Is Overtaking the World*. Simon & Schuster, 2007.