Debate

Beyond an Enemy Perception: Unpacking and Engaging the Private Sector

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ABSTRACT

This article gives three reasons why development scholars concerned with civil society should move beyond an enemy perception of the private sector. First, private entrepreneurs are important social actors in development, possessing a variety of motivations and behaviours which defy monolithic perceptions. Second, entrepreneurs — active and retired — are moving away from passive charity and become active participants in civil society and in international development co-operation. Third, private sector discourses about development need to be unpacked and critically confronted. Here we examine the case for Corporate Social Responsibility: we conclude that established enemy perceptions block learning about and from the private sector. The private sector should be both welcomed and critically engaged, and that requires established civil society thinkers to re-examine the accuracy of their perceptions about the behaviour of private sector actors.

INTRODUCTION

For many scholars of civil society, the position and roles of state, civil society and market in development processes is relatively fixed. At the same time, the experience of practitioners suggests that these three domains and their interactions have changed radically over recent decades. While there is general recognition of the manifold changes that have taken place as regards the state and its relations with market and civil society, less attention has been paid to changes within the private sector and the ways in which these influence the interaction between state, civil society and market. Moreover — and crucial to this contribution — it seems that the image of the private sector is much more prone to hostile simplifications, compared to the mainstream perceptions of state and civil society actors (see, for example, Edwards, 2008).

Most development professionals know from experience that the empirical reality of how states and civil society operate may differ substantially from their perceived roles, and they have found ways to deal with these

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discrepancies. However, this seems not to apply to images of the private sector. Because too few development scholars possess systematic empirical experience with or in the private sector, which would allow them to develop more nuanced perceptions, this often leads to a damagingly simplistic view or 'enemy perception' of the private sector. This contribution is a plea to move beyond this enemy perception. Such an adjustment is long overdue and increasingly urgently needed, given the rapidly emerging popularity of some private sector discourses that seem to be on their way to displacing development studies. For development studies to have a future, it needs, among other things, to incorporate a more realistic and nuanced perception of how private sector actors operate.

In our view, a more nuanced perception does not mean glossing over the critical issues of power and inequality, as so often happens in the smooth presentations of private sector representatives on how they would solve poverty if only the other actors would 'get out of the way'. Rather than either falling into the trap of a one-dimensional enemy perception, or expecting the private sector to deliver development single-handedly, we need to more directly and more critically engage with new private sector actors in civil society and with newly emerging private sector discourses on development.

Our contribution to this debate will focus on these two issues. First, we will discuss how wealthy private sector actors have become increasingly active participants in the practice of development, bypassing and challenging traditional civil society organizations. We argue that these newcomers in civil society should be both welcomed and critically engaged, and that such a process also requires established civil society thinkers to re-examine the accuracy of their perceptions about the behaviour of private sector actors. Secondly, we show how some increasingly popular private sector discourses claim a superior understanding of development processes, and seem poised to relegate the field of development studies to the dustbin of history. We argue that such triumphant private sector discourses are not well grounded and that critical development scholars need to regain some of the initiative in these debates to enhance the developmental relevance of Corporate Social Responsibility initiatives. Before discussing our two main points, we set the stage by identifying the tension between the generic conceptualization of the private sector, as it is often used among civil society scholars, and its actual heterogeneity.

UNPACKING THE PRIVATE SECTOR

In recent years it has become fashionable to at least pay lip service to the role of the private sector in development. Major agencies have published private sector development strategy papers (for example, Asian Development Bank, 2000; SIDA, 2004; World Bank, 2002), which emphasize the key role of the private sector as the engine of economic growth and employment creation, and for 'unleashing' entrepreneurship (UNDP, 2004). Nevertheless, much of the debate on poverty, inequality and exclusion takes place among governments, international aid agencies and civil society organizations, where 'the world of business lurks in the shadows, acknowledged uneasily like a tattooed man at a tea party' (Sayer, 2005: 251). Critical civil society thinkers, especially, seem to have given up on the private sector and simply ignore it, as in thought-provoking publications that argue for 'civic driven change' (Fowler, 2007) or for reclaiming the central role of NGOs in providing 'development alternatives' (Mitlin et al., 2007).

Among civil society scholars the dominant image of the private sector is that of a large company, often foreign-owned, exploiting either local resources or local workers or both. Many such companies do exist, of course, but while this *corporate* sector constitutes only a small minority within the private sector in developing countries, it plays a crucial role in influencing government policies and shaping the private sector image. Yet the bulk of the private sector consists of a variety of informal sector entrepreneurs and their workers — including the proverbial peasant farmers, self-employed shoe shine boys, women selling ready-made foods, and hawkers — as well as more formal small and medium-sized enterprises (SMEs).

Many development practitioners work with these informal sector entrepreneurs as a key target group for poverty reduction strategies, focusing on micro credit and business development services. In turn, strong-willed independent SME entrepreneurs are often bestowed with a crucial role in developing a more robust and self-confident civil society, able to provide checks and balances to state arbitrariness and unbridled markets. Both the informal sector and middle-class entrepreneurs are part of the private sector and development NGOs often see them as important beneficiaries or change agents in their interventions. Nevertheless, their conceptualizations of the private sector continue to be based implicitly on a stylized enemy perception of the *corporate* sector which does not do justice to the heterogeneity of the private sector.

ACCUMULATION OF WEALTH IN THE PRIVATE SECTOR: FROM PASSIVE CHARITY TO ACTIVE ENGAGEMENT

The accumulation of wealth in this heterogeneous private sector has important implications for civil society organizations through the rise of various forms of philanthropy. Since World War II, steady increases in productivity have given rise to an enormous increase in factor incomes in the rich countries. Declining population growth and increasing life expectancy further stimulated the accumulation of wealth. Importantly, wealthy citizens do not always want to leave their fortunes to the state, in the form of taxes, or to their next of kin who are already wealthy themselves. Within this category of wealthy citizens, many no longer limit themselves to passively giving to charity but look for active civic and public engagement, which has led Schuyt (2004) to speak of a 'golden age of philanthropy'.

These new forms of civic engagement also take place in international co-operation; they appear to have increased considerably since the mid-1990s, but have hardly been studied so far. Research by Bouzoubaa and Brok (2005) on such private development initiatives in The Netherlands suggests that they are often triggered by international travel, are based on direct personal contacts, and result in private initiatives within development co-operation. Most of these initiatives are small-scale and combine philanthropy with contributing personal — often professional — expertise. The motivations for citizens to become actively engaged in this way seem to include elements of solidarity and self-fulfilment, as well as a generally negative view about the effectivess of official development aid and large development NGOs.

Schuyt (2004) noted a second sub-group of entrepreneurs who retire at a relatively young age, sell their companies and create, for tax reasons, family foundations which hold their assets. Part of the return on these assets finds its way to civic causes. In The Netherlands alone, Schuyt cites estimates that put the number of this type of small and medium company closures at 100,000 per annum. In our own recent research in The Netherlands we found retired entrepreneurs who not only donate funds but also want to use their entrepreneurial competencies in development co-operation activities (Helmsing and Knorringa, forthcoming). These private sector entrepreneurs or wealthy individuals may have different societal goals in mind as compared to the more established Northern development NGOs, but that makes them no less relevant. Their active civic engagement enriches the diversity and significance of civil society.

Another more familiar and historically rooted, but also contested, manifestation is corporate philanthropy. The old dictum originally formulated by Milton Friedman said that the social responsibility of business is to increase its profits. Any philanthropy on the part of a company may negatively affect profits and pre-empt the stockholder's decision on how to dispose of his/her funds. Friedman assumed that social and economic objectives are and should be kept separate, and he assumed a trade-off between company and individual. Recently Porter and Kramer challenged these assumptions by pointing out that the conceptualization of competitiveness has changed: companies do not function in isolation from the society around them:

> Competitiveness today depends on the productivity with which companies can use labour, capital and natural resources to produce high quality goods and services. Productivity depends on having workers who are educated, safe, healthy, decently housed, and motivated by a sense of opportunity. Preserving the environment benefits not only society but companies too, because reducing pollution and waste can lead to a more productive use of resources and help produce goods that consumers value. (Porter and Kramer, 2002: 63).

The local business environment constitutes the competitive context that is central for a company's long-term strategy and for its associated cluster of economic activity. The central argument is that 'philanthropic investments by members of a cluster, either individually or collectively, can have a powerful effect on the cluster's competitiveness and the performance of all its constituent companies' (ibid.: 64–65). Examples of this are philanthropic investments in local vocational training, physical infrastructure or improvement of public planning processes, or community-based initiatives directed at improving water and sanitation.

Hess et al. (2002) expand the argument by claiming that increased trade liberalization and the growth of the internet have made traditional competitive advantages more ubiquitous. Therefore, companies have to search for new competitive advantages, and increased community involvement is sometimes seen as an important soft source of competitive advantage. Moreover, building such reputation assets causes fewer objections from company stakeholders than giving cash contributions to charities. Last but not least, communities in developing countries have become more assertive and demand more corporate community involvement especially when companies exploit their natural resources. Corporate philanthropy may be relatively more important in societies with a dysfunctional state and a weak civil society. After all, a functioning state that takes responsibility for basic services including education and health leaves fewer 'development gaps' which might be filled through philanthropy (c.f. Meijer et al., 2006).

A final important private sector influence on civil society is the rise of 'venture philanthropy' (VP) foundations and associated non-profit or for-profit consultants who explicitly claim that modern management methods and techniques can considerably increase NGO performance. Pioneered in the United States from the mid-1990s, and reaching Europe a few years later, VP consists of the application of venture capital principles (especially long-term investment and capacity-building support) to civic organizations. While US-based VP foundations are predominantly grant based, European VPs are also financed through loans and surplus sharing. Moreover, they also invest in initiatives that are not registered charities, such as social enterprises, social businesses or individual initiatives. European VP foundations also work more often in partnership with governments, like the Adventure Capital Fund which received a large grant from the UK government and which is run by a consortium of UK charities with the aim of investing in community-based social enterprises providing 'patient capital', bursary grants and free technical advice through a network of 'supporters'.[1]

At an operational level both outsiders and insiders seem to expect at least three potentially positive results from the more business-like approach of such retired entrepreneurs and VP foundations. First, systematically applying private sector management tools is one way to counter widespread

1. See the website: www.philantropyuk.org/Resources/Venturephilantropy

accusations of amateurish and inefficient behaviour by NGOs.[2] Second, development NGOs have been struggling for many years with organizational strengthening, of themselves and of partner NGOs in the South (Biekart, 2003), and VP approaches — combining funds and technical assistance — seem to provide new ideas and ways forward on this issue. Finally, venture philanthropists use a model that explicitly incorporates their own exit strategy —something many NGOs engaged in civil society building could learn from, as their process approaches and sustainability objectives often prevent them from executing an exit strategy.

In short, wealthy private entrepreneurs and foundations have moved beyond passive charity towards active civic engagement. Private sector actors have gained the initiative and are applying their management techniques and 'can do' attitudes to unruly development contexts. Instead of emphasizing problems — an approach often associated with development professionals — these new private actors in development co-operation see opportunities and challenges, and focus on implementing solutions. This may well be a somewhat naïve and depoliticized approach, and as yet there is insufficient evidence as to whether it delivers better and sustainable results. Nevertheless, this enthusiasm from a new group of people interested in development issues should be welcomed by the aid-establishment in general, and by established civil society organizations in particular. There is no monopoly on setting the 'correct' priorities of civil society organizations. Both the established development NGOs and these new forms of private civic engagement are manifestations of civil society. And whether the new members are welcomed or not, they are rushing forward and in their enthusiasm, they increasingly claim that private sector based thinking is superior to existing development discourses. Which brings us to the second part of our discussion: the private sector discourse on CSR in development.

INHERENT LIMITATIONS OF PRIVATE SECTOR DISCOURSES ON CSR

While private sector discourses on development merit serious debate, they do not yet offer a robust alternative able to accommodate concerns of both growth and distribution. Take, for example, the literature on CSR that revolves around the idea of the 'business case', creating win–win situations for both the company and society. One of the most forceful examples of this approach is a paper by Sabel, O'Rourke and Fung (2000) called 'Ratcheting Labour Standards: Regulation for Continuous Improvement in the Global Workplace'. The authors use the language of 'New Competition' and 'Total Quality Management' to put forward the idea of a race-to-the-top by companies competing not only on quality, diversity, innovation and price,

2. See Lindenberg (2001) on the experience of Care with applying private sector management tools.

but also on labour conditions, environmental impacts and social achievements. However, one should be careful not to over-generalize the extent to which such a conceptualization offers a useful model to understand, for example, labour conditions in developing economies (Knorringa and Pegler, 2006). The high-road causality logic holds for some knowledge-intensive sub-sectors and for some specific higher market segments, but amounts to wishful thinking for the bulk of labour-intensive low-cost export-oriented production. Another key problem is that this approach requires a critical mass of responsible producers to crowd-in other companies afraid to lose legitimacy (Knorringa, 2007). Such conditions appear to exist only for the top brands in a few fashion- and identity-sensitive sectors. Even in these sectors the developmental impacts of CSR are basically unknown. Blowfield (2007) reports that most of the existing information on the impacts of CSR focuses on its impacts on business concerns, such as effectively adhering to standards and the effects of that on consumer perceptions. In contrast, very little information has yet become available about 'how CSR affects the major societal issues it was intended to tackle' (ibid.: 683).

At present, CSR is a business tool, a point made in various ways by most of the relatively few development-oriented scholars working on CSR. This will not change by itself, as firms have no interest in — and cannot be expected to develop — a focus on developmental impacts beyond what they need in terms of verifiable information to satisfy their stakeholders. It is up to the development community to force this shift. So far, private sector actors have been very successful in setting the agenda and determining the indicators to measure responsible behaviour. For example, after studying one of the showcases of CSR, Nike, Locke et al. (2006) conclude that the existing codes of conduct, even when followed through consistently, do not seem to be very significant in terms of achieving developmental impacts (see also Barrientos, this issue). This is at least partly because the items included in most codes reflect the companies' interest in showing potential consumers that they behave responsibly, and do not necessarily reflect the priorities of poorer segments in the local workforce, or local development priorities (Blowfield, 2005; Jenkins, 2005).

As development scholars, we need to regain some of the initiative in this debate, identify the circumstances under which developmental impacts from CSR are most likely to occur, and analyse how such situations might feasibly be strengthened and broadened. One way forward could be to explore the relevance of CSR to SMEs (Fox, 2005). The great majority of firms are of small or medium size, but they have remained below the radar screen of the CSR movement and its watchdogs (except for subcontractors of top-brand consumer goods). Such a strategy is also risky, as more complex and demanding standards may well push out weaker and often smaller suppliers that pay lower and more irregular wages to poorer workers. In response to standards by outside buyers, local firms tend to concentrate production in places of work that are easier to monitor, and cut smaller subcontractors out of their supply chain, either in reality or at least on paper. A similar process occurs in terms of labour contracting, where permanent workers or middle-men contract casual workers (often seasonal migrants) to take care of the more tedious work, without enjoying the benefits of working in a responsible chain. This may increase the gap between a relative elite of local firms supplying to global value chains with improved labour conditions, and a mass of local firms ruled by low-road production in which labour conditions are not likely to improve (Gibbon and Ponto, 2005).

From the supply chain perspective, responsible production will only start to make a real difference when firms integrate responsible attributes in their purchasing practices (Barrientos and Smith, 2006; Locke and Romis, 2006). Moreover, based on a case study of footwear suppliers to Nike in Mexico, Locke and Romis (2006) go one step further in arguing that this integration is achieved more easily in supply chains that are more quality-driven (as opposed to price-driven) and where relationships are more long term and less asymmetric. This brings us back to the high-road causality logic, which means that the reach of CSR as a development tool is inherently limited. Therefore, it cannot and should not be portrayed as an alternative development discourse in its own right.

We very much agree with the following observation from the introductory article of a recent special issue on CSR and development: 'CSR initiatives work for *some firms*, in *some places*, in tackling *some issues*, *some of the time*. . . the challenge for engaged researchers is to explore the potential and limitations of CSR in specific settings' (Newell and Frynas, 2007: 674). This nicely captures the critical and constructive attitude needed to make progress in identifying the developmental relevance of CSR, but also more broadly in understanding where and when private sector actors play useful roles in developmental processes.

CONCLUSION

In this article, we have tried to illustrate the need for civil society scholars to move beyond an enemy perception of the private sector. First, civil society professionals often work closely with, and partly rely on, private entrepreneurs to achieve their developmental objectives. This should not come as a surprise because actors in the private sector — as in states and in civil society — possess a variety of motivations and behaviours, which defy monolithic perceptions. Second, a number of wealthy private entrepreneurs and foundations have moved from passive charity towards active civic engagement. These new players should be welcomed in the development community, and engaged in critical and constructive debate. Third, private sector discourses on development, with their limited developmental relevance, need to be confronted and unpacked, so that civil society actors can regain the initiative in the struggle over who sets the standards.

Instead of a nostalgic craving for a convenient but increasingly irrelevant past, with imagined watertight barriers between civic and private, or social and economic, civil society thinkers need to learn more about the 'enemy' in order to be able to engage it more effectively. Learning about and from the private sector, however, does not mean uncritically accepting private sector tools, engagement or discourses. For example, a discourse on development that puts forward pro-poor private sector development as a generic proposition, presents an opposite but equally unreal image of the private sector. Here markets are seen as the best available instrument to solve challenges of both growth and distribution. This discourse firmly embeds morality in market relations without further qualifications (Shamir, 2008), and posits that private sector actors can regulate themselves to arrive at pro-developmental outcomes. In this view, responsible private sector actors hardly need the checks and balances provided by governments or civil society actors. While few if any critical development practitioners or scholars would accept this utopian universalization of private sector responsibility, we hope that this contribution will highlight the need for a more critical examination of their own perceptions of the private sector.

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