Foreign Investment and Ethics: How to Contribute to Social Responsibility by Doing Business in Less-Developed Countries

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Abstract

Do foreign direct investment (FDI) and international business ventures promote positive social and economic development in emerging nations? This question will always prove contentious. First, the effects differ according to context. Second, the spillover effects of knowledge diffusion and technology-sharing may be limited and hard to measure. Third, contributions to enhancing social responsibility and improving living standards in host countries are delayed in effect, causally complex, and also hard to measure. Outcomes often critically depend on collaboration of governments, international institutions, the business world, and non-governmental organizations (NGOs). Research in this area is challenging and requires interdisciplinary collaboration between economists, financial experts, sociologists, ethicists, and other specialists.

This paper explores (1) the evidence to support the proposition that FDI and international business improve social conditions in less developed countries, and (2) how these improvements are linked to strategies of corporate social responsibility (CSR) and ethical business policies. The paper draws insights from development, FDI, poverty alleviation, and bottom-of-the-pyramid (BOP) literature. It highlights issues and trends for further academic research. The paper also presents the viewpoint that some limitations lie in the nature of ethics frameworks widely referenced in business. These often fail to consider the compatibility of ethical constructs with relevant incentives.

Introduction

Globalization, foreign direct investment (FDI), and trade can potentially bring social, economic and business benefits to emerging market countries through inflow of capital, knowledge, and increased employment. However, the specific conditions and mechanisms for this to happen are complex, not well understood, and may depend upon an individual country's situation (Nunnenkamp, 2001). Effects can well be unpredictable, unintended and counterproductive (Yamin & Sinkovics, 2009). The international business (IB) literature now shows a very engaged stance with development issues (Meyer, 2004; Ramamurti, 2004). It also shows evidence of a more realistic and critical assessment than before, probing more deeply into the external effects of IB (Ghauri & Yamin, 2009). Much research focuses on economic development (Moran, Graham & Blomström 2005) however, there are related ethical and social issues that are often crucial for multinational enterprise (MNE) strategies and long-term success. These include corruption, employment conditions, marketing practices, and effects on the natural environment (Donaldson, 1989; Longworth, 1998). The impact of such issues on host countries has been investigated by Glac (2003), Bennett (2002) and Wei (2000).

The purpose of this paper is to review the literature and examine conditions that need to be addressed so that MNE strategies may lead to social benefits in the emerging host countries. We do not restrict our discussion to MNEs from developed countries, but also include the possibility

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of MNEs from emerging countries (e.g. China) doing business in other emerging countries (e.g. Africa). Issues of business ethics and corporate social responsibility (CSR) are intertwined. The construct of CSR combines economic, legal, ethical and discretionary elements (Caroll, 1979). Discussions of business ethics typically include issues of corruption, human rights, regulation, and discretionary elements. Ethical standards can be viewed from a universal, relativistic or social contracts perspective (Donaldson & Dunfee, 1999). Their universal standards, or "hypernorms" include for example, basic rights of freedom, movement, free speech and non-discrimination. Relativism is apparent in standards arising in individual communities, which often have roots in economic, cultural and religious differences, such as policies towards child labor.

Pre-modern philosophy considered universal standards as given. We argue that a different approach is needed in contemporary business society characterized by large organizations, anonymity, competition, self-interest, resource scarcity, and multiple interdependencies. Homann (2002) states that in the age of globalization, moral foundations have to be based on advantages and incentives. Therefore, ethics is not about following rules, but about developing them. Hirschman (1991) seeks to systematically integrate ethics into the economic paradigm. Following a model of "incentive and advantage based ethics" (Luetge, 2005), the effect of FDI would be to incite development of social conditions and ethical rules through the investor as well as the country in question. It becomes the social responsibility of the foreign investor to improve those conditions. From the perspective of the FDI recipient, it becomes the social responsibility of the host country to set the prerequisites to make that happen. This has to be justified as holding advantages for all: "Even morality needs to be based on interests!" (Homann, 2008). Any social entity must have interests, because otherwise it cannot claim rights meaningfully within the game of social interaction: "... to have interest, the entity must be capable of being either benefited or harmed" (Feinberg 1970).

The ethical and the CSR challenges which arise from the discussion above will differ from case to case, depending on the context, business and industry climate, the nature of the MNE and its stakeholders (Glac, 2003; Bennett, 2002; Wei, 2000). Various indicators or indices have been constructed for institutional quality and for business climate (Kaufmann, Kraay & Mastruzzi, 2005; Fazio & Talamo, 2008). A further consideration is that CSR is not an end in itself, and the important outcomes of such activities of most interest to many are in the areas of human development and poverty alleviation.

Poverty Alleviation, Ethics and "the Market"

Poverty is undoubtedly a key question for global ethics and justice, because no other moral deficit withholds fundamental human rights and dignity from so many people. The number of "absolute poor," i.e. living below the World Bank's international line of US $1.25 a day in 2005 prices, is approximately 1.5 billion (World Bank, 2008; Chronic Poverty Research Centre, 2009). Annually some 18 million deaths, including millions of children, are due to poverty-related issues such as starvation, malnutrition and disease (WHO, 2005). There is no single key to a just reduction of worldwide poverty, but globalization is seen by many experts (e.g. Sachs, 2005) as one of the most important opportunities for eradicating absolute poverty worldwide.

A multidimensional approach is needed, including markets, aid, and institutions as the main instruments. This presents challenges for global business ethics and development economics. The ethical challenges include religious aspects (Mack, 2008) and policy issues for all levels of government, supranational, regional, national, and local.

There is a connection between economic poverty and non-participation in global markets (e.g. North Korea). Markets are a way to self-sufficiency, and if combined with the chance of promoting individual prosperity, they are also an expression of free interaction and a chance to improve living conditions. An example is the micro-financing activities of Grameen Bank in Bangladesh, by which poor women are empowered to participate in markets, and achieve self-determination and autonomy. This is a highly ethical objective, as also expressed by religious authorities (Pontifical Council for Justice and Peace, 2004; Evangelische Kirche in Deutschland, 1991).

However, markets are only an expression of successful self-determination if they are based upon and supported by fair institutional frameworks. It is here that the pragmatic approach of rule-setting through supranational organizations falls in line with incentive and advantage-based ethics. Both are required to support worldwide fair labor practices, the diffusion of new technologies, the development of local advantages and of specializations, and re-export of newly-manufactured goods and resources. Overall, when we speak of fair norms for markets, we mean "fair equality of opportunity." This requires not merely that offices and positions in any market be distributed on the basis of merit, but even more importantly that each member of a given market has the reasonable opportunity to acquire the skills on which "merit" is assessed (Rawls, 2001).

In this paper we discuss what MNEs and markets can do to reduce poverty and improve social norms through CSR. Because these mechanisms of poverty alleviation are susceptible to market failure and misuse of power, they must be complemented by other factors including solidarity and strong transnational institutions. Detailed discussion of these is beyond the scope of this paper. It may suffice to mention that solidarity comprises "owed solidarity," furnishing basic human rights (Pogge, 2002), and "voluntary solidarity" i.e. charitable donations and NGOs providing aid to action (Spicker, 2006). Strong transnational institutions such as the World Bank, IMF, OECD, WTO, UNCTAD, UNIDO, WHO and ILO are needed for cross-border political justice, legal, social, and economic order. At the UN Millennium Summit in 2000, the world community committed to reduce poverty and hunger by 50% by the year 2015. So-called Millennium Development Goals (MDGs) were elaborated for each country and region (United Nations, 2007). Such foreign direct investment (FDI) in agriculture is one, but not the only, appropriate means of achieving these goals.

Attracting and Conducting Foreign Direct Investment (FDI): A Two-way Street

Through FDI, a company not only penetrates a host country's market, it may also gain access to resources, economies of scale and scope in production, logistics, and marketing processes. Important markets include supply chains, distribution networks, and end customers. Whether a firm chooses FDI rather than serving foreign markets through exporting, licensing, alliances or other means is determined by three factors (Dunning & Lundan, 2008). These include: a transferable competitive advantage in the home market, specific characteristics of the foreign market which allow the firm to exploit its competitive position in that market, and the firm's ability to increase its competitive position by taking advantage of what the host country has to offer for controlling the entire value-chain. All three conditions must be present or FDI may not take place (Dunning & Lundan, 1977). The firm-specific advantages as spillovers of FDI are often what less-developed countries need for their growth and development. The host country and the investor may focus on the location-specific advantages as factors to entice higher levels of FDI inflows.

This model explains why some areas in the world, especially the poorest, fail to attract FDI. Although FDI flows to Africa have increased in recent years, these represent only a small portion of the total flows to developing countries. Average annual FDI flows increased from US $ 2.2

bn. in 1980, to 15 bn. during the period 2000-2004. However, Africa's share of global flows fell from 2.3% in 1980 to about 1.5% during 2000-2004. As a percentage of total flows to developing countries, Africa's share fell from 10% in 1980 to 7% during 2000-2004 (Cleeve, 2009). Local infrastructure, effective macroeconomic policy, and reliable data of possible host nations are decisive in choice of location for foreign firms. These are often lacking in Africa.

Knowledge of a country or region is crucial in the choice of location, and without this, investors may underestimate opportunities or overestimate risks, pushing such locations to the periphery of the decision-making process. Even though sub-Saharan Africa has partially reformed its institutions, improved its infrastructure and liberalized its FDI regulatory framework, it nevertheless remains less attractive for FDI (McBride, 2005; Asiedu 2004). The following issues remain to be addressed: macroeconomic indicators (growth, stable inflation, low budget deficits), quality infrastructure, natural resources, political stability, domestic market (size, openness, competitiveness), quality of human capital and cost, low transactions and business costs (rules of entry and exit, trade and labor laws, tax structures) and an efficient legal system. Sub-Saharan Africa has deficiencies in all these areas, but the risk profile is heightened by political and institutional instability and unpredictability, high levels of corruption, stagnant education, and inadequate infrastructure (Ngowi, 2001).

Unfortunately when reliable information is absent, and when all ingredients of a risky environment are present, the vicious cycle of poverty continues. FDI does not take place and the associated possible benefits cannot be exploited. This is where the instruments of solidarity with the poor, and strong transnational institutions have a vital role. The International Development Association (IDA) is a division of the World Bank that helps the world's poorest countries. IDA complements the World Bank's other lending arm, the International Bank for Reconstruction and Development (IBRD), which serves middle-income countries with capital investment and advisory services. IBRD and IDA share the same staff and evaluate projects with the same rigorous standards. These common standards encourage private investors to follow suit and resolve the informational and infrastructural deficits.

Contributing to Change: The Impacts of FDI

The large body of literature emphasizing positive impacts of FDI (e.g. Kowalewski & Weresa, 2008) typically argues as follows: FDI may increase growth by introducing new technologies, such as new production processes and techniques, managerial skills, ideas, and new varieties of capital goods. For this, the host country must have certain conditions to maximize the technology spillovers from FDI ("absorption capacity"). Technological spillover is only possible with a threshold level of human capital in the host country. Here the stream of research fades. There is less reference (Perrons, 2004) to how to accomplish the threshold level, or which pressures are needed to establish or change the social structures required for this level. One interesting study on China shows that FDI has significant effects on the degree of future orientation, performance orientation, and in-group collectivism. This may increase the level of human capital and its capability to achieve higher paid jobs (Jiang, Chen & Liu, 2010). There are similar studies on Eastern European countries (e.g. Giannaros, 2008; Fabry & Zeghni, 2007). However, apart from several World Bank Policy Research papers (e.g., Chen & Ravallion, 2008), there is almost nothing on the really poor, i.e. Africa, and one main reason may lie in the deficiencies of reliable information as stated above.

When it comes to informational and institutional deficiencies in less developed countries, commonly differences in training and education are cited as possible obstacles that lie in the path of realizing development. Some authors recognize that education largely takes place outside formal institutions and through family influence and peer group pressure within the local community. They state that to benefit from formal education it may be necessary for people to “unlearn” beliefs from their informal education (Buckley, 2009). And, rightly, unlearning beliefs is one step to changing the order of thought. When we look at the recent economic and institutional progress in some African countries like Rwanda and Sierra Leone (OECD 2007), we find that the origin goes beyond formal and informal education – it is rooted in changes of ethical judgment.

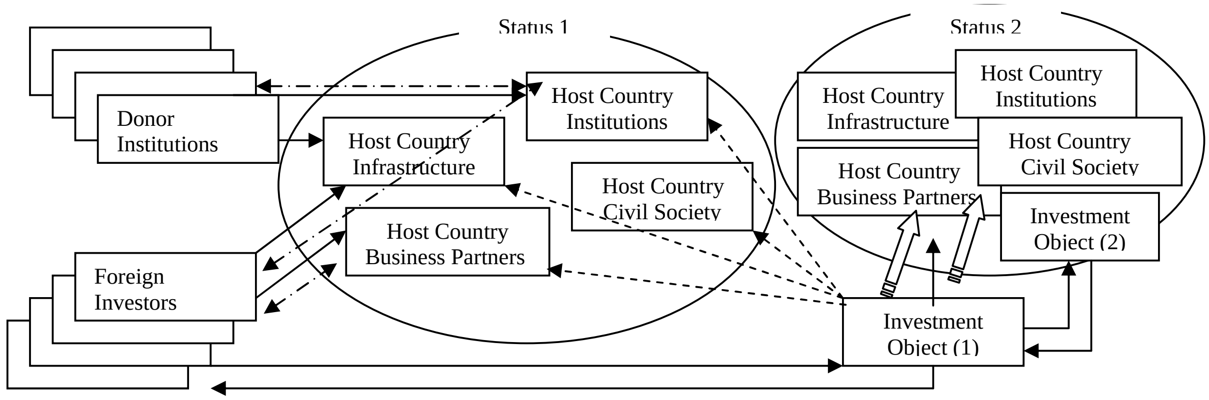
Host country transparency is a prerequisite for attractiveness, but such transparency is often only achieved trough immense changes in infrastructure. These require investment, and investment requires stability. Private-public partnerships would be highly desirable in this area, but the public partners are often unprepared, unwilling, or unable. The high rate of poverty and the disastrous consequences of ethnic conflict have not only damaged the political stability, but they have also weakened the informal institutions linked to historic and ethnic roots. The high rate of poverty diverts public money from infrastructure investment toward crucially-needed welfare. One way out is an upgrading of infrastructure in small but visible steps, balancing cost and benefits. The goals of infrastructure change are improvements in income, food, clean water, energy, personal security through the absence of conflict, good governance, social structures to promote fairness and equity, and the opportunity to make choices.

Improvements in these areas can be measured and assessed. So too can free physical movement and nondiscriminatory treatment, physical security, freedom of speech and association, political participation and education. The host country’s efforts and the investors’ endeavors can meet in a two-way give and take: if the host country wishes to step up education, and investors need skilled labor, a combined effort could be more productive. The actual process is definitely more complex, but there should always be mutual collaboration, not only in job training, but also in transport, communication, healthcare, and financial services.

But when happens a threshold level of human capital is far from being reached? A key response to this question is acceptance, at least for a while, that there is just not enough performance for the “formal sector” of the economy and hard-core business investments, and to diversify into and intensify informal sector activities. Many of these activities are based on natural resources and include carpentry and craft production, charcoal manufacturing, collection and trade of non-timber forest products (an example is given in the following section), artisan mining and metal works. Entry into many such activities is relatively easy, and it must be secured that their profitability and efficiency is not undercut by bureaucratic controls and inadequate support for market engagement. External support for these “soft investments” is often provided by loans from the World Bank and the International Monetary Fund (IMF) under the new Poverty Reduction and Growth Facility Program (PRGF) and its new lending window, the Extended Credit Facility (ECF). PGRF is expressly directed at pro-poor-spending, as opposed to the World Bank’s and IMF’s heavily criticized former Structural Adjustment Programs (SAPs) that have very often proved to be the wrong means. Loans under the PRGF not only follow the “debt sustainability concept”, i.e. debt is repaid only be from residual resources after the borrowing government has met its priority spending, they also are framed around comprehensive, country-specific strategies prepared by the borrowing governments with the active participation of civil society and other development partners (http://www.imf.org/external/np/exr/facts/prgf.htm). Increasingly representatives from in-country and transnational NGOs are also involved here.

So, for FDI to start leading to spillovers increasing the human capital threshold level, and thus leading to improved living standards, business investments should be preceded by or accompanied by globally-financed infrastructure support, as shown in Exhibit 1.

Exhibit 1: The Impacts of FDI in Developing Countries (Source: authors)



Monetary flows, technology transfer, knowledge transfer; monetary returns.
Communication and feedback.
Spillovers: technology, knowledge.
Effects on human capital, effects on ethical judgment etc., moving the host country's status to improved living standard.

The graph encompasses the main flows of capital, knowledge and communication between the stakeholders involved in an investment project financed by foreign business in a host country. It shows that parallel actions are required, from the outset, by donor institutions, to help with infrastructure[7]. Then any initial investment ("Object 1") could produce technology transfer and knowledge transfer to the investor's business partners, but also, by way of spillovers, to civil society as a whole. Not only could education and professionalization improve and enlarge the human capital base in the host country, but opportunities for a new kind of social interaction with effects on living standards and on ethical judgments could be forged. Thus, the host country could progress from an initial status of stakeholder involvement ("Status 1") to a closer level of cooperation and collaboration ("Status 2"). Thus, subsequent investments ("Object 2") would be better accepted and more densely integrated into the infrastructure of the host country.

It is difficult to measure the (positive) spillovers of know-how and technology, as well as contributions from enhanced social responsibility, to improving the standard of living in the host country. FDI itself may lead to changes in host country policies, and these may enhance productivity and improve infrastructure, quite apart from any direct effects of FDI (Moss, Ramachandran & Shah, 2004).

A further issue is the choice of economic development path. If economic growth is essential for achieving a reduction in poverty, is globalization necessarily the best growth path to achieve this goal? The new political economy literature (e.g. Nissanke & Thorbecke, 2004; Arestis, Nissanke & Stein, 2005) challenges the simple financial liberalization view. They emphasize the importance of also enhancing the operational and developmental role of banks and other financial institutions within the broad financial system. For development and the institutionalization of new financial systems, financial norms need to be absorbed by the general population, which is more likely to happen when associated structures are diverse, participatory, and accessible. Without such norms becoming part of the collective social consciousness, credit

[7] Yamin and Sinkovics (2009) have pointed out that local governments in their desire to attract FDI might view themselves forced to fund basic infrastructure improvements, which in turn would aggravate financial constraints. This demonstrates the need for "solidarity investment" from foreign aid programs of the Western nations.

market failure may result, preventing the poor from using growth-promoting investment opportunities. The links between economic growth, inequality and poverty alleviation must involve appropriate local institutional frameworks.

The view is increasingly being put forward, not only by ethicists, but also by national and international policymakers, that changes in attitudes, policies and institutions are needed in order to create a stronger social dimension for globalization. These changes include a focus on people, democratic and effective states, sustainable development, productive and equitable markets, fair rules, solidarity, accountability, partnerships and an effective United Nations (World Commission on the Social Dimension of Globalization, 2004). To quote from this report:

> "Globalization is seen through the eyes of women and men in terms of the opportunity it provides for decent work; for meeting their essential needs for food, water, health, education and shelter and for a livable environment." (pg.5)

This quote highlights the close relationship between value systems and the effects of business activity, local, national, cross-border trade, and FDI. They may be viewed from the social responsibility perspective and effects of FDI, or from a social justice stance of "democratizing commerce" (Prahalad, 2006). When companies do business in less developed or poor countries, and when they work there "with imagination, passion, courage, humanity, and also hope for some luck" (Prahalad, 2004), they can contribute to change both through the spillovers of their activities and through the combined efforts which their activity provokes in civil societies.

NGOs also increasingly acknowledge the need for the resources and scale of MNEs to accomplish their mission. This recognition of mutual dependence changes often bitter and adversarial relationships and is quietly engendering collaboration (Prahalad, 2006).

Exhibit 2 summarizes various arguments for how FDI impacts on social changes in emerging nations (EMs).

Exhibit 2: Contributing to Change through FDI and CSR - Some Arguments

In accordance with Milton Friedman's philosophy (1970), the case for FDI contributing to ethics and social responsibility is that just by doing business their obligation stands. Foreign direct investment has the potential for:

- Contributing to the development of infrastructures.
- Contributing to changing the institutional framework (institution-building) and inducing local governments to upgrade the national legal frameworks to further business operations.
- Developing human capital (training) and providing new knowledge and technological transfer.
- Increasing economic success.

The primary limitation to this approach is simply the return on investment for foreign investors in an EM: Material returns would be affected, at least in the short run, and must therefore be supplemented by intangible returns. Any ethical judgment should take this into consideration: That is, ethics frameworks must not only be constructed on some moral appeal, but should examine the incentive compatibility of such constructs.

Hence, the following can be postulated:

1. FDIs should not transfer Western notions of moral (underpinnings) to less-developed countries, but rather understand and harmonize with local notions and conditions.
2. FDIs could contribute to ethical and socially-responsible norms by insisting on a level playing field (appropriate rules, monitoring, and sanctioning mechanisms in the host countries) for all operating companies, both national and foreign.
3. Where FDI experience is inadequate, or rules of the game unclear (legal or governing framework), it is in the enlightened self-interest of the FDI (profit motive, ethical and social responsibility) to engage in discourse on the necessity for such rules, as for example in the Global Compact.
4. FDIs, in collaboration with supranational bodies, need to set up voluntary rules for engagement in less-developed countries - especially those with inadequate legal frameworks.
5. The abilities and capacities of many government actors in less-developed countries to develop global competitive frameworks to attract FDIs are very limited.
6. FDIs have the capacity to worsen the existing ethical and social environment (see for example: Siemens Scandals in Nigeria - http://news.bbc.co.uk/2/hi/africa/7105582.stm).

Contributing to Change: Some Evidence

Business adaptation and innovation

Prahalad (2006) suggests foreign investors should "stop thinking of the poor as victims or as a burden and start recognizing them as resilient, creative entrepreneurs, and value conscious consumers." Some two to five billion underserved consumers have enormous collective spending power. Affordable, world-class products and services are needed to include these consumers in the global economy.

The mobile phone business has had enormous impact. In India, five million new subscribers are added per month. Similar growth is found in China, sub-Saharan Africa, and Latin America. All the major global mobile operators and manufacturers participate in this business. Innovations are evident in products, services, and business models. Examples include unorthodox, low-cost distribution and pricing, new features such as phones with a torch light for rural populations, and SMS-based financial transactions. Not only do these innovations make connection and participation in the community accessible, affordable and available, they also contribute to social progress. Copeland (2009) reports on programs at Stanford University, teaching a new generation of entrepreneurs to use their business and engineering skills for profitability, designing and selling products to the developing world.

When foreign businesses target low-income markets, they can achieve more win-win rewards by recognizing that Western-style patterns of economic development do not occur in these business environments: Business strategies that rely on leveraging the strengths of the existing market environment outperform those that focus on overcoming weaknesses. These strategies include developing relationships with non-traditional partners, co-inventing custom solutions, and building local capacity (London & Hart, 2004).

Democratizing commerce

Many hundreds of efforts are being made to mobilize micro-producers, often with foreign investors playing an eminent role. The original idea comes from rural cooperatives, such as in milk farming. Amul is a cooperative in Gujarat, India, with a membership of 2.2 million farmers, spread over 10,000 villages and 3,000 collection centers. By effectively organizing subsistence farmers, the output is now about 6.4 million liters of milk per day, and sales of US$ 850 million. This model of sustainable economic integration has been reproduced by several others, including Malaysia-based Sime-Darby Investment Group (http://www.simedarby.com) and Swiss-based agro-chemicals producer Syngenta (www.syngenta.com) through the Syngenta Charitable Foundation. Sime-Darby is the world's largest plantations company, with business in Malaysia and abroad. The group's projects, as well as those of Syngenta, reach out to subsistence farmers in remote areas, providing finance, knowledge, training, access to technology, housing, education, and healthcare.

These efforts combine social responsibility and sustainable development with a long-term growth perspective. Benefits come to both farmers and investors. Public-private partnerships based on treaties between local and/or national governments and investors are also powerful mechanisms for development.

Indigenous knowledge can be used to create and exploit business opportunities. This knowledge may be based on centuries of observation, continually developing in response to changing social and environmental conditions. An example is the increasing market for non-timber forest products, such as Prunus africana, Harpagophytum procumbens (devil's claw) and Kigelia africana (African sausage tree). Trade in devil's claw, a traditional medicinal plant, now supports a US$ 100 million industry. In the beginning only a fraction of the benefits went to domestic producers, while the bulk went to processors and distributors. However, some prudent low investment in improving community skills and gaining access to relevant information is now slowly changing that pattern of benefits (Katerere & Mohamed-Katerere, 2005).

Transportation and communications infrastructure is vital for rural development in poor countries in order to access healthcare and bring agricultural products to market. Public funding may be lacking and private investment inhibited by weak prospects for profitability. However some far-sighted private institutions are now stepping forward to build roads, bridges and hospitals, such as the Development Bank of Southern Africa (http.//www.dbsa.org). This bank is now fully engaged in infrastructure financing, such as of the Gautrain project and the Maputo corridor project in the Republic of South Africa proper, as well as more distant projects such as the Lesotho hospital project and the North-South-Corridor Road project reaching into Zambia and Tanzania. The bank's interest is certainly financial, and it employs a rigorous approach to project appraisal. However, analysis also extends to the impacts which the projects deliver on the lives of the communities and areas they will serve. There is no contradiction, because there what is socially responsible and environmentally sustainable has proved to also be financially and economically viable (Karani & Gantsho, 2007).

The poor in rural areas face a triple burden when it comes to finance. Firstly, there may be limited access to credit on competitive terms, especially for women, to finance agricultural and other income-generating activities. Secondly, appropriate low-risk savings instruments may be unavailable. Thirdly, access to risk-reduction instruments such as crop insurance may prevent rural households from innovating or expanding into new activities.

Micro-financing has evolved in response to the inability of traditional financial institutions to address these issues, the predations of unscrupulous informal institutions, and the failures of state subsidized agricultural finance schemes in the 1970s and 1980s (ILO, 2008). As is now well-known, micro-finance began with Dr. Muhammad Yunus, who first demonstrated the commercial viability of the concept in Jorba, Bangladesh, and subsequently founded Grameen Bank. There is now a proliferation of micro-financing schemes supported by foundations, corporations, or individuals, both local and foreign. These schemes, often with complex legal issues (Lyman, 2000) are enabling development in countries as diverse as Bangladesh, Bolivia and Bosnia. Micro-finance has now evolved to include other lending products such as housing and educational loans. This is a story of democratizing finance as a part of social dialogue, shared decision-making, and change.

Large transnational corporations have also achieved success with social responsibility projects. Major pharmaceutical companies such as Roche, Aventis, Novartis, and GlaxoSmithKline have funded and supported crucial projects in developing countries and won many awards for their work. As a result many communities in poorer countries have received much assistance in their healthcare and fight on disease. However, these companies have also attracted much criticism, both deserved and undeserved.

Case studies illustrate that the impact of globalization on poverty and inequality is extremely context-specific (Nissanke & Thorbecke, 2010). One very unfortunate experience was reported on the Moattama Gas Project in Myanmar, a joint venture between TotalFinalElf Petroleum of France, Unocal Corporation of California, Myanmar Oil and Gas Enterprises, and PTT Exploration and Production Public Company of Thailand (Ecch Case Study ref. # 205-021-1). The joint venture developed the Yadana natural gas field located in the Andaman Sea, off the southern coast of Myanmar, and erected a pipeline from there to the border of Thailand. The rulers of Myanmar treated the project not only as an important generator of revenue, but also an opportunity to drive the foreign investors into a series of what at first sight looked like corporate social responsibility projects, such as housing, schools, health care and hospitals for the Burmese communities affected by the project. These were tarnished by severe human rights abuses, such as forced labor, forced resettlement, and killings.

These examples illustrate that globalization can no longer be viewed as something separate from values, ethics and principles.

Summary and Trends

The current wave of globalization has intensified the competition for FDI among developing countries, and all actors share responsibility to make changes in attitudes, policies and structures (Dupasquier & Osakwe, 2005). International organizations, national governments, business, labor, civil society and the media each have important roles to play.

Opportunistic and short-term ventures driven only by the profit motive are becoming less acceptable, bringing corporations pursuing such strategies into disrepute, and making them targets for a technology-enabled global community of activists and NGOs. Strategies that not only increase business value but also lead to long-term economic and social improvements are increasing in significance. Selling luxury goods only to an elite of wealthy customers is becoming less important than meeting the needs of those at the bottom of the pyramid, and the increasing ranks of the middle classes with similar ambitions to their counterparts in developed nations. It also seems the world has started to commit itself to a number of principles and values. Fair globalization means making these values an integral part of the process of global economic integration.

This paper has highlighted the complexity and challenges of moving to a more socially responsible vision of capitalism across borders. There is a wide body of theoretical and empirical literature on the economic effects of FDI. However, studies addressing the links between cross-border business and ethical considerations are less abundant. This paper suggests there are some convincing theoretical arguments, as well as a growing body of study and evidence relating FDI, ethics, CSR and poverty alleviation. A number of trends should to be mentioned which shape future agendas for research and change, as follows.

Nations

Due to deep and systemic financial crises in Western nations, institutions and individuals have retrenched, and budgets for aid are under stress. Western governments and institutions risk being distracted by internal political and structural change, and may focus less on urgent global issues. Growth of new emerging market MNES and state-run companies doing business overseas may have potentially significant social and economic impacts in many African and South American nations. National needs in emerging nations are only increasing, with huge natural disasters and environmental crises in Pakistan, China and elsewhere. National securities are threatened by failed states in areas of huge importance because of global trade in extractive industries, rare earth, oil and other natural resources.

Companies and Organizations

There is increasing evidence from recent research that there are positive returns to CSR, especially in emerging countries such as China (Qu, 2007). MNEs increasingly adopt cross-boundary team-working, appoint international top teams, and CEOs from emerging nations. There is increasing realization of the importance of intercultural differences and how this impacts on perceptions, decision-making, ethical orientations and the success of CSR in companies. A new generation of young managers with very diverse interests and attitudes towards ethics and CSR is emerging across the globe. This has become a topic of interest for changes to business school programs, and to criteria of business school accrediting agencies such as the AACSB.

Limitations and Suggestions for Further Research

No research is without limitations. This paper has presented a review of selected primary and secondary literature, informed by expert discussions. Interesting information sources may inadvertently have been overlooked, and space limitations have prevented a full exploration of relevant aspects of contemporary business ethics theories and CSR.

Within the academic community, interest in CSR is increasing, as evidenced by the theme of the recent 2010 Academy of Management Annual Meeting in Montreal: “Dare to Care: Passion and Compassion in Management Practice and Research.” Therefore it is timely to propose an agenda for further cross-disciplinary research:

- Problems of CSR and economic development are often addressed by multiple agencies with different goals, cultures and values, working together in networks. Further research into how to lead and manage such networks more effectively could be helpful. More efforts could also be made to integrate management tools into the practice of CSR, for example, strategic planning and balanced scorecards.

- There are many frameworks for ethics and social responsibility arising in traditions outside North America or Europe. Scholars and practitioners could pay further attention to how these can be linked to business and CSR in developing countries. Ethics should also be located within the strategic framework of business practice, including the notion that politics is an integrative constituent in the interplay between economics and ethics (Becker 2009).

- Future research could explore the mechanisms linking CSR, ethics, and poverty alleviation. Further attention could be paid to the significance of intercultural factors, leadership and values in institutions and MNEs when crafting CSR strategies for emerging markets.

- Topical case studies are needed that integrate issues of CSR, business ethics, and FDI, to help promote understanding of the complexity of the issues in business school programs. It would be interesting to examine the disappointments and failures as well as popular stories of success. This could be a valuable area for student projects and field studies.

These are vital challenges to nations and societies. Politicians, scholars, managers, organizations and communities can all contribute and collaborate in these efforts.

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