

Shareholder Responsibility and the Role of Business

Andrew Pendleton

There are two key aspects of shareholder responsibility that we need to bring together. The first concerns the practices of UK-registered multinationals in which shareholders' funds are invested; the second relates to the role of business in development.

Bad things

We are all familiar with negative aspects of multinationals' impacts in the global South. Examples include social and environmental impacts of Shell's activities in Nigeria; Coca-Cola's over-extraction of underground water for bottling plants in India; damaging impacts of Nestlé's water bottling operations in Brazil; violations of social and environmental safeguards in the construction of the Chad-Cameroon pipeline.

Other significant harmful impacts include tax avoidance and capital flight, and industries' contribution to greenhouse gas emissions and climate change.

In the UK, the current Company Law Reform Bill, due to become law in 2007, offers opportunities for action on some issues, such as pressing for greater statutory obligations for companies and directors. Currently the Bill approaches directors' duties within a context of 'enlightened shareholder value'. This lets directors off the hook, with social and environmental responsibilities addressed only 'as far as reasonably practicable'.

Good things

Christian Aid is massively in favour of business, but what sort? At a domestic level, responsible business is essential for delivery of necessary goods and services, for employment, and for generating a fair surplus. At a global level, we cannot rule out the possibility that multinational companies contribute to total human well-being, but questions must be asked about the distribution of costs and benefits worldwide.

Business must also be central to the unleashing of entrepreneurial spirit in poor countries to tackle poverty. How is this to be done?

We are often told that foreign investment is the answer. The annual value of world foreign direct investment is high and rising. It stood at US\$648 billion in 2004, with US\$233 flowing into developing countries - more than three times the volume of overseas aid in the same year.

Unfortunately more than half money is not capital or cash but represents mergers and acquisitions. And \$200 billion leaks out through transfer mispricing and trading through tax havens.¹

Not that foreign investment is always bad. But it cannot be taken at face value. Once you add the social and environmental costs, you have a complex picture.

What is the function of business in society? It provides goods and services, creates jobs, pays taxes that underpin public services. It needs to do these things well, fairly and without causing harm. We can ask nothing more. We want business to be profitable -

poor people's jobs and our pensions depend on it.

Can growth deliver?

However, there is growing debate about the role of business in development, and the problem is to do with money and economic growth.

Why have donors like the World Bank and the UK's Department for International Development been advocates of the privatisation of, say, water in developing countries?

First, they believed they could no longer pour taxpayers' money into failing public utilities and thought the private sector would do a better job. Second, they don't have enough money anyway, so they wanted to lever in private sector investment – shareholders' (your) money.

This illustrates the problem of getting investors to back developing country projects. Unless you have a credible, creditworthy international entity involved, such as the World Bank or DFID, the private sector will not invest.

A recent report from the New Economics Foundation shows why growth does not necessarily benefit poor people.² For every \$100 worth of GDP growth reviewed, only \$0.60 went to the poor. Perhaps growth doesn't benefit the poor; but if you don't have growth, then those who invest money on our behalf won't put the money in. The core challenge that arises is then: How can our money be invested to help finance genuinely pro-poor development?

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Notes

1. Raymond W. Baker, *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System*, Wiley, 2005.
2. David Woodward and Andrew Simms, *Growth Isn't Working: The Uneven Distribution of Benefits and Costs from Economic Growth*, NEF, 2006.