Corporate Social Responsibility and Development in Developing Countries

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Corporate Social Responsibility is perceived as a promising driver for development in developing countries (UN, 2006). Hence, CSR activities of internationally operating corporations (IOCs) are expected to constructively contribute to the eradication of developmental issues such as poverty, hunger and disease, while fostering education, values of equality, and economic prosperity in a sustainable manner (UN, 2006). Nevertheless, there is an ongoing debate about the usefulness and effectiveness of CSR (Garriga and Melé, 2004), as there is still little evidence about the outcomes, while already known outcomes are questionable for the benefits of the poor and marginalized in developing countries (Blowfield and Frynas, 2005). Critical scholars furthermore criticize CSR literature to be insensitive to the context in developing countries. Thus, in this thesis, CSR activities’ effectiveness in respect to development in developing countries is questioned and analyzed, discussing the problem statement: What are the effects of internationally operating corporations’ CSR activities on development in developing countries?

In order to constructively contribute to the theoretical debate of the effects of CSR, the theoretical framework of the “action-oriented corporate responsibility typology” by Halme et al., (2009) is used. This CR typology distinguishes between three CR types CSR activities may represent, which are Philanthropy, CR integration and CR innovation. This distinction makes it possible for research to capture and empirically compare differences between the outcomes of these different CR types. However, this theoretical framework is still lacking enough empirical evidence about the societal outcomes of different CR types, especially of CR innovation. Thus, this thesis makes use of an exploratory research design, an in-depth single-case study of the internationally operating corporation SCOPEinsight. Thus, insights about the effects CSR activities can have on development in developing countries are derived from literature, theory and the case study of this thesis.

Findings of this thesis demonstrate that CSR activities have different societal outcomes, and therefore different potential to successfully foster development. While philanthropic CSR initiatives might inhibit questionable effects, which can harm and prevent development, strategically oriented CSR activities, close to the business core of corporations, can have empowering effects on development in developing countries. It is also confirmed that the Northern-driven CSR agenda is insensitive for CSR in developing countries (Idemudia, 2011). While philanthropy is traditionally perceived as the most appropriate CSR engagement (Visser, 2008), the findings of this thesis indicate that philanthropy is not the most benefiting CSR activity, instead proving to be harmful in the context of developing countries.
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Chapter 1

Introduction

In the year 2000, 193 member states of the United Nations agreed to eight goals that would foster international development. The eradication of poverty and hunger, universal primary education, promotion of gender equality, reduction of child mortality, combat HIV/AIDS, ensure environmental sustainability and finally foster global partnership. These goals were said to be achieved by the year 2015. Despite all efforts these aspirations remain far from being accomplished, in many developing countries (Visser, 2008). An interesting question to ask is therefore what role corporations play in development. What corporate social responsibility (CSR) activities of international corporations can significantly contribute to developing nations and help solve these pressing problems? These questions are at the heart of this thesis.

1.1 Role of International Corporations in Development

Globalization has become the hallmark of our era, and contributes tremendously to the rearrangement of responsibilities within and for society.

Although international cooperation has always taken place throughout manhood, it has never been as prevalent as today overcoming national boundaries and nation-states’ sovereignty. Advancement in technology, communication and transportation has accelerated international cooperation to such an extent that it overcame the limitations of time and place, making it easier than ever for governments, corporations and even the ordinary individual to act on the international level. Within this globalizing world, the corporate world has been a major forerunner, establishing a trade system where not only capital and goods are exchanged, but also an international division of labor is taking place, contributing to an intensification of interdependency between national economies and nations.

A major promise of globalization is economic growth and consequently well-being, which is why many developing nations want to become part of the liberal world economy. According to scholar Joseph Stiglitz, opening up to international trade has assisted several countries to grow faster than they would have without it (2002). In particular export-led growth, he explains, enriched much of Asia, as it was made the centerpiece of their industrial policy (Stiglitz, 2002). Nevertheless, entering into the world economy comes at a cost, namely the lowering of nation-state supremacy, leaving much regulative power to the market. Scholar Susan Strange doubts

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any remaining authority of states over their economy (1996). Strange argues that states have lost the command over outcomes. The control the state has lost to the forces of the world market is now predominantly in power of financial enterprises, industries and trade. These actors are now the major command points, replacing cooperative decisions by governments (Strange, 1996).

This shift in power also means a shift in responsibility, which is specifically asked for when corporations operate in foreign countries that differ in legal structure, development level, and regime type. This responsibility has however, not always been recognized. The only duty corporations subscribed to was to their shareholders. Milton Friedman defended this general perception in 1970 in the New York Times: "[...] there is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman, 1970). Clearly, the engagement of business in either sociopolitical or developmental issues was far from being acknowledged.

However, the perception of the role of corporations and responsibilities they hold has been in debate ever since scandals of unethical behavior have become public and frequent (Blowfield and Frynas, 2005). One example would be MNCs that manufactured their products in developing countries. These internationally operating firms often confronted accusations of taking advantage of low labor rates and poor working standards, such as being ignorant of child labor or collaborating with controversial regimes, where human rights are undermined (Reimann et al, 2012). A fundamental issue was the structurality of these scandals, i.e. that unethical behavior was not just characteristic for some 'rotten apples' in the system, but has in fact become a rather frequent phenomenon in the corporate world (Bakan, 2004). Consequently, corporations were criticized for only focusing on their responsibilities towards their shareholders, neglecting however ethical and moral responsibilities for their stakeholders. Under public scrutiny corporations had to rethink their conduct and find means of how to improve social performance in order to maintain legitimacy for their involvement in developing nations.

With these developments in the 1990s, i.e. the shift of power from the nation-state to the market as well as the debate about corporations' recognition of further responsibilities in their conduct, CSR gained more popularity (Fox, 2004). It has become so prevalent that almost all MNCs formulate, within this notion, their responsibilities towards society and the environment they operate in. However, expectations on CSR are high and obligate MNCs with great responsibilities. Writers like Wood et al. (2006), Pedersen and Huniche (2006), and Crane and
Matten (2004) directly tie social, political and environmental challenges of globalization to corporate responsibility. According to Visser (2008) the United Nations framed the major challenge of CSR in developing countries with the vision of the Millennium Development Goals, which aim at " [...] a world with less poverty, hunger and disease, greater survival prospects for mothers and their infants, better educated children, equal opportunities for woman and a healthier environment" (UN, 2006, p.3). As there is evidence of successful CSR projects in developing countries (Baskin, 2006) scholars, policy-makers and managers continue to encourage corporations to play a greater role in development. The World Bank report of 2005 for instance states that “Private firms are at the heart of the development process. [...] They provide the goods and services needed to sustain life and improve living standards. They are also the main source of tax revenues, contributing to public funding for health, education and other services. Firms are thus central actors in the quest for growth and poverty reduction” (World Development Report, 2005, p.1).

However, although development has for long been considered synonymous to economic growth and perceived as the prerequisite for the obliteration of other development issues (Thomas, 2001), Rosling et al. (2006) emphasize that non-economic dimensions of development are just as vital, and thus constitute a central part of corporations’ CSR responsibilities. Consequently, IOCs CSR engagement in developing countries should include economic and non-economic aspects in order to effectively foster development in developing countries.

1.2 Effects of International Corporations on Development

“Yet the fact is that we know very little about the impact of CSR initiatives in developing countries, and what we do know raises questions about both efficiency of CSR approaches and the tangible benefits for the poor and marginalized [...]” (Blowfield and Frynas, 2005, p.506)

As the quote by Blowfield and Frynas demonstrates, critical voices question whether CSR brings about positive change in developing countries (Dobers et al, 2009) since societal outcomes of CSR, especially in the long-term, are still widely unexplored (Halme et al. 2009). Therefore, Scholars ask for further research that looks at the different societal outcomes of corporate responsibility (Aguilera et al., 2007).

1.3 Problem Statement

Based on the introduction the problem statement is formulated as:

What are the effects of internationally operating corporation’s CSR activities on development in developing countries?
1.4 Research Questions
1. What are possible CSR activities for internationally operating corporations?
2. What are the differences between engaging in CSR activities in developing countries and developed countries?
3. What are the specific CSR activities that have the highest potential to successfully affect development in developing countries?
4. What effects can CSR activities have on development in developing countries?

1.5 Research Design
This thesis makes use of an exploratory research design, doing a single-case study. The individual unit is the internationally operating corporation (IOC) SCOPEinsight, and is used in order to shed some light on the effects CSR activities of IOCs have on development in developing countries. The majority of CSR literature and theory concerns MNCs in developing countries (Fox, 2004). Nevertheless, this research makes use of this literature and refers to it accordingly. It is taken into account that there can be considerable differences between the effectiveness of CSR activities of MNCs' and small- and medium-sized enterprises' (SMEs') operating in developing countries.

1.6 Structure of Thesis
The remainder of this thesis is divided into four chapters. Chapter two critically reflects on the current CSR agenda, discussing core concepts and theories about the effectiveness of CSR activities in respect to development in developing countries, thereby providing answers to research question one, two and three. Chapter three elaborates on the relevance, variability and reliability of the research methodology used in this thesis. In chapter four, the case study is analyzed, providing insights into the possible effects CSR activities have on development in developing countries, therewith answering research question four. Based on the answers of all four research questions, chapter five consists of conclusions that give answers to the problem statement of this thesis, as well as of recommendations and directions for further research.
Chapter 2

Theory

Blowfield and Frynas (2005) get to the heart of the current issue the CSR agenda faces in developing countries. Firstly, not much is known about the effects CSR initiatives have on developing countries. Secondly, what we know about the impact must be viewed critically, as its efficiency and advantage for the poor in developing countries is rather questionable.

This chapter is divided into three paragraphs. First, definitions and concepts that are used throughout this paper are introduced, as well as a typology of CSR, providing answers to research question (RQ) one what are possible CSR activities for internationally operating corporations? This is followed by part two, a critical discussion of the mainstream CSR agenda in developing countries, focusing on answers to RQ2 what are the differences between engaging in CSR activities in developing countries and developed countries? Part three elaborates on a theoretical framework and attempts to answer RQ3 what are the specific CSR activities that have the highest potential to successfully affect development in developing countries?

2.1 Theoretical Concepts in CSR

2.1.1 Corporate Social Responsibility

A major problem with the conceptualization of CSR is that there is no single, agreed upon definition. Although there is growing academic research on CSR, this has rather contributed to the extension of the array of definitions (Blowfield et al., 2008) and to an even greater variety of approaches to CSR (Melé, 2008). This is a rather puzzling phenomenon as Crane et al. acknowledge: “For a subject that has been studied for so long, it is unusual to discover that researchers still do not share a common definition or set of core principles […].” (2008, p.4) Nevertheless, despite the degree of ambiguity, CSR has become a major area of research and agrees upon certain aspects of what CSR means (Crane et al., 2008). An online study by Dahlsrud (2008) shows that the most frequent used definitions of CSR come from the European Commission in its 2002 Communication on CSR:

“A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission, 2002)

and the World Bank working definition:
“Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for the business and good for development” (found in Dahlsrud, 2008, p.7).

Taken from these most commonly used definitions, CSR presupposes businesses to commit to obligations that go beyond profit-making, including interests of the social, cultural and environmental spheres businesses operate in (Idemudia, 2011; Dobers et al, 2009). However, while there is agreement about what CSR means, there are also opposing views that are at odds. The major divergence between the above definitions is the notion of “voluntary responsibility”. While the definition of the European Commission limits CSR to voluntary business activities, the latter considers also regulatory approaches as CSR. A main argument to treat only policies and behaviors that go beyond legislative compliance as CSR is based on the opinion that economic and legal responsibilities are the baseline of any business activity (Halme et al., 2009) as also claimed by the renowned scholar Caroll, known as “one of the most prestigious scholars in [CSR] discipline” (Garriga and Melé, 2004, p.52). He argues that corporations who break the law will face legislative enforcement, and businesses that are unprofitable will normally cease to exist (Caroll, 1996). Nevertheless, interpretations of CSR differ vastly in this point.

Fox (2004) points towards problems conflicting conceptualizations can cause, in particular for CSR in international development. He explains that this dividing line is counterproductive, since CSR practice is often embedded in legal and regulatory mechanisms, particularly so when “legal minima” (often unenforced in developing countries) are considered a baseline for good practice (Fox, 2004, p.30). Socially responsible behavior that adheres to legislation, he argues, should be considered CSR as it contributes to the eradication of socially irresponsible behavior, encouraging responsible conduct. Hence, corporations’ overall contribution to sustainable development, as acknowledged in the World Bank definition of CSR, ought to be considered CSR.

2.1.2 Typology of CSR Activities

Corporations are perceived as a potential driver of development, defining and justifying their CSR engagement and therewith, involvement in developmental issues (Idemudia, 2011). In this thesis the corporate responsibility typology by Halme et al. is used, which distinguishes between three corporate responsibility (CR) action-types CSR activities can represent, therewith answering:

RQ 1: What are possible CSR activities for internationally operating corporations?
The typology distinguishes:

1. **Philanthropy**

2. **CR Integration (emphasis on conducting existing business operations more responsibly)**

3. **CR Innovation (emphasis on developing new business models for solving social and environmental problems)** *(Halme et al., 2009, p.329)*

The *Philanthropy* CR type emphasizes on initiatives such as charity, sponsorships, or employee voluntarism. Corporate resources are used for a positive impact and take place outside the firm, such as donations, charitable activities, or voluntary work of personnel *(Halme et al., 2009)*. Philanthropy CR action-types are generally no part of the core business (strategy or product) as they are not sought to seek direct business benefits. Yet, indirectly, according to *Godfrey* (2005), reasons for philanthropy can be reputation improvements and the increase of market opportunities.

In *CR integration*, social and environmental responsibilities towards corporations' stakeholders are incorporated and reflected in every conduct of its business, and thus well-*integrated*, into any core business operations. This includes for instance environmental soundness of the corporation’s production processes and their products, as well as fair and well treatment of their workforce. In terms of stakeholder management, primary attention is paid to corporation’s responsibilities towards main stakeholders, i.e. customers, employees and suppliers. Responsibilities toward local communities they are operating in are for instance applying environmentally friendly practices and policies *(Halme et al., 2009)*.

*CR innovation* is viewed as a new trend scholars refer to as the ‘base-of-the-pyramid’ or ‘bottom-of-the-pyramid (BOP), broadening the CR dichotomy. It takes up existing environmental and/or social problems as a source for creating a new business or business opportunity *(Bendell et al., 2005; Fox, 2004; Prahalad, 2005; WBCSD, 2004)*. Scholars Dobers et al. *(2009)*, explain that BOP is part of a movement towards inclusive markets, i.e. making the global market economy efficient for the benefit of developing countries. Hence, companies should address poverty-related problems via new business models, incorporating the poor *(Dobers, et al., 2009)*. In the *CR typology* BOP is renamed to *CR innovation*. Important to note is, contrary to philanthropy, CR innovation realizes a win-win condition, alleviating the problem at stake, while simultaneously

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2 One has to note that Halme et al. set this framework based on the definition of CR that stresses voluntary responsibilities that go beyond obligatory conduct, in order “[…] to emphasize the equal importance of the social, environmental and economic responsibilities of corporations” *(Halme et al., 2009, p.327)*
aiming to create revenue for the corporation. Essential is that the support for improving social or environmental ills must make business sense, fulfilling its economic responsibilities (Caroll, 1996). The key difference of CR innovation from the other two CR activities is that CR innovation takes social problems as a starting point to create new business, while CR integration tries to conduce existing business responsibilities (Halme et al., 2009, p.331).

Each type of CR is an idealization, and thus not entirely distinguishable from one another, implying that all types can co-exist within different CSR activities in the same organization. Concluding, there are three possible CSR activities IOCs can have, representing different CR action types that differ in their implementation, approach, focus and time period. A main distinction is whether the CSR activity is separated from or integrated into the business core, or the corporate strategy itself, as seen by the example of CR types philanthropy, CR integration and CR innovation.

2.2 CSR in Developing Countries – Critical Reflections

Considering the effectiveness of CSR activities, scholars argue that important developmental issues are ignored by the CSR agenda and IOCs’ CSR initiatives, and therewith ineffective to foster development (Idemudia, 2011; Dobers et al., 2009). Increasing criticism arises that the mainstream CSR agenda is largely dominated and shaped by the North, leaving out contextual agendas of the South (Fox, 2004; Idemudia, 2011, Halme et al., 2009). The following section therefore discusses:

RQ 2: What are the differences between engaging in CSR activities in developing countries and developed countries?

2.2.1 CSR in the South – What’s not considered

The mainstream CSR agenda is criticized for suffering from “selective amnesia”, where central issues of underdevelopment, such as poverty reduction, tax avoidance, and unsustainable investments are not addressed (Idemudia, 2011, while referring to Jenkins, 2005). Instead, other socially responsible investments are made. Idemudia points to the tendency of international oil corporations operating in Nigeria, to invest in the social infrastructure of the region, such as roads, community-centers, and hospitals, as their CSR engagement. Simultaneously, however they neglect "real problems" of this region, such as corruption, environmental degradation, and the agricultural sector (Idemudia, 2011, p.2). Therefore, many scholars argue that the mainstream CSR agenda is not adjusted to the needs and realities in developing countries, and hence ineffective to forward development (Frynas, 2005; Fox, 2004; Kemp, 2001).
An even more critical example in this respect is that not only local but also global realities are not addressed by IOC’s CSR activities. The biggest “blindspot” of CSR practice and research, Dobers et al. (2009) argue, are illicit capital flows from poor, developing countries to Western countries. Why this issue is considered a CSR issue is based on the fact that 60% of illicit money transfers is tax evasion done by companies (Dobers et al. 2009 while referring to Baker, 2005). Despite increased CSR engagement, the situation has not improved. Again, as Idemudia (2011) also argues, CSR is not focusing on the “real problems”, which prevents successful development to take place. Instead, “From a CSR perspective, we should be particularly concerned about commercial tax-evading money that arises through mispricing, abusive transfer pricing and fake transactions” (Dobers et al. 2009, p. 243). The consequences of “dirty money” (Baker, 2005) are dire for development, suggesting that illicit capital flows are a major reason that inhibits countries to get out of poverty. Based on these insights Dobers et al. question why the CSR agenda fails to discuss this issue: “Why do we not discuss illicit money in CSR reports, research articles and popular press? How is it possible that the CSR debate most of the time missies what Baker calls the ‘legitimization of illegitimacy’ […]?” (2009, p. 243). Moreover, they claim that “legal loopholes” are enabling corporations’ tax evasions. Therefore, although this is a legal issue, it has to be viewed as a CSR issue, seeing that corporations take advantage of this system, displaying anything but corporate socially responsible conduct towards developing countries (Dobers et al., 2009; Christensen et al., 2004). An integrated CSR engagement can facilitate corporations to follow up on their responsibilities, considering that “legal loopholes” also exist in developing countries.

Taken from these arguments, local and global realities are not addressed in corporations’ CSR initiatives. Instead attention is directed towards CSR engagement not attuned and significant for solving “real” issues, supporting developing countries to develop. Investing in the social infrastructure is a possible CSR engagement, such as philanthropy, and often considered the “best” CR type from stakeholders’ perspective (Halme et al., 2009b, Visser, 2008). Nevertheless, often such CR types do not effectively combat urgent issues of development, which more integrated CSR activities on the other hand could accomplish. Hence, identifying the effectiveness of diverse CSR activities in developing countries is a vital task of research.

2.2.2 A Northern-Driven CSR Concept for Development?

While realities in developing countries tend to be overlooked by corporations’ CSR engagement, there is also the perception that Northern-driven CSR standards may negatively affect developing countries. Despite a tacit consensus in CSR literature that CSR varies from region to
region, scholar Idemudia (2011) criticizes that the mainstream CSR agenda still fails to reflect social, economic, legal and cultural diversity.

A major criticism of the mainstream CSR agenda in developing countries is that in fact CSR tools and standards may harm competitiveness of developing countries. Fox emphasizes that tools of the Northern CSR agenda are not in line with the needs of affected stakeholders in developing countries. On the contrary, tools, such as code of conduct, supply chain standards and audits, can be particularly harmful, as they can exclude producers in developing countries from valuable markets (Fox, 2004; Ward, 2004). Companies in the South already fail implementing these standards, because of the lack of monetary and resource power. Formal systems to manage, measure, and record their impacts often do not exist, or too costly to implement. Clearly, in order for IOCs to have a socially and environmentally correct supply chain, inspections and certifications are necessary and demanded from Southern producers. The issue at stake however is that the costs for the adoption of these CSR standards are pushed to the financially less capable producers in the South, which Idemudia (2011) sees as an imbalance in the power relation between MNCs from the North and producers from the South. Producers are often powerless against the demands of MNCs, because they are dependent upon the working relationship that provides them with profits, jobs and consequently livelihoods. Apparently, the mainstream “one-size-fits-all” approach of the current CSR agenda proves to be inappropriate and insensitive for developing countries (Fox, 2004). Hence, differences between developed and developing countries, especially concerning the capabilities of Southern producers to live up to IOCs CSR expectations must be recognized and incorporated in IOC’s CSR conduct.

Concluding, criticisms by Idemudia, Dobers et al., and Fox demonstrate why a Northern-driven CSR agenda is insensitive in the context of developing countries. CSR activities that are praised in developed countries may be ineffective in developing countries, simply because needs, context and capabilities between societies in North and South differ. CSR activities and policies as applied in developed countries if not adjusted to contextual, Southern circumstances and needs can have different outcomes in developing countries than expected. Moreover, Northern CSR standards and tools can be insensitive to Southern producers’ capacities, harming their competitiveness, and consequently workers’ livelihoods. Thus, in order to overcome inefficacy of IOCs’ CSR activities in developing countries one has to acknowledge the differences of CSR in developed and developing countries, asking for a more development-sensitive CSR agenda.

2.2.3 A Southern-Driven CSR Concept for Development

Visser (2008) moves towards a more development-sensitive CSR agenda, questioning the adequacy of Northern CSR conceptions in developing countries. He tries to point out the
The difference between CSR in developed and developing countries and rearranges the famous CSR framework: Carroll's CSR pyramid (1996), which is mainly based on research done in the American context (Visser, 2008). The CSR pyramid for developing countries on the contrary, orders different responsibilities of CSR according to their priority and significance in the context of developing countries. Visser finds that although all responsibilities that apply in developed countries also apply in developing countries, they have different significance and priority in developing countries, as demonstrated in Figure 1.

![CSR Pyramids](image)

(a) Caroll’s classic pyramid  
(b) CSR Pyramid for developing countries

Figure 1: (a) Caroll’s CSR pyramid (1996) (b) Visser’s CSR pyramid for developing countries (2008)

A concrete problem of the classic CSR agenda is the perception that CSR represents behavior that is voluntarily done, i.e. adhering to standards that go beyond legal requirements (Fox, 2004). However, while voluntary, self-regulative measures of CSR might be beneficial in Northern countries, where legal supremacy is high, this might not be the case for developing countries where governmental enforcement is often lacking, which is according to Visser putting less pressure on corporations for good conduct. Moreover, he states that there are "[...] strong indigenous traditions of philanthropy in developing countries [...]" (Visser, 2008, p.490), which results from the perception that the socio-economic needs of developing countries are so great that philanthropy is perceived as the most appropriate response of business to these needs. Finally, Visser argues that as CSR in developing countries is often equated to philanthropy, it is not fully taking up more embedded approaches of CSR, as for instance through CR integration CSR activities.

Concluding, the differences between engaging in CSR activities in developing countries and developed countries are based on local needs and realities of the region a corporation operates...
in, and consequently shift CSR responsibilities according to their relevance and applicability. Therefore, considering CSR in developing countries (Visser, 2008), as well as their needs and realities (Idemudia, 2011; Fox, 2004), the emphasis of CSR engagement in developing countries should move more to legal and ethical responsibilities than philanthropic responsibilities. Midttun et al., (2006) summarize that conceptions of CSR have to differ, since different societies require CSR initiatives to react to individual, cultural, environmental and societal needs of development in developing countries. Hence, distinguishing between CSR in developing and developed countries is vital. Moreover, a development-oriented approach to CSR is important, because the private sector does play an important and constructive role in sustainable development (Fox, 2004).

2.3 Towards a Development-Oriented CSR Agenda

2.3.1 An Action-Oriented CR Typology
To build a more development-oriented CSR agenda, it is necessary for research to identify CSR activities that succeed in developing countries, having positive outcomes that effectively foster development. Although CSR literature discusses questions like ‘how do corporations strategically respond to environmental and social demands’ (Wood, 1991), ‘what is the relationship between the core business of corporations and its CSR action’ (Porter et al., 2006), and ‘what are probable benefits of CSR action’ (Zadek, 2004), Halme et al. argue that there is no framework that systematically captures these issues (2009). Therefore, they suggest the “action-oriented corporate responsibility typology”, which provides a more pragmatic perspective, making it possible to capture and empirically compare differences between the outcomes of different CSR activities (Halme et al., 2009, p.329). As seen in paragraph 2.1.2, this typology distinguishes between philanthropy, CR integration and CR innovation, based on their potential financial and societal effects (2009). The following section therefore discusses answers to:

RQ 3: What are the specific CSR activities that have the highest potential to successfully affect development in developing countries?

2.3.2 Effectiveness of CSR Activities
The effectiveness of philanthropy in developing countries is questioned in CSR literature (Frynas, 2005). Compared to other CSR activities, philanthropy is less effective in terms of societal outcomes, foremost because philanthropic CSR activities are generally not integrated, but rather isolated from the corporation’s operation processes. Another limitation questioning effectiveness is that philanthropy is often incidental, targeted at generic social problems and
consequently sporadic (Halme et al., 2009), again ignoring “real problems” and urgent needs that need attention, as also argued by Idemudia (2011) and Fox (2004). Nevertheless, there are cases where charity can be well-targeted (Godfrey, 2005) and effective if corporation’s incentives are in line with social benefits.

In the CR typology effectiveness of CR integration is assumed to have higher potential benefits than philanthropy. This is due to the integration of the business core and the social problem at stake. Frynas (2009) mentions in his article that some development initiatives of oil and gas companies show a high level of integration with corporation’s operations, for example through skill training for local people to find employment in the respective sector, contributing effectively to development. Moreover, high standards in environmental production, fair monetary compensation to employees and a corporation’s compliance with policies of supplier’s operations indicate great effectiveness (Halme et al., 2009). An example for the former is oil drilling in developing countries, where harmful impacts to the environment are minimized as much as possible (Frynas, 2005). In case of fair monetary compensation of employees, CR integration implies that employees increase their spending capacities and improve their living standards, which results in increased economic activity, locally and nationally, indicating societal effectiveness. Another benefit of CR integration is that at the macro-level, large corporations in developing countries publish their revenues and taxes paid to the host country, which contribute “[…] to public funding for health, education and other services” (World Development Report, 2005, p.1). This transparency created by CR integration is in line with Dobers et al. (2009), as it helps to counteract illicit financial flows.

CR innovation in comparison to the other two types is perceived as the most promising and effective CR type for development as CSR “[…] activities that represent the CR Innovation type especially emphasize opportunities to increase the autonomy of those being helped, and this to prevent them from being continuously in need of further aid” (Halme et al. 2009, p.334). As also stated by Prahalad (2005), case-base evidence suggests that CR innovation can have, for both society and corporation the highest potential benefits. Initiating new business models in order to create affordable and needed products and services to poor people can directly alleviate problems. CR innovation is perceived as particularly effective for development, since no dependency upon aid is created, focusing rather on self-help enhancement. Moreover, since CR innovation directly addressed social ills, there is no risk of “selective amnesia” as criticized by Jenkins (2005), saying that local needs and problems are ignored (Idemudia, 2011). However, critical voices argue that strategic CR types, such as CR integration or CR innovation are based on self-interest, therefore running the risk of being non-beneficial (Halme et al., 2009).
Nevertheless, based on existing, yet a small amount of evidence, CR innovation proves to have the highest societal benefits in developing countries.

Thus, concluding from paragraph 2.3, **CR integration** and more so **CR innovation** have the highest potential to successfully affect development in developing countries, while **philanthropy** has the lowest potential.

### 2.3.3 Visualized Model

Figure 2 demonstrates the assumption that different types of CR are likely to have different social and financial outcomes. Since, **CR integration** and **innovation** are strategically oriented CR types; they yield higher substantial societal outcomes than **philanthropy** (Halme et al., 2009 referring to Burke and Logsdon, 1996; Husted and De Jesus Salazar, 2006; Porter and Kramer, 2006). **CR innovation** is illustrated with three possible outcomes, as no sufficient critical evidence exists yet.

![Visualized Model Diagram](image)

*Figure 2: Level of CR types and their expected, potential financial and social benefits for business and society, Halme et al., (2009)*

### 2.4 Conclusion Chapter Two

Chapter two critically discusses the effectiveness of CSR in developing countries. IOCs’ CSR activities in developing countries may represent CR types, philanthropy, CR integration and CR innovation. However, as shown, the current implementation of CSR by IOCs in developing countries is not the successful vehicle for development as advocates of this idea had expected. A major issue is that the current CSR agenda is still mainly Northern-driven. Corporations’ CSR initiatives often tend to ignore pressing problems in developing countries, as well as failing to
address local and global realities. CSR tools and standards of the North may even harm Southern producers, stagnating development in respective countries. The failure of CSR to effectively contribute to development is often due to ignorance of the difference between CSR activities carried out in developed and developing countries, and thus in need of different points of attention. Therefore, a more development-oriented CSR agenda is required. A mean to improve our knowledge about the effects of CSR activities in developing countries, is to distinguish between them, based on their social and financial effects, as Halme et al. (2009) suggest. Focusing on action-types of CSR, it has been demonstrated that CSR activities representing strategically oriented CR types, such as CR integration and CR innovation imply to be more promising for development than others that represent philanthropy.
Chapter 3

Methodology

This chapter discusses the methodology used in this thesis, especially focusing on the relevance, data analysis, variability and reliability. As methodology is the key instrument of a researcher to attain sound analysis and results, so scholar Merriam, it should be carefully chosen based on purpose and the problem statement at stake (1998).

3.1 Research Design

This thesis attempts to answer its problem statement: What are the effects of internationally operating corporations' CSR activities on development in developing countries? The current state of lacking empirical evidence about the effects of CSR in developing countries in CSR literature is the reason for this question and this thesis, making it applied science. This research is exploring an IOC to gain more insights about the effects CSR activities can have on development in developing countries. Moreover, qualitative data is used, adopting a single-case study design. Finally, due to time limitation this research is cross-sectional, as there is only a one-time data collection, attaining only a snapshot of the prevailing situation (Sekaran, 2003).

An exploratory study design, as used in this research, is undertaken to get better comprehension of a situation about which no or only little information is available (Sekaran, 2003). Often this research design is used when very few studies have been conducted, leaving the research problem at hand rather unknown and unexplored. Empirical evidence about the effects of IOC’s CSR activities in developing countries is lacking (Blowfield and Frynas, 2005; Aguilera et al., 2007; Barnett, 2007; Halme et al., 2009; Idemudia, 2012) and therefore legitimizes this research to be exploratory. Because of this lack of research done, the action-oriented CR typology (Halme et al., 2009) is not an entirely viable theoretical framework. In particular, there is remarkably little systemic research on the positive outcomes of CR, especially in case of CR innovation. According to Sekaran, exploratory research is often used and necessary to gain more information to make a theoretical framework more viable (Sekaran, 2003). Moreover, the scholars Halme et al. (2009) ask future research to examine the outcomes of CR types in a variety of research designs and with different empirical measures. This indicates that a qualitative design is appropriate to use in order to improve our comprehension on this issue. A single-case study design is appropriate to use in this research, as other studies on the outcomes of CSR have made use of this research design as well (Frynas, 2005), indicating that this is commonly done. Finally, Sekaran states that case studies, as used in this research, are
commonly used in exploratory research, and characteristic for a small scale data collection, using a limited number of interviews with individuals, and information from a limited number of occurrences (2003).

3.2 Sampling Strategy

In this research a case study is done on SCOPEinsight an organization that resembles the CR type CR innovation. SCOPEinsight is a for-profit small sized, rating agency, founded in 2010 by its CEO Lucas Simons. This social enterprise is headquartered in The Netherlands, while operating regional offices in Nairobi and Kenya, as well as having other regional representations in India and South America. SCOPEinsight empowers producer organizations (POs) of the agriculture, forestry, dairy/livestock and aquaculture sector in developing countries to have access to formal credit and markets. This they do by assessing farmer organizations’ level of professionalism, creditworthiness and reliability. Logically, this research employs non-probability, as probability sampling, so Ritchie et al. (2003) state, is irrelevant for qualitative research.

3.3 Data Collection

This research makes use of two types of data, primary and secondary. First of all, much of the research relies on secondary data. One source of data collection is directly from the organization studied, which is information from the website of SCOPEinsight, about who they are, what they do, and how and why they do it. Moreover, there are multiple interviews online from several sources, which were conducted with CEO Lucas Simons during the years 2010 and 2011. Additional data is also taken from the website of NewForesight, another company of Lucas Simons.

To enrich this information, primary data is used. In order to find out explicitly about the effects SCOPEinsight and other CSR activities have on developing countries, a semi-structured interview with CEO Lucas Simons is conducted (See Appendix III). A semi-structured interview structure allows for more flexibility and in-depth exploration and has the advantage that it is well-targeted on the case study topic (Yin, 2003). Moreover, this interview took place face-to-face at the organization’s office. As made available by SCOPEinsight other reports of its operations in developing countries are used.

3.4 Data Analysis

The interview was recorded and thereafter transcribed (see Appendix IV). This allows repetitive rereading to ensure the right and relevant information to be extracted during data analysis in order to answer the problem statement. A "pattern matching" approach, as described by scholar
Donald Campbell (1969), which is relating several pieces of information from the same case to theoretical propositions, is an essential tool of case study methodology and used in this research (Yin, 2003, while referring to Campbell, 1969). Pattern matching is done both with primary and secondary data. Finally, the data found and interpreted is held against theory from chapter two, and used to provide answers to the problem statement of this thesis.

3.5 Validity

A case study is not a sampling unit, therefore statistical generalizations cannot be made, which is why a multi-case study is generally preferred (Yin, 2003). Nevertheless, based on a single-case study, analytical generalizations towards theory, not populations, can be made (Yin, 2003). Moreover, Yin distinguishes between construct validity, internal validity, and external validity. As this is an exploratory study, construct validity and external validity must be of concern. Construct validity of this research is increased throughout the use of multiple sources of evidence, establishing a chain of evidence, which both take place during data collection, and having a key informant, who reviews the draft case study report. Although only one interview is conducted, it is sufficient for the purpose of this research, namely to get adequate information about the corporation and its CSR approach. As SCOPEinsight is a small sized firm, CEO Lucas Simons can provide all answers to the questions asked, having a good perspective and insight on all operations of the firm.

It is also important to mention other difficulties of case study research, as put by Ryan, Scapens & Theobald (2002). They name the nature of the social reality researched as a difficulty, due to the researcher, who cannot be regarded an independent, neutral observer. Also they name the ethics of the researcher’s relationship with his or her subject, as for instance in interviews. Therefore, several attempts are taken to avoid personal bias in this research. The Interview was recorded, as well as the summary of the interview is sent to the interviewee to be double-checked. Moreover, a key informant is asked to review the draft case report. To also reduce a socially desired answers-bias of the interviewee, it is asked for concrete examples in the interview questions (Briggs, 1986).

According to Yin, external validity is the establishment of the domain to which a study’s findings can be generalized (2003, p.34). Hence, external validity is ensured throughout the use of theory (Yin, 2003). In this research, theory by Halme et al., about CR types, but also other theories of CSR in developing countries are the basis of this research, to which results are generalized. Therefore, theories about CR types or IOCs’ CSR activities are the domain to which the results of the SCOPEinsight case can be generalized. Nevertheless, external validity will apply if CR types
theory has been tested by several replications of the findings. If that has been done, so Yin, the results of this case study can be considered as “strong support” for the theory (2003). Hence, a major aim of this research is to add evidence to the CSR domain and to raise more questions to steer research in this research area.

3.6 Reliability

The final aspect of research quality is reliability, which is ensured when it is demonstrated that the operations of a study can be repeated, showing the same results. A threat to reliability is the semi-structured interview style, as responses to this informal design can be influenced, and not be replicated by another interview. In order to ensure however replication of this exact case, a clear documentation of this case study is provided.
Chapter 4

Case Study

This chapter analyzes a case study of the IOC SCOPEinsight. Throughout this analysis, theory of chapter two is contrasted and consequently tested against the findings from the case presented. A major aim is to gain insights about the effects IOCs’ CSR activities have on development in developing countries, thus discussing answers to:

RQ 4: What effects can CSR activities have on development in developing countries?

4.1 SCOPEinsight and CSR

In the following section the pattern matching approach as mentioned in chapter three is used to relate information from the case to theoretical propositions of chapter two. Here primary and secondary data is combined.

4.1.1 CSR – A Solution to the Problem?

"It’s unnatural to say that this is what I do, and then I do CSR. It’s old thinking." (Simons, 2012)

Considering CSR as a mean to effectively foster development in developing countries, CEO of SCOPEinsight Lucas Simons distinguishes between corporations as a whole and their contribution to change, rather than focusing on their CSR initiatives. According to Simons, corporations have a societal function (Simons, 2012), which means that ideally, anything a corporation does must be favorable for society, any society. Thus, separating, the business core from a corporation's CSR activities is unnatural Simons explains, and old thinking (2012).

Whether CSR goes beyond the law or is following the law is not important for Simons. Considering the fact that legislation is generally lagging behind, Simons argues that CSR, or any innovative solution, has in that respect to go "way beyond the law in order to make a difference (Simons, 2012). This is contrary to scholar Fox (2004), who argues that any corporate responsible conduct should be considered CSR. Yet, in view of effectiveness of CSR for development, Simons thinks in solutions and contributions. Hence, for him, both legal and beyond legal CSR activities are ineffective, if they remain within the system (see Figure 3, Appendix I) and are not seeking change and solutions to current failures, while on the contrary often contributing to underdevelopment, as the following section demonstrates.
4.1.2 CSR – An Excuse for Access to Resources in Developing Countries

Based on Simons’ experience, in particular in the agricultural sector, CSR activities can become part of the problem, rather than part of the solution for development. This is particularly true in sectors where natural resources are essential but scarce. A case in point is corporations who advocate buying natural resources from farmers in developing countries as their CSR engagement. Sara Lee, so Simons, is buying coffee from Uganda. However, since they do not know who they are buying from, they can become a force for unsustainable behavior (Simons, 2012). Despite the fact that their CSR activity resembles CR integration, it can have unintended effects. Corporations, who do not obtain thorough information about the farmer, his operations and conduct, might be buying from an unsustainable farmer, and consequently reinforce other issues caused by unsustainable behavior, such as slavery, social exploitation or environmental degradation. Therefore, thorough information about local producers must be attained in order to avoid such unintended effects.

Simons furthermore argues that increasingly corporations, and also governments, try to increase their access to resources, such as in the agricultural or oil sector, while using CSR as an excuse to legitimize access. China, for instance, is buying up land. While they build infrastructure, and contribute to increasing employment in these regions, it is however not done with the best intentions in mind, so Simons (2012). The mining industry shows similar behavior. While having devastating effects on countries’ environment as such, websites of these corporations display pictures of their CSR charity initiatives supporting children and schools (Simons, 2012). However, a problem of such charity projects that only donate money is that they tend to maintain poverty and aid dependence, if no incentives for financial independence of poor people, who receive such monetary donations, are created (Simons, 2012). These examples are in line with Jenkins’ (2005) “selective amnesia”, namely that local needs and realities are ignored. Instead, CSR is a mean to get legitimacy to operate in developing countries, and consequently not well-targeted, representing anything but CSR engagement that fosters development and independence of developing countries.

Another example Simons mentions is UTZ certified, which certifies farmers according to their degree of sustainability. Simons, who used to work for UTZ certified, however questions this approach. Many corporations now buy from farmers, who are certified, which has the advantage that sustainable farmers are rewarded. This in turn means that water, energy and waste are handled sustainably in these regions, contributing to a better use of the environment, while also social development takes place, where children of sustainable farmers can go to school. The downside however, so Simons, is that often certified farmers have poor management, and are
therefore dependent upon financial aid to sustain themselves (Simons, 2012). Thus, although CR integration takes place, fostering sustainability, other issues causing underdevelopment, such as farmers’ lack of managerial skills, are overlooked and often the reason that dependency upon aid remains.

All in all, based on Simons’ experiences, CSR activities, whether representing philanthropic or CR integration, fail to get down to the root of the trouble. Instead, it seems that any CSR engagement may become a force for mechanisms dire for development, if IOCs remain ignorant of the local realities and needs, such as in the case of Sara Lee’s CR integration or philanthropic CSR activities as used by many corporations in developing countries (Visser, 2008). As these CSR activities do not directly address problems that cause a low degree of development in the first place, they are rather ineffective for development in developing countries.

4.1.3 Part of the Solution – CR integration and CR innovation

Nevertheless, Simons (2012) argues that purchasing in developing countries can become a main driver of prosperity and development in developing countries. Simons refers again to Sara Lee in Uganda. Only fulfilling their economic responsibilities, being the major buyer of coffee in Uganda, means that they are creating jobs and helping thousands of Uganda’s farmers to have an income, consequently fostering economic development in Uganda (keeping in mind the risk that this can also become a force for unsustainable behavior as mentioned in 4.1.2)(Simons, 2012). However, there is more potential in this situation, which lays so Simons in CSR activities that represent CR integration, such as fair conducted supplier and buyer relationships, or the inclusion and empowering of small farmers from rural areas in order for them to prosper and get out of poverty. More so, Simons finds innovative solutions that aim at changing incentives and the market, as to generate benefits for the poor more promising for development than charity, CSR and NGO projects (Simons, 2012). This confirms theory by Dobers et al. (2009), who argue that inclusive markets, functioning for the benefit of the poor are major forces for development in developing countries. Hence, CR integration and CR innovation have great potential, if they seek to make solutions for development issues part of their business core.

Taken from Simons’ insights, to search for solutions for development problems, and make them part of your business core or the very essence of your business is a major determinant for IOCs’ CSR activities’ effectiveness for development in developing countries, and therewith confirms theory of Halme et al. (2009). Simons’ IOC SCOPEinsight represents CR type CR innovation, inhibiting great potential for development in developing countries.
4.2 SCOPEinsight – CR Innovation

This section shortly introduces SCOPEinsight and how it reflects CR innovation as described by Halme et al (2009). This serves as a basis to understand the effects SCOPEinsight and consequently CR innovation has on development in developing countries.

**BOX 1**
**CASE: SCOPEinsight**

*No Access to Credit – The Source for SCOPEinsight’s Existence*

According to Halme et al. (2009), CR innovation is applied by a corporation when it makes a social or environmental problem the source of its new product or new business model. SCOPEinsight is addressing a problem to which CEO Simons refers to as market failure in the agricultural sector in developing countries, where supply and demand is not meeting. According to an estimation done by SCOPEinsight, worldwide ±2 million producing operations (POs) are lacking financial services, access to markets and business capacity building (SCOPEinsight, 2012). The majority of these POs are mainly small and medium enterprises, often located in the rural areas in developing countries. Financial services to this “missing middle” are estimated to have a market value of ± USD 80 billion, inhibiting therefore great business opportunities (SCOPEinsight while referring to FAO UN, 2009). However, the reason why supply and demand is not meeting is because of what SCOPEinsight calls an “information gap”, which exists between POs on the one hand and financial institutions as well as traders on the other hand (SCOPEinsight, 2012). This gap exists for several reasons. First of all, there is a big geographical distance, Simons explains, where POs are mainly located in rural areas, while financial institutions mainly reside in capital cities of the country. Overcoming this distance means high transaction, information and opportunity costs (Simons, 2012). Moreover, suitable due diligence and risk assessment of POs are required for a loan to be given, while the costs of such an assessment are too high for POs to afford. Thus, POs remain opaque and unattractive for a loan (SCOPEinsight, 2012). Furthermore, traditional ratings mainly focus on existent collaterals, which is however in most cases unrealistic. Ignoring rural realities in developing countries detains POs from financial credit and excludes them from the market (SCOPEinsight, 2012).

*One New Product - One New Market*

SCOPEinsight depicts this problem and addresses it through a rating of POs of the agriculture, aquaculture, dairy/livestock and forestry sector in developing countries. They assess POs creditworthiness by profiling their organizational performance. This rating provides a complete and unique overview of the financial performance, risk management, sustainability issues and the management of supply and markets, which indicates the embeddedness of the organization in the value chain (SCOPEinsight, 2012). This realized SCOPEinsight’s services bridge the “information gap” between POs and financial institutions and traders, as POs can proof their bankability and banks can access a new, more transparent market with attractive investment opportunities (A more detailed description of SCOPEinsight’s product and services can be found in Appendix II).
**SCOPEinsight - A Win-Win Situation**

"So, we create a market that didn’t exist before, and it is a market that rewards good behavior, and we make money out of it" (Simons, 2012)

Halme et al. (2009) emphasize that CR innovation creates a win-win situation, where the corporation tries to alleviate the problem at stake, while simultaneously aiming to create revenue for the corporation itself. SCOPEinsight confirms this theoretical assumption. CEO Simons explains that corporations always have a societal function, which they have to fulfill in a profitable and responsible way. Simons (2012) shares Caroll’s (1996) opinion that economic responsibility is the baseline of business. Despite the fact that SCOPEinsight is a young company, its business idea is recognized and starts to flourish, indicating profitability. Large institutions such as the United Nations, World Bank and the International Finance Corporation (IFC) know about his concept, so Simons. While first skeptic about the success of this idea, the more SCOPEinsight presented its business idea in several countries, these institutions started to recognize its potential, ordering great amounts of SCOPE-profiles. Usually, the PO pays for the assessment; however there are also cases where NGOs or other associated organizations pay. Hence, the baseline for SCOPEinsight as a for-profit organization is its profitability to sustain and follow its ultimate goal of market transformation.

SCOPEinsight has several clients it creates value for. The added value for POs, who had trouble getting access to a loan before, is that they are now using their SCOPE-rating to go "shopping" for loans (Simons, 2012). In case the PO has a good rating, banks are starting to compete with each other to make a deal with the PO. This was different before the rating, where the PO had difficulties getting a loan, being forced to accept any conditions the banks sets. With the rating, POs gain power to negotiate better loan conditions, such as lower interest rates, and are therefore able to choose a bank with the best conditions. Hence, POs become more independent, which is according to Halme et al. (2009) one important outcome of CR innovation in developing countries. The same profile, so Simons, makes them transparent for traders, thereby having easier access to markets, which is, as Dobers et al. (2009) advocate, a good indicator for development of the marginalized in developing countries. Nonetheless, not all POs get a good rating, some score low, which does not necessarily improve their credibility. However, the assessment report gives a detailed description of the PO and its operations. Together with capacity building organizations SCOPEinsight cooperates with, POs can improve their business. Simons says that the rating is not about compliance, i.e. you are in or out. On the contrary it is about transparency, empowering POs to become good farmers in order to get rewarded with access to finance and markets. Finally, banks, traders, value chain players and stakeholders
interested in being engaged in agriculture, dairy/livestock, aquaculture and forestry are clients of SCOPEinsight, who throughout the digital portal or direct referral enjoy better access to sustainable and reliable farmers they can invest into or cooperate with.

Concluding, SCOPEinsight represents CR innovation as it takes up existing environmental and/or social problems as a source for creating a new business or business opportunity (Bendell et al., 2005; Fox, 2004; Prahalad, 2005; WBCSD, 2004). It is part of a movement towards inclusive markets, i.e. to make the global market economy also efficient for the benefit of developing countries (Dobers et al., 2009), enabling POs access to finance and markets. Finally, SCOPEinsight makes business sense as it fulfills its economic responsibilities, while improving social or environmental ills (Halme et al., 2009), (Caroll, 1996). Whether or not SCOPEinsight, and respectively CR innovation, has high value societal benefits is analyzed in the next section.

4.3 SCOPEinsight’s Impact on Development in Developing Countries

“[…] activities that represent the CR Innovation type especially emphasize opportunities to increase the autonomy of those being helped, and this to prevent them from being continuously in need of further aid” (Halme et al. 2009, p.334).

As seen in the visualized model of the action-oriented CR typology by Halme et al. (2009) (Figure 2, Section 2.3.3), CR innovation has three possible outcomes, however expecting CR innovation to have high possible benefits for both corporation and society. This section reflects upon the possible outcomes SCOPEinsight, representing CR action-type CR innovation, has and whether it matches the assumption of Halme et al. Furthermore, not only is data contrasted against CR innovation theory, but also against other theories discussed in chapter two, evaluating the impact of SCOPEinsight on development in developing countries. Data used in this section is mainly obtained from primary sources. Because SCOPEinsight is a fairly new corporation, it is in the beginning of all its operations. Therefore, no impact analysis of the rating has been done, which would represent concrete outcomes of SCOPEinsight’s rating. Nevertheless, the following section reflects on the effects SCOPEinsight already has, and on the expected outcomes SCOPEinsight anticipates to see in the future.

Impact SCOPEinsight already has on Development in Developing Countries

According to Simons, POs, who have done a rating with SCOPEinsight, have already received loans under much better conditions than they had before (Simons, 2012). While this is in progress, however, there are many POs who are scoring low. “Now that is interesting!” says Simons, because farmers’ usual “excuse” for their low performance is their underdevelopment,
such as being poor, and from Africa. Through SCOPEinsight however this “excuse” becomes invalid, as their competitors are peers, rated and operating under more or less the same circumstances (See example in Box 2). This has two outcomes: firstly, the good farmers will improve, and others, who are not professional, will cease to exist. Secondly, the “Yes, but this is Africa”-mindset, the biggest bottleneck to a high score and development in general, is challenged (Simons, 2012). SCOPEinsight challenges this stagnating mind-set in a fair manner, as it considers local realities, POs capabilities and offers feedback for empowerment and capacity building. CSR activities, such as charity in contrast, create dependency in the first place, because a certain mindset that expects to be helped evolves, putting self-initiative and improvement on hold. CR innovation CSR activities, as demonstrated with SCOPEinsight on the other hand motivate people in developing countries to self-help and self-empowerment, in order to free themselves from development aid, and instead become independent, valuable and more powerful players in the market sector, which confirms theoretical assumption by Halme et al. (2009).

**Box 2**

**Example Empowering to Self-Help**

A case in point was experienced when an NGO hired SCOPEinsight to rate 12 POs, the NGO was working with for the past 6 years. On average the POs scored a 1,5. This was a surprise for the NGO, nevertheless acknowledging that their efforts to improve and help POs to become independent were not effective. On the contrary, Simons explains that dependency of the POs upon the NGO was so great, that the POs could not sustain without the NGO’s monetary support. Aid dependency had become a running circle in which local NGOs and POs felt comfortable in. After the low scores by SCOPEinsight however, the NGO pressured the POs to improve to at least a 3,5 rating, otherwise they would stop working with them (Simons, 2012).

Another effect SCOPEinsight achieved, representing CR innovation, are responses from big institutions, such as the UN, WB or the IFC, who already buy large numbers of profiles. However, also critical responses from other large financial institutions such as banks are received. Simons explains that innovative ideas often face hurdles, such as vested interests as well as status quo (Simons, 2012). A case in point is a famous bank in the Netherlands, which is one of the market leaders in agricultural finance, Simons explains. The fact that SCOPEinsight rates POs, who are clients of this bank, and provides these profiles to the bank’s competitors is not in the interest of this bank. Instead unequal access to market information is preferred to be maintained (NewForesight, 2012). Equal access to information, as provided by SCOPEinsight, implies that banks have to make better offers to their clients. Otherwise, they would lose clients to other
competing banks. Similar to the example of illicit financial flows by Dobers et al. (2009), there are failures in the system that are taken advantage of, and consequently dire for development. Innovators and CR innovation respectively, are meant to overcome these failures, such as CEO Simons with SCOPEinsight, however running against entrenched interests. Therefore, through challenging status quo and solving market failures that maintain the poor and marginalized in a disadvantaged position, CR innovation has high potential to foster development.

**Potential Impact of SCOPEinsight on Development in Developing Countries**

Since SCOPEinsight is in its starting blocks, there is not sufficient information to systematically measure effectiveness of its development interventions, as suggested by Frynas (2009). However, SCOPEinsight is working on integrating impact indicators in their rating methodology in order to compare the before and after scenario of their rating. With the use of existing measurement tools, so Simons, the impact of SCOPEinsight on social, environmental and the economic realm will be measured (Simons, 2012). Simons, however thinks further and envisions making an analysis of the physical context POs are located in, such as the state of infrastructure, state of warehouses, weather conditions, and the like. Documenting these information will mean that not only the farmer is rated, but also the condition of his context, representing an important indicator for professionalism and success. A favorable effect of publishing these information is that investments, changing the context where required can be targeted more effectively. Thus, SCOPEinsight, and CR innovation respectively, displays a large degree of sensitivity for local conditions, needs and realities in developing countries, helping to target development issues more efficiently, building towards a more integrated and well-functioning agricultural sector. With this consideration, SCOPEinsight, CR innovation, overcomes “selective amnesia” (Jenkins, 2005) as criticized by Idemudia (2011).

In respect to development in developing countries, Simons envisions that in 10 years from now, the agricultural sector of developing countries will be completely revolutionized (Simons, 2012). First of all, he argues, SCOPEinsight will have linked banks to agriculture on a large scale. Large investments in the SMEs of the agricultural sector of developing countries will lead to higher productivity, less land use, less deforestation, and higher employment rates, causing higher per capita income of the workforce in the agricultural sector (Simons, 2012). On top of this, better farmers are rewarded, i.e. sustainable and reliable farmers, with whom corporations may build, stable relations with, while inefficient farmers will have disappeared (Simons quoted in Depuydt et al, NRC Weekend, 2011). As a consequence, a high uplifting effect for a lot of organizations is expected, causing the agricultural sector in developing countries to become a modern sector, producing enough food for our population (Simons, 2012). This, however, will
not happen only as a result of SCOPEinsight alone, but along with other players and institutions joining this trend, finally leading to “a market transformation towards sustainable markets”. In Appendix V (Figure 5), Simons graphically illustrates how he expects market transformation to evolve, and why.

**Critical view on SCOPEinsight’s Rating**

While these prospects are promising for development, one has to ask critical questions of the intended as well as unintended outcomes of SCOPEinsight, and of CR innovation respectively. One criticism of the effect of mainstream CSR agenda in developing countries is that CSR standards may harm competitiveness of producers in developing countries, because tools of the Northern CSR agenda are not in line with the needs of affected stakeholders (Fox, 2004). In respect to SCOPEinsight, one outcome of its product is that some POs will cease to exist due to a continuously low score. The rating of SCOPEinsight is based on the internationally recognized International Organization for Standardization 9000 (ISO 9000), which provides "[…] a set of standardized requirements for a quality management system, regardless of what the user organization does, its size, or whether it is in the private, or public sector. It is the only standard in the family against which organizations can be certified [...]". One can question whether its standards and guidelines for good quality management is also applicable to farmer organizations in developing countries, as situational and regional circumstances differ (Fox, 2004; Idemudia, 2011). Nonetheless, ISO 9000 is a result of research by prestigious business schools and institutes, which assures Simons that this standard is applicable anywhere. Moreover, if this assumption would not apply, SCOPEinsight’s entire business model would fail (Simons, 2012). However, Simons says it is poor management that leads to poor performing corporations, fraud, unprofitability, and aid dependency (Simons, 2012), thus demanding better management. Moreover, selection is part of the process for the market to become more transparent, while rewarding sustainable, aid independent farmers. SCOPEinsight thus balances Northern basic conceptions of management and Southern realities in developing countries. Hence, CR innovation illustrates to be highly development-oriented, as it utilizes Northern expertise, and tailors it according to the context and local realities of developing countries.

What does this mean for the farmers who will disappear? At an UN conference, where Simons represented UTZ-certified, he was critically asked by an NGO that certifying also implies that farmers, who fail, might move to the favelas in the city, falling into worse life-conditions, becoming even more reliant upon development aid. Simons is aware of this risk, however arguing that one cannot prevent everything. Looking at Figure 3 in Appendix I, there are several

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failures in the system that lead to low level of development, including ineffective governments, as well as ineffective social and environmental policies, which without a doubt need to be solved as well, so Simons (2012). Hence, SCOPEinsight is contributing to the sector it operates in, and is not intended to solve all development issues that exist in developing countries. The agricultural sector already inhibits great opportunities, as it involves large percentages of populations in developing countries. Making this sector more prosperous is thus already a great milestone for development in developing countries (Simons, 2012). Taken from this example, CR innovation has high potential to foster specific development issues its business model targets, rather than incorporating all development issues that exist in developing countries.

4.4 Conclusion Chapter Four

This chapter demonstrates that IOCs CSR activities, whether representing philanthropy or CR integration, can become a force for mechanisms dire for development. As they do not directly address problems that cause a low degree of development in the first place, these CSR activities are rather ineffective for development in developing countries. CR innovation on the other hand shows promising effects on development, as demonstrated by the case study of SCOPEinsight. Thus, different CSR activities of IOCs have different potential to successfully affect development in developing countries, confirming assumptions of the theoretical framework by Halme et al., (2009). The more a corporation’s CSR engagement is part of the business core, the higher the possible societal outcomes and the more favorable the effects, contributing to development. Simons confirms this assumption by Halme et al. (2009), arguing that a CSR should be integrated into the business core, while CSR separate from IOCs’ business core is unnatural for corporations to do, and consequently ineffective. Moreover, Simons confirms the assumption of Halme et al. (2009) that CSR activities must be a solution to a problem in order to have highest societal outcomes, erasing societal and environmental ills, successfully fostering development. Thus, experience of Simons confirms that CSR activities, representing CR types such as charity and CR integration show lower potential for successful development in developing countries, as their CSR activity is either separated or only modestly part of their business core. Nevertheless, CR integration inhibits higher potential to create prosperity in developing countries than philanthropy.

Other theoretical assumptions about the effects of CSR on development in developing countries are confirmed, especially in respect to CR innovation. For instance, Dobers et al. (2009), arguing that inclusive markets are a promising mean for development. SCOPEinsight, resembling CR innovation, shows great potential to include the poor and marginalized in the global market as equally powerful and independent players in the value chain. Additionally, CR innovation
indicates a large degree of sensitivity for the circumstances in the South, recognizing by means of several analyses the differences of CSR engagement in developing and developed countries (Visser, 2008). Tailoring a product as a solution to a problem that exists in developing countries, CR innovation integrates local realities and needs of developing countries (Jenkins, 2005; Idemudia, 2011). Moreover, similar to the example of illicit financial flows by Dobers et al. (2009), there are failures in the system that are taken advantage of and dire for development, which can be overcome by CR innovation, identifying, targeting and going against these ill functions. Finally, CR innovation activities, as demonstrated in the SCOPEinsight case, make use of business standards, i.e. CSR standards that do not harm competitiveness of Southern Producers, as concerned by Fox (2004). SCOPEinsight was a tool to illustrate the potential of CR innovation for development in developing countries, also confirming and consequently verifying the theoretical framework of Halme et al. (2009).
Chapter 5

Conclusions and Recommendations

Corporate Social Responsibility is perceived as a promising driver for development in developing countries (UN, 2006). IOCs’ CSR engagement is expected to constructively contribute to the eradication of developmental issues such as poverty, hunger and disease, while fostering education, values of equality, and economic prosperity in a sustainable manner (UN, 2006). Nevertheless, there is an ongoing debate about the usefulness and effectiveness of CSR initiatives (Garriga and Melé, 2004). There is still little evidence about positive outcomes, while the known benefits for the poor and marginalized in developing countries are questionable (Blowfield and Frynas, 2005). In this research, IOC’s CSR activities’ effectiveness in respect to development in developing countries is questioned and analyzed. In order to constructively contribute to the theoretical debate of the effects of CSR, a theoretical framework of the “action-oriented corporate responsibility typology” by Halme et al. (2009) is used, which provides a more pragmatic perspective, allowing differences between the outcomes of different CSR activities to be captured and empirically compared. Hereby, this bachelor thesis intends to provide evidence and shed some light on this relatively unexplored research field. Throughout an in-depth case study of the IOC SCOPEinsight, resembling CR innovation, more insights about the effects CSR activities can have on development in developing countries are explored, intending to provide answers to the problem statement: What are the effects of internationally operating corporations’ CSR activities on development in developing countries?

5.1 Conclusions

When talking about the effects of CSR or corporations’ CSR initiatives, one has to keep in mind that different CR types exist, distinguishing themselves in their target, conduct, time intensity and goal. An operationalization of CR types helps to clearly differentiate between them for means of understanding how they affect development, but also for means of measuring their impact and compare them respectively (Halme et al., 2009). As these ambitions are in the starting blocks, this paper based this distinction and the differing outcomes on literature and theory, while attaining a small amount of empirical data about the effects of different CSR activities from a conducted single-case study. Insights about the effects are also based on the experiences of Lucas Simons, CEO of SCOPEinsight who is an expert in “sustainable market transformation”. Consequently, this research came to the following conclusions, answering the problem statement of this thesis:
The effects of CSR activities that resemble CR types like CR integration or do CR innovation activities can be favorable for development, enforcing the inclusion of the poor into the market system as well as their independency from aid. This is due to the degree on how much local reality, needs and circumstances are considered (Fox, 2004; Idemudia, 2011; Jenkins, 2005), but also on how integral their CSR initiatives are to their business core (Halme et al., 2009, Simons, 2012). On the other hand, CSR activities can have harmful effects on development. CSR activities such as charity, can have the effect that even more dependency of local communities or individuals in developing countries is created, as the mind-set of ‘we are poor and therefore in need of money’ is enforced rather than a mind-set of self-initiative and empowerment leading to independence of aid (Simons, 2012). Another effect of CSR activities unaware of local realities is that they may become a driving force for mechanisms that cause underdevelopment, having thus dire outcomes for development.

An important finding is that the type of CSR activity matters in term of its potential effectiveness to foster development. While some CSR activities can harm and prevent development, other more strategically oriented CSR activities close to the business core of corporations, can have empowering effects fostering development in developing countries.

5.2 Recommendations

Looking upon the CSR agenda in general, a major limitation of the current CSR mainstream agenda is its Northern-driven conceptualizations of CSR and its principles. Although CSR is perceived as a main driver for development, theoretical assumptions do not sufficiently incorporate contextual differences that exist between developed and developing countries enough (Idemudia, 2011). Thus, future research must move towards a more Southern-oriented CSR agenda, in order to make CSR effective for development, including Southern realities (Idemudia, 2011). Additionally, future research should increasingly focus on the societal, rather than financial outcomes of CSR (Halme et al., 2009). More research in the CSR agenda should direct attention towards a more development-oriented CSR approach, in order to deepen our understanding of effects CSR may have in Southern contexts, and what this would mean for economic and socio-political development in developing countries. In this respect it is important to note that future research must identify also differences that exist between developing countries.

5.2.1 Recommendations for Further Research

Choosing exploratory research as the research methodology of this thesis was an appropriate starting point to gain in-depth understanding of the effectiveness of IOCs’ different CSR
activities on development in developing countries. In order to measure effects, it is essential to understand why and how particular CR action-types effect development, while comparing their potential to foster development respectively. Confirming theory with an in-depth case study paves the way for further research to take place, incorporating insights gained from the findings of this thesis. However, it is important to mention that generalizations cannot be made from this single-case study, for one as it does not indicate a sufficient sample size, and two, insufficient data is available at this point of time, this study being a cross-sectional single-case study. Thus, further research is necessary to get general results.

As one of the limitations of this study is the lack of quantitative data to conduct a longitudinal case study of SCOPEinsight, and of CSR initiatives in general, measuring their impact on development over time, with the use of quantitative empirical data is a next step for further research in this field. Subsequently to this bachelor thesis, a master thesis could pick up on this limitation, using qualitative data, measuring the direct impact of CSR activities on development in developing countries over a longer period of time. With the intention of a PhD, these ambitions can be fulfilled even more thoroughly. Since, SCOPEinsight is going to include impact-indicators in their rating methodology, measuring their impact, as a before and after effect, these information can be sufficient data sets to statistically measure SCOPEinsight's impact on development. As the potential of CR innovation is demonstrated in this thesis, business models and projects such as SCOPEinsight should in general be followed and empirically tested in future research in order to gain further understanding of how CSR can improve its societal effectiveness. Moreover, this thesis focuses only on a single-case study. A multi-case study, comparing diverse CSR activities and their outcomes is desirable for future research. This would also enable a direct comparison of the context in which these CSR activities are taking place. Furthermore, since, this thesis refers to development more generally; future research should focus on the impact CSR activities may have on the individual development issues, such as poverty, hunger, education, HIV/AIDS, or school enrollment. A problem statement for a new research paper is for instance “What is the impact of IOC’s CSR activities on employment in developing countries”, testing hypotheses based on findings of this bachelor thesis such as “CR innovation is more likely to positively affect employment in developing countries than CR integration” and “CR innovation is more likely to positively affect employment in developing countries than Philanthropy”. Another interesting hypothesis in this respect would be “CR innovation is more likely to help the poor in developing countries to become independent of development aid than philanthropy”. A focus on operationalized concepts may lead to more concrete, quantifiable results that can be generalized.
5.2.2 Recommendations for IOCs

The findings of this research also inhibit valuable recommendations for IOCs conducting CSR in developing countries. In the interview Simons says that if corporations are not the solution to the problem, why does it matter if they are responsible? This indicates that if CSR is meant to be effective for development, it must be a solution to the problem that creates and maintains underdevelopment.

If IOCs are in process of deciding upon their CSR engagement, their CSR activities should ideally be as close to the core of its business operations and product as possible. This is contrary to the general perception that CSR activities separate from its business core, such as philanthropy, are the most appropriate CSR engagement in developing countries (Visser, 2008). However, if IOCs CSR activities are close to its business core, it is more likely that thorough information about the context they are operating in are collected and help target their CSR activities more strategically. Moreover, in order for IOCs’ CSR initiatives to be more effective for development, a context analysis of the local region, needs and realities the IOC operates in is crucial to target urgent development issues directly. Such knowledge of the actual needs and realities in developing countries also prevents IOCs to invest in development projects that have no prospects or use to foster development or aid independency. Moreover, a careful analysis of local capabilities, for instance of IOC’s Sothern corporate partners, means that IOCs can align their CSR standards to the capabilities of the producer in developing countries. Local NGOs, experts in development as well as local corporations, can provide valuable information on such issues. In this respect, it is also advisable for IOCs to focus on a certain problem that exists in the context they are operating in. In fact, using a product, or service of their corporation, tailoring it in such a way as to alleviate the social or environmental ill, empowering simultaneously the independence of those who are in use of their service or product is the ideal CSR activity. If IOC’s additionally recognize that their product and service, and in fact its very existence has a societal function they could think more in terms of their purpose and higher goals for society, rather than focusing on financial outcomes.

Moreover, in order to evaluate CSR activities’ impact, corporations should make use of a value-money analysis or any other empirical measures to capture the effectiveness of their CSR engagement. This gives IOCs the chance to make clear statements about their contribution to development, as well as the opportunity to change ineffective CSR activities. Local beneficiaries, for instance, can be a valuable source for feedback, monitoring the IOC’s CSR activity's impact on development (Idemudia, 2011). More general recommendations are that IOCs should avoid short-termism, focusing their CSR initiatives to be long-term oriented, ensuring development to
evolve, and not just a temporary betterment. Another recommendation is that charity and donations as a CSR activity should be done with great care, or rather be avoided, as they tend to create a dependency circle. A great bottleneck is the mind-set in developing countries that because they are poor they are dependent upon monetary aid, which is inter alia a result of CSR charity projects. Incentives for self-empowerment and self-initiative to get themselves out of this aid dependency may thus decrease. Therefore, philanthropy should ideally always include requirements and pressure for self-help enhancement.

Finally, one has to acknowledge that the ability to adopt CR innovation varies between IOCs, as CR innovation requires new business models to be developed, while CR integration requires firms to combine responsible conduct with their business operations (Halme et al., 2009). Hence, it is easier for IOCs, whose business model is already long established to take up CR integration into their day-to-day business operations, instead of changing their entire business model. However, as global problems seem to amplify, considering current economic, financial, food, resource and energy crises, also effecting developed countries, corporations must opt for innovative solutions to solve problems that reinforce such crises. Simons goes so far as to argue that corporations who are not part of the solution, adding value to society in the future, will cease to exist and be replaced by innovative corporations. Again innovations are easier for one corporation or even industry than for another. For instance, while the IT sector is more flexible and fast in innovations, corporations in the mining, oil or gas sector, tied to natural resources are less dynamic for innovative change. For this reason, IOCs must think in terms of problems and solutions, finding a way of how their service and product can contribute to the future and alleviation of societal problems.
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Appendices

Appendix I – Introduction to CEO Lucas Simons and SCOPEinsight

Before elaborating on the corporation’s profile, SCOPEinsight’s CEO Lucas Simons is shortly introduced. In 2011, the World Economic Forum (WEF) chose Simons as Young Global Leader, for his “[...] commitment and presentations regarding sustainable trade, agriculture and rural development” (Quote taken from van Liempt, het Financieele Dagblad, 2011). Simons indeed has a vision of an overall market transformation to sustainable supply chains, throughout establishing systemic change in agricultural sectors (van Liempt, 2011). Why agriculture is crucial, in particular in respect to developing countries, is because it is a key source of inter alia poverty, hunger, slavery, child labor, and social exploitation, so Simons (Simons in fd. Outlook, 2011). In a visual framework, Figure 3, Simons demonstrates that this has been nonetheless the result of an interplay of several factors of which a dysfunctional market system is one major contributor (Simons, 2012).

Therefore, Simons argues that there is a need for “new leadership” (Simons in fd. Outlook, 2011). In order to bring this transformation, and in the end establish sustainable markets, new leaders, innovators have to think against the system, as it exists today, and change the rules of the game (Simons in NRC Weekend, 2011). CSR, so Simons, will not make a difference in this change if it is not a solution to the problem, but only done as a small scale, side-project of a corporation (Simons, 2012). Simons’ corporation SCOPEinsight on the other hand is one mean to achieve this transformation, as it inhibits higher potential for development than other CSR activities.

![Figure 3: Visual Framework capturing interplay of system failures, leading to unsustainable sectors. NewForesight, 2012.](image-url)
Appendix II – SCOPEinsight Product Description

"We focused our efforts on how do you measure creditworthiness in agriculture. Nobody has done it before" (Simons, 2012)

Scholars Dobers et al., explain that BOP is part of a movement towards inclusive markets, i.e. to make the global market economy also efficient for the benefit of developing countries (2009). Hence, companies should address poverty-related problems via new business models, incorporating the poor. SCOPEinsight is a prime example of how to include farmers from developing countries in the market economy. The reason why farmers do not have access to credit is because they are unable to proof their creditworthiness and professionalism to banks, despite the fact that they are good and sustainable farmers. Hence, SCOPEinsight focused on inventing a product that could help POs to become more transparent and efficient, and consequently bankable. Simons explains that their focus was on how to measure creditworthiness in a cost efficient way, so that it makes economic sense for POs to invest in a credit profile in order to get a loan (Simons, 2012).

As a result, the rating methodology SCOPE, SCoring of Organizational PErformance, was invented, profiling POs in developing countries on their creditworthiness, performance and professionalism (SCOPEinsight, 2012), taking local realities and capabilities of POs into account. The SCOPE-rating offers insights on several aspects that determine a well-functioning and hence bankable organization, such as the internal management maturity of POs’ governance, operations and financial management, financial performance, risk management, while also considering external risks, enablers, sustainability issues, and management of supply and markets, indicating embeddedness of the organization in the value chain (SCOPEinsight, 2012). While traditional ratings focus on collateral and capital, the SCOPE rating takes a more holistic and integral approach as demonstrated in Figure 4. All factors are rated from a range of 1 (lowest) to 5 (highest) (SCOPEinsight, 2012). Next to the rating profile of the POs, SCOPEinsight also offers an assessment report, which provides information on the POs’ strengths and weaknesses as well as capacity building needs. The report also offers NGOs and capacity builders information on their own monitoring and evaluation processes as a means of self-reflection an improvement (SCOPEinsight, 2012). Finally, approved profiles of POs are uploaded to a digital “portal”, where by the PO selected clients (financial institutions, value chain players, stakeholders, banks, and traders) can access and purchase the profile.

This realized SCOPEinsight's services bridge the “information gap” between POs and financial institutions and traders, as POs can proof their bankability and banks can access a new, more transparent market with attractive investment opportunities. Furthermore, the rating-profile is valid for one year. POs who do a repetitive profiling can track their progress and improvements in a detailed track record, indicating progress and history of creditability. This helps POs to become even more reliable and consequently desirable (Simons, 2012). Figure 5 demonstrates the process of POs from being unbankable to becoming banked.
Figure 3: SCOPE Score Graph. The horizontal elements represent the value chain, while the aspects above and below are just as important for bankability, although outside the value chain (SCOPEinsight, 2012).

Figure 4: SCOPEinsight process of empowering POs from being unbankable to becoming banked (SCOPEinsight, 2012)
Appendix III – Semi-Structured Interview with CEO of SCOPEinsight – Lucas Simons

Interview Lucas Simons
CEO of SCOPEinsight and NEW foresight

June 11, 2012

SCOPEinsight Office, Hamburgerstraat 28, Utrecht, The Netherlands

Introduction

In the CSR agenda there is currently a debate about how effective CSR is in developing countries, especially with respect to sustainable development. While some advocate CSR to be a main driver towards sustainable development, others criticize the CSR agenda and literature to be Northern-driven, (i.e. build on western definitions, principles and standards) and therewith insensitive to the Southern needs and circumstances. Some even say that most CSR conduct is ineffective or even harmful in developing countries. In this Interview, I would like to first ask you about your general opinion on CSR in developing countries, while moving towards more specific questions on SCOPEinsight. 14 Questions in total.

General questions to CSR

1. What Kind of responsibilities/activities of a Corporation should be considered CSR in your opinion?

2. Do you think there is a difference of these responsibilities/activities between developed and developing countries? (For instance in respect to importance, relevance, Effectiveness) If yes, what are the Differences in your opinion? Can you name any examples?

3. Scholars claim the CSR agenda is northern-driven, i.e. insensitive and sometimes harmful to Southern local conditions, needs, and circumstances. What is your opinion on this claim? (Examples?)

4. What do you think are the most effective and most valuable CSR activities of IOCs for developing countries? Can you name any examples?

SCOPEinsight specific Questions:

SCOPEinsight’s Rating:

Also scholars claim that tools, standards, and certificates of CSR (code of conduct, value chain standards) are not always appropriate in developing countries, as it can harm their competitiveness.

Your corporation SCOPEinsight makes use of a rating, based on widely accepted business standards:
5. Do you think the business standards you use are applicable to local standards of the POs you rate, not undermining their competitiveness (for instance, throughout a low rating)? If yes, why is that the case? (Examples?)

6. Is this rating taking local circumstances into account? If yes, how? (Examples?)

7. What are the main obstacles, bottlenecks of producing organizations (POs) in developing countries, to get a high score? Is there an area/unit that is rated, which is generally low in developing countries? (Examples?)

**CR Innovation - SCOPEinsight In Developing Countries:**

‘CR innovation’ (also referred to as base of the pyramid – BOP) is a CR type, perceived as the most promising for developing countries, as the emphasis is on developing new business models to directly solve social and environmental problems. Based on the information I attained so far, SCOPEinsight would fit into this idealized category.

8. What is the ‘social problem’ you target with the product of SCOPEinsight? What was the starting point founding your corporation?

9. How does SCOPEinsight create a win-win situation? I.e. the Short and long-term benefits for your company and POs? (Examples?)

10. How is the autonomy of those being helped (POs) increased, i.e. becoming independent of further aid? (Examples?)

11. How do you think your product contributes to the development of developing countries? (Examples?)

Your website states that: “The SCOPE Methodology was developed and tested on more than 70 producer organizations of different organizational forms and sizes, in different sectors and in eight different countries on two continents. We are running our operations in:

- **East Africa:** Kenya (regional office), Ethiopia, Uganda, Tanzania, Rwanda;
- **West Africa:** Ghana, Nigeria, Ivory Coast;
- **South America:** Bolivia, Peru, Brazil;
- **Central America:** Guatemala, Honduras, El Salvador.”

12. Is there already any existing data on the Impact your product had on the micro- (individual, local, Regional) but also macro level (National, international) in developing countries?

13. If not, what are the effects you expect SCOPEinsight to attain in developing countries?

14. Finally, how do you think will CSR in developing countries evolve? Will it change and contribute more to development than it has to until now?

-- End --
In the CSR agenda there is currently a debate about how effective CSR is for developing countries. While some advocate CSR to be a main driver towards sustainable development, others criticize the CSR agenda and literature to be Northern-driven, i.e. build on western definitions, principles and standards, which is insensitive to the Southern needs and circumstances, and consequently ineffective or even harmful in developing countries. First I would like to ask you about your general opinion on CSR, while moving towards more specific questions on SCOPEinsight.

Question: What kind of responsibilities/activities of a corporation should be considered CSR in your opinion?

Simons: May I answer freely? So I will probably answer already other questions of yours as well. I think CSR is old thinking. Because, it’s, if a company mostly companies in the west, we are talking about NVO or CSR. First of all, I don’t like the name CSR, what is that? Why social? And it’s, like playing in the margins. Because the whole philosophy, our problem is that corporations are parts of the bigger system. The rules of the bigger system forces corporations to act in a certain way. Otherwise, why are they acting in that way? And considering that in the areas in which we work, agriculture, its going wrong across the board, apparently the natural outcome of the rules of the game is unsustainable behavior. So as long as we are part of the bigger system, where wrong behavior is rewarded, you win if you do it wrong, as long as that’s the game, CSR will not make a difference. The best thing is what you can do is continue what you’ve been doing, but a little bit less worse. Or let’s do a new project, its small.

Question – Scholars make a distinction between voluntary and non-voluntary, i.e. beyond legal conduct. Do you make a distinction there?

Simons: No. I don’t think like this at all. What are we doing, what should we be doing to solve the issue we face is completely different than what you just explained. Are you following the law, are doing more than the law. In both cases we can still loose.

Question – Is a corporation following responsible conduct, i.e. can a corporation be considered CSR, if it’s following legal, economic and ethical responsibilities, or can they only be considered CSR if they go beyond that?

Simons: I don’t recognize the issue. Somebody who is responsible, but is still not solving the issue, is that distinction then important? Put it differently. If we know that the law is always behind. Becoming part of the solution means that you have of course to be beyond the law. It’s
not even more about following or not following, it’s more a discussion: are you part of the future or not, with your business model, with your product.

Question – Scholars claim the CSR agenda is northern-driven, i.e. insensitive and sometimes harmful to southern local conditions, needs and circumstances. What is your opinion on this claim? Do you have any examples?

Simons: It’s happening all the time. Not just in the oil sector, also in the food sector. It’s the normal expected behavior for companies, who are just following the rules of the game. It’s what you do. Everything is geared towards getting as much out of it as quick as possible. China is buying up land; they are putting up a lot of infrastructure. Yes they are doing also, I mean, producing in Africa for your own good, yes means also infrastructure, yes it means also employment, but it’s not with the best intentions in mind. So companies, indeed oil, but also Unilever, Kraft, and Nestle. It’s all about, especially in times of scarcity; it’s all about getting your hands on your preferred access to resources. Banks, everybody does it.

Question – So you believe in this concept that companies just really go for only their self-interest?

Simons: I don’t believe in it in the sense of this is. It’s happening because of the system. Governments do the same. Again –because we live in a world of scarcity; everybody is getting as quick as possible their hands on whatever they can get. I don’t think it’s a good thing, but its natural behavior. So, yes, and then unfortunately sustainability, or CSR is used as an excuse. The mining industry is terrible, but if you go to their websites, they have nice pictures of smiling children, of schools; but in the meantime it’s devastation all over.

Question- As my thesis is about the effectiveness of CSR conduct. Would you say that because they don’t care, they wouldn’t make a change and be effective in developing countries and the development there?

For instance, Shell spends million on charities. Do you think it’s ineffective, because in the end it has nothing to do with their core business?

Simons: There are perhaps two different questions here: One is the fact that CSR spends billions on oil industry and everything else. They employ thousands of people. [Me: On CSR]** Well, ok, but this is also CSR. Because, so this is where I don’t believe in CSR. For me it doesn’t exist. The fact that Sara Lee buys a lot of coffee in Uganda; they are the biggest buyer from Uganda coffee. They do a lot on sustainability. They run an economy. They help hundreds of thousands people to get an income. And that’s within their normal business. So, do I believe in their foundation, making a lot of difference? No, their charity is that they are there and their economic activities are doing a lot on sustainability. Unfortunately, some are also quite negative. Right? The impact is also negative, but the fact that you are buying coffee in that area, and that literally hundreds of thousands of Uganda’s farmers have an income, that’s sustainability/CSR right? And if they can make sure that actually, and this is where I believe, if you can actually make sure that Sara Lee can continue buying coffee, Mars can continues buying cocoa, and actually that behavior, that purchasing becomes a driver for prosperity and development. I think that’s much more interesting, than doing charity or CSR activities.

Question- So CSR is integrated in what they do?
Simons: That should be the case. So, never mind the petroleum industry, because that’s a different thing, whether the product itself is part of the future. But buying coffee, cocoa, tea, palm oil; that should be an activity that we should do more often. The only thing that we need to do is to make sure that actually that the buying pulse/part leads to farmers having a good income, and having a good life, in the rural areas is prospering. So the question is why that is not happening? Now, the whole idea is then that we are trying to solve it with CSR, or charity or developing NGOs and anything else. But the real question is how come the buying manufacturer, buying coffee, is not leading to a prosperous economy, economic development. Again that is more systemic failure, market failure, there is no way that CSR, charity, and or NGOs will solve that.

CR-INNOVATION

‘CR innovation’ (also referred to as base of the pyramid – BOP) is a CR type, perceived as the most promising for developing countries, as the emphasis is on developing new business models to directly solve social and environmental problems. Based on the information I attained so far, SCOPEinsight would fit into this idealized category.

Question – What is the ‘social problem’ you target with the product of SCOPEinsight? What was the starting point founding your corporation?

Simons: CR means? Corporate Responsibility? So the social is out? That’s already good. And I like the innovation part. Very good. Now we are talking.

Taking a long step back, this is exactly where the solution is. It is arbitrary, it's unnatural to say that this is what I do, and then I do CSR. It’s old thinking. The new economy will be much more going back to the real fundamentals of capitalism. It’s that you first ask yourself what is my role in society? The book everybody is referring to with the invisible hand, [Adam Smith]**, and what Friedman says, it’s only because of its own interest that the backer bakes bread. But the interesting thing is that baking bread is a societal function. Now it makes sense. He was not talking about a banker who is selling CDS. It’s about a real economy, having a real societal function. Now, doing that, then the economy works. So sometime, we went wrong there. What we are doing, what we do, is have a societal function, of course we are trying to fulfill this in a profitable way, a responsible way. That’s what we will see much more of in the future. Is a social problem, it’s a market failure, systemic failure. By the way, you know the different levels of innovation/entrepreneurship? The first one is, we do the same, the old function, in a slightly new way, which is product innovation. So you have this glass, but now in glass, renewable plastic. The other one is that you have the function of the glass, in a completely different way. For instance, usually you own the car, but now you share the car, or leasing. Now you are not on product level, but on function level. The level above that is the system change, we are going to create a completely new market or we let markets work in a different way. And this is what we are doing with SCOPEinsight. The market is failing, that in agriculture, in emerging economies. Banks are across the board, not lending out to farmers. Not even when they are good ones. Except for the top of the pyramid, the absolute big farms. Anything else they don’t lend out money. While, at this moment, what is needed is more investments in agriculture. So it is a market failure. There is a huge demand to access to finance. There is more than enough money. We even gave more one hundred billion to Spain, yesterday. So there is a lot of money there. But supply and demand are not meeting. When that happens that’s what we are trying to solve. And
we do that now by introducing rating. Because the assumption is that one of the reasons why this market is not functioning is because, when we are talking about farmers, their loan size relatively small, so that bottom of the pyramid problem, they are in rural areas, and banks are in capital cities, so there is a big distance therefore it’s too expensive, too high transaction costs, information cost, opportunity costs. If you can solve that then the market can function in a good way. So rating is one way of doing that. So we are creating a market, which did not exist before. The market excluded farmers, because of all those reasons, too small, too far away, we don’t know the information. Now we can have a market that includes farmers, and then more particularly, the better farmers, and that’s where the sustainability comes in, because if you can create a market that can is able to make a distinction between what kind of farmer are you? Are you a good sustainable farmer or I have no idea who you are, the market can say, hey now I can make the distinction? I reward, the better ones, now you use market forces that are a force for good. Of course the farmers, who are not yet there, have a choice. Either you join, and become a better farmer yourself, including sustainability, or you should not be in business anymore. Now that’s also what certification does with my background as UTZ, it’s, like that example, Sara Lee is buying coffee from Uganda because they don’t know who they are buying from, they become a force for unsustainable behavior. If you add something like, I still want it for the lowest price, but I want it from a sustainable farmer, demand, and your market power becomes a force for good. So we create a market that didn’t exist before, and it is a market that rewards good behavior, and we make money out of it. At least that’s the idea.

_Scholars claim that tools, standards, and certificates of CSR (code of conduct, value chain standards) are not always appropriate in developing countries, as it can harm their competitiveness._

_Your corporation SCOPEinsight makes use of a rating, based on widely accepted business standards:_

_Question - Do you think the business standards you use are applicable to local standards of the POs you rate, not undermining their competitiveness (for instance, throughout a low rating)? If yes, why is that the case? (Examples?)_

Simons: Our business standard is based on ISO. The fundamental idea is that management, which means ‘attention to’ which means measuring, improving, learning, doing things in an efficient way. Good management, leads to better businesses. Now that’s a general assumption here in the west. But I am pretty sure that it functions like this in Africa, because if you have poor leadership, management, in every occasion you see poor cooperatives, fraud, negativism, no profitability, aid dependency. It’s all because of poor management.

_Question- So consideration of regional, local differences in these standards needed?_

Simons: This [good management]** applies everywhere. This is also why ISO 9000 which is quality management is applicable in every company, all over the world, in every sector. It’s general business management. What we did is apply it to agriculture. And we added the different field of attentions to it, this model, here. But how you measure management maturity on each of these sectors is based on ISO 9000, and how you score that. It’s not a standard in the traditional way. Are you compliant or not? We are not saying you are in or you’re out, I can make a product claim, that kind of standard, but we are scoring how well you are doing. If you
have a high management attention and capacity, and you are able to proof how well you are taking care on these areas and you have financial results to prove it. Then you score high, if not you score low. But you are not out. We just make it transparent. However, banks tend to find this information relevant, saying hey, I rather go with the better ones, which is again what we want.

**Question – Do sustainable farmers score low in management criteria?**

Simons: It is happening all the time. This is the fault of certification. Six years of my life I’ve been chasing the wrong goal. Where certifying, sustainably certifying all kind of farmers, yes their children are going to school, that’s fantastic, really important, and water, energy and waste, and all that stuff, and then they are bankrupt, they default on their contract, they run away with the money, they need constant financial support. That’s not sustainability. First, they need to be good business; they need to produce their products in a sustainable way. But they need to do good business. So yes, we see with a lot of donor money, that we have quite a number of certified POs, who when we rate them are scoring high on sustainability, and nothing else. Complete donor-babies.

**Question – What is the added value for the POs?**

Simons: Corporative, who had trouble in getting a loan before that, now have a rating, done by us, independent assessors, everything else, they are ok, they are scoring a 3,5-4 that’s good, not a 5 but. They go to banks. Banks are starting to compete with each other to make a deal with them, the farmer went shopping. So rather than being dependent, in a sort of hand-holding situation, asking “please give me a loan”, and almost forced to accept any condition, high interest rate etc. Now they can go shopping, interest rates went down, condition improved, he was in power. So the pos won with having a better deal, access to finance. That same profile makes him more reliable partner for traders, access to markets. He knows how to improve his business for the next time to score even higher. Because he knows that he should work on governance, inputs and on hatching, or whatever, it’s the outcome of the rating. So he knows how to improve, he either hires, which should be the ideal situation, his own consultants, or he gets support from the business development services. And next time he scores higher. He has a track record, now he went from 3, 5 to a 4. What he has done. In the track record it says he paid back his loans, now he even becomes even more desirable.

The banks win, because they get a profile of a better farmer, which they were not able to find themselves, or only with very high cost. They kept/get the whole profile for lower cost. The only thing they need to do is to call them and make a deal.

**Question – is this theory or is this already happening?**

Simons: This is still the dream or the idea. 2010 we started, February, the first year, so somewhere into 2011 we just developed the whole thing, test it out you name it. We have a few now who are coming back for the second time. A couple of them have received a loan. But we are only at the beginning of this development. I cannot yet say about the track record part, although this is the idea and the whole develop business concept is developed but if your, the whole system, the whole IT system, if you are doing it for the second time you can see you are rewarded and it becomes transparent, for the fact that you have done it for the second time. So I
have every reason to believe that markets will respond to that. Banks are interested because they can compare. Same language, same model, I can compare it over two years time. The farmer is reworded by the fact that he is standing out. That will happen, but we are at the beginning of that.

Question – Is there a concrete example you have of a certain farmer, of a certain area?

Simons: Oh yes, but not for the second time. Yes, they are getting a loan and saying, hey listen I have much better deal, than I had before, several of them. And, not just because this is for the ones who are scoring well. We have many of them, who are scoring low. Now that is interesting. Because for the first time they are getting feedback, in a way that they say “Hm, shit, this is me”. Now, the next step is that if we have more profiles, that he not just says okay this is me, but also this is me compared to my peers. Normally, a farmer says “yeah but I am poor, and this is Africa, and I don’t understand”, but now it is me against my peers. There is no excuse anymore.

NGOs, we had an NGO who said “can you rate 12 POS we are working with them for six years, they must be pretty good”. They scored on average a 1,5. First, we were afraid, that they would say “ah this is not possible your methodology doesn’t work”, they looked at it and said “well, yeah, this is true”. Then the question was, what have we been doing the last 6 years, and how much money did we spend? And it turned out that there was a complete dependency situation that nothing, but then again, nothing was able to be done by the farmer, unless the NGO paid for it. The roof collapsed over the office, the NGO/or they enjoy it pays for a new roof. Otherwise they wouldn't do it. Now after 6 years and a lot of money spend, they looked at this profile, and said “okay listen we give you one more year, we know now your situation, you will be either higher than a 3, 5 or we stop”, saying it to the farmer and the local NGOs. Because the local NGOs had the perfect condition to just continue. Everybody won with business as usual, and that is “I need more money, I need more money, I need more money”. And now, if you screw it up again, we will stop working with you. I mean, so it's not a nice message for them but they will win. This is also a win situation for them. At least the better ones will survive, the ones who are not good at it, they have to disappear.

Question – So they become autonomous and are not dependent anymore?

Simons: That should be. The better ones, launching the platform of the market again, should be recognized by the market. It is just ridiculous that the market says ah “no no, we I am not interested, while there is a perfectly good corporative in front of them. But the mechanisms were not there. Now, the better ones should be rewarded by access to input, access to market, access to finance. For the ones who are not yet there, we know what to do, if you don’t work, if you are in the modus of “I need more money” then you are out, we go to the next one.

Question – In 5 to 10 years, what will SCOPEinsight do for development in these areas?

Simons: 10 years from now, this will have completely revolutionized the way agriculture is working in Africa, in South-East Asia, everywhere. Why? Because, first of all because we will have linked banks to agriculture on a large scale, which means they can invest. This investment in their business should lead to high productivity; therefore less land is needed for agriculture, less cutting of rainforests, more people employed, having an income from agriculture, because we can turn agriculture into a more modern, and more professional sector. That's because one,
investments are being made, but also this mechanism means that the better ones are rewarded. That means we have a high uplifting effect for a lot of other organizations. The ones, who are not able to go there, will disappear, which is not necessarily a bad thing. People will become employed by other farmers, so it’s just more healthy, rather than small is beautiful, keep them poor, keep them subsistent, kind of way of looking at agriculture. No, it’s a modern sector and we produce enough food for our population. And we do it in a sustainable way.

Question – And they will not disregard the local community, when they become successful?

Simons: I am sure that will happen. The trap is that they are human too, which means that once they are doing well they will behave just as we do. Right? So I am not solving, this is not solving. I remember when I was at UTZ this was 2002, I just worked there for a couple of months, and I was asked to present at the United Nations (UTAT)*, and I gave a presentation. Ok this is what we do, standard for coffee, and this was, this is a compliancy standard. So one of the questions was “what about those who cannot meet the standards?” Yes, they are excluded, no doubt about it. So, I remember I was doing a presentation, and then somebody an NGO asked me “So you are introducing a standard in coffee, that means that some will be able to meet those, they will have a better deal, many of those will not be able to meet the standard. They will go out of business, they will leave the country sides and move to the Favelas in the cities, there we have a lot of crime, and children and this and that. So what are you going to do about the Favelas?” So that is typical thinking, like ok, so you will solve it, but here is another problem that you can solve. Well, I am not solving everything. If I already can contribute to an agricultural sector, that where, if you live there, you work in that sector you can have a good life. So if I am already able to change, I said that in the beginning, a situation where agriculture across the board, leads to poverty, deforestation, social problems, everything that we don’t want. If I can already change that into a situation, where there is economic prosperity, and there is enough food production, so that we can actually eat, and it’s not leading to social problems, or cutting down rainforests, that's not a small thing. I don’t have to solve everything else that is related to it. So I am sure by that time, we need to solve other things.

Question – Value – Analysis of your product? Are there already concrete effects of your product, besides POs getting access to finance?

Simons: What we are doing now. We have already done the analysis. There are impact-indicators, investment indicators, measuring what is the impact, when a loan is being given, or a grand, or an investment. Economic, social, environmental, employment, there are different areas. Now, others are, we don’t need to invent that ourselves, there are a lot of ways of measuring that. We have met that against our rating methodology, because we are going there anyway, so we said to ourselves what if we could integrate it in our way of measuring, our rating methodology, as a sort of before/after. Because the idea is that we go there, and next year we go there again. And we can actually measure not just the creditworthiness, but also with that the progress, impact over time. So it will become a sort of natural product of what we do. We know already, okay from all the things that people want to know, this is not relevant, this is too costly, it’s not needed to go to every small dimension to measure, then it will be way too expensive. So we will do it like this, this, this, so we already designed it, now we need to launch a new version of our rating methodology that will be in few months time, then its integrated, and then we can start measuring these impacts as well. Not now at the moment. First, we focused our efforts on
how do you measure creditworthiness in agriculture, nobody has done it before. So how do you do it, and how do you do it in such a cost efficient way that it makes economic sense to buy a credit profile and giving a loan of 50,000 dollars. That's not possible if the profile is 5000 dollars, but it is if it costs 500. So how do you do it for 500$. That was the first question, now that we have figured that one out, now we can add the impact indicators. And ok, UTZ, Rainforest Alliance, 4C, Faire Trade, Global Gap, all these standards, how do these compliancy standards relate to what we are looking for, so if we know you are already Rainforest Alliance, we don’t need to check that anymore, we say ok, you score high on these and these, now let’s look at the other things. Which goes back to your point that probably you score high on sustainability but we probably need to look at the other things as well, to see if you are also good business? Then we can start in a few years time, look at the statistical relationship, between certified and being bankable. Being certified and being good business. And actually what of the certification adds to that and which one is more successful. Is it fair trade, or organic. That will be very interesting; we already have some data on that. We can actually, what we are adding to it, we have a lot of MBA students working on it. If the assessor goes to the field anyway, why not give him a few extra questions on, what is the state of the road, how many times did it rain this year? So, you can have a good farmer, but if the roads are not there, he will fail. So we can add his information next to context information, which is partly static, we know from google searches and other reports more or less what happens in a certain country or region. But so partly static, but we can constantly live stream and update that information every time we go there. The roads are good, this that, their warehouses, cool-houses, it’s all good, this is a good farmer, in a good context. Now this is the one you want to do business with. Rather than this is a completely isolated farmer, he is trying his best, but he has no way to produce for the market, or its rots away. Those are the ones you don’t want to do business with. And its really hard for the farmer that we do that value adjustment, the other option is, should we then give loans to the farmer, knowing that he cannot pay back? Or should we actually do something about it, changing the context. So with this information, in a couple of year’s time, with one pushing the button, we can say "you want to know the situation in Uganda coffee? "This is the average score; this is on average goes well, because there is patterns, there are always patterns. If you compare already Ivory Coast to Nigeria in cocoa alone, you see that the Ivory Coast are having unique features where they are scoring relatively high, and they all score 4 on some other areas. And Nigeria starts doing that on other aspects. So, you want to know the situation in Uganda, click, this is where they score well, this is where they need attention. We need this, we need roads that that. Now we can help the sector, rather than continuing I don’t know what kind of projects. So, once we have that information, now we can start playing on a different level, with governments, with World Bank. This is a real information guys, if we can move the situation from here to here, we have a whole/lovely new sector. And this information is not there. It’s like Google street view, adding that to your maps opens a whole new dimension. It will happen, it just needs time, and it just needs numbers, volumes. Now, so if, we are successful and get to numbers, this is easy.

I have so much trust that a good idea can change the world. I already did it before I am doing it Newforesight many times, but this will have an impact, which will go beyond what I have ever done before. How can it not work? I am not saying that I will succeed, I am not saying that. I may fail. But the idea is out there. I cannot foresee a scenario in agriculture, where somebody is not doing this. Could be somebody else. Could be that an institute says, we are going to do it. But this
will happen, there is no other way. We have proven it is possible. Doesn’t mean that we will be there to do it, that’s a different question, I can fail, but the idea is there. The gene is out of the bottle. No but big organizations and really big organizations, UN, WB, IFC, development banks, they know about this. In the beginning they said it’s not possible, then they didn’t believe it. Now we are flying from one country to the other to present, and now they are saying "oh my god this in unbelievable, what you are doing, and how you are doing it" and they are ordering, but the only thing is that contracting, it takes so much time with these organizations. But they are ordering hundreds and hundreds of profiles. Now, it’s up to me to say, well that’s fantastic, pay me upfront. And I will do it, but I will not do it otherwise, because I am a small, now you are right I am loner, I am a small organization, but if they say, here is the money, make it work, I can hire. I can build an organization and we can do it. This model is build for skill, I can remain a small organization, because I am not doing the assessment myself, somebody else is doing it, and that’s part of the cost-price. I have an IT system, and the IT system, it doesn’t matter if they do 1000 profiles, or 10. So it’s scalable.

Question- So is that all actually happening?

Simons: Oh yeah, but it just takes time. And this is where on the third level of innovation, so that’s on new markets, new tools kind of idea. If I would be selling shoes, this is my story to my donors, shareholders. If I would be selling shoes, everybody understands the concept of a shoe. Either, I win or I loose and it’s just about the traditional MBA thinking, marketing with the five Ps and having a better shoe, and doing the promotion and .., that’s the easy stuff. Now what about, nobody has heard of shoes, the market doesn’t even exist, and people don’t even believe that they need shoes. They don’t understand the concept and the market is not there. Now, how do you create a market? So, what you run up against is huge system costs, you have to explain to everybody, you have to overcome vested interests, who are against you. A famous bank here in the Netherlands, who claims to be the absolute market leader when it comes to agricultural finance, says "Are you now going to rate our clients and then present them to our competitors?" Well yes. "That’s not in our interest". So you are fighting status quo, naivety, people who are cynical who say “if this was easy it would have been done a long time ago”. All these kind of things, and in the meantime we don’t have money, you have a small team and you have to well that’s ... but once you’re there, you have the market, or expanded market. There will be others, once we have paved the way, which is fine. We are talking about millions of POs.

Question- Do you think the business standards you use are applicable to local standards of the POs you rate, not undermining their competitiveness (for instance, throughout a low rating)? If yes, why is that the case?

Simons: Yes, it’s [ISO 9000]** applicable to sector and region. Therefore, if we know that we are dealing with Uganda coffee and not Ethiopian coffee, it takes, and we are getting better at this, especially if we have the context information, it takes Ugandan specifics into account. And Uganda tea is different from Uganda coffee, so it takes sector into account. So is that cross, where we use the same model, because it’s a generic model, but it peaks. But still it is, otherwise you cannot have one common language, and that’s what you started with, it is build on the general assumption that general management is generic and you need good management in order to have good business. If that’s not a true assumption, then this whole model will fall down. But so far we have seen all the evidence and it will be very diff... I mean we are standing
on the shoulders of giants here, I mean ISO, and all these other models, have business schools have identified the basic rule of good management. If you don’t have it you will fail.

Question - What are the main obstacles, bottlenecks of POs (producing organizations) in developing countries, to get a high score? Is there an area/unit that is rated, which is generally low in developing countries?

Simons: Leadership, just good management. The biggest bottleneck is developing aid, so it is creating this dependency, which if you are poor here is money. Well that’s the best thing to keep them poor. In general, also here internally, I refuse to believe it, I am allergic to the sentence “Yes, but this is Africa.” We have to accept this is Africa; therefore you need to help us. We have constant internet problems with my office in Nairobi. And then the answer is “Yeah, but this is Africa, what do you expect?” I expect them to have a good internet connection. Why should I expect it? Because its Africa? Are they incapable of laying a cable from point A to point B? No, but its Africa. No way. As soon as you give up and accept this is Africa, you’re there/dead. And what most people do is that they accept that this is Africa. So what is their main obstacle is themselves. They think that they are in Africa. No, they are an entrepreneur. Now of course, we have to give them the tools to become entrepreneurial, but they are an entrepreneur, not African. It is their own self-esteem, and luckily it is changing, because the young generation in Africa is so proud, filled with opportunities, looking at the old leaders, at the ...)²*, they are confronted with young people, really in Ethiopia, young people stood up and said to their leaders, the president of Uganda, Ethiopia, Nigeria, and another country, and the question were “What happened when you went for office, you were filled with ideas, vision, and I voted for you, what happened? What is the poison that gets into you when you are in office, why are you corrupt? And everybody applauded. And then he gave a straight answer, now if it’s the full story I don’t know, but he accepted the fact that it happened. So this is radically changing.

They see the opportunity, and we are lacking now Europe is the one that needs help. And it’s the context, we think, if you are not thinking in systemic terms; you have the tendency to think linearly. Your poor, I need to give you money. You need an education, let’s build a school. Too few people ask themselves the question why is the educational system failing, why is the market of supply and demand, financial access not working? There is demand; there is supply, why is it not meeting? Rather than, “a here is money”. Too few people ask that question, because it is a complex answer. And suddenly you see that you are becoming part of the problem. I thought I was doing the right thing; no you are actually part of the problem. If you see that how can you ever change it?

Questions - What is the role of MNCs in this change you are describing? What can they contribute? What can they change?

Simons: Depending on where you look, you either become very pessimistic, and say, well as long as the big companies are there, we will never make it, if you look at the social entrepreneurs, social entrepreneurs, I hate that word, why social entrepreneurs, I don’t get that. But anyway, the impact-preneurs, radicals, but they are. Then, I get enthusiastic I get a lot of energy, you can change the world, I believe in, I see it. So it’s like, different, poles, if you take a leap right? Assuming we go towards 9,3 million people, the economy will have tripled, I mean this whole depression, this global debt crisis, will be a wimple in the bigger thing [graph]. We will go like
this [pointing down] and then we will go up again. It’s always like that. We have to go like that, we have to grow. Anyways.

In 50 years time, we either have solved it. Or you will not be 60 and I will not be 80. Right? So, that’s the black and white thinking. By that time, the question is, the world will have to have changed so much, so many new business models, innovations, social media, on energy, on circular economies, on health care, food, everything that we ever use will have been turned around five times. The question is, are big corporations, the ones that can up with these new ideas? Or are the radicals up with new ideas? Then, and my guess, is that the big companies are too big with surviving now, I mean, how many innovations did Philips come up with in the last 10 years, what is it now 1? Even if they missed (the bottom or the red light), they take it now on boards, but they are not innovating anymore. The same goes for big companies there, they are not innovating enough, like I wrote in my article, 80%, 60%, whatever, comes from small guys, individuals, start-ups, and so the bug guys, what they will do is they will take over, so either we will go to scenario one, where there are big guys, surrounded with small innovating companies, and the big guys are there to do it massively, cheap, standardized, and a logistic system, and we need that as well. But the innovation, and the new thinking, and the value that are in there, are coming from the smaller companies. Or [scenario two], the big guys will have disappeared almost completely, because the landscape does no longer, like evolution, allow for the big (massedon)* to survive. You have to be small and (edgile)*, and specialized and whatever in much more a network-economies, to survive. In both cases, its good. It doesn’t matter that much, it has to be innovative, and part of the solution. And I don’t care if it is a big corporation, or not, they either have their added value or not have their added value, they will disappear or not. There is only one assumption in this little thing, and that is that we have to make it to 2050 or 60. If we are there, we will have made it. If we are not there this question doesn’t matter anymore.

The big companies and that is why I am not that pessimistic, like banks now. Too big to fail, too big to safe. They will fall back on their own reflexes. I cannot foresee a future, and they will try of course. How many people have thought that the financial system will look more or less the same as we are doing now in 20 years time? Nobody! How many people think that the way we manufacture cars, and cars look will be much similar 20 years from now? Nobody. How many people think that we will run our system as we are running now? And this is where I do not believe it, that when I look at my own government or our companies, if nobody believes that what we have now if future-proof, then it comes down to our business to innovate and change. Now, what does that mean for our policies, our infrastructure, our educational system? It’s not there. So we are all thinking it has to change, but we are not preparing ourselves for change. We are in this ‘oh it has to remain the same’. While we know it is not even desirable that it lasts. That is, I don’t understand that.

One thing that will change is the values that drive it, and it’s a constant search of becoming part of the solution. In the end there are only ten, perhaps twelve topics that are really going to drive the world. Energy, food, transportation, overpopulation together with ageing, education.. there are only a few things that are there... water, land use, cities. All the other stuff is not relevant. These topics will drive our future. What are you doing about it? Are you contributing or not? If you are not contributing you will not be there anymore. In that sense it’s you are there or you will be gone. Once you are there, you are there with the right mindset, coming up with new
solutions, new business opportunities to contribute, and then I don’t care if you are big or small, because you will have added value. Otherwise you won’t be there.

Question – Could you explain your graph, which captures the system failure, leading to unsustainable systems?

All the loops translate into three loops, which leads to a fourth loop. Three loops are market failure, compared to government failure, with lack of enabling conditions, leads to certain behavior. It’s A+B+C= D. And that’s what we see everywhere, and once I solved that, I was like oh my god, and this is scary. And then everywhere the same kind of s-curve solution, there is a kind of way to get out of it, because the governments cannot do it by themselves, because of government failure, markets cannot do by themselves, because it is market failure. And the enabling conditions are not there to change it. So how do you change it? It’s everywhere the same. Next year, we will hopefully launch a book about it.

*(Words in brackets indicate unidentified words, which were acoustically not understood)*

** [Words added for clarification]

-- End --
### Appendix V – S-Curve: Four Phases of Market Transformation

<table>
<thead>
<tr>
<th>Phase</th>
<th>Characteristics of phase</th>
<th>Main driver for industry</th>
<th>Limitation of phase</th>
<th>Role facilitator</th>
</tr>
</thead>
</table>
| Inception      | - Projects  
- No common vision and agenda                                                    | - Charity  
- Quick fix  
- Storytelling                                    | - Fragmented and competing projects  
- Limited and temporarily impact and reach  
- Not scalable  
- No exit strategy                               | - Form PPP Coalition  
- Create standard                  |
| First Mover    | - Appearing of standards  
- First mover success                                                               | - NGO pressure  
- First mover advantage  
- Marketing & CSR promotion                     | - Premium and NGO support driven  
- Competition between NGO’s, standards, labels          | - Governance structures  
- Promotion of 1st movers  
- Funding  
- Process of facilitation                          |
| Critical Mass  | - Harmonization and alignment of standards  
- Involvement of national governments  
- Expansion of certification agenda (A2F, PE5, etc) | - Securing sustainable sourcing  
- Efficiency of systems                          | - High hanging fruit  
- More bureaucratic and political  
- Need for proliferation of standards               | - Create holistic sector vision  
- Address barriers, facilitate harmonization,  
- Press laggards                                    |
| Level playing field | - Harmonized initiatives  
- Joint capacity building  
- Institutionalization  
- Involvement of local governments and international bodies | - Compliance to law                                  | - Barriers to market  
- Non compliant markets (China, local markets, etc) | - Advocate,  
- Lobby  
- Institutionalize |

Figure 5: Market Transformation in Practice. S-Curve of four different phases of sustainable market transformation (NewForesight, 2012)