

How companies turn global issues into business opportunities

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Abstract

The purpose of this study is to examine how the 100 top corporate citizens address the challenges of the Millennium Development Goals (MDGs). The MDGs are eight objectives which the United Nations proposed should be addressed by 2015. The eight goals are: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability, and develop a global partnership for development. The results showed that a majority of the firms in the sample addressed all of the MDGs. The results showed that both size and level of profitability of the firm impact their level of commitment to the MDGs. In addition, the results showed that less than one quarter of the firms in the sample specifically refer to the MDGs in their corporate social responsibility disclosures.

Keywords: United Nations, Millennium Development Goals, 100 Best Corporate Citizens, Corporate Social Responsibility, Corporate Ethics



Introduction

The United Nations Millennium Declaration was signed by 189 countries in September 2000 at the United Nations Millennium Summit. The declaration resulted in the formation of the eight Millennium Development Goals (MDGs) to address human development challenges. The MDGs are eight objectives which the United Nations proposed should be addressed by 2015. The eight goals are: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability, and develop a global partnership for development (See Table 1 for MDGs and Targets).

Progress toward Reaching the Millennium Development Goals (MDG) by 2015

The United Nations 2008 Millennium Development Goals Report presented some promising successes in reaching the eight Millennium Development Goals. The goal to reduce the level of poverty in half from 1990 to 2015 is still considered feasible on a global scale. Primary school enrollment has reached at least 90 percent in 8 of the 10 global regions and the percentage of girls attending school has increased. The annual number of deaths due to AIDS had decreased from 2.2 million to 2.0 million from 2005 to 2007 and the number of people that had been recently infected with HIV/AIDS had decreased from an annual rate of 3.0 million in 2001 to 2.7 million in 2007. In addition, an estimated 1.6 billion people have gained access to safe drinking water since 1990. From an environmental sustainability perspective, the use of ozone-depleting substances has almost been completely eliminated globally (UN Millennium Development Goals Report, 2008). Devarajan, Miller & Swanson (2002) argue that one of the underlying reasons why some countries are more successful in moving toward obtaining the MDGs is due to the policies of the government. Countries that implemented stronger economic policies increased the level of financial assets obtained by the poor within the country. These economic policies also allowed for the faster progress of human development goals which included and increase in enrollment of children in the education system and the decline of infant mortality rates.

Challenges of Reaching MDGs by 2015

The United Nations 2008 Millennium Development Goals Report also highlighted a number of continuing challenges with only seven years left before the 2015 targeted deadline. It is expected that the level of extreme poverty will not be reduced in half by 2015 for the people living in sub-Saharan Africa. It is estimated that twenty five percent of all children in developing countries are considered underweight and undernourished. Of the 113 countries in which gender parity in schools is not achieved, it is estimated that only 18 will achieve gender parity by 2015. It is estimated that over 500,000 women will die annually from complications due to pregnancy or child birth. In addition, an estimated 2.5 billion people, equivalent to one half of the population of the developing world, live without proper sanitation conditions (UN Millennium Development Goals Report, 2008).

Sachs and McArthur (2005) presented four broad categories of factors which could explain why some regions in the world have failed to move forward on the MDGs. The first factor is poor

governance. Governments that abuse the human rights of their citizens and are corrupt in their dealings with others will make it difficult to achieve MDGs since their actions are counterproductive in achieving the MDGs. However, instead of abuse of power, the poor governance could also be based on lack of knowledge, expertise and infrastructure. The second factor is the poverty trap. A poverty trap occurs when a poor country does not have the resources to implement the investments needed to reduce the level of hunger, disease and the ability to improve the country's infrastructure. As a result, the country is not able to increase their level of economic development (Sachs and McArthur, 2005). Sachs and McArthur (2005) state that poor countries are caught in a vicious circle which is very difficult to stop.

If a country has extreme poverty, there are low or zero savings accomplished by the citizens because they do not have any extra money. The net result is that financially trying to survive day to day reduces the number of expenditures by the citizens which results in lower tax revenues which results in a lack of resources needed to develop a stronger infrastructure. With a poor infrastructure, there are low levels of foreign investment and resources become scarce which leads to violent conflict among the citizens. This ultimately results in a civil war leading to flight of the educated citizens of the country with higher income levels. The remaining poor citizens have higher fertility rates and less access to information and services pertaining to family planning and contraceptives. This fact increases the population growth of the country resulting in environmental degradation since more and more people need to survive on fewer resources. As a result, these countries become trapped in a perpetual circle of poverty which they are never able to break free. The fourth factor is that some of the goals are not moving forward due to policy neglect. Policy neglect occurs when the decision makers of the government are unaware of the challenges and are unaware of the potential consequences of their decisions. This ignorance is especially common for government policies related to the treatment of girls and women and environmental sustainability issues (Sachs and McArthur, 2005).

The Role of Sustainable Development and MDGs

The World Commission on Environment and Development (1987) define sustainable development as development which meets the need of the present level of people without compromising the ability of future generations to also achieve their own development goals. Seelos and Mair (2005) state that the Millennium Development Goals capture the philosophy of sustainable development and could be considered the operationalizational measurement of sustainable development. The formal link between sustainable development and the MDG was highlighted with a report that was released in 2004. On March 1, 2004, the United Nations Commission on the Private Sector and Development presented its report titled *Unleashing Entrepreneurship: Making Business Work for the Poor*. The underlying focus of the report is that savings, investment and innovation that lead to development are largely based on the actions of private individuals, corporations and communities. The ability to reduce poverty can come from the private sector via economic growth, job creation and increasing the income levels of poor people. In addition, poor people also would receive the benefit of products and services at lower prices due to increased levels of efficiencies and factors such as economies of scale and scope. Furthermore, the poor of developing countries could be considered a large market opportunity for corporations (United Nations Commission on the Private Sector and Development, 2004). Prahalad and Hammond (2002) estimate that approximately 4 billion people earn less than \$1,500 a year but are considered an attractive future growth market. One avenue available to

corporations is the ability to provide microfinance opportunities for people in developing countries. Littlefield, Morduch and Hashemi (2003) argue that microfinancing allows for the sustainable development of new financial resources which can be used to address each of the eight Millennium Development Goals.

It is argued that as long as the developing country has a supportive economic macro environment, a physical and social infrastructure in place and supports the rule of law, private investment will flourish within the country as long as the firms have a level playing field in which to compete have access to financing and have access to skills and knowledge needed to run their operations. As a result, corporations that are driven by market-based incentives have the ability to not only increase their level of profitability but also are able to facilitate country development goals. These incentives are especially true for multinational corporations who are able to capitalize on business opportunities globally (United Nations Commission on the Private Sector and Development, 2004).

Social Entrepreneurship and MDGs

Corporate Social Responsibility (CSR) can be defined as the obligation corporations have to develop and implement courses of action that aid in social issues impacting society (Stanwick and Stanwick, 2009). It is important to note that CSR is not detached from the firm's overall fiduciary duty to its stockholders. It is the prerogative of every firm to determine what role CSR will have in the day to day operations of the firm. As a result, it is common for socially enlightened firms to view CSR as not only a social benefit to the firm but also as an increase in the ability to capture more market opportunities for the firm which is the underlying foundation of the concept of social entrepreneurship.

Social entrepreneurship is based on the belief that corporations can help in the human development of people in developing countries by catering to the basic needs of individuals in an efficient manner that is currently unavailable. Seelos and Mair (2005) argue that social entrepreneurship moves beyond traditional CSR focus of corporations. Seelos and Mair (2005) state that focusing on social entrepreneurship would give a more enlightened viewpoint of social issues for corporations. Nelson and Prescott (2008) state that all corporations have the ability to make a contribution to MDGs through their social entrepreneurial strategic focus. Nelson and Prescott (2008) state that corporations can: develop core business operations and value chains which can be used to harness the innovation drive of corporations which would result in increased wealth and development for poor nations; make social and philanthropic investments which can support community based programs and use of public advocacy, policy dialogue and institution strengthening to increase awareness, as well as build and strengthen public institutions.

Nelson and Prescott (2008) continue by presenting three critical reasons why corporations should contribute toward the achievement of the MDGs. The first reason is for corporations to invest in a sound environment in which to do business. There are great benefits for a corporation to do business in a stable and secure business environment. Firms in these environments would have access to healthy and competent workers with the net result being that consumers and investors would prosper from the business operations. In addition, firms benefit from open and fair legal environment which would encourage future investment and growth opportunities for the firm. The second reason is to manage direct costs and risks. The human development cost of not achieving the MDGs would continue to add costs and risks of the

operations of the firm. The unpredictability of the economic market due to the challenges presented in the MDGs would increase operating, raw material, human resources, security, insurance costs and the cost of capital. The net result is that the unpredictability of an unstable economic environment can increase both the short term and long term financial risk, market risks, litigation risks and reputation risk. Therefore, addressing the challenges of the MDGs can lead to the reduction of risk in the business operations of the firm. The third reason is the ability to harness new business opportunities. Focusing on consumers in developing countries can lead to the successful development of new markets, services and technologies and the evolution of the firm's strategic business model. By incorporating the views of both corporate social responsibility and social entrepreneurship, firms can establish an investment stream which can be philanthropic in nature and also establish future long term growth opportunities for the firm. Therefore, to summarize the major focal point of Nelson and Prescott's (2008) research, companies that are proactive in embracing the challenges established by MDGs would support not only their commitment to corporate social responsibility, but also would reduce business risk and enhance innovation, value creation and competitiveness.

Seelos, Ganly and Mair (2005) empirically tested to determine whether social entrepreneurs directly contribute to the millennium development goals. Seelos, Ganly and Mair (2005) found that social entrepreneurs were able to find new ways to provide services which would cater to the basic needs of people in developing countries. In their study, they examined the contribution of seventy four social enterprises to determine how these organizations contribute to MDGs. The results showed that sixty five percent of the social enterprises had a direct impact on MDGs. In addition, another four percent had an indirect impact and thirty one percent of the social enterprises had no impact on MDGs. They also found that the social enterprises were global in their origin with 15 originally from North America, 19 from Latin America, 8 from Europe, 7 from Africa, 23 from Asia and 2 from Australia.

Social entrepreneurs were able to create both human and social capital as well as the development of innovative distribution systems. Therefore, social entrepreneurs demonstrated that firms can move into developing markets with the ability to contribute to both their own and the country's economic development.

Best Corporate Citizens and MDGs

Corporate Responsibility Officer presents an annual ranking of the top 100 Best Corporate Citizens. The companies on the list were evaluated using publicly available data on eight categories: environment, climate change, human rights, employee relations, philanthropy, financial, and governance. It is expected that these top 100 socially aware firms should have a global vision in order to implement their social agenda. In addition, it is expected that these firms would directly or indirectly address the eight objectives of the MDGs. Therefore, the first hypothesis to be empirically tested is:

Hypothesis 1: The majority of the firms listed on the Top 100 Best Corporate Citizen list will incorporate each of the eight Millennium Development Goals in their CSR strategy.

It is also expected that the size of the firm may play a role in the level of corporate social commitment. Previous research (Fombrun and Shanley, 1990; Stanwick and Stanwick, 1998) has shown that larger firms have a higher level of corporate social performance as compared with

smaller firms. The underlying assumption of this relationship is that larger firms are more likely to be under increased scrutiny by its stakeholders and larger firms would have a larger level of financial assets available to invest in social programs. Therefore, the second hypothesis to be empirically tested is:

Hypothesis 2: Larger firms will have more commitments to the eight Millennium Development Goals than smaller firms.

It is also expected that larger firms may have an enhanced awareness of global human development goals including the Millennium Development Goals. For large firms, it is expected that they are very effective scanning the external environment to ensure that their global investments are protected. As a result, it is expected that they would be more familiar with the development agenda established by the United Nations. As a result, the third hypothesis to be empirically tested is:

Hypothesis 3: More large firms will identify the Millennium Development Goals in their corporate social reporting than would smaller firms

A number of previous research studies have found a positive relationship between the financial performance of the firm and the firm's corporate social commitment (Preston, 1978; Anderson and Frankle, 1980; Stanwick and Stanwick, 1998). The underlying assumption of these studies is that firms that are more profitable can "afford" more investments in social programs. In addition, from a social entrepreneurial perspective, the net result of the investment in the social programs yields financial benefits such as increased morale of its employees and additional profitable market opportunities. Therefore, a fourth hypothesis to be empirically tested is:

Hypothesis 4: Firms with the highest levels of profitability will have a higher level of commitment to each of the eight Millennium Development Goals than firms with the lowest levels of profitability.

As was argued in support of Hypothesis 3, just as large firms are able to increase their knowledge and awareness by scanning the external environment, so would highly profitable firms. Firms with high levels of profitability have developed effective ways to obtain information on future global market opportunities in order to sustain their competitive advantage. As a result, it is hypothesized that more highly profitable firms would refer to Millennium Development Goals than would lower profitable firms. Therefore, the fifth hypothesis is:

Hypothesis 5: A larger number of highly profitable firms would refer to the Millennium Development Goals in their corporate social disclosures as compared with firms with a low level of profitability.

Methodology

All 100 firms in the 2009 Top 100 Best Citizens published by *Corporate Responsibility Officer* were used in the sample for this study. The size of the firm was based on the firm's sales (Stanwick and Stanwick, 1998). To control for the variation in the size of the organization, the profitability of the firm is based on the net income of the firm divided by the sales level of the firm (Stanwick and Stanwick, 1998). For each of the 100 firms on the list, a content analysis was done pertaining to the information that was available from the firm's web site. For each

company, a value of one was given when the company addressed one of the eight Millennium Development Goals. One firm in the sample merged with another firm during the 2008 time period so sales and net income information was not available for that firm. For the other 99 firms, both sales and net income data was collected. Based on their sales values, the firms were separated into three size groups: large size; medium size and small size. Based on their profitability ratio values, the firms were separated into three profitability groups: high profitability; medium profitability and low profitability (Stanwick and Stanwick, 2006).

Results

The results supported, at least partially, all five hypotheses presented in this study. The first hypothesis proposed that a majority of the firms would address each of the eight Millennium Development Goals. As shown in Table 2, the results show that a majority of the firms did indeed embrace the eight goals. The range was from a low of 54 percent of the firms addressing maternal health issues to 100 percent of the firms addressing environmental sustainability issues. Poverty issues were addressed by 82 percent of the firms, education was addressed by 95 percent of the firms, gender equality was addressed by 97 percent of the firms, children's health issues were addressed by 79 percent of the firms, HIV/AIDS was addressed by 58 percent of the firms and the formation of global partnerships was addressed by 76 percent of the firms.

The second hypothesis stated that larger firms would have a higher commitment to MDGs than smaller firms. The results are shown in Table 3. Table 3 confirmed that larger firms do indeed have a higher level of commitment of MDGs than smaller firms. For each of the seven goals in which there were differences (all firms had environmental sustainability commitments), the larger firms had a higher level of commitment than the smaller firms. However, it is also interesting to note that for the poverty and education goals, medium size firms had more commitments than did larger firms.

The third hypothesis stated that more large firms would refer to the Millennium Development Goals in their corporate social reporting than small firms. The results are shown in Table 3 and support Hypothesis 3. Of the twenty firms that did refer to the Millennium Development Goals over sixty percent (60.86%) of the firms were large. Eight medium size firms or 34.78% referred to MDGs and just one small firm (4.34%) referred to MDGs.

The fourth hypotheses stated that firms with the highest level of profitability would have the higher level of commitment to the MDGs than firms with the lowest level of profitability. The results are shown in Table 4. This hypothesis was only partially supported. For poverty, children's health, maternal health, HIV/AIDS and global partners, the most profitable firms did have higher levels of commitment than did the least profitable firms. However, the results also showed that firms with a medium level of profitability had the highest level of commitment of six of the seven variables which had differences.

The fifth hypothesis stated that highly profitable firms would have more references to Millennium Development Goals in their corporate social reporting than would firms with low levels of profitability. The results are shown in Table 4 and support Hypothesis 5. Of the 23 firms that did refer to MDGs, 12 or 52.17% were firms with the highest level of profitability. In addition, 6 or 26.08% of the firms with a medium level of profitability referred to the MDGs while 5 or 21.73% of the firms with the lowest level of profitability referred to MDGs.

Conclusions

There are a number of important conclusions that can be observed from the results of this study. The first conclusion is that companies who have been identified as the best corporate citizens do include MDG-based issues in their socially responsible decisions. As was shown by the results of the study, the majority of the firms do embrace the eight millennium development goals.

It is also important to note the range in the number of MDGs addressed by the firms in the sample. It is quite clear that these firms “get” environmental sustainability. All 100 firms in the sample address these issues in their corporate responsibility disclosures. It is apparent that these firms have moved beyond considering addressing sustainability issues as a cost and have moved forward in considering them an opportunity. It is also interesting to note that both education and gender equality both had over 90 percent of the firms addressing these issues. From a social entrepreneurial focus, these firms appear to see the rewards for these investments in not only social but also economic benefits.

The results also show that the size of the firm is important in determining their level of commitment to the MDGs. The smallest firms did have the lowest level of commitment and for five of the seven variables which had difference, the largest firms had the highest level of commitment to the MDGs. This supports the view that large firms may be watched more closely by stakeholders than smaller firms and have more resources available to fund corporate social responsibility programs. Although only 23 of the 100 firms addressed the MDGs specifically in their social disclosures, the results did support the belief that larger firms are more likely to consider a broad spectrum of social issues including the specific components of MDGs.

The results showed that profitability also impacted the firm’s commitment to MDGs. While the most profitable firms did have a higher level of commitment than the least profitable firms for five of the seven factors, firms with a medium level of profitability had the highest level of commitment for six of the seven variables. These results support the conclusion made by Stanwick and Stanwick (2000) and Stanwick and Stanwick (2006) that lower financial performers do not consider issues pertaining to social issues to be a high priority since they cannot “afford” to allocate the resources to address these issues. Furthermore, corporations with an average or medium financial performance may view social entrepreneurship as a viable opportunity to enhance their competitive advantage. However, it also appears that firms with a medium or average level of profitability are evolving their social entrepreneurship orientation. Since the highly profitable firms had the highest number of direct references to the MDGs, the medium financial performers have not fully captured the benefits of embracing the MDGs.

Summary

This study is the first step in attempting to link the activities of socially conscious firms and the Millennium Development Goals. Previous research has not examined how the size and profitability of the firm can impact this relationship. The results of this study have demonstrated that size and financial performance do matter in the level of the firm’s commitment to the MDGs. The results of the study highlight that further research still needs to be done to increase awareness of firms to the Millennium Development Goals. Less than one quarter of the firms in the study refer to the MDGs. It was expected that this result would be higher given the corporate

social ranking of these firms. The net result would be to recommend that the United Nations continue to foster private sector relationships in order to increase the financial support of the MDGs from corporations around the world.

APPENDIX

Table 1 - Millennium Development Goals and Targets¹

1. Eradicate Extreme Poverty and Hunger –Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day
2. Achieve Universal Primary Education –Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
3. Promote Gender Equality and Empower Women-Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
4. Reduce Child Mortality-Reduce by two thirds, between 1990 and 2015, the under-five mortality rate
5. Improve Maternal Health-Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio
6. Combat HIV/AIDs, Malaria, and Other Diseases-Have halted by 2015 and begun to reverse the spread of HIV/AIDS
7. Ensure Environmental Sustainability-Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
8. Develop a Global Partnership for Development

¹ The United Nations 2008 Millennium Development Goals Report

Table 2 - Total Number of Firms Which Address Each of the Eight MDGs

Reduce Poverty	82
Education	95
Gender Equality	97
Children Health	79
Maternal Health	54
HIV/AIDS	58
Environment	100
Global Partners	76

Table 3 - Breakdown of Firm Commitment to MDGs by Size of Firm²

	Large	Medium	Small	Total
Poverty	27	30	24	81
Education	31	33	30	94
Gender	33	32	31	96
Children Health	29	25	24	78
Maternal Health	24	17	13	54
HIV/AIDS	28	18	11	57
Environment	33	33	33	99
Global Partners	29	26	20	75
Total	234	214	186	634
<i>Refer to MDG</i>	<i>14</i>	<i>8</i>	<i>1</i>	<i>23</i>

Table 4 - Breakdown of Firm Commitment to MDGs by Profitability of Firm³

	High	Medium	Low	Total
Poverty	26	30	25	81
Education	30	32	32	94
Gender	31	32	33	96
Children Health	25	30	23	78
Maternal Health	19	20	15	54
HIV/AIDS	22	19	16	57
Environment	33	33	33	99
Global Partners	25	27	23	75
Total	211	223	200	634
<i>Refer to MDG</i>	<i>12</i>	<i>6</i>	<i>5</i>	<i>23</i>

² Chi-Square Significant at .001

³ Chi-Square Significant at .001

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