Chapter 15

Foreign Direct Investments, Corporate Social Responsibility, and Economic Development:
Exploring the Relationship and Mitigating the Expectation Gaps

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ABSTRACT

The increase in FDIs to developing countries has also been accompanied with rising societal expectations from the MNCs and TNCs to demonstrate more commitments to CSR. Owing to the natural resources curse, there is increasing expectations by governments, investors, consumers and local communities that businesses, particularly the MNCs and TNCs, should go beyond local regulatory compliance to earn their 'license to operate' by demonstrating that their operations provide a beneficial impact by helping to remedy the societal problems. Although it is doubtful whether businesses will take up such responsibilities, some companies have started to engage in sustainable CSR in area of operations. Therefore, the paper recommends that conscious and sustainable CSR practices of these MNCs/TNCs must be accomplished with corporate accountability in order to have the greatest positive impact on people, environment and foster economic development.

INTRODUCTION

Foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development for developed and developing countries. But the gains accruable from FDI are not automatic and evenly distributed across continents, countries, sectors and local communities. The Organization for Economic Co-operation and Development- OECD (2002) remarked that the flows of FDI to developing countries worldwide currently overshadow official development assistance by a wide margin. Basically, FDI is defined as the investment that is made to acquire a lasting

DOI: 10.4018/978-1-5225-0305-7.ch015

interest by an entity resident in one economy in an enterprise resident in another economy. FDI may be classified as 'greenfield' or 'brownfield' investments, market/resource/efficiency- seeking investments, or mergers and acquisitions. It is a "veritable tool for economic development, employment, technological development, transfer of best practices, innovative industries, a stable source of financing and the spreading of managerial and marketing skills" (OECD, 2000). Beyond the economic benefits, FDI may help improve environmental and social conditions in the host country by, for example, transferring "cleaner" technologies and leading to more socially responsible corporate policies. FDI is regarded as a driver for economic development because it can provide access to new market, cheap capital, technology, management know-how and jobs. Therefore, the benefits that FDI can bring to host economies and the developing countries have often been canvassed by policy-makers. Little wonder many governments have developed enabling policy environment and investment architecture to encourage, attract and reap the full benefits of FDI (OECD, 2008).

However, there are heated debates that the impacts of FDIs and transnational corporations (TNCs) on developing countries have been disadvantageous and resulted in drawbacks such as: deterioration in the balance of payments as profits are repatriated, crowding-out effect in the host economy, dependence on external sources, dilution in control, destructive competition of foreign affiliates with domestic firms and loss of market to foreign firms due to weak competitive capability of the domestic firms (Utting,2003;Shafi,2014). Although FDI to developing African countries has increased, the total contribution to the global value chain is still very small. Nevertheless moving Africa's economies up the global value chain will generate jobs and wealth for a burgeoning population. Africa attracted $51.98bn in inward capital investment in 2013 compared to the drop of $46.92bn in 2012.This gives an increase of 10.76% which is a rebound from the inward FDI drop of 2012 from the 2011 level of $70.92bn. Moreover, FDI flows into Africa and the Middle East increased by 24.27% in 2013.Despite this increase, the number of projects in the region decreased by 8.59% and job creation declined by 12.98%. In the same year, the FDI inflows and outflows for Nigeria was (5.83%) and $3.06bn (6.37%) respectively. FDI into Africa increased by 64% to $87bn, while the number of FDI projects declined by 6 percent to 660 in 2014. In 2014, FDI into Africa accounted for 13% of global FDI with the number of projects accounting for 5%.

Although the upsurge in FDIs since the 1980s has been accompanied with increasing corporate social responsibility (CSR) (Jenkins,2005; Goyal,2005), there are debates on the economic development implications of CSR by the TNCs\MNCs in developing countries.CSR refers to the "commitment by business to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve quality of life, in ways that are both good for business and economic development". Basically, CSR has become a major focus of interest to corporate managers and development practitioners. (Jenkins,2005). It is a signaling for FDI especially for unknown aggressive and accommodating firms (Goyal,2005). CSR can allow firms to do better, earn higher profits while contributing to the host country. Moreover, CSR commitments by multinational companies/enterprises (MNCs/MNEs) can cause important positive changes and economic growth. In fact, CSR initiatives have been found to have positive influence on different aspects of TNCs/MNEs' contributions towards economic development. Therefore, corporations and financial institutions view instrumental CSR and investments as a source of competitive advantage and risk mitigation.

However, it is not just the volume of economic activity that determines development; it is also how business is done which impacts people, the economy and the environment. Although FDI and MNCs/MNEs are believed to promote local and economic development, they have also aroused much controversy as well as social and environmental concerns and benefits. For instance, MNCs/TNCs have often been