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# DO CORPORATE RESPONSIBILITY INITIATIVES WORK FOR DEVELOPMENT? AN OECD PERSPECTIVE

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1. Responsible business conduct by multinational enterprises (MNE) can help countries reap the full benefits of international direct investment for development. The thirty five -- OECD member and non-member -- countries adhering to the Guidelines for Multinational Enterprises wish to work with developing countries in order to strengthen the case that foreign direct investment and corporate responsibility promote economic development and enhances the welfare of citizens around the world.

2. Private initiatives for corporate responsibility are efforts by companies to develop and maintain internal control systems which allow them to comply with market, regulatory and other legitimate expectations. As such they are not new initiatives. Over the last 10 years, however, a major movement of voluntary and often public initiatives among international enterprises has taken place at an unprecedented pace.

3. A recent OECD Study, "*Corporate Responsibility—Private Initiatives and Public Goals*", using databases covering over two thousand organisations in thirty countries shows that most large OECD-based multinational enterprises have participated in this movement in one way or another. These initiatives initially involve the issuance of codes of corporate conduct setting forth commitments in such areas as labour relations, environmental management, human rights, consumer protection, competition, disclosure and fighting corruption. These codes are often backed up by management systems that help firms respect their commitments in their day-to-day operations. More recent developments include work on management, reporting and auditing standards and the emergence of supporting institutions (for example, professional societies, consulting and auditing services). The OECD Study also identifies a number of areas where further consideration and action

might be particularly useful and relevant to Development (e.g. corporate responsibility vis-à-vis the supply chain and issues for extractive industries).

4. The countries adhering to the OECD Guidelines want to use them as a framework to reinforce private initiatives for corporate responsibility. I will not make a detailed presentation of the Guidelines here since the previous speakers have already referred to them – and I understand that the text has been made available to all participants. The text is also available at http://www.oecd.org/daf/investment. The Guidelines, which were first adopted some 25 years ago, provide a multilaterally endorsed set of comprehensive (and often quite detailed) recommendations for responsible business conduct.

5. It is possible to read these Guidelines as an approach to the Development agenda that is now confronting the international community. The approach of the Guidelines is not one of regulation, but rather one that favours co-operation and accumulation of expertise in order to enhance further the benefits of international investment. A few illustrations:

a. In their chapters II, IV and VIII, the Guidelines recommend a series of steps that MNEs should take to facilitate technology diffusion and human capital accumulation in host countries – two areas which have long been recognised as central to growth and productivity increases in less developed countries;

b. In their chapter II and others, MNEs are asked to co-operate with local communities, keeping in mind the distinctive needs of different communities as well as their cultural diversity;

c. The Guidelines also provide that MNEs should refrain from seeking or accepting exemptions from host country regulatory requirements in areas such as environment, labour or financial incentives. This echoes efforts by developing countries to avoid being trapped into some kind of a "race to the bottom" or in a zero sum game of incentive-based competition to attract FDI, which in the long run benefits no country;

d. The Guidelines cover all core labour standards and underline the importance of capacity building in host countries through local employment and training. The recommendations draw on an agreed body of international thought on labour rights, most of it developed in the International Labour Organisation. Far from imposing inappropriate labour standards on developing countries, the Guidelines enhance the positive role that multinational enterprises can play in helping to address the root causes of poverty, through their labour management practices, their creation of high-quality jobs, and their contribution to economic growth.

e. Chapter VI enlists MNEs in the fight against bribery and corruption in host countries – an area which, we know, an increasing number of developing countries' governments now consider central to their reform efforts;

f. Chapter III on disclosure promotes business transparency on the basis of the standards set forth in the OECD Principles of Corporate Governance. Further global dissemination of these standards will promote development by strengthening the effectiveness and robustness of financial systems everywhere.

g. The Guidelines also contain provisions asking MNEs to respect the human rights of all people affected by their operations. While the countries adhering to the Guidelines recognise that governments play the primary role in protecting human rights, companies can help in a number of important ways. Respect of human rights is increasingly viewed as the most fundamental feature of successful market systems. Thus, the business community's assistance in promoting human rights will not only help reduce the suffering caused by human rights abuses, but will promote economic development.

6. The Guidelines have an important complementary role to play in the process of discussion and consensus building. The Guidelines can enhance the visibility and public understanding of private initiatives, thereby making them more effective from companies' point of view and more credible from the point of view of civil society in host and home countries. The Guidelines implementation procedures, which adhering governments are committed to support, can also be used to promote and disseminate management practices that help companies respect appropriate norms for business conduct.

7. At the same time, private initiatives for corporate responsibility raise significant challenges from a developing country perspective.

8. These initiatives can occasionally have "unintended consequences". The background associated with one of the business association codes in the database of the OECD Study shows how problems can inadvertently arise from well-meaning initiatives. The code emerged as a result of what is now an infamous case of unintended consequences of NGO activity -- in this case, in response to the revelation that children were involved in the production of soccer balls in Pakistan. As a result of NGO activity, soccer balls suppliers in Pakistan were instructed to stop employing children immediately, which they did. However, since many of the children had been brought in from surrounding areas to work in factory-type situations, they ended up on the streets without caretakers or family supervision.

9. In a further development of this same episode, soccer ball retailers worked extensively with the ILO and with NGOs to restructure conditions of production in the Pakistani soccer ball industry. Their aim has been the progressive elimination of child labour. This restructuring increased the market share of formal, factory-like production sites ("stitching centres"), while decreasing the market share of "cottage" or home-based production (where it is more difficult to control participation of children). But this shift also undermined the economic autonomy of adult women in the region, who are less involved in factory work than in home-based production. This was another largely unintended consequence.

10. These examples underscore the need to proceed carefully with corporate responsibility initiatives and to have adequate knowledge of local conditions. A "one-size-fits-all" approach cannot work.

11. Corporate responsibility raises challenges to host country governments too. More and more, governments' business can no longer be as usual. Private initiatives cannot work if public governance and other parts of the system work poorly. When companies are serious about reputation risk management and their public commitments towards corporate responsibility, they may find situations where they will decide to reduce their investments or even opt for alternative business locations depending on the quality of the governance environment in which they operate. Governments may have to respond to this by adapting and accelerating regulatory reform efforts. However, while regulatory reforms have costs, in the long run they will be beneficial to the country. Experience shows that they are the surest way of attracting and retaining first-class and long-term investors, whether foreign or domestic.

12. Indeed, the notion of corporate social responsibility is not meant to be a substitute to the responsibility of other stakeholders, notably the states themselves. A mutual dependence exists between enterprises and the societies in which they operate: a business sector cannot prosper in a failing society, and a failing business sector inevitably distracts from general wellbeing. States have the responsibility of ensuring a favourable environment for business, through provision of such services as law enforcement, appropriate regulation, and investment in the many public goods and services used by business. And businesses, beyond their core objective of yielding adequate returns to owners of capital, are expected not only to obey the various laws applicable to them, but also to respond to the societal expectations that are not written down as formal law.

13. Meeting these challenges calls for private-public sector partnership, together with active co-operation among developed and less developed countries – bilaterally or through multilateral institutions, including the OECD. By and large, the Guidelines, with its multi-stakeholder consultation and consensus-building procedures, are the precursor of an emerging global system of governance combining legal requirements, voluntary compliance and co-operative arrangements with a view to ensuring that globalisation works for all.