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PRIVATE INITIATIVES FOR CORPORATE RESPONSIBILITY

(Report to Ministers by the Committee on International Investment and Multinational Enterprises)

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1. In response to the invitation in last year's Ministerial to carry out further work on codes of corporate conduct, the Committee on International Investment and Multinational Enterprises (CIME) has just completed a major study of private initiatives for corporate responsibility using databases covering over two thousand organisations based in thirty countries. Voluntary initiatives in the area of corporate responsibility are a significant trend in international business in recent years. Business surveys show that most large OECD-based multinational enterprises have participated in this trend 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).

2. Thus, the main message is a positive one -- private initiatives for corporate responsibility have produced basic building blocks that, in conjunction with multilateral initiatives such as the OECD Guidelines for Multinational Enterprises (the "Guidelines"), could eventually contribute to convergence of economic, social and environmental norms across the countries of the world. The CIME notes the initiatives' contribution to the accumulation of two types of intangible capital that are needed to make legal, regulatory or less formal systems of behavioural control effective. The first of these is consensus -- the widespread agreement or consent of the people and organisations covered by the controls, which promotes "voluntary compliance" (that is, adherence to behavioural norms that is not due to formal enforcement). The second is the managerial expertise that allows firms to translate general principles into changes in the way they conduct their operations.

3. The key findings are as follows:

- *Global phenomenon.* Voluntary initiatives are a global phenomenon, but there are significant intra-regional variations in practice.
- *Strong motivations exist that reinforce these initiatives' credibility.* Although the initiatives are often referred to as "voluntary", some firms have strong motivations to comply. These stem from legal and regulatory arrangements, employees' expectations, the need to protect brand or reputation capital and the interest of civil society. For some firms, however, such motivations can be weak (for example, for those with low public visibility).
- *Divergences of commitment and management practices.* There appear to be wide divergences in the content of codes of conduct even in relatively narrowly defined issue areas (e.g. labour standards in branded apparel, environmental and human rights commitments in extractive industries, the fight against bribery, science and technology transfer). This is not necessarily a problem, since there can be no "one-size-fits-all" approach to corporate responsibility due to the varying business contexts facing individual companies. On the other hand, these divergences may point to a need for continued public debate on what exactly constitutes appropriate behaviour for the different ethical challenges that confront international business. Similarly, management practices vary significantly. Some firms have adopted advanced practices while others have yet to translate their codes into management controls. The Guidelines have an important role to play in helping to build international consensus and to spread knowledge about advanced management practices in support of corporate responsibility.

- *Steps toward global norms for business conduct.* Private initiatives for corporate responsibility have provided an international channel through which various actors -- businesses, business associations, public authorities, trade unions, intergovernmental organisations and NGOs -- can debate various standards of business conduct and management practice. The amount of dialogue and mutual influence among these actors has been significant and it is important that this continues. This dialogue can be facilitated when companies choose to make their corporate responsibility practices public. The Guidelines institutions provide an important forum for discussion of norms for business conduct.
- *Accumulation of managerial expertise in ethical and legal compliance.* Voluntary initiatives in corporate responsibility have promoted the accumulation of the management expertise needed to translate law, regulation and less formal societal expectations into the day-to-day operations of companies. The institutional supports for this expertise -- management standards, professional societies, specialised consulting and auditing services -- help lower the costs of legal and ethical compliance as well as making it more effective. Non-financial auditing and reporting standards are a more recent phenomenon and, while advances are being made, they are still relatively weak.
- *The costs of voluntary initiatives for corporate responsibility.* Little information on the costs of these initiatives in specific business settings is available. It is expected that, as experience with the initiatives grows, businesses will add to their knowledge of both costs and benefits. Uncertainty also gives rise to the possibility that well-intended initiatives might have adverse, unforeseen effects. The risk of unintended consequences underscores the need to proceed carefully and with adequate knowledge of local circumstances.
- *The benefits for individual companies and for society.* The potential benefits of these initiatives are numerous. For companies, they include improved legal compliance, management of litigation risks, brand and reputation enhancement and smoother relations with shareholders and with society. Some initiatives have also deflected calls for formal regulation. Finally, companies use the initiatives to improve employee morale and to promote a “culture of integrity” within the firm. For societies, the benefits include better compliance with law and regulation and an enhanced contribution by the business sector to economic, social and environmental welfare.
- *The effectiveness of voluntary initiatives.* To promote compliance with law and with societal expectations, companies often need to communicate effectively with thousands of employees and to use diverse compliance tools, effectively deployed in a coherent management system. Private initiatives are the expression of managerial expertise that allows companies to blend profitability objectives with other legal and ethical considerations into coherent business activity and response. Non-financial auditing and reporting systems are now emerging to make companies’ efforts in this area more effective and more credible. However, the business sector is not the only actor to play a crucial role in promoting the success of these initiatives. If private initiatives are successful, this attests not only to the competence of the business community, but also to the abilities of societies to formulate and communicate reasonable expectations for appropriate business conduct. Thus, the effectiveness of these initiatives is closely linked to the effectiveness of the broader systems of private and public governance from which they emerge -- private initiatives cannot work well if other parts of the system work poorly.

4. The private initiatives reviewed by the CIME are part of a global process of consensus-building and accumulating expertise. The fact finding exercise identified a number of issues where the further

discussion might be particularly useful (e.g. corporate responsibility vis-à-vis the supply chain, developing countries, combating corruption, issues for extractive industries). The Guidelines and private initiatives are mutually reinforcing. They 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' and more credible from civil society's point of view. 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. The CIME will use its consultations with business, trade unions and NGOs, as well as its outreach activities, to discuss supporting public policies that complement these initiatives, as well as channels for discussing emerging management, auditing and reporting practices in the field of corporate responsibility.