

Strengthening Governance to Mobilise Resources for Development

*Meeting organised by the OECD and the Government of Norway
in preparation for the International Conference on Financing for Development*

New York, 15 January 2002

Making globalisation work for everyone -- the contribution of business

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The goal of enhancing the welfare of ever-broader portions of the world's population is what brings us here today. The business community has made and will continue to make essential contributions toward achieving this goal. It is worth recalling that business' most important contribution is the conduct of business itself -- its core responsibility, is to yield adequate returns to owners of capital by identifying and developing promising investment opportunities. In the process, businesses provide jobs and produce goods and services that consumers want to buy. Economic history attests to the power of the business sector to raise general welfare and living standards when operating in effective governance environments.

Of course, corporate responsibility goes beyond this core function. Businesses also have to comply with legal and regulatory requirements and, as a practical matter, must respond to "softer" societal expectations that are not written down in law books. OECD research suggests that many businesses have invested heavily in improving their abilities to do this. Companies make this investment because they recognise their interdependence with the societies in which they operate. Indeed, interdependence lies at the heart of corporate responsibility, which we at the OECD define as the actions taken by businesses to nurture and enhance their relationships with the societies in which they operate.

In this sense, the concepts of corporate responsibility and corporate governance are inseparable. As pointed out by the noted governance expert, Adrian Cadbury, corporate governance systems help economies and organisations strike the "right balance between economic and social goals and between individual and communal goals." Getting this balance right is an ongoing task for any society. Success hinges on the creation of appropriate systems of law and regulation. It also requires suitable channels for less formal channels of influence on business behaviour such as those coming from employees and colleagues, or from the press and civic organisations. Thus, labour, civil and political rights are essential parts of both the public and private governance mixes. Finally, governments must be efficient and effective enough to deliver the various services that support private investment and finance. These include contract enforcement, investment in public goods and provision of public services. If governments don't play their roles, the business community won't be able to play its part -- corporate responsibility goes hand-in-hand with government responsibility.

In a world that is dire need of good news, there is quite a bit of it on the corporate responsibility front. 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 issued codes of conduct setting forth commitments in such areas as labour, environment, health and safety. Over the last fifteen years or so, principles and management methods have emerged that allow businesses to address ethical issues about which they would have been incapable of organising any systematic response even as recently as two decades ago.

- *Global phenomenon.* OECD research suggests that most major multinational enterprises have participated in this trend. For example, nearly all of the top 100 multinational enterprises publish material outlining the principles and management techniques they use to control environmental, health or safety outcomes.
- *Growing expertise.* A new pool of international management expertise has been created. This new cadre of managers combines knowledge of regulatory and legal compliance with management control expertise. To cite only two examples, their activities can be readily seen in the emerging consensus on management practices in the corporate fight against corruption and in the increasingly sophisticated and standardised approach to environmental management.
- *Emerging standards.* Standards in support of improved non-financial accountability and performance have been developed and these are now being used, refined and tested through day-to-day use by companies. Notable examples include ISO 14001 for environmental management, the Global Reporting Initiative for corporate reporting in support of sustainable development and the Voluntary Principles on Security and Human Rights.

Of course, not all of the news is good -- globalisation has raised legitimate public concerns about some aspects of business conduct. Some OECD-based multinational enterprises are perceived as being party, sometimes inadvertently, to serious problems -- corruption of public officials, human rights abuses and marketing of unsafe products. Further progress is needed in building a global governance framework that will allow these concerns to be addressed.

The UN's Millennium Declaration seeks to ensure that "globalisation becomes a positive force for all the world's people". Ensuring that globalisation works for all is not, of course, the sole responsibility of any single actor and certainly not of the business community. As this conference has shown, national governments have crucial roles to play, as do multilateral institutions. It is in this context that, in 2000, the member countries of the OECD plus Argentina, Brazil and Chile completed a review of the OECD Guidelines for Multinational Enterprise. Since then, Estonia and Lithuania adhered in 2001 and Latvia, Slovenia, Singapore and Israel have asked to adhere.

The countries adhering to the OECD Guidelines want to use them as a multilaterally endorsed framework to reinforce private initiatives for corporate responsibility. 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. The recommendations cover major issues in business ethics such as labour relations, environment, information disclosure, combating bribery and consumer protection.

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

- *Technology and human capital.* 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;
- *Local communities.* 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;
- *Refrain from seeking exemptions.* The Guidelines also ask MNEs to 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;
- *Labour management practices.* 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 eradicate the root causes of poverty, through their labour management practices, their creation of high-quality jobs, and their contribution to economic growth.
- *Fight against bribery.* 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;
- *Disclosure.* 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.
- *Human rights.* 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.

Observance of the Guidelines is voluntary for companies, but adhering countries sign a binding agreement to promote them among multinational enterprises operating in or from their territories. The implementation of the Guidelines relies on National Contact Points. These are government offices located in each of the 35 adhering countries. They are charged with promoting the Guidelines in the national context.

In addition to making sure the Guidelines are well known in their countries, the National Contact Points also oversee something called "specific instances." This provides for what can be thought of as a soft whistle-blowing facility. Any interested party may call alleged non-observance by companies of the Guidelines recommendations to the attention of a National Contact Point. However companies cannot be

forced to participate in this process nor are any formal sanctions provided for. The spirit of the Guidelines is not one of punishment or retribution. Rather, the National Contact Points seek to reinforce individual companies' understanding of and commitment to the recommendations set forth in the Guidelines. The first annual report on the Guidelines, made public this fall, shows that numerous specific instances have been considered or are under consideration. The second annual meeting, to be held in June 2002, will provide the first insights as to how well these institutions are working and as to how they might be improved.

The Guidelines have a distinctive contribution to make and they are complementary to other global instruments for corporate responsibility, such as the UN Global Compact. The OECD Guidelines, are firmly rooted in inter-governmental and national government processes and are informed by extensive consultations with business, labour and civil society.

The OECD Guidelines are part of a broader Declaration on international investment that provides a balanced framework defining the responsibilities not only of multinational enterprises, but also for governments in their dealings with international investors. The OECD Declaration on International Investment enshrines the core values of transparency, non-discrimination and investment protection. In this sense, the OECD investment framework, which provides guidance on both government and corporate responsibility, also has a role to play in mobilising the financial resources and achieving the conditions needed to fulfil the ambitious development goals set forth in the UN's Millennium Declaration. The Millennium Declaration affirms its signatories' commitment to "an open, equitable rule-based, predictable and non-discriminatory multilateral trading and financial system." It would be hard to find a more natural fit and affinity than the one that exists between the values expressed in this Declaration and the investment principles of the OECD. We look forward to working in partnership with you on what will surely be a painstaking, but ultimately, a rewarding mission of "ensuring that the 21st century becomes the century of development for all".