



**ANNUAL OECD ROUNDTABLE ON CORPORATE RESPONSIBILITY -
The OECD Guidelines and Developing Countries: Building Trust**

**Corporate Responsibility Practices of
Emerging Market Companies
– A Fact Finding Study**

This paper was prepared as background in support of the discussion at the Roundtable on Corporate Responsibility on 14 June 2005. It will form part of the forthcoming publication "Annual Report on the OECD Guidelines for Multinational Enterprises: 2005 Edition".

This study was prepared by Jeremy Baskin, an external consultant to the OECD Investment Division in co-operation with Kathryn Gordon of the OECD Investment Division. The views expressed here are those of the author and do not necessarily reflect those of the OECD or its member countries.

TABLE OF CONTENTS

CORPORATE RESPONSIBILITY PRACTICES OF EMERGING MARKET COMPANIES – A FACT FINDING STUDY	3
I. Introduction and key findings	3
II. Emerging market companies participation in CR initiatives – Four basic indicators	5
III. Corporate Responsibility Trends in Africa and non-OECD Asia – Findings of Published Studies	9
Africa.....	9
Asia	11
IV. Corporate Responsibility Practices of Companies Based in Emerging Markets	14
Reporting publicly on corporate responsibility	15
Corporate Social Investment (CSI)	16
Anti-corruption, conflict of interest and business integrity	17
Environment	20
Non-discrimination / Equal opportunity.....	22
Women on Company boards	24
Training	25
Occupational Health & Safety (OHS).....	26
REFERENCES	29

Boxes

Box 1. Emerging markets definition	5
Box 2. South Africa’s King Report.....	10

CORPORATE RESPONSIBILITY PRACTICES OF EMERGING MARKET COMPANIES – A FACT FINDING STUDY

I. Introduction and key findings

Emerging market companies make up 3.8 per cent of the FT500, the 500 largest global traded companies¹ and 4.6 per cent of the Dow Jones Global Index of 2,500 companies. OECD statistics show that, while the bulk of international investment flows originate in the OECD, non-OECD countries are increasingly important sources of investment flows. This paper presents a fact finding study of the corporate responsibility policies and practices of emerging market companies². The definition of “emerging market” used in this report is based on World Bank national income categories and is described in Box 1.

This paper has been prepared as background in support of the discussion at the Corporate Responsibility Roundtable on 14 June 2005 and is intended to help Roundtable participants address the following questions:

- To what extent have companies based in non-adhering countries participated in what earlier OECD research identified as a major trend in international business – that is, companies’ investment in policies and management and reporting systems that reinforce their ability to comply with law and with other societal expectations that might not be written down in law books?
- Are there any major differences in the policies, management systems and reporting practices of companies in non-adhering countries relative to those of companies based in adhering countries?
- What factors motivate emerging market companies to undertake these initiatives (e.g. regulatory compliance, product market competition, attracting and retaining employees, protection of reputation)?
- Are companies from emerging markets more or less likely to undertake corporate responsibility initiatives than they were in the past?

The evidence presented in this paper suggests that, overall, there is not a vast difference in approaches to corporate responsibility between companies in high-income OECD countries and their emerging market peers. Indeed the level of comparability is surprisingly high. Certain emerging market business sectors show substantial engagement in this area, while others show little or no engagement. There is significant

¹ See <http://news.ft.com/reports/ft500> for 2004 listing.

² The OECD views the primary contribution of business – its core responsibility – as the conduct of business itself. The role of business in society is to develop investments so as to yield competitive returns to the suppliers of capital. In so doing, companies create jobs and produce goods and services that consumers want to buy. However, corporate responsibility goes beyond this core function. Companies are expected to obey the various laws that are apply to them and, as a practical matter, must respond to societal expectations that are not written down in law books.

diversity in the policies and practices of the emerging country business sample, just as there is high diversity within the OECD sample.

A number of findings stand out:

- *Global phenomenon.* Corporate responsibility initiatives are common among emerging market companies – the studies cited and the original data presented in this paper both show that these companies have participated in the broader trend in international business towards more formal management in a wide range of corporate responsibility fields. Overall, the report confirms that such initiatives are a global phenomenon that is very much present in emerging market companies. But within this broad international business trend, there are striking differences between countries, even within the same region.
- *Important regional and sectoral variations.* In a result that mirrors earlier findings on OECD companies³, the study points to significant inter- and intra-regional variations in practice. In most emerging markets there appears to be a substantial gap between companies that are doing a great deal and those that are doing little or nothing. Businesses in some emerging markets are leaders in this area, while others appear to have no involvement. These divergences – both in emerging markets and in the OECD -- presumably reflect the influence of a variety of factors (e.g. variations in business circumstances relating to sectoral and geographical factors).
- *Leadership.* A study of 127 listed companies from emerging markets suggests that some are leaders in the corporate responsibility field. South African companies, in particular, stand out. The sample of listed companies in South Africa shows higher uptake in many areas than comparable samples from many OECD countries.
- *Reasons for uptake.* The review of studies looking at “drivers” of corporate responsibility initiative points to diverse reasons for undertaking such initiatives.
- *Home grown phenomenon.* In some countries, these initiatives appear to be very much a “home grown” phenomenon. (For example, South Africa’s corporate governance code calls for corporate policies, systems and reporting in a wide range of corporate responsibility fields; it has provided a framework for significant engagement by listed South African companies.)
- *Business case.* Surveys suggest that the “business case” for corporate responsibility is the same in emerging markets as it is among OECD companies – studies of Malaysian and Indian companies show that they adopt such measures in order to attract and retain employees, to improve product market positioning and to protect reputation capital. Surveys also indicate that companies based in non-adhering countries (like their OECD counterparts) adopt these initiatives in response to more demanding regulation and to other government pressures.
- *OECD business partners.* In some countries, subsidiaries of OECD companies constitute the bulk of companies active in this area. In others, supply chain considerations and the desire of host country governments and business sectors to position themselves with respect to the expectations of global markets appear to be dominant considerations.
- *Growing uptake.* The statistical evidence from the review of trends in CR indicators and from some of the published reports shows growth in emerging market companies’ adoption of these initiatives.

³ See *Corporate Responsibility: Private Initiatives and Public Goals* (2001).

The paper is organised as follows:

- Section II looks at four generic indicators of participation in corporate responsibility initiatives: 1) responses to the Carbon Disclosure Project, 2) inclusion in the Dow Jones Sustainability Index; 3) use of GRI reporting standards; and 4) certification to ISO14001. These indicators are used to get a statistical picture of corporate engagement on various corporate responsibility issues. Four regions are looked at – Central & Eastern Europe, Africa and the Middle East, Latin America, and Asia.
- Section III looks at what published statistical and survey data say about the levels and nature of engagement of emerging market companies in corporate responsibility initiatives. Studies are presented on Africa and Asia, the two regions where extensive statistical research on the relevant practices of businesses in non-adhering countries has been conducted.
- Section IV presents original data on the corporate responsibility practices of 127 leading companies in 21 emerging markets. Each company’s corporate website and annual report were examined using a number of indicators including corporate social investment, anti-corruption policies and systems, environmental policies and systems, equal opportunities, women on corporate boards, training, and health and safety.

Box 1. Emerging markets definition

In this paper all countries classified by the World Bank as Low or Middle Income countries are regarded as emerging market economies. These are countries with a 2003 Gross National Income (GNI) per capita of less than \$9386. The paper pays particular attention to the countries which have corporations included in global market indices, and are thus most likely to attract global equity investment. Emerging market countries whose companies are included either on the FTSE All-World index or the Dow Jones Global 2500 (or both) are: Argentina, Chile, Colombia, Egypt, India, Malaysia, Mexico, Peru, Poland, South Africa, Turkey, Brazil, China, Czech Republic, Hungary, Indonesia, Morocco, Pakistan, Philippines, Russia, Thailand and Venezuela*.

♦ Sources: www.worldbank.org/data; Dow Jones; FTSE

*Not covered in this research.

II. Emerging market companies participation in CR initiatives – Four basic indicators

This section uses publicly-available indicators on company involvement in four widely-recognised global corporate responsibility initiatives in order to provide globally comparable statistics on engagement by companies from emerging markets. The indicators provide a useful, but only partial, picture of corporate engagement on corporate responsibility issues⁴. The four indicators discussed in this section are:

- membership in the Dow Jones Sustainability Index (DJSI);
- registration with the Global Reporting Initiative (GRI);
- responses to the Carbon Disclosure Project (CDP);
- ISO 14001 certifications.

⁴

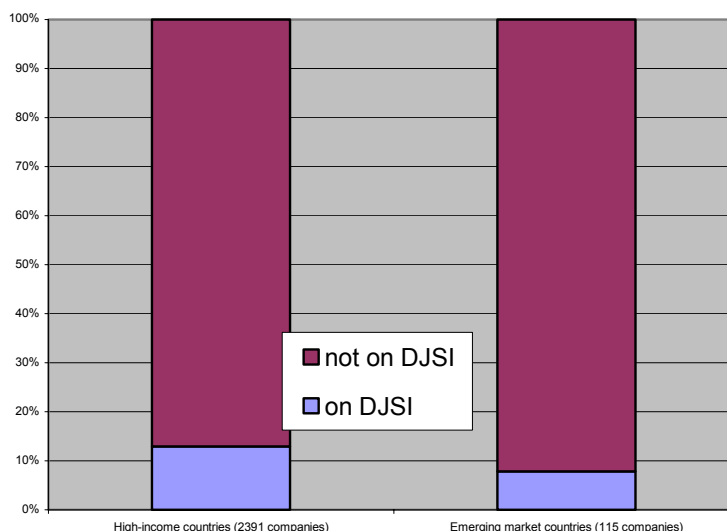
Reference to these initiatives does not constitute an endorsement of them.

The first indicator, the DJSI, regularly analyses each of the approximately 2,500 companies on the Dow Jones World Index. Using general and industry-specific criteria, the DJSI approach identifies – from among these 2,500 “eligible” companies -- what it calls “best in class” for “corporate sustainability” (defined as “a business approach to creating long-term shareholder value. Sustainability leaders embrace opportunities and manage risks which derive from economic, environmental and social developments⁵.”) The roughly 10 per cent of companies assessed as most “sustainable” are included on the DJSI.⁶ While 4.6 per cent of the eligible companies are from emerging markets, a small but still significant 2.8 per cent of the 318 companies which make it onto the DJSI come from emerging markets.

Put another way, and as Figure 1 indicates, 309 (or 12.9 per cent) of the companies listed in high-income countries make it onto the DJSI, compared to 7.8 per cent of emerging market companies. This suggests a smaller gap than might be expected between emerging market and developed market companies. Not only do some emerging market companies take an active interest in corporate responsibility, but a number (especially in South Africa and Brazil) are among the global leaders.

A second indicator – GRI registrations -- tells a similar story. The GRI asks reporting organisations (mainly companies) to register with it when they use GRI indicators in their reporting. While compliance is not audited and while some companies prefer to use reporting frameworks that are tailored to their individual situations, GRI registrations provide a rough indicator of company involvement in “sustainability” reporting⁷.

Figure 1. Percentage of companies on DJSI by country category



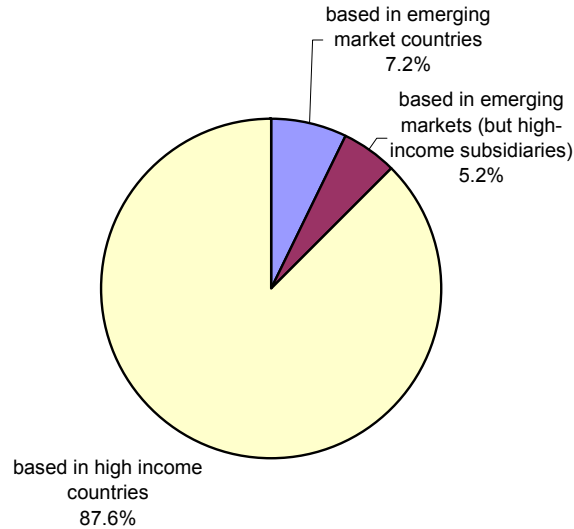
Source: Dow Jones Sustainability Index, September 2004.

⁵ See www.sustainability-indexes.com/html/other/faq.html for more details on the DJSI methodology.

⁶ Quotes are from the “Frequently Asked questions” section of the DJSI website: www.sustainability-index.com. See this website for details of the methodology.

⁷ According to the GRI, companies are encouraged to register where they “... have referred to or followed the Sustainability Reporting Guidelines in preparing their sustainability, social, or environmental report”. They are not obliged to do so as GRI is a voluntary initiative and “inclusion in the database does not certify the report’s conformance to the Guidelines”. (www.globalreporting.org)

Figure 2. GRI reporters by country category



Source: Global Reporting Initiative, Feb 2005

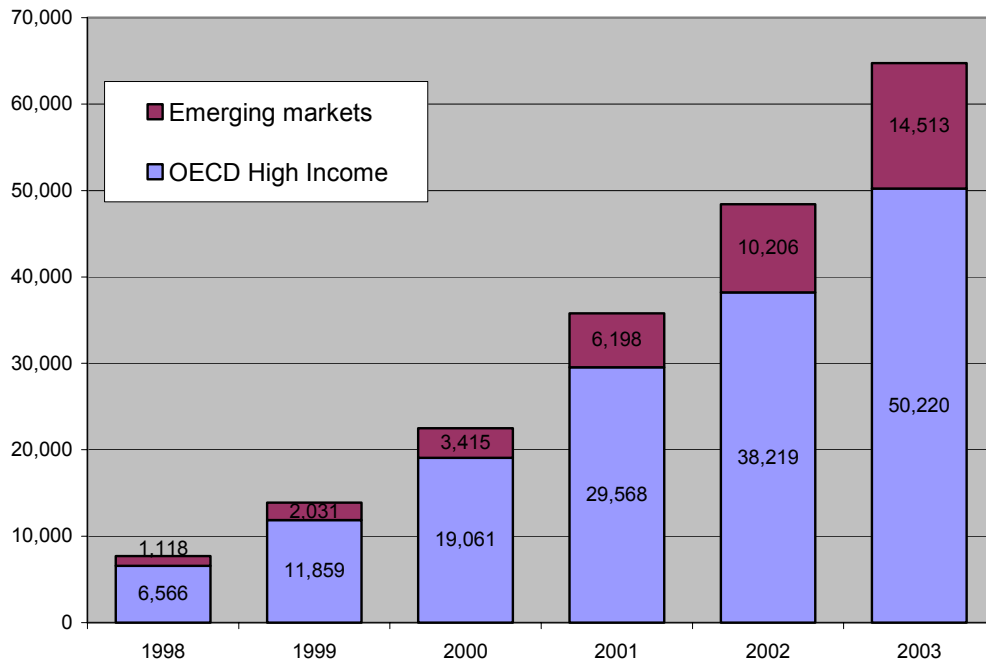
Of the 614 companies registered with GRI in February 2005⁸, 12.4 per cent are based in emerging markets. As Figure 2 indicates, many of the companies in this 12.4 per cent are subsidiaries or are otherwise closely associated with OECD companies. For example, 18 of the emerging market companies are subsidiaries of a single, major consumer goods company and are probably reporting because of insistence at Group headquarters level. Nevertheless this still leaves 7.2 per cent of GRI companies based in emerging markets.

A third indicator can be developed from participation rates in the Carbon Disclosure Project's survey of companies (the CDP is an initiative of a consortium of major global investors). The survey asks FT500 companies to indicate how they are dealing with climate change and greenhouse gas emissions. Its most recent completed survey saw 59 per cent of companies respond with information. Emerging market companies participated in the survey, although at a lower rate than higher income companies, the figures being reduced sharply by the non-participation of a number of Saudi companies and the Russian oil majors.

A fourth indicator is certifications for ISO 14001, the global standard for environmental management systems. The past five years have seen a significant increase in the uptake of ISO 14001 certifications. Figure 3 shows how certifications in high-income OECD countries have increased more than fourfold over this period, whilst in emerging markets there has been a seven-fold increase.

⁸ This number excludes reporting organisations which are public agencies, non-profits, universities and similar.

Figure 3. Growth in ISO14001 certifications worldwide



Source: ISO Survey, 2004. Note: Figures are for December of each year. OECD members which are not high income are included under emerging markets

Table 1 shows the growth in certification in selected countries. The Chinese figures have grown especially sharply, and have risen since China's State Environmental Protection Agency started promoting ISO in 1996.⁹

Table 1. ISO 14001 certifications for selected countries

	1999	2000	2001	2002	2003
China	222	510	1,085	2,803	5 064
Brazil	165	330	350	900	1 008
India	111	257	400	605	879
South Africa	82	126	169	264	378
Russia	0	3	12	23	48

Source: ISO Survey, 2004. Figures for December of each year

⁹ The Chinese figures have been qualified by some observers. For example, ASRIA, in its 2003 report on SRI in Asian emerging markets, states that "verification of the quality of these standards in China is still an issue." (p17)

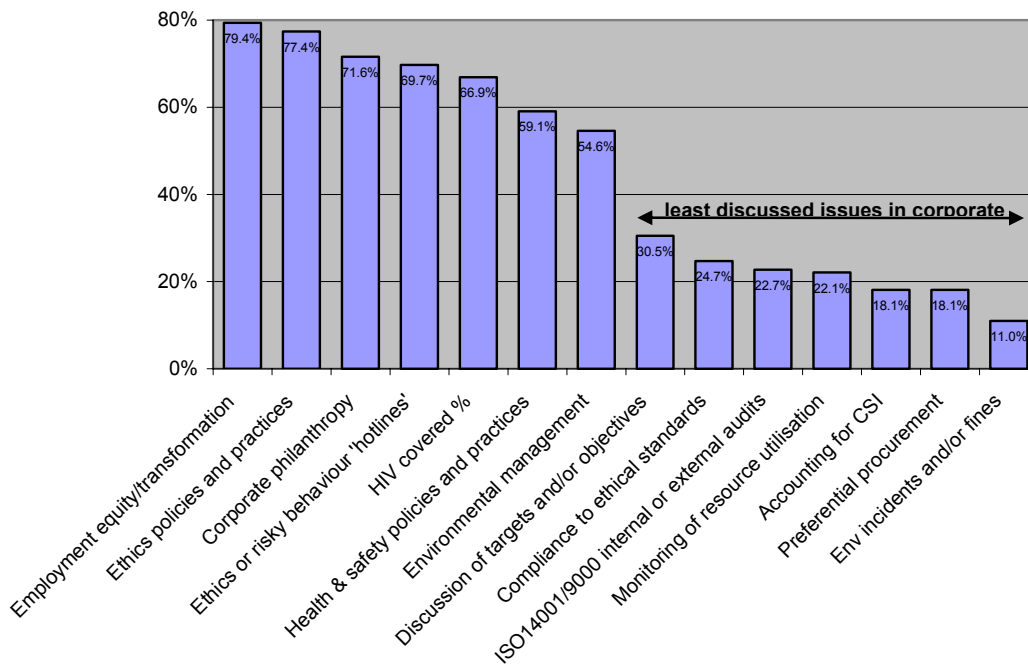
III. Corporate Responsibility Trends in Africa and non-OECD Asia – Findings of Published Studies

This section reviews facts and trends regarding uptake of corporate responsibility initiatives by emerging markets companies based on the findings of non-OECD published studies. It looks at Africa and at non-OECD Asia, two regions for which statistical studies of business practices in the corporate responsibility field are available.

Africa

Published studies of sub-Saharan African private initiatives for corporate responsibility present a variable picture. On one hand, such initiatives are more advanced in South Africa than in any other emerging market -- these statistics indicate, in many areas, South African business are leaders. On the other hand, in the remainder of Africa, interest in such initiatives is not common, except among subsidiaries of major multinationals.

Figure 4. Per cent South African companies reporting on CR issues



Source: KPMG South Africa, 2004

Note: Survey covered all 154 independent listed companies listed on Johannesburg Stock Exchange

Box 2. South Africa's King Report

The report calls for:

- Annual sustainability disclosure on social, transformational, ethical, safety, health and environmental policies and practices.
- Utilisation of an integrated approach to stakeholder reporting that includes a categorisation of issues into the following levels:
 - acceptance and adoption of business principles that can be verified;
 - implementation of practices with adequate evidence to support disclosure; and
 - Performance against related adopted business principles.
- Consideration for disclosure of sustainability items should include:
 - relevance to business, scope of disclosure, period of disclosure, expectations of performance (benchmark), and impact directly attributable to entity action or inaction;
 - principles of reliability, clarity, relevance, comparability, timeliness, and verifiability, with a reference to the Global Reporting Initiative Guidelines; and
 - development of guidelines for materiality for consistency, based upon international models and national definitions.
- Specific sustainability disclosures should include:
 - occupational health and safety matters, inclusive of AIDS;
 - environmental matters;
 - social investment prioritisation, including black economic empowerment initiatives; and
 - human capital development, inclusive of employment equity.
- Every company should have a code of ethics that is relevant to its stakeholders, supported by:
 - systems to introduce, monitor and enforce;
 - assignment of high level authority to oversee compliance;
 - assessment of integrity of new appointees and employees considered for promotion;
 - exercising due care in delegating discretionary authority to the board;
 - communication with and training of employees;
 - provision, monitoring and auditing of safe systems for reporting unethical or risky behaviour; and
 - evidence of response to offences and consistent enforcement of discipline.
- A statement as to the extent the directors believe the ethical standards have been achieved and, if not at an acceptable level, then the steps that are being taken to achieve the desired level should be presented.

Companies should consider carefully their dealings with others that do not demonstrate a similar level of commitment to organizational integrity.

Source: KPMG (2003)

The Johannesburg Stock Exchange (JSE) launched an SRI index in May 2004. All listed companies are invited to participate and those that choose to do so are assessed against the criteria. Criteria cover environmental, social and economic issues as well as corporate governance.¹⁰ Currently the FTSE/JSE SRI index covers 51 companies, or about one-third of companies listed on the JSE.

¹⁰ For the criteria see www.jse.co.za/sri/background_criteria/background_criteria.doc

South Africa's corporate governance code – known as King II – calls for the inclusion of annual reporting on sustainability. While it specifies in some detail the types of issues to be covered, it does not specify particular sustainability outcomes. The key features of the King II report are summarised in Box 2. Compliance with King II is a listing requirement for the JSE. The code includes specific issues of major concern within South Africa such as employment equity, HIV/AIDS, and black economic empowerment.

The global business consultancy KPMG has conducted eight studies to date on the extent of CR reporting in South Africa. Their most recent study, published in December 2004, looks at the extent of sustainability reporting in all 154 independent companies listed on the Johannesburg Stock Exchange (JSE). In particular it focuses on compliance with the King II corporate governance code. Figure 4 shows some of the results.¹¹ It suggests that South African companies are global leaders on CR reporting regarding social issues, but tend to be less advanced in relation to environmental matters. For example, two-thirds of companies report on how they are dealing with AIDS among their employees. Almost 70 per cent of companies reported having a whistle-blowing 'hotline' for corruption-related issues.

Asia

Among Asia countries, India and Malaysia appear to be most active in the field of corporate responsibility. India has a number of companies with long traditions of philanthropic and community programmes. A paper by Das Gupta and Das Gupta argues that corporate philanthropy in India is shifting towards Corporate Social Investment (which is a more strategic approach to philanthropy involving the building of stronger relationships with stakeholders).

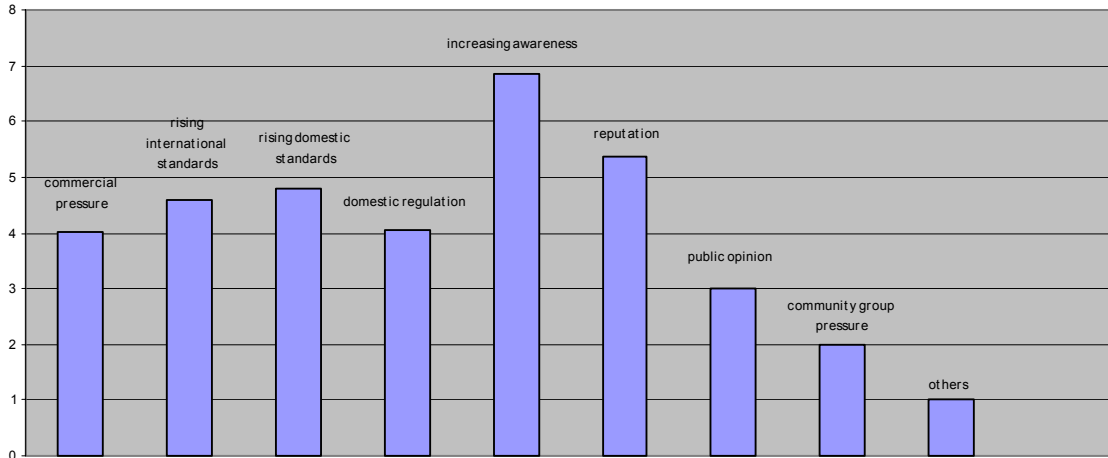
A number of leading companies are also actively managing their environmental impacts and this is evidenced by some major Indian companies producing detailed sustainability reports and exercising leadership within the broader Indian business community. The Confederation of Indian Industry has adopted Social Principles and embraced the CSR concept.

A 2001 survey by the Centre for Social Markets (CSM) asked (mainly large) Indian companies to list the main factors driving changed attitudes to social and environmental responsibility. Figure 5 presents the results with a combination of awareness, regulatory changes and a changing global/competitive environment mentioned most frequently.

¹¹ Although data was collected by KPMG regarding the extent to which each company made comprehensive or only partial disclosure against the complete range of issues covered by King II, the published report does not provide detailed breakdowns.

Figure 5. Indian companies' reasons for changed attitudes to CSR (2001)

(Percentage of companies in sample)



Source: Centre for Social Markets (CSM), 2000.

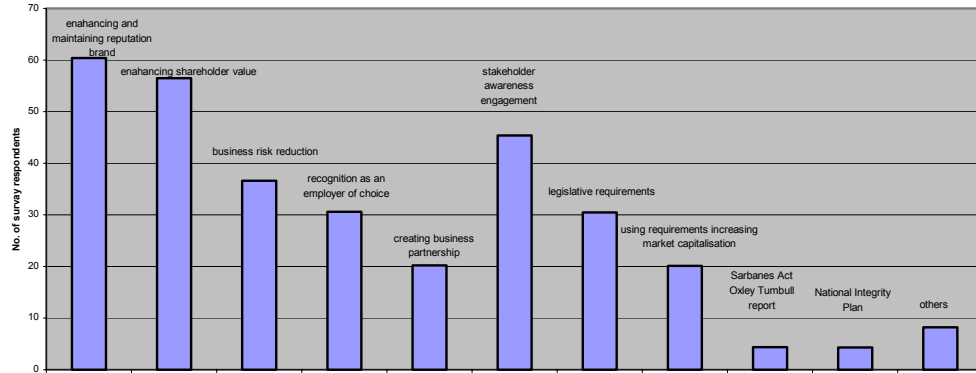
The emergence of corporate responsibility in Malaysia has been closely linked to that country's development plan -- Vision 2020 -- and to the government's policy of enhancing standards of corporate governance and business ethics. At a conference on CSR held in Malaysia in June 2004, the Deputy Prime Minister argued that CSR practices should not be mistaken for acts of philanthropy or charity. He argued that:

CSR helps improve financial performance, enhance brand image and increases the ability to attract and retain the best workforce – contributing to the market value of the company by up to 30 per cent. All of these translate into better client and customer satisfaction, improved customer loyalty and ultimately into lower cost of capital as a result of better Risk Management. Finally from a national standpoint, a good reputation for CSR will help Malaysian companies compete in world markets by resolving the potential concerns end users may have in developed markets. *(Conference Report of CSR - Creating Greater Competitive Advantage)*

A September 2004 survey by the Malaysian Chapter of the Association of Chartered Certified Accountants (ACCA) looked at all the listed companies on the Bursa Malaysia. It found an increase, compared to a previous survey, in the number of companies reporting on social and environmental performance. Sixty companies (10 per cent) provided environmental information, and 49 companies (8 per cent) reported on social performance.

As Figure 6 from the ACCA report illustrates, the major drivers for this increased reporting were (in addition to growing awareness), 'business case' issues such as reputation/brand enhancement, promoting shareholder value, reducing risk and complying with legislation/regulation in Malaysia (and abroad).

Figure 6. Drivers of Malaysian interest in corporate responsibility (2004)



Source: ACCA Malaysia, 2004

Two cross-country initiatives in Asia, both based in Hong Kong, deserve mention. The Asian Socially Responsible Investment Association (ASRIA) has been active in researching the investment climate and promoting increased take-up of corporate responsibility across the continent (www.asria.org). More recently, CSR-Asia has started publishing regular, detailed information on corporate responsibility developments, especially in China (www.csr-asia.com).

IV. Corporate Responsibility Practices of Companies Based in Emerging Markets

Using original data¹², this section reviews the corporate responsibility practices of 127 publicly-listed companies in 21 emerging markets. Wherever possible the findings are compared to existing data on 1,740 listed companies in a range of high-income OECD countries.¹³ The 127 companies analysed comprised 22 per cent of the emerging market companies on FTSE's All-World index. The companies were selected so that sample would consist of the largest companies on their respective stock exchanges and so that the emerging market sample would have wide geographical coverage.¹⁴

The number of companies analysed, and whether they are categorised as large or medium-sized, is summarised in Table 2.¹⁵ Even those companies classified as 'medium' are substantial in size – to give an indication, half of the companies in the FTSE100 are classified as medium capitalisation, and 12 of the French CAC40. Figure 7 shows that the overwhelming number of emerging market companies analysed come from four sectors – Financials, Resources, Basic Industries and Telecommunications.

¹² All emerging market data in this section based on original research designed and undertaken by J. Baskin with assistance from M.R. Castro (Feb/Mar 2005). OECD data adapted from closest comparable aggregates of EIRiS data, and from a forthcoming EIRiS publication providing a snapshot of CSR in developed countries. Note that in all cases:

- OECD Western Europe excludes Iceland and Luxembourg
- OECD Asia Pacific does not include Korea
- OECD North America covers United States and Canada. Mexico is included under emerging markets.
- Africa covers companies from Egypt, Morocco, and South Africa.
- Latin America covers companies from Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
- Emerging markets Asia includes companies from China, India, Indonesia, Malaysia, Pakistan, Philippines, and Thailand.
- CEE includes companies from Czech Republic, Hungary, Poland, and Russia, and also Turkey.

All of the original data used in this section can be made available by the OECD Investment Division on request.

¹³ Using the World Bank definitions of income category (see Box 1).

¹⁴ The base index used for selecting companies is the FTSE All-World index. In the version used in this study (October 2004) the Index covers 2,879 companies in 47 countries/markets. A number of these companies are double lines of stock and can be excluded from analysis.

The All-World index covers 586 companies in 21 emerging markets – approximately 22 per cent have been analysed for this study. The index also covers 1,838 companies in high-income OECD countries, and relevant existing data for comparison has been used for 1,740 companies (or over 96 per cent of these). The missing 4 per cent of the latter are those for which no reliable data was available. 455 companies from 5 high-income countries on the All-World index are not covered in this study, either because the countries are not OECD members (Singapore, Taiwan, Hong Kong and Israel) or, in the case of Korea, because adequate data was not available.

The emerging market companies were selected using the following rule of thumb – the publicly-listed companies with the largest market capitalization (after investibility weighting) from the FTSE All World index – basically the largest 20 per cent of companies from each country, but not less than 3 and not more than 20 companies from each country. For practical reasons only 2 Russian companies were finally included.

¹⁵ See www.ftse.com/indices_marketdata/classification_handbook2003v2.pdf for a summary of the definitions used. There may be two slight biases in the sample, which fortunately offset each other. A higher percentage of the emerging market companies than the OECD high-income companies are classified as large. Larger companies are generally more likely to be CR reporters than their medium-sized counterparts. The emerging market companies also have a higher percentage of Telecom companies in the sample. Telecoms companies are generally weaker CR reporters than other sectors in emerging markets, but not in high-income OECD countries.

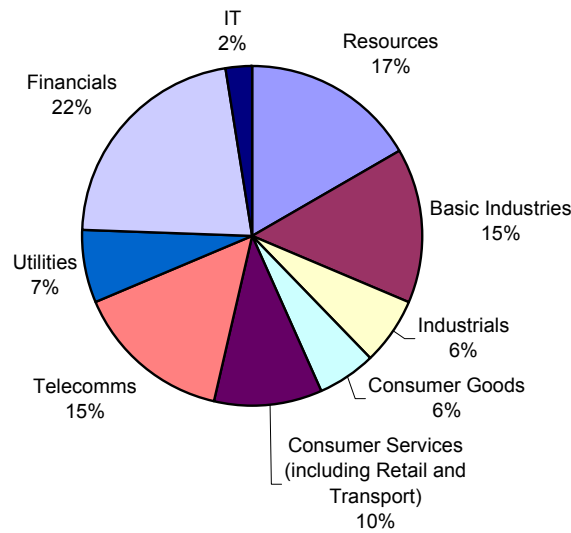
Table 2. Number of companies analysed (by size)*

	Large capitalisation	Medium capitalisation	Total
Emerging Market Total	109	18	127
OECD (High Income) Total	643	1 097	1 740

* The exact number of OECD high income companies may vary slightly for specific indicators and exclude a very small number of companies without data for that indicator

Source: OECD.

Figure 7. Sectoral composition of emerging market companies



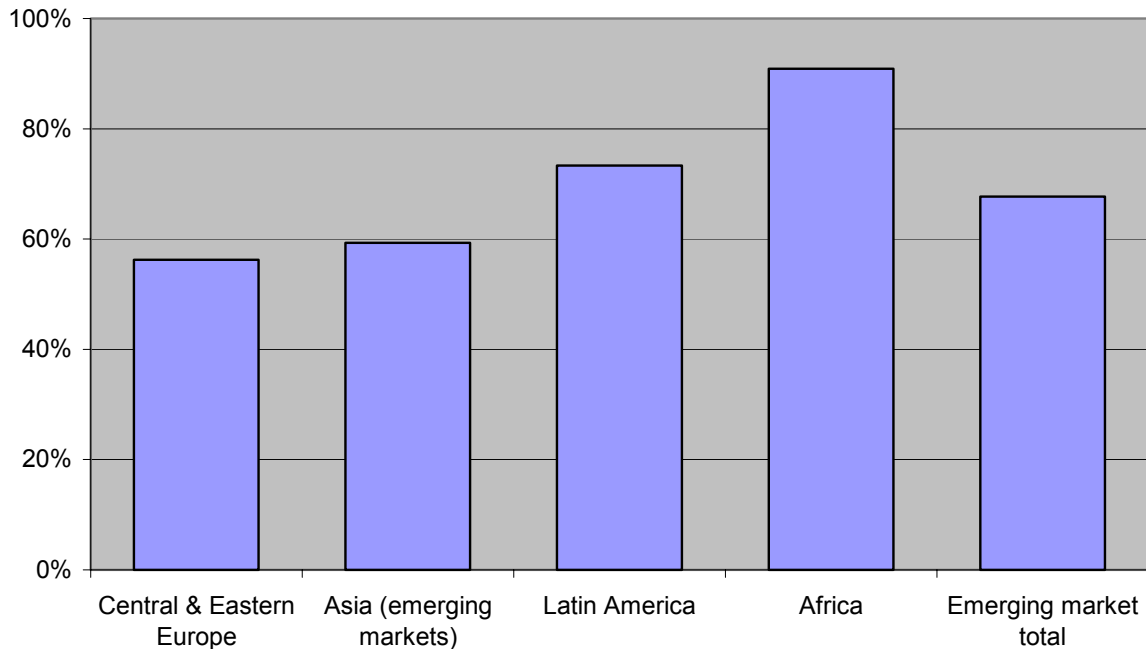
Source: OECD calculations using FTSE data.

Reporting publicly on corporate responsibility

The research showed that over two-thirds of emerging market companies either produce a sustainability report or have a specific section on their website or in their annual report covering corporate responsibility. Whilst precisely comparable data for high-income OECD countries is not available, this is a high figure and suggests that emerging market companies do not see corporate responsibility as the preserve of the developed economies.

Some countries' companies report to a greater extent than others -- all but one of the 16 South African companies analysed had a specific corporate responsibility website. Even at the lower end, 56 per cent of Central and Eastern European companies analysed did so too, in short a clear majority of companies in all regions, as Figure 8 below indicates.

Figure 8. Companies with public corporate responsibility reporting



Source: OECD.

Corporate Social Investment (CSI)

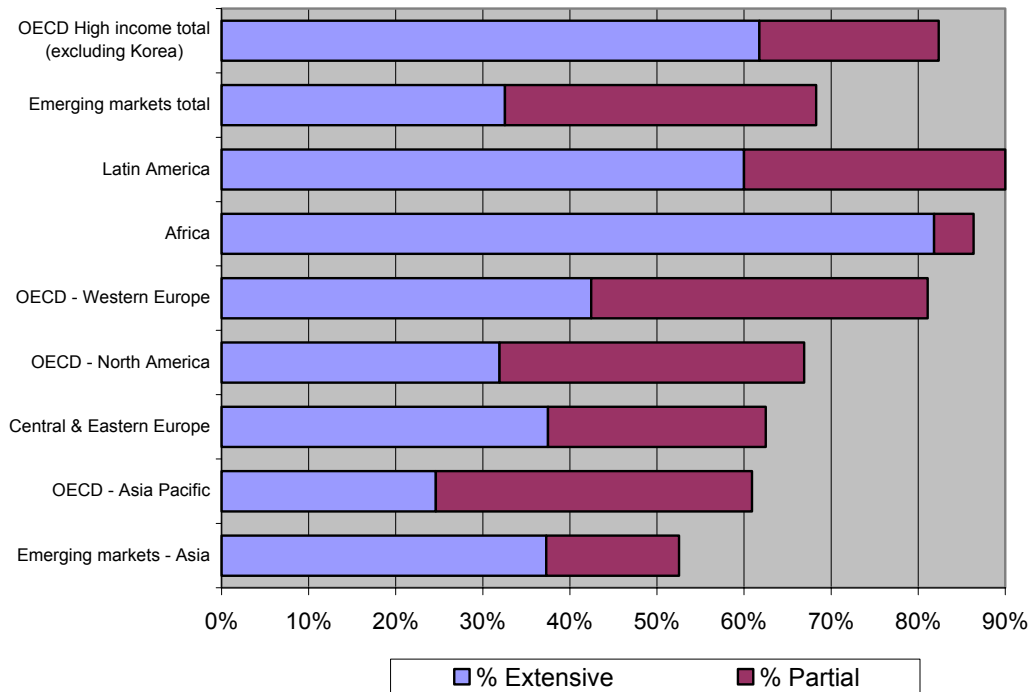
Corporate social investment is the term often used to describe a company's investment in a range of community activities. It includes, but goes beyond, the concept of corporate philanthropy. The statistics presented in this section rely on the following definitions of 'partial' and 'extensive' social investment:

- Partial – some evidence of donations to charitable causes or a community project.
- Extensive – evidence of involvement in a wide range of projects involving significant sums of money.

As Figure 9 shows, emerging market companies are almost as likely as high-income OECD countries to report on their corporate social investment and they are more likely to have extensive CSI programmes in place.

- 72.8 per cent of OECD companies reported CSI activities, compared to 68.5 per cent of emerging market companies
- 36.4 per cent of OECD companies reported CSI activities which can be regarded as 'extensive' (see box for definitions) compared to 50.4 per cent for emerging market companies.
- Africa and Latin America were the leading regions, followed by Europe.

Figure 9. Extent of reported Corporate Social Investment (CSI)



Source: OECD.

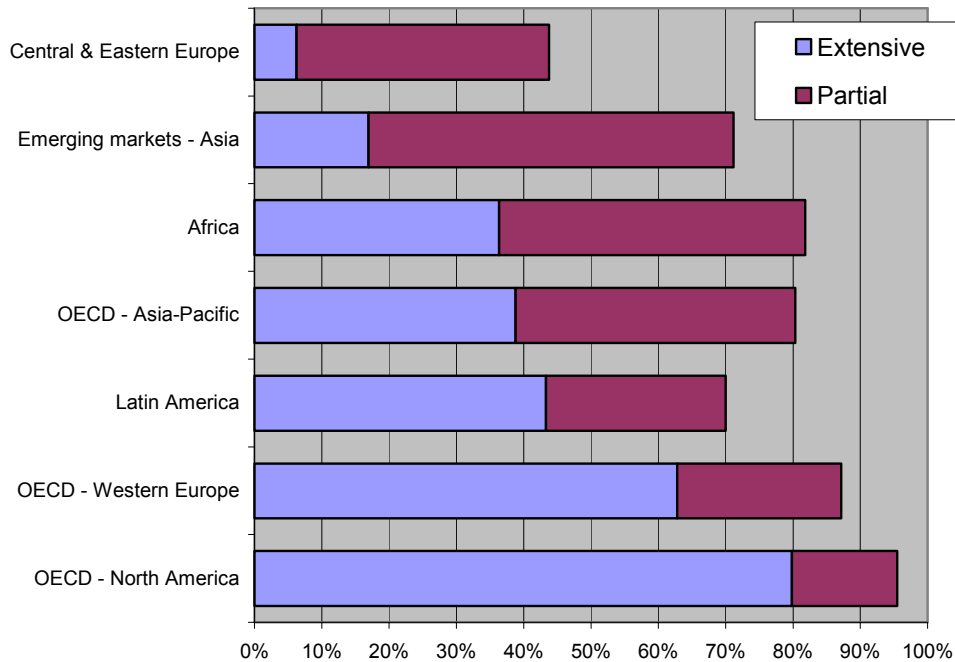
Anti-corruption, conflict of interest and business integrity

This section looks at the sample companies’ policy statements in relation to the fight against corruption and promotion of business integrity. It classifies codes of ethics in this area as follows:

- Partial – a statement that a code of ethics exists, or a published code of ethics but one with minimal details or minimal coverage: such as a generic commitment to comply with laws and regulations, or a code with only partial applicability (for example applying only to board members but not to employees), or a code with only two or three substantial provisions.
- Extensive – a published code of ethics, applicable to all employees and containing a range of provisions: on issues such as bribery, facilitation payments, gifts, conflicts of interest

About one quarter (25.2 per cent) of the emerging market companies analysed have an extensive policies in place. However there are significant regional differences. Latin American and African (mainly South African) companies have relatively high propensities to develop ethics codes in this field, while Asian emerging market companies, in general, showed lower propensities to issue such statements.

Figure 10. Published codes on fighting corruption and promoting business integrity



Source: OECD.

An effective anti-corruption policy needs appropriate management systems to ensure compliance. The statistics reported here classify anti-corruption management systems as follows:

- Partial – company reports on its ethics management and claims that one or more of the following exist: employee training, ‘whistle-blowing’ procedures/hotlines, compliance monitoring, or regular review of the code.
- Extensive – company reports on its ethics management and claims, that at least three of the following exist, and providing credible supporting material or examples: employee training, ‘whistle-blowing’ procedures/hotlines, compliance monitoring, or regular review of the code.

As Figure 11 indicates, the companies in the sample are less likely to make public statements about their management systems than they are to publish their anti-corruption policies.

- Thirty-nine per cent of the emerging market companies could be regarded as having extensive management systems.
- When taking into account companies’ reporting anything about their anti-corruption management practices, 79 per cent of OECD companies are found to have reported something, whilst only 34 per cent of emerging market companies could do so.

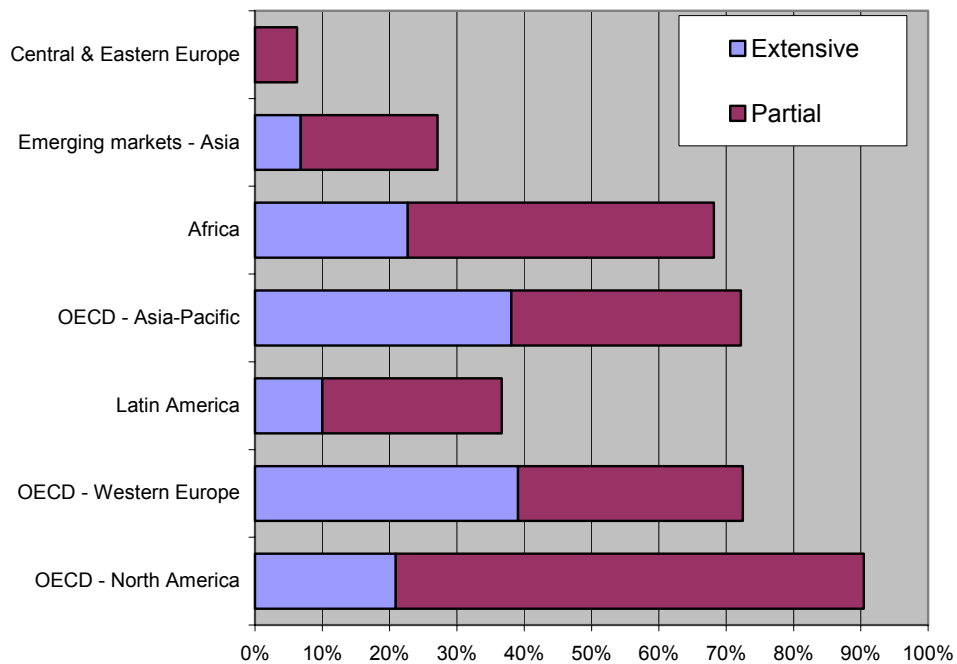
The most advanced emerging market business sample in this area is that of South Africa, where the local corporate governance code (King II) requires the inclusion of policies and compliance systems in this area. All 16 of the companies analysed here had a code of ethics (and half of these could be described as

extensive), and all but one had some form of management system in place to ensure compliance and 31.3 per cent of these could be regarded as extensive.

When focussing on a number of sectors most vulnerable to corruption allegations or business ethics difficulties, the research showed policies and systems of substance in:

- only two of the 12 emerging market Oil & Gas sector companies
- only one of the six construction sector companies
- only seven of the 22 banks.

Figure 11. Extent of anti-corruption management systems



Source: OECD.

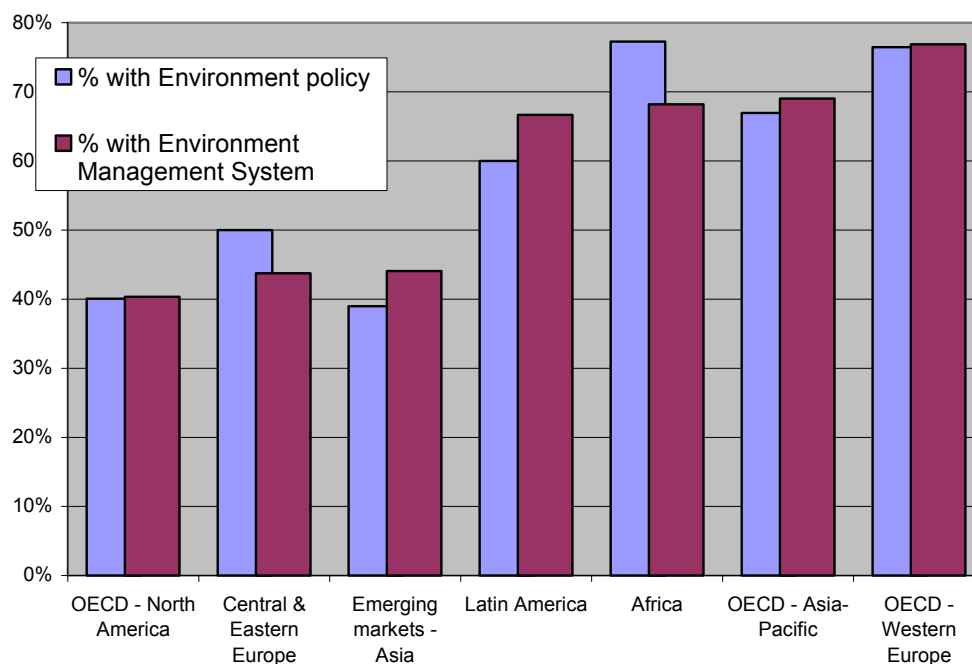
Environment

This section looks at corporate environmental policies and management systems based on methodologies that are linked to the EIRIS and FTSE4Good methodologies. These include:

- Environmental policy - The statistics keep track of a range of indicators: reference to key environmental issues facing the sector; allocated responsibility for the policy; commitment to using targets; to monitoring/audit; and to public reporting. Other indicators are: association with globally applicable standards (such as UNEP); commitment to involving stakeholders; addressing product or service impact; and to strategic moves towards sustainability.
- Environmental management systems (EMS)– The statistics keep track of: ISO certification or a meaningful equivalent covering: having a policy; impact identification; setting targets in all key areas; documented structures and procedures; auditing; internal reporting and review. The proportion of the company covered by the system affects its rating.

The majority of emerging market companies in the sample publish details of their environmental policies (52 per cent) and environmental management systems (53.5 per cent). This is not substantially lower than the average for high-income OECD countries of about 59 per cent.¹⁶

Figure 12. Companies with any published information about environmental policies/ EMS



Source: OECD.

¹⁶ The figures are not entirely comparable in that whilst both this study and the OECD comparator data used rely on public information sources, the OECD data also benefits from information provided by companies in response to a survey. This may inflate the OECD figures slightly, especially in relation to environmental management systems.

Whilst leading Brazilian, Indian and South African companies have high levels of publication by global standards, Chinese and Malaysian firms appear to pay less attention to this issue. This contrasts with the picture for Japan, where past research shows leading companies generally paying great attention to environmental management systems (see OECD 2001¹⁷).

Table 3. Companies with environmental policies and EMS (larger emerging markets)

(Percentage of sample)

Country	Number of companies assessed	% with published environmental policy	% with EMS
Brazil	11	81.8	90.9
China	19	31.6	36.8
India	10	80.0	80.0
Malaysia	12	33.3	33.3
South Africa	16	87.5	68.8

Source: OECD.

Figures 13 and 14 indicate what percentage of companies has ‘substantial’ policies and management systems in place. The Figures show that:

- *a majority of high impact emerging market companies do not have substantial policies and systems in place* and that the same can be said for their developed country counterparts in OECD and North America.
- Table 4 presents data on the companies in the sample that are from larger countries and that operate in high environmental impact sectors. Companies from India, Brazil and South Africa appear to be quite active in the environmental field. Only one of the 16 high impact Chinese companies in the sample had both a substantial environmental policy and a substantial EMS.

Table 4. Companies with ‘substantial’ environmental policies and EMS

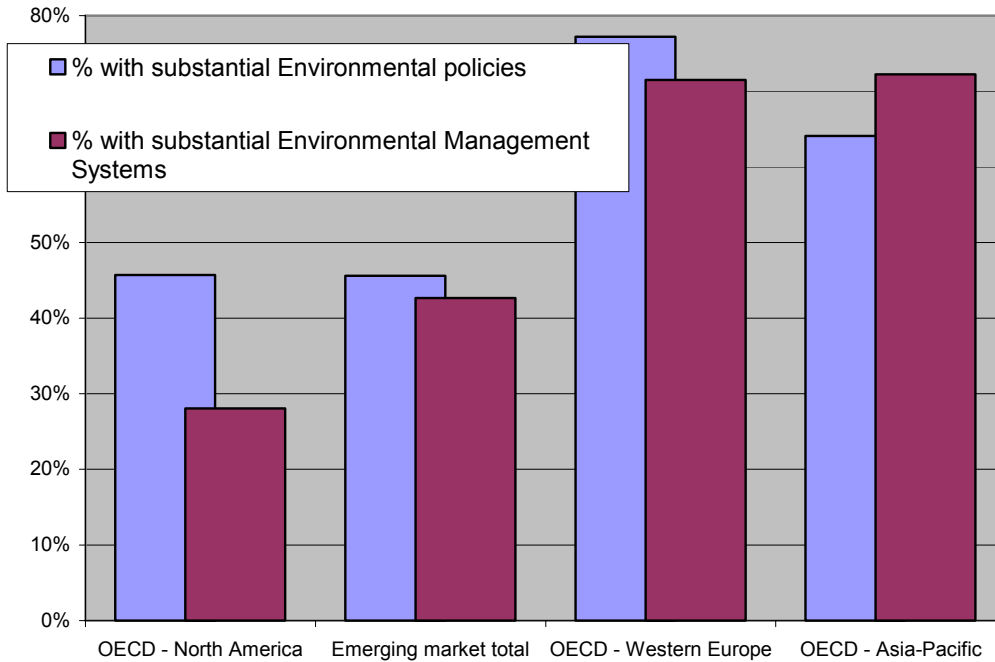
Country	Number of High impact Companies	With a ‘substantial’ environmental policy	With ‘substantial’ EMS
Brazil	8	5	5
China	16	2	1
India	6	5	5
Malaysia	5	3	2
South Africa	7	6	5

Source: OECD calculations using FTSE data.

¹⁷ OECD (2001) Chapter 6.

Figure 13. Companies in high environmental impact sectors with substantial policies/EMS in place

(Percentage of sample)



Source: OECD.

Non-discrimination / Equal opportunity

This section looks at the samples companies' published non-discrimination policies and management systems based on the following definitions:

- Policies: a partial policy is one which refers in general terms to equal opportunity, or which refers to non-discrimination on the grounds of gender and race; an extensive policy is more detailed regarding equal opportunities, such as one going beyond race and gender and including aspects such as disability or age referred to in ILO standards, or a policy which explicitly covers company's global operations
- Non-discrimination management systems: An extensive system includes more than one of the following: publishing some information on workforce composition (by gender or race etc); indicating that over 10 per cent of managers are women, or a significant percentage from ethnic minorities; publishing details of flexible or family-friendly working arrangements, such as childcare, flexitime, or family benefits beyond statutory requirements; a senior person or section within the company responsible for equal opportunities. A "partial" system includes any one of the first three elements listed above.

The special case of South African companies and their high weight in the African sample influences the data for Africa in Figures 14a and b. South African legislation requires companies to take active steps to improve the representation of black people (and to some extent women too) in management, as well as

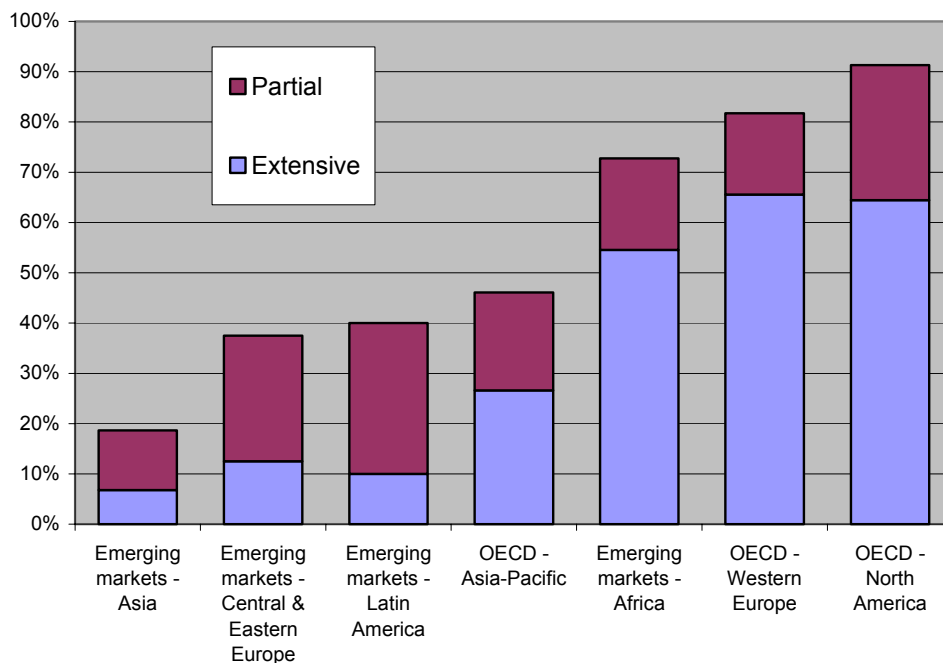
in share ownership, and in the procurement process. This approach also forms part of the South Africa’s corporate governance code. Thus, the high propensities in the African sample to deal with this issue in both policies and management practices appears to reflect pressures coming from legislation and securities market arrangements.

Apart from South Africa, emerging market companies show relatively low awareness of equal opportunity issues.

- 40 per cent of Latin American, 37.5 per cent of CEE and 18.7 per cent of Asian emerging market companies analysed have an equal opportunities policy – but mostly only a ‘partial’ one.
- The same number of CEE companies (37.5 per cent), but a far lower percentage of Asian emerging market (6.8 per cent) and Latin American (13.3 per cent) companies show evidence of monitoring their employment demographics, as a proxy for the extent to which they have systems in place. In the main this involves publishing a breakdown of male and female employees.

Figure 14a. Companies with policies regarding non-discrimination

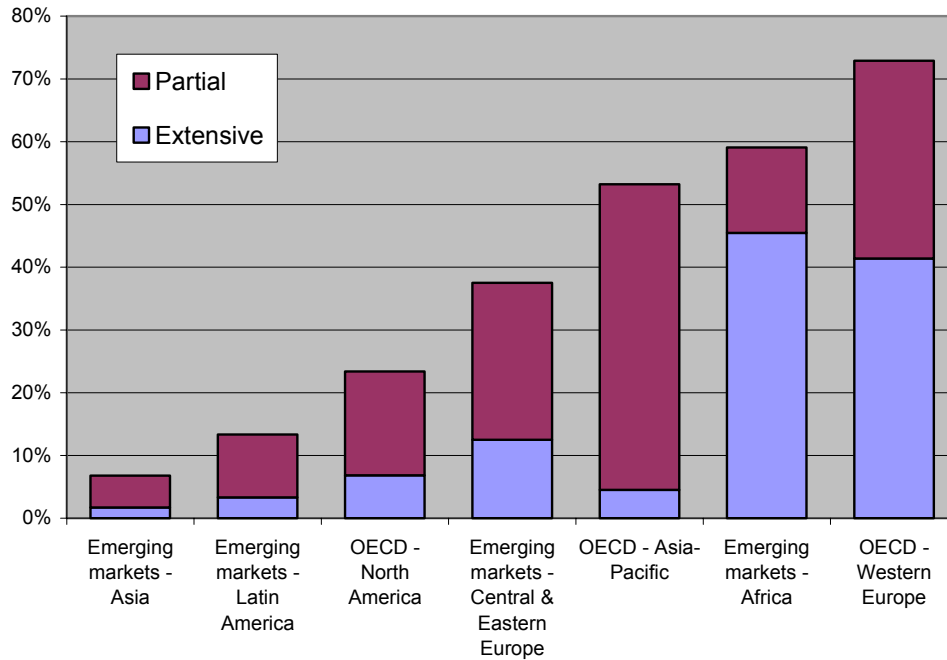
(percentage of sample)



Source: OECD.

Figure 14b. Companies with management systems regarding non-discrimination

(percentage of sample)



Source: OECD.

Women on Company boards

Information on the percentage of women sitting on company boards, whether in executive or non-executive positions, may shed light on gender discrimination.

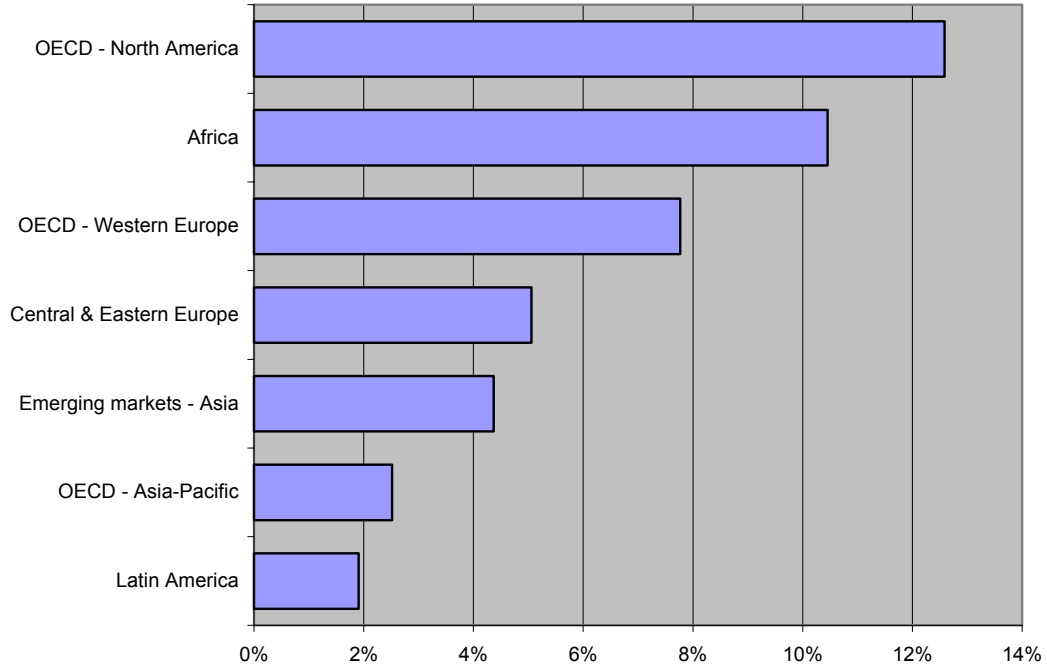
Studies of developed markets indicate that Scandinavian countries, as well as the United States, have the highest percentages of women on the board – over 21 per cent in the case of Norway. At the other extreme are the Mediterranean countries of Portugal (0.8 per cent), Italy (2.6 per cent) and Spain (3.8 per cent) and Japan boards having only 0.4 per cent women. (EIRIS, 2004)

The data from the emerging market companies show Latin American companies at similar levels to their Mediterranean counterparts. It also shows low levels of women's participation in the governance of companies in Asian emerging markets. Of the companies analysed, women comprise:

- 10.5 per cent of board members in Africa;
- 5.1 per cent in Central and Eastern Europe;
- 4.4 per cent in Asian emerging markets;
- 1.9 per cent in Latin America.

Figure 15. Per cent women on company boards

(Average of companies in sample)



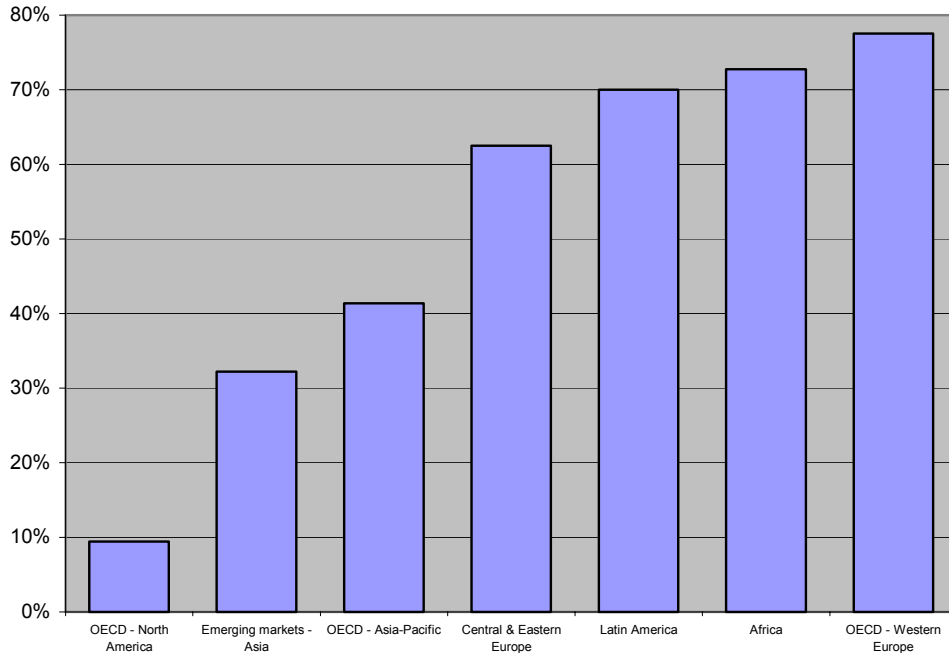
Source: OECD.

Training

There is no clear distinction between emerging market and high income OECD companies regarding policies and practices in relation to employee training. Over 70 per cent of companies from Latin America, Africa and Western Europe publish at least some information on employee training, with CEE not far behind (at 62.5 per cent).

Figure 16. Companies reporting on employee training

(Percentage of sample)



Source: OECD.

Occupational Health & Safety (OHS)

This section presents statistics on occupational health and safety reporting practices based on the following definitions:

- ‘Partial’ – means at least one of the following is publicly reported by the company;
 - senior responsibility assigned for OHS
 - one or more significant H&S awards
 - details of H&S training
 - key OHS indicators (such as accident rates)
- ‘More extensive’ means two or more of these are publicly reported.

As shown in Figure 17, the lowest propensities to report publicly on health and safety are found in the samples for high income North America and for the Asian emerging markets and the highest - over 70 per cent of companies -- in both Western Europe and Africa.

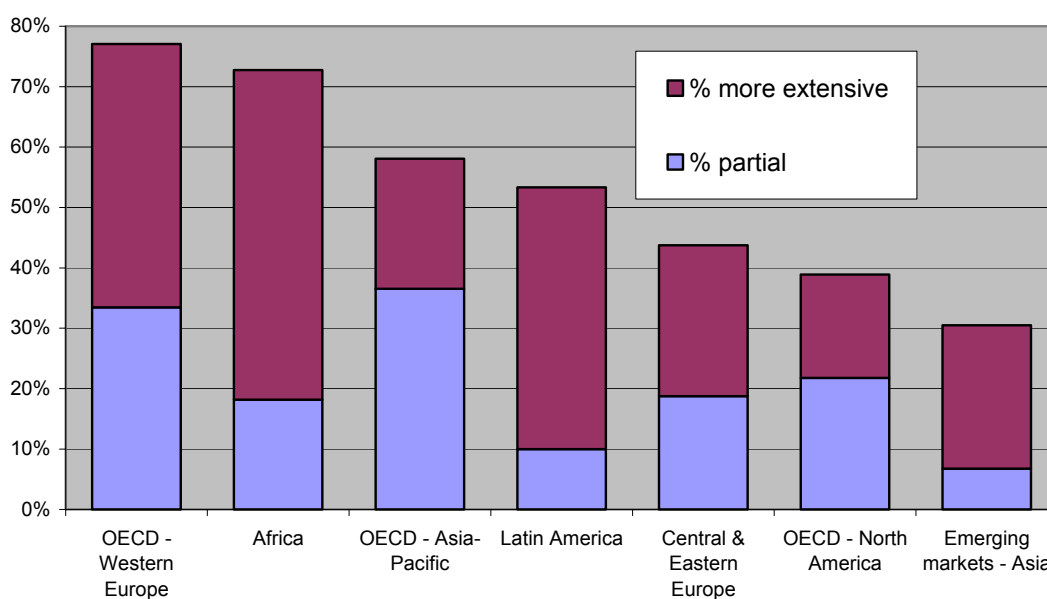
Some sectors are more exposed than others in relation health and safety. Of the emerging market companies assessed, 37 (or 29.2 per cent) are in the following sectors – Construction, Forestry and Paper, Mining, Oil & Gas, and Steel & Other metals. Of these higher-risk companies, 13.5 per cent provide ‘partial’ information, and almost two-thirds (62.2 per cent) publicly report at the ‘more extensive’ level.

One-quarter of the high exposure companies (24.3 per cent) do not mention the issue at all on their websites or in their annual reports. Six out of 7 Chinese companies in higher-risk sectors make no mention of health and safety.

However, as Figure 18 shows, the overall record of emerging market companies in respect of reporting on OHS is stronger than that of high-income OECD companies in the same sectors.

Figure 17. Companies reporting on health & safety (OHS)

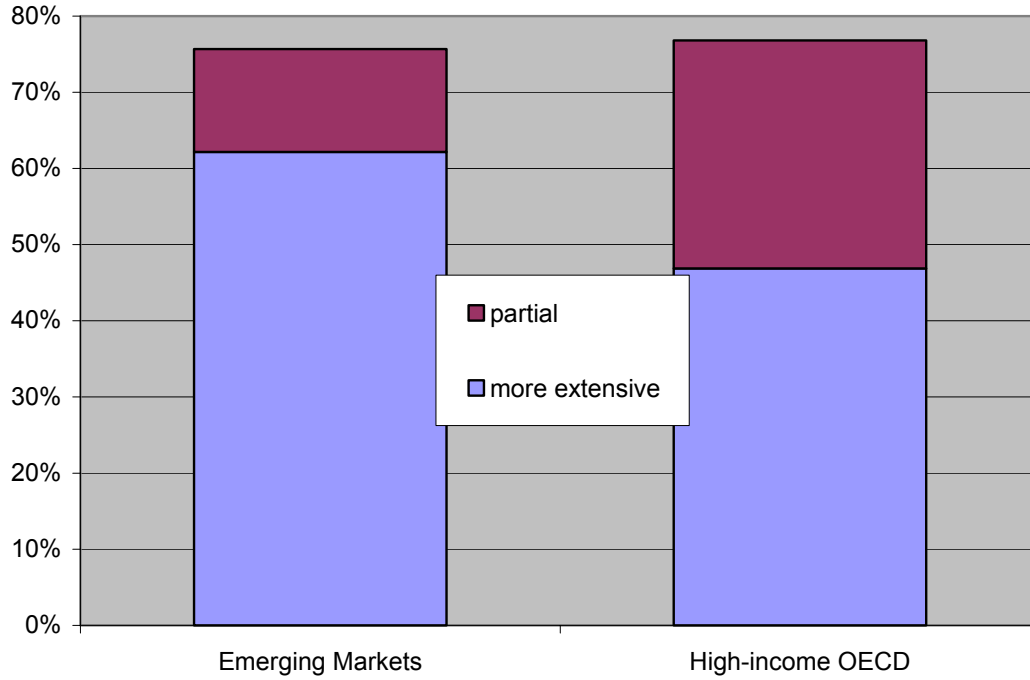
(Per cent of regional sample)



Source: OECD.

Figure 18. Higher-risk companies reporting on health & safety (OHS)

(per cent of sample)



Source: OECD.

REFERENCES

- Association of Figureered Certified Accountants (ACCA) – “The state of corporate environmental and social reporting in Malaysia 2004”. Malaysia. 2004
- Al-Khater,K and Naser, K – “Users' perceptions of CSR and accountability: evidence from an emerging economy”, *Managerial Auditing Journal*; 2003, Vol. 18 Issue 6/7, 2003
- Alternatives Économiques – “Des sociétés à responsabilité limitée, Numero 230, Paris, Novembre 2004
- Asian Corporate Governance Association / CLSA – “Spreading the Word: changing rules in Asia”. Hong Kong. Sept 2004
- ASRIA – “SRI in Asian Emerging Markets”. Hong Kong. October 2003.
- Association of Russian Managers / UNDP – “Report on Social Investments in Russia 2004”, 2004, available from http://www.amr.ru/publicdoc_518.html
- Association for Social Responsibility in Asia www.asria.org
- Atta, Hajara – “Ethical Rewards: an Examination Of The Effect Of Islamic Ethical Screens On Financial Performance and Of Conditioning Information On Performance measures”, MSc Dissertation, University of Durham, Department of Economics and Science. September 2000.
- Bauer, K – “The Use of Corporate Social Responsibility as a Public Relations Strategy considering Latin America as an example”. Unpublished thesis. Wiesbaden, Germany. June 2004.
- Berglof, E. and A. Pajuste – “Emerging Owners, Eclipsing Markets?” Available at: www.worldbank.org/html/pddtrans/aprilmayjun03
- BOVESPA, “Novo Mercado.” Available at: www.bovespa.com.br (Portuguese) or <http://www.bovespa.com.br/indexi.htm> (English)
- Cappellini, P and Giuliani, GM – “The Political Economy of Corporate Responsibility in Brazil: social and environmental dimensions”. UNRISD. October 2004
- CLSA Emerging Markets – “Make Me Holy... But Not Yet,” February, 2002. Available at: www.clsa.com
- CLSA Emerging Markets – “Saints and Sinners: Who’s Got Religion.” Available at: www.clsa.com
- Centre for Social Markets (CSM) – “Corporate Social Responsibility: perceptions of Indian business”. London/Calcutta. 2001
- Conference Report – “CSR: creating greater competitive advantage”. Malaysia. June 2004.
- De Cleene, S and Sonnenberg – “Socially responsible investment in South Africa (2nd edition)”. African Institute of Corporate Citizenship. Johannesburg. Sept 2004

- EIRiS – “Less than one in ten company directors are women”, press release, April 2004. www.eiris.org
- EWMI/MAKK – “A survey of CSR of the largest listed companies in Hungary”. Joint study by East-West Management Institute (EWMI) and Hungarian Environmental Economics Centre (MAKK). Budapest. March 2004.
- Failaka International – “Islamic Equity Funds: Analysis and Observations on the Current State of the Industry,” March 5, 2002. Available at: http://www.failaka.com/Failakaper_cent20Research.html.
- Fundación Empresarial para la Acción Social (FUNDEMÁS) / Programa Empresa Salvadoreña para la Responsabilidad Social (EMPRESAL) – “Situación actual de la Responsabilidad Social Empresarial en El Salvador”. March 2004.
- Gledson de Carvalho, Antonio – “Efeitos da Migracao para os Niveis de Governanca da BOVESPA,” 2003. Available at: www.bovespa.com.br.
- Gundermann, Iris – “Donations without Impact. Responsibility without Transparency: CSR in Mexico”, published in Spanish in Ganar-Ganar. July/August 2004
- Gupta, Ananda and Aruna Das Gupta – *Corporate Social Responsibility: The Indian Context in Representations of Social Responsibility* (Ed. David Crowther and Renu Jatana), The ICAI University Press, Hyderabad, India, 2005.
- Haslam, Paul – “The Corporate Responsibility System in Latin America and the Caribbean”. FOCAL Policy Paper, Canada. 2004.
- Instituto Ethos www.ethos.org.br
- International Finance Corporation (IFC) – “Towards Sustainable and Responsible Investment in Emerging Markets: a review and inventory of the social investment industry’s activities and potential in emerging markets”. October 2003.
- International Business Leaders Forum (IBLF) – “A decade in Russia”. International Business Leaders Forum (IBLF). July 2003
- Johnson, Simon, Peter Boone, Alasdair Breach, and Eric Friedman – “Corporate Governance in the Asian Financial Crisis” William Davidson Institute Working Papers Series. 1999.
- Klapper, Leora F. and Inessa Love – “Corporate Governance, Investor Protection, and Performance in Emerging Markets”. World Bank Policy Research Working Paper 2818, April 2002.
- KPMG (2003) – “Integrated Sustainability Reporting in South Africa”. 2003
- KPMG (2004) – “2004 Survey of Integrated Sustainability Reporting in South Africa”. Johannesburg
- Kumar, Rita , Murphy, David F and Balsari, Viraal – “Altered Images: the 2001 state of corporate responsibility in India poll”. TERI-Europe / New Academy of Business, 2001
- The Leadership Forum – “Corporate Social responsibility: results of the survey in the Czech Republic”. Prague. Nov 2003. Available from http://www.ewmi.hu/activities_pfs_cee_czech.php

- Leeds, Roger, and Julie Sunderland – “Private Equity Investing in Emerging Markets,” *Journal of Applied Corporate Finance*, Vol. 15, No.4, Spring 2003.
- Monks, Robert A.G. – “The New Global Investors: How Shareowners Can Unlock Sustainable Prosperity Worldwide”. Capstone Publishing Ltd. U.K., 2001.
- Monson, Kristina – “Responsible business practice: lessons from Ghana, India and Trinidad & Tobago”, Research by Business and Community Foundation India, Empretec Ghana Foundation, Tyler Consulting Ltd. of Trinidad & Tobago (2002).
- Organisation for Economic Cooperation and Development - *Corporate Responsibility: Private Initiatives and Public Goal*. Paris, 2001.
- Peinado-Vara, Estrella – “Corporate Social Responsibility in Latin America and the Caribbean”. InterAmerican Development Bank, Sustainable Development Department Technical Papers Series. June 2004.
- Rea, John – “U.S. Emerging Market Funds: Hot Money or Stable Source of Investment Capital?,” *ICI Perspective*, Volume 2, No.6, December 1996.
- Simpson, Susan – “From transition to accession: the experience of Corporate Social Responsibility in Central and Eastern Europe”. IBLF, London. 2002.
- SustainAbility / International Finance Corporation – “Developing Value: The Business Case for Sustainability in Emerging Markets”. SustainAbility Ltd., U.K. 2002.
- SustainAbility / United Nations Environment Programme – “Buried Treasure: Uncovering the Business Case for Corporate Sustainability”. SustainAbility Ltd. U.K. 2001.
- Trnková, Jana – “Corporate Responsibility in the Czech Republic: survey results and case studies”. Prague. Feb 2004.
- Zadek, S, Sabapathy, J, Døssing, H and Swift, T – “Responsible Competitiveness: corporate responsibility clusters in action”. The Copenhagen Centre/Accountability. January 2003.