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Public Policy and Voluntary Initiatives

WHAT ROLES HAVE GOVERNMENTS PLAYED?

OECD



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**Public policy and voluntary initiatives:
What roles have governments played?**

February 2001

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TABLE OF CONTENTS

Enforcement strategy and legal risk management	6
Tax treatment of the non-profit sector	10
Direct participation in sector initiatives.....	14
Contributions to human and intangible capital in this field.....	14
References	17

Executive Summary

Government involvement in “voluntary” initiatives for corporate responsibility has been extensive. This chapter reviews four main types of involvement -- legal and regulatory incentives, tax expenditures on the NGO sector, contributions to compliance expertise and moral suasion.

The most influential government measures have been closely co-ordinated with broader public strategy, especially in relation to regulatory reform. Many of the private initiatives studied here are closely related to the legal and regulatory environments from which they emerge. Indeed, in some instances, these initiatives are so clearly a response to legal and regulatory incentives, that they could almost be called the extension or reflection into private management practices of public law and regulation. As a result, it is often difficult to analyse the impact or effectiveness of these initiatives independently of the legal and regulatory framework from which they emerge -- the two form an interdependent system.

Numerous OECD countries have altered their legal and regulatory enforcement practices in order to capitalise on the keen interest some companies have in complying with law and regulation and on their growing managerial know-how in the area of compliance. This paper reviews examples of co-operative enforcement (that is, involving co-ordinated efforts by regulators and by companies) in such diverse areas as money laundering, competition policy and environment. In the United States, the Federal Sentencing Guidelines create an incentive for firms to adopt credible legal compliance systems against any conduct that would be illegal under Federal law.

Offering favourable tax treatment to the NGO sector is another important, but indirect measure. In countries where such tax expenditures are high (e.g. Canada and the United States) they provide a significant boost to all eligible NGOs, including those involved in corporate responsibility initiatives. The tax expenditures in these countries form a key part of the policy framework influencing these initiatives. Governments have also contributed to the development and dissemination of expertise by allowing government experts to participate in the development of management and reporting standards and by funding, directly or indirectly, coursework and research in this area. Government have occasionally endorsed particular codes and used moral suasion to put pressure on particular companies. This policy approach appears to be less common than those listed above. All the cases noted in the course of the fact finding mission deal with the activities of multinational enterprises outside the OECD area and focus on specific human rights issues (core labour standards in the supply chain and management of security forces in the mining and petroleum sectors).

Public policy and voluntary initiatives: What roles have governments played?

Effective governance requires balancing and managing the changing relationships between states, markets and civil society. Governments are now working increasingly in partnership with business, labour and civil society in the functioning of the individual national economies and the international economy, particularly in establishing appropriate institutional and policy frameworks.

Overview of Governance Work at the OECD¹

1. Codes of corporate conduct and associated management and reporting systems are private initiatives designed to help firms achieve a variety of goals -- protecting corporate reputation, improving employee morale, enhancing consumer loyalty and avoiding costly criminal and civil proceedings. Codes of conduct -- or corporate policy statements -- are just one component (for communicating to employees and to the public) designed to influence behaviour within companies and their business partners and to influence outside perceptions of this behaviour. As is shown in Chapter 4 and in the chapters on environmental management systems, firms often back these policy statements up with management systems designed to make commitments meaningful in day-to-day operations and sometimes also provide performance reports. These voluntary initiatives are widely acknowledged to be one of the more important developments in international business over the last fifteen years.

2. More generally, the question of corporate conduct -- and sometimes misconduct -- has attracted growing attention in recent years. Studies of corporate behaviour have tried to provide elements of an answer to the following question: why do some corporations comply with the law and with broader societal expectations while others do not²? The emerging answers turn out to be rather subtle, going beyond the simplistic view of a “cat and mouse” game in which, if the benefits are sufficiently high and the probability of detection and punishment is sufficiently low, corporate actors will make a calculated decision to engage in wrongdoing.

3. The emerging picture is a more complicated one -- there are multiple motivations and contexts for various types of wrongdoing. First, inappropriate business conduct can result from deliberate, calculated wrongdoing and this may take many forms and be driven by many objectives. It may for example be motivated by a desire for personal (not corporate) gain. As Punch (1996) says “the orthodox view of business crime as being ‘for the organisation’ has to be altered in light of cases where the managerial deviance was directed against the organisation and was highly damaging to it.” Examples of this kind of misconduct include embezzlement, many forms of private-to-private corruption and insider trading. At times, this kind of misconduct, in which shareholders are often the principal victims, involves sophisticated networks of people working both inside and outside the enterprise. On the other hand, there have been many prominent cases of collective misconduct condoned or fostered by company culture. In such cases, there is abuse of “an organisation’s position of significant power, influence or trust “ in order to further the organisation’s business objectives (e.g. price fixing, bid rigging, false advertising, undue political influence). Still other types of wrongdoing occur even when the enterprise in question faces large financial penalties and all parties involved would like to avoid misconduct (e.g. some types of public transport accidents and some of the major oil spills). In such cases, wrongdoing may involve failure to

1 C(2000)91/REV1/ADD1

2 See, for example, Punch (1996) and Ayres and Braithwaite (1992).

take due care in managing risks or problems stemming from innate human limitations -- imperfect information or ability to assimilate information, human error, inattention, substance abuse or, more broadly, to systemic problems in the design of the enterprises' procedural and behavioural controls.

4. Voluntary company initiatives seek to reduce the odds that any of these types of wrongdoing will occur. They seek to reduce the risk of inappropriate behaviour by providing information appropriately, by reducing the risk of individual or group error and by instituting internal practices that reduce the scope and incentive for deliberate wrongdoing. The management tools that are employed in these initiative can be technical (e.g. design of production processes or safety systems), employment related incentives (e.g. hiring policies, compensation and promotion practices, threat of termination) and social (e.g. promoting group behaviours that discourage misconduct).

5. Although these initiatives are voluntary and private, they are influenced in various ways by the broader environment -- cultural, social, legal, economic and political -- from which they emerge. Public policy shapes this environment and forms an important part of the institutional framework influencing firms' voluntary initiatives. Indeed, a survey of company environmental programmes in North America, Europe and Asia lists domestic legislation in the home country as the most important influence on these initiatives. This is followed by "legal actions" and environmental accidents, host country legislation (reported in Kolk, 2000).

6. The present paper explores the many ways OECD governments have shaped private corporate initiatives. The influences considered are the following:

- *Enforcement strategies and legal and regulatory risk management.* Regulatory enforcement has increasingly relied on private initiatives as the first line of enforcement. Because such a strategy often involves creating an incentive for firms to adopt particular management practices and systems, it often boosts firms' reliance on such systems. In addition, many systems of criminal and civil law, in considering some matter, ask that companies be able to demonstrate that "due care" has been exercised in the performance of the activity under consideration. In some countries, this creates powerful incentives to identify major risks and to devise systems of internal control designed to manage such risks. These often include codes of conduct and supporting management systems and practices.
- *Taxes.* Some OECD governments provide favourable tax treatment to the non-profit sector and define the non-profit sector for tax purposes so that it includes the NGOs that operate in this field. At times, this favourable tax treatment is available for contributions to other institutions (professional societies and universities) that are also active in this field.
- *Direct participation in sector initiatives.* Issuance of codes of conduct or pressuring firms to issue and adhere to such codes (e.g. the guidelines on hiring security services recently issued jointly by the US and UK governments, the encouragement given to the Ethical Trading Initiative by the UK government and to the Apparel Industry's "No Sweat" initiative by the United States government).
- *Contributions to specialised human and intangible capital.* OECD governments have played important and varied roles in the development of managerial and technical expertise that underpins voluntary initiatives. These include provision of government expertise to the organisations (e.g. contributing to the work of the technical committees of International Organisation for Standardisation) that discuss and devise standards; the offering of coursework and degree programmes in the public university system (and more indirectly through private universities via favourable tax treatment).

Enforcement strategy and legal risk management

A new kind of interaction between government and business is emerging in which both parties see the need for co-operative rather than adversarial relationships ... [T]here is increasing evidence that a co-operative approach to solving regulatory problems can lower costs for both parties and achieve equal or better performance in relation to policy objectives...

*Co-operative Approaches to Regulation
OECD- PUMA Occasional Papers, 1997*

... A compliance system is an important element in the corporate governance and due diligence of an organisation and should assist an organisation in being a good corporate citizen, an organisational feature which many companies highly prize these days. Australian courts are also taking a closer look at an offending company's activities.

*Bill Dee, Director of Compliance, Australian Competition and
Consumer Commission Standards Australia, April 1999*

7. It has been observed that, increasingly, companies implement management systems that promote both compliance with law and regulation and with broader societal expectations. Steps taken by regulatory and law enforcement authorities in several member countries have heightened interest in management systems designed to promote legal and regulatory compliance. In particular, some member countries have explicitly incorporated consideration of compliance and risk management practices into their approach to regulatory enforcement and to punishing and correcting illegal corporate activity. This creates powerful incentives for companies to adopt credible management practices in this area and also involves a significant co-ordination of private compliance and public enforcement. Indeed, the insight that such co-ordination is often in the interests both of the business community and of the public (by improving the effectiveness of enforcement) is probably one of the most important insights in business regulation and law in recent years. In this sense, private compliance systems are just the reflection in private managerial practice of a given legal or regulatory arrangement. The new strategy of enforcement attempts to bring together and co-ordinate private and public action in a mutually reinforcing package.

8. This partial shifting of the focus of legal and regulatory enforcement onto the internal practices of companies can be an attractive law enforcement option for many types of potential corporate misconduct. For example, Scholtz (1997) notes that it is not always possible to define legal behaviour in detail, in advance and in a way that is relevant for all firms. It may be more effective to define general principles for corporate behaviour -- and then to provide guidance to firms on the implications for their competitive and managerial practices -- than to spell out precisely *ex ante* which behaviours are prohibited. This may also be a promising strategy in the many areas where the relationship between the enforcer and companies is not adversarial -- where they share objectives (e.g. occupational safety, financial stability). In such cases, there is significant scope for co-operation -- enforcers and companies can attempt to determine the best ways of achieving the objective. In other words, this strategy is promising in enforcement areas in which wrongdoing results from systemic malfunction or from ignorance or avoidable human error and not from wilful misconduct are conducive to co-operative enforcement strategies (Scholtz 1997).

9. Some countries refer to corporate management practices and systems -- and in particular to corporate legal compliance practices -- in establishing guidelines for sentencing companies for illegal conduct. These practices could also be considered in determining whether a case should be resolved by something less than a fully contested proceeding (that is, a full prosecution of the accused company).

From the company's point of view, the objective of the compliance programmes is, first, to lower the risk that the company engages in illegal activity, whether through an inadvertent act of some its employees or through conscious wrongdoing on their part. The second objective is to control damage if illegal activity does nevertheless occur by increasing the odds that the company will learn of it a timely manner (i.e. before law enforcement officials notify them in the course of an investigation) and to manage the "locus of responsibility" for acts of corporate misconduct (by allowing the company to show in a credible way that the misdeed was not its policy and that the company exercised due care in trying to prevent wrongdoing).

10. At times, the countries that adopt this approach to criminal sentencing provide guidelines for what constitutes good corporate practice in the area of compliance systems (Table 1). In some cases, this takes the form of official pronouncements or guidance on the management practices that the governments feels will promote high compliance (e.g. the Australian competition authorities expression of interest in the management standard AS 3806 or the guidance on due diligence in preventing money laundering which has been provided by the Federal Banking Commission of Switzerland). At other times, governments prefer to leave it up to companies to decide which management practices are the most effective.

11. This is also a prominent feature of regulatory strategy in recent years. It has been used in a variety of areas including environment in the European Union, occupational health and safety in the United States, truth-in-advertising in the United Kingdom and seafood safety in the United States. These initiatives are attempts to enhance regulatory enforcement by recognising that firms and their employees are often the best placed to identify and correct non-compliance. Generally, firms are offered inducements to participate in such arrangements -- for example, the frequency and type of inspections they are subject to might be made more advantageous for the firm if it puts in place certain management or reporting systems. Another approach is to establish a penalty structure that explicitly incorporates the firms' own actions in reporting and redressing non-compliance. This might, for example, call for a lower penalty if the firm reports non-compliance to the public authorities than the penalty that is paid if the public authority finds out about through inspection or from a third party. The penalty structure then sets up a financial incentive for the firm, voluntarily, to set up a management system designed to allow early detection of non-compliance. The combined result of these innovations in regulatory policy has been to increase firms' interest in formal compliance management systems and to promote the adoption of such systems.

12. As noted, numerous examples of this approach to regulatory enforcement are to be found in the OECD area and some of these are described in OECD (1997). Two particularly important examples are described in Box 1. The first is the European Union's integration of voluntary initiatives into its environmental strategy. Although this is probably the most prominent example of the use of voluntary firm-based initiatives in environmental regulation, numerous others could also be cited from non-Europe OECD, from sub-national governments and from EU member states. The second example is in the area of occupational health and safety in the United States, where the focus of enforcement has shifted away from administrative processes and toward firm-based initiatives undertaken in "partnership" with enterprises.

Table 1. Law enforcement and management systems for promoting legal compliance

Country	Area of compliance	Description
Australia	Competition and trade practices; emerging interest in other areas such as Finance	The compliance standard, AS 3806, outlines three essential components of an effective management systems designed to promote compliance: structural, operational and maintenance. The Australian Competition and Consumer Commission has indicated that it would view favourably action taken by companies to implement this standard. The financial regulator, the Australian Securities and Investment Commission, is also using AS 3806 as a basis for its compliance activities. The Australian federal court system has also given qualified endorsement for the use of the Standard.
Canada	Competition and trade practices	Competition authorities have cited five elements that are fundamental to the success of any corporate compliance programme: the involvement and support of senior management; the development of relevant policies and procedures; the ongoing education of management and employees; monitoring, auditing and reporting mechanisms; and disciplinary procedures.
United States	Any business practice that is illegal under federal law	Federal Sentencing Guidelines. Passed in 1991, the Guidelines provide incentives for corporations to maintain credible compliance programmes. Organisations found guilty of a variety of federal law violations can reduce their fines by demonstrating due diligence in establishing an effective compliance programme.
Switzerland	Anti- money laundering	Several legal and enforcement measures for preventing money laundering have been adopted by the Swiss authorities since 1990. These require, among other things, that due diligence be exercised by financial intermediaries in preventing money laundering. In addition, supervisory authorities have issued guidelines clarifying the nature of due diligence obligations for the banking community. In response to this evolving legal environment, the Swiss Bankers' Association issued in 1998 a "code of conduct with regard to the exercise of due diligence." This code provides anti-money-laundering guidelines for financial intermediaries and deal with customer identification and with the identification and follow-up of unusual or suspicious transactions. It inspired a similar code: the Wolfsberg Principles endorsed in October 2000 by an international consortium of banks (who co-operated with Transparency International in developing the code).

**Box 1. Incorporation of private initiatives into regulatory enforcement strategy:
Environment and Occupational Health and Safety**

Enforcement of environmental regulation in the European Union: The European Union allows firms whose production sites are subject to EU environmental laws to receive advantageous treatment under public surveillance or compliance monitoring. Eco-Auditing Management System is an environmental management standard and certification scheme established by EU directive. It is based on the concept continuous improvement toward the economically viable application of best available technology (EVABAT, which originated in BS 7750³). EMAS moves a few steps further than ISO 14001 in that it not only requires the installation of an environmental management system, but also an independently verified public environmental statement. It also requires the existence of a “competent body”, established by EU members, which is responsible for the registration of new companies and the co-ordination and enforcement of EMAS regulations. The European Commission has issued a “bridging” document that is designed to encourage companies that already hold ISO 14001 certification to register under EMAS⁴. Generally, EMAS is considered to be a more demanding and less flexible than ISO 14001 (Ans Kolk 2000).

Occupational health and safety in the United States: After review the results of several state pilot programmes, OSHA (an occupational health and safety agency of the US Department of Labour) has unveiled a Co-operative Compliance Program. Modelled after state programmes, it gives selected businesses the option either to partner with OSHA or face a 100 per cent certainty that a full inspection will be conducted. Targeted facilities number between 12,000 and 13,000 in the 29 states where OSHA has either partial or full authorisation to enforce safety and health regulations. The businesses invited to participate in the program have reported injury and illness rates of 7 cases per 100 full-time employees (about double the national average). About 500 employers with the highest rates are not invited to participate and will undergo traditional OSHA inspections. The remaining businesses choose between traditional enforcement with a guarantee of inspection or they can partner with OSHA at a reduced risk of inspection. Employers who choose to partner must sign an agreement that requires them to: identify and correct occupational hazards; 2. Work toward significantly reducing injuries and illnesses; 3. Implement or improve an existing safety and health programme; and 4. Fully involve workers in the site’s safety and health programme. The programme provides guidance evaluation guides for work site and hazard analysis and a scoring system for employer occupational safety programmes.

3 BS 7750 -- An environmental management system created by the British Standards Institute. It is a precursor of EMAS and ISO 14001.

4 ISO 14001 is part of the ISO 14000 series, which covers standards in the field of environmental management tools and systems. Firms can use ISO 14001 as a standard for internal auditing purposes, for self-declaration or for third party certification. The standard builds on the Deming cycle of quality management as set out in ISO 9000 (plan, do, check and act). Ans Kolk (2000).

Tax treatment of the non-profit sector

13. Due mainly to progress in telecommunications technology, non-governmental organisations (NGOs) have gradually begun to provide a viable institutional channel for collective action among people with shared interests in many domains. In particular, NGOs have played central and varied roles in the development of many corporate responsibility initiatives. Far from representing a unified movement, the sector contains a diverse set of organisations pursuing diverse agendas and competing for resources in a variety of different ways. In the course of this competition, NGOs -- some of which enjoy tax exempt status -- have positioned themselves so as to appeal to different segments of the giving public and have launched on various quasi-commercial activities. In some countries, tax policies are designed to facilitate these fund raising activities. While some OECD countries provide highly favourable tax treatment and employ broad definitions of what tax exempt organisations may do, others provide little or no tax incentives or define the scope of activities of tax exempt organisations very narrowly.

14. This has indirectly shaped the corporate responsibility movement and has probably been quite important in the countries where tax incentives for non-profit activity are high. Although NGO activity extends well beyond the area of corporate responsibility, NGOs are nonetheless among the principal actors in this field. NGOs have monitored the activities of particular corporations and, at times, have sponsored public relations campaigns against them. They have issued model codes of conduct that they hope will be influential -- this has often been done in co-operation with the business community (e.g. the CERES principles, SA 8000). They have provided expert advice in the field on matters of corporate responsibility (e.g. NGOs advised soccer retailers as they developed their approach to the problem of child labour in Pakistan's soccer ball producing sector). NGOs have also created information systems designed to shed light on various aspects of firms' behaviour (e.g. Asahi Newspaper Foundation in Japan, Council on Economic Priorities in the United States and the Ethical Investment Research Service in the United Kingdom).

15. Some OECD governments promote these developments indirectly through tax incentives that may take several forms: 1.) Deductions of contributions from personal income or a personal tax credits; 2.) Deductions of contributions from corporate income or corporate tax credits; 3.) Tax exempt status for other revenue raising activities undertaken by organisations designated as being eligible for such treatment. (For example, many sell products or services and are not taxed on the "gains" of these quasi-commercial activities). The determination of eligibility for such tax treatment is an important consideration and several countries define a non-profit organisation in such a way that many NGOs active in the corporate responsibility area would not be eligible.

16. Table 2 summarises this information for a selection of OECD countries. Among the countries covered, tax treatment of the non-profit sector varies from not extending any special treatment whatsoever to providing generous tax deductions on both personal and corporate income.

Table 2. Tax treatment of the non-profit sector

Country	Criteria for attributing legal entity status and tax exempt status to an organisation	Tax status of contributions to such organisations -- individuals; households	Tax status of contributions to such organisations by companies
Canada	Qualifying organisations must provide a tangible benefit to the public. Objectives may include relief of poverty, preserving the environment, providing services for people in distress, protecting the welfare of children, providing public amenities and the advancement of education.	A federal tax credit (on federal, provincial and territorial taxes) of 17 per cent is available on the first C\$200 and 29 per cent of the balance. The amount eligible for credit is 75 per cent of yearly net income.	No deductions or credits allowed.
Denmark	Organisations must be engaged in health research, charitable or religious activities. Museums and the Red Cross are also eligible.	Contributions worth a minimum of 500 K and a maximum of 5000 K per year are eligible for a deduction.	No deductions unless corporation is owned by a certain type of foundation. For these companies, a 25 per cent deduction is allowed.
Finland	Eligible organisations must seek to support Finnish cultural heritage and scientific research and art. Not all NGOs would qualify.	No deductions allowed	Companies can deduct a minimum grant of FIM5000 to foundations and research institutes and universities.
France	An organisation has to be registered as “association” in order to obtain legal entity status – then called “association déclarée”. Criteria to become “association déclarée” are: at least two members, not-for-profit and not involved in illegal activities. Among the “association déclarée”, the ones that fulfil following criteria may be registered as “association reconnue d’utilité publique”: 1) for public benefit; 2) have been active as “association déclarée” for at least three years; 3) have over 200 members; 4) active nation-wide.	Contribution to normal not-for-profit organisations (association déclarée) may be exempted from tax if the Tax Authority approves the application. For individuals, generally up to 50 per cent of contribution is exempted from tax with the ceiling of up to 1.25 per cent of taxable income. Contributions to designated organisations (associations reconnues d’utilité publique) are tax exempt. For individuals, generally up to 50 per cent of contribution is exempted from tax with the ceiling of up to 5 per cent of taxable income.	Contribution to normal not-for-profit organisations (association déclarée) may be exempted from tax if Tax Authority approves the application. For legal entities, up to 0.2 per cent of annual sales can be exempted from tax. Contributions to designated organisations (association reconnue d’utilité publique) are tax exempted. For legal entities, up to 0.3 per cent of annual sales can be exempted from tax.

Table 2 (cont.). **Tax treatment of the non-profit sector**

Country	Criteria for attributing legal entity status and tax exempt status to an organisation	Tax status of contributions to such organisations -- individuals; households	Tax status of contributions to such organisations by companies
Germany	Eligibility of tax exemption does not require legal entity status. If the Tax Authority decides that the organisation is for public benefit, then the organisation will be exempted from tax. Criteria for eligibility are: 1) organisations activities are designated in AO 51; 2) clear mission statement is published; 3) the organisation acts exclusively and accordingly to the mission statement; 4) not for profit; 5) the organisation is directly involved in the activity; 6) fulfil the obligation of registration and information disclosure.	For individuals, up to 5 per cent of annual income is in general exempted from tax. If the contribution is made to academic, cultural, or charity purposes, the ceiling is 10 per cent.	For legal entities, up to 5 per cent of annual income is in general exempted from tax. If the contribution is made to academic, cultural, or charity purposes, the ceiling is 10 per cent. Alternatively, 0.2 per cent of the sum of annual sales and overheads can be used as the ceiling.
Japan	To obtain legal entity status as a non-profit organisation, following criteria are required. Organisations must be non-profits engaged in the following activities: health, education, culture and art, environment, emergency rescue, local security, human rights and peace, international co-operation, gender, children's health and education, and others. The main activity of the organisation cannot be religious or political. The organisation must be free from the control of other illegitimate organisations. The purpose of the organisation cannot be to support (or dissuade) certain political party or candidate. In addition there are restrictions on the composition and remuneration of the Board of Directors and on the number of employees. Organisations that are designated by the Ministry of Finance as "Public welfare organisations" are eligible for tax exemption.	No deductions allowed.	Any company may deduct as expenses contributions to eligible organisations equal to the sum of 1.25 per cent of its income and 0.125 percent of the paid-in capital. However, contributions to institutions designated by the Ministry of Finance as "Public Welfare Organisations" may be fully deducted from income and are not subject to contribution ceilings.

Table 2 (cont.). **Tax treatment of the non-profit sector**

Country	Criteria for attributing tax exempt status to an organisation	Tax status of contributions to such organisations -- individuals; households	Tax status of contributions to such organisations by corporations
Netherlands	Eligible organisations include churches, cultural, scientific and other religious institutions and all other institutions whose objective is to serve the public interest. Activities could include child protection, development aid and nature conservation.	Donations may be deducted from income tax if they exceed a minimum of 1 per cent of gross income and 120 Dutch Guilders. Maximum allowable deduction is 10 per cent of gross income.	No deductions allowed.
Norway	Scientific and research institutes; labour unions.	Donations to up to a maximum of 10000K may be deducted. Law may be revised in 2000.	Donations to scientific research institutes and trade union due may be deducted up to a maximum of 10000K. Law may be revised in 2000.
Sweden	No special treatment	No deductions allowed	No deductions allowed
United Kingdom	Eligible organisations do not have to have legal entity status, but have to be registered with Charity Commission. Organisations can be registered if they are for “public benefit”, working in the following areas: poverty alleviation, promotion of education, promotion of religion and other public benefit activities. Once the organisations are registered, they are automatically granted with tax exemption status.	If an individual makes a contract with registered charity that the former will make donations for over four years. For individuals, some tax exemptions may apply for high taxpayers. Both individuals and legal entities can exempt from tax if they make more than 250 pounds donation at one time.	If a legal entity make a contract with registered charity that the former will make donations for over four years. Legal entities can allow 100 per cent tax exemption. Both individuals and legal entities can exempt from tax if they make more than 250 pounds donation at one time.
United States	Eligible organisations fulfil prerequisites set in Internal Revenue Service legislation 501 (c)(3). These organisations may be involved in relief of “the poor, the distressed or the underprivileged, advancement of religion, education or science, lessening the burdens of government, lessening of neighbourhood tensions, elimination of prejudice and discrimination, defence of human and civil rights secured by law and combating community deterioration and juvenile delinquency”. Organisations have to apply to obtain non-profit legal entity status and tax exemption status separately.	Contributions are tax deductible, but limits of 20 per cent, 30 per cent or 50 per cent of gross income may apply depending on the type of property being donated and the type of organisation. NGOs involved in corporate responsibility would generally be subject to the 50 per cent limit.	Deductions allowed. 10 per cent of gross income.

Direct participation in sector initiatives

17. Governments have also been involved more or less directly in the development of codes of conduct -- that is, in statements intended either for the general public or for the employees of enterprise giving behavioural commitments in one or more areas of business ethics. Perhaps the most common way of doing this is through their participation in international organisations. The recent adoption of the revised OECD Guidelines for Multinational Enterprises is a case in point. The World Bank's Environment, Health and Safety (EHS) Guidelines, which are also applied to the International Finance Corporation's (IFC) activities, are another influential code issued by an international organisation.

18. Similarly, individual governments influence business activities through government funded export credit agencies. Some agencies, such as the Export/Import Bank in the United States and Japan Bank for International Co-operation (the former Export/Import Bank of Japan), publish environmental guidelines which aim to set environmental standard of those companies that seek financial support from the agencies. Similarly, government procurement policies can influence behaviour of corporations that are involved with government contracts. Australia and New Zealand Government Procurement Agreement, for example, set out procurement guidelines that includes a section on integrity and ethics.

19. In addition, individual governments have occasionally pushed for the development of sector specific codes. Here they attempt to use moral suasion to encourage firms to adopt particular practices. Examples of such activities are provided in Box 2. The initiatives presented in the box focus on rather specific issues (core labour standards in the supply chain, security forces) and on multinational enterprise operations outside the OECD area.

Contributions to human and intangible capital in this field

20. One important outcome of these voluntary initiatives is the development of specialised managerial and technical expertise. Indeed, the amount of expertise required to implement environmental and other management systems is considerable. For example, an environmental manager attempting to implement the ISO 14001 environmental management system (or any other EMS) would, have to undertake the following:

- See to the issuance of an environmental policy statement setting forth the firm's environmental objectives and targets and how it plans to go about meeting these. This statement should be underpinned by an inventory of the firm's environmental impacts and of the relevant legal and regulatory considerations.
- Oversee the implementation of the environmental management system. This includes definitions of structures and responsibility within the organisation, the design and implementation of a "training, awareness and competency" programme. It also includes an internal and external communications plan, a document control system, an operational control system (including emergency preparedness) and a means for checking and correcting action (including an internal EMS audit)⁵.

21. A new group of management professionals, "EHS" managers, has emerged over the last two decades as well as the accompanying institutional supports such as professional degree programmes and course work (see below) and the creation of professional societies. In addition, firms have taken steps to

5 The ISO 14000 Information Guide (1999).

pool their knowledge in this area by participating in the creation of management standards, of which the environmental standard, ISO 14001 is the most prominent example.

Box 2. Examples of direct promotion of codes or related management systems by OECD Governments

European Union

As set out in the Fifth Programme of Policy and Action in Relation to the Environment and Sustainable Development, the long term goal of the EU is to transform the European economy into one whose development is sustainable for generations to come. In order to help integrate the SD strategy into industry practice, several information services have been set up. These include a database containing examples of “best practice” environmental management; eco-labelling; studies on integrated product policy (Life-cycle assessment); and an EMAS helpdesk (i.e. to provide information and assistance on the EU’s environmental management standard). Funding is available for firms through the LIFE program. Currently more than 600 projects (have) received support under this programme.

United Kingdom and United States

The governments of the United States and the United Kingdom announced a new set of guidelines to protect human rights in security operations linked to international mining and energy projects. The guidelines are the culmination of tripartite discussion hosted by the two governments and involving leading companies and NGOs from both countries.

USA

The United States Department of Commerce promotes voluntary corporate codes of conduct through the implementation of the ‘Best Global Practices’ program. Elements of the program include:

- an award for the US company with extraordinary achievements in meeting one or more of the goals in the BGP program
- electronic clearing house with codes to serve as examples for other firms
- information on NGOs which can provide additional info to the corporation

The Apparel Industry Partnership Agreement was promoted by the United States Department of Labour in response to concerns that various apparel manufacturers were using child labour in hazardous, sweatshop conditions, both domestically and internationally. The partnership, convened by the government, brought together representative of industry, consumer and human right groups to discuss these issues. This led to an industry code prohibiting child labour, recognising workers rights like freedom of association, prohibiting discrimination and placing a cap on working hours, and guaranteed the payment of minimal prevailing industrial wage. The code is meant to influence the conduct of apparel manufacturers in all countries in which they operate.

22. Here, again, governments have played a role in promoting the accumulation of human and intangible capital. Some governments have contributed expertise to the technical drafting groups that provided inputs for the ISO technical group that developed the ISO 14000 series of environmental standards. However, governments have also developed their own sets of criteria for defining what management systems for corporate conduct should look like (see examples in Box 2). And some governments (e.g. the European Commission, Australia, Canada and the United Kingdom have information (sometimes accompanied by research) services. Among other things, these provide information on recent developments in this field and promoting “best practice”).

23. Governments have also promoted human capital accumulation by sponsoring research, course work and degree programmes in some of these fields. As compliance expertise has become more standardised, it has been possible to organise formal coursework in some areas. Again, this is particularly noteworthy in the area of environmental, health and safety management. An examination of the curricula of leading universities makes it clear that many now offer coursework, most often in environmental management but sometimes in broader ethical areas as well. All but one of the top 25 business schools in the United States (*Business Week's* ranking) offer coursework in environmental management or general business ethics. Ten public universities in the United Kingdom offer coursework or degree programmes in these fields. The following coursework is available at universities and technical institutes in the Netherlands:

Table 3. **Examples of Higher Education Programmes in Business Ethics -- Netherlands**

Nijenrode Business School	Business school, European Institute of Business Ethics. The MBA programme has one course of business ethics
Erasmus University, Rotterdam	The Environmental Management section offers graduate courses and a post-graduate masters program. The MSc programme offers a required course on business ethics and an elective course on environmental management.
State University of Groningen	A course called ‘Ethics for Managers’ is offered in the International Business programme.
University of Amsterdam	A course in ‘Environmental Management’ is offered at the undergraduate level and a course called Environmental accountancy at the graduate level in WIMM, the Scientific Institute for Environmental Management, within the Economics Department. Also Strategic Environmental Management is offered as a “master-class” for environmental professionals.
Technical University of Eindhoven	Institute TDO (Technology for Sustainable Development) offers courses in integrating environmental considerations in technical design. Topics covered include: energy, cleaner production, sustainable construction, behaviour and communication

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