Responsible Business Conduct: From good intentions to sustainable development

Ulrike Zeigermann

Abstract

The private sector is a key partner in development. It creates jobs, provides goods and services, generates income and profits, and contributes to public revenues. Companies have the ability to profoundly impact poverty reduction and sustainable development in countries in which they operate, including in areas such as energy and climate, water, agriculture and food production, gender equality and financial integrity, including illicit financial flows and corruption.

At the same time, intense global competition and complex international business activities in multiple countries with different cultural, legal, and regulatory environments present enterprises and their stakeholders with new challenges. Although many multinational enterprises demonstrate a respect for high standards of business conduct, some may neglect the appropriate principles and standards of conduct in an attempt to gain undue competitive advantage. This may be particularly true in environments where regulatory, legal, and institutional frameworks are underdeveloped or fragile (OECD, 2013). Against this background, responsible business conduct (RBC) has become a priority in the global economic agenda.

Decision-makers face difficult policy choices in balancing immediate economic gains and policy goals with long-term regulations for business conduct and investment. This Coherence for Development (CODE) Report explores ways in which coherent policies can result in win-win scenarios for both companies and sustainable development, and help to create an enabling environment for responsible business conduct.

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What is policy coherence for development?

Policy coherence for development (PCD) is an approach and tool for integrating the economic, social, environmental and governance dimensions of sustainable development at all stages of domestic and international policy making. Its main objectives are to:

- Address the negative spillovers of domestic policies on long-term development prospects.
- Increase governments’ capacities to identify trade-offs and reconcile domestic policy objectives with internationally agreed objectives.
- Foster synergies across economic, social and environmental policy areas to support sustainable development.

1 This work is published by the OECD’s Policy Coherence for Development Unit. The opinions expressed and arguments employed herein are those of the author, Ulrike Zeigermann, PhD student at the University of Münster, Germany. Marie-France Houde and Tihana Bule of the OECD Investment Division have provided substantive inputs.
What is at stake? Overview of coherence challenges and development impacts

It is well understood that responsible business conduct (RBC), often referred to as corporate social responsibility or CSR, entails conduct consistent with applicable laws and internationally recognised standards. Based on the idea that you can do well while doing no harm, RBC is a broad concept that focuses on two aspects of the business-society relationship: (i) the positive contribution businesses can make to economic, environmental, and social progress with a view to achieving sustainable development, and (ii) avoiding adverse impacts and addressing them when they do occur. Risk-based due diligence lies at the heart of avoiding and addressing adverse impacts – it is a process through which enterprises should identify, prevent and mitigate actual and potential adverse impacts, and account for how these impacts are addressed.

The fifth annual Business of a Better World/GlobeScan survey shows that supply chain and workers’ rights-related issues were identified as the most important events related to responsible business conduct in 2013 (BSR/GlobalScan, 2013). Labour standards, environmental protection, human rights, combating bribery and corruption, protecting consumer rights, technology transfer, competition and taxation issues will continue to be important challenges in the future (OECD, 2013). A major barrier to integrating sustainable development into the core of business is lack of awareness on positive synergies that RBC can create for both societies and companies, and the importance of sustainable development (BSR/GlobalScan, 2013).

Governments have a strong incentive to promote responsible business conduct. They do not only have the duty to protect internationally recognised rights and to improve the functioning of markets, but to enhance the positive contributions enterprises can make to sustainable development in both home and partner countries by introducing enabling environments for responsible business practice. According to the 2012 UN Global Compact Annual Implementation Survey, businesses can help address pressing global challenges including growth and employment, education, climate change, health, corruption and energy in countries in which they operate (Figure 1).

While it is widely recognised that responsible international investment can act as a powerful force for sustainable development and poverty eradication, six years after the start of the global economic and financial crisis, global FDI flows remain about 30% below the peak reached in 2007 and with uncertain prospects for 2014. This uncertainty combined with slowing growth in China, volatility in emerging markets and problems in the Eurozone may discourage investment flows (OECD, 2014).

Key observations

- Business activities along global value chains (GVCs) have become a main feature of today’s economy (Backer and Miroudot 2013). Intermediate inputs account for 30% to 60% of G20 countries’ exports within GVCs. In the mining, textiles and apparel or machinery sector, more than one-third of imported intermediate goods are used for exports (OECD/WTO TiVA database, 2013).
- The income from trade flows within GVCs has doubled between 1995 and 2009: for China it has increased 6-fold, India 5-fold and Brazil 3-fold (OECD/WTO TiVA database, 2013).
- It is widely recognised that responsible business activities can significantly contribute to sustainable development and economic growth in developed, emerging and developing countries.
- Six years after the start of the global economic and financial crisis, global FDI flows remain about 30% below the peak reached in 2007 and with uncertain prospects for 2014 (OECD, 2014).
- Total ODA from DAC countries currently accounts for about USD 130bn per year, far behind remittances, over USD 345bn, and foreign direct investment, around USD 414bn, to developing countries (OECD, 2013k).
- 20 per cent of the world’s employed people still live in extreme poverty, i.e. below the $1.25/day level. (UNCTAD, 2013).
Facing development challenges and adapting to new trends in the global economy

Facing development challenges and adapting to new trends in the global economy is particularly important in developing and emerging economies. Today, 20% of the world’s employed people live in extreme poverty, i.e. below the $1.25/day level (UNCTAD, 2013). Total ODA from DAC countries accounts for about USD 130bn per year, far behind remittances, over USD 345bn, and foreign direct investment (FDI), around USD 414bn, to developing countries (OECD, 2013k). Recent data shows that among non-OECD countries, foreign direct investment (FDI) inflows were increasing in Russia (33% more FDI than in the previous quarter); Argentina, India, Indonesia received respectively USD 3 billion, USD 8 billion and USD 5 billion FDI (representing 16% increase compared to the previous quarter) and inflows in South Africa more than doubled (to USD 5 billion). These increases contrast with the decreases in Brazil and China (to USD 14 billion and USD 50 billion respectively, representing 18% decrease for both countries) (OECD, 2014).

Business activities are increasingly interconnected and structured around global value chains (GVCs), facilitated by improvements in information and telecommunications (ICTs), transport and liberalisation of markets. Intermediate inputs account for 30% to 60% of G20 countries’ exports within GVCs. In the mining, textiles and apparel or machinery sector, more than one-third of imported intermediate goods are used for exports (OECD/WTO TiVA database, 2013). Developing and emerging economies play an important role in these global value chains.

Multinational enterprises (MNEs) have significantly contributed to development and economic growth in developed, emerging and developing countries. Their activities involve different countries and many cultural, legal, and regulatory environments. MNE activities can be an opportunity for developing and emerging economies, in particular enabling them to participate in international trade without having to develop the full range of capabilities across the value chain. In addition, through innovative business strategies, companies can influence societies beyond their brands, products and services (OECD, 2012). For instance, due to the capital intensive nature of projects in the mining sector, a long-term view is necessary to ensure that return on investment is realised. Mining projects generally take place in remote areas. In order to get products out to the world markets and work efficiently, companies organise training for employees and make significant infrastructure investments (OECD, 2013a). These investments do not only benefit the enterprise, but can also generate a multiplier effect that unleashes other business possibilities and supports public sector initiatives.

Balancing policy choices for inclusive growth

Decision-makers face difficult policy choices balancing immediate economic gains and policy goals with long-

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Figure 1. Urgency of Sustainability Challenges and Potential for Business Impact

In the 2012 UN Global Compact Annual Implementation Survey, companies were asked to identify which global priority issues they believe to be the most urgent, as well as their company could have the greatest positive impact on in the future. 1,712 companies from over 100 countries responded to the survey.

Source: UN Global Compact Annual Implementation Survey 2012.
term regulations for business conduct and investment. Since 2003, 180 economies implemented close to 2000 business regulatory reforms making it easier to do business as measured by Doing Business. For example, in 2011/2012, 44% of the 201 recorded reform efforts in 108 economies have focused on making it easier to start a new business, increasing the efficiency of tax administration and facilitating trade across international borders (World Bank, 2013). At the same time, in order to attract international investors, many countries still pay little attention to the role of business activities in securing basic human needs over the longer term.

The income from trade flows within global value chains (GVCs) has doubled between 1995 and 2009: for China it has increased 6-fold, India 5-fold and Brazil 3-fold (OECD/WTO TiVA database, 2013). Yet, the persistent lack of awareness regarding the importance of RBC for global value chains, combined with poor governance, administrative capacity constraints and uninformed consumption patterns can lead to mismanagement and social conflicts, e.g. if revenues from extractive industries fuel armed conflict (OECD, 2013e). Developing countries in particular face significant pressure to put in place appropriate regulatory, legal, and institutional frameworks to ensure that companies adopt a responsible behaviour from the beginning and do not neglect the appropriate principles and standards of conduct in an attempt to gain undue competitive advantage.

Governments play an essential role in expanding public and private co-operation for inclusive and sustainable growth as agreed in the 2011 Busan Partnership for Effective Development Co-operation. While some developed and developing economies use a full range of policy instruments to support corporate social and environmental responsibility, others still face pressing obstacles related to good governance, which hinder them from investing in education and capacity building, social and safety standards, infrastructure and environmental protection. It is therefore crucial to consider the entire enabling environment for development that is conducive to RBC. This includes a cross-policy perspective, taking into account the interlinkages between policy sectors and challenges.

**Box 1. The Rana Plaza case in Bangladesh**

- The accident of Rana Plaza in Bangladesh underlines the gaps between commitment to international RBC standards and practice in the international business environment. It also emphasizes structural problems with regard to international processes of production and distribution of goods and services (OECD, 2013f).
- According to the fifth annual Business of a Better World/GlobeScan survey, when asked about the most important events in sustainable business in 2013, respondents were most likely to mention the Rana Plaza factory disaster. In the aftermath of the accident, under international pressure, the government of Bangladesh amended the country’s labour law. In addition, the Accord on Fire and Building Safety was signed by 150 brands (as of March 2014) that represent international interests in one third of existing factories in Bangladesh. At the same time, many challenges remain concerning the role of trade unions, adequate representation of women in trade unions and factory management, the role of government to proactively support RBC efforts and reinstating trust and confidence between workers, employers and consumers (BSR/GlobalScan, 2013).

Box 2. RBC experiences in India, South Africa and China

In India RBC has played an important role for development and economic growth. India is one of the first countries in the world to mandate RBC. The new Companies Bill requires that 2% of total net profits of businesses of a certain size be spent on development-oriented activities. It attempts to ensure integration of responsibility in core operations in order to promote the sustainability of businesses that operate in India. Should a business fail to do so, punitive measures, including fines and imprisonment, could theoretically be applied. (OECD, 2013a) It is estimated that under the provisions of the Companies Act 2013, about 9,000 – 10,000 crore per annum (approx. 2 billion USD) would be available for RBC activities. Challenges are related to the appropriate implementation of the Companies Bill (OECD, 2013a).

South Africa promotes RBC as part of the framework in place to reduce poverty, advance social equity, and ensure environmental protection through the King Codes. The Codes promote the adoption of a triple bottom line approach and emphasize that enterprises cannot operate in isolation from the communities in which they are located. Although the Codes are voluntary, they work in line with concrete action on a ministerial level and legislation that guarantees minimum rights of workers in terms of equality, labour rights, living standards, and health. The King Codes also propose an annual reporting mechanism for companies (OECD, 2013a).

The Chinese government is encouraging high standards of responsible business conduct in China and in overseas operations of Chinese companies. It is putting in place a series of measures and frameworks, including the Guidelines to the State-owned Enterprises Directly under the Central Government on Fulfilling Corporate Social Responsibilities (SASAC, 2008), the recently issued Guidelines Guidelines for Environmental Protection in Foreign Investment and Cooperation (Shang He Han [2013] No. 74) or the new Guidelines on Coal Mine Safety (2013) to ensure RBC. In addition, there are international projects such as the Sino-Swedish CSR Cooperation (launched in 2007) or the Sino-German RBC project (2007-2014) that aim to share experience and strengthen key government institutions in their efforts to improve framework conditions for RBC in China. Chinese companies are also working to improve corporate conduct. For example, in 2006, Nanfang Zhoumou, a leading publication in China, started to rank the CSR performance of Chinese enterprises and the world’s Top 500 international companies operating in China. In 2011, Suning, a leading retailer of household electric appliances in China, established the first environmental responsibility model applicable to Chinese retail enterprises. It aims at the formation of a green value chain and a measurable environmental management system. At the same time, this does not mean that RBC has become truly anchored into China’s entrepreneurial culture. The change towards RBC is much more difficult when it comes to a certain number of traditional enterprises. When there is a conflict between long-term benefits and short-term profits, there is often an almost automatic preference given to the latter (Vermander, 2013).
Given the importance of responsible business conduct for achieving sustainable development goals worldwide, including the Millennium Development Goals (MDGs) and the vision of the OECD Strategy on Development, it is important that policy makers create an enabling environment for companies to systematically integrate environmental, social and ethical standards.

Public policies supporting recognised concepts and principles for RBC help attract sustainable investments and foster positive impacts of businesses on peoples’ well-being. Policy coherence for development (PCD) provides a useful tool for better understanding interlinkages of policy sectors. PCD entails fostering a multi-stakeholder policy dialogue to identify barriers to RBC and sustainable development (OECD 2013g).

The following section enumerates important policy areas that are linked to responsible business conduct, including communication, education, trade and investment, and labour. It looks at the challenges for both developed and developing economies. Many different ministries, ranging from the Ministry of Economy and Finance to the Ministry of Education, are involved in the promotion of RBC.

Creating inclusive economies for successful and accountable business

Market structures are essential for the promotion of responsible business behaviour in all countries. Well-defined laws on competition, labour standards, corruption and transparency as well as investment and international trade underpin RBC. By implementing mutually reinforcing policy actions across the ministries and in co-operation with the private sector, governments can create synergies conducive to sustainable development at the global level.

The OECD Policy Framework for Investment provides a comprehensive and systematic tool, including a checklist of important issues in ten policy domains for consideration by any government interested in creating an environment that is attractive to all investors and in enhancing the development benefits of investment to society, especially the poor (OECD, 2006). The Policy Framework for Investment is also used to conduct investment policy reviews (IPR). For example, the recently published IPR on Malaysia (OECD, 2013i) shows that the country is strongly committed to strengthening RBC. While Malaysia still faces many challenges in the area of labour relations, there were important policy and institutional advances in the past years, in particular with regard to environmental protection and promoting green investment. Government initiatives to promote RBC in Malaysia include requirements for public-listed companies to disclose their RBC activities and a framework to guide the implementation and reporting of RBC activities. The review finds that, going beyond these measures the government could support RBC initiatives in three main ways: (i) facilitating – setting a clear development strategy in the country;
(ii) partnering – combining public resources with those of business and other actors to leverage complementary skills and resources; and (iii) endorsing – showing public political support for particular kinds of RBC practice in the market place or for particular companies (OECD, 2013i).

Public-private partnerships (PPP) on CSR and other initiatives such as awards for RBC activities can act as important incentives to foster RBC among companies (OECD, 2013a). Such activities help to scale up global value chains, attract high quality companies that increase employment, promote well-being, and reduce social and environmental risks.

Governments can also use and adhere to the OECD Guidelines for Multinational Enterprises (MNEs) to balance an open investment climate with the responsibilities of enterprises. The MNE guidelines are today’s most comprehensive set of recommendations on responsible business conduct addressed by governments to MNEs operating in or from adhering countries. They represent common expectations in areas such as human rights, employment and industrial relations, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation of 46 governments, including major emerging economies, which are the sources and the recipients of a large majority of the world’s investment flows (OECD, 2013) (Figure 2).

The countries that adhere to the OECD MNE Guidelines aim to promote the positive contributions businesses can make to sustainable development to both home and host countries and to minimise the difficulties to which their various operations may give rise. For that objective, the MNE Guidelines are supported by a unique mechanism of National Contact Points (NPCs), providing a mediation and conciliation platform for resolving practical issues that may arise with the implementation of RBC standards. In 2013, the specific instances that were submitted to the National Contact Points covered a great diversity in the business sectors and countries, including an increasing number of cases occurring in non-adhering countries (OECD 2013a). The financial and manufacturing sectors witnessed the highest number of specific instances even if the concentration in the extractive sector remained significant (Figure 3). Respect of human rights and sound trade, labour and environmental policies, based on assessment in these sectors would particularly allow developing economies to attract and retain more high quality investments for viable societies, while also raising the national income and supporting the long-term success of companies.

Upgrading labour skills for well-being and corporate success

The benefits of investment and international trade do not accrue automatically, and complementary efforts in education policies are needed to achieve positive

Figure 3. Industry sectors concerned by new specific instances

Source: OECD Investment Division.
effects on growth and employment, and to create an enabling environment for successful businesses. Policy coherence for development entails putting in place institutional mechanisms and processes to pursue win-win-situations across all sectors.

Governments in OECD countries and developing countries need a better coordination between employers, education, research and labour policies so that graduates are prepared to fill job opportunities and can contribute to higher productivity that creates win-win situations for both societies and businesses. Public and private actors could support capacity-building and trainings, including apprenticeships, dual internship-education opportunities and vocational training that contribute to lifelong learning, address long-term unemployment, increase awareness for RBC and improve access to education for disadvantaged groups (UN Global Compact, 2013). The benefits of better labour skills are particularly important in emerging and developing economies.

The promotion of knowledge and skills for women and girls could be a key priority in developing nations because the full incorporation of women’s capacities into labour forces would be an important driver for development. In order to improve the prospects for employment for women outside of the household or informal sector, governments need to address issues of discrimination in hiring and pay among various policies in the economic, social, environmental and legal political domains.

**Raising awareness for RBC with effective communication policies**

Communication policies and research have a key role in informing citizens and providing knowledge about responsible business conduct, strategies for implementation of international standards and the relationship between governments and companies. According to OECD Trade Facilitation Indicators, ensuring the availability of trade-related information would reduce trade costs by 2% for OECD countries, 1.6% for low-income countries and 1.4% for lower-middle-income countries (OECD, 2013h). Although investors have a responsibility to be informed on the development impact of their activities, communication policies could facilitate responsible trade and put investors in a better position to make a positive contribution to environmental, social and economic development and to avoid or minimise negative side-effects resulting from their activities and business relationships. Research and well-coordinated monitoring processes can also serve more focused peer learning, provide examples of good practices of RBC and improve knowledge about involving multiple stakeholders.

With rapidly growing economies and shifting consumption patterns, governments need to provide more information on global supply chains and business activities. According to recent empirical studies, sustainability in business conduct along global value chains ranks as one of the top barriers for companies in their advancement to the next level of RBC (OECD, 2013a, UN Global Compact, 2013a). Communication policies that inform about business activities at the international level and global value chains can protect consumers, strengthen transparency among companies and improve responsible business conduct in all countries. A policy coherence lens in OECD countries could raise awareness of and mitigate the impact of poor business conduct on developing countries.

Civil society organisations (CSOs) can support information policies through initiatives such as Oxfam’s Behind the Brands campaign. This campaign assesses the agricultural sourcing policies of the world’s ten largest food and beverage companies. The Scorecard looks at seven themes, including transparency at a corporate level; women farm workers and small-scale producers in the supply chain; workers on farms in the supply chain; land and water concerns; and climate issues (Oxfam, 2013). Multilevel stakeholder dialogue and co-operation at global, regional, national and local levels on RBC provides opportunities to improve awareness on RBC.

**Maximising sustainable development impact of RBC with effective safety nets**

Social protection programmes tackle multiple dimensions of development and can be a powerful tool to reduce poverty and inequality. With 80% of the global population having no access to comprehensive social protection, a better understanding of the interdependency of social policies and the role of businesses can help to align corporate commitments with global development goals. This is particularly important against the background of the Post-2015 development agenda (OECD, 2013j; UN Global Compact, 2013).

Strong social and environmental policies are essential to reduce risks and promote the sustainable development impact of RBC. In the short run, regulatory measures in countries that still face major obstacles to RBC could address urgent safety and health issues. This is particularly important for developing and emerging economies that are at an early stage of global value chains development (UNCTAD, 2013). Safety, health and labour laws can help lift people out of poverty, benefit businesses that have to deal with lower social and environmental risks and create viable economies. Ministries for labour, health care and environment...
could extend these social protection programmes and promote due diligence and human rights through effective communication strategies.

Policy makers can also enhance the sustainable development benefits of RBC by supporting the further development of multi-stakeholder initiatives for labour standards and social protection. Civil society organisations and trade unions in both developing and developed countries play an important role in that regard (OECD, 2013a). They can contribute to an institutional framework in which corporate behaviour can be adequately monitored and violations to RBC commitments can be tracked and corrected.

In order to reduce informal labour, generate national income and foster RBC it is particularly important to ensure social protection not only for citizens but also for migrant workers. This can create positive synergies between migration, economic and social policies and foster positive effects on development, pursuing mutual benefits for public and private actors.

Where do we go from here?

This CODE Report focuses on the interlinkages between responsible business conduct (RBC) and sustainable development. It shows that the complexity of today’s global economic activities and incoherent policies are major challenges for businesses and governments. Governments play an important role for creating an enabling environment for responsible business conduct.

Important policy areas that are linked to responsible business conduct include communication, education, trade and investment, and labour. Coherent cross-governmental support for responsible businesses can promote inclusive economies, successful enterprises and human well-being. Examples of how OECD countries could particularly improve RBC include a greater focus on global development goals in their foreign investment and trade policies as well as effective communication that raises awareness for RBC among entrepreneurs, consumers and governments.

Increasing investment flows and business activities in developing and emerging economies offer a great opportunity for these countries to promote responsible business activities from the beginning. Through coherent policies for development governments can enhance the positive impact of businesses for sustainable development. For instance, a better coordination between education, labour and social policies can contribute to higher productivity that creates win-win situations for both societies and businesses. Capacity building for women and girls could be a key priority in that regard because the full integration of women into the labour force would be an important driver for development.

Collective action is needed to improve the outreach of RBC and coherent strategies in all economies. Public and private sector activities are both interdependent and complementary. The Post-2015 development agenda presents a unique opportunity for the international community to mobilise companies to more effectively advance global priorities and contribute to rural development. It also offers an opportunity for the international business community to align their strategies with the Post-2015 vision, producing outcomes that benefit the global society and economy – and drive business success.
References


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Authors: Ulrike Zeigerman, University of Münster, Germany.
Contacts: Marie-France Houde (marie-france.houde@oecd.org), Investment Division, OECD Directorate for Financial and Enterprise Affairs, and Ebba Dohlman (ebba.dohlman@oecd.org), OECD Policy Coherence for Development Unit, Office of the Secretary-General.

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