



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

**Summary of the Discussion**

**14 June 2005**

*This document reproduces the summary of the Roundtable discussion which was held on 14 June 2005. It will form part of the forthcoming publication "Annual Report on the OECD Guidelines for Multinational Enterprises: 2005 Edition".*

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

### **Summary of the Discussion**

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The OECD Roundtable on Corporate Responsibility is held every year in conjunction with the annual meeting of National Contact Points<sup>1</sup> (NCPs). The purpose of the Roundtable is to help NCPs to improve promotion and implementation of the OECD Guidelines for Multinational Enterprises (hereafter, “the Guidelines”). The Guidelines are a multilaterally-endorsed and comprehensive code of conduct for international business. They are backed by 39 adhering governments whose territories are home to 97 out of the top 100 multinational enterprises<sup>2</sup> and are the source of nearly 90 per cent of global foreign direct investment flows.

Chaired by Brazil, the 2005 Roundtable brought together representatives of the business, trade union and NGO communities in China, India, South Africa and other non-adhering countries<sup>3</sup> to explore the theme of “The OECD Guidelines and Developing Countries – Building Trust.” The event was also attended by representatives of BIAC, TUAC and OECD Watch, a network of NGOs. Invited participants were asked to help NCPs develop a better understanding of: 1) how actors from non-adhering countries view the concepts and principles expressed in the Guidelines; 2) how they can be implemented and promoted in non-adhering countries; and 3) how the Guidelines’ development impact can be enhanced.

The discussions extended and deepened an ongoing dialogue with actors from non adhering countries in such venues as the Global Forum for International Investment (e.g. in Johannesburg and New Delhi) and the 2005 meeting in Addis Ababa of the OECD-NEPAD African Investment Initiative<sup>4</sup>. They were held under the Chatham House “no attribution” rule<sup>5</sup> to allow for candid and constructive discussion. This summary reviews the main themes developed during the Roundtable discussion (following the “no attribution” rule). It also draws implications for Guidelines promotion and implementation.

### **The Guidelines express universal values with broad relevance and legitimacy**

The Guidelines are underpinned by a multilateral normative framework that is continually evolving. It covers such areas as human rights, anti-corruption, environmental protection, labour management, consumer interests and taxation. The Roundtable showed clearly that the concepts and principles that

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<sup>1</sup> National Contact Points are government offices, located in each of the 39 adhering countries, that are charged with promoting the Guidelines in the national context. They meet every year to report on their activities and to exchange ideas.

<sup>2</sup> UNCTAD list of top 100 non-financial multinational enterprises.

<sup>3</sup> Representatives were from the following non-adhering countries: China, Chinese Taipei, Ecuador, Taipei, India, Malaysia, Morocco, South Africa, Tanzania, Zambia.

<sup>4</sup> See [www.oecd.org/daf/investment/guidelines](http://www.oecd.org/daf/investment/guidelines) for a summary of the findings of the Addis Ababa event.

<sup>5</sup> The Chatham House Rule states that “participants are free to use the information received, but neither the identity nor the affiliation of the speakers, nor that of any other participant, may be revealed.”

form the foundation of the Guidelines are truly global – the Guidelines promote values that are shared by many in the business, trade union and NGO communities in both adhering and non-adhering countries.

An Indian businessman at the Roundtable noted that “What is good for the world is good for India” and that the basic humanitarian values of the Guidelines were already expressed in his country’s religious texts (he cited an ancient Sanskrit text on the inter-connectedness of human welfare). Several participants stated that these basic principles for appropriate business conduct are far from being “luxuries” and probably even more important in poor countries than in the developed world. A participant from Zambia – noting the large gaps between international principles and actual conditions in his country -- suggested that international instruments like the Guidelines might be even more important in countries such as his. Given the size of the gaps and the seriousness of the problems (he recalled, for example an explosion in a munitions factory which killed many workers and whose cause he attributed to the absence of basic safety measures), he urged that further promotion and implementation of the principles expressed in the Guidelines be made a matter of high priority in the adhering and non-adhering worlds.

This theme of the universal relevance and acceptance of the basic values underpinning the Guidelines echoes the findings of a background paper prepared for the Roundtable. The background paper looks at formal adherence by non-adhering countries to the instruments cited in the Guidelines (e.g. Universal Declaration on Human Rights, ILO Declarations and Conventions) using a geographically diverse sample of 20 non-adhering countries. These countries cover more than 50 per cent of the world’s population. They adhere, on average, to 13.5 of the 14 multilateral instruments specifically cited in the Guidelines. Reviewing regional initiatives in the human rights and anti-corruption fields, the paper also shows that many non-adhering countries are using their own multilateral processes to promote these concepts and principles and to explore their application in their regional contexts.

Representatives of two major OECD-based multinational enterprises reinforced the theme of universality. They noted that managerial and technological progress is helping to make multinational companies a channel for global promotion of these principles. One representative, speaking for an oil and gas company that straddles 180 countries, talked about the need to avoid double standards -- she stated that her company follows the “same business principles in Africa as in California”. The other representative (from the information technology sector) described her company’s efforts to integrate its business principles – which were developed as part of a sector-wide initiative dealing with a wide range of labour, environmental and business integrity issues -- into its far-flung supply chain operations. Her company is progressively extending the scope of this effort (which now covers three quarters of its suppliers).

### **Diversity of capacity and practice within and among non-adhering countries**

Thus, Roundtable participants communicated a clear message on “common goals and common challenges,” in the words of the Roundtable Chair. This underlying unity of values and aspirations contrasts with the extremely diverse picture of the non-adhering world’s capacity to move toward realising these aspirations.

On one hand, Roundtable participants sent an optimistic message. They described the successful entry of large parts of the non-adhering world into the world economy and the active participation of non-adhering companies in global management trends in the corporate responsibility field. Contrasting (and co-existing) with this was a picture of regions and populations that have not participated in or

benefited from global specialisation in production; from improved standards of living that much of the rest of the world is enjoying; and that are suffering from political and economic systems that are not supporting high and rising welfare.

### ***Economic integration, convergence and growth in private sector capacity***

Participants in earlier OECD corporate responsibility events have sometimes been of the view that the OECD business community is far in advance of other business communities in terms of policies, practices and reporting in the corporate responsibility field. This view was not confirmed by Roundtable participants from non-adhering countries.

They pointed to their countries' long traditions of corporate philanthropy and to extensive involvement in corporate responsibility by non-adhering businesses of all types (with the possible exception of small and medium-sized enterprises). Indian and South African representatives described the large NGO communities that are active in their countries and to the vibrant social dialogue that is taking place in both countries – thus, businesses in these non-adhering countries are subject to civil society pressures, just like their counterparts from adhering countries.

The discussions also highlighted the growing prominence of companies from non-adhering countries as major actors on the global scene. Some non-adhering countries (e.g. China, India and South Africa) are active outward investors in some sectors – to quote an Indian participant, “this is a new thing for us”. These countries' businesses now need to position themselves with respect to a complex (global) set of expectations for business behaviour. The Chinese businessman described how the Chinese business community was going “up the learning curve” in dealing with what was sometimes, for it, “puzzling criticism”.

Participants described a process of partial convergence between adhering and non-adhering businesses in terms of management and reporting practices and business strategies. Some of them are already far advanced in this process and have developed their own initiatives in this area. One representative referred to the King II Report (an influential and far-reaching corporate governance code developed in South Africa) and to related developments on the Johannesburg Stock Exchange. Among other things, these promote “integrated sustainability reporting” in which broader corporate responsibility disclosure is built into more traditional corporate reporting practices.

In this respect, Roundtable participants reinforced the findings of background research prepared by the OECD Secretariat for the Roundtable, which showed that some non-adhering business communities are leaders in many corporate responsibility fields, even by OECD standards. The research also shows that non-adhering countries' business communities, like their adhering country counterparts, have variable propensities to engage in such practices – while some are very active, others have little or no involvement in such initiatives.

### ***Exclusion of millions of people from the benefits of globalisation***

Set against the themes of progress and convergence was one of entrenched poverty and of the ongoing exclusion of hundreds of millions of people from the benefits of participation in the global economy. Trade union, NGO and even business participants pointed to parts of the world (including those mentioned above that are on the forefront of progress) in which serious violations of the standards for business conduct (of the type set forth in the Guidelines) are routine. This picture of arrested

economic development and of exclusion from economic and social progress held even for the countries where progress appears to be well established. For example, in the Indian, Chinese and South African economies, world class companies and competitive, knowledge intensive sectors co-exist with regions and populations that have made little or no progress in the economic and social spheres.

Some participants (e.g. from Tanzania and Zambia) described fierce competition for investment among localities and were concerned that this competition take place with due respect for international standards. They also noted a willingness of some fragile populations to accept any kind of work and to their vulnerability to exploitation by unscrupulous investors. Trade union participants regretted the practice of some investors to “shop around” for incentive packages that sometimes ignore basic rights. The Tanzanian representative stated that, against this backdrop, there is a need to build trust, to dissipate suspicions and to create positive experiences to erase some of the darker “memories”.

### ***Pro-market consensus and need for continual improvement***

Overall, the tenor of the discussion (even its more pessimistic parts) was pro-market. Participants recognised their countries’ need for investment (both domestic and international) and the “power of the market to raise living standards” (to quote the Chinese business representative). The Tanzanian participant remarked that his country was already rich by virtue of its extensive human and natural resource wealth. What Tanzania needs is to develop the market potential of this wealth in ways that benefit its people – this, in turn, will require a responsible and capable public sector and responsible and efficient companies willing to invest.

There is a need for all elements of society in all countries – especially governments – to learn to attract and marshal investment to raise welfare. The Chinese participant talked about the “need for good public governance” to support corporate responsibility. The Tanzanian and Zambian representatives regretted their countries’ lack of “credible enforcement capacity” in several key areas. An NCP noted the role that the Investment Committee’s initiative for a *Policy Framework for Investment* will play in helping both adhering and non adhering governments play their roles more effectively. Thus, the *Policy Framework for Investment* will complement the Guidelines by helping to clarify the nature of both government and corporate responsibilities and by helping countries to enhance the effectiveness of their public sectors.

### ***Reasons for business interest in corporate responsibility in non-adhering countries***

The Roundtable showed that actors from non-adhering countries have an active interest in corporate responsibility. This interest seems to stem largely from the same factors as those influencing their OECD counterparts. The Chair of the Roundtable presented research<sup>6</sup>, based on the experiences of 240 companies based in 60 countries, that documents the “business case” for corporate responsibility initiatives. The study finds that: “Overall, the business case exists for all companies although the specific elements may vary. While companies in all regions can achieve measurable commercial returns by investing in their employees and in environmental process improvements, there is diversity in the business case... for small and medium sized enterprises, the emphasis is very much on cost savings... National companies and multinational corporations based in emerging markets gain benefits in all areas, led by costs savings from environmental process improvements”.

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<sup>6</sup> *Developing Value: The business case for sustainability in emerging markets.* SustainAbility, International Finance Corporation and Ethos Institute. July 2002.

The Roundtable participants gave the following reasons for involvement of non-adhering companies in the corporate responsibility field:

- *More demanding regulatory environments.* These are putting pressures on companies of all sizes and in many sectors. Particularly noted were developments in the anti-corruption field, with African representatives describing high profile anti-corruption cases in Lesotho, South Africa and Zambia. An Indian representative described the closure of several thousand SMEs for non-compliance with environmental regulations.
- *Political support for a progressive business community.* This point was made in reference to South Africa, where the “particular political context” has created a climate that has made it possible to develop South Africa’s influential corporate governance code – the King II Report.
- *A well developed and active set of civil society institutions* in some non-adhering countries.
- *Many corporate responsibility initiatives are good for business* – they help to enhance reputations and to protect brands. This is as true for non-adhering businesses as it is for adhering businesses.

As noted earlier, three of the countries represented at the Roundtable – China, India and South Africa – are becoming significant outward investors in their own right in some sectors and regions. One of the NGO participants is looking at corporate responsibility issues that arise in connection with Indian mining company investments in Africa. A representative of a Chinese company described corporate responsibility as a “hot topic” in China and expressed his interest in sharing ideas.

### **Is observing the Guidelines good for business?**

An NCP asked whether observing the Guidelines is a competitive liability for companies and the ensuing discussion did not produce an unambiguous response to this question. The overall response might be described schematically as: “while observing appropriate standards of business conduct is good for business in the long run, there is indeed a “tension” in the short- and medium- term (to quote one African participant)”. NCPs and participants noted the role of public policy, international organisations and private sectoral initiatives in helping to create a level playing field. The background papers prepared for the Roundtable document numerous public and private initiatives sponsored by non-adhering public and private organisations that will shape corporate responsibility practices. Thus, although creating a level playing field may be a challenge, some non-adhering countries are working to ensure that their companies also face reasonable incentives to adhere to international standards.

### **The Guidelines’ place in the OECD Declaration on International Investment and Multinational Enterprises**

The issue of the place of the Guidelines within the OECD Declaration on International Investment and Multinational Enterprises was discussed at some length at the Roundtable. The Guidelines are one of four main instruments making up the Declaration. The other three are: 1) the *National Treatment Instrument*, where adhering countries commit themselves to treating foreign-controlled enterprises operating in their territories no less favourably than domestic enterprises in like situations; 2) an instrument on *Conflicting Requirements* which calls on adhering countries to avoid or minimise conflicting requirements imposed on multinational enterprises by governments of different countries; and

3) an instrument on *International Investment Incentives and Disincentives* which provides for efforts among adhering countries to improve co-operation on measures affecting international direct investment.

Some participants wondered whether it would not be easier to “sell” the Guidelines as a stand-alone instrument and the Declaration as an “à la carte” menu allowing countries to select the instruments that most interest them. The NCPs reaffirmed the place of the Guidelines as an integral part of the Declaration, which helps to define the rights and responsibilities of two major actors in the global economy – governments and multinational enterprises. NCPs described the Guidelines’ presence in this broader package as being critical to the way that the Investment Committee looks at corporate responsibility – that, if it is to be effective, it needs to be part of a broader effort to improve both policy systems and corporate practices. They also noted that, in terms of follow up, the Guidelines are somewhat different than other elements of the Declaration because adhering countries promote observance of the Guidelines by “their” multinational enterprises, even in operations taking place in non-adhering countries. For the other elements of the Declaration, the follow up involves dialogue only among non-adhering countries.

### **Promoting the Guidelines**

The Roundtable showed that there was a shared interest in forming partnerships between adhering and non-adhering countries in promoting appropriate conduct in international business.

### ***Need for promotion***

Echoing a theme developed during the 2005 NCP meeting, Roundtable participants stated that the Guidelines are not well known in the non-adhering world; that they are a “good product<sup>7</sup>” that is not being sufficiently marketed and that there is a need to step up promotional efforts. A Brazilian participant stated that they are not well known in his country, even though it adhered to the Declaration many years ago. Reinforcing a theme developed in the NCP meeting, the Roundtable made it clear that more promotion would be necessary and that, if offered in a spirit of consultation and equal partnership, such promotion would be welcomed in the non adhering world.

Many participants (from the business community in particular) described the large number of competing standards. NCPs and the Investment Committee will have to improve Guidelines promotion if the Guidelines are to make a mark relative to “competing” instruments. In contrast, a representative from South Africa stressed that, within the large array of global instruments, the Guidelines have a unique contribution to make. They should be integrated in the emerging global framework and not be allowed to exist in a “silo”, separate from other OECD instruments and from major international initiatives such as the UN Global Compact and the Global Reporting Initiative.

### ***Challenge of promotion— capitalising on shared commitment and overcoming scepticism***

The NCPs received a mixed message that combined deeply felt commitment by non-adhering representatives to the principles and objectives of the Guidelines with scepticism about their effectiveness. Overcoming scepticism is one of these challenges -- an NGO poll shows that some of the non adhering actors that know about them do not believe that they are effective. An NGO from a non-adhering country asked: “how can you expect a voluntary instrument like the Guidelines to work in a

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<sup>7</sup> Quote from a participant from Tanzania.

country that doesn't want to respect its own constitution?" On the other hand, participants showed many times their commitment to principles underpinning the Guidelines and communicated a sense of urgency in "turning universal principles into local practices<sup>8</sup>." For example, the sceptical NGO just quoted also stated that the poor farmers he works with would welcome any process – including the Guidelines -- that would help them to realise basic concepts for the protection of local communities and of indigenous peoples. Some participants noted that, despite some frustrations with Guidelines implementation, they are promoting the Guidelines on their own -- a Malaysian trade union representative said that "trade unions in Southeast Asia together with TUAC had published thousands of copies in several Asian languages and had held series of seminars to promote the effective use of the OECD Guidelines."

### ***What developing countries want from the Guidelines***

Some actors from non-adhering countries are interested in the Guidelines as an aid for learning and dialogue. As noted earlier, the Chinese business representative welcomed opportunities for learning about the "hot topic" of corporate responsibility. The OECD Watch submission quotes a Pakistani NGO as saying that: "They [Pakistani civil society groups] feel that the Guidelines are helping them better understand the social and environmental implications of corporate operations. They feel that they would be better equipped to question and seek responsible corporate behaviour from the corporate sector from the knowledge gained from the Guidelines."

For some non-adhering participants, users' evaluation of the Guidelines is closely related to the effectiveness of the specific instance procedure. An Indian NGO quoted in the OECD Watch submission says: "in this rapidly globalising economy, it is imperative that the activities of trans-national companies in India are monitored using available global instruments such as the OECD Guidelines to hold them accountable for the impact of their investment on the environment and society". A Zambian NGO is quoted as saying: 'civil society groups have found the Guidelines useful' and "companies cannot take us for granted. But Zambian NGOs have been disappointed by the slow pace in handling cases..." [quoted in OECD Watch submission]. TUAC developed similar themes in describing the views of non-adhering trade unions and stated that "effective implementation of the Guidelines" is the best promotional campaign.

Business representatives at the Roundtable were very receptive to the idea of partnership between adhering and non-adhering actors to promote the Guidelines and to make them meaningful. These noted that they "want to be held accountable" and that "prominent businesses are willing to partner". A representative of an OECD-based company highlighted the many opportunities and the opportunities for partnership in promotion.

### ***Mechanisms of promotion***

Roundtable participants, including NCPs, advocated the use the Guidelines as part of a "whole of government" approach to corporate responsibility. Specific mechanisms mentioned as vehicles for Guidelines promotion were: trade missions, embassy and consular programmes, public procurement, export credits and investment agreements. The Report of the Chair of the 2005 Meeting of the National

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<sup>8</sup> Quote from the Chair's summary of the Roundtable discussions. A Zambian labour union representative and an Indian NGO also described the need to make international principles a reality at the national and local levels.

Contact Points shows that many adhering governments are already using existing national programmes in this way.

An international businessman based in Germany and India favoured more systematic participation of developing countries business at Guidelines events. In particular, he favoured inviting representatives of national industry associations from developing countries. A Chinese business man recommended inviting appropriate government institutions, especially from state-owned enterprises and overseas investment departments. He also urged NCPs to form alliances with rating agencies, who could be encouraged to incorporate the concepts and principles of the Guidelines into their framework for evaluating companies.

Trade unions noted that OECD outreach events should be systematically used to promote the Guidelines and regretted what they claim is a tendency to downplay the Guidelines' role in recent and planned outreach events. An NCP advocated further consolidation of partnerships with other global and regional initiatives (e.g. UN Global Compact, NEPAD) so as to strengthen its ability to reach actors in the non-adhering world.

### **Implications for Guidelines promotion and use in non-adhering countries**

The Chair and other Roundtable participants identified the following implications of the Roundtable for Guidelines promotion and use in non-adhering countries:

- *Solid basis for partnership.* Actors from non-adhering countries subscribe to the concepts and principles expressed in the Guidelines and have their own initiatives in these areas. Thus, there appears to be a solid basis for partnership between adhering and non-adhering countries and the scope for integrating the Guidelines into the emerging global framework of standards and initiatives.
- *Low visibility and scepticism.* The Guidelines are not well known in non-adhering countries and significant additional efforts in promotion would be useful. In addition, there is some scepticism about their effectiveness. Thus, promotional efforts should aim both to raise visibility and to overcome scepticism.
- *Variable geometry in promotion.* Non-adhering countries have human and institutional capacity in the corporate responsibility field that ranges from extremely sophisticated to non-existent. Also, the nature of interest in non-adhering countries varies – some actors are interested in learning more about the Guidelines as a support for more general dialogue on international business conduct, whereas others want to see tangible results from dialogue with specific companies via the specific instances procedure. The Investment Committee and the NCPs will need to tailor their promotional and other activities in developing countries to the needs and interests of the particular partners.
- *Nature of promotional effort.* Broadly speaking, Roundtable participants proposed the following as a “marketing strategy for the Guidelines”: 1) use existing national programmes as promotional vehicles; 2) consolidate alliances with other global and regional initiatives; and 3) make greater use of Investment Committee outreach events. NCPs also noted with satisfaction BIAC's promise to engage proactively in promotion. Trade unions and NGOs stressed that promotion cannot be separated from the effectiveness of implementation.