CORPORATE RESPONSIBILITY: RESULTS OF A FACT-FINDING MISSION ON PRIVATE INITIATIVES

(Note by the Secretariat)

This note has been revised following discussion at the CIME meeting on 14-15 December 2000. It is submitted to the Committee for approval under the written procedure. If no objection is received by the Secretariat by c.o.b. on Wednesday, 31 January 2001, it will be considered approved.

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Corporate Responsibility:  
Results of a fact-finding mission on private initiatives

Introduction

Public concerns have been expressed about the economic, social and environmental impacts of the activities of multinational enterprises.

In the ongoing public debate on globalisation, concerns have been expressed about the economic, social and environmental impacts of deepening international trade and investment ties and about the activities of the multinational enterprises. These concerns focus on a variety of issues including labour relations, human rights, environment, corruption, control of technology and consumer protection. The high profile of this debate means that most multinational enterprises now pay close attention to public perceptions of their activities in the societies in which they operate.

Globalisation has brought with it new management challenges stemming from the need to comply with the laws and regulations of numerous jurisdictions and to respond appropriately to various societal expectations.

Globalisation has also brought with it additional management challenges for firms in area that has come to be called “legal compliance”. Multinational enterprise are often present in dozens of jurisdictions covering many legal and regulatory areas. These companies need to keep themselves informed about the regulations affecting them and must take steps to ensure that they comply with law and regulation. Compliance can be quite complex, especially when the enterprise’s operations straddle a variety of regions and business cultures. Thus, compliance with law and regulation is often not a straightforward task, especially for multinational enterprises.

Firms have been responding to these concerns and challenges with managerial innovations, including codes of conduct and associated management systems.

Firms have attempted to respond to public concerns and to the growing challenge of “legal compliance” in a globalising business environment. New management techniques have emerged. Some twenty years ago, firms began issuing policy statements -- or codes of conduct -- that set forth their commitments in various areas of business ethics and legal compliance. A second step was the development of management systems designed to help them comply with these commitments and the emergence of standardised management systems. A new management discipline has emerged involving professionals that specialise in regulatory, legal and ethical compliance. More recently, steps have been taken to formulate standards providing guidance for business reporting on non-financial performance.
The practice of issuing codes is a relatively recent development. These private initiatives are a prominent recent development in international business. Business surveys show that most major companies issue codes of conduct (see, for example, KPMG (1999) and Control Risks Group (1999)). The compliance tools now used routinely in international businesses hardly existed three decades ago. The practice of issuing codes on business conduct dates roughly to twenty-five years ago. The first major corporate code of conduct appears to be the 1977 issuance of guidelines on conducting business in South Africa by a major automobile manufacturer. Many other companies later adopted these “Sullivan Principles” or began to issue corporate codes dealing with broader areas of business ethics.

Firms have not developed these management innovations on their own. Business associations, NGOs and governments have also played important roles. Companies have not acted alone in making these innovations. Business associations have undertaken many initiatives to help their members and NGOs have played important and varied roles. OECD governments also have influenced the shape of these initiatives in various ways. In particular, many have incorporated them into their regulatory and law enforcement strategies, giving rise to hybrid systems involving both public and private action.

In June 1999, the CIME authorised a fact-finding mission in the area of corporate responsibility. The present paper looks at private initiatives in the area of corporate responsibility -- that is, at what companies do to promote legal and ethical compliance. This work was commissioned at the June 1999 meeting of the Committee on International Investment and Multinational Enterprises (CIME). At that time, the CIME asked the Secretariat to structure the work as a fact-finding mission (see DAFFE/IME(99)16). It expressed particular interest in the nature of the commitments made in codes of conduct, in the steps taken by companies to meet their commitments and in the role of public policy in shaping these private initiatives. The Committee wished to see the results of this fact-finding phase before deciding whether to move on to an assessment phase.

This paper reports on the results of this fact-finding mission. The present paper summarises the results of the fact-finding mission. More detailed papers describing the components of the fact-finding mission may be found in the six annexes to this paper. The first reports on an analysis of 246 codes of conduct. The others are based on additional analysis performed on the code inventory and on databases covering companies’ environmental management practices and covering the ways OECD members have influenced voluntary initiatives in the areas of corporate responsibility. The present paper also draws on the literature on regulatory compliance, enforcement of corporate law and environmental management. The results of the fact-finding mission are summarised in the Box (Principal Findings).
Commitments and Codes of Conduct: Actors, Issues and Audiences

The issuers of the codes in the inventory differ by nationality, purpose and sector of operation. Codes of conduct are voluntary expressions of commitment that set forth standards and principles for business conduct. A wide variety of actors -- corporations, business associations, NGOs, trade unions and international organisations -- issue such codes. Companies issued 48 per cent of the codes in the inventory, business associations accounted for 37 per cent, “partnerships of stakeholders” (mainly NGOs, but also trade unions) issued 13 per cent and inter-national organisations, 2 per cent (Figure 1). The companies issuing the codes are based in 23 member countries and cover all economic sectors (primary production, industry and services).

Figure 1. Composition of codes by type of issuer

![Figure 1](image)

Source: OECD

All aspects of the sustainable development agenda -- decent work, environment, anti-corruption, human rights, technology etc -- are covered in this inventory of codes.

Viewed as a whole, the codes cover a broad range of issues and address each of the economic, social and environmental “pillars” of the sustainable development agenda. The codes address such issues as environmental management, human rights, labour standards, anti-corruption, consumer protection and information disclosure, competition and science and technology (Figure 2). The most common issue areas addressed in the inventory are labour standards and environmental stewardship. Tables 1 and 2 show the frequency of mention of more specific commitments in the areas of, respectively, environment and labour.

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1 This section discusses in more detail in the paper in the first annex [DAFFE/IME(2000)15/ANN1].
Figure 2. Issues addressed in codes of corporate conduct
(number of codes mentioning issue; out of 246 codes)

Source: OECD

Figure 3. Type of Codes

Source: OECD
Table 1. **Commitments in the Environmental content of the codes**

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Percentage of environmental codes mentioning attribute*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comply with laws</td>
<td>67.6</td>
</tr>
<tr>
<td>Openness to community concerns</td>
<td>40.0</td>
</tr>
<tr>
<td>Environmentally friendly products and services</td>
<td>37.9</td>
</tr>
<tr>
<td>Employee training, awareness and dialogue</td>
<td>35.9</td>
</tr>
<tr>
<td>Transparency to Public</td>
<td>35.9</td>
</tr>
<tr>
<td>Contractors, suppliers &amp; partners</td>
<td>35.2</td>
</tr>
<tr>
<td>Continual improvement</td>
<td>33.8</td>
</tr>
<tr>
<td>Global application</td>
<td>33.8</td>
</tr>
<tr>
<td>Water, waste &amp; effluent management</td>
<td>33.1</td>
</tr>
<tr>
<td>Conservation of Materials &amp; Recycling</td>
<td>33.1</td>
</tr>
<tr>
<td>Public/customer awareness</td>
<td>33.1</td>
</tr>
<tr>
<td>Internal Reporting &amp; Performance audits</td>
<td>28.3</td>
</tr>
<tr>
<td>Research</td>
<td>26.2</td>
</tr>
<tr>
<td>Accountability of Management</td>
<td>24.8</td>
</tr>
<tr>
<td>Energy Conservation</td>
<td>24.8</td>
</tr>
<tr>
<td>Prior assessment</td>
<td>23.4</td>
</tr>
<tr>
<td>Hazardous waste disposal/management</td>
<td>23.4</td>
</tr>
<tr>
<td>Sustainable development</td>
<td>23.4</td>
</tr>
<tr>
<td>Exceed legal requirements</td>
<td>20.7</td>
</tr>
<tr>
<td>Measurable objectives</td>
<td>17.9</td>
</tr>
<tr>
<td>Emergency Preparedness</td>
<td>17.2</td>
</tr>
<tr>
<td>Contribute to sound legislation</td>
<td>16.6</td>
</tr>
<tr>
<td>Design, construction and decommissioning sites/facilities</td>
<td>15.2</td>
</tr>
<tr>
<td>Bio-diversity</td>
<td>11.7</td>
</tr>
<tr>
<td>Transfer of technology</td>
<td>9.7</td>
</tr>
</tbody>
</table>

* These are calculated as: \(100\times\frac{\text{the number of codes mentioning attribute}}{\text{the number of codes citing environmental stewardship}}\)

*Source*: OECD
## Table 2. Commitment in the labour codes: The labour content of the codes

<table>
<thead>
<tr>
<th>Percentage of labour codes mentioning attribute*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonable working environment</td>
</tr>
<tr>
<td>Compliance with laws</td>
</tr>
<tr>
<td>No discrimination or harassment</td>
</tr>
<tr>
<td>Compensation</td>
</tr>
<tr>
<td>No child labour</td>
</tr>
<tr>
<td>Obligations on contractors/suppliers</td>
</tr>
<tr>
<td>No forced labour</td>
</tr>
<tr>
<td>Provision of training</td>
</tr>
<tr>
<td>Working hours</td>
</tr>
<tr>
<td>Freedom of association</td>
</tr>
<tr>
<td>Specific mention of “human rights”</td>
</tr>
<tr>
<td>Monitoring</td>
</tr>
<tr>
<td>Right to information</td>
</tr>
<tr>
<td>ILO codes mentioned</td>
</tr>
<tr>
<td>Promotion</td>
</tr>
<tr>
<td>Reasonable advance notice</td>
</tr>
<tr>
<td>No excessive casual labour</td>
</tr>
<tr>
<td>Flexible workplace relations</td>
</tr>
</tbody>
</table>

* These are calculated as: 100* [the number of codes mentioning attribute]/[the number of codes citing labour]

Source: OECD

Compliance with law is one of the most common commitments made in the code.

Compliance with law is a prominent concern in the codes (Tables 1 and 2) and nearly all commitments to it apply to both home and host countries. However, none of the 246 codes in the inventory could be read as a pure “legal compliance” text. All codes citing legal compliance also cite broader commitments in the areas they cover.

The approach to commitment made in narrowly defined areas is highly variable. Examples are the variability in the language and concepts used in the bribery codes…

A look at the commitments made in narrowly defined issues in relation to a particular activity (e.g. out-sourcing) shows that the codes vary in their approach to particular types of commitment. For example, the codes dealing with combating corruption use a wide variety of concepts and terms. The codes that discuss “parties to bribery” (that is, who might be involved in corrupt transactions) are about evenly divided among three categories: those that discuss only bribery of public officials, those that deal only with private-to-private bribery, and those that deal with both public and private operatives. Some discuss remuneration of agents, while others do not. Likewise, the treatment of gift giving, entertainment and political activity is very different among the codes (see Table 5 of Annex 1).
... and in codes dealing with labour management among foreign suppliers to the branded apparel industry. Similar diversity is found in the labour commitments made in branded apparel industry codes. The only issue about which these codes agree is the need to eliminate child labour (though, even here, there are major differences in concepts and terms). Other key human rights issues for the work place (e.g. forced labour and reasonable working conditions) are also addressed in the majority of the codes. However, other human rights issues (e.g. freedom of association) are dealt with by less than half of the branded apparel industry codes (see Figure 8 of Annex 1).

Implementing the Codes -- A Portfolio of Tools

Firms use a variety of tools to implement their commitments and to comply with laws.

Business activity in the area of legal and ethical compliance programmes has not been limited to formulation of commitments. Managerial know-how on implementing commitments has been accumulating, within the business community, in the NGO sector and in governments. An examination of the 118 individual company codes in the inventory indicates that firms use a portfolio of management tools in order to implement their commitments and to comply with law.

This section looks at the codes treat a range of compliance tools -- executive commitment and other hierarchical controls, whistle-blowing facilities, compliance officers and external verification.

This section looks at the tools that companies use to translate code commitments into day-to-day business practice. The compliance tools examined here include: internal monitoring, reports to Boards of Directors, use of compliance manuals, whistle-blowing facilities, signatures of Directors, training, periodic compliance reviews by managers, employee signatures, disciplinary action and active communication and external verification. Financial reporting and record keeping (normally done as part of firms’ broader financial control functions) are also counted as an implementation measure when they are explicitly referred to as such.

The paper looks at two types of code: those addressed to employees of the company issuing the codes and those addressed to subcontractors and suppliers.

The analysis presented here divides the inventory of company codes into two sets -- those in which the company makes commitments in relation to its own activities and those where the company states what it expects of its business partners (mainly suppliers). Among the 118 company codes, 96 express commitments about the company’s own behaviour and 22 codes provide guidance to suppliers. The results of this analysis are presented in Figures 4a and b (for the company codes) and Figure 5 (for supplier codes). Figures 4a and 4b show the frequency of mention of compliance tools in the total sample and in codes making two types of commitment: fighting bribery (44 codes) and environmental stewardship (72 codes).

2 Further detail on results and methodology may be found in Annex 2 [DAFFE/IME(2000)15/ANN2] of this paper.

3 Notice that there is some overlap between the set of bribery codes and the set of environmental codes; that is, some codes mention both issues.
Figure 4a. **Implementation in the 96 codes of conduct addressed to employees**
(Percentage of codes mentioning a particular implementation measure)

Source: OECD

Figure 4b. **Implementation in the 96 codes of conduct addressed to employees**
(Percentage of codes mentioning a particular implementation measure)

Source: OECD
Figure 5. Implementation measures in the 22 codes of conduct addressed to suppliers
(Percentage of codes mentioning a particular implementation measure)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference to punitive action</td>
<td>73%</td>
</tr>
<tr>
<td>Autonomous internal monitoring</td>
<td>23%</td>
</tr>
<tr>
<td>External monitoring</td>
<td>23%</td>
</tr>
<tr>
<td>Supplier record keeping</td>
<td>18%</td>
</tr>
<tr>
<td>Training for compliance</td>
<td>18%</td>
</tr>
<tr>
<td>Existence of whistle-blowing facility</td>
<td>14%</td>
</tr>
<tr>
<td>Codes signed by Executive Officers</td>
<td>3%</td>
</tr>
<tr>
<td>Appointed compliance officer or committee</td>
<td>0%</td>
</tr>
<tr>
<td>Use of compliance manuals</td>
<td>0%</td>
</tr>
<tr>
<td>Report to the Boards of Directors</td>
<td>0%</td>
</tr>
<tr>
<td>Signature by employees</td>
<td>0%</td>
</tr>
<tr>
<td>Periodic review by managers</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: OECD

The company codes mention a variety of compliance tools. They use different compliance strategies for different commitments.

Figures 4a and 4b suggest that companies use a variety of management techniques in order to respect their commitments and that these techniques vary by type of commitment. As shown in Figure 4a, 32 per cent of all company codes discuss implementation in one way or another. Combating bribery is the most “implementation intensive” issue -- anti bribery codes are more than twice as likely to discuss implementation as the average code. The bribery codes also show a distinctive pattern of deployment of the compliance tools examined. They are much more likely than non-bribery codes to mention financial records and accounts as an implementation measure and they are more likely to mention a range of more specific internal measures (e.g. internal monitoring, whistle-blowing, etc.). External monitoring is the least used implementation technique examined -- only two per cent of the company codes mention it.

The supplier codes emphasise a different cluster of compliance tools. The use of threats -- e.g. terminating the business relationship -- is common in these codes.

The 22 supplier codes in Figure 5 show a very different pattern of implementation. These codes’ primary focus is labour standards in connection with retailers’ outsourcing activities in production sites not owned by the company. The most common measure is threat or “reference to punitive action” (mentioned in 73 per cent of the codes). This means that the code threatens some adverse economic consequence (usually termination of contract) if the code is not complied with.
The supplier codes are ten times more likely to mention external monitoring than the company codes. The supplier codes are more likely to mention external monitoring by parties not involved in the supplier’s day-to-day operations. Such monitoring is mentioned in 23 per cent of the supplier codes. This is monitoring by an organisation that is “independent” of both the issuing firm and the supplier (e.g. for profit auditing companies or NGOs). Generally, the codes do not state that such monitoring will be done, rather they reserve the right to do so.

In summary, there is no “one-size-fits-all” approach to implementation. In summary, this analysis shows that firms do not use a “one-size-fits-all” approach to implementation and that they tailor implementation measures to the type of commitment. A wide portfolio of management tools is used and expertise in the use of these tools is needed to implement ethical and legal compliance programmes in different business contexts.

Management Systems and Reporting -- Focus on the Environment

Implementing a legal and ethical compliance programme can be a formidable task. This section looks at companies’ environmental practices. Implementing a corporate compliance programme can be a formidable task requiring considerable managerial know-how. Normally all aspects of the firm’s operations will be affected -- structure of responsibilities, hiring, record keeping, incentive systems, external communications, training, production, legal services, emergency preparedness, etc. This section looks at how common such practices among European, Japanese and non-member Asian companies. It sheds light on the frequency of adoption of various environmental management and reporting practices and compares practices across countries and sectors of activities.

The data sets used here include a database covering over 1600 European companies and 100 non-member Asian companies. A different data set on Japanese companies’ environmental practices is also presented. This discussion of European companies presents aggregations of data from an existing database on environmental management and reporting practices (the environment module of the EIRIS database, which uses only publicly available information) covering over 1600 publicly traded companies in Europe. This discussion focuses on the firms in this database (numbering over 500) that operate in “high environmental impact” (HEI) sectors such as chemicals, air transport and forestry. The Secretariat has duplicated the EIRIS methodology and created another database on a matched set of companies in high environmental impact sectors from non-member East Asian countries. The Secretariat has also aggregated survey data on corporate environmental practices in Japan compiled by the Asahi Foundation. All three databases cover firms’ environmental commitments, environmental management practices and environmental reporting.

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4 A more detailed discussion of the study of European companies can be found in Annex 3 [DAFFE/IME(2000)15/ANN3], while the study of the non-member Asian companies is discussed in Annex 4 [DAFFE/IME(2000)15/ANN4]. The study of Japanese companies, which uses a different methodology than those of the European and non-member Asian studies, is described in Annex 6.

5 EIRIS, the Ethical Investment Research Institute, provides data used by ethical investors to evaluate individual company performance in a variety of ethical areas. EIRIS is based in the United Kingdom and covers European firms. The OECD Secretariat performed the aggregation of EIRIS’s firm-level data into sectoral and national groupings.
The analysis suggests that 75 per cent of the high impact firms in the sample publish environmental statements.

Firms sometimes use formal environmental management systems. Use of such systems is extremely high in northern Europe, but low in some other parts of Europe.

The statistical results for the HEI firms in Europe are shown by country and by environmental practice (statement of environmental commitment; formal environmental management system; reporting). Seventy-five per cent of the HEI firms in the EIRIS sample publish a formal “environmental policy statement” (i.e. a type of detailed code of conduct setting forth the company’s commitments for its environmental performance). The equivalent figure for all firms (high and low impact) is 42 per cent. All HEI companies from Sweden, Belgium and Norway issue policy statements, whereas less than 30 per cent of the Greek HEI companies do (Figure 6).

Companies sometimes use a formal environmental management system to help achieve their environmental commitments. Fifty-two percent of the HEI firms have such a system (Figure 6). The data point to wide differences among countries in the rate of implementation of such systems. Countries whose HEI companies have high rates of EMS implementation are Sweden (93 per cent of HEI companies), Finland (89 per cent), and Germany (82 per cent). Countries whose high environmental impact companies have relatively low rates of adoption include Greece (7 per cent) and Ireland (10 per cent).
Figure 6. **The environmental practices of European companies: policy, management systems and reporting**

(percentage of firms adopting practice and operating in high environmental impact sectors)

*Source: EIRIS and OECD*
Standard environmental management systems are available. Many European companies use such standards, but a third of them use tailor-made systems.

An important development in this area in recent years is the marked progress made in standardisation of environmental management systems (EMS). Two main EMS standards are available -- ISO 14001 and European Union’s Eco-Management and Audit Scheme (EMAS). The purpose of management standards is to lower the cost of implementation for companies (since they can take a management system “off the shelf”) and to increase the credibility to external stakeholders of firms’ efforts to achieve appropriate environmental standards (since their environmental practices are then recognised as being standard). The disadvantage of a standard is that it may not be well suited to a firm’s individual management problems or style. The data show that the majority of firms using an EMS use an EMS standard (ISO or EMAS), while 34 per cent use only tailor-made systems (Figure 7).

**Figure 7. Standardised EMAS and ISO 14001 versus Tailor-made EMS’s in Europe**

*(as a percentage of all companies with EMS’s)*

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMAS and ISO 14001</td>
<td>12%</td>
</tr>
<tr>
<td>EMAS only</td>
<td>20%</td>
</tr>
<tr>
<td>ISO 14001 only</td>
<td>34%</td>
</tr>
<tr>
<td>EMAS and ISO 14001</td>
<td>12%</td>
</tr>
<tr>
<td>Tailor-made EMS</td>
<td>34%</td>
</tr>
</tbody>
</table>

*Source: EIRIS and OECD*

Environmental reporting is the least common environmental practice. Environmental reporting is the least common among the three main practices studied. Forty one per cent of the HEI firms publish a stand-alone report on their environmental performance. Figure 6 suggests that significant differences exist between countries in the area of environmental reporting by HEI companies. Countries whose HEI companies are likely to publish stand-alone reports include Sweden (64 per cent), Finland (56 per cent) and Switzerland (50 per cent). In Ireland and Greece, none of the HEI firms produce stand-alone reports.
OECD-based multinational enterprises companies are not the only firms involved in the adoption of advanced environmental management practices. The Secretariat duplicated the EIRIS methodology for a matched sample of 100 high environmental impact companies based in five non-member Asia companies (Indonesia, Malaysia, Philippines, Chinese Taipei and Thailand). Note that, as with the EIRIS database, the nationality of a company depends on the stock exchange where its shares are quoted (in both cases, foreign ownership is often high). The results show reasonably high rates of adoption of such practices, especially in Chinese Taipei and Thailand for EMS adoption (Figure 8). These numbers place the rate of corporate adoption of formal EMSs in those two countries at only slightly lower than in the United Kingdom and France. An interesting difference between the Asian and European samples is the much higher reliance of Asian firms on standardised environmental management systems. All of the firms with an EMS in the Asian sample are certified for ISO 14001 (that is, none of the Asian firms use a tailor-made system).

Figure 8. Environmental management practices of non-member Asian companies
(percentage of firms adopting practice*)

* All firms in sample operate in high environmental impact sectors.

Source: OECD
A survey-based data source suggests that Japanese companies have high rates of adoption of advanced environmental management and reporting practices.

The Secretariat has also looked at the environmental practices of Japanese companies by aggregating survey data compiled by Asahi Foundation. The methodology underpinning this data is quite different than that of the two studies reported above (see DAFFE/IME(2000)15/ANN6 for discussion) and so comparisons should be made with caution. However, the data suggests that Japanese companies have very high rates of adoption of advanced environmental management practices: 78 per cent of the companies publish a statement of environmental policy, 58 per cent have one or more units certified for ISO 14001 and 54 per cent publish information on their environmental performance. One striking feature of the Japanese data is that it shows less difference between companies operating in high-versus low-environmental impact sectors than is typical of European companies.

Governments’ Roles in Influencing These Initiatives

OECD governments have played important and varied roles in influencing these private initiatives. Although the business initiatives discussed here are essentially private, they are influenced in various ways by the broader environment -- cultural, social, legal and political -- from which they emerge (Punch 1996). Public policy shapes this environment and is part of the institutional framework that influences firms’ voluntary initiatives. A survey of corporate environmental programmes in Asia, Europe and North America attests to this diversity of influences. Companies in all three regions named domestic legislation as the most important influence on their environmental management practices. This was followed by “legal actions”, environmental accidents and host country legislation (survey cited in Kolk (2000)). Annex 5 to this document [DAFFE/IME(2000)15/ANN5] discusses the ways OECD governments shape these initiatives. The policy areas covered are regulatory enforcement, criminal law enforcement, tax policy and policies affecting intangible capital (especially higher education).

One of the most important ways that governments have promoted voluntary initiatives is by explicitly incorporating them into their regulatory enforcement strategies. One of the ways that governments have promoted the adoption of corporate voluntary initiatives is by explicitly incorporating them into their regulatory strategy (OECD 1997). This strategy recognises that firms and their employees are often best placed to identify non-compliance with regulation. Under this approach, incentives are created to encourage firms to participate and to become, in effect, the first line of enforcement of public policy. Examples include the European Union’s environmental enforcement strategy (involving EMAS) and the United States’ co-operative programme in occupational health and safety. Other examples have been noted in food safety and truth in advertising (see OECD 1997) and in reduction of toxic chemical releases (Arora and Gangophadhyay (1995)).
They also use them in their enforcement of corporate criminal law.

A closely related development can be found in enforcement of corporate criminal law. Several OECD members have explicitly incorporated consideration of companies’ compliance and risk management practices into their approaches to punishing and correcting illegal corporate activity. Some countries refer to corporate compliance practices in their sentencing guidelines for corporate crime. A company that can show it exercised due care in avoiding criminal misconduct by its employees may receive less severe punishment than a company that cannot show it took reasonable measures to discourage misconduct. Examples are found in Australia (especially competition law), Canada (competition law) and the United States (Federal Sentencing Guidelines). These programmes create powerful incentives for firms to implement formal compliance practices and management systems of the type discussed in this paper.

Some governments also offer advantageous tax treatment to the NGOs that have played important roles in promoting these initiatives.

Compliance with criminal law and regulation is not the only factor influencing corporate initiatives -- they also respond to public concerns about the economic, social and environmental impacts of business activities. In recent years, NGOs have assumed an increasingly high profile role in the public debate on the activities of multinational corporations. NGO activity in monitoring and shaping business conduct has been diverse. It has included monitoring of the activities of some multinational enterprises and conducting public campaigns against those activities that are deemed to be inappropriate. They have also issued model codes of conduct (often in co-operation with the business community) and have provided expert advice in the field on managerial and strategic issues in the area of corporate responsibility. Some OECD governments have indirectly promoted these activities by offering favourable tax treatment to NGOs fund-raising efforts.

Governments have also contributed to the development of intangible capital -- mainly expertise and standards -- that are crucial to these private initiatives.

Governments also have contributed to the accumulation of intangible capital that is important in this area. They have contributed to the development of management and reporting standards (e.g. they contributed expertise when the ISO 14000 series of environmental standards was being developed). They have promoted the accumulation of human capital through their systems of higher education which now offer special course work and degree programmes in various field of corporate ethics and compliance. They have contributed to broader thinking in this area by promoting sector-specific initiatives (e.g. the Apparel Industry Partnership in the United States and the Ethical Trading Initiative in the United Kingdom) and by creating information services designed to promote “best practice” (e.g. in the European Union, Australia and Canada).
Possible Follow-ups on Fact-Finding

When it authorised the Secretariat to undertake this effort at its June 1999 meeting, the CIME agreed to make a decision about the “assessment” phase of the project after the completion of the fact-finding phase. The assessment phase would interpret the fact-finding results from a policy perspective, trying to form reasonable judgements on their implications for the functioning of international investment processes. Since CIMEs discussion and approval of this project, another development has occurred: Ministers asked the Organisation to pursue work on corporate codes in the Ministerial Communiqué. The proposal for work made here is not meant to address the broader question of how the Organisation should respond to this ministerial request. Clearly, though, an assessment of the “facts” gathered to date could play a role in an overall strategy for such a response.

Viewed as a whole, the results of the fact-finding mission suggest that the international business community and other actors have made substantial progress in developing ethical and legal compliance systems, including codes of conduct and related management systems. The analysis also shows that member countries have begun integrating these initiatives into their own regulatory and law enforcement strategies—in effect, cultivating a co-operative relationship with companies and making internal management systems the first line of defence in a broader public enforcement strategy. These developments have implications for the conduct of international economic policy and for the debate in OECD societies on the economic, social and environmental impacts of globalisation. This effort is expected to require fewer resources than the fact-finding effort (which involved data manipulation and contact with companies)—one month of an administrator’s time is the expected resource requirement for assessment. The assessment phase would aim to draw out these implications and would address the following questions:

- Likely future: What are the possible explanations of the wide variations in the nature and scope of the commitments firms make in their codes?
- How “culturally-specific” is this way of organising firms’ compliance systems? Are these initiatives more relevant for some national business cultures than for others?
- Why do relatively few firms issue formal reports on their non-financial performance? What are the major obstacles to global, non-financial reporting by companies?
- What role, if any, should these private efforts be accorded in the dialogue between governments and their constituencies concerning the effects of globalisation (for example, should governments call the public’s attention to them)?
- This paper suggests that the role played by OECD governments in shaping these initiatives has been important, but indirect. Governments have generally influenced the framework in which these initiatives have evolved but have rarely intervened directly. Can lessons be drawn from this for the conduct of international policy making? Should indirect influence on corporate behaviour be accorded a higher priority in international policy making?
A Secretariat note addressing these questions could be prepared for the consideration at the CIME’s next session in December.

### Principal Findings

**Scope and detail of commitments made in codes.**

Viewed as a whole, the 246 codes in the inventory cover the three components of the sustainable development agenda -- the codes contain a detailed set of commitments relevant to the economic, social and environmental welfare of the societies in which they operate. The commitments cover a vast array of issues including core labour standards, environmental stewardship, human rights, disclosure, corporate governance, public safety, protection of privacy and consumer protection. Labour relations and environmental stewardship are the most common broad issue areas covered in the codes.

**Uniformity of approach to commitment.**

Although the code inventory shows the firms are making commitments in an array of issues, it also suggests that there is little uniformity in their approach to commitment, even in relatively narrowly defined issue areas. The bribery codes show major differences of approach to basic features of commitment -- parties to bribery (public officials, private operatives or both?), gift-giving and entertainment (e.g. reasonable, accepted by local culture?) and political activity. Likewise, the codes dealing with labour relations among suppliers to the branded apparel industry (i.e. codes issued by garment retailers with a well-known brand) all mention the prohibition of child labour, but their treatment of other basic human rights within the workplace is variable (e.g. some mention freedom of association and others do not).

**Implementation of codes of conduct**

An examination of the 118 codes issued by individual business shows that many of them discuss implementation of commitments. Many different compliance or implementation tools are in evidence in the codes -- commitment by top executives, creation of a compliance office, training, employee signatures, internal audits, external audits, threats of punitive action, whistle-blowing facilities and record keeping. The codes in different issue areas differ in the frequency with which they discuss implementation. The bribery codes are twice as likely to discuss implementation as the environmental codes. The analysis also suggests that companies use different mixes of tools to deal with different implementation problems. In bribery, the most common tools are financial records, internal monitoring, and whistle-blowing. In codes addressed to suppliers (usually focusing on labour issues), the most common tools were threat of punitive action (termination of the supply contract) and internal and external monitoring.

A data set covering the environmental practices of over 400 publicly traded European companies operating in high environmental impact sectors was analysed in order to determine how common various advanced environmental management and reporting practices are. A matched sample of 100 non-member Asian firms was also developed and analysed. The analysis of the European companies suggests that over fifty per cent of the sample has a formal environmental management system and that EMS are extremely common in some countries (especially in northern, continental Europe) and not common at all in others (Ireland and Greece). Reporting of environmental performance was the least common environmental practice -- about 60 per cent of the Swedish high-impact companies publish a stand-alone report, whereas none of the Irish or Greek companies in the sample do. About twenty per cent of the non-member Asian high environmental impact companies have a formal management system and about 10 per cent of them issue a stand-alone environmental report. Results for Japanese companies suggest that Japanese companies have very high rates of adoption of environmental commitment, management and reporting practices and that they have a strong preference for standardised management systems such as ISO 14001.

The important and varied roles of governments.

The corporate responsibility initiatives studied here are private and voluntary, but have nevertheless been influenced by numerous government policies. Perhaps the most important of these is the incorporation of private compliance initiatives into the public enforcement strategy for law and regulation (e.g. in environment, occupational safety, competition law). This is sometimes done in ways that create powerful incentives to undertake such initiatives. Some governments have influenced corporate responsibility initiatives indirectly by providing tax expenditures (and occasionally direct subsidies) to the NGO sector, which has played diverse roles in these initiatives. Governments have also engaged in moral suasion to encourage companies to participate in particular initiatives and have contributed expertise and promoted the accumulation of human capital in this area.
References


Organisation for Economic Cooperation and Development. “Codes of Conduct: An Inventory” TD/TC/WP(98)74/FINAL.


