

## **CORPORATE SOCIAL RESPONSIBILITY – A DRAFT INTERNATIONAL STRATEGIC FRAMEWORK**

The Government has an ambitious vision for Corporate Social Responsibility

**To see UK businesses taking account of their economic, social and environmental impacts, and acting to address the key sustainable development challenges based on their core competences wherever they operate – locally, regionally and internationally.**

This strategy covers the important international dimension. It sets out the priorities and the main lines of, and rationale for our approach.

### Objective for CSR internationally

Continuous improvement in all of the economic, social and environmental impacts of business particularly UK companies outside the UK

### Priorities

- To spread best practice from the few to the many
- To help ensure approaches that deliver practical outcomes
- To encourage all relevant international and inter-governmental institutions to be actively engaged, applying their strengths and competencies and avoiding duplication

### How will we do it?

By:

- Ensuring a policy framework that stimulates, recognises and facilitates continuing development and application of best practices in CSR
- increasing awareness among business, especially UK companies, of the need to identify, and take action to address all of the impacts, positive and negative, of their operations across the world
- encouraging and facilitating processes and actions that foster the overall objective.

We will take the strategy forward:

**In the UK** by seeking to mainstream CSR in relevant work of all departments, by ensuring that international considerations are adequately reflected in our

overall CSR policies and activities, and by using networks of UK contacts in companies, NGOs and other organisations to further our CSR objectives.

**Multilaterally:** through the CSR activities of international organisations (including the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the Voluntary Principles on Security and Human Rights, and the work of the ILO); as well as collaboration with EU partners; through other international initiatives aimed at promoting CSR; and by helping to integrate CSR considerations into the action and outcomes of other international fora, such as G8, the Doha Development Agenda and the work of the Commission on Sustainable Development in taking forward the WSSD Plan of Implementation, including delivery of the Millennium Development Goals.

**Overseas**, with the support of the FCO's network of Posts and in the work of other departments such as DTI, DFID and UKTI, to promote CSR principles to governments, companies and civil society and explain the role they can play in promoting sustainable development.

### Main elements of our approach

We will encourage:

- A primarily voluntary approach that takes compliance by companies with all relevant legal requirements wherever they operate as the base level of performance and CSR as action by companies that goes beyond compliance, integrating socially responsible behaviour, including ethical values, in their core values, in recognition of the sound business/economic/competitiveness benefits in doing so.
- Development and progress in the CSR agenda that focuses on the substantive outcomes of continuous improvement in business CSR performance rather than refinement of definitions and abstract analysis of concepts.
- Further development and diffusion of best practice, including through the proposed CSR Academy on building skills and capacities, and tackling obstacles to implementation.
- Carefully targeted approaches that add value, allowing and stimulating creativity and innovation by business in improving performance rather than broad "one size fits all" approaches
- Partnerships and active engagement between business and all stakeholders: civil society organisations, customers and suppliers, employees and their representatives, international organisations, national and local government – as well as shareholders.
- Improved business contributions to poor-poor growth and poverty eradication including through more effective partnerships with host governments and other stakeholders.

- Transparency and effective information flows.
- Exchange of information and experience internationally: on initiatives to stimulate and facilitate improvement in CSR performance, including on the Government role in setting a policy and institutional framework, in particular intelligent regulation and fiscal arrangements, that ensures adherence to minimum norms and standards, and also fosters continuous improvement beyond these.
- Careful assessment of possible governmental or intergovernmental interventions to ensure they are justified, well-designed, focused on a clearly identified issue or objective, effectively applied and have regard to better regulation principles
- Adherence by companies to internationally agreed standards, norms and guidelines such as the OECD Guidelines for Multinational Enterprises and the nine principles of the UN Global Compact.
- Active engagement by business with host governments on action to identify and tackle obstacles to compliance with national legal requirements.
- Increased and improved engagement and understanding of the “business case” for CSR by the mainstream financial sector.
- Improved coherence between and streamlining of codes of conduct, and guidelines, concentrated on ensuring business engagement and implementation
- Active engagement by international organisations that focuses on their core competencies and adds value but avoids the development of new institutions and mechanisms unless there is clear case that it will add value.

### Why is action on CSR at the international level important?

Sustainable development requires action from all sectors of society, including business whose entrepreneurial and innovative strengths are particularly critical in delivery: translating policy and intentions into effective action. We look to business to create wealth and jobs, and provide goods and services to meet basic needs and help meet our expectations and aspirations for an improved quality of life.

But corporate activity is not just about narrow measures of economic progress and financial performance. It also has wider impacts on society and the environment. And in an increasingly complex and globalised world those impacts, good and bad, more and more extend far beyond national borders. They range from direct impacts, arising from the establishment of production facilities or the extraction of natural resources across the globe, to the indirect impacts via complex global supply chains. Consequently, the business

contribution to international and domestic civil and political rights, social, environmental, economic objectives and priorities has been the subject of increasing attention and debate.

This has been reflected in a wide range of initiatives and processes. Many have been led by business itself, either individually or through sectoral and cross-sectoral collaborations. And responding to increased stakeholder engagement with business strategies and activities there has been an increasing trend towards multi-stakeholder approaches. Other initiatives have been developed by the UN and other international organisations.

Concerns have been expressed about the plethora of initiatives. On the one hand it is argued that this leads to confusion and a dilution of efforts. Allied with concerns about the effectiveness and appropriateness of relying on these mainly voluntary initiatives there have been increasing calls for more concentration on legal approaches including calls for a global instrument covering the whole ambit of corporate performance and behaviour. On the other, there are arguments that the range of initiatives reflects both the wide variety of circumstances and issues encompassed by the CSR agenda and the relatively immature and evolutionary nature of the agenda itself, particularly in the global context. It is therefore argued that the priority should be on encouraging more experimentation and actions tailored to particular circumstances.

A balance needs to be struck. We should encourage better coordination and networking and avoid duplication and wasted efforts. But there remain strong arguments for supporting a wide range of initiatives. There is not nor likely to be one template that can cover all circumstances and we need to ensure there is always space for new partnerships, approaches and learning.

#### Why do we need a strategy?

The UK is seen internationally as a pioneer of corporate social responsibility. British companies generally are regarded as good performers by international standards. A number of British multinationals are recognised as trendsetters in developing CSR policies. There is a vibrant CSR debate among NGOs in the UK, with Business in the Community and the International Business Leaders' Forum among leading promoters of change in business behaviour. Many CSR international experts are British or are based in the UK. Many in the international community therefore look to the British Government to play a leading role in promoting CSR and in pushing forward the policy debate.

We want to continue to play an active and influential role, helping to encourage and shape pragmatic and practical progress. This strategy sets out the approach we will make to that continuing role. We want to improve the competitiveness of UK businesses, while at the same time maximising the positive contribution their investments and day to day operations activities can make. The conduct of British businesses can also have an important impact on the UK's international image. By helping to ensure that private sector activity works to the benefit of those affected by it, good CSR practices can

help to ensure that trade and investment are a positive force for sustainable development in a globalised world.

### What are the impacts that companies need to consider?

The precise impacts that need to be considered vary considerably depending on the nature and scope of the activities of particular companies and sectors. CSR encompasses all aspects of business activities and their impacts. It does not start or stop at the factory gate or office door. It extends back down the supply chain and forward to the consequences in the marketplace of the goods and services supplied. Companies should therefore consider all impacts, direct and indirect. This requires application of wide variety of tools and techniques. Some such as risk assessment and supply chain management may have been developed to a high level of sophistication but require new thinking and adaptation to enable their application to the many complex issues involved in CSR, particularly beyond the national context. Others such as sustainability appraisals remain relatively immature. This underlines the need to encourage further development and sharing of best practice to help provide a flexible menu of practical and least burdensome approaches that can be effectively applied to a wide variety of circumstances.

### Why should businesses address these impacts?

There is a continuing and lively debate about the “business case” for CSR. For some, it is an ethical issue. For others, it is no more than sound business practice of managing risks and exploiting opportunities. There are strong arguments for thinking that if a business is actively managing its social and environmental impacts and doing it well that is probably a good sign of a competitive sustainable business. In today’s global knowledge economy, intangibles including relationships inside and outside the company, brands and broader reputation are key elements of competitiveness. And in a wired world corporate activities are subject to ever-closer real time scrutiny and debate wherever they take place. Business cannot take for granted its “licence to operate”. Active stakeholder and environmental management aligns ever-closer with the management of sources of competitive advantage and needs to be as central in corporate strategy and values.

Too often the costs of CSR-related activity are seen as an expense when they should more properly be regarded as an investment. Investment in people is a good example. An increasingly critical asset for competitiveness is a skilled and committed workforce. CSR including its international dimension is proving to be a key element in recruiting, retaining and motivating staff. More and more companies are finding that employees want to work for businesses that not only offer interesting and financially rewarding careers but also care about and contribute to addressing global challenges like improving the environment and tackling poverty.

### What are the respective roles of voluntary, regulatory and other mechanisms?

The voluntary v regulation question is not a simple matter of choosing only one or the other, particularly in an international context. The picture is more of a kaleidoscope than that. It is perhaps only natural that when we see behaviour of which we disapprove and believe should be stopped we look to regulation to bring it to an end. And equally it is tempting to see regulation as the way of forcing more companies more quickly to do more of the good things that many are doing on a voluntary basis. As a general rule, virtue cannot be forced through regulation. To be effective regulation must be enforceable and enforced.

Regulation is a powerful tool but like any government intervention can have unintended consequences that lead to more serious problems. It is only one of the tools at the disposal of governments when their intervention is necessary. In practice interventions are mix of actions to improve awareness, to set standards and to provide incentives and penalties through a range of fiscal and other measures, including regulation. National legislation/regulation performs an important role in establishing minimum levels of behaviour in areas such as: financial probity; human and labour rights; environment, health and safety; transparency and corruption. It sets the base on which CSR builds to go further and do better. International instruments can also be useful in establishing globally agreed minimum standards, and help achieve a level playing field. And international processes can be a platform for governments to demonstrate political will, to make commitments and set goals that signal the key global challenges and shape the response required.

So it is a question of deciding whether, and at what level, regulation is necessary and ensuring that it fulfils intentions. CSR addresses a very broad agenda and is relevant to companies of all sizes in all countries. It is fast-developing and one of its major strengths comes from harnessing business drive and creativity, allied with the different perspectives that can emerge from close working with other stakeholders. Our focus must be on encouraging new ideas and learning from experience of what works best and can be adapted to work with the grain of different situations and cultures.

We do not support the calls for development of a global legally binding convention on CSR. A focus on a convention carries strong risks of being counter-productive. It risks diverting the energy of the still relatively small community in business and elsewhere focused on CSR from action to debate. There are complex legal and technical issues involved in determining and putting in place a global set of rules and the institutional architecture at national and international levels needed to back them up. And there must be some doubts about the effects if, as seems likely, the global norms and standards that could be agreed by all governments were some way below what leading players are now doing.

However, we do believe that more can be done at the international level to encourage the development and application of best practice. And international organisations, including many parts of the UN family have a potentially valuable role to play

## Initiatives and processes addressing the international dimension of CSR

There are many international activities addressing CSR beyond the national level, including multilateral processes with a broad perspective and global scope, as well as initiatives and partnerships focused on particular locations, sectors or issues. The UK government and UK businesses and other non-governmental actors are involved in many of these.

WSSD confirmed the place of CSR as a key item on the international agenda. A particular feature of the Summit was the focus on the need for contributions from and collaboration between non-state actors, especially business in putting into practice the sustainable development commitments made at and since Rio. Governments made many commitments at WSSD, including on meeting the ambitious Millennium Development Goals. They also agreed to *“actively promote corporate responsibility and accountability...including through the full development and effective implementation of intergovernmental agreements and measures, international initiatives and public-private partnerships, appropriate national regulation and continuous improvement in corporate practices in all countries...”*.

To help determine the best way to take forward the WSSD outcomes on CSR commissioned a study by the Royal Institute for International Affairs (RIIA) exploring the options. An initial report was published on 12 February [<http://www.riia.org/index.php?id=177>] and will be subject to a process of consultation via individual stakeholder interviews and through a high level international workshop at Chatham House in April 2004. Following the workshop, a final report will be prepared and launched at the UN in New York during CSD 12 (18-30 April 2004).

We continue to participate fully with the **International Labour Organisation (ILO)**, which is the specialised UN agency which promotes internationally recognised labour standards. We support and promote the 1998 ILO Declaration on Fundamental Principles and Rights at Work, which provides a framework of rights for workers through the internationally agreed 'core labour standards'. These cover freedom of association and the right to collective bargaining, the elimination of forced and child labour and the elimination of discrimination in employment. They also constitute the 'labour' element of the nine principles underlying the Global Compact initiative.

The UK also chairs and is an active participant in **the ILO Sub-committee on Multinational Enterprises**. In November 2003 the Sub-committee agreed to conduct its 8<sup>th</sup> survey on the effectiveness of the ILO Tripartite Declaration on Multinational Enterprises and Social Policy in promoting the ILO Core Labour Standards. Questionnaires will be sent out to governments and employers' and workers' organisations and results should be available by mid 2005.

In February 2004 the **ILO World Commission on the Social Dimension of Globalisation** published its report, 'A Fair Globalisation: creating opportunities for all'. The Report makes a useful contribution to the

globalisation debate and towards helping us to understand the underlying issues and improve the coherence of our response. We look forward to actively participating in further discussion".

At the European level, the Commission set out in its 2002 communication document its aspiration for CSR to contribute to making Europe by 2010 the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. The Commission will publish a further White Paper on CSR in November 2004 following on from the work of the Multi-stakeholder forum established following the 2002 Communication.

We look forward to UK EU and G8 Presidencies in 2005. We want to continue to play a leading and influential role in the development of CSR policy in these fora.

We are committed to the **OECD Guidelines for Multinational Enterprises**, which set out a framework for good corporate practice across a number of areas, including industrial relations, environmental impact, competition and combating bribery. As the National Contact Point, we promote the Guidelines and work to resolve issues arising from their implementation. The Guidelines are not a method of investigation and sanctions, but a forward-looking process of identifying when the Guidelines have been incompletely implemented to guide future corporate behaviour.

UK strongly supports the OECD Convention and is determined to ensure that there is effective action here and abroad to tackle the problem of bribery. The UK has an excellent reputation for openness and honesty, the government want to build on that by stamping out those acts of bribery which may be committed by a minority of UK companies and nationals.

Bribery is bad for business. A culture of corruption is a disincentive to trade and investment and payment of bribes is unacceptable behaviour for UK companies or nationals. By upholding the law and promoting transparency in business activities British companies enhance their own reputations and staff morale. The legislative changes give UK companies and nationals a stronger defence against attempts to extort bribes from them.

The **OECD Convention Combating the Bribery of Foreign Public Officials in International Business Transactions** was signed by Member States on 17 December 1997. The UK ratified the Convention on 14 December 1998 and it came into force on 15 February 1999, focusing on the bribery of foreign public officials to obtain or retain business. It is one of a series of international initiatives aimed at tackling corruption. International bribery and corruption provisions were enforced from 14 February 2002 and mean that from that date UK-registered companies and nationals will be breaking UK law if they bribe someone overseas.

The **UN Global Compact** is a direct initiative of the UN Secretary-General, Kofi Annan. In an address to the World Economic Forum in January 1999, he

challenged business leaders to join an international initiative – the Global Compact – which would bring companies together with UN agencies, labour and civil society to support nine principles in the areas of human rights, labour and the environment. It was formally launched in 2000. Over 1500 companies worldwide have so far committed.

In June Kofi Annan will host a Global Compact leaders' meeting in New York. The UK will be actively involved in the event which will bring together hundreds of CEOs from national and international business to exchange views and best practice. The meeting will also consider the possible addition of a tenth principle focused on corruption/transparency.

The UK has contributed £50,000 to the cost of the Global Compact office in each of the years 2002-03 and 2003-04 as well as helping to fund an external assessment of the initiative that is currently underway. In addition, the FCO has provided financial support for Global Compact projects in China and South Africa. Through its participation in the Donors' Group in New York, the UK Mission to the UN has been closely involved in discussions about the strategy of the Global Compact and its activities.

The **Voluntary Principles on Security and Human Rights** were developed in 1999 and 2000 through consultation between the UK and US Governments, companies and NGOs. They were jointly launched in December 2000 by the FCO and the US State Department. The Principles set out standards of behaviour for companies in the extractives sector operating in zones of conflict. The Voluntary Principles aim to guide companies who are seeking to ensure security in ways which also promote and protect human rights. Participants also include the governments of the Netherlands and Norway and a growing number of companies and NGOs.

The **Global Reporting Initiative (GRI)** is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations from around the world. Started in 1997 by the Coalition for Environmentally Responsible Economies (CERES), the GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact. A number of UK companies and other organisations have been active participants in the GRI. We will continue to encourage such participation.

Many developing countries have significant extractive industries (oil, gas, mining). The revenues from these industries should be an important engine for growth and sustainable development. In many countries, however, there is a lack of transparency in the payments made by the industry to governments, and in revenues to government. This lack of transparency often

hinders the flow of money from the natural wealth of the countries to their citizens. This can harm not only the prospects for sustainable development, but in the long-term can damage the relationship between citizens and governments, and companies wishing to invest in developing countries. In some cases this has led to tensions and conflicts within countries. **The Extractive Industries Transparency Initiative (EITI)** aims to achieve transparency over payments by oil, gas and mining companies of tax and non-tax payments to host governments and government-linked entities, as well as greater transparency by governments over revenues from this sector. A statement of principles and actions on how to achieve this was launched by the Prime Minister at a conference in London in June 2003. The UK and other donors are now looking to build on the success of the June conference and to pilot EITI in a number of the countries which expressed interest at the conference.

The **Ethical Trading Initiative** is an alliance of companies, non-governmental organisations (NGOs), and trade union organisations committed to working together to identify and promote ethical trade - good practice in the implementation of a code of conduct for good labour standards including the monitoring and independent verification of the observance of ethics code provisions, as standards for ethical sourcing.

UNDP's **Growing Sustainable Business for Poverty Reduction** initiative (GSB) aims to facilitate greater private sector contributions to poverty reduction and sustainable development through commercially viable activities. The GSB initiative grew out of the 2002 UN Global Compact policy dialogue on "business and sustainable development". It was presented and endorsed in a high-level session at the World Summit on Sustainable Development in Johannesburg in 2002, attended by Kofi Annan, Mark Malloch Brown, Tony Blair and Jacques Chirac, chief executive officers of global companies and representatives from labour, non-governmental organisations and other UN organizations. The GSB initiative has the following interconnected objectives:

- Facilitate increased sustainable investments and business activities in developing countries that link large companies to local, small and medium enterprises, along with communities and other relevant local partners.
- Highlight innovative sustainable business projects that demonstrate how commercial business activities can contribute to poverty reduction and promote sustainable development.
- Encourage overall greater engagement and contribution of the private sector in the national poverty reduction strategies (PRS), aligning private investments more closely with governments' development priorities.

Multinational companies are invited to take the lead in specific countries. For example, Shell is leading in Ethiopia, and EBB and Ericsson in Tanzania. We believe that the UN's comparative advantage in this area is to provide a neutral convening forum and ability to link the work with wider investment climate and governance issues.'