



# Promoting Global Corporate Social Responsibility

## The Kenan Institute Study Group Consensus

Policy Recommendations



September 2003



The Frank Hawkins Kenan  
Institute of Private Enterprise,  
Washington Center



UNC  
KENAN-FLAGLER  
BUSINESS SCHOOL

**This project was directed by Dr. Susan Aaronson and James Reeves with the assistance of Nathan Barcic, Jennifer Bremer, Justin Fabeny, Louise Langhoff Roos and Eloy del Toro, Kenan Institute of Private Enterprise, Washington Center.**

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#### **THE FRANK HAWKINS KENAN INSTITUTE OF PRIVATE ENTERPRISE**

##### ***Competitive Strategies for 21st-Century Success***

**The Kenan Institute of Private Enterprise, Washington Center focuses on research, program innovation and partnership development to foster sustainable economic growth worldwide. The Center works at the intersection of international business and development, helping clients and partners worldwide access public and private resources and expertise to achieve mutually beneficial objectives.**

**The Center is part of The Frank Hawkins Kenan Institute of Private Enterprise, the outreach arm of the Kenan-Flagler Business School at The University of North Carolina at Chapel Hill. The Kenan Institute provides knowledge, networks and solutions that help companies, communities and countries succeed and prosper.**

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# Introduction

The United States has a national and foreign policy interest in promoting global corporate social responsibility (CSR). In 2003, The Frank Hawkins Kenan Institute of Private Enterprise, Washington Center convened a study group to examine the appropriate roles of the U.S. government in promoting global CSR. The study group included leaders from business, labor, non-governmental organizations (NGOs) and academia, as well as former government officials and Congressional staff. Building on existing policies and initiatives, this diverse

study group found common ground on ways the U.S. government can give greater priority, focus and consistency to its efforts to promote global corporate social responsibility.

This set of recommendations represents a first step toward a stronger partnership among business, labor, government and NGOs to address the new governance challenges that arise from globalization.

## The Kenan Institute Study Group specifically recommends that the U.S. government:

- **Promote transparency and disclosure practices.**
- **Encourage adherence to internationally accepted social and environmental standards.**
- **Offer resources to improve governance institutions worldwide.**
- **Strengthen U.S. government coordination and capacity to promote global CSR.**
- **Convene multi-stakeholder dialogues to encourage and strengthen global CSR practices.**
- **Provide incentives and use government procurement policies as tools to promote global CSR.**

# Recommendations

## Promote transparency and disclosure practices.

1. The U.S. government should work with other governments to promote consistency and best practices in global corporate social responsibility (CSR) transparency and disclosure requirements.
2. The Securities and Exchange Commission should establish a blue ribbon commission to consider rulemaking that would require publicly traded companies to undertake “triple bottom line” reporting as part of their annual filing(s). Models of global CSR reporting should be evaluated for use as the basis for the reporting format.
3. The U.S. government should convene a multi-stakeholder dialogue on government measures to support efforts of companies to take responsibility for their upstream supply chains and to develop transparency for shareholders, consumers and the public.

## Encourage adherence to internationally accepted social and environmental standards.

4. The U.S. Department of State should actively promote adherence to and implementation of the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises. State Department officials should inform the public about the guidelines and the role and responsibilities of the National Contact Point (NCP). The U.S. Congress and/or the executive branch should provide the NCP with the resources necessary to support its function. The NCP also should request that all U.S. embassies and consulates provide assistance in promoting and implementing the guidelines. The NCP should convene regular meetings with business, trade union and NGO representatives to review progress in promoting and implementing the guidelines.

The NCP must take the steps necessary to encourage corporations to adhere to the guidelines. The NCP should actively pursue complaints brought before it, including, in a timely manner, convening meetings of interested parties to seek information regarding and possible resolution of complaints. If such efforts fail to find a resolution, the NCP should actively engage NCPs in other affected countries to seek adherence to the guidelines. To promote greater

transparency, the NCP should annually publicize resolved cases, outlining the complaints brought before the NCP and the steps taken to resolve them.

Every U.S. agency that provides direct support for U.S. companies operating overseas should announce its endorsement of the OECD guidelines, include language in its documentation expressing this endorsement and encourage those corporations receiving support to adhere to the guidelines.

5. The U.S. Department of Labor should actively promote adherence to the International Labour Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and the ILO Declaration on Fundamental Principles and Rights at Work.

In doing so, the department should publicize both instruments among employers, trade unions, NGOs and the public, and actively encourage adherence in the United States and abroad. The department should convene regular meetings with business, labor and civil society groups to discuss programs to advance such goals and to monitor progress. Congress should provide adequate funding

for technical assistance. Such funding should be allocated by the Department of Labor for efforts to advance corporate compliance with the principles and rights promoted by both instruments and to research cases where foreign direct investment and supply chain management have successfully led to decent work practices and where they have failed to do so.

Finally, to ensure maximum credibility in promoting these standards around the world, the U.S. government should show leadership by ratifying the ILO core conventions it has not yet ratified.

6. The U.S. government should provide resources to enable developing countries to adopt, implement and enforce laws and regulations that raise labor, environmental and human rights standards to meet internationally accepted principles, such as the ILO Declaration on Fundamental Principles and Rights at Work, and to foster economic development.

## Offer resources to improve governance institutions worldwide.

7. The U.S. government should expand incentive-based systems in trade agreements and preference programs to other countries and regions as a valuable element of a broader multifaceted approach to encourage adherence to stronger social, labor and environmental standards. The Trade Policy Review Group should analyze ways the U.S. government could contribute to this program expansion, including:

- Providing for such incentives in trade agreements.
- Strengthening labor and environmental regimes.
- Encouraging the ILO and others to work with the export sector to adopt and implement global CSR initiatives.
- Offering capacity-building programs to exporters who implement global CSR initiatives.

8. The U.S. government should promote in developing countries the adoption of corporate reporting and disclosure rules that complement those in the capital markets of developed countries.

9. Where the rule of law is weak, Congress should establish and fund programs to support open, transparent, timely and evidence-based local adjudication of labor, environmental and other disputes involving corporate operations in developing countries.

10. The U.S. government should press international financial institutions to advise and provide funds for improving the corporate governance and institutional reporting framework for countries that receive grants and loans.

11. The Administration should allocate a portion of Millennium Challenge Account (MCA) resources to programs specifically designed to strengthen the rule of law and transparency in developing countries, especially in regard to labor and environmental law. Particular emphasis should be placed on building government capacity for enforcement, training and education, strengthening related programs in civil society, and providing local incentive programs for businesses that build a culture of compliance.

In addition, Congress should establish and fund an “MCA Preparatory Program” targeted at strengthening rule of law and governance performance in those countries that are:

- Falling short of meeting the full MCA criteria but are reasonably close to eligibility.
- Committed to achieving a level of improvement in rule of law, governance and other areas that would make them MCA-eligible within a reasonable time frame.

## Strengthen U.S. government coordination and capacity to promote global CSR.

12. Congress should request that the General Accounting Office conduct a review of existing U.S. policies and programs that promote or undermine global CSR to obtain greater policy clarity and consistency.
13. The president should create an interagency working group to focus and coordinate U.S. government policies and programs to support global CSR in the U.S. national and foreign policy interest, including instituting many of the recommendations in this report. In particular, this interagency working group could be tasked with convening multi-stakeholder dialogues and examining potential incentives to promote sustainable development.
14. U.S. embassies should work more closely with American companies in promoting global CSR in the countries where those firms have a major investment presence. Embassies should coordinate efforts with American chambers of commerce and individual companies to promote sound global CSR practices.

## Convene multi-stakeholder dialogues to encourage and strengthen global CSR practices.

15. The U.S. Department of State and other agencies should examine sectors and issues where it should continue to use its convening power and diplomatic resources to lead multi-stakeholder and/or multinational dialogues on outstanding issues. The Voluntary Principles on Security and Human Rights provides a model for such dialogues.
16. The U.S. government should convene a multi-stakeholder forum on global CSR initiatives, such as Global Reporting Initiative, Fair Labor Association, Ethical Trading Initiative and Social Accountability International, with the goal of attracting broader adoption of these initiatives. This multi-stakeholder forum should identify and develop strategies to encourage cooperation and improve effectiveness, such as:
  - Alliances among players.
  - Best practices.
  - Norms for voluntary CSR disclosure.
  - Joint training initiatives.
  - Database sharing.
  - Mutual recognition of social and environmental audits.

## Provide incentives and use government procurement policies as tools to promote global CSR.

17. The U.S. government should provide incentives, such as tax credits, to promote global CSR.
18. The president of the United States should issue an executive order that requires U.S. government agencies to integrate labor and human rights performance and reporting guidelines in procurement preferences (analogous to existing provisions in procurement rules regarding environmentally preferable and energy-efficient procurement). The executive order should include provisions to ensure that firms are not unduly burdened by reporting requirements and ensure that the requirements are consistent with international obligations and with small business procurement-related regulations.

# Glossary

## **blue ribbon commission**

A high-level commission established by a senior government official to examine a policy problem and propose solutions.

## **corporate governance**

The system that allocates duties and authority among a company's stockholders, board of directors and management. Increasingly, companies are being challenged to be accountable to their stakeholders, not just their shareholders.

## **corporate social responsibility (CSR)**

Business decision-making linked to ethical values, compliance with legal requirements and respect for people, communities and the environment around the world.

## **disclosure**

The means by which companies provide transparency to stakeholders or that governments provide transparency for their citizens.

## **executive order**

Official document used by the president of the United States to manage federal government operations. The text of an executive order appears in the daily Federal Register after it is signed by the president and received by the Office of the Federal Register.

## **Ethical Trade Initiative (ETI)**

An alliance of companies, non-governmental organizations (NGOs) and trade unions that works to improve labor conditions in the supply chains of corporate members. Members include multinational companies, mostly European-based but also including Safeway and Levi Strauss & Co., NGOs, such as Oxfam, and think tanks, such as the New Economics Foundation. The labor standards adopted by ETI members come from International Labour Organization (ILO) core conventions.

## **Fair Labor Association**

A multi-stakeholder initiative bringing together multinational corporations, non-governmental organizations (NGOs), colleges and universities to promote adherence to international core labor standards and improve working conditions worldwide. The Fair Labor Association was established as an independent monitoring system that makes public information on the conditions under which participating company products are made.

## **General Accounting Office (GAO)**

The audit, evaluation and investigative arm of Congress. GAO helps Congress meet its Constitutional responsibilities and improve the performance and accountability of the federal government for the American people by investigating and reporting on topics selected by Congress.

## **Global Reporting Initiative**

A multi-stakeholder effort whose mission is to develop and disseminate globally applicable sustainability reporting guidelines. These guidelines are for voluntary use by organizations for reporting on the economic, environmental and social dimensions of their activities, products and services.

## **international obligations**

International treaties and other bilateral, regional or multilateral government agreements to which the United States is a party or with which it has otherwise agreed to comply.

## **The International Labour Organization (ILO)**

The United Nations (UN) specialized agency that seeks the promotion of social justice and internationally recognized labor rights. ILO was founded in 1919 and is the only surviving League of Nations organization. It was subsumed by the UN in 1946.

## **ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy**

Adopted by the Governing Body in 1977, this voluntary code is the result of a consensus between governments, employers and workers. The declaration is the only universal text relating to the labor and social aspect of the activities of multinational enterprises. Its principles in the fields of employment, training, conditions of work and life and industrial relations address themselves to governments, employers, including multinational enterprises, and workers.

## **ILO Declaration on Fundamental Principles and Rights at Work**

Obligates all ILO members, regardless of whether they have ratified the underlying conventions. The ILO's four core labor standards are: respect for freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labor; the effective abolition of child labor; and the elimination of discrimination in employment and occupation. The declaration was intended in part to promote these core labor standards.

### **incentive-based systems in a trade agreement**

Provides increased trade benefits to trade partners based on performance on selected criteria, such as improved adherence to stronger social, labor and environmental practices (e.g., if Cambodia improves its labor standards, Cambodian textile factories qualify for an increased quota or the right to export more textiles to the United States).

### **interagency working group**

A committee of representatives of U.S. government agencies and departments that meets to coordinate U.S. government policies and programs.

### **international financial institutions**

Institutions such as the World Bank, the Asian Development Bank, other regional multilateral development banks and the International Monetary Fund.

### **Millennium Challenge Account**

A new approach to development assistance based on greater selectivity in determining the eligibility of recipient countries. Although the authorizing legislation is under review in Congress, it is anticipated that the MCA will be administered by a new small government corporation, the Millennium Challenge Corporation, designed to support innovative strategies and ensure accountability for measurable results.

### **multi-stakeholder**

Refers to the many different individuals that have a stake in the success or practices of organizations and institutions. Multi-stakeholder organizations, such as the Global Reporting Initiative, include representatives from labor, business and civil society groups.

### **non-governmental organizations (NGOs)**

Organizations that are not directly part of the traditional business community or associated with governmental institutions. NGOs are nonprofit organizations that typically advocate for a specific cause, such as the environment or human rights, but also may be think tanks.

### **Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises**

The guidelines are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas, including employment and industrial relations, human rights, environment, information disclosure, competition, taxation and science and technology. The National Contact Point is responsible for encouraging observance of the guidelines

in a national context and for ensuring that the guidelines are well known and understood by the national business community and by other interested parties.

### **public policies to promote corporate social responsibility**

Global policies that promote ethical values and respect for employees, communities and the environment. Examples include environmental reporting requirements, convening activities (such as those that yielded the Voluntary Principles on Security and Human Rights), development partnerships and procurement rules.

### **Social Accountability International**

A nonprofit organization dedicated to the development, implementation and oversight of voluntary verifiable social accountability standards.

### **Trade Policy Review Group**

The Trade Policy Review Group (TPRG) is chaired by the deputy U.S. Trade Representative and comprises sub-cabinet representatives, including the Under Secretary of Agriculture for Farm Services and Foreign Agriculture. The TPRG reports to the Trade Policy Committee, the senior U.S. government interagency trade committee established to provide broad guidance on trade issues. The Trade Policy Committee is chaired by the U.S. Trade Representative (USTR) and comprises other cabinet officers, including the Secretary of Agriculture. The Trade Policy Staff Committee, which initiates position papers, is chaired by a deputy assistant USTR and has representation from other cabinet departments, including the U.S. Department of Agriculture.

### **transparency**

Exists when market actors can access the information they need to understand a company's operations or reduce pollution.

### **triple bottom line reporting**

Reporting on the social, environmental and economic performance of corporations, governments and NGOs.

### **Voluntary Principles on Security and Human Rights**

A set of voluntary principles aimed at guiding companies in the extractive and energy sectors to maintain the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms. The principles emerged from a dialogue initiated by the governments of the United States and the United Kingdom. The dialogue included companies in the extractive and energy sectors and non-governmental organizations. The governments of Norway and the Netherlands recently joined the initiative.



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