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## **UNIT 2 PERSPECTIVE IN GLOBAL CONTEXT**

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- 2.2 CSR in Europe
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### **2.1 INTRODUCTION**

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In the previous unit you have read about the concepts and definitions of CSR. You also read about various theories of CSR. We know that over the years, the understanding of CSR has undergone several changes. One of the reasons for the shift in the understanding from voluntarism to due diligence is the number of disasters that have happened at the production sites of Western companies mostly in the developing countries. The meaning of CSR varies substantially from country to country. It would be relevant here to look at the perspective of CSR from the view point of different countries and regions. In this unit you will learn about the Perspectives and drivers of CSR for different regions of the world.

After reading this unit you will be able to

- Discuss about approaches to CSR of different countries in Europe and Scandinavian Countries
- Discuss the perspective of CSR in US and Latin America
- Describe the drivers for CSR in developing countries
- Discuss various international initiatives related to CSR

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### **2.2 CSR IN EUROPE**

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The European Commission in its 2011-14 strategy on CSR has defined CSR as ‘the responsibility of enterprises for their impact on society’. The Commission believes in CSR being company led with public authorities playing a supportive role through a mix of voluntary policy measures and regulations.

CSR has been a subject of interest among both businessmen and governments in Europe. However, there has been contrasting positions taken by European Commission (EC) and NGO’s and trade unions. While EC has been rejecting regulation and emphasizing on CSR being a voluntary initiative for business to

practice, the European parliament along with NGOs and trade unions have been demanding for regulations and compulsory reporting of the social and environmental impacts of the businesses.

The Commission promotes CSR and encourages countries to follow international guidelines and principles. The EU policy on CSR is based on various actions to support this approach. They include:

- 1) Enhancing the visibility of CSR and disseminating good practices
- 2) Improving and tracking levels of trust in business
- 3) Improving self and co-regulation processes
- 4) Enhancing market rewards for CSR
- 5) Improving company disclosure of social and environmental information
- 6) Further integrating CSR into education, training, and research
- 7) Emphasizing the importance of national and sub-national CSR policies
- 8) Better aligning European and global approaches to CSR.

A Public Consultation of CSR 2011-14 was launched by the Commission to evaluate the CSR strategy.

Some core components of the EU's 2011 CSR strategy include:

- The development of CSR should be led by enterprises themselves.
- But public authorities should play a supporting role through a smart mix of voluntary policy measures and, where necessary, complementary regulation, for example to promote transparency, create market incentives for responsible business conduct, and ensure corporate accountability.
- Enterprises must be given the flexibility to innovate and to develop an approach to CSR that is appropriate to their circumstances.

### **2.2.1 Approaches of various countries in Europe**

#### **1) Austria**

Austria is a very regulated country with its Company's Act dating back to 1966. The Sustainable Strategy adopted by the Austrian government in 2002 aims at integrating economic, social, and environmental spheres. The strategy emphasizes on sustainable public procurement and concerns with ecological, social, and ethical aspects of supply chain. CSR reporting is recommended in the CSR guiding vision since 2009. Eco-efficiency and sustainable consumption are the key drivers of CSR in Austria.

#### **2) UK**

UK is considered as a leader in CSR, particularly because UK houses world's greatest thinkers, practitioners, and campaigners in this field. The amount of finances given by the companies to the society is considered as the key indicator of CSR in UK which generally is ½ to 1 percent of their pre-tax profits. UK also has a Minister of CSR, appointed by the government. To encourage CSR, UK has passed several regulations to complement the voluntary initiatives taken by companies. e.g.

## Evolution and Concept of CSR

- Amendment to the Pensions Act, 2000 which requires the occupational pension funds to disclose the extent of CSR issues taken into consideration while making investments.
- Companies Act, 2000 requires the companies to take into account the wider interest of the stakeholders while acting on the interest of the shareholders. It also directs the companies to disclose the policies related to environment, workplace, social and community matters and about the effectiveness of these policies.
- Modern Slavery Act, 2015 which require the companies to combat modern slavery in its business and supply chain.

### 3) France

In France there has been a moderate development of CSR. The labour relations in France are governed by a system of state regulations and agreements. There are also several initiatives that go beyond the legal requirements. Certain laws affecting CSR were passed in the beginning of 21<sup>st</sup> century.

- “The Law on Employment and Saving Plan of 19 February 2001, which asks fund managers to take into account social, environmental and ethical considerations in the choice of investments.
- The Law on New Economic Regulations of 15 May 2001, which requires listed companies to introduce environmental and social information within their yearly reports to shareholders.
- The Law on Retirement Reserve Funds of 17 July 2001, which requires environmental and social information to be introduced in the yearly reports of retirement funds.” (Mullerat, 2013)
- In the year 2007, the ‘Diversity Charter’ was signed by 1700 companies. It is a business initiative which was launched to fight discrimination.
- To address environmental issues through a five-way dialogue between business, local authorities, government, NGOs and trade unions, the Grenelle Environment Forum was initiated in 2007.
- Several actions have also been launched to support the CSR initiatives of Small and Medium Enterprises in France. e.g. A group of 3300 SME managers called the “Centre des Jeunes Dirigeants” developed a methodology for “Global Performance Standard” in 2008.

### 4) CSR in Germany

In Germany, the Federal Ministry for Labour and Social Affairs is the lead ministry for CSR in the Federal Government of Germany. The ministry has established National CSR Forum to bring together the stakeholders to work towards social responsibility and to provide needed support to the government to develop the national CSR strategy.

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## 2.3 CSR IN USA

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According to Milton Friedman, the social responsibility of business is to increase its profit. Traditionally, the companies looked at CSR from the view point of business footprint where the companies were concerned only with making a positive impact. However, the consumers in US now expect the companies to go beyond the issues that impact their operations and take up larger societal challenges. A recent survey by Cone communication says that 87 percent of the consumers said that they purchased a product because the company advocated for an issue they care about and 76% of the consumers said that they would refuse to purchase a product if they found out that the company supported an issue contrary to their beliefs (Cone Communications, 2017). Thus, consumer expectations and behaviour in support of CSR can be called as the key driver to CSR in USA. Given similar price and quality of any product, the consumers in US are more likely to switch brands in favour of those which are associated with good causes.

The labour and capital markets in US being unregulated, the state provisions for welfare is very low. Hence, education, health and other such community issues are taken up under Corporate Social Responsibility. Both CSR activities and reporting are not considered as a regulatory compliance issue in USA. As there is no obligation to undertake social and environmentally responsible practices, CSR is usually characterized by voluntary societal engagements by businesses. Such responsible behaviour by the businesses which goes beyond financial reporting requirements is known as corporate citizenship. Businesses are obliged to engage in economic, legal, ethical, and philanthropic activities.

In US, the U.S. Bureau of Economic and Business Affairs (EB) leads a corporate social responsibility team with the primary objective of promoting responsible business, encouraging sustainable development, and building economic security. It provides the companies and the stakeholders with the needed guidance to engage in corporate citizenship. The CSR team of EB provides support on various issues including corporate citizenship, human rights, supply chains, anticorruption, health and social welfare, employment and industrial relations, environment protection, natural resource management, intellectual property, women's empowerment etc. The EB's policies are drawn majorly from OECD's 'Guidelines for Multinational Enterprises.'

Let us discuss in brief some of the EB's corporate policies (Camilleri, 2017):

### 1) Corporate Citizenship and Human Rights

In US, the Bureau of Democracy, Human Rights and Labour (DRL) has a mandate of promoting and monitoring human rights. For this purpose, it has set up a Human Rights Democratic Fund (HRDF) which is used in the promotion of democratic principles. Such efforts by DRL have helped US to minimize human rights abuses and bring a positive change across the globe.

Similarly, the Office to Monitor and Combat Trafficking in Persons (TIP) focuses on corporate policy, planning, public awareness and tracing of supply chain and transparency to reduce forced labour in supply chain. The office also funds an emergency global assistance project that helps people identified as trafficked persons.

## 2) Labour Supply Chains

Human trafficking was made illegal in US in the year 2000. The law requires manufacturers earning revenue of more than \$100 million to list out their efforts towards bringing down slavery and human trafficking in their supply chains. DRL also promotes labour rights in the supply chain by enforcing labour laws and providing due diligence.

**For example:** EB, in cooperation with DRL and other stakeholders, has coordinated the U.S. Department of State's participation in the Kimberley Process to stem the flow of conflict diamonds and to address their traceability across supply chains (Camilleri, 2017).

The Kimberly Process is a commitment to remove conflict diamonds from the global supply chain. The Kimberley Process (KP) is a multilateral trade regime established in 2003 with the goal of preventing the flow of conflict diamonds. The core of this regime is the Kimberley Process Certification Scheme (KPCS) under which States implement safeguards on shipments of rough diamonds and certify them as "conflict free". Kimberley Process (KP) defines conflict diamonds as: 'rough diamonds used to finance wars against governments' - around the world.

*Source: <https://www.kimberleyprocess.com/en/what-kp> Accessed on 12/04/2019*

## 3) Anticorruption

You are all aware of the ill effects of corruption. It is not just bad for economic growth and sustainable development of any country, it also deters the foreign investors from investing in many countries. The Foreign Corrupt Practices Act was brought into effect in US in 1977. This law penalizes the US nationals and companies who indulge in bribing foreign officials in commercial transactions. The Presidential Proclamation 7750 of January 2004 also denies refuge to corrupt officials. US has also been an active participant in the United Nations Convention Against Corruption (UNCAC) and member of the OECD's Anti-Bribery Convention.

## 4) Health and Social Welfare

There were several exploitative practices being followed by the insurance companies in the US. Some of these practices include screening of pre-existing condition and charging higher premium in case a person has any ailment at the time of buying a policy, cancellation of insurance policy on various technicalities when illness is imminent, imposing annual or lifetime limits on the health coverage benefits that can be claimed by individuals etc. In 2010, reform on the Patient Protection and Affordable Care Act (PPACA), also known as Obamacare and the Health Care and Education Reconciliation Act (HCERA) were passed which were designed to remove the exploitative practices of the insurance companies.

## 5) Environmental Sustainability

US has a long tradition of environmental leadership from 1969 when the National Environmental Policy Act (NEPA) was passed with the intention of maintaining productive harmony between the requirements of present and future generations. The Environmental Protection Agency (EPA) formulates policies and instruments that would promote sustainable use of resources. Similarly, the Bureau of Energy Resources (ENR) promotes the use of secure, reliable, and clean energy in US. It

is also responsible for maintaining good governance and transparency in the energy sector.

The first National Action Plan on Responsible Business Conduct was launched by the US Government on December 16, 2016. The National Action Plan is a reflection of Government’s commitment to fight corruption and promote human rights by partnering with domestic and international stakeholders. It encourages companies to follow high standards of responsible business conduct.

**Activity 1**

Write a comparative analysis of approaches to CSR in Europe and US.

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## 2.4 CSR IN SCANDINAVIAN COUNTRIES

Scandinavia is considered as the global leader in CSR and sustainability. Historically, Scandinavia referred to the countries of Denmark, Norway, and Sweden. However, in recent years, Finland is also included as a part of Scandinavia by many people. The CSR in Scandinavia stems from the notion that companies sometimes must pursue a social issue not based on the risk or cost involved or on the feasibility but for the simple reason that it is the right thing to do. The key driver of CSR in the Scandinavian countries is the long-term vision of shared value creation. Scandinavian firms like Novo Nordisk, Ikea, H&M, Norsk Hydrom, Novozymes and Statoil have long demonstrated effective value creation for the company and its stakeholders (Strand, 2014).

The Scandinavian companies also perform very well in various CSR and sustainability performance measurements including Dow Jones Sustainability Index (DJSI) and the Global 100 Index. The Scandinavian countries have also figured out in the top 10 rank of the Adjusted Global Competitiveness Index published by the World Economic Forum in 2013. These countries have also consistently topped the annual Transparency International Corruption Perceptions Index. Thus, the Scandinavian countries lead in most of the CSR and sustainability performance indicators.

Let us now discuss some of the factors influencing CSR in the Scandinavian countries (Strand et. al., 2015)

- 1) **Stakeholder Engagement and Corporate Reputation:** Studies have shown that there is a strong relation between the CSR performance of a firm and the level of stakeholder support and corporate reputation enjoyed by it. The impact of CSR performance has been so much so that it overshadows other considerations like financial performance, quality of goods and services and innovations. The CSR performance is directly linked to the stakeholder engagement as it is the center of effective CSR and sustainability.

- 2) **Creating Shared Value:** Creating shared value means creation of economic value by creating value for the society by addressing the needs and challenges of the society. This concept of creating shared value has a Scandinavian origin. The firms of Scandinavian origin have always demonstrated a shared value strategy.

**For example:** Novo Nordisk, a Danish pharmaceutical company initiated a strategy to grow its market in China by improving diabetes care. The strategy was to increase the demand for the insulin products manufactured by the company by improving diagnosis of diabetes. For this, the company invested in physical training, patient education and local production. This would not just improve company sales but also improve the lives of Chinese citizens by improving diabetes diagnosis, care, and treatment.

- 3) **Institutional Influence:** The political parties in the Scandinavian countries have promoted the egalitarian policies and given due consideration to the welfare of present and future generations thus backing the virtues of stakeholder engagement. These countries have in place the institutions that would facilitate socially responsible behaviour of the companies. Some of the important influencers include mandatory representation of employees on the Boards of Directors. Also, they have a flatter pay structure in which the CEO to average worker pay ratios are very modest. Such policies lead to greater likelihood of stakeholder engagements.
- 4) **Cultural Influence:** Scandinavian culture is very much reflected in the Scandinavian management and is depicted in the form of consideration of well-being of stakeholders and not just shareholders, power sharing, participation, cooperation, consensus building etc. The Scandinavian countries are said to have the most feminine cultures in the world where gender roles overlap. Both men and women are supposed to display the finer qualities of being modest, tender and being concerned with the quality of life. The CSR agenda of stakeholder engagement and being concerned with the needs of the future generation aligns well with the Scandinavian feminine culture.

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## 2.5 CSR IN LATIN AMERICA

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### 2.5.1 What Drives CSR in Latin America?

The drivers to CSR can be classified into two:

- i) Altruism: Selfless concern for the wellbeing of others
- ii) Utilitarianism: Considers best action to be one that maximizes utility

In Latin America, the philanthropic traditions in the past have been rooted in religious beliefs. A large part of the regions tradition of charity has been derived from the region's catholic background. Thus, altruism and solidarity have been significant drivers of CSR in Latin America's private sector. Most of the business leaders, particularly from the family owned firms, speak of their commitment to the society as doing the right thing from ethical point of view

Two important utilitarian motives driving CSR in Latin America include (i) managing risks and (ii) gaining competitive advantage through image building.

Corporates may engage with the community in order to avert any identified risk. For example, Ausol, a multinational corporation in Argentina, involved in construction and maintenance of highways, works with local communities and this helps them gain community goodwill which is important as highways have several disruptive features. Improvement in the firm's image or market share is another utilitarian motive which drives its social commitments. For example, Posada Amazonas, an eco-tourism project in the Peruvian Amazon basin, invited an indigenous community to work and eventually become owners. Their participation makes it a unique experience for travellers (Pérez and Taboada, 2003). A strong blend of altruistic and utilitarian drives is most sustainable for business as a purely altruistic motive may not be favourable during economic downturns and a purely utilitarian motive may fail to establish the needed connect with the social partners.

### 2.5.2 How has CSR Evolved in Latin America?

There are two ways in which CSR has evolved in different countries:-

- i) Through responsible business operations which is generally governed by regulations
- ii) Community investment

In US, CSR has grown through regulations and hence is driven by responsible business operation. The details of which will be discussed in the next section. In Latin America however, regulation of responsible business operations is less common. This is mainly because Latin America does not have strong worker's organizations like trade unions or social groups like women and ethnic groups. Without pressure from society and such organized groups, the government is less likely to create standards which imply extra cost to the business organizations. In light of the lack of government framework for responsible business practices, the corporations interested in creating a common baseline for responsible business practices took it on themselves to create the standards.

#### For example

Abrinq Foundation, a non-profit in Brazil, offers a logo (or a special seal) to companies committed to fighting the use of child labour. Corporations are certified through Arbinq's Child Friendly Companies Programme once they pass a series of social audits from unions, employees, and NGOs. Companies use the logo to market their corporate value to youths (Grayson and Hodges 2002).

CSR in Latin America has evolved more through community investment. The corporations in Latin America are investing in communities to create a stable society. Community investments improve the bottom line or the net earnings of the corporate as it improves the life of the communities which are the consumers of their products. There have also been incidences where the corporations have influenced government regulations to enhance the impact of CSR activities.

#### For Example

In 1990, after a flood devastated the state of Chihuahua in Mexico, the business community approached the state government with a plan to give assistance



to those most in need: a special tax of 0.2 percent on earnings to be paid by each of the 29,000 business enterprises in the region with the condition that members of the business community themselves would manage the funds generated. The overwhelming success in providing disaster relief and rebuilding the community prompted the business community to make this “Community Investment” tax permanent under state law. In 1994, the Chihuahuan Business Foundation was established to administer these funds (Gutierrez and Jones, 2007).

### 2.5.3 Recent Trends of CSR in Latin America

- 1) The firms are working towards deepening the CSR model so that the corporate responsiveness of the firms is effectively mirrored in dealings between their subsidiary units and the ultimate stakeholders.
- 2) Large corporations are extending their CSR practices to suppliers.
- 3) Another important trend is the rapid increase in cross sector alliances. For example, Federation of Brazilian Banks, Febraban, collaborated with a network of NGOs called the Brazilian Semi-Arid Articulation to provide cisterns for the dry northeast region of the country. In this collaboration, the bank provided the funds and the NGOs provided the required training, low cost methodologies and local management. The entire dialogue between the two was facilitated by the government.
- 4) Another trend that is catching up is the building up of relational capital with the grass root organizations. This begins with helping the communities to organize and take collective action, helping the organizations to work together and scaling up the local operations.

#### Check Your Progress - 1

- Notes:** a) Write your answers in about 50 words.  
b) Check your answer with possible answers given at the end of the unit.

- 1) What are the various actions on which the EU policy on CSR is based?  
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- 2) List out the factors influencing CSR in Scandinavian countries.  
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## 2.6 CSR IN DEVELOPING COUNTRIES

To understand how CSR is conceived, incentivized, and practiced in developing countries, let us understand what are the various drivers for CSR in these countries. In this section we will discuss the 10 drivers for CSR in developing countries as discussed by Wayne Visser (2008).

- 1) **Cultural Traditions:** CSR in developing countries draws its roots from the traditions of philanthropy, business ethics and community push. Kautilya, the great Indian statesman and philosopher advocated moral principles-based business practices. In the African continent, the philosophy of 'Ubuntu' or African humanism is the foundation upon which rests the modern inclusive approaches to CSR. Similarly, CSR in Nigeria is based on the religious beliefs, charitable traditions, and communalism.
- 2) **Political Reform:** The socio-political reform process also had a great bearing on CSR activities in the developing countries. For example, in South Africa, CSR has been driven to a great extent by the move towards democracy and reforms towards justice.
- 3) **Socio-economic Priorities:** A good business will always have its CSR guided by the socio-economic needs of a country. e.g. In Nigeria, the CSR is guided by the country's socio-economic challenges like poverty alleviation, education, infrastructure development, health care etc. On the other hand, the CSR in Western countries is guided by issues like climate change, fair trade, consumer protection, socially responsible production, green marketing etc.
- 4) **Governance Gaps:** Good governance requires a government to provide for the basic needs of the citizens like housing, education, health care, roads, electricity, etc. Many a times, in developing countries, the governments fail to provide for these basic services and in such cases, CSR is seen as a way to fill in these governance gaps. However, there are several criticisms to this approach as businesses are primarily responsible towards their shareholders. Also depending on profitability, the multinationals would disinvest from a region to invest in regions that would be more profitable. Hence the local governance should be more proactive to ensure accountability and inclusiveness and not depend on CSR to fill in the governance gaps as is the trend in many developing countries.
- 5) **Crisis Response:** Different crisis in the developing countries also act as a catalyst to CSR response. These crises could be natural, industrial, environmental, social, health related or economic. Catastrophic events like natural disasters also bring into play immediate CSR responses. The corporate response to tsunami in Asia is a classic example.

**For example:** Unilever (Sri Lanka) is one of the largest and oldest multinational companies in Sri Lanka. The Asian tsunami in 2004 had resulted in mass launch of CSR programmes in Sri Lanka. Unilever played to its strength while shaping its tsunami CSR response. It used its organizational strength of wide distributional network which was made available to emergency relief operations working with the local agencies to distribute food and other necessary products. There were also employee

donations to the central relief fund. After the initial relief work, Unilever started with its rehabilitation and reconstruction projects under which it undertook rebuilding of 150 homes in Sri Lanka.

- 6) **Market Access:** Another important driver of CSR is to gain market access by viewing unfulfilled needs of those at the bottom of the pyramid as an untapped market. Besides, CSR also helps the companies of the developing countries to access the markets of the developed countries. There is a strong relationship between CSR reporting and international sales and the companies from developing countries need to comply with the international stock market listing requirements in order to globalize.
- 7) **International Standardization:** Growing adoption of ISO 14001 and the Global Reporting Initiative’s Sustainability Reporting Guidelines shows that CSR codes and standards are also important drivers of CSR in developing countries. CSR is also driven by standardization imposed by multinationals on their subsidiaries and operations in developing countries in their bid to achieve global consistency and to deal with social issues in developing countries like child labour and role of women in workplace.
- 8) **Investment Incentives:** Another important driver of CSR is Socially Responsible Investment (SRI) which involves investing in companies that promote environmental stewardship, consumer protection and human rights.
- 9) **Stakeholder Activism:** In developing countries where the government does not have strong control over the environmental, ethical, and social operations of companies, activism by stakeholder groups becomes an important driver for CSR. The development agencies, trade unions, international NGOs and business associations are the four major stakeholders which emerge as major activists for CSR in developing countries. This activism could be in the form of civil regulation, litigation against companies and international legal instruments.
- 10) **Supply Chain:** The ethical requirements imposed by multinationals on their supply chains acts as another significant driver for CSR in developing countries. This began with fair trade auditing and labelling of agricultural products produced in developing countries. Multinational supply chains in the developing countries especially those in sporting and clothing sector are marred with poor labour conditions and human right abuse issues. To deal with such conditions, standards like SA 8000 were developed which are used by multinationals in selecting their suppliers in developing countries.

**Activity 2**

Visit a CSR project being implemented in the city of your residence and discuss with the CSR project head about the key driver for the company to take up that project. Write their response.

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## 2.7 INTERNATIONAL INITIATIVES RELATED TO CSR

In this section we will discuss some of the international initiatives related to CSR on which the guidelines of CSR strategies of various countries have been built. Some of these initiatives are as follows:

- i) United Nations Global Compact
- ii) United Nations Guiding Principles on Business and Human Rights
- iii) ISO 26000 Guidance Standard on Social Responsibility
- iv) International Labour Organization Tripartite Declaration of Principles Concerning Multinational Enterprises on Social Policy
- v) OECD Guidelines for Multinational Enterprises

### i) *United Nations Global Compact*

UN Secretary General Kofi Annan announced the UN Global Compact in January, 1999 and it was officially launched in July, 2000 at the UN Headquarters in New York. It was established as an organization which would work on the mandate set by the UN General Assembly to “promotes responsible business practices and UN values among the global business community and the UN System”. UN Global Compact is one of the largest international corporate sustainability initiatives. It aims to mobilize sustainable companies to take up shared responsibility to create a better world. It helps the companies to align their strategies to the ten basic principles of the UN Global Compact and to take strategic action towards attaining developmental goals like the Sustainable Development Goals. It also acts as driver of change across various aspects of corporate sustainability including **12 social issues** like child labour, children’s right, education, forced labour, human rights, indigenous people, labour, migrant workers, persons with disabilities, poverty, gender equality, women’s empowerment; **five environmental issues** like biodiversity, climate change, energy, food and agriculture, water and sanitation and **three issues related to governance** like anti-corruption, peace and rule of law. The UN Global Compact inspires guides and supports companies to do responsible business.

The ten principles of the United Nations Global Compact are:

#### Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

#### Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: <https://www.unglobalcompact.org/what-is-gc/mission/principles>

**Case Study UN Global Compact Initiative**

Empowering Refugee Women Project Brazil is receiving increasing numbers of refugees from African and Middle Eastern countries. In response, Global Compact Network Brazil, in partnership with UNHCR and UN Women, has teamed up with local and foreign companies and NGOs to help women refugees navigate the job market. Over the course of the project, the partnership has succeeded in raising awareness about the issues women refugees face in Brazil, with more than 10 companies having offered employment and training opportunities to over 80 women refugees. As an example of the WEPs in action, this project is demonstrative of the collective action that can be taken to build an employment pipeline for marginalized women.

Source: *Women's Empowerment Principles Global Trends Report, 2018*

**ii) United Nations Guiding Principles on Business and Human Rights:**

Commonly known as the UNGPs it is a list of 31 principles implementing the 'Protect, Respect and Remedy' framework. These principles provided the first global standards to address the issue of adverse impact of business activity on human rights. It was developed by the Special Representative of the Secretary General, John Ruggie and was unanimously endorsed by the United Nations Human Rights Council, making it the first corporate human rights responsibility initiative to be endorsed by the United Nations.

The UN Guiding Principles help the businesses to fulfil their obligations towards respecting human rights and complying with the existing laws. It helps prevent risks of human rights violation in business activities. It also lays down remedies for any breach of the existing laws.

These principles are based on three pillars:

- a) The State's duty to protect human rights: It is the duty of the state to protect the human rights of its subjects through various mechanisms like policy making, regulation and enforcement.
- b) The corporate responsibility to respect human rights: The guiding principles states that the private sector has an important role in protecting and upholding the human rights. In order to avoid infringing on the rights of the individuals, the corporate must act with due diligence.

- c) Access to remedies when the rights are breached: The third pillar states that it is the state’s responsibility to provide access to remedy to the individuals whose human rights have been infringed upon. For this, the state may use judicial, administrative, and legislative means. It is also the responsibility of the corporates to prevent and remediate any infringement of human rights for which they are responsible.

In this unit we will restrict to the principles related to corporate responsibility to respect human rights. Out of the total 31 principles, a total of 14 principles are related to the corporate responsibility to respect human rights. The principles under this head are classified as foundational and operational principles. Let us look at each of them:

### **Foundational Principles**

- 1) Business enterprises should respect human rights. This means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.
- 2) The responsibility of business enterprises to respect human rights refers to internationally recognized human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.
- 3) The responsibility to respect human rights requires that business enterprises: a) Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; b) Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.
- 4) The responsibility of business enterprises to respect human rights applies to all enterprises regardless of their size, sector, operational context, ownership, and structure. Nevertheless, the scale and complexity of the means through which enterprises meet that responsibility may vary according to these factors and with the severity of the enterprise’s adverse human rights impacts.
- 5) In order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances, including: a) A policy commitment to meet their responsibility to respect human rights; b) A human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights; c) Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.

### **Operational Principles**

- 6) As the basis for embedding their responsibility to respect human rights, business enterprises should express their commitment to meet this responsibility through a statement of policy that: (a) Is approved at the

most senior level of the business enterprise; (b) Is informed by relevant internal and/or external expertise; (c) Stipulates the enterprise's human rights expectations of personnel, business partners and other parties directly linked to its operations, products or services; (d) Is publicly available and communicated internally and externally to all personnel, business partners and other relevant parties; (e) Is reflected in operational policies and procedures necessary to embed it throughout the business enterprise.

- 7) To identify, prevent, mitigate, and account for how they address their adverse human rights impacts, business enterprises should carry out human rights' due diligence. The process should include assessing actual and potential human rights impacts, integrating, and acting upon the findings, tracking responses, and communicating how impacts are addressed. Human rights due diligence: (a) Should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships; (b) Will vary in complexity with the size of the business enterprise, the risk of severe human rights impacts, and the nature and context of its operations; (c) Should be ongoing, recognizing that the human rights risks may change over time as the business enterprise's operations and operating context evolve.
- 8) To gauge human rights risks, business enterprises should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships. This process should: (a) Draw on internal and/or independent external human rights expertise; (b) Involve meaningful consultation with potentially affected groups and other relevant stakeholders, as appropriate to the size of the business enterprise and the nature and context of the operation.
- 9) In order to prevent and mitigate adverse human rights impacts, business enterprises should integrate the findings from their impact assessments across relevant internal functions and processes, and take appropriate action. (a) Effective integration requires that: (i) Responsibility for addressing such impacts is assigned to the appropriate level and function within the business enterprise; (ii) Internal decision-making, budget allocations and oversight processes enable effective responses to such impacts. (b) Appropriate action will vary according to: (i) Whether the business enterprise causes or contributes to an adverse impact, or whether it is involved solely because the impact is directly linked to its operations, products, or services by a business relationship; (ii) The extent of its leverage in addressing the adverse impact.
- 10) In order to verify whether adverse human rights impacts are being addressed, business enterprises should track the effectiveness of their response. Tracking should: (a) Be based on appropriate qualitative and quantitative indicators; (b) Draw on feedback from both internal and external sources, including affected stakeholders.

- 11) In order to account for how they address their human rights impacts, business enterprises should be prepared to communicate this externally, particularly when concerns are raised by or on behalf of affected stakeholders. Business enterprises whose operations or operating contexts pose risks of severe human rights impacts should report formally on how they address them. In all instances, communications should: (a) Be of a form and frequency that reflect an enterprise's human rights impacts and that are accessible to its intended audiences; (b) Provide information that is sufficient to evaluate the adequacy of an enterprise's response to the particular human rights impact involved; (c) In turn not pose risks to affected stakeholders, personnel or to legitimate requirements of commercial confidentiality
- 12) Where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes.
- 13) In all contexts, business enterprises should: (a) Comply with all applicable laws and respect internationally recognized human rights, wherever they operate; (b) Seek ways to honour the principles of internationally recognized human rights when faced with conflicting requirements; (c) Treat the risk of causing or contributing to gross human rights abuses as a legal compliance issue wherever they operate.
- 14) Where it is necessary to prioritize actions to address actual and potential adverse human rights impacts, business enterprises should first seek to prevent and mitigate those that are most severe or where delayed response would make them irremediable.

### **iii) ISO 26000 Guidance Standard on Social Responsibility**

The ISO Committee on Consumer Policy was the first to identify the need to work on social responsibility standards in 2001. ISO 26000 provides guidance on how businesses can operate in a socially responsible way. It is concerned with the issues organizations need to address in order to function in a socially responsible way and with the best practices in social responsibility. ISO 26000 cannot be used as a certification standard as the provisions in it are only voluntary guidance and not requirements.

The guidance in ISO 26000 is based on the best practices developed by existing private and public sector social responsibility initiatives. It is consistent with various international conventions and declarations including International Labour Organization (ILO), United Nations Global Compact Office (UNGCO), Organization for Economic Co-operation and Development (OECD).

The core subjects on which guidance is given are:

- i) Organizational Governance
- ii) Human Rights
- iii) Labour Practices
- iv) The Environment
- v) Fair Operating Practices



- vi) Consumer Issues
- vii) Community Involvement and Development
- iv) ***International Labour Organization Tripartite Declaration of Principles Concerning Multinational Enterprises on Social Policy (MNE Declaration)***

The MNE Declaration provides guidance to enterprises on responsible and inclusive workplace practices. It facilitates outreach and understanding of Decent Work Agenda in the private sector. It is the only instrument that has been widely adopted by governments, employers, and workers around the world. It was adopted 40 years ago and has been amended twice in 2000 and 2006 and revised in 2017. Its principles are based on international labour standards and cover areas such as employment, training, conditions at work, industrial relations etc.

The MNE Declaration lays down principles in the fields of employment, training, conditions of work and life, and industrial relations which governments, employers' organizations, workers' organizations, and multinational enterprises are recommended to observe on a voluntary basis.

### **What Does MNE Declaration Contain**

The MNE Declaration consists of ***General Policies*** laid down for all the parties concerned with the declaration including guidelines for multinational enterprises and governments of hosts countries. It also contains guidelines related to various aspects of ***Employment, Training, Conditions of Work and Life and Industrial Relations***.

#### **1) Employment**

Under this section, the declaration sets guidelines on various aspects. We will be looking at some of the key points under each section

- i) **Employment Promotion:** These are a set of instructions or guidelines to multinational enterprises for employment promotion in the host countries. It says that

“Multinational enterprises, particularly when operating in developing countries, should endeavour to increase employment opportunities and standards, taking into consideration the employment policies and objectives of the governments, as well as security of employment and the long-term development of the enterprise.” (ILO, 2017).

It instructs the MNEs to work in harmony with the national social development policies. It also instructs them to give priority to the employment of nationals of the host country.

- ii) **Social Security:** It instructs the governments to establish social security as a fundamental element of national security systems. It instructs Multinational Enterprises to complement the public social security systems through their employer sponsored programmes.
- iii) **Elimination of forced or compulsory labour:** It instructs the Governments to take steps to eliminate forced labour and protect the victims of forced labour and help them get compensation and rehabilitation and sanction

the perpetrators of forced labour. The governments should provide support to the employers to take measures to identify, prevent and mitigate forced labour. It also instructs enterprises to take measures to prohibit and eliminate forced labour in their operations.

- iv) Effective abolition of child labour- minimum age and worst forms: It instructs the governments to have national policies in place to prohibit and eliminate child labour and raise the minimum age for employment to a level consistent with complete physical and mental development of young persons. It also instructs multinational enterprises to abide by the minimum age for employment and prohibit and eliminate child labour in their operations.
- v) Equality of opportunity and treatment: Government policies should promote equality of opportunity and treatment in employment and eliminate any discrimination based on race, colour, sex, religion, social origin etc. Government should promote equal pay for both men and women. Multinational enterprises should also be guided by the principle of non-discrimination in their operations.
- vi) Security of Employment: It instructs the governments to study the impact of multinational enterprises on employment in various industrial sectors. It also instructs the multinational enterprises to make efforts to provide stable employment for workers employed by them. It also instructs them to notify to the concerned government authorities about changes in operations that may have major employment effects like mass layoffs in case of closure of the operation.

## 2) Training

It instructs the governments to develop national policies for employment linked vocational training and guidance. It also instructs multinationals to provide relevant training to workers at all levels to develop useful skills, promote lifelong learning and development. It also instructs the multinational enterprises to provide services of the expertise of their skilled personnel for training programme organized by governments.

## 3) Conditions of Work and Life

- i) Wages, benefits, and conditions of work

The wages, benefits and conditions of work provided to the workers by the MNEs should be comparable to those provided by comparable employers in the host country. It instructs the MNEs to take into consideration the needs of workers and their families, cost of living, living standards of various social groups, social security benefits and other economic factors. It also instructs the governments to ensure that the activities of MNEs provide as much benefit as possible to lower income groups and less developed areas.

- ii) Safety and Health

It instructs the Governments to ensure that MNEs provide adequate safety and health standards and provide safe and healthy working environments to their employees. International labour standards and ILO codes of practices and guidelines on occupational safety and health

should be taken into account. They should provide information on safety and health standards relevant to their operations to all concerned including workers, worker organizations and other competent authority in the countries they operate.

#### 4) Industrial Relations

MNEs should observe standards of industrial relations

i) Freedom of association and right to organize

It instructs the MNEs to uphold the right of their employees to join organizations of their choice, subject to the rules of the organizations concerned and protect them against acts of anti-union discrimination. It also instructs the governments of the host countries that when they offer special incentives to attract foreign investment these incentives should not limit worker's freedom of association and right to organize and bargain collectively. It instructs that the representatives of workers should have the freedom to hold meetings for consultation or exchange of views.

ii) Collective Bargaining

The workers of MNEs should have the freedom to form representative organizations for collective bargaining. It instructs the MNEs to authorize representative of workers to conduct negotiations with the representatives of management who are authorized to take decisions of the issues under negotiation. It instructs the governments to provide the worker's organizations with the information on the industries in which the enterprise operates which would help them in laying down objective criteria in the collective bargaining process.

iii) Consultation

It instructs MNEs to allow mutual consultations on matters of mutual concern between employers, workers, and their representatives.

iv) Access to remedy and examination of grievances

It instructs the governments to protect the workers in their territory against business related human rights abuses. MNEs should use their leverage to encourage their business partners to provide effective means to enable remediation of human rights abuses. It also instructs the MNEs to respect the rights of the workers and have a proper grievance redressal mechanism in place.

v) Settlement of industrial disputes

It instructs the governments and the MNEs to make available a conciliation machinery to assist in settlement of industrial disputes between the employers and workers.

#### 5) OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are a set of recommendations for responsible business conduct addressed by Governments adhering to the guidelines to the multinational enterprises operating in and from these adhering countries. The guidelines were first adopted in 1976 and have been revised 5 times since then, the latest being in 2011.

## What Do the Guidelines Contain?

There are 11 chapters to the guidelines. The first chapter on **Concepts and Principles** deals with the concepts and principles which are the backbone of these guidelines. The second chapter on **General Policies** contains a set of recommendations in the form of policies which are the basis for various principles. This chapter deals with various provisions like dealing with adverse impacts, implementing due diligence, stakeholder engagement etc. The third chapter in **Disclosures** contains recommendations to the enterprises to be transparent in their operations and responsive to the increasing demand for information. The fourth chapter on **Human Rights** deals with the recommendations for the enterprises to meet their responsibilities towards various internationally recognized human rights. This chapter is aligned with the UN “Protect, Respect and Remedy” Framework and ‘Guiding Principles on Business and Human Rights.’ The fifth chapter on **Employment and Industrial Relations** deals with the role of the Guidelines in promoting the observance of International Labour Standards as set by the ILO by the enterprises. The sixth chapter on **Environment** reflects on the ‘Rio Declaration on Environment and Development’ and ‘Agenda 21’. It provides recommendations for the enterprises to contribute towards environment protection through better planning and management. Chapter Seven on **Combating Bribery, Bribe Solicitations and Extortion** provides recommendations for enterprises to fight and eliminate bribery from the system. The eighth chapter on **Consumer Interests** draws its recommendations from the OECD Committee on Consumer Policy and Committee on Financial Markets and other international organizations. It calls on enterprises to ensure quality and reliability of the products produced by them by following fair trade, marketing, and advertising practices. The ninth chapter on **Science and Technology** aims to promote transfer of technology to the host countries. The tenth chapter on **Competition** focuses on the importance of enterprises carrying out their activities in consonance with the competition laws and regulations and refraining from anti-competitive activities and agreements. The eleventh chapter on **Taxation** covers recommendations on fundamental taxation.

The policies on which the guidelines are based focus on two aspects: (i) Positive contribution of multinational enterprises to sustainable development and (ii) avoiding adverse impacts. Let us discuss some of the important policies on which the guidelines are based:

- 1) **Adverse Impacts:** Enterprises should avoid causing adverse impacts on matters covered by the guidelines either through their own activities or through activities linked to the enterprise by business relationships like business partners, supply chain or other entities linked to the business operations.
- 2) **Due Diligence:** This means to make identification and prevention of adverse impacts an integral part of business decision making and risk management systems of an enterprise. The enterprises with large supply chains are expected to identify the general areas where there is a risk of adverse impacts and prioritize suppliers for due diligence.
- 3) **Stakeholder Engagement:** During planning and decision making of the projects, the enterprises should engage the stakeholders specially when the project is going to impact them. For example, if the project involves

extensive use of land or water or any such resource which could adversely impact the local community, their views need to be taken into account.

- 4) **Fostering Confidence and Trust:** Enterprises should develop a relationship of mutual trust and confidence with the communities in which they work. They are also required to work within the statutory frameworks of human rights, environment, health and safety, taxation etc. and not seek undue exemptions.
- 5) **Human Capital Formation and Capacity-building:** Enterprises should work closely with the local community and create employment opportunities for the locals. To build their capacities, it should also provide training to the employees. Promoting awareness and compliance with the company policies and Guidelines is also encouraged.
- 6) **Corporate Governance:** Supporting and upholding good corporate governance principles is recommended. The practices of good corporate governance are drawn from the OECD Principles of Corporate Governance and OECD Guidelines of State-Owned Enterprises.

### Implementing the Guidelines

The guidelines are implemented in different countries through the National Contact Points. During instances of conflict the interested party could submit a 'Specific Instance' to the NCP regarding the non-observance of the Guidelines.

**National Contact Points:** The governments adhering to the Guidelines are obliged to set up National Contact Points (NCPs) whose main role is to undertake promotional activities, handle inquiries and resolve issues arising out of non-compliance to the Guidelines. The NCPs report to the OECD investment committee and meet on a regular basis and share their experiences.

**Specific Instances:** The NCPs are not judicial bodies but focus on problem solving by mediation. In case of any non-observance of guidelines, the interested party can submit a specific instance to the NCP. Once a specific instance has been submitted, it is subjected to three phases.

**Phase 1: Initial Assessment:** This phase involves initial analysis of the issue and to determine if it requires further examination.

**Phase 2: Offer of Good Offices:** If the matter requires further investigation, the NCPs facilitate access to consensual means to resolve the issues. For this matter, it consults with the parties and if necessary, it asks for advice from the relevant stakeholders. It also offers mediation wherever relevant to help resolve the issue.

**Phase 3: Conclusion:** Finally it issues a report if the agreement is reached, a statement if the party is not willing to participate in the procedures or if no agreement is reached or if the specific instance does not require any further examination after the initial assessment. The UN initiative for CSR specially also include the Sustainable Development Goals adopted in 2015. This has been discussed in detail in Block 4 of Course 2.

Notes: a) Write your answers in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Write any two principles of UNGC.

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2) What are the core subjects on which guidance is given under ISO 26000?

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## 2.8 LET US SUM UP

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The perspective on CSR varies from country to country. In this unit you have read about the perspectives of some of the European countries including Austria, Germany, France, and UK. You have also read about the CSR initiatives in US, Latin America, and Scandinavian countries. This unit also discusses about various drivers for CSR in developing countries. There are several international initiatives which are key expressions of the broader systems of public and private governance from which the private initiatives emerge. In this unit you have also read about such initiatives like United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights, ISO 26000 Guidance Standard on Social Responsibility, International Labour Organization Tripartite Declaration of Principles Concerning Multinational Enterprises on Social Policy and OECD Guidelines for Multinational Enterprises.

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## 2.9 KEYWORDS

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- Drivers of CSR** : Drivers are the factors that encourage companies to be more socially responsible.
- Shared Value** : Shared Value is based on the idea that companies can increase profits and enhance competitiveness by solving societal problems.
- Collective Bargaining** : Collective bargaining is a process of negotiation between employers and a group of employees aimed at agreements to regulate working salaries, working conditions, benefits, and other aspects of workers' compensation and rights for workers.

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## 2.11 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

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### Check Your Progress – 1

**Answer 1:** The EU policy on CSR is based on various actions to support this approach. They include:

- 1) Enhancing the visibility of CSR and disseminating good practices
- 2) Improving and tracking levels of trust in business
- 3) Improving self and co-regulation processes
- 4) Enhancing market rewards for CSR
- 5) Improving company disclosure of social and environmental information
- 6) Further integrating CSR into education, training, and research
- 7) Emphasizing the importance of national and sub-national CSR policies
- 8) Better aligning European and global approaches to CSR.

**Answer 2:** Factors influencing CSR in the Scandinavian countries:

- 5) Stakeholder Engagement and Corporate Reputation
- 6) Creating Shared Value
- 7) Institutional Influence
- 8) Cultural Influence

### Check Your Progress-2

**Answer 1:** Two principles of UNGC are:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

**Answer 2:** The core subjects on which guidance is given are:

- viii) Organizational Governance
- ix) Human Rights
- x) Labour Practices
- xi) The Environment
- xii) Fair Operating Practices
- xiii) Consumer Issues
- xiv) Community Involvement and Development