

# The social responsibility of business

*As the only global organization founded on the principle of tripartite cooperation, the ILO is well placed to act as a catalyst and facilitator in the development of corporate social responsibility. How CSR develops and at what pace are both things that this UN body is in a position to influence.*

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**Reg Green**

Health, Safety and Environmental Affairs  
International Federation of Chemical, Energy,  
Mine and General Workers' Unions (ICEM)

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Someone once famously said that “the business of business is business”.<sup>1</sup> That is no longer how an increasingly numerous and vocal group of people see things. Or rather, they have concluded that if the business of business is business, the parameters of what constitutes good business need to be redefined in the modern world.

Demand for corporate social responsibility (CSR) has developed largely in response to the real or perceived failure of legislation, regulation and enforcement to control and regulate the impact of company activities on people and the environment. It has also arisen alongside the scaling back of command and control measures by many governments around the world.

As competition increases amongst companies, workers fear that there will be a race to the bottom as far as wages and conditions are concerned. This fear has some basis, in that labour-intensive industries – other things being equal – tend to locate where labour is cheapest. But if competition has increased, so has scrutiny of companies. It is not only the State that polices companies in the modern world; there is also an active and informed non-governmental organizations (NGO) community which increasingly performs this function.

Trade unions cannot be considered NGOs in the normally understood sense of the term, because of the vested interests

of their members in the success of companies in which they work. Nevertheless, there is much that is familiar to trade unions in the CSR debate. Social wages, decent working hours, basic health and safety standards, abolition of child labour and protection against discrimination are just some of the trade union issues that fall within any reasonable definition of CSR. However, CSR also embraces a range of topics that have until recently not been part of the traditional trade union agenda – or only peripherally a part of it. CSR is today typically associated with the concept of sustainable development or “sustainability”. Trade unions are, in response, developing their sustainability agendas and linking these with improved and extended CSR.

One of the most significant developments in this regard has been the development and signing of global agreements between a number of Global Union Federations (GUFs) – including the ICEM – and multinational corporations (see page 15). Whilst these agreements help to promote CSR, they do not on their own guarantee it. They are, typically, framework agreements that set the general tone for corporate behaviour and relations between the corporation, its workers and their unions. They are therefore more properly to be considered as enabling mechanisms.

Global agreements highlight the importance of, and need to be based on, genuine

transparency, honesty, cooperation, participation and conflict identification and resolution – vital elements of any CSR commitment. Signatories to such agreements recognize that there are two sides to them – the commitments and obligations of the company on the one hand and those of the relevant GUF on the other. It is a *sine qua non* for any agreement to be effective that both sides to the agreement must derive benefit from it.

As they set out framework arrangements, global agreements between GUFs and multinational companies are founded on fundamental principles and do not usually include great detail. They more typically refer to standards – especially those of the International Labour Organization and, in particular, the ILO’s “core labour standards”.

If CSR is to mean anything, it needs to be based on the development of understanding and real social dialogue between stakeholders – including, very importantly the ILO’s tripartite constituents. The ILO has recognized, in its InFocus Programme on Social Dialogue, Labour Law and Labour Administration, that certain enabling conditions are necessary for social dialogue to prosper. These are:

- strong, independent workers’ and employers’ organizations with the technical capacity and access to the relevant information to participate in social dialogue;
- political will and commitment to engage in social dialogue on the part of all the parties;
- respect for the fundamental rights of freedom of association and collective bargaining; and
- appropriate institutional support.

### The expectations for CSR

In a broad sense, corporate social responsibility is about fairness; companies should expect to have a licence to operate only if they behave fairly and decently towards

those they employ, the communities in which they operate and the countries in which they are located. However, understanding of fairness and decency differs – often radically – from person to person and from country to country. That is why it is important – in a “globalized” world – to develop some broad consensus upon which governments, workers and employers can operate. At the international level, the ILO has the oldest and some of the most effective structures for developing such consensus.

However, whilst consensus is an important element, it will not be sufficient. Even where there is general consensus, there will always be a need to have in place checks and balances that reward or protect the good and impose sanctions on the bad performers. Increasingly, these checks and balances have to be developed and applied on the basis of international agreement.

### Does CSR let governments off the hook?

If the business of business has traditionally been business, then the business of governments is governing. But globalization, with its attendant supranational complexities, means that governments are often less able to govern as they have traditionally done. It is not so much that governments have lost the right or mandate to govern: there are more democratic governments in the world today than at any time in history – and the trend is hopefully further in that direction. It is rather that government mandates have to be exercised against a background of new and changing economic and political realities. Governments operate within fixed geographical borders. Increasingly, however, companies and financial markets operate globally. Their activities are far less constrained by normal considerations of time and space. Perhaps the biggest challenge for CSR will, therefore, be to demonstrate that it is capable of bridging the gap between the limitations faced by national governments and the growing concern for international fair play by the business community.

## Are there limits to CSR?

People are entitled to expect governments to represent their broader social interests and aspirations and, in so far as they think about business activities at all, they probably see the business community principally as the provider of goods and services as well as jobs. It is, however, necessary to ensure that there is a clear separation between the powers and responsibilities of governments and the rights and obligations of the business community.

In today's world, there are fewer places left where companies that are not efficient or profitable can expect to survive for very long. At the same time, global telecommunications and new information technologies have placed (especially) multinational corporations in the equivalent of a global goldfish bowl. Misdemeanours and mismanagement are more quickly exposed and rapidly communicated around the world.

For much of the twentieth century, things looked very different and the functions and responsibilities of a number of governments and companies frequently overlapped. Many companies in what are now known as the countries of Central and Eastern Europe and the Commonwealth of Independent States took on a quasi-governmental role and provided a range of benefits and services normally considered the responsibility of government in other parts of the world. Following the radical political and economic changes in these countries, it quickly became apparent that many of their companies were largely bankrupt; they had never been expected to behave according to the rigours of the market, and were singularly ill-equipped to do so. There may be important lessons to be drawn from this as far as CSR is concerned; companies are not the best vehicles for discharging government responsibilities and obligations.

This is the crux of the CSR debate. On the one hand, companies need to leave governing to governments and to concentrate on becoming and remaining efficient and profitable – which they need to be in

order to survive, to pay taxes and to employ people (who also pay taxes and consume the goods and services provided by such companies). On the other hand, those calling for greater CSR perhaps do not always appreciate the extent to which they may be promoting greater de facto company involvement in areas traditionally considered within the purview of government. It is clear that, for CSR to be credible, companies need to know what is expected of them and to what extent; and then they need to do it. Otherwise they will feel themselves “damned if they do and damned if they don't” – with considerable justification.

There will always be leaders and followers among companies. However, when the leaders feel themselves to be at a serious financial disadvantage compared with their followers, the leaders will usually be reluctant to go far beyond what is legally required of them (notwithstanding the fact that, in far too many countries, the basic legal duties are by no means adequate to protect people). At the same time, both workers and companies argue that they must be allowed to operate on a level playing field. This is yet another reason why CSR is an important issue for discussion at the international level.

Finally, it needs to be borne in mind that companies are neither the sole nor necessarily the major cause of social inequity and human rights abuses. So if companies are not the whole of the problem, don't expect them to provide the whole of the solution.

## Making CSR credible and effective

The ILO has an impressive array of instruments at its disposal for the promotion of corporate social responsibility, ranging from Conventions and Recommendations to Codes of Practice. It also has a global network of offices and specialists upon whom governments, employers and workers can call for help and assistance. Just as importantly, it has long experience of bringing together governments', employers'

and workers' representatives to develop agreed solutions on social matters of international importance.

The ILO is not, of course, alone in the world in promoting the social justice upon which CSR has to be based. For instance, in an address to the World Economic Forum in Davos (Switzerland) on 31 January 1999, UN Secretary-General Kofi Annan proposed the development of a Global Compact. This was subsequently launched at UN headquarters in New York on 26 July 2000, as a challenge to companies to commit themselves to do the right thing. Importantly, the UN Global Compact directly promotes the labour standards contained in a number of ILO Conventions and also references the ILO Declaration on Fundamental Principles and Rights at Work. ICEM General Secretary Fred Higgs was one of three international trade union leaders to attend the Global Compact launch, and he is now a member of the Global Compact Advisory Committee.

This cross-fertilization of ideas and mutually supporting approaches can help to ensure that the CSR debate is coherent and focused.

### **Corporate social responsibility: An idea whose time has come**

Without wishing to be cynical, one of the best ways of establishing whether CSR is likely to be taken seriously within the business community is to determine the extent to which it affects the company bottom line. In this regard, there are some extremely interesting new developments, which we can expect to become important drivers of company behaviour in the future. Included in these are the ethical and fair trade movements, together with the development of a growing community of investors and fund managers whose decision to invest in a company will be determined by the extent to which that company can meet social responsibility criteria.

The collapse of Enron and other high-profile multinational corporations has led to widespread demands for companies to

be brought to account. Huge numbers of ordinary people have seen their investments and their pensions decimated – not because of normal market fluctuations, but as a direct result of extensive malfeasance and gross company mismanagement. Governments increasingly recognize that they cannot ignore this public concern about corporate behaviour. They are keen to see measures taken that will ensure that company responsibility and, thereby, public confidence are restored and maintained. Thus, governments and the people they represent will want to be very sure that CSR – if it is to be one of the major responses to current shortcomings – is both effective and credible.

There will continue to be differences of opinion between policy-makers as to the precise nature and extent of any regulation and controls necessary to restore and maintain public confidence, but it is a safe bet that very few chief executive officers (CEOs) of major corporations are any longer unaware of the potential consequences of failing to act responsibly. Most of the recent attention has focused on issues of company financial propriety, but it is clear that the public concern for corporate responsibility also extends to a company's social obligations.

### **The role of the ILO in CSR**

We live in a world where laws are for the most part made at the national level. However, many of the companies that such laws are designed to cover are increasingly operating as if national borders did not exist. The ILO, through its Conventions, attempts to bring some international coherence to this state of affairs, but the fact remains that ILO standards have to be ratified at the national level before they come into effect. At the same time, it has to be recognized that laws may not always be the most effective response in every circumstance. Laws are usually – and sensibly – long in the drafting and they typically have a long “shelf-life”, regardless of the often rapidly changing circumstances that

they are putatively designed to address. They can therefore sometimes be rather blunt instruments. They are clearly the best means of establishing coherent, enforceable “ground rules” on which to build civil society, but they need to be supplemented by a range of other measures that allow timely and effective responses to particular conditions and changing circumstances.

As the oldest-established UN agency, and the only one to be founded on the principle of tripartite cooperation between governments, employers and workers, the ILO is well placed to act as a catalyst and facilitator in the development of CSR thinking and activities. The ILO standards, its supportive structures and its specialists can add real value to the process.

How might this be done? One way would be for the ILO to encourage and facilitate a wide-ranging debate on CSR. As mentioned, there are many interpretations of the term and it would be helpful to bring some clarity to the debate. Such a debate would also need to be accompanied by some in-depth analysis and assessment of the ILO structures and functions to see how CSR thinking might be better integrated into ILO activities.

It is also important to recognize that CSR is not, or should not be, something of interest only to multinational corporations and their workers. If CSR is not understood and developed within small- and medium-sized enterprises (SMEs), its benefits will be felt by only a tiny minority of the world’s people. Whilst it is relatively easy for multinational corporations and Global Union Federations to come to Geneva for high-level discussions, this is not an option for the vast majority of SMEs. This means that

CSR has to be addressed by the ILO and its constituents not only at the international level, but also at the regional and local levels. At the same time, simple logistics dictates that CSR is not something that the ILO can “do” for governments, companies and their workers. The role of the ILO should be to motivate, facilitate and assist in the spread of the CSR message.

In doing so, it will be very important for the ILO to work closely with other bodies and organizations that have a stake in the promotion and realization of CSR.

In conclusion, CSR could become an important linking idea between the negotiated – and therefore highly credible – core standards of the ILO, the wish of companies to avoid overburdening command and control measures, government responsibilities to ensure the highest levels of social and ethical behaviour, and broader public concern to ensure that globalization benefits everyone. Expect CSR to be supported in the future by an increasing number of negotiated global agreements between GUFs and multinational corporations and by the UN Global Compact.

Whatever definition of CSR one might choose, the expectation is likely to grow that companies should meet widely accepted social and ethical standards in their operations. How CSR develops and at what pace are both things that the ILO is in a position to influence. This will probably require “thinking out of the box” and initiating new and novel approaches. Now is the time to start.

#### Note

<sup>1</sup> Milton Friedman: *Capitalism and Freedom*, Chicago, University of Chicago Press, 1962.