

Strengthening the responsible competitiveness of countries and companies in a globalised world

Side event during the WTO Ministerial Meeting in Hong Kong December 2005
hosted by Thomas Östros, Swedish Minister for Industry and Trade



Summary of the discussion

1. What is the relationship between corporate social responsibility and international trade and investment?

The panellists agreed that greater corporate responsibility could play an important role in maximising the benefits of international trade and investment on development. For that reason, they welcomed the Swedish initiative of a dialogue on competitiveness and business responsibility in Hong Kong during the WTO Ministerial meeting. For Ms. Mary Robinson, this type of debate can contribute to *“broaden the parameters of what the Development Round is and what the business responsibility could be within a true Development Round”*. To realise the development goals and generate economic development, international trade liberalisation has to evolve a responsible basis.

With increased opportunities to trade and invest across borders come increased responsibilities for governments as well as for other economic actors such as companies. Taking up Mr Neal Kearney’s expression, Mr Iqbal Sharma laid the blame on legacies of *“corporate irresponsibility”* that contributed to the dramatic consequences of climate change that the world is now facing.

To be a powerful complementary component to open global trade, international investment and economic growth in support of sustainable development, corporate social responsibility practices have to become an embedded feature of global markets. This requires a crucial shift, or *“changing a dominant paradigm”* as Mr Sharma called it. Persistent poverty and pervasive social and environmental problems highlight the failure of policies based on the traditional model to deliver on the promise of business-led development. Trade negotiators have to work differently in a Development Round. Quoting Grant Aldonas, the former US trade negotiator, Mary Robinson summarised: *“you can not negotiate a development round in the same way as you negotiate a trade round”*. To achieve sustainable development in today’s globalised world, business and governments have to *“support this global quest for new approaches and innovative ways of approaching issues of development”* (Iqbal Sharma)

Advancing corporate social responsibility as an approach to globalisation offers *“values to be built on”*, said Mary Robinson when speaking of the Chinese companies that she met during the Shanghai Global Compact Learning Forum in December 2005. In her view, the Global Compact has a huge attraction for business in China because when the alternative is greed and corruption *“there is no other value system in the move from communist system to a market system”*. Iqbal Sharma emphasized the link between the market and those values when he asked about the ways for *“human development (to) also is a return on investment”*

Advancing corporate social responsibility in the world means that trade, investment and competition rules need to be sensitised. Iqbal Sharma and Mr Philippe de Buck agreed that in our globalised world, companies should not have different CSR practices, depending on the country where they are active. Emphasising the importance of consequent practices, Mr Sharma strongly denounced unsustainable business activities taking place in Africa *“simply because those activities would not be allowed in other part of the world – dumping of toxic waste for example”*. Philippe de Buck concurred in stressing that *“big companies think globally”* and that a multinational organisation cannot afford to limit its CSR practices at Headquarters. It is common business sense that companies have to adapt to the different stakeholders in their surrounding environment.

2. Do companies that adhere to responsible business practices gain comparative advantages in local and global markets?

The key issue to engage individual businesses in improvements in eco-efficiency and workforce development is to see that there is a strong business case for these investments.

Panellists illustrated with concrete examples how corporations that have committed significant resources in responsible business practices can have a positive effect on the social and natural environment of which they are a part as well as achieve financial benefits and comparative advantage.

The drive towards corporate social responsibility has focused on the rewards that companies can gain from responsible practices, among others in cases where the market will pay for products and services that meet certain values. There is growing evidence that social and environmental compliance is becoming part of the global value chain agreements in some key industries and that these practices make good business sense. Neal Kearney listed a series of success stories, where reducing working hours and improvement of environmental management led to enhanced productivity and reduced waste levels.

In support to this idea, Mary Robinson also quoted the case of a successful co-operation between UNILEVER and OXFAM in Indonesia. As the chairman of the Business Leaders Initiative on Human Rights, Ms. Robinson could bear witness of the impressive results of the three year long process on the business approach of business responsibility with human rights. *“At the end of the three years in May, (participating companies) want to commit for another three years, looking more sector-wide at the indications of taking a very strong business approach of business responsibility”*.

Risk and reputation management is also one of the potential rewards of responsible business practices. Neal Kearney believed that consumer demand for responsible trade in the US and Europe can be relied on to drive changes in company behaviour. To exemplify his point, he cited the example of the dramatic consequences for a European retailer of a factory collapse in Bangladesh. Ms Ivanka Mamic agreed on the importance of consumers' pressure. In her experience, in the sports footwear and apparel sector, *“companies that ended up having the most developed CSR programmes”* were *“those that had come under the greatest criticism and the greatest scrutiny from NGOs, from the media, from activists”*. Her conclusion was: *“if we want to see that companies are actually walking the talk, we are going to have to keep an eye on them”*.

Most participants agreed that successful CSR practices are not limited to big corporations: *“there are a lot of small success stories that are dealing with corporate social responsibility that we need to look at”*, insisted Sok Siphana. Ms Mamic reminded that *“the number of small and medium sized enterprises that are members of the Global Compact is much larger than the number of large enterprises”*.

The main driver of corporate responsibility impact in developing countries has been the inclusion by international buyers, as well as Northern governments of social and environmental clauses in contracts and trade agreements. Nevertheless, there are examples of successful developing countries companies that are acting proactively to gain a competitive advantage on a local level. Ivanka Mamic shared with the audience the case of a publishing company in Vietnam, which she called *“an excellent example of what could be done in*

creating a competitive advantage by taking (the CSR) approach". This company, with the assistance of the ILO, improved its social dialogue, health and safety, quality, productivity and good management practices. The project ended up with a factory that has "increased its buyers in terms of new contracts internationally and locally".

Evidence show that developing country manufacturers can develop the ability to exploit intangible assets such as brand reputation in the same way as developed country firms can. With the example of a South African IT company that has gained a considerable success through CSR practices ("*it is the fastest growing company in South Africa at the moment in their sector*"), Iqbal Sharma provided an illustration of the fact that solely Northern consumers no longer drive pressure for change. "*It is the approach to doing business, it is the productivity gains that they have got from employees, without having really to invest more money, and the notion of sharing*". This example also demonstrated that approaches relying on individual moral conviction can respond to local challenges in ways that contribute towards the company's moral stance as well as its competitiveness.

3. How is a nation's competitiveness impacted by its ability to deal with social and environmental practices?

Strategies rooted in responsible competitiveness can play a significant role in enhancing a country's economic competitiveness in ways aligned to sustainable development.

In the European Union, Mr de Buck saw responsible business practices as one of the ways through which competitiveness can be achieved. He saw of the attempts to develop a distinctive European competitiveness that builds among others on European business efforts towards innovation.

Responsible business standards are often seen as a constraint to developing country export conferring a competitive advantage on multinationals and developed economies. Nevertheless, some countries are responding by improving labour conditions as a way of actively building competitive advantage. This development is to be put in the context of what Ms. Robinson saw as the "*beginning of a learning process of corporate social responsibility*" in developing countries and companies in those countries.

The example of the Cambodian textile industry that was presented by Mr Sok Siphana is an excellent illustration of the way responsible social practices can bring systemic changes across an entire market and impact a nation's competitiveness. As a response to the challenges posed by the end of the Multi-Fibre Arrangement, the Cambodian initiative was developed to strengthen competitiveness in apparel and textile by demonstrating compliance with international labour standards. The assumption was that there is an export market niche based on labour standards, combined with the normal criteria of price, quality and speed to the market. As Neal Kearney put it, "*Cambodia should not have a future in textile and clothing*". Nevertheless, the textile industry in Cambodia is now "*growing exponentially*" (Sok Siphana), meeting the market needs of overseas buyers and their stakeholders. Improving working conditions and applying labour standards in the textile industry has proven to be beneficial to all concerned: workers, manufacturers, the Cambodian economy and international buyers.

In agreement to that point, Neal Kearney condemned countries that are unwilling to upgrade from low cost, low quality, low standard niches and fail to address corporate social

responsibility issues, meaning that they expose business to potential costs such as those associated with high labour turnover and poor health and safety for their population.

4. What can governments do to further responsible business practices?

As one participant stressed, globalisation implies “*a changing role for companies and for government*”. Speakers broadly recognised that the success of CSR depends on an enabling environment where government have a crucial role to play.

The seminar was the opportunity to review some stimulating examples of government policies developed in different context to effectively capture the potential sustainable development and poverty reduction benefits of the CSR agenda.

Several panellists started by reminding on the conventional mandating role of the public sector in setting and ensuring compliance with minimum standards. Neal Kearney and Philippe de Buck agreed with Ivanka Mamic when she stated, “*the very first step to acting responsibly is to ensure that laws are being abided*”. In the context of developing country economies, where tools to encourage compliance with minimum legislation can even be understood as a significant element of the CSR agenda, Ms. Mamic added that “*governments have a role to play in ensuring that they have adequate labour laws that are being enforced, that they have labour inspection systems, and when they don't have these, that they are seeking assistance to build them*”. For Ms. Mamic, Governments have to assume their responsibility of ensuring that “*all aspects of CSR or the rights are being projected, particularly when it comes to workers rights*”. An excessive reliance on consumers can lead to situations of “*cherry picking*”.

On this issue, Mr de Buck repeated his organisation's starting point that views CSR as essentially going “*beyond compliance*”, thereby concluding that the CSR agenda should not be a “*policy-led framework*”. In his opinion, CSR should be “*voluntary and led by companies*”, as it is the case of environmental voluntary agreements in Europe. Coming from what he defined as an “*over-regulated*” European context, in his opinion, voluntary initiatives should not crystallise into mandatory standards. Mr De Buck also reminded that “*short-term costs*” for CSR should be taken into account, implying that CSR added costs should not drive down price competitiveness for companies.

Philippe de Buck also mentioned the ground-braking role played by the European Union in the CSR debate in Europe with the multi-stakeholders forum on CSR, which, in his opinion, has “*reached some results and some good conclusions*”.

Developing on the “*Swedish Partnership for Global Responsibility*”, Minister Östros highlighted the strategic role to be played by the government in building capacities and providing technical support to companies through an active participation in multilateral processes and conventions such as the Global Compact and the OECD.

For Thomas Östros, in the framework of international negotiations, governments have to cooperate “*between developed countries and developing countries in pursuing (...) very core human rights and environmental protection measures*” to solve the dilemma of global labour and environmental standards being presented as yet one more potential barrier to trade. One way to accomplish this is to get more of “*closeness between the WTO and international*

agreements that we have on the social side and the environmental side". But global legislation is not the only way to impose these fundamental rights and *"this is why CSR is so important"*.

The current capacity constraints for public sector agencies in developing countries to engage further in the CSR agenda are by no means insignificant. But there are opportunities and the seminar provided an opportunity to share experiences to draw on.

Speaking of the example of South Africa, Iqbal Sharma listed a number of what he called *"new practical sustainable partnerships"*. Recognising the limitations of the conventional paradigm in bringing developmental changes commensurate to the efforts put in, South Africa has developed frameworks within which to engage the private sector more directly in key policy processes that include national sustainable development and poverty reduction strategies. Business partnerships have been created *"between government and business, between business and labour, between business and consumers and between business and the environment"*. Mr Sharma named voluntary initiatives from industries in the framework of the Broad-based Black Economic Empowerment policy. This raft of legislation was introduced to promote black economic empowerment as a means of tackling the legacy of apartheid. As well as defining certain procedures that companies must follow, the government also gives a strong lead to the business community by defining national socio-economic priorities to which companies can contribute. Other examples of South African partnerships were the international investment council of the president, comprising business from around the world, the participation of South-African business community in the Accelerated Shared Growth Initiative, and the National Economic and Development and Labour Council, a forum for multilateral decision-making and consensus-building related to social and economic policy formulation for the South African government. It is led and funded by the public sector and also involves business, labour and civil society organisations.

Beyond the national level, Iqbal Sharma also quoted the example of the New Partnership for African Development, an integrated programme for the socioeconomic development of Africa that is stressing the importance of CSR, as a way for developing countries to *"work with partners in the North and corporate investors"*. The intergovernmental process *"conflict diamond"* was also mentioned as a type of participation in a multilateral process in support of responsible business practices.

5. How important could sector and national initiatives be for business and economic development and what is the full potential for public policy to support these efforts?

It is widely recognised that the success of corporate social responsibility depends on an enabling environment. The seminar also highlighted how sector and national initiatives can achieve social and environmental improvement economies of scale which individual businesses working alone cannot. Sok Siphana and Ivanka Mamic agreed that working at one industry level is *"easier to manage"*. There are also sector differences, whereas *"sectors that have come under the spotlight have tended to make more investments"* (I.Mamic)

On the challenges of industry responses, Ms. Mamic stated: *"CSR should not preclude collaboration"*. In many cases, companies profess that *"acting responsibly is not something that should be giving us a competitive advantage with our competitors; therefore we should*

be able to collaborate, to come up with industry responses.” The reality is that companies are still commonly seeking a first mover advantage in their CSR strategies and are reluctant to share information: *“in the retail sector for example, retailers have not been willing to share the names of their suppliers in order to ensure that we are not getting duplication or a waste of resources”* in building suppliers programmes. For Ms. Mamic, the fact that CSR is a competitive advantage is *“one of the challenges in terms of coming up with industry responses”*, preventing companies to enter in collaborating strategies on CSR.

Examples given by the panellists suggested that promoting responsibility in a national and sector level is coming onto the agenda of donors, companies and countries – and indicated that business responsibility is already having an impact on countries and companies’ dynamics and competitiveness.

In the case of Cambodia, an initiative that emerged with the explicit aim of branding the country’s textile industry as ethical, actors involved are dispersed along the supply chain. One key factor in the success of the initiative has been to make the link between the sector strategies to the overall national export strategy. The framework has brought together *“key players which are at the international market level (the multinationals, the trans-nationals, the buyers and importers)”* and *“the small and medium enterprises, the farmers, the producers”*, that were brought into the production chain. To support this collective strategy, Mr Siphana strongly underlined the importance of working at the level of *“producers associations, chambers, and trade promotion agencies”*.

Also in the textile industry, Neal Kearney provided the example of a nascent initiative in Lesotho that seeks to involve a range of related firms. In Lesotho, *“inward investment is growing and there are attempts now to produce backward linkages – not just producing garments but also producing the fabrics that go into those garments”*.

Finally, the example of South African private sector *“engagement with developmental objectives of the government”* (I. Sharma) highlighted how business responsibility can help to build a healthy business environment by strengthening the legitimacy of the business community and enhancing trust between business and public bodies.

The meeting clearly showed that responsible business practices do not start and end at compliance with the social and environmental demands of international markets. They have to become a collaborative mechanism for upgrading processes and products. The crucial role to be played by governments in establishing and energising these mechanisms was very well summarised by Sok Siphana when he described the Cambodian Better Factory project. A tripartite governing body made up of the industry, government and trade unions representatives oversees this joint government-industry investment in CSR initiative. For Sok Siphana, it is *“not enough with policies and donors involvement”* – national and sector responsible competitiveness strategies such as the Cambodian initiative require *“a pilot who consults the monitor, you need a champion to continue pushing for that”*.

Sharing learning and experience internationally on responsible competitiveness initiative is crucial to allow the establishment of a healthy environment of a “race to the top”. Concluding on the potential for public support to sector and national corporate social responsibility efforts, Minister Östros mentioned the need for more international co-operation by government on CSR, and anticipated on an initiative that would *“gather governments on how we can help to strengthen the CSR work all over the world in the future”*.



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