# CHAPTER XII

## THE SOCIAL RESPONSIBILITY OF TRANSNATIONAL CORPORATIONS

### A.  The context for the social responsibility of TNCs

Privatization, deregulation and liberalization create more space for firms to pursue their corporate objectives. International agreements give more rights to firms to operate internationally. Should this expansion of action, space and rights be accompanied by an increase in corporate responsibilities? In the international context, this question attracts particular attention because TNCs are one of the principal drivers of globalization. They are also seen to be the most important beneficiaries of the liberalization of investment and trade regimes, with rising influence on the development of the world economy and its constituent parts. The concept of "social responsibility" captures the search for an answer to this question. It implies that firms have obligations that go beyond what countries require individually, and agreements prescribe internationally. The assumption of greater social responsibility by TNCs would be particularly important in light of the economic and social disruptions that accompany the globalization process, which -- if not tackled -- could threaten the very framework within which firms build their international production systems.

Corporate social responsibility concerns how business enterprises relate to, and impact upon, a society's needs and goals.  All societal groups are expected to perform certain roles and functions that can change over time with a society's own evolution.  Expectations related to business enterprises, and particularly TNCs, are undergoing unusually rapid change due to the expanded role these enterprises play in a globalizing society.  Discussions relating to TNC social responsibility standards and performance therefore comprise an important component of efforts to develop a stable, prosperous and just global society.

TNCs, by definition, operate in multiple societies around the world, responding to each country's legal requirements while adjusting to diverse social and economic conditions. Occasionally, TNCs are caught between conflicting requirements or expectations in different countries. Multiple public and private sector groups comprise overlapping societies in the local, national and regional settings in which TNCs operate.  At the same time, TNCs seek to maintain their corporate identity and the operating procedures of an integrated global enterprise.  The context for the social responsibility of TNCs therefore encompasses a multilayered environment of societal requirements and expectations.  Overlaying this collage is the fabric of an emerging

global society in which emerging common standards and expectations must also be met, including concerns for the special development needs of the world's poorest countries.

Economic models that rely on competitive market disciplines and the regulatory functioning of public authorities do not fully capture the dynamics of the current globalizing economy, particularly for developing countries in which marketplace competition is often insufficiently developed and governmental resources are often inadequate for the task of effective regulation. Under these circumstances, a governance vacuum may develop, underlining the responsibilities of TNCs. Indeed, greater corporate social responsibility may prove important for broad support for a globalizing world economy.

## B. Meanings of corporate social responsibility

Corporate social responsibility encompasses an array of meanings and intended applications that have undergone substantial modifications over time. These are important to note and understand because they influence the dialogue between governments, business and other civil society groups. The same term, or its variations may carry different implications among various parties regarding the legitimacy, obligations and impact of corporate social responsibility standards.

### 1. Beyond compliance with law

Corporate social responsibility is sometimes mistakenly equated with either corporate philanthropy or simple compliance with law. These two ideas actually stand at opposite extremes to the social responsibility concept whose focus rests centrally on a firm's operational behaviour and its impacts on the surrounding society. Corporate philanthropy involves an activity extraneous to a firm's actual operations: while generally appreciated by social recipients, it does not represent an essential or even necessarily expected business function. By contrast, corporate compliance with law is no more than the mandated minimum necessary to permit the continued existence of any legally-chartered corporate entity.

The philanthropic tradition is rooted in the personal or family origins of business enterprises, which in many countries has led to both personal and corporate gift-giving for worthy causes, as well as to the direct involvement of firms in the provision of housing, schools, social facilities and other amenities for employees and local communities. Where wealthy industrialists such as Rockefeller, Carnegie or Ford in the United States or Cadbury in Europe have made gifts or established foundations, it was the individual not the firm who determined the nature, rationale, and ultimate beneficiaries of any gift. The rise of public corporations with dispersed stock ownership extended philanthropic activities from the personal to the corporate. Top executives in large corporations can approve programmes that include contributions to a variety of not-for-profit activities. However, because the gifts derive from corporate assets managed by the executive rather than from personal funds, the professional manager has certain fiduciary responsibilities not to dispose of shareholder assets in ways that do not advance longer-term returns to those corporate owners. Complex tax calculations and even more ambiguous public image and reputation factors leave ample room for managerial discretion, but the stewardship concept and a professional manager's fiduciary responsibilities influence corporate contributions to social causes.

A confusion between corporate philanthropy and corporate social responsibility can arise from this connection between corporate giving and a firm's business activities. Recipients of corporate gifts are often local communities in which an enterprise maintains its headquarters or significant production sites. Other gifts may seek to improve educational programmes in technical fields connected to corporate operations, or sponsor youth or elderly programmes related to the age groups comprising a firm's main product market. In these cases, philanthropic motivations can blend with marketing or brand-name enhancement objectives, creating a link between "good deeds" and corporate interests. However, such a philanthropic programme is really tangential to how a firm's *operational* behaviour impacts on society, which is the essence

of corporate social responsibility.  An external programme of "good deeds" will not protect a firm whose actual operations harm its surrounding society, nor will a society reject productive, well-behaved firms just because they do not engage in philanthropic activities.

Compliance with legal requirements constitutes a mandatory minimum standard for corporate conduct.  Corporate entities are legal persons granted the right to exist and operate within a society, subject to the laws of that society.  Violations of law subject firms to civil or criminal penalties and can result in revocation of the corporation's licence to operate.  Some international instruments include references to a general duty of TNCs to observe the laws of the host country (UNCTAD, 1996c).  However, these provisions simply recognize the essential role of national law in setting a mandatory minimum floor for corporate conduct.  Corporate social responsibility  rises above this required floor to incorporate standards of behaviour that may be expected, but are not required, under a society's legal statutes.

Compliance with law, then, is really nothing more than a minimum standard of conduct legally necessary to the corporation's continued existence.  Corporate social responsibility that extends beyond legal mandates can help meet societal expectations in the absence of statutory devices.  Such conduct may be particularly important to meeting social needs in developing countries where legal regimes may be absent or underdeveloped in areas related to certain aspects of TNC conduct. There are also cases where the existing legal framework in a country runs counter to internationally-accepted principles and values regarding, for example, human rights as well as labour and social standards.  In these cases, corporate social responsibility might even require that TNCs ignore or go beyond local law rather than take advantage of governance failures of the law-making or enforcing institutions in a country.  Prominent examples are situations where a country's laws rule out the formation of trade unions or any other forms of organized labour activities and where TNCs that seek to comply with global corporate responsibility principles would - nevertheless -  allow or even encourage such activity among their own workforce.

## 2.  Evolving corporate social contracts and stakeholder interests

The intellectual foundation for most evolving views of corporate social responsibility lies largely with the notion of a "social contract" between a corporation and its host society (UNCTAD, 1994a, chapter VIII).  The legal incorporation process results in a formal corporate charter that grants an enterprise the right to operate within the governing society's body of established laws and regulations.  From one viewpoint, these legal requirements can be seen to constitute the full extent of a corporation's societal responsibility; for anything else, "the business of business is business" (Friedman, 1983, 1984).  A contrasting philosophy, however, asserts a broader, extra-legal social contract that encompasses a society's implicit assumptions and expectations regarding the behaviour of corporations to which the society has granted a right of existence (Donaldson, 1984; Donaldson and Dunfee, 1994).  This social contract incorporates a firm's contractual legal obligations but extends beyond them to include additional expectations or responsibilities that are not (currently) mandatory.  The contents of a corporation's social contract can evolve more rapidly than its legal charter, reflecting a  society's changing social and cultural mores. When governed parties, such as corporations, are slow to comply with new societal values, those norms may then be formulated into legally-binding mandates.

In several respects,  social contract theory helps bridge the conceptual gap between the early history of voluntary gifts involving personal or corporate philanthropy and broader, contemporary concepts of corporate social responsibility.  The first essential step is to attach a stronger sense of moral duty or obligation to desired corporate activity.  If certain norms of behaviour are part of an implicit social contract, then complying corporate actions become a more obligatory response rather than a philanthropic "good deed" whose design and initiation rest entirely unilaterally with the charitable benefactor.  A second element arises from the potential relationship between social and legal contracts: to the extent that evolving values encompassed within social contract expectations may become viewed as "moral minimums", the expectation is strong that those norms will be made into legal mandates, unless complied with "voluntarily". This notion corresponds to the implicit (or sometimes explicit) "threat" that some corporations

perceive behind "voluntary" codes of conduct, where noncompliance may result in even more restrictive mandatory regulations. The third link ties social responsibility standards more closely to the essential nature of corporate operations. Social contract theory encompasses a broad range of corporate behaviour, certainly including the normal operating standards for a firm's core activities. This operational agenda introduces social responsibility notions into a firm's internal operations whereas self-initiated acts of charitable giving to external constituencies keeps non-legal societal standards at a safe distance from the corporation's inside processes. Hence, corporate social responsibility has come to be associated with standards of performance that are applied to both internal and external corporate activities, addressing societal norms that are not (but may become) legally-required mandates.

Stakeholder analysis represents a companion concept to social contract theory. A stakeholder approach seeks to define corporate social responsibility broadly in relation to the groups or interests that affect, or are affected by, a corporation's actions (Freeman, 1984). A contrasting shareholder view of corporate responsibility focuses more narrowly on an enterprise's need to serve the interests of its owners by pursuing and delivering profitable returns to its investing shareholders (Friedman, 1983, 1984; Levitt, 1983). Shareholders are indisputably important stakeholders in business enterprises. But these two concepts carry very different implications about whether shareholder interests should be given exclusive or even relative priority over other stakeholder goals (Davis, 1977).

No consensus exists on any single list of corporate stakeholders, although most discussions include groups such as shareholders, workers, managers, customers, suppliers, local communities and governments. Affected stakeholder interests can also be conceptualized in such terms as the unknown or as yet unrecognized interests (future generations or unexpected side-effects). To some degree, the number of relevant stakeholders, and the nature of a corporation's social responsibility to them, vary with a corporation's own unique characteristics, including its size, sector, product and operations. In any event, it will comprise all those that – for one reason or another – feel that they are affected by a company's operation.

The size, scope and impact of modern TNCs extends their potential stakeholder groups beyond the realm defined by the normal activities of national corporations. In all societies, some groups affected by corporate activity will lack the economic or political power to ensure that their interests are represented adequately through market mechanisms or governmental regulations (Carroll, 1989; Donaldson and Preston, 1994). In a global society, however, the under-representation of developing country needs and concerns presents a challenge of far greater magnitude, with considerably broader consequences. Special concerns arise from TNC interactions with developing countries, where FDI can play a large role especially in a relatively small domestic economy. In countries with weak competitive discipline of efficient markets or lacking "good governance" reflected in effective governmental institutions to represent the public interest, TNC social responsibility requires that the corporation pay special attention to the interests of under-represented stakeholders that could be adversely affected by business operations.

## 3. The scope and content of corporate social responsibility

The scope of corporate social responsibility is conceptually quite unbound at the present time. Although the debate between TNCs, civil society and governments often focuses on a few key issues – notably human rights, the environment and workers' rights – this list is by no means exhaustive. In principle, a company is broadly responsible for the consequences of its operations, including direct impacts as well as unintended side-effects or other externalities that affect third parties. In fact, a more expansive definition of the scope of social responsibility would also cover firms linked to another firm by more or less strong business ties (e.g. with supplying firms) — what, in the environment discussion (chapter X) was called the "environmental footprint". Calls for greater corporate social responsibility generally arise from incidents involving negative external effects in areas in which legal responsibilities are not (yet) clarified. These externalities can occur in a wide range of areas involving various stakeholder

groups. Negatively affected groups will ask companies causing these impacts to take measures to prevent, reduce or rectify such consequences, or otherwise to internalize the costs resulting from their activities. External effects can, for example, relate to the social changes produced in a community by a TNC's decision to close down large existing operations. Negative externalities involving environmental impacts are well known.

Although the list of issues that can be included under a comprehensive definition of corporate social responsibility is long (and could include, e.g. consumer rights, information disclosure and fiscal and commercial probity), very few issues actually receive levels of public attention that might convince TNCs to include them in their responsibilities. These key issues — which were mentioned above — distinguish themselves from other issues largely because they possess a broadly accepted base in existing international norms and are linked to on-going discussions on global instruments (Annan, 1999) and they are supported by groups with significant political or economic power. These groups — largely based in developed countries — might either play a key function in the political decision-making process of the home or host country of TNCs, or they have sufficient economic power that they could, for example, influence important consumer groups. Many other issues, especially ones that may particularly affect people in developing countries, go often unnoticed by the wider public and are not taken up by TNCs as long as they are not associated with sufficiently influential public pressure. Thus, a number of development-related issues — such as technology transfer, training of the local workforce, the importance of backward linkages and the promotion of local entrepreneurship — that are of great interest to developing countries are generally not included when TNCs and civil society in the developed countries engage in debates over corporate social responsibility.

## 4. Business, civil society and government perceptions of corporate social responsibility

The relationship between standards of corporate social responsibility and potential legal requirements governing corporate operations lies at the heart of the sometimes adversarial relationship between civil society groups and the business community. For many civil society groups, corporate social responsibility signifies conduct that rises above the minimum required by law but still constitutes a corporate duty to act rather than a more optional norm or charitable "good deed". This view - that corporate social responsibility standards are, in fact, normative obligations — is evident when civil society groups implicitly or explicitly threaten to seek legal mandates should business fail to comply with acceptable voluntary guidelines deriving from the social contract. Private enterprises on the other hand generally prefer the flexibility of self-designed voluntary standards. However, when voluntary guidelines are devised as part of a public process involving governments and/or civil society, corporate executives tend to worry that the content and precise wording of voluntary guidelines may become a precedent for subsequent legal requirements. One result is a tendency to assign corporate legal departments the task of representing business interests in discussions regarding how social contract concepts might be used to develop voluntary guidelines or codes of conduct, often motivating a drive for minimalist norms in case they should become the basis of future legal mandates.

The business community's aversion to binding international legal standards governing corporate operations contrasts with its strong advocacy of international law commitments applied to the obligations of governments towards foreign investors. This view is advocated on issues such as expropriation and compensation standards, and guarantees of non-discriminatory national treatment relative to domestic firms. In these cases, governmental responsibilities are seen as normative duties or obligations, based on fair treatment principles, that should be backed by international legal sanctions. The legal advocacy of governmental responsibilities can be seen in some early business community documents on codes of conduct, such as the 1949 ICC International Code of Fair Treatment for Foreign Investment, or the 1972 ICC Guidelines for International Investment (both in UNCTAD, 1996c), which first addressed corporate as well as governmental responsibilities. Similar positions underlay business support for attempts to negotiate binding high standards for governments in the OECD's Multilateral Agreement on

Investment (MAI) (UNCTAD, forthcoming, c) exercise, while maintaining an insistence upon the voluntary nature of the OECD's earlier Guidelines for Multinational Enterprises (UNCTAD, 1996c).

For governments, the relationship between a social contract and legal regulations governing corporate operations assumes new meaning and complexities when the business concerned is transnational. A mismatch exists between the territorially-bounded authority of national governments and the transnational reach of a TNC's integrated international production system. Although an individual country may seek to extend its law extra-territorially, its reach may infringe on another country's sovereignty, raising the potential for political conflicts and confrontations. The obvious solution is to devise a common foundation of international law whose reach will match the global span of modern corporate activities; but in a world of diverse nation-states with often divergent goals and priorities, this remedy proves difficult, time-consuming and, in many cases, impossible to achieve as a near-term outcome.

Generalizations about national government perspectives on the concept of TNC legal and social contracts can mask important differences both within and between countries. Conflicting domestic pressures exist in many countries that reflect divergent views on whether outward FDI and trade expansion are in the national interest, and how resulting economic and social adjustment costs should be managed, at home and abroad. Perceiving an incipient backlash against globalization in some home countries, developing countries may fear that proposals for new TNC social responsibility standards can represent a disguised form of protectionism. Thus, proposals that seek improvements in TNC global operating standards can generate mixed reactions within and among countries based on differing views of how national interests may be affected.

## 5. International guidelines and codes of conduct

A consensus on TNC-related issues capable of supporting international law formulations was unattainable during the turbulent decade of the 1970s when acrimony over TNC roles and activities was at its zenith, and debates in international organizations split along a widening North-South divide. Faced with the apparent impossibility of generating international standards backed by legal sanctions, some governments initiated discussions aimed at developing non-binding codes of corporate conduct. These devices developed into new "soft law" alternatives, somewhat akin to a defined social contract, whereby governments would endorse and promote the agreed standards as embodying the type of conduct expected of "good corporate citizens". These soft law standards were achievable precisely because they did not require intergovernmental consensus on the level of detail necessary for legally-enforceable regulations. Instead, differing points of view and emphases could be accommodated through creatively broad and sometimes deliberately ambiguous language that left room for flexible implementation.

Such soft law codes were of two broad types. One type stated general standards of behaviour that permitted an adaptable application by private enterprises in light of their individual circumstances. Examples of such instruments are the 1976 OECD Guidelines for Multinational Enterprises, the 1977 ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the UNCTAD Code on Restrictive Business Practices, adopted by the General Assembly in 1980 (all in UNCTAD, 1996c). The second type is aimed at more specific types of business activities or conduct and hence can be more precise, although still open to interpretation. Perhaps the best known of these soft law codes is WHO's International Code of Marketing of Breast-Milk Substitutes (UNCTAD, 1996c). Another example is the FAO's International Code of Conduct on the Distribution and Use of Pesticides adopted in 1985, which established voluntary standards of conduct for all public and private entities involved with the distribution and use of pesticides, particularly in countries with inadequate national law to regulate this product. The code was based on the shared responsibility of all segments of society and a cooperative effort between governments of pesticide exporting and importing countries.

Sometimes, voluntary compliance regimes can provide an alternative that permits public action while shifting the burden somewhat onto corporations to discern, apply and monitor the voluntary standards in a way that will be deemed acceptable to that firm's surrounding society (which, in the case of a TNC, actually comprises numerous and diverse societies whose views, expectations and priorities may differ and perhaps conflict). Governments and other constituent groups can then judge corporate performance case-by-case, with wide latitude to interpret the guidelines and respond to corporate actions as they see fit. This aspect might play a particularly important role in countries with deficits of governance, i.e. where governments lack (the will or) the means to enforce legal standards. However, the increasing proliferation of various codes across a broad array of business life caused some corporate concern and incipient signs of a "code fatigue". Civil society groups similarly viewed the spread of voluntary corporate codes with some ambivalence, often evaluating case outcomes as less than satisfactory, and retaining a preference for mandatory alternatives that seemed to promise more assured results. At a minimum, these groups increased their focus on devising monitoring and public reporting programmes that could add enforcement aspects to the implementation of voluntary codes.

Regardless of the question whether legally binding standards are superior to voluntary regimes or not, voluntary standards appear to be gaining renewed favour among some governments. One reason may be that legally binding standards prove difficult to negotiate internationally. In other instances some governments find voluntary compliance regimes more efficient and cost-effective to address technically complex and rapidly-changing business operations. International commerce has fostered a remarkably rapid pace of scientific discovery, product innovation and business adaptation. By contrast, negotiating new international legal regulations can be a cumbersome, time-consuming process that can yield results that may already be overtaken by technological or managerial change the day an instrument enters into force.

## 6.   International aspects of corporate social responsibility

The concept of corporate social responsibility embraces standards of good business practice that can apply to all firms, whether they are national or international in their scope and orientation. Relating social responsibility to TNCs, however, introduced several distinctive elements into debates from the 1970s onward that had not arisen so prominently earlier. As mentioned above, devising international legal regulation of TNC operations can be difficult, because of the  multiple sovereign governments involved and the great diversity among their respective countries' perspectives, policies and priorities. These same differences also make it difficult, although somewhat more possible, to forge agreement on non-binding corporate guidelines or codes of conduct. For corporations, the task can be equally daunting, for they must strive to meet or exceed these diverse and sometimes conflicting expectations while operating simultaneously in many sovereign countries around the world. Both the greater number of interested governmental and non-governmental constituencies, as well as the magnitude of differences among them, magnify the challenge of defining and applying corporate social responsibility concepts to TNCs as opposed to national corporations.

Another unique aspect of corporate social responsibility as applied to TNCs arises from activist pressures generated by civil society groups in a TNC's home country (or even a host country) related to the firm's operations in other countries. Although international trading ties may allow groups in one country to bring pressure to bear against interests based in another country, the locally invested presence of a TNC provides an easier channel with a more proximate array of interests and activities to target. From a different perspective, these same TNC interrelationships mean that host governments can face policy pressures generated by non-citizen groups located in foreign countries, channeled through their influence on locally invested TNC operations. Actions by TNCs, whether on their own initiative or impelled by pressures from constituencies in other countries, can be viewed by a host country as unwelcome and unjustified external interference in its internal affairs. Of course, this result may be the explicit intention of

external groups, as was the case with opponents of the former apartheid regime in South Africa. The main point for this analysis is that a TNC's international investments give it a scope and capacity for social responsibility activities in multiple societies and political jurisdictions that broadens the audience of interested external constituencies while increasing the impact of corporate decisions on how to respond to calls for actions based on social responsibility norms.

A TNC's social responsibility may exert a differential impact on developing countries which are most often the target rather than an initiator of such actions.  Much of this difference stems from the practical reality that developing countries are more host than home countries for TNCs, meaning that an enterprise will have matured using operating standards developed under a set of foreign legal and social expectations.  Although TNCs can and do adjust to their host societies, where significantly different standards are encountered the invested enterprise must decide how to respond, bringing a  potential for introducing change within the host society to a degree that exceeds impacts arising under traditional commercial trading relationships.

The differential impact arising from FDI is reinforced by the earlier emergence and maturation of civil society groups in the developed countries.  Developing country organizations that represent various elements of civil society are growing in both number and capabilities, and are expanding their ties with similar organizations in other countries. Still, developed country civil society groups provide the main impetus and follow-through influence for defining social responsibility standards and selecting the issues and business applications to target.  Even where internationally-defined standards have been achieved — as on certain environmental and human rights, including labour issues — the proposition that local applications by TNCs in host developing countries fall unacceptably short of those standards (even though they may be consistent with local law and practice) is often made by groups from outside the country. Affirmative TNC responses to calls for change will then alter local operations and impacts in response to external rather than internal evaluations of "higher" social values and norms.  This outcome may be questioned by developing countries, especially if the evaluation criteria and methodology for social performance measures are designed and implemented from experiential data drawn  narrowly from developed countries.  In reality, developing-country standards and practices may differ from those used in developed countries, and differ sometimes from desirable internationally-agreed norms as well.  In these cases, however, it is important to assure that evaluation and performance measures derive primarily from international and not solely developed-country normative standards.  The powerful influence of TNCs based in developed countries, and the prominent role played by similarly-located NGOs, may sometimes obscure the proper societal reference points for normative standards of corporate social responsibility.[1]

## 7.   Global corporate citizenship

The presence of foreign affiliates in many countries also engenders the notion of "global corporate citizenship" (Annan, 1999), ( box XII.1).  This idea can be conceptualized more broadly than the recent usage of corporate social responsibility that may appear one-sided if only the responsibilities or obligations of corporations to their host societies are discussed.  Citizenship involves both rights *and* responsibilities. The "rights" involve the business community's concerns with standards of treatment in host countries for foreign investors (e.g., national treatment, MFN treatment, fair and equitable treatment) (chapter IV and UNCTAD, 1996c). The "responsibilities" are captured by the corporate responsibility concept as discussed above (section B.3), except that they now extend to the international context.  In distinction to the national context, however, the determination of the context of social responsibility becomes more complicated, because TNCs may operate in societies that may well have different norms and expectations.

The citizenship notion also provides a bridge between legal regulations and broader social contract standards, acknowledging that a citizen's responsibilities to society rise beyond a floor of legally-mandated obligations.  The addition of "global" to "corporate citizenship" emphasizes that, for TNCs, rights and responsibilities must be reconciled within the global arena that constitutes their "society".  This concept suggests that TNCs are not just legal citizens in each country in which they do business, responsible to that society's standards and mores.  TNCs

are, in fact, "global citizens" whose international span, involvement and capabilities confront them with challenges, as well as opportunities, not encountered by national corporations.

The terminology of global corporate citizenship is naturally employed more by international organizations than by national governments, and by NGOs  when they are addressing applications of corporate social responsibility outside a TNC's home country. Corporations themselves tend to use the term in a broadly ambiguous sense that specifies adherence to all host-country legal norms, without much specification of what standards may be global rather than national in character, or how national norms should be dealt with if they conflict with global citizenship responsibilities.  On the other hand, TNCs are usually quite clear that international investor rights should be respected if they conflict with national norms (for example, when seeking the better of national treatment and the international law standard).

Global corporate citizenship has come to emphasize *capability* as much as *causality*, with an accompanying shift to notions of  "doing good" rather than just "not doing harm".  This broadened concept engenders calls on TNCs based in one country to prevent or rectify disagreeable conditions in other countries, because they have the capacity to influence outcomes, even where the firms may be, at most, distantly connected to the problem's origin.  This type of challenge arises most obviously in the realm of political issues where TNCs are called upon to influence a host government's policies, or even press for a change in the regime itself (for example, as occurred in protests against the former apartheid regime in South Africa).  Activists in such cases often seek to demonstrate linkages by positing various types of TNC support for, or beneficiary interests in, an objectionable regime's governance.  However, the clear trend over the years has been to incorporate as broad an array of TNC actors as possible, despite widely varying degrees of involvement with a country's political situation, in order to maximize potential capacity to alter outcomes.  This historical expansion of corporate social responsibility concepts, particularly for TNCs, underlines the need to work towards a consensus in the

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### Box XII.1. Towards a global compact for the new century

The Secretary-General of the United Nations, Kofi A. Annan, challenged world business leaders at the World Economic Forum, Davos, on 31 January 1999 to demonstrate good global citizenship by "embracing and enacting", both in their individual corporate practices and by supporting appropriate public policies, a number of universally-agreed values and principles:

1. **The Universal Declaration of Human Rights**

The Secretary-General asked world business to:

a)   *support and respect the protection of international human rights within their sphere of influence; and*
b)   *make sure their own corporations are not complicit in human rights abuses.*

2.   The International Labour Organization's **Declaration on fundamental principles and rights at work**

The Secretary-General asked world business to uphold:

a)   *freedom of association and the effective recognition of the right to collective bargaining;*
b)   *the elimination of all forms of forced and compulsory labour;*
c)   *the effective abolition of child labour;*
d)   *the elimination of discrimination in respect of employment and occupation.*

3.   **The Rio Declaration** of the UN Conference on Environment and Development (1992)

The Secretary-General asked world business to:

a)   *support a precautionary approach to environmental challenges;*
b)   *undertake initiatives to promote greater environmental responsibility;*
c)   *encourage the development and diffusion of environmentally-friendly technologies.*

*Source*:   UNCTAD, based on Annan, 1999.

international community regarding how terms such as global corporate citizenship should be understood, defined and applied.

Overall, the idea of global corporate citizenship rests on the linkage between the rights granted in an enabling national and international regulatory framework that permits global business activities, and an accompanying set of social responsibility commitments accepted by TNCs that operate within, and benefit from, an integrating global community.  Modern business activities require the certainty and regularization provided by international agreements and institutions.  Much of the expansion of global commerce over the past decade stems from the extension of liberal policy regimes wherein TNCs can organize their operations to seek optimal business efficiencies.  However, maintaining the current investment and trade framework and ensuring its implementation - much less formulating new international economic instruments - may well depend on corollary progress towards the achievement of related societal goals that lack so specific an international legal elaboration.

## C.  The growing importance of TNC social responsibility

The increased importance of TNC social responsibility corresponds to the growing scope of activities undertaken by these enterprises in the globalizing world economy (Part One).  Another factor that explains the broadened importance of TNCs in the global economy is the conceptual as well as operational expansion in the definition of TNCs, as they are now — in addition to their traditional FDI mode —  increasingly defined by a variety of low- or non-equity investments.

Large retailers, for example, face calls for action against abusive working conditions in foreign plants that produce clothing for them under sub-contracting arrangements, although the retailer has no equity ownership or even foreign presence in the country in which the abusive labour conditions exist (see Wal-Mart; Kmart; Kohl's; Dillard Department Stores; Sears Roebuck; Dayton Hudson) (IRRC, 1999a).  A similarly broadened scope arises with enterprises whose valuable brand-names reflect many years of significant financial investments in building a product's reputation and image.  These firms seek to protect their assets from misappropriation or misuse in foreign markets, establishing contractual obligations and accompanying controls that shape related business activities in those markets, with or without an actual presence by the TNC itself.  Other low or non-equity TNC investments are reflected in the rapidly expanding range of international strategic alliances and partnerships that blend the comparative and competitive advantages of firms from several different countries in complex sets of evolving TNC linkages (UNCTAD, 1995a, 1997a).

The changes in the magnitude and nature of TNC activity increase the relevance and importance of social responsibility in two interrelated ways.  First, the impact of TNCs on people around the world has grown exponentially as these agents of economic globalization reach into the life of domestic societies through both equity and non-equity mechanisms.  Reflecting their increased global span and scope, TNCs have become more capable, proximate and aware actors whose activities can create causal links to societal outcomes in multiple countries and cultures.  This impact can raise particular concerns for governments if the main TNC purveyor of change does not even have an invested local presence that is susceptible to the country's legal jurisdiction.  This situation is most likely to occur in smaller developing countries whose societies may already be among the most vulnerable to the impact of external forces.

Among linked social responsibility variables, TNC capability seems to emerge as the most prominent factor in recent calls for greater corporate responsiveness.  Proximity through FDI certainly increases a TNC's awareness and capability to act in local situations.  But - as was evident with social pressures on non-invested retailers - neither a local presence nor direct causality links to abusive conditions are necessary preconditions for asserting that a firm's foreign business ties produce significant social responsibility obligations.  TNCs can be called upon to use their expanded capabilities to prevent or to rectify offensive conditions even in countries in which a firm has played no causal role in their creation.  These circumstances raise  questions about  what  (and who)  should  determine  the  appropriate  function  and  limits  on  TNC

responsibility for social conditions around the world.  A general conclusion, however, is that the expanded scope for business efficiencies permitted by liberalized economic conditions seem to bring with them a new perception of a "global social contract" whereby TNCs that enjoy the freedom and benefits of globalization must accept some expanded responsibilities for managing its effects on various societies.

In a second, related manner, newly expansive views of social responsibility reflect not only the recent growth in TNC scope and influence, but also the broader impact and uncertainty brought on by globalization trends that are only partly driven by TNC activity.  The rate of societal change in all countries has increased exponentially over the past few decades, affecting nearly every segment of the population and fostering noticeable feelings of anxiety and  insecurity about the future.  Globalization brings the potential for more dramatic forms of change, derived from foreign influences, than would have developed more naturally and slowly within a country's own society.  When channeled through FDI directly into a country's domestic fabric, these external influences can sometimes bypass or overwhelm a society's traditional adjustment mechanisms, thereby causing unexpected disruption or dislocation in social as well as economic processes.

Evidence of a potential backlash against globalization is now appearing among societal groups most affected by the adjustment costs or other adverse impacts of rapid changes often associated - rightly or wrongly - with TNC activities.  These pressures are most evident in labour and environmental organizations but are also present among domestically-oriented businesses that worry about increased competition and other societal interests that fear a loss of national autonomy or identity.  In the United States, these concerns threatened congressional approval of the North American Free Trade Agreement (NAFTA) and helped derail attempts to renew "fast track" negotiating authority for new trade agreements.  The OECD's discontinuation of its MAI negotiations is attributable, at least in part, to the successful coordination of public opposition from these various groups (chapter IV).  On-going debates in various national and international fora reflect similar efforts to condition any future expansion of trade agreements on accompanying action as regards related labour and environmental issues. This strong pressure from  civil society groups reflects, at least partially, their concern that many TNCs have done too little so far to live up to the increased responsibilities in a more liberal global economy.

Having organized their expansion based on globally-integrated efficiencies made possible by liberalized investment and trade regimes, TNCs now confront a substantial challenge to this permissive regime.  Globalization could bring about a serious backlash from unresolved societal needs.  Considered within a global context, social responsibility thereby takes on immediate practical and political importance for an international business community whose operations are conditioned on continued globalization.  In fact, there is a significant recent expansion of attempts to design newly cooperative ways for TNCs to respond, individually and collectively, to the evolving public expectations of a global social contract.

## D.   Recent developments in corporate social responsibility

Recent developments influencing the application of social responsibility concepts to international business derive from many different sources that comprise the stakeholders of TNCs, as well as from the corporations themselves.  The major new development, at least in developed countries, is a proliferation of groups representing general public or specific issue interests that utilize a wide array of public pressure tactics, intermingled with instances of more direct dialogue, to promote an activist view of TNC duties towards an expanding agenda of social responsibility objectives. An expanding number of private enterprises are creating and/ or revising individual statements of business principles or codes, although this group would still constitute only a small percentage of the total TNC community.  Collective business organizations have adopted a mixed approach.  Some sectoral groups actively responded to social responsibility pressures with industry-specific initiatives, while most organizations take a more cautionary approach, with the notable exception of a new statement on environmental principles.  Governments continue to use international organizations to promote guidelines or

codes of conduct on issues or in sectors in which international consensus is insufficient to support more precise legal standards. Only occasionally do national governments individually endeavour to develop TNC social responsibility initiatives.

# 1. Increased activities by civil society groups

A major development, particularly evident over the past decade, is the expanding number, range, coordination and activism among parts of civil society on issues relating to TNC social responsibility. Although some groups organize around very specific products, such as tobacco or nuclear energy, most activism focuses on a relatively small set of major issue themes that are then exemplified and addressed in terms of specific products, companies or events. As mentioned before, the issues most prevalent over the past decade involve labour rights and working conditions, the environment and human rights, reflecting primarily a developed country perspective on TNC social responsibility (box XII.2). Some groups choose to focus principally on one of these areas, such as Greenpeace on the environment or Amnesty International on human rights. Others, such as religious organizations or other socially-directed institutional investors, may be active across a spectrum of social issues. Although most groups originate in the developed countries and draw their most involved membership from that base, an increasing number of organizations is emerging in developing countries as well. Where interests and perspectives are shared, groups may forge ties internationally through affiliated networks, conferences, newsletters and an exponential growth in relatively inexpensive Internet linkages. In fact, the emergence of the Internet is virtually unparalleled in its impact, both on increasing international communication among elements of civil society and on facilitating these groups' outreach to media channels that can focus instant attention on TNC activities worldwide.

This section offers only an illustrative description of the growth, activism and impact of these groups relative to TNC social responsibility developments, but informative examples can suggest the diverse and evolving nature of their activities. For instance, a particularly comprehensive set of social responsibility standards has been developed by several religious organizations and issued by the Ecumenical Committee for Corporate Responsibility as international benchmarks that could be used in TNC codes and against which TNC performance might be measured. This set of standards draws from a number of ILO conventions and other documents to address issues related to a broad range of TNC stakeholders, including employees, customers, suppliers, contractors, shareholders, community relations and the environment (Wild, 1998).

Another recent initiative aimed directly at monitoring TNC performance on social responsibility issues is the Council on Economic Priorities Accreditation Agency (CEPAA), established in 1997 by the Council on Economic Priorities (CEP). An advisory board that included participants from unions, universities, human rights groups, corporations and accounting firms helped draft a Social Accountability standard (SA 8000), conceptually mirroring the ISO 9000 quality standard that has been widely accepted within the international business community. Drawing from provisions of selected ILO conventions and human rights principles, the drafters of SA 8000 constructed a set of specific standards addressing many labour and work condition issues, including child labour, health and safety, freedom of association, collective bargaining, discrimination, work hours and wages. Signatory companies can be measured, audited and accredited under SA 8000, which might provide labelling or reputational advantages if the standards are met. Several international accounting firms are closely associated with this undertaking while some other companies have indicated their intention to use this programme (Wild, 1998).

Trade unions actively participated in the development of several international standards relating to TNCs, including the OECD Guidelines and, principally, ILO instruments (conventions, recommendations, the Tripartite Declaration and the Declaration on Fundamental Principles and Rights at Work). Union concerns encompass both operational conditions in the

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**Box XII.2. Comparative codes of conduct and their auditing and follow-up procedures**

Possible precedents for initiatives to strengthen corporate social responsibility are two programmes that have sought, with varying success, to engage United States companies in collective, yet voluntary, codes of conduct. Each programme required – or promoted – some degree of reporting by the companies for oversight by outside parties. One was the Sullivan Principles, which requested companies to improve workplace and social conditions for blacks in South Africa during the apartheid era. The other one, still in effect, is the Ceres Principles, an environmental programme with approximately 50 endorsers.

**Sullivan Principles**

The Sullivan Principles were the brainchild of the Rev. Leon Sullivan, a Philadelphia minister, black civil rights activist and member of the board of directors of General Motors Corp. (GM) at the time of the Principles' genesis. Sullivan invited several leading United States companies to join him in formulating a set of principles designed to guide corporate activities in improving the conditions of black workers, their families and communities, which he released in March 1977, together with representatives of 12 major United States corporations, including GM.

The six original principles called for the desegregation of facilities, equal pay for equal work, equal employment practices for all employees, skills training and black advancement within the workplace, and improvement of employees' lives outside the workplace.

Sullivan expanded and amplified the original Principles four times before he left the programme in 1987, to present ever more challenging objectives to signatories and to respond to developments in South Africa. The two most significant amplifications were the second amplification, in May 1979, which required signatories to challenge South Africa's influx control laws and to allow their employees to unionize, and the fourth amplification, in November 1984, which required companies to support the ending of all apartheid laws.

The number of signatory parent companies to the programme grew to a peak of more than 180 in 1985-1996, but dwindled thereafter as United States companies withdrew from South Africa in the late 1980s. Approximately 50 companies were involved in the programme in 1994, its final year.

Under the programme, a company was eligible for signatory status when it (1) expressed a written commitment to the Principles, (2) paid an annual assessment, and (3) submitted a completed questionnaire to the consulting firm of Arthur D. Little Inc. (ADL) for evaluation on an annual basis. A senior vice-president of ADL monitored the signatories and drew up an annual questionnaire that signatories were expected to complete. Each year, ADL provided a summary report of the signatories' progress in implementing the Principles and listed which of three grades each signatory received for the year.

There were three ratings for the signatories: I - Making Good Progress, II - Making Acceptable Progress, and III - Needs to Become More Active. In order to get a rating above Category III, a company had first to meet 14 basic requirements, including: allowing freedom of association, providing equal pay for equal work, paying a minimum wage at least 30 per cent above the poverty line for a family of five, ensuring that all company facilities were available to all races, and ensuring that the implementation of the programme and the ratings were regularly reviewed with a representative group of employees.

If a signatory met all 14 basic requirements, it was then eligible to earn a passing grade (Category I or II), based upon its performance in such "action areas" as employee training and community development. In assessing the companies' performance, ADL largely relied on  statements in the questionnaire, but it did require the signatories to submit their complete questionnaires, along with figures on total payroll, number of employees, wage of lowest-paid workers and total spending on community affairs, to an outside accounting firm before sending them to ADL.

**Achievements**

During the first few years, many of the signatory companies with factory operations were preoccupied with desegregating cafeteria and locker facilities. But, as time went on, the focus of the programme turned to training and development, community development and social justice. Between 1981 and 1990, for instance, the percentage of the signatories' managerial positions filled by black South Africans increased from three to 13 per cent. In contrast, the percentage of managerial jobs held by blacks at South African firms was probably less than five per cent, according to South African analysts. However, some critics suggested that the apparent success of the signatories reflected, in

**(Box XII.2, concluded)**

part, the appointment of blacks to token positions with limited powers and responsibilities. Less open to question, though, was the scale of the signatories' philanthropy.

From 1986 through 1993, the signatories to the Sullivan Principles collectively contributed nearly $30 million (measured in 1996 dollars) to community affairs focusing on South Africa's black population. Anecdotal evidence, as well as a pilot survey by IRRC in 1995, suggested that this social investment by United States companies far outstripped that of other companies of comparable size in South Africa. The Statement of Principles also galvanized initially reluctant United States companies to lobby privately and publicly for the ending of apartheid laws.

### Motivating factors

A compelling reason for United States companies' involvement with the Sullivan Principles was that the United States and international anti-apartheid movement gathered steam when the Principles first made their debut. Many companies needed the programme to defend themselves against critics who said their operations supported apartheid. Against this pressure, the Sullivan Principles had features that gave it credibility with important constituencies – particularly institutional shareholders – that were prepared to let companies demonstrate the benefits of "constructive engagement". The companies were rated by a respected third party (Arthur D. Little), these ratings were made public, and for many years the programme was guided by a prominent figure (Sullivan) from outside corporate circles.

### The Ceres Principles

The Ceres Principles were drafted and introduced in September 1989 by 15 major environmental groups as well as several major institutional investors, including the New York City Employees' Retirement System, the California public pension system and the Interfaith Center on Corporate Responsibility, which in turn represents more than 200 Protestant denominations and Catholic orders.

The 10 Ceres Principles include broad statements on protecting the biosphere, sustaining natural resources and reducing the volume of waste. Other provisions focus on conserving energy, reducing risks and marketing safe products. The last four principles – and the most contentious – ask companies to restore the environment to redress damage they may cause, disclose potential hazards of their operations, make senior management and the board of directors more accountable for environmental matters, and conduct annual environmental audits of their operations using a standard Ceres report, with results reported to the public.

Today, the Ceres campaign is directed by a 23-member board of directors that represents the 50-plus institutional investors, public interest groups and environmental organizations that make up the Ceres coalition. The coalition's executive director heads a small staff, and much of the coalition's work is handled through four committees of coalition and staff members. Over the last 10 years, 48 firms have endorsed the Ceres Principles, including 19 publicly traded companies, among them being General Motors, Coca-Cola, BankAmerica, Bethlehem Steel, Polaroid and ITT Industries.

The primary costs of endorsing the Ceres Principles are the payment of annual dues (which can range up to $25,000 for a company with $25 billion or more in annual sales) and completion of the annual Ceres report form. The latter requires considerable time and effort for companies not already collecting the requested information for other purposes. The reporting exercise provides a comprehensive accounting of the company's environmental affairs; many endorsers use the annual questionnaire as the basis for their own corporate environmental reports. Companies' attendance at periodic meetings convened by the Ceres coalition is encouraged but not required. Some companies welcome the opportunity to interact with environmental groups, investors and other companies in a collegial setting to discuss environmental and sustainable development issues.

In 1998, Ceres embarked on a new Global Reporting Initiative, which aims to establish voluntary, standardized measures of corporate sustainability reporting worldwide. The Initiative has grown to include numerous global organizations, including the World Business Council for Sustainable Development, the (United Kingdom) Association of Chartered Certified Accountants, the Stockholm Environment Institute, the (United Kingdom) Imperial College of Science, Technology and Medicine and the United Nations Environment Programme. In April 1999, the Initiative's members formally introduced in London the draft Corporate Sustainability Reporting Guidelines that will form the basis for a pilot corporate reporting programme expected to involve about two dozen TNCs in the year 2000.

*Source:* UNCTAD, based on IRRC, 1999b.

workplace and process rights such as freedom of association and collective bargaining. Trade unions occupy a somewhat different position than other civil society groups, however, due to their traditional economic role in contractual negotiations with business. General union preferences are to seek legally binding regulations on labour issues rather than voluntary TNC codes. The difficulty with forging such agreements internationally is demonstrated by the mixed success of even the core ILO conventions: not all countries have ratified these standards and, among those that have, practical implementation or enforcement is sometimes lacking.

Several recent labour initiatives adapt the concept of TNC social responsibility standards to the context of labour-management bargaining. In 1997, the International Confederation of Free Trade Unions (ICFTU) adopted a list of minimum labour-practice standards that should be included in codes of conduct, essentially comprising a model for developing agreements with corporations that would cover their practices as well as potentially those of business partners such as franchisees, licensees, sub-contractors and principal suppliers. During the same year, nearly two dozen business and trade unions representing the European textile/clothing industry reached the EURATEX agreement that identified core labour issues, referenced by ILO conventions, that companies are called upon to adopt, with a follow-up monitoring and review process. The organizing committees for the Sydney Olympic and Paralympic Games also agreed to a labour- practice code for licensees of goods produced for those events. In other cases, new labour- practice standards evolved from the use of media revelations to build public pressure on companies whose products involved abusive practices, most notably with the use of child labour for stitching soccer balls in Pakistan and rug production in India (Wild, 1998).

Despite such examples of success among trade unions in formulating some general international and more specific sectoral standards, the degree of international cooperation and coordination among organized labour may face constraints because interests are still essentially perceived and pursued nationally, with workers in other countries representing potential competitors for jobs that TNCs can shift among different geographic locations.[2] This factor also differentiates labour from many other civil society groups that appear to pursue more complementary or at least non-competing goals.

Human rights groups such as Amnesty International and Human Rights Watch are sometimes aligned closely with labour groups because a number of human rights principles pertain to labour relations and working conditions, exemplified by some of the recent high-profile cases involving forced labour, child labour, restrictions to freedom of association and the right to collective bargaining, as well as abusive "sweatshop" working conditions. Other human rights issues extend to cases involving political oppression, where the relationship to TNC operations may be indirect rather than causal. Following from experiences with the successful fight against apartheid in South Africa, many of these groups employ similar tactics and standards in pressing for socially-responsible business behaviour in other countries in which human rights abuses exist. Goals may extend from respecting and preserving employees' human rights in the workplace and beyond, in order to not take advantage of the situation in these countries, to intervening actively to promote change in political conditions, or discontinuing business ties with the offending country.

A range of measures may be employed to urge TNCs to adopt a human rights agenda among their social responsibility obligations, with an evolving list of countries as applied targets for action. Recent activities have focused on generating public as well as private commercial sanctions on TNCs that continue an involvement with regimes that significantly abuse human rights. This approach is exemplified by the steps taken by some United States' state and metropolitan governments to enact selective procurement bans on products from such companies. Business organizations oppose this use of purchasing sanctions, and a number of governments accept that such regulations violate WTO trade rules (Kline, 1999).

Debates involving human rights standards and TNC social responsibility usually revolve around two fundamental issues. The first concerns who should decide whether and when significant human rights violations are occurring in a specific country. The second issue is determining the appropriate relationship between human rights obligations and the actions that

business entities (particularly foreign-based TNCs) might take to influence a host country's domestic political affairs. Failure to achieve a broad consensus on these issues, perhaps backed by the institutional processes of a relevant international organization, risks placing corporations in a difficult position. Target TNCs can be caught between competing value standards of political non-interference in a country's domestic affairs and the pursuit of either activist involvement in such politics or a penalizing withdrawal from the country aimed at forcing changes in the host government's policies.

Civil society groups have been particularly successful "drivers" of environmental concerns (chapter X). Recent activities by environmental NGOs have focused primarily on urging governments to adopt and improve international and regional accords related to the protection of the environment. Some of this emphasis undoubtedly stems from the relative success of international negotiations of the Montreal and Kyoto Protocols, with their attendant need for a resource commitment to follow-up activities. Nevertheless, efforts continue to define and apply social responsibility concepts to TNC environmental practices, ranging from the Ceres Principles (box XII.2) developed in the aftermath of the Exxon Valdez oil spill to various initiatives related to forestry management and the protection of sensitive rain forest regions (IRRC, 1999c). TNCs may also be targeted more individually as particular events or actions unfold, such as Shell's Brent Spar decision. This particular case is noteworthy because Shell altered its course of action under concerted pressure from environmental groups, even though the company's original plans had been approved by the Government of the United Kingdom.

## 2. Business responses

For the reasons discussed earlier, the business community remains generally cautious regarding international initiatives that call for expansive new commitments to TNC social responsibility obligations. More generally, however, the diverse membership of general business organizations makes it difficult to reach a consensus among various industries on a common position that reflects the interests and needs of the full business community. As with some intergovernmental institutions comprised of diverse country members, organizational dynamics can either stall action or drive it towards a lowest common denominator position.

However, some broadly inclusive business organizations such as the International Chamber of Commerce (ICC) and the International Organisation of Employers (IOE) have been able to define joint positions on social responsibility issues among their members and, sometimes, have even come up with codes or standards for their members. The ICC, for example, has developed and revised codes over the past half century dealing with international business practices in advertising, marketing and sales. It has also adopted a statement on Extortion and Bribery in Business Transactions (ICC, 1977) that recommended standards and outlined a complaint procedure aimed at discouraging such practices. Although the envisioned case reporting procedures went unused, the standards were recently updated (ICC, 1999b), in line with contemporary action taken against bribery and corruption by the OECD and OAS (OECD, 1999a; OAS, 1999) (chapter IV). Another relevant ICC initiative was the 1990 Business Charter for Sustainable Development (ICC, 1999d) which outlined 16 principles for environmental management in an action taken preliminary to the 1992 Rio Conference.

Other collective business groups are organized along national, sectoral and/or issue lines. National associations have been most occupied in developing input and positions to influence ICC activities. Japan's Keidanren organization, however, has been notable for sponsoring a set of "Guidelines for Investment Activities in Developing Countries" in 1973, subsequently revised several times and last issued in 1996 as the "Keidanren Charter for Good Corporate Behavior" (UNCTAD, 1994a; Keidanren, 1999). It is frequently cited by Japanese corporations as embodying relevant standards of conduct for their international operations. A few business-based groups with diverse memberships have organized along issue lines, particularly related to environmental concerns. For example, the World Business Council for Sustainable Development was formed in the preparatory phase of the UNCED Conference in Rio de Janeiro in 1992 by business leaders from a range of different industries. The Global Environmental Management Initiative (GEMI)

similarly promotes environmental standards among its members on a voluntary, self-enforcement basis.

Several business groups have organized around a broad social responsibility theme, often energized by top executive involvements.  The Caux Round Table, with its statement of broad "Principles for Business" (CRT, 1999), as well as the Global Sullivan Principles launched in Accra, Ghana, in May 1999, and the Prince of Wales Business Leaders Forum, are examples of this type of activity.

Sectoral organizations representing certain industries or product lines have been even more dynamically engaged, generally prompted by events that cast the industry and its members in an unfavourable light, generating public pressure for action.  Two prominent codes developed on the international level that include both general principles and some specific standards dealing with labour and working conditions come from the World Federation of the Sporting Goods Industry and the International Council of Toy Industries (ILO, 1998b).  The latter code also covers environmental protection, which is the central focus of the "Responsible Care" initiative (ILO, 1998b) originated by the Canadian Chemical Producers Association in the aftermath of the disastrous gas leak in Bhopal, India; it was subsequently endorsed by over 40 chemical associations in various countries.  Social responsibility concerns related to consumer issues prompted the development of a Code of Marketing Practices by the International Federation of Pharmaceutical Manufacturers Associations (IFPMA) (IFPMA, 1984).  This code, which is still operational and is meant to be implemented by national pharmaceutical associations, was developed contemporaneously with the controversy surrounding the marketing of infant formula that led the World Health Organization to adopt an International Code of Marketing of Breast-milk Substitutes in 1981 (UNCTAD, 1996c).[3]

Many individual companies adopt their own codes of conduct that address social responsibility issues, sometimes drawing on an industry code or a set of  international business principles.  There is no broadly accurate count of these documents.  Their numbers began to expand in the mid-1970s, particularly among United States TNCs caught up in a set of overseas bribery scandals.  More recent code adoptions by additional TNCs from Europe and other regions have boosted the number of corporate codes well into the hundreds.  Still, these numbers fall far short of the tens of thousands of TNCs engaged in FDI, with few representative corporations from among developing country TNCs.  The vast majority of TNCs therefore remain neutral or simply inactive in terms of individual codes of conduct.

The content of existing individual TNC codes varies widely in purpose, coverage, specificity and implementation mechanisms (box XII.3).  Those most relevant to TNC social responsibility issues respond directly to important external constituency concerns. To be functional, however, the codes must also provide practical internal guidance for corporate operations (Kline, 1985; IRRC, 1999a).  Broad, hortatory principles have little credibility inside or outside a corporation if they do not address real operational issues and decision-making processes.  Related to this, an increasing number of companies base their codes on internationally-agreed standards rather than their individually-defined norms. Sustained, explicit interest and involvement by top executives is also essential to underline a code's importance, giving it enough credence to stand against short-term profitability pressures.  The sustainability of codes critically depends on whether or not they reflect the values and behavioural expectations of owners of companies, employees, customers and the communities within which  companies operate.

Individual TNCs adopt codes of conduct for a variety of reasons, ranging from the personal interest and beliefs of the chief executive officer to explicit expectations voiced by important governmental or other public interest groups. Often TNC code development is reactive, sparked by instances of perceived misconduct by a firm or others in its industry.  Sometimes firms are proactive yet still defensive, formulating codes designed to head off possible public criticism.  Among the most common factors that impel TNCs to promulgate individual codes are the following: firms, or their business associates, have received criticism for their practices; the industry is "high risk" in terms of exposure to or involvement with recognized social

responsibility issues; the company has a "high-profile" name or product brand whose reputation and image is commercially important; and the firm's sales are vulnerable to organized customer boycotts or other commercial sanctions.

Among prominent recent illustrations, these factors are evident in the impetus for individual corporate code adoptions by Reebok and Nike, responding to intense public criticism of labour conditions existing in the foreign plants of some of their contractors.  These codes drew heavily on the prior experience of Levi Strauss & Co. which was among the pioneers in enunciating labour standards that contracting firms were expected to follow, with a risk of contract termination for violators.  Levi Strauss was also unusual in explicitly identifying a country's human rights record as an important factor in corporate foreign investment decisions. Publicized examples of the company's actual application of these code standards lent credibility to their declaration (UNCTAD, 1994a).

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### Box XII.3.  Royal Dutch/Shell: an illustration

The Royal Dutch/Shell Group illustrates a number of points relating to individual TNC code development while also providing an unusually explicit link to international social responsibility standards. The third-largest TNC if measured by foreign assets ($70 billion in 1997,  table III.1), Shell operates in the environmentally-sensitive natural resources sector, employing over 100,000 workers in around 130 countries with diverse political and socio-economic characteristics.  Recognizing that a common value framework was necessary for a devolution of decision-making throughout Shell's global network, corporate management initiated in 1997 a revision of its "Statement of General Business Principles" first published in 1976 after extensive internal and external discussion, interviews and polling.  The revision, which formed part of a wider corporate review that started  in 1994,  also coincided with two high-profile events that subjected the company to extensive public criticism for conduct relating to environmental management and human rights standards.

One controversy for Shell concerned the potential environmental impact of disposing of its Brent Spar oil platform in the North Sea, leading to its recycling as a floating dock.  Before an accommodation was reached, the company sustained extensive organized protests and even had some service stations shot at or firebombed.  The second controversy surrounded Shell's activities in Nigeria where its oil operations were accused of causing substantial environmental damage, leading to significant and sometimes violent opposition from the local population.  Nigeria's then-ruling military regime used force to protect the Shell facilities and suppress local opposition involving leaders of ethnic groups opposed to the regime.  Protesters criticized Shell's involvement with the Nigerian regime and its failure to secure the dissidents' safety.

Earlier versions of Shell's code had cited its consistency with  both the OECD Guidelines and the ILO Tripartite Declaration of Principles.  The new version gives explicit support to human rights. Separately, the company has also publicly endorsed the United Nations' Universal Declaration of Human Rights. Shell's component companies are expected "to express support for fundamental human rights in line with the legitimate role of business and to give proper regard to health, safety and the environment consistent with their commitment to contribute to sustainable development".  To give practice to the Principles, Shell pledged to establish training programmes and procedures to help managers deal with human rights dilemmas as part of a "Social Responsibility Management System". It also agreed to report on its performance with respect to the Principles and to permit independent auditing of the results and to work towards auditing of results across the economic, social and environmental pillars of sustainable development.  Shell's Chairperson, Mark Moody-Stuart, gives some credit for his own views on corporate social responsibility to a social activist who reportedly challenged him to reverse the standard business notion of a company and its stakeholders.  Rather than seeing the corporation at the centre, surrounded by the individuals or groups it impacts or is affected by, the competing perspective would view the society as central, with the corporation as only one of many stakeholders in the society (Hamilton, 1998).

*Source*:   UNCTAD.

Although most corporate codes appear to be associated with past or potential public criticism, backed by possible commercial sanctions for misdeeds, positive inducements can also play a role.  For some corporations, proactive corporate social responsibility is perceived as good business.  Individual codes can serve to enhance the corporate image and, quite possibly, bottom-line profitability as well.  Corporations may explicitly advertise their compliance with evolving social responsibility standards to gain favourable public recognition, particularly on environmental issues that involve recycling, forestry management, CFC-free products, dolphin-friendly tuna fishing or no-animal-testing policies.  Some surveys show roughly one-half or more of customers claim that their product purchases are influenced by "ethical" considerations (Wild, 1998).  Social investment funds also serve to reward enterprises for good behaviour on various social responsibility criteria rather than just penalizing the objectionable conduct of other firms.  Estimates suggest that these funds manage over $1 trillion, of which over one-half is in socially screened portfolios, including mutual funds (ILO, 1998d).

The increased activities of civil society groups require changes in the way business responds to the expectations stakeholders put forward regarding the companies' behaviour. In fact, companies see themselves confronted with increasing demands as to their accountability to, and interaction with, groups of civil society (Dommen, 1999).  For many years,  corporations were generally trusted to be good corporate citizens without any particular activities required to prove this proposition right. Over the past 20 to 30 years however, companies have been increasingly confronted with demands from NGOs  in many (especially developed) countries to provide evidence on their activities and impacts in different  social responsibility areas. Some companies responded to this charge by drafting codes of conduct, others by preparing special reports on issues pertaining to social responsibility (including environmental or social reports). But this is no longer enough: companies are now more and more asked to establish systematic and independent monitoring and auditing processes to demonstrate how corporate principles and policies are implemented in daily business practices (box XII.4).[4]  In a further step, some companies are intensifying their interaction with stakeholders on social responsibility issues by actively soliciting  stakeholders views on issues over which conflicts may arise or have already occurred. This process can be encapsulated in a four-step sequence:

> ### Box XII.4. Mattel: monitoring the Global Manufacturing Principles
>
> Mattel, Inc. is one of the largest toy companies in the world with annual sales of approximately $5 billion in 1998.  It is home to such  brands as Barbie, Fisher-Price, Hot Wheels and Matchbox.  Mattel has company-owned or controlled facilities in many countries, including China, India, Indonesia, Malaysia, Mexico and Thailand.  These facilities account for over 70 per cent of the company's total output.  In addition, Mattel purchases goods and services from suppliers throughout the world.
>
> In November 1997, Mattel announced the establishment of a code of conduct, the Global Manufacturing Principles (GMP) that would cover all of Mattel's own production facilities and those of its primary contract manufacturers around the world.  Mattel's management is concerned that the company's products meet its global quality standards regardless of the location of manufacturing; and that its products are made under conditions that are humane and that all workers engaged in producing goods for Mattel are treated fairly and equitably and in accordance with applicable national laws and customs.  Nevertheless, Mattel also recognized the growing public and media criticism about human rights violations, sweatshops, employment of children, and unhealthy working conditions, that existed in certain locations.  The GMP were the company's response to ensure that Mattel was a  responsible corporate citizen and that its products were manufactured under the best possible conditions.  Specific provisions deal with wages and hours; restrictions against the use of child labour and forced labour, discrimination based on ethnic origin, individual characteristics or religious-personal beliefs; freedom of association, legal and ethical business practices, product safety and product quality, safe and healthy working environment; evaluation and monitoring, compliance and public disclosure.
>
> Mattel expects that GMP will not be a static document.  Instead, it is meant to be a proactive process subject to constant improvement and expansion in light of emerging socio-political and economic conditions.  Thus, Mattel undertook to enhance the GMP standards for all new plants and it raised standards above those in the current GMP in plants that were undergoing significant expansion or renovation.
>
> /...

**(Box XII.4, concluded)**

In announcing the GMP, Mattel also took another action that was new for a TNC: it voluntarily agreed to create an independent monitoring council that would inspect and verify the company's compliance with GMP and make its findings public without any restriction from the company. Three independent experts in codes of conduct, corporate responsibility and children's and labour issues in foreign countries were invited to create the Mattel Independent Monitoring Council for Global Manufacturing Principles (MIMCO), chaired by S. Prakash Sethi.[a] Mattel agreed to follow MIMCO recommendations -- subject to economic realities and competitive constraints -- to enhance already existing systems designed to support worker education, training and skills that could lead to significant improvement in workers' income and standard of living.

No system of compliance is credible unless its meets three criteria: public trust in the independence and reputation of the monitors for which the MIMCO initiative was designed; standards of conduct that are quantifiable and objectively measurable; and a disclosure process that is comprehensive, transparent, and frequent.

To meet the second and third criteria, MIMCO, in cooperation with Mattel, undertook a number of steps to ensure that formal audits would meet rigorous criteria for precision of standards, objectivity in performance measurement and evaluation, and transparency and clarity in public reporting of its findings. MIMCO has the final and unrestricted right, subject only to considerations of trade secrets and individual privacy, to determine the context and frequency of its report to the public.

- A three-phase audit schedule was established. In the first phase, MIMCO would audit all of the company-owned plants and those plants where Mattel controlled 100 per cent of the output. The second phase would include a statistically selected sample of the company's major suppliers where Mattel was responsible for over 70 per cent but less than 100 per cent of a plant's output. The third phase would include those plants where Mattel had control of between 40-70 per cent of the output. Each group of plants would be audited at least once every three years. MIMCO was authorized to undertake additional audits, at its own discretion, where these were warranted because of changing conditions.

- Mattel, in cooperation with MIMCO, set up an international task force of over 50 senior managers and technical experts. Their objective was to convert the GMP into operational standards that were quantifiable and objectively measurable to the maximum possible extent. Thus each single principle in the GMP was converted into a number of specific, quantifiable criteria that must be met to satisfy GMP's compliance requirements.

- The operating standards were designed to meet one of three criteria. At a minimum, they would meet the legal standards mandated by the country in which a plant was located. Where country-specific standards were not available, or were lower than Mattel standards, local plants would have to meet Mattel's own standards. As a long-term proposition, Mattel would endeavour to have its plants meet or exceed the best industry practices prevailing in their specific regions or localities. After having developed operational indicators for full-scale field audits during 1998, MIMCO audited all of Mattel's owned or controlled facilities in Asia, three plants in China, two in Indonesia, four in Malaysia and one in Thailand.[b]

**Public report of the MIMCO audit findings**

Under the agreement between MIMCO and Mattel, each plant manager is given an opportunity to respond to the observations made by the MIMCO audit team and, where appropriate, undertake to make the necessary changes in plant operations. The final report of this first audit by MIMCO to the public is expected to be available during the third quarter of 1999. It will identify each plant's compliance with the GMP as well as its shortcomings and proposed corrective actions.

*Source*: UNCTAD, based on Sethi, 1999.

[a] In addition, Mattel signed an initial, three-year agreement with the Zicklin School of Business at Baruch College, City University of New York, to oversee all aspects of the Council, including budgets.
[b] The auditing of the company's facilities in Mexico was postponed until the latter part of 1999, when all three plants Mattel is operating in the country would have become fully operational.

- the "trust me"- phase, in which companies did not face any expectations going beyond the respect of law and order;
- the "tell me"- phase in which companies were asked to give an account of their companies principles and impacts regarding certain social responsibility issues;
- the "show me"- phase, in which  companies are asked by civil society to actually demonstrate that they adhere to their principles and standards; and
- the "join me"- phase, in which companies are asked to involve actively and interact with, stakeholders in the process of solving  problems pertaining to social responsibility.

At present, companies can be found at different stages of the model. Many have not paid much attention to social responsibility issues, however.  Those that have, do not necessarily respond in the same way to civil society expectations as individual companies find themselves under different pressures and, accordingly,  respond differently.   Still, there appears to be an overall trend that indicates that companies are putting more resources into responding to social responsibility demands and into interacting with civil society groups on issues pertaining to social responsibility.

## 3.  Government actions

Recent government actions on TNC social responsibility themes centre around renewed interest and activity on previously-formulated international guidelines or codes of conduct. Initiatives in United Nations bodies relating to environment and labour issues, as well as continuing OECD reviews of the 1976 Guidelines for Multinational Enterprises (see chapter IV), comprise the primary focus of this activity.  The United Nations work on human rights issues is also important and relevant, but to date has not focused particularly on how TNCs may relate to such issues.  The following, in particular, deserve attention:

- The United Nations Conference on Environment and Development (UNCED) served as a catalyst for action on environmental principles related to business conduct.  Governments, TNCs and an array of interested civil society organizations coalesced around discussions that bridged the negotiation of intergovernmental accords and related private sector initiatives, yielding a surge of activity.  The 1992 Rio Declaration (UNFCCC, 1999) provides the basis for a number of principles relating to environmental responsibility and management (chapter X), some of which are reflected in business initiatives discussed above. The Montreal Protocol (UNEP, 1999a) on the ozone layer and the Kyoto Protocol (UNEP, 1999b) on climate change represent significant steps in developing international goals and standards for governments that could lead to a combination of regulatory and voluntary processes at the national level.

- The International Organization for Standardization (ISO), which is not part of the United Nations family, is a mixed public-private sector group whose membership is drawn from national standards-setting bodies that may or may not be government agencies.  Driven largely by technical experts, this organization developed ISO 14001, a set of management system guidelines aimed more at process than outcome goals (box X.6).  Although the standards are voluntary, a certification of compliance with ISO 14001 can be provided by outside auditors who review the facilities of signatory companies to certify that the company has established an environmental policy and management implementation system.  This approach, of course, does not standardize particular outcomes; it focuses more on directing attention to environmental issues and encouraging professional procedures to address them.  The ISO 14001 standards have gained support from some 5,000 companies, primarily in Europe and the Far East. United States-based firms currently appear more focused on meeting that country's specific regulatory requirements than on broader systems goals.

- A different model is presented by the ILO, a tripartite organization in which governments, business and labour have adopted a series of conventions setting out international labour standards, as well as the 1977 Tripartite Declaration of Principles Concerning Multinational

Enterprises and Social Policy (UNCTAD, 1996c). Among more than 180 Conventions adopted over the ILO's eighty-year history, seven core Conventions (Nos. 29, 87, 98, 100, 105, 111, 138) have proven most important in shaping the four basic principles advocated by the Organization: freedom of association and the right to bargain collectively; abolition of forced labour; equal opportunity and treatment in the workplace; and elimination of child labour (ILO, 1998d). These principles received renewed attention following a decision by the 1996 WTO Ministerial meeting to affirm that the ILO is the competent body to deal with issues involving core international labour standards. At a subsequent June 1998 conference, the ILO adopted an ILO Declaration on Fundamental Principles and Rights at Work (ILO, 1998e) in which all Member States committed themselves to apply the principles underlying the core conventions. Countries that ratify a convention should bring their legislation and national practices into line with the convention's standards, but not all countries have ratified all conventions. The 1998 Declaration includes in its follow-up a system of reporting intended to identify member States' needs in relation to the realization of the core principles and rights, and designing technical assistance efforts targeted to addressing those needs. In addition, for ratified conventions in particular, the ILO has an extensive system of supervision and enforcement which includes reporting as well as constitutionally-based mechanisms for examining complaints brought by workers' or employers' organizations, or member States. The conventions and the Declaration, which apply directly only to governments, contain provisions relevant to the conduct of the non-governmental partners of the Organization. Thus provisions of these instruments have been reflected or referred to in certain voluntary private initiatives on corporate responsibility.

• Although developed with input from business and labour advisory groups, the OECD Guidelines are a more strictly governmental undertaking to identify general TNC conduct standards that are consistent with "good corporate citizenship". A series of official reviews (OECD, 1997c) since the Guidelines' adoption resulted in periodic adjustments to the standards, including clarifications of labour-related provisions and the addition of a section on the environment. Last reviewed in 1994, the Guidelines are currently undergoing a new examination, due to be concluded in May 2000. Labour and environmental issues, along perhaps with consumer protection, lead the agenda of issues to be considered during the current review. Other topics may include creating more proactive mechanisms to promote and monitor business implementation of the voluntary Guidelines.

These developments represent the most active recent government initiatives at the international level that directly address TNC social responsibility issues. Considerably more governmental time and energy has, however, been devoted to formulating legal instruments aimed at improving the international climate for foreign investment (see chapter IV). For example, the dramatic proliferation of more than 1,700 bilateral investments treaties creates important rights for TNCs, usually enforceable through binding investment dispute settlement mechanisms (chapter IV). Investment provisions in regional trade arrangements such as NAFTA, which has labour and environmental side agreements, and MERCOSUR – which features a social charter – also aim at complementing the lowering of trade barriers with a parallel liberalization of regional investment regulations.

On the national level, a comparable emphasis on liberalization has marked FDI-related changes by governments (table IV.1). Parallel discussions of TNC social responsibility have been very limited. The Government of the United States created a set of business conduct standards (Kline, 1991) for its firms that were doing business in South Africa under the former apartheid regime. After brief subsequent consideration of formulating other country-specific codes, the United States administration decided to promote a set of five brief "Model Business Principles" that were developed in 1995 after consultation with business, labour and other NGOs (ILO, 1998b). A companion "Best Global Business Practices Program" offers an information clearinghouse to assist companies in developing individual codes of conduct that reflect the Principles, as well as to encourage similar behaviour among business partners, suppliers and subcontractors. In addition, the administration has fostered the development of industry-based

codes that address particular problem areas.  For example, the White House Apparel Industry Partnership programme sought to establish a code of conduct and monitoring system to address so-called "sweatshop" issues involving abusive labour conditions in foreign plants that produce clothing for sale by retailers in the United States' market.  The Government of the United Kingdom supported the "Ethical Trading Initiative" in 1998 that brought together business, labour and NGOs to discuss standards and monitoring methods that address working condition issues in corporate supply chains (ILO, 1998b). The Government of India cooperated in developing the "Rugmark" label aimed at promoting child labour standards and later developed its own "Kaleen" labelling programme (Wild, 1998).

# E.   Outlook and policy implications

Certain patterns appear to be emerging as a result of these most recent trends in how TNC social responsibility issues are being addressed.  First impressions form around the striking growth in both the number of organizations and the proliferation of initiatives that have gained importance in this area.  Social responsibility concerns claim increasing attention among both government and business policy-makers, largely due to the stimulus of civil society groups and activities.  Although the range of specific issues is quite broad, the vast majority of recent undertakings fall under umbrella categories related to labour, the environment and human rights.  Other issues - such as technology transfer, competitive practices, consumer protection and community relations - have attracted less recent attention or have been addressed in aspects related to the other three categories.  Also, for the reason explained earlier, many of the issues that concern development and, therefore, are of particular interest to developing countries, have attracted little attention. Labour, the environment and human rights also all relate to existing United Nations instruments that furnish some common international ground in identifying core values while providing institutional processes that might help carry forward follow-up activities.

Although efforts continue to elaborate agreed standards to guide TNC social responsibility actions, there is also growing recognition of the importance of designing implementation steps that will give life to the standards' application.  Hence, more discussion is occurring related to monitoring mechanisms that might provide for review, evaluation, revision and performance improvements. Crucial monitoring questions regarding "what', "who" and "how" remain unresolved in most cases, although there are clear efforts by civil society groups to encourage the use of management systems techniques and performance measures as well as independent auditors.  One difficulty with implementation measures is the large variation among standards in their degree of specificity and applicability to particular industries and business operations.  Conversely, the more specifically applicable standards and performance measures are to given products or sectors, the more proliferation occurs among institutional standards and follow-up mechanism, generating attendant time, information and resource demands.  Indeed, the growth of activity in this area has been accompanied by an increasing overlap and, at times, seeming competition among proliferating standards and their sponsoring groups.  A plethora of codes may contribute to the risk of inducing a "code fatigue" among corporations, particularly where an enterprise may be engaged in multiple lines of business in countries around the world.  TNCs aligned in shifting patterns of multiple international strategic alliances may also find it difficult to meld the various standards and reporting systems adopted by different alliance partners.

A positive pattern emerging from recent social responsibility trends is the increased efforts at improved dialogue between TNCs and social interest groups.  Early relationships were often marked by mistrust and misunderstandings that fed a cycle of antagonistic actions and reactions.  Harsh public commentaries and revelations of corporate misconduct still serve to focus attention on specific TNCs.  While this may be necessary, substantive longer-term improvements often depend on establishing a working dialogue or even partnership with corporate representatives where debates over differences are aimed more at identifying mutually acceptable solutions and practical implementation steps.  For their part, TNCs that acknowledge social responsibility commitments in a global context often also recognize that social interest groups can open a window on the world that offers valuable perspectives, insights and access to human resources

that can assist an international corporation's search for better operational alternatives. Thus far, this pattern appears to develop more within certain industries and companies than others, often occurring in sectors that have experienced hostile clashes in the past.

A difficulty in this dialogue is to involve the various civil society groups that pursue social responsibility initiatives. Although civil society groups in some areas attempt to forge coalitions, or at least coordinate activities, corporations, business organizations and even governments often confront the task of selecting the most appropriate dialogue partners from among at times overlapping and sometimes competitive civil society groups. Furthermore, the representativeness of a given civil society group in terms of affected TNC constituencies is not always clear, particularly when social activists in developed home countries urge actions on behalf of people and interests located in host countries elsewhere. Although some civil society groups have expanded their international membership and seek to collaborate with local groups in many different countries, the decision-making leadership and institutional resources expended on many TNC social responsibility issues are often still heavily weighted towards the perspectives and priorities of the developed countries, especially institutions based in the United States and Europe. All this not withstanding, civil society groups deserve considerable credit for putting social responsibility on the public agenda.

Trade unions – although showing solidarity in the drive to raise labour standards worldwide – face a diversity of perspectives and interests among different country organizations, including locations in which effective independent unions do not exist. Human rights organizations pressing TNCs to influence political developments in other countries sometimes confront a particularly complicated challenge to demonstrate that their advocated path towards agreed goals is in line with the preferences and priorities of the most affected foreign population. This dilemma is best exemplified in disputes, even among human rights groups pursuing the same ultimate goal, over whether TNCs should withdraw from a country with significant human rights abuses, or stay and work for change.

An examination of recent TNC social responsibility trends can show where patterns of interaction have emerged, but it can also indicate where they have not developed. The three categories of social responsibility issues that have in recent years attracted most attention have often been pursued independently of each other in terms of goal priorities. Advocacy groups cooperate and coordinate in efforts to press their agendas with government and business, but the collaboration is sometimes more tactical than substantive, playing off a few readily identifiable areas of overlapping interests, such as trade unions and human rights groups joining forces in supporting freedom of association and collective bargaining. Discussions are important among civil society groups, or with corporations and governments, regarding what trade-offs may exist and where priorities should lie in a practical world where attention, time and resources are allocated among many worthwhile objectives.

Discussion is especially crucial concerning the range of issues that fall outside the three dominant categories, where desirable goals may go unfulfilled due to lack of attention or devoted resources. Development issues are particularly important here. Also important are potentially detrimental side-effects on other worthy objectives that could result from unforeseen (although potentially discernible) impacts arising from specific actions taken to protect the environment, improve working conditions or alter political circumstances in an effort to aid human rights. A field in which such trade-offs or impacts may occur relates to a range of development goals, particularly for smaller developing countries and economies in transition.

Placed within the context of development goals and objectives, questions regarding TNC social responsibility can involve decisions regarding how the formulation and application of particular standards will affect the distribution of costs and benefits among companies, industries and countries. An illustration of this notion is the differences emerging between developed and developing country perspectives on appropriate TNC social responsibility standards relating to employment issues such as work hours. Proposals for a minimum "floor" that might substantially narrow the differences between developing and developed countries could significantly affect comparative economic advantages central to a country's development plans, with impacts on

inward FDI, export and import levels, and local business development. Many aspects of the demands for improvements may be justified against any cultural background and are believed unlikely to endanger the comparative advantage of developing countries. Careful study, however, is required to examine the dynamic relationship and interactive effects between development standards and the need for "positive measures" to improve workplace conditions in many countries. Even discrete measures such as the use of certification and labelling methods to signify compliance with labour or environmental standards could unintentionally reinforce the competitive powers of large TNCs, to the detriment of a developing country's smaller national firms that may lack the resources to meet consistently a management system's compliance, reporting and outside auditing requirements.

The fact that a discussion has now begun on some issues related to working conditions may aid in recognizing when and which measures may have indirect, unintended, consequences if used to establish globally applied standards without a full prior vetting of interests and impacts on the international level. From the perspective of developing countries, some recent social responsibility initiatives may give the impression that TNCs and civil society groups from developed countries are setting standards that can have major impacts on a country's development goals, without developing country governments playing a substantial role in determining the standards' content, implementation or likely impact. Despite all the best intentions, when backed by the power of consumers in the developed countries, such initiatives could function like non-tariff barriers or significantly raise the cost of competitive entry into global markets. Such fears are exacerbated when standards determined in other countries are transmitted directly through TNC investment channels into the host country. Recent cases show that this influence can even be projected without traditional TNC ownership links through the power wielded by large retailers and other firms that can set contractual conditions all along their global supply chain.

Many of the issues that emerge from recent trends in TNC social responsibility activities could be addressed effectively within a framework that provides for the broadest possible involvement of all relevant parties. Inclusiveness suggests that the United Nations could play a major role here. With his Davos speech, the Secretary-General of the United Nations initiated such discussions. Their intensification could take place within the framework of a more structured dialogue between all parties concerned that might include international organizations, such as the International Labour Organization, the United Nations Environment Programme and the United Nations High Commissioner for Human Rights, which have already made serious efforts with respect to issues of social responsibility. Development would have to be central to this dialogue, as this is the overriding concern of the majority of humankind and because it is, in any event, intimately linked to social, environmental and human rights objectives. UNCTAD would have a particular role to play in this respect. Building upon the proposal of a global compact made by the Secretary-General, the dialogue might examine how the nine core principles (box XII.1), as well as development considerations, could be translated into corporate practices. Through this process, a sharing of experiences, a stocktaking and analysis of existing efforts in this area as well as the identification of common elements and best practices. After all "companies can best promote human rights and improved labour and environmental standards by the way they conduct their own businesses and by the spread of good corporate practices" (UN, 1999, p.2); presumably, this applies to development considerations as well. Additionally, efforts might be made to assist capacity-building among civil society groups in developing countries, to reflect and represent the special needs of these countries in this dialogue and international discussions on social responsibility in general.

The growing economic interdependence of the world community, to which the liberalization of international investment and trade regimes has contributed significantly, has great potential for enhancing the living standards of people throughout the world. Greater efforts must be made, however, to manage the adjustment costs and social as well as economic disruption that accompany globalization. By assuming greater social responsibility, firms can assist in these efforts. This is in their international self-interest. It is precisely the purpose of the global compact to contribute to the emergence of "shared values and principles, which will give a human face to the global market" (Annan, 1999, p. 2), the foundation of a stable global society

and economy. Failure to build such a foundation could contribute to a backlash against the liberalization policies that, in the first place, provide the framework of legal rights within which firms pursue global business strategies. With these expanding global rights, however, come the corresponding responsibilities of "global corporate citizenship", including concern for development, the priority of the vast majority of the world's population. The societal boundaries for TNCs in the twenty-first century will be the global community.

# Notes

[1] For an elaboration of the point that not all standards that have been identified as appropriate in one country have to be appropriate in another country, especially when they are at different stages of development, see Leisinger, forthcoming, pp. 10-12.

[2] However, despite this source of potential conflict of interests, the international trade union movement has so far shown little sign of dispute on the issue.

[3] A further example for industry-specific codes is provided by the United Nations Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (UNCRTD).

[4] It should be noted that the monitoring processes themselves, including the one presented in box XII.4, and in particular the question whether they are truly "independent" are subjects of discussion between business and civil society.