

Public Policy and the Promotion of Corporate Social Responsibility

Kimberly Ascoli and Tamar Benzaken

School of International Relations and Pacific Studies, University of California, San Diego

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About BSR

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Executive Summary

In the past decade, governments have become increasingly proactive in promoting corporate social responsibility (CSR) through their public policies. Most recently, companies have seen increased government involvement in the business sector—partially due to the global financial crisis—and this trend is expected to continue into the future. Keeping this in mind, it is likely that government promotion of corporate responsibility and good governance will continue to grow in the coming years.

With the implementation of these public policies, companies must now look at governments as key stakeholders of their operational structures and become more aware of the public sector's efforts to promote CSR. By engaging with governments, companies can increase the impact of their CSR strategy and improve the sustainability of their programs. Joining efforts across sectors can lead to more efficient solutions to social problems that are a concern to both companies and governments. Companies that proactively engage in public policy have a new opportunity to become leaders in the countries where they operate and to shape the future of how governments promote CSR.

Recognizing the implications for the business community and the potential for impact on labor practices, BSR incorporated into its DR-CAFTA Responsible Competitiveness Project¹ an extensive research project to understand current and past government efforts in designing public policies that promote CSR. This business brief discusses the three main trends found in the research and includes country-specific examples of public policies in each category. The final section provides companies with important takeaways from the findings and makes several recommendations.

The research focused on seven different countries: Brazil, Canada, China, Mexico, Peru, Sweden, and the United Kingdom. These countries were chosen because their policies address a variety of topics within CSR and they represent varied stages of economic development. These countries' diverse policies reflect each region's unique social, political, and economic composition; however, several trends in national policy are observed across countries. These trends include:

- 1 Voluntary guidelines or binding standards that guide or require companies to implement socially responsible practices
- 2 National campaigns that raise awareness about CSR issues
- 3 Government funds made available to the private sector for the implementation of CSR programs

¹ BSR's CAFTA-DR Responsible Competitiveness Project is a three-year, U.S. State Department-funded initiative that aims to contribute to regional competitiveness through the promotion of responsible labor standards and practices.

This research also reveals that national policies targeting CSR are widespread, regardless of the economic standing of the countries, and these policies appear to be gaining more attention from governments. Many countries focus on the competitiveness that can be derived from implementing socially responsible practices and are investing in CSR to improve their comparative advantage in relation to other countries. However, the comprehensive, coordinated national strategies necessary for effective CSR promotion remain elusive, with most governments implementing unaligned policies that fail to address CSR in an all-encompassing manner.

I. Voluntary Guidelines and Binding Standards

All seven countries researched harbor government-created voluntary or binding standards that range from broad voluntary guidelines and suggestions for CSR to more formal and legally binding standards. Voluntary guidelines are prescriptions for action on responsible labor issues to the private sector, government agencies, or government-owned companies. Binding standards are contractual in nature and usually contain an enforcement mechanism for cases of noncompliance. Often, both the voluntary guidelines and binding standards are the result of ongoing stakeholder dialogues among the government, the private sector, and civil society organizations that result in the publication of agreed-upon principles for the implementation of CSR. In countries like Brazil and Mexico, the government has created certification mechanisms that can be awarded to companies that implement the government's guidelines.

Both voluntary guidelines and binding standards tend to focus on transparency, accountability, and labor rights, as well as the promotion of community involvement practices. A number of standards also require reporting and the public disclosure of social and environmental practices, while several guidelines recommend that companies contribute to newly created community development funds. Additionally, some governments have developed issue-specific guidelines, targeting problems such as gender equality and the investment of occupational pension funds.

Examples of binding standards include the Swedish government's reporting policy, which seeks to influence the private sector's behavior through its state-owned companies. As part of this law, in 2007, the government began to require that all state-owned companies report on social issues using the Global Reporting Initiative as a framework. Another example of a binding contract is found in China, where the Communist Party enacted the Labor Contract Law in 2008, requiring companies to provide minimum protections to workers.

Peru provides a good example of voluntary guidelines; in that country, the government and mining companies have established a joint community development fund to which firms contribute a portion of their pre-tax profit. (Read the Peru country case that follows for more detail.) In China, the government has drafted CSR guidelines for both state-owned companies as well as foreign-owned firms operating in the country.

Both voluntary guidelines and binding policies publicly communicate the government's position regarding CSR in a way that could potentially influence companies' behavior. These statements can raise CSR awareness among the general public, who, in turn, could demand more socially responsible practices from the private sector. Additionally, when state-owned companies implement these policies, those actions can signal the government's commitment to CSR and serve as an example for the private sector. A clear benefit in the case of binding standards is the widespread implementation of CSR and the availability of step-by-step instructions for companies to incorporate responsible practices into their business practices.

Some shortcomings of these policies include the lack of accompanying government action. In cases where guidelines are not enforceable, governments may simply post public statements without any complementary awareness campaigns or avenues for businesses to engage in such initiatives. Additionally, with voluntary guidelines, there is no guarantee of implementation and oversight. Consequently, if businesses are not compelled to enact new policies, the guidelines and principles fall short of effecting social change. Binding standards also have potential drawbacks. For example, in the long term, corporations may see the standards as imposing too many additional costs and choose to remove their operations from the country. Furthermore, mandatory standards are often unenforced due to lack of long-term government funding. As a result, both employees and the community frequently do not see the lasting benefits of the policies.

Voluntary guidelines and binding standards are the most common forms of public policies found in this research. This phenomenon could be attributed to their relatively low cost compared to other types of policies, especially when voluntary or binding standards do not go beyond the publication of guidelines. In order for these policies to be most effective in changing corporate behavior, however, they must be part of a larger public initiative that includes awareness, industry buy-in, implementation assistance, and—in the case of binding standards—enforcement.

Country Case: Peru

Established in 2006, the Peruvian government's voluntary "Mining Program of Solidarity with the People" aims to help alleviate poverty in Peru, especially in the country's mining regions. By 2008, 38 companies had signed individual five-year agreements with the government in which they agreed to contribute to the fund in years when the prices for metals are above the threshold determined by the contract (decided based on market and export prices). If the prices exceed the threshold, companies contribute roughly 3 to 4 percent of pre-tax profit. The funds are used for local and regional projects, and at least 30 percent is allocated to education, health, and nutrition programs.

The Peruvian government does not require companies to contribute to the fund; however, the private sector is encouraged to participate as a way to improve relations between the government, business, and the community. Due to the constant tensions between private mining companies and local communities, firms view this initiative as a way to improve their relationships with people in surrounding areas. This type of policy has the potential to diminish conflicts and disputes between companies that extract natural resources and neighboring communities.

II. Government Efforts to Raise CSR Awareness

Most of the governments researched engage in some type of activity that serves to promote CSR within the country's private sector. However, some governments encourage corporate responsibility more explicitly than others and therefore have made raising awareness of CSR one of their main focal points in national campaigns. Examples can be found in Brazil, Canada, and China.

While the efforts are led by different agencies in each country, they all seek to promote CSR as a means to increasing trade and competitiveness. For example, the Brazilian Service of Support for Micro and Small Enterprises (SEBRAE) seeks to encourage the growth of small and medium enterprises by encouraging the adoption of responsible business practices. In Canada, the two federal agencies that oversee the business sector, namely Industry Canada and Foreign Affairs and International Trade Canada, promote CSR both domestically and internationally to increase trade and foreign investment in the country (see the

country case that follows). Likewise, the Chinese Communist Party has adopted the Harmonious Society doctrine on the federal level to emphasize social equity and responsible business practices as important principles in the quest for long-term economic growth. On a regional level, cities like Shenzhen have taken steps to encourage CSR as a way for the city to retain its competitive advantage.

The benefits of these awareness efforts are evident in each country. On one hand, these initiatives are relatively inexpensive compared to other types of efforts, such as the creation of binding standards. In the absence of large budgets, governments can leverage their endeavors and create public awareness by using existing infrastructures to communicate the advantages of CSR. Additionally, these promotional efforts often serve to encourage cross-sector collaboration. For example, civil society organizations such as CSR associations frequently support the government's efforts because the messages are consistent with their own objectives.

However, government-led CSR promotion faces several challenges—the biggest of which is that the efforts to promote voluntary actions do not guarantee implementation. Likewise, none of the governments researched has quantitative evidence demonstrating that CSR activities can lead to increased trade and competitiveness. Without this evidence, it is difficult to make voluntary actions attractive to businesses, especially in times of economic hardship.

Country Case: Canada

Although the Canadian government lacks formal policies promoting CSR with incentives or disincentives, two government agencies—Industry Canada (IC) and Foreign Affairs and International Trade Canada (DFAIT)—have successfully raised awareness in the private sector of CSR and its advantages. Both IC and DFAIT seek to grow the Canadian economy and improve domestic conditions for investment and its competitiveness abroad. Within this mandate, both agencies promote CSR principles and practices to Canadian businesses because “it makes companies more innovative, productive, and competitive.” IC’s user-friendly website (www.ic.gc.ca) provides information and links to tools that businesses can use to advance their CSR activities. DFAIT actively encourages companies operating abroad to have strong CSR programs and to communicate with local governments and citizens. For example, Canadian embassies abroad are used as venues to hold dialogues on CSR and the conduct of Canadian firms.

III. Government Funds for the Implementation of CSR Programs

Several researched countries enact policies allocating government funds for the implementation of CSR programs, and various government agencies also rely on ethical guidelines as part of their resource allocation decisions. These policies distribute funds based on a screening of companies’ CSR programs. The policies are championed by various sectors of the government, including the ministries of labor, agencies of international development, and national banks.

Policies such as these include the Brazilian National Economic Development Bank’s ruling ethical code, which requires that all funded entities comply with national labor codes. Although this qualifies as legal compliance only, it nonetheless promotes the improvement of labor practices. The bank’s contracts include a social clause requiring compliance with child labor, forced labor, and discrimination laws. A violation of this clause can lead to the suspension of the contract. Another example is in Sweden, where the Business Development Agency has disbursed funds to 50 small and medium enterprises to promote

CSR through the creation of business development tools, case studies, and regional incubators.

Allocating funds for the implementation of CSR programs is an important and valuable tool in spreading CSR awareness throughout the private sector. In some cases, it also allows governments and private parties to debate CSR issues and collaborate on implementation. This collaboration helps improve the relationship between government and companies in countries where the two sectors are not usually engaged. (For an example of this, read the Mexico country case that follows.)

There are challenges with this type of policy, however. For instance, it can be difficult to verify compliance and implement evaluation mechanisms. This research did not reveal any examples of how entities verify compliance with ethical codes or with fund allocation requirements. The lack of a reliable compliance mechanism could severely undermine the initiative. Furthermore, it is difficult to quantify the benefits of such policies when evaluation mechanisms do not exist. Metrics would allow governments to decide which types of programs are more efficient in promoting CSR.

Country Case: Mexico

In 2004, the Mexican Ministry of Economics created the “Support Fund for Micro, Small, and Medium Enterprises,” with a budget of more than 3 million pesos and the goal of promoting economic development based on competitiveness, productivity, and sustainability. Part of the fund’s focus is to implement CSR programs in small and medium enterprises (SMEs) as a way to promote socially responsible behavior and sustainability. The government works with COMPITE, a Mexican nonprofit organization, and provides subsidized CSR consulting services (covering up to 70 percent of the costs) for SMEs. Since the beginning of this government partnership, COMPITE has seen a sharp increase in the demand for CSR consulting services, and the organization is confident that Mexican SMEs that were not previously aware of CSR concepts are now able to implement certain sustainable and responsible practices in their firms.

One of the program’s major challenges is the ability for SMEs to implement measures within stipulated timeframes and to sustain these activities. Additionally, several companies remain skeptical of CSR and wish to see objective results, highlighting the importance of measurement mechanisms that quantify results. In addition to helping SMEs incorporate CSR initiatives into their strategies, this program has increased trust between the private sector, the federal and local governments, and the Mexican population.

IV. Additional Findings

The researched countries promote a variety of policies related to CSR that range from public recognition and awards—which identify companies that have good CSR programs—to fiscal incentives for companies that engage in certain government-sponsored programs and labor law compliance programs. For example, the U.K. government has taken steps to ensure the socially responsible investment of public pension funds. In Brazil, government has allocated resources to fight child and forced labor through awareness campaigns; it has increased auditing by the Ministry of Labor; it has modified laws that attempt to make these practices less common; and it has created programs to rehabilitate children and victims of slave labor.

The diversity of these policies is a positive sign that countries adjust their public policies to suit the needs and relationships of the government and private sector.

The economic standing and the social issues that plague each nation tend to dictate the nuances of the policies.

It is also notable that the governments studied have not taken full advantage of the benefits of fiscal incentives and socially responsible investments in fostering CSR. Two exceptions are Brazil's Zero Hunger program, which gives companies incentives for contributing to the program, and the U.K. government's socially responsible investment policies regarding pension funds.

Lastly, while it would be beneficial for governments in deciding which CSR strategy to implement, none of the governments studied has engaged in significant impact assessments of policies promoting CSR. Few governments are assessing the impact of these policies on economic growth, competitive advantage, and poverty reduction. In some instances, governments performed a cost-benefit analysis prior to implementation to assess the potential implications of policies, but very few governments evaluated the policies after they were implemented. By researching tangible and quantitative results, governments could improve the private sector's buy-in and, perhaps more importantly, build support among constituents for new policies.

V. What This Means for Business

This research clearly shows that governments worldwide are thinking about the responsibilities and behaviors of companies in new ways. The examples from Brazil, Canada, China, Mexico, Peru, Sweden, and the United Kingdom demonstrate that governments are seeking ways to promote corporate responsibility and good governance practices by implementing policies, fiscal incentives, and voluntary guidelines. Likewise, governments are taking an active role in raising CSR awareness, among both the private sector and society at large. There are three main ways companies can benefit from government CSR initiatives.

1. ENGAGE THE PUBLIC SECTOR AND LEARN ABOUT GOVERNMENT POLICIES

Too often, the private sector is unaware of government policies promoting CSR or simply does not take advantage of them. However, these policies are ubiquitous; developed and developing countries alike have laws that can bolster companies' CSR efforts. Companies should investigate and make use of national policies in all the countries in which they operate.

By inquiring about government policies and programs related to corporate responsibility, companies can improve their CSR programs and signal their commitment to the long-term development of the country.

These inquiries also can provide a platform for dialogue with government officials, which is imperative for companies, regardless of their size and industry. These relations can take place on various levels with federal, municipal, or local agencies. By engaging with governments as stakeholders, companies not only learn about the governments' CSR policies, they can enhance the sustainability and impact of their CSR program. For example, a company whose CSR activities focus on improving employee safety and thus reducing defect rates could partner with a local government agency that is delivering safety training in the region. By doing this, the company could increase its productivity while contributing to a government-led effort and improving its image in the community.

2. ALIGN CSR EFFORTS WITH NATIONAL STRATEGIES AND LOCAL PRIORITIES

Many governments have detailed national development strategies, which are updated regularly and are often aligned with broader initiatives, such as the

United Nation's Millennium Development Goals. Once companies research and understand government efforts, aligning their own CSR initiatives with those of the government can buttress both parties' efforts.

By supporting existing government programs, companies can leverage their investments and potentially increase the impact and sustainability of their efforts. Many governments already have incentive programs in place, and those that do not may be open to dialogue if the initiatives would lead to increased investment or productivity in the country.

When carefully planned, strategic endorsement of and support for government initiatives can create amicable relations between companies and various stakeholders, thus leading to a more favorable business environment.

3. ADVOCATE FOR PUBLIC POLICY THAT PROMOTES CSR

Because many government guidelines and voluntary principles arise from discussions between the government and companies, the private sector is uniquely positioned to influence the government's CSR strategies. For example, multinational firms can share experiences and examples of effective CSR policies in other countries in which they operate.

By advocating for policies that promote CSR, companies can help a country or region develop a comparative advantage as a socially and environmentally responsible country. This advantage can help ensure the long-term success of an industry's operations within the country—which would benefit both sectors.

Companies can also advocate for stronger CSR policies by engaging with other important stakeholders such as academic institutions, think tanks, trade promotion agencies, and CSR associations. By doing this, companies can position themselves as leaders in the field and simultaneously increase their internal knowledge of CSR. Collaboration with research and academic institutions also allows companies to advocate for improved measurement of CSR's benefits—both for the firm and for society—thereby increasing the scale of implementation of CSR practices. By building partnerships with trusted organizations within the country, firms can also improve their image and the credibility of their CSR efforts.

Summary Table of Public Policies Promoting CSR

Type of Policy	Country	Agency	Instrument	Description
Binding Standards	Brazil	Ministry of Labor	Combating child labor	National programs and the creation of a database of child labor focal points
	Brazil	Ministry of Labor	Publishing materials and national campaigns	Promoting sustainable economic activities and SMEs
	Brazil	The National Economic Development Bank	Ethical code of conduct	Projects funded by bank must comply with code of conduct
	China	Chinese Communist Party	Labor Contract Law	The law requires companies to provide new protections for workers
	Mexico	Federal government	Public ceremony	Recognition of companies that employ people with disabilities
	Mexico	Mexican Council for Economic and Social Development	Seminars, workshops, and partnerships	National initiative based on the promotion, technical assistance, the interchange of good practices, and transfer of technology
	Mexico	Mexican Institute for Certifications and Norms	Publication of guidelines	Non-legally binding CSR directives for private sector
	Mexico	National Women's Institute	Government certificate	Certificate for companies and organizations that implement the gender equity initiative
	Mexico	National Women's Institute	Promoting gender equality	Intervention from government agencies, reform of legislation, and capacity-building inside the government and in the society
	Sweden	Ministry of Foreign Affairs	Companies commit to complying with OECD and Global Compact guidelines	Government promotes CSR through Swedish Partnership for Global Responsibility and provides members with workshops, seminars, and other engagement platforms
	Sweden	National government	Promoting CSR through state-owned companies	Government mandates reporting and audits state companies
	Sweden	Swedish Consumer Agency	Promoting consumer CSR awareness	Promotes awareness among consumers on CSR through training materials and the organization of round tables with stakeholders
	United Kingdom	British Standards	Certification	Development of consensus-based standards for stakeholders
	United Kingdom	National government	Impact assessment	Departments and agencies are required to include environmental and social costs and benefits in regulatory impact assessments
	United Kingdom	National government	Legislation	Disclosure regulation for reporting on ethical, social, and environmental issues of occupational pension funds
Voluntary Guidelines	China	Chinese Communist Party	CSR Guidelines for Foreign-Owned Enterprises	The guidelines provide useful blueprint for how to embed CSR into a company operating in China
	China	Chinese Communist Party	CSR Guidelines for State-Owned Enterprises	The guidelines urge SOEs to embed CSR policies into their business strategy
	Peru	Ministry of Mining and Energy	Community relations guide and rules for citizen participation	Guidelines for companies to use in design and implementation of CSR
	Peru	Ministry of Mining and Energy	Programa Minero de Solidaridad con el Pueblo	Companies contribute 3 to 4 percent of pre-tax profit to community development fund

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Type of Policy	Country	Agency	Instrument	Description
CSR Awareness Raising	Brazil	Sebrae	Publishing materials and engaging with SMEs	Agency publishes CSR manuals and indicators and performs workshops
	Canada	Foreign Affairs and International Trade Canada	CSR events	Canadian embassies hold CSR events in various countries
	Canada	Industry Canada	Training for business on benefits of CSR; resources available on website	Workshops, online resources, and toolkits
	China	Chinese Communist Party	CSR events	CCP holds policy dialogues with international organizations on CSR topics
	China	Government of Shenzhen	Public Hearing on CSR	Education of local businesses on the importance of CSR
Fiscal Incentives	United Kingdom	British government	Tax incentives	Tax regime for corporate community involvement and giving
Funds for CSR Implementation	Brazil	The National Economic Development Bank	Funds for CSR projects	Bank has funds especially allocated to CSR projects
	Mexico	Ministry of Economics	Funds to improve competitiveness of SMEs	Part of the allocated funds go to CSR programs
	Sweden	Swedish Business Development Agency	Funds for CSR projects	Promoting CSR in SMEs through the creation of business development tools, case studies, and regional incubators
	United Kingdom	Department for Environment, Food, and Rural Affairs	Funds for CSR projects	Funds projects in the nine English regions that contribute to one of the four U.K. Sustainable Development Strategy priorities
	United Kingdom	Department For International Development	Funds for CSR organizations	Agency funds the Ethical Trading Initiative
Labor Law Enforcement	Brazil	Ministry of Labor	Combating slave labor	Creation of special enforcement unit
	China	Government of Shenzhen	Harmonious Labor Relations promotion regulations	Regional adaptation of national law
Mandating Policies	Brazil	State of São Paulo	Holding public officials accountable to CSR	Elected mayors in São Paulo must publish list of goals for their terms, which address sustainable development
Public Recognition	Brazil	National government	Government CSR label	Recognizing companies that have good CSR practices
	China	Shenzhen Enter-Exit Inspection and Quarantine Bureau	Credit blacklist	Companies that break labor laws are exposed on public list
Responsible Investment	Sweden	National government	Legislation	National pension funds are required to draw up an annual business plan describing environmental and ethical considerations in investment activities