Speaking Notes used by Paul Hohnen for ACCSR Breakfast
25 July 2006

Check against delivery

Title: <u>What Governments Can Do About CSR – An International Perspective</u>

Senator Wong, Leeora, Leon, distinguished guests, ladies and gentlemen:

Today, I'd like to use the under-valued 'Goldilocks' taxonomy to characterize the range of perspective that exist on what role governments should take on corporate social responsibility (CSR). By this, I mean that there are three broad viewpoints at the international level. These are that governments are (1) doing 'too much' on CSR; (2) doing 'too little'; and (3) doing 'just right'.

Before discussing these perspectives however, let me make two broad scene-setting observations as someone who has been closely involved in the launch or development of a number of the international CSR initiatives.

The first is that I very much welcome the report of the Parliamentary Joint Committee on Corporations and Financial Services (PJC), the forthcoming CAMAC report, and this ACCSR event. Individually and collectively, these initiatives offer Australians a historic opportunity to take stock of CSR issues, both at the national and international level, and to explore how CSR can be used to advance Australian technological, commercial interests and values.

The second is that the international CSR environment is not standing still. Indeed, it is moving quite fast.

A few examples illustrate the point.

- Witness the uptake of initiatives such as the Global Compact and the Global Reporting Initiative (GRI), which together now boast thousands of users and supporters world-wide, both corporate and non-corporate. Recall, furthermore, that concepts such as 'sustainability reporting' did not exist a decade ago.

- Consider the fact that many of the CSR initiatives – particularly in the financial services sector – have been driven by investors. The recently-launched Principles for Responsible Investment boast as signatories over 30 large pension funds and fund managers, whose collective worth is over $2,000 billion.

- Note also that new initiatives continue to emerge. Perhaps the most notable of these has been the establishment by the International Organisation for Standardization (ISO) of a Working Group on Social Responsibility. The mandate of this body is nothing less than the creation of the first-ever global guidance standard defining what is meant by 'social responsibility', and how this might be integrated into everyday operations by all organisations.

How might an ISO standard impact perspectives on CSR and organisational behaviour on the ground? Who knows? The proposed standard will not be ready before 2008. However the differences between the PJC definition of CSR, and the working definition of the ISO Working Group highlight some of the issues.

The PJC speaks of CSR in terms of "*a company or organisation considering, managing and balancing the economic, social and environmental impacts of its activities".*

The ISO Working Group goes considerably further, defining 'social responsibility' as *"The actions of an organisation to take responsibility for the impacts of its activities on society and the environment, where these actions: a) are consistent with the interests of society and sustainable development; b)* *are based on ethical behaviour, compliance with applicable law and international instruments; and c) integrated into the ongoing activities of the organisation."*

Note, in particular, the references to 'taking responsibility' for impacts, 'sustainable development', and integration into organisational practices.

So how would a CSR Goldilocks assess CSR and the role of governments?

Too Much?

There is a well known viewpoint – most famously articulated by economists such as Milton Friedman and David Henderson - that governments have no role beyond setting the legislative and policy framework for encouraging the market economy. Governments should make and implement regulations, nothing further. In this context, CSR has little or no place, and governments certainly shouldn't go about encouraging discussions about how to promote and benefit from social and environmental issues. This is a viewpoint that a number of governments, including the current US Administration, would certainly espouse. The issues that run through CSR, however, will not go away. Indeed, many – such as climate change – are set to get a lot worse. In this regard, a lead article by The Economist magazine last year summed up the general perspective on this position. While supporting the 'CSR is neither the right question nor the right answer' school, it concluded that the debate had been lost. CSR was here to stay.

Just Right?

Close to the 'Too Much' school of thought is the 'Just Right' school. Proponents of this view – examples of whose viewpoint can be seen in various submissions to the PJC – argue that current government policy strikes exactly the right balance. Since, by definition, CSR is all about the voluntary (and non-regulated) practices of business, government does not need to get involved to any great degree. In contrast with the 'Too Much' school, the 'Just Right-ists' would note that government has played a constructive low key role on CSR for over a decade. They might point to the fact that governments recognized the importance of the contribution of the business sector in Chapter 30 of the Agenda 21 document, which emerged from the 1992 Rio de Janeiro 'Earth Summit'. They reaffirmed this at the 2002 Johannesburg World Summit on Sustainable Development, where they spoke of the need to 'encourage corporate social and environmental responsibility and accountability'. Further, they would note that the industrialized country member states that make up the Organisation for Economic Cooperation and Development (OECD) have all signed up to promote a set of Guidelines for Multinational Enterprises. These OECD MNE Guidelines not only provide a very useful guidance of what governments consider to be corporate best practice, they are especially significant in so far as they were developed by governments, in consultation with business and labour organisations, and have been endorsed by non-governmental organisations.

At a national level, the 'Just Right' school would also point to many national and local initiatives that seek to raise business awareness about CSR issues, and help business apply these concepts. The reference by the PJC to the British 'Business in the Community' Initiative is a case in point. There is, in my view, no doubting that many of these initiatives have changed both attitudes and behaviour.

Too Little?

This notwithstanding, there is a view within business, government and NGO circles that governments are not doing enough on CSR. My analysis of the various critiques of CSR suggest there are at least five core issues.

First, there is an engagement issue. This refers to the general sense that CSR is a potentially powerful complement to regulation, but is not working as well as it could. Precisely because CSR initiatives are voluntary and flexible, they can achieve things that governments cannot. For example, in countries where the rule of law is weak, some companies practice standards significantly higher that the local regulations require. With the best will in the world, governments will not be able to legislate their way to a more ethical and sustainable world. If the daunting challenges of sustainable development are to be met, governments will need to deploy every instrument at hand, including voluntary ones. If voluntary instruments cannot measurably and consistently demonstrate their effectiveness, government will be under increased pressure to regulate, or identify other more effective approaches.

To paraphrase Clemenceau's famous World War 1 dictum, in the war against unsustainable and uneven development, 'CSR is too important to be left to the CEOs'. Governments need to work with business and civil society to ensure that CSR delivers on its full promise and potential. Put another way, the contribution of business is too important to be neglected in the search for a more sustainable and just world.

Second, there is a t<u>ransparency</u> issue. Despite the many CSR reports and advertisements, it is not really clear who is doing what, and with what impact. This is important not just to ensure accountability, but also to know what measures work well, and how best practices can be replicated and rewarded.

Third, we have an <u>uptake</u> question. While most Fortune 100 companies now have some form of CSR policies, the majority of the world's business enterprises – including the many SMEs and companies in emerging economies - do not have CSR policies or do not use the leading CSR tools. How long can we afford to ignore the activities of over 90% all businesses?

Fourth, there is a <u>credibility</u> issue. NGOs regularly challenge whether existing laws are being properly implemented, and whether CSR claims are justified. Where is the evidence that performance on social and environmental indicators is improving? Opinion polls tend to suggest that the public often shares this mistrust.

Lastly, there is a <u>consistency</u> issue. Why should CSR be limited to business? Shouldn't public agencies and civil society organisations – themselves large in number and sometimes with significant ethical and environmental footprints – also apply the same high standards asked of business? On the basis of 'what's sauce for the goose is sauce for the gander', shouldn't all organisations – governmental and civil society included – take responsibility for reducing their adverse impacts and promoting the good?

In brief, CSR is all about encouraging organisations to progressively reduce their negative social and environmental impacts and to increase positive impacts. Whether by building awareness, expanding networks, or delivering improved products and services, voluntary actions and initiatives have demonstrated their potential to complement regulation. In this regard, it is governments' direct interest that CSR should work as effectively as possible. The alternative is a greater role for government, and regulations, or less effective social or environmental conditions.

If governments want voluntary instruments to work, they need to take a closer interest in their development, use and application. Let me suggest five areas where they might take action.

> <u>Policy coherence</u>: Sustainable development demands a balancing of economic, social and environmental interests. To achieve this, there is a need for more 'joined-up' government - on trade, energy, development and environment issues to mention a few. Currently, however, both processes and institutions are lacking. Many existing international government CSR commitments are not being consistently reviewed or implemented. Several existing CSR initiatives – including some like the UN Global Compact and the OECD MNE Guidelines - are not being resourced by governments at levels that would enable them to be scaled-up to their full potential. At the international level, there is no single intergovernmental forum where CSR is being monitored, and where governments can meet with business and civil society to assess and promote CSR. This does not imply that a new institution is required. It might be as straightforward as adding the mandate to existing bodies, such as the UN Commission on Sustainable Development. *We need policies that are consistent and coherent, and to get these, we need places where these can be developed.*

On this issue, I very much welcomed the PJC's recommendations, including Recommendation 21 in particular.

<u>Profiling</u>: Existing CSR initiatives – including those supported by government - aren't always well known or used. This is a shame, since the CSR phenomenon reflects a hugely positive collective response from business and civil society organisations to a shared concern to find creative solutions to many of the world's most pressing problems. In this sense, it represents the democratic instinct at its best. As supporters of partnerships, governments need to better profile leading global initiatives, such as those developed by governments and governmental bodies (e.g. ILO Tripartite Declaration, OECD Guidelines, Global Compact, UN Principles for Responsible Investment) or specifically endorsed by governments (e.g. the GRI, ISO), as well as national level initiatives that are consistent and compatible. They should also expand support for developing educational tools.

In this vein, I was delighted to see these issues also highlighted by JPC Recommendations 3, 4, 9, 12, 22, 25 and 27.

<u>Promotion</u>: As a relatively new field, information about CSR is often patchy and anecdotal. Where it exists, it is often not well known or understood. There is a need to better identify, collate, disseminate and commission CSR research. Areas requiring urgent attention include on issues of *efficacy* (what's working, what's not?); *use* (who uses what and why); *gaps* (from the user perspective, what is missing in services offered by current suite of CSR instruments and initiatives?); *coherence* (how can existing instruments be used more effectively?); and *cost* (CSR is often seen as additional cost, hampering flexibility and innovation. Recent research suggests that thoughtful CSR does not reduce profitability, and indeed can add value).

I believe the Australian Government should explore, with other governments, business and civil society groups, how CSR can improve national comparative advantage, innovation and encourage implementation of JPC Recommendation 23, as well as related Recommendations 10, 11,13, 15, 17, 20 and 26.

<u>Participation</u>: There are a number of CSR initiatives open to direct government participation, including ISO. Government engagement in these would offer an ideal opportunity to understand stakeholder perspectives and assess the comparative strengths and weaknesses of specific instruments, and to help shape their further evolution. Governments should also provide both intellectual and financial capital to support those CSR instruments and initiatives that are advancing government-agreed goals, such as the Millennium Development Goals and wider sustainable development objectives. Examples here include the UN Global Compact and GRI, both of which encourage balanced, partnership- based approaches, and voluntary, market-based, systems. Governments should also help both business and NGO representatives to participate in such processes.

Here, I welcome PJC Recommendation 26, which should be extended to civil society groups.

<u>Practicing what you preach</u>: Drawing on this saying, to ensure their credibility and moral leadership governments must apply leading CSR standards as far as possible to public agencies. This may involve applying general concepts and principles (which in many cases simply reflect agreed substantive norms defined by governments – such as the Global Compact's ten principles), or specially-developed indicators, such as the GRI's public agency sector supplement. Just as importantly, governments should also review the mix of incentives they offer for business to respond. 'Business-as-usual' practices are the inevitable result of 'policy-as-usual' approaches. The world needs policies that encourage and enable business to respond. Instruments such as export credits and procurement policies need to be aligned with agreed government ethical and sustainability policies. The time has come to be less reluctant about encouraging and rewarding those businesses that are clearly making an effort to reduce adverse impacts, and whose products and services are measurably more

sustainable. More focused use of policy tools such as export credits and investment and trade promotion.

In this context, I was pleased to see that JPC Recommendation 20 picked up this theme.

Finally, I have been asked to say a word about NGOs, based on my recent involvement in the launch of an ‘Accountability Charter’ by many leading international NGOs (INGOs) in London on 6 June 2006. Signed by eleven INGOs - including Action Aid International, Amnesty International, Consumers International, Civicus (the world alliance for citizen participation), Greenpeace International, CARE, Oxfam International, Save the Children, Transparency International, and YWCA International – the Charter is an historic step.

I was honoured to have had the opportunity to work with the INGO leadership in drafting the Charter, together with Hauser Center for Nonprofit Organisations, at the Kennedy School of Government, Harvard. The Charter – which is available outside the room today - represents the first time that some of the largest international NGOs have collectively articulated their view on their role and responsibilities. It is a clear statement of their commitment to specific values and principles, and identification of their stakeholders, and how they propose to ensure transparency and accountability across (and between) their organisations.

I mention this because I know that JPC Recommendation 18 (that non profits “should endeavour to meet the same standards as the corporate … sector in considering the interests of stakeholders”) and Recommendation 27 (government to develop educational materials for non-profits to promote benefits of CSR within own organisations) may be controversial in some NGO circles.

I believe firmly however that social responsibility is indivisible. All organisations should be responsible, proportional to their means, influence and impacts. There are close parallels between NGOs and SMEs. They are many in number, but their collective impacts may be significant. NGOs’ moral position in society, and continued effectiveness, depend on continued societal trust. The 2004 tsunami highlighted the crucial importance of NGOs in providing humanitarian and other relief, including significant flows of finance and goods. While opinion polls show that NGOs continue to command a relatively high level of trust, it has declined in recent years. Just as with governments and business, increased transparency and accountability are vital to their future success.

As with business CSR initiatives, the INGO Charter is a work in progress. But it marks a clear understanding of their commitment to continue playing a leadership role in society, together with the government and business sectors.

Leon Gettler began this session with a poem. Let me conclude in like measure. As the PJC pointed out, well-used, CSR instruments and initiatives can be valuable both in identifying and managing risks, but also in creating value. In this sense, I share the view that CSR is all about Competitive Stakeholder Responsiveness, where reputations and value will be won and lost on how well companies identify and respond to emerging issues.

In this sense, my summary of this session might be put thus:

‘Leon Gettler, our man from The Age
Thinks that CSR should be all the rage
If Aussie firms don’t compete,
they’ll be out on the street,
And their competitors on the front page.’

Thank you.