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Why the US Government Can and Should Clarify the Responsibilities of
Business and Promote Global CSR

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Thank you so much for inviting me here today to discuss GAO's findings on the US government's actions regarding corporate social responsibility. I direct globalization studies at the Kenan Institute, Kenan Flagler Business School, UNC. With support from the Ford, UN, and Levi Strauss Foundations, I devised and directed a global project designed to examine what governments can do to promote global corporate social responsibility. In 2002, we set up a study group chaired by Bruce Moats of Levi Strauss and Barbara Fiorito of Oxfam, to make recommendations to the US government on how it might promote CSR. In September 2003, that study group issued the Kenan Consensus designed to get policymakers thinking about what the US government can do to help firms act responsibly in global markets. One of the recommendations called for Congress to ask GAO to examine the signals that US policies send to global market actors regarding their social and environmental practices. We were thrilled when Congressmen Price, Levin and Ballenger asked GAO to do such a report. My comments today will focus on 4 areas: why global CSR is different from CSR in the US; why the US government should act to promote CSR in a consistent manner; and what other governments are doing. Finally, I will make specific recommendations regarding what the US government can and should do to promote global CSR.

I. The Difference between CSR in the home front and Global CSR

The rights and responsibilities of corporations are relatively easy to define within national boundaries, because citizens share norms regarding the roles of public and private sectors. But the responsibilities of the global corporation are ill-defined. Corporate officials do not have clear policy guidance regarding their social and environmental practices at the international level. These executives confront a world not only with many different governments, languages, cultures, and norms, but also with many different expectations and rules for the private sector. Companies adopt CSR strategies as a means of addressing public concerns about social and environmental practices in global markets. Moreover, in many developing countries the rule of law is nonexistent. In other countries governments lack the funds, expertise or will to enforce the law. In these circumstances, executives struggle to do the right thing. Firms adopt CSR strategies to ensure that they do not undermine social and environmental progress in countries such as China or Guatemala where the rule of law is inadequate. CSR strategies can help, but in the end CSR initiatives can not substitute for good governance. For this reason, US policymakers must provide our firms with clear guidance regarding their social and environmental responsibilities.

II. The US has a Foreign and Economic Policy interest in Promoting Global CSR

American business represents America and Americans overseas. How US based companies treat their stakeholders and the environment as they produce goods and services abroad is a policy issue. When firms act irresponsibly, America's foreign policy interests can be compromised. The US also has an economic policy interest in promoting global CSR. American citizens work for, invest in, and purchase from the companies struggling with issues of global corporate responsibility. These companies are the backbone of the US economy. Their future is our future. Moreover, polling data reveals that Americans want these firms to act responsibly. Finally, while policymakers may not want to regulate globally responsible behavior, policy sets the context in which such firms manage their operations and compete.

III. Although CSR is voluntary, the US government can be helpful

Market forces (consumers, producers and other stakeholders) are clearly demanding ethical behavior. It is up to managers to respond to these market signals or risk the consequences. But markets can fail. Although market forces are increasingly pressing companies to act responsibly, markets have not succeeded in prodding **all** corporations to "do the right thing" **everywhere** they operate **all of the time**. Governments have a responsibility to address such market failures. Moreover, market forces have not yet rationalized the plethora of voluntary approaches to promote CSR around the world. In 2001, the OECD found 246 codes of conduct alone designed to promote global corporate responsibility. Many of these codes are not compatible with each other. Executives and citizens find it hard to sort out these many different approaches and monitor their many suppliers.

IV. Other governments are acting.

In many industrialized countries where US multinationals operate, governments have adopted a wide range of strategies to promote CSR. As we meet today, Australia and Brazil are conducting parliamentary inquiries into CSR. Britain has a coordinated approach to global CSR in the national interest, a minister who organizes and evaluates this effort and the British Parliament has a CSR caucus. In 2002, the French government revamped their basic corporate laws, and required all publicly traded companies to report on their social and environmental practices. The German, Belgian and British governments have all developed regulations that require pension funds to report on the social and environmental performance of their investments. In addition, many governments such as Canada and the Netherlands link voluntary CSR initiatives to their trade policies.

V. What is the Chief Problem of the US Approach to CSR? Incoherence.

As the GAO report notes, US policymakers have developed policies, used exhortation, convened meetings, and even nurtured organizations to help companies monitor their CSR strategies. Yet the US approach is incoherent. There is no one agency or individual

in charge, despite the importance of multinational enterprise to global economic stability and growth. To some degree, this problem stems from the fact that the US has no agency coordinating globalization policies. Moreover, there is no coordinative body—an interagency working group, as example that can mitigate between agencies with different mandates and constituencies. Finally, even within cabinet departments, different branches promote different CSR initiatives, further confusing market actors regarding global CSR.

VI. 4 Recommendations for Congress

Beyond my full endorsement of the Kenan Consensus suggestions, I have a few additional ideas.

Objective 1: To make CSR a coherent coordinated foreign policy goal, housed at the White House or Department of State

Congress should propose to the President that it is in the national interest for the US government to ensure that US firms act responsibly everywhere they operate. The US can do so without explicitly mandating particular behavior or CSR approaches. The Department of State should be entrusted with defining global CSR, and there should be an individual charged with coordinating CSR initiatives within the Office of the Undersecretary for Global Affairs. That individual should also monitor CSR initiatives developed at other US government agencies and work to ensure that these programs, particularly in the area of human rights, send consistent signals to global market actors. Each year, State should be required to report on what it and other US government agencies promote CSR and encourage other governments to facilitate responsible business practices. This report should also delineate how the US has helped developing countries adopt, implement, and enforce laws and regulations that raise labor, environmental and human rights standards to internationally accepted levels.

Objective 2: To coordinate global CSR activities to ascertain if public policies undermine CSR.

Congress should also require that the Department of State, working with Executive branch agencies as well as the White House, examine how US and international public policies and institutions (such as the WTO) may undermine global CSR. In particular, this report should problems business face when governments don't enforce their own laws (as in export processing zones), or in conflict zones when trade and investment may fuel conflict and undermine human rights. The report should also examine how international organizations and rules-based systems promote and or undermine global corporate social responsibilities. Congress should also ask the Library of Congress to perform a similar study.

Objective 3: To make the US government a CSR role model and use the market power of the US government to promote CSR and human rights in general

Congress should direct the President to do more to use the market power of the US government to promote human rights. The US government currently provides procurement

preferences to companies that are energy-efficient. The US could institute similar preferences for firms that adhere to internationally accepted strategies for human rights and labor rights. These procurement strategies are essentially incentives and do not violate WTO procurement rules.

Objective 4: Use market forces (disclosure) to promote global CSR and a longer term approach to global investment.

Finally, Congress should pass a law requiring pension funds to report on the social and environmental consequences of their investments. This will stimulate markets to move towards more long term and responsible thinking.