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## Fast-tracking corporate citizenship

By Professor Alyson Warhurst  
FT.com site; Dec 04, 2002

The primary challenge facing business is recognising the need for change and that the basis for that change is social and ethical, not financial.

Companies are now obliged by stakeholders to play a positive role in society as corporate citizens. Business is already required through regulation and stakeholder demand to minimise negative impacts on the communities and environment where they operate.

There are now new drivers that encourage business to position itself as a positive force in society, to promote good governance and progressive development. Conventional theory, which suggests the 'business of business is business', and that wealth will trickle down to the poor and disenfranchised helped by the invisible hand of the market, does not hold true within many countries.

Globalisation is redrawing the boundaries of responsibility for business and in some areas of social development and human rights, merging responsibilities with those of governments. Governments and civil society are looking for new ways to measure progress beyond economic indicators and business is being held accountable for a broader portfolio of performance.

This challenge is based on the norms established in international Human Rights Law. This includes the Universal Declaration of Human Rights, Core Labour Standards of the International Labour Organisation (ILO) and the Rio Agreement on Environment and Development.

This 'accountability' must be approached systematically and involves tools such as internal risk review, corporate governance principles, key performance indicators, stakeholder dialogue, integrated impact assessment (socio-economic, environmental and human rights), and social reporting, audit and third party assurance.

Incidents, including child labour, bonded labour, complicity with regimes with poor human rights records and over-extended work hours, have been alleged in most industrial sectors such as manufacturing, extraction, IT, chemicals, infrastructure and finance. Declining share prices and costly project withdrawal or delay show that environmental protection, social justice and ethical integrity are bottom line issues.

The development of codes of conduct to guide businesses as global corporate citizens has taken place as the UN is focusing on the implementation of well refined human rights conventions. We therefore see emerging: first, at the level of corporate governance, the UN Global Compact (2000) initiative with its call for action by business to promote human rights, the avoidance of complicity with questionable regimes, labour rights and environmental protection.

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Secondly, at the executive level, there recently emerged the UN's draft on Principles and Responsibilities for Multinational Enterprises (2002), which build on the OECD Guidelines for multinationals (2000) and the EU resolution on human rights practice of European multinationals overseas (1999).

Thirdly, at the operational level, there are various interpretations of human rights law in the form of voluntary initiatives and accreditation schemes, such as the Ethical Trading Initiative, GRI, AA1000, SA 8000 and sectoral and company codes.

Converging trends over the past decade have shaped a very different business environment for the coming decade. This has implications for where and how business invests, what defines shareholder value and what constitutes risk.

As foreign direct investment has grown - more than 10-fold in the developing world since 1990 - and the sourcing of products and services has spread globally, there are also calls for business to play a pro-active role in the reduction of poverty.

History demonstrates that poor people, especially indigenous communities in remote regions, have been among the last to benefit. With no faith in the distribution powers of the governments that hosted these investments, communities frequently resort to negotiating directly with business to secure immediate benefits in education, housing and health – basic development rights, in return for 'granting' a 'social license to operate'. This is under-standable. Most companies respond rationally by seeking dialogue, not conflict. A growing number of countries require prior consultation with indigenous communities based on ILO Convention (169).

Business is recognising that it has responsibility for its wider impacts beyond the workforce and the perimeter fence. With the recent liberalisation of investment regimes worldwide, reductions in social welfare spending (to accommodate tax breaks to attract foreign investment) are widespread.

In response, we see non-governmental organisations requiring business to be transparent about taxes and royalties; and states being asked to be more transparent about how revenues are spent. Business understands that the 'external costs' of operations (costs of impacts previously absorbed by host states and communities), over time should be 'internalised'.

The key challenges ahead for business include:

- Bringing corporate governance into the realm of corporate citizenship, and addressing the key elements of social justice in respect of employees' rights, pensions, shares and the role and structure of the board. Corporate citizenship needs to be a proven company culture.
- Broadening risk and evaluating impacts. This must include 'intangible risks' and long-term environmental, economic and social considerations.
- Aligning community investment programmes through corporate social responsibility (CSR) strategy as an extension of core business practice, focused on contributing to sustainable development goals and the promotion of human rights, not fostering dependency.
- Development of management systems and tools which focus on capacity to manage rather than to simply audit and 'eliminate' problems. Eliminating children from a factory may cause other social problems such as prostitution or working in more dangerous industries with less safety controls. Without the fulfilment of basic rights, poverty is perpetuated. The need to earn income at any cost leads to the violation of core labour standards.
- Building company capacity to dialogue, involving internal and external stakeholders; rolling out and managing CSR strategy with tailored business principles, policies and practices to guide it.

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