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# GLOBALIZATION

## Observations on Federal Activities Related to Global Corporate Social Responsibility and Human Rights

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Highlights of [GAO-05-1049T](#), a testimony before the Congressional Human Rights Caucus

## Why GAO Did This Study

The trend toward globalization has intensified the debate about the proper role of business and government in global “corporate social responsibility” (CSR), which involves business efforts to address the social and environmental concerns associated with business operations. The growth in global trade and the dramatic increase in foreign direct investment in developing countries raise questions regarding CSR-related issues such as labor, environment, and human rights. U.S. firms with operations in many countries employ millions of foreign workers and conduct a range of CSR activities to address these issues. However, there is controversy as to the proper government role. GAO describes (1) federal agency policies and programs relating to global CSR and (2) different perspectives regarding the appropriate U.S. government role in corporate global CSR efforts.

[www.gao.gov/cgi-bin/getrpt?GAO-05-1049T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-1049T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov).

## GLOBALIZATION

# Observations on Federal Activities Related to Global Corporate Social Responsibility and Human Rights

## What GAO Found

Although the United States has no broad federal CSR mandate, we identified 12 U.S. agencies with over 50 programs, policies, and activities that generally fall into four key government roles: endorsing, facilitating, partnering, and mandating. However, many of these programs have small budgets and staff and aim to accomplish broader agency mission goals, rather than being specifically designed to facilitate or promote companies’ global CSR activities. The U.S. government endorses CSR by providing awards to companies, such as the Department of State’s Award for Corporate Excellence. Federal programs facilitate CSR primarily by providing information, funding, and incentives to key players to engage in CSR. For example, the Department of Commerce facilitates CSR by training its commercial service officers specifically on corporate stewardship. The Department of State’s efforts to convene nongovernmental organizations (NGO) and oil and mining companies to ensure respect for human rights in their overseas security procedures through the Voluntary Principles on Security and Human Rights provide a partnering example. Finally, some agencies, such as the Overseas Private Investment Corporation (OPIC), mandate CSR by requiring companies to meet criteria consistent with CSR to obtain agency services.

Perspectives on the government’s role are tied to perspectives on CSR and its connection to profit. Those with a free-market economic perspective state that corporations should be primarily concerned with earning profits and that government should not promote CSR because it reduces profit. Those with a “business case” perspective contend that CSR efforts can increase businesses’ long-term profits and value, and welcome government assistance with voluntary business efforts. Finally, those with a social issues perspective believe that business should contribute to broader social goals but have mixed opinions of whether this should be accomplished through voluntary CSR actions or more extensive regulation. Most representatives we spoke with at U.S. companies and other groups who were actively engaged in CSR supported a government role in global CSR, yet views on the appropriate role varied. Most supported U.S. federal agency efforts to endorse and facilitate CSR and partner with companies voluntarily pursuing CSR actions.

### Examples of Federal CSR-Related Programs Addressing Human Rights and Labor Standards

Agency	Program/activity	Objective
Commerce	Training on human rights, rule of law and corporate stewardship	To train commercial service officers and foreign service nationals on rule of law, human rights and corporate stewardship
Labor	Protecting the Basic Rights of Workers program	To improve the capacity of developing-country governments to achieve compliance with national labor laws and internationally recognized workers rights
State	Partnership to Eliminate Sweatshops Program	To address unacceptable working conditions in manufacturing facilities overseas that produce goods for the U.S. market

Source: GAO analysis of agency information.

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Mr. Chairman and Members of the Caucus:

Thank you for the opportunity to discuss our work on the federal involvement in global corporate social responsibility and our recent report on this topic.<sup>1</sup> We appreciate the continued interest of Congress and this caucus in these issues, and also recognize the leadership of the Kenan Institute.<sup>2</sup> The trend toward globalization—as evidenced by the growth in global trade and the dramatic increase in foreign direct investment in developing countries, from \$22 billion in 1990 to \$154 billion in 2002—has intensified the debate about the role of business and the U.S. government in addressing “corporate social responsibility” (CSR) related issues. The term “CSR” is often used to refer to business efforts to address the impact of business operations on such concerns as human rights, labor, and the environment. “Global CSR” is sometimes used to refer to business efforts to address the social impacts of business in the global economy. Discussions of global CSR in the context of developing countries focus on the need for business to address the gaps from inadequate or poorly enforced laws related to the protection of labor, human rights, the environment, and other social resources.

Given the role of U.S. corporations in the growth of trade and investment in developing nations and your interest in issues related to globalization, this testimony describes (1) global corporate social responsibility, (2) federal agency policies and programs related to global CSR, and (3) different perspectives on the appropriate U.S. government role in global CSR. While our original report covers the full range of issues under the CSR umbrella, in this testimony we primarily focus our examples on human rights and labor.

To determine what policies and programs federal agencies have adopted that relate to global CSR, we surveyed federal legislation and spoke with agency officials and experts in CSR. To identify different perspectives regarding the role of the U.S. government related to corporate global CSR efforts, we reviewed CSR-related trade and business literature and interviewed representatives from U.S. multinational corporations, business interest groups, investor groups, nongovernmental organizations

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<sup>1</sup>GAO, *Globalization: Numerous Federal Activities Complement U.S. Business’s Global Corporate Social Responsibility Efforts*, [GAO-05-744](#) (Washington, D.C.: Aug. 8, 2005).

<sup>2</sup>The Frank Hawkins Kenan Institute of Private Enterprise—Washington Center, [www.kenaninstitute.unc.edu](http://www.kenaninstitute.unc.edu).

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(NGO), and academic institutions that are leaders in the CSR field. We conducted our work from May 2004 through May 2005 in accordance with generally accepted government auditing standards.

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## Summary

Global CSR is an umbrella concept that can best be described through the definitions used for the term, the actions companies take to practice CSR, and the roles of key players. CSR can be broadly defined as addressing the interests of all company stakeholders, which include not only shareholders but also customers, employees, suppliers, and the surrounding community, on issues such as environmental protection, worker safety, and ethical conduct. Global CSR addresses these issues within international markets, particularly in developing countries. U.S. businesses take a variety of actions related to CSR that range from voluntary, such as philanthropic donations, to government mandated, such as disclosure of significant environmental conditions. Civil society, investor groups, multilateral organizations, and governments play key roles in identifying issues of concern and in encouraging businesses to adopt CSR efforts to address these issues.

Although the United States has no broad federal CSR mandate, we identified 12 U.S. agencies with over 50 programs, policies, and activities that generally fall into four public sector roles: endorsing, facilitating, partnering, and mandating. However, many of these programs have small budgets and staff and aim to accomplish broader agency mission goals, rather than being specifically designed to facilitate or promote companies' global CSR activities. The U.S. government endorses CSR by providing awards to companies, such as the Department of State's Award for Corporate Excellence and discussing CSR publicly. Federal programs facilitate CSR primarily by providing information or providing funding and incentives to key players to engage in CSR. For example, the Department of Commerce facilitates CSR by training its commercial service officers specifically on corporate stewardship. To illustrate partnering, the Department of State works with the United Kingdom to convene NGOs and oil and mining companies to implement the Voluntary Principles on Security and Human Rights to ensure respect for human rights in their security procedures. Finally, in terms of mandating, some agencies, such as the Overseas Private Investment Corporation (OPIC), mandate CSR by requiring companies to meet criteria consistent with CSR to obtain agency services.

Perspectives of the government's proper role are tied to perspectives on CSR and its connection to profit. Those with a free-market economic

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perspective state that corporations should be primarily concerned with earning profits and that government should not promote CSR because it reduces profit. Those with a “business case” perspective contend that CSR efforts can increase long-term profits and value and welcome government assistance with voluntary CSR efforts. Finally, those with a social issues perspective believe that business should contribute to broader social goals, but have mixed opinions on whether this should be accomplished through voluntary CSR actions or more extensive regulation. Most representatives we spoke with at U.S. companies and other groups who were actively engaged in CSR supported a government role in global CSR, yet views varied regarding the appropriate federal role. In general, most were supportive of U.S. federal agency efforts to endorse and facilitate CSR and partner with companies voluntarily pursuing CSR actions.

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## Background

The expansion of world trade and investment has led to the increasing integration of the world economy in recent decades—a process often referred to as “globalization.” Total trade in developing countries, exports and imports, rose from less than \$1.5 trillion in 1990 to \$3.8 trillion in 2002, while foreign direct investment in developing countries grew even faster during this period, from \$22 billion to \$154 billion. Some view globalization as fostering economic growth, increasing employment, and improving living standards in both developed and developing nations. Others claim globalization has negative social impacts and raise concerns about the expanding activities of multinational corporations, particularly in developing countries. U.S. multinational corporations are now faced with difficult issues, such as the treatment and conditions of foreign workers in corporate supply chains, human rights issues associated with authoritarian governments in host countries, as well as environmental and health issues associated with production in diverse local communities. In addition, some negative incidents involving U.S.-based companies have been widely publicized, hurting their own and the United States’ image, such as the use of sweatshops in the manufacture of clothing and other products.

U.S. corporations are increasingly building operations or buying products from sources in developing countries. However, the legal, regulatory and ethical environments in which U.S. businesses and their suppliers operate vary across countries. Given the limited capacity of some developing countries, CSR advocates argue that corporations themselves must establish and maintain codes of conduct regarding operating standards in these environments. Companies face increasing pressure from nongovernmental organizations, the media, “socially responsible” investor groups, and other stakeholders to adhere to high standards globally in

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their own operations and throughout their supply chains. For example, recently U.S. electronics companies signed a joint code of conduct to protect working conditions, workers' rights, and the environment in the electronics industry supply chain. Despite these efforts, some CSR advocates call for more government action to promote CSR, with some noting that several national governments in Europe have put in place mechanisms to encourage or require the adoption of CSR practices. In addition, some Members of Congress have shown support for CSR-related policies, similar to those advocated by working groups convened by the Kenan Institute.

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## Global Corporate Social Responsibility Embraces a Range of Human Rights Concerns

Global CSR is an umbrella concept that can best be understood by describing the different definitions used for the term, the actions businesses take to practice CSR, and the roles of key players involved in CSR. Although groups use different definitions and terms, CSR generally involves business efforts to address a broad range of issues, including labor and human rights. However, most definitions suggest that, in addition to addressing the interests of its shareholders, business should address the interests of its other stakeholders, including customers, employees, suppliers, and the local community.

Business actions addressing CSR concerns related to human rights can be broadly grouped into those addressing human rights, the workplace, and community development:<sup>3</sup>

- *Human rights*: Business actions addressing human rights assure basic standards of treatment to all people, regardless of nationality, gender, race, economic status, or religion. Human rights policies generally guard against such concerns as child labor in manufacturing, government action depriving citizens of basic civil liberties, and forced or prison labor.
- *Workplace*: Business actions related to the workplace involve human resource policies directly impacting employees, such as compensation and benefits, career development, and health and wellness issues. Examples of workplace CSR actions include adoption of global workplace standards, involvement of employees in business decisions, and establishment of employee grievance policies and procedures.

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<sup>3</sup>Adapted from Business for Social Responsibility Education Fund, *Corporate Social Responsibility: A Guide to Better Business Practices* (2000).

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- *Community development:* Business actions focused on community development intend to benefit the business and the community economically, particularly for low-income and underserved communities. Community development activities include employing and training disadvantaged workers, partnering with minority- and women-owned businesses, and locating facilities in underserved communities.

The extent and type of business actions are influenced by key players in CSR that include not only businesses, but also civil society, investor groups, multilateral organizations, and governments. For example, the Kennedy School of Government notes that the growth in civil society is one of the drivers making CSR more mainstream. Civil society activities exposing sweatshops or other questionable corporate activities can provide an incentive for firms to act in ways that would avoid or mitigate damage to their reputation. Investor groups such as mutual funds and pension plans are responsible for a growing proportion of U.S. investments and, therefore, are a potentially increasing influence over businesses' CSR actions. Finally, multilateral organizations have played an active role in developing standards relating to CSR and in promoting the concept of CSR.

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## Although No Broad Federal CSR Mandate Exists, Federal Agencies Conduct Activities Related to Global CSR

To obtain information on specific agency programs and policies related to CSR, we used a two-step process. First, we provided a general description of global CSR to agency officials and asked them to identify relevant programs, policies, and efforts within their agency. We then sent a questionnaire to officials responsible for each identified program and interviewed officials to obtain further information. We found that, while there is no comprehensive legislation mandating a federal role in global CSR, and few agencies actually define CSR, over 50 programs at 12 agencies are related to global CSR. Many agencies work with the private sector on issues that are generally covered by the concept "corporate social responsibility," such as labor, human rights, the environment, and corporate governance, but do not label their activities CSR.<sup>4</sup>

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<sup>4</sup>For the full list of the federal CSR-related programs we identified by agency, see appendix II of our report.

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## While Agency Perspectives on CSR Vary, Many Federal Programs in Pursuit of Broader Mission Goals Are Related to Global CSR

Agency perspectives on global corporate social responsibility vary from active endorsement to reluctance to label their programs CSR. For example, several bureaus in the Department of State directly support corporate CSR practices as a means to enhance their own efforts aimed at public diplomacy, protecting human rights, and other areas. Similarly, the Department of Commerce has officially endorsed corporate social responsibility, stating that American companies must follow the highest standards of conduct and contribute to the communities where they do business.

However, other agencies do not want their programs to be labeled CSR because they do not see it as part of their mission or believe they lack authority to engage in CSR activities. For example, while officials from the Office of the U.S. Trade Representative acknowledged that the agency undertakes some activities that might complement CSR, they stated that the agency's mission is to negotiate trade agreements, not to engage in CSR efforts. Similarly, a senior official at the Department of Labor said that, while the department has many activities that could conceivably be seen as supporting global CSR, the department is not doing them for that reason. He believes the department lacks specific authority to work on CSR.

Some agencies without a formal position on CSR actively take advantage of the overlap between their missions and company CSR practices to achieve their broader mission goals. For example, the U.S. Agency for International Development (USAID) and the Inter-American Foundation (IAF) leverage resources from corporations for development missions. Specifically, USAID's Global Development Alliance aims to achieve the agency's development goals by leveraging resources from the private sector and other partners. USAID's alliances address a range of issues, such as encouraging economic growth, developing businesses and workforces, addressing health and environmental problems, and expanding access to education and technology.

Other agencies, such as OPIC, the Export-Import Bank of the United States (Ex-Im Bank), and the U.S. Securities and Exchange Commission (SEC), engage in activities related to CSR, generally in response to statutory or congressional requirements rather than based on a formal agency decision on CSR.



Many Federal CSR-Related Programs Are Recent and Have Small Budgets and Staffs

Many of the programs we identified started in the last 5 years. For example, the Department of State’s Partnership to Eliminate Sweatshops Program started in 2000 to provide grants to address unacceptable working conditions in manufacturing facilities overseas that produce goods for the U.S. market. In fiscal year 2003, the program funded the development of a confidential database of factory-monitoring reports that would be accessible by companies seeking compliance information on factories in their supply chains. The effort was in response to U.S. companies that have cited lack of information about factory compliance as an obstacle to improving their own compliance efforts and responsible behavior. Since 2001, several presidential initiatives aimed at foreign assistance have partnered with companies to achieve the initiative goals, which also complement corporate CSR practices.

While some federal agency CSR-related activities address labor and human rights issues directly, others cover a broader portfolio of issues that sometimes include labor and human rights. The Department of Commerce’s training for commercial service officers on human rights, rule of law, and corporate stewardship offers an example of a federal program with a specific human rights focus. Commerce developed the training in response to congressional concern that increased trade between the United States and its trading partners might come at the expense of human rights. Table 1 provides additional examples of federal CSR-related programs specifically focused on human rights and labor standards.

Table 1: Examples of Federal CSR-Related Programs Specifically Focused on Human Rights and Labor Standards		
Agency	Program/activity	Objective
Commerce	Training on human rights, rule of law and corporate stewardship	To train commercial service officers and foreign service nationals on rule of law, human rights and corporate stewardship
	Implementation of the Labor Standards Provision of the Bilateral Textile Agreement with Cambodia <sup>a</sup>	To provide incentives to the government of Cambodia to improve working conditions in the Cambodian textile and apparel industry through effective enforcement of local labor laws and internationally recognized core labor standards
Labor	Protecting the Basic Rights of Workers program <sup>b</sup>	To improve the capacity of developing-country governments to achieve compliance with national labor laws and internationally recognized workers rights
	International Child Labor Program—activities working with industry associations	To support efforts to eradicate exploitive child labor worldwide
State	Partnership to Eliminate Sweatshops Program	To address unacceptable working conditions in manufacturing facilities overseas that produce goods for the U.S. market

Agency	Program/activity	Objective
	Voluntary Principles on Security and Human Rights	To provide guidance to extractive companies on how to ensure respect for human rights in the creation and implementation of security procedures

Source: GAO analysis of agency information.

<sup>a</sup>The agreement with Cambodia expired on December 31, 2004.

<sup>b</sup>An official from the Protecting the Basic Rights of Workers program, which reported a \$20 million budget in fiscal year 2003, said the program received no funding from the fiscal year 2005 appropriations.

An example of a broad CSR-related program that may encompass human rights and labor issues is USAID's Global Development Alliance—which supports numerous public-private partnerships, of which some focus on these issues. To illustrate, USAID partnered with one U.S. corporation operating in postwar Angola to build up the country's business sector and equip Angola's workforce with necessary business skills. The company and USAID each agreed in 2002 to provide \$10 million over 5 years for a series of projects to strengthen small and medium-sized businesses, including helping refugees and former soldiers to return to agriculture, developing an enterprise development bank, and supporting the creation of an agricultural training center. (Table 2 provides additional examples of broad federal CSR-related programs that may encompass human rights and labor standards).

**Table 2: Examples of Broadly Focused Federal CSR-Related Programs That May Encompass Human Rights**

Agency	Program	Objective
State	Secretary of State's Award for Corporate Excellence	To promote best business practices, good corporate governance, and democratic values overseas
	Organization for Economic Cooperation and Development (OECD) National Contact Point	To raise awareness among U.S. companies of the OECD Guidelines for Multinational Enterprises and to facilitate resolution when parties raise issues concerning U.S. companies' treatment of the guidelines.
USAID	Global Development Alliance	To encourage public-private partnerships for development projects

Source: GAO analysis of agency information.

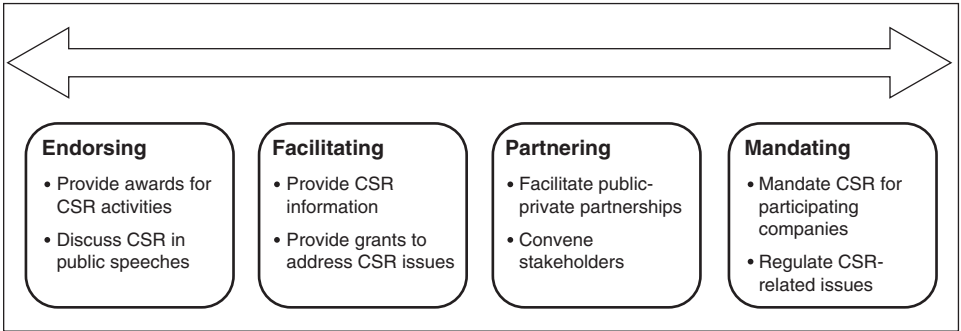
Federal agency activities related to CSR focus on a range of countries and sectors. For example, the International Child Labor Program at the Department of Labor funds projects in Bangladesh, Pakistan, Central America, and West Africa that work with various industry associations to address the use of child labor. The Department of State funds a number of projects in China and other countries in various sectors, including the apparel industry and the extractives sector.

Many programs do not specifically track budget and staffing information for their CSR-related activities. Of the programs reporting budget and staffing information, most are relatively small. Similarly, many federal CSR efforts are staffed by agency officials with multiple responsibilities who work part time on the effort.

Federal Agencies Conduct a Range of Activities That Endorse, Facilitate, Partner, and Mandate CSR Activities, Some Related to Human Rights

Most U.S. government programs, policies, and activities related to global CSR can be loosely categorized into the World Bank’s four public sector roles: endorsing, facilitating, partnering, and mandating. These roles range from the least government involvement (endorsing companies’ voluntary efforts) to the most government involvement (mandating behavior consistent with CSR). Although some federal efforts related to CSR can be classified as serving more than one role, roughly two-thirds of the U.S. government programs, policies, and activities that we identified fell in the middle of the spectrum by facilitating and/or partnering with companies on their voluntary CSR efforts. The remainder either fell into the mandating and endorsing roles or outside the World Bank’s roles. Figure 1 illustrates the range of U.S. government activities in the World Bank framework.

Figure 1: Illustrative U.S. Government Activities Related to CSR Range from Endorsing CSR to Mandating CSR



Source: GAO illustration based on World Bank report.

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- *Endorsing:* The U.S. government has a number of awards programs that endorse CSR by recognizing companies for socially responsible activities. For example, the Department of State's annual Award for Corporate Excellence emphasizes the role U.S. businesses play to advance good corporate governance, best practices, and democratic values overseas. Since 1999, 12 businesses have received the Award for Corporate Excellence, following nominations submitted by chiefs of missions at U.S. embassies and consulates abroad.
  - *Facilitating:* The U.S. government facilitates CSR by providing information, funding, or incentives to companies and other players to engage in CSR-related issues. For example, the Department of Commerce trains commercial service employees on rule of law, human rights, and corporate stewardship. The training helps these officers provide information on corporate stewardship issues to companies involved in the export promotion process.
  - *Partnering:* Several U.S. government programs partner with corporations or convene partnerships with key stakeholders, which can help companies accomplish their CSR initiatives. For example, the Department of State has been a key player in convening stakeholders to develop the Voluntary Principles on Security and Human Rights, which provides guidance to oil and mining companies on how to ensure respect for human rights in their security procedures. According to a State Department official, nearly every major oil and mining company is now a participant in the Voluntary Principles process.
  - *Mandating:* While there is debate over whether complying with laws and regulations constitutes CSR, a number of federal requirements and regulatory mechanisms that mandate social and environmental issues could fall under the CSR umbrella. For example, the Overseas Private Investment Corporation (OPIC), which provides long-term financing and political risk insurance to U.S. companies investing in over 150 emerging markets and developing countries, requires that all beneficiary companies comply with certain CSR criteria. These requirements cover issues that include host country development impact, environmental protection, international labor rights, and human rights. The requirements are written into contracts, and OPIC specifies that they must be carried down to the subcontract level.

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## Strengthening Enforcement and Compliance with CSR-Related Regulations in Other Countries

In addition to the four roles discussed above, a number of U.S. programs foster a business environment conducive to CSR by working with other national governments to strengthen compliance and enforcement of social and environmental regulations in countries where U.S. companies operate. These efforts serve to protect U.S. businesses from competing with companies that are not complying with weakly enforced laws and regulations. For example, the Department of Labor's program Protecting the Basic Rights of Workers works with host country ministries of labor to improve adherence to international core labor standards and acceptable conditions of work in developing countries. In accordance with a congressional appropriation, in fiscal year 2003 the office allocated \$20 million for these efforts worldwide, including in a number of countries in Africa, the America, and Asia, and in Ukraine. However, according to an agency official, this program's budget decreased to \$2.5 million in fiscal year 2004 and no funding was provided in fiscal year 2005.

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## Perspectives on the Appropriate Government Role in CSR Vary, but Many Support Federal Assistance for Voluntary Efforts

Based on our review of CSR literature, perspectives on the appropriate role of government in CSR vary, but generally correlate with three major perspectives on the connection of CSR to business profits: (1) free-market economic, (2) "business case," and (3) social issues.

- *Free-market economic perspective*

Those with a free-market economic perspective generally view CSR as a potentially profit-depleting activity that will ultimately diminish the effectiveness of business and a free-market economy. According to this perspective, business managers have a primary duty to maximize value for shareholders, and in doing this, businesses serve the general welfare by directing resources to produce goods and services society wants. In this view, engaging in CSR actions that are not based on profitability can affect not only business performance but also potentially reduce the general welfare of society. While this free-market economic perspective recognizes that government has a role in structuring the legal framework of a market economy, those with this view do not support government involvement in the general adoption of the concept of CSR.

- *Business-case perspective*

Many CSR proponents cite a "business-case" perspective, in which business CSR efforts are supported based on their contribution to business profit and value. Those with the business-case perspective reason that businesses can undertake CSR actions that will increase businesses'

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value or return on investment in terms of increased revenue, increased asset value, or reduced cost.

Engaging in CSR practices may also help multinational businesses manage certain political and reputation risks in their operations, particularly with regard to host countries in the developing world.<sup>5</sup> Negative publicity can seriously undermine the reputation of multinational businesses internationally, and it can create a political climate that may lead a host government to take actions, such as regulations or other restrictions, that can undermine firms' efficiency and profitability. In addition, some developing countries may not have adequate laws to address concerns about workers rights or the local environment, and even where they do, these countries may not have the resources, technical expertise, or the willingness to adequately enforce their laws and regulations. By demonstrating a commitment to good business practices, such as through CSR, multinational businesses may send a signal that they are committed to helping mitigate problems or issues that may arise regarding their operations, thus creating a more positive climate in which to pursue business opportunities.

Those with a business-case perspective view a major role of government as supporting businesses' voluntary CSR-related efforts. Supporters of this perspective look for business to work with civil society and government to develop CSR approaches that address relevant social issues.

- *Social issues perspective*

Those with a social issues perspective focus on the extent to which business addresses social issues, but opinions within this group are mixed on whether to rely on voluntary or mandatory CSR approaches. A 1999 survey of 25,000 consumers worldwide found that two-thirds of the population in countries surveyed indicated that "they want companies to go beyond their historical role of making a profit, paying taxes, employing people and obeying all laws; they want companies to contribute to broader societal goals as well."<sup>6</sup> Some supporters of the social issues perspective

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<sup>5</sup>Virginia Haufler, *A Public Role for the Private Sector: Industry Self-Regulation in a Global Economy* (Washington, D.C.: Carnegie Endowment for International Peace, 2001).

<sup>6</sup>The Millennium Poll on Corporate Social Responsibility, conducted by Environics International Ltd. in cooperation with the Prince of Wales Business Leaders Forum and the Conference Board. Consumers in 23 countries were surveyed.

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cite successes of some business voluntary CSR efforts in contributing to social issues. Some also call on business to voluntarily adopt CSR practices to address social issues beyond what might be justified by business profit. Such organizations see a role for government in fostering voluntary corporate CSR actions.

Others with a social issues perspective believe that business is primarily concerned with profit and thus should not be trusted to develop solutions for important social issues on their own. According to those with this view, business involvement in CSR efforts can become merely a branch of public relations instead of addressing social problems.<sup>7</sup> As a result, they feel that governments should move to mandate CSR. Several groups have argued for increased government engagement in CSR initiatives aimed at ensuring that business adhere to international norms. For example, one consumer group's position paper on CSR calls on governments and international agencies to introduce legislation to set standards that transnational corporations must observe and also a framework for monitoring corporate behavior.<sup>8</sup>

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### Views of Groups Actively Engaged in CSR Vary on the Appropriate Role of the U.S. Government in Global CSR

In addition to reviewing the available literature, we also interviewed 32 individuals actively engaged in CSR representing companies; business groups; NGOs focused on environmental, human rights, and labor issues; investor groups; and academic institutions to obtain their views on the appropriate role for the federal government and the impact of current federal activities on their CSR efforts.<sup>9</sup>

A majority of respondents supported a government role in global CSR, yet views varied regarding the appropriate federal role and the impact of current activities. Some respondents based their discussion of the government role on their knowledge of current U.S. government activities related to global CSR, yet we found that several were unaware of these efforts. While some said they were aware of U.S. government efforts, they primarily cited domestic CSR efforts or initiatives that are not led by the U.S. government.

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<sup>7</sup>Christian Aid, *Behind the Mask: The Real Face of Corporate Social Responsibility*, 2.

<sup>8</sup>Consumers International and Corporate Social Responsibility, Consumers International.

<sup>9</sup>Our selection was not intended to be representative in any statistical sense. For more information, see appendix I of our report.

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Mixed Reactions Regarding the Impact of U.S. Government Efforts to Endorse CSR through Awards

A number of respondents were aware of U.S. government award programs that endorse CSR, but had mixed reactions regarding their effectiveness. Whereas a majority of companies we interviewed who commented on awards said they have a positive impact, for example, by motivating employees and validating the company's efforts, some companies were not motivated by awards. Most of the business groups reacted positively to federal government awards, stating that awards call attention to success stories and provide a signal of the type of behavior the government likes, help to motivate companies, and provide a positive counterbalance to regulations and compliance by rewarding voluntary efforts. Most of the NGOs that were aware of federal government awards for global CSR activities were skeptical of the impact of the awards, questioning the nominations and selection processes and whether the awards are a good indicator of companies' CSR performance.

Respondents Supported Government Efforts to Facilitate CSR and Partner

Many respondents from the various groups expressed support for federal government efforts to facilitate CSR, especially through providing information. Representatives from companies and other groups suggested that the government could play a more active role in providing information on how to set benchmarks in areas such as the environment and human rights, providing information on best practices and how to start CSR activities in other countries, or establishing a clearinghouse with CSR-related information.

Many respondents viewed government partnerships with companies and efforts to convene stakeholders to accomplish CSR goals favorably and thought it was an appropriate role for the U.S. government. Many organizations supported a federal role in partnering by convening stakeholders to address specific CSR issues or to share information. For example, the Department of State's involvement in developing the Voluntary Principles on Security and Human Rights was cited as an example of a positive effort by the U.S. government to convene stakeholders to address a CSR-related issue.

Mixed Views on Government Mandating CSR through Laws and Regulations

Companies and business groups generally held mixed views regarding the impact of laws and regulations on company global CSR efforts, whereas NGOs and investor groups largely believed that laws have a positive impact on CSR. In general, these latter groups desired a government role in mandating CSR, especially to increase disclosure and transparency of company CSR activities. A few respondents cited the lack of U.S. legislation or involvement in CSR as an impediment to companies' CSR efforts.



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While some companies were concerned about burdensome mandates, several said that certain existing regulations and government efforts create minimum standards and level the playing field internationally, which is helpful to companies with active CSR programs. According to one company, laws such as the Foreign Corrupt Practices Act has had a positive impact on the company's CSR activities by enhancing the visibility of CSR and helping to raise standards of transparency and governance. Similarly, customs legislation that set minimum criteria allows the company to discuss CSR standards with its suppliers and ensures that it is not the only company focusing on these issues, which could create a competitive disadvantage.

Many respondents agreed that government should play a role in promoting transparency and disclosure of companies' CSR efforts. Some companies strongly supported a federal role in promoting transparency, yet others warned against regulation and adverse consequences, for example, if U.S. companies face regulatory burdens and are forced to disclose more than their foreign competitors. However, some NGOs and investor groups supported government mandating that companies disclose information on CSR-related issues.

A majority of respondents from the various groups supported a government role in encouraging other governments to enforce their own laws and standards related to common CSR issues. A few suggested that trade agreements offer an opportunity to encourage other governments to enforce CSR standards.

#### Some Respondents Want More Coordination among U.S. CSR Activities and Greater U.S. Role in CSR Global Leadership

Some respondents expressed a desire for more coordination among U.S. activities related to global CSR and pointed out that other countries are more involved in CSR than the U.S. government. Some noted that federal efforts are not well coordinated, which can make it difficult for companies to participate in U.S. government activities, and called for increased coordination among U.S. government agencies for CSR activities. Several respondents also expressed a desire for a greater U.S. government role in CSR, stating that the United States is absent from world leadership, especially compared with the European Union, on this issue. One company wanted the U.S. government to participate in the global debate on CSR and to continue its efforts to represent U.S. interests in the face of the European Union's more regulatory approach to CSR.

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## Concluding Observations

In my opening remarks, I cited a few of the reasons why firms' efforts in the areas of global corporate social responsibility and human rights have a potentially significant impact in other countries around the world. Globalization has taken many forms, but certainly the operation of U.S. firms in other nations is an important element of this trend and, for that reason, has a potentially significant role in issues such as human rights. We appreciate the opportunity to provide additional transparency to the policy debate about the U.S. government role by detailing the efforts across many departments that may affect the private sector's CSR efforts related to human rights and labor issues.

This hearing is also timely in that the two recent hurricanes in the Gulf of Mexico have demonstrated that, even in the United States, the private sector can play a crucial role in responding to disasters. Globally, U.S. companies have provided nearly \$562 million to relief efforts in the wake of the tsunami that hit Asia and Africa in December 2004.<sup>10</sup> While philanthropic activities, such as responding to disasters, is only one element of CSR, these disasters lead to increased attention and insight into the important roles of the government and the private sector in addressing both the immediate and longer term needs of persons around the world.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Caucus may have.

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## GAO Contact and Staff Acknowledgments

For questions about this testimony, please contact me at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov). Other major contributors to this testimony were Kate Blumenreich, Ken Bombara, Tim Fairbanks, Kim Frankena, and Jamie McDonald.

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<sup>10</sup>As of June 8, 2005, according to the U.S. Chamber of Commerce Web site, [www.uschamber.com](http://www.uschamber.com).

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