

## CHAPTER IV

### ROLES OF GOVERNMENT IN SUPPORTING CSR

#### 1. The Government case for CSR

One main proposal of this publication is that the contemporary CSR agenda is founded on the premise that businesses are part of society, their relationship with society is interdependent, and they have the potential to make a positive contribution to societal goals and aspirations. This role of business in promoting positive social progress is well recognized by governments in many developed and developing countries and they have begun to adopt this type of CSR agenda and encourage business in taking initiatives toward positive social development. At the national level, the role of CSR has been put forward as both a mechanism to address welfare deficits, and a means of promoting national competitiveness.<sup>86</sup> At the international level, CSR is understood as the mechanism for companies to contribute to sustainable development. For example, CSR is considered to be the strategic solution for socio-environmental challenges in developed economies and was officially adopted by member governments at the European Commission.<sup>87</sup> Recently, the agenda has been endorsed by member states within ASEAN aimed at developing viable public policy or legal CSR instruments for reference by ASEAN Member States by 2010.<sup>88</sup>

There are at least four essential reasons why governments should take a CSR agenda seriously, along with implementing the necessary measures to support companies in practicing responsible conduct.

Firstly, as detailed in Chapter I, citizen groups, civil society organizations, as well as international development agencies have all advocated for inclusive and sustainable development; and governments are expected to play a key role in promoting the economic, social and environmental conditions that favour more inclusive and sustainable development. Governments are under pressure with the challenge of facilitating the transition to a more efficient economy, in conjunction with a fairer and more sustainable society. CSR is widely accepted by many governments around the world as the business sector's contribution to inclusive and sustainable development. Thus, government can utilize a CSR agenda in pursuit of this goal.

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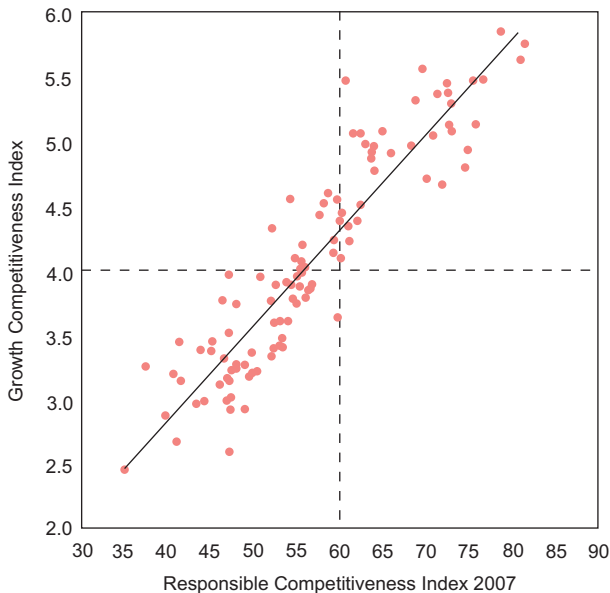
<sup>86</sup> Swift, Tracey and Zadek, Simon (2002). *Corporate social responsibility and the competitive advantage of nations*.

<sup>87</sup> European Commission. (2007). *Corporate social responsibility – National public policies in the European Union*.

<sup>88</sup> Visit [http://www.14thaseansummit.org/pdf/Outcome\\_Document/ASEAN%20Socio%20Cul%20Com%20Blueprint.pdf](http://www.14thaseansummit.org/pdf/Outcome_Document/ASEAN%20Socio%20Cul%20Com%20Blueprint.pdf)

Secondly, CSR is considered to play an important role in contributing to the competitiveness of a country. The European Commission stresses the need to link CSR with the competitiveness of companies and national and regional economies, which in turn has been described as fundamental for a nation's sustainability.<sup>89</sup> Responsible competitiveness can be attained when an economy's productivity and overall competitiveness is enhanced by businesses taking a holistic account of their social, economic and environmental performance. According to analysis presented in the State of Responsible Competitiveness 2007<sup>90</sup> which assessed 108 countries across the world, the correlation between the Responsible Competitiveness Index and the World Economic Forum's Growth Competitiveness Index indicates a strong relationship ( $R^2 = 0.85$ ) between responsibility and the most authoritative measure of country competitiveness (see Figure 4). This highlights that responsible business practice can and does reinforce competitiveness for countries at all levels of development. It also presents a challenge for governments, which

**Figure 4. Relationship between the growth competitiveness index and the responsible competitiveness index**



Source: Growth Competitiveness Index, World Economic Forum 06/07

<sup>89</sup> European Commission (2002). *Communication from the Commission concerning Corporate Social Responsibility: A Business Contribution to Sustainable Development*. [http://europa.eu/legislation\\_summaries/employment\\_and\\_social\\_policy/employment\\_rights\\_and\\_work\\_organisation/n26034\\_en.htm](http://europa.eu/legislation_summaries/employment_and_social_policy/employment_rights_and_work_organisation/n26034_en.htm)

<sup>90</sup> MacGillivray, Alex, Begley, Paul and Zadek, Simon (eds.) (2007). *The State of Responsible Competitiveness 2007*.

need to find ways of designing and implementing policies that encourage CSR practices throughout the business community to promote competitiveness at the national level.

Thirdly, financial crises and fiscal deficit have forced many governments around the world to look for a new approach for developing and funding collective action to deal with social demands that cannot be met by the government alone. The collaborative actions between governments and other sectors (in both the business and civil sectors) are a response to the limitations of government. In addition, business taking an active role in addressing some social causes is seen as a solution to current government financial crises. This allows CSR to present a new governance framework which government can use to create an enabling environment wherein the private sector is encouraged to be more engaged in social mission. CSR therefore becomes a way of promoting good company practices complementing other public efforts for societal progress.

Finally, although CSR is widely viewed as voluntary actions that companies take above and beyond regulatory requirements to improve their ethical, socio-environmental and economic performance, there is growing recognition that governments can and should contribute to shaping enabling conditions in order to see CSR more widely conducted. As Pascal Lamy, Director General of the WTO and former European Commissioner for Trade, has observed, "The societal benefits of corporate responsibility practices will remain limited unless they can be incorporated into broader strategies, and public policies certainly have a role to play in this respect".<sup>91</sup> Government therefore plays an essential role in policy development to promote CSR practice. There are a variety of public policy instruments that governments can use to promote this agenda. The following two sections introduce the roles that governments can play and some broad areas of focus where governments can take action to promote the CSR agenda in their respective countries.

## **2. What role can government play?**

No doubt, government actions are essential to creating an enabling environment for private sector development that diminishes risks, lowers costs and barriers of operation, and raises rewards and opportunities for competitive and responsible private enterprises. The challenge for governmental agencies in promoting a CSR agenda is to identify priorities, raise awareness, create incentives and support, and mobilize resources from cross-sectoral cooperation that are meaningful in the national context, as well as building on existing initiatives and capacities. For many developing countries, especially in Asia, there is a significant opportunity for governments to harness current enthusiasm for CSR among enterprises and assist businesses in taking on a bigger role in social development, particularly under the global demands for responsible business practice.

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<sup>91</sup> Pascal Lamy (2002). 'Preface' in Swift, Tracey and Zadek, Simon. *Corporate social responsibility and the competitive advantage of nations*, p. ii.

Some key roles which a government can actively choose to engage to support a CSR agenda, include (but are not limited to) the following: regulating, facilitating, brokering, and warranting.<sup>92</sup>

## 2.1 Regulating

While CSR is normally seen as voluntarily going beyond local requirements, governments can “raise the bar” through stricter regulation. This can come in the form of laws, regulations, penalties, and associated measures to control aspects of business investment or operations. Governments at different levels can regulate the behaviour or practice of business by defining minimum standards for business performance embedded within the legal framework; establishing targets for business to achieve; setting up enforcers and inspectorates to oversee business conduct; promulgating codes or laws to confine undesirable business conduct; or imposing license of operation or mandatory environmental-friendly industrial systems. Examples of this include establishing a minimum age for labour forces, emission limit values for particular categories of industrial productions, or requirements for companies to publicize corporate social responsibility reports.

## 2.2 Facilitating

Through facilitation, governments enable or incentivize companies to engage in CSR to drive social and environmental improvements. In many of the approaches reflected under this role, government plays a catalytic, secondary, or supporting role. For example, government may provide tax incentives and penalties to promote responsible business; ensure business can access information needed; facilitate understanding of minimum legal requirements for issues relating to responsible business practice; include CSR elements in related policy areas (such as industrial policy, trade policy, environmental policy, and labour policy); offer capacity building, business advisory services and technical assistance to business when needed; or, support supply chain initiatives and voluntary certification.

## 2.3 Brokering

Governments can combine public resources with those of business and other actors to leverage complementary skills and resources to address issues within a CSR agenda. Government can act as a broker in partnering public sector agencies, businesses, civil society organizations and other stakeholder groups in tackling complex social and environmental challenges. Government can do this by initiating dialogue in multi-stakeholder processes; supporting joint government-industry collaboration in capacity building and developing sectoral CSR guidelines; engaging stakeholders in standards-setting processes; promoting public-private partnerships for community development; and mobilizing resources. In this role as broker, government can also stimulate the engagement of key actors in a CSR agenda by, for example, providing funding for research or leading campaigns, information collaboration and dissemination, training, or raising awareness.

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<sup>92</sup> Tom Fox, Halina Ward and Bruce Howard. (2002). *Public sector roles in strengthening corporate social responsibility: A baseline study*.

## 2.4 Warranting

Lastly, government can provide political support and public warrant of a CSR concept. In particular, this can be done for specific types of CSR-related initiatives in the marketplace. Warranting can take various forms, including commitment to implement international principles; education or awareness raising programmes; official policy documents; publicity of good CSR practice conducted by other leading companies; specific CSR-related award schemes (such as a National Green Business Award); or, endorse specific pro-CSR indicators, guidelines, systems and standards. Government can also lead by example, through things like public procurement or public sector management practices, or direct recognition of the efforts of individual enterprises through CSR award schemes.

There are often no clear-cut boundaries separating these roles. For example, there may be cases where government acts as broker, but the incentive for partnership derives from the possibility (explicit or implied) that legislation may follow if a partnership is unsuccessful. Equally, the lines between “facilitating,” “brokering,” and “warranting” are not always clear. Governments may choose to address different CSR themes through actions which utilise a variety of roles. For example, it is quite feasible for a government to seek to increase and improve the level of corporate sustainability reporting by using any one or a combination of various mandatory (legislative), facilitating (guidelines on content), brokering (engagement with multi-stakeholder processes), and warranting (publicity) effort. The next section introduces some initiatives which combine some of the different roles that government may undertake to raise the CSR profile of a country.

## 3. Creating an enabling environment

There is substantial evidence that governments around the world have begun to take on a CSR agenda.<sup>93</sup> Some studies emphasize the influence of public policy as a critical factor in establishing a context within which CSR practice can flourish.<sup>94</sup> Public policymakers can thus initiate policies and measures enabling CSR to flourish using several means. Some key means used to introduce an enabling environment for CSR in a country include the following initiatives:

### 3.1 Creating awareness and raising public support

CSR cannot be imposed against the will of enterprises, but can only be promoted together with them under involvement of their stakeholders. The first step to promote CSR in a country is necessarily to fill the knowledge gaps about the significance and contribution of CSR to business success and sustainability, as well to increase awareness and acceptance

<sup>93</sup> Bertelsmann Stiftung and GTZ (2007). *The CSR navigator: Public policies in Africa, the Americas, Asia and Europe*.

<sup>94</sup> Laura Albareda and Josep Maria Lozano, Antonio Tencati and Francesco Perrini and Atle Midttun (2009). ‘The role of government in corporate social responsibility’ in Laszlo Zsolnai, Zsolt Boda and Laszlo Fekete (eds.). *Ethical prospects: Economy, society and environment*, pp. 103-149.

among relevant actors. The government can play a crucial role in establishing CSR value and knowledge among the business and the general public through recognition for CSR achievement and spreading CSR information to attain a better understanding of CSR among the public. Initiative can come in the form of publicity, awarding success, campaigning for awareness, networking opportunities, and funding. In the Philippines, a presidential decree promulgated in 2002 designated the first week of July as CSR week for the country.<sup>95</sup> The Stock Exchange of Thailand (SET) has run annual CSR Awards for its listed public companies since 2006.<sup>96</sup> SET also set up a CSR day on 19 March each year to present awards to successful companies, recognize achievement, and promote the practice and publicize examples of innovative and good models of CSR implementation. Government leaders also play a vital role in educating the public, private and non-profit sectors on how to tackle social problems from the CSR perspective. The former Malaysian Prime Minister Datuk Seri Abdullah Ahmad Badawi gave his full backing in the fact that he was a patron of the Prime Minister's CSR Awards launched in 2007 in Malaysia aimed at recognizing companies that have made a difference to the communities in which they operate through their CSR programmes.<sup>97</sup>

### 3.2 Establishing a specialized CSR agency

Because CSR agendas are often cross-cutting issues which broadly encompass human rights, labour, the environment, anti-corruption issues, a single agency within a Ministry working in a traditional 'silo' fashion would be incapable of effectively managing a CSR agenda. Governments in many countries have thus decided to set up specific agencies with a specific mission to promote CSR practice in their respective countries. In Thailand, the CSR Institute (CSRI) was established in 2007 under the SET to promote CSR practices among its listed public company members. CSRI aims to become a focal point for the public companies in promotion of the CSR undertaking. Later, the CSR Centre was launched under Thailand's Ministry of Social Development and Human Security in 2008. While there is no explicit CSR public policy in Viet Nam, the government of Viet Nam developed its 2004 Strategic Orientation for Sustainable Development (Viet Nam Agenda 21 or VA21) based on the Global Agenda 21 to be a national framework and legal foundation for national sustainable development in Viet Nam. VA 21 covers many CSR-related components such as labour practice, gender equality, environmental protection and the development of local and regional communities.<sup>98</sup> The Viet Nam 21 Agenda Office was set up as a national authority to deploy VA 21 and help the country to reach its goal of sustainable development. The VA 21 Agenda Office organizes sustainable development activities nationwide, cooperates with concerned ministries, and coordinates with national and international institutions. Support for business provided by the CSR specialist agency can focus on specific activities (information, advisory services, counselling and training,

<sup>95</sup> <http://www.odi.org.uk/events/corporations2002/report5print.html>

<sup>96</sup> <http://www.csri.or.th/hall-of-fame>

<sup>97</sup> <http://www.anugerahcsrmlaysia.org/2009/06/16/prime-minister's-csr-awards/>

<sup>98</sup> <http://va21.org/english/>

funding, as for instance) within a particular issue (for example, human rights, child care, youth work, labour, environment, or customer protection).

### 3.3 Reforming regulatory frameworks to meet CSR-related standards

Government plays an important role in setting standards that reflect a minimum standard of good CSR practice or performance requirements. The government is thus in a position to determine if any legal requirement is needed to ensure compliance with these minimum social and environmental standards. It also can make necessary changes to regulatory frameworks in cases where laws, tax and administrative compliance may hinder the development of responsible business practice. Legislation that supports pro-CSR industrial investment within businesses – for example, pollution charges associated with implementation of the “polluter-pays principle” – can also contribute to pro-CSR production processes. It should be noted that the government role of defining minimum legal requirements on environmental or social issues can be accompanied by access to justice for individuals who are affected by the misconduct of business.

From 2003 to date, a number of CSR-related laws and regulations in the area of environment, labour, and CSR reporting have been passed in China, and others are currently under consideration.<sup>99</sup> For example, the Corporate Act was promulgated in 2006 to set general principles on social responsibility for companies to comply with business ethics and regulation. In the Philippines, a bill requiring companies to observe CSR through community projects has been filed in the Philippines’s House of Representatives and the Corporate Social Responsibility Act of 2009 was recently released. It mandates corporations to “consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations”.<sup>100</sup> In late 2008, the government of Bangladesh has approved the long-awaited proposal for a tax exemption facility at the rate of 10 per cent on a part of the corporate income to be spent on complying with CSR practices.<sup>101</sup> The exemption facility is aimed at encouraging private companies to be involved more in CSR conduct.

Although CSR agendas are giving rise to new demands for a ‘level playing field’ of minimum environmental and social standards to protect free and fair competition, the minimum mandatory standards cannot create a level playing field that allows the market to reward higher standards without penalties for failure to comply. Lack of capacity to enforce minimum standards may lead to the collapse of these types of attempts. Government needs to pay attention to this concern. Furthermore, international collaboration may be needed to avoid distortion of competition between enterprises of different countries through different standards.

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<sup>99</sup> Eva Maria Nag (2007). ‘China’ in *The CSR navigator: Public policies in Africa, the Americas, Asia and Europe*.

<sup>100</sup> <http://www.csr-asia.com/index.php?cat=48>

<sup>101</sup> <http://www.thedailystar.net/newDesign/news-details.php?nid=68609>

### 3.4 Fostering interaction with businesses, NGOs and other key stakeholders

Government is in a unique position to convene necessary stakeholders in order to address social problems through a CSR agenda. In one way or another, governments can partner with foundations and corporations to support business responsibility initiatives. It plays a key role in facilitating meaningful stakeholder dialogue with the business community (for example, by building the capacity of civil society actors or by directly facilitating dialogue and multi-stakeholder processes). In India, two dialogue forums directly relevant to CSR policy development were initiated.<sup>102</sup> First, the *Coordination Committee to Promote Affirmative Action in the Indian Industry* comprises the relevant government ministry offices (mainly the Ministry of Commerce and Industry), Associated Chambers of Commerce and Industry of India, Federation of Indian Chambers of Commerce and Industry, as well as senior representatives of industry. The aim of the partnership is to finalize a Code of Conduct on Affirmative Action and to set up an ombudsman with regional benches to monitor the compliance of the voluntary code of conduct by its members. Another forum is the *India Partnership Forum (IPF)* which is also involved in this multi-stakeholder dialogue forum. *IPF* has a more CSR-focused brief and addresses issues other than affirmative action, its areas of interest being the adoption and operationalization of a social code for business, the formulation of CSR, providing support to public policy measures on CSR, ensuring the mainstreaming of CSR education in business schools, capacity building for community development, capacity building for sustainable reporting processes and indices, building a CSR knowledge base, and providing communication and advocacy on CSR.

In some cases, governments require companies to enter into stakeholder engagement through mandatory legislation. In many cases, governments can harness the community development potential of corporate philanthropy and social investment through dialogue to optimize their alignment with community needs. In certain cases, they can mandate corporate contributions in return for a license to operate. Such partnerships also aid in raising awareness of specific social problems and link to the engagement of business, as well as the expertise of stakeholders in other sectors. Furthermore, a business-NGO partnership can provide leverage for the availability of private resources to be directly channelled to meet social and environmental solutions.

### 3.5 Supporting pro-CSR production and consumption

Government can promote pro-CSR production practices through business, technical and advisory services, and research. This can be achieved through a variety of means. Governments may choose to include CSR-related requirements in public procurement practices; that is, linking their actions as consumers to promotion of pro-CSR production. Two United Kingdom government departments, the Department for International Development and the Foreign and Commonwealth Office, have switched to Fairtrade products in their

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<sup>102</sup> Eva Maria Nag (2007). 'India' in *The CSR navigator: Public policies in Africa, the Americas, Asia and Europe*.



staff restaurants.<sup>103</sup> The Building and Construction Authority of Singapore (BCA) launched its BCA Green Mark Scheme<sup>104</sup> in January 2005 which is an initiative to drive Singapore's construction industry towards more environment-friendly buildings. It is intended to promote sustainability in the built environment while raising environmental awareness among developers, designers and builders when beginning to conceptualize and design a project, as well as during construction. On the consumption side, support for environmental and social labelling schemes designed to stimulate consumer demand for environmentally or socially preferable goods and services can be found in developing as well as industrial countries. The Fairtrade label can be used here as well.

Many of the examples associated with an initiative through pro-CSR production and consumption reflect the role of certification, "beyond-compliance" standards, and environmental or social management systems in CSR agendas. Some labelling and certification schemes, like the product-based Indian Ecomark Scheme<sup>105</sup>, have been initiated by public sector bodies. This voluntary product labelling scheme was initiated by the Indian Parliament in 1991. The Ministry of Environment and Forests, the Central Pollution Control Board, and the Bureau of Indian Standards are all involved in its administration. Assessment of consumer products in 16 categories ranging from foodstuffs to fire extinguishers is designed to take into account the full life cycle of a product (materials, production, and disposal).

### **3.6 Providing support to increase capacity and effectiveness for business in CSR initiatives**

Other interventions by governmental agencies in some developing countries have included capacity building activities designed to help domestic producers meet CSR standards. Outlines of a broadly complementary initiative in India serve as a good example.<sup>106</sup> The Indian Textiles Committee, part of the Ministry of Textiles, has taken up a national campaign to sensitize the textile and clothing industry, particularly in the SME sector, to address emerging challenges resulting from the forthcoming liberalization of the Indian textile and clothing industry. The Committee is working with the Ministry of Commerce, state governments, and local industry and trade associations on the campaign. Approximately 7,500 company representatives will have taken part in 25 workshops. The aim is to disseminate information on various standards and compliance mechanisms including ISO 9000 QMS, ISO 14000 EMS, and Social Accountability (SA8000) standards, as well as offer technical assistance to encourage implementation.

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<sup>103</sup> [www.fairtrade.org.uk](http://www.fairtrade.org.uk)

<sup>104</sup> [http://www.bca.gov.sg/ContactInfo/contact\\_info.html](http://www.bca.gov.sg/ContactInfo/contact_info.html)

<sup>105</sup> <http://envfor.nic.in/cpcb/ecomark/>

<sup>106</sup> <http://textilescommittee.nic.in/ncompain.htm>

Regarding the international trade-related aspect of implementing a CSR agenda, governments in many countries now are recognizing the potential for a CSR agenda to open up new market access opportunities for exports of sustainably produced goods and services and to tackle potential exclusion from existing markets as CSR conditions are introduced. Government-led export promotion of “green” goods and services can build international market access opportunities for domestic enterprises and encourage a more pro-CSR goods and services. In this case, government can provide knowledge and technical support, including capacity building for domestic producers to enable them to meet CSR standards, and engagement in CSR standard-setting initiatives to ensure they do not create unfair market access barriers.

#### **4. Conclusion**

There is a strong link between CSR and inclusive and sustainable development. CSR provides a strategic and competitive opportunity. It is considered a cross-governmental issue, with a broad agenda related to social, environmental and international issues. Government should therefore seek to develop frameworks within which to assess local or national priorities as they relate to a CSR agenda. Government can help by mapping existing needs, opportunities and constraints in the local or national context in order to define appropriate modes of intervention within an overall national strategy. However, capacity constraints within the government itself should not be overlooked, particularly given the resource implications. Therefore, the CSR strategy of any government should go through a development process wherein locally appropriate modes of intervention are utilized rather than simply copying models from other countries. International cooperation may address the risks of reinventing the wheel and creating different levels of competition distorting requirement. Such cooperation can also mitigate capacity constraints such as by setting up a community of practice.