

The World Bank Group • Corporate Social Responsibility Practice

The CSR Practice advises developing country governments on public policy roles and instruments they can most usefully deploy to encourage corporate social responsibility.

**RACE TO THE TOP:
ATTRACTING AND ENABLING
GLOBAL SUSTAINABLE BUSINESS
Business Survey Report**

October 2003

RACE TO THE TOP: ATTRACTING AND ENABLING GLOBAL SUSTAINABLE BUSINESS Business Survey Report

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RACE TO THE TOP:
ATTRACTING AND ENABLING
GLOBAL SUSTAINABLE BUSINESS

Executive Summary

The World Bank Group's CSR Practice commissioned PELC and Ethical Corporation to conduct a study to explore two related issues: (a) how corporate social responsibility (CSR) issues influence the investment and purchase decisions of multinational enterprises (MNEs) around the world and (b) how governments in the developing world can create environments that companies will find attractive from a CSR perspective.

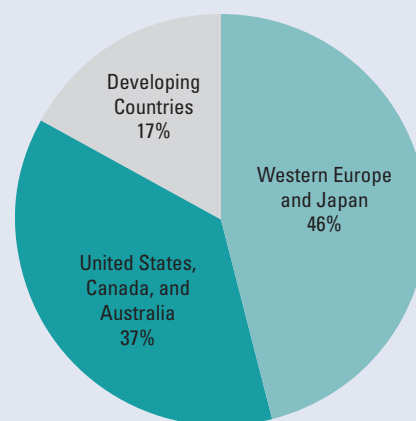
ANALYSIS OF SURVEY RESPONDENTS

Between December 2002 and March 2003, in-depth interviews were conducted with executives of 107 multinational enterprises in the extractive, agribusiness, and manufacturing sectors. The study was designed to capture the views of the largest purchasers and investors in the target sectors, as well as CSR leaders in each sector.

- Total revenues of companies participating in the study: **US\$1.66 trillion.**
- Average respondent's annual revenues: **US\$15.5 billion.**
- Over 85 percent of respondents are publicly owned.

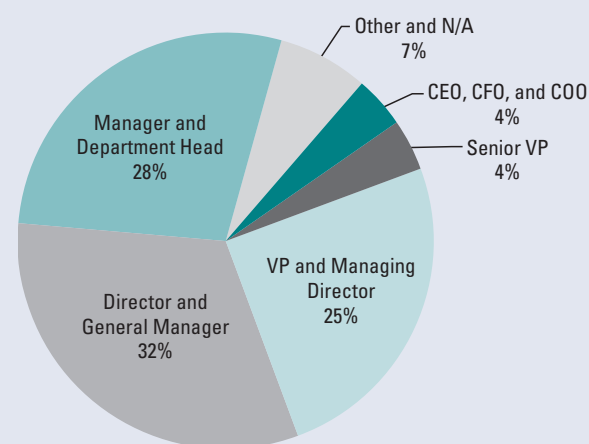
Companies from the United States, Canada, and Western Europe proved the most willing to participate in the study. One Japanese company and one Australian company also participated. The remaining respondent companies were based in Russia, South Asia, Africa, Latin America, and the Middle East. These are referred to in the report as "developing countries" (see Figure ES-1).

FIGURE ES - 1. Percentage of Respondents by Location



Interviewers targeted executives with comprehensive knowledge of each company's CSR experiences around the world. The positions held by interviewees were as shown in Figure ES-2.

FIGURE ES - 2. Positions Held by Interviewees

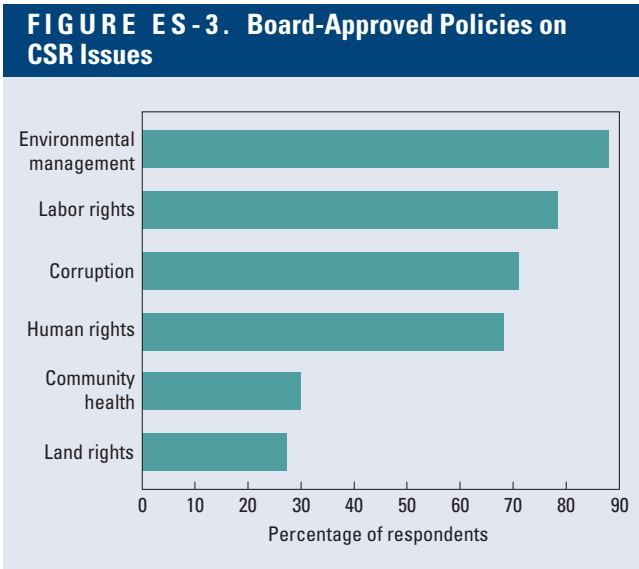


ANALYSIS OF SURVEY RESULTS

Importance of CSR to International Investors and Buyers

In order to frame the role of CSR in trade and investment, the survey first explored the role of CSR in each MNE’s general policy and management structures.

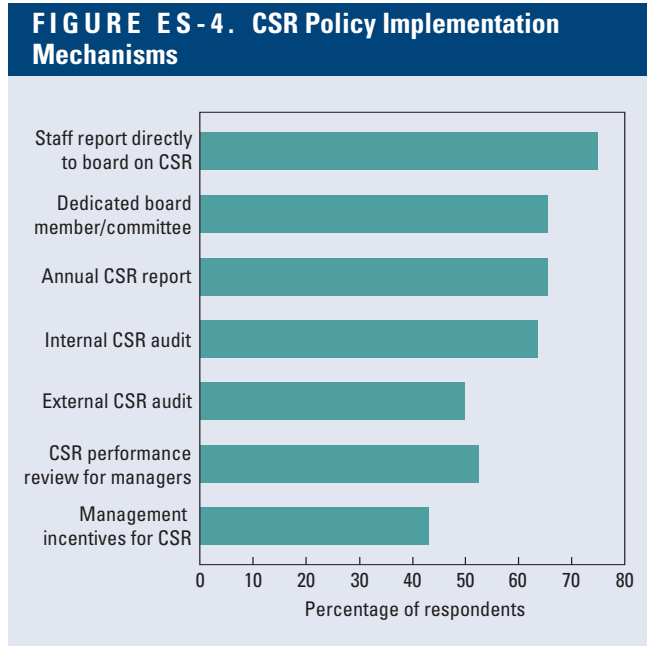
Respondents reported board-approved policies on CSR issues as shown Figure ES-3.



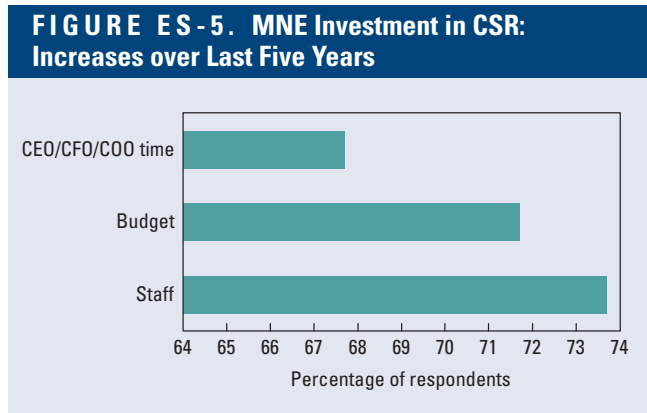
- Extractive-sector respondents reported significantly higher percentages of board-approved policies for land rights and environmental issues than did respondents in manufacturing or agribusiness.
- U.S., Canadian, and Australian respondents have developed board-approved policies on fewer issues than respondents in other developed countries.
- Developing country respondents, in direct response to the HIV/Aids crisis, were more likely to have community health policies than respondents in developed countries.

Respondents reported having CSR policy implementation mechanisms as shown in Figure ES-4.

- The largest firms (over US\$15 billion) had significantly higher percentages of nearly every mechanism. Sector and region made relatively little difference to the results.



- A majority of respondents reported increasing CSR investment in the last five years (see Figure ES-5).



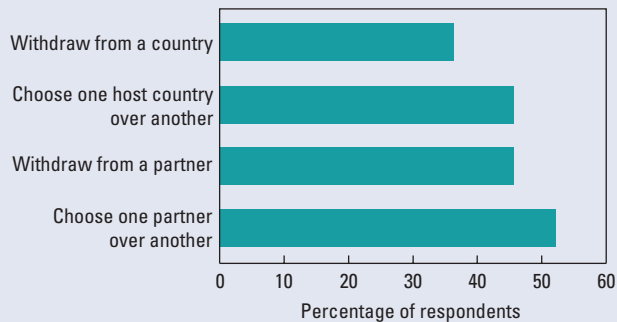
Importance of CSR in Selecting New Partners and Locations

MNEs reported that CSR can be a significant factor in determining where and with whom they do business (see Figure ES-6).

- Over 80 percent of respondents reported that they look at the CSR performance of potential partners and locations before they close the deal on a new venture.
- More than half of the respondents reported that the review takes place while they are still looking at multiple partners and countries.

- A majority of extractive companies reported they have chosen not to enter a country based on CSR issues. Fewer, though, have left a country once invested there.
- U.S.-based companies are the most likely to reject locations based on CSR concerns.

FIGURE ES - 6. Actions Taken by Companies Due to CSR Concerns



A majority of companies reported that CSR issues are at least as influential as traditional considerations (for example, cost, quality, delivery) in new venture assessment, and that this influence has grown in the last five years (see Figures ES-7 and ES-8).

FIGURE ES - 7. Influence of CSR Relative to More Traditional Criteria

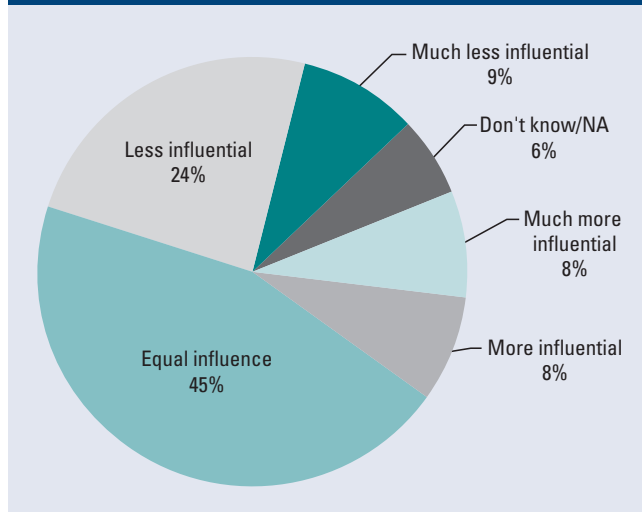
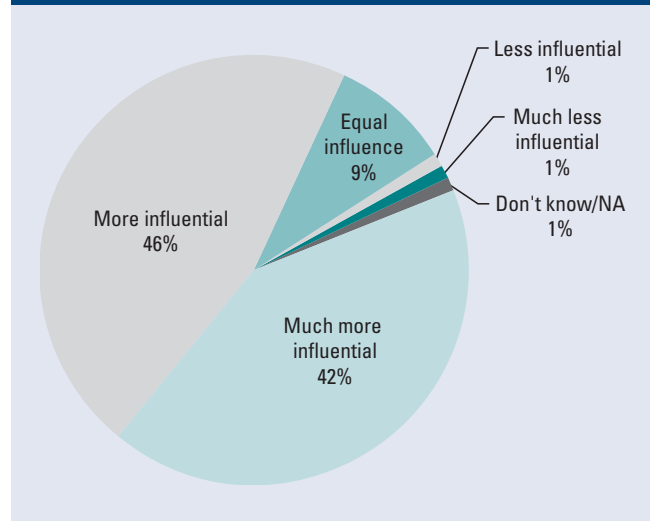
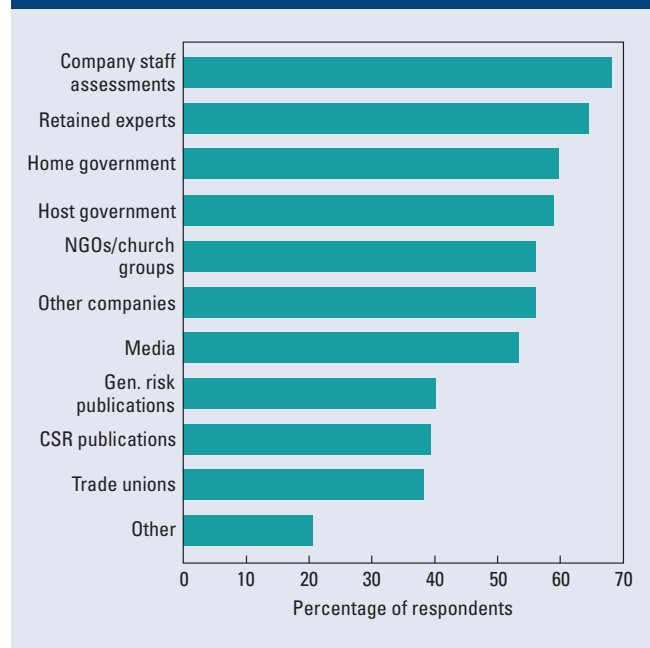


FIGURE ES - 8. Influence of CSR Factors Relative to Five Years Ago



Respondents reported using a variety of sources to learn about CSR issues abroad (see figure ES-9).

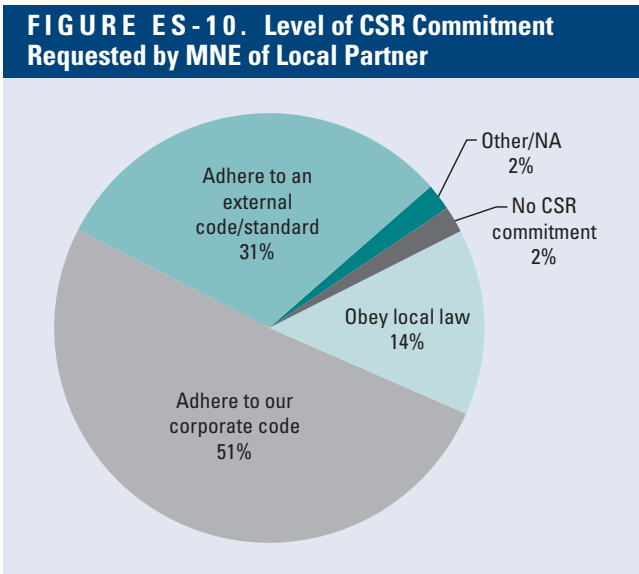
FIGURE ES - 9. Sources Used for CSR Information



- Agribusiness respondents use all sources of CSR information less frequently than extractive or manufacturing respondents do.
- Developing-country respondents use most sources of CSR information less than respondents from wealthier countries, but are more likely to use trade unions.

CSR Challenges for International Firms

Among the greatest CSR challenges for MNEs are their relationships with local partners. Nearly all firms participating in the survey have made a public commitment to require some level of CSR performance from their local partners (see Figure ES-10).



Though most firms in the survey have made such commitments, fewer than 20 percent have financial resources dedicated to helping partners meet the requirement.

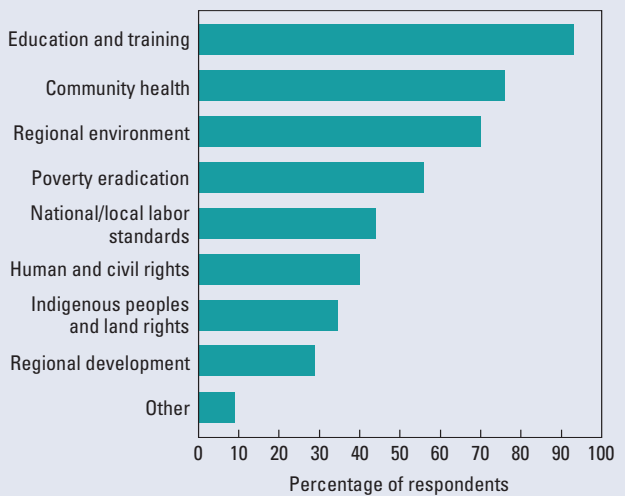
Respondents indicate that their efforts to secure “CSR-ready” business partners would be greatly enhanced by strong host government laws and enforcement on issues such as labor rights and environmental management.

- Sixty-one percent of respondents reported that strong laws on CSR issues help their business.
- Seventy-five percent of respondents reported that strong, even enforcement helps their business.

Companies are also challenged to find local partners to work with them on social issues in the community (see Figure ES-11).

- Eighty-one percent of respondents reported that they are involved in social issues “beyond their factory gates,” in which they seek partnership from local government or civil society.

FIGURE ES - 11. Community Issues in which MNEs Are Active



Respondents are eager to form a range of partnerships with host governments (national and local) on these issues.

- Companies with extensive resources for community development are eager to coordinate their programs with those of national and regional governments.
- Even companies with modest community development funds express interest in participating in the planning of government programs directly related to their operations, such as workforce training and supplier development.
- Manufacturing companies report they are interested in partnerships that are related to their product lines (for example, an IT company working with the public schools to enhance computer literacy).

CONCLUSIONS & RECOMMENDATIONS

The data demonstrate that corporate social responsibility issues are increasingly influencing the investment and purchase decisions of multinational enterprises around the world. The survey’s results point to some recommendations for governments.

To attract sustainable trade and investment, governments should consider:

- Developing strong laws on corporate social responsibility, that are strongly enforced

- Addressing MNEs CSR concerns early in the MNEs' new venture assessment cycle
 - Using local "CSR-ready" companies to promote the country as an investment location
 - Channeling CSR information into media that matter to MNEs
 - Improving their understanding of the corporate CSR codes of target MNEs, and engaging more effectively in international CSR forums.
- To enable sustainable trade and investment, governments should consider:
- Approaching large MNEs for partnerships, using their CSR systems to contribute to development objectives
 - Cultivating local CSR resources for smaller and developing-country MNEs
 - Engaging local religious institutions more effectively in contributing to the enabling CSR
 - Brokering multicorporate partnerships where single-company action is difficult or inappropriate
 - Building a base of "CSR-ready" local companies.

Introduction

1.1 Project Description

This study examines two related issues: (a) how corporate social responsibility (CSR) issues influence the investment and purchase decisions of multinational enterprises (MNEs) around the world and (b) how governments in the developing world can create environments that companies will find attractive from a CSR perspective.¹

The report is based on a survey of MNEs that addressed:

- Formal corporate social policy
- Implementation mechanisms for social policy
- Corporate social policy and practice in regard to new trade and investment ventures
- Ongoing challenges confronting corporate social policy in the developing world
- The role of local partners, and especially host governments, in meeting those challenges
- How countries can attract trade and investment by enabling CSR.

The survey is described in detail below; the survey questions are provided as an annex to this report. Responses were analyzed for statistical significance and interpreted by experts with 10–30 years of experience in trade and investment attraction and corporate social policy.

1.2 Project Commission

The World Bank Group’s Corporate Social Responsibility (CSR) Practice commissioned the

¹ There are many definitions of corporate social responsibility. The World Bank CSR Practice defines CSR as “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve

study. The CSR Practice advises developing-country governments on public policy roles and instruments they can most usefully deploy to encourage corporate social responsibility.² To conduct the study, the World Bank commissioned Political and Economic Link Consulting (PELC) and Ethical Corporation Magazine. PELC, a consultancy with practices in both foreign investment attraction and corporate social policy, has conducted several engagements on the ties among CSR, trade, and investment.³ Ethical Corporation Magazine is a leading source of information on global corporate social issues.⁴

1.3 Project Methodology

The study is based on in-depth interviews with executives of more than 100 MNEs in the extractive, agribusiness, and manufacturing sectors.⁵ While insufficient to represent all companies in each of the target sectors, the responses are indicative of trends among:

- The largest companies in each sector
- A community of mid-sized companies committed to CSR.

1.3.1 Sample selection

The largest MNEs were targeted in each of the three target sectors, with primary emphasis on ten industries.

their quality of life in ways that are both good for business and good for development.”

² More information on the CSR Practice can be found at <http://www.worldbank.org/privatesector/csr/index.htm>.

³ www.pelc.net

⁴ www.ethicalcorp.com

⁵ A complete analysis of survey respondents appears in the section following this one.

Extractive	Agribusiness	Manufacturing
Mining	Bananas	Apparel
Oil & Gas	Coffee	Electronics
	Cocoa	Footwear
	Tea	Toys

Once the primary industries were exhausted, companies were targeted in additional industries within the three target sectors. Each sector was evenly targeted.

Global leaders in each sector, as well as companies that have taken a high CSR public profile, were targeted for participation in the survey. The goal of the targeting was to learn the current approach of the largest companies in each sector, as well as to examine trends among companies in the forefront of corporate social responsibility.

Finally, the targeting strove for global geographic distribution, within the set of companies that buy or invest internationally, and within each target sector. Within these parameters, more than 200 developing-country companies were contacted with the aim of targeting both sector leaders in the developing world as well as developing-country companies that had expressed an interest in CSR issues through Ethical Corporation's various media.

In total, more than 600 companies were solicited for participation, and 107 were interviewed. In addition to the leading companies in each sector, efforts were made to obtain geographic breadth in the sample. Targeting included companies in the United States, Canada, Western Europe, East Asia, and every region of the developing world. Interviewers fluent in Chinese (Mandarin), Dutch, English, French, German, Portuguese, and Spanish were made available.

1.3.2 Interview methodology

All companies received an initial telephone call, in which interviewers introduced the Bank Group CSR Practice, its contractors, and the nature of the

project. The range of information sought for the study required that interviewees be executives with comprehensive knowledge of the company's experience in implementing its CSR policies around the world. Typically, interviewers would consult with the staff of the company's chief executive or chief operating officer, who would assist in identifying the appropriate executive at each company. An analysis of the positions interviewees held can be found in the following section: Analysis of Survey Respondents.

Executives who expressed a willingness to participate scheduled an interview time. They then received a follow-up e-mail or fax with more detailed information about the project and the nature of the interview. Interviewers provided a list of questions to those executives who requested it.

In most cases, the scheduled interview was conducted by phone. Interviews were based on a combination of open-end and closed-end questions and were typically of 45–90 minutes in duration. The interview template can be found as an annex to this report.

1.3.3 Data analysis methodology

Data from the interviews were recorded by the interviewers during the interview or immediately following. Where possible, responses to open questions were precoded in the survey design. Further coding was conducted as open-end responses were entered for tabulation at the conclusion of the survey period to refine and enhance the precoding. Open questions that did not yield a concentration of responses were not coded, though the project staff made use of them to illustrate points indicated elsewhere in the data.

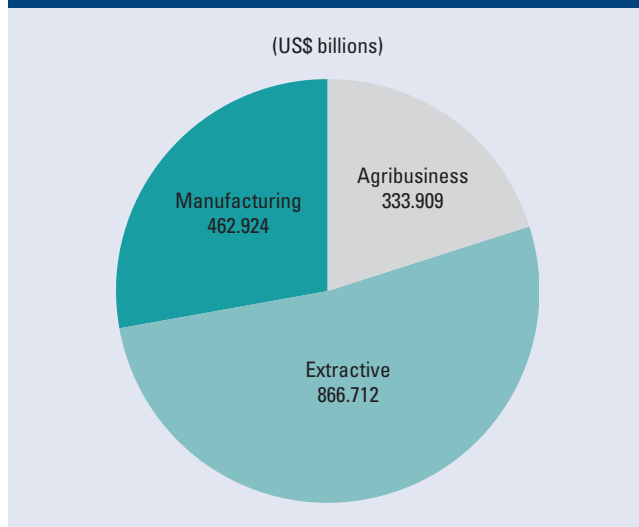
Data were cross-tabulated using analysis variables including company location, size, and sector. Qualitative analysis was delivered by project senior staff based on analysis of the data, review of open question responses, and follow-up consultations within the target sectors.

Analysis of Survey Respondents

2.1 Size of Respondent Companies

The study was designed to capture views of the largest purchasers and investors in the target sectors. The companies participating in the study had total revenues of US\$1.66 trillion (see Figure 1).

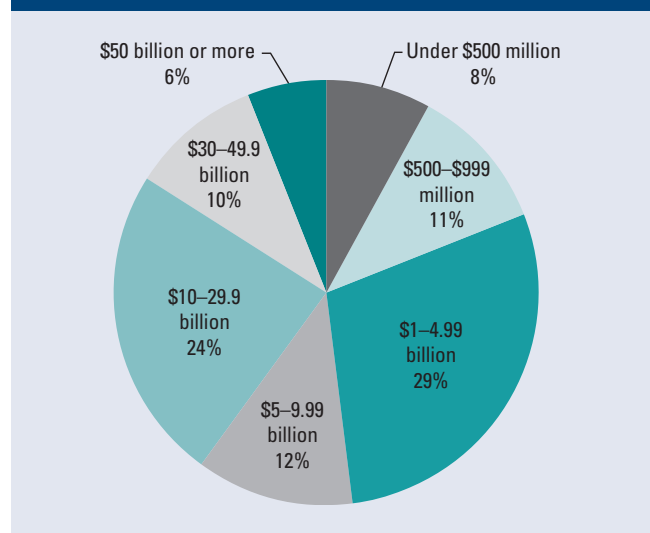
FIGURE 1. Respondents' Total Annual Revenue by Sector



The average size of respondent companies was, by most measures, quite large: US\$15.5 billion in annual revenues. Because their operations are far-flung, the largest MNEs often have the broadest CSR experience from which to draw, and are also the most likely objects of CSR issue advocacy. They also have the most human and financial resources available to address these issues. These, likely the most important factors driving up the average size of participants in this project, helped boost the total revenues the sample represents (see Figure 2).

Because of the large size of most respondents, their ownership structure is overwhelmingly pub-

FIGURE 2. Individual Respondents' Annual Revenues



lic. Less than 15 percent of all respondent companies are privately owned, or not owned by a public parent company.

For the purposes of analysis, the respondents were divided evenly at three breakpoints:

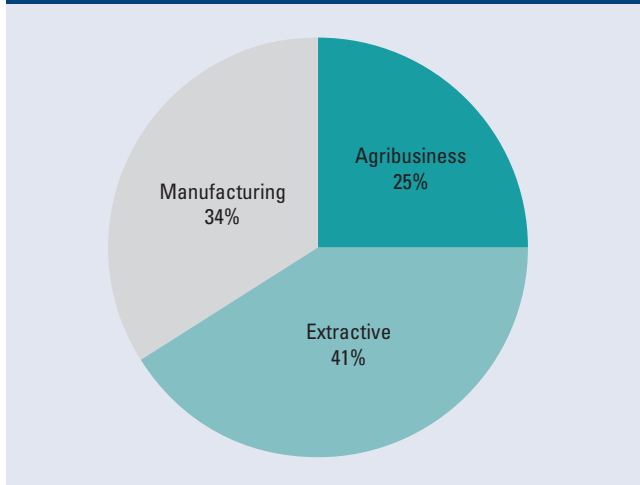
- Under US\$2.5 billion (34.6 percent)
- US\$2.5–\$14.99 billion (32.7 percent)
- US\$15 billion or more (32.7 percent).

2.2 Sector of Respondent Companies

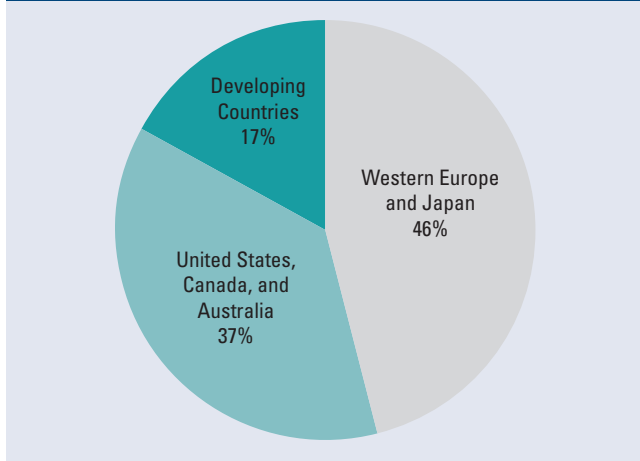
Participation was sought from a statistically even number of companies in each sector. Companies choosing to participate in the study broke down as shown in Figure 3.

2.3 Location of Respondent Companies

Companies from the United States, Canada, and the countries of Western Europe proved the most

FIGURE 3. Percentage of Respondents in Each Sector

willing to participate in the study. These are, of course, the regions where many of the largest companies in each sector are based. They are also the regions in which the CSR issues analyzed in this project have received the most attention from media and advocacy groups (see Figure 4).

FIGURE 4. Percentage of Respondents by Location

Companies from Asia and the developing world proved the most reluctant to respond. Even in the wealthiest Asian country, Japan, only one company agreed to be interviewed for the project. That company's responses were very similar to those of the Western European firms, and were grouped with them for the purpose of analysis. Similarly, the single Australian company's responses corresponded closely to those of companies from the

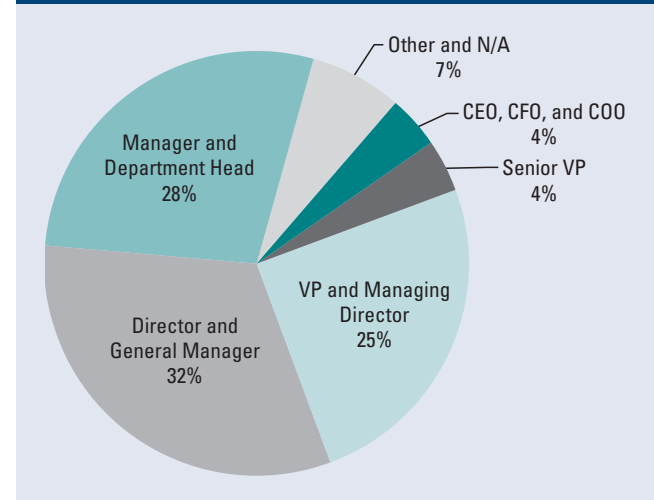
United States and Canada, and have been grouped with them for purposes of analysis.

The remaining respondent companies were based in Russia, South Asia, Africa, Latin America, and the Middle East. Their responses have been grouped to provide a preliminary analysis of CSR issues as perceived by developing-country MNEs.⁶

2.4 Level of Respondent within the Company

As indicated in the description of interview methodology (see para. 1.3.2), interviewers targeted executives with comprehensive knowledge of the company's experience in implementing its CSR policies around the world. Such knowledge was found in a different department in each company. Some companies had CSR or sustainability departments; in others, interviewees were located in the environmental health and safety (EHS), human resources, global supply and procurement departments, or general counsels offices. Interviewers also spoke with general communications and investor relations departments, but only after more specific resources had been exhausted.

Within these departments, the title's of interviewees were as shown in Figure 5.

FIGURE 5. Positions of Interviewees

⁶ This grouping does not imply that developing country MNEs are unitary in their views, and subsequent research should be undertaken to disaggregate their views to the regional and country levels.

Analysis of Survey Results

3.1 Importance of CSR to International Investors and Buyers

In order to frame the study's principal inquiry into enabling CSR-driven trade and investment, the survey first explored the role of CSR in MNEs general policy and management structures. Respondents were asked about:

- Company policy on CSR issues
- Management mechanisms used to implement CSR policy
- Changes in CSR policy in recent years
- Changes in resources dedicated to CSR in recent years
- Influence of external CSR standards on corporate CSR policy.

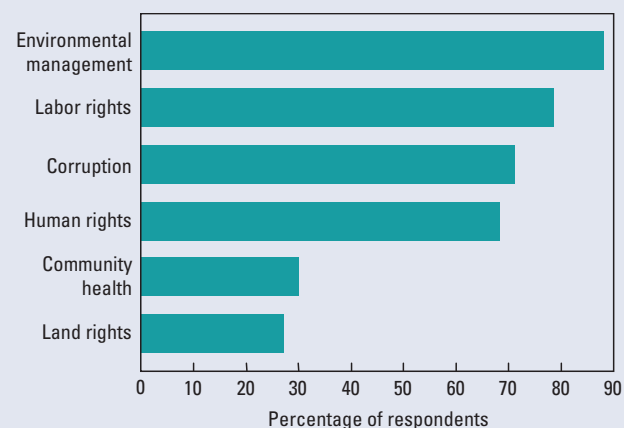
3.1.1 Policies on CSR issues

One measure of the importance a company places on a particular CSR issue is whether or not the company has a policy on the issue and whether such policies have been reviewed and approved by the board. Respondents reported that environmental issues are the most likely to have attracted board-level policy, with other issues addressed as shown in Figure 6.

Respondents in the extractive sector reported significantly higher percentages of board-approved policies for land rights and environmental issues. Extractive sector operations have large geographic footprints. They are distinguished from agribusiness in that they do not have supply agreements with independent landowners and so in most cases must negotiate for the land on which they will operate (see Figure 7).

Overall, the U.S., Canadian, and Australian respondents have developed board-approved policies on fewer issues than participating companies based in Western Europe. A significant exception

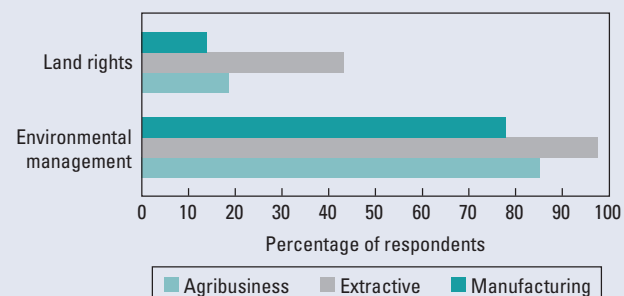
FIGURE 6. Board-Approved Policies on CSR Issues: All Respondents

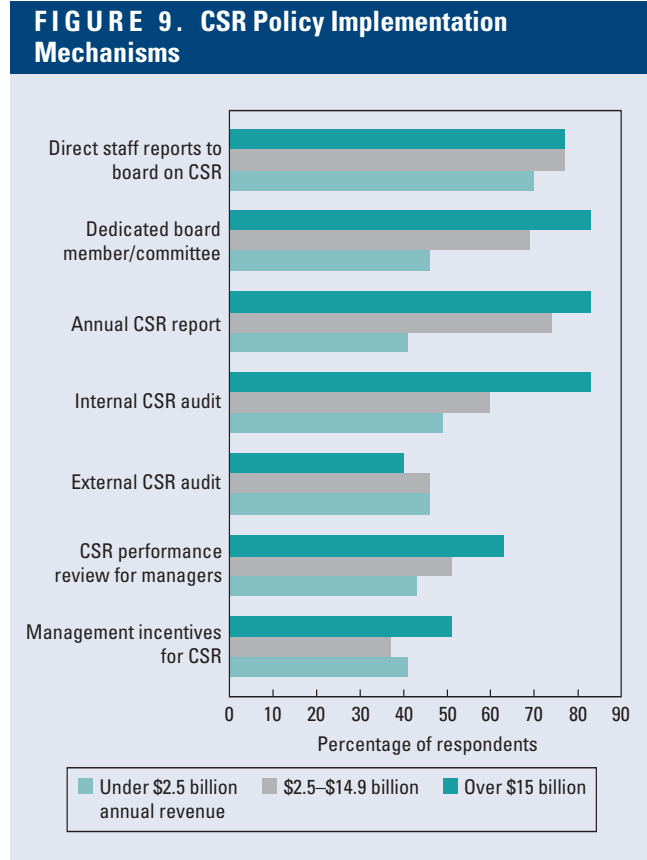
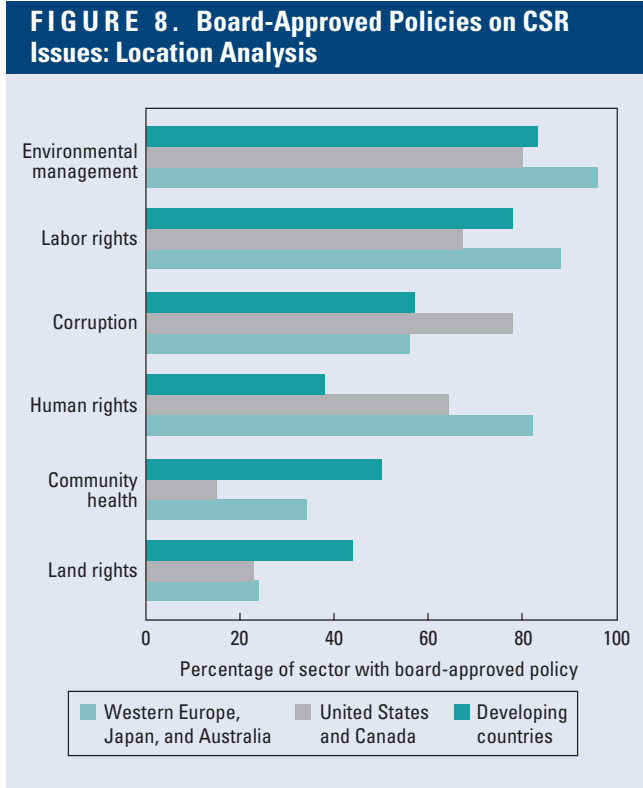


is in the area of corruption, the CSR issue on which U.S. law is most explicit and well established.

Developing-country respondents, on the other hand, outstrip their wealthier counterparts on community health policies. Interviewees indicated that this is a direct response to the HIV/AIDS crisis in parts of the developing world (see Figure 8).

FIGURE 7. Board-Approved Policies on CSR Issues: Distinctions by Sector





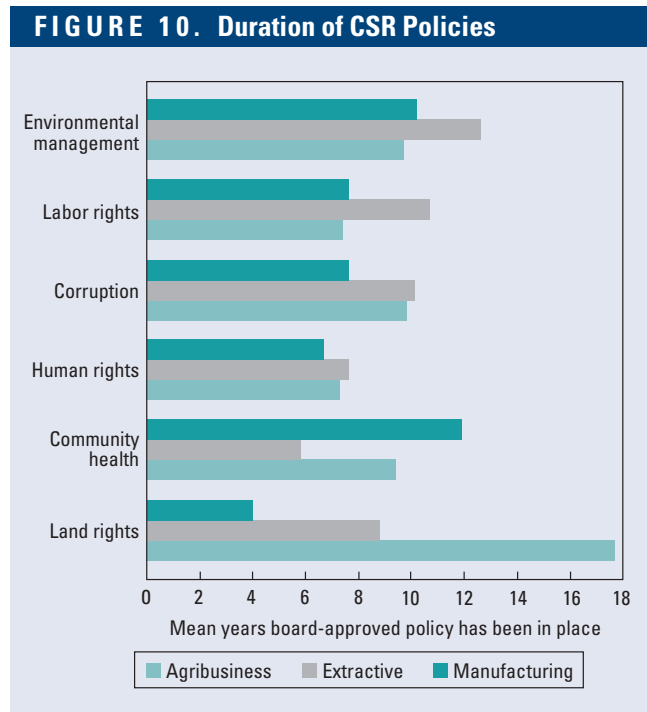
Policies are important to the extent they are implemented. Another measure of the importance of CSR to MNEs are therefore the resources and incentives they put in place to ensure implementation.

A sectoral or regional breakdown does not show widely differing levels of implementation; however, the data do show that the larger the company, the more likely it is to have procedures in place to support its CSR policies. Each of the factors identified in the size analysis apply here as well (see para. 2.1). In addition, such procedures are more common among larger firms because in these firms systems are most necessary to translate board policy into action throughout the organization (see Figure 9).

3.1.2 Change in CSR’s importance over time

On average, CSR policies have been in place among respondents for a decade or less. Not surprisingly, land-intensive agribusiness has had the longest history of policies on land rights—17.8 years on average among the respondents. More recently, advocates for indigenous peoples and land tenure have gained more traction with decisionmakers in the extractive sector. As a

result, many firms in the extractive sector have developed board-approved policies on land rights over the last decade (see Figure 10).



It is also interesting to note that the extractive sector, currently so devastated by HIV/AIDS, has a shorter history of policies on the issue than has the manufacturing sector. A follow-up interview was conducted with a natural resources executive with decades of experience as both a mine manager and a corporate social policy manager to shed light on this finding. He suggested that differing labor-management structures could have led extractive (and, in particular, mining) companies to recognize and respond to HIV/AIDS more slowly than companies in the manufacturing sector. Manufacturing workers are watched by management throughout the day, and their absence from a work desk or machine makes a distinct impression. In mining, the vast majority of employees work underground in a group. Even if employment records reveal absences statistically, managers are likely to take longer to observe it onsite, and may be less likely to notice illness among those who do come to work.

Finally, because extractive sites are remote, the pervasive extractive management culture is one of site self-sufficiency. There is less communication with corporate headquarters, other sites, and other companies, relative to other sectors. As a result, it may have taken some time for the crisis nature of HIV/AIDS to rise through the corporate structures of the extractive industry to board-level attention.

Policies internal to MNEs are not the only ones driving change. Respondents report that external CSR standards and forums have increased their influence on MNEs in recent years, especially over the last five years (see Figure 11).⁷

Reported resource allocation is perhaps the most convincing evidence of the increased importance of CSR in the last five years. An overwhelming 92 percent of respondents indicated that these external standards and internal policies have led to an increase in resources devoted to CSR in the last five years. To varying degrees, these resources include staff, budget, and senior management (CEO, COO, CFO) time (see Figure 12).

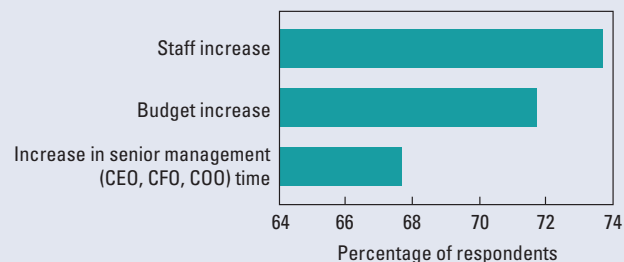
⁷ The following chart tracks standards most often identified by respondents as having a significant influence on their companies. Please see the following section, ‘leading standards and forums’ for additional information.

FIGURE 11. CSR Standards & Forums: A Recent Influence



* Though not commonly referred to as “core labor standards” until the ILO Declaration in 1998, this set of four principles is based on widely ratified international labor conventions that pre-date that year.

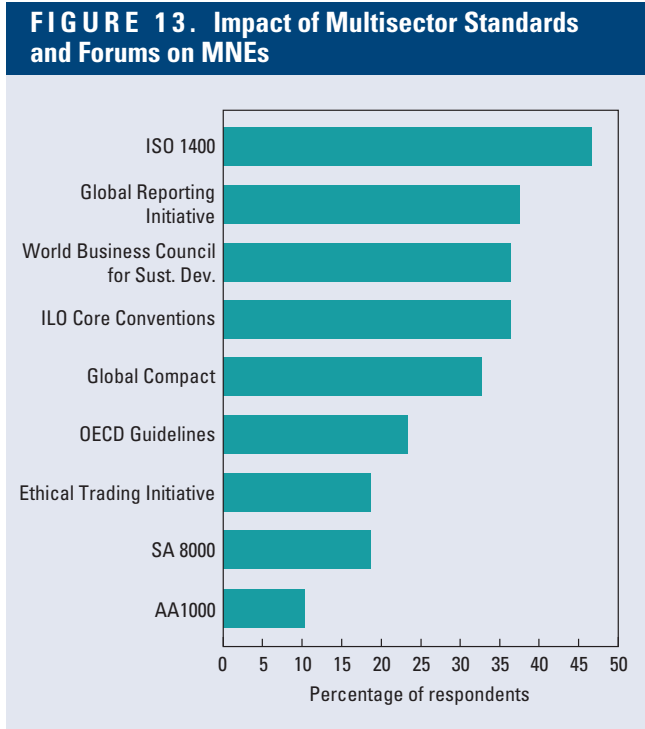
FIGURE 12. MNE Investment in CSR: Increases over Last Five Years



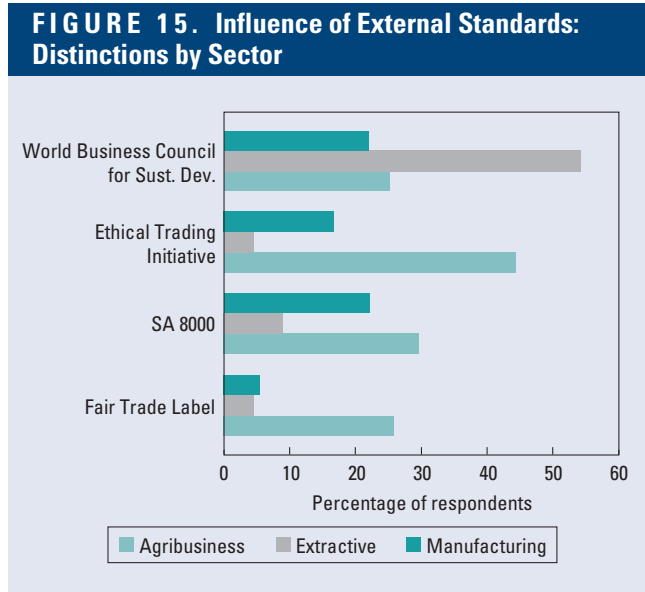
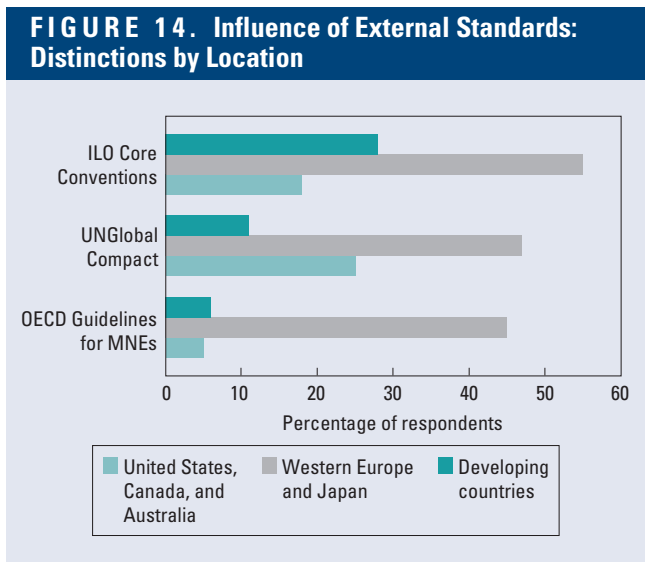
3.1.3 Leading standards

There are numerous standards, coalitions, and forums related to CSR. While the distinctions between each of these are important, for purposes of this study they were examined collectively to identify which were exerting the greatest influence as perceived by the respondents. Respondents were asked to identify, without prompting, which standards, coalitions, or forums (hereafter referred to collectively as “standards”) were proving to be the most influential on practice at their

companies. Among multisector standards, those delineated in Figure 13 were identified by the most respondents as influencing their business.⁸



Statistically significant distinctions appear in the influence of the multisector standards shown in Figure 14, when examined by respondent location. The same is true in the standards shown in Figure 15, when examined by respondent sector.



3.2 Importance of CSR in Selecting New Partners and Locations

MNEs reported that CSR can be a significant factor in determining where and with whom the company does business. Respondents were asked to address their comments to both foreign direct investment and sourcing contracts.

3.2.1 Point at which CSR issues are considered

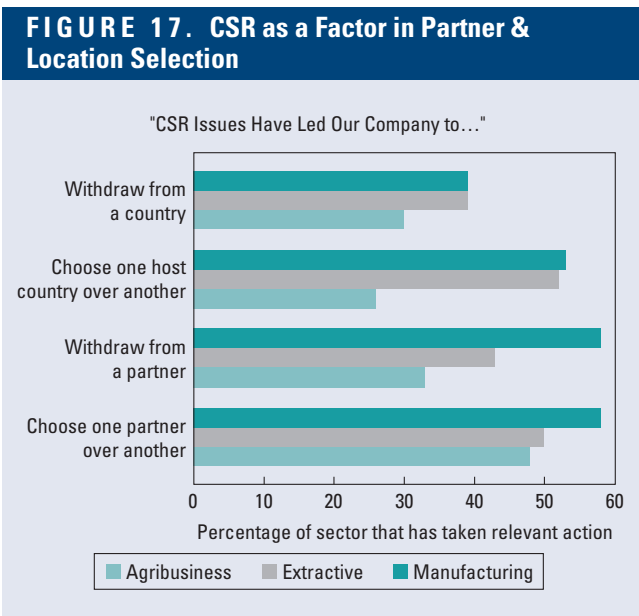
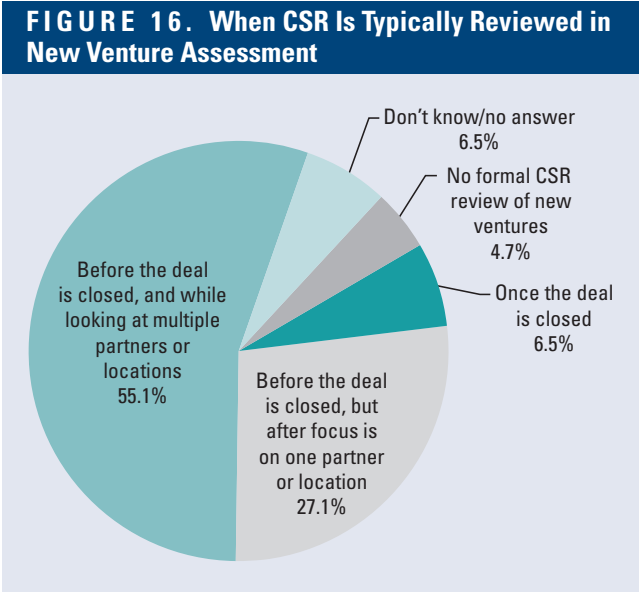
Over 80 percent of respondents reported that they consider the CSR performance of potential partners and locations before they close the deal on a new venture (see Figure 16). More than half of all respondents reported that this review takes place while they are still looking at multiple partners and countries.

3.2.2 CSR as a factor in selecting partners and locations

MNEs don't just examine CSR performance among new partners and new locations. Many report it has influenced their selection (see Figure 17).

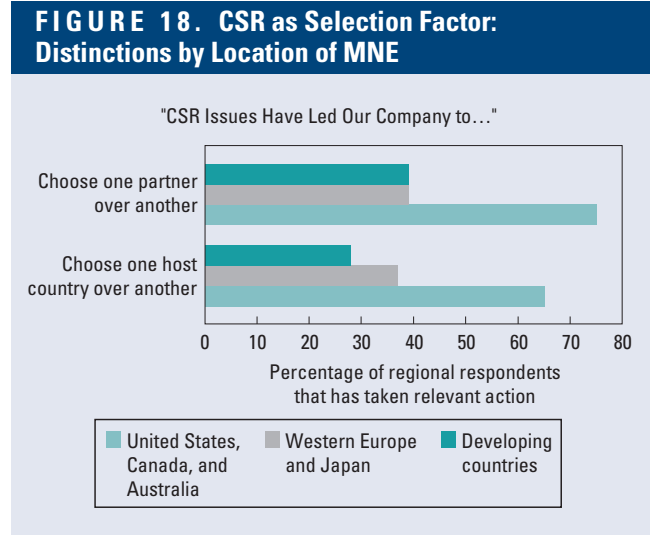
It might be assumed that extractive companies are compelled to operate where the resources lie, regardless of CSR issues. In fact, while a majority of extractive sector respondents reported they

⁸ It should be noted that respondents also mentioned location-, sector-, and industry-specific standards as influencing their companies. Though too varied for analysis here, these would be an appropriate subject for examination in subsequent studies.



have chosen not to enter a country because of CSR concerns, far fewer reported withdrawing from a country once operations have been established. To a greater extent than other sectors, the extractive sector is subject to high up-front capital expenditures, long time horizons for return on investment, and steep political and social learning curves when entering each new country.

It is also interesting to note that U.S.-based MNEs are more likely to have chosen locations and partners based on CSR issues than are MNEs based in any other part of the world (see Figure 18).



This data reflect a U.S. propensity to exclude countries and partners for consideration based on CSR issues. The trend is most likely tied to litigation exposure over CSR issues such as corruption and human rights violations. The U.S. legal system takes a more liberal approach to theories of liability, and to litigation vehicles such as class action suits that make liability claims possible for large numbers of potentially injured parties. The potential of such exposure makes it likely that U.S.-based MNEs will shy away from certain partners and locations rather than manage the CSR issues involved and risk suit.

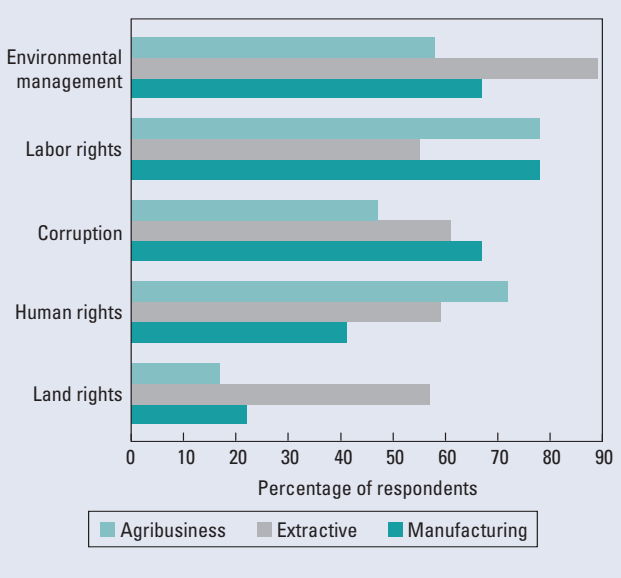
3.2.3 Importance of various CSR issues

Companies are loath to identify certain CSR issues as unimportant, or less important than others. As a proxy, and as an indication of where governments could make the most difference, we asked respondents to identify the CSR issues on which they spend the most time. The answers varied widely by sector (see Figure 19).

Environmental issues were, not surprisingly, the issue most often mentioned by extractive sector respondents. Interestingly, land rights were the next most often mentioned. Executives in the sector reported that land rights are an issue requiring an increasing amount of attention, as indigenous groups and small landowners become more effective in advocating for their interests.

Land rights were less often mentioned by agribusiness executives. As noted in the analysis of board-level policy, companies in that sector frequently purchase raw materials from growers with whom

FIGURE 19. CSR Issues on which the Most Time Is Spent



they do not have an equity relationship, thereby establishing a distance from land tenure issues that extractive companies do not enjoy. Manufacturing firms use less land, often lease the land they do use, and are more likely to operate in industrial centers where land ownership is more clearly defined.

Corruption was frequently mentioned by respondents in all sectors as a challenging CSR issue. Executives elaborated in open-ended responses that their greatest challenge in this regard is responding to uneven enforcement of laws. As discussed in greater length below, evenly applied enforcement of the law is a priority for foreign investors and purchasers.

3.2.4 Sources used to assess CSR issues in new ventures

Respondents were asked where they get the information for their CSR assessments of both new locations and new partners. The assessments of the companies’ own staff are clearly the most important source, with outside sources playing an important supplementary role (see Figure 20).

When responses are examined by sector, it’s clear that agribusiness respondents reported the lowest use of nearly every source (statistically significant distinctions appear in Figure 21). Several agribusiness respondents indicated that they purchase through commodity brokers and traders, or com-

FIGURE 20. How MNEs Gather Information on CSR Issues

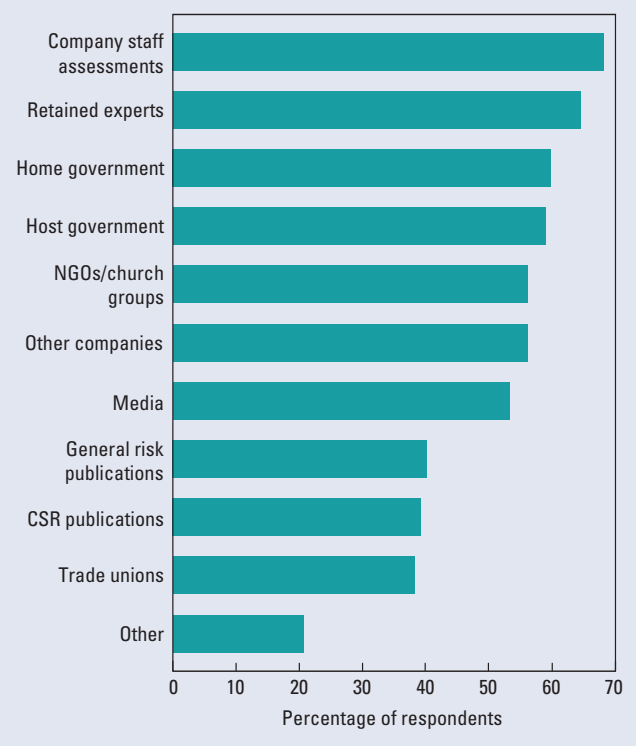
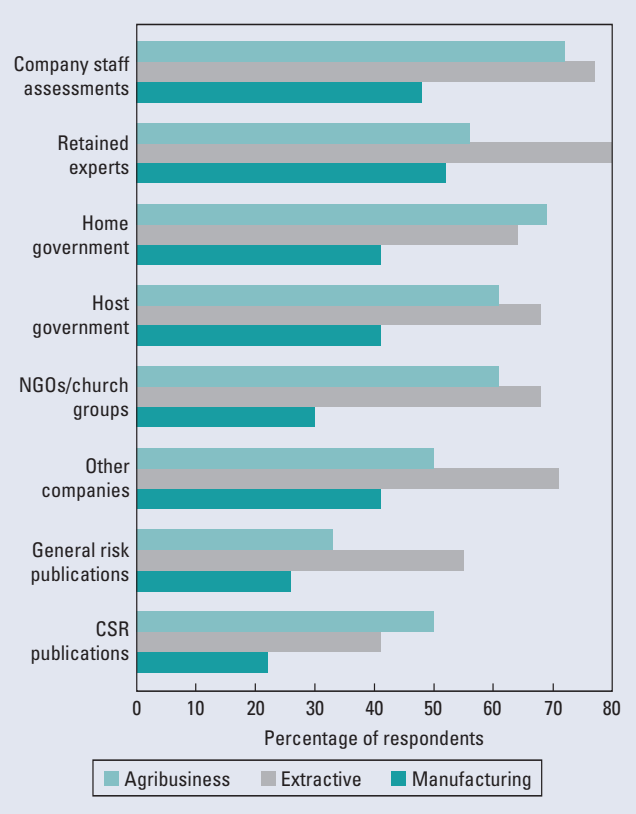


FIGURE 21. How MNEs Gather Information on CSR Issues: Distinctions by Sector

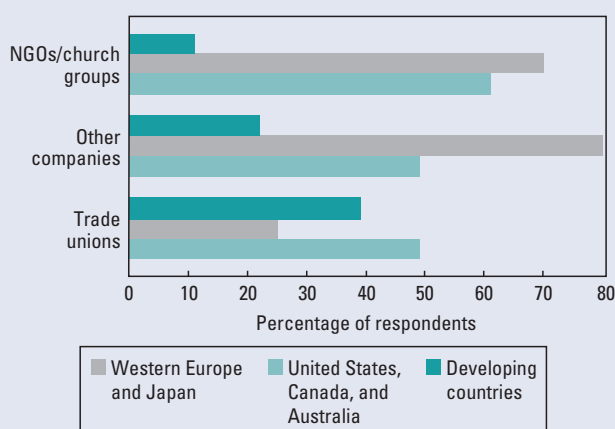


modity marketing boards, thereby reducing their relationship to the location where the commodity is grown. As indicated in Figure 21, this dynamic seems to extend to verification of local partner commitments as well. It should be noted that in Western Europe, where projects such as the Ethical Trading Initiative have sought to pierce this anonymity in commodity foods, agribusiness respondents reported greater attention to gathering CSR information.

In addition to the findings shown above, which reflect the sector analysis, the data also show that companies from wealthier countries use all sources of CSR information more than companies from the developing world. For resources such as specialized publications and outside consultants, this may well be a function of available financial resources. However, companies from wealthier countries are also more likely to tap low-cost sources of information, such as nongovernmental organizations (NGOs), church groups, and other companies.

Interestingly, this gap disappears when it comes to talking with trade unions. Unions were more likely to be consulted by developing-country respondents than by their counterparts based in the United States, Canada, and Australia. In particular, U.S.-based MNEs frequently indicated in open responses that they did not perceive unions as valuable sources of information, or indeed as valuable interlocutors on CSR generally. On the whole, participants based in Western Europe did not share this view, as indicated in Figure 22.

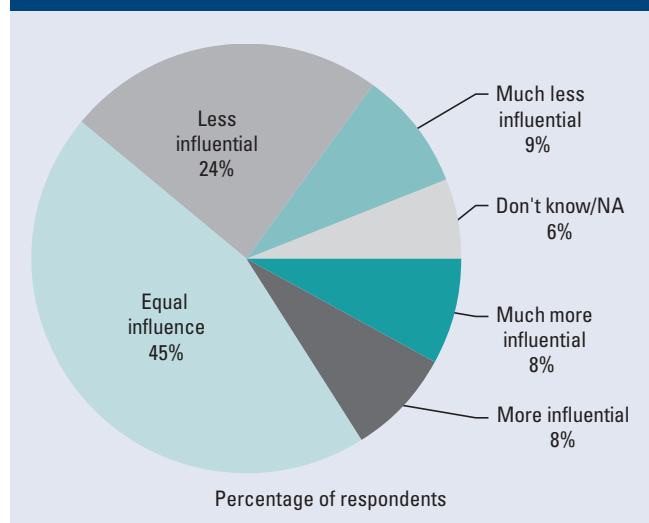
FIGURE 22. How MNEs Gather Information on CSR Issues: Low Cost Sources



3.2.5 Role of CSR as compared to other factors in new venture assessment

Respondents were asked about the influence of CSR factors, as they defined them, relative to more traditional factors in new venture assessment such as cost, quality, and delivery.⁹ The majority (61 percent) of respondents to this survey indicated that CSR issues are at least as influential as more traditional factors (see Figure 23).

FIGURE 23. Influence of CSR on New Venture Assessment Relative to More Traditional Criteria



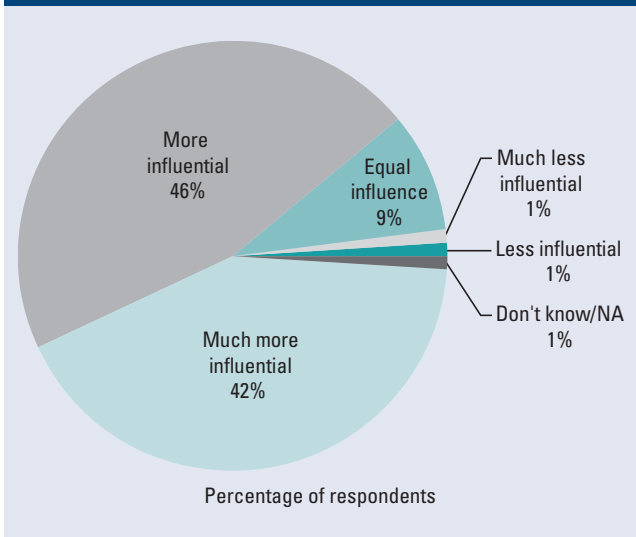
Respondents also indicated that the importance of CSR in new venture assessment has been growing markedly over the last five years (see Figure 24).

3.3 CSR Challenges for International Firms

CSR is a factor for MNEs not only when assessing a new overseas venture, but when operating an existing one. MNEs face significant challenges in their relationships with local businesses, in navigating CSR-related laws and regulations, and in addressing pressing social needs in the community.

⁹ It should be noted that CSR issues sometimes influence traditional commercial issues (for example, when corruption increases costs), and that it is not always easy to distinguish one set from another. Trial interviews led to an expression of the question that left the distinction to the respondent, a formula which most found they could answer.

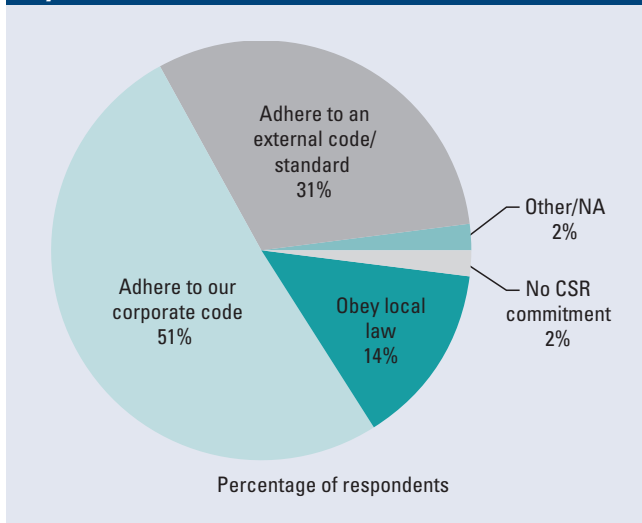
FIGURE 24. Influence of CSR on New Venture Assessment Relative to Five Years Ago



3.3.1 Local partner commitments

Among the greatest CSR challenges for MNEs are their relationships with local partners. Nearly all respondents seek some form of commitment to CSR from their partners, with the largest portion requiring local partners to adhere to the same standards as the MNE itself (see Figure 25).

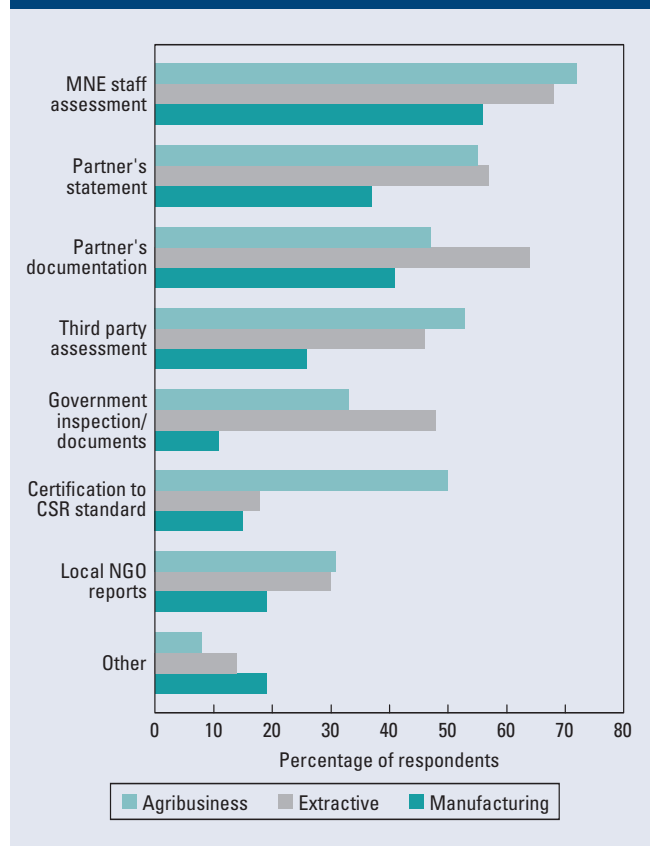
FIGURE 25. Level of CSR Commitment Requested by MNEs of Local Partners



Respondents were asked how they verify that local partners are adhering to these CSR requirements. As is the case in new venture assessment, the MNE’s own employees are the leading source of information.

The survey data indicate that agribusiness respondents lag behind those in other sectors in using CSR verification sources, just as they do in using CSR information sources during new venture assessment. CSR experts confirm that the large MNEs in the agribusiness sector do few CSR checks of suppliers relative to other sectors. As discussed in Figure 26, Western European agribusiness firms report that CSR initiatives in their region are changing this dynamic. However, at least one tea producer indicated that these initiatives may, in some cases, actually deepen the trend of minimal verification among agriculture MNEs. “We are members of the Tea Sourcing Partnership,” this respondent reported. “They do all the (CSR) verification related to our business. If they certify a supplier, that is sufficient.”

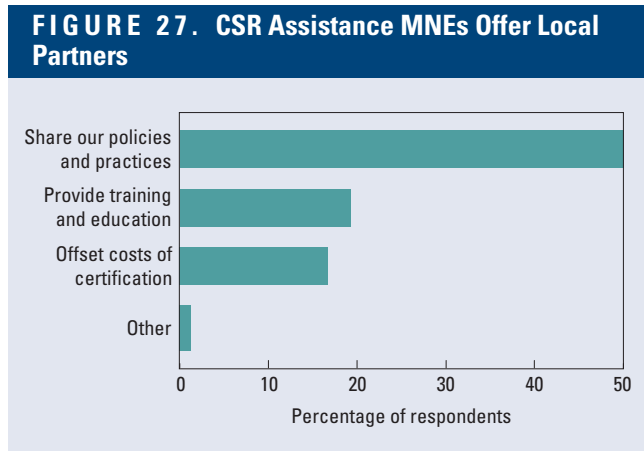
FIGURE 26. How MNEs Verify Partner CSR Commitments



3.3.2 Resources to help partners keep commitments

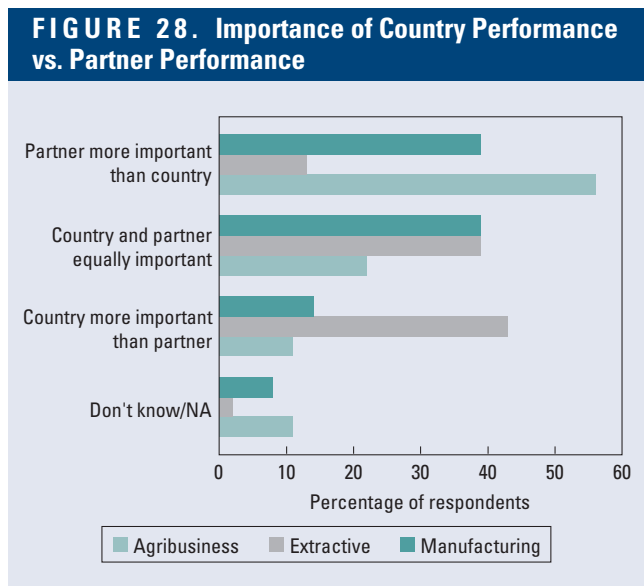
While most respondents have CSR requirements for local partners, the type of assistance available

to help partners meet those commitments is quite limited. Seventy-two percent of respondents do report that they assist local partners in this regard. However, when asked to describe what kind of assistance is available from the MNE, it appears to be mostly in the form of instruction as to what is expected (see Figure 27).



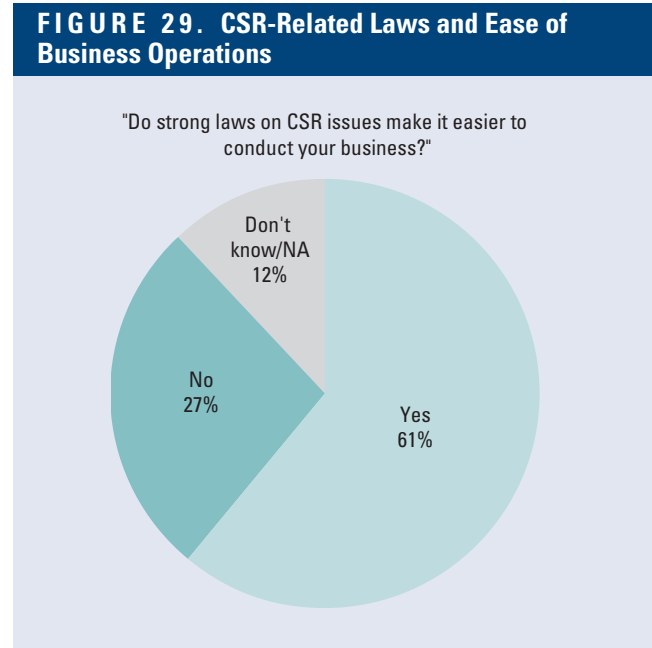
3.3.3 Assessment of location as distinct from assessment of partner

In addition to the practices of local partners, the host country environment for CSR is also a challenge to MNEs. Country-level issues are of the greatest importance to extractive MNEs, which frequently have either a production-sharing agreement or contract of work with the government, and where the product is frequently tied to issues of national patrimony (see Figure 28).

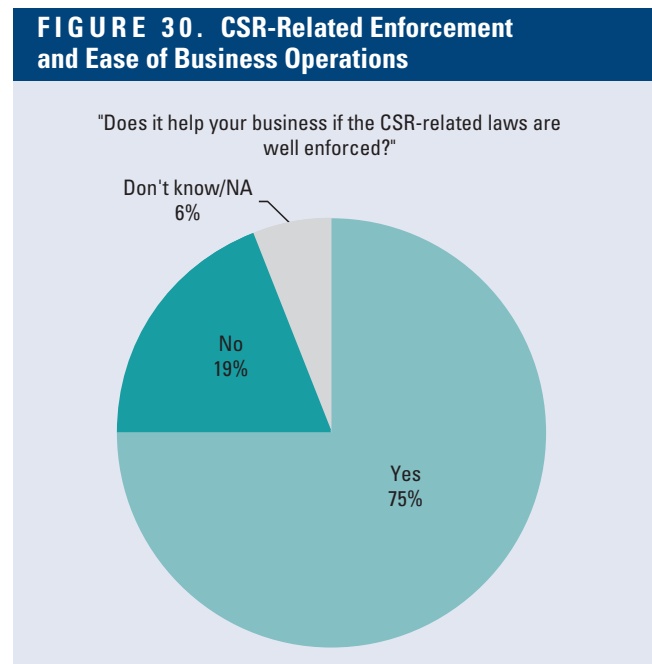


3.3.4 Local regulation and enforcement

It is sometimes assumed that companies seek locations where laws on environment, labor, and other CSR issues are weak. A majority of respondents to this survey indicated that strong laws on CSR issues help them conduct business (see Figure 29).



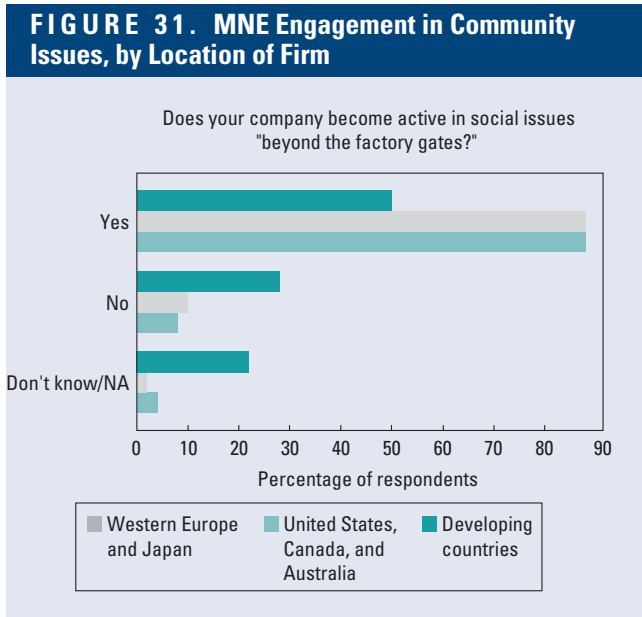
Strong laws alone, however, are insufficient. Respondents indicated they also examine whether enforcement of CSR laws is strong and evenly applied. As indicated in Figure 30, better enforce-



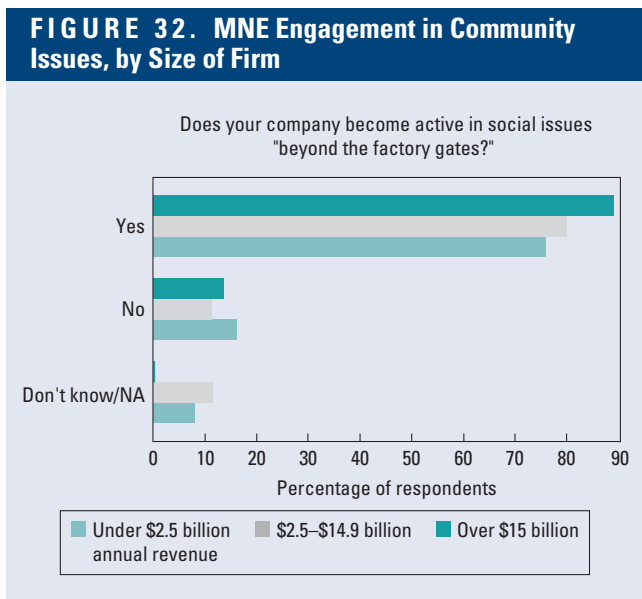
ment of CSR laws is among the government roles most sought by respondents.

3.3.5 Local social needs

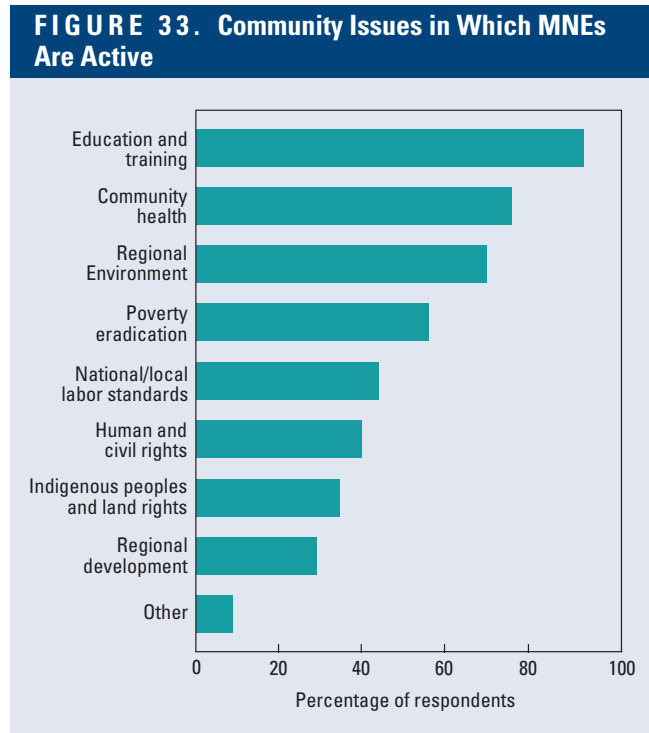
As part of their CSR programs, the overwhelming majority of respondents reported they are active in community issues “beyond the factory gates” when doing business abroad. This is especially true of companies based in wealthier countries (see Figure 31).



To a more modest extent, the data also indicate that larger companies are more likely to be active in social issues than smaller ones (see Figure 32).



Education and training, with its close association to workforce needs, is the social issue in which respondents most often participate. Community health, environmental preservation, and poverty eradication also attract participation from a majority of the companies active “beyond the factory gates” (see Figure 33).

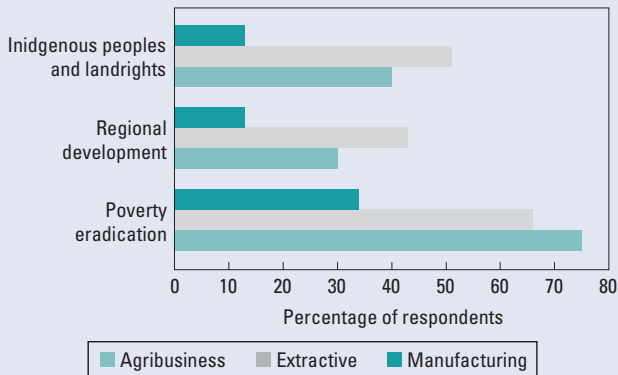


Land tenure and the rights of indigenous peoples are issues in which agribusiness and extractive sector respondents report they are significantly more involved. These sectors are land-dependent, with the exception of offshore extraction. They also tend to operate in less developed areas, where land tenure is less defined and the rights of indigenous peoples more at issue.

The other issues on which there is statistically significant variation among sectors are regional development and poverty eradication (see Figure 34). Extractive and agribusiness respondents are heavily engaged in poverty eradication and regional development planning. Extractive operations can generate dramatic alterations in the economic and social landscape of the communities in which they occur. It is routine for their licenses to operate to require that they plan for and respond to these changes. This is also true in agribusiness, albeit to a lesser extent. Agribusiness is also highly dependent on local water and (especially in

perishable agriculture) high-functioning transport networks. Water supplies and transport are typically functions of regional development planning.

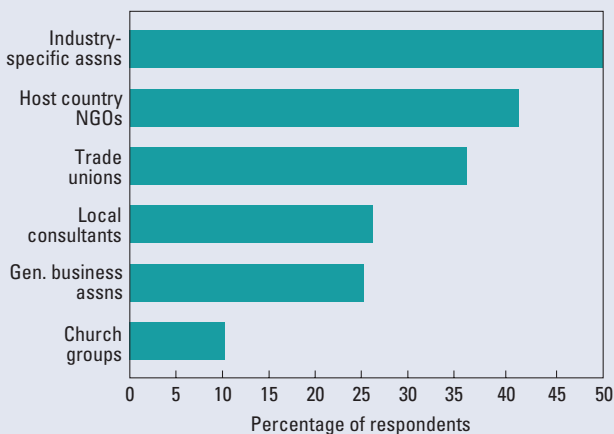
FIGURE 34. Community Issues in which MNEs Are Active: Distinctions by Sector



3.3.6 Role of local organizations in meeting CSR challenges

MNEs frequently turn to civil society to help them meet their CSR objectives. We asked respondents to rate the importance of various types of organizations in this effort (see Figure 35).

FIGURE 35. Most Important Civil Society Partners for MNEs



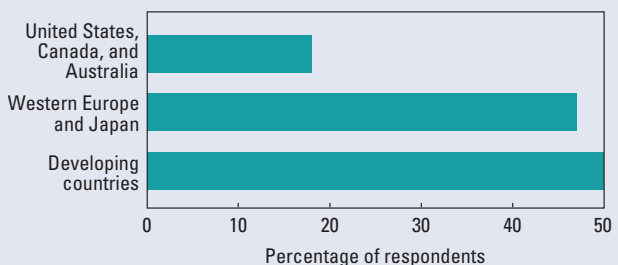
Industry-specific trade associations are considered a far more valuable partner in this regard than are general business associations such as chambers of commerce. This corresponds with responses regarding the most influential standards, which many companies identified as those that are most specific to their industry. Agribusiness respondents, in particular, mention industry-specific associa-

tions such as the Tea Sourcing Partnership as valuable in meeting their CSR goals.

Religious organizations are rated the least important local CSR partners, just as they rate among the least important sources of CSR information for new ventures. Follow-up discussions with respondents and experts indicated that MNEs can become cautious about partnering with a particular religious group out of concern that they will be perceived as engaging in sectarian favoritism. In addition, one labor rights expert (and ordained minister) posited that host country religious organizations are frequently bifurcated on CSR: either they do not initiate engagement on CSR issues, or they are among the most antagonistic of corporate interlocutors. In both instances, opportunities for partnership are reduced.

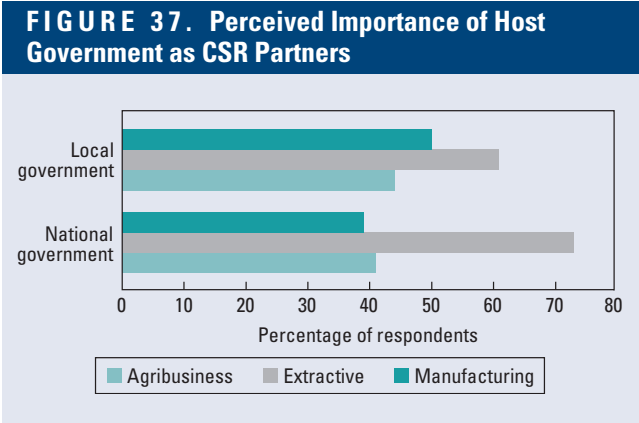
Trade unions are considered a valuable partner in CSR by many MNEs (see Figure 36). Even respondents based in the developing world—where business-union relations can be violent and highly politicized—reported that they turn to trade unions as CSR partners. This is much less true of U.S.-based respondents, a finding consistent with this group’s low use of unions for information on CSR. U.S. respondents rated unions as relatively unimportant partners. Some perceived unions as generally obstructionist, while others identified themselves as “nonunion shops” and therefore unlikely to seek union partnerships.

FIGURE 36. Perceived Importance of Trade Unions as CSR Partners



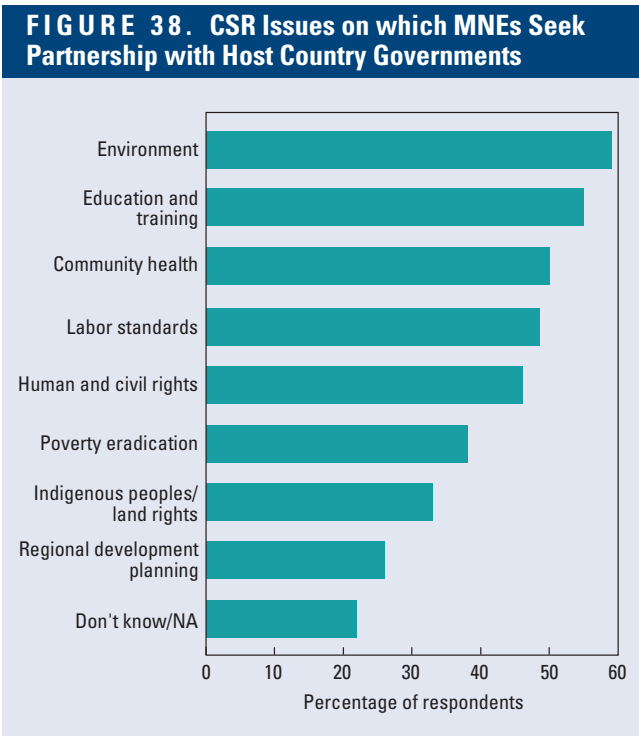
3.3.7 Role of host governments in meeting CSR challenges

Host governments, both local and national, are seen as even more important partners than local civil society in meeting CSR commitments (see Figure 37).



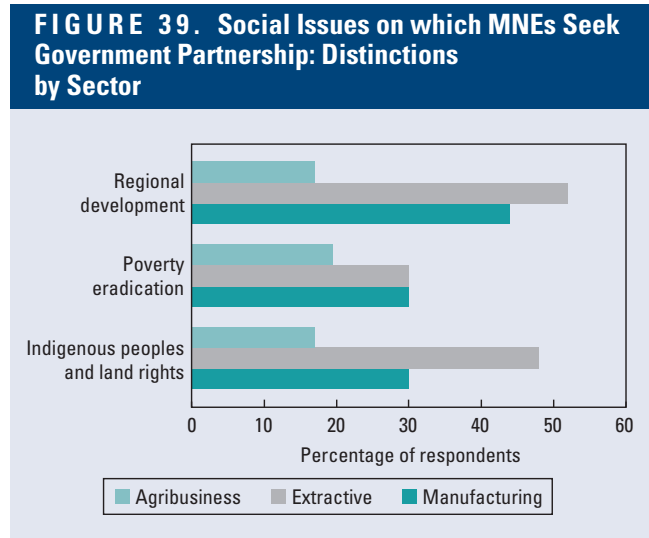
Not surprisingly, national governments are especially important partners for the extractive sector in meeting CSR commitments. As mentioned above, the national government is an important business partner of most extractive MNEs. In addition, the national government is a significant provider of security for the extractive sector. The complex relationship between business and government in this sector demands that extractive MNEs partner closely with the national government to ensure that human and civil rights are maintained in a manner that is consistent with the MNE’s policy and commitments.

Respondents were asked on which CSR topics they would most welcome partnership with government (see Figure 38). Environmental protec-

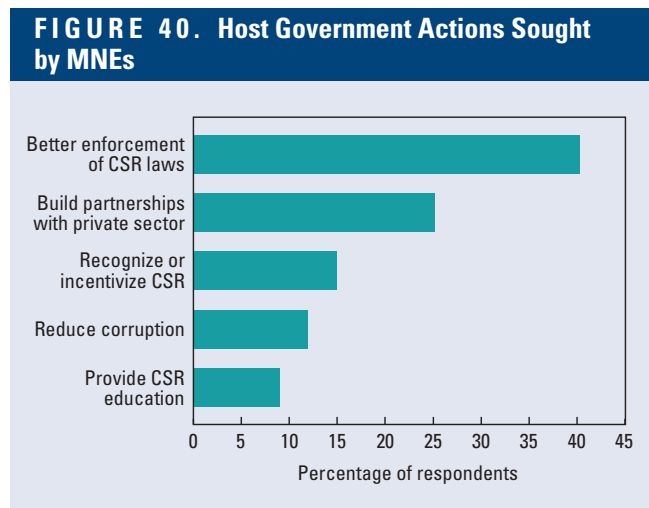


tion led other issues, with a majority of respondents also identifying education and community health.

As one would expect, the issues in which specific sectors are most engaged are also the issues on which they seek partnership with government (see Figure 39).



In responses to an open-ended question on valuable government actions in the next five years, partnership was second only to better enforcement of existing laws (see Figure 40).



3.3.8 Partnerships sought with governments

The kinds of public-private partnerships sought by respondents vary widely.¹⁰ Respondents with extensive resources for community development (mostly in the extractive sector, but including a few agribusiness firms) are eager to coordinate their programs with those of national and regional governments.

Even companies with limited community development funds expressed interest in participating in the planning of government programs directly related to their operations. Apparel companies in both Europe and the United States, for example, indicated their interest in working with trade ministries to help educate local suppliers on CSR needs. Companies in all sectors indicated a desire to support education measures that would lead to a more viable workforce. Many reported they are prepared to offer skills transfer to support such planning.

To a greater extent than other respondents, manufacturing companies indicated they are interested in partnerships that are related to their product lines. For example, one IT company is interested in working with host country schools to enhance computer literacy and facility with the internet, while a large medical electronics company indicated it would welcome partnership with the national health department to increase access to its technologies.

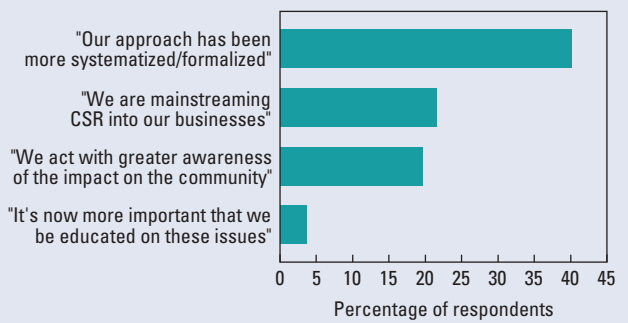
Not all manufacturing respondents limited their comments on partnership to their product lines. A few expressed interest in using their workplaces (and those of their suppliers) to facilitate social programs. One U.S. shoe manufacturer, for example, expressed interest in working with health departments to promote preventive health care through factory visits.

3.3.9 Changes over the last five years

Executives were asked to provide an open-ended characterization of how their approach to CSR issues in developing countries had changed in the last five years. Their responses fell into coded categories as shown in Figure 41.

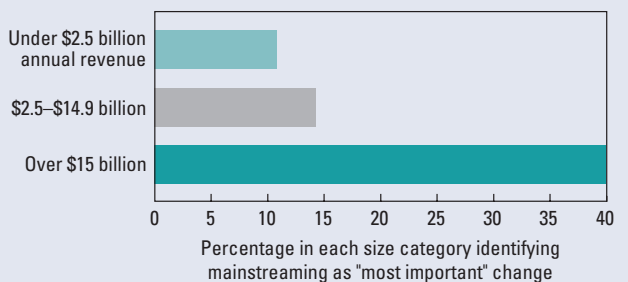
¹⁰ These responses proved difficult to code, and so a chart based on statistical data might be misleading. The sectoral distinctions described here are based on a review of open responses.

FIGURE 41. How MNEs' Approach to CSR Has Changed over the Last Five Years



The process of mainstreaming CSR issues into business operations is particularly prevalent among the world's largest MNEs (see Figure 42).

FIGURE 42. Mainstreaming CSR in the Last Five Years: Analysis by Size of Firm



While quantitative analysis does not yield statistically significant distinctions among sectors to this question, qualitative review of open responses does suggest that manufacturing sector respondents have expanded their stakeholder engagement practices and deepened their CSR reviews of suppliers. Extractive sector responses point to expansion of social impact assessment and mitigation, complementing more established environmental practices. Changes in the agricultural sector are difficult to capture, though more precise monitoring and reporting on CSR issues do seem to be common across regions and firm size. Within Western Europe, agribusiness respondents also report an increased commitment to supplier review and education on CSR issues.

Conclusions & Recommendations

The study's findings offer conclusions and recommendations for a wide range of actors, including development institutions, home governments, and civil society. However, given the focus of the CSR Practice on the role of the public sector in providing an enabling environment for corporate social responsibility, conclusions and recommendations focus on implications for host countries and, specifically, opportunities for host government action.

Conclusions and recommendations fall into two broad categories:

- Attracting sustainable trade and investment
- Enabling sustainable trade and investment.

4.1 Attracting Sustainable Trade and Investment

The results of the survey suggest that CSR issues play an important and growing role when MNEs consider new trade and investment ventures. The World Bank Group's Investment Climate Department is identifying links between effective trade and investment attraction and the CSR interests of multinational enterprises. Based on this study, the following conclusions and resulting recommendations are presented:

4.1.1 Strong laws, strongly enforced

According to the MNEs participating in this study, a "race to the bottom" of CSR laws and CSR enforcement is not a winning strategy for attracting trade investment from their companies. Sixty-one percent of respondents indicated that *it is strong laws on CSR issues that they seek*. Many host countries (including many in the developing world) already have strong national laws on the range of CSR issues discussed in this study. Respondents indicated that, far from being a hand-

icap to trade and investment attraction, such laws are attractive.

Of course, laws are only relevant to the extent they are enforced. Respondents indicated that the government action they would most welcome is enforcement of laws related to CSR issues. Respondents indicated that unevenly applied laws encourage corruption, which imposes both costs and risks on MNEs. Some respondents also commented that uneven enforcement leads to selective enforcement against MNEs as a soft form of protectionism, or even as an expression of tension between the home and host governments.

In open responses, respondents repeatedly indicated that a country where the law is strongly enforced across the board is more attractive. To the extent that a potential host country can project a strong image with regard to enforcing the law, it is likely to prove attractive to potential investors and purchasers.

4.1.2 CSR codes, standards and forums

When seeking to determine what guidelines will influence an MNE's new venture assessment, governments and potential partners should look first to the company's own code of conduct. Fifty-one percent of respondents pointed to their own company's code as guiding their requirements for local partners.

While only 31 percent of respondents require adherence to an external code or standard, the influence of these codes and related forums on respondents has *grown in recent years*. Among multisector codes, host countries and partners might wish to pay most attention to ISO 1400 and the ILO conventions, as more than half of respondents identified these as among the most influential on their companies.

Respondents identified The World Business Council for Sustainable Development (WBCSD) and the Global Reporting Initiative (GRI) as the most influential forums. To date, these and other CSR forums have been primarily the domain of large MNEs and their home governments—frequently to the consternation of their own members and secretariats. Potential host countries and local partners would serve their own interests by becoming more active in the *forums with the most influence* on respondent MNEs’ policy and practice. Consultations with members and senior staff of these forums indicate such overtures, far from a “storming of the gates,” would be welcome.

4.1.3 CSR and the new venture assessment cycle

In seeking to attract trade and investment, it may be a mistake to assume that CSR is considered by MNEs only after a partner or location is selected. Fifty-four percent of responding MNEs examine CSR issues while they are still looking at multiple locations and partners. Fifty-three percent have chosen one host country over another because of CSR issues. Fifty-seven percent have chosen one partner over another.

These findings suggest that potential host governments and partners with a strong CSR story to tell should tell it early in the venture assessment. Such a strategy has implications for many proactive marketing and promotional efforts, including corporate literature, trade missions, trade fairs, and even consular and diplomatic activities.

These findings are especially relevant to companies and countries seeking trade and investment from the United States. Seventy-four percent of U.S., Canadian, and Australian respondents (and a higher percentage of U.S. respondents alone) have rejected potential locations based on CSR issues, and 62 percent have done the same for potential partners. Some host countries and companies that have been prominently mentioned in U.S. litigation regarding CSR issues are already aware of the need for speed in addressing the allegation and for subsequent promotional efforts. These findings reinforce the importance of such measures.

4.1.4 Local partners as a country marketing tool

Most MNEs surveyed have made commitments to their stakeholders regarding the *CSR performance of their local partners*. However, corporate resources

devoted to developing partners that can meet those obligations are *scarce*, with fewer than 20 percent of respondents offering financial assistance or even training. If they are to maintain their partner-related commitments, MNEs are in need of host countries that can supply “CSR-ready” suppliers.

CSR-ready suppliers are likely to be a more valuable country marketing tool in some sectors than others. Earlier work in this field indicated that the manufacturing sector is responsive to country marketing strategies based on competitive clusters of such suppliers.¹¹

By contrast, several extractive sector respondents indicated that their principal local partner choices are frequently limited to the host nation’s state-owned or parastatal national firms, or other companies with a similarly significant political position. This is consistent with extractive sector respondents’ emphasis on *country-level CSR performance rather than partner performance*. While there are no doubt cases in which extractive companies have chosen local partners based on CSR issues, the results of this survey do not clearly indicate that the extractive sector as a whole is eagerly seeking “CSR-ready” partners in host countries.

In agribusiness, there is a division by MNE location. Agribusiness respondents overall appear relatively *disengaged from partner-level CSR issues*. However, Western European agribusiness respondents report that CSR initiatives in their region have increased the *visibility of practices* among overseas food commodity suppliers. For this reason, host countries that seek to market a cluster of CSR-ready partners in the agribusiness sector might best be served focusing their efforts on Western European MNEs.

4.1.5 The sources that matter

MNEs looking for information on CSR performance (at the country and partner levels) expressed *a preference for certain sources*. In seeking to attract trade and investment based on CSR, host countries and partners should choose their media

¹¹ PELC-Global Access Corp. project on national competitive advantage and CSR in the apparel, footwear, and toy industries (2000). Also, the Worldwide Responsible Apparel Program’s host country endorsement initiatives.

with the same care as other marketers. For information on CSR, no source is nearly as important to respondents as the assessments of their own staff. This is where the potential host country and partner should focus resources.

Beyond internal staff, home governments were identified as a priority source. Potential host countries and partners should bring their strong CSR performance to the attention of target home countries' embassies, ministries of commerce, and development agencies.

Similarly, outside experts were frequently mentioned by respondents as important sources of CSR information. It is routine for the same handful of experts to be used repeatedly by multiple MNEs to deliver information on a particular host country or region. It is well within the reach of host country governments to identify and effectively communicate their CSR message to these experts.

4.2 Enabling Sustainable Trade and Investment

Eighty-one percent of participating MNEs reported that they are involved in CSR issues in the community beyond their factory gates. Every one of these respondents identified partnership with one or more local organizations to be an important component (4 or 5 out of 5 = highest rating) in their community engagement programs. The survey yields the following conclusions and recommendations for host governments and other local actors to enable sustainable trade and investment:

4.2.1 Large companies, likely partners

Among participating MNEs, the largest are *the most likely to be involved in community CSR*. They are also the most likely to have management incentives for CSR, CSR performance reviews for managers, CSR audits (both internal and external), and other *mechanisms that encourage participation in CSR* across countries and business units. Partnering with them provides the opportunity for governments and NGOs to gain exposure to these systems and bring that knowledge to their relations with smaller companies, including the domestic private sector.

The largest participating MNEs reported that they rely heavily on CSR systems to ensure that policy is

implemented in accordance with the wishes of senior management, and with some measure of constancy across the company. Host governments (and the agencies that seek to support them in enabling CSR) may wish to become familiar with an MNE's CSR systems as part of submitting a proposal for partnership or any other CSR-enabling activity. Framing the proposal within the context of both the MNE's corporate system and the needs of the local subsidiary greatly enhances the ability of the company to respond and maximize the resources it can allocate to the endeavor.

Respondents therefore urge a high degree of specificity in CSR partnership proposals and agreements. Several MNEs with extensive partnership arrangements report that governments "too often see us as a bottomless pit, and aren't targeted on specific goals. We're engineers and accountants. We like plans we can agree to and abide by."

4.2.2 Cultivating CSR relationships for developing-country MNEs

Host country governments also have a role to play in bringing developing-country MNEs into the CSR community in their country. Respondents from developing countries do not have the ability to *access CSR information* as comprehensively as do respondents from wealthier countries. More broadly, their responses indicate they do not identify and communicate with the range of local actors that could provide that information and otherwise work with them toward more sustainable operations in-country.

Host country governments can play a valuable role in linking these companies and actors. Governments wishing to promote CSR can focus on low-cost "clearinghouse" programs to link local NGOs to companies expressing interest in a particular issue. Perhaps as important, government, working with local business associations, can link such companies to like-minded companies of all sizes. The survey data indicate such company-company communication is a critical source of information on CSR for even the largest MNEs, and can be a low-cost, reliable source of CSR knowledge for developing-country firms.

4.2.3 Bringing religious institutions to the table

One of the surprising findings revealed by the data is the relatively low importance that churches and

other religious institutions play in MNE CSR activity. This is true in terms of both *where CSR information is obtained* and *what groups are useful partners* for CSR.

Respondents who have built relationships with host country religious institutions reported they can be valuable partners in CSR, serving as “a communication link between the community, the company, and the government.” One mining executive reported that his sector “seeks partners that are likely to remain viable over the long term, and those with deep ties in the community. Religious institutions are both of those.”

Whether government has a role in cultivating religious institutional engagement in CSR depends a great deal on local context. In cases where state-religion relationships are cordial, government might serve as the intermediary through which an MNE’s CSR needs and goals are compared with the capabilities and goals of the religious institution, and overlaps are explored to the benefit of all three parties. If the state does not seem an appropriate intermediary, this role might be played by international religious institutions or development institutions. No matter who the intermediary, however, care is obviously required to ensure they do not become enmeshed in or exacerbate or sectarian conflict.

4.2.4 Multicorporation partnerships

The survey indicates that *MNEs communicate with one another regarding CSR during the new venture assessment*. However, respondents reported that such communication does not always flourish into broader CSR collaboration once operations have been established. This is especially true across industries, as companies are *far less likely to partner with cross-industry associations* than among a narrow set of companies within a single industry.

As a result, issues that could best be addressed collectively often are not. This is especially true of regional issues or others that may cut across industry lines.

Host governments can serve as bridge to achieve collective action on CSR in a country or sub-national region. Twenty-seven percent of respondents perceive the national government as an important partner in CSR, and 24 percent per-

ceive local governments as important partners. With such high percentages (the largest of any local actors), government at both levels has a role to play in convening multiple partners.

Roughly the same percentage expressed interest in greater partnership with government in the future.

As indicated above, some issues are specific to certain sectors. However environmental protection, education and training, and community health are all areas where respondents across sectors report they would welcome greater government collaboration.

4.2.5 Building a local partner base

As indicated above, viable local partners are a strategic advantage that countries can market to potential investors. The survey results provide some specific guidance on the role MNEs would most like to see government play in this regard.

From the perspective of the MNEs, the best mechanism for government to support local partners may be *strong and even enforcement of CSR laws*, which allow local CSR-oriented companies to operate on an even playing field with other local firms. One athletic shoe manufacturer expressed well a sentiment shared among many respondents in stating that he “would like to see governments in sourcing countries incorporate CSR values in policies and regulations that can encourage better CSR compliance by independently owned and operated factories.” CSR recognition and incentives for local companies’ CSR performance are also welcome by respondents, second only to enforcement.

Building a local partner base is a task governments may want to pursue in *partnership with MNEs*. Respondents in the manufacturing sector, in particular, indicate an openness to working with governments to develop CSR-ready partners. Such partnerships might best be arranged through industry-specific trade organizations. CSR priorities vary widely by sector and industry, and associations that are organized along similar lines provide access to the proper expertise and a direct link to the relevant multinational enterprises. It is in part for this reason that *industry-specific organizations* are already perceived by MNEs as more valuable partners in CSR than general business associations.



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