

# THE ROLE OF BUSINESS WITHIN SOCIETY

POSITION PAPER

INTERNATIONAL ORGANISATION OF EMPLOYERS

*As adopted by the General Council in May 2005*



## PREFACE

*The debate concerning the role of business within society today continues. Businesses face an ever-increasing range of initiatives by civil society organizations, trade unions and governments that look to the private sector to deliver not only profit, resources and employment, but also social improvement and sometimes even the “non-commercial” delivery of public goods. These debates are occurring nationally and internationally. The key questions then become: What is the role of business in society? What expectations should there be of business with respect to social objectives and conduct? How does CSR fit in? Are there limits? What are the roles of other players?*

*This paper reflects the IOE’s view – as outlined in the IOE’s paper “CSR: An Employers’ Approach” - that CSR is “Initiatives by companies voluntarily integrating social and environmental concerns into their business operations and in their interaction with their stakeholders”. It is an attempt to openly reflect the views of the international employer community and which, by the IOE’s very representative nature, covers the views of a wide range of national economic actors – from very small businesses through to the very big – on how employers’ organizations see the role of business in society.*

*This is done partly in response to the many questions and expectations that are being asked of business and their associations in this debate and also in an attempt to help narrow and clarify the different points of view expressed by the various stakeholders.*

*The paper is presented to both member federations and the larger CSR audience as a statement of how business and their organizations see the role of business within society. We see it as an important contribution to today’s CSR debate.*



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# HOW COMPANIES AND BUSINESS ORGANIZATIONS SEE THE ROLE OF BUSINESS WITHIN SOCIETY

## EXECUTIVE SUMMARY

Business has always recognized that it has an important role, alongside other actors, in the economic and social development of its communities. It is an integrated part of any society and is committed to operating in a responsible and sustainable manner. Corporate Social Responsibility (CSR) is the name now most commonly applied to the multitude of innovative and positive initiatives by business in both the marketplace and the wider community.

Today, the developing CSR debate has raised the issue of where the line is between the responsibilities of Government and the role business can play through voluntary social action. Increasingly social actors are looking to companies to fill what they perceive as “gaps” in, or failures of, State action - particularly in the enforcement of legal frameworks.

This is leading to a conflict in expectations between what Governments should do and what companies can contribute. This conflict has wide implications for all players. Firstly, it distorts CSR and undermines the status of law. Secondly, it can lead to unrealistic and unrealisable expectations from within society. Finally, it can open companies to criticism for not delivering to these expectations, as well as diverting companies from their vital role in providing the primary means for wealth creation within a society through profitable activity.

Today, the issue of how those profits are made is, however, becoming more important and CSR has emerged from the need to address the issue of business conduct with regard to its operations and interactions with others.

At the heart of the relationship with society is the obligation on companies to comply with the law. CSR, on the other hand, is *a business decision to move beyond compliance* and is done for business reasons alone and is contingent upon the economic health of the business and its needs. It is, therefore, voluntary and varied by nature.

The current CSR debate frequently ignores these realities.

The reasons for a business to move beyond compliance and undertake a CSR initiative are many and varied but, where businesses do, they do so because it makes economic sense. Given the dynamics of business today, CSR cannot be seen as a rigid engagement and therefore needs to be seen in a different context than the engagement in environmental, social or economic issues by governments.

Most countries have legislation that reflects internationally-recognized values and principles, which provide an adequate framework of reference for what a company's responsibilities are. The problem often lies in poor enforcement of the law. It is the responsibility of governments to ensure the rule of law and the enforcement of those laws across its society.

While the line between government and business activity is not always a definitive one, it is important to realize that governments have a clear role in society through the provision of certain services – such as health and education, wealth redistribution, and as a guarantor of security, amongst others. At times when governments fail or are unable to fulfil their role, companies may consider it makes good business sense to play a part in filling the gap through voluntary CSR initiatives. However, there are limits to what any business can achieve through CSR. Enterprises are not an alternative to government and CSR is not an alternative to appropriate legislation.

Governments, should look to promote and support the adoption of responsible attitudes and good practice by companies.

Similarly, other players also need to realize that there are limits to company CSR activity and therefore should frame their expectations grounded in reality.

In this paper the IOE provides a business response to where those lines of responsibility are amongst the various actors in the CSR debate and seeks to clarify the role business can play in today's society through voluntary CSR initiatives.

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# INTRODUCTION

## *BUSINESS WITHIN SOCIETY*

Businesses are the community at work, be they small, medium or large, and national or international in their scope. They reflect the views, social realities and rules of the wider communities in which they operate. Those members of society that come together to form a business do so for a specific purpose: to create goods and services to sell to their community - and maybe beyond – and, by doing so, to make a profit within the obligations set for them by society. This profit is crucial to a business: it is used as a return to investors, to invest in new technologies and new products, to meet the wage and career expectations of its employees, and to pay taxes and make other contributions to government as specified by legislation and regulation. In other words, without profit there is no business, and without business there is no wealth creation in society.

In recent years, the way profits are made and the way business is conducted have come under increased scrutiny. The lexicon of Corporate Social Responsibility (CSR) has arisen from the need to address the issue of business conduct with regard to its operations and its interaction with others. The overwhelming majority of businesses are responsible whether or not they are able to allocate specific resources to identified CSR initiatives. Responsible behaviour is not related to business size, nor does it require specific investments.

At the heart of enterprises' relationship with society are their obligations under law, including those in the area of governance. CSR, however, stems from a business decision to move beyond compliance and is done for business reasons alone.

A business's ability to invest in CSR initiatives is contingent upon the economic health of the business and its needs. This is true regardless of the size of the business. For an enterprise to engage in CSR without the economic means required or as a clear route to enhancing the business would be to divert resources away from other investments necessary for the well-being of the business. That is not good business sense, and that is why it is essential for each individual company to decide whether there is a business case for CSR engagements and whether or not it undertakes such activity.

The current debate often ignores these fundamentals and the realities of how a business actively works within society. Too often the language and rationale of CSR are being misused as non-business players seek to address failures in the enforcement of legal and regulatory frameworks. That not only distorts what CSR is but, more importantly, also undermines the status of the law.

CSR is a means by which businesses are managed. By understanding its stakeholders, a business is better able to manage its own development and impact. The “drivers” of this CSR engagement are therefore many and varied. Externally they are as diverse as the CSR initiatives themselves, and originate from the activities and pressures exerted by investors, consumers,

public authorities, NGOs, trade unions and others. Internally these drivers can be grouped generically around six main realities: reputation, brand, profitability, efficiency, recruitment, competitiveness and risk management. It is these which determine engagement in CSR.

**EXPECTATIONS AND OBLIGATIONS**

Expectations and obligations are different things. All social actors, be they citizens or companies, must respect the obligations placed on them by laws and regulations. However, there are also expectations placed on each actor to behave generally in a manner based on societal values and mores.

There are other levels of behaviour with respect to which there can be neither obligations nor expectations, philanthropy being a case in point. Whether or not anyone engages in philanthropic activities is an individual decision. However, not doing so is not the same as failing to comply with law. No one is punished for failing to make a charitable donation for example.

While expectations do not carry an obligation of law, they do require managing. A business, like any social actor, is in the same position. It must comply with the law, but taking steps to respond to any “expectation” beyond that is for it to determine by weighing the business risks of failing to meet that expectation. The drivers outlined above then come into play. Those drivers help internalize the impact of, in this example, an external expectation, and enable business engagement to satisfy the “business case” for a CSR initiative.

**THE OBLIGATIONS AND EXPECTATIONS OF BUSINESSES**

	OBLIGATION	EXPECTATION
Compliance with Law	Yes	Yes
CSR	No	? This is where the debate is.
Philanthropy	No	No

**THE DIVERSITY OF CSR**

As has been stated, whether or not a business decides to undertake CSR initiatives is a decision of management, taking into account the situation of the business, the satisfaction of the business case and its interaction with stakeholders. However, publicly-listed businesses are often primary targets for CSR engagement by other actors.



Publicly-listed businesses are grounded in a legal framework which must be respected. For businesses with shareholders, the managers owe a duty to ensure that their decisions enhance shareholder value and protect that value from risk. Hence for such businesses all decisions, including the engagement in CSR, need to be taken with that duty at the forefront. Managers of these businesses are accountable to the shareholders who own the business and they do not have the right to expend large monies if such expenditure is not approved or would not enhance shareholder value. Managers, therefore, may often have to obtain shareholder approval or identify how CSR expenditure can enhance shareholder value, mostly connected with the internal drivers of reputation, ethics, risk management and profitability and the others already mentioned. Of course, managers have to balance the cost of a CSR project with that of the results which may or may not have positive effects on the business and shareholder value in the long run.

Private businesses without public shareholders may also need to make decisions about whether to enhance the value of the business through CSR activity, but the governance and accountability rules that cover them may allow them more freedom to forego profit, if the owner so decides, as they directly assume the risk of such a decision. This enables them to act in ways not always open to shareholder businesses.

This distinction is important when one looks at publicly-listed businesses and what it is they can do, as in numerous instances the expectations many actors have of them are actually unrealistic given the legal requirements and competitive pressures associated with maintaining or increasing shareholder value.

So, publicly-listed businesses cannot be seen as a homogeneous group. No two are the same. How or whether a business can consider CSR as an investment in addition to normal operating costs are decisions which are as individual as each business and will always be a reflection of the particular circumstances and context in which that business operates.

## **INTERACTING WITH THE COMMUNITY**

Businesses interact within their community in different ways and for different reasons and their interaction with it is an important part of social integration and conduct. In the past that interaction was largely limited to their local environment, consisting of the people from whom the business drew its employees and where it mostly sold its goods and services. There was a local relationship and philanthropy played a large part in how the business interacted with its community. Others however went further and saw a role in improving working conditions and in the development of wider social infrastructure, such as housing, education and health care.

Businesses have, therefore, always played a key role in the economic and social development of the communities in which they operate. As outlined above, they generate employment opportunities and profits and thereby contribute substantially to improving the quality of life for their stakeholders. The issues they face in their operations are predominately local ones, requiring local solutions with local actors. That social interaction is not seen by them as corporate social responsibility; rather, it is just part of business acting within the society.

For the vast majority of businesses today that local nature of their engagement remains fundamental – this is true even of the operations of multinationals. These businesses employ locally, trade locally and are a part of the local community. This reality is important when considering the economic and social impact of multinational enterprises (MNEs).

## **THE EVOLVING ENVIRONMENT**

As businesses have changed over the last 30 years the view of them has also evolved and they, in turn, have adapted the way that they react with the communities in which they operate. These developments have largely coincided with the increase in the number of MNEs operating throughout the world. These MNEs are diverse. Some are very large, whilst others are in fact small enterprises that seek business opportunities abroad. All of them contribute to the spread of technology, good business practices and the generation of wealth across the globe.

The debate relating to the role of business in society is a debate that focuses on the businesses commonly associated with well-known brands.

Such a focus ignores the vast majority of businesses, the realities of those businesses and, perhaps more importantly, their capacity. Calls are made to “business” in its broadest sense although the calls themselves are predicated on what many believe large MNEs can or should do for society. This introduces a distortion into the debate and impacts negatively on smaller businesses which seek to access the global market through links with MNEs.

The response by many campaigners, when this issue is raised, is to argue that “tools” are needed for SMEs to enable them to become CSR actors. This firstly fails to recognize that capacity often lies at the heart of an enterprise’s ability to undertake CSR activity and secondly it ignores the fact that, for many, simply responding to certain CSR expectations does not make good business sense. The IOE believes that meeting the obligation of legal compliance should in itself be enough. Anything else must by necessity be optional and the decision not to respond to such expectations is not, nor should it be seen as, a failure by that business. However, the IOE recognizes that a business failing to comply with applicable legal regulation is not acting responsibly, and that a key issue is to ensure that where companies are failing in their duties under the law they are held to account.

Governments are at different levels of economic and social development. Local customs and religion also shape how many governments respond to local issues. These realities are important when considering the regulatory framework they adopt. The fact that local regulations do not appear to match similar regulations in developed countries is no reason why they should not be respected. Most countries’ legislation does reflect internationally-recognized values and principles, which provide an adequate framework of reference for what a company’s responsibilities are. The main problem in many developing countries is poor enforcement of the law, though this is rarely an issue for the formal sector businesses in those countries. Many multinational enterprises and international buyers, through their operations, assist developing country suppliers to meet their legal obligations.

The reasons for a business to move beyond compliance and undertake a CSR initiative are many and varied. When a business is challenged about its environmental, social (labour and human rights) or economic impact, it acts initially to protect “value” (which can be defined as increasing the prospects of being a successful company, and includes profitability, reputation, brand image, etc.). Where businesses proactively engage in CSR, they do so because it makes economic sense for them and through such an activity they can enhance “value” and, most often, also enhance their position in the market. CSR needs, therefore, to “add” to the business in terms of either enhancing or protecting that value and position. Businesses, like society itself, are not static. Competition and market forces all require a business to adapt to changing circumstances. Such adaptation can lead to product or service improvements, new products or services created or old ones dispensed with. Premises may open or close, grow or decline, remain in- country or go off- shore. This business dynamic also applies to CSR initiatives since it is both a management tool and a delivery mechanism for the achievement of business goals, helping to effect change and innovation within the business. Therefore, what makes sense for a business to do now may change over time. What capacities a business can contribute towards CSR may decline over time. CSR cannot then be seen as a rigid engagement, but rather such engagement needs to be seen in a different context than the engagement in environmental, social or economic issues by governments.

## **SUPPLY CHAIN ISSUES**

In today’s debate on CSR there are many who believe that the main focus should be on getting companies to enforce standards across their supply chain. In some cases, this can inhibit the access of developing countries to global markets or hit the more prosperous segments of developing country economies. Another risk is placing on business the responsibility of the state for enforcement of law, a role it is not equipped for. While many enterprises are active in working with suppliers to ensure that their products or services are produced in a manner consistent with local law and their own values, that engagement is not the same as making them “responsible” for the enforcement of national legal systems.

Only governments have the primary responsibility to effect national social improvement. The focus on what are seen as MNE responsibilities within supply chains deflects the debate from the real issue of the adequacy of government action to effect sustainable social improvements, or enforce legislation across all enterprises at national level, the majority of which may not be associated with a supply chain and may not even be a part of the formal economy.

## **THE ROLES OF ENTERPRISES**

Because each company is different, it is not possible to give a definitive view of how business engages in CSR, but the following considerations need to be taken in to account:

- The primary role and focus of an enterprise in society are to succeed in its markets and deliver the product, wealth, employment and incomes that people depend upon. Expectations on enterprises should never place that role at risk or detract from that focus;

- The vast majority of enterprises not only adhere to the law and regulations, they are also frequently making additional contributions to social well-being as they attempt to enhance their brand, reputation, employer base, and so on. There are often unreasonable expectations heaped on enterprises to do even more.
- While the line between government and business activity is not always a definitive one, it is important to realise that governments have a clear role in society, through the provision of certain services, such as health and education; redistribution of wealth; as guarantor of security, and others. At times, however, where governments fail or are unable to fulfil their role, enterprises may consider it makes good business sense to play a part in filling the gap through voluntary CSR initiatives. But there are limits to what any business can achieve through CSR.
- However, enterprises should not seek or be expected to replace the state or local authorities and other actors need to also ensure that their expectations of enterprises do not undermine the role of the state. It is through such understandings, on a case-by-case basis, that CSR initiatives can work and the role of the state, as the long-term provider of public goods and sustainable development policies that accommodate the needs of all, can be enhanced.
- Enterprises are not an alternative to government. CSR is not an alternative to appropriate public legislation and public engagement and enterprises need to be careful to ensure that, in acting, they are not circumventing national policy debates or priorities. This is widely recognized and well-established in, for instance, the OECD MNE Guidelines.
- Where enterprises are engaging in large infrastructure projects, education or health development or in other areas of traditional public goods, CSR activities should look to ensure their efforts are complementary to national policy and development. They should also look to partner with government rather than be in competition with it and should seek to retain government involvement in the issues in the longer term - e.g. whilst building a road it should vest the result in the government as a means of ensuring its longer-term interest in its maintenance.
- Enterprises need to consider whether or not by acting in a particular way in a particular context they will encourage government disengagement - e.g. health issues. Governments are usually able to bring greater sustainability to public health and welfare issues than companies. Enterprises come and go and change over time and, unless the issue of sustainability is addressed by government, the CSR initiative may lack any long-term impact and the improvement sought may diminish - if not cease - if the enterprise either departs or disengages.
- Enterprises need to continually monitor the impact of their operations to ensure legal compliance or, in those areas where legal regulation is lacking, act to ensure that they are not negatively impacting on the society through their activities. For many larger MNEs this will often be by adopting at national level responses inspired by their own

good practice in their home countries or from elsewhere. For some, voluntary reporting on CSR will also be seen as a useful means of making their impact transparent. However, like CSR initiatives themselves, how or even if a business reports or informs on its CSR initiatives should remain a decision for the business itself to determine.

- Enterprises need to identify who their real stakeholders are. In many instances demands are made of companies by groups who are not stakeholders and represent no one relevant for that business. Managing stakeholders requires engagements to be concentrated on those that affect those with whom the business has a relationship and whose expectations are relevant to the business's operations. Too often, CSR initiatives fail or are diluted by extraneous engagements with non relevant actors.
- Enterprises need to be clear as to the nature of their CSR engagement. They need to manage the expectations of recipients of their programmes, being clear about the limits, and thereby avoiding misunderstandings and possible downstream negative effects. Understanding the “shorter” term engagement reality of many CSR initiatives can help clarify the true nature of that initiative and avoid disengagement problems later on.

## **THE ROLE OF GOVERNMENTS**

- Governments' role is to provide and enforce rules for all actors in society. Enterprises are required to comply with those laws and regulations - as are other social actors - and should support efforts by governments to promote and enforce those laws. However, businesses do not have the mandate to enforce laws on others.
- Governments need to work to create the right environment for dialogue with employers and workers. Such dialogue can act as a means by which the role of the state and the legal obligations of all other actors can be defined having regard to the need to create a positive environment for growth, job creation and productivity.
- Governments do have a role in promoting and supporting the adoption of responsible attitudes and good practice by enterprises as a means to improve the impact of government action in many areas. However, this should not lead to an obligation, or even an expectation, for the private sector to assume the role as a long-term alternative to government with respect to the delivery of social outcomes.

## **THE ROLE OF OTHER PLAYERS**

- Other players have a role to ensure that, where enterprises wish to pursue CSR activities, they engage in constructive partnerships in order to maximize the benefits to society of enterprise interventions through CSR.
- Other players need to realise that there are limits to enterprise CSR activity and frame their expectations accordingly.

## THE IOE

This paper describes the framework within which the IOE will continue to work with its members and enterprises on addressing their CSR issues in practical ways.

- The IOE provides an access point for member federations and enterprises looking for workable solutions to the labour and social issues of CSR.
- Because of its recognized position and experience in the international community, the IOE has particular understanding and knowledge of the various international labour instruments that are the most common points of reference for companies in the CSR debate.
- It provides advice and assistance to members and their enterprises on both CSR and compliance issues and, through its unique international network, can draw on national experience to identify appropriate responses and assistance for businesses, particularly MNEs.
- It supports its members in national CSR debates and provides advice and assistance in framing their CSR initiatives.
- The IOE supports the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (“MNE Declaration”) as the ILO point of reference for business in the CSR debate.
- The IOE supports the ILO’s role in strengthening the capacity of governments to implement and enforce their national laws.
- Through its CSR Working Group the IOE is able to advise members on CSR matters from an international perspective and keep members informed on international developments.
- The IOE will be guided by its paper entitled “CSR: An Employers’ Approach” and will continue to promote the voluntary nature of CSR and will oppose initiatives which, through conditionality or other mechanisms, seek to oblige companies to engage in CSR.

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