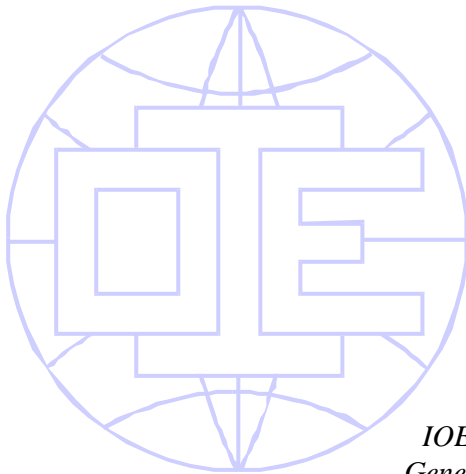


# CODES OF CONDUCT

POSITION PAPER  
OF THE  
INTERNATIONAL ORGANISATION  
OF EMPLOYERS



*Adopted by the  
IOE General Council  
Geneva 11<sup>th</sup> June 1999*

## FOREWORD

*Enterprises around the world have become increasingly involved in the discussion about and in the development and implementation of voluntary initiatives by which they commit themselves to be guided by stated principles. One of these initiatives is the development of private codes of conduct which are targeted to improve the living and working environment. The IOE welcomes such voluntary contributions by business which seek to establish and maintain appropriate standards of employment.*

*The IOE strongly believes that the best way of assuring sound, basic minimum employment practices is through governments implementing and enforcing employment practices consistent with the ILO Declaration on Fundamental Principles and Rights at Work. It is the view of the IOE that private codes can complement, but can never replace, adequate national provisions.*

*The adoption of voluntary codes by companies is not a simple and easy solution to what is in reality a difficult and complex problem. Indeed, if codes are to be effective, they need to reflect the many differing circumstances in which companies do business and contain realistically deliverable objectives. After all, it is the conduct of the company rather than the content of the code which is important.*

*It is the view of the IOE that the wider debate on codes must not understate the importance and real value of other business social initiatives. Discussions on codes need to take place in an environment where the participants understand the real complexities of the range of issues involved.*

*The following document is the initial contribution of the IOE to the developing debate on business social responsibility and in particular, on voluntary private codes.*

*Geneva, 11 June 1999*

*Rolf Thüsing  
Executive Vice-President*

# CODES OF CONDUCT

## EXECUTIVE SUMMARY

- Private companies play an indispensable role in providing employment, generating wealth and raising the overall standard of living in the countries in which they operate. The IOE and its member organisations support the many private, voluntary initiatives by companies and associations that meet community needs and sustain good working conditions and social development. Codes of conduct are an example of such initiatives of good practice.
- A code of conduct is an operational statement of policy, values, or principle that guides a company's behaviour in relation to the development of its human resources, environmental management and interaction with customers, clients, governments and the communities in which the company operates.
- Companies and their organisations are free to choose or not choose to develop, implement, adopt, publicise and monitor a code of conduct. They are also free to decide whether or not to develop a code of conduct within the company itself or in conjunction with any third party.
- Companies adopt codes to fit their particular needs and circumstances and to reflect their particular philosophy and goals. The codes will thus vary from company to company and from region to region. A uniform, model code of conduct

is neither possible nor desirable. What is important is the conduct of the company, not the content of the code. Companies with codes are not necessarily "better" than those without codes.

- Monitoring and verification of, and compliance with, a code should be determined by the company. Any imposition of third party monitoring of corporate behaviour cannot be accepted. Companies may voluntarily choose to accept third party independent monitoring, or internal monitoring in a manner that management regards appropriate.
- Companies, regardless of where they are located, are more and more involved in a web of customer and client, contracting and sub-contracting relationships. Although in certain cases they may have an influence, companies cannot be held responsible for the labour and social practices of any party in their supply chain. The utmost a code of conduct can do is to assist a company as far as possible to work with suppliers and help them improve their working conditions. All companies should be aware, however, that they may be criticised for sub-standard or illegal practices of their suppliers, contractors or sub-contractors.

## IOE POSITION PAPER

- Over the last few years codes of conduct have gained increasing importance. This development is continuing and is a worldwide phenomenon.
- Above all multinational companies, but also specific economic sectors are concerned with this question, be it on their own initiative or due to external pressures.
- Each enterprise has to make its own decision on what action to take – in full autonomy and on a voluntary basis.
- The great variety of existing corporate codes of conduct on labour issues confirms that there is not and cannot be a single uniform code, a model as it were. However, there are a number of fundamental aspects relevant for all enterprises looking into the question of codes of conduct – irrespective of their national context.
- In the following statement adopted by its General Council on 11 June 1999, the International Organisation of Employers, representing 127 central national employer organizations, wishes to briefly recall the most important of those aspects as common guidance to enterprises and their national organizations.

***Codes of conduct are not  
a new phenomenon.***

Codes of conduct, it should be borne in mind, are not a new phenomenon. They are the expression of freely accepted entrepreneurial responsibility. At all times employers have acknowledged such responsibility by supporting various initiatives in the social field.

This very support was explicitly demonstrated in June 1998 when, at the initiative of the employers, the ILO adopted the *"Declaration on Fundamental Principles and Rights at Work"* which establishes commitments for all member States. Previously the employers had contributed constructively to drafting the *"ILO Tripartite Declaration of Principles concerning Multi-national Enterprises and Social Policy"*, which is commended to governments, employers' and workers' organizations and multinational enterprises themselves and the *"OECD Guidelines for Multinational Enterprises"*. Parallel to the IOE, other business organizations have actively participated in their own sphere of competence in initiatives promoting fair business and trade practices and issues relating to the protection of the environment. Moreover, there are also numerous impressive examples of individual company good practice which demonstrate entrepreneurial initiatives in various fields.

Codes of conduct must be viewed as a particular form of such good practice. With a code a company has established for itself certain rules of behaviour that it considers specially important and necessary to be secured, thus demonstrating its responsibility towards society. These rules of conduct are not only binding requirements for all those persons at present belonging to the company, but they are also meant as guiding principles for the future, irrespective of subsequent changes in management. A code of conduct institutionalizes the social

***Codes of conduct are only one form of the many examples of good practice which exist in the area of voluntary social initiatives.***

responsibility of the enterprise, making it a permanent and stable part of the company's overall policy. Adhering to

a code must be the result of a company's careful analysis of an option with far-reaching effects.

***Publication of a code may raise the profile of a company with its consumers.***

Whether the company chooses to publicize its code – which more often than not does happen – cannot change the fact that

its origin and its application lie solely with the enterprise. However, it is certainly true that publication of a code may raise the profile of a company (particularly if it markets high profile branded products), increase its accountability and thus provide the public with the actual criteria for monitoring its conduct.

When we are considering the issue of codes in this way there are a number of issues to be addressed which are often ignored:

***The only true indicator of a company's commitment to social responsibility is its day-to-day behaviour. Companies with codes are not necessarily "better" than those without codes.***

- A code of conduct is only the outer visible form of a company's public statement of intent. What is

decisive is the content of a code and whether it is respected, that

is to say the conduct of the company itself. Whether a company decides to establish a code of conduct is not necessarily the only way to judge its commitment to social responsibility. The only true indicator is the company's actual day-to-day behaviour. It is therefore not correct to claim that the conduct of companies having adopted codes of conduct is any different or better than those who have not.

***Codes of conduct which seek to promote social responsibility are not necessarily a characteristic of multinational enterprises only.***

- The social responsibility of a company is independent of its legal or organizational form. Codes of conduct are not necessarily a characteristic of multinational

enterprises only. Multinational enterprises differ from other comparable companies only by their transnational form of organization. This may mean that they have more diverse and complex business relationships, but the transnational organization of a company does not, in itself, call for any social responsibility of a special kind. In particular, multinational enterprises, just as any other company, can accept social responsibility only to the extent that this is compatible with their original task in a free market economy, that is to produce goods and provide services under conditions of competition. Incidentally, it should be acknowledged that multinational enterprises have often set positive yardsticks for other companies to follow, particularly in improving working conditions.

- The social responsibility of companies starts where the law ends. To determine this borderline is the task of governments. If governments wish to introduce measures to regulate certain behaviour they are free to do so and, of course,

***The social responsibility of companies starts where the law ends – governments have the task of determining this borderline and cannot expect companies to fulfil this role.***

they have to take responsibility for any action they take. They cannot however expect or demand companies

to fulfil this task for them by engaging in voluntary social initiatives and thus transferring governmental responsibility to companies.

***The content of codes will differ according to the nature of the enterprise and the environment it operates in.***

Enterprises are free to determine the contents of a code. Such contents may and will differ according to the specific environment of an enterprise, its structure and economic activity and other

relevant criteria. The only real guideline for determining the contents of a code of conduct is whether implementation of the code is able to make a meaningful contribution to a company's objective of fulfilling its social responsibility.

***The content of a code will also reflect what a company is able to realistically deliver.***

In this respect realism and prudent limitation must prevail. It is essential to consider carefully what a company

can really deliver in the light of its economic duties and possibilities and its actual environment. This implies that realistically it can only take responsibility for its own sphere of activities, i.e. only as far as its management power reaches.

Accepting responsibility for the conduct of other companies in general terms would in the end only be an empty promise damaging its own credibility.

***Companies cannot ultimately be held responsible for the conduct of a particular supplier.***

This is particularly important when it is claimed that companies can be held responsible for the working conditions of their suppliers and that codes should apply along the whole supply chain. Companies are often perceived to be responsible for the conduct of their suppliers. The underlying assumption that in view of their purchasing power as a customer they are in a position to exercise influence on a supplier company may indeed be justified in some cases. However, as a rule business relations do not create such a clear dependence. Moreover, a product often runs through various manufacturing phases in different enterprises independent from each other; these various stages are, however, not sufficiently transparent and it is often difficult if not impossible to influence them.

***Companies can only work with suppliers to help them observe the requirements of a code.***

The utmost a code of conduct can achieve is that a company undertakes to endeavour as far as possible and to the best of its knowledge to work with its suppliers and to urge them to observe the content of its code. This could imply in certain cases the discontinuation of contracts if a company does not want to be accused of knowingly drawing

economic profit from the persistent disregard of fundamental principles in the workplace.

***ILO Conventions are not in themselves appropriate for inclusion in company codes of conduct: they are drafted as guidance to the national legislator and apply to governments not companies.***

As international Treaties, ILO Conventions are ill-suited to inclusion in company codes of conduct. On the one hand such references are superfluous in cases where these Conventions have already been ratified and turned into national legis-

lation. On the other hand, inclusion of ILO Conventions is also inappropriate, as Conventions are not directed towards enterprises, but to ILO member States. Their very formulation and to a large extent also their substance is not conceived for direct practical implementation by companies but as guidance for the national legislator. Only in national legislations ILO Conventions find their final, binding interpretation, although such interpretation may differ from country to country. In addition, the willingness of member States to ratify ILO Conventions could increasingly be weakened if they could prove that these standards were already being implemented by enterprises via codes of conduct.

The great number of existing codes can be divided into two basic categories:

- The first category includes codes developed within the enterprise itself; they are initiated and implemented without any outside participation. This category of internal company codes also includes those codes established jointly by several enter-

***It is for a company  
freely to decide the most  
appropriate form of code  
and...***

prises of the same industry and having identical contents. This can be done directly between the companies concerned or through an association of which they are members. This form

would seem appropriate above all in cases where the substance of social responsibility is similar because of the companies' similar economic activities. Moreover, such an industry-wide code could have the advantage of being competitive-wise neutral, as all the enterprises which otherwise are competitors are subject to the same behaviour; and sometimes the relevant association is entrusted with certain control functions.

- The second category of codes is established in cooperation with – or as a response to the pressure of – third parties who sometimes in one way or another are also involved in its implementation, or at least press for being associated with it.

***...whether or not it wishes to  
develop the code in conjunc-  
tion with any third party.***

As far as the category of codes of conduct established in conjunction with a third party is concerned, these codes

are generally established between on the one hand a company – or an association on behalf of its members – and on the other an NGO or trade union. Here the third party participation goes beyond simple advisory services, resulting in a joint responsibility for the actual drawing up and conclusion of the code and more often than not claiming participation in the implementation and supervision as well. Those organizations see themselves in the role of a custodian of public interest, which in their eyes gives them legitimacy.

Such legitimacy however can be overplayed. The merits – commendable as they may be – which those organizations have acquired in no way changes the fact that in reality they are only empowered to act through and for their members. That they also pursue some objectives, which in fact are in the public interest, does not alter their purely private-law character.

It is true, however, that cooperating with some of these organizations and using their experience and their specific technical knowledge can be meaningful and commendable. Yet this can only apply if they on their part realise the aims they pursue are part of a wide range of issues facing companies all demanding attention and are prepared to balance the temptation to create short term gains by publicising possible abuses against the longer term but more difficult and less immediately visible objective of working towards continuous improvement.

***It is the responsibility of the company itself to ensure effective implementation of its code.***

As far as the objectives of codes are concerned, those established and implemented in cooperation with third parties cannot be regarded as either better or worse than those developed internally by a company without outside involvement. Both forms are serving the same purpose to the same degree. This also goes for questions regarding the effective implementation of a code and the question of control. At any rate it seems contradictory if on the one hand the call for codes is meant as an appeal to companies to demonstrate their social responsibility, but on the other hand the demand for external control proves a high degree of mistrust towards the genuine willingness of those very enterprises to fulfil such responsibility. Neutral control, it should be noted, could

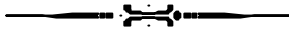
nevertheless also be achieved for internal company codes, with the important difference, however, that this would remain the exclusive decision and competence of the enterprise and not be imposed by an external third party.

*Enterprises play an indispensable role in providing employment, generating wealth and raising the overall standard of living. They operate in, and need acceptance by, society. They are, therefore, well advised to register carefully any changes in the general perception of society. It is obvious that today the role of private enterprise in a market economy, the importance of entrepreneurial initiative and the value of risk-taking as motors for economic well-being and prosperity and thus as basis for social progress are being increasingly recognized worldwide. However, enterprises also have to realize that the sensitivity of society regarding the fundamental principles of social justice has grown.*

*To provide the necessary framework conditions for the fundamental principles of social justice is the duty of political leadership, of the State as a whole. If they fail, enterprises have no possibility to correct this failure. What enterprises can do, however, is to take this increased sensitivity of society into account in their own sphere of activities which they have the freedom of shaping directly. This falls within the scope of their social responsibility and enterprises are fully aware of it. The more credibility they acquire in fulfilling in practice their social responsibility, the more easily they can refute exaggerated or irrelevant interpretations of such responsibility.*

*The same applies for the discussion on codes of conduct. In the final analysis, what is crucial is not the code, but the conduct. Enterprises have every right and good reason to approach this discussion not as sitting in the dock. However, they must be aware*

*of the fact that in the end their place will be there, where public opinion puts them. The public at large are the ones to be convinced. Enterprises must take part in this public debate worldwide, actively and above all jointly, showing entrepreneurial solidarity, with the support of their federations. This statement of the International Organisation of Employers is intended to make a contribution to this important debate.*





# RESOLUTION ON CODES OF CONDUCT

The General Council of the International Organisation of Employers:

Considering that over the last few years codes of conduct have gained increased importance in the business community and in the ILO and that there is room for further debate and action on the issue of codes

Considering that the IOE should provide guidance globally to the business community on social issues

Having met in Geneva on 11 June 1999 and adopted a position paper on the issue of codes of conduct

Urges IOE member organizations:

- To give support to the ILO Declaration on Fundamental Principles and Rights at Work and to encourage their governments fully to implement those principles.
- To bring the IOE position paper to the attention of their constituents for wider circulation and to keep them informed on the on-going debate on codes of conduct and its ramifications.

- To raise awareness among enterprises on best practices in workforce management, health and safety and other workplace issues.

Further urges the IOE Management Board and the Employer Members of the ILO Governing Body:

- To be actively involved in ILO research on voluntary social initiatives of companies, thus enabling the ILO to provide information to its constituents and, with the involvement of the employers' group in the ILO, to companies on request.
- To be actively involved in the work of the Employers' Activities Bureau and Enterprise Department which should be regarded as the coordinating centre for all voluntary enterprise initiatives
- To work in close collaboration with the Employers' Activities Bureau of the ILO to prepare a manual in the area of good company practice on social initiatives.

