Transparency International Canada Inc.

PROSPERITY AND BUSINESS ETHICS – THE CASE FOR CORPORATE SOCIAL RESPONSIBILITY IN THE AMERICAS

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EXECUTIVE SUMMARY

Ethics is not something new for people in business. However, until recently, responsibility for setting standards for the conduct of business and ensuring that economic wealth was equitably shared was assumed by governments acting individually or collectively through international institutions. This allocation of responsibilities, however, is rapidly changing under the influences of globalization. Indeed, the Plan of Action of the Canadian Summit of the Americas will now include a call to governments and private enterprise to foster corporate social responsibility.

This paper examines these developments. It looks at changing definitions of corporate social responsibility and the emergence of codes of ethics and their role in defining and carrying out those responsibilities. It identifies a number of factors that are driving these changes and proposes that sophisticated systems of communication and the emergence of influential international voluntary sector organizations (NGOs) like Amnesty International and Transparency International will make it increasingly difficult for both foreign and local companies active in the Americas to ignore these developments.

With the advance of globalization, the view that the sole responsibility of corporations is to make money for their shareholders is increasingly difficult to maintain. The elimination of corruption, respect for human rights, adequate working conditions for labour, and healthy local communities are all stimulants to economic growth and development. Latin American and Caribbean companies, like their foreign multinational counterparts, have an obligation to join with government and the voluntary sector to raise the standards of business conduct and assist in ensuring that the benefits of economic development are more fairly shared by all segments of their society.

RÉSUMÉ

L'éthique n'est pas un concept nouveau pour les gens d'affaires. Cependant, jusqu'à tout récemment, ce sont les gouvernements, agissant individuellement ou collectivement par l'intermédiaire des institutions internationales, qui se sont chargés d'établir des normes pour la conduite des affaires et de veiller au partage équitable de la richesse économique. Cette répartition des responsabilités, toutefois, change rapidement sous l'influence de la mondialisation. En effet, le

Plan d'action du prochain Sommet des Amériques de Canada comprendra désormais une invitation aux gouvernements et à l'entreprise privée à promouvoir la responsabilité sociale des entreprises.

L'auteur analyse ces faits nouveaux. Il constate les changements de définition de responsabilité sociale des entreprises et l'émergence de codes d'éthique et le rôle qu'ils jouent dans la définition et l'exercice de ces responsabilités. Il recense un certain nombre de facteurs qui déterminent ces changements et fait valoir que des systèmes avancés de communication et l'émergence d'organismes internationaux influents du secteur volontaire (ONG) comme Amnistie Internationale et *Transparency International* feront que les sociétés étrangères et locales qui sont actives dans les Amériques pourront de moins en moins faire fi de ces réalités nouvelles.

Avec la mondialisation, il sera difficile de maintenir le fait que les sociétés n'ont d'autre responsabilité que d'être profitables à leurs actionnaires. L'élimination de la corruption, le respect des droits de la personne, la qualité des conditions de travail des travailleurs et la santé des collectivités locales sont tous des éléments stimulants le développement et la croissance économiques. Les entreprises d'Amérique latine et des Caraïbes, tout comme les multinationales étrangères, ont l'obligation de s'unir au gouvernement et au secteur volontaire pour hausser les normes de pratique commerciale et aider à faire en sorte que tous les segments de leur société aient une part plus équitable des avantages du développement économique.

RESUMEN

La ética no es un concepto nuevo para aquellos que realizan actividades de negocios. Sin embargo, la responsabilidad de establecer las pautas para conducir dichas actividades y de garantizar que las riquezas generadas por las operaciones comerciales fueran distribuidas equitativamente recaía solo en los gobiernos, ya fuera de manera individual o colectivamente a través de instituciones internacionales. En la actualidad, esta asignación de responsabilidades está cambiando rápidamente bajo la influencia de la globalización. De hecho, el Plan de Acción de la Cumbre de las Américas de Québec hará un llamado a los gobiernos y al sector empresarial privado a que adopten medidas encaminadas a promover la responsabilidad social de las empresas.

El presente documento ofrece una ojeada de las definiciones cambiantes sobre responsabilidad social de las empresas y se refiere al surgimiento y papel de los códigos de ética en la precisión y conducción de esas responsabilidades. Además, se presenta un número de factores que está propiciando estos cambios y sugiere que los sistemas avanzados de comunicaciones, junto a la presión que ejercen las Organizaciones no Gubernamentales (ONGs) internacionales como Amnistía Internacional y Transparencia Internacional, harán cada vez más difícil que las compañías locales y extranjeras que operan en las Américas ignoren tales acontecimientos.

Con el avance de la globalización se hace cada vez más insostenible el criterio de que la única responsabilidad de las empresas es hacer dinero para sus accionistas. La eliminación de la corrupción, el respeto por los derechos humanos, las condiciones de trabajo adecuadas, y el buen estado de salud de las comunidades constituyen incentivos para el crecimiento económico y el desarrollo. Las compañías de América Latina y el Caribe, al igual que sus contrapartes multinacionales foráneas, tienen la obligación de acercarse a los gobiernos y a las organizaciones no gubernamentales para elevar las normas que rigen las actividades comerciales y así contribuir a que los beneficios del desarrollo económico sean distribuidos de una manera más justa entre todos los sectores de la sociedad.

Definition of Corporate Social Responsibility:

A good working definition can be found in the Conference Board of Canada document entitled *Corporate Social Responsibility: Turning Words into Action* (1999): "Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental responsibility, human rights and financial performance."

Ethics, Corporate Social Responsibility and the Modern Corporation – Some Context

The idea that business should be conducted ethically is not a new one. Neither is the idea that business should be conducted in socially responsible ways. For most of the last century, however, responsibility for setting standards for the conduct of business and ensuring that economic wealth was shared in some fashion across all segments of society was assumed by governments acting individually or collectively. In the industrialized countries of Western Europe and North America, democratically elected governments have enshrined human rights in law. Welfare safety nets have been put in place to protect people from the worst effects of unemployment, and measures to protect standards of public health have been instituted. Acting collectively through international institutions like the United Nations and the International Labour Organization, governments around the world have set international human and labour rights standards proclaimed as having universal applicability. By assuming primary responsibility for social concerns and environmental standards, governments left business free to focus attention on the generation of goods and services and the maximization of profits.

Not surprisingly, this division of responsibilities has had significant implications for the perceived role of business ethics and corporate social responsibility. It has tended to encourage corporations to define their social and ethical responsibilities narrowly. Where ethics is concerned, business has tended to focus on values important to the conduct of business: honesty in financial transactions, respect for company property, avoidance of conflicts of interest, the honouring of contractual obligations, respect for the law and respect for basic rules of civility. For the most part, companies that have gone beyond these rather narrow limits have done so for clearly defined public relations purposes. This narrow focus has resulted in corporate codes of ethics created with a view primarily to protecting the firm from the unethical behaviour of its employees.

In the industrialized democracies of the West, this approach to ethics has until quite recently not generated serious concerns. People in other parts of the world have fared less well. In developing countries, the proposal that the primary purpose of business was to enrich owners and shareholders has provided companies and their managers with a justification for not getting involved in broader social issues touching on human rights or working conditions, or the quality of life of people in the communities in which they generated their profits. The implications for Latin America are well captured in a recent story in the Miami Herald that describes Latin America as holding the dubious record of having the world's greatest income disparities, yet few corporations in the region -- foreign or domestic -- have policies to help improve the social conditions that surround them, or to combat corruption. Significantly, however, these attitudes and values are now being subjected to serious scrutiny in Canada, in the USA and Europe, as well as in Latin America and the Caribbean.

Corporate Social Responsibility and the Summit of the Americas

The Third Summit of the Americas in Quebec City (April 2001) will include, in its Plan of Action, a call to governments and private enterprise to foster corporate social responsibility. While this may be a key Canadian foreign policy priority, as part of Canada's human security agenda, it is significant that Canada has been able to catapult this idea onto the hemispheric agenda. Indeed, the Summits of the Americas have done much to propel anti-corruption initiatives on the part of governments. At the First Summit of the Americas (Miami 1994), governments of the region warned that corruption was undermining economic growth, equitable development, and political stability. Since then, many countries in the hemisphere have launched national anti-corruption plans, and these are being reinforced by collective initiatives such as the 1996 Inter-American Convention Against Corruption.

The above initiatives, however, have focused on government action to combat corruption, particularly targeting corrupt practices in the public sector. The next generation of hemispheric anti-corruption initiatives will now need to address private sector and civil society practices in support of clear, transparent and rules-based ethical activity. The Summit of the Americas in Quebec City could raise awareness about the responsibility of the private sector in creating prosperity. Governments of the hemisphere could commit to fostering an environment supportive of good corporate citizenship rather that one that punishes honest businesses by tolerating or encouraging bribery for government procurement, for example. However, any significant change in corporate culture will have to come from the business community itself, as has been the case in other countries and regions in the world.

Globalization: A driving force for Corporate Social Responsibility

Today, many corporations are revising quite dramatically their conception of their social responsibilities. Ethics codes are a good example. Large corporations that have no code are now more the exception than the rule. What is more striking is that virtually all model codes as well as the codes of leading corporations now encompass guidelines on human rights, child labour, working conditions, and obligations to a wide variety of stakeholders. Equally striking is the appearance of ethics officers in the private sector whose primary responsibility is ensuring that ethical responsibilities are respected throughout their company's operations.

What is driving these changes? Any attempt to answer this question would have to include the following factors:

1. **The emerging global market:** This phenomenon has clear implications for multinational companies and exporters. Even local companies that have no intention of doing business abroad must today be prepared to meet competition that might emerge from anywhere in the world. While there may be an emerging global market, there is no evidence of an emerging global business culture defining ethically appropriate and inappropriate business practice in that market. Corporations therefore are increasingly faced with the need to define those practices which they are prepared to tolerate or accept and those which they are not. Bribery is a good example. It has always shadowed business activity. However, the incidence of bribery has grown exponentially with increases in international trade and is now a serious problem throughout the developing world. Companies that have no explicit policy on bribery are creating serious risks for themselves and for individual managers who are faced with deciding how to respond.

2. **Decentralized management responsibility:** The flattening or delayering of the modern corporation is a second important factor. Many companies have concluded that if they are to be successful in very competitive environments, they must decentralize responsibility and reduce management supervision and control. Thus, companies like IBM have reduced the levels of supervision in their corporate hierarchy by as much as fifty per cent. As layers of management are stripped away, controlling employee behaviour using traditional supervisory tools becomes increasingly tenuous and a shared understanding of responsibilities and rights increasingly important. Control and supervision has been reduced and decentralized responsibility based on shared values is beginning to take its place.

3. **Moral disasters and scandal:** A crucial factor in the emergence of codes of ethics and interest in corporate social responsibility has been the occurrence of moral disasters, mistakes in judgement that have carried heavy costs for the corporations responsible for them and for their victims. Due to the 1984 Bhophal disaster and widespread concerns about the lack of environmental responsibility on the part of the

chemical industry, we now have “Responsible Care”, a values-based program developed first in Canada and now found in countries around the world. The Exxon Valdez disaster, which caused catastrophic oil pollution in the waters off the coast of Alaska, gave birth to what are now known as the Valdez Principles. The Lockheed bribery scandal in the 1970s in the United States led to the enactment of the American Foreign Corrupt Practices Act. Two recent examples in Latin America, the IBM/Banco Nación bribery scandal in Argentina and the CitiBank deposits of U.S.$120 million in questionable funds by Raúl Salinas de Gortari, brother of the former President of Mexico have similar features, though they have not yet led to a sharpened interest in business ethics or corporate social responsibility.

These scandals have highlighted for many companies the very substantial financial risks that can be triggered by unethical behaviour. They have also raised serious doubts about the capacity of traditional approaches to management and corporate governance to ensure ethically responsible conduct on the part of management and employees in a contemporary business environment. The result has been increasing public scrutiny of corporate conduct accompanied by declining public confidence in the willingness and the ability of the modern corporation to act in ethically responsible ways.

4. **Global value systems:** Finally, with globalization has come the need to work across value systems shaped by very different cultures and faith traditions. As a consequence, common understandings of the ethical responsibilities and rights of employees, whether management or labour, as well as the ethical contours of relations with suppliers, clients, owners and shareholders, and other corporate shareholders, can no longer be taken for granted in business.

The current interest of corporations in business ethics grows out of these changes. Increasingly both the general public and corporate leaders are debating the ethical responsibilities of corporations and their employees. Building and maintaining an ethical corporate culture is increasingly recognized to be a central responsibility of corporate governance.

The Impact of Globalization on the Social Responsibilities of Governments

Globalization is also having a dramatic impact on the ability of governments to address and resolve social problems. This too is stimulating both concern and interest in business ethics and corporate social responsibility. There are many reasons for this.

Globalization has seen the emergence of multinational corporations as very significant national and international economic and social agents. The largest transnational corporations have budgets that dwarf those of most of the world's nations. The Global Policy Forum calculates, for example, that of the fifteen companies/governments with the world's largest budgets, six are governments and nine are corporations. Corporate Watch reports that of the one hundred largest economies in the world, fifty-one are now global corporations and only forty-nine are countries. They also report that the world's largest two hundred corporations generate more than a quarter of the world's economic activity. The implications of decisions taken by transnational corporations for the welfare, both of their employees worldwide and the people of the countries in which they do business, are therefore substantial.

Very large, influential corporations are not unique to the late 20th and early 21st century. What globalization has done, however, is to extend the reach of corporations and enhance the trend toward the concentration of wealth thereby increasing the significance of private sector management decisions for the welfare of increasing numbers of widely dispersed people. This power has been enhanced by corporate mobility. In today's world, with some notable exceptions, (natural resource extraction companies for example) corporations can choose the countries in which they invest, and their suppliers can choose with remarkable freedom where in turn they will produce the goods and services they offer. Advances in communications technology allow the movement of capital virtually instantaneously from one country to another.

In a global economy, therefore, corporations are much freer to seek out the most favourable legal environments for maximizing profits. This fact, in turn, has given corporations a powerful tool for persuading the countries in which they do business to create favourable legal environments, namely, ones that puts the fewest possible regulatory constraints on the conduct of business. In response, various states have made themselves into havens for firms seeking to avoid tax and banking restrictions, corporate disclosure and other regulatory regimes. Globalization has also provided nation states with an incentive to engage in "regulatory competition". The temptation to attract investment by promising a legal environment that minimizes labour or environmental standards, for example, is obvious. This is what has been referred to by some as a "race to the bottom".

In contrast, globalization has weakened the capacity of nation states to regulate business activity. The jurisdiction of national legal systems is bounded by the principle of extraterritoriality limiting the capacity of states to project their domestic law abroad. The countries in which multinational corporations are headquartered have only a limited ability to control their international activities. Further, the ability of states to regulate international commerce has been constrained, albeit with the consent of governments, by free trade agreements such as NAFTA and the WTO. While multinational corporations are operating globally, there is no global legal framework governing corporate behaviour.

One response to the loss of regulatory control on the part of nation states has been to urge more effective corporate self-regulation governed by codes of ethics based on widely endorsed standards. Support for this response has been motivated by a complex and interconnected range of considerations. For governments, achieving consensus on standards of conduct voluntarily implemented has been advocated as a way of cutting costs required by more formal regulatory systems. In some cases, self-regulation has been seen as a way of reducing political pressure for regulatory intervention. Some corporations have endorsed voluntary codes and voluntary self-regulation as a way of creating uniform and unifying standards across corporate empires spanning the globe. Other corporations have used ethics codes to reassure communities controlling needed resources or markets of their good intentions. Yet other corporations have put ethics codes in place and moved to strong values based management as a way of managing risk and avoiding moral disasters.

Building Ethical Corporate Cultures

What then are the responsibilities of the contemporary corporation? Short-term profit maximization leads companies to focus largely on owners and shareholders (for example, mutual fund managers and other investors), and not all of its stakeholders. Leading companies and management theorists have concluded, however, that this narrow focus is part of the problem.

Many commentators and opinion leaders have now concluded that if the corporate world is to respond effectively to the changing environment of business, it must broaden its field of concern to include not only shareholders, but also other stakeholders, people and groups who stand to gain or lose in significant ways by their decisions. A corporate stakeholder is anyone with a stake in how a corporation does business. A stake can be defined as an interest, something to be gained or lost or something at risk. A corporate stakeholder, then, is any individual or group likely to be affected either positively or negatively, in the short or long term, by corporate activities, policies or decisions.

Increasingly, leading companies are defining their social responsibilities by reference to their shareholders, but also to their other stakeholders. This, in turn, has pushed companies moving in this direction to define their values and put them into action. To accomplish this task, many corporations have turned to value statements and codes of ethics. A code of ethics for a corporation is a complex statement that does four things for its directors, managers and employees to govern themselves:

- it identifies as clearly and concisely as possible the mission or guiding purpose of the organization;

- it sets out the core values essential to achieving its mission;
- it sets out the principles that are to be respected in all interactions with stakeholders, that is to say, its shareholders, clients or customers, employees and pensioners, suppliers, the local communities in which it does business and others affected by what it does;
- finally, it sets out rules that are designed to ensure that the principles and values are put into action.

While codes of ethics that have some or all of these characteristics are now quite common, research and experience indicate that they are not enough. What else is required?

Creating a code and failing to take steps necessary to ensure that the code is respected can actually encourage unethical and irresponsible conduct. Effective implementation requires a company-wide implementation strategy designed to ensure that ethical commitments are met throughout a company's operations. This means:

i) Effective communication: People cannot respond to an ethics code they do not know or understand. Neither are they likely to take seriously a code that is not publicly and frequently endorsed by senior management, particularly the CEO or a code created without their participation and involvement.

ii) Education and training: Education and training sessions give employees at all levels an opportunity to examine typical applications of the code in their particular areas of responsibility and explore the application of the code where the right answer is less than obvious and straight forward.

iii) Penalties for non-compliance and rewards for exemplary conduct: If the code is not enforced, it is unlikely to be respected. Penalties that respond to the seriousness of a breach of the code signal commitment to code implementation. Rewarding those who respect the code is also an effective way to communicate a company's commitment to building an ethical corporate culture.

iv) Confidential counselling and reporting: Surveys of employees show that one of the most difficult challenges in building an ethical corporate culture is persuading employees that reporting problems or seeking advice on ethical issues will not result in criticism, censure or punishment. A system that allows employees to communicate concerns with a view either to reporting unethical conduct or seeking out advice in a difficult situation is therefore an important component of any ethics program. Equally important is feedback from the company detailing how it has dealt with concerns communicated confidentially.

v) Internal monitoring: Like every aspect of effective management, systematically monitoring the success in implementing the ethics code is important. Consistent effective monitoring can provide valuable quality control information and alert a company to problems before they become serious.

vi) Independent ethics and social audits: A final and emerging component of ethics programs, independent ethics audits will be used increasingly to assist management to determine how effectively their ethics code is being implemented and to give credibility to the claims that a company is committed to being a good corporate citizen. In the absence of independent, third party audits, claims that a corporation is taking its social responsibilities seriously may well be greeted with public scepticism.

Ethics programs with these components can have a significant positive impact on the way companies are viewed both internally by their employees and externally by the public at large. Ethical management impacts employee morale positively. It attracts highly qualified and well-motivated recruits at all levels of operations. It strengthens relations with stakeholders by opening doors to cooperation and dialogue. It can also have a positive impact on share values. Conversely, companies are gradually coming to the realization that unethical behaviour can be financially very costly. It generates stress at all levels of management. It is an open invitation for government regulation. It can damage a company's reputation overnight, and it undermines internal control.

Two examples of major multinational corporations that are actively engaged in building effective ethics programs are General Electric and Shell. GE now has what many commentators regard as a model code and a highly developed ethics program; Shell, in response to serious public relations disasters in the 1990s is now actively engaged in reshaping its corporate culture with a view to ensuring that its core values and guiding principles are integrated in all aspects of its international operations.

While codes of ethics and comprehensive ethics programs are uncommon in Latin America and the Caribbean, there are a few examples of environmentally and socially responsible business worth highlighting. La Constancia is a food processing company based in El Salvador that has shown a high commitment to environmental preservation and its goal is to improve environmental education within El Salvador. Some of the programs implemented by La Constancia include consumer education (how to safely dispose cans and bottles), donation of 5,000 waste containers to be used in 50 cities, and campaigns to ensure clean beaches. Backus Corporation, a Peruvian consortium also in the food-processing sector, supports the education of their employees' children and provides recreational and cultural programs to its retired workers.

Advantages of CSR:

Benefits to companies:

- More productive workers
- Greater employee loyalty
- Higher customer satisfaction
- Improved company's image and reputation, conducive to higher sales
- Fewer litigation costs
- Less volatile stocks

Benefits to the communities:

- Reinforcement of fundamental rights (health, education, labour rights, etc.)
- Contribution to development
- Improvement of the environment

Putting ethics to work in a Latin American environment

Latin America is not a part of the world where a commitment to high standards of corporate citizenship and social responsibility has attracted many adherents. While there have been advances in democracy and governance over the past decade, democratic and oversight institutions remain weak in several countries. The social agenda has received less attention than it should have. Governments have not been able to ensure effective redistribution of the wealth generated by economic activity and the creation of strong social welfare safety nets. The result is ever-growing income inequality, increasingly widespread corruption, inadequate access to justice weak or uneven respect for human rights and the rights of workers, and a poor record of environmental protection. While it would be unfair to blame business solely for these conditions, it is clear that the business community in Latin America has done little to alleviate this state of affairs. The Latin American business community and Latin American governments do not seem to have been exposed to the dramatic changes in the understanding of corporate social responsibility that are influencing corporate thinking in North America and Western Europe. Neither do companies in Latin American have access to the business ethics resource centres, think tanks and business school programs found today in the industrialized world. The absence of a culture of ethics in the emerging private sector of many of these countries, at times enabled multinational companies to exploit the lack of oversight and protection systems in many countries of the Americas.

Paradoxically, however, new trends are emerging to level the playing field. Of these, globalization is perhaps the most significant.

1. **Communication technology** has transformed the global business environment. The activities of corporations are subject to global scrutiny and

criticism wherever they are engaged in business. Unethical behaviour no longer waits for investigation: news of wrongdoing is flashed on computers around the world almost instantly. This means that Latin America is no longer isolated from the kinds of influences that have pushed corporations in the north to raise their standards of conduct. Latin America and the Caribbean have seen a growing role of non-governmental organizations and public scrutiny in the few years. A remarkable example is “Respondanet”, an electronic weekly newsletter covering corruption-related news as well as best practices in the field of accountability, put together by the Americas Accountability Anti-Corruption Network.

2. **Global voluntary sector organizations** are emerging to challenge governments and business to respect international standards in the conduct of business. The presence of national chapters of Transparency International in many countries in Latin America illustrates this development. Until as little as a decade ago, corruption was thought to be simply a requirement of doing business in many countries around the world including the Americas. When concerns were raised about its impact on economic and social development, the subject was brushed away as a cultural phenomenon. Attacks on corruption were dismissed as a form of Western cultural imperialism. Both the tolerance and the encouragement of corruption were built into the tax systems of most of the countries in the developed world. Since its founding in 1993, dozens of chapters of Transparency International (TI) have emerged worldwide and some of the most active are based in Latin America. For example, the work of Poder Ciudadano (TI-Argentina) on monitoring campaign financing, disclosure of assets by candidates and public expenditure is regarded as a model for many TI chapters around the world.

The Ethos Institute in Brazil was created in 1998 with the specific purpose of fostering social responsibility in the corporate sector. The institute organizes conferences and publishes documents on various aspects of corporate social responsibility. IBASE (the Institute of Social and Economic Analysis), also of Brazil, promotes through its website a contest that awards socially responsible companies.

Other international non-governmental watchdog organizations such as Amnesty International have contributed to the fight against corruption. Amnesty International is challenging corporations to accept their share of the responsibility for protecting human rights wherever they operate.

As a result of globalization, voluntary sector organizations in Latin America now have the resources, support and the encouragement of these and other international organizations to draw on as they attempt to put social and ethical issues on the agendas of governments and the business community in their local communities.

Paralleling these developments has been the emergence and recognition of international standards of business conduct. Of these, the United Nations Declaration of Human Rights is certainly the most important. The various declarations and conventions of the International Labour Organization are increasingly influential. The OECD and it nation state members have developed Corporate Governance Principles and Guidelines for Multinational Enterprises that assign corporations responsibilities for human and labour rights, corruption, environmental protection and the general impact of their activities on the communities in which they do business.

3. **The Inter-American system** has also made considerable advances. The Inter-American Convention Against Corruption, also known as the OAS (Organization of American States) Convention, is the cornerstone of the hemisphere's strategy to prevent, detect and punish corruption. The OAS Convention, the first of its kind in the world, has been ratified by 19 countries, including Canada (in 2000), and is now in force. The Convention

demands that countries prohibit illicit enrichment, bribery and transnational bribery, subject to their own domestic legal systems. It requires a large measure of cross-border cooperation, for example in the case of extradition. It is complemented by the Inter-American Program for Cooperation in the Fight Against Corruption and by the Working Group on Probity and Public Ethics, both run by the OAS. While these initiatives have primarily targeted corruption in the public sector rather than in the private sector, problems in many companies have been exposed in the process.

4. A number of governments have begun to develop **codes for the conduct of international business** often in consultation with the business community and organizations in the voluntary sector. A good example is the "International Code of Ethics for Canadian Business" which highlights respect for human rights and social justice. The US government has also published a statement on Model Business Principles and has become heavily involved in negotiations with American multinational companies in the apparel industry. While these efforts cannot be said to have been particularly influential to date, they do indicate a growing awareness that ethics has a serious role to play in the private sector and that governments have a role in encouraging their multinational corporations to examine seriously their social responsibilities.

5. **International coalitions** are beginning to create new benchmarks and tools for assessing corporate social performance. AA1000, developed by the Institute for Social and Ethical Accountability, is a first attempt to generate an internationally recognized auditing standard. A second standard has been developed by the Council for Economic Priorities. SA 8000 is a performance-oriented labour rights standard linked directly to the work of the International Labour Organization. SA8000 is intended to play a role in social accountability similar to the ISO environmental management standards that are now widely used to encourage environmentally responsible business practices. These initiatives are slowly becoming influential in reshaping public and corporate understandings of the responsibilities of transnational corporations.

6. Finally, **research** is demonstrating the relationship between ethics and economics. Recent studies by the World Bank, for example, have demonstrated the negative impact of corruption on economic development. A recent study by the OECD has found that respect for basic labour standards of the sort found in a recent ILO Declaration on Fundamental Principles at Work supports open trade-oriented growth policies in developing countries.

Conclusion: the road ahead

1. Social conditions in Latin America have been shaped by many factors and influences. One of those influences has been the failure of the business community to accept that they have social responsibilities that extend beyond the minimum requirements of the law or even to respect the law where political conditions allowed them to do otherwise. As a result, the corporate sector in Latin America has done little to help alleviate extreme poverty and other related social conditions. Latin American and Caribbean companies like their foreign multinational counterparts have an obligation to support the growth of democratic institutions and to join with governments and the voluntary sector to raise the standards of business conduct and ensure that conditions are created that allow the benefits of economic development to be more fairly shared.

2. Research and experience show that the elimination of corruption, respect for human rights, adequate working conditions for labour, and healthy local communities are all stimulants to economic growth and development. It is also increasingly clear that with globalization these goals will be difficult to achieve by governments or business acting alone. Although globalization has

reduced the ability of governments to set standards for business unilaterally, it has also created new opportunities for international cooperation, international support and international intervention and pressure in addressing social problems.

3. Business leaders, government leaders and voluntary sector organizations in the Americas must work together to create conditions of the development of democratic institutions and sound standards of business conduct. It is encouraging to note that three Latin American countries, Argentina, Brazil, and Chile, signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1999). Negotiations for a hemispheric free trade agreement (the FTAA) are providing good opportunities for the Americas to tackle corruption in government procurement and other trading measures. The Summit of the Americas process can also help. Whether it is through the general language to strengthen democracy in the hemisphere, or through the call to all countries of the region to ratify the OAS Anti-Corruption Convention, or through specific language in the Summit Action Plan on corporate social responsibility, the focus on good governance has been firmly placed on the inter-American agenda, as the Canadian Summit documents will no doubt show.

4. Finally, changes in the business environment are opening the doors to increased cooperation between governments, the private sector and civil society organizations. A number of companies are now working in partnership with voluntary organizations and governments to solve social problems associated with development in socially responsible ways. An example is Placer Dome's partnership with the Canadian International Development Agency (CIDA) and local community groups to determine how to deal fairly with small miners whose livelihood depended on access to an ore body that the company has under development in Argentina. A second example is a decision by Levi Strauss, a large multinational corporation in the apparel industry, whose code sets out “Terms of Engagement” for its suppliers that require respect for employee human and labour rights, to obtain an independent evaluation of the effectiveness of its “Terms of Engagement” in its business operations in the Dominican Republic. In pursuit of this objective, Levi Strauss engaged a group of four NGOs including Oxfam (England) to undertake an independent study to evaluate the effectiveness of its code of ethics on its suppliers. That study has now been concluded and its results are publicly available. This private sector/civil society corporate social responsibility and partnership model is now being explored by corporations in manufacturing, resource extraction and retailing around the world. It may well be of value in building capacity on the part of the voluntary sector in the Americas to monitor corporate conduct and raise public awareness and the public profile of efforts aimed at raising standards of business conduct.

These positive trends are new and emerging and thus need to be encouraged. It is unrealistic to assume that all countries and businesses in Latin America and the Caribbean will embrace corporate social responsibility rapidly. There will be exceptions and there will be setbacks. But the political signals that leaders can send to foster good corporate governance are vital, and many look to the Summit of the Americas to set the hemisphere on the long-overdue path of socially and environmentally responsible corporate behaviour.

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