



NEWSLETTER

MAY 2012 – ISSUE 45

CORPORATE SOCIAL RESPONSIBILITY AND OFFSHORING BY CORPORATIONS

This past January, a story helped catapult back into the spotlight the issue of poor work conditions for Chinese workers at [Foxconn Technology Group](#) — a primary maker of iPads and other devices for Apple Inc.. As many North Americans used their iPads, iPhones, iPods, etc., a number of issues were being raised about the working conditions of workers at the company in China. However, questions raised about worki conditions at Foxconn were nothing new. The electronics supplier, who also makes electronic goods for Sony, Microsoft, Nokia and other household brands, came under intense scrutiny by CNN and other media outlets in 2010 after a series of reported suicides at its Chinese plants.

China has emerged as Asia's leading exporter of manufactured goods to the United States, but the workers who produce those goods are victims of a surge in fatal respiratory, circulatory, neurological and digestive-tract diseases like those American and European workers suffered at the dawn of the industrial age.¹

More recently, the Mexican government stepped up its response to the bribery allegations that have been tied to Wal-Mart's breakneck growth in Mexico, announcing that the federal attorney general's office would begin an investigation into the company's actions. It has been reported in the media that [Wal-Mart](#) had detected some time ago that its Mexican subsidiary had paid \$24 million in bribes or "donations" over the last decade to speed up permits and licenses for new stores. The company then apparently buried its own investigation. As well as the largest retailer, Wal-Mart's rapid growth in Mexico has turned it into the country's largest private employer with some 209,000 employees.

In the spring of 2011, hundreds of local residents in Puno, Peru, organized road blockades, strikes and protests to demand the Peruvian government rescind a mining concession to the Vancouver-based [Bear Creek Mining Corporation](#). Activists also called for an end to future mining concessions in their region due to the industry's impact on the environment, especially on Lake Titicaca — a massive freshwater lake shared by Bolivia and Peru. Despite the [Canadian government's reassurances](#) that mining companies adhere to the principles of corporate social responsibility, allegations have been levelled against Canadian mining companies in the past with respect to environmental issues surrounding their offshore operations.

Of course, most of us remember the world's worst industrial disaster when in 1984 some 40 tons of poisonous gas was leaked at the Union Carbide pesticide factory in Bhopal, India. The gas leak killed at least 10,000 people and sickened more than half a million, and created an environmental nightmare for the surrounding communities. In response to an appeal by a victims' group in 2009, an Indian court ordered the arrest of Warren M. Anderson who was the chief executive of Union Carbide at the time of the leak. Mr. Anderson was arrested immediately afterward, but he soon left India. The [Dow Chemical Company](#), which bought Union Carbide in 2001, continues to claim that it bears no responsibility to clean up an environmental and health mess created by the abandoned plant and toxic sludge. Dow claims that there was never any ownership, no responsibility and no liability for the Bhopal tragedy or its aftermath.

¹ *Making Trinkets in China, and a Deadly Dust.* Joseph Kahn, New York Times, June 18, 2003

As shown by the above few examples, for a variety of reasons multinationals continue to expand many of their operations abroad, sometimes referred to as 'offshoring' — the least of which is the desire to reduce operating costs and maximize internal and external efficiencies. However, along with such offshoring comes additional responsibilities for ensuring that these activities are ethical, socially responsible and in line with the norms and institutions of each society wherein they choose to operate. Unfortunately, based on past experiences with many multinationals, this has not always been the case.

What is meant by an 'corporate social responsibility'?

Corporate social responsibility (CSR) is a fairly simple concept. It involves examining those social areas and issues related to how corporations operate on a daily basis internally and in society at large, domestically and abroad. Examples of areas of particular concern include how a corporation contributes to enhancing environmental sustainability; improving stakeholder engagement; eradicating hunger and poverty; promoting racial, ethnic and cultural inclusiveness; protecting the health and safety of workers and the public; increasing general access to technology; combating HIV/AIDS, malaria and other diseases; promoting educational opportunities; etc.

In 2005 in Canada, an [Interdepartmental Working Group on Corporate Social Responsibility](#) — led by Natural Resources Canada — was established to examine the experience of various companies that have developed programs or activities that address the primary elements of CSR.² The objective was to develop criteria in order to further guide industrial policies and program development aimed at ensuring a strong and competitive Canadian economy. The above Working Group discovered that companies have adopted a wide range of strategies, management systems, programs and tools to implement business practices that support CSR. These concepts and tools are most advanced in the environmental field. However, there is also considerable activity related to community and stakeholder engagement.

In 2004, the [European Agency for Safety and Health at Work](#) (EASHW) issued a report entitled *Corporate Social Responsibility and Safety and Health at Work*. In the report, it defined CSR as the integration by companies of social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. The EASHW noted that as an inspiring and strategically important development, CSR is becoming an increasingly important priority for companies of all sizes and types. Occupational safety and health (OSH) is viewed as an essential component of CSR, and as such presents managers and OSH professionals with a variety of opportunities and challenges.

In 2010, the [American National Standards Institute](#) (ANSI) introduced [ISO 26000:2010](#) (*Guidance on Social Responsibility*) to assist organizations in contributing to sustainable development. It is intended to encourage them to go beyond legal compliance, recognizing that compliance with law is a fundamental duty of any organization and an essential part of their social responsibility. It promotes common understanding in the field of social responsibility, and complements other instruments and initiatives for social responsibility, while not replacing them. As noted by ANSI, in applying the above standard it is advisable that an organization take into consideration societal, environmental, legal, cultural, political and organizational diversity, as well as differences in economic conditions, while being consistent with international norms of behaviour. Internationally, there are today several organizations which promote international CSR standards, as indicated on [Industry Canada's Website](#) devoted to the topic of CSR.

What is the role that CSR plays in promoting the health of organizations?

"Young M.B.A. students are not satisfied with going to work for a normal corporation because they are passionate to do good in the world and do it in business". "People of faith want exactly

² *Corporate Social Responsibility: Lessons Learned – Final Summary Report*. Natural Resources Canada, 2005
"Healthier organizations mean more productive employees."

the same thing, and there is a whole generation of people who've become extraordinarily wealthy as a result of the technological revolution and are now asking themselves if they can create change in the world.” — R. Todd Johnson³

According to a 2005 survey conducted by [GlobeScan](#) for Hewlett-Packard (Canada) Co., 91 percent of those surveyed preferred to work for a company that is socially and environmentally responsible — the more responsible it is, the stronger the drive to work for that company.⁴

Potential employees, especially knowledge workers, are looking at how corporations responsibly operate domestically and abroad. Beyond normal concerns over compensation and employee benefits, graduates and current employees are also looking more closely at an organization's reputation vis-à-vis the environment, ethics, community involvement, employee engagement and CSR in general.

How does CSR affect the bottom line?

Among major investors, perceptions of profit and value are changing, too. For instance, the California State Teachers' Retirement System, the \$162 billion pension fund, has taken a hard look at insurance companies. It decided that companies in the industry were not paying enough attention to climate change and thus were a riskier investment than in the past, according to Jack Ehnes, the chief executive of the fund.⁵

In 2007, *Macleans Magazine* (Canada) brought out a [Corporate Responsibility Report](#), including a guide to "[Investing with a conscience](#)" as an online resource of companies both naughty and nice.⁶ Macleans provided websites that offer information relevant to socially responsible investors.

Canadians are more inclined to do business with a company that demonstrates CSR, according to the 2005 survey conducted by GlobeScan for Hewlett-Packard (Canada) Co. The survey suggested that 92 percent of Canadians believe the more socially and environmentally responsible a company is, the more likely they are to purchase their products or services. A vast majority of those surveyed, 93 percent, feel that social responsibility should be as important to companies as profit and shareholder value. But the survey also indicates that 50 percent consider Canadian companies to be doing just average in the area of social and environmental responsibility in comparison to that of companies in other countries.⁷

For decades, North American consumers have supported local businesses which were viewed as contributing to the wellbeing and growth of their communities. Today, consumers are purchasing many products produced offshore by multinationals. In much the same way as in the past and as part of each corporation's branding, informed and concerned consumers consider CSR as an important consideration in purchasing goods and services. Whether it's athletic shoes or clothing manufactured in some Third World country or the use of off-shore call centres by domestic companies, many consumers will be influenced by accusations over the use of sweat-shops, child labour or poor working conditions. Increasingly, profit and non-profit organizations are being asked to supply more in-depth and often independent reviews of their offshore operations. However, the relevance and reliability of offshore monitoring has itself come into question.

At a factory in El Salvador, young women working for 60 cents an hour, often into the night, sew shirts for the Gap and other U.S. apparel companies. They try to unionize, but the factory owner fires organizers and locks out other workers. Some allege beatings by the factory's security force. A U.S. human rights group learns of the trouble and begins a protest against

³ *Businesses Try to Make Money and Save the World*: Stephonie Strom, New York Times, May 6, 2007

⁴ *Canadians inclined to punish companies deemed socially irresponsible, study suggests*: Canadian Press Saturday, April 23, 2005

⁵ *Businesses Try to Make Money and Save the World*: Op. Cit.

⁶ *So you want to be an ethical investor?:* Jason Kirby, Macleans.ca, Nov 29, 2007

⁷ *Canadians inclined to punish companies deemed socially irresponsible, study suggests*: Op. Cit.

“Healthier organizations mean more productive employees.”

Gap that's joined by labor, religious, student and community groups. It ends a year later after Gap holds meetings between the factory management and fired workers. As a good-faith gesture, Gap also hires an independent agency to monitor the factory. That was in 1995, and by some accounts it was the first time an apparel maker had ever hired an outside agency to audit labor conditions at a contractor.⁸

It was noted at the time that the above action by [Gap Incorporated](#) made it a pioneer and spawned the modern practice of outsourcer monitoring, now a common tenet of CSR programs. According to industry sources and monitoring consultants, it also marked a major turning point in corporate philosophy where businesses stopped saying "It's not our problem" and began accepting responsibility for working conditions at their suppliers.⁹

In addition, the number of North American organizations supporting businesses has grown, such as the [International Labor Rights Forum](#) based in Washington D.C., the [Investor Responsibility Research Center Institute](#) headquartered in New York City, and the [Social Accountability International](#) which is a labor standards group in New York. There are also organizations such as the [Business for Social Responsibility](#) (BSR) — a San Francisco consulting firm — and the [Canadian Business for Social Responsibility](#) that help to change the way business does business by supporting companies to advance their social, environmental and financial performance and to establish effective monitoring programs.

Why is CSR important?

*Today, with increasing globalisation, greater environmental and social awareness, and more efficient communication, the concept of companies' responsibilities beyond the purely legal or profit-related has gained new impetus. In order to succeed, business now has to be seen to be acting responsibly towards **people, planet and profit** (the so-called '3Ps').¹⁰*

By way of summary remarks, in examining the importance of CSR, Industry Canada and others have noted that:

- Customers and clients are influenced by a company's **reputation** in social and environmental areas.
- The **employment** market is competitive and good recruits want to work for and stay with companies that care.
- Social performance increasingly influences **investors'** decisions, as the ethical investment market grows ever more quickly.
- CSR enables the **strategic management** of internal and external risks in social as well as environmental areas.
- Existing **socially responsible actions** become more visible and are better communicated.
- Social and environmental responsibility has been demonstrated to **reduce operating costs**.

Recommended Web Sites:

- ◆ International Labor Rights Forum: <http://laborrights.org/>
- ◆ Investor Responsibility Research Center Institute: <http://www.irrcinstitute.org/>
- ◆ International Labor Organization: <http://www.ilo.org/global/lang-en/index.htm#a2>
- ◆ Social Accountability International: <http://www.sa-intl.org/>
- ◆ Industry Canada – Corporate Social Responsibility: <http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/home>

⁸ *Efficacy of Outsourcer Monitoring Is Questioned*: Michelle V. Rafter, Workforce Management, October 10, 2005, pp. 62-67

⁹ *Efficacy of Outsourcer Monitoring Is Questioned*: Op, Cit.

¹⁰ *Corporate Social Responsibility (CSR) – An Overview*. Industry Canada

"Healthier organizations mean more productive employees."