

“The role of Employers in socio economic growth”

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Thank you Mr. Tabani for your kind words of introduction.

It is a great honour for me to address the distinguished participants at this National Employers Convention.

It is also my privilege to be in Karachi, a city of great significance for Pakistan and the world. The "City of The Quaid", the birth place of Mr. Jinnah, founder of Pakistan, whose Mausoleum I visited yesterday. A city of vibrant entrepreneurial spirit, a cultural and economic hub of the country and home of world-class business schools like the Institute of Business Management (IoBM).

Special thanks to my respected and distinguished friend, the honourable employer representative of Pakistan in the Governing Body of the ILO and President of the Employers' Federation of Pakistan, Mr. Ashraf Tabani, for his kind invitation to be here this morning.

I. Controversies around private enterprise

The topic of my remarks today, *The role of employers in socio economic growth*, has been the object of intense ideological and political controversy throughout history. During most of the 20th Century it was captured in the debates about capitalism and socialism, and even after the triumph of capitalism it has been subject to different views about the roles of the state and the market in free market economies. As brilliantly stated by Winston Churchill:

“Some regard private enterprise as if it were a predatory tiger to be shot. Others look upon it as a cow that they can milk. Only a handful sees it for what it really is - the strong horse that pulls the whole cart.”

Less than two decades ago, private initiative and entrepreneurship was completely suppressed or severely curtailed in at least one third of the world. The trend towards progressive global integration was reversed by ideology. Freedom and democracy also suffered.

Profit making was a crime in many countries. Even today the legitimate quest for profits by employers is seen with suspicion and dislike in no few societies. Acceptance of the values and principles conducive to sustainable enterprise development remains a challenge in numerous nations worldwide.

The good news is that change is happening, and it is happening fast. Recognition of the employer as an agent of development is a growing feature of policies both at national as well as international levels.

The collapse of the ideological divide two decades ago has marked a watershed in recent human history. An entrepreneurial renaissance has emerged in the developing world and in the transition economies.

Unleashing entrepreneurship has proved to be a revolutionary force against social and economic deprivation around the globe. Productivity has soared; economic growth has reached record highs, and above all, human kind has witnessed a dramatic fall in poverty over the last decades.

According to ILO studies (see **Slide 1**), productivity levels increased over the past decade for almost all regions, with the fastest increase observed in East Asia, where output per worker almost doubled. Considerable increases over this period were also seen in Central & South-Eastern Europe and South Asia, where productivity levels increased by around 50 per cent. Pakistan has been indeed a leading country in this sub-region with an annual average growth rate in labour productivity of 2.9% between 1980 and 2005.

Technological change, expanding markets, and higher productivity, among other factors, have fuelled economic growth, particularly in developing countries. South Asia is in the present century the fastest growing region of the world after East Asia and the Pacific (see **Slide 2**).

In this global context of accelerating economic growth, poverty has been declining. The incidence of poverty has decreased from 29 percent of the global population in 1990 to 18 percent in 2004. If current trends continue, the Millennium Development Goal (MDG) of reducing extreme poverty by 50 percent from its 1990 level by 2015 could be achieved (see **Slide 3**). Globally, according to World Bank's estimates only 12 percent of the population in developing countries will live on \$1 a day or less in 2015.

However, there are risks and challenges. Growth and poverty reduction do not always go hand in hand. Fortunately the international development community is increasingly recognizing that the key link between growth and poverty reduction is productive employment, and that it is via the labour market and employment creation, not just via social transfers, that the most sustainable reductions in poverty can be achieved. And with this also comes the recognition that private enterprise and investment is the single most important source of job creation.

II. A 21st Century vision from the ILO on enterprises and development

Recognizing the key role of the private sector for growth, employment and poverty reduction, the ILO constituents decided to have as main subject of discussion in their International Labour Conference this year precisely what they called the promotion of sustainable enterprises.

The conclusions of this discussion are truly forward looking. They draw on the latest thinking on sustainable development, entrepreneurship promotion and good corporate citizenship. They add real value and guidance to policy-makers, employers' and workers' organizations, and companies as well.

And since they are a global consensus arrived at by tripartite discussion between governments, employers and workers, they provide a powerful shared vision, very useful for national consensus building processes.

So what are the main elements of this Tripartite ILO vision on the promotion of sustainable enterprises? The ILO constituents agreed on three fundamental issues:

- First, they defined in a rather precise manner the pillars of what constitutes an environment conducive to sustainable enterprise development.
- Second, they outlined six guiding principles enterprises must follow in order to be sustainable and maximize their contribution to society, and
- Third, they outlined the main elements of the role of government and the role of social partners in the promotion of sustainable enterprises.

I. A conducive environment for business

On the first issue, our constituents agreed that there are some basic conditions that are essential for a conducive environment for sustainable enterprises. They actually agreed on 17 areas, which is a rather long list but, on the other hand, clearly business and a market economy are quite sophisticated mechanisms that require quite a complex ecosystem to flourish and maximize their contribution to development. To make it easier to review, these interconnected and mutually reinforcing conditions can be divided into four broad categories: political, economic, social and environmental. (See **Slide 4**). Let me go over each of them briefly.

Political

First and foremost, sustainable enterprises require *peace and political stability*. War and civil conflict not only destroy lives and dreams, they also poison the soil where entrepreneurship can grow.

Peace and political stability of course requires nurturing. They can only be sustained in societies that strive to improve *governance* and *social justice*. Only where there is *respect for universal human rights and international*

labour standards and where *social dialogue* is valued rather than feared, enterprises can grow to their full potential.

In this respect I would like to take this opportunity to pay tribute to the Employers Federation of Pakistan (EFP), under the leadership of Mr. Tabani, for your instrumental role in creating the Workers- Employers Bilateral Council of Pakistan (WEBCOP) which is often quoted as a good practice in institutionalizing a social partnership at the country level.

Good governance means democratic political institutions, transparent and accountable public and private entities, effective anti-corruption measures and responsible corporate governance. Good governance, defined in this way, is key for making markets work and be more responsive to the values and long-term goals of society.

Competitiveness is essential for open economies under globalization. We all agree with that. But competitiveness should be built on values. *Respect for human rights and international labour standards*, especially freedom of association and collective bargaining, the abolition of child labour, forced labour and all forms of discrimination, is a distinctive feature of societies that have successfully integrated sustainability and decent work.

Economic

Let me turn now to the second group of necessary conditions, those of economic nature. The first is of course a *sound and stable macroeconomic policy*. Sound economic management should balance the twin objectives of creating more and better jobs with combating inflation, and provide for stable and predictable economic conditions.

Trade and sustainable integration into the world economy is also a fundamental condition. Lifting barriers to domestic and foreign markets expands markets and generates efficiency gains that can lead to positive and significant employment effects. Developing countries should build their capacity to export value-added products, manage change and develop a competitive industrial base. In this process, adjustment costs including job dislocation, are inevitable, therefore measures must be taken by governments in consultation with the social partners, to better assess and address the employment and decent work impact of trade policies.

Countries must also establish an *enabling legal and regulatory environment*. Poorly designed regulations and unnecessary bureaucratic burdens on businesses limit enterprise start-ups and the ongoing operations of existing companies, and lead to informality, corruption and efficiency costs. Well-designed transparent, accountable and well-communicated regulations, including those that uphold labour and environmental standards and promote *fair competition*, are good for markets and society. They facilitate formalization and boost systemic competitiveness.

The *rule of law and secure property rights* are also indispensable conditions. A formal and effective legal system which guarantees all citizens and enterprises that contracts are honoured and upheld is necessary not only for attracting investment, but also for generating certainty, and nurturing trust and fairness in society. Property is more than simply ownership. Extending property rights can be a tool for empowerment and can facilitate access to credit and capital.

Equally indispensable for sustainable enterprise development are *access to financial services, information and communication technologies, and adequate physical infrastructure*. They provide the competitive production platform on which you, as employers, can exercise your creative power to innovate and build successful enterprises.

Social

The third group of conditions for an enabling environment for business are the social conditions of a country. *Social justice* is of paramount importance. Employers, workers and governments agreed that inequality and discrimination are incompatible with sustainable enterprise development. A high level of inequality can be a brake on growth and development. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed. Business thrives where societies thrive and vice-versa.

Human talent is the single most important productive factor in today's economy. Focusing on the development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning is important for helping workers to find good jobs and enterprises to find the skilled workers they need.

The education system should help promote a solid *entrepreneurial culture*. It is important to develop positive attitudes towards entrepreneurship among the young people and in society at large. Many studies show that social and cultural values and perceptions about business and entrepreneurship strongly influence the career choices of individuals. The ILO has a number of tools to encourage entrepreneurship. One is the **Know About Business** programme. This is a training course that can be applied in high schools, higher education and vocational training institutions. The KAB training programme now has a solid history of success in the field. It has been piloted in more than 20 countries, and the KAB materials have been translated and adapted into 14 languages.

Another tool is what we call **Start and Improve Your Business** Programme, directed at micro and small entrepreneurs or persons who want to become entrepreneurs. For instance in China, over the last six years 6.500 trainers have been trained to teach the Start and Improve Your Business course, and it is estimated that 1.5 million jobs have been created thanks to this programme alone.

Last but not least in this list of social conditions is *adequate social protection*. Universal social security that provide citizens with access to key services such as quality health care, unemployment benefits, maternity protection and a basic pension, are key to improving productivity and fostering transitions to the formal economy, and ILO estimates suggest that a minimum social floor is not just a luxury of developed societies, but it is an aspiration that can be financially feasible in many developing countries.

Environmental conditions

Finally, an enabling environment for sustainable enterprise development includes what our constituents defined as *responsible stewardship of the environment*. In the absence of appropriate regulations and incentives, markets can lead to undesirable environmental outcomes. Tax incentives and regulations, including public procurement procedures, should be used to promote consumption and production patterns that are compatible with the requirements of sustainable development.

In conclusion, these 17 elements grouped in four main areas constitute a large array of factors. Their relative importance may vary at different stages of development and in different cultural and socio-economic contexts but they are all interconnected and mutually reinforcing. The most difficult challenge is how to prioritize policy interventions in these different areas and achieve policy reform. The ILO believes that a good understanding of the local circumstances and an inclusive social dialogue process are the best methods to do this and to develop effective strategies for enterprise promotion, employment creation and sustainable development.

II. Six enterprise-level principles for responsible business

Establishing an enabling environment for sustainable enterprise development is a shared responsibility. Governments, employers and workers are of course all vital players. This process however is only half of the story.

Paraphrasing John F. Kennedy, it is important to ask not only what governments and society should do to unleash the forces of entrepreneurship. It is also necessary to ask what enterprises and entrepreneurs must do to maximize their contribution to society.

On this question, the ILO's tripartite constituents agreed on six enterprise level principles that enterprises should abide by:

(1) *Social dialogue and good industrial relations*. These are effective instruments to promote shared values, trust and cooperation.

(2) *Human resource development*. Sustainable enterprises view skilled workers as a major source of competitive advantage and view employees both as assets and agents for change. They therefore invest in training as a central element of their competitive strategy.

(3) *Conditions of work.* Sustainable enterprises offer conditions of work that provide a safe and motivating working environment and mutually beneficial flexible work organization. They adopt workplace practices that are free of discrimination, harassment and intimidation. They promote gender equality and equal opportunity. They apply workplace practices that maintain a sustainable balance between work, life and family. Good workplaces are safe and healthy, and allow workers to contribute to changes and improvements.

(4) *Productivity, wages and shared benefits.* Workers need to be able to participate in the success of enterprises and to gain a fair share in the benefits of economic activities and increased productivity. This helps to contribute to a more equitable distribution of income and wealth.

(5) *Corporate social responsibility (CSR).* CSR can provide workers and other stakeholders with further opportunities to engage enterprises on the social and environmental impact of their activities. The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) and the OECD Guidelines for Multinational Enterprises provide guidance on good corporate behaviour and citizenship.

(6) *Corporate governance and business practices.* These should be based on values such as accountability, fairness and transparency, respect for the rule of law and for fundamental principles and rights at work.

These are the six principles for responsible business management agreed by the ILO constituents. They are not theoretical but practical. As you know by your own experience, today more and more demands are being put on companies to behave in a socially and environmentally responsible way. Increasingly, companies are under pressure to report on the so-called triple bottom line: economic, social and environmental; which means that executives and business leaders have to care at the same time about “profits, people and the planet.”

These pressures and demands on companies are coming from several sources:

- First, at the enterprise level global competition and best practice is leading companies to establish good industrial relations, use best practices for human resource development, look after the conditions of work and the application of International Labour Standards, and behave ethically and transparently via good corporate governance.
- Second, along supply chains, leading companies are addressing labour and social conditions monitoring these as part of their supply chain management and outsourcing practices and putting in place codes of conduct.
- Third, pressure comes from major lending institutions. For instance the World Bank’s International Finance Corporation (IFC) adopted

performance standards on environmental and social issues in 2006 that they systematically apply to all their private sector clients. And many development and private banks are increasingly following a similar policy based on similar standards, including the European Bank for Reconstruction and Development and the Asian Development Bank.

- Fourth, government procurement is another source which is increasingly asking companies to look at improved health and safety, welfare and other standards in contracts.
- Fifth and finally, another avenue of demand for companies is via the so-called socially responsible investment movement that is growing among institutional and private investors in many financial markets. There are a number of Wall Street, City of London and other stock exchanges that have developed methodologies for measuring and rating the triple bottom line. Investors are increasingly using these “profit, people and planet” ratings to guide their investment decisions.

III. Role of governments and social partners

The third and final element of the shared Tripartite vision on the promotion of sustainable enterprises refers to the roles of governments and social partners.

Governments, employers and workers agreed that the role of governments is threefold:

- (1) First, creating an enabling environment by ensuring the basic conditions I have just discussed
- (2) Second, going beyond these basic conditions by proactively establishing programmes and policies to create incentives for enterprises to develop and behave in a responsible and sustainable way.
- (3) Behaving themselves as sustainable enterprises, both as employers and procurers of goods and services.

Employers, workers and their organizations, in turn, have a vital role to play in supporting governments in the development and implementation of policies to promote sustainable enterprises. Employers can do this via advocacy, representation and services.

- *Advocacy* would include active participation in the design of policies and regulations that encourage sustainable enterprise development.
- *Representation* requires broadening and deepening membership, including to micro and small enterprises, and those operating in the vast informal economies of poor countries.
- *Services* involves providing business services to members, including knowledge management, training, awareness raising, advice and guidance, research and consultancy, on matters like innovative practices at the workplace, industrial relations and corporate social responsibility.

Concluding remarks

So there you are: A comprehensive and modern vision for the 21st Century from the ILO regarding the role of the private sector in socio-economic development.

A vision that speaks to entrepreneurs about the need to manage their enterprises following modern principles of responsible management for the triple bottom line; that speaks to governments, politicians and societies about the need to create a conducive environment for business if they want to create wealth, good jobs and reduce poverty; and that speaks to social partners about their responsibilities for productivity growth, sustainable development and social dialogue.

To conclude, let me say that sustainable development is about getting a number of balances right. Development experience around the world has taught us that this is not easy.

Development is not a linear process, and it is not necessarily a historical destination for all societies.

Societies need to do many things and do them all well. If not, they can go backwards, like Argentina in the middle of the 20th Century.

Having a blueprint like the one I just described, agreed globally by governments, employers and workers, may be helpful for your discussions at national level. As I said, all of this calls for new forms of cooperation between government, business, labour and society at large.

At the ILO it is our hope that the vision contained in this document proves helpful in your search for the unique answers required by Pakistan.

Thank you for your attention.