Corporate Citizenship in a Global Context

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Corporate Social Responsibility Initiative

The Corporate Social Responsibility Initiative at the Harvard Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors.

For Further Information

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Corporate Citizenship in a Global Context

From Asia to the Americas, business leaders are under intense pressure to rebuild public trust, manage new and unfamiliar risks, respond to rising societal expectations and remain profitable and competitive in a global economy. As a result, the subject of corporate citizenship is in the spotlight as never before. In leading companies, it is moving beyond the boundaries of legal compliance, public relations and philanthropy, to become a more integral part of corporate governance, strategy, risk management and reputation. Values-driven performance, aimed at protecting existing corporate value and creating new corporate value, and backed by rigorously evaluated and publicly reported targets and metrics, is becoming a defining feature of the world's best-led companies.

Over the past two decades, the forces of economic globalization, political transformation and technological innovation have increased the global reach and influence of the private sector. The UN estimates, for example, that the number of transnational corporations almost doubled from 37,000 in 1990 to over 60,000 today, with some 800,000 foreign affiliates and millions of suppliers and distributors operating along their global value chains. This process has conferred new rights and created new business opportunities for global corporations and large national companies, while also exposing weaknesses in national and global governance structures. It has also resulted in new competitive pressures and risks, and led to increased demands for greater corporate responsibility, transparency and accountability.

As a result, today's business leaders face a complex and often contradictory set of stakeholder expectations. They are being called on to engage with activists as well as analysts, to manage social and environmental risks as well as market risks, to be accountable for their non-financial as well as their financial performance, and to cooperate as well as to compete, often with non-traditional partners, focused on unfamiliar issues. They are under pressure from governments, consumers, trade unions, non-governmental organizations and a small but growing number of their investors, to demonstrate outstanding performance not only in terms of competitiveness and market growth, but also in their corporate governance and corporate citizenship.

In short, corporate executives are faced with a complex, unprecedented challenge: How can they continue to deliver shareholder value while also delivering, and demonstrating that they are delivering, societal value?

While this leadership challenge is especially apparent for executives in Europe and North America, it is also becoming a reality for many in Asia, Africa, the Middle East, and Latin America, especially those who aim to be global players – either doing business with or competing against the world's top multinationals. Business leaders in each region are obviously influenced by different economic, social, cultural and political traditions, and different industry sectors face different types of corporate citizenship challenges. Despite these differences, the following trends in the concepts of corporate citizenship or corporate responsibility are common across geographic and sector boundaries:

1. From the corporate margins to the mainstream
2. From assertion to accountability
3. From paternalistic approaches to partnership

1. From the corporate margins to the mainstream

In leading companies, corporate citizenship is moving beyond the boundaries of legal compliance and traditional philanthropy to become a more central factor in determining corporate success and legitimacy, with implications for corporate strategy, governance and risk management.

There is now growing recognition that global corporate citizenship is essentially about *how* the company makes its profits, everywhere it operates, not simply what it does with these profits afterwards. It is about how the company operates in three key spheres of corporate influence.

- First, in its core business operations – in the boardroom, in the workplace, in the marketplace and along the supply chain.
- Second, in its community investment and philanthropic activities.
- Third, in its engagement in public policy dialogue, advocacy and institution-building.

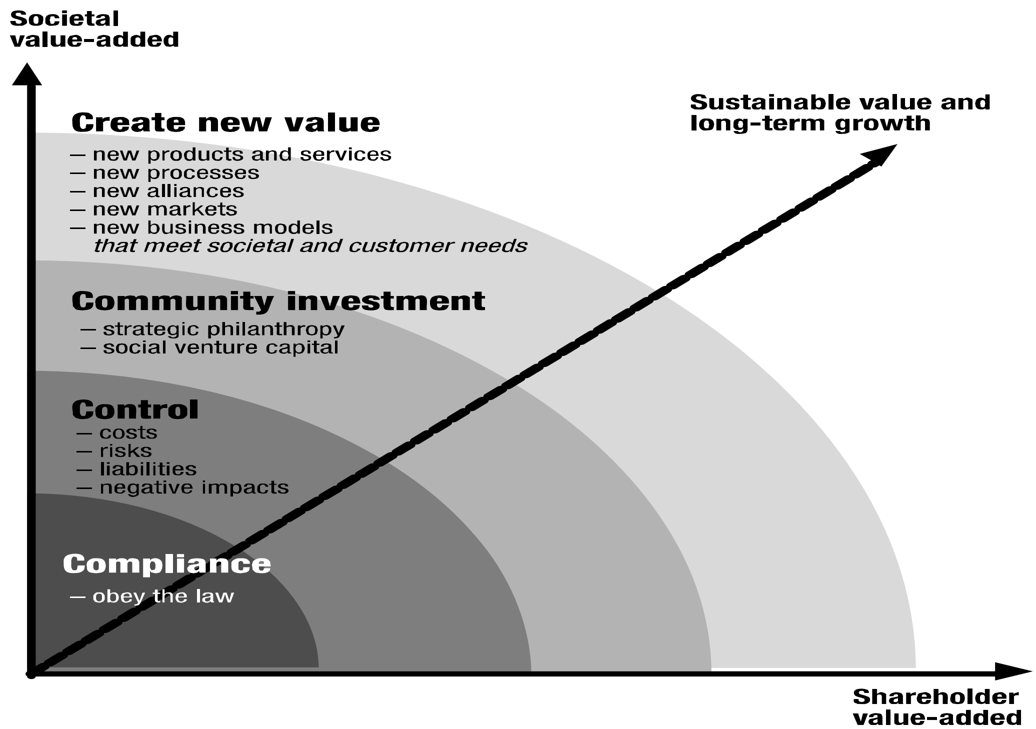
In all three spheres of corporate influence, the challenge for leadership companies is twofold:
First, ***aim to 'do minimal harm'*** in terms of minimizing negative economic impacts, bad labour conditions, corruption, human rights abuses and environmental degradation that may result from a company's operations. This is a goal that calls for management strategies such as **compliance** – with internationally accepted norms, guidelines and standards, such as the OECD Guidelines for Multinational Corporations and the UN Global Compact, as well as with national laws and regulation – and **control** of social and environmental risks, liabilities and negative impacts.

Second, ***aim to 'do positive good'*** in terms of **creating new value** for both the business and its stakeholders in the countries and communities in which it operates. This can be achieved through strategic philanthropy and **community investment**, which harnesses the company's core competencies, products and services, not only its philanthropic cheques. Examples include, ICT companies supporting community projects to tackle the digital divide, financial companies supporting microcredit initiatives, and professional services firms sharing management expertise with local community organizations.

More strategic, are efforts by companies to **create new business value** through developing new products, processes and technologies, and in some cases even transforming their business models, to serve untapped social and environmental needs, or facilitate entry into underserved markets. Examples include developing new markets for carbon emissions trading, creating new environmental technologies, and producing more affordable access to essential services such as clean water, energy, food, housing and medicines for the estimated 3 billion people who live on less than $2 a day.

These strategies for being a good corporate citizen are summarized in Figure 1:.

Figure 1: Corporate strategies for building shareholder and societal value-added



Source: Adapted from J. Nelson. *The Business of Peace*. International Business Leaders Forum , International Alert and Council On Economic Priorities, 2001.

In January 2002, a taskforce of the World Economic Forum, consisting of a group of over 40 CEOs and chairmen from 16 countries and representing 18 industry sectors signed a joint statement on global corporate citizenship. They agreed that: “The greatest contribution that we can make to development is to do business in a manner that obeys the law, produces safe and cost effective products and services, creates jobs and wealth, supports training and technology cooperation, and reflects international standards and values in areas such as the environment, ethics, labour and human rights. To make every effort to enhance the positive multipliers of our activities and to minimize any negative impacts on people and the environment, everywhere we invest and operate. A key element of this is recognizing that the frameworks we adopt for being a responsible corporate citizen must move beyond philanthropy and be integrated into core business strategy and practice."

2. From assertion to accountability

A second key trend at the heart of the emerging corporate citizenship agenda is the growth in demands by stakeholders, including shareholders, for corporations to demonstrate greater accountability and transparency – and to do so not only in terms of their financial accounts and statements, but also in terms of their wider social, economic and environmental impacts.

Gone are the days when consumers, investors and the general public trusted all the information they received from companies and were relatively undemanding on what this information should cover in terms of corporate performance. In part this trust has been squandered by the recent series of corporate ethics scandals and governance failures. It has also been affected by a combination of increased democratization and press freedom around the world, easier access to more information through the Internet, greater public awareness of global issues through the media, increased consumer choice and sophistication, and higher societal expectations of the private sector.

In response to these trends, leading companies are being called on to be more accountable and more transparent to more stakeholders on more issues and in more places than ever before. In the wake of corporate governance and ethics scandals, there have been demands for greater financial accountability and transparency, resulting in increased shareholder advocacy and new regulations, such as Sarbanes-Oxley in the United States. At the same time, certain governments and stock exchanges are also calling for greater public disclosure on environmental and social performance, in areas such as carbon emissions, product safety, occupational health and safety, training and diversity. There are also growing calls for greater transparency on private sector engagement with governments on issues such as lobbying, financing political campaigns, payment of taxes and receipts of public procurement contracts and incentives.

In all of these areas, business leaders are facing new and challenging questions in terms of *what* to be accountable for, *who* to be accountable to, and *how* to actually measure and report non-financial performance in practice.

A number of global voluntary efforts are underway to develop standards, guidelines and procedures for measuring and reporting on corporate social and environmental performance. These range from multi-sector alliances, such as the Global Reporting Initiative, which is developing guidelines and indicators for public reporting on sustainability performance, to sector-focused efforts such as the Extractive Industries Transparency Initiative, which focuses on public disclosure of payments to governments by oil and mining companies, the Fair Labour Association in the apparel sector, the Equator Principles for project finance in the banking sector, and global framework agreements being negotiated between certain trade unions and global corporations. Growing numbers of Asian companies are engaging in these and other accountability initiatives.

3. From paternalistic approaches to partnerships

The third key trend in global corporate citizenship is a move away from more traditional, paternalistic attitudes that “the company and its senior executives knows best” to more genuine engagement, consultation and cooperation with key groups of stakeholders. There is growing recognition that the challenges we face, both as individual companies and nations and as a global community, are too great and too interdependent, and the resources for addressing these challenges too varied and too dispersed, for any one actor or sector to have all the solutions. New types of alliances between companies and other sectors, built on mutual respect and benefit, are becoming essential to both corporate success and societal progress.

The area of community investment offers a good example, where leading companies have moved away from traditional philanthropic approaches, focused on one-way disbursement of charitable funds, to efforts aimed at engaging the core competencies of the company and building mutually beneficial partnerships between the company and non-profit or community organizations. Some of the key trends here are illustrated in Diagram 2.

DIAGRAM 2: FROM "CHECK BOOK" PHILANTHROPY TO SOCIAL VENTURE PARTNERSHIPS

	OLD PARADIGM GIVING: One-way	**NEW PARADIGM PARTNERSHIPS: Strategic**
PHILOSOPHY	• Discretionary giving • Corporate obligation	• New business discipline • Societal opportunity
METHODS	• Responsive • Conventional • Risk averse • Incremental	• Anticipatory • 'Out of the box' • Risk-taking • Transformative
PURPOSE	• Conformity • Good will	• Differentiation • Results and reputation
RECIPIENTS	• The 'usual suspects'	• New social entrepreneurs and innovators
IMPACT	• Minimal and not measured	• Potentially high, leveraged and measured
EMPLOYEE INVOLVEMENT	• Minimal	• Direct and intense
RELATIONSHIP MANAGEMENT	• One way • Bureaucratic • Paternalistic	• Strategic partnership • Entrepreneurial • Mutual learning
NEXUS WITH CORE COMPETENCIES	• Peripheral	• Linked to core business purpose

Source: Jackson, Ira and Nelson, Jane. Profits with principles: Seven Strategies for Delivering Value with Values. Doubleday, 2004.

Cisco Systems, for example, has been able to expand its Cisco Networking Academies program to over 10,000 academies in all 50 U.S. states and over 150 countries, working with partners ranging from the United Nations, the United States Agency for International Development and the Peace Corps, to local schools and non-governmental organizations. In the Philippines, the Ayala Group has worked with Nokia, one of its key business partners, Pearson Education, the International Youth Foundation, the Department of Education, local authorities and parent-teachers associations to provide science materials to over 80 under-resourced schools. Just two of thousands of examples, through which companies, working in partnership with others, are providing education, training, and other opportunities to millions of young people and low-income communities around the world.

Some of the most interesting partnerships are in the form of strategic global or national alliances aimed at transforming not only individual corporate practices, but also influencing public policy frameworks and the broader enabling environment. National examples in Asia include the pioneering Philippines Business for Social Progress, the Thai Business Initiative for Rural Development and the Asia-Pacific Business Coalition Against HIV/AIDs.

In addition to community-level alliances between individual companies and non-profit organizations, we are also witnessing the emergence of strategic global or national alliances aimed at transforming not only individual corporate practices, but also influencing public policy frameworks and the broader enabling environment.

One example is the United Nations Global Compact, with over 2,000 corporate participants and some 30 national business networks, many of them from developing countries, working with UN agencies, trade unions and non-governmental organizations. Through the power of collective action, the Global Compact seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. It is a voluntary initiative with two objectives:

- Mainstream ten principles in the areas of environment, human rights, labour, and anti-corruption – all of which are based on international, inter-governmental agreements - into business activities and supply chains around the world;
- Catalyse business actions and partnerships in support of UN goals, especially the Millennium Development Goals.

Asian companies have been among the pioneers in supporting the Global Compact. In countries such as China, India, Indonesia, the Philippines, Thailand, South Korea and Australia, individual companies, stock exchanges, business associations and governments are starting to explore ways to implement the compact's ten principles as core elements of sound business practice. In November 2005, the Chinese government will host a major Global Compact Summit, taking a vital leadership role at a time when global industrial capacity continues to shift to China and Chinese companies continue to increase their international investment and influence.

Building long-term corporate success

Although local business conditions and cultures vary from country to country, the elements of what it takes to be a successful and sustainable business over the longer-term illustrate some common imperatives. Being a profitable, but also responsible corporate citizen is increasingly one of these imperatives. This requires business leaders to be committed to a set of clearly stated and publicly upheld *values* – underpinned by policies and standards that are applied everywhere the company operates, not only in its home market. It requires companies to have risk management systems and accountability structures in place to *protect existing value*, by minimizing any negative economic, social or environmental impacts and reputation damage arising from their business operations. It also requires companies to support learning, innovation and partnerships that help to *create new value*, by delivering new products and services that meet societal needs as well as creating shareholder value. And it calls for ongoing efforts to *evaluate* and measure progress and performance against each of these three areas.

In summary, regardless of industry sector or country, global corporate citizenship rests on four pillars: values; value protection; value creation; and evaluation. These four pillars not only underpin the long-term success and sustainability of individual companies, but are also a major factor in contributing to broader social and economic progress in the countries and communities in which these companies operate. Along with good governance on the part of governments, they offer one of our greatest hopes for a more prosperous, just and sustainable world.

THE AUTHOR

Jane Nelson is a Senior Fellow and Director of the Corporate Social Responsibility Initiative at the Kennedy School of Government, Harvard University, and a Director of the International Business Leaders Forum. In 2001, she worked in the office of the UN Secretary-General, Kofi Annan, preparing a report for the General Assembly on partnerships between the UN and the private sector and has been the co-author of the World Economic Forum's four Global Corporate Citizenship reports since 2002. This article draws on a book she co-authored with Ira Jackson, entitled *Profits with Principles: Seven strategies for delivering value with values*, Currency/Doubleday, 2004.