CORPORATE SOCIAL RESPONSIBILITY (CSR) IN SAUDI ARABIA and GLOBALLY:

Key challenges, opportunities and best practices

Report of First Leadership Dialogue hosted by:
Harvard Kennedy School CSR Initiative
Saudi Arabian General Investment Authority
King Khalid Foundation

in cooperation with
AccountAbility, the International Business Leaders Forum, Tamkeen Consulting, Tomorrow's Company, the United Nations Office for Partnerships, and the World Bank Institute

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CONTENTS

APPENDICES

1. BACKGROUND TO THE LEADERSHIP DIALOGUES

On November 10, 2008, over 20 senior representatives from academia, local chambers of commerce, international NGOs, the Saudi government, and Saudi foundations assembled in Riyadh to discuss the existing Saudi CSR environment and identify concrete steps for furthering CSR initiatives in the Kingdom of Saudi Arabia (KSA). The meeting was co-convened by the Saudi Arabian General Investment Authority (SAGIA), the Harvard Kennedy School's Corporate Social Responsibility Initiative (CSRI), and the King Khalid Foundation, in cooperation with AccountAbility, the International Business Leaders Forum, Tamkeen Consulting, Tomorrow's Company, the United Nations Office for Partnerships, and the World Bank Institute

The Saudi Arabian General Investment Authority was established in 2000, and under its 10x10 Initiative, is working to establish Saudi Arabia as one of the world's 10 most competitive economies by 2010. To achieve this, in addition to promoting legal and fiscal reforms that facilitate increased competitiveness, SAGIA is supporting a number of initiatives that build on Saudi Arabia's foundation for corporate responsibility to support and increase responsible business practices in the Kingdom. These include the following:

• **The Saudi Arabian Responsible Competitiveness Index (SARCI)** In July 2008, SAGIA launched a Responsible Competitiveness Index (SARCI), together with AccountAbility (founded and led by CEO Simon Zadek, a Senior Fellow at the Harvard Kennedy School's CSR Initiative) and Tamkeen Consulting. This index will assess leading businesses in Saudi Arabia on the basis of companies' strategy, management, stakeholder engagement processes and social, environmental, and economic performance systems.

•**King Khalid Award for Responsible Competitiveness** – In January 2009, the inaugural King Khalid Awards for Responsible Competitiveness will be awarded to several Saudi companies that have been identified as leaders through the SARCI process.

•**Saudi Fast Growth 100**: In partnership with NextEconomics (founded and led by Anne Habiby, a Senior Fellow at the Harvard Kennedy School's CSR Initiative), SAGIA is supporting the Saudi Fast Growth 100 Initiative to identify 100 of the fastest growing enterprises in the Kingdom.

•**The Responsible Competitiveness Leadership Dialogues**: Finally, to build awareness of and support local capacity building for corporate social responsibility, SAGIA and the Harvard Kennedy School's Corporate Social Responsibility Initiative are co-convening a series of Leadership Dialogues for local and international participants to discuss the future of CSR in the Kingdom, and exchange best practices. This report provides a synthesis of the discussion of the first Leadership Dialogue, and identifies next steps to support CSR in Saudi Arabia. Future dialogues in KSA and the United States will focus on business partnerships for developing human capital.

2. CORPORATE SOCIAL RESPONSIBILITY: KEY TRENDS AND OPPORTUNITIES

"Corporate social responsibility encompasses not only what companies do with their profits, but also how they make them. As such, it goes far beyond philanthropy to include issues of corporate risk management and competitiveness. At the same time, what companies do through their philanthropic programs can make a meaningful contribution to achieving community and national development goals, in developed as well as developing countries."
- Jane Nelson

Corporate social responsibility (CSR) can be used interchangeably with other terms including responsible competitiveness, corporate citizenship, or the triple bottom line, among others. It has existed as a part of the business lexicon and strategy for years, but has increasingly come to encompass not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance to address the manner in which companies manage their economic, social and environmental impacts and their stakeholder relationships in all their key spheres of influence: the workplace, the marketplace, the supply chain, the community and the public policy realm.

After a welcome from HRH Princess Banderi Abdul Rahman Al Faisal, Director General of the King Khalid Foundation and an alumnus of the Harvard Kennedy School (HKS), Jane Nelson from HKS provided a brief overview of eight key global trends in CSR, which have relevance for the CSR agenda in KSA:

(i) CSR is becoming a competitiveness issue

(ii) A growing emphasis on strategic, competence-led philanthropy

(iii) A growing focus on accountability and transparency

(iv) New types of public-private partnerships to tackle complex global and national problems

(v) The emergence of industry-led business coalitions

(vi) New models of leadership and cooperation from key emerging markets in Asia, Africa, Latin America, and the Middle East

(vii) Integrating CSR into business schools and university curricula

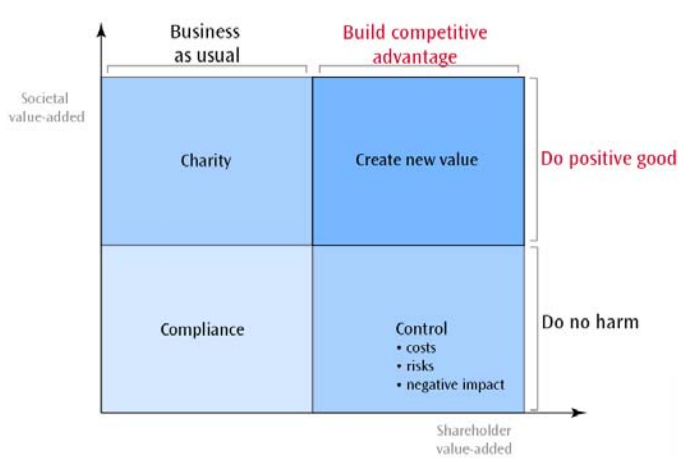
(viii) Growing role of the media

(i) CSR is becoming a competitiveness issue

For many years CSR has been primarily a risk management or a public relations/ reputation management issue within companies. Both of these are still relevant and important depending on the industry sector and situation, but increasingly companies are also looking at responsible social, environmental, labour and ethical practices as a source of competitive advantage and new market entry. The concept of 'Responsible Competitiveness' is beginning to resonate with both business leaders and policy makers around the world from China to Europe to Brazil. It is a concept that is relevant for nations as well as for individual corporations. In their groundbreaking work in this field, AccountAbility has produced a number of reports on Responsible Competitiveness, and in one of these, Pascal Lamy, Director-General of the World Trade Organisation has commented: "Responsible Competitiveness is an essential ingredient for effective global markets. It blends forward-looking corporate strategies, innovative public policies, and a vibrant, engaged civil society. It is about creating a new generation of profitable products and business processes underpinned by rules that support societies' broader social, environmental and economic aims."

From the perspective of the individual company, the following matrix offers one way of thinking about different approaches to CSR. Traditional charity and philanthropy has its role, but will usually not add much to competitiveness. Equally, compliance with laws, regulations and voluntary standards, remains an essential 'point-of-entry' activity for any company claiming to be a responsible business, but it is not a competitive differentiator. However, controlling risks, costs and negative liabilities and most importantly, creating new value through new social and environmentally responsible products, processes, technologies and alliances, can help to create competitive advantage for a company. All the four quadrants below should be part of an effective CSR strategy, but the top right-hand corner is where the real opportunities for business excellence, leadership and competitiveness lie.

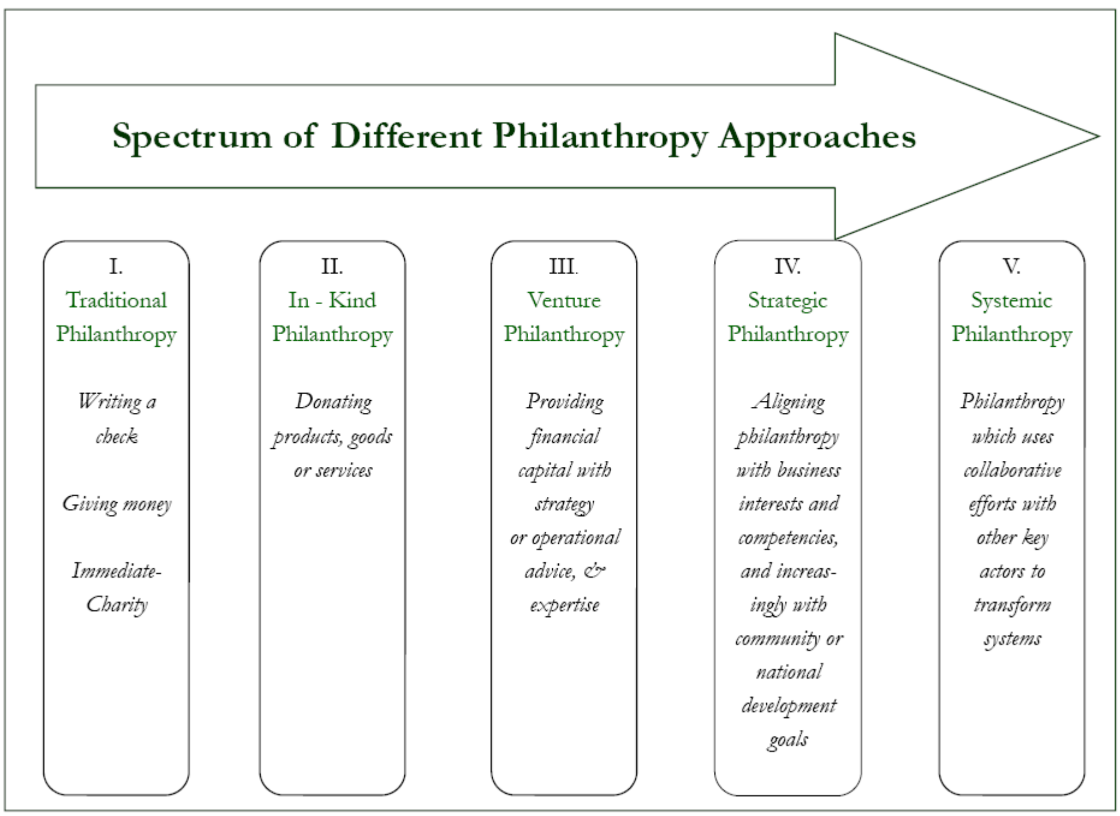
Diagram 1: Different approaches to CSR (Source: Nelson, Jane)



(ii) A growing emphasis on strategic, competence-led philanthropy

Leading companies around the world are becoming more strategic in their philanthropic and social investment programs. In terms of the issues they focus on, they are looking to support initiatives that are more aligned to the issues and interests that are most relevant (i.e. present the biggest risks or opportunities) to them, to their industry sector, and to the countries and communities in which they operate, often picking a few key thematic areas or challenges, rather than tackling hundreds of different things on an ad hoc basis. In terms of the tools they are using, they are increasingly applying their own core competencies in addition to money – for example the skills of their employees, the capability of their technologies, the leverage of their networks, and product donations to help tackle public problems.

Having said that, there are a spectrum of options that companies, foundations and other philanthropic actors are implementing. All of which have relevance depending on circumstances, partners, and the intended beneficiaries and impacts. Although there continues to be debate on terminology, the following diagram illustrates one way of looking at these different options.



(iii) A growing focus on accountability and transparency

Another important trend at the heart of effective CSR is the growth in demands by stakeholders, including shareholders, for companies to demonstrate greater accountability and transparency – measuring and publicly reporting not only on their financial performance, but also on their wider social, environmental and governance (ESG) performance. This trend is being driven by a combination of low trust in large companies, easier access to information via the Internet, more open societies and press freedom, greater public awareness of global issues, increased consumer choice and sophistication, the war for talent, and higher public expectations of the private sector. As a result there is a growing demand for publicly-quoted companies to issue CSR or sustainability reports and/or to include information on these issues in their regular annual report. Major institutional investors are also asking more questions about these issues, the Goldman Sachs ESG Framework – GS SUSTAIN – being one good example. The recently launched Transparency Award in Saudi Arabia, which was awarded for the first time in November 2008, offers an excellent example of how government and business can work together to create incentives for greater accountability and transparency, and learn and share what works.

(iv) New types of public-private partnerships to tackle complex global and national problems

Many of the challenges faced by governments in today's world, whether it is delivering better healthcare, education and training for citizens, or tackling climate change, corruption and poverty, cannot be addressed without engaging the private sector and exploring the right mix between public policy interventions and market-led solutions. It is essential that companies don't become substitutes for public sector leadership, but equally, business leaders increasingly can no longer ignore their responsibility to work in partnership with governments, foundations, universities, labour groups, and other actors in tackling complex challenges that no one sector can resolve on its own. Developing a nation's human capital, protecting its environment and expanding economic opportunity are three crucial areas where new types of public-private partnership are needed. In many cases, and Saudi Arabia is no exception, addressing these three challenges in a creative, innovative and systemic manner can have direct benefits for both corporate and national competitiveness.

(v) The emergence of industry-led business coalitions

Another emerging trend at both national and global levels is groups of companies working collectively together – either within a particular industry sector and/or geography – to jointly tackle social or environmental challenges. The Saudi-Japanese High Automobile Institute is one such example in KSA, where the Japanese auto companies have joined forces with each other and the governments of Japan and Saudi Arabia to share the responsibility and leadership of developing future well-trained mechanics. There are enormous opportunities for similar initiatives in other industries such as travel and tourism, energy, retailing, electronics etc. Examples such as the Jordan Education Initiative, where leading ICT companies are working together, or the UK's Business in the Community, are other models worth consideration for replication in KSA.

(vi) New models of leadership and cooperation from key emerging markets in Asia, Africa, Latin America, and the Middle East

For too long, the conventional wisdom has been that CSR leadership comes from the industrialized economies in Europe, North America and Japan. While there are certainly valuable lessons to be learned from CSR and corporate leadership in these economies, some of the most innovative and strategic approaches are now coming from corporations based in key emerging markets.

Equally, some of the greatest risks and opportunities for responsible business practices are in these emerging markets. There is also the opportunity to build on local cultural and faith traditions in many emerging markets, rather than simply replicate from the West. And, in an era where increased dialogue, understanding and practical cooperation between Islam and the West is more important than ever, CSR, philanthropy and responsible business practices can be a vital bridge in helping to nurture such linkages.

(vii) Integrating CSR into business schools and university curricula

In Business Schools around the world there is growing recognition that greater attention must be paid to integrating social, environmental and governance issues into both teaching curricula and research. The UN's Principles of Responsible Management Education (PRME – see Appendix II), the European Association for Business in Society (EABIS), and the Aspen Institute's Business in Society Program all offer valuable frameworks, case studies, teaching tools and networks for Saudi academics and universities to tap into this emerging trend.

(viii) Growing role of the media

Finally, the media in many countries is beginning to pay more attention to CSR issues - in terms of news, editorial, and advertorial. Leading publications such as the Economist and Financial Times are covering these issues on a regular basis, and the opportunity to engage local journalists and media in KSA and elsewhere throughout the region are enormous.

Conclusion

Ms. Nelson closed the opening session by quoting the local saying: *"A promise is a cloud. Fulfillment is rain."* How do we work together to integrate responsible business practices and CSR institutions more systematically, strategically and sustainably into KSA's national competitiveness goals and the 10x10 Competitiveness Strategy and its role as a crucial regional leader and global player?

One of the themes that came up throughout the leadership dialogue, and in consultations with Saudi and international companies and foundations, was the critical importance of developing human capital; as both a driver of competitiveness and national development more generally. Linked to this is the role of the private sector as a partner with government, foundations and educational institutions. This is a critical issue for countries everywhere from the United States to Saudi Arabia, and there is great opportunity to identify and share good practices and lessons, as outlined in the following sections.

3. BUILDING PARTNERSHIPS FOR DEVELOPING HUMAN CAPITAL

Investing in people. Improving human resources. Winning the war for talent. Each of these concepts evokes the idea that the resources provided by people play a significant role in impacting a business's bottom line. And each appears in much of the literature concerning improved productivity and competitiveness. But these phrases often pertain strictly to a given enterprise's own employees. The concept of human capital, when considering implications for national development and responsible competitiveness, goes beyond that.

Box 1.1 HUMAN CAPITAL

The World Bank defines human capital as "the knowledge, skills, and experience of people that make them economically productive" encompasses the entire range of abilities and resources that contribute to a firm or nation's success.

Human capital, as defined by the World Bank and employed here [see box 1.1] captures far more than a given enterprise's (or a given nation's) employee base. It includes the entire range of potential employees, customers, strategic partners and competitors in the region. This broader definition is appropriate because many factors affect productivity and competitiveness. As Harvard Business School professor Michael Porter noted in the 2003 *World Competitiveness Index,* "Almost everything matters for competitiveness. The schools matter, the roads matter, the financial markets matter, customer sophistication matters, among many other aspects of a nation's circumstances, many of which are deeply rooted in a nation's institutions, people, and culture."

Thus, one of the most important and strategic contributions that large companies can make to supporting national development and competitiveness goals is to invest in human capital, ranging from education and training, to health and workforce development.

Efforts linked directly to corporate value chains and business models can include:

- Lifetime learning programs for employees
- Training for small enterprises operating along corporate value chains
- Technical and vocational training for suppliers and other business partners
- Workplace diversity programs
- Workplace health and wellness initiatives
- Mentoring relationships

More broadly, companies can play a leadership role in the development of an educated, skilled and healthy local workforce by partnering with governments and both public and private education and health institutions to strengthen public education and health systems; support general technical, vocational or managerial training initiatives; invest in and advocate for science, technology, engineering and math (STEM) education; sponsor youth development and women's economic empowerment programs, and so on. And in the case of leading information and communications technology companies, such as Cisco and Microsoft, they are also demonstrating creative new ways to harness the enormous potential of technology to increase the reach and effectiveness of education and training, thereby playing a key enabling and facilitating role in many of the above initiatives.

Firms traditionally work to develop human capital in two ways: by investing in individuals or through strengthening institutions. Successful human capital initiatives can offer businesses three types of benefits: 1) they contribute to improving competitiveness (a firm's own & nationally), 2) they can improve employee recruitment, retention and motivation, and 3) they contributing to the long-term economic and human development for a stable society.

Building capacity to develop human capital is increasingly important to both firms and governments; as the European Commission wrote for its 2002 Competitiveness Report, "Ultimately, the continuous process of human capital accumulation, as well as the stock of human capital, as reflected in the growth of new technological and educational opportunities, sustains economic growth."

"Education drives our economic diversification away from oil, providing the human capital to attract foreign investment, build an innovation-based economy, and redefine Saudi Arabia's position in the world."
- The Saudi Arabian General Investment Authority, 2008

4. LOCAL AND INTERNATIONAL PERSPECTIVES OF CSR IN SAUDI ARABIA

The next session of the Leadership Dialogue was open for each attendee to discuss their vision for increased implementation of CSR and responsible business practices in Saudi Arabia. Participants identified a number of challenges and opportunities present in Saudi as businesses work to increase socially responsible business practices.

The most important challenges participants identified were:

- A lack of awareness of CSR, both in terms of the overall 'business case' for CSR, and in terms of concrete CSR practices, implementation tools, and methodologies
- Lack of institutionalization of CSR within companies and within the business community, i.e. relatively few CSR organizations, consultancies, business leadership initiatives etc. al. though the Chambers of Commerce have started to establish dedicated CSR Committees, which is an extremely important development
- A mismatch between the need for CSR practices and the skills taught by local colleges and universities
- A lack of CSR resources available in Arabic

Participants identified the following opportunities for furthering CSR in the Kingdom, among others:

- A strong, longstanding and deeply embedded 'culture of giving' already exists through the Islamic pillar of *Zakat*
- A growing interest in CSR among the corporate community, which could provide the momentum for change and implementation
- Leadership emerging from the Chambers of Commerce to establish committees for CSR
- Increased government support for improving economic competitiveness and for exploring the linkages between responsible business practices/ CSR and national and corporate competitiveness

Growing foreign direct investment from many of the world's leading corporations that are also leaders in CSR who can share international best practices and support local projects. The following companies, for example, are all members of the Harvard Kennedy School's CSR Corporate Leadership Group, are internationally recognized leaders in different aspects of CSR, and all have investments in KSA: Cisco Systems; Chevron; Shell; Microsoft; the Coca-Cola Company; General Motors; InterContinental Hotels Group; and Pfizer.

Simon Zadek suggested three important questions that Saudi business, government and civic leaders should ask themselves in identifying 'What are the specific circumstances where CSR can become a force for positive change?" Is it through a process of **'Normalization'** – where Saudi companies and business leaders become a more integral part of the global business community and adapt existing international norms and business practices? Are there areas for **'Exceptionalism'**? In short, what are the cultural and faith traditions and business practices that are unique to Saudi Arabia or Islam, such as zakat, which form the basis for good business and responsible corporate practices? And are there potential opportunities for **'Transformation'**, whereby Saudi companies and business leaders and foundations could actually 'export' local practices and projects to other countries.

The next session was attended by Prince Sultan bin Salman bin Abdulaziz Al Saud, Secretary-General of the Saudi Commission for Tourism and Antiquities, Co-Founder and Chairman of the Board of Trustees of the Prince Salman Center for Disability Research, and Chairman of the CSR Committee in the Riyadh Chamber of Commerce. The session focused on how to efficiently include and mobilize the Saudi business community to broaden the scope of CSR in the Kingdom.

Participants discussed how to move businesses from supporting individual philanthropic initiatives to building partnerships among the public and private sectors to achieve greater social good, and how to shift from the focus being solely about traditional philanthropy and more a combination of core business operations and more strategic philanthropy and social investment. There was also discussion about how to attract the interest and attention of very busy corporate executives. Prince Sultan cited the example of HRH The Prince of Wales' Prince's Trust and 'Seeing is Believing' programmes as one approach for engaging top business leaders more proactively in helping to solve social and environmental challenges. He commented that, "Saudi Arabia needs some type of institutionalized way to tap into the best knowledge, tutoring, mentoring."

5. BUILDING ON SAUDI ARABIA'S FOUNDATIONS FOR CSR

There is much to build upon. Saudi Arabia is a nation rich in socially responsible business opportunities, with a number of strong economic indicators, and a cultural and religious history that is consistent with the goals of its private sector's CSR work. It is ranked 16th (of 181 economies) in the World Bank's 2009 Ease of Doing Business index. It is 27th (of 134 economies) in the World Economic Forum's 2008-2009 Global Competitiveness Index, and it is the top foreign direct investment destination for the Arab world, per the United Nations Conference on Trade & Development (UNCTAD) World Investment Report.

In 2008, the Saudi stock exchange (the Tadawul), for the first time was opened to foreign capital through stock swaps, which many believe is the first step to permitting direct foreign investment through the Tadawul itself. The Tadawul has been open to investment from citizens of Gulf Cooperation Council Countries, but the move to expand access is recognized by many to be a significant step towards diversifying the Tadawul's investor base and expanding the Kingdom's financial markets. Such an innovative move indicates a market openness to change - and one that could be leveraged to embrace domestic CSR programs. Saudi Arabia also occupies a unique position in the Islamic banking world, as home to the Islamic Development Bank. Islamic banking is a growing form of investment that is governed by Shari'ah (Islamic law). It prohibits investment in activities that are haram (prohibited), such as gambling, alcohol, or pornography, among others, or the charging of riba (interest) for any activity. HSBC, Deutsche Bank, Citigroup and JP Morgan all have Islamic banking units.

Islamic banking has existed within the realm of international finance for about 30 years, but the principles underlying such forms of investment date back centuries. Particularly in light of current market turmoil, many believe Islamic banks or banking units could serve as "ports in a storm," that may not be fully insulated from economic chaos, but could offer safer investment vehicles, due to their avoidance of many volatile market instruments. As some of our participants noted, Saudi Arabia's unique position in Islamic finance could facilitate a leadership role for businesses to exemplify how Islamic principles could be employed for socially responsible investment and business practices.

A majority of our participants also noted that the Islamic tradition of zakat may provide additional cultural or religious support to private sector CSR initiatives. One of the five pillars of Islam, zakat is an obligation (of those who possess a minimum amount of assets to provide for their essential needs, the "Nisaab") to give a percentage of one's income to charity. This deep seated tradition of giving offers a strong starting point to further implement CSR practices into business.

Perhaps most encouragingly, as Karim Ouled Belayachi and Jamal Ibrahim Haidar noted in a 2008 *Doing Business* case study for The World Bank, the Saudi government has shown itself to be a willing partner in the reforms needed for the country to improve its positioning as a favored market for strategic investment. Such support is necessary for broad adoption of CSR programs because governments play a crucial role in shaping a nation's context for CSR. They set parameters through legislation, regulation and law enforcement, they encourage (or discourage) participation by various segments of society, and can offer considerable institutional and financial support. Government can also provide the legitimacy for change and sets the tone with respect to cultural attitudes toward innovation and education. HRH King Abdullah bin Abdul Aziz Al Saud himself has provided the support and legitimacy underpinning many of the reforms needed to achieve the 10 x 10 goal - most recently in supporting the elimination of the minimum capital requirements to start a new business. To undertake strategic, efficient reforms supporting CSR, the public and private sectors should act together to achieve change that benefits all actors.

At the November Leadership Dialogue, Saudi participants from the public, private and nonprofit sectors indicated a strong desire to see greater adoption of CSR practices in the Kingdom. Support from the Chambers of Commerce, some of the nation's largest philanthropic foundations, the academe and the private sector, when coupled with a governmental willingness to support developing CSR initiatives, indicates a fertile environment for planting CSR seeds. A number of concrete next steps are needed to support the growth of CSR initiatives in the Kingdom, three ideas that were strongly supported by meeting participants follow.

6. NEXT STEPS: AN AGENDA FOR ACTION

Meeting participants identified three proposed areas for action:

(i) Raising awareness of the need for CSR initiatives in the Kingdom, as well as spreading awareness of current successful CSR practices;

(ii) Creating better modalities for information sharing about CSR, and particularly making such resources available in Arabic; and

(iii) Improving institutions and capacity building for CSR practices.

(i) Raising awareness of the need for CSR initiatives in the Kingdom, as well as spreading awareness of current successful CSR practices

Participants expressed a significant desire for a greater awareness of corporate social responsibility in the Kingdom. While there is already a strong foundation for charity in Saudi, particularly because the Islamic principle of *zakat* is exemplified throughout the country, it frequently manifests in traditional financial philanthropy, and is not necessarily included in business strategy or activities. Nor is it usually aligned to meeting the nations strategic development needs. Participants supported the dissemination of information about successful CSR initiatives already occurring in Saudi, in addition to the benefits of incorporating CSR activities into core business activities beyond traditional philanthropic initiatives. While the SARCI, the Saudi Fast Growth 100, the Leadership Dialogues and the Global Competitiveness Forum are significant first steps to expanding knowledge of CSR, meeting attendees agreed that more could be done to broaden awareness.

SPECIFIC IDEAS ON THE WAY FORWARD:

- Engage actively with the media and journalist to support increased news coverage, op-eds, advertisements and articles
- Invite visiting CEOs and foreign dignitaries to meet with their local counterparts to discuss international best practices in CSR when they are visiting KSA
- Give a high profile to awards such as the King Khalid Responsible Competitiveness awards (to be launched in January 2009) and the newly created public and private sector Transparency Awards in KSA.
- Take corporate CEOs to visit outstanding local social and environmental projects, similar to the UK's 'Seeing is Believing' programme launched by HRH The Prince of Wales
- Take a delegation of leading Saudi business executives and thought-leaders to visit CSR initiatives in the United States or Europe.
- Create stronger links between Saudi companies, foundations and universities to existing global CSR networks, such as the OECD-MENA Responsible Business Initiative; the European Alliance for Business in Society (EABIS), the United Nations Global Compact; the World Bank Institute; the World Business Council for Sustainable Development; and the International Business Leaders Forum.

(ii) Creating better modalities for information sharing about CSR, and particularly making such resources available in Arabic

The second area for action, creating better modalities for information sharing about CSR, will serve and support the first and third action areas. By making more information about corporate social responsibility available generally in the Middle East, particularly when translated in Arabic, the benefits of supporting socially responsible business practices will be apparent, and ideally create an environment that can support improved institution and capacity building for further CSR development in the region. CSR resource availability in Arabic is quite low, which currently limits the amount of information exchange about CSR topics and initiatives.

SPECIFIC IDEAS ON THE WAY FORWARD:

- Translate more of the ***existing*** seminal articles, reports and case studies on CSR into Arabic.
- Increase the number of ***local*** case studies and CEO leadership statements in Arabic.
- Create a central **empirical database** or 'Knowledge Centre' of useful examples and practical tools.

(iii) Improving institutions and capacity building for CSR practices

Finally, dialogue participants indicated a desire for greater institution and capacity building for CSR programs. The Chambers of Commerce, universities and foundations were all identified as possible hosts for creating or facilitating networks where members could share CSR good practices and information. Greater coordination among players such as foundations, chambers of commerce, government agencies and businesses mean less duplication, decreased confusion and potentially much greater leverage and impact. By participating in advocacy activities and forming coalitions, public and private enterprises can work together to work together to maximize the opportunities and benefits of pursing CSR programs. There is also an enormous opportunity for great collaboration between Saudi foundations and companies to support capacity building and skills development for the nonprofit sector, and especially community organizations

SPECIFIC IDEAS ON THE WAY FORWARD:

- SAGIA indicated that the creation of a national **Saudi Corporate Responsibility Council,** with members representing all sectors, could serve as one such network.
- Identify and share specific public policy instruments, incentives and interventions where the government has played a role in encouraging CSR in other countries.
- Take a more regional approach and ensure that Saudi companies participate in and help to lead regional networks such as the **Arab Sustainability Leaders Group**, created by Her Royal Highness Queen Rania.
- Convene a group of major foundations and companies to support a joint capacity building program, or even an institute, for the nonprofit sector in Saudi Arabia.

APPENDIX I
LIST OF PARTICIPANTS

International task group

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Juan Andrés Garcia Alvarez - NextEconomics
Anne Habiby – CEO, NextEconomics and Saudi Fast Growth 100
Jane Nelson – Director, CSR Initiative, Harvard Kennedy School
Graham Minter – International Business Leaders Forum
Shannon Murphy - Executive Director, CSR Initiative, Harvard Kennedy School
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Simon Zadek – CEO, AccountAbility

Local leadership group

Prince Sultan bin Salman bin Abdulaziz al Saud
HRH Princess Banderi Abdul Rahman Al Faisal– Director General,
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APPENDIX II
THE UNITED NATION'S PRINCIPLES FOR RESPONSIBLE MANAGEMENT EDUCATION (PRME)

PRINCIPLE 1 Purpose: We will develop the capabilities of students to be future generators of sustainable value for business and society at large and to work for an inclusive and sustainable global economy.

PRINCILPE 2 Values: We will incorporate into our academic activities and curricula the values of global social responsibility as portrayed in international initiatives such as the United Nations Global Compact.

PRINCIPLE 3 Method: We will create educational frameworks, materials, processes and environments that enable effective learning experiences for responsible leadership.

PRINCIPLE 4 Research: We will engage in conceptual and empirical research that advances our understanding about the role, dynamics, and impact of corporations in the creation of sustainable social, environmental and economic value.

PRINCIPLE 5 Partnership: We will interact with managers of business corporations to extend our knowledge of their challenges in meeting social and environmental responsibilities and to explore jointly effective approaches to meeting these challenges.

PRINCIPLE 6 Dialogue: We will facilitate and support dialogue and debate among educators, business, government, consumers, media, civil society organizations and other interested groups and stakeholders on critical issues related to global social responsibility and sustainability.

APPENDIX III
CSR AND DEVELOPING HUMAN CAPITAL

This article originally appeared a Saudi newspaper and was written by Corporate Social Responsibility Initiative Director Jane Nelson

From Asia to the Middle East and 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 social responsibility (CSR) is in the spotlight as never before. It is moving beyond the boundaries of legal compliance, public relations and philanthropy, although all of these remain essential components of CSR, to become a more integral part of corporate governance, strategy, risk management, reputation, and competitiveness.

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 United Nations 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. At the same time, in key emerging markets around the world, including Saudi Arabia, national corporate champions are becoming regional and global competitors and leaders. This process has resulted in new business opportunities for many companies, but also new competitive pressures, risks and public expectations.

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 social activists as well as financial analysts, to manage 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 ranging from climate change and water management to youth enterprise and human capital development. They are under pressure from governments, consumers, 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 social responsibility.

While this leadership challenge has been especially apparent for executives in Europe and North America, it is also becoming a reality for many in Asia, Africa, and the Middle East, especially those that aim to be world-class global players – either cooperating 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. Likewise, there is wide variation in the specific contributions that different companies can make to support national competitiveness and social development goals. Their contribution depends not only on the type of intervention needed – such as job creation, youth employment and enterprise, access to education and health, environmental management - but also on factors such as the industry sector and the company's business model, ownership structure and size.

Despite these differences, almost all companies have the potential to make a contribution to national development goals through the following three spheres of business influence:

(i) **Core business operations and investments** – including the company's activities and relationships in the workplace, the marketplace, and along the supply chain. The greatest and most sustainable contribution that any company can make to society is through carrying out its core business activities in a profitable, productive and responsible manner. The key goal for all companies should be to minimise any negative impacts that may arise from these activities, and to increase and leverage the positive impacts of core business, ranging from job creation and product and service innovation, to human capital development.

(ii) **Strategic philanthropy and community or social investment** – aimed at mobilizing not only money, but also the company's other core assets and competencies such as its people, products and premises to help support and strengthen local communities and non-profit partners.

(iii) **Public policy dialogue, advocacy and institution building** – efforts by companies, either individually or collectively, to participate in relevant public policy dialogues and to partner and cooperate with their governments to jointly pursue key national goals in areas such as education, health and the environment, especially where these help to improve the national competitiveness context.

One of the most essential contributions to society that any corporation can make in any country or industry sector is to help build human capital and job opportunities to achieve both economic competitiveness and social progress. The quality and reach of the education, training and workforce development system is one of the single most important factors in determining a nation's productivity, its competitiveness, its economic growth, its prosperity, its ability to create decent jobs and working conditions, and the social progress of its citizens. In addition, as SAGIA has noted in the case of Saudi Arabia, "Education drives our economic diversification away from oil, providing the human capital to attract foreign investment, build an innovation-based economy, and redefine Saudi Arabia's position in the world."

The overall development of a nation's human capital is a crucial responsibility for governments. At the same time, in countries all over the world from the United States to China, India, Japan, South Korea and members of the European Union, a growing number of major corporations are developing strategic alliances with each other, and with public sector institutions, universities, foundations and nonprofit organizations to improve the quality, quantity and relevance of a country's education, training and workforce development.

This reflects growing recognition that one of the most important and strategic contributions that large companies can make to supporting national development and competitiveness goals is to invest in human capital, ranging from education and training, to health and workforce development. Efforts linked directly to corporate value chains and core business operations can include:

- Training and skills development programs for employees;
- Training and financial credit for small enterprises operating along corporate value chains;
- Technical and vocational training for suppliers and other business partners;
- Workplace health, safety, diversity and wellness initiatives.

More broadly, companies can play a leadership role in the development of an educated, skilled and healthy national workforce by partnering with governments and both public and private education institutions to:

- Strengthen public education and health systems;
- Support general technical, vocational or managerial training initiatives;
- Invest in and advocate for science, technology, engineering and math (STEM) education;
- Support entrepreneurship education and skills development; and
- Sponsor youth and women's economic empowerment programs.

In the case of leading information and communications technology companies, they are also demonstrating creative new ways to harness the enormous potential of technology to increase the reach and effectiveness of education and training, thereby playing a key enabling and facilitating role in many countries.

Collective action and partnership

While it is essential that major corporations get involved in CSR through their own individual business operations and their own philanthropy and community investment programs, there is great potential to scale-up their impact and address more systemic challenges through collective initiatives undertaken in partnership with other companies, governments and development partners. Examples of such collective initiatives already exist in Saudi Arabia and they offer a model for others to follow. They include initiatives such as:

- *The Centennial Fund*, where leading companies are working collectively to support youth enterprise, enabling young people to create their own small enterprises and economic opportunities.
- *The Saudi Japanese High Automobile Institute*, where the ALJ Group and other Japanese auto distributors are working with each other and with the Saudi and Japanese governments to support a market-led program of technical and leadership skills development for young Saudi auto mechanics.
- *Microsoft's Unlimited Potential* program and Cisco's Networking Academies are two examples of companies working with a variety of other corporate and education partners throughout the region to improve ICT skills and training in order to prepare young people for the 21st century Knowledge Economy.

Conclusion

As these and many other examples illustrate, the private sector has an increasingly important role to play in working with governments and others to achieve key development goals, ranging from national competitiveness to human capital development. The central challenge for leaders in business and government alike is to develop new business models, market-driven alliances and cross-sector partnerships that serve the public interest while making sound business sense, and that harness the competencies, technologies and networks of the private sector without replacing or undermining the role of governments or destroying the ability of business to create long-term value. Success in meeting this challenge is likely to be essential to achieving both national and corporate competitiveness in the future.

In 2009, the CSR Initiative at Harvard Kennedy School is working with the World Bank Institute, United Nations Office for Partnerships, Prince of Wales International Business Leaders Forum, AccountAbility and Tomorrow's Company to support SAGIA, Tamkeen and the King Khalid Foundation in developing a series of leadership dialogues on how business can support key goals of human capital development and job creation in KSA and the region. Experts from some of the world's leading companies will join with their Saudi counterparts to learn from international and local best practices in the areas of education and skills development, job creation, and youth enterprise, and make recommendations for effective partnerships to public, private and academic leaders.

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APPENDIX IV
RESPONSIBLE COMPETITIVENESS: MAKING SUSTAINABILITY COUNT IN GLOBAL MARKETS

This article originally appeared in the Summer 2008 issue of the Harvard International Review, and was written by AccountAbility's Simon Zadek and Alex MacGillivray

The need for a more responsible basis on which businesses and economies compete in international markets has never been greater. Global corporations with global strategies contribute to rising inequality and falling economic opportunities for lower-income communities across the developed world. Low wages and poor working conditions are sources of international competitiveness for businesses from Dhaka to Johannesburg, and weak environmental regulatory enforcement continues to deliver profitable opportunities to many firms, whether they are mining copper, shipping oil, or cutting down forests. Such markets that reward poor social and environmental behavior will impede our collective efforts to address today's greatest challenges, from water scarcity and food insecurity to civil unrest and the rise of fundamentalism. Economic protectionism, underpinned by xenophobia and racism, is the consequence of diminished confidence that open international markets can deliver the goods.

A generation of innovative business strategies and practices are emerging that deliver profits from more responsible behavior. At their minimum, they protect companies' reputations and brands, reducing the risks of consumer boycotts, recruitment bottlenecks in the face of bad press, or restricted or more expensive access to capital. Beyond this, companies have enhanced productivity through improved working conditions and driven product innovations by engaging with communities and understanding their issues and needs. Global leaders like General Electric have built multibillion dollar businesses offering energy-efficient products, and last year UK consumers alone purchased around US$60 billion worth of goods and services marketed with ethical virtues such as child labor, human rights, and arms control.

The challenge is to move beyond the exceptional and exemplary cases of responsible behavior to establish new norms of "responsible competitiveness" in global markets. Exceptional cases of responsible business behavior are important sources of insight and inspiration but will only deliver significant impact if they serve to reshape how markets more systematically reward and penalize all businesses' social and environmental impacts. Nike and Levi's, as premium brands appealing to socially and environmentally-conscious consumers, may successfully secure a competitive edge through improved labor standards. But achieving such standards across the whole apparel and footwear sector, including cheaper brands selling to more price-conscious consumers, requires accepted and enforced market rules. Ikea or Home Depot, similarly, might ensure that their wood products are made from sustainable forest reserves, but this will have little impact unless such practices are scaled up across all wood products.

Achieving responsible competitiveness across global markets requires the right combination of business, government and civil society policy and action. Since 2002, AccountAbility has built a framework enabling the measurement and analysis of factors that advance the responsible competitiveness of nations. Pascal Lamy, Director-General of the World Trade Organization, summarizes the key drivers in his overview of this work in identifying the need for "forward looking corporate strategies, innovative public policies and engaged and vibrant civil societies."

Innovative means of combining these three drivers of responsible competitiveness have emerged over the last decade. In particular, a host of collaborative initiatives, involving businesses, NGOs, and public institutions including governments and international agencies like the UN's International Labour Organization (ILO), have emerged to set voluntary rules, providing codes of conduct and standards for reporting and consumers labels. For example, factory conditions for millions of people working in the global supply chains of apparel and textiles sectors have improved over the last decade through several such initiatives, including the Fair Labor Association, the Ethical Trading Initiative, and Social Accountability International. Similar improvements have taken place in other sectors and issues, from privacy on the internet to the responsibility of lotteries. For example, the Forest Stewardship Council, the leading international body dealing with sustainable forestry, currently oversees the certification of forests covering over 20 million hectares.

Collaboration is also core to responsible competitiveness when new statutory mechanisms beyond voluntary agreements are needed. Government initiatives to establish effective regulatory frameworks require the support of leading businesses and civil actors. The high-stakes case of climate change illustrates this point. Businesses' willingness to create the innovative products and processes to enable us to address climate change will depend on whether governments can strike an international deal that delivers high and stable carbon prices, whether through an international carbon market or carbon taxes. But in most countries, business and civil society support would be needed for such a deal to be made. In the United States, an alliance of businesses and NGOs, the United States Climate Action Partnership, has been created to lobby the government to establish such a deal. Unsurprisingly perhaps, this alliance includes businesses that stand to gain from high carbon prices.

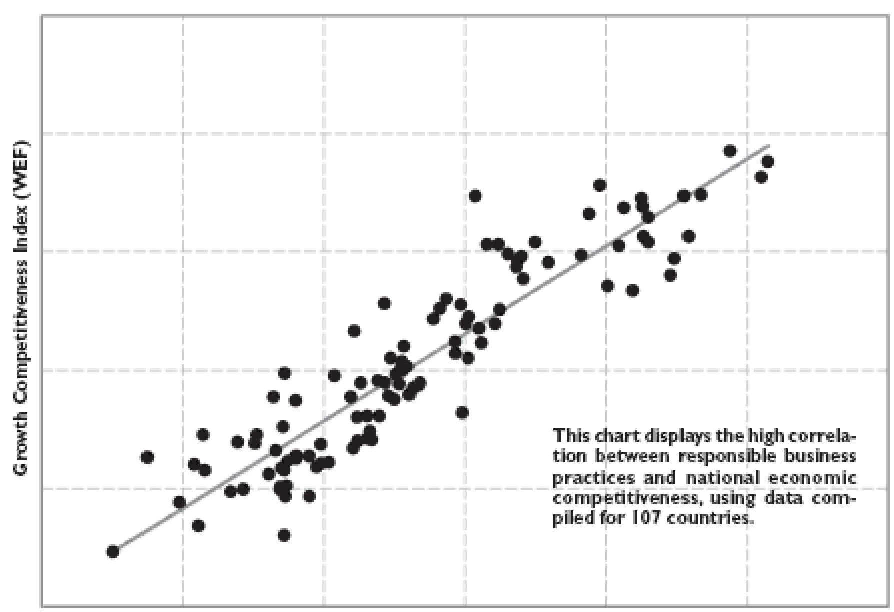
Tracking the significance of responsible business practices in driving national economic competitiveness helps in building strategies for advancing its importance in global markets. AccountAbility has built a unique index of the responsible competitiveness of nations. In its fourth global report on the topic, "The State of Responsible Competitiveness 2007," the Responsible Competitiveness Index (RCI) measured the progress of 108 economies in embedding responsible business practices into their respective economies. So although it does not directly measure international competitiveness, it does provides a comparative measure of how significant responsible business practices are in the overall functioning of national economies. Specifically, the RCI 2007 does this through a multivariate econometric model designed to measure the relative importance of three inter-related domains: corporate strategies, public policies, and effective civil society engagement.

The first area is business action measuring the application of governance, social and environmental good practice, codes and management systems at the firm level. The second area is policy drivers, which are seven measures of the strength of public policies and "soft power" that encourage responsible business practices. Finally, social enablers measures broader social and political environment that enable businesses, governments and civl society organizations to build effectively collaborations to reshape markets.

The RCI 2007 includes 21 data streams covering measures of corruption, environmental management, tax avoidance, and the ability of civil society to effectively challenge corporate behavior, among others. The data is all drawn from authoritative sources as diverse as Amnesty International, the International Organization for Standardization, the ILO , Transparency International, the World Economic Forum, and the World Bank.

The headline results indicate that European countries in particular are more advanced in embedding responsible business practices at the heart of their economies, with North America, Chile, Costa Rica, South Africa, and several Asian countries following closely behind. Nordic countries dominate the list, with Sweden taking first place and Denmark, Finland, Iceland, and Norway all being in the top six. Thirteen of the top 20 countries are European, joined by Hong Kong, Japan, and Singapore from Asia; Canada and the United States; and Australia and New Zealand. South Africa leads the BRICs in 28th position, with Brazil, India, Russia, and China extending down the list in that order. Emerging economies like Chile, Malaysia, and South Korea perform within the top quartile, often better than a number of recent entrants to the European Union. Among the low-income countries, Zambia and Uganda perform better than countries at comparable levels of development.

Growth Competitiveness Index versus Responsible Competitiveness Index



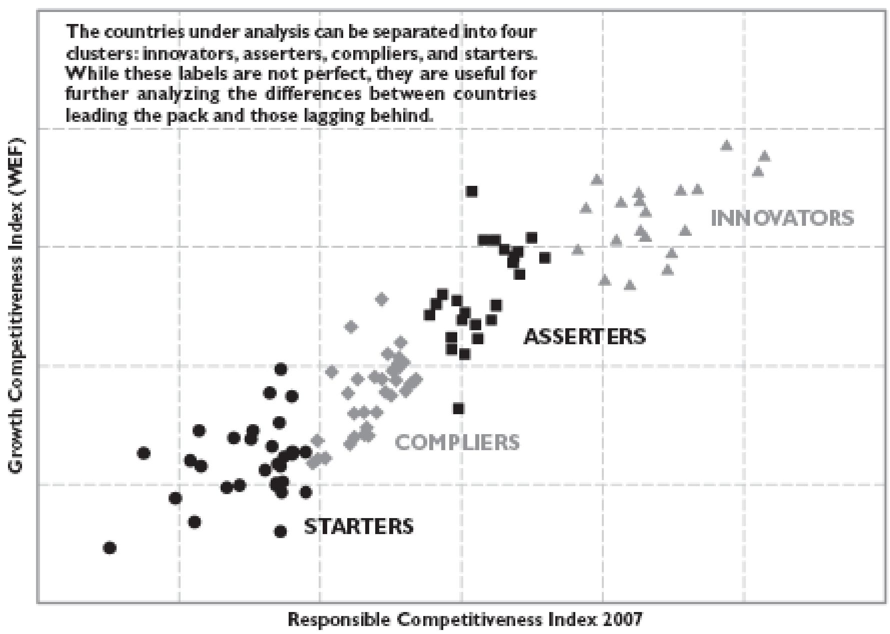
"The State of Responsible Competitiveness 2007." AccountAbility

The RCI provides a data-driven view of the extent to which social and environmental factors are built into nations' economies. For example, higher-scoring economies might be underpinned by stringent environmental regulations, high rates of business adoption of voluntary environmental management systems like ISO14000 and active environmental campaigners, whereas lower scoring economies may have high levels of institutionalized corruption, a high incidence of tax avoidance or restrictive regulations and norms preventing civil society organizations from challenging corporate misdemeanors.

Such characteristics shape the manner in which businesses and entire economies function, and so compete with each other.

The RCI 2007 therefore provides a means of assessing the extent to which responsible business practices are a factor in determining how any particular nation competes in global markets. So, for example, the fact that Brazil scores better than China indicates that the former's underlying competitive proposition in global markets is driven more than the latter's, in aggregate, by responsible business practices.

Responsible Competitiveness and Stages of Economic Development



"The State of Responsible Competitiveness 2007," AccountAbility

Comparing these results with well-known national competitiveness indexes provides one cross-check of whether the RCI is aligned with conventional measures of national competitiveness. The World Economic Forum's annual Global Competitiveness ranking is the best-known of these measures and seeks to factor in measures of market flexibility, technological development, workforce educational standards, and enabling political environment, among others. The World Bank's Annual Doing Business Index provides a different lens by measuring factors that make business easier, such as the ease of border customs regulations and procedures.

There is a relatively close fit between these indexes and the RCI ($R2=0.85$ for the correlation between the RCI and the World Economic Forum's Growth Competitiveness Index). This correlation indicates that there is a high correspondence between the level of development of responsible business practices and measured national competitiveness across the hundred or so countries common across the indexes. Interestingly, it also provides one measure of how far countries are achieving competitiveness with a "responsibility deficit" (countries that lie to the left of the correlative line in the graph) and those with competitiveness deficits" that lag in competitiveness despite the level of responsible business practices achieved (countries that lie to the right of the line).

The implications for action vary between countries, largely depending on their stage of economic development. Headlines and correlations must be treated with caution given the enormous differences between the countries covered, as with other wide-angle lens international indexes like the Human Development Index and the World Economic Forum's Competitiveness Indexes. Examining subsets of countries is more helpful. A principal components analysis suggests four statistically-robust clusters of countries, broadly distinguished by their stage of development. While highlighting that there can be no cookie-cutter approach to building responsible competitiveness, the clusters do allow us to speculate as to what they represent: starters, compliers, asserters, and innovators.

The starters are the laggards comprised of 31 low scorers, including China, Bangladesh, and Russia; any have signaled a commitment to responsibility through signing and ratifying international treaties and other policy drivers but struggle to implement the basics, like worker health and safety, product safety, and corruption. The compliers is a cluster of 32 countries, which, except for India, are middle-income and account for US$1 trillion of global trade. Compliers include Brazil, Turkey, and Mexico, and focus on demonstrating progress, meeting international labor and environmental standards, and seeking to capture a share of quality-conscious branded markets.

Comprising 24 countries, the asserters group is perhaps best placed to seize opportunities in responsible competitiveness. Some, like Chile and South Africa, actively promote international standards suited to their own strengths in order to gain competitive advantages. Some are building national responsibility brands to attract foreign direct investment and export a first generation of global product and corporate brands. Finally, the innovator group is the most developed cluster. These 20 countries are embedding responsibility in the core of their domestic economies, stewarded by relatively well-enforced statutory regulations. Their societies also comprise of ethics-conscious consumers underpinned by civil activism. Knowledge-based innovation is key to the competitiveness of these economies. Thus they require flexible working conditions and dynamic and trusted public and private institutions.

Responsible competitiveness strategies will therefore vary between countries depending on their economic structure and stage of overall development. China's (87th in the RCI) economic success has to date been largely underpinned by "cheap and dirty" exports, competitive by virtue of low labor costs, poor working conditions, and non-existent or weakly enforced environmental regulations. But these practices and the associated "China Brand" will not help China move toward more sophisticated products nor establish its first generation of global, and globally branded multinationals. China's future economic success will depend in no small measure on its ability to demonstrate a responsible approach to business and economics.

The Chinese government clearly understands this, as manifested in the forced closures of factories producing contaminated food, strengthened labor laws, and harsh penalties for corruption among senior officials. Official Chinese responses to environmental concerns by the international community are shifting from defensive references to claims of responsibility. As an example, a handbook recently produced by the Chinese Forestry Ministry "positively guides and standardizes Chinese companies' sustainable forestry activities overseas, promotes the sustainable development of forestry in those countries, [and] protects the international image of our government being responsible." China's problems and shortfalls continue to outweigh its record of good practice. But the stage is certainly set for it to take pragmatic leadership in advancing responsible business practices at home and internationally.

Europe, at the other end of the development scale, has a very different set of challenges to face in sustaining its competitive advantage in key global markets. Its inclusive development model, founded on the principle of social dialogue between labor, business, and the state, has delivered low levels of inequality and high levels of cohesion across a community of almost 30 nations and upwards of 400 million people. At the same time, it has created institutional rigidities and market inflexibilities, resulting in profound risks at a time where economic dynamism is a requirement for survival in global markets. Günter Verheugen, Vice President of the European Commission in charge of Enterprise and Industry, sees leadership in responsible business practices as an opportunity for renewing Europe's inclusive development model while freeing the continent of its unwieldy constraints to economic vitality. "The key word for competitiveness in today's knowledge-based economy is innovation," argues Vice President Verheugen, "…and the best enterprises have realized that CSR and innovation are intimately linked."

Today's experimentation provides concrete evidence that responsible competitiveness strategies are the key to creating tomorrow's sustainable global economy. But such a future is not guaranteed. The potential of responsible competitiveness is not sufficiently appreciated by business leaders, policy makers or activists, because of backward-looking convention, out-dated advice, poor statistics, and competency gaps. More specifically, business laggards, often risk averse and from failing industries or cautious business associations, actively impede the efforts by governments or even businessled coalitions to advance responsible competitiveness strategies and practices. Many public institutions, overly influenced by business laggards, remain unconvinced that competitiveness can be associated with new forms of accountability, and so allow or actively champion lower social and environmental business standards. Entrenched civil society and labor organizations are overly focused on campaigning for compliance, failing to understand how to leverage competitiveness to achieve social and environmental gains.

AccountAbility advocates a four-point program. First, is measuring responsible competitiveness. Tracking progress, or its lack, is in itself a way to overcome such backward-looking resistance. The Responsible Competitiveness Index is in this sense doing its job, with the growth of national and regional focus lists and associated analysis already extending across the Americas with a specific Brazil focus, China, Europe with specific focus on UK sub-regions, and this year planned for India and the Arab world with specific focus on Jordan and Saudi Arabia. Furthermore, AccountAbility has now joined with the United Nations Environment Programme (UNEP) to launch the County Carbon Competitiveness ("3C") Index, measuring the preparedness of nations to compete in tomorrow's high carbon priced world.

Second, sector-based strategies are critical to success. For example, Cambodia and Lesotho, among other nations, are advancing the competitiveness of their apparel and textiles sectors on the back of improved labor and environmental standards. Comparable examples already exist in tourism, flower exports, wine, and vegetables and fruit, often promoted by national and regional development agencies. The European Community has identified leadership in product innovation linked to climate change as one of the continent's greatest economic opportunities of the 21st century.

Third, national and regional strategies deal with multi-sector issues and opportunities, including of course the contentious issue of whether and how social and environmental issues get factored into international trade and investment agreements, and measures to improve the enforcement of labor and environmental and anticorruption measures and corporate governance. Beyond this, we see a growing number of countries seeking to embed responsible competitiveness as one element of its national brand, such as Saudi Arabia recently highlighting the place of responsible competitiveness in its "10x10" national competitiveness strategy. Promoting the use of a new generation of sustainability standards in global markets is clearly one element of both country and sector level strategies.

The fourth focus is on business-aligned strategies. Responsible competitiveness will ultimately fail unless businesses are able to remodel their strategies and practices to deliver products and processes sensitized to their social and environmental impacts and potential. A host of initiatives and institutions have emerged to help businesses do just that, ranging from adapted services offered by well-trusted advisors from McKinsey to KPMG to new business clubs and initiatives like the UN Global Compact, Instituto Ethos in Brazil, the World Business Council for Sustainable Development, and the Global Leadership Network.

Responsible competitiveness strategies can reshape tomorrow's global markets in ways that take social and environmental issues into account. Achieving this, however, necessitates more than quick-moving businesses working alone. Overcoming the resistance of backward looking business and political interests will require innovative collaboration that combines smart public policies, with aligned and business and civil society strategies, creating a new generation of market practices, norms, and standards. Based on the first experimental decade, we can optimistically conclude that responsible competitiveness strategies and practices have been achieved, to the benefit of businesses, communities, and nations.

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