The Public Role of Private Enterprise

Risks, Opportunities, and New Models of Engagement

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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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The Public Role of Private Enterprise

Risks, Opportunities and New Models of Engagement

The concepts of corporate social responsibility (CSR) and corporate citizenship have been part of the business lexicon and the focus of academic study for many years. Over the past decade, however, they have grown to encompass a more complex, multi-dimensional and global set of issues, with strategic implications for both business leaders and policy makers.

This process has been driven by a combination of factors. These include:

- Political transformation, market liberalization, privatization and technical innovation, which have increased the global reach and influence of the private sector, at the same time that they have challenged the ability of nation states to govern the global public domain. The United Nations estimates, for example, that the number of transnational corporations almost doubled from 37,000 in 1990 to over 60,000 in 2001, with their foreign affiliates growing over four-fold from 170,000 to 800,000. The size and reach of individual companies also grew during this period, with the result that the world's largest corporations have sales greater than the Gross Domestic Products of many nation states. This growth in the reach and influence of private enterprises has conferred global companies with new rights and opportunities, but also created new competitive pressures and demands for new corporate obligations and responsibilities.

- Growth in the sophistication, number and connectivity of well-informed civil society organizations and activists, who are calling for increased corporate responsibility.

- The increased financial muscle and activism of institutional investors, who together with regulators have responded to the spate of corporate scandals and governance crises with calls for better corporate governance and greater corporate accountability, transparency and integrity.

- Greater awareness by governments and companies of the downsides of globalization, and in particular, the risks and costs of high levels of income inequality and environmental degradation.

- Demographic trends (increased diversity, aging populations in some countries and a youth bulge in others), technological advances (from information technology to biotechnology and nanotechnology), and increased private investment in politically fragile and conflict-prone emerging markets, all of which, in different ways, are creating new social, environmental and reputation risks for business, as well as new market opportunities.

As a result of these drivers, corporate social responsibility is becoming a more central factor in determining corporate success and legitimacy. It is also becoming more relevant to public policy makers, the media, investors, consumers, employees, trade unions and other actors who regulate, monitor or otherwise influence business behaviour and performance. This has implications not only for corporate governance, corporate strategy and enterprise risk management, but also for national and global governance.

The following paper briefly outlines some of the key leadership challenges that business faces in this new operating environment, reviews three key trends in corporate social responsibility, provides a summary of different strategies for managing CSR, and points to some of the risks and opportunities associated with the evolving 'CSR movement'.[1] The paper goes on to briefly illustrate some of the multi-stakeholder governance and partnership models that are emerging:

- First, to address demands for greater corporate accountability and transparency and to improve governance more generally; and

- Second, to mobilize the private sector to engage in community and international development efforts, aimed at tackling intractable social, economic and environmental challenges that neither government nor business can solve acting alone.

Many of the governance and partnership models cited in this paper, and others like them, are less than ten years old. There is little empirical data or analysis on how effective and sustainable they are, or what they tell us about changes in the respective roles of the public and private sectors. They face a number of operational and strategic challenges. Despite this, such alliances are likely to become a more common strategy for companies wanting to address some of the complex social, economic and environmental challenges they face and cannot address on an individual basis. Equally, they are likely to become a more common mechanism among public policy makers – at local, national and international levels – for mobilizing the private sector and civil society to support the creation of public value. This suggests the need for further research, evaluation and dialogue.

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I. Key Leadership Challenges for Business

Business leaders in almost every industry sector face a complex and challenging set of economic pressures, political uncertainties and growing, often contradictory, stakeholder expectations.

Despite an improvement in economic conditions, severe constraints remain on costs and prices, increased 'off-shoring' of jobs is a concern in a number of major economies, and trade tensions are challenging global growth prospects. Geo-political uncertainty shows few signs of abating and non-traditional business risks, from international terrorism to global climate change, health concerns and the impact of aging populations, continue to grow in both quantity and complexity. New skills and approaches are needed by business to manage and mitigate these risks, and to achieve what Booz Allen Hamilton has termed 'enterprise resilience' – the ability and capacity to withstand systemic discontinuities and adjust to new risk environments.[2]

At the same time, failures in corporate governance and ethics continue to dominate the headlines, and trust in business and its leaders remains low, both in the United States and globally. The World Economic Forum, for example, released a global public opinion survey in 2003 that asked 34,000 people across 46 countries to assess the trustworthiness of different institutions, including global companies and large domestic companies, 'to operate in the best interests of our society.'[3] The survey found that not only are companies among the least trusted of any of the 17 institutions tested, but there has been a significant and widespread decline in trust in almost all the countries where tracking is available.

Corporate governance scandals have clearly been a key factor in undermining trust and confidence in business, but not the only factor. In a September 2000 cover story, Business Week reported on the results of a nation-wide survey in the United States, which showed that over 70% of Americans surveyed felt that business had too much power over too many aspects of their life and too much political influence. Only 14% felt that what was good for business was good for most Americans, less than half supporting the same view in 1996.[4]

BusinessWeek's journalists offered hard-hitting analysis of the growing disillusionment and distrust among ordinary Americans relating to: excessive CEO pay, especially relative to that of average workers; public revulsion over corporate bankrolling of politicians; concerns over the impacts of globalization; sweatshops; artistic control by big media and retail companies; aggressive marketing campaigns; commercialism in schools; low wages for high productivity; and high prices for poor products and services. The cover story concluded that, "Corporate executives would be wise to deal with the burden [of power and responsibility] – and take care to avoid the hubris that so often accompanies heady success. If they don't, a growing number of Americans stand ready to call them to account." In short, over the past decade more stakeholders have started to view large companies as too powerful and as untruthful, unfair and unethical. This has led to increased demands for regulation and other mechanisms to increase corporate transparency, accountability and integrity.

At the same time, and in many ways contradicting this trend of increased mistrust in business, public expectations continue to grow in terms of private enterprises playing a larger role in tackling some of the most intractable social and environmental challenges facing individual countries and the global community. Examples include calls on business to help tackle the looming pension and healthcare crises, address income inequality, and support urban regeneration and education reform in OECD economies. They also include expectations that the private sector will play a greater role in tackling corruption and helping governments to deliver the UN's Millennium Development Goals in developing countries, as well as spreading responsible environmental, labor and human rights practices along global supply chains.[5]

These expectations are being driven in part by recognition of the global reach, resources and influence of the private sector and in part by an acceptance that governments alone lack the resources, skills and many would argue, political will, to deliver the necessary results. In the first annual report of the World Economic Forum's Global Governance Initiative in January 2004, experts from around the world concluded that governments, international organizations, business and civil society are engaging in only one-third of the effort and partnership necessary to realize the Millennium Development Goals. [6] A year-long independent analysis by seven groups of experts in the areas of peace and security, poverty, hunger, education, health, environment and human rights, ranked progress on a scale of 0 to 10, and gave no single area a score higher than 4.

> "Business leaders are under pressure to demonstrate good performance not only in terms of their competitiveness, market growth and financial results, but also in their corporate governance and their ethical, social and environmental performance. They are being called on to engage with activists as well as analysts, to publicly defend their personal as well as their organizational purpose and values, to manage new types of social and environmental risk in addition to market and financial risk, and to cooperate as well as to compete - often with non-traditional partners focused on unfamiliar issues."

In the absence of new approaches that combine the resources and capacities of the private as well as the public sector, it is unlikely that millions of people will be able to meet even their basic needs, such as access to energy, water, food and decent housing, without accelerating environmental decline and political instability. Even with such collaboration, and on the basis that these millions of people represent potential new markets for some companies and industries, it is far from clear whether the global community can meet this challenge.

Underpinning all these other challenges is the fact that most CEOs and their executive teams face unrelenting pressure to respond to new types of competition and to deliver sound and credible financial performance in the short-term.

In summary, business leaders face challenges to:

- Restore trust and credibility – calling for greater accountability, transparency and integrity;
- Manage new, and often unfamiliar, risks
- Respond to rising stakeholder expectations and complex societal needs
- Remain profitable and competitive.

They are under pressure to demonstrate good performance not only in terms of their competitiveness, market growth and financial results, but also in their corporate governance and their ethical, social and environmental performance. They are being called on to engage with activists as well as analysts, to publicly defend their personal as well as their organizational purpose and values, to manage new types of social and environmental risk in addition to market and financial risk, and to cooperate as well as to compete - often with non-traditional partners focused on unfamiliar issues.

In response to these challenges, the concept of corporate social responsibility is moving beyond the boundaries of legal compliance and 'nice-to-do' philanthropy. At least for some multinational companies, it is starting to occupy a more central position alongside corporate governance, strategy, risk management and reputation. This trend, which has been underway for a number of years, has received added impetus in the past couple of years from a combination of growing stakeholder activism, including shareholder activism, new regulations, revised stock exchange listing requirements, negative public reaction to ongoing governance failures and conflicts of interest along the capital raising chain, voluntary leadership on the part of some industries and business leaders, and the emergence of new accountability frameworks, market mechanisms and competitive pressures.

Whether these developments will result in fundamental and long-term shifts in the way businesses operate and in the relationship between business and government, and whether they will spread to more companies in the absence of regulation, remains open to question and the source of intense debate. They have important implications, however, for business leaders and policy makers, and are worthy of further analysis, evaluation and dialogue.

II. Defining Corporate Social Responsibility

One of the key challenges in studying and implementing responsible business practices is the lack of commonly agreed definitions and approaches, resulting in insufficient empirical analysis of what works and what doesn't, and in the blurring of boundaries between a number of related fields and terms. The term corporate social responsibility is often used interchangeably with others, including corporate responsibility, corporate citizenship, business in society, social enterprise, sustainability, sustainable development, triple bottom-line, societal value-added, strategic philanthropy, corporate ethics, and in some cases corporate governance.

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There are also clear links between these terms and those relating to socially responsible investment, community investing, community economic development, social capital, public-private partnerships, collaborative governance, collective action. The experts in each of these areas can offer sound reasons why their term is different. For many practitioners aiming to define and implement responsible business practices, however, and for academics aiming to study their efficacy and impact, and for investors aiming to assess their risks and returns, this lack of clarity in definition can be an obstacle. It is not within the scope of this paper to review these different definitions and their connections, but readers are referred to the work on 'Blended Value' being undertaken by Jed Emerson and colleagues at Stanford's Graduate School of Business, which has started to map out the field in a more comprehensive manner.[7]

Despite the lack of a commonly agreed definition, there is an emerging consensus among experts, in both the United States and Europe, about key trends in the field of corporate social responsibility. Three key trends are worth noting:

(i) **Beyond philanthropy to more integrated approaches in the mainstream business** – for leading companies, CSR is moving from the corporate margins to the mainstream, to cover not only philanthropy, but rather how a company manages the totality of its impacts on and contributions to society;

(ii) **Beyond public relations to greater accountability and stakeholder engagement** - CSR is moving from assertions of corporate performance in one-way communications to greater accountability and transparency to more stakeholders through other forms of stakeholder engagement that include, but go beyond public reporting.

(iii) **Beyond legal compliance to greater clarity of principles and values** – leaders in CSR are moving beyond a compliance-based mindset. They recognize that it is not only about 'box-ticking', but also about the public statement of corporate purpose, principles and values, underpinned by internal policies and systems of management and accountability.

(i) Beyond philanthropy to more integrated approaches in the mainstream business

For a growing number of companies, the concept of corporate social responsibility has moved beyond traditional philanthropy, although philanthropy remains important and is itself becoming more strategic, to focus on the totality of the company's operations[8]. This includes the manner in which companies:

- Operate and govern core business activities in the boardroom, in the workplace, in the marketplace and along the supply chain – ensuring that these activities are undertaken in a profitable manner that obeys the law, but that also aims to minimize any harm or negative externalities, and to enhance positive economic, social and environmental impacts on and contributions to society.
- Engage with internal and external stakeholders – aiming to build relationships with employees, customers, shareholders, suppliers and business partners, regulators, local communities, relevant civil society organizations and the general public, that are based on the provision of accurate corporate information, mutual respect and trust.
- Leverage and align philanthropic and community investment activities to core business competencies - aiming to make the most effective use of corporate skills and resources and to achieve the most effective impact for beneficiaries. Readers are referred to the research of Professor Rosabeth Moss Kanter, and of Professor Michael Porter and Mark Kramer in this area.[9]
- Exercise political influence and engagement in public policy issues – aiming to ensure that the company's engagement is legitimate, non-corrupt and more transparent. This may also include looking at ways to help build public sector capacity in countries or communities where it is weak and/or inefficient.

The specific issues within each of these areas that present a company with the greatest risks and opportunities and that are most material to its business will vary in nature and importance depending on the industry sector, the location, and the company's size, markets, relationships and history. So will the boundaries of corporate roles and responsibilities *vis a vis* governments and other actors, which in most cases need to be the subject of regular stakeholder dialogue and negotiation. Box 1 illustrates a few of the emerging corporate responsibility issues that have moved CSR beyond philanthropy and made it a more strategic issue for some industries in recent years.

In summary, the first key trend in corporate social responsibility is its movement beyond traditional philanthropy, to become more integrated into corporate governance, corporate strategy, risk management and stakeholder engagement: it can be viewed as an attempt to understand and manage the totality of a company's economic, social and environmental impacts on and contributions to society.

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Box 1: Emerging CSR issues of strategic importance to business

Climate change has become a more strategic issue not only for the auto and energy sectors, but also for other industries, from finance to construction and agribusiness, as evidence grows of its potentially substantial risks and opportunities.[10]

Managing social and environmental risks along the supply chain has become another strategic issue for many companies – whether it is sustainable agriculture and fair trade in agribusiness companies, labour conditions in contractors' factories in developing countries that produce apparel, footwear and other manufactured goods for western consumers, or access to HIV/AIDS treatments for employees, sub-contractors and their families.

Product distribution and use also raises risks and opportunities that need to be assessed and managed in a number of industries. These include efforts in the auto, tourism, transport and logistics sectors to improve road safety and to cut carbon emissions. They include the growing awareness of the risks of obesity in the food and beverage sector and the business opportunities of offering more-healthy lifestyle options, including increasingly mainstream efforts in the alcohol industry to promote responsible drinking. They include programs in a number of manufacturing companies to understand and manage the environmental impacts of manufactured goods along their entire lifecycle, from 'cradle to grave'.

Increasing access and affordability of essential products and services is another issue that has moved onto the mainstream business agenda for certain industry sectors. Access to essential medicines, for example, has become a strategic challenge that goes to heart of the business model and intellectual property rights for many pharmaceutical companies, whether it is addressing medical benefits for the elderly and non-insured in OECD economies, or providing access to treatments against HIV/AIDS, TB, malaria and other diseases in developing economies. This calls not only for product donation programmes, but also new pricing models and new types of public-private partnership to improve healthcare delivery in the public sector. Improving access to water and electricity has also become both a business risk and an opportunity for utilities companies. Likewise with efforts to bridge the digital divide in the information and technology sector.

Tackling bribery and corruption, and increasing the transparency of revenue flows between governments and companies, have become issues for most industries, but most particularly the mining, energy, infrastructure and financial sectors. Linked to this has been growing awareness of the need to tackle human rights issues, especially in zones of conflict and in conditions where governance is repressive and bad, or simply weak and inefficient.

Source: Nelson, J and Bergrem, C. *Values and Value: Communicating the Strategic Importance of Corporate Citizenship to Investors*. World Economic Forum and International Business Leaders Forum, January 2004.

(ii) Beyond public relations to greater accountability and stakeholder engagement

A second key trend at the heart of the emerging CSR agenda is the growth in demands by stakeholders, including shareholders, for corporations to demonstrate greater accountability, transparency and integrity – 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 stakeholders - at least those beyond a small band of investigative journalists and activist regulators, investors and campaigners - broadly trusted corporate financial statements and other public announcements. The rising power and reach of the private sector, both real and perceived, accompanied by the spate of corporate scandals and governance crises, has undermined public trust in business, especially large companies, and increased surveillance by regulators, investors, the media, and other stakeholders.

> "A second key trend at the heart of the emerging CSR agenda is the growth in demands by stakeholders, including shareholders, for corporations to demonstrate greater accountability, transparency and integrity – 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."

Trust is increasingly recognized as one of the most important assets that any company can have, and one of the vital pillars that supports our system of capitalism. Restoring trust and confidence in the private sector is therefore one of the major challenges facing business. To overcome the prevailing suspicion and cynicism that they face, companies need to demonstrate to investors and to other stakeholders that they can deliver good performance with good governance, and that the information they provide about the company is honest, accurate and comprehensive, regardless of whether this information relates to financial performance, social performance, ethical performance, or environmental performance. They need to identify and understand which stakeholders provide them with their legitimacy and support, and ensure that they have mechanisms in place to engage with and be accountable to these stakeholders. In their paper, *On Creating Public Value*, Professors Mark Moore and Sanjeev Khagram, explore how frameworks on legitimacy and support, developed in the context of public sector management may be usefully applied to corporate strategy and accountability.[11]

At the level of the firm the following actions are important in restoring trust and ensuring credibility in terms of improving performance and accountability on ethical, social and environmental issues:[12]

- Put CSR onto the boardroom agenda – does the company have a board director or board committee that is responsible for monitoring the risks, opportunities and management systems needed to ensure good social and environmental performance?
- Set goals, targets and timelines for all areas of performance – ethical, social and environmental, and financial.
- Identify key performance indicators and metrics in each area of performance.
- Measure and report publicly on progress, aiming to adopt external verification over time.
- Engage with stakeholders in a systematic and ongoing manner– for example through the establishment of location-based or issue-based advisory groups; hosting regular stakeholder dialogues and consultations; and having a system for obtaining stakeholder feedback on company reports.
- Integrate ethical, social and environmental performance objectives into executive performance systems and development programs.

"In the end, public confidence will only be restored when companies in the United States and abroad are willing to move beyond basic compliance and into the setting of new standards of integrity. ...What's really needed is not more laws, but rather the full engagement of American business leaders in an effort to advance an underlying spirit of reform. These reforms must inculcate a company-wide mindset to do the right thing, and must become part of the DNA of the corporation, from top to bottom."

- S.E. C. Chairman, William Donaldson

(iii) Beyond legal compliance to greater clarity of principles and values

A third key trend among the leaders in corporate social responsibility is a move beyond a compliance-based mindset, although compliance remains crucial. There is growing recognition of the need to balance rules with values and for companies to have greater clarity, both internally and externally, in terms of their purpose, principles and values, backed up by penalties and remediation when these are not met. Effective CSR is more than a response to external stakeholder expectations, or an effort to manage social and environmental risks and harness new business opportunities. It is a statement about what a company stands for and would stand by, even if this sometimes incurs additional costs or results in a lost business opportunity. It requires that business leaders and their employees not only comply with the law, or undertake actions that they can directly link to financial gain, but also aim to 'do the right thing'.

As SEC Chairman, William Donaldson commented in a recent speech, "In the end, public confidence will only be restored when companies in the United States and abroad are willing to move beyond basic compliance and into the setting of new standards of integrity. ...What's really needed is not more laws, but rather the full engagement of American business leaders in an effort to advance an underlying spirit of reform. These reforms must inculcate a company-wide mindset to do the right thing, and must become part of the DNA of the corporation, from top to bottom."[13]

Sir Geoffrey Chandler, a former Shell executive who was responsible for developing Shell's first General Business Principles in 1976, a former public servant and head of the UK Governments National Economic Development Council and the founding Chair of Amnesty International's UK Business Group, argues it this way, "I don't believe ethical behavior should depend on its paying. To suggest that doing right needs to be justified by its economic reward is amoral, a self-inflicted wound hugely damaging to corporate reputation. ...Doing right because it is right, not because it pays, needs to be the foundation of business, with principle, not profit, the point of departure. There does have to be a choice about priorities. ...If we are to preserve the most effective mechanism the world has known for the provision of goods and services – that is the market economy with the public limited company its main instrument – then it has to be underpinned by principle. Financial failures can destroy individual companies. Moral failure will destroy capitalism."[14]

In today's operating environment, business leaders need to have a clear sense of their personal purpose, values and principles, and how these align to those of their corporation. And the courage to stand up and be counted on matters of principle and public interest, both inside their company and externally.

In summary, corporate social responsibility is increasingly focused on ensuring greater accountability, transparency and integrity in terms of how a company operates its mainstream business activities and stakeholder relationships, including but not only its philanthropic and compliance programs. It requires rigorous internal accountability systems and metrics, but also clarity of corporate purpose, principles and values. And it calls for new types of engagement with internal and external stakeholders.

II. Strategies for Managing CSR

Another way to look at the growing centrality of CSR to corporate strategy, governance and risk management is to look at the different strategies that leading companies are employing to implement more responsible business practices in a manner that creates value both for shareholders and society. These strategies are illustrated in Diagram 1. They should be viewed as building blocks that are not mutually exclusive, and they include the following:

Compliance and viability – At a very minimum, corporate responsibility requires taking the actions necessary for the company to remain profitable, and hence a viable business entity, and to achieve legal compliance with national regulations, in order to protect its legal licence to operate and to avoid major fines, litigation, reputation damage and in serious cases, liquidation or imprisonment of executives.

Control risks, costs and liabilities – Secondly, effective CSR involves efforts by a company to go beyond legal compliance in an effort to 'do no harm' or to minimize the negative impacts and negative externalities of the company's operations on society. This calls for more adaptive and comprehensive approaches to risk management. It includes efforts to anticipate and control risks, costs and liabilities associated with the company's operations through management systems such as social and environmental impact assessments; establishment of clear internal accountability frameworks for ethics; implementation of codes of conduct and safeguards; investment in programs to increase eco-efficiency; and the company-wide implementation of internationally accepted standards and values in areas such as corporate governance, human rights, labor rights, product and process safety, and the environment, especially in countries where regulations may be inadequate or ineffective relative to a company's home country. Achieving the local implementation of global standards is no easy task, however, even for the leading companies, and especially for those operating in politically fragile or developing countries. There are not always win-win solutions to CSR – in some cases the control of risks, costs and liabilities will call for decisions that result in lost business or the inability to develop a new market or commercialize a new product or technology.

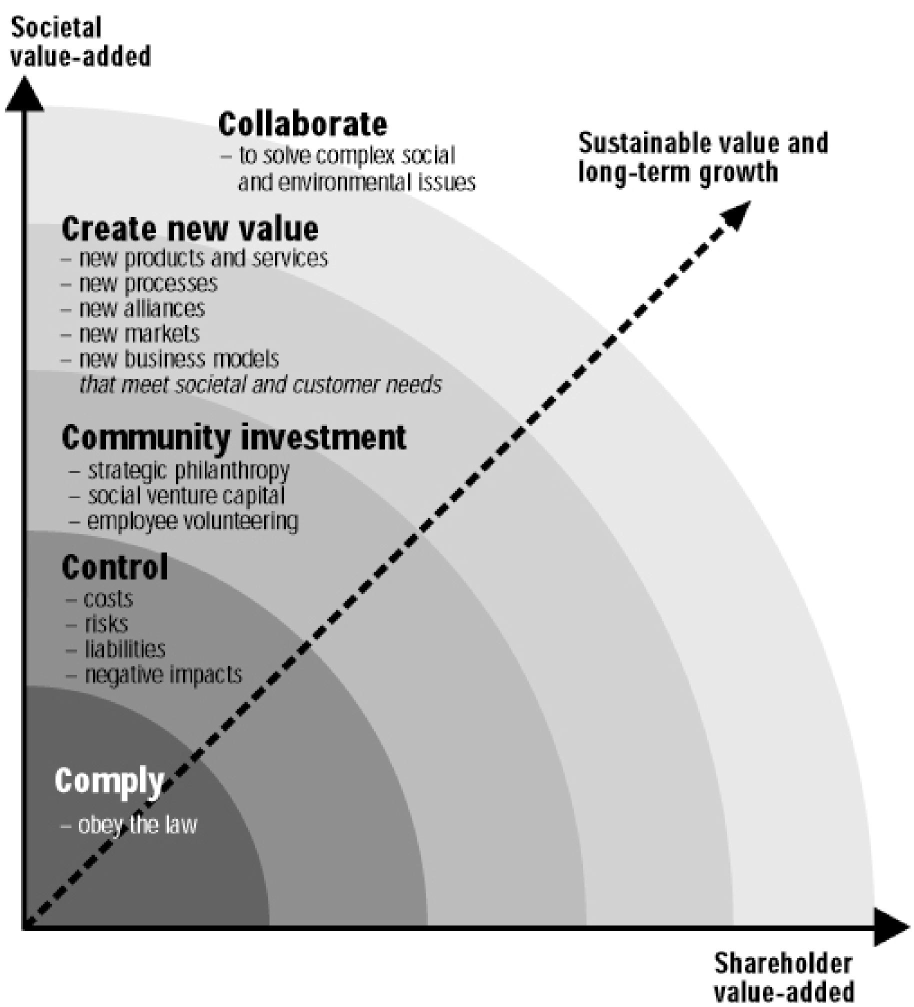
> "The greatest contribution that a company can make to society is by creating new value and viable business propositions that explicitly serve the interests of both society and shareholders by meeting customers' needs in a manner that also considers social and environmental risks or opportunities."

Contribute to charity and community investment - In addition to implementing policies and management systems aimed at minimizing any negative impacts from a company's operations, CSR involves efforts to maximize the positive impacts and contributions the company makes. As already outlined above, adopting more strategic approaches to philanthropic giving, community investment, social venture capital and employee volunteering, that align efforts more closely with the company's core competencies and interests, can make a valuable contribution.

Create new value – The greatest contribution that a company can make to society, however, is by creating new value and viable business propositions that explicitly serve the interests of both society and shareholders by meeting customers' needs in a manner that also considers social and environmental risks or opportunities. This can include innovation and the development of new products and services that respond to environmental challenges or serve low-income communities. It can include the development of new production processes and supply chain management systems, the creation of new alliances and even new business models that meet consumption needs in a more socially or environmentally responsible manner. It can include a systematic and concerted effort to spread economic opportunity through implementing practices that increase workplace, supplier and consumer diversity, supporting small and micro-businesses along supply chains, creating jobs and other livelihood opportunities for previously marginalized people, investing in low-income communities, improving access to technology, and building human capital through training.

Collaborate to address broader agendas – Finally, companies can adopt a strategy of collaboration or collective action. This involves working either with other companies, including competitors, or with other sectors such as government and civil society organizations, to undertake joint efforts aimed at tackling social, economic or environmental problems, or meeting public needs that are in the interests of business to address, but beyond its individual competency or resources; or for that matter, beyond the competency or resources of government and other partners. In his paper, *'On Collaborative Governance'*, Professor John Donahue, Director of the Kennedy School's Frank and Denie Weil Program in Collaborative governance, cites three main drivers for companies and other non-state actors to engage in these often difficult collaborative or collective actions: "the fact that a large part of the world's population lives in areas where the formal state is weak; widespread loss of confidence in the mid-20th century version of the centralized state; and the fact that a growing faction of collective tasks in a complex, interconnected, information-dense world – knit together and energized by powerful market forces – simply cannot be accomplished (well, or at all) by government acting alone."[15]

Diagram 1: Corporate strategies for delivering value to society and shareholder value



III. Risks, Opportunities and Questions in the Emerging 'CSR Movement'

Despite an active and growing community of practitioners inside companies, business networks, government bodies and NGOs, and despite growing interest in corporate social responsibility among the academic and think-tank community, the trends outlined above are still largely at a nascent stage. It is not clear whether they will become the standard for leading companies and corporate excellence, much less the norm for all major companies, let alone small and medium sized enterprises. The concept of corporate social responsibility faces some major challenges – philosophical, empirical, strategic and practical – and attracts criticism from a number of quarters, some of it highly valid. Areas that warrant further debate and evaluation include the following:

Voluntary action is not sufficient: There are many who argue that in the vast majority of cases CSR remains little more than a public relation exercise or an effort to avoid regulation at best, and cynical manipulation by companies to undermine genuine corporate accountability and responsibility at worst. Critics rightly point to the fact that of the UN's estimated 60,000 multinational companies, probably less than 3,000 are embracing the more comprehensive and integrated approach to CSR outlined in the previous section. They argue that in the absence of major investor and consumer interest, market forces and voluntary actions are vastly inadequate for delivering more desirable social and environmental outcomes. They argue that more comprehensive national and global regulation of business behaviour is required to 'move beyond the usual suspects' and 'level the playing field' for all companies.

> "The concept of corporate social responsibility faces some major challenges – philosophical, empirical, strategic and practical – and attracts criticism from a number of quarters, some of it highly valid."

A growing number of the corporate pioneers in CSR would accept at least part of this argument. They recognize the need for more effective implementation of existing social and environmental regulations, and in some cases the need for new regulation, but express concerns about the unintended consequences and extra red-tape and bureaucracy all too often associated with hastily imposed and highly prescriptive regulation – a challenge that is being faced in implementing some of the requirements of the Sarbanes-Oxley Act, for example. One regulatory development that appears to be increasingly likely, and is already underway in parts of Europe, is an increase in disclosure requirements on a company's ethical, social and environmental performance. In Europe, and countries such as Australia and South Africa, increased demands for more comprehensive social and environmental disclosure are being driven not only by regulatory authorities, but also stock exchanges, rating agencies, insurers, investors, and banks.

The voluntary versus regulatory debate is unlikely to go away – and nor should it. What is needed is an ongoing dialogue between business, government and other stakeholders to explore the most effective balance between market mechanisms, private voluntary initiatives and regulatory approaches; and between different types of regulation, from prescriptive requirements to management and performance-based regulatory regimes. The Kennedy School's Regulatory Policy Program, for example, is undertaking research in the area of environmental regulation and voluntary approaches, looking to evaluate the most effective methods for achieving specific environmental goals.

CSR is in fact irresponsible: There are other critics of CSR who make the argument that the sole social responsibility of business is to make profits and obey the law, within a clear legal framework that controls the negative social and environmental impacts of business. They argue that governments, not companies, should assess citizens' expectations on what business can and cannot do and should then regulate accordingly. Equally, they argue that employees, shareholders, governments and other beneficiaries of corporate profits, not company executives, should be left to decide if, and how, they will allocate these profits to address broader social needs. They argue that the type of comprehensive and integrated approach to corporate social responsibility outlined in the previous section will raise costs and prices, lead to unnecessary and onerous regulations, and far from creating public value, may actually reduce society's welfare.[16] In their analysis, profitability and legal compliance are all that should be required from companies wanting to act as responsible corporate citizens.

The counter argument is that while profitability and basic legal compliance are indeed crucial foundations for corporate social responsibility, they are necessary but not sufficient. In today's world of rising societal expectations and increased risks of litigation and reputation damage for companies that are deemed to 'get it wrong' in terms of their ethical, social and environmental performance, profitability can be directly undermined by a failure to invest in these issues and address them in a more integrated manner. Milton Friedman's much-quoted statement,[17] "...there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game," can be challenged on the grounds that over the past ten years we have witnessed some fundamental changes in the 'rules of the game' driven largely by new stakeholder expectations of business. These changes are redefining what we mean by the 'social responsibility of business' and its relationship to corporate competitiveness and success.

Difficulty in making a business case for CSR: Linked to the above is the challenge of evaluating a rigorous 'business case' for investments in CSR. There is growing clarity in terms of articulating a business case, but still relatively little rigor and research in terms of measuring and proving it, either at an individual firm level or more broadly. In particular, rigorous empirical analysis is still sparse on the relationship between corporate social responsibility and corporate financial performance. This is being addressed as more academics are starting to explore the 'business case', supported by a growth in practitioner research on this subject. The article *Misery Loves Companies: Rethinking Social Initiatives by Business*, by Joshua Margolis of Harvard Business School and James Walsh of University of Michigan, offers a useful overview of how organization theory and empirical research have thus far responded to the tension between economic theory that instructs managers to focus on maximizing their shareholders' wealth and the calls for business to provide innovative solutions to deep-seated social problems.[18]

There have been a number of surveys over the past three years that have helped to identify the most common 'business case' arguments made by corporate executives, thereby providing a useful framework for more in-depth analysis and empirical research. These have included surveys, among others, by the World Economic Forum, SAM Sustainable Asset Management, the UK's Business in the Community, PWC, and Boston College with the US Chamber of Commerce and the Hitachi Foundation. These surveys point to the following factors as being key drivers in making the business case for corporate social responsibility:

- Reputation and brand equity – Building, protecting and defending reputation is one of the most important elements of building corporate value
- Employee recruitment, retention and motivation
- Corporate values and traditions
- Risk management and 'licence to operate'
- Operational efficiency
- Competitiveness, market positioning, consumers and new opportunities
- Learning and innovation
- Access to capital

In almost all executive surveys on the 'business case', reputation and employee concerns are the factors ranked most highly. Not surprisingly, a growing link is also being made between CSR and the intangible assets – such as reputation, brand, intellectual capital, innovation, relationships – that are now recognized as key drivers of corporate value in most industry sectors.

Another development in the broader business case for corporate responsibility is research that is underway on the link between CSR and the competitiveness of nations. In December 2003, AccountAbility and The Copenhagen Center, with support from the UK Government and working with a consortium of CSR organizations, launched the first *Responsible Competitive Index*. In introducing the Index, its authors Alex MacGillivray, John Sabapathy, and Simon Zadek, argue that, "Practice and research on the potential for 'corporate responsibility' to deliver business and broader societal benefits has been largely confined to micro, company-specific impacts and outcomes. Very important macro-effects, through impacts on market dynamics and overall national competitiveness, are poorly recognized let alone understood, and have to day received little empirical or theoretical attention."[19]

> "Understanding and managing stakeholder expectations and negotiating the most appropriate, effective and fair boundaries of responsibility between business and government is one of the core leadership challenges facing business today."

Too much is being expected of business: Other critics of the burgeoning 'CSR movement' argue, with some justification, that too much is being expected of private enterprises, above and beyond delivering on their core business activities. There is concern that attempts by governments and others to engage companies in too many social issues beyond their area of core competence and material interest, will not only distract business leaders from focusing on getting the financial, social and environmental performance of their 'business basics' right, but may also 'let governments off the hook'. This is a valid and important concern. Understanding and managing stakeholder expectations and negotiating the most appropriate, effective and fair boundaries of responsibility between business and government is one of the core leadership challenges facing business today. Throughout the history of the corporation there has obviously been the need to negotiate boundaries of responsibility with government, but the complexities of these boundaries and the stakes involved have grown over the past decade.

Ensuring credibility of corporate information: Another critique, especially in today's low-trust environment, is that corporate information cannot be trusted. Companies face new pressures to ensure the credibility and integrity of the public information they provide, not only in their financial statements, but also in the growing number of social and environmental reports. As with most other aspects of CSR, this is easier to say than implement. Not only are there measurement challenges within companies, but also capacity constraints in terms of external monitors. If the Fortune 1000 companies all decided tomorrow, for example, that they would publicly audit and report on their social and environmental, as well as financial performance, the world's major auditing firms and specialists operating in this area would be hard pressed to meet the demand – not only in terms of numbers of auditors, but also the appropriateness of their skills for assessing non-financial performance and compliance.

Having said this, rigorous accountability systems are a key element of improving the credibility of company information. Three key indicators of how seriously a company takes its CSR activities are: the existence of internal auditing and monitoring systems for ethical, social and environmental performance; the use of third-party external verification for ethical, social and environmental reports; and the existence of a committee at the board level, either the traditional audit committee or a CSR committee, that has governance responsibilities for the company's performance in these areas.

Lack of harmonization of codes, standards and metrics: Another challenge is the need to achieve greater harmonization and rationalization of standards, codes and measures for corporate social and environmental performance. The current lack of common standards and metrics not only makes it difficult to benchmark and evaluate the companies that are already active in the field of CSR, but also creates high barriers of entry and additional costs for many medium and small-sized firms. Along global supply chains, for example, contractors and suppliers often have to deal with numerous different buyers' codes, making it a costly and sometimes prohibitive process.

> "'Our investors don't care' has become a common refrain both from leading companies who have been frustrated by the lack of investor support for their efforts to improve social and environmental performance, and from the corporate laggards, happy to have a ready-made excuse for their lack of investment in this area."

Investors don't value or reward CSR: Another area worth further study is the role of the financial sector in driving more responsible business practices. Institutional investors - beyond the active but small socially responsible investment (SRI) community - have rarely been seen as one of the drivers toward more responsible business practices. If anything, the opposite has often been the case, both in reality and perception. The massive pressure on corporate executives during the past decade to make the numbers and to deliver on ever-rising short-term forecasts has frequently been cited as one of the drivers of recent corporate governance and ethics crises. It has also been a factor in major cost-cutting exercises, which have laid-off employees, squeezed suppliers and dropped local community partners. In some cases, it has been accompanied by efforts to cut corners on social and environmental legislation and norms.

"Our investors don't care" has become a common refrain both from leading companies who have been frustrated by the lack of investor support for their efforts to improve social and environmental performance, and from the corporate laggards, happy to have a ready-made excuse for their lack of investment in this area. A survey of CEOs carried out in 2002 by the World Economic Forum and the International Business Leaders Forum asked business leaders to identify the stakeholder groups who create the greatest pressures or incentives for their corporate citizenship activities. Investors were ranked only 7th, after employees, government bodies, customers, local communities, NGOs and boards of directors.[20]

> "The corporate scandals over the last couple of years have made it clear that investors need to pay more attention to corporate practices that affect long-term value. As fiduciaries, we must take it upon ourselves to identify the emerging environmental challenges facing the companies in which we are shareholders, to demand more information, and to spur needed actions to respond to those challenges."
>
> **- Philip Angelides, California State Treasurer**

In recent years, however, driven in large part by corporate governance scandals, institutional investors, which own over 50% of total equities in the United States, have started to play a more proactive ownership role. Although focused largely on traditional corporate governance issues, some mainstream investors and fiduciaries, including US State and City Treasurers, are starting to look more strategically at the business risks and opportunities created by social and environmental challenges such as climate change, diversity, labor practices, obesity and international development. Speaking at an Investors Summit on Climate Change organized by CERES in November 2003, the California State Treasurer commented, "The corporate scandals over the last couple of years have made it clear that investors need to pay more attention to corporate practices that affect long-term value. As fiduciaries, we must take it upon ourselves to identify the emerging environmental challenges facing the companies in which we are shareholders, to demand more information, and to spur needed actions to respond to those challenges."[21]

> "...voluntary corporate action and market mechanisms alone are not sufficient to ensure consistent and comprehensive implementation of ethical, environmental, labor and human rights standards. There is a need to constantly debate and evaluate the best combination of market mechanisms, voluntary initiatives and regulations, and the most effective types of regulatory framework from performance-based and management-based regulations, to stricter disclosure requirements and prescriptive approaches."

In Europe, the Association of British Insurers, whose members transact about 95% of the country's insurance business and account for over 20% of investments on the London Stock Exchange has issued guidelines on socially responsible investment and published two comprehensive reports on the role of corporate social responsibility in limiting business risks and harnessing business opportunities.[22] The SRI community itself continues to grow in terms of funds under management, geographic spread and active engagement with corporate boards of directors. More research is needed, however, on understanding the limits and the role of institutional investors in taking a more active stance to demand better social and environmental performance by the companies in which they invest.

The media only profiles the negative stories: The media has a vital role to play in investigating and reporting on examples of corporate misconduct and irresponsibility. Leaders in CSR argue, however, that they get little recognition or credit for the 'good news stories' and their investments in tackling social and environmental problems. To some extent this is not surprising in the current climate of mistrust and scepticism facing business, matched by what many would argue was failure on the part of the press to be more vigilant of business ethics and standards in the heady dot-com boom leading up to the spate of corporate governance failures and scandals. Yet, the media could play a more pro-active role in reporting on the work of leadership companies and in raising public awareness more generally on issues related to corporate social responsibility, social and environmental threats, and the importance of community development and international development in building more prosperous and secure societies.

In summary, the CSR movement is still evolving and there are a number of chellenges that warrant further analysis, research and assessment. Although by no means an exhaustive list, these include the following:

- Moving beyond the 'usual suspects' - voluntary corporate action and market mechanisms alone are not sufficient to ensure consistent and comprehensive implementation of ethical, environmental, labor and human rights standards. There is a need to constantly debate and evaluate the best combination of market mechanisms, voluntary initiatives and regulations, and the most effective types of regulatory framework from performance-based and management-based regulations, to stricter disclosure requirements and prescriptive approaches.
- Making a sound business case.
- Managing expectations and negotiating realistic boundaries between business, government and other actors, including a better understanding of partnerships that may displace government or let governments off the hook, in a manner that ultimately undermines public sector capacity and national progress, rather than enhances it.
- Harmonizing standards, codes and measures, and ensuring credibility and integrity of corporate information.
- Mobilizing investors and markets.
- Engaging the media.

IV. The Need for New Models of Accountability and Partnership

As outlined in the previous sections of this paper, there are certain things that companies *can do* and *must do* on an individual basis to ensure that they are legally compliant and commercially viable, and that they control the direct risks, costs and liabilities of their impacts on society. There are also certain things they *can do* and *could do* on an individual basis to make a positive contribution to society through community investment and philanthropic contributions, and by creating new value through commercially viable innovation, product development, new business models and commercial alliances that meet social needs as well as consumer needs, and create social value as well as shareholder value.

> "…there are a number of challenges that individual companies cannot tackle, or find much more difficult to tackle, entirely on their own, even though these challenges present a material risk or opportunity to many

In today's complex operating environment, be it in the United States or globally, there are a number of challenges, however, that individual companies cannot tackle, or find much more difficult to tackle, entirely on their own, even though these challenges present a material risk or opportunity to many companies. Consider just a few examples:

- All US companies, but especially those in the healthcare sector, cannot ignore the fact that over 40 million people in the United States are without health insurance, let alone the challenge of improving access to life-saving drugs in many developing countries;

- In the face of an aging population, looming fiscal deficits and rising healthcare costs, few large companies, especially those in mature industries with a long legacy of pension and healthcare benefits and with many retirees to support, can ignore the risk of not addressing the challenge of pensions and healthcare. But few, if any, can do so operating entirely on their own and drawing entirely on their own resources;

- Off-shoring or outsourcing of service jobs, in addition to manufacturing jobs, from North America and Europe to developing countries, is becoming a hot political issue. There is a danger that governments will adopt overly prescriptive and restrictive protective measures in response to voter concerns, which may ultimately undermine their nations' long-term economic prosperity and welfare rather than protect it. Consultation and collaboration, rather than confrontation, is needed between the public and private sectors, trade unions, research institutes, and academic bodies to explore viable options for managing this challenge and providing social safety nets and retraining options for those most affected.

- Research initiated by the Initiative for the Competitive Inner City in the United States and United Kingdom has illustrated the enormous economic potential and assets that reside in many of America's and the UK's inner-cities. Other research carried out in developing countries by Hernando de Soto, and by the Bottom of the Pyramid Laboratory, among others, also points to the billions of dollars in assets held in low-income communities in developing countries which cannot be effectively mobilized due to inadequate or ineffective legal systems and property rights. These communities represent great potential for the creation of wealth producing firms and greater national prosperity, as well as new consumer markets worth billions of dollars. Yet, without appropriate legal frameworks, innovative financing mechanisms, fiscal incentives, and collaborative efforts to fundamentally rethink and restructure corporate value chains and business models, it remains difficult for many companies to make a sound 'business case' for investing in under-served countries and communities, despite growing evidence of their market potential. And without increased private investment and the effective functioning of markets, poverty alleviation in the inner-cities and rural communities of many industrialized economies, let alone those in the world's heavily populated developing countries, is likely to remain an elusive goal;

- Climate change, especially the growing potential of radical and catastrophic change, represents one of the world's greatest environmental, economic and security risks. It has implications for all companies, not only those in the oil, auto and insurance sectors, but in the absence of government leadership on international frameworks, there is a growing danger that without collaborative voluntary initiatives between companies and other actors, too little will be done to restructure markets, manage risks, and exploit opportunities for new technologies and market frameworks – all of which are necessary to address this global challenge.

- Companies with large workforces and global supply chains, especially in Africa, Russia and Asia, cannot ignore the fact that the HIV/AIDS epidemic is creating mounting economic costs in addition to human tragedy, resulting in a material risk to their long-term viability in these regions. Yet, even with the best workplace practices on HIV/AIDS they cannot turn back the tide of the epidemic without also engaging in more systemic efforts with governments and other companies and civil society organizations to address public sector capacity in dealing with this and other health crises in developing countries.

> "…without appropriate legal frameworks, innovative financing mechanisms, fiscal incentives, and collaborative efforts to fundamentally rethink and restructure corporate value chains and business models, it remains difficult for many companies to make a sound 'business case' for investing in under-served countries and communities, despite growing evidence of their market potential."

- Companies developing high-value natural resources in many emerging markets, such as oil and certain minerals, cannot ignore the fact that the revenues earned by the development of these resources – both by host governments and private interests – often serve to exacerbate inequality, conflict, corruption and human rights abuses, rather than helping to address these scourges on economic and human progress. Again, no company can offer a solution on its own, only collective action aimed at improving the transparency and governance of the payment and use of resource revenues and tackling corruption, will suffice to ensure that citizens rather than elites alone benefit from economic development.

- Managing dilemmas along complex global value chains creates another challenge in terms of defining and managing boundaries of responsibility. Many supply and distribution networks of multinational companies encompass tens of thousands of enterprises – ranging from medium-sized manufacturers to small-scale farmers. What is the limit of corporate responsibility for ensuring that these suppliers and distributors adhere to responsible labor, environmental and human rights practices? Are these limits determined by political, social or economic considerations? And who determines them - governments; labor organizations, activist NGOs; the media companies…? Or some combination of the above negotiating a combination of regulations, market mechanisms and new multi-stakeholder voluntary initiatives for greater accountability?

These and other examples illustrate the need to develop new types of collaboration and governance that include:

- **Multi-stakeholder models for increased accountability** – not only to increase corporate accountability, but also to improve governance more generally and increase the accountability if NGOs and governments.
- **New types of voluntary partnership to support community and international development** – either collective action between companies themselves, or collaborative initiatives between business, government, civil society, academia,

trade unions and others to effectively leverage financial and managerial resources, physical and intellectual assets, and relationships and networks from the different parties in a manner that achieves better results and more systemic change than could be achieved by acting alone.

Such collaborative initiatives can range from a local community partnership to global alliances and public policy networks. Their common characteristic is that, "all participants agree to work together to achieve a common purpose or undertake a specific task and to share risks, responsibilities, resources, competencies and benefits."[23]

In the following pages, a few examples of these emerging multi-stakeholder accountability and partnership models are illustrated. Most of these initiatives are new, less than ten years old. Few have been the subject of detailed evaluation or analysis. Like most alliances, many are likely to fail, or at least fail to meet the expectations with which they were established. Most involve high transaction costs in terms of the time and resources needed to build trust and to establish shared knowledge and goals among the partners. They usually require a painstaking focus on, and investment in 'process', and a readiness to adapt and change as the relationship evolves. Their own governance and accountability raises interesting dilemmas.

> "…collaborative initiatives can range from a local community partnership to global alliances and public policy networks. Their common characteristic is that, "all participants agree to work together to achieve a common purpose or undertake a specific task and to share risks, responsibilities, resources, competencies and benefits."

Despite these and other challenges, such alliances are likely to become an increasingly crucial strategy for companies wanting to address some of the more complex social, economic and environmental challenges that they face and that they cannot address as an individual company. Equally, these alliances are likely to become a more common mechanism among public policy makers – at local, national and international levels – for mobilizing the private sector and civil society to support the creation of public value. As such, they warrant increased attention, evaluation and analysis by academics and practitioners alike.

(i) New models of accountability

There is fundamental change taking place in our understanding and practice of governance. Governance used to be principally about what governments do. Today, the concept is increasingly about balancing the roles, responsibilities, accountabilities and capabilities of different levels of government and different actors or sectors in society. This is creating new challenges for all the actors involved, including business. In the long-term it offers potential for more accountable and effective governance structures at the level of the firm, the nation and even globally. Initially, however, it raises as many questions and dilemmas as it answers and requires a dynamic combination of wide-spread experimentation with new models and rigorous evaluation of these models as they develop.

The following examples focus primarily on initiatives to improve the financial, social and environmental accountability of individual companies. It should be noted, however, that governance at the level of the firm (be it traditional corporate governance or the emerging field of what CERES and others have termed sustainability governance) cannot be viewed in isolation to public governance structures. In some cases, especially in developing countries where weak or bad governance is a serious hindrance to national progress, multi-stakeholder models are emerging that address both firm-level and national governance.

Box 2 illustrates a spectrum of different interventions for increasing corporate accountability and transparency in terms of social and economic, as well as financial performance. These interventions range from different types of regulatory framework and government incentives, to actions taken at the level of the individual firm, with a wide range of alternatives such as voluntary initiatives and market mechanisms in-between.

Some of the most interesting new models emerging are multi-stakeholder mechanisms that bring together business, governments, and civil society organizations to improve corporate and in some cases, government accountability and transparency. The most demanding of these include: **sector-based or issue-based revenue management mechanisms; and third-party certification and monitoring schemes**. The following examples offer brief illustrations of the goals and different types of partners that are engaged in these initiatives, simply to illustrate their diversity, rather than make any attempt at analysis or evaluation.

Four examples of third-party accredited alliances that focus on improved accountability and performance in different industry sectors are as follows:

- **The Marine Stewardship Council** – an independent accreditation body initially established by the WorldWide Fund for Nature and Unilever, which sets voluntary standards, and provides a reliable marketing logo for sustainable fisheries. The scheme took several years of multi-stakeholder consultation to establish and initially received a cool welcome from governments. Today it engages fish-processing companies, traders and retailers from over 20 countries and certifies over a hundred products, but has limitations in the absence of strong government engagement and relatively slow consumer take-up.

- **The Chad-Cameroon Petroleum Development Project** – Working with the World Bank, oil companies and NGOs, the government of Chad has created a framework by which oil revenues will be put into an escrow account subject to public disclosure and audit and with specified percentages agreed for debt repayment, future generations and development projects. The process will be monitored by an oversight committee, which consists of government officials and civil society organizations. Launched only in 2003, this model is still untested, but suggests a new approach for more transparent and accountable management of high inflows of public revenues.

- **The Fair Labor Association** – This initiative brings together apparel and footwear manufacturers and retailers in the United States, with consumer and human rights groups, aiming to improve working conditions and improve workers' rights in factories in the US and abroad. The FLA's charter agreement establishes an industry-wide code of conduct and independent monitoring system. Participating companies contract with more than 4,000 factories in 75 countries and represent over $30 billion in apparel and footwear sales. Over 170 colleges and universities have also affiliated with the FLA.

- **Social Accountability International** – In 1997 the Council on Economic Priorities Accreditation Agency was established in response to rising public concern about inhumane working conditions in developing countries. In 2000, the initiative became known as Social Accountability International, an independent entity with a remit to work with experts from a wide range of backgrounds, including business, trade unions and NGOs, to develop voluntary standards governing social responsibility and to independently certify companies that agreed to meet them. The first such standard is SA8000, which governs employees' working conditions and has to-date certified some 350 facilities in almost 40 countries.

Box 2: Mechanisms for improving corporate social and environmental performance and increasing accountability

Regulation – Sarbanes Oxley: UK Pensions Act; French government's disclosure requirements, etc.

Fiscal Incentives – carbon taxes; tax incentives to invest in inner cities, etc.

Government procurement and financing requirements – IFC and World Bank requirements; Export Credit Guarantees; Resource revenue management schemes, etc.

Commercial financing requirements and guidelines – Equator Principles for project finance; Socially Responsible Investment; Environmental and social loan criteria; Association of British Insurers guidelines; the Carbon Disclosure Project; Just Pensions in the UK; Pharmaproject.org, etc.

Multi-stakeholder certification schemes – Marine Stewardship Council; ETI; SA 8000; Rainforest Alliance; Fair Labor Association; Kimberly Process; Forest Stewardship Council, etc.

Multi-stakeholder guidelines or principles – Global Compact; US-UK Voluntary Principles on Human Rights and Security; Extractive Industry Transparency Initiative; Transparency International's Business Principles; The Forum for Corporate Conscience, etc.

Trade union framework agreements - The International Federation of Chemical, Energy, Mine and General Workers' Unions has negotiated a global framework agreement with several companies to extend the same labor rights as well as health and safety standards to their overseas operations that they apply in their headquarter company, etc.

Consumer labelling and campaigns – Clean Clothes Campaign; Publish What You Pay, etc.

Industry frameworks – Responsible Care in the chemical industry; WRAP in the apparel sector, etc.

Individual corporate policies and codes – establishment of policies and codes to address specific social and environmental issues which include components for education; monitoring; incentives; remediation.

Individual corporate governance – appointment of board level director or establishment of board committee with responsibility for monitoring ethical, social and environmental performance.

Source: Nelson, J. *Creating an Enabling Environment*. The International Business Leaders Forum. (Due 2004)

Multi-stakeholder guidelines, principles or learning networks are less rigorous in terms of their ability to monitor or sanction the implementation of principles and standards, but they are valuable from the perspective of learning and innovation, spreading common values, and developing the relationships and frameworks necessary to build more effective governance structures over time Examples include:

- **The Business Roundtable's Institute for Corporate Ethics** – In January 2004, the US Business Roundtable, whose major corporate members control revenues of over $3.5 trillion and employ some ten million people around the world, launched an Institute for Corporate Ethics. Housed at the University of Virginia, the Institute will draw from faculty all over the United States to carry out research and teaching on applied ethics, with input from the 150 CEOs who are members of the Business Roundtable.
- **Transparency International and Social Accountability's Business Principles for Countering Bribery** – developed by a steering committee of companies, NGOs, accountants, trade union bodies, academics and international agencies, these principles have been developed as a practical tool and benchmark to provide companies with a comprehensive reference for countering bribery. Efforts are underway to test them in individual companies and at a sector level in industries such as construction, mining and banking. Another multi-stakeholder tool developed by Transparency International are local level Integrity Pact aimed at preventing corruption in public procurement through voluntary agreements between governments and private sector bidders for public contracts.
- **The US-UK Voluntary Principles on Human Rights and Security** – a coalition of extractive companies, the US and UK Governments, and human rights organizations, who have come together to improve human rights practices in the extractive sector;
- **The Extractive Industries Transparency Initiative** – established by the UK Government, this brings together over 70 governments, companies, industry groups, investors and NGOs to develop principles and voluntary reporting guidelines to increase transparency in both the payment and use of oil and mineral revenues in selected countries;
- **The Global Reporting Initiative** – a coalition of companies, accounting firms, business associations, professional bodies, academics, NGOs, labor and the United Nations, the GRI aims to develop globally applicable guidelines for supporting increased disclosure and reporting on economic, social and environmental performance. Championed initially by Boston-based CERES and the UN Environmental Program, the GRI is now an independent body. Among other activities, it is working on sector-specific performance indicators.
- **The UN's Global Compact** – Established by UN Secretary-General, Kofi Annan, the Global Compact engages the corporate sector, along with transnational NGOs and international labor federations, to encourage companies to implement in their own operations and help to promote more broadly, principles drawn from the Universal Declaration of Human Rights, the International Labor Organization's Fundamental Principles on Rights at Work and the Rio Principles on Environment and Development. Today, over 1,000 companies participate worldwide, many from developing countries.

The above examples offer very brief illustrations of the new types of governance and accountability structure that are emerging, at a global level, a national level and on an industry sector basis, all aimed at improving corporate accountability and performance, and in some cases national governance, where governments and governance systems are weak and a 'governance gap' exists.

So, working together to improve corporate accountability and performance, and sometimes that of government, is one key driver of these emerging multi-stakeholder alliances. Another objective is to build multi-stakeholder alliances in order to leverage skills and resources to meet complex social and environmental needs that no one sector can tackle on its own.

(ii) New partnerships to engage the private sector in community and international development

As illustrated throughout this paper, many of the social, economic and environmental challenges we face are too complex, and the necessary skills and resources for tackling them too dispersed between different sectors, for any one sector to be able to solve these challenges alone. This is the case whether it is managing the public parks of New York city or delivering affordable drugs, new investment, R&D and effective public healthcare capacity to tackle HIV/AIDS in Africa. Mobilizing the appropriate types of skills and necessary levels of resources to tackle these challenges is therefore another major driver of new multi-stakeholder alliances between business, governments and civil society.

Although there is longstanding experience and evaluation of such alliances in the United States and parts of Europe, especially at the level of local community development and urban regeneration, there is still much to learn on what works and what doesn't in terms of engaging the private sector in such alliances.

> "…many of the social, economic and environmental challenges we face are too complex, and the necessary skills and resources for tackling them too dispersed between different sectors, for any one sector to be able to solve these challenges alone. This is the case whether it is managing the public parks of New York city or delivering affordable drugs, new investment, R&D and effective public healthcare capacity to tackle HIV/AIDS in Africa."

Two sources of useful research on the United States experience are the Kennedy School's Innovations in Local Government program, and more directly in relation to the private sector and corporate social responsibility, the findings and recommendations of the Ford Foundation's *Corporate Involvement Initiative*. This initiative brought together academics and practitioners from over 50 organizations working in the fields of corporate social responsibility and community economic development, primarily in the United States. Among other work, the initiative looked at examples of partnerships that aim to: make markets work more effectively; mobilize private resources to develop untapped markets in America's inner-cities and low-income communities; train and recruit previously disadvantaged people; relocate or manage real estate and other physical assets in low-income communities; and support community economic development through purchasing and procurement agreements with minority and women-owned businesses.[24]

The well documented examples of city-level alliances in the United States, such as the New York City Partnership; Cleveland Tomorrow; ReBuild LA; and The Atlanta Partnership Business may offer lessons for other cities in other countries. Readers are referred to the research undertaken on Business Leadership Coalitions by Professor James Austin and his colleagues at Harvard Business School's Social Enterprise Initiative.[25] Recently a number of community development alliances have emerged on a national basis, such as Business Strengthening America and the UK Government's Business Challenge that aim to attract increase private sector investment and employee volunteering efforts in their country's low-income communities.

Less well-document and evaluated, and in many cases more challenging, are the multi-stakeholder alliances that are emerging to mobilize private sector resources, skills and competencies to support international development efforts. These range from initiatives instigated by the World Bank, the United Nations, regional development banks and bilateral development agencies, to business-led coalitions for change at a global and national level. Relatively few of these initiatives have been the source of empirical analysis and evaluation, but there is great potential to learn from them what works and what doesn't, and to share this learning more widely with international organizations, national policy makers and business leaders.

Examples of innovative financing mechanisms to promote corporate social responsibility in developing countries include the World Bank's *Development Innovations Marketplace*, the International Finance Corporation's *Corporate Citizenship Facility* and the USAID's *Global Development Alliance*. There are also a growing number of multi-stakeholder initiatives in the area of global health, such as the Global Alliance for Vaccines and Immunization, the Accelerating Access Initiative, the Medicines for Malaria Venture, and the Global Alliance for Improved Nutrition

National- level programs include: the work of the Brazilian government to mobilize the private sector in Brazil to support its national Zero Hunger Program; South Africa's Business Trust which has mobilized funds and other resources from over 100 of that country's major companies to meet goals in education quality improvement and job creation in the tourism industry; the Thai Initiative for Rural Development, which engages Thai and multinational companies in rural development and economic empowerment projects; and Philippines Business for Social Progress, one of the oldest and most extensively evaluated of such alliances between business, government and civil society.

Finally, there are also emerging examples of country-level initiatives that bring together one or a smaller number of companies with governments, NGOs, foundations and other donors to try to achieve systemic change and build local capacity in these countries. National and regional examples include:

- The Africa Comprehensive HIV/AIDS Partnership in Botswana - a formal partnership between Merck, the Bill and Melinda Gates Foundation, and the Government of Botswana, aimed at supporting the government to develop and implement a national comprehensive HIV/AIDS strategy, with the goal of decreasing the spread and mitigating the impact of HIV/AIDS in that country.
- The Angola Partnership Initiative - a formal partnership between ChevronTexaco, USAID and the United Nations Development Programme, working with local and international NGOs and the Angolan government to systematically build human capacity in Angola, with a focus on small and medium-sized enterprises.
- The Cisco Systems Networking Academy Program – first established in the United States in 1997, this program now operates over 10,000 academies in 50 US States and over 150 countries – including a new initiative targeted to reach the world's 49 Least Developed Countries, in partnership with UNDP, USAID, the US Peace Corps, other companies and education NGOs. 32% of the students in the LDC program are women and data collected to-date shows that 75% of graduates remain in-country after graduation.
- Coca-Cola and UNAIDS – a regional initiative, which mobilizes the company's extensive network of bottling partners and distributors in Africa and draws on its marketing skills, to support local HIV/AIDS programs through a combination of outreach and awareness raising activities, workplace treatment programs.
- The Global Alliance for Workers and Communities – in this partnership the World Bank, Nike, the Gap Inc., the International Youth Foundation and others are working together with the aim of improving the lives and future prospects of workers involved in global production and supply chains. Projects are underway in Indonesia, Thailand, Vietnam and China covering activities such as worker consultation, training, development and health programs, as well as training for managers and supervisors.

V. Conclusion

This paper has attempted to provide an overview of some of the key leadership challenges facing business, three key trends in corporate social responsibility, some of the strategies that leading companies are employing to implement responsible business practices, some reflections on risks, opportunities and possible areas of research relating to CSR, and a brief overview of the emergence of new models of accountability and partnership aimed at supporting two core elements of corporate social responsibility:

- Improving corporate accountability and performance on social and environmental issues;
- Leveraging private skills and resources in an efficient, effective manner – either commercially or philanthropically – to build social capacity, achieve systemic change, and tackle social and environmental challenges that are beyond the scope of any one company, but in the broader, long-term interests of both business and society.

Despite the amount of corporate and public interest, media coverage and 'noise' generated by the field of corporate social responsibility in recent years, its efficacy and impact remain under-researched and insufficiently evaluated at the level of both the firm and the broader public domain. The manner in which the field of CSR evolves over the next ten years has implications not only for corporate governance, strategy and risk management, but also for national and global governance – making it a subject worthy of applied research, scholarly review, and continued learning and debate between academics and practitioners. It is the aim of the Kennedy School's CSR Initiative to be part of this community of learning and to contribute in all of these areas.

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Footnotes:

1. This paper draws on material in the author's forthcoming book, *Profits with Principles*, co-authored with Ira Jackson, to be published by Doubleday in June, 2004. It also draws on the following reports:
   - Nelson, Jane and Bergrem, Caroline. "Values and Value: Communicating the importance of corporate citizenship to investors." World Economic Forum and International Business Leaders Forum, 2004
   - Nelson, Jane and Prescott, D. "Business and the Millennium Development Goals." International Business Leaders Forum, 2003
   - Nelson, Jane. "Economic Multipliers: Revisiting the core responsibility and contribution of business to development." International Business Leaders Forum, policy paper 2003, No. 4
   - Nelson, Jane. "Building Competitiveness and Communities." The International Business Leaders Forum, in collaboration with the World Bank and the United Nations Development Programme, 1998.
2. Starr, Randy; Newfrock, Jim and Delurey, Michael. "Enterprise Resilience: Managing Risk in the Networked Economy," *Strategy+Business*, February 2003, 13:39:38
3. World Economic Forum. "Trust in Companies: Executive Summary." Global survey on trust undertaken for WEF by Environics International, January 2003.
4. "Too Much Corporate Power?" *Business Week*, September 2000.
5. Nelson, Jane and Bergrem, Caroline. "Values and Value: Communicating the importance of corporate citizenship to investors." World Economic Forum and International Business Leaders Forum, 2004
6. "Global Governance Initiative," Executive Summary. World Economic Forum, 2004
7. Emerson, Jed. *The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation.* 2003, revised 2004 http://www.blendedvalue.org/
8. This conceptual framework draws on Nelson, Jane. "Building Competitiveness and Communities." The International Business Leaders Forum, in collaboration with the World Bank and the United Nations Development Programme, 1998.
9. Moss Kanter, Rosabeth. "From Spare Change to Real Change: The social sector as beta site for business innovation." *Harvard Business Review*. Vol 77, No. 3, May-June 1999; Porter, Michael and Kramer, Mark. "Philanthropy's New Agenda: Creating Value," *Harvard Business Review* 77, no. 6 (November-December 1999)
10. Readers are referred to the work of CERES and its partners on the business risks and opportunities of climate change. www.ceres.org
11. Moore, Mark and Khagram, Sanjeev. "On Creating Public Value: What business might learn from government about strategic management." Kennedy School of Government CSR Initiative Working Paper, March 2004.
12. This draws on materials from Jackson, Ira and Nelson, Jane. *Profits with Principles: Seven Strategies for Delivering Value with Values*. DoubleDay, Due June 2004
13. Remarks before the Foreign Policy Association by Chairman William H. Donaldson. US Securities and Exchanmge Commission. New York, September 25, 2003
14. Chandler, Geoffrey, remarks made at the Environment Foundation Consultation, St. Georges House, Windsor, UK, December 2003.
15. Donahue, John. D. "On Collaborative Governance." Paper adapted for Kennedy School CSR Initiative from internal document exploring the options for collaborative governance research and pedagogy, March 2004.

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20. Nelson, Jane and Bergrem, Caroline. “Responding to the Leadership Challenge.” World Economic Forum and International Business Leaders Forum, 2004.

21. Speech made by Phillip Angelides, California State Treasurer at Investors Summit on Climate Change, New York, November 21 2003.

22. Cowe, Roger. *Risks, Returns and Responsibility*. Association of British Insurers, 2004.

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24. *Win-Win: The Double Bottom Line – Competitive Advantage through Community Investment*. Ford Foundation, 2001

25. Austin, James E. and McCaffrey, Arthur. “Business Leadership Coalitions and Public-Private Partnerships in American Cities: A Perspective on Regime Theory.” *Social Enterprise Series* No. 20, 2001; Austin, James. E “Business Leadership Coalitions.” *Business and Society Review*. 105:3 305-322, 2000.