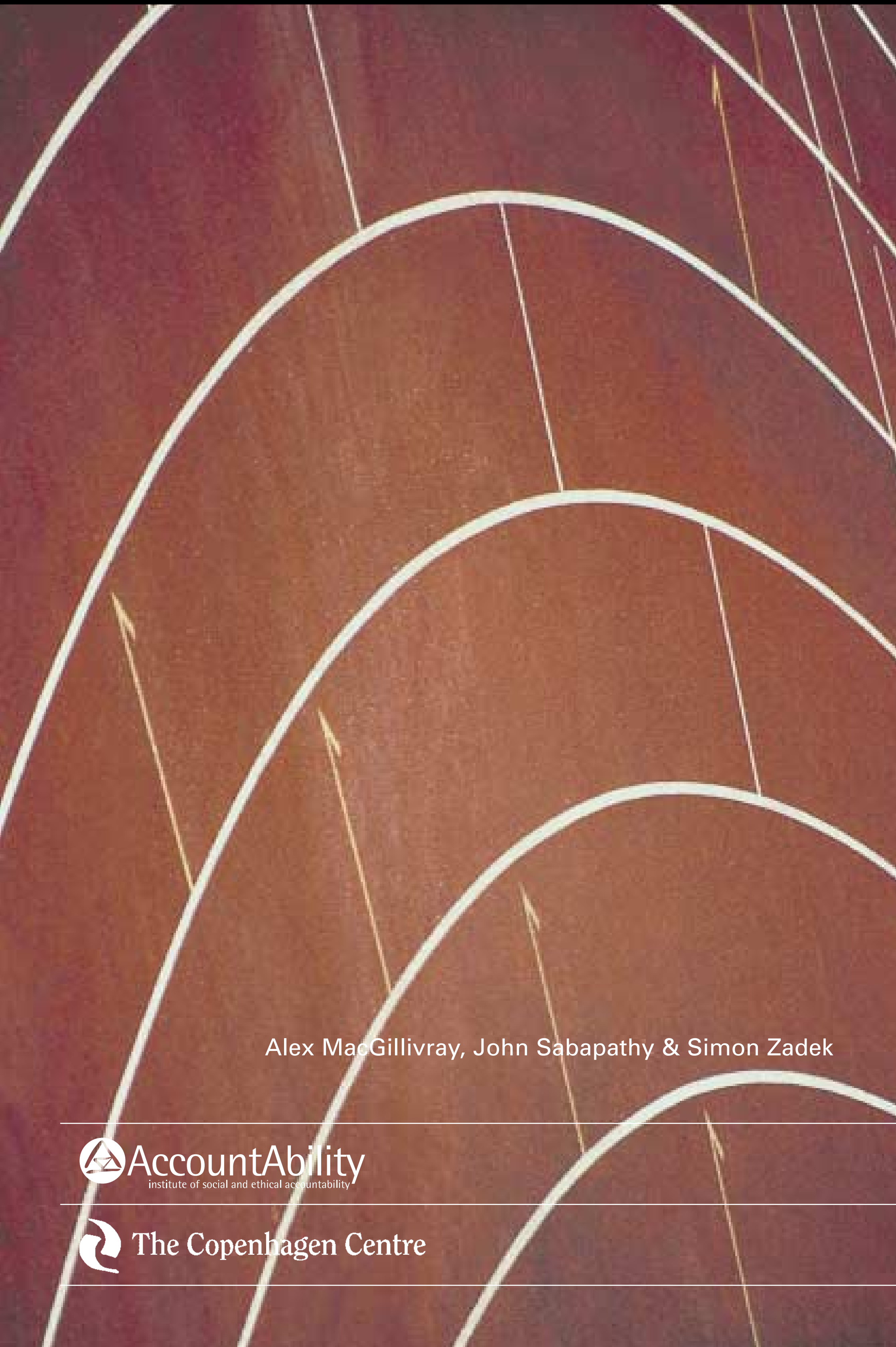
# Responsible Competitiveness Index 2003

## Aligning corporate responsibility and the competitiveness of nations



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AccountAbility
institute of social and ethical accountability

The Copenhagen Centre

## Other Responsible Competitiveness Publications

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"The report and its analysis provide valuable policy perspectives that can inform the European Community and other policy leaders in taking this agenda forward"

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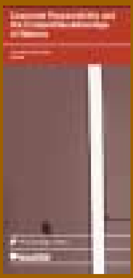
**Corporate Responsibility and the Competitive Advantage of Nations**



"Until now, debate has largely focused on what individual companies can do to enhance sustainable development goals. This pamphlet represents a significant step forward by exploring the link between CSR and the competitive advantage of nations, and the contribution public policy could make to strengthening this link"

**Pascal Lamy,** Commissioner for Trade, European Commission

Other related publications are detailed on inside back cover.

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# 1. Executive Summary

Meeting the Millennium Development Goals (MDGs) as one step towards sustainable development requires the will, and combined energies and competencies of all. The need in particular to integrate the roles of the business community and governments in delivering economic development, consistent with environmental and social imperatives, is increasingly recognised.

Easy to say, harder to achieve. Positively, the potential for 'corporate responsibility' to deliver business and broader societal benefits has been highlighted through a growing body of contemporary research. Practice and research has, however, 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 recognised let alone understood, and have to date received little empirical or theoretical attention. This fact has serious negative consequences but also offers opportunities for the development of both corporate responsibility (CR) and competitiveness:

(a) Policy makers and analysts have failed to create enabling policy frameworks that exploit the potential synergies between economic growth and competitiveness, and social and environmental development.

(b) Companies face real limits in what they can achieve through responsible business practice and impact, without government action to re-align the basis of competitiveness to benefit these practices.

(c) The continued failure to link progressive corporate practices with the competitiveness strategies of nations and communities will allow the amplification of inter-related environmental, social and economic development problems.

The two crucial questions are therefore:

1. Whether corporate responsibility impacts can be amplified through their alignment with broader competitiveness developments at national, or indeed regional, sector and city levels.

2. Whether macro-level competitiveness can be enhanced through corporate responsibility practices, both quantitatively and qualitatively, in terms of its alignment with the principles and imperatives of sustainable development.

If the answer to either of these questions is 'yes', corporate responsibility can play an important role in moulding tomorrow's markets and addressing societal challenges.[1] If the answer is 'no', then corporate responsibility will be more likely to go down in history as a passing spectacle of exceptionally responsible companies, practicing temporary 'sustainability' strategies, rather than a bedrock on which norms of corporate behaviour evolved.

The answer to these two questions will provide some fundamental conclusions about the relevance of corporate responsibility in the future.

This report builds on earlier work by AccountAbility and The Copenhagen Centre exploring the potential for 'responsible competitiveness', where 'an economy's productivity and overall competitiveness is enhanced by businesses taking explicit account of their social, economic and environmental performance'. This hypothesis has been explored further here by considering empirical evidence of the relationship between national competitiveness and macro-measures of corporate responsibility.

We did this by first of all developing a ***National Corporate Responsibility Index (NCRI)*** that examines both the extent to which there is an enabling national environment for corporate responsibility, and the resulting outcomes of corporate responsibility practice. The NCRI results suggest that:

- ➢ Scandinavian and Northern European countries put in a strong performance. Finland is the clear winner, and New Zealand and Australia join the Europeans in 8th and 10th places.

- ➢ Canada, Panama, Costa Rica and Israel come higher than some European countries in the top 25.

- ➢ Japan, the USA and the former Asian tigers are middle ranked, closely followed by some of the more dynamic developing economies such as Chile, South Africa, India and Brazil.

- ➢ Eastern European countries are only slightly ahead of some of the poorer developing countries like Vietnam and Bolivia.

- ➢ China and Russia perform poorly, on a par with embattled economies such as Nigeria and Indonesia.

We then incorporated this data with existing competitive indices to form the ***Responsible Competitiveness Index (RCI)*** in order to define what role CR plays alongside commonly accepted drivers of competitiveness (technology, innovation, firm-level strategy, human capital, public institutions, infrastructure and macro-economic context). This report presents the first iteration of the Responsible Competitiveness Index, which represents the first-ever attempt to quantify the relationship between corporate responsibility and a nation's international competitiveness.

The findings of the RCI show that:

- ➢ At all levels of income, for the majority of countries the pattern between growth and responsible competitiveness holds up. But as with the NCRI, there are still some misfits on both sides of the line.

- ➢ 22 countries out of the 51 could face a potentially significant competitiveness loss from their 'responsibility deficit' – more than 2% change from the existing measures.

- ➢ In the cases of China, Japan, Korea and the USA, the 'responsibility deficit' is well in excess of five per cent, suggesting that this could endanger economic growth in these countries, if one accepts the apparent link between income and responsibility.

- ➢ Some 16 European and developing countries, such as Denmark, Italy, Costa Rica and Bolivia, could make competitiveness gains on the basis of their corporate responsibility performance, although at present countries with a significant 'responsibility surplus' are few.

Based on data covering 51 countries, the paper concludes that:

(a) National measures of corporate responsibility can be established, despite data problems, allowing for a country-based ranking of underlying corporate responsibility practice and its potential.

(b) Measures of corporate responsibility are closely correlated to both economic growth and conventional measures of national competitiveness; more so than to other measures of economic and human development.

(c) Incorporating measures of corporate responsibility into existing measures of national competitiveness can improve the latter's explanatory power.

The specific results of the Responsible Competitiveness Index need to be treated with caution given the variable quality of data used and the early stage reached in the RCI's exact structure and content.

This first iteration of the Responsible Competitiveness Index is an initial step in specifying the relationship between national competitiveness and corporate responsibility. Future developments will need to take closer account of other factors, such as sector intensity and countries' underlying stages of development. However, this early step suggests that the relationship can be used as a basis for understanding the potential correlation between competitiveness and CR, and for creating policy frameworks, which can ensure that such potential is realised.

# 2. The Challenge

Achieving the Millennium Development Goals (MDGs), as one step towards sustainable development, requires the combined vision and will, energies and competencies of the business community, governments and civil society alike. In this process, the role of business will increasingly be judged by more than their traditional contribution of investment, employment and the goods and services they provide. Business will be judged by whether they behave responsibly in these practices, i.e. their approach to 'corporate responsibility'.

'Corporate responsibility' (CR) has become something of a global fashion. Although there is far from widespread uptake, leading global companies, policy makers, and civil society organisations at the very least have it on their radar screen. CR is now stimulating debate and action aimed at enhancing business' contribution to economic development consistent with environmental and social imperatives. A growing body of research has highlighted the potential for both business gains and broader societal benefits from corporate responsibility practices. But the so-called 'business case' has retained a fundamentally micro-character, based on individual company practices.[2] This is despite a clear recognition that macro-variables are primary drivers of economic growth and impact on poverty, inequality and other societal problems. By the same token, macroeconomists and analysts of national competitiveness have largely ignored businesses' social and environmental performance as potential drivers of a nation's economic competitive advantage. Work is, however, gradually emerging that addresses this, focused on for example corporate philanthropy and business behaviour at city and regional levels.[3]

National competitiveness depends increasingly on how a country's business community effectively mobilises intangible assets, and manages its value-chain in pursuit of innovation in products, services and business processes. This should mean that business performance will be enhanced if it is aligned to societal values and demonstrably addresses associated challenges and interests. In the short term, this is visible in civil society's ability to 'bite back' when business will not play ball, a form of 'civil regulation'.[4] More positively, it can also be true for individual companies who have driven performance through the alignment of corporate responsibility to business strategy.[5] If this can be true at a micro-level, this link between business responsiveness to societal values and resulting improved performance suggests that corporate responsibility *could* become a significant factor in national competitiveness.

But these potential 'virtuous circles' should not be exaggerated. Markets can and do reward irresponsible as well as responsible behaviour. 'Responsible' textiles and apparel companies across Asia and Latin America, which have embraced higher labour and environmental standards, are rightly concerned at the possible loss of business to low-cost China after the end of the Multi-Fibre Arrangement in 2004.[6] More generally, business (and governments) in less developed economies are frequently sceptical of the vaunted longer-term benefits of higher quality social and environmental production processes, when they can see lower quality competitors elsewhere who can immediately undercut them.[7] Companies that seek to 'do the right thing' too often face real constraints and ultimately threats in competitive markets that would rather reward strategies that maximise short-term financial performance. After all, most of today's markets have evolved by rewarding business models that effectively externalise costs associated with negative social and environmental outcomes.[8]

**Exhibit 1: The National Competitiveness/Corporate Responsibility Relationship**

The two crucial questions are therefore:

1. Whether corporate responsibility impacts can be amplified through their alignment with broader competitiveness developments at national, or indeed regional, sector and city levels.

2. Whether macro-level competitiveness can be enhanced through corporate responsibility practices, both quantitatively and qualitatively, in terms of its alignment with the principles and imperatives of sustainable development.

If the answer to either of these questions is 'yes', then corporate responsibility can play an important role in moulding tomorrow's markets and addressing societal challenges. If the answer is 'no', then corporate responsibility will be more likely to go down in history as a passing spectacle of exceptionally responsible companies, practising temporary 'sustainability' strategies, rather than a bedrock on which norms of corporate behaviour evolved.[9]

But until recently, these questions were not even being asked, let alone answered. The continued failure to consider these crucial links between company-level practices and macro-level market dynamics has already had serious consequences:

(a) Policy makers and analysts have failed to create enabling policy frameworks that exploit the potential synergies between economic growth and competitiveness, and social and environmental development.

(b) Companies face real limits in what they can achieve through responsible business practice and impact, without government action to re-align the basis of competitiveness to benefit these practices.

(c) Continued failure to link progressive corporate practices with the competitiveness strategies of nations and communities will allow the amplification of inter-related environmental, social and economic development problems. These range from unrestricted increases in resource pressure, to health-threatening

> industrial pollutants in major cities from Beijing to Athens, to coral destruction leading to the physical erosion of Southeast Asian coastal communities and economies.[10]

However, the serious consequences of not moving towards an understanding of the link between micro-level practices and macro-level dynamics, also offers an opportunity for plugging the gap. Our research and development of the Responsible Competitiveness Index, provides some fundamental conclusions as to the deeper relevance of corporate responsibility in the future.

# 3. Towards a Theory of Responsible Competitiveness

This report builds on earlier work by AccountAbility and The Copenhagen Centre in exploring the two questions set out above.[11] This earlier work considered some empirical evidence, and began the task of building the language and methods needed to consider these core questions. We drew on the rich vein of existing work, particularly the emerging body of research on the business case for corporate responsibility, voluminous work on competitiveness, and related work on learning and innovation.[12]

**Some Definitions**

The field of corporate responsibility is replete with varied and often contradictory definitions, as is the more mature field of competitiveness. We propose here to use the three core definitions as set out below. The first two are broadly consistent with their respective fields, and the third establishes a conceptual linkage between the two, which frames this report.

- **Corporate Responsibility** is used here to cover the *"why, when and how business **actively** manages its social, environmental and economic aims and outcomes, as part of its business strategy, activities and performance"*. It therefore focuses on business' strategic and operational options and the choices they make and justify to their stakeholders. Importantly, this formulation goes beyond compliance[13], and very much includes businesses' role in shaping public policy and regulations.[14]

- **Competitiveness.** Drawing from Peter Cornelius and Michael Porter's definition for the World Economic Forum's Global Competitiveness Report (2002-03) we use here a productivity-based definition where, *"productivity depends both on the value of a nation's products and services, measured by the prices they can command in open markets, and the efficiency with which they can be produced. True competitiveness, then, is measured by productivity"*.

- **Responsible competitiveness** would then occur if *"an economy's productivity is enhanced by businesses taking explicit account of their social, economic and environmental performance"*. Implicit in this is both:

- ❏ An integration of these factors into companies' core product and service delivery, rather than an incorporation into philanthropic or social investment considerations only, and;

- ❏ A sufficient level of adoption of these practices across the economy to result in demonstrable macroeconomic effects ('critical mass'[16]).

**Responsible Competitiveness – a Three-Tier Framework**

The proposition of 'responsible competitiveness' is underpinned by a conceptual framework linking corporate responsibility practices with competitiveness at three distinct levels:

1. ***Micro-level business cases*** describe the benefits that companies have derived from aligning their social and environmental performance into their business strategy.[17]

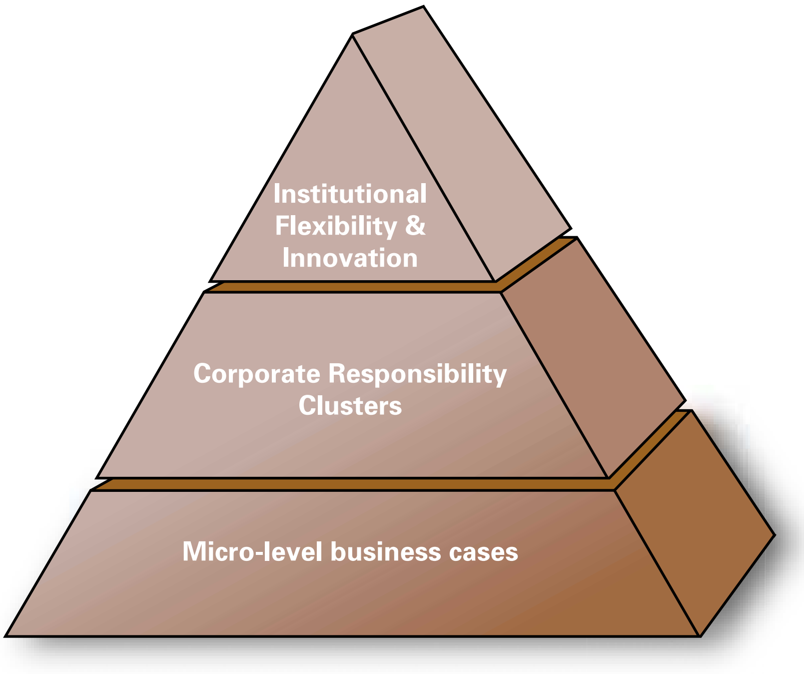
2. Applying the concept of 'clusters' to the corporate responsibility field has led to the description of multi-sector, multi-stakeholder ***'corporate responsibility clustering'***. Such a clustering methodology can be used to analyse how collective corporate action caused by civil pressure, market openings, or governmental regulation can lead to more efficient ways of promoting responsibility and sustainability within markets, in particular by addressing 'free rider' issues.[18]

3. The broader effects of ***corporate responsibility practices on institutional flexibility and innovation***, where corporate responsibility builds skills and relationships across sectors at the macro level. This enables business to learn more readily from social shifts, thereby allowing it to establish new institutional relationships with both the public and non-profit sector.[19]

Here we briefly review and illustrate some of the issues and arguments underlying this three-tier framework.

There are some 50,000 companies listed on the world's stock exchanges, with an estimated 600,000 affiliates and uncounted millions of domestic small and medium sized enterprises (SMEs). The question we are exploring is whether national-level performance in economic growth and broader competitiveness, as well as progress towards sustainable development, would be enhanced if a critical mass of companies in a given country were to make corporate responsibility a strategic priority. Some economies are dominated by a few companies, whose specific practices can therefore impact quite easily on national competitiveness. Oil and other natural resources producing countries come to mind, but equally one might consider that such a definition applies to a country like Finland, where a single company – Nokia - has a dominant impact on its economy. In such circumstances, the impact of responsible business leadership could be to drive other companies to follow suit within given markets and indeed between sectors. The strong leadership of companies like Tata in India, Ayala in the Philippines, Eskom, Anglo-American and South African Breweries in South Africa, and relatively small companies like Natura in Brazil, can and do drive other companies across many sectors to positively reassess the role of corporate responsibility in their business propositions.

**Exhibit 2: Responsible Competitiveness - a Three Tier Framework**



Responsible competitiveness need not originate with business leadership, though. Some economy-wide factors might give rise to responsible competitiveness. Particularly powerful networks of civil society organisations, led by advocacy brands such as Oxfam, Transparency International or Greenpeace, might lead resident companies to evolve business strategies attuned to the aims of such networks, which then go on to influence their business operations in other parts of the world. The energy industry is a case in point, with BP and Shell's leadership in handling social and environmental issues evolving as a result of the powerful civil society challenges facing them.

Public policy could also play a driving role in responsible competitiveness, through such regulations governing disclosure, bribery and corruption, or employee protection. For example, Danish companies have considerable flexibility in the labour market, in part because of the generous welfare provided by the Danish Government, which in turn is affordable partly due to corporate tax levels. Policy-dictated rules might enhance longer-term competitiveness for some sectors, such as anti-corruption legislation. Others might enhance competitiveness only when the policy can be effectively rolled out to other nations; one example is the transparency rules regarding payment of energy-based royalties being advocated by the UK Government in its Extractive Industry Transparency Initiative (EITI), which is strongly supported by companies that have already adopted such policies.[20]

Indeed growing action to promote corporate responsibility in markets by governments, stock exchanges and influential elements within the financial sector, makes it increasingly important to achieve a greater understanding of which aspects of corporate responsibility contribute to macroeconomic levels of competitiveness.[21] Clarity as to what works and why in terms of public policy interventions, can help governments and companies to more effectively integrate competitiveness drivers and sustainable development outcomes. There is a growing body of research with proposed strategies emerging, which will provide much-needed clarity. One such piece classifies the role of public sector in four ways: mandating, facilitating, partnering and endorsing.[22] Another is developing a framework for assisting countries in identifying the most appropriate CR strategies.[23]

There is then a wide range of such public policy initiatives encouraging corporate responsibility practice and changing the macroeconomic framework within which such behaviour could be rendered 'competitive'. These range from:

- **Governmental enforcement**, such as France's New Economic Regulations, which require a range of French companies to report on a broad number of corporate responsibility issues.[24] A widely perceived example of a successful 'light touch' in this area has been the UK government's introduction of binding requirements on institutional pension fund trustees to disclose whether they take social, ethical or environmental risks into consideration in their investment strategy.

- **Industry good practice guidelines**, such as the World Tourism Organisation's, Global Code for Ethics in Tourism, which sets out nine articles outlining the 'rules of the game', and a tenth on enforcement.[25] Then there are the Association of British Insurers' Guidelines for its members, which sets out guidelines for the management of social, ethical and environmental risk.[26]

- **Requirements tied to fundraising opportunities**, such the South African Stock Exchange's requirement that listed companies disclose how they are handling the presence of HIV/AIDS in their workforce. Following a different tack, BOVESPA (the Sao Paolo Stock Exchange) has introduced its Nova Mercado rules offering companies that follow higher levels of corporate governance and disclosure the opportunity to be listed distinctly from companies who do not. Related to this is the consideration of social criteria in public tendering requirements, by for example the World Bank and International Finance Corporation.

- **Direct fiscal incentives**, which include the USA's Community Reinvestment Act providing tax incentives for companies investing in low-income areas and since replicated in the UK. It would also include the emergence of the EU wide Carbon Trading Scheme.

- **Incorporation into trade negotiations**, which, while remaining controversial in principle and outcome, has occurred in a variety of instances. These include the US-Cambodian 1998 bilateral trade agreement that permitted a 14% increase in Cambodian US-bound garment exports if the implementation of core labour standards was enhanced. It would also include the EU's Sustainability Impact Assessments undertaken to assist in the incorporation of social development and environmental protection into trade agreements, as well as its more well known General System of Preferences (GSPs).[27]

**Does Corporate Responsibility have Aggregate Economic Effects?**

There is no doubt that increasing numbers of companies are embracing corporate responsibility as an element of their business practice and, for some, as core to strategic performance. Equally, there is a rapid increase in public sector interest in corporate responsibility and, gradually, policy formulation. These changes give cause for optimism in considering the potential for significant economic effects, particularly looked at through the lens of the potential positive dynamic between them.

Evidence on the third, and all-important tier of institutional flexibility and innovation, is harder to come by. The management and competitiveness literature is clear about the potential, but the links with corporate responsibility practices are untested at any rigorous level, partly because of immense measurement challenges. Having said that, the literature review and rich dialogue that has accompanied the work of AccountAbility and The Copenhagen Centre has highlighted, at least anecdotally, potential examples ranging from Brazil's pulp and sugar sectors[28], the competitiveness of London as a global city[29], and the 750 firms clustered around the Travel and Tourism Academies supported in ten countries by American Express.[30]

It is also possible, however, that corporate responsibility does not affect aggregate measures of competitiveness in any discernible way. Indeed, it must be accepted that high levels of corporate responsibility may in some circumstances damage national performance if evolved as part of a compliance regime that is insensitive to market dynamics.[31]

Even a correlation needs to be examined carefully to understand the causality. So a full set of potential relationships between corporate responsibility and competitiveness would comprise:

1. Corporate responsibility **does not materially affect** businesses' productivity *(no correlation).*

2. Corporate responsibility **damages** businesses' productivity *(negative absolute correlation).*

3. High productivity companies (and by extension the legal, cultural and economic environments that foster them) **enable** corporate responsibility activities *(incidental correlation).*

4. More corporate responsibility **leads to** higher productivity businesses *(positive absolute correlation).*

5. Within particular legal, cultural and economic parameters, specific social or environmental practices **can contribute to** the increased productivity of companies. Depending on the scale and geographical dispersion of this activity it may be visible at aggregated levels of analysis, be they urban, regional, or national economic levels *(contingent positive correlation).*

The broad consensus, from micro-level analyses, is that significant business gains can be achieved by individual companies, through the effects of corporate responsibility on productivity.[32] This would mean that a base assumption for the evaluation of corporate responsibility activities' contribution to **macro** levels of economic productivity would take the form of the *contingent positive correlation* sketched out in proposition 5 above. The necessary flip side of this is that in other cases there may be a *contingent negative correlation* where the adoption of different forms of corporate responsibility activity leads to increased costs or lower productivity. Underlying both options (and of course they can both be true in different circumstances) is also the question of whether any of these effects are, or can be, significant.

**Measuring Corporate Responsibility at a National Level**

# 4. The National Corporate Responsibility Index

It is challenging to move from theory and anecdote to a more systematic answer to the core policy questions about the two-way relationship between corporate responsibility and national competitiveness. There is considerable benefit from testing more rigorously the practical and theoretical proposition of ‘responsible competitiveness’, given its immense potential policy implications. If responsible economies are more competitive – or are in the process of building a more competitive future – then a more sophisticated and forward-looking understanding of, and set of opportunities for enhancing, competitiveness will be gained if corporate responsibility is factored into national competitiveness strategies. The complexity of the systems we are exploring, our focus on the links between micro activities and macro outcomes, and the availability of data, all combine to make this next step difficult. Any results at this stage are for enquiry and debate, rather than over-assertive conclusions.

On this basis, we have moved forward in seeking to define and populate with available data, a simple index that measures the relationship between corporate responsibility and national competitiveness. Our underlying approach has been to effectively:

1. Develop a ***National Corporate Responsibility Index (NCRI)*** that captures the extent to which there is an enabling national environment for corporate responsibility practices, and the corporate response to that environment.

2. Consider the relationship between this measure and economic performance.

3. Incorporate the NCRI as an additional component of existing competitiveness indices to form a ***Responsible Competitiveness Index (RCI)*** in order to begin to explore what role, if any, corporate responsibility plays alongside commonly accepted drivers of competitiveness – technology, innovation, firm-level strategy, human capital, public institutions, infrastructure and macroeconomic context.

**Exhibit 3: Developing the Responsible Competitiveness Index**

| |
|---|
| 1. Technology (sub-index)<br>+<br>2. Public Institutions (sub-index)<br>+<br>3. Macro-economic Environment (sub-index)<br>+<br>4. National Corporate Responsibility (Index)<br>=<br>The Responsible Competitiveness Index |
| [NB: 1, 2, & 3 sub-indices are those of the World Economic Forum; Number 4 has been developed by AccountAbility] |

**A National Corporate Responsibility Index (NCRI)**

We have undertaken a careful review of the literature as well as convening a number of expert meetings in making the selection of variables to include in the *National Corporate Responsibility Index (NCRI)*. Crucial has been to select variables for which data is available in some form and make sense:

- ☑ At the national rather than the firm level.

- ☑ For a broad range of economies and business cultures rather than a hot topic in just a few. So, for example, sustainability reporting has not been included because (at this stage) it is an expression of corporate responsibility in only a few countries, and creates a strong bias towards economies dominated by large multinationals.

- ☑ For influencing economic performance in dynamic ways, i.e. we were deliberately seeking factors that would be most likely to impact on business and broader economic performance. So, for example, we did not include corporate philanthropy because of its likely relative insignificance to business performance.

As part of this review, we considered a range of existing indices, both those measuring competitiveness (notably the World Economic Forum's leadership work in this field) and the growing number measuring aspects of company-level corporate responsibility.[33] In addition, we considered the growing body of literature on sustainable development and competitiveness.

From this review, we have drawn seven broad aspects of a nation's environment that we consider core in defining whether it is enabling or disabling of corporate responsibility practices, as set out in the components of the NCRI. These seven components were debated in two intensive expert working groups.[34] There are undoubtedly other valid ways to categorise corporate responsibility. We did not, for example, include corporate philanthropy (see above), available data on child labour or explicit consideration of executive compensation, just to mention a few. However, we concluded that on balance these seven components represent a reasonable basis on which to construct a national corporate responsibility index.

**The Seven Components of the National Corporate Responsibility Index**

1. *Corporate governance structures:* Recent attempts at measuring corporate governance at a national-level suggest a positive correlation with competitiveness (e.g. Davis Global Advisers Inc 2002 Leading Corporate Governance Indicators™ for 8 countries)[35]. The World Bank has found *public* governance strongly correlates with growth.[36]

2. *Ethical business practices:* Literature shows that the level of public corruption (e.g. WEF, Transparency International) is correlated with growth. If trust reduces transaction costs, private sector corruption should impact negatively on national economies.

3. *Progressive policy formulation:* Anecdotal evidence suggests that business lobbies can gain 'first to export market' advantages by pushing for demanding regulation (e.g. Danish wind turbine manufacturers; GM-free maize). Business lobbies can also block sustainable policies (e.g. Global Climate Coalition role in discouraging ratification of Kyoto Protocol).
4. *Building human capital:* Multi-firm level evidence that workforce

training and high morale build productivity, innovation, & economic performance (e.g. Great Place to Work US & Europe). Flexible labour markets are seen as being good for growth, but what about employment protection and health & safety at work?

5. *Engagement with civil society:* Vibrant interactions with citizens, consumers and NGOs can create pressure for new products and services (e.g. Ethical Trading Initiative). Similarly, ignoring public opinion can result in commercial failure (e.g. Monsanto's European GM project).

6. *Contributions to public finance:* High corporate tax and public expenditure is assumed to be uncompetitive but there is strong evidence that public spending on education is a key contributor to competitiveness.[37] So could high levels of well-focused public spending, supported by a corporate tax regime, be competitive after all?

7. *Environmental management:* There are multi-country data that show overall environmental performance is positively correlated with economic growth (e.g. Columbia University's Environmental Sustainability Index).[38] Corporate environmental management is also an indicator of general strategic management.[39]

**Building the National Corporate Responsibility Index**

Populating our index with data presented a major challenge as recent, comparable data on corporate responsibility for a wide range of countries is very sparse. The World Economic Forum's (WEF) *Global Competitiveness Report* is a major exception. Their annual expert opinion survey (EOS) of business people in 79 countries on a wide range of issues includes many questions relevant to the above components. Many of these questions are not integrated into the two competitiveness indices produced by WEF, so that we were able to use that data without introducing dependent variables.

Some other international survey data has also been used, from reputable sources such as Environics and Transparency International, though country coverage is not as extensive. The forthcoming World Values Survey will provide a useful resource on public attitudes towards

Values Survey will provide a useful resource on public attitudes towards business. In future it may also be desirable to develop an expert panel to deliberate and rank national performance in areas for which no hard data has been available.

The NCRI covers 51 countries short-listed from the 79 included in the WEF reports. These countries were selected to include all current EU countries and a sample of accession states; almost all OECD countries; most of the developing world's major economies and major population centres; and at least two countries from each region. As a result, our 51 countries include 76% of the world's population and 89% of the world's listed domestic companies.

Wherever possible we have tried to balance 'soft' survey data with recent 'hard' factual data from the World Bank, OECD, UN, WTO, IEA, Standard & Poors, Dow Jones, and international NGOs such as Transparency International and Freedom House. Increasingly, relevant data is becoming available from such sources for a wide range of countries, although there are some gaps, for example on the strength and nature of business lobbying.

Exhibit 4 below illustrates our selection of 27 indicators for the NCRI. Each component contains a basket of 3-5 indicators, at least one of which is hard data from reputable sources.

**Exhibit 4: Variables and Indicators for the National Corporate Responsibility Index**

| Component | Data |
|---|---|
| **1. Corporate governance** | • Transparency & disclosure rating (hard data, Standard & Poor's, not all countries)<br>• Strength of auditing & accounting standards (survey data, EOS)<br>• Are boards independent? (survey data, EOS) |
| **2. Ethical business practices** | • Bribe Payers' Index (survey data, Transparency International, not all countries)<br>• Anti-dumping measures against country/bnUS$ exports (hard data WTO/World Bank)<br>• Business costs of corruption (survey data EOS)<br>• Strength of corporate ethics (survey data EOS) |
| **3. Progressive policy formulation** | • Are environmental gains adversarial? (survey data EOS)<br>• Are regulatory standards demanding? (survey data EOS)<br>• Ratification of Kyoto Ptotocol (hard data, UN FCCC)<br>• Sign up to UN Global Compact (companies per bn $ GNI, hard data, UN GC) |
| **4. Building human capital** | • Fatal accidents / 100,000 workers (hard data, ILO, not all countries)<br>• Extent of staff training (survey data EOS)<br>• Employee protection legislation (hard data, OECD, not all countries)<br>• Employment Laws Index (hard data, World Bank Doing Business) |
| **5. Engagement with civil society** | • Degree of civic freedom (hard data Freedom House)<br>• # of consumer groups per 10m people (hard data Consumers International)<br>• Public trust in business (survey data Environics, not all countries)<br>• Sophistication of consumers (survey data EOS)<br>• Customer orientation of companies (survey data EOS) |
| **6. Contributions to public finance** | • Corporate tax levels (hard data WEF/OECD)<br>• Prevalence of irregular payments in tax collection (survey data EOS)<br>• Public spending on education as % of total public spending & GNP (hard data UNDP) |
| **7. Environmental management** | • Compliance with env regulations (survey data EOS)<br>• Prevalence of env management systems (survey data EOS)<br>• Emissions of carbon dioxide per unit of GDP (hard data International Energy Institute)<br>• # of Dow Jones Sustainability Index rated companies as % of total listed companies (hard data DJSI/World Bank) |

Wherever possible, scores for each indicator are in terms of absolute performance, so for example the results of the executive opinion survey (EOS) range between 1 and 7. In other cases, for example levels of public expenditure on education, performance is scored from 0-100 where a score of 100 is the best current practice in the country group.

In each component, the basket of indicators is equally weighted, to give average scores from 0-100 for each component.[41] Similarly, each of the seven components is equally weighted on the basis that they are all of equal importance to the development of a responsible economy. The results give an overall NCRI, again with a maximum possible score of 100.

Sensitivity tests suggest that no one component exerts undue influence on the final NCRI.[42] However, in future iterations it would certainly be possible to change the weighting models should this be necessary.

**National Corporate Responsibility Performance**

In Exhibit 5 (NCRI – The Results; see page 29) we set out the National Corporate Responsibility Index ranking of 51 countries. The rankings may on first examination provide some surprises. In common with all competitiveness indices (a useful caveat bearing in mind the limitations of some of the data we are forced to use) is to disregard relative position with very close rivals. Instead, it is advisable to focus on the broader position as the gauge of performance. For example, the relative positions of the Czech Republic and Poland are not very significant, but their lead over Romania probably is. Having said that, it is interesting to note the position of individual countries where it differs significantly from their 'expected' position given for example their absolute levels of income per capita.

On this basis, some of the interesting aspects of the results include:

- Scandinavian and Northern European countries put in a strong performance. Finland is the clear winner, and New Zealand and Australia join the Europeans in 8th and 10th places.

- Canada, Panama, Costa Rica and Israel come higher than some European countries in the top 25.

## Exhibit 5: AccountAbility's National Corporate Responsibility Index - the Results

### National Corporate Responsibility Index 2003

| Country | Corporate governance (0-100) | Ethical business practices (0-100) | Progressive policy formulation (0-100) | Contributions to public finance (0-100) | Engagement with civil society (0-100) | Building human capital (0-100) | Environmental management (0-100) | National Corporate Responsibility Index 2003 (0-100 equally weighted) | Independent Variable: WEF's Growth Competitiveness Index 2002 (%) |
|---|---|---|---|---|---|---|---|---|---|
| Finland | 71 | 98 | 70 | 76 | 86 | 73 | 72 | 78.0 | 82.0% |
| Switzerland | 67 | 89 | 78 | 76 | 78 | 65 | 79 | 75.8 | 76.6% |
| Sweden | 74 | 89 | 74 | 78 | 62 | 71 | 75 | 74.7 | 77.1% |
| Norway | 67 | 92 | 70 | 77 | 76 | 72 | 64 | 73.9 | 74.9% |
| Denmark | 67 | 96 | 74 | 82 | 71 | 65 | 62 | 73.9 | 74.7% |
| Netherlands | 69 | 85 | 57 | 75 | 68 | 74 | 60 | 69.5 | 71.9% |
| UK | 82 | 84 | 67 | 71 | 54 | 58 | 67 | 69.0 | 73.9% |
| New Zealand | 69 | 93 | 61 | 82 | 78 | 57 | 43 | 68.9 | 71.9% |
| Austria | 65 | 87 | 65 | 75 | 69 | 68 | 50 | 68.5 | 70.4% |
| Australia | 71 | 91 | 49 | 77 | 86 | 57 | 45 | 68.1 | 76.6% |
| Belgium | 65 | 81 | 62 | 76 | 79 | 65 | 47 | 67.9 | 68.7% |
| Germany | 68 | 78 | 66 | 66 | 49 | 75 | 62 | 66.2 | 72.3% |
| Spain | 60 | 70 | 82 | 72 | 52 | 72 | 50 | 65.5 | 69.7% |
| Ireland | 62 | 88 | 59 | 62 | 70 | 64 | 53 | 65.2 | 69.4% |
| France | 68 | 76 | 67 | 75 | 44 | 68 | 56 | 64.8 | 66.0% |
| Canada | 67 | 85 | 65 | 72 | 57 | 56 | 46 | 64.1 | 75.3% |
| Panama | 51 | 71 | 73 | 70 | 70 | 63 | 41 | 62.6 | 57.1% |
| Costa Rica | 54 | 75 | 56 | 68 | 61 | 70 | 52 | 62.2 | 59.9% |
| Italy | 61 | 66 | 60 | 68 | 46 | 70 | 53 | 60.4 | 61.6% |
| Israel | 65 | 71 | 42 | 79 | 67 | 55 | 44 | 60.4 | 70.4% |
| Portugal | 56 | 70 | 46 | 70 | 62 | 76 | 42 | 60.2 | 69.6% |
| Japan | 52 | 69 | 55 | 66 | 44 | 72 | 61 | 60.0 | 72.6% |
| USA | 66 | 77 | 44 | 74 | 53 | 54 | 47 | 59.4 | 84.7% |
| Malaysia | 58 | 62 | 54 | 77 | 57 | 60 | 42 | 58.4 | 67.1% |
| Thailand | 56 | 51 | 56 | 75 | 62 | 64 | 44 | 58.3 | 64.6% |
| Singapore | 64 | 67 | 39 | 73 | 50 | 65 | 49 | 58.1 | 77.4% |
| Greece | 49 | 76 | 55 | 62 | 57 | 72 | 36 | 58.0 | 61.7% |
| Taiwan | 60 | 48 | 49 | 60 | 66 | 72 | 45 | 57.3 | 78.6% |
| Hong Kong | 56 | 73 | 49 | 54 | 53 | 60 | 52 | 56.8 | 70.4% |
| Peru | 52 | 72 | 46 | 68 | 47 | 63 | 43 | 56.0 | 55.3% |
| Chile | 60 | 58 | 60 | 60 | 50 | 62 | 42 | 56.0 | 69.9% |
| South Africa | 65 | 50 | 50 | 77 | 57 | 50 | 42 | 55.9 | 63.9% |
| Brazil | 53 | 48 | 62 | 51 | 42 | 67 | 53 | 53.9 | 58.4% |
| Mexico | 49 | 54 | 49 | 74 | 47 | 63 | 41 | 53.9 | 58.7% |
| India | 51 | 52 | 48 | 61 | 59 | 59 | 44 | 53.4 | 57.6% |
| Colombia | 50 | 57 | 44 | 66 | 44 | 60 | 48 | 52.7 | 55.1% |
| Morocco | 53 | 58 | 47 | 72 | 43 | 51 | 43 | 52.5 | 55.1% |
| Argentina | 47 | 55 | 46 | 62 | 55 | 58 | 42 | 52.3 | 52.3% |
| Czech Rep | 50 | 54 | 45 | 60 | 57 | 62 | 35 | 51.9 | 60.9% |
| Poland | 54 | 53 | 54 | 59 | 54 | 58 | 29 | 51.8 | 56.9% |
| Korea | 55 | 52 | 53 | 63 | 45 | 52 | 42 | 51.6 | 69.9% |
| Vietnam | 47 | 68 | 44 | 53 | 39 | 60 | 43 | 50.7 | 51.9% |
| Bolivia | 42 | 65 | 42 | 61 | 46 | 53 | 35 | 49.1 | 42.3% |
| Turkey | 49 | 57 | 42 | 57 | 37 | 62 | 36 | 48.6 | 47.3% |
| Bangladesh | 42 | 62 | 39 | 57 | 42 | 54 | 42 | 48.3 | 44.6% |
| Guatemala | 46 | 63 | 44 | 53 | 34 | 57 | 41 | 48.2 | 45.7% |
| China (People's Rep.) | 49 | 55 | 42 | 61 | 29 | 60 | 38 | 47.8 | 62.4% |
| Romania | 47 | 36 | 49 | 52 | 49 | 59 | 30 | 46.0 | 51.3% |
| Nigeria | 57 | 54 | 27 | 40 | 43 | 49 | 38 | 43.9 | 45.3% |
| Russian Federation | 50 | 57 | 32 | 67 | 29 | 58 | 8 | 43.0 | 52.0% |
| Indonesia | 46 | 39 | 30 | 42 | 41 | 39 | 35 | 39.0 | 48.0% |

- Japan, the USA and the former Asian tigers are middle ranked, closely followed by some of the more dynamic developing economies such as Chile, South Africa, India and Brazil.

- Eastern European countries are only slightly ahead of some of the poorer developing countries like Vietnam and Bolivia.

- China and Russia perform poorly, on a par with embattled economies such as Nigeria and Indonesia.

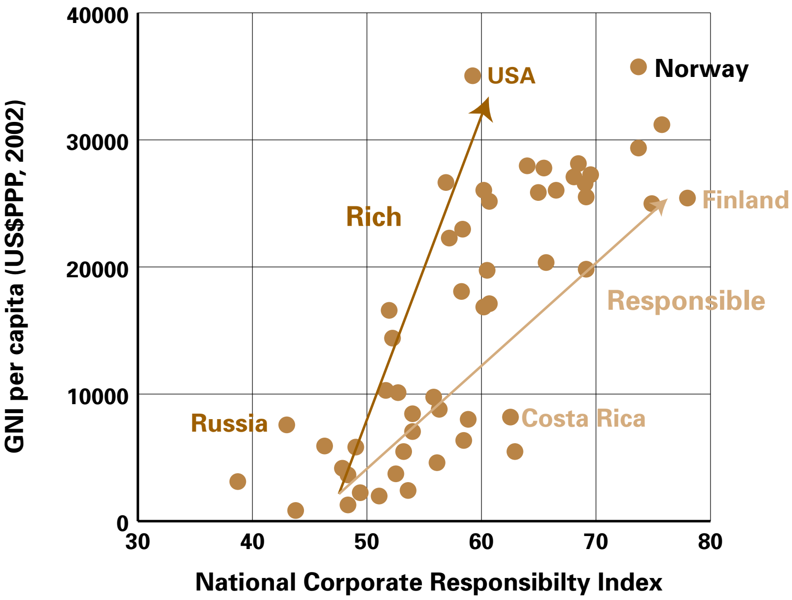
It is important to remember that the NCRI draws on national data and not on company case studies that may have delivered a high corporate responsibility profile for some countries, for example France, Brazil and India.[43] Conversely, that the USA achieves middle ranking may surprise some analysts, conscious of recent corporate scandals.

A key challenge in the future is to understand both how the enabling environment within countries can promote corporate responsibility on the ground, and how corporate responsibility champions and clusters can create national-level change in performance.

**Corporate Responsibility versus Economic Growth**

So what can the rankings of the National Corporate Responsibility Index tell us about the link between corporate responsibility and economic growth? The chart below shows the results of the NCRI plotted against gross national income, with selected countries labelled. At this early stage, we have restricted our analysis to relatively straightforward statistical manipulation and testing. From Russia through to Norway, corporate responsibility and income are positively correlated. The simple correlation for our sample of 51 countries between their position on the NCRI and Gross National Income (GNI) per capita is a 0.64. This means that, in broad terms, the higher a country's income, the more progressive an enabling environment it has for corporate responsibility (see Exhibit 6 below).

**Exhibit 6: The National Corporate Responsibility Index vs Gross National Income Per Capita for 51 Countries**

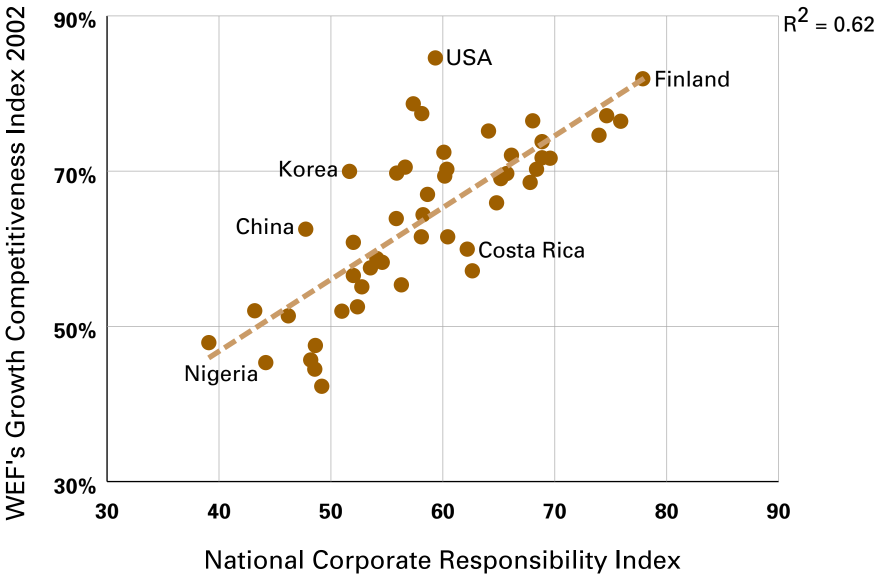



At the same time, the correlation is not strong enough to support the simplistic view that that 'countries are more responsible because they can afford it'. Some countries - notably the USA - are more wealthy than responsible, highlighting what we might call a 'responsibility deficit'. Other countries – like Costa Rica and Finland - have what Michael Porter in other contexts calls 'upside potential' if a responsible corporate sector is a key driver of future economic growth.

Clearly there are limits to an analysis that remains at such an aggregated level, and there is still much more in-depth work to do in exploring the more specific aspects of the relationship in question. At this stage, we have given some consideration to the possible significance of trade intensity, GDP growth rates, measures of human development, the size of stock market, and population size. Of these, only the Human Development Index shows any correlation, and this is considerably less strong than the link to income per capita.[44] One area not yet explored is relative sector intensity, which we speculate that more research might reveal as being significant in understanding the country ranking.

Considering the links with income per capita is helpful, but does not directly tell us much about the relationship between corporate responsibility and the underlying dynamic of national competitiveness. Turning to this, we first considered the simple correlation between our NCRI and measures of competitiveness, drawing on two measures evolved by the World Economic Forum - the Growth Competitiveness Index and the Microeconomic Competitiveness Index – and the World Competitiveness Scoreboard (see Exhibit 7 below). At this simple level, we note a relatively strong correlation, broadly of the same magnitude as that for income per capita.[45]

**Exhibit 7: The National Corporate Responsibility Index vs the Growth Competitive Index for 51 Countries**




But correlations do not tell us much about causality, at least not directly. The question remains as to whether corporate responsibility builds competitiveness and growth, or vice versa, or whether the correlations are indeed spurious. A straightforward multiple regression of the seven components of the NCRI against measures of competitiveness suggests, however, that the overall relationship is not a chance one.[46] This analysis shows that some of the individual components have considerable explanatory power over income, while others do not.[47] In other words, we can begin to be more confident that some of the relationships are causal, not contingent.

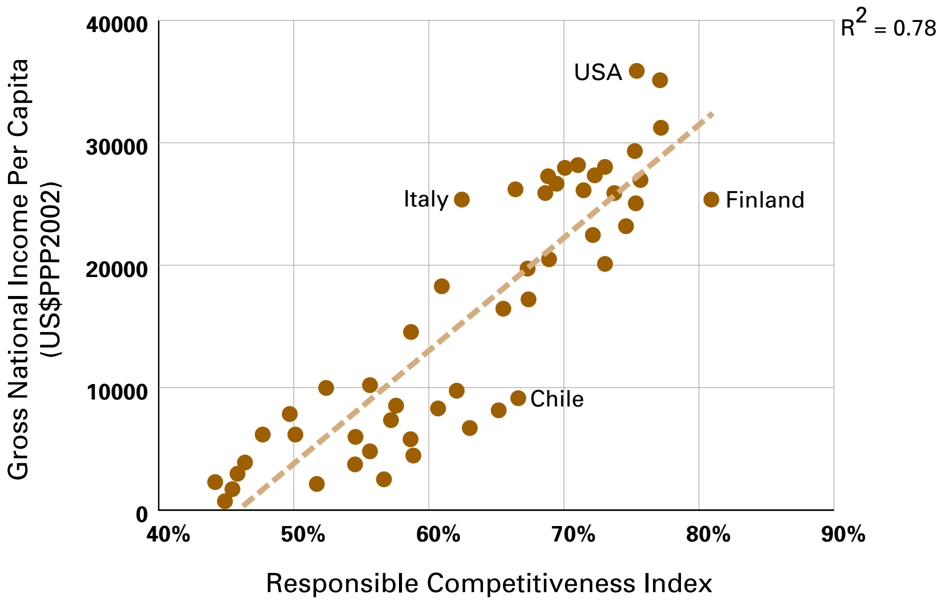
# 5. The Responsible Competitiveness Index

### Towards a Responsible Competitiveness Index (RCI)

Our next step in considering the link between corporate responsibility and competitiveness has been to explore the implications of creating a Responsible Competitiveness Index (RCI). We did this by building the National Corporate Responsibility Index (NCRI) into existing competitiveness indices as an additional and equally weighted component.

For our sample of 51 countries, mainstream indices (such as the Growth Competitiveness Index (GCI) with its technology, public institutions and macroeconomics components) are already pretty well correlated with gross national income. But we found that their explanatory power can be improved still further by adding the NCRI as an additional component.[48] The RCI explains a large amount of the income variation between countries, as shown in Exhibit 8 below – somewhat more so than a mainstream competitiveness index.[49] This begins to make the case for improving the accuracy of existing indices of competitiveness by incorporating measures of corporate responsibility.

**Exhibit 8: Gross National Income Per Capita vs Responsible Competitiveness Index (Linear Relationship for 51 Countries)**



## Findings of the Responsible Competitiveness Index

The main findings of the RCI are (refer to column Responsibility Surplus/Deficit in Exhibit 9):

- At all levels of income, for the majority of countries the pattern between growth and responsible competitiveness holds up. But as with the NCRI, there are still some misfits on both sides of the line.

- 22 countries out of the 51 in the table could face a potentially more significant competitiveness loss from their 'responsibility deficit' – more than 2% change from the existing measures.

- In the cases of China, Japan, Korea and the USA, the 'responsibility deficit' is well in excess of five per cent, suggesting that this could endanger economic growth in these countries, if one accepts the apparent link between income and responsibility.

- Some 16 European and developing countries, such as Denmark, Italy, Costa Rica and Bolivia, could make competitiveness gains on the basis of their corporate responsibility performance, although at present countries with a significant 'responsibility surplus' are few.

- For half the countries in our sample, the impact of integrating corporate responsibility into competitiveness strategies need not be dramatic – causing less than 2 per cent change from the existing competitiveness measures.

It is too early in our research to speculate further about the impact of these responsibility deficits and surpluses, let alone put a financial cost to them.  Suffice to say that the relationship between competitiveness and corporate responsibility reveals some intriguing variations that need to be further explored.

## Exhibit 9: Countries Where Growth Could Be Impacted by Current Levels of Corporate Responsibility

### The Responsible Competitiveness Index

| Country | National Corporate Responsbility Index 2003 | Technology sub-index (WEF 2002) | Public Institutions sub-index (WEF 2002) | Macro economic sub-index (WEF 2002) | Responsible Competitiveness Index (4 components equally weighted) | Responsbility surplus/ deficit (RCI/GCI) | Independent variable: GNI/cap (US$PPP2002) |
|---|---|---|---|---|---|---|---|
| USA | 59.4% | 90.9% | 82.3% | 75.1% | 76.9% | -9.2% | 35,080 |
| Taiwan | 57.3% | 83.9% | 75.0% | 71.4% | 71.9% | -8.5% | 22,559 |
| Korea | 51.6% | 69.6% | 70.9% | 69.4% | 65.4% | -6.4% | 16,480 |
| China (People's Rep.) | 47.8% | 49.3% | 66.9% | 71.1% | 58.8% | -5.9% | 4,390 |
| Japan | 60.0% | 76.3% | 75.3% | 62.3% | 68.5% | -5.7% | 26,070 |
| Chile | 56.0% | 62.1% | 80.3% | 67.3% | 66.4% | -4.9% | 9,180 |
| Israel | 60.4% | 73.7% | 82.3% | 52.3% | 67.2% | -4.6% | 19,867 |
| Indonesia | 39.0% | 46.7% | 41.4% | 56.0% | 45.8% | -4.6% | 2,990 |
| Russian Federation | 43.0% | 46.1% | 49.3% | 60.4% | 49.7% | -4.4% | 7,820 |
| Singapore | 58.1% | 69.9% | 88.1% | 81.7% | 74.4% | -3.9% | 23,090 |
| Czech Rep | 51.9% | 68.7% | 60.0% | 53.9% | 58.6% | -3.7% | 14,500 |
| Portugal | 60.2% | 70.1% | 78.6% | 60.0% | 67.2% | -3.4% | 17,350 |
| Malaysia | 58.4% | 66.0% | 70.6% | 64.7% | 64.9% | -3.3% | 8,280 |
| South Africa | 55.9% | 58.7% | 70.4% | 62.3% | 61.8% | -3.2% | 9,870 |
| Canada | 64.1% | 73.3% | 85.7% | 68.7% | 73.0% | -3.1% | 28,070 |
| Sweden | 74.7% | 82.4% | 83.0% | 60.4% | 75.1% | -2.6% | 25,080 |
| Romania | 46.0% | 51.4% | 48.3% | 54.1% | 50.0% | -2.6% | 6,290 |
| Thailand | 58.3% | 57.7% | 66.9% | 69.3% | 63.0% | -2.4% | 6,680 |
| Poland | 51.8% | 60.1% | 54.7% | 55.7% | 55.6% | -2.2% | 10,130 |
| Mexico | 53.9% | 54.9% | 57.0% | 64.3% | 57.5% | -2.1% | 8,540 |
| Hong Kong | 56.8% | 62.4% | 84.0% | 72.9% | 69.0% | -2.0% | 26,810 |
| Brazil | 53.9% | 61.4% | 63.6% | 50.1% | 57.3% | -2.0% | 7,250 |
| India | 53.4% | 50.7% | 56.6% | 65.3% | 56.5% | -1.9% | 2,570 |
| Finland | 78.0% | 83.3% | 94.3% | 67.1% | 80.7% | -1.6% | 25,440 |
| Germany | 66.2% | 70.6% | 83.6% | 64.1% | 71.1% | -1.6% | 26,220 |
| Spain | 65.5% | 66.9% | 75.0% | 67.1% | 68.6% | -1.6% | 20,460 |
| Greece | 58.0% | 63.0% | 64.7% | 57.4% | 60.8% | -1.5% | 18,240 |
| Australia | 68.1% | 72.1% | 89.0% | 72.6% | 75.5% | -1.5% | 26,980 |
| Morocco | 52.5% | 49.6% | 57.9% | 58.1% | 54.5% | -1.1% | 3,890 |
| Colombia | 52.7% | 50.4% | 58.6% | 56.4% | 54.5% | -1.1% | 5,870 |
| Nigeria | 43.9% | 42.0% | 41.3% | 52.4% | 44.9% | -0.8% | 780 |
| Vietnam | 50.7% | 43.4% | 52.1% | 60.1% | 51.6% | -0.5% | 2,240 |
| UK | 69.0% | 70.1% | 88.4% | 67.0% | 73.6% | -0.3% | 25,870 |
| Argentina | 52.3% | 56.9% | 48.3% | 51.7% | 52.3% | 0.0% | 9,930 |
| Belgium | 67.9% | 67.6% | 76.6% | 62.9% | 68.7% | 0.0% | 27,350 |
| France | 64.8% | 63.7% | 73.6% | 62.7% | 66.2% | 0.3% | 26,180 |
| Netherlands | 69.5% | 68.9% | 85.0% | 65.0% | 72.1% | 0.3% | 27,470 |
| Peru | 56.0% | 49.0% | 60.6% | 56.4% | 55.5% | 0.4% | 4,800 |
| Switzerland | 75.8% | 74.1% | 86.7% | 71.4% | 77.0% | 0.6% | 31,250 |
| Norway | 73.9% | 71.9% | 84.1% | 71.3% | 75.3% | 0.6% | 35,840 |
| Austria | 68.5% | 66.9% | 84.3% | 63.9% | 70.9% | 0.6% | 28,240 |
| Denmark | 73.9% | 71.9% | 92.9% | 62.1% | 75.2% | 0.6% | 29,450 |
| Turkey | 48.6% | 51.7% | 50.3% | 40.0% | 47.7% | 0.8% | 6,120 |
| Ireland | 65.2% | 62.9% | 82.3% | 69.7% | 70.0% | 0.8% | 28,040 |
| Costa Rica | 62.2% | 59.0% | 61.9% | 58.6% | 60.4% | 0.9% | 8,260 |
| Italy | 60.4% | 58.3% | 67.3% | 62.7% | 62.2% | 1.0% | 25,320 |
| New Zealand | 68.9% | 65.3% | 90.3% | 66.6% | 72.8% | 1.3% | 20,020 |
| Guatemala | 48.2% | 40.0% | 42.6% | 54.7% | 46.4% | 1.4% | 3,880 |
| Bangladesh | 48.3% | 37.1% | 36.6% | 60.1% | 45.5% | 2.1% | 1,720 |
| Panama | 62.6% | 54.6% | 58.0% | 59.0% | 58.6% | 2.5% | 5,870 |
| Bolivia | 49.1% | 38.0% | 44.7% | 44.3% | 44.0% | 4.1% | 2,300 |

# 6. Conclusions & Next Steps

The hypothesis we have sought to explore and test is that *responsible competitiveness* can occur when an economy's productivity is enhanced by businesses taking explicit account of their social, economic and environmental performance. This might happen at a sector, city or regional level. In this paper, we have explored the hypothesis as applied to 51 of the world's nations.

Our ***first*** step was to construct a robust *National Corporate Responsibility Index* that measures the outcome of corporate responsibility policies and practice at the national level. NCRI results suggest that: Finland provides the most conducive national environment and corporate responses, followed by Scandinavian and Northern European countries. Panama and Costa Rica come higher than some European countries in the top 25. Japan, the USA and the former Asian tigers are middle ranked, closely followed by some of the more dynamic developing economies such as Chile, South Africa, India and Brazil. Eastern European countries are only slightly ahead of some of the poorer developing countries like Vietnam and Bolivia. China and Russia perform poorly, on a par with embattled economies such as Nigeria and Indonesia.

Our ***second*** step has been to create a Responsible Competitiveness Index, which represents the first-ever attempt to quantify the relationship between corporate responsibility and a nation's international competitiveness. *The Responsible Competitiveness Index* results show that several countries, notably the USA, appear to have a significant 'responsibility deficit' in their competitiveness strategies, suggesting that this group have an underlying competitive disadvantage not surfaced in traditional measures of national competitiveness. Other countries, most notably China, Japan and Korea, also have a responsibility deficit, well in excess of five percent, suggesting that this could endanger their economic growth.

Based on data covering these 51 countries, we conclude that:

- National measures of corporate responsibility can be established, despite data problems, allowing for a country-based ranking of underlying corporate responsibility practice and potential.

- Measures of corporate responsibility are more closely correlated to both economic growth and conventional measures of national competitiveness than to other measures of economic and human development.

- Incorporating measures of corporate responsibility into existing measures of national competitiveness can improve the latter's explanatory power.

This first iteration of the Responsible Competitiveness Index is an initial step in specifying the relationship between national competitiveness and corporate responsibility. Future developments will need to take closer account of other factors, such as sector intensity and countries' underlying stage of development. However, this early step suggests that the relationship can and should be better understood as a basis for understanding potential growth and for creating policy frameworks, which can ensure that such potential is realised.

Even more important than technical improvements to both the NCRI and the RCI is the potential for using them, even at this early stage, to encourage informed debate among key players including companies, trade associations, government ministries, international bodies, academia, research institutes, and civil society. Such debate should help to explore the case among policymakers, business strategists, lobbyists and econometricians for taking corporate responsibility more seriously as a central driver of competitiveness. On this basis, it will be possible to increase the potential for both amplifying corporate responsibility practices and enhancing approaches to competitiveness, which is aligned to sustainable development.

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2 See *Conversations with Disbelievers*, J. Weiser and S. Zadek (2001) *On-Going Conversations with Disbelievers*, AccountAbility, London (www.accountability.org.uk). Also www.win-win.org for links to a range of initiatives highlighting the positive effects on business performance of CR. See also Holliday, C., Schmidheiny, S. and Watts, P. (2002) Walking the Talk: The Business Case for Sustainable Development, Greenleaf, Sheffield; Zadek, S,. and Weiser, J. (2000) Conversations with Disbelievers, Ford Foundation, New York. Also:' The jury is in – overall, corporate sustainable development performance has a positive impact on business success' (SustainAbility, 2001); 'There is growing evidence that, in certain companies, and at certain times, improving CSR will lead to financial outperformance.' (Forum for the Future, 2002); 'Philanthropy can often be the most cost-effective way for a company to improve its competitive context, enabling companies to leverage the efforts and infrastructure of non-profits and other institutions' (Porter & Kramer, "The Competitive Advantage of Corporate Philanthropy", in *Harvard Business Review*, December Harvard Business Review, 2002). See also the UK's annual Business in the Community Awards (www.bitc.org.uk).

3 See for example M. Porter (1995), 'The Competitive Advantage of the Inner City' *Harvard Business Review* and MacGillivray *et al* (2002) *The Secrets of their Success: fast growth business in Britain's Inner Cities*, New Economics Foundation, London (www.neweconomics.org).

4 Zadek, S. *The Civil Corporation: the New Economy of Corporate Citizenship*, Earthscan, London, 2001.

5 See for instance Sabapathy, J and Weiser J, (2003) Community-enabled Innovation – Companies, Communities and Innovation, AccountAbility, London.

6 www.tgwu.org.uk/TGWUInternatEd/multi_fibre_arrangement.htm

7 See the arguments in Campbell, H and Sabapathy, J (2004 forthcoming), *Cross-border Accountability: Business, Public Policy, and Sustainable Development.*

8 The trend, particularly within developing economy stock exchanges to reward higher governance standards or to offer 'sustainability stocks' is however a striking indication of the perceived value within these markets of greater levels of corporate responsibility. Such premiums within financial markets are key stepping stones in developing broader in-market bases for responsible competitiveness.

9 Or even worse, as for example suggested by Henderson, D. (2001), *Misguided Virtue – False Notions of Corporate Social Responsibility*, Institute of Economic Affairs, London

10 WRI, UNEP, WBCSD, (2002), op cit.

11 See Swift, T. & S. Zadek,(2002) *Corporate Responsibility and the Competitive Advantage of Nations*, AccountAbility/The Copenhagen Centre, & Zadek, S, Sabapathy, J, Dossing, H, and Swift, T. (2003) *Responsible Competitiveness: CR clusters in action*, Copenhagen Centre & AccountAbility, London.

12 For 'business case' examples see, endnote 3; for competitiveness see, Cornelius, P. & Porter, M. *et al.* (2002) *Global Competitiveness Report*, World Economic Forum, Oxford University Press, & Turner, A. (2001) *Just Capital: the liberal economy*, Macmillan, London; and for 'learning and innovation' see, Sabapathy, J and Weiser J, (2003) Community-enabled Innovation – Companies, Corporate Responsibility and Innovation, AccountAbility, London.

13 Except where the decision to comply is an active business choice because of weak public enforcement of the law.

14 Adapted from Swift, T. & S. Zadek (2002), *op cit.*

15 Cornelius, P. & Porter, M. *et al.* (2002) *op cit.* The debate on the benefits and disbenefits of national analyses of competitiveness is sophisticated and extensive. Turner, A. (2001) *op cit*, is an excellent polemical survey of the pros and cons of evaluating competitiveness at national levels, and summarises both Paul Krugman and Michael Porter's contributions. Turner himself comes out fighting against the value of national comparisons. The position we adopt here is that is useful to make inter-national comparisons and to ask how different cultures, markets and regulatory frameworks make the emergence of responsible competitiveness more or less likely. Needless to say we do not expect this contribution to draw any sort of a line under the on-going discussion about 'national competitiveness'.

16 'Critical mass' is here defined as the time at which a market undergoes a fundamental change in regard to its operations.

17 See in particular www.conversations-with-disbelievers.net. See also Sabapathy, J and Weiser J, (2003) *op cit.*

18 Zadek, S, Sabapathy, J, Dossing, H, and Swift, T. (2003) *op cit.*

19 See Sabapathy, J and Weiser J, (2003) *op cit*, and also AccountAbility's forthcoming report for the London Assembly on the role Corporate Responsibility can play in supporting the competitiveness of London.

20 See www.dfid.gov.uk/News/News/files/eiti_core_script.htm

21 See also the World Bank's forthcoming work to develop a matrix for evaluating what sorts of public policy interventions are most applicable in different contexts.

22 See Fox, T., Ward, H., & Howard, B (2002) Public Sector Roles in Strengthening Corporate Social Responsibility: A baseline study. World Bank, Washington DC.

23 See Warner, M (2003) Public Sector Roles in Strengthening Corporate Social Responsibility. A diagnostic and appraisal tool. World Bank, Washington DC.

24 See Francois Fatoux (2003) The French Law on companies' social and environmental reporting (NRE), in *AccountAbility Quarterly 21*, Does Reporting Work? The effect of Regulation. The issue includes a number of articles that describe a variety of governmental interventions to promote corporate responsibility, particularly on disclosure.

25 See www.world-tourism.org

26 See www.abi.org.uk/Display/default.asp?Menu_ID=705&Menu_All=1,704,705.

27 For the latter example, see http://www.eurunion.org/legislat/gsp/gsp.htm

28 For Brazil; presentation given by Ricardo Young, Instituto Ethos at AccountAbility's Responsible Competitiveness Conference, 1st October 2003 at the UK Department of Trade and Industry.

29 AccountAbility is currently working with the London Assembly (the city's elected body) in exploring the potential for corporate responsibility to enhance London's global competitiveness.

30 For the AMEX example see Porter, M. & Kramer, M. (2002) "The Competitive Advantage of Corporate Philanthropy", in *Harvard Business Review*, December 2002.

31 Henderson, D (2002) *Misguided Virtue*, Institute of Economic Affairs, London

32 See for example, Holliday, C., Schmidheiny, S. and Watts, P. (2002) Walking the Talk: The Business Case for Sustainable Development, Greenleaf, Sheffield; Zadek, S,. and Weiser, J. (2000) Conversations with Disbelievers, Ford Foundation, New York. Also:'The jury is in – overall, corporate sustainable development performance has a positive impact on business success' (SustainAbility, 2001); 'There is growing evidence that, in certain companies, and at certain times, improving CSR will lead to financial outperformance.' (Forum for the Future, 2002); 'Philanthropy can often be the most cost-effective way for a company to improve its competitive context, enabling companies to leverage the efforts and infrastructure of non-profits and other institutions' (Porter & Kramer, 2002).See also the UK's annual Business in the Community Awards (www.bitc.org.uk).

33 AccountAbility itself is involved in several such indices, including the Great Place to Work UK, and the Gradient Labour Standards index (www.accountability.org.uk).

34 We are particularly grateful to Jennifer Blanke, Emma Campbell, Peter Cornelius, Adrian Gault, Maryanne Grieg-Gran, Jane Leavens, Ian MacLeay, Paul Mayo, Vicky Pryce, Eddie Rich, Nick Robins, and Ken Warwick for their participation in these workshops.

35 See www.davisglobal.com

36 See http://www.worldbank.org/wbi/governance/wp-governance.html

37 See Turner (2001) op cit.

38 See www.ciesin.org/indicators/ESI

39 See Porter, M. & Kramer, M (2002) "The Competitive Advantage of Corporate Philanthropy", in *Harvard Business Review*, December.

40 It should be noted that the data sources are currently biased in favour of OECD and developed economies. More regional and national data sources will need to be used as the RCI is developed and the indicators made more universally relevant to developing and countries in transition.

41 For indicators that do not have full country coverage, countries without data are not counted.

42 Mean scores out of 100 for each component are: 58, 68, 54, 67, 55, 62 and 47.

43 It must be noted however, that certain countries (for example India) score relatively higher than expected because of the practices of a few notable companies at a first generation level of CR.

44 With an $r^2$ value of 0.55. The other relationships are not significant, with values are 0.01, 0.01, 0.00 and 0.04 respectively.

45 $R^2$ values are 0.62 for the Growth Competitiveness Index; 0.55 for the World Competitiveness Scoreboard and 0.63 for the Microeconomic Competitiveness Index.

46 Multiple regression analysis of the seven components of the index returns the following values, where the F-critical value is 4.44:

| Dependent variable | Coefficient of determination ($r^2$) | F-statistic | P |
|---|---|---|---|
| **Competitiveness** | 0.746 | 17.59 | <.0001 |
| **GNI per capita** | 0.721 | 15.91 | <.0001 |

47

| | Coefficient of determination | T-observed value |
|---|---|---|
| **Environmental management** | 0.66 | 0.20 |
| **Workforce** | 0.66 | 2.06 |
| **Policy influence** | 0.58 | -0.36 |
| **Governance** | 0.57 | 3.84 |
| **Civil society** | 0.57 | 0.40 |
| **Public spending** | 0.52 | -0.40 |
| **Business Practices** | 0.45 | 2.16 |
| **T-critical value** | | 1.68 |

48 The GCI uses a rather complex variable weighting system for its three components. To arrive at a Responsible Competitiveness Index, we simply added the corporate responsibility index (scored on the same 1-7 scale as used by the GCI) as a fourth component alongside technology, public institutions and macroeconomic environment. We then weighted all four components equally for all countries.

49 The GCI has a correlation coefficient $r^2$ of 0.74 with GNI/capita for our 51 countries.

# 9. Responsible Competitiveness Consortium

This is the first report published in association with The Responsible Competitiveness Consortium. The consortium has been created to clarify the strategic role of 'corporate responsibility' in contributing to the competitiveness of nations and communities. Its overall goal is to increase the impact of such corporate responsibility practices on sustainable development and competitiveness.

The Consortium was established at a two-day, international event on 'Responsible Competitiveness' organised in London by AccountAbility with The Copenhagen Centre in October 2003, and hosted by the UK Government's Department of Trade & Industry. Participants, which included business, civil society and public sector representatives and experts from nine countries spanning four continents, assessed: the current state of corporate responsibility; means by which its impact on business and society might be increased; and possible enabling roles for the public sector.

The Consortium has emerged from a growing recognition of the:

- Urgent need to amplify the positive impact of business on sustainable development through corporate responsibility;
- Potential offered by aligning these impacts with how nations and communities create economic wealth and;
- Risk that the resources and leverage available through corporate responsibility will become irrelevant if not amplified through this route.

The Consortium will undertake and communicate the results of research into the strategic dimensions of corporate responsibility, focusing on the links between company-level practices and macro-level competitiveness and development processes and outcomes.

The Consortium is being developed by business and non-profit organisations including:

AccountAbility, the African Institute of Corporate Citizenship (South Africa), Business in the Community (UK), the Centre for Social Markets (India/UK), The Copenhagen Centre (Denmark), Fundãçio Dom Cabral and Instituto Ethos (Brazil), Fundación PROhumana (Chile), INCAE (Costa Rica), Landcare Research (New Zealand), and with public sector organisations including, the UK Government Department for International Development, and the European Commission.

# Consortium Members*

www.accountability.org.uk

www.aiccafrica.com

www.bitc.org.uk

www.csmworld.org

www.copenhagencentre

www.domcabral.org.br

www.prohumana.cl

www.incae.ac.cr

www.ethos.org.br

www.landcareresearch.co.nz

In association with the UK Government Department for International Development, and DG Trade of the European Commission

www.dfid.gov.uk

www.europa.eu.int/comm/trade

* Members at time of publication

# Notes

# Related AccountAbility Publications

**Corporate Responsibility and the Competitive Advantage of Nations** (2002) (with The Copenhagen Centre)
Swift, T., Zadek, S.
Price: £20; Member / Discounted Price: £15; plus p&p

**Responsible Competitiveness: Corporate Responsibility Clusters in Action** (2003) (with The Copenhagen Centre)
Zadek, S., Sabapathy, J., Dossing, H., Swift, T.
Price: £40; Member / Discounted Price: £20; plus p&p

**Redefining Materiality: Practice and public policy for effective corporate reporting** (2003) (with UKSIF)
Zadek, S., Merme, M.
Price: £40; Member / Discounted Price: £20; plus p&p

**Impacts of Reporting: The role of social and sustainability reporting in organisational transformation** (2002) (with CSR Europe)
Rubbens, C., Monaghan, P., Bonfiglioli, E., Zadek, S.
Price: £40; Member / Discounted Price: £25; plus p&p

**Community-enabled Innovation: Companies, communities and innovation** (2003) (with Brody Weiser Burns)
Sabapathy, J., Weiser. J., with Raynard, P., Nacamuli, C. & Polycarpe, M.
Price: £50; Member / Discounted Price: £25; plus p&p

**Conversations with Disbelievers** (2000) (with Brody Weiser Burns)
Weiser, J., Zadek, S.
Price: £25; Member / Discounted Price: £20; plus p&p

**Business and Economic Development: The Impact of Corporate Responsibility Standards and Practices** (2003) (with BSR & Brody Weiser Burns)
Monaghan, P., Sabater, C., Weiser, J.
Price: £50; Member / Discounted Price: £25; plus p&p

**Responsible Competitiveness, Business and Economic Development** (2004)
AccountAbility Forum, published by Greenleaf Publishing (forthcoming)

**Cross-Border Accountability: Business, Public Policy and Sustainable Development** (2004)
Sabapathy, J. and Campbell, H. (forthcoming)

*"Responsible competitiveness of nations is essential to achieve sustainable development in today's globalized world. The Index offers a fantastic tool to measure how each country is doing in promoting this approach, and to focus governments, business and civil society on policies to improve their position."*

**Oded Grajew,** Former Special Advisor to the President of Brazil, and Founder and President of Instituto Ethos

*"A nation's competitiveness and underlying productivity is clearly impacted by how its business community deals with social and environmental issues. This report offers for the first time insights into what this relationship might be, and so how to manage it going forward."*

**Peter Cornelius,** Senior economist at Shell and former Director of the Global Competitiveness Programme at the World Economic Forum

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The **Responsible Competitiveness Index 2003** explores the potential for corporate responsibility practices to contribute to national competitiveness. Drawing on two years research by AccountAbility and The Copenhagen Centre, the report sets out the first annual results of two, newly-designed, innovative, country-level performance indexes:

- ❖ The *National Corporate Responsibility Index* describes the comparative performance of 51 countries in embracing corporate responsibility and providing an enabling environment for more responsible business practices in the future.
- ❖ The *Responsible Competitiveness Index* explores the links between corporate responsibility and the competitiveness of the same group of countries.

The report concludes that:

- ➢ Incorporating corporate responsibility into measures of national competitiveness can improve the latter's explanatory power.
- ➢ Some countries have a significant 'responsibility deficit', suggesting a lower economic growth potential than previously projected.
- ➢ Other countries have a 'responsibility surplus', suggesting an upside economic growth potential.

This first attempt to connect micro-level corporate responsibility practices with macro-level productivity and competitiveness effects raises as many questions as it answers. Centrally, however, it indicates the imperative and challenge to ensure that:

- ➢ Corporate responsibility is amplified through its alignment with a nation's competitiveness.
- ➢ National competitiveness strategies are enhanced, both quantitatively and qualitatively, through their alignment with corporate responsibility practices.

**Price: £40 / €60 / $70; Member / Discounted Price £20 / €30 / $35**

**A Responsible Competitiveness Consortium Publication**

www.responsiblecompetitiveness.net