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Global Corporate Citizenship

Working with Governments and Civil Society

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Compared to just a decade ago, it is now common for businesspeople to talk about social responsibility and the importance of being good corporate citizens. Many business leaders today consider it critical to engage with shareholders, the communities in which their companies operate, and others affected by and interested in what they do. The diverse activities needed to respond to these expanded duties are widely referred to by the catchall phrase "corporate social responsibility." It incorporates a host of concepts and practices, including the necessity for adequate corporate governance structures, the implementation of workplace safety standards, the adoption of environmentally sustainable procedures, and philanthropy.

Blanketing these various responsibilities with the single term "corporate social responsibility" is an oversimplification that has led to a great deal of confusion. It is necessary to distinguish between the different types of corporate activities, so that the work companies do to engage in society is fairly recognized and appreciated and companies are better able to benchmark themselves against the performance of different enterprises and learn from example. A better understanding of engagement requires separate definitions for corporate governance, corporate philanthropy, and corporate social responsibility as well as for an emerging element: corporate social entrepreneurship, that

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is, the transformation of socially responsible principles and ideas into commercial value.

Above all, a new imperative for business, best described as "global corporate citizenship," must be recognized. It expresses the conviction that companies not only must be engaged with their stakeholders but are themselves stakeholders alongside governments and civil society. International business leaders must fully commit to sustainable development and address paramount global challenges, including climate change, the provision of public health care, energy conservation, and the management of resources, particularly water. Because these global issues increasingly impact business, not to engage with them can hurt the bottom line. Because global citizenship is in a corporation's enlightened self-interest, it is sustainable. Addressing global issues can be good both for the corporation and for society at a time of increasing globalization and diminishing state influence.

THE FACTORS AT PLAY

TODAY'S CORPORATE engagement in society is the inevitable result of a number of factors. First, the role of the nation-state has diminished. In early modern Europe, the church's power over people was undermined by the emergence of the sovereign state; in the contemporary world, no single government can do everything. Even the military might of most states depends in large part on the supplies and support provided by private industry.

The intensified pace of globalization due to advances in technology is the most significant factor in the weakening influence of the state. Fast transportation links and the speedy flow of information have negated the relevance of geographic borders. Whether it is poverty in Africa or the haze over Southeast Asia, an increasing number of problems require bilateral, regional, or global solutions and, in many cases, the mobilization of more resources than any single government can marshal.

The limits of political power are increasingly evident. The lack of global leadership is glaring, not least because the existing global governance institutions are hampered by archaic conventions and procedures devised, in some instances, at the end of World War II.

Sovereign power still rests with national governments, but authentic and effective global leadership has yet to emerge. Meanwhile, public governance at the local, national, regional, and international levels has weakened. Even the best leaders cannot operate successfully in a failed system.

As state power has shrunk, the sphere of influence of business has widened. Companies get involved in the health of workers, the education of employees and their children, and the pensions that sustain them in retirement. Corporations have an impact on everything from air quality to the availability of life-saving drugs. They have become integral to the survival of governments and the political stability of nations and regions. The ranks of transnational and global companies are increasing. Even small and medium-size high-growth enterprises, many of them from developing countries, have become global in approach. Consequently, at the same time as state power has declined, the influence of corporations on communities, on the lives of citizens, and on the environment has sharply increased. This fundamental shift in the global power equation means that just as communities and citizens look to government for answers and leadership, so now they target corporations with both requests for help and criticism for wrongdoing.

Good corporate governance means that a company's conduct exceeds what is required.

The deepening engagement of business must also be seen in the context of the emergence of a more active civil society. Civil society has taken on a more prominent role in international media since the 1992 UN Conference on Environment and Development in Rio de Janeiro. There has been a proliferation of nongovernmental organizations (NGOs), including several that are global in scope and presence. The focus of much of the civic action of NGOs has naturally been corporations. After an initial confrontational approach, some of the toughest critics have come to appreciate that many business leaders—of small and large corporations, in developed and developing economies—are sincerely engaged in society. Many civil-society organizations now focus on working with business instead of confronting it.

A FRAMEWORK FOR ENGAGEMENT

The case for corporate engagement in society is compelling, and business leaders must look carefully at how their companies are engaged, consider what more they can do, and act. The World Economic Forum has developed a framework to help business leaders in this task. It grew out of three decades of providing a platform for companies to engage in society. In 1971, the forum first identified the stakeholder concept—the idea that a company has a clear responsibility to the community beyond its shareholders. Two years later, at the annual forum meeting, the stakeholder concept became the cornerstone of the Davos Declaration, which articulated the fundamental principles of a corporation's social and environmental responsibility. Since then, the forum has actively promoted these ideals and further developed the concept of corporate engagement.

Businesses frequently miss the true benefits of an integrated strategy for effective corporate engagement. Sharpening definitions of the concept of corporate engagement is critical to making the business sector understand and practice it better. Clarification is also important to ensure that the general public better appreciates the complex challenges companies face and can assess how effectively or not they address them.

Five core concepts—corporate governance, corporate philanthropy, corporate social responsibility, corporate social entrepreneurship, and global corporate citizenship—define the different types of business engagement. Corporate governance is more than the way in which a company is run. It means that a company complies with local and international laws, transparency and accountability requirements, ethical norms, and environmental and social codes of conduct. Every company is subject to some form of governance; otherwise, it would not have the basic license to operate. The central issue is the quality of this governance. An enterprise either complies or does not comply with the laws and standards that apply to it. Good corporate governance means that the company's conduct meets or exceeds what is required on paper—not doing any harm because it is following the rules and possibly even doing good by going beyond the mandated minimum. Corporate governance is how a company behaves when nobody

AP/WIDE WORLD PHOTOS

Klaus Schwab at the World Economic Forum, Davos, Switzerland, January 2001

is looking. Without good corporate governance, no other form of corporate engagement is credible.

A key part of corporate governance is the development and implementation of internal programs to promote ethics, moral standards, and socially acceptable practices. These should include respect for human rights and adherence to labor standards, as well as in-house efforts to prevent bribery and corruption. This can be especially difficult for companies in jurisdictions where the rule of law is weak and what is acceptable may not be clear. Many companies now publish standards of business conduct that guide their decision-making and set the parameters for their professional relationships worldwide.

More than 3,000 companies in about 120 countries have signed on to the UN Global Compact, a framework of ten core principles to guide business behavior in areas such as human rights, the environment, labor practices, and corruption. Launched at the forum in 1999 by then UN Secretary-General Kofi Annan, the UNGC has become a powerful force for promoting good corporate governance, even though it is strictly voluntary and based on self-assessment. Companies that lag in reporting their progress are delisted; last year, 500 were cut. Another example of good corporate governance is subscribing to the Global Reporting Initiative, a program to institute international guidelines for sustainability reporting, the publishing of an organization's economic, environmental, and social performance and impact. The GRI was launched in 1997 by NGOs in the United States with the support of the UN Environment Program. Today, over 1,000 organizations, including many corporations, use the GRI guidelines to assess their sustainability practices.

Good corporate governance should not be seen as only a compliance issue. Companies should be actively involved in the development of standards and practices, adapting them continuously to the requirements of global markets and public expectations. New areas calling for tighter governance rules include executive compensation and the transparency of new financial instruments such as hedge funds and private equity funds.

REACHING OUT

Corporations are moving beyond the mandatory requirements of corporate governance. Corporate philanthropy has been on the rise in many countries in recent years. It includes cash contributions; grants; donations, including salary-sacrifice programs and the giving of products; services; and investments. Outright corporate donations to global initiatives, such as Médecins Sans Frontières, or money provided for relief operations after natural disasters also qualify. In determining what is corporate philanthropy, intention and context are key factors. Corporate philanthropy is engagement that does not go beyond writing a check or handing out donated goods. Social investing is a special form of corporate philanthropy, in which a company invests in organizations or programs that have broad social appeal, such as inner-city housing projects or funds for student loans. Instances of corporate philanthropy and social investing can also be instances of global corporate citizenship. If a cash contribution is linked to a company's active engagement in a global effort to address climate change, for example, then the charitable act is also an act of global corporate citizenship. And if a corporation takes an active part in the management of an inner-city housing project in which it has invested, then it is practicing both social investing and global corporate citizenship.

In the past, corporate philanthropy was the preferred way for corporations to give back to society. Today, business leaders recognize that companies can make more efficient contributions through active engagement. The framework developed by the forum encourages the stakeholder approach to corporate engagement and refers to this as "corporate social responsibility." This involves how a corporation responds to the expectations of its stakeholders—the wide community of all the organizations and individuals that are in any way affected by or interested in its actions: shareholders, owners, investors, employees, suppliers, clients, consumers—while trying to increase the company's value. Corporate social responsibility means addressing the wider financial, environmental, and social impact of all that a company does. It entails minimizing the negative effects of the actions of a company and maximizing the positive ones on stakeholders as well as on the communities in which the enterprise operates and the governments with which it must work.

Corporate social responsibility is measured through so-called triple bottom-line accountability, according to which a company reports not only on its financial results but also on what it is doing and what it is not doing in meeting stakeholder expectations of its environmental and social responsibilities. Nike, for example, has committed to achieving or exceeding its published baseline requirements for sustainability—from design to manufacturing—for all its footwear by 2011, apparel by 2015, and equipment by 2020.

Today, corporate social responsibility extends along the whole chain of value creation. For example, corporations must provide the necessary information, education, and training to suppliers and clients to ensure that a product or service can be effectively and safely used. In that regard, the global insurance group AIG offers customers financial-education programs to help them learn how to make the right investment decisions to meet their needs. Some business leaders will point to their corporation's engagement in a number of corporate social responsibility projects around the world, which they argue make the coporation a global citizen. But the sum of acts of local citizenship does not make a globally involved citizen; global issues must be addressed on a global scale.

Corporate social entrepreneurship is strictly defined as the transformation of socially and environmentally responsible ideas into products or services. The last decade has seen many individuals come up with innovative ideas to address the specific social and environmental needs of the communities in which they are living. The role model of these social entrepreneurs, Muhammad Yunus, the inventor of microcredit, received the Nobel Peace Prize in 2006. Today, pioneering enterprises integrate social entrepreneurship into their core activities by actively channeling their research-and-development capabilities in the direction of socially innovative products and services. Examples of corporate social entrepreneurship include Deutsche Bank offering innovative microfinance schemes or socially responsible investment products, the Toyota Motor Corporation producing a hybrid car, or Unilever empowering women to become entrepreneurs in rural India while at the same time raising awareness on the importance of hygiene and nutrition.

CITIZENS OF THE WORLD

GLOBAL CORPORATE citizenship goes beyond the concepts of corporate philanthropy, including social investing; corporate social responsibility; and corporate social entrepreneurship in that it entails focusing on "the global space," which is increasingly shaped by forces beyond the control of nation-states. Global corporations have not only a license to operate in this arena but also a civic duty to contribute to sustaining the world's well-being in cooperation with governments and civil society. Global corporate citizenship means engagement at the macro level on issues of importance to the world: it contributes to enhancing the sustainability of the global marketplace.

Global corporate citizenship refers to a company's role in addressing issues that have a dramatic impact on the future of the globe, such as climate change, water shortages, infectious diseases, and terrorism. Other challenges include providing access to food, education, and information technology; extreme poverty; transnational crime; corruption; failed states; and disaster response and relief. Each of these problems is global in scope, even if the solutions may be locally focused.

When engaging in global corporate citizenship, companies should get involved in areas and in ways in which they can contribute meaningfully.

The primary responsibility for meeting these global challenges still rests with governments and international organizations. But companies can contribute in an appropriately balanced partnership with the public sector and relevant civil-society groups. The right balance should be found among all the actors involved so that there is agreement on who should lead and so that progress is not stymied by infighting or a lack of direction. Business should not feel the need to overstep its boundaries or take on responsibilities that belong to the state.

Companies that practice global corporate citizenship do so either through thought leadership, that is, by providing the knowledge and technology essential to addressing a particular global problem, or through concrete action, that is, through the execution of a coordinated plan—or they do both. The Gleneagles Dialogue on Climate Change, Clean Energy, and Sustainability, a partnership led by governments in the G-8 (the group of highly industrialized states) and the G-20 (the group of developing countries with a special interest in agriculture) and involving the world's biggest energy-producing and energy-consuming countries, is an example of companies practicing global corporate citizenship through thought leadership. Microsoft's Unlimited Potential initiative, which aims to bring the benefits of technology to five billion people yet to experience the opportunities that computers offer, is a notable action-oriented example. Microsoft's project is a multistakeholder effort to bridge the global digital divide by fostering innovation in business and education and raising the skill levels of individuals to improve their employment prospects and the growth of enterprises. Yet another action-oriented program is the World Economic Forum's Global Education Initiative, which assembles partners from business, government, and civil society to support critical reforms in education. The success of initial programs in Egypt, Jordan, and the Indian state of Rajasthan has inspired the forum to form an alliance with UNESCO in developing a joint program, Partnerships for Education, which is meant to promote

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multi-stakeholder approaches within the global education community with the goal of achieving education for all.

Global corporate citizenship is an extension of the stakeholder concept and involves the corporation acting as a stakeholder in global society, together with government and civil society. Global corporate citizenship can be considered a long-term investment. Since companies depend on global development, which in turn relies on stability and increased prosperity, it is in their direct interest to help improve the state of the world.

When a company creates a coordinated strategy for corporate engagement in society, it is likely to practice different types of engagement at the same time. And a particular act by an enterprise may not fit just one of the concepts. Nestlé voluntarily takes measures to reduce the water it uses in its operations. Since these measures are intended to benefit the water supply and the water-management needs of the communities in which the company operates, they qualify as acts of corporate social responsibility. As Nestlé engages with governments and NGOs to reduce water use in a broader way, it also offers an example of global corporate citizenship. If the company gave free water to a community, it would be engaging in corporate philanthropy. And if it sold recycled water in biodegradable bottles, that would be an act of corporate social entrepreneurship.

THE RIGHT MINDSET

ENTERPRISES SHOULD proactively mobilize a range of partners to effectively address global challenges. Lamentably, however, many business leaders are reluctant to accept that role. A study conducted by the global consulting group McKinsey & Company in 2007 found that fewer than half of the senior executives surveyed in the United States believed that they or their peers should take the lead in shaping the debate on major issues such as education, health care, and foreign policy. Only one-seventh of the respondents believed that they were playing that role, and the majority of them said that they were motivated primarily by personal reasons and were acting as private citizens.

There are not only motivational but also practical reasons why business leaders shy away from social engagement. The proliferation of Web sites on the Internet and new media channels such as blogs and the rise of shareholder activism may prompt some business leaders to refrain from thinking beyond the next financial quarter. The "short-termism" these developments promote could lead some CEOs to assume that engaging in society is not worthwhile because the value of corporate engagement is typically realized only in the medium or long term. Moreover, fast-changing conditions in the market may result in "zapping," or indiscriminate decision-making, in the same way that political leaders might zigzag on a policy in response to poll results.

Short-termism and zapping, as well as the growing challenges thrown up by the often painful economic transformations of globalization, can blur corporate vision. They may lead to paralytic management or a kind of corporate attention deficit disorder, whereby companies lose focus on the big picture. In such cases, companies may lose their motivation or willingness to engage in society. Corporate leaders may also be overwhelmed by the sheer magnitude and complexity of global challenges and the expectations of the public for them to assume partial responsibility for all the deficiencies of the global system.

This mindset must be changed. Corporations must engage on global issues while understanding that the business community cannot on its own solve global problems such as poverty, poor education, and inadequate health care. Governments and multilateral organizations cannot be discharged from their responsibilities to deliver such public goods. "Corporations are not responsible for all the world's problems, nor do they have the resources to solve them all," Michael Porter, a Harvard Business School professor, and Mark Kramer, the managing director of FSG Social Impact Advisors, wrote in the *Harvard Business Review* in December 2006. "Each company can identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the greatest competitive benefit," Porter and Kramer added. "When a well-run business applies its vast resources, expertise and management talent to problems that it understands and in which it has a stake, it can have a greater impact on social good than any other institution or philanthropic organization."

The examples of Microsoft's information technology skills training and Nestlé's water management, and many others as well, offer several conclusions about the practice of global corporate citizenship. First, global corporate citizenship must be a multi-stakeholder endeavor. The ultimate responsibility for addressing global issues lies with states and international organizations. Many governments recognize their limitations and are eagerly promoting public-private partnerships. Corporations should put aside any reservations they may have about partnering with governments and civil society as long as the initiatives in which they want to participate can be run properly and efficiently.

Second, for global corporate citizenship to be meaningful, effective, and sustainable, it must align with a company's specific capabilities and with its business model and profit motive. This also requires the active involvement of CEOs and should reflect their vision of what is good for the corporation and society. If this happens, it is more likely that the enterprise will find ways of engaging that are compatible with its business objectives and beneficial for society as well. Corporations should, however, beware of being parties to grand declarations or general commitments to solve global issues, since such commitments can blur people's perceptions of the distinct roles of the public and private sectors. The legitimacy of a corporation engaged in global corporate citizenship comes not from declarations but from results.

Third, global corporate citizenship should never be undertaken from a defensive or apologetic position. The ultimate role of business in society remains to do business. Global corporate citizenship should not develop from a bad conscience or a feeling that one must give back to society; it should be a feature of this globalizing world that stretches traditional boundaries. Global corporate citizenship is a logical extension of corporations' search for a consistent and sustainable framework for global engagement—and one that adds value for both the companies and the global space in which they engage. It is a form of corporate engagement that can reinforce the positive role of business in society and enhance profitability in the long term. Indeed, global corporate citizenship integrates both the rights and the responsibilities that corporations have as global citizens. And in relying on a multi-stakeholder approach to tackling global problems, it can point out the way to new models of effective global governance that integrate business as a key stakeholder.