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Corporate responsibility and competitiveness at the macro level

Responsible competitiveness: reshaping global markets through responsible business practices

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Abstract

Purpose *The purpose of the paper is to explore the theoretical underpinnings and practical implications of responsible competitiveness, where responsible business practices become a driver of national and regional competitiveness.*

Design/methodology/approach *The paper is based on extensive international consultations in association with the United Nations, detailed case studies, and econometric analysis of country level competitiveness and corporate responsibility related data.*

Findings *The paper concluded that responsible business practices can contribute to national and regional competitiveness, and that without such links corporate responsibility impacts are likely to remain limited.*

Research limitations/implications *Further sector and issue based and country level research is needed exploring the potential and practice of responsible competitiveness.*

Practical implications *Proposes that national and regional strategies for enhancing competitiveness and so also social/environmental outcomes can be grounded in responsible competitiveness. Furthermore, offers insights into how global markets can internalise key costs and benefits.*

Originality/value *The paper authors the notion of responsible competitiveness, and provides original definitions, methodology and data previously unpublished in any academic journal.*

Keywords *Competitive strategy, Corporate social responsibility, Governance, Partnership, Business ethics*

Paper type *General review*

Responsible markets

Achieving the moral and pragmatic imperative symbolized by the UN's Millennium Development Goals requires ''responsible markets'' in the sense that markets reward companies that embrace responsible practices in their daily business operations. This is the only way in which competitive markets will create a ''race to the top'' of escalating productivity, human development and environmental responsibility.

The potential exists for a positive relationship between, on the one hand, political and social rights and conditions, and on the other hand, productivity growth and rising living standards (Sen, 1999). Indeed, many highly respected economic and political commentators believe that they necessarily go hand in hand (Wolf, 2004). Business ''as usual'' can and does deliver social and environmental, as well as economic gains. But a competition-driven ''race to the bottom'' remains a very real possibility (Stiglitz, 2002). This can be readily observed where competition is intense, and where the world's attention and pressures are absent.

This paper draws on a report of the same title published by AccountAbility in December 2005 and co authored by Simon Zadek, Peter Raynard and Cris Oliviera, with the metrics work having been led by Edna do Nascimento and Rafael Tello. More broadly, it draws on work being undertaken by AccountAbility through its Responsible Competitiveness programme, led by Alex McGillivray.

Competition can drive down labour costs, or encourage the destruction of the natural environment through a mixture of extraction and dumping.

The visible and unsustainable downsides of economic success are driving growing numbers of business leaders to recognise the need to do business in a different, more responsible way. Businesses are increasingly acknowledging, in visible and practical ways, their broader roles in society (Fussler *et al.*, 2004). The many examples of businesses delivering improved social, economic and environmental outcomes, often at no cost and increasingly with accrued competitive gains, point towards a revitalised social contract with business that draws on its insights and competencies in addressing public policy goals as a normal part of doing profitable business (Holliday *et al.*, 2002; Zadek and Weiser, 2001). The need for a responsible vision and practice of globalisation is widely acknowledged. However, the market's ''invisible hand'' creates its own motion and direction, and the negative impacts of global competition, sometimes irreversible, are not easy to prevent. Individual businesses, however powerful as market players, find it difficult to go against the grain of the market. Consumers care, but often not enough to create success out of responsible behaviour. Some investors are concerned with some social and environmental risks, but most remain focused on short-term returns where such risks are negligible (Zadek *et al.*, 2005).

The challenge is to evolve a responsible basis for competitiveness. This requires a ''tipping point'' in how markets reward business. There is a need to transform and scale up leadership cases and make them the new business-as-usual (SustainAbility, 2004). As Oded Grajew, Former Special Advisor to the President of Brazil, and Founder and President of Instituto Ethos, argued, ''The responsible competitiveness of nations is essential to achieve sustainable development in today's globalised world'' (quoted in MacGillivray *et al.*, 2003) (see Table I).

Competitive dynamics of responsibility

Whether ''responsibility pays'' continues to be debated (Jackson and Nelson, 2004). The answer, of course, is that it all depends – being responsible sometimes does, and sometimes does not pay (Zadek, 2001). The economics of responsibility are subject to underlying market dynamics, like any other aspect of business performance. It is these dynamics that can amplify or undermine responsible behaviour. Such dynamics do not merely involve businesses, but can and do engage non-market actors, civil society organisations and national and international public bodies. Indeed, it is collaboration between these diverse players that in practice has driven some of the most important instances of scaling up responsible business practices.

Table I Market dynamics of responsibility

Scenario	*Description*	*Outcome*
First mover advantage	Where businesses can gain a distinct advantage by being the first to introduce a particular responsible business practice, for example Toyota's hybrid energy vehicle, the Prius	Competitors seek to erode the leader's advantage increasing the likelihood that the practice mainstreams into the market.
Lone mover	Where one business finds itself under intense public pressure, which does not spill over onto its competitors. Examples include Nike in its handling of labour standards in global supply chains, and BP and Shell in the cases of human rights	Unless the costs of lone moves are negligible or the company has other market advantages, such as a premium brand, the development is likely to be competed out of the market or remain in a small niche
First mover disadvantage	Where no company can make a viable business case for investing in the changes needed to achieve better social and environmental outcomes because the costs and benefits don't add up at an individual company level	The changes generally do not happen if the market players are left to operate as individual competitors

The practice of responsible competitiveness

The challenge and vision of responsible competitiveness is to embed social and environmental goals and outcomes in the very heart of competitiveness. This is a different approach from today's prevalent practice of seeking to ''balance'' the needs of competitiveness with other societal interests, as if these were distinct goals requiring different policy instruments. A responsible competitiveness strategy, in contrast, would aim to:

> Enhance productivity by shaping business strategies and practices, and the context in which they operate, to take explicit account of their social, economic and environmental impacts.

The practice of responsible competitiveness is increasing, catalysed by diverse contexts and drivers:

- Under pressure – responsible competitiveness practices often evolve in response to a perceived economic threat. For example in response to the threat to livelihoods and economies posed by the end of the Multi-Fibre Arrangement, initiatives have been established in several countries to establish a new basis for competitiveness in apparel and textiles. For example, an initiative in Cambodia seeks to strengthen sector-wide competitive advantage by demonstrating compliance with international labour standards.
- Owning standards – responsible business standards have historically been seen as a constraint to developing country exports, but some countries are responding by establishing their own standards as a way of actively building competitive advantage. The Chilean Association of Exporters for example, has established a Chilean social and environmental standard for horticultural exports. In the short term, the standard is cheaper to certify and more closely aligned to the particulars of the Chilean fruit sector than internationally administered schemes. In the longer term, they hope to use the standard as a means of differentiating themselves in the highly competitive fruit export market.
- Building business infrastructure – responsible competitiveness practices can work by impacting on an economy's infrastructure and the way that its social characteristics contribute to competitive advantage. For example the EU is seeking to develop a distinctive European competitiveness that builds on its diversity, consensual political processes, tendency to internalise costs into markets, and collaborative approach to education, health and public infrastructure. It therefore uses ICT to provide a means through which new forms of partnership can be developed.

Responsible competitiveness: dilemmas and challenges

- Exists, but is a distraction – responsible competitiveness distracts business and public policies from the real need to maximise economic growth as a development driver, leaving social and environmental considerations to later stages of development.
- Exists, but is too weak to count – responsible competitiveness potential is not sufficient to offset 'race to the bottom' price competitiveness that undermines social and environmental standards and promotes unsustainable and problematic business practices.
- Part of the problem, not the solution – responsible competitiveness confers significant competitive advantage on multinationals and developed economies, blocking exports of developing countries and so constraining economic development opportunities.
- It's a zero-sum game – responsible competitiveness cannot work because enhanced competitiveness based on social and environmental aspects of performance is a zero-sum game that will be competed away if a first mover advantage appears significant.
- Enabling environment counts more – responsible competitiveness is driven more by the enabling environment, particularly public policies, making business strategies and practices an unhelpful way to try to understand the phenomenon.

But responsible competitiveness has also been challenged as being irrelevant, essentially a distraction, for reasons summarized above. To better understand how best to recognise or stimulate the when and the how, there is a need to establish a framework for understanding responsible competitiveness.

A framework for responsible competitiveness

Three-tiered drivers

Whether competitiveness is a matter for companies or nations is the tip of the iceberg of an extensive debate about the nature, source and agencies of competitiveness (Turner, 2001). Businesses do compete of course, but so do nations and regions through differences for example in their cultures and institutional arrangements. Bjorn Stigson, Chief Executive of the World Business Council for Sustainable Development, illustrates this point, when arguing that: ''the US is superior to Europe at utilising labour, labour productivity is much better, and capital productivity is much better, but the US is way behind on resource productivity, when it comes to utilising physical resources''[1]. Ex-Harvard President, Lawrence Summers, similarly stresses the fact of competition between nations and regions, ''it will not be enough for us to just leave no child behind. We also have to make sure that many more young Americans can get as far ahead as their potential will take them. How we meet this challenge is what will define our nation's political economy for the next several decades'' (Friedman, 2005).

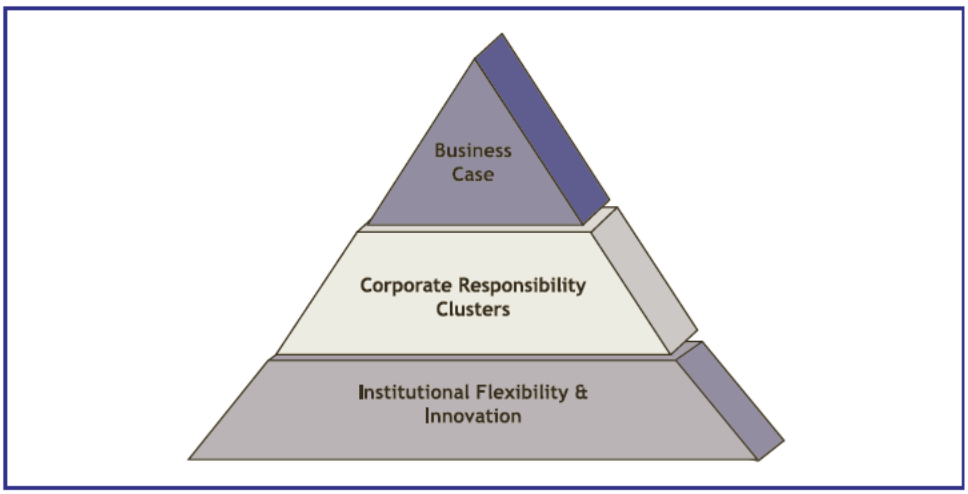
The potential of responsible competitiveness is grounded in several tiers or ways in which competition between nations and communities takes place (see Figure 1):

- Direct, specific business benefits (not discussed here given the existing mass of relevant literature).
- Corporate responsibility clusters.
- Innovation and flexibility.

Responsibility clusters

AccountAbility, working with The Copenhagen Center, identified the potential for ''corporate responsibility clusters'' for linking and scaling up company-level corporate responsibility practices and outcomes (Zadek *et al.*, 2003). Four drivers of such clusters were identified that could and did in specific circumstances ''create competitive advantage within one or several sectors arising through interactions between the business community, labour organisations and wider civil society, and the public sector, focused on the enhancement of corporate responsibility'':

Figure 1 Responsible competitiveness: three-tiered framework



1. Civil society-initiated, characterised by antagonistic relationships between its participants forming at least the initial basis for the development of competitive advantage.
2. Business-initiated, involving remoulding competitive conditions from the inside-out, by innovating more sustainable products, services or business processes.
3. Partnership-initiated, involving formal, multi-sectoral partnerships supporting competitive advantage.
4. Statutory-driven, involving public policies focused on corporate responsibility standards and practices that support competitive advantage.

The nature of the relationships between these actors changes over time. A confrontational relationship in one period may form the basis for intimacy through partnership at a later stage. A facilitative approach to public policy in one period may later take on statutory overtones. Such clusters are neither static nor distinct phenomena. Rather, they combine several or all of these forms at different stages in their development.

What is important is not so much the ''tone'' of the relationship underpinning the cluster as its productivity. Confrontation between Nestlé and the International Baby Milk Campaign, according to some, did little to change the rules of the game. On the other hand, hard campaigning in relation to drug pricing and labour standards has created conditions under which individual companies could gain competitive advantage, and indeed where corporate responsibility clusters might over time emerge.

Innovation and flexibility

Responsible competitiveness can arise through the impact of corporate responsibility on business innovation and flexibility. This can take two forms. The micro-level argument is essentially a sub-set of the broader ''business case'' view of corporate responsibility. Rather than viewing business benefits in static terms, such as reputational and brand gains, or even recruitment and motivational benefits, the innovation argument suggests that corporate responsibility enables businesses to become better, for example, at developing new products, processes and distribution channels (Sabapathy and Weiser, 2003).

The macro-institutional innovation effects are potentially, however, the most important for responsible competitiveness. At its heart is the argument that suggests credible, responsible business practices:

- Strengthen the legitimacy of the business community.
- Enhance trust between it and other key institutional players, such as labour organisations and public bodies.
- Reduce labour-related conflicts and burdensome statutory regulations.
- Increase the flexibility of business to respond to changing market circumstances.

In effect, this argument reverses into the well-known and widely-accepted view that where business is more trusted, it is given more latitude to do what it takes to remain competitive.

The case of Brazil illustrates the potential of this macro-level impact of corporate responsibility on innovation and flexibility (Zadek, 2006). In the run-up to the Brazilian presidential elections of 2002, the candidate Luiz Inácio Lula da Silva, heading a Workers Party historically confrontational towards the business community, made much of partnering the business community for development. Lula's establishment of a high-level Commission involving many key business and civil society leaders to advise him on economic policy signaled his commitment to an approach that drew business, labour and civil society into the decision-making process of government. Core to the approach was the use of a corporate responsibility discourse to evoke a sense of both the need and the legitimacy of the wider engagement of business in the development of Brazilian society.

Towards a dynamic learning model

Responsible competitiveness allows us to go beyond the purpose or actions of individual businesses to understand better how "corporate responsibility" can lead to changes in the underlying social contract that defines the very nature of business. To understand this better requires a framework that describes the dynamic pathways along which individual companies move, driven by the logic of today's competitive markets to embrace a growing range of social, economic and environmental impacts (Zadek, 2004).

An effective framework helps us understand the place of corporate responsibility in the dynamic interplay between organisational and wider societal learning. Business learning is driven by contextual imperatives: notably, the competitive dynamics of the market, which includes the pressures placed upon business by non-market actors such as governments and civil society organisations. These pressures are in turn driven by changing expectations based on what society thinks is possible and desirable, or what we call here "societal learning" (Waddell, 2005). The responses of individual organisations to changing societal expectations drive their specific successes and failures. But beyond this, these responses can impact on how business as a whole functions within the system, which in turn evolves as a result. These dynamic interplays can redefine the *de facto* role of business in society.

For a single business, we can conceive of five corporate responsibility learning stages (see Table II). Corporate responsibility often starts its life with a state of denial by a company as to its accountability ("this is not something we are actually responsible for, even if our actions influence outcomes") for a specific set of social or environmental outcomes. The chemicals giant, Dow, made its view clear following its acquisition of Union Carbide that it was not responsible for events at Bhopal, and that legally binding settlements effectively closed their book on the topic. Similarly, pharmaceutical companies and drug availability to poor people, food companies and health outcomes associated with over-eating, tobacco companies and the right to smoke, and textiles companies and labour standards in global supply chains, are all cases where, challenged in public, companies initially retorted, "these may well be real problems, but they're not ours".

But companies change their attitudes as they see it as in their interests to engage with the issue, or else are driven by overarching values that are at least not inconsistent with their underlying financial imperatives. Typically, businesses move through a period of compliance, then see the need and gain from integrating issues into core management processes. Over time, they find themselves facing deeper strategic challenges, caricatured by oil companies seeing their future in energy, car companies in mobility and

Table II Corporate responsibility and organisational learning

Stage	*What organisations do*	*Why they do it*
Defensive	Deny practices, outcomes, or responsibilities	To defend against attacks to their reputation that in the short term could affect sales, recruitment, productivity, and brand value
Compliance	Adopt a policy based compliance approach as a cost of doing business	To mitigate the erosion of economic value in the medium term because of ongoing reputation and litigation risks
Managerial	Embed the societal issue into their core management processes	To mitigate the erosion of economic value in the medium term and to achieve longer term gains by integrating responsible business practices into their daily operations
Strategic	Integrate the societal issue into their core business strategies	To enhance economic value in the long term and to gain first mover advantage by aligning strategy and process innovations to the societal issue
Civil	Promote broad industry participation in corporate responsibility	To enhance long term economic value by overcoming any first mover disadvantages and to realise gains through collective action

pharmaceutical companies in delivering health rather than drugs. At the highest stages, particularly the fifth – ''civil learning'' – companies find themselves actively engaged in lobbying for public policies that are supportive of their increasingly ''responsible'' practices (Zadek, 2001).

The key point is that at no time does the individual business move outside of its own ''logic'' and basis of accountability. At each step, the business sees the sense within its logic of accountability to its owners (shareholders) in extending the boundaries of what it takes into account. But over time, the macro effect is that the business community (say, in a particular market or sector) incorporates norms of behaviour that in practice imply a greatly extended basis of accountability. In this situation, market dynamics are not driving business away from an ''intensive'' accountability to shareholders to an ''extensive'' accountability to diverse stakeholders (Donahue, 2001). Rather, what is happening is that intensive and extensive forms of accountability are becoming more similar, and ultimately equivalent.

Just as businesses learn and change their approach to dealing with issues, so does society as a whole (see Table III). Global views on corruption, for example, have changed dramatically over the last decade, setting the scene for equally dramatic (if more slowly-changing) practices on the ground. Similarly for other issues, ranging from child labour to animal rights. Whilst often localised in their early stages in countries or regions, these shifting societal expectations increasingly extend rapidly to an international level. One simple depiction of this process of societal learning is set out below.

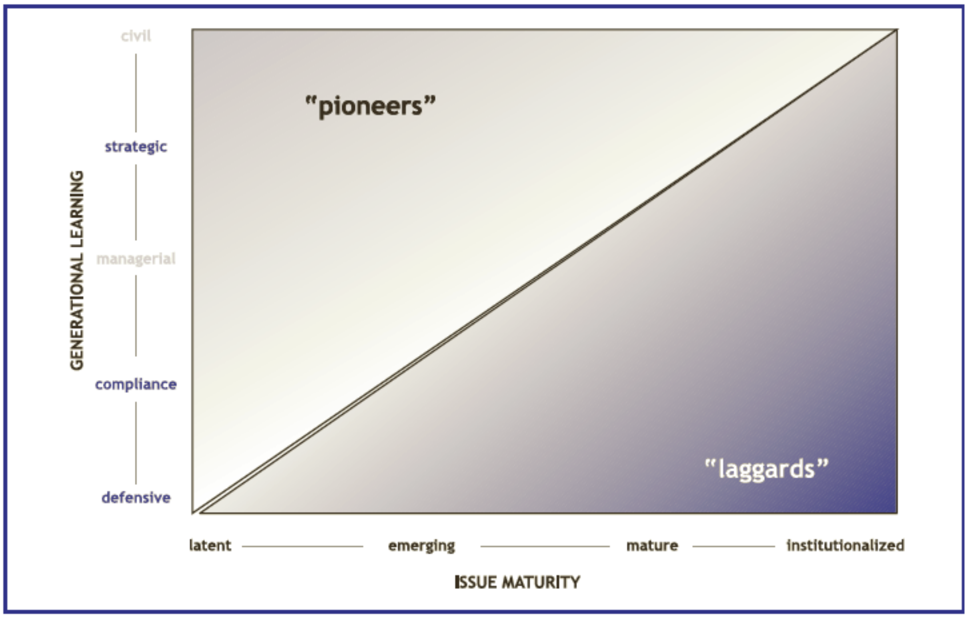
Mapping the interaction of the learning of individual organisations (e.g. businesses) and society more broadly give us some insights into how responsible competitiveness can emerge from the existing logic of markets and societies, and in so doing, change the social contract between business and society. Figure 2 suggests this relationship between these two learning systems. In this simple version, businesses will adjust their practices according to the stage of development of societal learning. If a business fails to make the adjustment, it gradually falls into the lower triangular ''red'' zone where its fortunes are damaged, for example by consumers, employees or investors withdrawing their contributions.

Clearly the two learning systems are in practice far more complex than the visual suggests – inter-twinned and non-linear. A more complex analysis and model would reveal the interdependency between the two axes. For example, the decision by a group of leading financial institutions to develop and embrace the Equator Principles itself shifts societal expectations towards all companies in that sector (and indeed elsewhere) embracing such principles. That is, leadership in corporate responsibility clearly drives societal expectations, not just the other way around. Similarly, the model gains from an appreciation of market tactics and strategies between competitors. If one or more companies choose to race up the

Table III Corporate responsibility and societal learning

Stage	*Characteristics*
Latent	Activist communities and NGOs are aware of the issue There is weak scientific or other hard evidence The issue is largely ignored or dismissed by the business community.
Emerging	There is political and media awareness around the issue There is an emerging body of research, but data are still weak Leading businesses experiment with approaches to dealing with the issue
Consolidating	There is an emerging body of business practices around the issue Sector wide and issue based voluntary initiatives are established There is litigation and an increasing view of the need for legislation Voluntary standards are developed, and collective action occurs
Institutionalised	Legislation or business norms are established The embedded practices become a normal part of a business excellence model

Figure 2 Civil learning and governance



vertical axis, they can increase the risk for their competitors of not following suit, effectively moving the line that separates the upper and lower triangles.

Measuring potential

Exploring responsible competitiveness requires some measure of how much it does or can count. There are serious challenges in measuring the practice and potential of responsible competitiveness, just as there are challenges in measuring any specific aspects of competitiveness. At the micro-, business level, these challenges are well documented. At the macro-level, there have been far fewer attempts to measure the impact of responsible business practices on national or regional competitiveness. Those that exist often focus on specific aspects of responsibility, such as corruption. The World Economic Forum has made an interesting excursion into this field in its recent publication on gender and competitiveness (WEF, 2005).

In these and other instances, such as the level of education of the workforce, the responsibility driver of competitiveness being measured is broader than ''what businesses choose to do'', and closer to a measure of a specific quality of the enabling environment, which of course impacts on business and which is in part created by business, for example through its lobbying. In this sense, both the IMD and WEF imply aspects of corporate responsibility in their measures of country-level competitiveness in that business strategies, and in particular lobbying clearly affect, for example, levels of workforce education, labour market flexibility and the extent of costly regulation (Lopez-Claros, 2004; Garelli, 2004). The work of Dan Esty and others in mapping broad measures of the ''national state of sustainability'' against competitiveness is probably the best-known and most advanced in making some of these aspects explicitly drivers of competitiveness; although again this work is essentially a statistical correlation, and avoids making explicit claims about causality (YCELP, 2005).

National Corporate Responsibility Index 2005

AccountAbility piloted an index in 2003 that augmented traditional measures of national competitiveness with a specific ''corporate responsibility'' variable, with collaborative support from The Copenhagen Centre (MacGillivray *et al.*, 2003). The added variable, the ''National Corporate Responsibility Index'', itself a composition of several other variables and associated data sets, was used to augment and re-estimate WEF's Growth Competitiveness Index (Cornelius and Porter, 2002).

We concluded at the time, based on a data set covering 51 countries, that several countries, notably the USA, appeared to have a significant ''responsibility deficit'' in their competitiveness strategies, suggesting that this group has an underlying competitive disadvantage not apparent in traditional measures of national competitiveness. Other countries, most notably China, Japan and Korea, were also found to have a responsibility deficit, well in excess of five per cent, suggesting that this could endanger their economic growth (if one accepts the apparent link between income and responsibility).

We made clear that the specific results of the Responsible Competitiveness Index needed 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.

AccountAbility further developed its measurement work by forming a partnership with the Brazilian business school, Fundação Dom Cabral (FDC) to create a new and improved country-level Responsible Competitiveness Index for 2005[2]. The RCI 2005 has basically retained the same structure and approach as the RCI 2003 (see Table IV):

- First, the extent of corporate responsibility in nations is calculated, making the National Corporate Responsibility Index (NCRI).
- The NCRI is then incorporated into the Growth Competitiveness Index, compiled by the World Economic Forum (WEF).

However, although the basic form of the RCI has been maintained, significant changes have been made in the statistical methodology and in the NCRI components and variables to make the Index more consistent. These changes, and the underlying econometrics, are detailed in a separate working paper (FDC and AccountAbility, 2005).

The NCRI 2005 was estimated using factor analysis, yielding the following results:

$$\text{NCRI} = 0.35\, F_1 + 0.33\, F_2 + 0.27\, F_3$$

where:

F_1 = Internal dimension
F_2 = External dimension
F_3 = Environmental management.

The regression model above showed a coefficient of determination $R^2 = 0.80$, suggesting that the regression explains 80 per cent of the difference between the countries with reference to the institutionalization, practices, emphasis, etc., of corporate responsibility.

The significant upgrade in the NCRI 2005 over its predecessor, the NCRI 2003, makes comparisons unhelpful. Focusing solely on the new results, then, we see that:

- The Nordic countries have scored very well. While Norway (12th) is an exception, all other Scandinavian countries rank in the top 5 (Sweden 1st, Finland 2nd and Denmark 4th).
- South Africa is the highest-ranking emerging economy (excluding Eastern Europe), followed quickly by Korea, Chile, Malaysia, Costa Rica and Thailand.
- China is only 66th in the NCRI, whereas India, in other respects seen as trailing its nearby Asian competitor, ranks a far higher 43rd.
- East Europe seems to be following a sustainable growth path. Estonia (10th) and Slovenia (19th) are well ranked in the NCRI.

Disaggregating the NCRI's three factors allows us better to understand business practices, and so begin to identify policy gaps.

- Finland scored highest with a score of 2.1 out of a maximum of 3.0 for the internal dimension (corporate governance-ethical practices and human capital development). Denmark, the UK and USA were the other top scorers, all scoring much higher in this

Table IV National Corporate Responsibility Index variables: 2003 and 2005

NCRI 2003	*NCRI 2005*
1. Corporate governance Transparency and disclosure rating Strength of auditing e accounting standards Are boards independent?	1. Internal dimension: Corporate governance ethical practices and Human Capital Development Strength of auditing and accounting standards Efficacy of corporate boards Corruption Perception Index Gap in the implementation of the basic worker rights Quality of human resources approach: training and employee development Gender equality: private sector employment of women
2. Ethical business practices Bribe payers' Index Anti dumping measures against country/bn US$ exports Business costs of corruption Strength of corporate ethics	2. External dimension: Civil society context Customer orientation Civic freedom NGOs/1,000,000 people (NGO density per 1,000,000 people group)
3. Progressive policy formulation Are environmental gains adversarial? Are regulatory standards demanding? Ratification of Kyoto Protocol Sign up to UN Global Compact	3. Environmental management Stringency of environmental regulations Signing and ratification of environmental treaties Cartagena Protocol on Biosafety/Framework Convention on Climate Change/Convention on Biological Diversity/Kyoto Protocol to the Framework Convention on Climate Change (US) Fossil fuels footprint (WWF) total energy footprint (global ha/person) Number of certified ISO 14001 companies per US$ billion
4. Building human capital Fatal accidents/100,000 workers Extent of staff training Employee protection legislation Employment Laws Index	
5. Engagement with civil society Degree of civic freedom Total of consumer groups per 10m people Public trust in business Sophistication of consumers Customer orientation of companies	
6. Contributions to public finance Corporate tax levels Prevalence of irregular payments in tax collection Public spending on education as % of total public spending and GNP	
7. Environmental management Compliance with environmental regulations Prevalence of environmental management systems Emissions of carbon dioxide per unit of GDP Total of Dow Jones Sustainability Index rated companies as % of total listed companies	

factor than in the other two. Pakistan came out worst with a score of 1.8, with Bangladesh and Paraguay also scoring particularly poorly. Eastern European countries scored surprisingly low in this factor compared to their scores on the other two factors.

- Sweden stands out in first place of the ranking on environmental management, obtaining a score of 2.7, a full 0.9 above the second-placed score. This points towards a great efficiency in the application of environmental programmes and a remarkable example of interaction between the regulatory environment and business practice. Aside from Sweden, another significant performer is Hungary (1.7), being 5th in environmental management, significantly higher than its overall 24th place in NCRI. Once again, in last place is Pakistan with 1.8.

The NCRI 2005 is statistically far more robust and covers more countries than its predecessor, the NCRI 2003. It provides a unique window into a nation's state of corporate responsibility, allowing comparison between countries and regions, across variables and over time. But despite these strengths, we would caution users of the NCRI's remaining weaknesses.

- First, on data and statistics. The data used, although all drawn from authoritative sources, are certainly of varied quality. Equally important are the variables we have not included in the analysis because the data are unavailable. The statistical methods deployed are certainly robust, but cannot improve on weak data.
- Second, on the underlying theory. We have posited in the Framework multiple, complex dynamics that drive corporate responsibility and so also responsible competitiveness. The NCRI therefore takes as its starting point that it is seeking to capture the overall ''ecology of responsibility'', not merely what businesses do or do not do. But this means that causality remains very unclear. We cannot say whether businesses in Sweden are responsible because government forces them to be, because they embrace and encourage a societal model that drives up responsibility, or for some other reasons not explained in the model.
- Third, the implications of data and theoretical (explanatory) shortfalls are likely to be unevenly distributed between countries and regions. In particular, the lower scores for developing as compared to developed countries are almost certainly attributable as much to economic structures as to shortfalls that developing counties could overcome for a given stage of economic development.

That said, we consider the NCRI to provide in its current form a robust tool to use on its own, and as a basis on which to move forward in estimating the Responsible Competitiveness Index 2005.

Responsible Competitiveness Index 2005

The World Economic Forum defines competitiveness as the ability of a country to reach a sustained medium or long-term growth. To achieve that, countries must constantly enhance their productivity and so competitiveness in international markets. To evaluate the competitiveness of countries, WEF used for many years two indices the Growth Competitiveness Index – that evaluates the macroeconomic aspects of competitiveness – and the Business Competitiveness Index – that evaluates the microeconomic factors (Lopez-Claros, 2004). The RCI 2005 made use of WEF's Growth Competitiveness Index, as the intention was to evaluate the impact of corporate responsibility in the national competitiveness environment.

The RCI 2005 was produced using a multiple linear regression methodology. This yielded:

$$\text{Responsible Competitiveness Index} = 0.35X1 + 0.32X2 + 0.19X3 + 0.15X4$$

where:

X1 = National Corporate Responsibility
X2 = Macro Environment Index sub-index
X3 = Public Institutions sub-index
X4 = Techonology sub-index.

The regression proved to be fairly robust, with $R^2 = 0.997$.

The results highlight the efficiency of the Nordic ''Development Model'' with Finland, Denmark, Sweden and Norway at the top of the index. These results suggest, in short, that these countries are on current trends maintaining a sustainable economic growth based on business practices that achieve economic development without significant damage to the environment, taking stakeholders into account and working together with civil society to achieve these objectives.

In comparing the results of the RCI with WEF's GCI, although the addition of the NCRI variable has some significance, it is quite small. We do not see enormous variations, which is understandable as there are many variables that affect the outcome. However, there are a number of interesting country and regional variations. The analysis done this way seems to suggest that, in general, Europe goes up the competitiveness ladder once corporate responsibility is taken into account, the most significant European leaps coming from Belgium and Ireland, while Austria, France and Poland also benefit significantly. On the other hand, Japan, Jordan, United Arab Emirates and Uruguay see the most significant ''falls'' in their relative competitiveness levels.

Another way of using the results is to map the difference between countries' NCRI and RCI ranking, postulating that the bigger the positive gap (NCRI higher than RCI rating), the less existing responsible business practices are contributing to the country's competitiveness. The Philippines, Costa Rica, Jamaica, Brazil and Ukraine have the highest positive gaps. This could of course mean several different things. On the one hand, it could mean that responsible business practices are not being properly exploited in achieving higher levels of competitiveness. On the other hand, it could mean that responsible business practices are for some reason constraining competitiveness. At the other end of the spectrum, China scores the greatest negative gap. Again, this could mean that high levels of competitiveness are being achieved despite poor levels of responsible business practice. On the other hand, it could mean that poor business practices have not yet resulted in constrained competitiveness, and will do so if action is not taken.

Once again, it is important to highlight the fragility of the data, and even more so the analysis. As for the NCRI, the applications and implications of the RCI must be caveated by remaining statistical and theoretical problems, set out more fully in the detailed technical paper. As a result, such measures need to be treated as indicative, rather than proof, of possible causal relationships.

There is, however, a significant correlation between the competitiveness of a country and its corporate responsibility level. This might indicate that:

- Competitiveness gains in a country may not be sustainable unless underpinned by responsible business practices. That is, consistent growth in competitiveness depends on greater responsibility of the society as a whole, business, government and civil society.
- Corporate responsibility can fuel country competitiveness. This possibility, the heartland of the responsible competitiveness proposition, seems to get some support from the data.

Implications

Responsible competitiveness goes beyond voicing concerns about globalisation and offers practical ways to make a difference in actively creating what UN Secretary General Kofi Annan refers to as the ''human face of globalisation'', or what we have referred to here as responsible competitiveness. Centrally, it:

- Illustrates how strategies rooted in responsible competitiveness can play a significant role in enhancing a country's economic competitiveness in ways aligned to sustainable development.
- Offers an analytic framework and the metrics to better understand the potential and practice of responsible competitiveness for nations, communities and businesses.

Advancing responsible competitiveness as an approach to globalisation is a real option and, in some instances, already a grounded practice. Although practice varies considerably, over time and between regions, sectors and market circumstances, there are seven common policy elements that could underpin responsible competitiveness strategies and practices:

- Strategy-aligned corporate responsibility is a prerequisite for responsible competitiveness. As long as corporate responsibility remains a side activity for the business community, it will not deliver sustained competitive advantage at the micro-, let alone the sector or macro-level.

- Collaborative approaches to raising the bar are an essential ingredient of responsible competitiveness. In every case considered, leadership companies, often working closely with public bodies and civil society organisations, initiated collaborative actions to leverage responsible competitiveness characteristics into the market.
- Sector-based strategies have to date been the preferred basis for responsible Competitiveness strategies and practices. Although ''responsibility issues'', such as labour standards, clearly have multi-sector relevance, their application in pursuit of competitive advantage has in general been on a sector basis. There is a need to take a step forward in developing suitable tools for sector-based analysis, policy development and for the measurement of impact potential and practice.
- National and regional strategies could gain momentum to build on multi-sector synergies in responsible competitiveness. There are clearly some multi-sector, geographically-concentrated aspects of responsible competitiveness, such as corporate governance or, as the cases of Brazil and South Africa illustrate, higher level compacts between business, the state, and civil society.
- Investor responsiveness is essential for widespread take up of responsible competitiveness strategies and practices. Cross-border project investment is increasingly sensitised to social and environmental issues, for example through the Equator Principles. But country-risk profiling by financial institutions, credit agencies and even public development bodies largely ignores measures of the ''state of corporate responsibility''; the important exceptions are measures of corruption and in some instances broad measures of corporate governance.
- Trade, investment and competition rules need to be sensitized to encourage responsible competitiveness. Public policy and debate about trade and investment and corporate responsibility have historically focused on compliance, which has raised concerns over *de facto* non-tariff barriers to trade. Competition policy has to date been almost entirely ignored in the more contemporary approach to corporate responsibility.
- Responsibility standards need to be better aligned to competitiveness opportunities. Standards for responsible business practice have proliferated in the last decade, with diverse methods, measures, brands and standards bodies vying for airtime and take-up. Smart standards need to move beyond ''balancing'' the needs of the market with social and environmental imperatives, to being more active catalysts of responsible competitiveness strategies and practices. The control of international standards is a key aspect of this.

Taking forward these seven action points would advance responsible competitiveness and so contribute to underpinning the next phase of globalisation with acceptable business practices. In this way, responsible competitiveness could become a key element in enabling nations, regions and communities to achieve the three-part goal set out above: satisfying the needs of their citizens, playing their part in securing human rights and security on a wider scale, and generating the economic growth which allows them to achieve the first two goals.

Notes

1. Microsoft's Business in Society Roundtable: 1 June 2005.
2. Fundaçao Dom Cabral is the Brazilian partner institute of the competitiveness studies of both WEF and IMD. For more information visit the web site: www.fdc.org.br

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