

# THE STATE OF RESPONSIBLE COMPETITIVENESS 2007

Making sustainable development count in global markets

Foreword by Hon. Al Gore

July 2007

 AccountAbility

in association with FUNDAÇÃO DOM CABRAL

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DEVELOPING EXECUTIVES AND COMPANIES

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*“Responsible Competitiveness is an essential ingredient for effective global markets. It blends forward-looking corporate strategies, innovative public policies, and a vibrant, engaged civil society. It is about creating a new generation of profitable products and business processes underpinned by rules that support societies’ broader social, environmental and economic aims. The State of Responsible Competitiveness demonstrates the practical potential of responsible competitiveness strategies to deliver trade and investment while striking the right balance between national and global interests, and public and private gain.”*

Pascal Lamy, Director-General, World Trade Organization



# Table of Contents

---

- 7 *Foreword*, Hon. Al Gore

## **The Responsible Competitiveness Index**

- 11 *The State of Responsible Competitiveness 2007*, Simon Zadek, Chief Executive and Alex MacGillivray, Head of Programmes, AccountAbility
- 34 *The Responsible Competitiveness Index*, Paul Begley, Researcher, AccountAbility; Edna do Nascimento, Statistician, Fundação Dom Cabral; Alex MacGillivray, Head of Programmes, AccountAbility and Cláudio Boechat, Professor, Fundação Dom Cabral

## **Building Low-Carbon Markets**

- 47 *The Stern Review*, Dimitri Zenghelis, Economic Adviser, Her Majesty's Treasury, United Kingdom and Nicholas Stern, IG Patel Chair at the London School of Economics and Political Science
- 55 *Preparing for a Carbon-Constrained Future*, Jonathan Lash, President, World Resources Institute
- 60 *Reshaping Markets through an International Carbon Fund*, Nick Butler, Director of the Cambridge Centre for Energy Studies, Judge Business School

## **Key issues in Responsible Competitiveness**

- 67 *Rebuilding World Trade and Economic Rules*, Guy Ryder, General Secretary, International Trade Union Confederation
- 71 *Transparency and Accountability as a Driver for Growth*, Peter Eigen, Chair of the Advisory Council, Transparency International and Jonas Moberg, Head of the Secretariat of the Extractive Industries Transparency Initiative
- 78 *Better Work: Promoting Labour Standards through Responsible Competitiveness*, Ros Harvey, Global Programme Manager Better Work Programme, International Labour Organisation; Houria Sammari, Senior Programme Manager, Environmental and Social Development Department and Annemarie Meisling, Private Sector Development Specialist, International Finance Corporation

- 
- 84** *Gender Equality for Competitive Advantage*, Laura Tyson, Professor of Business Administration and Economics, Haas School of Business, University of California at Berkeley
- 88** *Civil Society and Responsible Competitiveness*, Kumi Naidoo, Secretary-General and Lorenzo Fioramonti, Senior Researcher, CIVICUS: World Alliance for Citizen Participation
- 96** *Can Faith Build Competitiveness?* Ambreen Waheed, Executive Director, and Faiz Shah, Co-Founder, Responsible Business Initiative
- 102** *Building Competitive Advantage through Responsible Business Practices*, Jean-Philippe Courtois, President, Microsoft International

### **Country and Regional Profiles**

- 111** *CSR and Competitiveness: A View from the European Commission*, Günter Verheugen, Vice-President of the European Commission in charge of Enterprise and Industry
- 115** *Southeast Asia: Fostering Competitiveness through Mutual Accountability*, Anwar Ibrahim, Honorary President, AccountAbility
- 123** *BRICS and Responsible Competitiveness*, Cláudio Boechat, Professor, Edna do Nascimento, Statistician, and Luana de Albuquerque Dapieve, Research Assistant, Fundação Dom Cabral
- 130** *CSR with Chinese Characteristics: Charting a Path Forward*, Aron Cramer, President and Chief Executive Officer, Business for Social Responsibility
- 135** *Responsible Competitiveness at the Regional Level*, Jeremy Nicholls, Director, Urban Strategy Associates and Paul Begley, Researcher, AccountAbility
- 141** Annex

## Foreword

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By **Hon. Al Gore**

I warmly welcome AccountAbility's new benchmark report, the ***State of Responsible Competitiveness 2007***. A sustainable future means markets that reward long-term performance. It means seeing responsible business practice as the guide to the quality of the business and its management. It means public policies and citizen action that help businesses do the right thing.

At Generation Investment Management, we combine leading edge sustainable research with world class fundamental equity analysis. I am now seeing responsible competitiveness at the top of the agenda for more and more of the CEOs I meet. In helping to organise Live Earth in nine cities all across the world, I have been heartened by the growing commitment of political and business leaders and concerned citizens to the sustainability agenda.

This makes AccountAbility's new report especially useful – to investors, policy-makers, business leaders and researchers alike. The report is ambitious in scope – reporting on responsible competitiveness in 108 countries covering over 95 per cent of the global economy. It is broad ranging, covering key developments in combating climate change, enhancing labour standards, closing the gender gap and reducing corruption.

The ***State of Responsible Competitiveness 2007*** is challenging in its conclusions but ultimately encouraging: more and more companies are generating value for shareholders in an enduring way, and action is possible in countries at all stages of development.

The report pinpoints exciting market opportunities, and also risks that politicians, businesses and investors need to manage. In short, the ***State of Responsible Competitiveness 2007*** is the indispensable guide to understand how markets are reshaping to reward competitiveness for the 21<sup>st</sup> Century.

A handwritten signature in black ink, appearing to read 'Al Gore'.

**Hon. Al Gore**





# **The Responsible Competitiveness Index**



# The State of Responsible Competitiveness

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By **Simon Zadek** and **Alex MacGillivray**

## Reshaping competitiveness

*Responsible competitiveness is about making sustainable development count in global markets.* It means markets that reward business practices that deliver improved social, environmental and economic outcomes; and it means economic success for nations that encourage such business practices through public policies, societal norms and citizen actions.

*The State of Responsible Competitiveness 2007* is a progress report that is global in scope. It assesses responsible business practices in 108 countries. It illuminates which countries have social conditions and are advancing public policies that encourage responsible competitiveness.

*This report's bottom line is that responsibility can and does reinforce competitiveness, for countries at all levels of development.*

*Responsible competitiveness is partly delivered through market forces.* At the micro, individual business level, strategies that embrace the principles and practices of responsible competitiveness are increasingly recognised as having extraordinary potential for creating economic value and profitable outcomes. Over the last decade, 'corporate responsibility' has evolved from a focus on what not to do towards a business innovation agenda that translates today's social and environmental challenges into opportunities for creating economic value. At the macro level, the global economy's dramatic growth over recent decades has brought hundreds of millions of people out of poverty. Global markets foster international trade, now accounting for over 20% of Global Economic Product, that has a crucial role in driving forward such positive outcomes of economic success. Economically wealthier societies have the capacity to be more responsible towards their citizens and the environment, and are most successful in markets where education, technology, mature institutions, engaged citizens and the rule of law are critical competitiveness drivers. There is much to look forward to from the new generation of emerging exporters (China, Mexico, Turkey, India, Indonesia, the Russian Federation, Malaysia, Thailand, Nigeria, South Africa, Brazil and Venezuela), what we call the EE12, which accounts for over one trillion dollars of merchandise exports.

*Competitive advantage in today's impatient markets will not alone deliver on the promise of sustainable development.* Unfettered competitive forces

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encourage short-termism in profit taking, and national competitiveness strategies rooted in parochial mercantilism and economic nationalism. Investors focused on short-term returns and customers intent on getting the lowest price often restrain longer-term business strategies from gaining traction in the market. The privileged positions of today's wealthiest nations in global value chains were, after all, achieved by imposing negative social, environmental and economic burdens on weaker communities. Today's engine of global trade, whilst extraordinary, continues to burden many poorer and weaker nations convinced that accepting the 'inevitability' of inadequate labour conditions and environmental controls is the cost of accessing the benefits of international specialisation. And the new generation of national economic and political powerhouses are in large part repeating and reinforcing this pattern. Their right to economic prosperity is matched by our collective inability to support that right without exacerbating today's most pressing social and environmental challenges, from climate change and water scarcity to energy security, migration and civil rights.

*Markets that do not value what counts in sustaining societies will continue to create negative outcomes on people and the environment.* Irresponsible competitiveness has catastrophic consequences. The early impacts of climate change are already upon us, creating a melt down of not only icecaps but the hard-won livelihoods of millions of people. Today's markets and broader political economy are increasingly seen as complicit in growing inequalities between and within nations, chronic water scarcity, chaotic migration, unabated corruption, and growing economic nationalism. Without reversing this, the legitimacy of business, and indeed of markets themselves, will be undermined, and so also their potential to contribute in delivering much-needed solutions to these very same challenges.

*Responsible competitiveness requires global rules to reshape markets to the needs of tomorrow.* Competitiveness that counts what is important for sustaining societies has to be framed by effective rules that govern the business of business, and its impact on the treatment of workers and communities, the application of hard-won human rights, and the effective stewardship of our environmental commons. One example is the UN Global Compact's Principles (Table 1). The inter-governmental institutions created during the 20th Century have proved effective in establishing a clear normative basis for guiding such rules, exemplified by the United Nations Universal Declaration of Human Rights (UDHR). Yet many multi-lateral institutions are struggling to implement global agreements that

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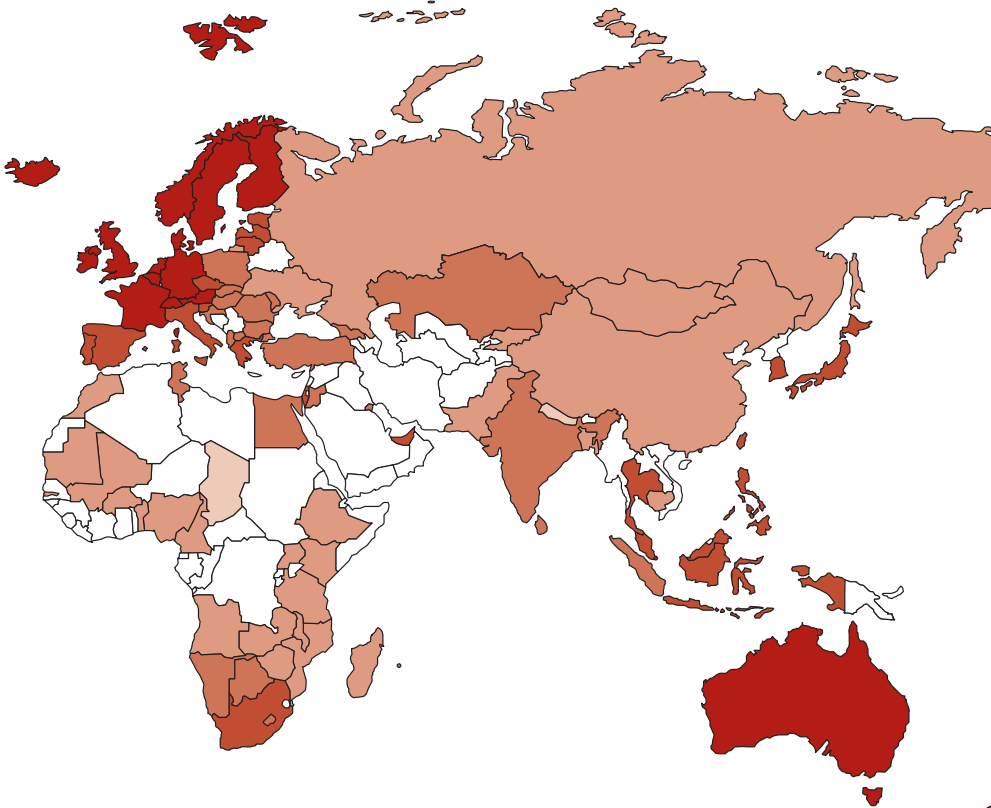
deliver on our most pressing needs, from climate change and energy security to free trade and labour standards. Failure is easily attributed to one or other party at the table. But repeated disappointment in the face of such daunting challenges raises doubts as to whether today's inherited global governance frameworks are fit for tomorrow's needs.

*Advancing responsible competitiveness into the mainstream requires deep innovations in both business strategies and practice, and in our broader approach to governance.* As Günter Verheugen, Vice-President of the European Commission, argues, "businesses of all sizes must consider their role in today's society when making strategic and operational decisions". Existing business models allow for modest gains from low-hanging opportunities, say for healthier products and safer and fairer production processes. But practices that profit by stewarding and renewing our resources and building sustainable communities will require what Jonathan Lash, President of the World Resources Institute, calls "a departure from an incremental vision of building markets", a quantum shift in business strategies, culture and perhaps ultimately purpose. Jean-Philippe Courtois, President of Microsoft International, illustrates this lateral thinking and practice in his description of how innovative uses of software by cities can help to tackle climate change.

*We are also witnessing the early stages of a governance revolution in how we manage our global affairs.* Securing adequate labour standards as a competitive advantage in global markets as diverse as textiles, bananas and electronics will arise because businesses have joined civil and labour organisations and public institutions in reshaping the rules under which these products are traded, and so also produced. The International Labour Organisation and International Finance Corporation's Better Work Programme is one excellent example of such collaboration. Peter Eigen and Jonas Moberg describe another such initiative focused on revenue transparency in the oil, gas and mining sectors, the Extractive Industries Transparency Initiative (EITI). Forest and marine resources, similarly, are being sustained through collaborative initiatives advancing sound stewardship as a foundation of competitive advantage. 'Cap and trade' systems aimed at reducing carbon emissions will happen because of comparable coalitions of businesses and environmental organisations jointly advocating their adoption to resistant governments, or evading governments altogether and establishing them at regional levels. One dramatic example is the Climate Action Partnership in the USA.

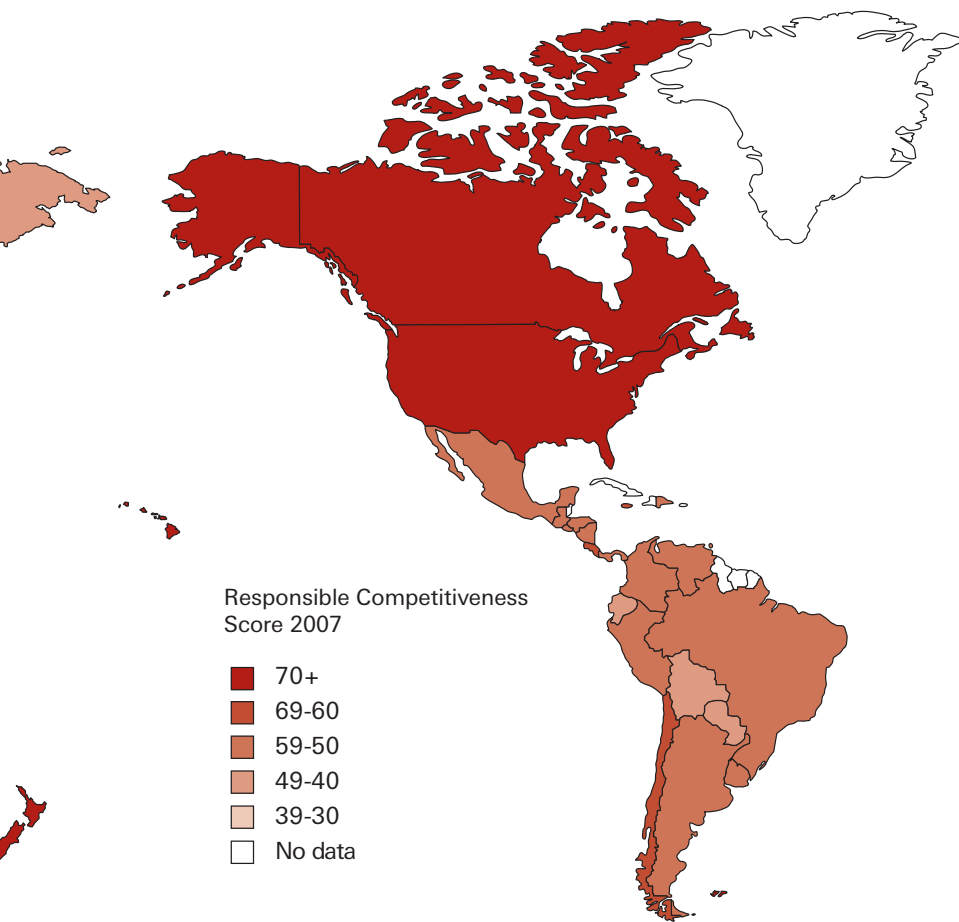
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## The State of Responsible Competitiveness 2007



*Successful responsible competitiveness strategies and practices offer tremendous potential to businesses and societies:*

- ❖ *Markets for low carbon technologies* will be worth some US\$500 billion by 2050 according to Sir Nicholas Stern and colleagues;
- ❖ *Closing the Gender Gap* by ensuring equal access for women to health-care, education and employment could generate over US\$40 billion in Asia and the Pacific alone, argues Haas Professor, Laura Tyson;
- ❖ *Building governance and accountability* would reduce the 10% of GDP that the Inter-American Development Bank estimate is lost to corruption annually. Tackling corruption, according to World Bank research, can increase national incomes by as much as four times in the long run;<sup>1</sup>



- ❖ *Tackling labour standards and productivity* simultaneously can lead to productivity increases of up to 50% in the most dynamic factories, based on experience in the Cambodian garments industry, now a US\$1 billion business.

*Responsible competitiveness requires sustained innovation and collaboration in jettisoning yesterday's business models and approaches to governance and creating a new generation of sustainable markets and economies.* Failure is an option, and would unleash political and environmental forces that may prove impossible to contain, let alone to reverse. While writing from different viewpoints and on different challenges, the essayists in the *State of Responsible Competitiveness 2007* are unanimous on one point: the need for responsible competitiveness is irrefutable and urgent. The policy debate is about how.

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### **Table 1: The UN Global Compact Principles**

The UN Global Compact brings together UN agencies, companies, labour organisations and civil society from around the world to support universal environmental and social principles. Since its launch in July 2000, the Global Compact has promoted responsible corporate citizenship by focusing on ten universal principles:

1. Businesses support and respect the protection of internationally proclaimed human rights
2. Businesses should make sure that they are not complicit in human rights abuses
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
4. Businesses should uphold the elimination of all forms of forced and compulsory labour
5. Businesses should uphold the effective abolition of child labour
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation
7. Businesses should support a precautionary approach to environmental challenges
8. Businesses should undertake initiatives to promote greater environmental responsibility
9. Businesses should encourage the development and diffusion of environmentally friendly technologies
10. Businesses should work against corruption in all its forms, including extortion and bribery



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## Understanding responsible competitiveness

*AccountAbility's State of Responsible Competitiveness 2007 is our fourth bi-annual report about responsible competitiveness across the world since 2001.* The first report, the *Corporate Responsibility and the Competitiveness of Nations*, was launched at a joint meeting of the European Commission and our research partner, the Danish Government's Copenhagen Centre. This initial report set out the challenge of how best to scale up the scope and impact of responsible business practices to become a core driver of productivity growth, wealth creation and economic success. Pascal Lamy, then European Commission's Commissioner for Trade, framed the essential focus of Responsible Competitiveness in his opening preface to the report.



*“Until now, the debate has largely focused on what individual companies can do to enhance sustainable development goals. This pamphlet explores some of the challenges, dilemmas and tensions surrounding the CSR debate and notably the link between CSR and the competitive advantage of nations, the role of partnerships between business, civil society and the public sector, and the contribution public policy could make to strengthening the links between corporate responsibility and competitiveness.”*

*The second bi-annual report, the Responsible Competitiveness Index, was launched in late 2003 at the UN Global Compact Learning Forum in Salvador, Brazil.* It set out a pilot Responsible Competitiveness Index (RCI), providing for the first time a country-level index exploring through quantitative analysis the relationship between national competitiveness and the national state of corporate responsibility. The methodological innovation was the development of a measure of the state of responsible competitiveness at a country-level, drawing on authoritative, third-party data streams, and the use of this measure in assessing the results against measures of national competitiveness provided by the World Economic Forum.



Quantifying this relationship in a meaningful way proved challenging, given weaknesses in the data and the knotty problem of causality.

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However, intensive investment since then has enabled us to improve the quality of the RCI, not least through our partnership with the Brazilian business school Fundação Dom Cabral. Through this, the RCI has evolved into a powerful tool for raising awareness and moving the debate beyond exemplary cases to a more systemic exploration of how best to embed responsible business practices in global markets.

*Responsible Competitiveness 2005, the third bi-annual report, was launched at the UN Global Compact Summit in Shanghai in December 2005, and subsequently in Washington, Geneva and Salvador with outreach partners including the World Bank, UNCTAD and the Inter-American Development Bank. This embodied a further set of methodological innovations. Critically, it built on a two-year 'Global Dialogue on Responsible Competitiveness' involving dozens of multi-stakeholder convenings attended by hundreds of interested organisations and experts from Santiago to London, and from New Delhi to Johannesburg. Furthermore, it included a set of sector case studies of Responsible Competitiveness in practice, focusing down on the key role of collaborative initiatives in overcoming market and political impediments to advancing responsible business practices in global markets. For the first time, a regional version of the report was prepared for Latin America, *Competitividad Responsable*, working with two further partners, the Central American business school INCAE and the El Salvador CSR group Fundemas.*



*AccountAbility's Responsible Competitiveness initiative has explored the practice and potential of specific sectors, factors, and geographies. Our recent report, *Responsible Competitiveness in Europe*, based on extensive multi-stakeholder dialogues led by our four partners, two leading European business schools, ESADE and INSEAD, the European Policy Centre and the European Academy of Business in Society (EABIS), explored how the international competitiveness of three European sectors, finance, information and communication technology and pharmaceuticals, could be improved through business-led and collaborative initiatives to enhance sector-wide responsible business practices. A study completed in 2006 for the United Nations Industrial Development Organisation (UNIDO) focused on how small and*



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medium-sized enterprise (SMEs) performance in developing countries could be improved by integrating them into 'responsibility clusters' supported by public institutions and involving civil society organisations. Building on this, Jeremy Nicholls and Paul Begley describe in their essay a pioneering effort to measure and build responsible competitiveness at the regional and local level.

*Responsible competitiveness is the DNA of effective strategies for advancing globalization with a human face.* Half a decade's practical research reveals important contemporary patterns and associated opportunities for advancing practice on the ground. At the core of this learning is the potential for reshaping markets through innovations in both economic value creation and accountability.

- ❖ *Building Value.* Integrating social, environmental and economic impacts into markets can be enhanced and accelerated by enabling associated opportunities to create economic value and business success, rather than maintaining an exclusive focus on ensuring compliance.
- ❖ *Collaborative Governance.* Building and promoting a new generation of voluntary standards and institutional transformations through collaborative, multi-stakeholder initiatives, is a powerful route for overcoming market constraints to advancing responsible business practices.

## **The State of Responsible Competitiveness**

AccountAbility's fourth bi-annual report, *the State of Responsible Competitiveness 2007*, builds on the momentum of recent years in furthering understanding of Responsible Competitiveness practice and potential, through:

- ❖ Major enhancements to the Responsible Competitiveness Index (RCI), which now draws in more and better data, offers broader country coverage, and applies stronger statistical and analytic methods.
- ❖ A unique collection of essays by world-leading experts on the links between specific issues and business impacts and international competitiveness, including climate change, civil society, corruption, gender, labour and faith, as well as country and regional analyses.

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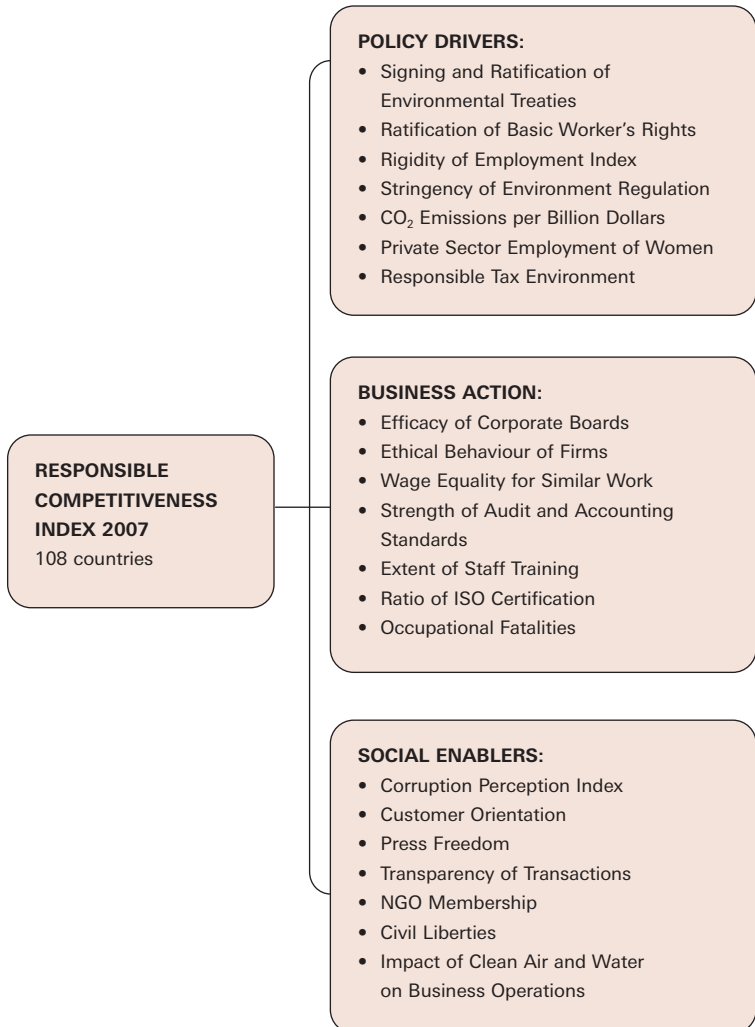
The RCI 2007 deepens our understanding of the drivers of responsible competitiveness through the improved application of more and better data. Emerging economies now represent half of the global economy and the majority of people on the planet. We have fulfilled our commitment to increase the RCI's country coverage, extending this cycle to 108 countries as compared to 83 in the second iteration and 51 countries in the pilot RCI 2003. The list now covers countries that account for 96% of global GDP, and includes 17 least developed countries. This broader coverage has inevitably restricted our use of data to those series that cover the entire country list. Despite this restriction, we have increased to 21 the number of hard and soft data series used, clustered into three primary domains:

- ❖ *Policy drivers*: seven measures of the strength of public policies and 'soft power' that encourage responsible business practices;
- ❖ *Business action*: seven firm-level measures of the application of governance, social and environmental good practice, codes and management systems; and
- ❖ *Social Enablers*: seven measures of the broader social and political environment that enable businesses, government and civil society organisations to build effective collaborations to reshape markets.

Crucially, each of the data streams are drawn from authoritative, third party sources ranging from Transparency International to the World Bank Institute to the World Economic Forum (WEF). Each of the three domains combine hard data and opinion-based findings (see Figure 1).

*Securing responsible and successful business practices can only be achieved through the combined effects of engaged businesses, smart public policy and a vibrant civil society.* The RCI 2007 therefore attaches significance to measures that reflect the role of blended drivers involving business strategies and practices, public policy, civil society and labour activism and engagement. The relative importance of these building blocks will of course vary between countries and over time, as Aron Cramer, Chief Executive Officer of BSR, makes clear in his analysis of the Chinese characteristics of corporate responsibility. This requires a dynamic index that takes account of countries' needs, abilities and development levels. In the following chapter, we explain in more detail the methodology of the Responsible Competitiveness Index, and make

**Figure 1: Driving Responsible Competitiveness**



observations on data quality, index sensitivity and statistical caveats. What follows here is an analysis of the headline results of the 2007 index.

### **Headline results**

The top line results of the RCI 2007 indicate that mature or developed nations, and European countries in particular, are most advanced in embedding responsible business practices at the heart of their economies.

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- ❖ Nordic countries dominate the list, with Sweden taking first place and Denmark, Finland, Iceland and Norway all being in the Top Six, alongside the UK.
  - ❖ Thirteen of the 'Top 20' list are European countries. They are joined by Hong Kong, Japan and Singapore from Asia; Canada and the United States, and Australia and New Zealand.
  - ❖ South Africa leads the so-called BRICS in 28th position, with Brazil, India, Russia and China extending down the list in that order (the essay by Fundação Dom Cabral explores the BRICS performance in detail).
  - ❖ Emerging economies like Chile, Malaysia and Rep. of Korea perform within the top quartile, and somewhat better than a number of states that have recently joined the European Union;
  - ❖ Among the low-income countries, Zambia and Uganda perform better than countries at comparable levels of development, while in Cambodia, Morocco and Bangladesh, responsible competitiveness initiatives at sector level have yet to generate tangible results at national level.

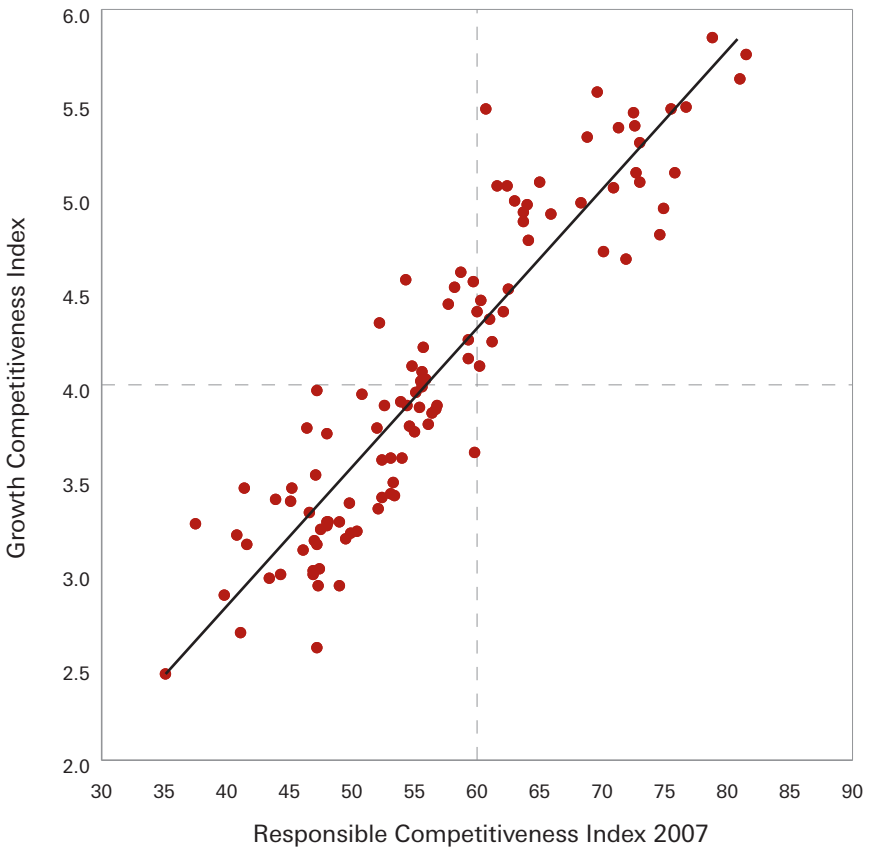
### **Comparative analysis**

The RCI 2007 results can be compared with those of RCI 2005. Across all countries covered in both 2005 and 2007, we identify a small but discernible improvement in responsible competitiveness, from an average score of 56 to 59. However, progress has been by no means universal with a significant number of countries making strong progress, a group of countries that appear to have reached a natural ceiling and a further group who have lost ground.

Comparing the RCI 2007 with relevant measures of competitiveness and business development shows a close correlation between countries' responsible competitiveness and their economic strengths, particularly interesting given the very different data being used by the respective indexes.

- ❖ The correlation between the RCI and the World Economic Forum's Growth Competitiveness Index ( $R^2=0.85$ ) indicates a strong relationship between responsibility and the most authoritative measure of country competitiveness.

**Figure 2: The 2007 Responsible Competitiveness Index and Growth Competitiveness**

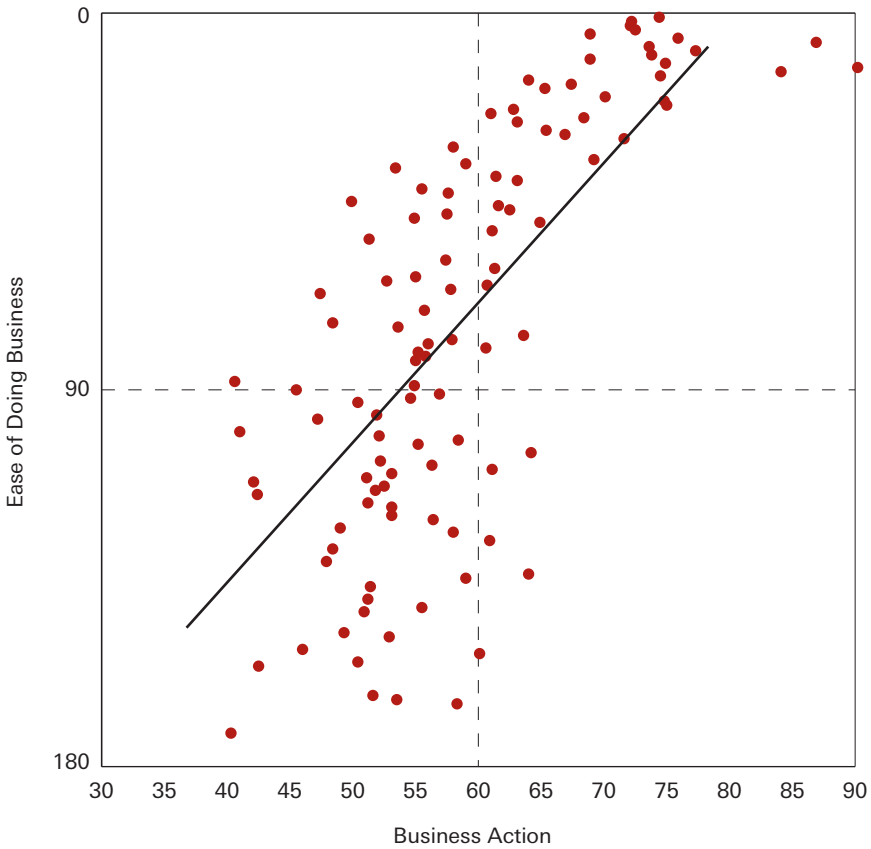


Source: Growth Competitiveness Index, World Economic Forum 06/07

- ❖ The correlation between the business action component of the RCI and the World Bank’s ‘Ease of Doing Business’ index ( $R^2=0.53$ ) indicates that countries that perform well in advancing responsible business practices tend to be easier places to do business.

One criticism of global efforts to measure business responsibility is that wealthy countries can achieve high scores by externalising negative social and environmental impacts into their global supply chains, which in turn counts against countries hosting major parts of those supply chains (the so-called Pollution Haven Hypothesis). For example, a recent study showed that up to 40% of air pollutants in the Pearl River Delta in low-scoring China are directly linked to exports to high-scoring importers across Europe and North America.<sup>2</sup> Unfortunately, at this stage there is inadequate systematic

**Figure 3: The 2007 Responsible Competitiveness Index and Ease of Doing Business**



Source: Ease of Doing Business, [www.doingbusiness.org](http://www.doingbusiness.org), 2007

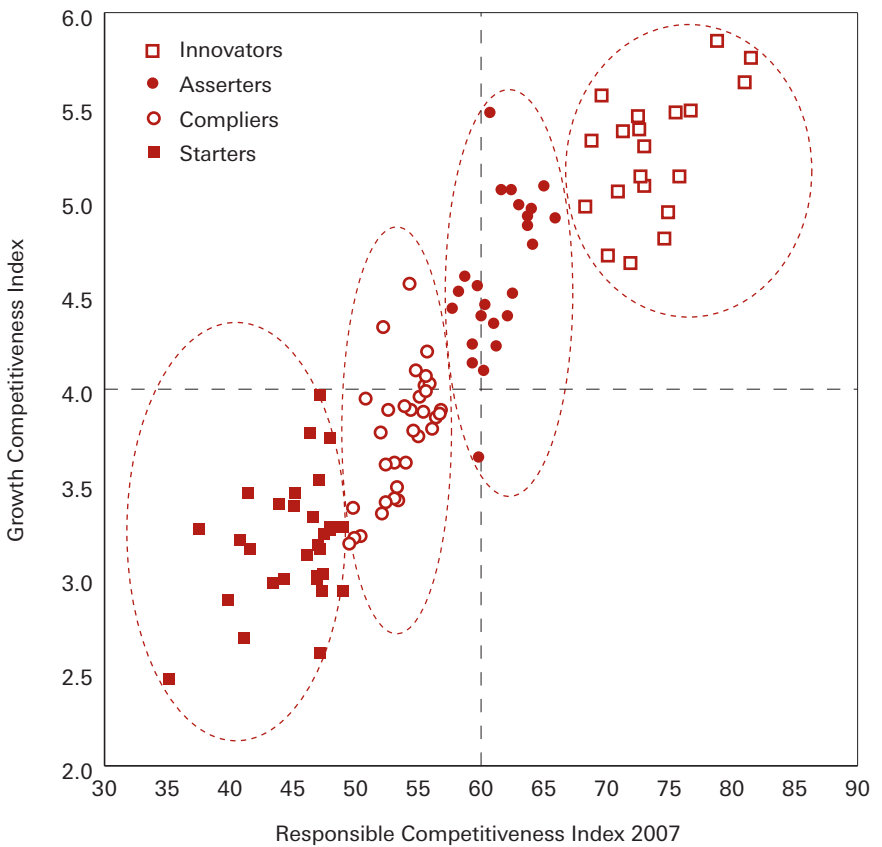
data across our large country sample to test this hypothesis within the main RCI. We have explored this issue by correlating a sub-set of RCI countries against data from UNCTAD of imports of polluting goods and services. There was no correlation. Either the hypothesis that better accounting would bring low and high-scorers closer together on the RCI is flawed, or else, and perhaps more likely, that the data remains at this stage too weak to test the hypothesis with any confidence. We are committed to doing more work on this issue in future editions.

### Cluster Analysis

Comparing higher-ranking countries such as Belgium, Malaysia and Costa Rica with lower-ranking countries like Paraguay, Pakistan and Mali has



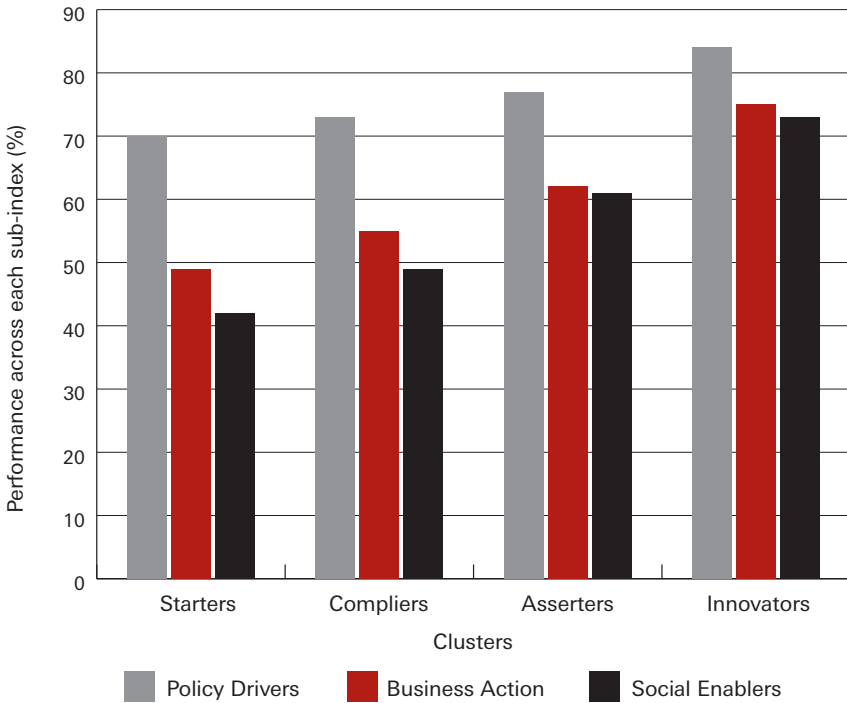
**Figure 4: Identifying clusters of countries by Responsible Competitiveness performance**



Source: Growth Competitiveness Index, World Economic Forum 06/07

limited policy implications, as with other wide-angle lens international indexes like the Human Development Index and the World Economic Forum’s Competitiveness Indexes. Examining sub-sets of countries is more helpful. Our analysis revealed a statistically-robust set of four clusters of countries, broadly distinguished by their stage of development. What these clusters show is that there can be no cookie-cutter approach to building responsible competitiveness. Countries need to design their own strategies, blending business action, policy drivers and social enablers in the most effective and appropriate combination for their stage of development. Nevertheless, some generalisations are possible for the four broad clusters of countries.

**Figure 5: The performance of each cluster across each sub-index**



- ❖ *Starters* (cluster four): this cluster of lowest scorers is made up of 31 countries, or 29% of the total list. The largest countries to fall into this cluster include China, Bangladesh and the Russian Federation. Many of these countries have already signalled a commitment to responsibility through signing and ratifying international treaties, and other policy drivers, but are struggling to implement the basics, like worker health and safety and freedom to organise among businesses. The need for Starters to focus on these basic rights is strongly emphasised by Guy Ryder, General Secretary of the International Trade Union Confederation. These countries in the main are constrained in their focus on low-value and often low-quality exports and are a long way off moving up the value-chain or developing global brands.
- ❖ *Compliers* (cluster three): India is unusual in being a low-income economy, while the other 32 Compliers are classified as middle-income countries. Other large countries in the Compliers cluster are Brazil, Turkey and Mexico. The Compliers account for as much as US\$1 trillion of global trade. Compliers focus on demonstrating

**Table 1: Countries in each cluster**

Starters	Compliers	Asserters	Innovators
Angola	Albania	Botswana	Australia
Bangladesh	Argentina	Chile	Austria
Benin	Brazil	Costa Rica	Belgium
Bolivia	Bulgaria	Czech Republic	Canada
Burkina Faso	Colombia	Estonia	Denmark
Cambodia	Croatia	Greece	Finland
Cameroon	Dominican Republic	Hungary	France
Chad	Egypt	Israel	Germany
China	El Salvador	Italy	Hong Kong, China
Ecuador	Georgia	Jamaica	Iceland
Ethiopia	Guatemala	Korea, Rep.	Ireland
Gambia, The	Honduras	Kuwait	Japan
Kenya	India	Latvia	Netherlands
Kyrgyz Republic	Indonesia	Lithuania	New Zealand
Madagascar	Jordan	Malaysia	Norway
Malawi	Kazakhstan	Mauritius	Singapore
Mali	Lesotho	Portugal	Sweden
Mauritania	Macedonia, FYR	Slovak Republic	Switzerland
Mongolia	Mexico	Slovenia	United Kingdom
Morocco	Moldova	South Africa	United States
Mozambique	Namibia	Spain	
Nepal	Nicaragua	Taiwan, China	
Nigeria	Panama	Thailand	
Pakistan	Peru	United Arab Emirates	
Paraguay	Philippines		
Russian Federation	Poland		
Tanzania	Romania		
Uganda	Sri Lanka		
Ukraine	Trinidad and Tobago		
Zambia	Tunisia		
Zimbabwe	Turkey		
	Uruguay		
	Venezuela, RB		

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progress on meeting international quality, labour and environmental standards, and so are building their capacity to capture market share in the global supply chains of more quality-conscious brands and consumers. Domestic civil society is not a significant driver for Compliers.

- ❖ *Asserters* (cluster two): this cluster is made up of 24 countries, just under a quarter of the total list. Countries asserting their responsibility credentials range from Spain and Italy to the United Arab Emirates. Asserters are countries moving from the back foot to the front foot, seizing opportunities in responsible competitiveness. Some of them, like Chile and South Africa, are actively engaged in developing and promoting international standards that will provide them with a competitive advantage. Some Asserters are building national brands associated with responsible business and government practices to attract foreign direct investment and promote a first generation of global product and corporate brands. For many Asserters, a vibrant civil society environment – challenging business but ready to collaborate to find solutions – is a critical element in advancing the broader national project.
- ❖ *Innovators* (cluster one): this cluster of highest scorers is made up of 20 countries and the list is dominated by Europe, followed by other OECD countries. Innovators are working to embed responsibility into the core of their domestic economies, stewarded by relatively well-enforced statutory regulation, well-designed corporate responsibility strategies, reinforced in most instances by strong NGOs, media watchdogs and consumers demanding responsible new products. Beyond this, knowledge-based innovation provides the leading edge of all of these economies. Sustained innovation in the context of scarce and highly mobile talent requires flexible working conditions, and dynamic, trusted public as well as private institutions. It also demands attention to detail, cascading responsibility into SMEs and overseas investments as well as large domestic firms. For Innovators, responsibility competitiveness is no longer an add-on, but the heart of the economic model.

The RCI is not, then, so much a league table of winners and losers, but a tool for diagnosing countries' progress and potential in developing their economies and enabling institutions to take advantage of new sources of economic opportunity at ever-higher levels in the value chain.

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Within the four clusters, countries may be able to improve their performance along with the organic process of development. But the RCI shows that being a low scorer is not a 'natural' phenomenon to be 'waited out' until prosperity moves one up the scale. Quite the reverse, the RCI is a measure of the effectiveness of the combined forces of business strategies and practices and public policies in advancing a country's economic position and role in global markets. It provides a lens for identifying the crucial priorities for each country, region, city or community to get right in order to advance from one cluster to the next higher up the value chain.

*Responsible competitiveness, at both the firm level and for communities, regions and nations, is all about strategy and innovation.*

### **Advancing responsible competitiveness**

Responsible competitiveness embodies the potential of business and economy to meet our most pressing needs through a combination of innovation in products and processes and new forms of collaboration and civil regulation. AccountAbility's responsible competitiveness initiative, grounded in research and practice involving a growing network of partners, highlights the potential for combining these two forms of innovation. This potential is increasingly recognised by business leaders and policy makers around the world. GE's 'ecomagination' initiative exemplifies business strategies that effectively translate pressing challenges, in this case climate change, into new sources of value creation. GE now has a portfolio of 45 energy efficient and environmentally advantageous products and services and aims to generate at least US\$20 billion from them by 2010.<sup>3</sup> Equally, the amplifying and competitive potential of collaborative governance is illustrated by the company's advocacy of a 'cap and trade' emissions regulatory framework for the US as part of a joint advocacy initiative involving businesses and environmental organisations. Nick Butler, Director of the Cambridge Centre for Energy Studies, describes the birth of another innovative firm, Hydrogen Energy, jointly owned by Rio Tinto and BP.

Responsible Competitiveness strategies require strong policy drivers. It is no coincidence, for example, that the countries that are making strong progress in the EITI are also those with strong performance in our Social Enablers sub-index. Another example is the Kingdom of Lesotho's engagement with the MFA Forum, a collaborative initiative working to advance national labour standards in the textiles and apparel sector as a competi-

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tive advantage involving businesses, civil society and labour organisations and international public institutions. Lesotho's 45,000 textile workers feared the total eclipse of the industry when the preferences of the Multi-Fibre Arrangement (MFA) came to an end in 2005. By 2007, textile exports were running at US\$0.5 billion, and work conditions had improved into the bargain.<sup>4</sup> As Annemarie Meisling and colleagues describe in their essay on Better Work; Vietnam, Jordan and Morocco are also taking up and implementing responsible competitiveness programmes in the garments sector.

*The reality is that the practical potential of responsible competitiveness is not yet appreciated by sufficient business leaders and policy makers.* This damaging shortfall is largely rooted in backward-looking convention, outdated advice, poor statistics and competency gaps:

- ❖ *Business laggards*, often risk averse and from failing industries or cautious business associations, actively impede policy or business-led change in order to continue to profit from practices that unnecessarily harm people and the environment. In South Africa, Russia and Hungary, there is a 'long tail' of companies whose performance falls a long way behind the leaders, according to the annual Accountability Rating. Kumi Naidoo, Secretary-General of CIVICUS, describes a sense of immunity that some large companies believe they enjoy in developing countries.
- ❖ *Many governments are still unconvinced* that competitiveness can be built on value-creating innovations associated with new forms of accountability. Such governments are overly influenced by business laggards, and the focus of their competitiveness advisors on statutory compliance approaches to social and environmental issues and business-only approaches to voluntary action. Countries like Nicaragua have become disempowered by consistently low rankings in mainstream competitiveness indexes.
- ❖ *Civil society and labour organisations are overly focused on campaigning for compliance*, failing to understand the need for, and how to, leverage value creation opportunities for businesses, consumers and local communities. This deficiency is not confined to emerging markets like Bolivia and Egypt; businesses in many countries across Europe are experiencing difficulties in engaging NGOs in responsible innovation.

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Needed therefore, are policies that will overcome such institutional inertia in kick-starting more creative and ultimately productive perspectives and behaviour.

### **Recommendations**

Unlocking the potential of responsible competitiveness strategies requires these impediments be overcome. Fortunately, applied research and practice illuminates how this might be achieved through a three-point programme:

- A. *Establish a 'Responsible Competitiveness Fund'* as a core element of the next generation of 'aid for trade' that can seed-fund collaborative initiatives aimed at overcoming institutional inertia in advancing responsible competitiveness in global supply chains and national and regional strategies and practices. Such a fund should be:
  - ❖ Focused on funding of knowledge-building, dialogues and coalition building, the upstream pre-requisites of effective responsible competitiveness initiatives whether they are sector-specific like the MFA Forum or topic-focused such as the EITI;
  - ❖ Inter-institutional, and so be accessible through key international and regional development institutions;
  - ❖ More comparable approaches to multi-country studies, with an agreement of good practice among data generators on including key variables and a minimum list of countries, taking account of emerging economy issues, keeping SMEs visible and with a consistent approach to sectors;
  - ❖ Linked to national competitiveness councils and similar bodies that need to become engaged in advancing responsible competitiveness strategies;
  - ❖ Legitimate in governance and empowered to pool and scale up existing donor funding and other investment sources to finance multi-year implementation, and able to support independent monitoring and evaluation.

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B. Improve effectiveness of collaborative initiatives that are proving critical elements in advancing responsible competitiveness, ranging from high-profile market-making institutions like the International Carbon Fund proposed in this report to voluntary standards initiatives in key export sectors, by:

- ❖ Strengthening and clarifying their potential to impact on trade and investment regimes;
- ❖ Enhancing their credibility through strengthened governance and accountability;
- ❖ Broadening their influence by engaging BRICS and other emerging economy governments, businesses and societal enablers in the development of effective collaborations;
- ❖ Establishing an Observatory to advance good practice in collaborative governance.

C. Build awareness of the relationship between competitiveness and responsible business practices through:

- ❖ Better analytics for assessing current responsible competitiveness performance, scenarios and potential trajectories in specific groups of countries, sub-regions, cities and across key sectors (for example a task force looking at how Information and Communication Technology can deliver low carbon solutions in major cities; and a benchmark report of regional approaches to responsible competitiveness in the Nordic or broader European level, among US states or among Asian city-states);
- ❖ Outreach to better understand how the RCI can be best adapted to meet the data needs of risk managers, from foreign investors and supply chain managers to advertisers, nation brand managers and the diplomatic community;
- ❖ Applied research into the likely impacts of defined policy interventions, notably shifts in trade, investment and competition policies. One particular focus should be on how to facilitate the non-infrastructure drivers and enablers of international trade; another would be the impact of low-carbon voluntary standards on low income



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exporters; a third is a systematic approach to allocating the impacts of pollution-intensive product exports;

- ❖ Analyse and understand how business strategies can be aligned to provide products and services to improve conditions for the 5 billion low-income people around the world.

AccountAbility is committed to working with business, government, civil society and research partners across the world on these and other opportunities to make responsibility count in global markets.

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# The Responsible Competitiveness Index

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By **Paul Begley, Edna do Nascimento, Alex MacGillivray** and **Cláudio Boechat**

Responsible competitiveness means markets that systematically and comprehensively reward business for strategies and practices that take explicit account of the social, economic and environmental impacts. Making sustainable development count in tomorrow's markets requires political, business and civil society leaders building effective public policies, strengthening social conditions and supporting responsible markets. So how can such an overarching idea be analysed in a robust and manageable way?

The Responsible Competitiveness Index (RCI) has been devised by AccountAbility in association with Brazilian business school Fundação Dom Cabral. The RCI is intended to be a robust analysis of how countries are performing in their efforts to promote responsible business practices. The 2007 index demonstrates performance in 108 countries covering over 96% of global GDP, with geographical representation on all five continents.

AccountAbility has steadily built its expertise in measuring responsible competitiveness, with its pilot index published in 2003. This essay explains the architecture of the index, details the indicators used, provides a brief, non-technical methodology, and identifies our plans to continue to improve the index in future. Readers interested in a more detailed technical report can download it from [www.accountability21.net](http://www.accountability21.net).

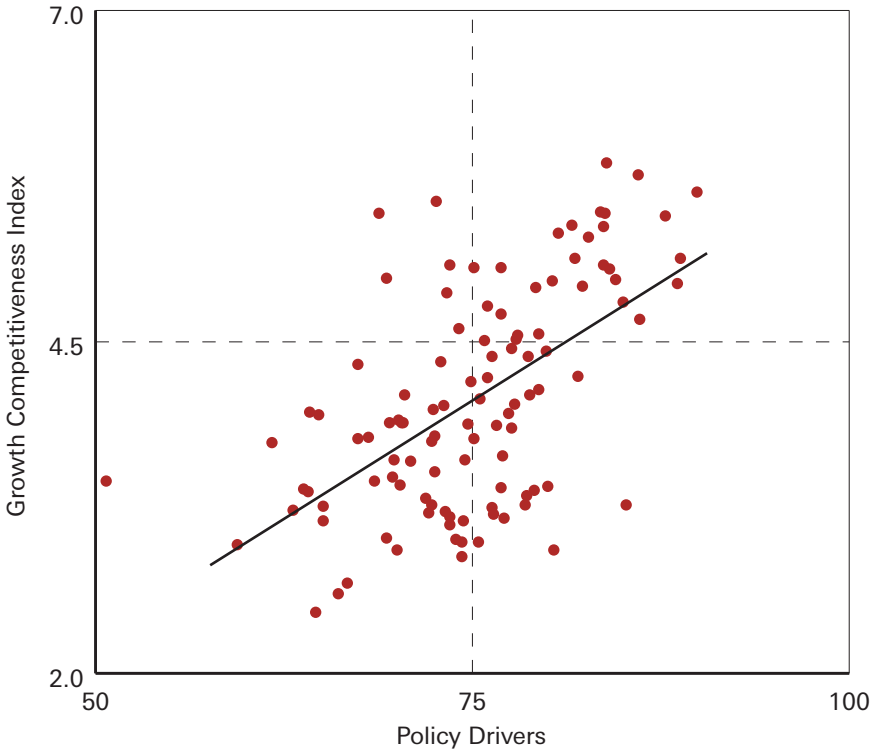
## **Building the RCI**

*The RCI* uses 21 indicators from 13 independent sources. Each indicator explores which countries are building competitiveness strategies which take explicit account of their social and environmental impact. These indicators are arranged into three sub-indexes, each with seven indicators:

*Policy Drivers* include indicators demonstrating government commitment, such as the signing and ratification of international treaties, the design of a responsible tax system, the implementation of stringent environmental regulations and measures to reduce gender inequality. Effective policy drivers require the coordination of many government departments and agencies, and (in larger countries particularly), more effective mechanisms for combining central, regional and local policies. Figure 1 demonstrates a positive correlation between policy drivers and the World Economic

Forum's Growth Competitiveness Index (GCI) ( $R^2=0.34$ ). Clearly, it seems to be that the correlation would be stronger if competitiveness indices took account of gender equality, as they should in view of the strong economic benefits of closing the gender gap that are detailed in the essay from Laura Tyson.

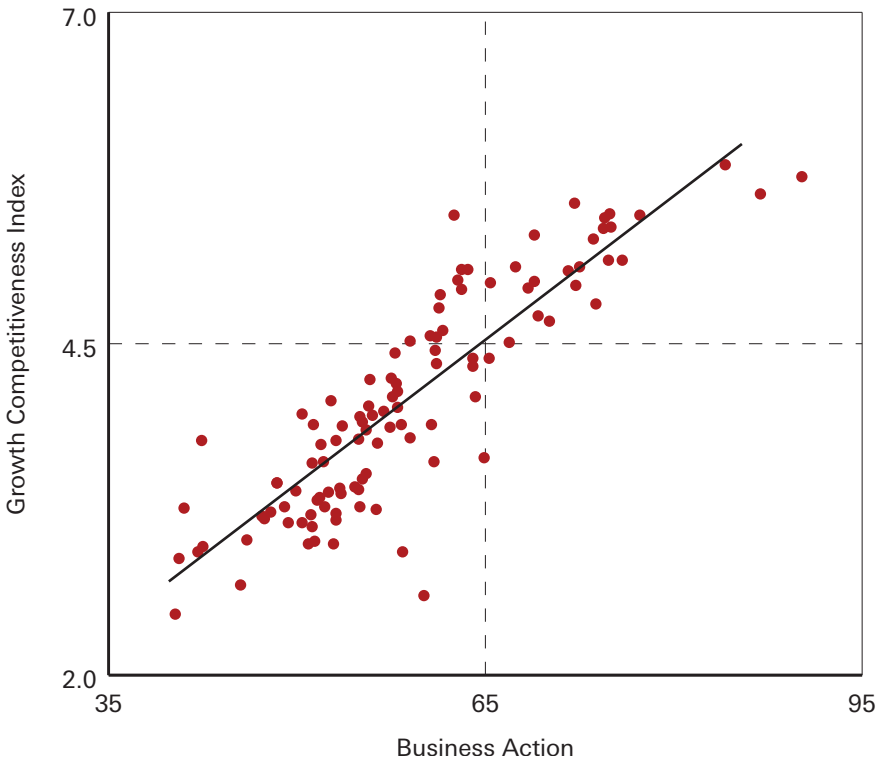
**Figure 1: Policy Drivers and Growth Competitiveness Index**



Source: Growth Competitiveness Index from the World Economic Forum 06/07

*Business Action:* at the firm level, responsible management systems will include effective action on issues like staff training, occupational health and safety and reducing environmental impacts. Thousands of firms, including small and medium sized enterprises (SMEs), have now undertaken voluntary corporate responsibility initiatives, as evidenced by the uptake of ISO standards and participation in the UN Global Compact. In many countries, firms also have discretion about whether and how to implement regulations. Some elements of responsible business practice are now formally recognised as components of competitiveness indices like the GCI. Figure 2 shows that the relationship between our basket of business actions and WEF's GCI is fairly strong ( $R^2=0.77$ ).

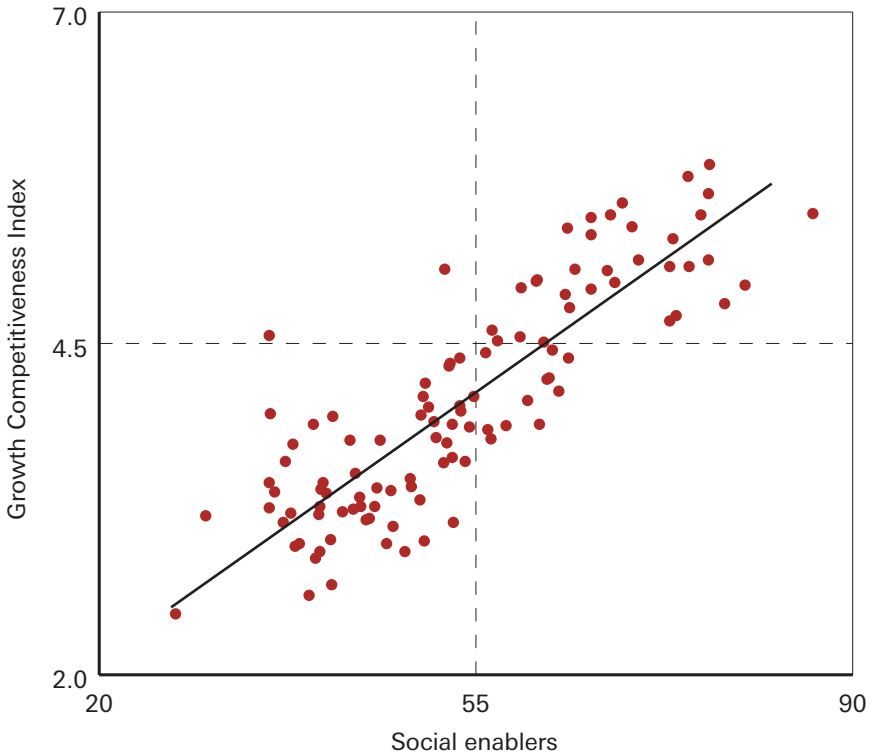
**Figure 2: Business Action and Growth Competitiveness Index 06/07**



Source: Growth Competitiveness Index, World Economic Forum 06/07

*Social Enablers:* As businesses move beyond the implementation of basic responsibility management systems, and as governments coordinate their policies to support the private sector, they run into territory where the first mover advantage disappears. A strong social fabric then becomes necessary to support further progress towards responsible competitiveness: including a culture of transparency, a free and inquisitive press, an intolerance of corruption and a dense network of non-governmental organisations. Civil society organisations encourage compliance with existing laws and regulations and provide a source and sounding board for innovation and collaboration with businesses. Figure 3 shows the importance of the basket of social enablers to overall competitiveness ( $R^2=0.73$ ).

**Figure 3: Social enablers and Growth Competitiveness Index 06/07**



Source: Growth Competitiveness Index, World Economic Forum 06/07

### **Data availability**

There are over 600 international datasets of relevance to responsible competitiveness, ranging from the business impacts on air quality and strength of anti-monopoly regulation to the use of email in the supply chain and the 'opacity' of different societies. We use six criteria for selection in the RCI. Indicators have to be:

- ❖ Relevant to commonly-accepted models of responsible business practice;
- ❖ Explainable through established theory or empirical evidence. For example, countries that can maximise human capital endowments through providing better opportunities for women are likely to be more competitive;
- ❖ Independent yet complementary of one another. There are numerous

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meta-studies of relevance, yet many turn out to include – at one level or another – a benchmark piece of work, such as Transparency International’s Corruption Perception Index;

- ❖ Publicly available from credible sources, using strong and transparent methodologies. Hundreds of studies seek to test, demonstrate or refute the argument that responsible business practices have strategic economic benefits, but often the methodology used to present data is unclear;
- ❖ Indicators must be broad in geographical scope and regularly produced. Many promising datasets have a small country coverage or are one-off studies;

Indicators should be responsive and capture real country performance. Areas such as carbon emissions from industry have become topics of policy and business action over recent years, underlining the importance of identifying the most recent available data.

After careful consideration, we identified 21 indicators that met these criteria. The indicators are from a wide-range of sources and combine hard statistics on actual performance with soft surveys of public or expert opinion. These indicators are shown in Table 1.

**Table 1: Detail of indicators in the Responsible Competitiveness Index 2007**

*Policy Drivers:*

- ❖ *Signing and Ratification of Environmental Treaties* refers to four key international treaties: the United Nations Framework Convention on Climate Change in New York in 1992, the Convention on Biological Diversity in Rio de Janeiro in 1992, the Kyoto Protocol to the United Nations Framework Convention on Climate Change in Kyoto in 1997, and the Cartagena Protocol on Biosafety signed in Cartagena in 2000;

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- ❖ *Ratification of Basic Workers Conventions* covers eight treaties: Freedom of association and collective bargaining (conventions 87, 98); Elimination of forced and compulsory labour (conventions 29, 105); Elimination of discrimination in respect of employment and occupation (conventions 100, 111); Abolition of child labour (conventions 138, 182);
  - ❖ *Rigidity of Employment Index*, which encompasses three sub-indexes: a difficulty of hiring index, a rigidity of hours index and a difficulty of firing index;
  - ❖ *Stringency of Environmental Protection*;
  - ❖ *Carbon Dioxide Emissions per US\$ billion Gross National Income*;
  - ❖ *Private Sector Employment of Women*;
  - ❖ *Responsible Tax Environment* which combines the number of tax payments each year and the time needed by a business to comply.

#### *Business Action*

- ❖ *Efficacy of Corporate Boards*;
- ❖ *Ethical Behaviour of Firms*;
- ❖ *Wage Equality for Similar Work*;
- ❖ *Strength of Auditing and Accounting Standards*;
- ❖ *Extent of Staff Training*;
- ❖ *Ratio of ISO 14001 to ISO 9001 certification*: the uptake of environmental management systems compared to other ISO standards;

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❖ *Occupational Fatalities.*

*Social Enablers*

❖ *Corruption Perception Index;*

❖ *The Degree of Customer Orientation;*

❖ *Freedom of the Press;*

❖ *Transparency of Transactions;*

❖ *NGO Membership;*

❖ *Civil Liberties:* the existence of basic political rights and civil liberties, gauged by relevant portions of the Universal Declaration of Human Rights;

❖ *Impact of Clean Air and Water on Business Operations.*

These indicators taken together provide information for 108 countries.

Arguably, an index with just 21 indicators is a minimalist approach to responsible competitiveness, compared to exercises like the World Bank's *Doing Business* database. There are some areas where there is currently no reliable data – such as the prevalence of infringements of labour standards, or the concentration of the economy into pollution-intensive export sectors. However, the RCI's 21 indicators do provide fairly broad coverage of issues. Wherever possible, we have examined the fit of data with other variables only available as one-off studies or for small country samples. These comparisons show a good fit, for example between the business action sub-index and a pilot Child Labour Index.

### **Calculating the RCI**

The 21 indicators are clustered into three sub-indexes, policy drivers, business action and social enablers based on regression analysis and theoretical fit. These three factors form a simple conceptual model for building responsible competitiveness.



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The RCI uses a systematic methodology that is in line with other composite competitiveness studies and their statistical techniques. After identifying each indicator, we calculated each country's performance to a percentage based on the best score possible for each indicator. The seven indicators in each sub-index are equally-weighted and averaged to provide a percentage score for each sub-index.

Each country in the RCI is then assigned a level of development based on data from the World Bank using the Atlas method, with countries categorised as: low income (\$875 or less GNI per capita), medium income (\$876-\$10,725 GNI per capita) or high income (\$10,726 or more GNI per capita). This classification can be found in the Annex. Extensive feedback from previous versions of the RCI indicates that development level is an important variable in understanding the different priorities in building a responsible competitiveness strategy in Belgium or Benin. Each development stage suggests a different weighting for each sub-index, a methodology in keeping with the Growth Competitiveness Index and other large country sample indices.

The RCI score and ranking is calculated through a multi-linear regression model, incorporating the level of development (as 0, 5.6 or 9.2 as appropriate), using the following equation:

$$2007 \text{ Responsible Competitiveness Index} = \text{level of development} + (0.16 * \text{Policy Drivers}) + (0.46 * \text{Business Action}) + (0.23 * \text{Enabling Context})$$

The assumptions and validity of this model have been checked using a range of standard statistical techniques and the model appears reliable and robust. Finally, we apply clustering analysis to create four clusters, and these results are presented in the previous chapter. Further detail of these tests can be found in our technical report.

### **Improving the Responsible Competitiveness Index**

The RCI analyses the best data available using reliable and tried methodologies. Nevertheless, there remains much room for improvement in future. At the business level, more and more data is coming available, for example through the Accountability Rating and the Carbon Disclosure Project. Fewer resources are directed towards measuring the cumulative impact of responsible business practices at the national level. Of existing national-level studies, many have a thematic focus, such as human rights,

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corruption or child labour, are pilot exercises or have limited resources and a small country sample. While institutions such as the World Bank and the World Economic Forum are making a wide range of high quality indicators available, their coverage of responsibility issues remains limited and these organisations are the exception rather than the rule. Data in many crucial areas remains absent or unacceptably poor.

Even with the best available data, some caveats are needed:

- ❖ There are time lags in some data. Some of the metrics presented in authoritative publications present data that trails by three or four years. One glaring example is carbon dioxide emissions, where the most geographically wide-ranging dataset is from 2004;
- ❖ Some indicators can disadvantage countries with a large SME or informal sector, as they count actions more likely among larger enterprises. When looking at the uptake of ISO 14001 Environmental Management Systems, for example, it is important to denominate this data to take account of the ability of countries to implement ISO certifications in general;
- ❖ Many of the most recent and largest datasets are based on expert opinion surveys. Critics question the reliability and comparability of questionnaires completed by samples of business executives, who can be expected to provide more reliable answers on some questions than the general public, while in other areas their impartiality may be questioned;<sup>1</sup>
- ❖ Even the most credible and legitimate sources may simply fail to secure accurate data. A case in point is the data on occupational accidents. Worldwide, the proportion of accidents reported to the International Labour Organisation is only 3.9% of the estimated number of accidents.<sup>2</sup>

These are intrinsic and inherent problems in data collection, but concerted action would help improve the quality of data available to develop our understanding of responsible competitiveness. We need to firstly expand the geographical range of data gathering. Throughout this project, we have unearthed fascinating datasets such as “firms expected to give gifts at meetings with the labour inspector” or “the percentage of firms in business networks”, and even an index that demonstrates how willing govern-

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ments are to open up their transactions to citizens, businesses and civil society. In each case, the number of countries is far too limited to assimilate into our index or even to allow for useful cross-comparison with our sample of 108 countries.

Secondly, we need a major improvement in the timeliness of key data sets to enhance understanding and allow for an annual benchmarking of responsible competitiveness. In part, this is a capacity issue: databases like the CIRC Human Rights could reduce lag time with increased funds. But it is also an issue of institutional commitment. On key issues like labour violations or pollution intensity, the responsible international bodies are under-investing in data acquisition.

Thirdly, there is a need to focus more resources on some of the key issues in responsible competitiveness. We are under-informed, for example, on the strength of collaborative initiatives, the levels of national participation in voluntary sustainability standards. We are also ignorant on key aspects of the effort to battle gender and racial inequalities in the workplace. Nor is there currently a mechanism to pool the results of thousands of factory inspections undertaken by dozens of inspection bodies worldwide. These and other datasets on the progress towards responsible competitiveness could quite easily and affordably be generated, and our research team is committed to helping that happen.

Finally, our work over three cycles from 2003 to date does not resolve the issues of causality in any exercise such as this. The ongoing goal is to better understand the mechanisms by which responsibility strategies and economic performance work together. How much relies on innovative market and political leadership; how much depends on collaborative approaches to reshaping markets? To answer these questions, the RCI exercise needs to be supplemented by detailed studies of cities, regions, sectors and countries which are gaining competitive advantage and improving their responsibility. In the following section, leading experts address exactly these questions, giving practical examples of strategic efforts to make sustainable development count in tomorrow's markets.

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# **Building Low-Carbon Markets**



# The Stern Review

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By **Dimitri Zenghelis** and **Nicholas Stern**

The Stern Review commissioned by the UK Treasury set the economic costs of climate change, against the economic costs of taking early action to prevent global warming. It then set out the broad range of policy instruments and frameworks most suited to bring about fair and cost-effective international collective action. It focused on the costs and benefits of reducing emissions to a level which would stop greenhouse gas concentrations in the atmosphere rising above 550 parts per million (ppm) of carbon dioxide (CO<sub>2</sub>) and equivalent gases. If this is achieved, the most catastrophic impacts of climate change could be avoided, but there is still a 50% chance the planet will warm by around 3°C, with significant risks remaining. In many judgements this constitutes an upper bound on any stabilisation range. The report estimated that the expected cost of cutting emissions to achieve this goal would be an average 1% of world GDP per year. However, it is clear that the costs will not be evenly distributed across all countries and regions.

A key objective of policy designed to mitigate emissions is to change behaviour. This will not be possible without changing relative prices of greenhouse gas (GHG)-intensive goods, so that markets can reallocate resources away from GHG-intensive activities. This is likely to mean making polluting activities more costly. This can be done through a number of mechanisms including direct regulation and standards setting as, for example, applied to building standards, car emissions and the energy efficiency of domestic appliances. In the long run, successful firms and economies are those that adjust to changing global preferences, technologies and markets and can shift resources quickly and flexibly to new growth markets. Moreover, for most countries a low-carbon development path is likely to be more attractive than a high-carbon path, promoting energy efficiency while inducing innovation, reducing pollution and in many cases promoting energy security and independence.

However, the challenge will be managing the transition to low-GHG activities. A particular concern arises where some countries, regions or firms move more quickly than others in addressing emissions. The fear is that these countries will face a disproportionate burden of transition costs as carbon-intensive activities shut down and relocate to less restrictive jurisdictions internationally. Not only might this exacerbate the economic cost for countries that act, but it will do little to address global emissions as the polluters simply relocate elsewhere.

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The following three questions arise: what is the 'right' price for carbon, to achieve stabilisation? How sensitive is the economy to the kind of change in relative prices brought on by this carbon costing? And how likely are firms to relocate activity if jurisdictions move at different speeds?

### **Impact of abatement on costs**

Objective analysis can provide the answer to these questions, avoiding special pleading and going beyond vested interest. We have an estimate of the carbon price required to significantly reduce the risks from climate change, the Stern Review puts this at around thirty dollars per tonne of carbon dioxide equivalent, consistent with stabilisation at 550ppm (CO<sub>2</sub> equivalent) in the atmosphere; we know the structure of production in most economies; and we have a rich evidence-base to examine the behavioural response of companies and firms.

Total fossil fuel energy costs account for only around 5% of variable costs in most countries' production.<sup>1</sup> This compares with, for example, variable labour costs, which in most sectors account for between a quarter and half of variable costs. Yet public sensitivity about the importance of energy costs remains acute. In developed economies, much of this stems from the memories of the poor economic performance that coincided with the 1970s oil price shocks and supply constraints. Yet it is now widely accepted that the recessions of the 1970s were down to many factors, of which oil shocks were a small part.<sup>2</sup> But energy is still a significant input into production, so it is vital to understand the likely impact of carbon pricing.

The largest users of petroleum-products include agriculture, forestry and fishing, chemicals and the transportation sectors. The main users of coal are electricity and cement. The main users of electricity include the electricity sector itself, a number of manufacturing industries (such as aluminium) and the utilities supplying gas and water.

In the UK, total fossil fuel energy costs account for 3% of variable costs in UK production. At this price, whole economy production costs might be expected to experience a one-off rise of just over 1%.<sup>3</sup> At a more disaggregated level, only 19 out of 123 production sectors, accounting for less than 5% of total UK output, would see variable costs increase of more than 2% and only six would undergo an increase of 5% or more.<sup>4</sup> Costs in most sectors would rise by less than 1%. In practice, the opportunity to



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substitute fossil fuels for cheaper alternative technologies is likely to limit cost increase to below even these levels in the longer term.

But even this estimate of the change in relative prices resulting from adopting the social cost of carbon into production activities is well within the 'normal' range of variation in prices experienced in an open economy. Normal fluctuations in input costs from exchange rate and the world oil price dwarf the increase in short-run primary energy cost resulting from carbon pricing. To put this in to context, the oil price rose from \$27 per barrel (Brent spot price, annual average) in 2003 to around \$70 by late-2005. By comparison, carbon pricing would add a mere \$10 to a barrel of oil.

### **Impact on trade and location**

Relative prices change all the time with changing cost of supply and production and with changing international tastes and preferences. The Stern Review stressed strong mitigation, being fully consistent with the aspirations for continued economic growth and development in poor and rich countries. Action to change our use of energy and our management of land will not be growth-threatening, but will instead correspond to a one-off 1% rise in the cost index.

What about carbon-intensive sectors particularly exposed to competition from abroad? It is notable that those sectors that are most carbon-intensive tend to be least tradable across borders. Using UK statistics for illustration, and applying the \$30 carbon price, the price of electricity and gas to consumers might be expected to rise by more than 15%, but output is destined almost exclusively for domestic markets. In all other cases, price increases are limited to below – mostly well below – 10%, with most producers facing potential cost increases below 1%.

Even so, a few sectors are vulnerable. Apart from refined petrol, these include fishing, coal, paper and pulp, iron and steel, fertilisers, air and water transport, chemicals, plastics, fibres and non-ferrous metals, of which aluminium accounts for approximately half of value added. In addition, the level of aggregation used in this analysis masks the likelihood that certain processes and facilities within sectors will be both highly energy-intensive and exposed to global competition. Yet even these sectors account for a very small and slow growing fraction of UK output.

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The question arises, are firms in sectors which possess higher than average energy cost inputs increasingly more likely to relocate? A notable feature is that many of the carbon intensive products that are traded across borders tend not to be tradable over longer distances. Trade intensity falls seven-fold in the cement industry when only trade to non-EU countries is considered, as cement is bulky and hard to transport over long distances. Trade in fresh agricultural produce drops by a factor of 5 when restricted only to non-EU countries. The next largest drop in trade occurs in pulp and paper, plastics and fibres. Here trade intensity is quartered at the non-EU level. Trade intensity in plastics and iron and steel and land-transport as well as fishing and fertilisers drop by two-thirds. Finally, trade intensity for air transport and refinery products halves in line with the average for all sectors.

This list contains some of the most fossil fuel-intensive sectors; suggesting that restrictions applied at the EU level would greatly diminish any competitiveness impact of carbon restrictions. However, the UK example may not be representative of all countries. Energy intensive countries bordering jurisdictions with weak GHG policies may suffer a more significant threat to their competitiveness than is evident in the UK. It is important that such countries carry out their own assessment of the risks to their production sectors, and consider what measures might best address any difficulties that may arise.

### **Trade and location**

At this stage it is worth examining the theory behind the sensitivity of firms' location decisions with respect to environmental legislation? This tells us that relatively small one-off changes to any single factor cost would be unlikely to cause significant production relocation, even in the energy intensive sectors and even where countries move at different speeds in applying abatement policies. This is because environmental policies are only one determinant of plant location decisions. Other factor endowments are more important determinants of location and trade. Over the longer term, whole-economy competitiveness is associated with a range of factors that ultimately determine productivity growth such as the size and quality of the capital stock and workforce, access to technologies and infrastructure, proximity to consumer markets, access to trading partners, not to mention political, legal, regulatory and fiscal frameworks.

This explains the substantial differential in average wage costs between the developing and developed world, which can be ten-fold or more. By

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comparison, the one off increase in production costs from carbon pricing is likely to make a very small difference to production patterns and opportunities. The large labour cost differences reflect differences in comparative advantages so that output and trade takes place in developed countries just as profitably as in low wage countries, despite the difference in labour costs.

But the question of firms' propensity to relocate their plant in response to carbon pricing is ultimately behavioural, so it is important to look closely at the empirical evidence. Examination of the impact of environmental regulations in US states and in countries around the world suggests that environmental policies affect trade and production at the margin, but with little evidence of major relocations. This is likely to be true even in countries bordering large trade-partners with more relaxed regimes, such as Spain, which is close to North Africa and Eastern EU countries that border Ukraine and Russia. Even where countries have open borders and similar jurisdictions (such as the US and Canada) firms tend to exhibit what is called 'home bias' where trade across borders is less intensive than trade over similar distances domestically.<sup>5</sup> This so-called "home-bias" limits the degree to which firms are footloose in their ability to relocate when faced with carbon pricing. It is the welcome rise in living standards in developing countries that is putting pressure on global emissions, and not the risk that GHG intensive activities relocate to these countries.

The empirical evidence behind relocation decisions is reviewed in Chapter 11 of the Stern Review,<sup>6</sup> but in general such risks are found to be limited. For example, there is evidence to suggest that some US states such as California, have not only failed to suffer significant economic costs from stricter environmental regulation, they have also gained substantial opportunities from setting market standards and developing technologies.

### **Promoting collective action**

Competitiveness impacts are small and can be reduced by acting together. This requires communication and a common understanding of the nature of the problem as well as a fair distribution of effort on emissions reductions for developed and developing countries. The Montreal Protocol of 1989 provides an example of swift global collective action on reducing emissions of halogenated hydrocarbons to prevent depletion of the ozone layer. There was a universal understanding of the problem, industry faced up to the challenge in a realistic manner without overstating the costs, and

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action was duly taken. On climate change too, the message is getting through. If firms believe the whole world is likely to become carbon constrained, then moving investment and equipment to a new location is likely to provide short-lived benefits. Moreover, by failing to invest in low-carbon techniques and products, firms risk losing market share.

As the Californian example shows, carbon mitigation can promote innovation in clean technology and steer a country's comparative advantage into growing 'clean' sectors and sparking off further productivity improvements in clusters of related businesses. Economies and firms with high skills, technological capacity, flexible markets and governments that anticipate trends will manage the transition best. Iceland has used clean energy to attract energy-intensive customers such as aluminium firms. China has begun taxing energy intensive exports. All OECD countries have mitigation strategies and support for renewable energy source. Forward looking companies such as BP and Toyota are seeing opportunities in a low-carbon future. Investment funds are also waking up to the possibilities. Goldman Sachs recently estimated that investment in low-carbon electricity sources could be worth over \$500bn a year by 2050.

Mitigation also provides ancillary benefits for example in the form of energy security and lower levels of conventional pollution. There are also significant gains in terms of energy efficiency and innovation. These may be diffused, spread across the economy, and hard to identify (unlike the costs), but their net effect can be large. New markets will be created.

Taking pre-emptive action to manage the transition to a low greenhouse gas world is also likely to reduce costs at the country or company level. Early adoption of policies within a credible, long-term framework helps bring down planning costs. Early action means working with the investment cycle in replacing obsolescent capital with long-lived, high-carbon plant and machinery, avoiding the need to scrap and replace GHG intensive capital later. It also serves to induce innovation that is necessary to develop the technologies that will bring down long-term energy costs.

As we have seen, firms and governments are already taking action independently as well as through a range of regional and multilateral arrangements. But action at a regional and multilateral level is a key step to getting the institutions in place to build a global consensus for climate action, to promote trust and cooperation and improve the chances of bringing others in. It is important that the EU takes a lead here

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while recognising and responding to initiatives from the US, India and China.

International sectoral agreements could also play a central role both in promoting action and keeping down negative impacts on the competitiveness of individual countries. Emissions intensities within sectors often vary greatly across the world, so a focus on transferring and deploying technology through sectoral approaches could reduce intensities relatively quickly. Global coverage of particular sectors that are internationally exposed to competition and produce relatively homogenous products can reduce the impact of mitigation policy on competitiveness. A sectoral approach may also make it easier to fund the gap between technologies in developed and developing countries.

## **Conclusion**

To conclude – the main objective of mitigation is to reallocate resources away from carbon-intensive activities. For policy to work, it needs to change behaviour. The challenge will be managing the transition to a low greenhouse gas world and limiting the adjustment costs. Total fossil fuel energy costs account for a small part of whole economy costs, and logic and experience tells us that carbon-intensive tradable industries are unlikely to divert trade significantly or relocate in response to national or regional level action. However, the costs of mitigation are lowest, and returns highest if early action is taken in a coordinated manner across the world, reflecting a common understanding of the nature of the problem and a fair distribution of the burden of action. Some production sectors will undergo transitional costs, but it is important not to exaggerate the threat or ignore the likely opportunities in managing an early transition to a carbon-constrained world. Early action may boost long-term growth for economies that anticipate change, have the skills, flexibility and technological capacity to adapt.

## **About the authors:**



**Dimitri Zenghelis** is an economic adviser for the UK Government. He was lead author on the costs of mitigation, model analysis and comparisons of competitiveness impacts in the Stern Review, and a significant contributor to the conceptual, theoretical and ethical framework adopted in analysing the economics of climate change. Since joining

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Her Majesty's Treasury in 1999, Dimitri has provided economic analysis and advice for the UK Government on European and international economic policy as head of the EMU Analysis Branch and head of Economic Forecasting.



**Sir Nicholas Stern**, FBA, is the IG Patel Chair at the London School of Economics and Political Science. He was the adviser to the UK Government on the Economics of Climate Change and Development, reporting to the Prime Minister. From 2003-2005 he was the Second Permanent Secretary to Her Majesty's Treasury and, between 2004 to 2005, the Director of Policy and Research for the Prime Minister's Commission for Africa. From 2000-2003, Sir Nicholas served as the Chief Economist and Senior Vice President of the World Bank.

## Endnotes

- 1 For the UK total fossil fuel energy costs account for 3% of variable costs in production; every £10/tC carbon price would have a similar size of impact on economy as a 6% rise in oil and gas prices.
- 2 Key factors include an autonomous slowdown in technological productivity growth and destabilising macroeconomic policies, see for example Greg Mankiw (various) and David Walton (2006).
- 3 Oil's contribution to this increase would account for just under half and the remainder split between gas and coal.
- 4 These figures are obtained by working cost increases through the economic production using 2003 UK input-output tables.
- 5 McCallum's seminal 1995 paper and Berger and Nitsch's (2005) gravity model of intra-EU trade several Canadian studies are excellent studies in why 'border effects' and 'home-bias' still matter. For an interesting discussions see also the Canadian Government's Industry Canada (2002) report, as well as the representations of the Canadian Plastic Industry Association. This was the finding of, further reinforced by subsequent discussions such as Helliwell's assessment of Canadian-US economic relations, and, both of which found significant evidence of home-bias where borders inhibit trade despite open markets and short distances.
- 6 Anweiler, Copeland and Taylor (2001) provide a detailed account of this and offer panel estimation to show how trade openness leads to relocation of energy intensive firms in the direction of countries with tight environmental standards, as the attractiveness of other factors outweigh the extra costs of limiting pollution.

# Preparing for a Carbon Constrained Future

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By **Jonathan Lash**

Climate change is not just an environmental issue. It is fast becoming one of the defining facts of economic development in the 21st Century. It will shape investment, technology deployment and human development around the world, and no sector will be more profoundly affected than energy. Given the constraints that climate impacts bring, thriving in this huge and fast-changing market will mean understanding the risks and opportunities presented by the public policy mechanisms employed to reduce emissions and the infrastructure that is required to implement these choices.

The economic impact of global climate policies is clearly dependent on the underlying political circumstances and ultimately how this impacts the policy making process. This dynamic can include the mix of policy options used, the geographical scope and jurisdictional limits of these policies, the relative emphasis on mitigation versus adaptation and the severity and urgency of the emissions reductions required. International climate policies will likely include emissions caps and progressive reductions for large sources of CO<sub>2</sub> emissions with provisions for emissions trading, specific requirements for auto manufacturers, large-scale investments in technology and low-carbon fuels and disincentives for carbon-intensive products. Policy intervention on that scale will change the cost structures of heavy industries and create new markets for low-carbon products and services. Importantly, these policies also create space for companies that are actively managing their emissions and exposure to climate change risk or offering products and services that enable greenhouse gas (GHG) emissions savings to gain for competitive advantage.

However climate policies aren't the only source of risk and opportunity. Climate change will impact many different sectors of the global economy, affecting energy costs, infrastructure, human health and population and agricultural output. To understand the potential financial repercussions of climate change is to understand that they are likely to vary *within* as well as *between* sectors. Different companies will have very different climate risk profiles – which will produce different analytical challenges in understanding impacts. As with other paradigm shifts, some companies will fare better than others. The impact on corporate value depends on a company's skill in hedging against physical climate risk, mitigating regulatory costs, managing climate risk in the supply chain, investing capital in low-carbon assets and innovating around new product and market oppor-

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tunities. Whether this impact is positive, negative or neutral depends on a variety of factors, not the least of which is the ability to develop their “climate competitive” advantage.

In a carbon-constrained future, companies that manage and mitigate their exposure to climate change risks while seeking new opportunities for profit will generate a competitive advantage over rivals. Here is a guide for identifying the ways in which climate change can affect your business and for creating a strategy that will help you manage the attendant risks and pursue the opportunities. The message is simple: It’s not enough to do something; you have to do it better – and more quickly – than your competitors.

### **Climate risk management**

Current practices in business risk management typically address environmental risk as a problem of regulatory compliance, potential liability from industrial accidents, and pollutant releases. Climate change presents risks that are different in nature: it is global, long term, the harm is essentially irreversible, and current federal response provides no guidance about future requirements. Ignoring the financial and competitive consequences of climate change could lead to an inaccurate evaluation of a company’s overall risk profile.

While this seems obvious for utilities and energy intensive industries like chemical manufacturing, it is actually true much more broadly. Businesses ranging from Wal-Mart to Bank of America have adopted institutional policies looking at the effects of climate change on everything from operations to customers. The most important distinctions are not between sectors, but within sectors where risk mitigation and product strategies can create competitive advantage. These risks take a number of forms:

- ❖ *Regulatory risk* – mandatory emissions-reduction legislation
- ❖ *Supply chain* – suppliers passing on their higher carbon-related costs
- ❖ *Product technology* – rivals developing climate-friendly offerings
- ❖ *Litigation* – lawsuits charging negligence, public nuisance, or trespass



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- ❖ *Reputation* – destructive consumer or shareholder backlash
  - ❖ *Physical* – damage to assets through drought, flood, and storms

A company's climate strategy starts with senior management's recognition that climate change is a major problem that the world will address. It requires a commitment to carbon management in both processes and products. That commitment will likely produce rapid institutional learning. Companies that will thrive in a carbon-constrained economy are those with a clear climate strategy for inventing solutions that minimize risk and maximize opportunity. The World Resources Institute has worked with a number of companies as they have crafted strategies to deal with climate change. Drawing on our experience, we have found that the most successful efforts include four key steps, each of which requires strong leadership and significant learning across the organisation.

**Step 1: Quantify your carbon footprint.** Since you can only manage what you measure, companies need to first understand the source and level of their own greenhouse gas emissions and begin tracking those emissions over time. One method for performing this kind of accounting is the Greenhouse Gas Protocol, which our organisation developed with the World Business Council for Sustainable Development. This tool, which has been taken up by the International Standards Organisation, has been used by several hundred companies to measure and track their own greenhouse gas emissions and by industry groups, including the International Aluminum Institute and the International Council of Forest and Paper Associations, to develop complementary industry-specific calculation tools. This quantitative and relatively straightforward task can set the stage for a broader look at the risks and opportunities. It provides a framework for assessing not only your direct emissions, and those related to your electricity supply, but indirect emissions related to supply chain emissions, transportation and product use.

**Step 2: Assess your carbon-related risks and opportunities.** The emissions footprint you've delineated tells only part of the story. After determining the specific direct and indirect impact your company is having on the climate, you need to broaden your analysis and think strategically about how the six risks could either hurt or benefit your business.

Climate-related forces will have a direct and indirect financial impact on companies. Many approaches have been developed that can assist in

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quantifying this impact. One approach is to look at the “carbon intensity” of your different profit centres – that is, the ratio between GHG emissions and profits generated for different products. Or you can look at ways in which climate change could affect your revenues and costs. On the cost side, climate change may drive increases in raw material costs, direct regulatory costs, capital expenditures (for example, building facilities with lower emissions levels), insurance premiums for assets located in at-risk areas (such as the Gulf Coast), and possibly even new tax liabilities. Revenues will be affected by your ability to pass these costs on to customers through new pricing structures while exploiting new market opportunities and maintaining market share.

**Step 3: Adapt your business in response to the risks and opportunities.** Having assessed the ways in which climate change could affect your company, you are prepared to develop strategies and make moves based on that knowledge. Those moves range from the obvious reductions in energy consumption and carbon emissions to sometimes wholesale reinventions of parts of your business.

Creative moves aren’t restricted to heavy manufacturing and other traditionally environmentally unfriendly industries. Goldman Sachs has implemented a coordinated environmental-policy framework that, among other things, requires the firm to measure and report greenhouse gas emissions attributable to its internal operations.

**Step 4: Do it better than your competitors.** Managing climate risk, reducing exposure to this risk, and creating new opportunities for profit are all important steps to building your climate competitiveness. But if your competitors are doing it better, your company is on the wrong side of the equation. Companies that think strategically about how climate change could affect its business and that of its customers also need to assess where they are positioned relative to their competitors. Companies with above average climate-related costs could face more difficulty relative to their peers in a carbon-constrained economy. Moreover, as consumers increase their demand for low-carbon products and services, those companies that are ahead of their competitors will likely enjoy a first-mover advantage which can help increase shareholder value in an increasingly competitive marketplace.

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## Conclusion

Climate change will be a dominant force in shaping the global economy of tomorrow. The crucial technological solutions to climate change will not materialize without businesses strategies that can mitigate risk and mobilize sufficient levels of investment capital for the development of new, promising technologies as well as the large scale deployment of existing technologies. Yet, in order for sufficient levels of capital to form around low-carbon technologies, businesses will need to inform and support the policies necessary to stimulate demand for low-carbon products and processes.

Solutions to climate change will require business innovation and increased coordination and engagement across the product value chain. Understanding the climate challenge and informing policy design means a departure from an incremental vision of building markets. Rather, we need to directly confront the implications of climate change on business and develop smarter strategies to remain competitive in a carbon constrained world.

This is not a tomorrow's story. Climate change is influencing the competitive dynamics in markets all over the world. Companies that develop superior climate strategies will thrive as society grapples with perhaps the most pressing problem facing the global economy today.

### About the author:



Jonathan Lash has led the World Resources Institute as its President since 1993 and co-chaired the President's Council on Sustainable Development and the Organisation for Economic Co-Operation and Development's High-Level Advisory Group on Environment.

# Reshaping Markets through an International Carbon Fund

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By **Nick Butler**

One of the damaging legacies of the 20<sup>th</sup> Century remains the rigid division of society between the state and the public sector on the one hand and the world of private business on the other. In different ways at different times the boundary line between the two has become the frontier of political conflict. Nationalisation and the use of public power to regulate or control markets in the interests of the mass of the population moved the line in one direction. Privatisation and the assertion of the primacy of property rights moved it in another.

This division was a product of what Eric Hobsbawm has called the ideological century. Before 1900, public and private spheres were far less clearly defined, more often working as one.

The consequence of the sharp division between public and private has been a loss of potential. The private sector in general has retreated to a position in which its purpose is defined solely in terms of profit maximisation. Profits are supposedly the *raison d'être* of every company, and other activity including any sense of responsibility for things beyond a financial balance sheet has come to be seen as a luxury driven by management ego. The responsibility for the health of society, its future and its sustainability rests with the state, and the state alone.

I believe such a view is now outdated and deserves to be replaced. Businesses are part of society – and they can exist and thrive only within a thriving social structure. They are also the source of creativity, talent and innovation – precisely what society as a whole needs in order to advance and to meet the challenges of the time.

Climate change is a prime example of the necessity of this interplay of the public and the private. Only governments can put a price on carbon and make changes which alter behaviour and shift the world towards a lower carbon economy. But only business can respond to the incentives laid down. Only business can develop the markets and trading networks which will spread knowledge and ideas in ways which produce a more sustainable world.

The following comments are one modest contribution to the debate. They are written from the perspective of business after almost 30 years of work within BP. They are designed to provoke a response and to stimulate debate.

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I have no doubt that across business – in the energy sector and beyond there are many other and better ideas. It is now crucial that we open up the debate and acknowledge that business is part of society with a critical part to play in its future.

### **Our warming planet**

There is strong evidence that climate change has already begun. Twenty three of the 24 warmest years since records began in 1850 have occurred since 1980. Sea levels are rising at an unprecedented speed: almost twice the historic average rate of increase between 1993 and 2003. Other factors, like intensity of cyclones, the incident of major floods, average wind speeds and variations in agricultural growing cycles all indicate that our climate is changing and no country is immune.

A recent Intergovernmental Panel on Climate Change report demonstrates the increased confidence of scientific community about impacts of human activity on climate change. They conclude – with a 90% level of confidence – that the increases in global temperatures measured since the mid 20th Century are due to anthropogenic emissions and that hot extremes, heat waves and heavy precipitation events will become more frequent.

There are scientific uncertainties about the details of how atmospheric warming will be manifest in our weather system, but one fact is indisputable: the emissions of greenhouse gases are still rising. Aggregated concentrations of carbon dioxide – the most abundant greenhouse gas – have risen by 1.9 parts per million (ppm) over the past 10 years. Before the Industrial Revolution it was 280 ppm, now it is 380 ppm. There is no certainty about what absolute level is “safe”, but the consensus of leading experts puts at the lower end of 400 and 550 ppm.

Some countries are beginning to respond. Europe is driving change with carbon trading credits; the Chinese government has vowed to cut energy use per unit of GDP by 20% by 2010; and Brazil is mainstreaming low-carbon fuels. The agreement by the European Council of a 20% target reduction in emissions by 2020 is a welcome development, but the impacts are limited in the face of growing demand. Access to affordable, reliable and accessible energy supplies is a necessity to development: each year there are 200 million new customers for commercial energy.

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Hydrocarbons play a key role in the energy system. They account for about 80% of the supply today and are likely to remain important into the foreseeable future. Currently, markets do not take account of the real cost of carbon and investment in low-carbon energy supplies remain limited. Nuclear (6%), hydroelectric (2%), biomass and waste (10%) and other renewable energies such as solar and wind power (1%) combined make up just over 17 per cent of the total global energy supply; and the authoritative International Energy Agency forecasts that without a massive change or technical breakthrough, renewable energies will still only meet approximately 3 per cent of total global energy demand by 2030.

Climate change is not constrained by landmass or international borders, so an international response which includes major economies like the United States, India and China is needed.

Taking action against climate change is actually not a major financial outlay. Sir Nicolas Stern has confidently outlined that the cost of reducing greenhouse gas emissions to avoid the worst effects of climate change can be limited to around 1% of Global GDP each year: a fraction of the 5 to 20% of GDP that may be lost through the impacts of climate change.

The worst effects of climate change can be limited. The reality however, is that not much is actually happening; emissions continue to rise.

### **A framework for change**

Today's climate dilemma echoes the financial situation in the late summer of 1940. As German troops completed their occupation of France, Dr Walther Funk, president of the Reichsbank, proposed a new economic order for the post war world – a plan for a German Centred world based on the primacy of the Reichsmark. In his role at the British Treasury, John Maynard Keynes, was asked to prepare a statement “exposing the fallacious character of the German proposals”. Keynes did so, but typically turned the challenge into an opportunity and proposed an international currency union. Four years later, his ideas were formally adopted at Bretton Woods leading to the creation of the set of post war institutions which have enabled the remarkable period of growth for the last half century.

Another great institutional transformation is needed that binds vision with practicality is needed to respond to climate change: an International Carbon Fund (ICF).

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The ICF would set a framework within which market forces can find the most efficient solution. Over the last quarter of a century, we have become accustomed to the belief that market forces can solve most problems. With climate change, this is patently not the case: the free market holds no mechanisms for valuing the external cost of carbon emissions. The real cost of using hydrocarbons is simply not reflected in the price paid. An international currency value for carbon which could incentivise the process of transition is necessary and within reach.

Change is afoot in all sectors, with progressive companies exploring new low-carbon products and services, enhancing efficiency of supply chains and designing new processes to enhance productivity and reduce cost. Innovative new firms like Hydrogen Energy, a company jointly-owned by Rio Tinto and BP, may mainstream decarbonised energy projects around the world and promote energy security. But there are laggards; putting a real price of carbon would improve performance in countries and businesses around the world.

The ICF would also be an institution which can set a target on the basis of the best available evidence for the amount of emissions reduction necessary to keep the concentration of carbon below an agreed ceiling; the “safe level”. Quotas would be allocated by the fund, and each participating actor would be responsible for their proportion of the target. Targets could be distributed by country, but also by sector. Allocation is a matter for political negotiation, but formulae could be constructed to reflect variations in per capita income, current emission levels and potential to improve eco-efficiency. Aggregated targets and quotas would be reviewable, to reflect progress and advances in scientific knowledge.

It would not be the aim of the ICF to provide a cookie-cutter solution to solving the needs of individual participants. Instead, the overarching framework would encourage market-led responses to enable countries and sectors to meet their commitments to the fund, reflecting culture, and personal choices while promoting real innovation.

For a fund to be efficient, it would have to be given appropriate tools to monitor and verify delivery against commitments on reducing emissions; and the capacity to fund clean, low-carbon development through loans or grants to the poorest countries. The final key element of an International Carbon Fund would be to develop a global emissions trading system to ensure that the necessary reductions are achieved at the lowest practical cost.

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Currently, there is no overarching international agreement for climate change; and worse still, the political consensus for hard action, or even a baseline to begin from, is lacking. There have been many ringing declarations, but each day, our outlook gets worse and the cost of mitigating climate change rises.

The International Carbon Fund provides a practical vision to move producers and consumers of energy into a global low-carbon economy. Primarily, the fund would mitigate carbon emissions, but do so in a way which promotes sustained growth and economic progress.

As in late 1940 we face a major challenge which should be transformed into an opportunity. When Keynes proposed his ambitious ideas to the Bank of England, they led to the development of the International Monetary Fund and other institutions that have overseen more than half a century of sustained growth. With climate change, we now face a challenge of similar proportions. We need a global response to a pressing issue: an institution which puts the true price on carbon and provides the practical framework for market forces to innovate. We need an International Carbon Fund capable of reshaping markets across all sectors and all continents to promote sustained growth and economic progress.

**About the author:**



**Nick Butler** is Director of the Cambridge Centre for Energy Studies at the Judge Business School. From 1977 to 2006 he worked in a series of economic and policy roles at BP, and for his last four years served as Group Vice President of Strategy and Policy Development.



# **Key Issues in Responsible Competitiveness**



# Rebuilding World Trade and Economic Rules

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By **Guy Ryder**

Completing the Doha trade round, a process that has been reduced to tit for tat privileging of market access, will not necessarily be an achievement. Success or failure of the Doha trade negotiations is inconsequential if the workers of the world do not share the benefits of improved access to markets. Worse, on current trends workers in many countries stand to be made worse off. Establishing a process of globalization that leads to more decent jobs, a system that corrects the economic imbalances and allows developing countries space to develop, requires a reorientation towards more equitable trade rules.

Fostering global solidarity is essential to advance commonly shared global objectives and to support national development priorities. A global policy environment needs to enable fair trade, more and better aid, debt cancellation and debt relief, respect for workers' rights and the incorporation of strong social dimensions to the policies of international financiers. These need to be complemented through national level strategies that promote social inclusion, pro-poor policies, the participation of civil society in decision-making and the recognition of human rights.

Globally, there must be a strengthening of bodies like the United Nations and the International Labour Organisation that provide the social pillar of the multilateral system and can build coherent policies. Social pillars, globally and nationally, must focus on the Decent Work Agenda. Decent work, requiring respect for fundamental workers' rights, provides men and women with the power to improve their living standards, participate in decisions affecting their lives and livelihoods, improve social conditions and move away from poverty.

Moving towards sustainable development and marrying social, environmental and economic development is vitally important. Achieving this requires coherence in international policy making, the strengthening of inter-institutional cooperation and the establishment of synergies between policy implementation and good governance. Across the current configuration, there are impediments to this future and significant change is needed: for example, is it not time for the ILO to be given the authority to intercede with the major development institutions like the International Monetary Fund or World Bank, when it finds that their interventions are having a negative impact on decent work and workers' rights in general? Many pressing social and environmental problems need to be addressed

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globally in the knowledge that there may be significant costs over the short-term, but where these costs will only escalate the longer action is delayed. Addressing entrenched vested interests and habits, breaking radically from past practice and orthodoxies, demands a fundamental change to our governance structures.

The international system has underperformed, sometimes very badly, in its task of exercising governance of globalization. These consistent failures reflect an underlying constraint: governments have rather fallen under the spell of the prevailing belief that the best thing they can do is make themselves small – to unleash the forces of the market, and then get out of the way.

China, the ‘economic miracle’ is one example of how the system is underperforming. It is just a myth that everyone is a winner as the country moves from slumbering rural economy to a manufacturing powerhouse. The hype overlooks the 700 million people living on less than 2 dollars a day, the 10,000 Chinese workers dying each year solely due to asbestos in their workplaces, and the millions that work for 60 – 70 hours a week for less than the country’s minimum wage. In fact the gap between the best and worst-off in China is growing, leaving the majority of people facing deeper poverty and further exploitation. China is still sweat-shopping its way to success, basing its competitive advantage on low wages and the exploitation of a workforce which has no effective means of representation. China may be increasingly integrated into the global economy, but for that integration to be successful, the focus needs to turn to basic human, social and political rights.

Unfortunately, China is not the exception. Around the world, from the United States to Cambodia, from Guatemala to Zimbabwe, the fundamental rights of workers and trade unions are violated each day. These violations are not exclusive to low-income work; high-performance technology clusters may have as many problems as workers in small textile factories.

Today’s model of globalization enables jobs to move from one country to another, but unacceptably, companies shift production and locate supply chains to avoid trade unions and to circumvent workers rights. This is not about comparative advantage; this is simply about abuse. The fact that not everything in the world is “win-win”, illustrates the need for governance, legally binding institutions, and frameworks including collective bargaining with independent workers’ organisations.

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Current systems are failing. 2007 is nestled in an era of small governments and free market economics, yet pressing societal issues need new international regulation and constraints to reshape the markets and all actors within them.

Arguably one of the largest issues is climate change. Climate change has been described as the biggest market failure in history and requires a concerted and co-ordinated effort from the international community. A successful response will involve designing and implementing the most fundamental transformation of production and consumption processes in modern history; a massive transformation that will require renunciation of existing technologies and habits even when they may continue to offer significant short term advantage, to some at least.

The impact of climate change on the workers of the world is often neglected. A shift to sustainable production requires increased interaction between business and trade unions, for business to learn from the considerable expertise and know-how of union leaders, and to build a future where the restructuring of enterprises and sectors preserves jobs and the environment.

Coordinating the global shift towards an equitable trading system where workers' rights are protected and climate change adequately tackled requires a new regulatory environment, but two factors complicate this necessary change. How can our leaders convince public opinion and win public support by bearing the costs of action now – knowing that eventually there will be considerable pay-offs only after their likely period of office is over? This will only be possible if the international community provides clear evidence that this is part of global action, with costs shared and pay offs for all.

Secondly, change is hampered by an unevenly distributed range of costs and benefits, and an effective solution requires equity and solidarity. This is not just a matter of ethics. Without solidarity, the necessary critical mass of international consensus on action in areas like environmental degradation and access to healthcare will never be reached.

The international community needs to look towards countries, like the Nordic nations, which are making solidarity real and effective. These have an excellent record with workers represented on many corporate boards, elevated standards of health and safety, high spending on social protec-

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tion, and high-quality training of workers. Furthermore, these are frequently cited among the most competitive countries in the world. A new regulatory environment can benefit from the experiences and success of these countries.

Pressing societal issues, such as climate change and increasing inequality, need to be tackled through coordinated international actions and an effective response. There needs to be the development of “just transition” to promote a responsible adjustment towards environmentally sound processes and the creation of new decent work opportunities.

These challenges make it a critically important time for the international trade union movement. In countries and sectors where trade unions are weak, workers are all too likely to become the victims of global economic developments. There is massive room for improvement over the next few years in order to achieve respect for workers’ rights worldwide and through effective initiatives at all the international institutions.

Completing the Doha trade negotiations cannot be measured through increased market access or flows of free trade. Success of the Doha round can only be measured through the impact on workers around the world. The challenge we face is to put global economic development on a new trajectory, one which marries social cohesion, decent work, environmental security and economic development.

**About the author:**



**Guy Ryder** is General Secretary of the International Trade Union Confederation. Born in Liverpool, UK, he worked at the International Department of the British Trades Union Congress, from 1981-85. Following this, he was Secretary of the Industry Trade Section of FIET (now Union Network International) in Geneva, until he joined the Geneva Office of the ICFTU (a predecessor organisation of the ITUC) in 1988. After serving as Director of that Office from 1993-98, he became Director of the Bureau of Workers' Activities at the International Labour Organisation, until he was appointed Director of the ILO Director General's Office in 1999. In 2002 he became General Secretary of the ICFTU, and was elected General Secretary of the ITUC at its founding Congress in Vienna in 2006.

# Transparency and Accountability as a Driver for Growth

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By **Peter Eigen** and **Jonas Moberg**

It is quite obvious that corruption is the antidote to responsible business practices and economic growth. Corruption continues to be a major challenge to international development. Responsible competitiveness – understood as the state of play where market forces rule freely and fairly – is dependent on an absence of corruption. One of the many ills of corruption is that it distorts competition.

Despite a growing international focus on good governance and the fight against the curse of corruption across the world, we see depressingly little evidence that it is a diminishing phenomenon. Transparency – openness – is critical to achieving good governance and remains one of the best ways to minimize the risk of corruption. Transparency is an underpinning of responsible competitiveness not only as a means to combat corruption; the free flow of information is also a prerequisite for well-functioning markets.

It is over ten years ago that Transparency International (TI) was founded and five years since the Extractive Industries Transparency Initiative (EITI) was launched. TI has become a global movement for the fight against corruption – with over 100 country chapters – and the EITI has become a multi-stakeholder governance initiative addressing the specific need for revenue transparency in the oil, gas and mining sectors. This essay looks briefly at the quest for transparency as a driver for growth. It considers how TI and the EITI in their very different ways form part of global efforts to promote transparency.

## **The problem of corruption**

It is firstly worth recalling some of the many negative impacts corruption has. Corruption does not only mean small numbers in the elite illegally obtaining advantages. It also leads to:

- ❖ *missed development opportunities*, as the poor often suffer the most from corruption;
- ❖ *waste*, as fair competition often is distorted;
- ❖ *inefficiencies*, as the wrong goods and services are purchased;

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- ❖ *human rights abuses*, as it often means that the rights and interests of local populations are violated; and it leads to
  - ❖ *environmental damages*, as corruption often contributes towards the sidelining of environmental considerations.

Whether we fight poverty, tackle diseases such as HIV/AIDS, tackle climate change, promote human rights or simply create well-functioning markets as a driver for growth, corruption is always there hampering our efforts. The exact impact of corruption is difficult to establish. This is of course partly because the very idea behind a corrupt transaction is that it remains secret. What we do know, however, is that it is not only a problem for developing countries. Rich countries suffer too and, more importantly, we continue to see how companies and actors based in rich countries are involved in corruption in poorer parts of the world. Although it is also a problem in wealthier countries, we know that it is generally less of a challenge in richer economies. A quick look at Transparency International's Corruption Perception Index (CPI) reveals a number of countries with high incomes per capita ranked near the top, while a number of poor countries can be found at the bottom of the list. What we know less about is the extent to which rich countries have become rich because of the relative absence of corruption or if corruption fails to take root in rich countries. Although it is hard to quantify the spread of corruption, Daniel Kaufman – with the World Bank Institute and one of the great authorities on the nature of corruption – has suggested that in 2001 the world wasted US\$1,000 billion on corruption, equivalent to more than 3% of the world economy at that time.

### **General remedies**

By far the most important lesson from a decade of work on fighting corruption is that it is a battle that can be won. We have come a long way, compared with when TI was first established. Today, there is a significantly different awareness of the ills of corruption and of the importance of good governance. We now have the UN Convention against Corruption, making corruption illegal throughout the world. The introduction of the tenth Global Compact principle against corruption has, together with some corporate scandals, contributed towards awareness in the private sector of recognising its role in fighting corruption.

There is no single remedy to overcoming corruption. It is a battle that requires commitment by a range of different institutions: governments



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need to, above all, ensure effective law enforcement; private actors need to follow the law; development institutions need to promote good governance; and the media and civil society need to create awareness, provide tools and training. Just as TI's Corruption Perception Index has been and continues to be tremendously important in creating awareness about corruption, it is welcome to see how the Responsible Competitiveness Index in the same way is building awareness and understanding of responsible market solutions. While these kinds of indices are not an exact science and caution needs to be taken so as not to overly interpret findings, they are helpful in drawing attention to some of our societies' greatest challenges.

### **The specific remedy**

*“At the World Summit on Sustainable Development at Johannesburg in 2002, the international community acknowledged that access to energy services is essential for development... Since Johannesburg, rising oil prices and the fear of future shortages, combined with greater awareness of climate change, have brought energy to the top of the public agenda.”*

German EU Presidency – Commission Joint Background Paper on Energy cooperation between Africa and Europe, March 2007<sup>1</sup>

It was also in Johannesburg that the idea of the Extractive Industries Transparency Initiative was first launched by then British Prime Minister Tony Blair. In terms of developing a new international multi-stakeholder governance model and new global standard, it has been quite a remarkable journey. It is an example of how seemingly unlikely partners – large oil, gas and mining companies, campaigning NGOs and governments – have come together in a voluntary process to specifically address the need for revenue transparency in the oil, gas and mining sector. It is a focused effort aimed at transparency between private companies and host governments, leading to greater accountability of host governments to their citizens. It only seems fair and obvious that a country's citizens should know how and what its government earns when its natural resources are sold off.

Here is a straightforward problem: when oil and gas is pumped and minerals are extracted, huge flows of revenues start to reach the host government. However, more often than not, these riches do not suffi-

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ciently translate into development, prosperity, good governance and political stability. Countries like Botswana and Norway, that have managed to handle these extraordinary incomes effectively, are sadly the exceptions rather than the rule. Many other countries suffer from what some like to call a 'resource curse', where the benefits of resource extraction have not been as great as they should have, or even have led to a fall in prosperity and democratic practices.

The EITI can form part of the solution to this challenge of ensuring that these incomes actually translate into spending on schools and hospitals and lead to the strengthening of good governance.

Some of the EITI's achievements so far:

- ❖ **It has become a truly global coalition.** 22 countries have committed to implement the EITI and most of the world's largest oil, gas and mining companies are supporting the initiative.
- ❖ **It has agreed universal principles and criteria for what EITI is.**
- ❖ **It has developed a process for quality assurance, called validation.** Implementing countries agree to have their implementation independently validated once every two years.
- ❖ **It has an extensive technical support organisation.** With the World Bank taking the lead, there are now considerable resources available for supporting national EITI implementation.
- ❖ **It has its own governance structure.** At an international conference in October 2006 in Oslo, the initiative gained its own governance structure. The EITI board, with representatives from implementing countries, supporting countries, companies and civil society, was created. The EITI is in September 2007 opening its own secretariat in Oslo.

The underlying concept behind the EITI is also straightforward: the EITI is a *process* with companies publishing what they spend and governments

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publishing what they receive. It is simply about making taxes, royalties and signature bonuses public in a meaningful way.

*“We emphasise our determination to fight corruption and mismanagement of public resources in both revenue raising and expenditures. As part of our ongoing efforts to foster transparency with regards to resource-induced payment flows, we will continue to support good governance and anti-corruption initiatives, such as the Extractive Industries Transparency Initiative (EITI).”*

G8 Summit Declaration from Heiligendamm, June 2007

The EITI is not a panacea, which on its own will guarantee development and democratic stability. But the adherence to the principles underpinning the EITI is a near certain condition for ensuring of good governance and governmental accountability.

**Revenue transparency** has many benefits, according to the Nigerian EITI, one of the most progressive national implementations. They cite the following three benefits of implementation:

- ❖ “Transparency is needed to allow democratic debate;
- ❖ Transparency increases accountability of the government;
- ❖ Transparency is also demanded by international financial institutions, investors and bankers and thus enables access to capital and investments.” (Nigerian EITI)

If anyone has learnt these lessons the hard way, it is the Nigerians.

After five years of testing and developing and negotiating the terms, principles and criteria of the EITI, the architecture is largely agreed. The building blocks are in place and we are in the process of enhancing our capacity to work with our partners to ensure implementation. With a majority of the 3.5 billion people in the world’s natural resource rich countries living in poverty, the challenge is enormous. We are however convinced that EITI is a critical element in addressing some of the major challenges we face together.

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*The Economist* has called the EITI a curious coalition, referring to its multi-stakeholder nature with governments, oil companies such as ExxonMobil and campaigning NGOs such as Global Witness sitting at the same table. The reason for this curious coalition is simple: The NGOs want to see a better world and put pressure on the companies and to behave responsibly. Together with the companies, they have a joint mission in making sure that it is a level playing field, so that some companies – free riders beyond today’s reach of campaigning NGOs and other pressure groups – can no longer help themselves to resources in less scrupulous ways.

## Conclusion

In a globalizing world, we are seeing new governance patterns emerging. We can argue about the relative powers of nation states, private and state enterprises and civil society organisations. While we fight debates over legislation and international norms and conventions, pragmatic solutions – with different interest groups getting together in innovative multi-stakeholder approaches – should not be overlooked.

We need to deliver global public goods, such as less corruption, something that can only be achieved by collective approaches. The collective action dilemma – or prisoner’s dilemma – is never far away from debating and understanding corruption. Sure, a company or an individual will recognise that corruption is bad for themselves and everyone else in the long term, but may still be tempted. It is something that can be individually beneficial in the short term. The EITI is an example of a focused collective solution to a collective action problem. TI is a broader collective solution to a larger collective action problem. Both demonstrate the need and solutions to ensuring responsible competitiveness.

## About the authors:



**Prof. Dr. Peter Eigen** is founder and Chair of the Advisory Council of Transparency International (TI), a non-governmental organisation promoting transparency and accountability in international development. Headquartered in Berlin, it supports National Chapters in more than 100 countries. In 2005, Eigen chaired the International Advisory Group of the Extractive Industries Transparency Initiative (EITI) and became Chair of EITI in 2006.



**Jonas Moberg** was appointed the Head of the Secretariat of the Extractive Industries Transparency Initiative (EITI) in April 2007. He was a senior advisor to the UN Global Compact in 2005-2006. Prior to that, he was Director of Corporate Policy and Practice at the Prince of Wales International Business Leaders Forum (IBLF), London. During 1996-2002 Jonas worked for the Swedish Ministry for Foreign Affairs. During this tenure he worked at the Foreign Ministry in Stockholm and was posted to Mozambique and the United Kingdom.

### Endnote

- 1 [http://www.energypartnership.eu/download/EU\\_PRES-COM\\_Background\\_Paper\\_AFRICA-ENERGY-COOPERATION.pdf](http://www.energypartnership.eu/download/EU_PRES-COM_Background_Paper_AFRICA-ENERGY-COOPERATION.pdf)

# Better Work: Promoting Labour Standards through Responsible Competitiveness

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By **Ros Harvey, Houria Sammari, and Annemarie Meisling**

Can a developing country compete in trade by offering good working conditions instead of courting businesses that do not respect workers' rights?

An attempt to turn the race to the bottom on its head is being launched through a partnership between the International Labour Organisation (ILO) and IFC (International Finance Corporation). Better Work builds on lessons from the ILO's Better Factories Cambodia Project, which monitors and reports on working conditions in the export garment industry in Cambodia. Benefiting from this initiative, the Cambodian industry has grown substantially, with employment nearing 340,000 workers, up by 28% from January, 2005.<sup>1</sup>

## Background

ILO and IFC launched Better Work in August 2006 with the goal of improving labour standards performance and competitiveness in global supply chains. The partnership involves the development of both global tools and country-level projects. It offers sustainable solutions that build cooperation between government, employer and worker organisations, and international buyers.

Improving labour standards in global supply chains is an important part of a pro-poor development strategy. Where workers' rights and entitlements are protected, the benefits of trade are more equally distributed. Better Work supports enterprises in implementing core international labour standards and national labour laws. This improves the ability of enterprises to compete in global markets where many buyers demand that their suppliers comply with international and national labour standards. Improved labour standard performance also helps enterprises become more competitive through higher productivity and quality, thereby reinforcing supplier support for the improvements.

Better Work builds on the experiences of both IFC and ILO. IFC is the private sector financing arm of the World Bank Group and has recently developed Performance Standards on Labour for its investment operations. ILO is the specialised labour agency of the United Nations. Better Work combines the expertise of ILO in labour standards and their application within the framework of IFC-supported private sector development. Both bring credibility and their strengths to the programme.

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## **Better work products**

### *Country level projects*

Country projects typically combine independent assessments of enterprises with advisory and training services to support improvements through workplace cooperation. This is done through industry-based schemes that focus on developing enterprise-level programmes. Factory information can then be shared with buyers through the Better Work Information Management System (IMS). It allows buyers to reduce their own auditing activities and redirect resources to resolving problems and developing sustainable solutions. The key to success of the project is the support of the relevant employers' organisations and trade unions, as well as of the national government and international buyers.

Better Work country projects will deliver training consisting of classroom-based instruction as well as advisory services for enterprises. The programme has been designed to maximise the impact of training through support for implementation at the enterprise level. Since the skills of trainers and managers are critical to the success of this initiative, Better Work will establish certified training programmes for trainers and enterprise advisors, a support network, an inter-active web-based community of practice to support practitioners, and a professional development programme for these target groups.

Country projects are designed to be sustainable and of a significant scale. One of the objectives of the programme is to establish independent organisations that will continue operating after funding of the project comes to an end. Typically, within five years the projects are expected to become self-financing. A sustainability strategy and financing plan are built into the project from the outset, which include payment of fees for services by enterprises participating in the programme and capacity building of local service providers – the global programme will then be responsible for ongoing quality control once country projects are independent and for adapting new generation products relevant to the country programme.

### *Global level tools*

Better Work is built around a range of practical tools to help enterprises improve their labour standards performance and competitiveness. They include:

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- ❖ *an Information Management System (IMS)* to capture information on compliance and remediation efforts, which can also be adapted to support self-assessments, country projects, and public sector labour administration;
  - ❖ *a global portal* providing information in different languages and for different countries and sectors, as well as supporting virtual communities of practice to involve stakeholders in programme development;
  - ❖ *a compliance assessment* with core international labour standards and national labour law that also allows enterprises to track the impact of improving labour standards on quality and productivity indicators;
  - ❖ *training resources*, including a 12-month modular training programme, single issue seminars, induction training kits, and first-level supervisor training;
  - ❖ *tools for raising worker awareness on rights and responsibilities* using innovative techniques such as soap operas and comic books;
  - ❖ *work books for mini projects* to address common problems in enterprises targeted to small and medium size enterprises; and
  - ❖ *labour model policies and procedures* and good practice guides.

The Better Work tools are designed to be practical and easy to use and to demonstrate benefits of better workplace cooperation for employers and workers. They will be available globally and adapted for use in different sectors as part of country projects. More tools will be developed as the programme unfolds.

A small global team supports the ongoing development of global tools and roll out of Better Work on a country level. The team is also responsible for managing impact assessment reporting, knowledge management, coordination, stakeholder engagement, ongoing quality control, resource mobilisation, strategic management, and policy advice.

### **Measuring impact**

IFC and ILO are designing a comprehensive monitoring and evaluation framework to measure impacts at the factory, industry, country, and global



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level. Each country project will include impact assessment studies. These are expected to strengthen the business case for improving labour standards performance, which is an important part of the overall strategy of the programme. Ongoing monitoring will also allow participants to adapt tools and techniques over time. The evaluation will look at:

- ❖ labour standards compliance;
- ❖ productivity and quality performance;
- ❖ economic components, such as employment, foreign direct investment, and exports; and
- ❖ human and social development.

Better Work aims to bring benefits to a range of people and organisations in the following ways:

- ❖ *workers*, through better protection of their rights, improved working conditions, and ongoing opportunities for employment;
- ❖ *industry*, through a credible means to demonstrate labour standards compliance to international buyers, enhanced reputation, reduced worker turnover and improved productivity, improved competitiveness, and reduced number of social audits;
- ❖ *international buyers*, through credible information on labour standards compliance in supplier factories, support for suppliers to take action to remediate compliance gaps, reduced risk of labour violations in the supply chain that can impact brand value, reduced auditing costs; and more competitive suppliers with better productivity and quality;
- ❖ *countries*, through potential export and tax base growth, increased employment, a more competitive industry, and benefits from trade agreements that reward good labour standards performance; and
- ❖ *consumers*, around the world who care about goods that are produced under decent working conditions.

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## Next steps

In the first stage of the programme, three pilot country projects are being explored in Vietnam, Jordan, and Lesotho. After initial launch of one or more of these projects, Better Work will expand to other countries. Country projects adapt the global tools and develop new ones, which in turn will be made available to the global Better Work community. This way, Better Work tools will be adapted and developed for different sectors and regions.

The choice of countries and sectors for country projects is very important. The programme intends to develop projects in sectors such as agribusiness, textile and apparel, light manufacturing, transport, construction, and electronics. IFC and ILO have been approached by multiple countries interested in participating in Better Work and will develop regional strategies to ensure effective roll-out. One such example is the planned expansion into African agribusiness in 2008.

For more information, please visit [www.betterwork.org](http://www.betterwork.org).

## About the authors:



**Ros Harvey** is the Global Programme Manager of the global Better Work programme. Ms. Harvey takes up this post after three years as the manager of the ILO's Factories Cambodia project. Under her leadership the project developed a range on innovative tools and approaches to monitoring and remediation in the export garment industry. Ms. Harvey has worked for 25 years on labour, development and social justice issues – the last 15 years at the international level.



**Houria Sammari** is currently leading the Social Responsibility area in IFC's Environmental and Social Development Department. Social Responsibility develops innovative products and approaches in the area of Corporate Social Responsibility to benefit IFC clients and the wider private sector. Areas of activities include local community development and stakeholder engagement, sustainability strategy and reporting, and business and human rights with a strong focus on labor.



**Annemarie Meisling** is a Private Sector Development Specialist in IFC and IFC Program Coordinator of the Better Work Program. In addition, Ms. Meisling is working for the Foreign Investment Advisory Services (FIAS) – a joint service of the World Bank and IFC – on corporate social responsibility in China's information and telecommunication sector.

### Endnotes

- 1 *Better Factories Cambodia Quarterly Newsletter 7*, February 2007, [http://www.betterfactories.org/content/documents/1/Better%20Factories%20Newsletter%20No.7%20\(en\).pdf](http://www.betterfactories.org/content/documents/1/Better%20Factories%20Newsletter%20No.7%20(en).pdf), accessed June 2007.

# Gender Equality for Competitive Advantage

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By **Laura Tyson**

The most important determinant of a country's competitiveness is its human talent – the skills, education and productivity of its workforce. And women account for one-half of the potential talent base throughout the world. Over time, therefore, a nation's competitiveness depends significantly on whether and how it educates and utilises its female talent. To maximize its competitiveness and development potential, each country should strive for gender equality – that is to give women the same rights, responsibilities and opportunities as men. How are different countries doing in the realisation of this goal?

The World Economic Forum, which has pioneered the study of national competitiveness, has launched a Global Gender Gap Report to answer this question. The Report examines the gap between men and women in four categories: economic participation and opportunity, educational attainment, health and survival, and political empowerment in 115 countries for which comparable data are available. The results show that although most countries have made considerable progress in eliminating the gender gap on education and health, only slightly more than 50% of the gender gap on economic participation and opportunity has been closed around the world. And no individual country has succeeded in eliminating this gap completely. Even more dramatically, women in the 115 countries covered enjoy only about 15% of the political power of men as measured by the ratio of women to men in top presidential, ministerial and parliamentary positions.

Individual countries differ significantly in the extent of their gender gaps. Across a spectrum of political empowerment, legal and social indicators, educational opportunities and women in leadership positions, the Nordic Countries score particularly well and have closed the gender gap to about 80%. Sweden is the most progressive country worldwide, in part due to an equal number of men and women in parliamentary and ministerial positions, a long-history of women at the ballot box, high female labour force participation rates and generous maternity leave. Other European countries, like Germany, the United Kingdom and Ireland score well, while low levels of female participation in high-ranking political positions and relatively weak performance on gender equality in economic participation and opportunities cause France, Greece, Italy and Cyprus to score between 69 and 83. The United States ranks at 22, below many European countries and Canada in large part because women still hold relatively few high-ranking political positions in the US.

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South Africa is the top performing sub-Saharan country, but performance among most of the other countries of this region is poor. Chad, Benin and Mauritania are among the lowest ranked countries, and the rapid spread of HIV/AIDS has adversely affected the healthy life expectancy of women in Botswana. In Asia, the Philippines scores well but highly populated, large countries like India, Bangladesh and Iran are among the lowest in the ranking. China has an average performance due in large part to the fact a disproportionate sex ratio at birth.

Latin America as a whole has among the smallest gender gaps in the world on health and survival. Brazil and Mexico with the largest populations in the region both perform well on the health indicator but Brazil ranks only 67 overall because of poor performance on educational attainment and political empowerment while Mexico lags significantly on the economic participation and opportunity measures. Despite its development level, Argentina also performs poorly on these measures.

Kuwait is the highest scoring Arab country in the overall index, but is in the lowest quartile. Yemen and Saudi Arabia are ranked in the bottom two positions. Together the lowest rankings in the world are occupied by the Arab countries and by some of the most populous developing countries like Nigeria, India and Iran.

Overall, the Gender Gap rankings show a strong correlation both between gender equality and the level of economic development as measured by GDP per capita and between gender equality and national competitiveness as measured by the World Economic Forum's Global Competitiveness Index for each country. Correlation does not prove causality, but these results are consistent with theory and mounting evidence that empowering women means a more efficient use of a nation's human talent and faster economic growth.

Numerous World Bank studies during the last decade have confirmed that reducing gender inequality enhances productivity and economic growth. Indeed, the Bank believes that there is no more effective investment for accelerating economic development than reducing gender inequality in literacy and primary and secondary education. World Bank research demonstrates that investment in girls' education reduces female fertility rates; lowers infant and child mortality rates, lowers maternal mortality rates; increases women's labor force participation rates and earnings; and fosters educational investment in children. All of these outcomes not only

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improve the quality of life, they also are foster faster economic growth. Bank members have recently adopted a new Gender Equality as Smart Economics Plan to reduce the barriers to female participation that marginalise women in low-paying jobs or bar them from the workforce altogether in many developing countries. The economic benefits of scaling back such barriers can be substantial. For example, a recent Report by the United Nations Economic and Social Commission for Asia and the Pacific Countries found that restricting job opportunities for women is costing the region between \$42 and \$46 billion a year. Research by the World Bank demonstrates that the costs of similar restrictions has also imposed huge costs throughout the Middle East where decades of substantial investment have dramatically reduced the gender gap in education and health but these benefits have the gender gap in economic opportunity remains the highest in the world, with only about one-third of women participating in the workforce. Based on the compelling evidence of the links between sustainable economic development and female education and employment opportunities, the world community has adopted gender equality as one of the Millennium Development Goals.

But the benefits of greater economic opportunity for women are certainly not limited to developing countries. For example, according to recent research by Goldman Sachs economist Kevin Daly, a reduction in the male-female employment gap has been an important driver of European economic growth in the last decade. And closing this gap would have huge economic implications for the developed economies, boosting US GDP by as much as 9%; Eurozone GDP by as much as 13% and Japanese GDP by as much as 16%. Reducing gender inequality in these countries could play a key role in addressing the future problems posed by ageing populations and mounting pension burdens. Moreover, Daly's results confirm that in countries in which it is relatively easy for women to work and to have children, both female employment and female fertility both tend to be higher.

Over the past few decades, both developed and developing countries have made substantial progress in educating women and improving their health outcomes. In many developed countries, women now account for more than half of the college and university graduates and many developing countries have dramatically reduced gender gaps in literacy and primary/secondary education. Yet even in developed countries whose dependence on knowledge industries and knowledge workers is large and growing, there are still significant gaps in the job opportunities for women

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and in the wages paid to women compared to their male counterparts and these gaps are even larger in most developing countries.

Women account for half of the world's population and half of its talent. The costs of not developing and using this talent are huge. Women have come a long way, but there is still a considerable way to go. The good news is that a growing number of business, political and societal leaders around the world are embracing gender equality as a policy priority.

**About the author:**



**Laura Tyson** is Professor, Business Administration and Economics at the Haas School of Business, University of California at Berkeley, and formerly Dean of London Business School, and Dean of the Haas School of Business, at the University of California at Berkeley. Dr Tyson served in the Clinton Administration and was the Chair of The Council of Economic Advisers between 1993 and 1995, and the President's National Economic Adviser between 1995 and 1996. She has published books and articles on industrial competitiveness and trade and on the economies of Central Europe and their transition to market systems. Dr Tyson is a member of the Boards of the Council on Foreign Relations, the Brookings Institution, the Institute of International Economics, Bruegel, Eastman Kodak Company, Morgan Stanley Company, and AT&T.

# Civil Society and Responsible Competitiveness

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By **Kumi Naidoo** and **Lorenzo Fioramonti**

In 1995 at the very first CIVICUS World Assembly in Mexico City, David Rockefeller spoke of the vital role business plays as society's engine of new wealth creation. Rockefeller emphasised that this central role of business in society represented an inextricable bond with civil society.

Many practitioners within civil society, but also in business and government recognise the vital role that non-state actors play in promoting sustainable development and have insights into how this relationship can be strengthened. Civil society and business interact at different levels, particularly through corporate philanthropy schemes and corporate social responsibility projects. In the past few years, private sector donations have significantly contributed to increasing and diversifying the resources available to civil society organisations. However, the relationship is not all one way. Social responsibility initiatives have provided an additional opportunity for the two sectors to collaborate and identify common goals. And some civil society organisations are seeking more actively to hold the businesses to account for their social and environmental impacts through lobbying, campaigns, boycotts and, at times, lawsuits. At the same time, non-engagement has also been a strategy for certain civil society groups and corporations convinced that a too close relationship would be detrimental to their own goals and undermine their accountability to different stakeholders, be it the citizens or the investors.

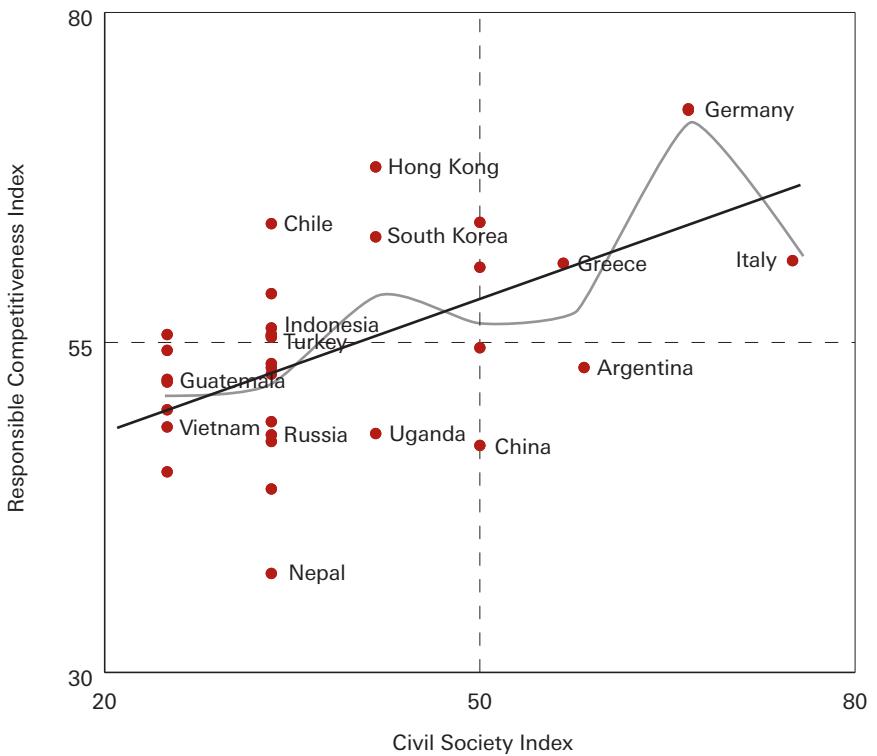
Through this contribution, we analyze the findings of the CIVICUS Civil Society Index (CSI)<sup>1</sup> in light of the research conducted for the Responsible Competitiveness Report. Our aim is to understand whether a strong and engaged 'third sector' within a country is a key factor in developing an environment of responsible competitiveness for business. In the following sections, we discuss the relationship between civil society's impact and the state of responsible competitiveness and corporate accountability in a number of countries from Western Europe, to Latin America, Sub-Saharan Africa, the Middle East and Asia Pacific.

## **Civil society and Responsible Competitiveness**

Figure 1 shows the distribution of a number of countries along two main dimensions, the Responsible Competitiveness Index 2007 and the CSI assessment of civil society's impact on the private sector (adjusted to percentages).



**Figure 1: Civil society's impact on private sector and responsible competitiveness (%)**

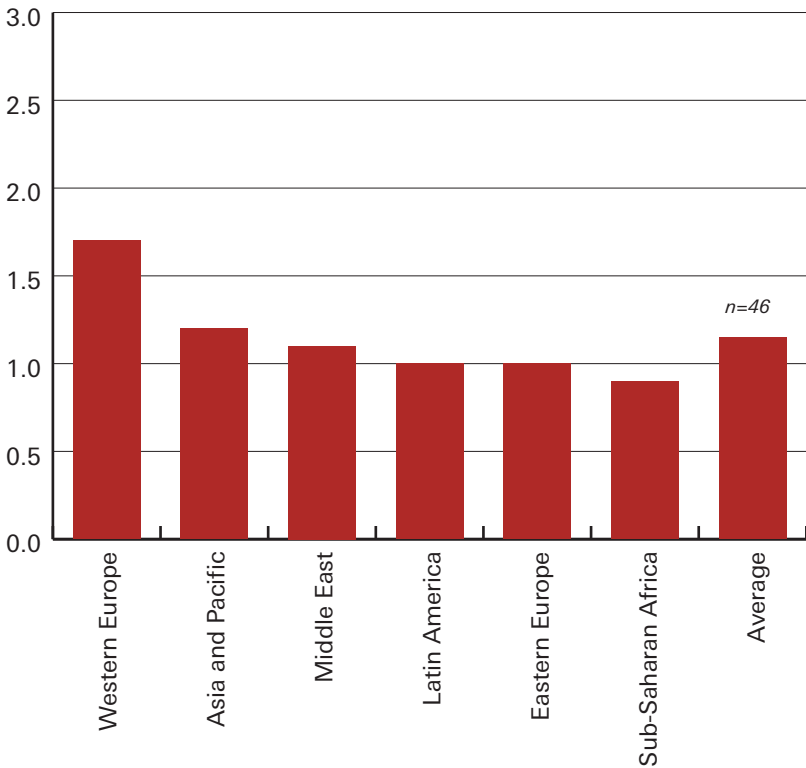


Selected countries labelled

As Figure 1 indicates, most countries are close to the regression line ( $R=0.30$ ). This indicates an important relation between responsible competitiveness and civil society's impact on private sector's policies. Although most countries group around the central line, there are significant outliers (as the curve also indicates). There are important cases (such as Chile and Hong Kong) where responsible competitiveness is comparatively higher than civil society's impact on the private sector. At the same time, most countries at the bottom of the graph (particularly, Nepal, but also China and Mongolia) show that average levels of civil society's impact on the private sector can co-exist with comparatively lower scores on the index of responsible competitiveness.

Thus, understanding what type of relationship exists between business and civil society is quite critical. In this regard, the CSI offers an additional perspective as it collects information regarding how civil society stake-

**Figure 2: Business-civil society relationship (civil society stakeholders' perceptions)**



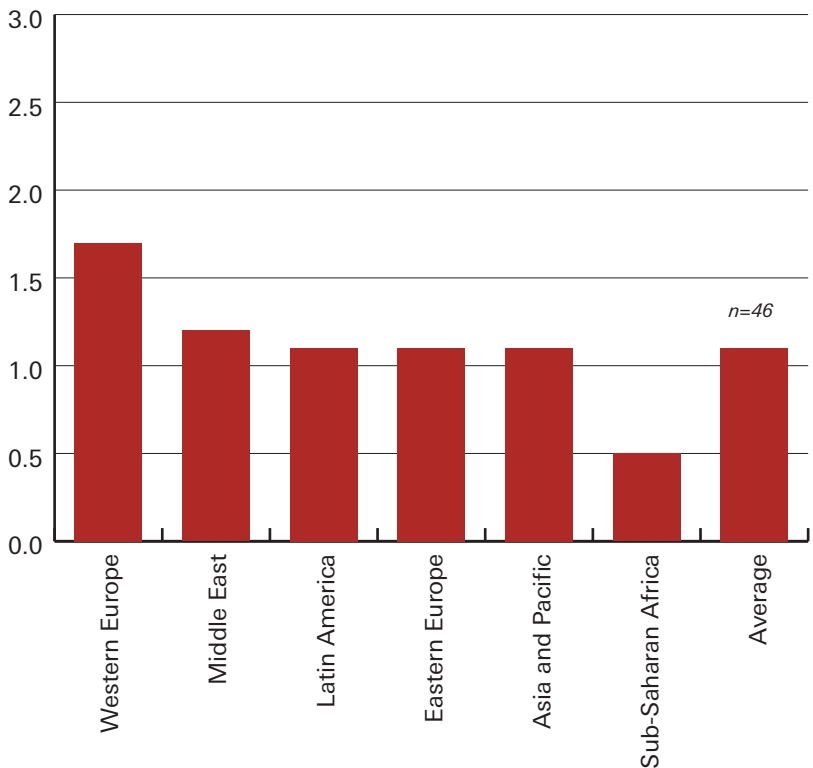
holders evaluate the engagement between business and civil society in their own countries (Figure 2).

As emerges clearly from the data, civil society activists and stakeholders perceive the quality of business-civil society engagement to be consistently low. On a scale between 0 (generally adversarial relation) to 3 (generally conducive relation), the global average for business-civil society engagement is 1.15, indicating overall 'indifference' between both actors.<sup>2</sup> Only in Western Europe does it appear that business and civil society have gone beyond cold to lukewarm in their relationship.

This is partly confirmed by the CSI studies on corporate social responsibility, which are based on the perceptions of civil society activists and the information available to their organisations (Figure 3).

Western Europe is the region where the business-civil society relationship is rated as highest by civil society, and also where corporate social respon-

**Figure 3: Corporate social responsibility as seen through the eyes of civil society**



Scores range from 0 (major companies show no concern about their social and environmental impact) to 3 (major companies take effective measures to address their social and environmental impact)

sibility practices are seen as most developed by civil society organisations. Nevertheless, according to the CSI studies, this has not yet created the conditions for a fully mutual engagement. For example, in Scotland, which is one of the countries with the most enabling regulatory frameworks for philanthropy and business-civil society engagement overall, the CSI National Advisory Group conceded that, in spite of some occasional “good examples of individual private companies, it generally appeared as if the private sector is uninterested in what civil society does”. The Italian CSI report also notes ironically that, although regulations have changed and there is an increasing interest in civil society by business, most companies still operate according to the old adage of “what is good for a company is good for society”. In Greece, public opinion polls reveal that eight out of ten citizens dispute the sincerity of business’ interest in civil society by claiming that private companies only support civil society to improve their public image.

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A common trait, which seems to cut across regions, is that large companies (particularly multinational and foreign companies) are more accustomed to corporate social responsibility and are generally keener to involve civil society organisations in these areas. However, this does not always mean that their commitment to CSR is as strong. As reported by the Mongolia CSI study, “large companies only pay lip service to business ethics, but do not assume responsibility for extensive harmful social and environmental effects of their work”.

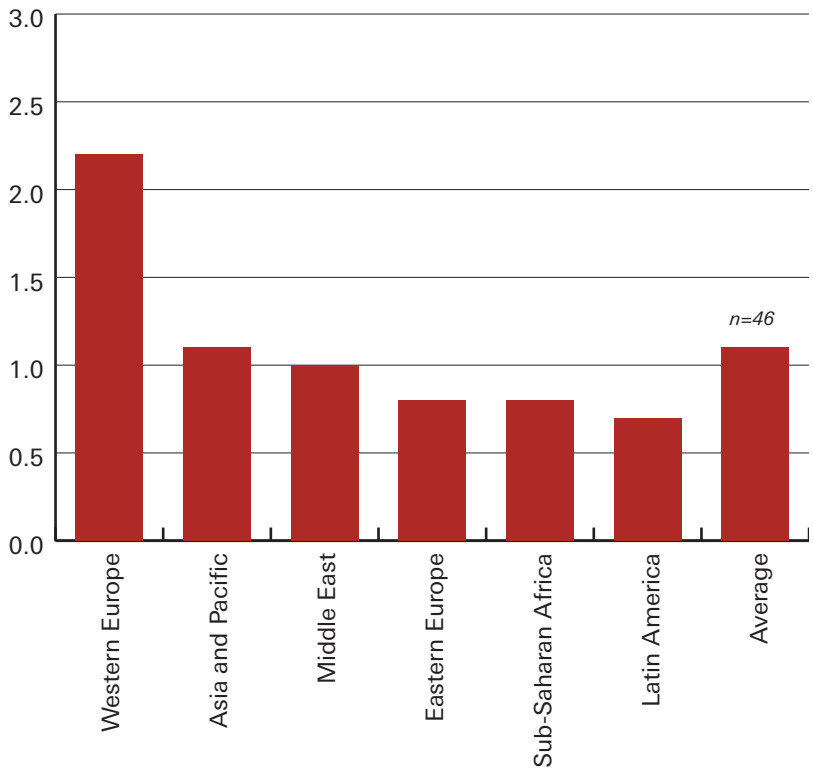
Civil society does not only engage business by seeking to strengthen its social responsibility and promote responsible competitiveness, but also by holding it accountable to society at large. Thus, against the backdrop of a business-civil society relationship perceived to be marked by ‘indifference’ by civil society stakeholders, who also feel that social responsibility policies are underdeveloped in most countries, it is worthwhile analysing how civil society performs when it comes to demanding corporate accountability and responsible competitiveness.

Once again, Western Europe is the region where civil society is most effective in holding private corporations to account (see Figure 4).

In CIVICUS’ experience, these findings point to the importance of contextual factors for civil society’s capacity to hold corporations accountable. In many developing countries, for instance, legal regulations in terms of conflict of interest are not particularly advanced. In consequence, political elites often have significant shares in large companies. This close connection between politics and business affords many large companies a privileged treatment (at times, even a sort of ‘immunity’), which makes it quite difficult for civil society organisations to hold them accountable. Moreover, in countries where civil society is repressed or socio-economic conditions are harsh, corporate accountability and responsible competitiveness might be less of a priority for civil society organisations.

As reported by most CSI reports, when corporate accountability campaigns do not target business directly, they have two other potential audiences: government or citizens. In situations where political and legal conditions are conducive for accountability demands to be placed before the judiciary (e.g. through class actions), various civil society organisations such as consumers’ associations, environmental groups and trade unions mainly resort to legal instruments to impact on corporate policies. However, where legal frameworks do not offer avenues for civil society to

**Figure 4: Civil society's promotion of corporate accountability**



Scores range from 0 (no relevant civil society's activities in corporate accountability) to 3 (civil society plays an important role in corporate accountability)

hold business accountable, civil society organisations have to rely on mass-based initiatives such as boycotts and strikes if they aim to exert some impact on corporations. However, when citizen participation is limited and socio-economic conditions do not allow for most people to join campaigns, then corporate accountability through mass mobilisation is only possible when the issues at stake are of direct relevance to the lives of the people (e.g. anti-privatisation protests in Bolivia, campaigns against the abuses of mining companies in Ghana).

## Conclusion

This analysis defies the assumption of an inverse relationship between private sector funding to civil society organisations and civil society organisations' capacity to promote corporate accountability and responsible competitiveness. In fact, the CSI data shows that those countries where business-civil society dialogue and corporate social responsibility are the

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lowest, are also those in which civil society is least interested or able to hold business accountable. However, countries that enjoy favorable legal environments, significant citizen participation and better socio-economic contexts are those faring best in terms of business-civil society engagement and corporate accountability. Both the data and practical experience seem to indicate that where civil society is more developed and civil society organisations play roles ranging from direct service delivery to advocacy, they can be more effective in holding business accountable. Such an outcome is probably due to the fact that the countries where civil society activism is supported by a favorable legal and social environment are also those in which business has become more open to cross-sectoral engagement and social responsibility requirements. This confirms that 'policy drivers' and 'social enablers', as indicated by the Responsible Competitiveness Index, are also key factors affecting the capacity and willingness of civil society and business to promote mutual engagement and accountability.

Finally, it must be noted that the success of corporate accountability depends not only on civil society's capacity to interact with business and develop some form of linkages with likeminded actors within the private sector, but also on civil society's resources and skills. Not all civil society organisations have the resources (not only financial but also technological) and the expertise to conduct investigations into corporations' behavior. In our view, a key recommendation would be to institutionalise forums for genuine engagement and joint consideration of the common interests of business and civil society. Unfortunately, most of the models that we see developing in several countries are still too dependent on the leadership skills and commitment of the individuals involved.

#### **About the authors:**



**Kumi Naidoo** has been CIVICUS Secretary General since 1998. He was appointed by the UN Secretary General to the Panel of Eminent Persons on UN Civil Society Relations and serves as an advisory board member for the UNDEF, UNIFEM and the Clinton Global Initiative. He is a board member of the Global Reporting Initiative and chairs the Partnership for Transparency Fund, which supports civil society's anti-corruption endeavors.



**Lorenzo Fioramonti** is a Senior Researcher at CIVICUS: World Alliance For Citizen Participation and scientific editor of the CIVICUS Global Survey of the State of Civil Society. Comparative Perspectives (Kumarian Press). He serves as an Advisory Board member for the Business Guide to partnering with NGOs and the UN, an initiative promoted by Dalberg Global Development Advisors and UN Global Compact.

## Endnotes

- 1 The CSI is a participatory-research project that assesses the state of civil society by relying on existing data, opinion surveys, media reviews and civil society activists' perceptions. During 2003-2006, the CSI was implemented in 54 countries. For more information, please visit [www.civicus.org](http://www.civicus.org).
- 2 This is a global average, which hides the fact that in some countries the relationship can be better developed, while on others it might be of total hostility and distrust.

# Can Faith Build Competitiveness?

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By **Ambreen Waheed** and **Faiz Shah**

*“A lot of the factors that result from Islamic law are actually good long-term investment strategies anyway”*

David Kathman, Analyst, Morningstar

## **Is Responsible Competitiveness really something new?**

The term ‘Responsible Competitiveness’ moves the discourse on corporate social responsibility (CSR) beyond the individual business case for better treatment of people and the environment, towards an understanding of how business models and markets can enable and reward responsible business practise. Indeed, one reason why the world might not have swung behind the standard-bearers of the CSR business case, even after initial promise, is because within the prevailing economic paradigm businesses simply do not find sufficient economic justification for investing in CSR performance.

Responsibility in business, however, is nothing new. Trust, fairness and integrity have always played a key part in individual business success. Similarly societies have always sought ways to ingrain the values of fairness, security, and protection of the weak and guide individuals and businesses towards socially sanctioned roles, rules and relationships.

As we seek to develop new models for promoting responsible competitiveness within societies and economies, and across global boundaries it is useful to examine some of the most long-standing value-based frameworks, those encompassed and transmitted through religion. In particular this essay looks at the way Islam has sought to enshrine societal good within the paradigm of economic activity.

A fundamental Koranic injunction that underpins Islamic principles of trade is the complete prohibition on *riba*, translated often as “usury”, but perhaps more accurately interpreted as an exploitative financial relationship where one party is compelled to assume the entire risk of the enterprise while the other simply shares the reward. This strict stance on unfair risk assumption emanates from the concept of Justice or *Adl*, that is at the root of social equity in Islam.



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A review of emerging socially responsible investment trends show that within the value-based investment segment, products designed in conformance with Islamic precepts are gaining popularity. Also, in the retail financial markets for housing or consumer products, those projecting Islamic principles of risk-sharing are performing competitively. Whether the world of finance and trade is on to a new way of doing business is perhaps too early to say. However, with equity and disclosure becoming core issues within the area of business ethics, it is likely that the world will see more faith-based or value-driven alternatives.

### **An Islamic perspective on Responsible Competitiveness?**

*“Business is considered a preferred vocation for a Muslim because it is seen as having the greatest capacity for societal good and large-scale economic impact”*

Islamic teachings seek to encourage the spirit of entrepreneurship, but define clear moral and societal limits, to prevent exploitation. Social responsibility is central to Islamic business principles, with well-defined responsibilities for entering into contracts, guaranteeing quality, ensuring ethical dealings, and securing accountability.

The Koran is unequivocal in its condemnation of unfair business dealings. Injunctions governing principles of trade emphasise the concept of *Adl*, wherein a business is encouraged to seek profits but is required to conduct itself with honesty (*Amaanah*), for the good of society (*Ihsaan*) and in the public interest (*Istislaah*). Ancillary principles include spending on social causes (*Infaaq*), faith (*Tawakkal*) and moderation (*Iqtisaad*). To conform to socially just principles makes profits “preferred” or “favoured” (*Halaal*), whereas greed (*Hirs*), hoarding (*Ihtikaar*), profiteering (*Iktinaaz*), injustice (*Zulm*) or waste (*Israaf*) threaten to render profits “prohibited” (*Haraam*). Fair trade within free markets is encouraged and productivity considered a virtue. Through the mandatory obligation to share wealth (*Zakaat*), businesses as a rule go beyond profits and share with the less fortunate.

Indeed, these values are also discernible with varying emphasis in most moral codes. However, perhaps unique to Islam is the way risk is addressed through the prism of societal norms. A business run on Islamic lines does not allow for unfair assumption of risk, and operates on the principal of risk sharing at each level of the trade chain.

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The rationale being that by recognising risk as inherent to every business transaction and adjusting for it, every transacting party, from producer to trader to end-user, secures others as well. The result is a less exploitative business environment, greater equity and prudence in dealings, and a discouragement to speculative opportunism.

*“An unproductive hand is like an unclean hand. The way to economic achievement is by hard work and the assumption of risk.”*

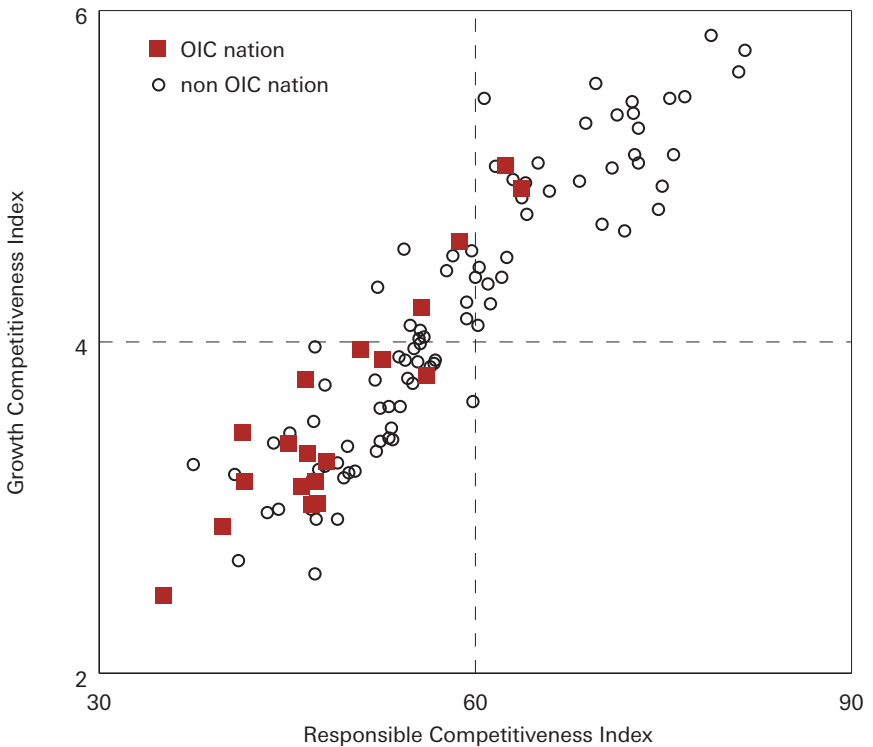
Muhammad

This holistic, societal view of business is distinct from other prevailing models of business in that it makes establishing *Adl* and equity in society as much of an incentive for business as it does the making of *Halaal* profits. Thus, in an ideal Islamic society economic activity is embedded in societal values, where business must remain firmly within what is *Halaal* and avoid what is *Haraam*. Thus Islamic injunctions on trade take a clear position on society’s need to reward social good and encourage responsible competitiveness. Of course faith-based systems also hold out one reward, and one ultimate source of accountability not considered possible within secular systems of profits and business regulation. For believers, the ‘business case’ for socially responsible or *Halaal* profits is maximized by the promise of judgement and reward in the after-life.

### **Reality check: can it work?**

The fifty-seven member countries of the Organisation of Islamic Conference (OIC) are home to 20% of the world’s population. Between them they provide 70% of the earth’s energy resources, and 40% of the raw materials that global industry relies on. Yet the collective Gross Domestic Product of all OIC members put together accounts for less than 5% of the world’s GDP, and their mutual trade is a mere 7% of the volume of international business. It is not surprising then, that 31 out of the 57 (54%) are classified as “least developed low-income” countries. What appears to be common among these countries apart from their general failure to leverage their significant natural and human resources to wrest competitive advantage in a globalizing business environment. The gap is set to grow between states that are able to compete in a global economy and those that cannot.

**Figure 1 The Performance of Islamic States on Responsible Competitiveness and Growth Competitiveness**



Source: Growth Competitiveness Index, World Economic Forum 06/07

Yet, in an interesting paradox, out of the four countries identified in a 2007 Grant Thornton report as having the biggest potential impact on the global economy, three are OIC members. What do Indonesia, Malaysia and Pakistan have in common that places them as world favourites for business opportunity while their OIC peers lag behind? The answer might well lie in these countries choosing to allow parallel, faith-based business thinking to take mainstream roles. Whether it is micro-finance in Indonesia, Islamic Banking in Malaysia or a blend of both in Pakistan, it appears that these hitherto experimental approaches have created large-scale business opportunity in a rapidly expanding niche. In the vanguard of this alternative model is the *riba*-free financial services industry estimated to be growing 15-20% annually from total assets of \$166 billion in 1995. And there is evidence that established financial service providers in the West are developing *riba*-free products because of expanding potential even among non-Muslim clients.

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*“Islamic finance, if inserted in a new paradigm, could be a viable alternative to the socio-economic crisis lived by the Western paradigm.”*

Al Harran, 1996

In the case of Pakistan, despite poor competitiveness in the country’s textile industry, Foreign Direct Investment in other sectors is on the increase, stock markets are booming and new products such as interest-free banking and insurance are expanding faster than conventional competitors.

What is telling in this example is that apart from privatisation of state monopolies this growth owes much to the increasing demand for *riba*-free profits from the expanding middle-class. While Pakistan and other Islamic societies are clearly a long way from establishing *Adl*, what some of them have managed to demonstrate is that their values and search for profit are compatible.

At a general level this might well suggest that that faith-based values, in this case Islamic injunctions, can be a useful ally in developing a viable model of responsible business made relevant to today’s paradigm. And who knows, given the rising demand, building on these successes could lead us into a new era of responsible competitiveness among countries that claim Islam as their guiding creed, and thus widen economic opportunity within, among and beyond Muslim countries.

**About the authors:**



**Ambreen Waheed** is the Founder and Executive Director of the Responsible Business Initiative, the only citizen sector organisation dedicated to corporate responsibility in Pakistan. She sits on the Board Nominating Committee of the Global Reporting Initiative, the Steering Board of the United Nations Global Compact and the South Asia Alliance for Responsible Business. She was a founding member of the Asia-Pacific CSR Centres Group and authored the Pakistan’s first Corporate Social Responsibility Status report.



**Faiz Shah** heads an institution-development organisation in Pakistan, and advises governments, companies, NGOs and UN programs on change management and institutional reorganisation. Presently visiting faculty at Punjab University, he has lectured at AIT Bangkok, Michigan Business School, and the Wharton School, trained grassroots government and community leaders in Cambodia, Nepal, Pakistan and Sri Lanka, and oversee over 300 community service projects. He has led Pakistan's largest sportsball company, and is a co-founder of Responsible Business Initiative.

# Building Competitive Advantage through Responsible Business Practices

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By **Jean-Philippe Courtois**

Competitiveness for the 21st Century is increasingly around the central role of technology and innovation in today's economy and society. Information and Communication Technology (ICT) is becoming central in fields as broad as healthcare, education, tourism and manufacturing, the service sector and also international development. Around the world, governments and private companies need to work in partnership, building on their core expertise, to create synergies in the provision of quality products and services in these areas.

Embedding responsible business practices at the heart of our business strategy is critical for the sustained success of Microsoft. Globally, we are providing products and services that help build social inclusion, foster innovation and local economic development and promote environment protection around the world. These three pillars of sustainable development each present a challenge for innovative solutions, but also exciting opportunities.

Microsoft is adopting responsible competitiveness strategies across its business strategy and processes. In practice this means that we are building positive spill-overs in a number of different arenas. To illustrate this in practice, I would like to refer to three examples amongst the many activities we are undertaking as part of our global Unlimited Potential initiative:

- ❖ in Europe we are working with partners to build human capital and skills for employability
- ❖ across Africa we are providing opportunities for regions and countries to benefit from technology
- ❖ globally, we are innovating software solutions to understand one of the largest challenges of them all: climate change.

## Building employability in Europe

About 18 million people in Europe are currently unemployed and lacking the foundational ICT skills necessary to effectively participate in the 21st Century knowledge economy. ICT is a key vehicle for employability and job creation in Europe, and we are empowering people to get and keep jobs, to improve workplace productivity and ultimately raise Europe's competitiveness.

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We are working to train Europe's workforce, particularly those people further away from the labour market – the unemployed, immigrants, young people with low levels of education and workers from traditional industries under pressure from global competition. In recent years, we have built a network of partnerships and investments that have already provided certified IT skills training to over half a million teachers through the Microsoft IT Academy program across Europe and over 500,000 people have graduated from our IT academies on a yearly basis. We have reached over 3 million learners in community technology centres and supported over 3 million students with access to the software and curriculum to equip them with the skills required in the workplace. Our focus has been on the unemployed, those who have dropped out of formal education but also workers over 50 in declining industries – who can benefit from new skills to build confidence, extend their working lives and remain included in the digital society when they retire.

Market surveys reveal that e-skills are a key to employment and inclusion in Europe. E-skills are increasingly the entry-ticket to the job market and to better jobs. It is clear that as a company we have a key role to play in helping Europe achieve higher employability of the workforce. But even for a company as large as Microsoft, we need alliances and deep partnerships across the employability value chain to address the challenge of “more and better jobs”. That is why we are a founding member of the European Alliance on Skills for Employability. Through this partnership with Cisco Systems Inc, Randstad, State Street Corp, EXIN, ECDL Foundation, CompTIA and others we aim to provide 20 million Europeans with access to technology, content, certification and training in computer technology and other skills by 2010.

The European Alliance on Skills for Employability is crucial to enabling European citizens to reach their potential and acquiring the foundational ICT skills to enable people to effectively participate in the 21st Century knowledge economy. To date the Alliance is having very positive results and is effectively providing new opportunity and jobs in Belgium, Luxembourg, Germany and Scotland.

One example of how we are delivering on our commitments comes from Portugal. Through our Community Technology Skills program, we are working with a textile trade association to help retain older workers and other groups in the textile industry who have been laid off due to jobs being relocated to lower cost countries. The sector employs about 20,000

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workers, many of whom are older people who, without training, would be forced into retirement with little financial security. By joining with the Technological Centre for the Textile Clothing Industries of Portugal, or CITEVE, we work to enhance workers' long term employability prospects through creating new skills and enabling them to receive internationally recognised qualifications.

We recently joined forces with other industry leaders to launch the e-skills Industry Leadership Board. The Board will work in close cooperation with the European institutions to implement the EU's long term strategy on e-skills for competitiveness, growth and jobs.

### **Creating competitive advantage in Africa**

Access to ICT is often less in developing countries, and regions risk being further marginalised as access to information and knowledge is increasingly the main source of competitive advantage. Microsoft is working to enable governments and organisations in Africa to apply technology to practical problems to increase competitiveness in global markets. We believe ICT offer special opportunities to stimulate growth and increase innovation in every local setting, thereby enabling individuals and institutions to interact more productively with the global economy and the wider world. While we do not suggest that technology alone generates development, it must be part of a mix of productive changes and supporting capabilities. Resources must be matched by resourcefulness – combined with other initiatives by local leaders, educators and entrepreneurs to achieve local and global development goals.

Through strategic partnerships with governments we seek to strengthen the knowledge driven economy. This will involve increasing the use of ICT in public administration, training civil servants with the skills to utilise technology and embedding ICT in the education and business communities. This approach to economic development through partnership is an effective way to enable developing countries to seize the opportunities offered by new technologies. At the EU Africa Business Forum in June 2007 we demonstrated three collaborative programmes, addressing each of these key objectives:

- ❖ *Fostering Local Innovation in Health*: we aim to use our information and communication technology expertise to address pandemic and broader public health monitoring needs across the continent. At the EU Africa



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Business Forum in June 2007 we announced that working together with Nokia we are working on the development of a mobile public health solution. Utilising our combined ICT expertise, the solution will connect health professionals and government officials, linking field clinics and hospitals with central government administration. This solution will facilitate local tracking of public health information, especially relating to infectious diseases, allowing effective planning and management of potential incidents. Doctors and health professionals will be connected via mobile phone to centrally held databases that will allow them to input data via SMS. This will allow a comprehensive and up-to-date picture to emerge of a country's current health needs, and provide an early warning system for health pandemics and other public health concerns.

- ❖ *Transforming Education:* continuing to work with NEPAD and our consortium partners on the eSchools initiative to develop scalable and sustainable programmes to integrate ICT access and training into education in Africa. One of Microsoft's flagship commitments is its participation in the Information Society Partnership for Africa's Development, part of the New Partnership for Africa's Development. We are working on three key projects: eSchools, eParliament and eTourism; of which eSchools is the furthest advanced. The concept of the eSchools initiative is for five separate consortia to develop a model that will be further deployed to connect 600,000 schools across the continent. As stated by NEPAD, "this is the first time that African governments, NEPAD and the private sector are cooperating on an ICT project of this scale and scope". The Microsoft consortium is currently working in 25 schools throughout Kenya, Lesotho, Mauritius, Cameroon, Senegal, Mozambique and Rwanda.
- ❖ *Stimulating Growth and Jobs:* we are working with UNIDO to support entrepreneurship, promote investment and help create business opportunities, especially for small and medium-sized enterprises (SMEs) in Africa. The "Investment Monitoring Platform for Africa" is a broad based enterprise survey institutionalised by UNIDO designed to support private sector driven development. Together with Microsoft, UNIDO has developed an online tool that links policy makers and intermediary institutions in the countries with the private sector and civil society through an interactive interface. It is designed to drive evidence based advocacy in order to secure broader political support for a continuous investment governance reform process to support private sector driven development. It helps companies to assess trends and identify growth areas by mining the data on the platform; to benefit

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from a more open and transparent public-private partnership that brings predictability to reform processes and business scenarios, to carry out comparative analyses of different investment locations and comparisons of the actual operating performance of enterprises in different countries. Through the Platform, national authorities will be able to benchmark the attractiveness of their markets for different categories of investors and pin point areas that need the most urgent improvements; to formulate reports, test strategies and options and use empirical evidence to demonstrate the benefits of foreign direct investment and domestic private investment.

The database of over 20,000 enterprises operating in 30 African countries will enable the compilation of regional indicators such as future oriented indexes (investment flows, employment and skill requirements, etc.) and will facilitate monitoring of the impact of different groups of investors on the domestic economy.

Together with UNIDO we recently announced an initiative for refurbishment centres in Africa to address the hardware, software and training needs of small-scale entrepreneurs.

- ❖ It is based around a sustainable business concept that will provide zero landfill recycling of e-waste as well as knowledge transfer and new business opportunities for local businesses.
- ❖ The project will be piloted in Uganda with the objective to create a model for a pan-Africa initiative.

These initiatives are part of our global Unlimited Potential initiative. It is a commitment to serve the estimated 5 billion people who are not yet realising the benefits of technology. Through this long-term commitment, we firmly believe that it will be possible to build and sustain a continuous cycle of social and economic growth. Building partnerships with public and private organisations is an effective way to promote a comprehensive and coordinated approach to tackling many problems in developing countries and emerging economies.

### **Software solutions to understand climate change**

Technology has the power to make a positive, long-term contribution to responding to the world's environmental challenges. Microsoft has joined

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forces with the Clinton Foundation to develop a suite of tools that will enable cities to accurately monitor, compare and reduce their greenhouse gas emissions.

This partnership will increase environmental awareness and drive sustainable change that will help cut global carbon emissions. Using the knowledge base devised by Local Governments for Sustainability and the Centre for Neighbourhood Technology, we have built new software tools to develop a Harmonised Emissions Analysis Tool (HEAT).

We are proud to be working with partners to develop a single web solution which will empower cities to address shared global environmental issues. With this information, cities can improve their energy efficiency, reduce carbon emissions and make informed choices. These software tools will support collaboration, enable cities to work together to monitor their emissions and build a culture of sharing best practice. While this software is innovative, it complements existing tools, allowing the export and import of data from other systems, to create improved monitoring.

Since August 2006, the Clinton Foundation has been in partnership with a consortium of 40 of the world's largest cities committed to fighting global warming, the *Clinton Climate Initiative*. The online tools developed by this initiative and Microsoft will provide these cities and serve as a global standard for cities in their climate change accounting, mitigation and communications efforts.

Working with World Wildlife Fund, Intel Corporation, Google, Dell, EDS, the Environmental Protection Agency, HP, IBM, Lenovo and other organisations, we recently announced the formation of the *Climate Savers Computing Initiative* ([www.climatesaverscomputing.org](http://www.climatesaverscomputing.org)). The goal of this new broad-based environmental effort is to save energy and reduce greenhouse gas emissions by setting aggressive new targets for energy-efficient computers and components, and promoting the adoption of energy-efficient computers and power management tools worldwide. The Climate Savers Computing Initiative is setting a new 90 percent efficiency target for power supplies, which if achieved, will reduce greenhouse gas emissions by 54 million tons per year – and save more than \$5.5 billion in energy costs.

There is an opportunity for businesses and individuals throughout the world to work towards better power management of their computing equipment and purchase energy-efficient computers and software.

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## Developing a sustainable strategy

Information Communication Technology has a tremendous potential to connect communities and create sustainable social and economic growth. Building and maintaining the infrastructure for the growth of a knowledge economy, encouraging entrepreneurship across all business sectors and supporting ICT in education create a powerful engine for increased economic output and development. Microsoft is committed to working with governments, local partners, companies and civil society to build sustainable solutions to solve local problems and benefit from technology. Microsoft needs to be a strong and willing partner to build alliances to create positive spillovers to solve pressing social, environmental and economic problems. Engaging in these initiatives provides opportunities for us to learn, develop and innovate.

Embedding responsibility at the heart of business operations is the only way to ensure success in the 21st Century, and we believe the only way for Microsoft to build sustained value across all our operations. We applaud the work of AccountAbility and its partners to develop research and applied knowledge on Responsible Competitiveness. We are proud to have participated in this work which enabled us to learn and integrate ideas in the development of our strategy.

The State of Responsible Competitiveness is in constant evolution. Fostering dialogue and exchanges as the ones enabled through this report is an important milestone alongside the drive for innovation and concrete application of our business strategies and social practices.

### About the author:



**Jean-Philippe Courtois** has worked in a range of senior executive roles in his 22 years at Microsoft. As President of Microsoft International, he leads sales, marketing and services for all regions outside the US and Canada and also shares responsibility for Microsoft Corp's worldwide public sector team. He has been a member of CSR Europe, the Advisory Council of the European Policy Centre and co-chairman of the World Economic Forum's Global Digital Divide Initiative Task Force. Jean-Philippe is a graduate of the École Supérieure de Commerce at Nice.

## **Country and Regional Profiles**



# CSR and Competitiveness: A View from the European Commission

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By **Günter Verheugen**

Creating the best conditions for economic growth and job creation is a top political priority for the European Union. Achieving growth and employment are crucial for offering a better quality of life to our citizens, and necessary for defending and advancing those values that are important to us, such as sustainable development and social inclusion.

Let us be clear, our economic and societal system is based on private initiative. Growth and jobs will not be created solely by public administrations or whatever ingenuous policies – they can only be created in a sustainable way by the readiness of the people to explore business opportunities. Anybody who decides to take up the risk, invest money and skills into a venture, upgrade his or her skills to find a job more easily, or to participate in any other way in the economic system should get due recognition. This is the prime means for all of us to contribute to the achievement of the common objective of shared prosperity.

My perception of corporate social responsibility (CSR) reflects this strategic vision while going one step further. Social responsibility of European enterprises should not only be seen as a by-product of their economic success, and still less as a constraint imposed by legislation, but rather as one of its drivers. I am convinced that tomorrow's marketplace will reward the ability of enterprises to understand and meet the expectations of society, beyond simply complying with regulation and meeting basic consumer demand. Successful companies, large and small, will be those that will have risen to the challenge of integrating CSR into their business strategy and purpose.

In a more visionary way, CSR can be seen as a critical factor for the preservation of our economic system as we face the challenges of the 21<sup>st</sup> Century. If businesses are seen as part of the problem rather than as part of the solution and if citizens believe that enterprises are not playing their part to defend our common values, we miss the chances globalisation offers us. Anyone who agrees that freedom and private enterprise are crucial to our search for prosperity and a better quality of life should therefore be concerned by surveys that suggest enterprises do not command enough trust in our societies. Credible and transparent CSR, properly coordinated with other stakeholder groups plays a crucial role in establishing the kind of climate which allows enterprises to fulfil their potential to the benefit of all.

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That is why, more than ever before, businesses of all sizes must consider their role in today's society when making strategic and operational decisions. And that is why the European Commission called on the European business community to step up its commitment to CSR going beyond mere compliance with legal requirements, and gave strong backing to the launch of the European Alliance on CSR in March 2006.

We are well aware that to be competitive in today's world, enterprises must be allowed to concentrate on developing the right strategies and innovative approaches instead of spending money and energy on coping with unnecessary regulatory burdens. They must be able to sell their products and services as easily as possible and employ workers who possess the skills that they need. The European Commission is committed to doing its utmost to contribute to the creation of an environment that will allow businesses to flourish. The business community's commitment to CSR is a necessary corollary to this strategy.

I am glad that the concept of marrying competitiveness and responsibility is gaining ground in European policy-making circles, and was endorsed in the European Parliament's recent resolution on CSR. Research on the non-trivial links between competitiveness and responsibility has recently advanced thanks to AccountAbility and its partner organisations. The European Commission is pleased to have been able to support the recent study they have carried out on how the concept might apply in three European industrial sectors: pharmaceutical, IT and financial services.

On a general basis, I see at least five areas where competitiveness and CSR reinforce each other.

First of all, the key word for competitiveness in today's knowledge-based economy is innovation, and the best enterprises have realised that CSR and innovation are intimately linked. Greater attention to social and environmental issues and closer cooperation with other stakeholders are catalysts for companies to develop new products and services and new business models. CSR is not just about protecting the value of an enterprise by avoiding actions that could jeopardise reputation and customer loyalty. It is also, and increasingly, about creating new value through the innovation that comes from giving more consideration to societal problems and from cultivating deeper relationships with a wider variety of stakeholders.



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Secondly, as change has become an everyday feature of our economic system, the capacity to manage it successfully affects not only business competitiveness but also the well-being of employees and citizens. Socially responsible businesses therefore need managers that are able to predict the development of the external environment and adapt in time instead of simply reacting to it by winding up their operations. This, in turn, will not only allow their businesses to prosper, but also help to safeguard jobs and reassure employees.

Thirdly, investments made by companies in the skills development and training of their employees are evidently in their business interest. But they also serve a wider social and economic purpose, helping us to remain competitive in the global knowledge economy and to cope with the ageing of the working population in Europe. As the average age of the working population increases and the pace of technological change accelerates, in-work training will take on a strategic importance for the economy and society at large that it has not had in the past. Similarly, enterprises with diversity policies that help them to actively recruiting more people from disadvantaged groups, also help to create higher levels of social inclusion, while tapping a so far underutilised labour force potential.

Fourthly, as climate change has become one of the major concerns of policy-makers across the continent and more and more across the world, business investments in eco-innovation and environmental management systems can help us work towards a more rational use of natural resources and reduced levels of pollution. At the same time, investments in environmental-friendly products and processes will allow companies to compete at the cutting edge of available technologies, which is to become a key for competitiveness as environmental awareness spreads around the globe.

Finally, while the European Union and its Member States spend large amounts of money on poverty reduction and on the promotion of good governance and human rights in developing countries, there is a growing recognition of the role of the civil society. Business, government and non-governmental organisations are working together constructively to promote respect for core labour standards, for example, and to make progress towards the UN Millennium Development Goals. Many companies have understood that acting towards a harmonious development of the countries and regions where they operate, while creating value for those communities, is beneficial to their business.

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These areas clearly demonstrate how CSR can contribute to individual businesses' competitiveness while helping us achieve wider political objectives. And of course good examples could be multiplied according to sectors, sizes of the businesses and areas of operation. That is why our strategy on CSR is a broad-based strategy. Enterprises of all sizes, large and small can contribute to society while gaining themselves from the benefits of responsible behaviour. The logic of responsible competitiveness on a macro or regional scale requires that we do not focus just on a small group of large multinationals that know and use the term CSR. Rather, it means recognising and maximising the "CSR" approaches of all enterprises, including small and medium sized ones (SMEs).

Indeed, many SMEs do many things that we might label CSR, whether or not they know or use the term themselves. Their relative flexibility and their close identification with the region or community in which they operate, give small businesses a specific position. It should come as no surprise that some of the world leaders in CSR are SMEs. The report of the European Expert Group on CSR and SMEs rightly points out that policy-makers and others would do well to give greater recognition to what SMEs already do in this field.

Looking to the future, although enterprises acting in a socially responsible way are key, only cooperation with all relevant stakeholders can ensure that companies and the society at large reap the full benefits of CSR.

**About the author:**



**Günter Verheugen** is currently Vice-President of the European Commission in charge of Enterprise and Industry with a leading role also in two key horizontal areas of the Commission's work namely Better Regulation and the Competitiveness Agenda. Born in 1944, Mr Verheugen studied history, sociology and politics in Cologne and Bonn. After beginning his political career in the Free Democratic Party (FDP) where he was General Secretary from 1977 to 1982, he joined the Social Democratic Party (SPD). He was for many years a member of the German Bundestag, from 1993-1995 as Federal Party Manager of the SPD and between 1998 and 1999 Minister of State in the Ministry of Foreign Affairs.

# Southeast Asia: Fostering Competitiveness through Mutual Accountability

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By **Anwar Ibrahim**

2007 marks the 10-year anniversary of the Asian financial crisis, an episode that undermined decades of confidence that had been built in the region's economic performance. Its impact was staggering. Millions were left jobless as companies, large and small, saw their assets evaporate overnight. The hardest hit economies in the region shrunk by an average of over 7%. This was a wake up call for those who had basked in the euphoria of years of accumulated wealth and who had become arrogant with success that came too easily.

Success that comes without exerting effort is destined for failure and indeed, arrogance borne of such success is but a mild metaphor for the evils that accompanied this period of seeming prosperity. In the post-recovery period the issue of responsible competitiveness is therefore of central importance to countries in Southeast Asia. After the crisis policy-makers realised that sustainable growth strategies and a more vibrant civil society were necessary to ensure greater accountability, reduce corruption and cronyism, and mitigate against rampant speculation and unsubstantiated economic growth. This entailed political reform as well as strengthening fundamentals through macro-policy adjustments and stricter rules governing corporate accounting and reporting practices. Given the relatively swift recovery, however, many of the systemic changes that are still badly needed have not yet been achieved. It is worthwhile to revisit the lessons learned, and quickly forgotten, not merely as a historical exercise in why the collapse happened at all, but also to chart a course for the future to ensure sustained competitiveness in a globalized economy while protecting against recurring systemic shocks.

Southeast Asia remains one of the most economically vibrant and culturally diverse regions on the planet. Eleven countries combine to export US \$650,000 million in merchandise and have for decades been fertile ground for foreign investments in textile, manufacturing and technology sectors. The region is home to the world's largest Muslim country as well as vibrant and rich cultures drawing from the traditions of Hinduism, Buddhism, Confucianism, and Christianity. In general these groups commingle in relative peace and harmony and form a bedrock for the creativity and innovation that has characterised the region's economy for many years.

Globalization presents Southeast Asia with a new set of challenges, for since the crisis, China and India have risen to new heights and occupied a

central role in the world's economy. Their ascent has made it impossible for nations in Southeast Asia to compete solely on the basis of labour costs. Wisely, some have demonstrated the potential to compete with the big-players in attracting foreign investment with sound policies that promote domestic comparative advantage and provide a favourable investment climate for overseas investors, in some cases by creating collaborative frameworks that resolve complex and contentious labour and manufacturing issues. In other corners the response has been less innovative. In some countries, persistent corruption coupled with obsolete legal frameworks mired in the philosophy of protectionism detracts investors and channels their much-needed capital to more favourable locations.

### Responsible Competitiveness in Southeast Asia

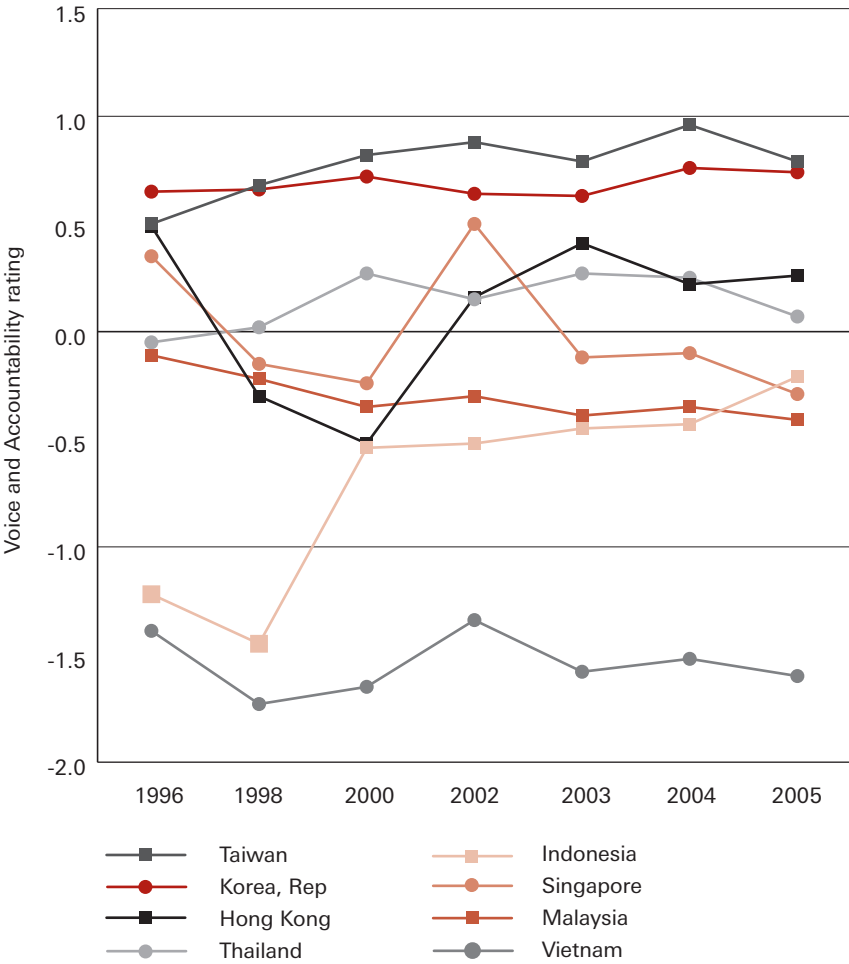
AccountAbility's Responsible Competitiveness Index goes some way in highlighting the link between responsibility and a competitive economy. Six countries from Southeast Asia are ranked in the 2007 Index, and among them we see that performance is varied. Singapore ranks 15<sup>th</sup> overall but in general the region is falling behind.

**Table 1: The Performance of South East Asian Countries in the Responsible Competitiveness Index 2007**

RCI Ranking 2007	Country	Responsible Competitiveness Index 2007	Policy Drivers	Business Action	Social Enablers
15	Singapore	71.3	83.7	74.4	63.5
25	Malaysia	63.7	82.3	68.4	59.2
37	Thailand	60.0	76.3	65.3	53.5
48	Indonesia	56.1	72.5	59.0	51.3
61	Philippines	54.0	74.5	60.9	37.3
99	Cambodia	44.3	75.4	50.9	38.6

These results should not come as a surprise. Broad based acceptance by the corporate sector of a framework for responsible competitiveness requires the buy-in of a critical mass of companies. Preventing such a scenario are deeply entrenched policies of public patronage that have made the ground fertile for the rent-seeking activities that drain the economy of its creative and innovative potential. These moral hazards thrive under a system that is more responsive to the demands of vested interests than market signals and dissuade the private sector from taking

**Figure 1: Changes in Voice and Accountability across major Southeast Asian Economies**



Source: Voice and Accountability rating, World Bank 2006

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steps in the right direction, particularly when doing so is likely to undermine their profitability vis-à-vis competitors in the market.

Initial steps towards inducing a climate conducive to more sustainable competition must take place at the level of public policy by disentangling the state's monopoly on the allocation of resources. State ownership, a hallmark of Southeast Asian economies, still presents a formidable obstacle inhibiting the private sector from experimenting with new strategies for translating sustainable development goals into competitive business practices that are responsive to the dynamic changes that take place in globalised markets. The evolution of public policy in the region has been slow since the primary stakeholders, politicians and their cronies, are loathe to implement changes that devolve power and redistribute the state's wealth. The World Bank's Voice and Accountability database, which measures the extent to which citizens are able to participate in the selection of their governments, illustrates the landscape of governance in East Asia. While some economies have taken steps to resolve issues of governance and empower citizens with the ability to affect policy outcomes, throughout Southeast Asia trends over the last nine years have been generally unfavourable and performance sub-standard (see Figure 1).<sup>1</sup>

Despite the obstacles which persist at the level of national governance, there are pockets of activity that illustrate the potential for the private sector to break free from the mould of state intervention and leverage market-driven mechanisms for allocating resources. One promising example is the "Better Factories" programme in Cambodia.<sup>2</sup> Once home to a failing textiles industry notorious for the deplorable conditions endured by its sweatshop workers, Cambodia has reinvented itself in response to 21<sup>st</sup> Century challenges of globalization and intense competition for foreign investment and export markets which now place a high value on responsible labour practices. It has achieved this through a process of guaranteeing mutual accountability involving key stakeholders from the textiles industry.

Vietnam and Laos are following in Cambodia's footsteps, inasmuch as they too are beginning to reap the competitive benefits of increased standards of transparency and accountability within multi-stakeholder programmes (e.g. the Vietnam Business Linkages Initiative). Their progress has identified clear pathways for success as well as areas that are in need of greater attention. These cases have shown that information deficits bar many companies from understanding how to operate in a manner that complies with international codes and standards that are

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often a prerequisite for participating in these partnerships. Without access to networks that have already realised the economic benefits of more sustainable practices and without adequate financial incentives these companies tend not to obtain the information that will ultimately motivate them to pursue similar strategies.

### **Better Factories Cambodia**

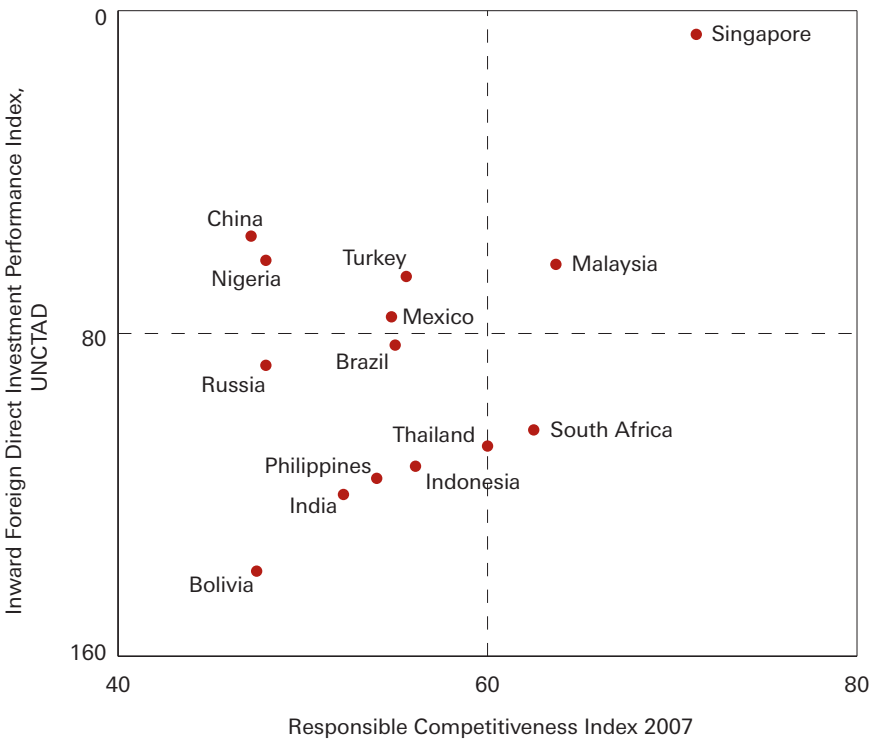
*Better Factories Cambodia* is a unique programme of the International Labour Organisation. It benefits workers, employers and their organisations. It benefits consumers in Western countries and helps reduce poverty in one of the poorest nations of the world. *Better Factories Cambodia* is managed by the International Labour Organisation and supported by the Royal Government of Cambodia, the Garment Manufacturers' Association in Cambodia (GMAC) and unions. *Better Factories Cambodia* works closely with other stakeholders including international buyers.

### **Governing development**

Foreign investment remains key to development objectives in Southeast Asia where millions still face the hard reality of living in abject poverty. Countries must look for ways to attract foreign investors in ways that ensure growth and stay mindful of the potential for governments and corporations to forge relationships that are detrimental to groups that have a huge stake in the outcome of trade deals, but virtually no voice in the negotiation of those arrangements.

Increased market access in developing countries is a double-edged sword which experience has taught us can lead to sundry unintended and negative consequences. The reaction to such developments is often to call upon the state to unleash new tomes of regulation and statutes to remedy the situation. However, inappropriate regulation enacted at inopportune times can be as ineffective in fixing the problem as allowing the market free reign to determine all outcomes. New forms of market-oriented governance that bring public, private, and civil society actors together in international and national forums are demonstrating potential to generate positive relationships that are able to achieve goals such as ensuring environmental sustainability and protecting human rights.

**Figure 2: Responsible Competitiveness and Foreign Direct Investment Performance for the EE12 and Southeast Asia**



Source: Foreign Direct Investment performance, UNCTAD 2005

Initiatives like the Vietnam Business Link Initiative, which was created in response to deep seated concerns over labour standards in the footwear industry, as well as the Better Factories program in Cambodia are practical examples of how creating the right conditions and fostering symbiotic rather than parasitic relationships among the various actors in an economy can unlock people’s potential and their ability to invent, to steward and to sustain economies which are more responsive and responsible.

The application of these partnerships across the public, private and not-for-profit sectors is varied and potentially far-reaching particularly for Southeast Asian economies, some of which that are likely to undergo increasing levels of market liberalisation in coming years. With the meaningful participation of the relevant stakeholders from these markets and with a collective mandate to make real decisions about money, standards and acceptable business practices these forums are reshaping the manner in which market oriented policies can be more sustainable without sacri-



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ficing the bottom line. By tying key-players in a market together and allowing them to negotiate contentious issues these forums create mutual and often self-governing accountabilities that make sustainability and a fair level of profitability equally possible. AccountAbility's involvement in one such initiative, the MFA Forum, which involves many of the same actors participating in the Better Factories Cambodia programme,<sup>3</sup> could resonate with markets in Southeast Asia.

### **MFA Forum**

The MFA Forum is an international coalition of public agencies, businesses and civil and labour organisations focused on creating responsible supply chains in textiles and apparel following the end of the Multi-Fibre Arrangement. The public agencies are not there to impose the law, but to align policies and resources with the deliberations of real business decisions. The NGOs and labour organisations are not looking in, but are deeply involved in the design of supply chains that meet key social and environmental conditions as part of what will deliver, crucially, a responsible competitiveness for businesses, entire sectors and communities from Lesotho to Bangladesh.

The MFA Forum works well because its members recognise their interdependencies and their need cooperate within a framework of trust, even though their interests in many cases are contradictory and potentially hostile in the absence of an institution which guarantees fair representation and mutual accountability.

### **The way forward**

Globalisation has amplified the call for more accountable business practices in the developing world. These efforts have met stiff resistance from critics who argue against the imposition of rules and regulations that benefit multinational corporations and Western markets at the expense of the profitability and sustainability of local businesses. By expanding the framework within which responsible practices can be promoted and empowering previously marginalised actors, Southeast Asian nations can allay the fears that accompany the goal of achieving greater accountability. Any strategy for achieving responsible competitiveness, however, is

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unlikely to demonstrate long-term sustainability unless the region continues its onward march towards democracy. In some countries the basic prerequisites for a sustainable and attractive business environment such as a free media, an independent judiciary, and assurances for the rule of law are still severely lacking. In these places the excesses of globalization are cited as a scapegoat to justify the pervasive role of the state and the ongoing protection of markets from trade and investment. But without public disclosure, these state's own complicity in undermining their country's economic performance remains hidden from public view.

On the other hand, Indonesia's historic transition from three decades of authoritarian rule to democracy deserves immense credit, particularly in light of the fact that the transition took place several years after the destruction unleashed by the financial crisis. Although the nation still faces widespread corruption and must cope with the fact that millions of its citizens remain mired in abject poverty, mechanisms are in place to address these problems through a transparent political process. Indonesia's improved performance vis-à-vis its neighbours in attracting foreign investment illustrates that while problems such as poverty will not be solved overnight, consistent policies rooted in a framework for accountability are likely to yield demonstrable results.

#### **About the author:**



Datuk Seri Anwar Ibrahim, the esteemed current Honorary President of AccountAbility, was Deputy Prime Minister of Malaysia from 1993-1998 and Minister of Finance for Malaysia from 1991-1998. Highly respected for his principled stance against corruption and his skilful management of the Malaysian economy during the turbulent period of its financial crisis, Anwar is also viewed as one of the forefathers of the Asian Renaissance and a leading proponent of greater cooperation among civilisations. He is an ardent supporter of democracy and he is an authoritative voice in bridging the gap between East and West.

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# BRICS and Responsible Competitiveness

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By **Cláudio Boechat, Edna do Nascimento** and **Luana de Albuquerque Dapieve**

## Megatrends

In 40 years, the world will be multipolar, led by five emergent economies that will overtake the current economic powers. This is the Goldman Sachs Group's forecast for 2050.<sup>1</sup> It considered that Brazil, Russia, India, China will be, together, stronger than the old G6 economies of France, Germany, Italy Japan, the UK and US. This conclusion came from examining five main trends: economic size; economic growth; incomes and demographics; global demand patterns and currency movements. With about 30% of the worldwide surface, the BRICS, as this block is called, with the inclusion of 'S' for South Africa, have a considerable portion of mineral, water and energy resources. Just as important, 43% of the world's population live in these five countries.

In their path towards prosperity, however, these countries will face enormous environmental and social challenges.

Temperatures and sea levels are set to continue rising, even if greenhouse gas levels are stabilised, although the actual degree of warming will depend on human activity during the next century. The Intergovernmental Panel on Climate Change (IPCC) estimates with very high confidence that there will be more frequent warm spells, heat waves and heavy rainfall in coming years and with medium to high confidence that tropical areas will suffer from increased droughts, cyclones and extreme tidal events.<sup>2</sup> Due to climate change, major investments will be required to reduce greenhouse gases emissions, to adapt infrastructure and to face probable catastrophes. The forecasts of the consequences of climate changes are pessimistic for developing countries, with the worst impacts being felt by the poorest countries.

Besides the natural environment, other dimensions will change, following new trends. One of the world's challenges is to close the income and wealth disparities between countries and between people. We will have to find ways to produce richer but more inclusive economies. The inclusion of new groups of people into consumer economies will put pressure on natural resources at the same time as creating new business opportunities. Disruptive technologies will be required to deliver energy, food supplies, transport and housing.

## What is the relation of this all with the BRICS?

How must the BRICS deal with these challenges to realise their aspirations for growth? How must they act differently in seizing opportunities and solving the problems in our changing world? Clearly, countries that develop a growth model able to deal with this different world will be in the leading positions. The BRICS have this potential in their hands, but there is a long way to go.

Traditional thinking about development considers the role of the private sector as producing high profits without concern for social and environmental consequences. In this model, government gives priority to economic growth, measured by GDP and per capita income. This used to be enough to develop prosperity, but for the next decades the focus will need to change.

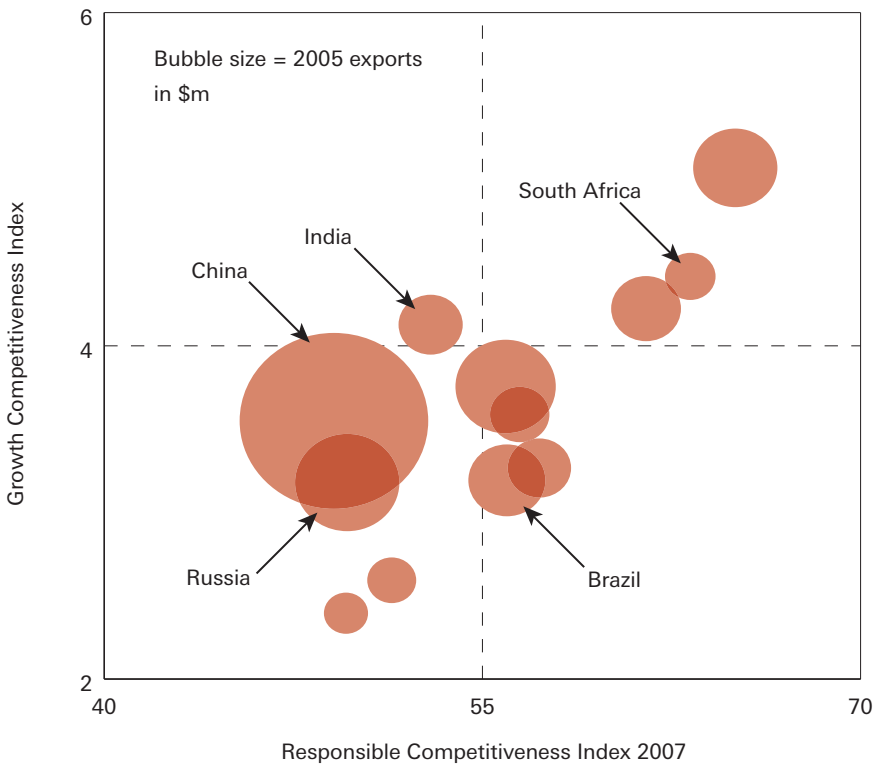
### BRICS's Responsible Competitiveness

In the 2007 Responsible Competitiveness Index, South Africa is the highest ranked BRICS country, in 28<sup>th</sup> place. Brazil scores seven points lower and is ranked 56<sup>th</sup> of 108 countries, ahead of India (70<sup>th</sup>), Russia (83<sup>rd</sup>) and China (87<sup>th</sup>). China tipped by many to be the global economic leader by 2050, performs least strongly among the BRICS. This situation is

**Table 1: BRICS Performance in the RCI 2007**

RCI Ranking 2007	Country		Responsible Competitiveness Index 2007	Policy Drivers	Business Action	Social Enablers
28	South Africa	ZAF	62.5	75.8	66.9	61.3
56	Brazil	BRA	55.0	72.3	56.4	52.3
70	India	IND	52.2	67.4	64.0	52.5
83	Russian Federation	RUS	48.0	61.7	51.9	38.0
87	China	CHN	47.2	64.2	50.4	35.9

**Figure 1: BRICS performance on Responsible Competitiveness and Growth Competitiveness, 2007, showing export success.**



Source: Growth Competitiveness Index, World Economic Forum, 06/07: Exports World Trade Organization

analysed in some detail in the essays in this volume by Aron Cramer and Guy Ryder. What is clear from Figure 1 is that export success for the leading emerging economies is compatible and closely correlated with responsible competitiveness. On the other hand, BRICS are not yet leading the other countries in responsible exporting.

When we break down the analysis to the three sub-components of the index (details for all 108 countries are included in the technical annex), South Africa and India lead the BRICS on business action, while South Africa and Brazil perform better on policy drivers. China and Russia are notably weaker on the social enablers component, where South Africa has its most significant lead. This suggests that each BRICS country has different strengths and weaknesses and therefore different priorities in its quest to improve its performance in responsible competitiveness. It is not accurate to talk about the BRICS as if they all face the same set of busi-

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ness responsibility challenges. What then are the key sustainability challenges facing the BRICS countries?

### **Future perspectives regarding sustainability challenges**

The quest for sustainability imposes challenges on countries and societies. For example, each country will face different consequences of climate change such as desertification in China, floods in India and permafrost thawing in northern Siberia. Besides, sustainability depends not only on the health of ecosystems but on the health of individuals and societies and the ways in which the interplay between human and environmental welfare. Education, financial inclusion, public health and human rights must all be considered sustainability issues. The analysis of sustainability issues shows that each BRICS country will face challenges of a different nature and intensity.

Energy is one key issue. What are the consequences of the present patterns of energy use, for the next generations? In Brazil, ethanol production is being developed as a solution to the demand for clean, renewable energy. Although it is a big opportunity, there are also risks. Biofuel production may have negative consequences for food security and the environment. Thus, Brazil has a big challenge: developing a growth model where ethanol may be produced without negative impacts on forests or food production. Business in Brazil must develop technologies and business models that enable rural development, and simultaneous production of biofuel and food. Russia, with the world's largest proven natural gas reserves, also has major potential to invest and to improve its energy sector, but after the controversy in Sakhalin, the variable accountability of many of its energy companies has been scrutinised.<sup>3</sup> South Africa finds itself in a similarly demanding situation, being both the largest energy consumer in Africa, and the second largest producer of coal. With such continuing demand for coal, new strip mines are leading to the degradation of environmental areas including sensitive wetland areas. Elsewhere within the BRICS economies, it is clear that India and China continue to dominate in the consumption of hydrocarbon fuels, predominantly coal, with China remaining the second largest global energy consumer after the United States. However, increasingly issues of energy security threaten to put pressure on present trends in hydrocarbon energy production and use. In order for these threats to be overcome, new energy partnerships need to be formed.

Securing sustainable water supplies in the face of population and industry expansion will also be a major challenge in the BRICS countries. Russia

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has one key advantage in its large fresh waters reserves, which it may turn to when many densely populated regions become drier. However if natural resources are poorly managed through bureaucracy, black markets and corruption they will not be able to contribute to the country's basis for long-term responsible competitiveness.

Economic exclusion, poverty and high illiteracy rates remain a problem, in particular for India, which continues to experience high levels of class, caste, and gender inequalities. Women continue to fall short of men in all areas, but predominantly in literacy rates, with just 48% of women literate as compared to 73% of men, according to the World Development Report. For these barriers to be overcome, female education must be seen as smart economics, as Laura Tyson argues in her essay in this volume.

China is the emerging economy with the greatest potential to reach the top of the global economy. In 2006 it became the second largest economy in the world, after the USA, in terms of purchasing power parity (PPP). But with more than four times as many people, per capita incomes are much lower. Around 10% of the Chinese population falls below international poverty lines. Corruption and poor working conditions are challenges that the government has struggled to resolve. The economy's rapid transformation has made substantial changes to the social and environment context. And the country's geography makes it susceptible to climate change induced desertification.

India and China have large populations in common, giving both large pools of available man power and large potential markets. However, they will have to adhere to environmental limitations. It is not possible for such large populations to be incorporated into current consumer markets without disruptive innovations in products and production processes.

South Africa has well-developed financial, legal, communication, energy, and transport sectors. It has an abundant supply of natural resources. Lack of important arterial rivers or lakes requires extensive water conservation and control measures. On the other hand, growth has not been strong enough to lower the country's high unemployment rate. Poverty and lack of economic empowerment among the disadvantaged are problems remaining from the apartheid era. There are around 5.3 million people living with HIV/AIDS in South Africa, which is not only a human tragedy but a significant challenge to the country's economic development.

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How does the RCI assessment fit with other measures of competitiveness? Medium or low performance in the Doing Business database and Opacity Index alerts us that BRICS are still not the most favourable countries in which to do business and invest when all the risks involved are considered – corruption, inefficacy of legal system, deleterious economic policy, inadequate accounting and governance practices, detrimental regulatory structures. BRICS countries are improving their anti-monopoly policies, with South Africa better positioned in this ranking, and China worst. Despite their broadly similar performance in the Global Competitiveness Index, Russia has fewer risks than Brazil to attract investments.

The results also show challenges in the relationship between civil society groups, policy-makers and business, particularly but not exclusively in India and South Africa. This reduces the potential for joint collaboration in tackling social issues. It may even be an early warning of hard obstacles in the way of strengthening democracy in these countries.

### **Considerations**

The risks discussed here are just some of the social and environmental issues, potentials and risks facing the BRICS countries as they seek to reach top positions within the global economy.

The five BRICS countries will increasingly compete with each other and other dynamic exporters to build responsible competitiveness brands. Finding effective strategies to provide decent work, close the gender gap, develop low carbon production and tackle corruption will be key components of responsible competitiveness going forward. What is now needed is a more detailed assessment of the risks and opportunities facing BRICS countries within a sustainable development landscape. What is going to happen when natural resources are used up? How will environmental changes, especially climate, affect social and economic development? What is the right balance between policy drivers, social enablers and business action? Fundação Dom Cabral is committed to working with AccountAbility and with research institutes in the other BRICS countries to use the RCI framework in answering exactly these questions.



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### About the authors:



**Cláudio Boechat** is a Professor at Fundação Dom Cabral. He teaches and researches responsible business management, responsible leadership and associated issues. His previous background is as a business executive.



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**Luana de Albuquerque Dapieve** is a Research Assistant at Fundação Dom Cabral.

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# CSR with Chinese Characteristics: Charting a Path Forward

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By **Aron Cramer**

For most of the past 15 years, when the modern corporate social responsibility (CSR) movement has been developing, views on China have tended to say more about the holder of these views than about China itself. China's role in shaping a sustainable world are, finally, moving out of this "Rorschach Test Era," and towards a "China Rising Era," in tune with the country's changing position in global debates of all types.

The implications of this transition are hugely significant, for China and the wider world.

Before looking at the present and future, it's worth assessing some of the main influences on how CSR in China has been understood over the past fifteen years. Western views of CSR in China have been shaped by a combination of anxieties over decline tied to China's rise, and concerns that the Chinese economy is unchecked by fair and effectively enforced rules.

Witness the questions that have occupied Western thinking through this period. First arose an intense focus on labor standards in the immense number of Chinese export manufacturing facilities, and the ability of other countries to compete in the face of Chinese low-cost manufacturing capacity. This has also overlapped with concern about the lack of civil and political rights, reflected over the past two years in debates over internet privacy and freedom of expression. More recently, consumers in the US and Latin America have been shocked by the arrival of tainted food and household products imported from China.

For many in the West, the common thread running through these episodes is the lack of oversight of the world's most powerful export economy. All this results in twin concerns about unfair competition and declining social and environmental conditions.

While this perspective is based on considerable evidence, it sometimes reflects a lack of understanding of the extremely dynamic societal and economic changes underway in China.

Chinese perspectives on sustainability will ultimately shape how the country's economy grows, and these perspectives are changing fast. And while virtually any generalisation one makes about China is destined

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to be wrong, at least in part, recent developments provide some room for optimism.

China's approach to responsible business is now evolving in a way that marries local perspectives and global debates. While the views of Western consumers remain important, the CSR in China is now being shaped into maturity less on the basis of Western interests, and more on the distinct experiences of Western companies in China, Chinese companies growing at home, and Chinese companies operating in the rest of the world, as well as the growing awareness of Chinese consumers and government officials.

BSR's experiences in China, where we have been active for more than a decade, reveal the emergence both of a distinct Chinese view of CSR, and growing convergence of Chinese and international perspectives.

Current initiatives concerning labour standards illustrate these twin trends well. When BSR began working with Western companies and their Chinese suppliers in the mid-1990s, we faced repeated assertions that any such efforts were an unwelcome import. Today, there are numerous signs that this agenda has been much more fully embraced, with both direct and indirect benefits. These developments show that even the world's most vibrant economy is recognising the need to embrace responsible business practices as a core part of its competitiveness strategy.

These changes are reflected in some of the following:

- ❖ BSR has worked closely with several electronics companies, the Shenzhen Municipal Government, the World Bank's Foreign Investment Advisory Service (FIAS) and International Finance Corporation, and the UN Environment Programme (UNEP) to build supplier capacity to meet international expectations for social and environmental practices. This kind of broad-based approach was unheard of – and likely impossible – even a few years ago. Many believe that Shenzhen – the archetypal Chinese export powerhouse – has embraced this agenda because as workers' incomes rise they are seeking better working and environmental conditions. Now that the city cannot rely as heavily as before on low cost labour, it is seeking new – and more sustainable – ways of remaining competitive.
- ❖ Over the past three years, BSR's China Training Initiative (CTI) has delivered education and training to more than 1,000 managers from

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over 500 factories employing in excess of one million workers. As importantly, the CTI has focused on building local training capacity so that locally-based institutions can develop, providing continuity and reinforcement in capacity building to achieve desired results. Ideally, this initiative will bolster the management capacity of Chinese enterprises, which will position them well to continue rising up the value chain.

- ❖ Finally, the Chinese National Textile and Apparel Council has developed its own management standard for labor practices in Chinese factories: CSC9000T. While this standard reflects Chinese laws, and therefore does not accept democratically-elected trade union representatives, it is a significant effort that accepts and advances the concept of a principles-based approach to managing large factories. The establishment of CSC9000T has also proved to be a platform for meaningful dialogue with importers in the US, Europe and Japan. And it is also a tool for positioning this industry to successfully make the transition to a more technology-intensive model that may emerge over the next decade.

These developments, each of which has accelerated over the past two years, suggest some very important emerging themes:

- ❖ **Greater emphasis on capacity building:** Both Chinese and Western institutions are increasingly focused on capacity building, having realised the sharp limitations of imposing CSR through models relying heavily on compliance. This has led directly to progress towards the important goal of engaging Chinese suppliers as full partners with their customers in embracing social and environmental performance.
- ❖ **Increased involvement and leadership by Chinese public institutions:** Chinese public institutions have gotten far more involved in promoting CSR. This is widely attributed to the Communist Party's adoption of the goal of building a "harmonious society," and growing attention to the nature of economic growth rather than exclusive attention to the amount of growth. This has legitimised the concept of CSR which is crucial, given China's political structure.
- ❖ **Growing reliance on collaborative models:** Collaboration is growing. While this does not yet resemble the volume or models present in the West, public-private-civil society collaborations are growing, as are

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collective efforts by industry groups, and collaborations with academic institutions.

This is significant for several reasons. First, while Chinese government involvement in no way guarantees success, it is impossible to see pathway to success without it. Until the core concept of CSR was embraced publicly, frequent interruptions in progress within China were the norm. Significantly, we are now seeing Chinese government engagement in major global initiatives, including the UN Global Compact, efforts to build the social responsibility standard ISO 26000, and the arrival in the last year of 20 CSR reports by Chinese companies, most of which referenced the Global Reporting Initiative Guidelines. Mirroring China's integration and growing leadership in international fora, China's arrival as a player in international CSR initiatives bodes well for establishing a truly global movement.

Second, and significantly, it may be that the voluntary efforts to establish norms around business conduct will contribute to greater respect for rule of law in China. Businesses need reliable laws, evenly applied, with transparent information, to create effective markets.

Third, it is clear that increased trade is a strong driver of increased uptake of CSR. Respect for labour standards, greater transparency, and environmental concerns are all driven by the growing interest of the five billion people outside China who are now directly integrated into the Chinese economy. The growing debate about the impact of China's external investments, most visibly in Africa, but also in South America, will also lead to a harmonising of norms and practices that will likely result in increased integration of CSR.

As CSR in China shifts away from models dominated by codes of conduct imposed by multinationals, to increased capacity, local ownership, and collaboration between the sectors, initiatives based on widely accepted norms are taking deeper root. The World Bank project described above knits together actors from the public and private sectors, and actors from within and outside China, using standards as the foundation of their collaboration. This effort, and others like it, leaves behind it not only better social and environmental performance, but also internalised standards and norms for guiding business practise.

The fact that we are now seeing "a thousand collaborations bloom" in China demonstrates the strength of the model. If public-private partner-

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ships are on the rise in an environment that retains numerous characteristics of a command and control political economy, this provides unique validation. It would, however, be a mistake to assume that they will develop in the same manner that they have in the West. The very nature and latitude of civil groups in China remain different than those found in more open environments, and many collaboration partners are “GONGOs” or government-organised NGOs, which may appear to many to be a contradiction in terms. And while the parties to the collaborations described above may be different than one would find in other places, it is significant that the urge to partner is now as commonly held inside China as it is outside.

To borrow a page from geopolitical analysis, codes of conduct have both “hard power” and “soft power.” Hard power equates to the desired direct impacts of strengthening adherence to established rules, and this is of essential importance. But the soft power of codes and standards and voluntary efforts is the spreading of the principle that rules matter, and that rules applied fairly are an essential part of a modern economic system delivering desired social and environmental outputs.

As China continues the move away from imposed foreign codes to wider local adoption of responsible business practices, we see millions of workers exposed to explicit rules in their workplaces for the first time, increasing examples of joint efforts to translate the promise of these efforts into reality, and growing enforcement mechanisms via the media and public officials.

Numerous holes in the system remain. Much hard work, creative thought, and persuasion remains necessary. But despite all this, it is possible to see the seeds of change taking root.

**About the author:**



**Aron Cramer** is President and Chief Executive Officer of Business for Social Responsibility (BSR).

# Responsible Competitiveness at the Regional Level

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By **Jeremy Nicholls** and **Paul Begley**

Reshaping markets so that businesses thrive by addressing societal and environmental needs is essential for securing sustainable prosperity. Competitive advantage is available for countries, regions and cities that achieve this vision of responsible competitiveness. But how can governments and regional development agencies ensure that their decisions are promoting responsible competitiveness? What tools and frameworks are needed to map change in business behaviour?

One region that is positioning itself to take advantage of changing markets is England's Northwest. The region – birthplace of the Industrial Revolution, Free Trade and The Beatles – has replaced billowing smoke stacks with clean manufacturing, cotton factories with fashionable apartments and art galleries, and cities built on industry with centres for tourism, shopping and culture. England's Northwest now has one of the fastest expanding high-technology sectors in Europe and the highest concentration of biotechnology and chemical workers in the UK.

But other transformations are happening: exciting work is underway to integrate and embed corporate responsibility into regional development. A key tool in this approach is the Responsibility Northwest initiative which will feed into development of regional economic strategy.

Responsibility Northwest is a flagship partnership project, funded by the UK government's Northwest Regional Development Agency and led by the charity Sustainability Northwest, which aims to increase responsible business practice locally. It is one of the largest programmes to improve responsible behaviour amongst small and medium-sized enterprises (SMEs) in Europe.

Responsibility Northwest is taking a multifaceted approach to promoting sustainable business growth that encourages social inclusion and prevents environmental degradation. One strategy is to work directly with businesses to help identify and address the key social, environmental and economic risks and opportunities relating to their core business; another is to respond to concerns in areas such as infrastructure decisions, sourcing policies and employment practices. Further work focuses on building understanding and capacity in business networks and business support organisations, to enable them to encourage more responsible business practice among their stakeholders. A fourth overarching way is

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through measuring how responsibility is embedded into business strategy, and using this to create a Regional Responsible Competitiveness Index.

Although there are 'win win' situations in which responsible business practices enhance performance, this will not always be the case. Not all responsible business behaviour will contribute to competitiveness. Responsible business practice depends on the market conditions, the stage of business development and business capacity to implement changes. The first steps to developing a macro-economic environment conducive to responsible business practices need to be flexible enough to take this all into account. To understand which types of responsible business can drive performance, Responsibility Northwest has devised a robust index.

Like the national Responsible Competitiveness Index described in the essay above, the rationale behind the Regional Responsible Competitiveness Index is a practical theory of change. This requires businesses to understand their social, economic and environmental impacts, and to manage those impacts which present risks and opportunities in order to become more competitive and to enhance productivity.

To influence policy, the regional index needs to measure the outcomes from the Responsibility Northwest programme, and show whether, as anticipated, changes in business understanding of risks and opportunities lead to changes in and act and to changes in regional competitiveness. But how can a region accurately measure these adjustments?

Responsibility Northwest has pioneered a three-tiered approach which combines social, economic and environmental impacts for different stakeholders at the sub-regional and regional level.

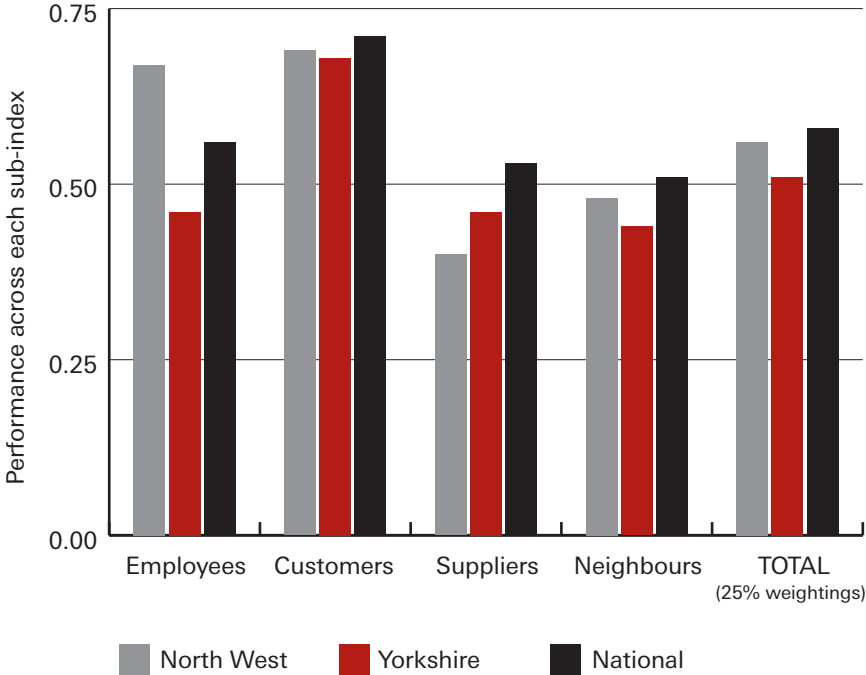
The first tier is the addition of a small number of questions to a quarterly survey that is carried out across the region by the Chambers of Commerce. These address businesses' perceptions of risks and opportunities and current planning horizons. The second tier is a set of publicly available data, measuring the social economic and environmental impacts of businesses in the five sub-regions in England's Northwest.

Complementing this sub-regional approach, Responsibility Northwest teamed up with AccountAbility in mid-2006 to create a regional index which builds on work from other UK regions and measures 26 indicators (such as staff training and environmental management systems) reflecting



social, environmental and economic performance in relation to employees, customers, suppliers and neighbours. Figure 1 benchmarks the region's performance against a similar region in the UK, Yorkshire and the Humber, and with the national average.

**Figure 1: Regional performance for each type of stakeholder**

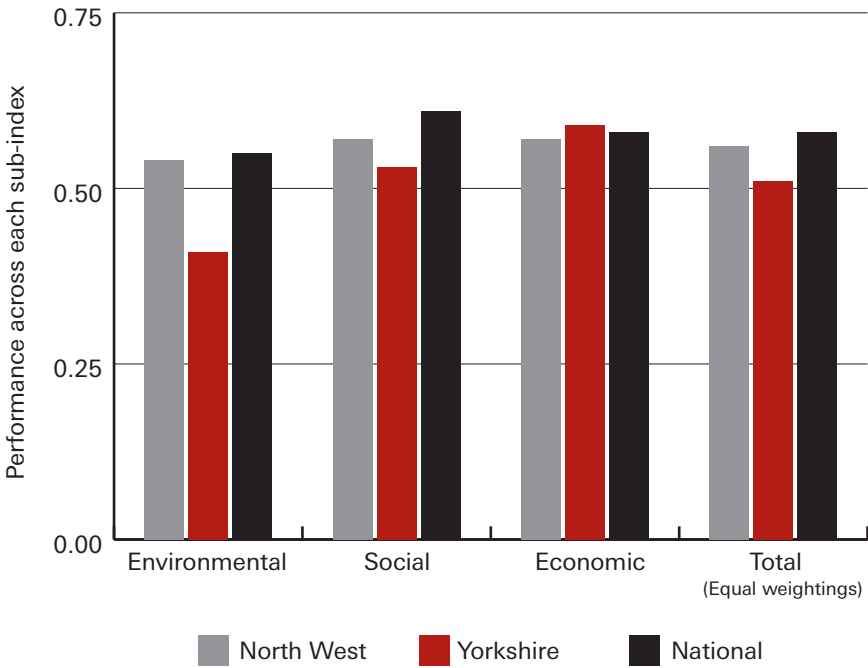


Across the 26 indicators, it appears that England's Northwest scores below the national average with the exception of employee impacts. Perhaps unsurprisingly the region scores particularly well on employees – redundancy rates have fallen recently and the region has over a quarter of all trade union training representatives in England. The region has lower scores across all the indicators that relate to suppliers and a low take-up for recycling of commercial and industrial waste.

A robust regional index allows policy-makers to identify in which areas they can improve responsible business practice. The key issue will then be the relationship with competitiveness, the first stage of which is a comparison of responsibility and competitiveness.

Robert Huggins Associates' annual publication 'European Competitiveness Index' provides an independent assessment of regional economic

**Figure 2: Regional performance for each type of impact**



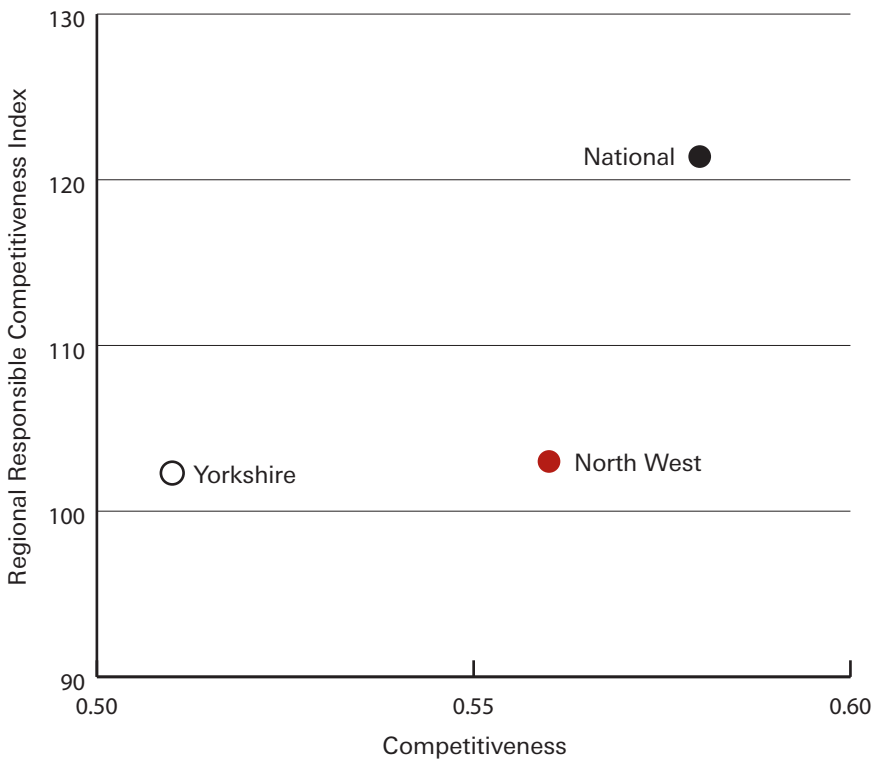
performance. The 2006/07 index uses a wide range of indicators, including economic activity rates; labour productivity; patent applications, air passengers and railway densities; unemployment rate and knowledge-based employment density, to rank the competitiveness of 118 regions across 27 European countries.<sup>1</sup> The most recent edition shows that England’s Northwest has fallen seven places (to 53<sup>rd</sup>) in competitiveness since 2004/05.

Figure 2 charts the Regional Responsible Competitiveness Index against the regional competitiveness index. The England’s Northwest scores higher than neighbouring Yorkshire and the Humber, but below the national performance for both competitiveness and responsibility.

This simple conclusion highlights that the England’s Northwest is facing a challenge in an increasingly integrated society. But in fact, through the implementation of initiatives like Responsibility Northwest, the region is well positioned to improve its performance, rebuild competitive advantage and take advantage of markets that reward responsible business practices. Through strong policy-leadership, a co-ordinated approach to enhancing responsibility, and tangible outcomes like increased capacity of business

networks to support responsible business practice and the two-tiered index, the Northwest Development Agency and Responsibility Northwest are working to prepare the region for markets that reward responsible business practices.

**Figure 3: Regional Responsible Competitiveness performance**



Source: Competitiveness from Robert Huggins Associates.

The index described here will create a baseline to understand how businesses can take advantage of changing market conditions and to identify which areas of corporate responsibility can drive regional performance. The index has been designed to ensure it is replicable and comparable to other regions. Over the coming year the index will be tested in Cyprus<sup>2</sup> and this will allow further analysis of the relationship between competitiveness and responsible business practice. At the sub-regional level, indicators need to be developed that ensure comparison can be made between years and between regions. Supporting the regional indicators with indicators that are relevant to key sectors and clusters allows comparisons with other regions, and eventually customised for differences in the type of business operating within the region.

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Current approaches to measuring competitiveness do not take account of the extent to which businesses understand and manage their wider impacts. Regional strategies generally include social inclusion and environmental protection within their goals, and cover similar issues to those in the Regional Responsible Competitiveness Index. However this index goes further, focussing on business, businesses management of social and environmental issues and exploring the relationship with competitiveness.

England's Northwest, a region that was critical in the first major wave of industrial development, has a vision of becoming a responsible region that promotes growth, inclusion and sustainability. Its development of practical tools for supporting business decision making and assessing the relationship between responsibility and competitiveness at a regional and sub-regional level offer a useful approach for other regions seeking similar objectives.

#### About the authors:



**Jeremy Nicholls** is a Senior Associate at AccountAbility and a Director of Urban Strategy Associates, the BETA Model, and the Cats Pyjamas ethical training company. Jeremy is a council member of the Liverpool Chamber of Commerce and an ongoing partner in the design and delivery of Responsibility North West, a programme to roll out corporate responsibility with SMEs in England's Northwest.



**Paul Begley** is a Researcher at AccountAbility.

#### Endnotes

- 1 The 2006/07 index scores regions around the European average which is awarded 100. Brussels ranks as the most competitive region in Europe and is awarded 193.5 points. The North West (103) and Yorkshire and the Humber (102.3) score above average for Europe, but well below the most competitive region.
- 2 As part of a related project supported by the European Commission called Mainstreaming involving Sustainability Northwest, Liverpool Chamber of Commerce, the Cat's Pyjamas and the Institute for Social Innovation.

**Annex**



**Table 1: Responsible Competitiveness Index Rankings 2007**

<b>RCI Ranking 2007</b>	<b>Country</b>	<b>Country Abbreviations</b>	<b>Responsible Competitiveness Index 2007</b>	<b>Policy Drivers</b>	<b>Business Action</b>	<b>Social Enablers</b>
1	Sweden	SWE	81.5	86.0	90.2	74.7
2	Denmark	DNK	81.0	89.9	86.9	76.6
3	Finland	FIN	78.8	83.9	84.1	76.7
4	Iceland	ISL	76.7	83.5	74.9	86.3
5	United Kingdom	GBR	75.8	88.8	75.9	76.6
6	Norway	NOR	75.5	83.8	77.3	75.9
7	New Zealand	NZL	74.9	88.6	72.2	80.0
8	Ireland	IRL	74.6	85.0	73.8	78.1
9	Australia	AUS	73.0	82.7	73.6	73.3
10	Canada	CAN	73.0	83.7	72.5	74.8
11	Germany	DEU	72.7	81.8	74.8	70.1
12	Netherlands	NLD	72.6	81.6	75.0	69.5
13	Switzerland	CHE	72.5	87.8	74.5	65.7
14	Belgium	BEL	71.9	86.1	70.1	73.0
15	Singapore	SIN	71.3	83.7	74.4	63.5
16	Austria	AUT	70.9	84.1	71.6	67.2
17	France	FRA	70.1	76.9	69.2	73.6
18	United States	USA	69.6	72.6	72.1	68.6
19	Japan	JPN	68.8	80.7	68.9	65.7
20	Hong Kong, China	HKG	68.3	84.5	68.9	60.6
21	Portugal	PRT	65.9	79.2	63.1	65.7
22	Estonia	EST	65.0	73.5	67.4	73.0
23	Slovenia	SVN	64.1	76.0	61.3	63.7
24	Chile	CHL	64.0	80.3	65.4	67.9
25	Malaysia	MYS	63.7	82.3	68.4	59.2
26	Spain	ESP	63.7	73.3	61.4	63.3
27	Korea, Rep	KOR	63.0	69.3	62.8	60.7
28	South Africa	ZAF	62.5	75.8	66.9	61.3
29	United Arab Emirates	UAE	62.4	75.1	63.6	52.1
30	Lithuania	LTU	62.1	78.7	64.0	63.6

<b>RCI Ranking 2007</b>	<b>Country</b>	<b>Country Abbreviations</b>	<b>Responsible Competitiveness Index 2007</b>	<b>Policy Drivers</b>	<b>Business Action</b>	<b>Social Enablers</b>
31	Israel	ISR	61.6	76.9	63.1	64.2
32	Italy	ITA	61.2	76.0	55.8	61.6
33	Greece	GRC	61.0	72.9	61.1	52.6
34	Taiwan, China	TAI	60.7	68.8	62.5	67.5
35	Latvia	LVA	60.3	77.6	61.0	62.1
36	Costa Rica	CRI	60.2	78.8	64.2	54.8
37	Thailand	THA	60.0	76.3	65.3	53.5
38	Jamaica	JAM	59.8	77.0	64.9	52.8
39	Czech Republic	CZE	59.7	78.0	61.1	59.1
40	Mauritius	MUS	59.3	79.4	58.0	62.7
41	Botswana	BWA	59.3	82.0	57.5	61.8
42	Kuwait	KWT	58.7	74.1	61.6	56.5
43	Slovak Republic	SVK	58.2	77.9	59.0	57.0
44	Hungary	HUN	57.7	79.9	57.8	55.9
45	Peru	PER	56.8	70.3	60.7	52.8
46	Trinidad and Tobago	TTO	56.7	76.6	57.4	54.4
47	Namibia	NAM	56.4	77.6	55.5	56.1
48	Indonesia	IDN	56.1	72.5	59.0	51.3
49	El Salvador	SLV	55.9	77.8	55.7	53.5
50	Jordan	JOR	55.7	74.9	57.9	50.3
51	Turkey	TUR	55.6	72.4	56.9	53.6
52	Uruguay	URY	55.6	75.5	52.7	59.8
53	Croatia	HRV	55.5	73.1	58.0	50.6
54	Poland	POL	55.4	74.7	53.6	57.8
55	Colombia	COL	55.1	77.4	56.0	49.9
56	Brazil	BRA	55.0	72.3	56.4	52.3
57	Mexico	MEX	54.8	70.5	57.6	50.1
58	Romania	ROM	54.6	68.1	54.9	56.4
59	Bulgaria	BGR	54.4	70.4	51.3	60.9
60	Tunisia	TUN	54.3	79.4	60.6	35.8



<b>RCI Ranking 2007</b>	<b>Country</b>	<b>Country Abbreviations</b>	<b>Responsible Competitiveness Index 2007</b>	<b>Policy Drivers</b>	<b>Business Action</b>	<b>Social Enablers</b>
61	Philippines	PHL	54.0	74.5	60.9	37.3
62	Panama	PAN	53.9	70.1	55.2	51.1
63	Georgia	GEO	53.4	80.0	53.4	45.8
64	Moldova	MDA	53.3	69.7	55.2	48.9
65	Macedonia, FYR	MKD	53.1	70.2	54.6	49.0
66	Argentina	ARG	53.1	69.8	52.1	54.0
67	Egypt	EGY	52.6	69.5	58.3	39.9
68	Sri Lanka	LKA	52.4	76.9	54.9	40.6
69	Dominican Republic	DOM	52.4	70.9	51.2	52.0
70	India	IND	52.2	67.4	64.0	52.5
71	Lesotho	LSO	52.1	78.6	51.8	44.2
72	Guatemala	GTM	52.0	75.1	53.1	43.3
73	Kazakhstan	KAZ	50.8	64.8	55.0	41.7
74	Albania	ALB	50.4	73.2	53.1	37.8
75	Honduras	HND	49.9	72.1	51.1	40.4
76	Venezuela, RB	VEN	49.8	64.1	53.5	41.1
77	Nicaragua	NIC	49.5	73.5	47.4	45.1
78	Zambia	ZMB	49.0	80.4	58.4	40.5
79	Ecuador	ECU	49.0	72.3	49.0	40.5
80	Uganda	UGA	48.1	85.2	52.2	45.6
81	Nigeria	NGA	48.0	76.3	56.3	43.6
82	Kenya	KEN	48.0	78.5	55.0	44.3
83	Russian Federation	RUS	48.0	61.7	51.9	38.0
84	Bolivia	BOL	47.5	63.1	47.9	42.6
85	Cameroon	CMR	47.4	69.3	46.0	41.5
86	Paraguay	PRY	47.3	70.0	42.1	48.4
87	China	CHN	47.2	64.2	50.4	35.9
88	Zimbabwe	ZWE	47.2	66.1	60.1	39.5
89	Mali	MLI	47.2	74.4	50.4	52.9
90	Tanzania	TZA	47.1	72.5	55.5	43.8

<b>RCI Ranking 2007</b>	<b>Country</b>	<b>Country Abbreviations</b>	<b>Responsible Competitiveness Index 2007</b>	<b>Policy Drivers</b>	<b>Business Action</b>	<b>Social Enablers</b>
91	Malawi	MWI	47.0	77.1	53.1	44.8
92	Benin	BEN	46.9	73.9	51.4	50.2
93	Madagascar	MDG	46.9	74.3	52.9	46.7
94	Burkina Faso	BFA	46.6	71.9	51.6	49.8
95	Morocco	MAR	46.4	67.4	42.4	46.1
96	Mozambique	MOZ	46.1	73.5	51.2	47.3
97	Ukraine	UKR	45.2	50.7	48.4	40.8
98	Gambia, The	GMB	45.1	79.1	52.5	36.3
99	Cambodia	KHM	44.3	75.4	50.9	38.6
100	Mongolia	MNG	43.9	63.8	49.9	47.1
101	Angola	AGO	43.4	59.4	42.5	38.2
102	Mauritania	MRT	41.6	65.1	49.3	37.1
103	Pakistan	PAK	41.4	68.5	48.4	35.8
104	Kyrgyz Republic	KGZ	41.1	66.7	45.5	41.6
105	Ethiopia	ETH	40.8	76.4	47.2	29.9
106	Bangladesh	BGD	39.8	74.3	40.6	40.1
107	Nepal	NPL	37.5	65.1	41.0	35.8
108	Chad	TCD	35.1	64.6	40.3	27.1

**Table 2: Classifying countries by income (based on data from the World Bank, using the Atlas method)**

<p><b>Low income (\$875 or less GNI per capita)</b></p>	<p>Bangladesh; Benin; Burkina Faso; Cambodia; Chad; Ethiopia; The Gambia; India; Kenya; Kyrgyz Republic; Madagascar; Malawi; Mali; Mauritania; Mongolia; Mozambique; Nepal; Nigeria; Pakistan; Tanzania; Uganda; Zambia; Zimbabwe.</p>
<p><b>Medium income (\$876-\$10,725 GNI per capita)</b></p>	<p>Albania; Angola; Argentina; Bolivia; Botswana; Brazil; Bulgaria; Cameroon; Chile; China; Colombia; Costa Rica; Croatia; Czech Republic; Dominican Republic; Ecuador; Egypt; El Salvador; Estonia; Georgia; Guatemala; Honduras; Hungary; Indonesia; Jamaica; Jordan; Kazakhstan; Latvia; Lesotho; Lithuania; Macedonia, FYR; Malaysia; Mauritius; Mexico; Moldova; Morocco; Namibia; Nicaragua; Panama; Paraguay; Peru; Philippines; Poland; Romania; Russian Federation; Slovak Republic; South Africa; Sri Lanka; Taiwan; China; Thailand; Trinidad and Tobago; Tunisia; Turkey; Ukraine; Uruguay; Venezuela, RB.</p>
<p><b>High income (\$10,726 or more GNI per capita)</b></p>	<p>Australia; Austria; Belgium; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong, China; Iceland; Ireland; Israel; Italy; Japan; Korea, Rep; Kuwait; Netherlands; New Zealand; Norway; Portugal; Singapore; Slovenia; Spain; Sweden; Switzerland; United Arab Emirates; United Kingdom; United States.</p>

# About the Organisations

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## **AccountAbility**

AccountAbility is an international non-profit, membership organisation established in 1995 to promote accountability innovations that advance responsible practices of business, government, civil society and other institutions.

Our 200 members include businesses, service providers, non-governmental organisations and research bodies, and elect our international Council, which includes representatives from all five continents.

AccountAbility has developed the AA1000 Series Sustainability Assurance and Stakeholder Engagement Standards, as well as leading edge research on the governance and accountability of partnerships and links between responsible business practices and the competitiveness of nations.

AccountAbility works with its members to help them build alignment between corporate responsibility and business strategy by advancing joint learning and development of analytic tools and benchmarking.

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## **Fundação Dom Cabral**

Fundação Dom Cabral (FDC) seeks to contribute towards the development of society by educating and developing executives, business people and companies. From its very start, FDC has followed the premise of how important it is to work with the client and not only for the client, in a constant search to renew knowledge. By setting up teams that will work critically and strategically in assisting companies' sustainable development, FDC acts to influence and guide the process of developing educational solutions that meld theoretical and practical knowledge.

In its continuous efforts to generate and disseminate knowledge by means of management methodologies and concepts applied to organisations, FDC invests significantly in the development of research in areas of strategic interest to the business world. Thus, it maintains alliances with some of the best business schools in the world and partners them in programmes, while also establishing cooperation agreements with renowned domestic and foreign institutions to promote the exchange of experience and perform joint research.

True to its values, FDC practices the concepts of corporate responsibility in its management and in the programmes, research and studies it develops, seeking to share this knowledge with companies and their executives and thus contribute to turn them into agents for the sustainable development of society.

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# Notes

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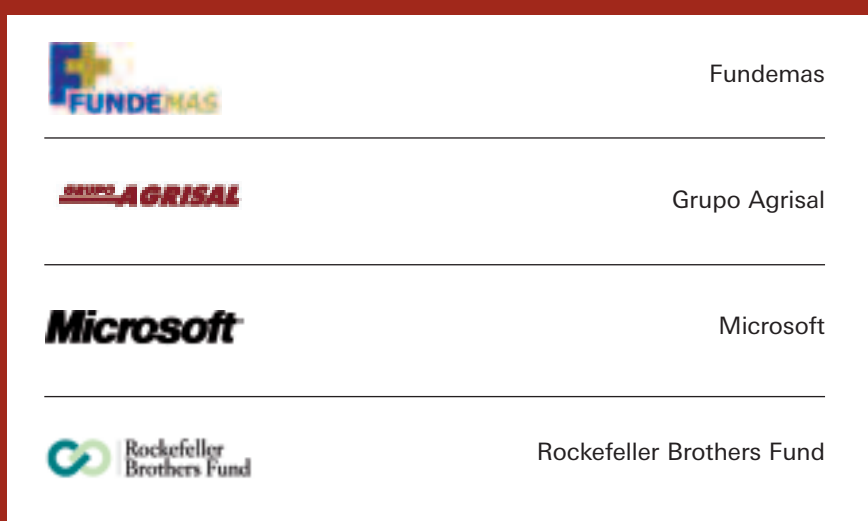


# The State of Responsible Competitiveness

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Responsible Competitiveness is the strategic alignment of business action, public policies and social enablers to make sustainable development count in global markets. Countries, cities, sectors and businesses have enormous potential to build new markets that encourage the mainstreaming of responsible business practices.

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*“The State of Responsible Competitiveness demonstrates the practical potential of responsible competitiveness strategies to deliver trade and investment while striking the right balance between national and global interests, and public and private gain.”*

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*“The report pinpoints exciting market opportunities, and also risks that politicians, businesses and investors need to manage. In short, the State of Responsible Competitiveness 2007 is the indispensable guide to understand how markets are reshaping to reward competitiveness for the 21st Century.”*

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**The State of Responsible Competitiveness is AccountAbility’s fourth assessment of responsible business practices around the world.**

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