RESPONDING TO
THE LEADERSHIP CHALLENGE:
Findings of a CEO Survey on
Global Corporate Citizenship

Contents

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Industries and corporate headquarter countries of the companies that responded to the CEO Survey:

Automobiles; banking; clothing and footwear; conglomerates; construction; electronics; food and beverage; household packaged goods; insurance; logistics and transportation; media and communications; mining and metals; oil and gas; pharmaceuticals; professional services; retailing; travel and tourism; utilities

Australia; Belgium; Brazil; Chile; Egypt; France; Germany; India; the Netherlands; Norway; the Philippines; Saudi Arabia; South Africa; Switzerland; UK; USA

In January 2002, a task force of World Economic Forum members signed a joint statement on Global Corporate Citizenship. They endorsed the *Leadership Challenge* outlined on page 4 and recommended *A Framework for Action* on page 6. This framework offers practical steps that chief executives, board directors and executive management teams can refer to in directing their company's impact on society and its relationships with stakeholders. The framework focuses specifically on the role of CEO and board leadership, and on the importance of leadership processes both within companies, and between companies and other partners.

The following report profiles practical examples of these different types of leadership in action. It is based on the findings of a questionnaire sent to the initial signatory CEOs, which had a 82% response rate. Although this represents a small and self-selected sample of CEOs, their companies are headquartered in 16 countries, and in most cases include global networks of subsidiaries, joint ventures, suppliers and other business partners. They also offer insight from 18 industries and from publicly-owned, state-owned and privately-owned companies. Some of their key messages are reinforced by the findings of research conducted by SAM Sustainable Asset Management in 2002 covering over 1,300 companies. These messages are relevant to all business leaders with an interest in addressing the increasingly inter-linked challenges of good corporate citizenship, governance and competitiveness in the global economy.

Executive Summary

Rarely have business leaders faced such a complex and challenging set of economic pressures, political uncertainties and societal expectations. Regardless of their industry sector, country of origin, or corporate ownership structure, they are under growing pressure to demonstrate outstanding performance not only in terms of competitiveness and market growth, but also in their corporate governance and their corporate citizenship.[1]

- **First, corporate competitiveness:** Pressure continues unabated to deliver profits and shareholder value in a period of economic downturn, high levels of competition, and greater international risk and uncertainty. This calls for business leaders and their companies to focus relentlessly on operational efficiency, cost effectiveness, productivity, customer service and innovation. It also points to working with others, including government bodies and academic institutions, to enhance national competitiveness.

- **Second, corporate governance:** In the wake of corporate governance scandals and public concern over accounting failures, conflicts of interest and inadequate market oversight, there is massive pressure on business leaders to rebuild public trust and to restore investor confidence in their own roles, in their companies, and in the capital markets. This calls for a relentless focus on corporate integrity, accountability and transparency. It also calls for proactive engagement between private sector leaders and public authorities to ensure that new rules and norms are suitable for protecting investors without destroying the spirit of entrepreneurship, innovation and risk-taking that drives markets and economic progress.

- **Third, corporate citizenship:** In the face of the high levels of international insecurity and poverty, the backlash against globalization and mistrust of big business, there is growing pressure on business leaders and their companies to deliver wider societal value. This calls for effective management of the company's wider impacts on and contributions to society, making appropriate use of stakeholder engagement. Once again it requires new types of public-private partnership to address challenges that are beyond the capacity or responsibility of an individual company or the private sector. These include issues such as access to training and education, healthcare, water, energy, credit and markets, as well as tackling problems such as corruption, money laundering, crime and terrorism.

These three pressures of corporate competitiveness, corporate governance and corporate citizenship, and the linkages between them, will play a crucial role in shaping the agenda for business leaders in the coming decade.

The survey results indicate that the concept of corporate citizenship is moving beyond compliance and philanthropy to become a more strategic issue of relevance to CEOs and boards of directors. At the same time, it is clear that most companies are in the early stages of defining what global corporate citizenship means for their company and industry, and integrating it into their corporate strategies and management processes. There is a growing awareness that there are no easy answers. In particular, there is a growing debate on the relative roles, responsibilities and boundaries of the private and public sectors, both nationally and internationally. There is also recognition of the need to accommodate differences in culture, history, economic circumstances, industry sector and ownership structure, while promoting common values and learning from each other's experiences. The survey responses illustrate these differences but also highlight some common messages.

In the following pages we focus on ten key messages that we consider to be relevant to other companies. We also illustrate some of the practical actions that CEOs and their companies are taking – both individually and collectively – to embed responsible business practices in their core business operations, as well as in their philanthropic and stakeholder engagement activities, and their engagement in public policy issues. The original questionnaire is available on the World Economic Forum and International Business Leaders Forum websites as a self-assessment tool for other companies.

SUMMARY OF TEN KEY MESSAGES

1 The power of personal leadership: The role of the chief executive as a champion of corporate values and as a consensus builder is more central and critical than ever. Signatory business leaders are dedicating their own time and energy to communicate and implement the values of responsible business, both internally and outside their companies. They are also acknowledging the importance of "distributed leadership" at all levels of the company.

2 Strength in collective action: While personal leadership matters, there is also strength in collective action. Almost every respondent is personally involved in collaborative efforts addressing specific challenges of corporate responsibility or governance that cannot be tackled alone. Some of these are issue-specific, others are driven by the concerns of a particular industry or geography. Some are business-led coalitions, others multistakeholder alliances. Most of them "go beyond business as usual", representing a fundamentally new approach to problem solving and governance that is likely to grow in importance.

3 A growing link with corporate governance: Most of the companies surveyed have established governance structures and processes at the board level or senior executive level to monitor the company's wider social, economic and environmental performance – in short, its non-financial performance. Many of these structures and processes are new or in the process of development.

4 A challenge for companies everywhere: Business leaders from 16 countries responded to the survey. The respondents offered valuable insights on corporate citizenship from the perspective of operating in developing countries and in different cultures, including the role of Islamic principles in business. Regardless of the culture and ownership structure, a values-based approach to leadership emerges as a common aspiration. Some of the most innovative practices are being undertaken in developing countries.

5 Making the "business case": Protecting reputation, brand equity and licence to operate emerged as clear business drivers for corporate citizenship, together with attracting, motivating and retaining talented employees. Several CEOs commented, however, on the need to develop more rigorous analysis on the links between corporate responsibility and shareholder value.

6 Employees and governments as key drivers: Employees received the top ranking as the stakeholder group that creates the greatest pressures and/or incentives for their company's corporate citizenship activities. Employee-related issues, especially diversity and health and safety, were cited by most respondents as a key factor in defining corporate citizenship, and employees were listed as a key focus of CEO communication efforts on corporate citizenship. Government bodies received the second highest number of mentions in terms of importance as a driver of corporate citizenship.

7 Critical issues on the agenda: Although there were management issues specific to different industries or regions, there were also some clear unifying themes. Not surprisingly given recent scandals, corporate governance and ethics were cited as crucial core business issues by many respondents, together with employee-related concerns. In terms of their community outreach, a number of the companies are moving beyond traditional philanthropy to focus on mobilizing their core competencies and aligning their social investment activities with core business interests and strategies.

8 A major emphasis on internal processes: 90% of the CEOs listed the internal communication of values and policies as a key tool in embedding corporate citizenship. The establishment of key performance measures and skills building were also ranked highly. Few companies, however, are at the stage of integrating corporate citizenship related issues into their senior managers' performance appraisals and incentive structures, although there are some existing good practices. The strong emphasis on this internal, values and performance-driven focus challenges a common critique that most companies are only interested in the public relations aspects of corporate citizenship.

9 Engagement with external stakeholders: Developing new ways to communicate, consult and collaborate with external stakeholders was raised by many of the CEOs as an area where they are devoting personal time and where their companies are investing more resources. In particular, a variety of tools are being used to communicate and monitor corporate citizenship values with business partners such as contractors, suppliers and distributors, along global supply chains.

10 Reporting publicly with verification: 48% of the respondents in our CEO survey have published some form of public report on their corporate citizenship activities and 77% are using their websites to communicate their corporate citizenship. External assurance is being sought through a combination of traditional auditing companies and other methods such as NGO or academic verification and stakeholder dialogues but is still at an early stage. The Global Reporting Initiative guidelines and the Dow Jones Sustainability Index are cited by a number of companies as important external frameworks for assessing their performance.

‖ The Leadership Challenge

Over the past decade the forces of economic globalization, political transition and technical innovation have created new opportunities for improving the living standards of millions of people. For the first time in history most of the world's population live in democratic societies and market-based economies, with the potential for increased political participation and economic prosperity. There are widespread concerns, however, that this potential is not being met; that many people are still facing high levels of inequality, insecurity and uncertainty, as well as new sources of conflict, environmental decline and lack of opportunity. World events since 11 September 2001 have reinforced the interconnected nature of these global challenges and the inter-dependence of nations and their citizens. Leaders from all countries, sectors and levels of society need to work together to address these challenges by supporting sustainable human development and ensuring that the benefits of globalization are shared more widely. It is in the interests of business that these benefits continue both for companies and for others in society.

We speak as a group of business leaders from different countries and industry sectors, with a wide diversity of activities. We recognize that enterprise is a principal motor for increased productivity and development and that commerce and investment, both domestic and foreign, large-scale and small-scale, have a crucial role to play in helping to build prosperous societies. We also recognize that sound institutions and clear regulatory and normative frameworks are needed at both the national and international levels. These can only be created by effective and efficient governments and inter-governmental organizations, which are supported by an open and active civil society.

Within this context we believe we have an important role to play, in partnership with others in the public and private sectors and civil society, to help spread the benefits of development more widely by the manner in which we pursue our primary business activities. We believe that a commitment on our part to listen to and work with these other groups makes sound business sense and will enable us to better serve the interests of our shareholders and other key stakeholders, especially over the longer term. What does this mean in practice for business leaders?

1 **First and foremost, our companies' commitment to being global corporate citizens is about the way we run our own businesses.** The greatest contribution we can make to development is to do business in a manner that obeys the law, produces safe and cost-effective products and services, creates jobs and wealth, supports training and technology cooperation and reflects international business standards and values in areas such as the environment, ethics, governance, labour and human rights. To make every effort to enhance the positive multipliers of our activities and to minimize any negative impacts on people and the environment, everywhere we invest and operate. A key element of this is recognizing that the frameworks we adopt for being a responsible business must move beyond philanthropy and be integrated into core business strategy and practice.

2 **Second, our relationships with key stakeholders are fundamental to our success inside and outside our companies**. Being global corporate citizens requires us to identify and work with key stakeholders in our main spheres of influence: in the workplace, in the marketplace, along our supply chains, at the community level and in public policy dialogue. Our key stakeholders will vary based on our particular circumstances, but for most of us our employees, customers and shareholders are of fundamental importance, together with host communities and governments and a growing variety of civil society organizations.

3 **Third, ultimate leadership for corporate citizenship rests with us as chief executives, chairpersons and board directors.** Although it is essential that we assign clear responsibilities, resources and leadership roles to our managers for addressing these issues on a day-to-day basis, ultimate responsibility rests with us. While specific definitions, approaches and issues may differ according to industry sector, location of operations, size and type of company ownership, we believe the *Framework for Action* provides a template for leadership that is relevant for all companies, industry sectors and countries. Some of us will use the terminology of corporate citizenship, others of corporate social responsibility, ethics, triple-bottom-line, or sustainable development, but we believe the core principles and actions required are the same. First, provide leadership. Second, define what it means for your company. Third, make it happen. Fourth, be transparent about it.

We commend this Framework to all business leaders to discuss with their Boards of Directors and executive management teams and adapt to their own industries and circumstances.

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Hugh M. Morgan
Chief Executive Officer
WMC Resources Limited

Khalid A. Alireza
Executive Director
Xenel Industries Limited

III A Framework for Action

A **PROVIDE LEADERSHIP:** Set the strategic direction for corporate citizenship in your company and engage in the wider debate on globalization and the role of business in development.

(i) **Articulate purpose, principles and values internally and externally**

(ii) **Promote the business case internally**

(iii) **Engage the financial sector**

(iv) **Enter the debate on globalization and the role of business in development**

B **DEFINE WHAT IT MEANS FOR YOUR COMPANY:** Define the key issues, stakeholders and spheres of influence that are relevant for corporate citizenship in your company and industry.

(i) **Define the issues**

(ii) **Agree on company's spheres of influence**

(iii) **Identify key stakeholders**

C **MAKE IT HAPPEN:** Establish and implement appropriate policies and procedures, and engage in dialogue and partnership with key stakeholders to embed corporate citizenship into the company's strategy and operations.

(i) **Put corporate citizenship on the board agenda**

(ii) **Establish internal performance, communication, incentive and measurement systems**

(iii) **Engage in dialogue and partnership**

(iv) **Encourage innovation and creativity**

(v) **Build the next generation of business leaders**

D **BE TRANSPARENT ABOUT IT:** Build confidence by communicating consistently with different stakeholders about the company's principles, policies and practices in a transparent manner, within the bounds of commercial confidentiality.

(i) **Agree what and how to measure**

(ii) **Develop a graduated programme for external reporting**

(iii) **Be realistic about what is possible in a given timeframe and when building expectations**

IV Key Messages from the CEO Survey

A PROVIDE LEADERSHIP
Set the strategic direction for corporate citizenship in your company and engage in the wider debate on globalization and the role of business in development.

1 THE POWER OF PERSONAL LEADERSHIP

The role of the CEO as a champion of corporate values and as a consensus builder is more central and crucial than ever. The results of our survey illustrate a high level of importance being attached by business leaders to their role as "communicators and trust-builders" with stakeholders inside and outside the company.

CEO communications with shareholders: Although not relevant for the privately-owned and state-owned companies in our survey, all but one of the CEOs of publicly-owned companies stated that they had discussed corporate citizenship issues with key institutional shareholders in the past year. Although one commented that, "Generally, less attention is given to corporate citizenship issues by financial analysts in the USA than by their European counterparts," there were some common approaches across different countries. These approaches include the following:

- **Dedicated investor briefings on corporate citizenship issues:** Rio Tinto's Executive Chairman, Sir Robert Wilson, hosted a seminar for the company's institutional share-holders in London focusing specifically on corporate responsibility issues. In the case of the Philippines-based Ayala Corporation, "a structure is being put in place to encourage greater participation from the institutional shareholders as regards corporate citizenship."
- **Engaging the Socially Responsible Investment (SRI) community:** Some companies, such as Anglo American and Diageo, have engaged directly with SRI fund managers, analysts and advisers on these issues.

- **Corporate results presentations:** In the case of WMC Resources Limited, CEO Hugh Morgan includes information on the company's sustainability performance and its rating through the Dow Jones Sustainability Index in his annual results presentations to institutional investors and financial analysts.
- **Annual shareholder meetings:** Others address these issues at their annual shareholder meetings and in their annual reports. McDonald's and Coca-Cola, for example, both cite the growing number of shareholder resolutions and proxy statements relating to topics such as board diversity, independence, compensation, accountability, employment practices and environmental policies.

CEO communications with other stakeholders:
The CEOs surveyed are using a variety of methods to engage with other stakeholders on corporate citizenship issues. Employees were cited most often as an important target group. Over half the CEOs, however, also cited their personal contacts with the media, non-governmental organizations and/or government officials on these issues. In addition to speeches, media interviews, conferences, panel discussions, articles, internal newsletters, external reports and use of the Internet, stakeholder dialogues are becoming an increasingly common approach used by CEOs for such engagement. Four examples of such dialogues are:

- **Multistakeholder dialogue:** The CEOs of Rio Tinto, Statoil, WMC, EDF, Renault, Merck, Phillips-Van Heusen, Xenel, ING and SC Johnson all cited examples of multistakeholder dialogues that they have hosted or participated in on specific corporate citizenship issues relevant to their industry sector or circumstances.

"Throughout the year, I have addressed institutional shareholders at numerous investor conferences as well as one-on-one and in small groups. In these meetings I am frequently asked to discuss the company's position on policy issues such as regulatory compliance, drug pricing and intellectual property rights. In those settings, we often describe Merck's values. Providing evidence of the relationship between corporate citizenship and shareholder value would serve to increase engagement with this audience." Raymond V. Gilmartin, CEO, Merck & Co., Inc.

"EDF's corporate culture is rooted in a long tradition of quality public service, which involves a great deal of dialogue with a wide array of stakeholders. For instance, when I visit our various units I inevitably meet with local managers, of course, but also with customers, employees, trade union representatives, local officials, community representatives, etc., … with whom I discuss corporate citizenship issues." François Roussely, Chairman and CEO, EDF

SC Johnson, for example, hosted local and regional stakeholder dialogues in 2002 around the issues of climate change, West Nile virus, regional energy choices, local public education, inclusive workplace and civic engagement. Another example is the CEO of ING, Ewald Kist, who together with the CEO of Shell made joint presentations on their corporate citizenship policies to members of the Dutch press, members of parliament and representatives of NGOs.

- **Innovative labour relations:** Statoil's CEO Olav Fjell emphasizes the importance of his regular personal engagement with trade union representatives and works councils – both formal and informal. Statoil has gained a reputation as a pioneer in negotiating innovative global framework agreements for dialogue with labour representatives.
- **CEO project visits:** Another practical example of CEO leadership in stakeholder engagement is the "Seeing is Believing" programme cited by the CEOs of Boots, Diageo and Thames Water. Established by Business in the Community in the UK, this programme engages CEOs and other senior executives to lead groups of their peers on community project visits. Over 3,000 business leaders have participated in such visits. Many have resulted in transformational experiences, leading to practical follow-up action and ongoing personal engagement.
- **Tomorrow's business leaders:** Uwe Dörken of DHL, Jim Copeland of Deloitte Touche Tohmatsu, Shafik Gabr of Artoc and Jaime Augusto Zobel de Ayala of Ayala Corporation all cited their personal involvement in university level or youth initiatives. Examples included AIESEC (Association Internationale des Etudiants en Sciences Economiques et Commerciales), the International Youth Foundation and the Future Generation Foundation, which are focused on building the next generation of socially responsible leaders.

CEOs as stewards: The CEOs of family-owned companies emphasized the critical role of stewardship. As Rahul Bajaj commented, "I have been the CEO of the company for 34 years and most employees too have been with the company for a long time. In such a context, the inculcation of values or evaluations tends to be informal. The Bajaj family has had an association with public causes for at least 70 years." An article in the 2002 McKinsey Quarterly on the Ayala Corporation comments that, "For seven generations, the family of the company's current president and CEO, Jaime Augusto Zobel de Ayala, has guided it with a rare mix of adaptability, financial conservatism and increasingly transparent governance."[8] H. Fisk Johnson of SC Johnson notes that, "Family is universal and it has particular relevance to us as a family company." In 2002, the company supported a documentary on its history, establishing a high standard for corporate transparency. By the end of the year, the film, "Carnauba, A Son's Memoir", had been seen by some 50,000 people at over 200 private screenings around the world, with plans for public broadcasting. Having a strong sense of stewardship and enduring values is clearly not the exclusive preserve of family-owned companies, although it is often easier for such companies. They offer a valuable lesson, however, of how the CEO can also serve as a company's historian and keeper of its core values, while still adapting to new circumstances.

In short, personal leadership matters, especially, although certainly not exclusively, at the top of the company. Several of the CEOs commented on the importance of their country managers or business managers taking a proactive leadership role on corporate citizenship issues beyond compliance with corporate requirements. The findings of the CEO survey are backed up by a larger survey of 850 opinion leaders in Europe and the United States carried out by Edelman PR Worldwide. Between January 2001 and June 2002, 93% in the US and 85% in Europe "agreed" or "strongly agreed" that, "In the light of recent events, it is more important than ever for CEOs to take the lead role in communicating with a company's stakeholders, including the general public."[2]

2 STRENGTH IN COLLECTIVE ACTION

While personal leadership matters, there is also strength in collective leadership – especially when it comes to addressing public policy issues, industry-wide concerns, national development challenges, or global issues that are beyond the remit or capacity of any one company, but vital to the company's long-term survival and success. Almost every respondent cited examples where they are personally involved in such collaborative efforts to address challenges of corporate responsibility or corporate governance that cannot be tackled alone. Some of these are issue-specific, others are driven by a particular industry or geography. Some are business-led coalitions, while others are multistakeholder alliances between companies, governments, non-governmental groups and/or trade unions. Many of them go beyond "business as usual" and represent a fundamentally new approach to problem solving and governance. They are likely to become more important in the future. Examples of some of these collective leadership models are profiled in Box 1.

The examples identified by the respondent CEOs can be summarized under five broad categories:

Leadership in economic institutions and core private sector infrastructure: Most of the CEOs from developing economies emphasized their leadership roles in Chambers of Commerce and Industry, corporate governance initiatives, economic advisory councils, economic development programmes and academic bodies at the local, national and regional levels. Such institutions are crucial foundations for a well-functioning and trusted private sector. As such they are important in any country, but especially in emerging markets. Although not commonly seen as a part of corporate citizenship, playing an active leadership role in building and strengthening such organizations is one of the greatest public services that business leaders can offer to the countries in which they operate.

BOX 1: STRENGTH IN COLLECTIVE ACTION

New forms of collective or collaborative leadership offer one of the world's greatest hopes for addressing the type of issues that UN Secretary-General Kofi Annan has described as "problems without passports". The following corporate citizenship initiatives have been selected because they involve participation by one or more of the business leaders who have supported the World Economic Forum CEO Statement.

- **UN Global Compact:** a multistakeholder initiative engaging business to embrace and enact within their own corporate activities nine core principles derived from universally accepted agreements on human rights, labour and the environment, and encouraging companies to engage in practical projects that support the Millennium Development Goals.
- **Global Mining Initiative:** a programme led by a group of mining chief executives to develop the mining and metal industry's role in the transition to

sustainable development. Today the GMI has been replaced by a permanent body, the International Council on Mining and Metals.

- **E7:** a group of major electricity companies working to promote sustainable development within and by the means of their own business operations.
- **Fair Labour Association:** a partnership between business, universities and NGOs to complement international and national efforts promoting respect for labour rights.
- **WBCSD Sustainable Mobility Project:** a global programme addressing economic, social and environmental sustainability issues relevant for the mobility sector.
- **German Business Initiative for Southern Africa:** an initiative drawing the attention of German entrepreneurs and business to the economic potential of the 14 member nations of the

Southern African Development Community (SADC).

- **ORSE:** a French network designed to promote socially responsible investments and corporate social responsibility.
- **Business Trust in South Africa:** a strategic partnership between the South African business community and government to stimulate jobs, build skills and enhance trust in the region.

Several of the companies also reported their leadership engagement in different **World Economic Forum Initiatives** such as the Agricultural Task Force, the Disaster Response Network, the Global Digital Divide Initiative, the Global Health Initiative and the Global Register of Voluntary Corporate Greenhouse Gas Inventories and Reduction Commitments.
For more information on these initiatives, please visit our website:
www.weforum.org/corporatecitizenship

Leadership in industry-specific corporate responsibility initiatives: The emergence of industry-specific initiatives represents an important trend in the corporate responsibility field. This trend is illustrated by many of the CEO responses. It moves far beyond philanthropy, hitting at the heart of strategic business issues. The mining company CEOs, for example – Rio Tinto, WMC, Anglo American and Anglovaal – cited their involvement in the Global Mining Initiative. This initiative represents a visionary example of industry leadership and multistakeholder dialogue aimed at grappling with some of the inherent paradoxes and trade-offs of responsible business. Renault cited its involvement in the Mobility Initiative of the WBCSD and construction products company Lafarge has played a leading role in WBCSD's Cement Sustainability Initiative. Thames Water is active in the World Water Forum CEO Panel, EDF is a leading actor in E7, a group of power companies working to address sustainability issues, Phillips-Van Heusen was a founding member of the US-based President's Apparel Industry Partnership and the Fair Labor Association, and Carlson is a member of the International Hotels Environment Initiative. Diageo has been a founding member of various collective efforts to promote responsible alcohol use, such as the International Centre for Alcohol Policy, Century Council and Portman Group, outlining a number of areas that business, governments and scientific communities can cooperate to further public knowledge and prevent alcohol misuse.

Leadership in broad business coalitions for sustainable development or responsible business: The respondent CEOs are also involved in a variety of national and international cross-industry business groups which focus on corporate responsibility. The most commonly cited were Business for Social Responsibility, the International Business Leaders Forum, and the World Business Council for Sustainable Development.

Leadership in United Nations and Inter-Governmental Initiatives: A number of the companies surveyed reflected a growing trend of business working in partnership with the UN and other government bodies. Six of them, for example, stated their collaboration with the UN Global Compact. Other specific examples include: Merck whose CEO Ray Gilmartin has played a key leadership role in the access to medicines debate and demonstrated innovative new approaches through collective models such as the Mectizan™ Donation Program and the African Comprehensive HIV/AIDS

Partnerships (ACHAP) in Botswana. Coca-Cola Africa and its bottlers are also working with UNAIDS and others to address HIV/AIDS issues through a variety of initiatives. This includes logistical support to transport education materials to rural areas, marketing communications assistance for HIV/AIDS campaigns and general support for local education and prevention programmes. The company is also working with the UNDP on an e-learning project in Asia. Another example of working with governments on technology issues is Accenture, who played a leading role in the G-8 Digital Opportunities Task Force and is currently involved with its follow-up.

Leadership in NGOs, philanthropic organizations and community-based programmes: A variety of examples were also cited of leadership roles in NGOs and civic groups. Jaime Augusto Zobel de Ayala and José Roberto Marinho, for example, both chair the national chapters of the World Wide Fund for Nature in their respective countries. H. Fisk Johnson, Chairman of SC Johnson, sits on the Executive Board of Conservation International's Center for Environmental Leadership, a forum for collaboration between the private sector and the environmental community. Bruce Klatsky, CEO of Phillips-Van Heusen is a Board Member of Human Rights Watch. Marilyn Carlson Nelson, CEO of Carlson Companies, is Chair of the National Women's Business Council in the USA. Heinrich v. Pierer, CEO of Siemens, plays a role in the German business community's Initiative for Southern Africa and UNESCO's "Children in Need" initiative. Khalid Alireza, Executive Director of Xenel Industries, is active in a number of initiatives to promote understanding and academic study between Islam and the West. A number of the business leaders are active at the local level, ranging from Jim Copeland's role on the Board of Directors of the New York 9/11 Fund, to involvement of other CEOs on local school boards and civic organizations.

These examples provide an eclectic, but rich variety of anecdotal evidence of the leadership role that business leaders can play beyond their own companies. Their engagement in institution building and civic responsibility at the local, national, international and industry levels can have an effective leverage impact and help to tackle seemingly intractable socio-economic and/or environmental problems, that no individual company or sector can solve alone.

3 A GROWING LINK WITH CORPORATE GOVERNANCE

Corporate boards of directors are playing an increasingly active role in setting the strategic direction and monitoring the performance of their company's corporate citizenship activities. Assessing if a company is integrating these issues into its formal governance structures offers one of the best "quick tests" of whether the company takes corporate citizenship seriously.

Our survey results offer some useful examples of how companies are starting to adopt this strategic approach. Three broad types of governance structure appear to be common. These reflect the results of research on how boards of directors are addressing sustainability and corporate citizenship issues carried out in 2001 by the International Business Leaders Forum and SustainAbility Ltd[3] and are illustrated in Box 2.

BOX 2: COMPANY GOVERNANCE STRUCTURES FOR ADDRESSING CORPORATE RESPONSIBILITY ISSUES

These three broad types of structures are not mutually exclusive, and in some cases a company uses all three.

1 Formal Board Sub-Committee as an integral part of the main governance body: This is an increasingly common approach being adopted by companies operating under the Anglo – North American governance models. In most cases cited, these committees are chaired by a non-executive director and composed either exclusively of non-executives or a combination of executive and non-executive directors. The Merck Board, for example, has a Committee on Public Policy and Social Responsibility, Rio Tinto's Board has a Committee on Social and Environmental Accountability, Coca-Cola a Public Issues Review and Diversity Committee, Boots a Social Responsibility Committee, and McDonald's a Corporate Responsibility Committee. These committees usually meet from two to six times a year (in some cases independently and in others with the executive team), have clearly defined terms of reference related to their own company's corporate citizenship activities and business principles, and act in an advisory capacity to the main board.

2 Executive Committee reporting to the main governance body: Many of the companies have senior level executive committees, sometimes chaired by the CEO,

which report on corporate citizenship issues to the main board on a regular basis. Once again these have different names and different types of membership selected from the company's management teams, but they fulfil broadly similar roles in terms of identifying, advising on, and accounting for the company's corporate citizenship activities. Examples include: British-based Diageo has a Corporate Citizenship Committee chaired by CEO Paul Walsh; Australian-based WMC has an executive-led Code of Conduct Committee which reports annually to the board and is responsible for monitoring the compliance of directors, employees and contractors to WMC's Code of Conduct; French-based Lafarge has a Sustainability Committee, reporting to the Executive Committee; Norwegian-based Statoil has an Executive Committee, headed by the CEO, which covers various corporate activities and has one member who is in charge of corporate citizenship; Swiss-based UBS created a Corporate Responsibility Committee in 2001 comprising members of the Board of Directors, the Group Executive Board and the Group Managing Board, chaired by the company's Chairman Marcel Ospel; US-based Coca-Cola has a Corporate Issues Review Committee made up of operating unit and corporate function heads, which addresses CSR-related and other business issues; French-based Renault has a Sustainable Development Committee

chaired by a member of the company's Executive Committee; and Deloitte Touche Tohmatsu, whose global governance model is a verein of integrated yet distinct national member firms, has established an Advisory Team and Working Group focused on Responsible Globalization, chaired by a member of its Executive Group and CEO of its French member firm.

3 External Advisory Group advising the main governance body: Another "governance" model that is emerging on corporate citizenship issues is the establishment of external advisory or experts groups that advise the senior executive team and/or main board of directors but are neither executive nor non-executive directors of the company. As such, these groups have a purely advisory function, but facilitate the inclusion of diverse perspectives that may otherwise not be aired at the board or executive level. EDF, for example, established what it calls a standing Ethics Committee in 2001. Chaired by a member of the board, its main role is to advise the chairman, board of directors and other management structures of EDF on environment, sustainable development and ethics. WMC has an External Advisory Group comprising experts in various sustainability disciplines that reviews the company's sustainability performance and helps it to develop its public sustainability reports.

Given the variety of nationalities and ownership structures represented in our small survey group, there is a wide range of different corporate governance structures and approaches – and no "one-size fits all" conclusions can be drawn. Every company that answered the question, however, claimed to address corporate citizenship related issues at their board level or the level of their senior leadership and governance body. Some CEOs stated that these issues were addressed at every board meeting in one way or another, others on a structured timetable, usually quarterly or once a year, and a few on an "as-needed" basis. Over half of the companies surveyed have established, or are in the process of establishing, dedicated structures and processes at the board level or senior executive level to direct and monitor the company's wider social, economic and environmental performance.

The emergence of specific board committees dedicated to corporate citizenship or sustainable development issues is also reflected in the research conducted by SAM Sustainable Asset Management. Of the 1,336 companies assessed in SAM's 2002 research, 387 (29%) responded that the board had taken formal responsibility in these issues, while 213 (16%) had established specific board committees.[4]

Irrespective of their nationality, industry or ownership structure, companies can demonstrate credibility in addressing corporate citizenship issues by integrating these into their formal governance and leadership structures.

4 A CHALLENGE FOR COMPANIES EVERYWHERE

A common "critique" of corporate social responsibility or corporate citizenship is that it is an Anglo – North American invention or something that only has relevance at certain levels of economic development and wealth. Although recent developments in thinking have largely been in that context, the relationship between business and others in society poses questions relevant in all cultures and stages of national development. Depending on the countries in question, companies may well face daily operational and strategic challenges created by:[5]

• Inadequate legal frameworks and governance structures
• Weak, authoritarian or failing public sectors
• Bribery and corruption
• Human rights violations
• High levels of poverty and inequities in the distribution of resources and livelihood opportunities
• Inadequate educational and public health infrastructures
• Strict press controls
• Antagonism towards foreign investors and western consumerism.

Faced with such challenges, business leaders who are operating in emerging economies and are serious about running ethical and responsible businesses often have to be strategic and creative in the way they address their roles as good corporate citizens. This is especially the case for emerging market companies that aspire to be competitive and well-regarded players in the global economy beyond their own borders. These companies have to understand and effectively manage business risks resulting from high levels of corruption, poverty and disease, such as HIV/AIDS in Africa. In the face of limited public resources they can have a role as effective philanthropists, but they can also help in nation-building, helping to build national and community capacity. They have a common interest with

"Some observers on globalization have remarked that governments are finding it more challenging to deliver social development. This is especially the case in developing countries, where there is a growing demand for companies to expand the bounds of their responsibility. Corporate social responsibility is not a substitute for the rightful role of democratic governments to set up regulatory frameworks and social welfare programmes for the benefit of society. But it can be argued, in developing countries particularly, there is a need for business to be aware of some of the broader implications of an investment decision, and to address these responsibly at both the local and global levels through partnerships, responsible business practice and constructive engagement." Uwe Dörken, CEO, DHL

other citizens in helping to develop sound economic institutions, and in some cases democratic institutions, and in being champions of international standards and norms in areas such as corporate governance, anti-corruption, human rights, labour and the environment. On a daily basis they deal with high levels of paradox and complexity. Their shareholders may be no less demanding than those of their industrialized country counterparts, but their societies also demand more, especially when government resources and/or capacities are severely limited.

Rahul Bajaj from India reflects back on his family company's history: "We were deeply involved with India's freedom movement. … Gandhi set up his home in our ancestral town, as our guest, and my family was involved in setting up and/or running a number of institutions to take forward his ideas of nation-building. That tradition continues to this day and is supported by Bajaj Auto financially and in terms of management time."

In South Africa, Brazil and the Philippines, responsible business leaders have also played an active role during periods of political unrest and transition to encourage more stable democratic structures, higher ethical standards and social development. José Roberto Marinho, co-chairman of Latin American media group Globo, comments: "The role of the media in Brazil and its contribution for the advancement of democracy in the country and for the promotion of social development are some of the permanent issues on Organizações Globo's Editorial Council." In addition to the focus on societal issues in its core business, Organizações Globo also operates one of the largest private foundations in the country, as do the Ayala and Anglo American corporations in the Philippines and South Africa respectively.

Rick Menell, CEO of South African-based Anglovaal, pointed out that a key "business driver" of corporate citizenship from his perspective is to, "promote social equity as one of the pillars for a stable investment environment in South Africa." Anglovaal and other companies operating in Africa, such as Anglo American, Coca-Cola and Rio Tinto, have taken leadership roles on tackling HIV/AIDS in the

workplace and sometimes host communities (www.businessfightsaids.org). In this case, what used to be a public health issue has unavoidably become a business risk and a business responsibility issue – not out of choice but out of necessity for many companies operating in Africa. For such companies, social investments are a necessary requirement not only for their current reputation and licence to operate, but also as an important investment in their region's future economic viability and political stability.

In Chile, state-owned Codelco has established what it calls its Strategic Alliance in order to foster employee participation and development. This is a common charter based on mutual commitments subscribed by the company's CEO, senior executives and Codelco's major Labour Unions. Since 2001 the company has also been integrating corporate citizenship related issues into its new organization structure. This has included the design and implementation of Best Practices Units, new Performance Assessment Models and new career development programmes.

Khalid Alireza of Xenel offers a valuable perspective on some of the responsibilities and realities of running a business in the Middle East. He highlights the crucial challenge of creating jobs for the local youth who are flooding onto the job market – a challenge that can only be met, "with the full participation of the private sector and the support of the public sector." Alireza and others of his executive directors and senior staff are also involved in what he describes as, "considerable efforts towards building a better understanding within the USA of the Arabs and of Islam whenever opportunities for doing so present themselves".

In summary, companies headquartered and/or operating in developing countries are undertaking some of the most innovative practices and visionary approaches to corporate citizenship. These approaches offer real potential for transferring knowledge and learning from South to North, and between developing countries themselves.

DEFINE WHAT IT MEANS FOR YOUR COMPANY Define the key issues, stakeholders and spheres of influence that are relevant for corporate citizenship in your company and industry.

"Statoil's commitment to sustainable development rests on a moral obligation to do what is right. However, principles here go hand in hand with commercial interests. Actively adapting our business operations to our social surroundings reduces risk, enhances reputation and thereby improves profitability. By contributing to sustainable development, we can strengthen our position in labour, capital and consumer markets." Olav Fjell, President and CEO, Statoil

Figure 1: The Business Case

"Please list among the eight following factors the three that you consider the most important in making the business case for your corporate citizenship activities." (World Economic Forum CEO Survey 2002)
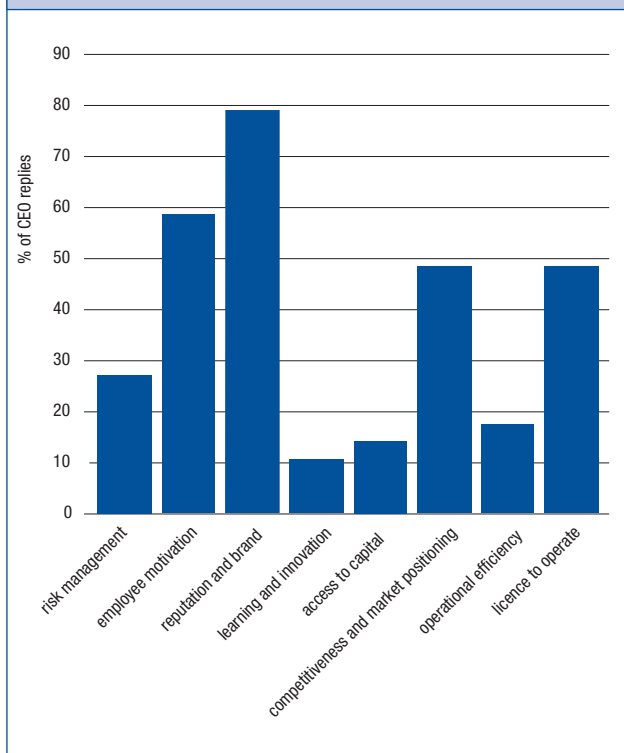
5 MAKING THE "BUSINESS CASE"

When asked to list the most important factors in making the business case for their companies' corporate citizenship activities, the following four were most commonly cited by the CEOs:

- **"Managing reputation and brand equity"** was the most frequently listed business driver of corporate citizenship commitment. And reputation is increasingly about trust. In late 2002, the World Economic Forum unveiled a major global public opinion survey that asked 34,000 people across 46 countries to assess the trustworthiness of a number of institutions, including global companies and large domestic companies, "to operate in the best interests of our society." Conducted by Gallup International in collaboration with Environics International between July and September 2002 the "Voice of the People" survey found that not only are companies among the least trusted of any of the 17 institutions tested, but there has been a significant and widespread decline in trust over the last two years. Sustaining or rebuilding trust has therefore become an important leadership issue for many companies.

- Respondents also selected **"attracting, motivating and retaining talented employees"** as a key factor for driving corporate citizenship. Graduates increasingly value the ethical record and integrity of a company when choosing whom to work for. Corporate citizenship has also proven to be important in motivating and retaining key employees, which can be particularly important in times of economic uncertainty.

- **"Protecting licence to operate"** is linked to reputation and trust and is about meeting regulatory and societal expectations. This tends to be a particularly important driver for companies who operate in developing countries, who have massive on-the-ground presence, or whose business and/or brand is being met with particular resistance from groups in civil society.

- **"Enhancing competiveness and market positioning"** was the other factor most frequently listed by the CEOs as important in making the case for corporate citizenship.

BOX 3: MOVING BEYOND TRADITIONAL PHILANTHROPY IN COMMUNITY ACTIVITIES

Linked closely to the growing awareness of the "business case" for corporate citizenship, two of the most important trends in recent years have been, first, the growing recognition among companies that corporate citizenship is about the way they run their core business activities, not only their philanthropy programmes, and second, the growing emphasis on making philanthropy or social investment more strategic, more closely aligned with core business interests and more focused on mobilizing core corporate competencies, such as skills and technology, not only money. As Uwe Dörken of DHL explains: "Our corporate community activities cut across the entire spectrum from the capacity building and charitable to the promotional; but all need to be aligned consistently with DHL's corporate aims and objectives." What are some examples of this in practice?

a) Mobilizing Core Corporate Competencies

More companies are actively involving their employees in their social investment and community outreach activities. In addition to financial support, companies realize that employees appreciate the opportunity to help out in their local communities and have the skills and competencies to do so in an efficient, creative and effective manner. They can share their knowledge at local schools, for example, or help local community organizations to build institutional and management capacity, or support local environmental projects. These services can be especially important in poorer communities or countries where public services may be limited. For a company whose everyday business is to consult other companies, extending the core business knowledge into the community area is not a new concept and, in our survey, the three consulting and/or auditing companies all engage in pro bono work in their communities. In the UK, for example, Arthur D. Little is a member of Business in the Community and provided them with pro bono consultancy to the Business in the Environment Programme,

while the company's Venezuelan branch co-managed the design of a five-year development plan of FUNDACEA, an agriculture technical education institution and administrator of the World Bank rural development programme. Deloitte is another example; in Australia, the company worked with the Australian Indigenous Cultural Network (AICN), helping them develop a business strategy and providing technological assistance for building up a digital archive of the organization's cultural heritage. In addition to more conventional pro bono consulting with local charities and employee involvement in the Business Partnerships Initiative of Voluntary Service Overseas, in 2002 Accenture launched Accenture Development Partnerships (ADP) that provide advisory and consulting services to donors, NGOs and SME specialists working in developing economies. Operating on a non-profit basis, ADP aims to be self-sufficient within two years of launch. Some other examples are provided in Box 5.

b) Aligning with Corporate Strategy/Industry Issues

A number of our survey companies are also aligning their community and social investment or philanthropy activities with issues that are directly relevant to their own industry sector. EDF, for example, in addition to its core business activities of delivering electricity, is working with the NGO "Electricians Without Borders" to increase access to electricity in very poor communities. Likewise, Thames Water, wholly owned by the RWE Group, is supporting the Partners for Water and Sanitation Initiative. This is a partnership with the UK government to address these issues in Africa. In order to raise awareness among the road users of the future, Renault has introduced a long-term programme on road safety, "Safety for All". Launched in France in 2000, the programme has now been expanded to eight European countries and is planning to expand further internationally. Working with teachers and road safety experts in numerous countries, Renault uses a specialized teaching kit, a dedicated web-page as well as a yearly

competition as means to engage with children and young drivers around the issue of road safety. Also aware of the potential effects of its products in society, Diageo, the world's leading premium drinks company, has a responsibility to ensure that its brands are advertised and marketed responsibly. For this reason, a Diageo code of marketing practice was developed, to give guidance to those involved in the marketing of the company's alcohol brands. Reviewed by an independent auditor as well as a range of external stakeholders, the code sets the standards on issues like underage provisions, drinking and driving as well as respect for alcohol abstinence. It also provides clear guidance on how employees are expected to comply with the standard. Further examples include Merck which is supporting numerous access to medicines programmes through its philanthropic activities, in addition to its core business operations. Boots, the healthcare retail chain, provides free therapy workshops for the wider community and health-themed story books to promote early literacy among children. Construction products company Lafarge has developed a strategic partnership with Habitat for Humanity which helps people to build their own homes in poor communities. Brazilian media group Organizações Globo supports a wide variety of social communications projects, in addition to its own mainstream programming. Its Telecurso 2000 initiative, for example, which has been developed by the Roberto Marinho Foundation, provides basic education and professional qualifications to young people and adults throughout Brazil. It has developed into a social network with over 1,000 partners, including many companies that allow their staff to watch courses in the workplace. It is watched by about 7 million people at least once a week, with over 2 million students having gained qualifications in the past few years.

One challenge cited by the CEOs is the lack of sound empirical evidence linking corporate citizenship performance to financial and market performance. Several of them emphasized the need for further analysis in this area.

UBS is one company that is undertaking such an analysis. According to Marcel Ospel: "UBS has just launched a project to investigate the impact of corporate responsibility issues on UBS share price. The project has two components: analysis of share price movements in the aftermath of certain events; survey among UBS key investors to assess the extent to which they incorporate consideration about UBS's corporate conduct in their valuation of the company." ING is another financial institution exploring the link between corporate responsibility and financial value. The company is currently developing a credit approval process that will take into account potential environmental, social and/or reputation risks. Funding clients and business activities that are not sustainable from a broader societal perspective can damage the institution's reputation and in the worst case lead to financial risks.

Several respondents cited their inclusion in the Dow Jones Sustainability Index as a useful benchmark, but empirical efforts to explore the linkages between corporate citizenship performance and financial performance are clearly at an early stage or non-existent in most companies.

Our survey findings on the business case are supported by two other chief executive surveys carried out in 2002. The 5th Global CEO Survey carried out by PriceWaterhouse-Coopers and launched at the World Economic Forum Annual Meeting 2002, surveyed 1,161 CEOs across 33 countries and found that, "70% of the chief executives agreed that corporate social responsibility is vital to the profitability of any company."[6] Another survey carried out for UK-based Business in the Community of corporate executives from 350 major companies in Europe found that, "78% agreed that integrating responsible business practices makes a company more competitive" and "73% agreed that it can significantly improve profitability."[7]

6 EMPLOYEES AND GOVERNMENTS AS KEY DRIVERS

Consistent with the findings above, when asked which stakeholder groups create the greatest pressures and/or incentives for their corporate citizenship activities, the CEOs strongly emphasized two key actors: employees and government bodies (state and national governments), followed by customers.

Figure 2: Key Stakeholder Groups

"Please identify the five stakeholder groups that create the greatest pressures or incentives for your corporate activities." (World Economic Forum CEO Survey 2002)
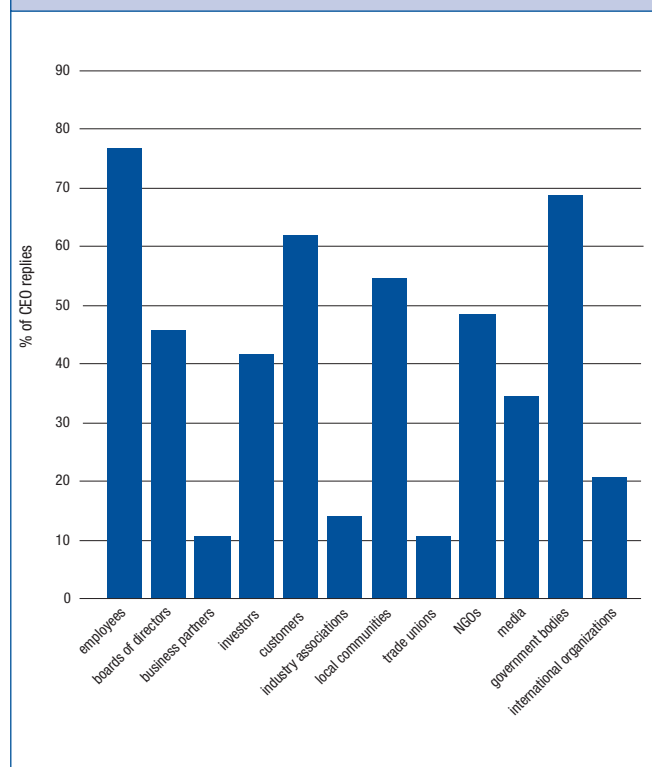
Employees: 76% of the CEOs selected employees as one of the five key drivers for their corporate citizenship activities. Even in a period of economic downturn, cost cutting and staff layoffs there is ongoing competition to attract and retain the best talent. Several CEOs commented on the growing interest that top graduates are showing in their company's corporate citizenship activities and values. Vernon Ellis of Accenture observes that, "Our young people increasingly want to be associated with an organization that is making a difference in the wider world. And many also want to use their skills in making a contribution themselves." Jim Copeland of Deloitte comments, "Attracting and retaining high calibre professionals is imperative, making our responsibility to our people even more important. The best professionals in the world want to work in organizations in which they can thrive. And, they want to work for companies that exhibit good corporate citizenship." And Anthony Trahar of Anglo American concurs, "We have anecdotal evidence that our *Good Citizenship Principles* are a factor in attracting graduates and other high potential recruits."

At the same time, trade unions, activists and the media are shining more of a spotlight on employee-related issues such as diversity, occupational health and safety, and the manner in which companies undertake downsizing and redundancy programmes. In the light of recent corporate scandals there is also increased interest from employees on the alignment between their company's stated values and its practices. The fact that *Time* magazine nominated three "whistle-blowers" as its "Person of the Year" in 2002 captures the mood of the times and highlights the growing pressure from employees on their leaders to be values *and* value driven.

Governments: The important role of governments, as perceived by the CEOs, offers an interesting perspective. In a survey by Edelman PR Worldwide, only 50% of the European respondents and 52% in the US responded that "governments need to be more involved in oversight and regulation of private enterprise in this country".[2] Also, the 1990s were characterized by a retreat of government involvement in business, resulting from privatization and market liberalization. Still, the CEOs identified governments as a key group in driving the corporate citizenship agenda. There are probably several reasons for this. Most importantly, the recent regulations from the US government on corporate governance and reporting standards, as well as the European Commission's communiqué on corporate social responsibility in 2002 and its establishment of a multi-stakeholder

dialogue process to address this issue. At the same time, a lack of a strong, effective and/or legitimate government in many developing countries can also create pressures on companies to get actively engaged in corporate citizenship efforts. The 1990s saw companies invest increasingly globally, while at the same time the attention and scrutiny given to corporate activities around the world intensified and companies found that simply complying with the national regulations (or lack thereof) was not enough. In many emerging markets, as outlined on pages 12 and 21, both foreign and domestic business leaders have recognized the need for more proactive approaches to assist governments in developing management expertise and facilitating public-private partnerships.

Customers: In an increasingly competitive global market where consumers are becoming more demanding and more aware of environmental and social issues, the importance of customers as a driver for corporate citizenship is growing. Many consumer surveys highlight this increased interest, although evidence suggests that stated preferences do not always translate into final purchase decisions. As pressure grows on companies to focus more intensely on meeting customer needs and expectations, few can afford to ignore this trend.

7 CRITICAL ISSUES ON THE AGENDA

Corporate citizenship is about the contribution a company makes in society through its core business activities, its social investment and philanthropy programmes, and its engagement in public policy. It is about the manner in which a company manages its economic, social and environmental impacts, as well as relationships with key stakeholders.

The breadth and scope of corporate citizenship was very much reflected in the survey results. When asked to list the four corporate citizenship issues that they considered most important, the issues ranged from employee safety in the workplace and environmental impact in local communities, to global climate change and spreading international business standards. Furthermore, the diversity of examples provided to our question of what the CEOs considered their two "most important corporate citizenship activities during the past year" illustrated that although many of the general corporate citizenship issues and procedures are the same, each company needs to find their own key areas in which to engage, depending on their type of business activity, location and other individual circumstances.

The following section outlines the issues that were most common in the company responses, providing a couple of examples of company action within each area:

I. Corporate Governance and Ethics

The combination of high-profile corporate governance crises and a growing awareness of the economic costs of fraud and corruption have placed good governance and ethics at the heart of the corporate responsibility agenda.

Being able to demonstrate integrity, accountability and transparency is essential for rebuilding public trust and confidence in the private sector. This has important implications for business leaders in two main spheres of action:

- First and foremost, in terms of the way their own companies are governed and operated, everywhere they operate around the world
- Second, in terms of the role they can play to improve corporate governance more generally in their industries and countries of operation.

As outlined on pages 11 and 12, there are growing linkages between the corporate responsibility and corporate governance agendas of a majority of the companies surveyed. At the level of the individual firm, a number of CEOs and boards of directors are establishing board level structures and processes to monitor their companies' non-financial performance and conformance, especially in areas such as employee health, safety, diversity and the environment.

A strong message from our survey was the importance given to corporate governance standards by some of the CEOs from emerging markets. There is growing recognition that good governance is crucial to the long-term economic development of these markets and to the ability of their companies to compete effectively in the global economy. In the World Economic Forum's *Global Competitiveness Report 2002-2003*, Daniel Kaufmann of the World Bank Institute argues that voice, oversight and transparency are key – and not only in the public sector. Good governance in the public and private sectors are closely intertwined, and improvements require collective action through a systematic participatory and consensus-building approach involving all key stakeholders in society. This view is shared by several of the CEOs in the Global Corporate Citizenship Initiative:

- Rahul Bajaj, for example, chaired the Confederation of Indian Industry's task force that developed that country's first Corporate Governance Code in 1998. He is also co-chairman of the Commonwealth Business Council, which has played a leadership role in developing a set of corporate governance guidelines for Commonwealth-based companies.
- Jaime Augusto Zobel de Ayala is a member of the Asia Pacific Advisory Council against corruption. In a recent interview with the McKinsey Quarterly, he observes: "We have long decided to meet what we believe are global ethical and governance standards so that we can succeed in a world where these standards are set. But in emerging markets, where institutional foundations need strengthening, those ethical standards can ironically be a competitive disadvantage. Others can take advantage of the system's malleability, if only in the short term. Thankfully, investors are now much more willing to vote with their feet when standards are not met."[8]
- In Brazil, Net Serviços de Comunicação SA, a company of the Globo Group, has joined the Brazilian Stock Exchange, Bovespa's Special Corporate Governance Level 2, becoming one of the first companies to adopt stricter disclosure rules regarding relationships with the capital market.
- In South Africa, Anglovaal has endorsed the ground-breaking Code of Corporate Practice and Conduct set out in the King Report. The King II Report released in 2002 states that: "Successful governance in the 21st century requires companies to adopt an inclusive and not exclusive approach. The company must be open to institutional activism and there must be greater emphasis on the sustainable or non-financial aspects of its performance."

II. Responsibility for People: Diversity and Worker Safety

Several of the companies surveyed, including WMC, SC Johnson, Merck, UBS, Coca-Cola, Accenture, Carlson and Deloitte, cited **diversity of employees** as important for their performance. A number of different initiatives have been established to facilitate the integration of minority groups in their organizations. Accenture has cultural diversity training programmes for all its staff in the USA and the UK, and is extending this further. At UBS a managing director level executive has been charged with facilitating the company's Global Diversity policies and values. Included in their diversity efforts are financial support and personal

advice to students from minorities or financially disadvantaged families, internal employee networks including "APAC Women's Network", "Gay@UBSWarburg", and cultural sensitivity programmes offered to employees that operate in more multicultural environments. Another example is WMC whose Indigenous Employment Initiative aims to equip trainees with the skills to secure and sustain employment. At the Initiative's launch in 2000 WMC undertook to have 100 indigenous people employed at their operations directly, or through their contractors by mid-2002. Deloitte's Vision 2005 is a plan focused on the advancement of women in the organization. With an objective of reaching the same proportion of women in the leadership as in the rest of the organization, the initiative has developed a strategic plan and is reporting annually on its progress.

Worker health and safety is another key issue identified by the companies. In particular this is a top priority among companies from the extractive and heavy industry sectors. A substantial amount of time and money is invested to improve safety records, and most mining and oil companies report on an annual basis on their accident rate. For example, Anglovaal, Rio Tinto and Anglo American all provide extensive training on safety procedures to their

employees, teaching them how to identify and minimize risks related to worker safety and health. At Rio Tinto, for example, a section on the company's intranet has been established for employees to ask questions or to communicate best practice or safety alerts. In 2002 the company introduced the Chief Executive's Safety Award, a recognition of good safety performance. At Anglovaal, Safety Health and Environment audits are undertaken regularly, systematically and with the appropriate representative participation.

III. Responsibility for Environmental Impacts

Between the two world summits on sustainable development – Rio in 1992 and Johannesburg in 2002 – the concern for the environment has increased markedly in many companies. A variety of private and public initiatives, new regulations and consumer activism have created incentives and pressures on companies to be more aware of their impact on the environment. Although one of the more established themes in the corporate citizenship area, and in which the companies have made the most progress, the environment was still listed by about half of the respondent CEOs as a key issue that needs to be addressed by the corporate sector. It is also the area where economic and other tangible impacts and benefits

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BOX 4: MINIMIZING ENVIRONMENTAL IMPACTS

Cutting CO_2 Emissions: As a major construction products group, Lafarge emits more than 75 million tons of carbon dioxide (CO_2) globally each year, mainly from cement production. Having already made big cuts in its emissions, Lafarge has committed to further reducing its CO_2 emissions by 20% by 2010. Three principal methods to cut CO_2 emissions from production are implemented by Lafarge: energy efficiency through investment in modernization or process change, energy substitution by using alternative fuels, and materials substitution by using industrial by-products as raw materials or as substitutes for clinker.

Meeting International Environmental Management Standards: In 2001, DHL became the first express integrator to receive an ISO 14001 certificate for both its ground and airline operations. The company has established an Environmental Review Board that meets at least twice per year, sets the policies and reviews performance. The Board works with managers on the national and local level to ensure compliance with objectives. Progress has been made. Although the objectives for 2002 were ambitious they have all been met or exceded – e.g., in Brussels the goal to cut waste sent to landfill by 60% was exceeded, and in the UK the East Midlands Airport hub achieved a 20% decrease in energy consumption, equivalent to over 600 tonnes of CO_2 emissions.

Investing in Product Stewardship: SC Johnson's Greenlist (TM) is a strategic initiative built on the marketplace principle of informed choice. This product stewardship programme institutionalizes a "greener choice" system that drives the use of more that is better for the planet and human condition in the company's product formulas and packaging. Annual objectives and business plans reflect responsibility and accountability across business and product development teams to ensure continuous environmental improvement resulting in products that are ever cleaner and safer in their use and disposal.
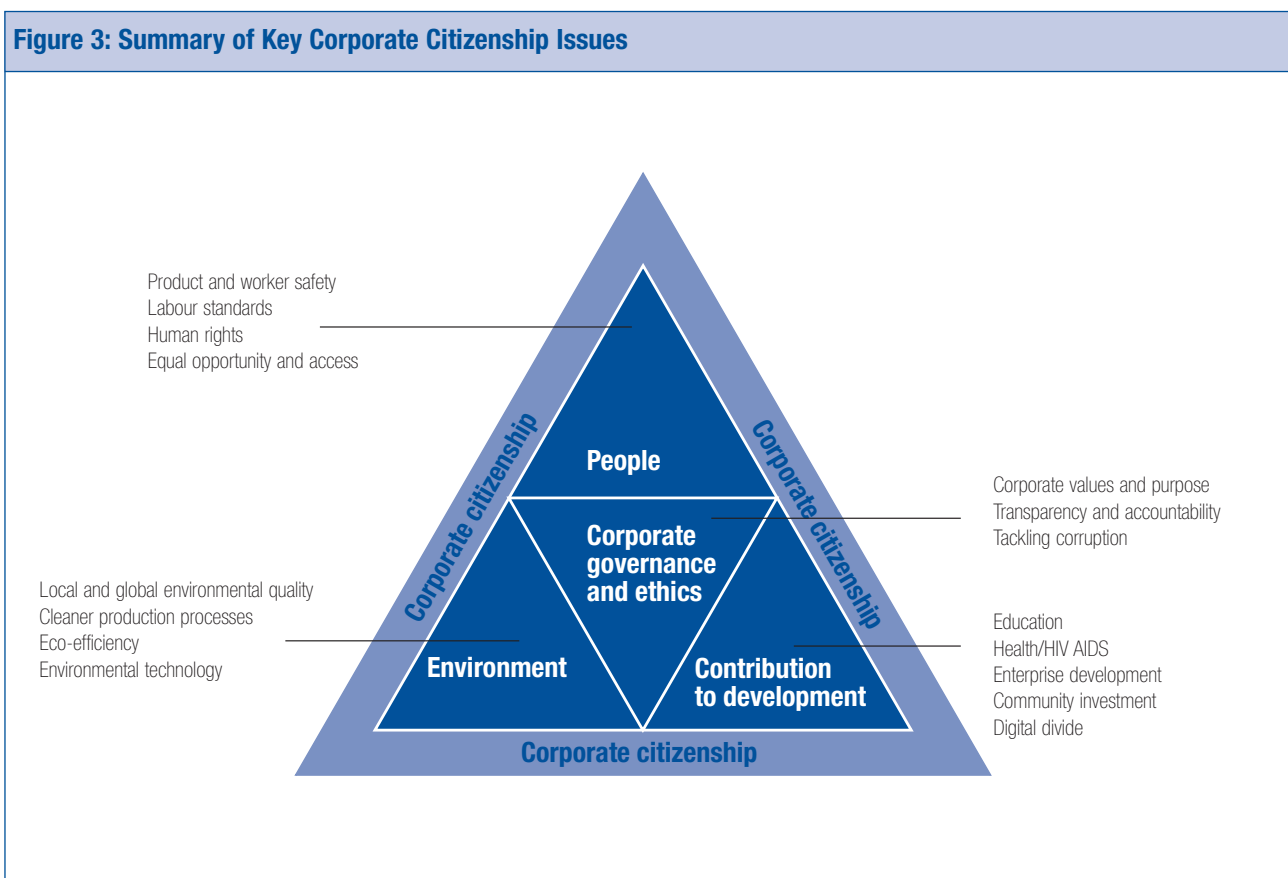

"Water is a key service that is an enabler, allowing communities to develop at many levels including health, living standards and economic development. ... If we are to play our full part in building a more sustainable society, addressing those challenges must increasingly becoming part of the way we all run our businesses, day in and day out."
Bill Alexander, CEO, Thames Water

are the easiest to assess. For example, eco-efficiency, energy and other cost savings, reduction of resources used in a product, new technology development, and so on, have all been shown to benefit the financial bottom line in the medium to longer run. The companies surveyed have launched a number of initiatives to, "minimize environmental impact" and to achieve "local and global environmental quality".

IV. Broader Contribution to Development: Capacity Building, Access and Education

Corporations have an important role in contributing to development. As the message goes in the CEO statement on Corporate Citizenship (page 4): "The greatest contribution corporations can make to development is to do business in a manner that obeys the law, produces safe and cost effective products and services, creates jobs and wealth, supports training and technology

cooperation and reflects international standards and values such as the environment, ethics, labour and human rights." However, in developing countries and/or countries where governments are playing a lesser part in providing effective public services, companies are also looking beyond their core business operations, and contributing to building up the basic economic, social and, in some cases, democratic infrastructure in a country. Typical examples include: training and education of workforce and/or local community; developing linkages with small and micro-enterprises; provision of basic goods like electricity, water and medicines; and information and awareness raising campaigns. Most of the work is done in cooperation with groups from the local community, the public sector, international NGOs and development agencies, as well as with other companies engaged in the same area or issue. A few practical examples are provided in Box 5.

Figure 3: Summary of Key Corporate Citizenship Issues

Product and worker safety
Labour standards
Human rights
Equal opportunity and access

Corporate citizenship

People

Corporate governance and ethics

Corporate values and purpose
Transparency and accountability
Tackling corruption

Local and global environmental quality
Cleaner production processes
Eco-efficiency
Environmental technology

Environment

Contribution to development

Education
Health/HIV AIDS
Enterprise development
Community investment
Digital divide

Corporate citizenship

Building local skills and institutions: In its social investment activities, Statoil is trying to move beyond traditional charity by contributing to capacity building. In Azerbaijan, for example, a country in transition from a centrally planned to a market economy, Statoil has been working to assist the development of the country's tax administration; a more effective tax administration would make the country more attractive to foreign investors and spur progress on longer-term socio-economic goals. In partnership with other companies, Statoil has supported a training programme designed for the tax administration including topics such as governance, ethics, revenue administration, auditing.

Improving access to basic services: The EDF ACCESS programme aims at developing and setting up profitable decentralized rural electrification projects in developing countries. Each project leads to the creation of a Decentralized Services Company (DSC), a local structure for operational services provided to the local population. The aim is to help kick start development by providing vital services to communities in need.

Tackling HIV/AIDS: Merck, in partnership with the Government of Botswana and the Bill & Melinda Gates Foundation, is working to advance the treatment, care and prevention of the disease in the Republic of Botswana, where nearly one in three adults is HIV-positive. The Merck Company Foundation and the Gates Foundation are each contributing US$ 50 million over five years to the programme, known as the African Comprehensive HIV/AIDS Partnerships (ACHAP). Merck is also donating its antiretroviral medicines to support the government's treatment initiatives. The goal is to create a sustainable programme of comprehensive HIV/AIDS prevention, care, treatment and support that can remain in place well beyond the presence of ACHAP in the country. Other companies in our survey are also tackling HIV/AIDS in their workplaces and communities and some are active members of the Global Business Coalition on HIV/AIDS.

Access to medication and health counselling: Together with the South African transport company Transnet, Deloitte is sponsoring the Phelophepa Health Care Train, now in its tenth year of operation in Southern Africa. Covering approximately 8,000 miles per year, this 16-coach train brings health, dental and eye care, counselling, health screening, medicine and education to vast numbers of rural people in South Africa. So far the train has touched the lives of more than a million people, registered more than 500,000 patients and educated more than 4,500 community members as health volunteers.

Raising awareness on drugs and chemical dependency: As a major TV and media corporation in Brazil, Organizações Globo is using their business operations to promote social transformation. As part of its objective to raise public awareness about certain key societal issues through entertainment, Globo TV in February 2002 introduced the issues of drugs and chemical dependency into one of its telenovelas (soap operas). Other Globo companies joined this effort to provide information and mobilize the population to discuss the problem. Since then, this integrated approach has yielded some interesting results, including a rise of 570% in the number of phone calls to the National Anti-drugs department, and at a drugs rehabilitation centre the number of inmates under 25 years of age went from 5 to 50%. Furthermore, as a result of a partnership between the Roberto Marinho Foundation and the São Paulo State Department of Education, an educational project on drug addiction, using TV, VCR and print materials, was launched. The project is aimed at the State's public schools, with a potential reach of 1.7 million high school students.

Supporting integrated rural development: The philanthropic tradition of the Bajaj Group in India started with the founder of the Group in the early 20th century. Today, the net worth of the group's Charitable Trusts is approximately US$ 100 million. One example of the group's activities is the Jankidevi Bajaj Rural Development

Organization that since 1987 has initiated and completed a host of economic and social programmes in 24 villages near the Bajaj plants. Apart from income generating programmes, the rural development activities aim at promoting health, sanitation, supply of pure drinking water, improved agricultural practices, social forestry and waste-land reclamation as well as training youth for self-employment.

Supporting integrated urban development: To contribute to the Philippine government's anti-poverty programme "Kapit-Bisig Laban sa Kahirapan Kalahi", Ayala has adopted one of Metro Manila's poorest communities. As part of this effort, the Ayala companies provide an assistance package to the communities, composed of water connection, a mini-sewerage treatment plant, an Internet laboratory for a local public high school, medical and dental missions, funding for a livelihood programme, and the donation of books and toys for a day-care centre.

Building sustainable communities: Launched and supported by SC Johnson, Sustainable Racine is a broad, multistakeholder effort encouraging individual and collective action in programmes and partnerships to advance local development and community well-being. This "sustainable community" model is now being replicated in Arese, Italy, where SC Johnson has catalysed the initial dialogue among public and private leaders to begin tailoring the multistakeholder decision-making process to address local needs and opportunities.

Micro-enterprise development: Coca-Cola has developed new generations of entrepreneurs by providing product and sales training, tools and equipment for small shop owners in thousands of "spaza" shops in South Africa. The company recently began a custom-built beverage pushcart programme for 2,000 disadvantaged women in Vietnam in partnership with local Women's Unions. Similar programmes have been developed in other parts of the world.

C **MAKE IT HAPPEN** Establish and implement appropriate policies and procedures, and engage in dialogue and partnership with key stakeholders to embed corporate citizenship into the company's strategy and operations.

Figure 4: Integrating Corporate Citizenship
"What do you consider the three most important steps or tools to embed your corporate citizenship values and policies throughout the company's management structure?"
(World Economic Forum CEO Survey 2002)
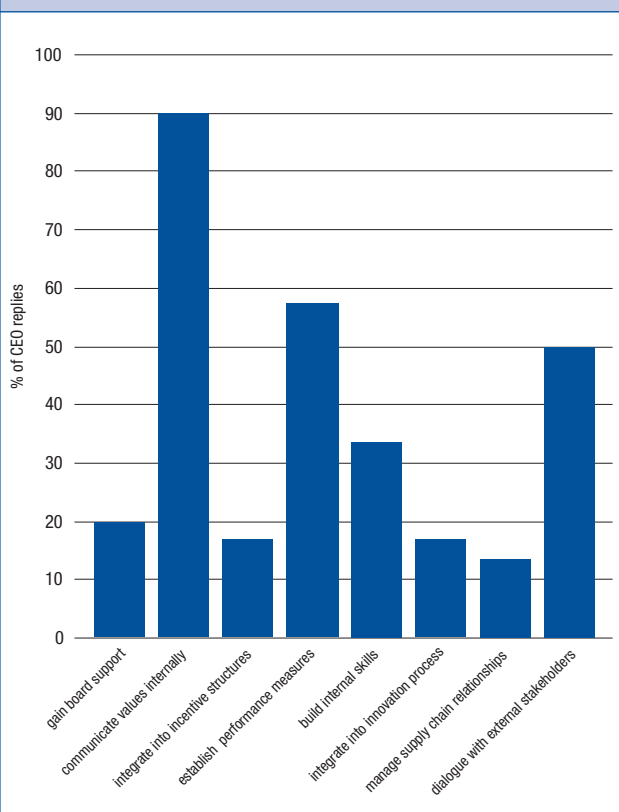
"I believe the real solution is for companies to build in the right practices in their organization, rather than treat corporate responsibility as an add-on to the budget."
Vernon J. Ellis, International Chairman, Accenture

8 A MAJOR EMPHASIS ON INTERNAL PROCESSES

The survey results demonstrated a major emphasis on internal processes when it comes to embedding corporate citizenship into the company's strategy and operations. As the graph in Figure 4 illustrates, the **"internal communication of values and policies"** received more "votes" by the CEOs surveyed than any other option in the questionnaire. It was listed as being one of the three most important factors by 90% of respondents. This was followed by **"establishing key performance measures"**. **"Building internal skills and capacity"** was also ranked highly, after the key external activity of "engaging in dialogue and partnership with external stakeholders". As Ray Gilmartin of Merck comments, "Perhaps more than anything else we do, furthering our company's values and standards will have the greatest effect on the future success of our company."

The strong emphasis placed by CEOs on a values and performance-driven internal focus challenges a common critique of corporate social responsibility that companies focus much of their time and effort on public relations benefits. Having said this, with some notable exceptions, many of them acknowledged that their companies are still at the "starting blocks" in terms of establishing key performance measures for corporate citizenship issues and integrating these into executive development and recruitment programmes, or into performance appraisals and incentive structures.

Communicating values and policies internally: The companies surveyed are employing a variety of tools to communicate their values and corporate citizenship policies to employees. These range from dissemination to all employees of the company's core values, codes of conduct, business principles or specific corporate citizenship policies (such as health, safety and environment policies or human rights policies), to inclusion of corporate citizenship issues in CEO speeches, company newsletters, magazines, annual reports, intranet and Internet, videos, conferences, meetings and workshops. Some companies, such as Anglo American and Deloitte, require senior managers in many geographies to provide written "assurance statements" that they have

Statoil's CEO Olav Fjell comments: "Indicators related to health, safety, environment and employee satisfaction are included, among others, in my performance contract, and are thus used for determining my bonus and form part of my performance review. So far, there are no indicators covering bribery and corruption, security and human rights, and community development, but these topics are on the Board's agenda and are thus indirectly part of the review of the CEO. As a supplement to the indicators included in individual balanced scorecards, we are considering introducing assurance letters – qualitative assessments of these challenges and how to address them at the country level – as a supplemental reporting and risk management tool in 2002."

WMC's CEO Hugh Morgan reports that: "WMC has a system of annual performance assessments based on key behavioural and performance criteria for all its senior managers linked to incentive payments and share allocations. Included in the criteria are corporate citizenship-related issues including employee safety, environmental protection and external liaison. For senior managers, a set proportion of their annual performance bonus is directly linked to adherence to the company's Values and Behaviour expectations."

Thames Water's CEO Bill Alexander comments: "Corporate citizenship issues are included within the Balanced Scorecard of the Chief Operating Officer. As the COO Balanced Scorecard is used to set business targets within the organization, these issues are cascaded throughout the company."

Coca-Cola's CEO Douglas Daft reports that: "In addition to performance against financial goals, the Compensation Committee of our Board has ensured that performance is also measured against the achievement of goals related to company-wide objectives, including efforts towards quality, environment and enhancing our brand and corporate reputation as well as efforts toward diversity and people management."

UBS's chairman Marcel Ospel describes the Bank's Performance Measurement and Management (PMM) system as its process for managing individual performance, and consequently the performance of the organization. He observes that: "The PMM system is associated with development planning, promotion and bonus allocation, and defines competency areas for all employees. Under the Functional and Technical Area, the Professional Behaviour competency promotes demonstrating a full understanding of the professional, ethical, regulatory and legal standards required in a Business Area of UBS, and consistently acting within this framework."

received key policies and to reaffirm their adherence to these in writing on an annual basis. This discipline is one that can be applied both internally to business managers and to key contractors and suppliers, as a credible way for keeping these issues on managers' "radar screens", and providing both a performance assessment and risk management tool. To date, however, very few companies are employing such an assurance approach.

Another method to raise internal awareness on corporate citizenship issues and recognize good practice is through award schemes. About a third of our respondent companies state that they have such schemes in place. The most common types of award focus on community engagement and volunteering, followed in second place by employee safety and, third, innovations in sustainable development. One example is Anglovaal who each year rewards the "Community Project of the Year" and awards an annual prize for "Excellence in Safety", recognizing operational teams that maintain high safety standards. The UK-based retailing company Boots has become the first UK employer to offer its staff a new national qualification in recognition of employee volunteering, a "Certification of Recognition as a Community Associate." And in France, in 2002 EDF launched its "Sustainable Development Trophies" event, the first of a series of competitions rewarding staff projects in support of corporate citizenship.

Performance measures and assessments: A small number of companies, both in our survey group and more widely, are starting to build corporate citizenship performance measures and targets into their managers' appraisal and incentive structures. In research conducted by SAM,[4] 120 (9%) of the 1,336 companies surveyed responded that more than 3% of their workforce received variable remuneration and compensation linked to environmental, corporate citizenship and corporate responsibility performance. There are obvious challenges with identifying and then measuring appropriate performance indicators for non-tangible criteria. Although the field is growing in terms of tools and sophistication, it is still at an early stage.

What mechanisms are in place to ensure the effective implementation of your company's codes of conduct?

Response by a group of 1,336 companies (SAM 2002)[4]

Responsibilities, accountabilities and reporting lines are systematically defined in all divisions and group companies	32%
Regular employee communication	33%
Dedicated help desks	15%
Intranet with practical examples for training purposes	19%
Codes of Conduct linked to employee remuneration	11%
Employee performance appraisal systems integrated compliance/codes of conduct	18%

Just over half of the companies in our survey are currently working on this area. Some offer useful examples. These companies include: Diageo, which is integrating corporate citizenship criteria into their executives' Key Performance Indicators; Statoil, which is including selected indicators in individual balanced scorecards; Siemens, which is specifically addressing issues of corporate citizenship in its Leadership Framework; and Merck, which is doing likewise in its leadership principles and desired competencies system. Other companies that state they are starting to develop specific measures and targets include: Coca-Cola, McDonald's, SC Johnson, UBS, ING, WMC, Anglo American, EDF, Rio Tinto, Arthur D. Little, Thames Water and Phillips-Van Heusen.

The two issues most commonly integrated into performance systems are **employee safety** and **employee diversity**, followed by **ethical** and **environmental performance**. Not surprisingly, safety is a key element in the performance and incentive systems of most of the "heavy industry" or "extractive industry" companies surveyed. Diversity is a key issue in many consumer goods, high brand value companies. A few practical examples of companies that are taking a lead are provided in Box 6.

Building skills and competencies: The third key internal tool identified by CEOs for embedding corporate citizenship performance in their company's operations was the area of learning and skills building. Two areas were explored by the survey – the recruitment and induction of young managers, and the executive education of senior managers.

Recruitment and induction: Over half of the companies surveyed state that they integrate corporate citizenship issues into recruitment and/or induction of new managers. In many cases this is built around exposing young managers to the company's values and business principles, or encouraging operational managers and new recruits to get actively engaged in community involvement initiatives in their own locations.

- Siemens' CEO Heinrich v. Pierer comments: "As part of our *Spin the Globe!* branding campaign, we started a recruitment drive emphasizing corporate citizenship issues because we believe that people are attaching increasing importance to working for companies committed to responsible business."
- McDonald's CEO Jim Cantalupo cites *McDonald's Gets Involved!* which is a Business Leadership Practices course designed for restaurant managers. "This course underscores the importance of community involvement and other social responsibility initiatives in every community where we do business. It helps managers understand how to integrate social responsibility issues into their restaurant's business plans."
- Phillips-Van Heusen's CEO Bruce Klatsky reports: "Corporate citizenship is integrated into the *Brand New Start* orientation programme for all new associates, the regular training and education presentations for our human rights programmes for sourcing and merchandising associates, and various printed materials such as the PVH Statement of Corporate Responsibility and A Shared Commitment for suppliers, contractors and business partners."

BOX 7: CASCADING LEARNING ON CORPORATE CITIZENSHIP THROUGHOUT THE COMPANY

Statoil and WMC offer two interesting models of company-wide learning initiatives.

Statoil worked in partnership with Amnesty International during 2002 to develop a web-based in-house human rights awareness and training programme, which contains a mixture of factual information, scenarios and eight real case studies. This programme will be made available to approximately 12,000 Statoil employees through a home PC offer. A condition for receiving the home PC package is that employees attend an obligatory online training programme, which

aims at raising their general knowledge about information and communication technology, as well as the financial and societal challenges for the company.

WMC's CEO Hugh Morgan initiated and supported a *Living with Change* programme available to all employees in selected locations and implemented to help staff build skills to cope with and manage change, both on the personal and professional levels. The executive and general managers initially completed a two-day *Leading Change* programme to

assist them in leading their staff. A similar programme was also provided for group managers, supervisors and team leaders, before being rolled out to all employees. Advisory Groups, composed of staff members from all levels of the organization, were set up at each office to support the programme and act as a communication channel between employees and the project team. The CEO was actively involved from initiation, to participating in the training, assessing progress and issues, and chairing a feedback meeting.

"During their orientation training, all new employees become aware of our philosophy on corporate citizenship. Specifically, we provide information about the Carlson Volunteer Connection, through which employees deliver thousands of volunteer service hours for community projects. We also have an online rewards system that encourages employees to recognise each other for their accomplishments at work and within the community." Marilyn Carlson Nelson, Chairman & CEO, Carlson Companies

- ING's chairman Ewald Kist explains: "Defining and communicating the ING Business Principles three years ago was the first step ING took in developing its vision on corporate social responsibility. ING has adopted a cascade approach in order to spread awareness about the business principles. The cascade approach means that ING's vision on CSR is formulated and adopted at the top, and spills over into the rest of the organization through continuous training and communication."

Executive education: A smaller number of companies are integrating these issues into executive education programmes for senior management. Those that are doing so adopt a variety of approaches ranging from inclusion of these issues in broader leadership development courses to the establishment of dedicated programmes and/or learning networks focused specifically on corporate citizenship related themes.

UBS, for example, offers a Global Leadership Experience (GLE) family of senior executive programmes, in which the company handles corporate responsibility from a very practical viewpoint and usually in relation to current political and economic events. Recent themes have included tackling money-laundering, the role of analysts and independent research, environmental stewardship, and responsibilities of governments and financial institutions in the fight against terrorism. Deloitte is another example that integrates corporate citizenship issues into a variety of executive education programmes. According to CEO Jim Copeland: "Beyond my own role covering ethics and integrity annually at our Global New Partners Seminar, corporate citizenship issues are part of our broader partner learning curriculum. Two of our IMD programmes – Business Perspectives and Leadership Development – address issues of corporate citizenship and it has been at the forefront of many Deloitte meetings." At Siemens, corporate citizenship issues are being integrated into the training programme for employees in the track for management positions but also including current executives. At Thames Water, senior managers are sent twice a year to a week-long training course, including a workgroup on corporate responsibility and sustainability. DHL supports professional development in the area of corporate citizenship with a one-to-one coaching approach tailored to the manager's own experience and career trajectory as well as the specifics of the business.

9 ENGAGEMENT WITH EXTERNAL STAKEHOLDERS

Developing new ways to communicate, consult and collaborate with external stakeholders was raised by many of the CEOs as an area where they are devoting personal time and where their companies are investing more resources. 50% of respondents listed "engaging in dialogue and partnership with external stakeholders" as one of the three most important steps or tools for embedding corporate citizenship values and policies through their company's management structure. Some examples of their personal leadership in this area are provided on pages 7 and 8.
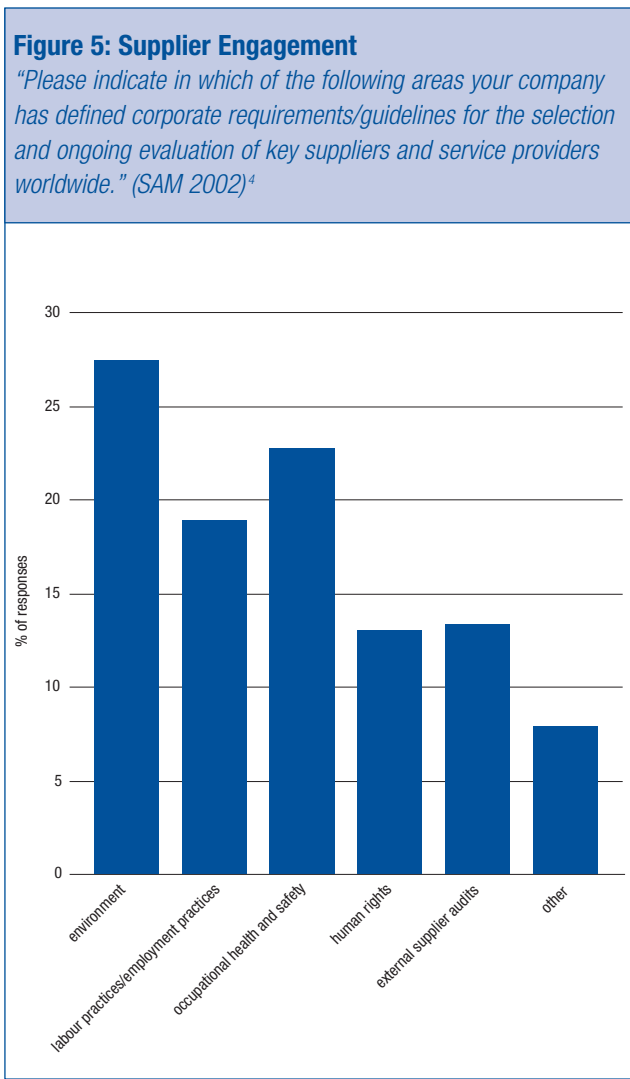
The companies profiled are engaging with a variety of external stakeholders on issues of strategic importance to their company or industry sector, but the most commonly cited were suppliers, government bodies and non-governmental organizations (NGOs). Several spoke of new types of relationships with government bodies, such as national Environmental Protection Agencies, that go beyond regulation and fiscal incentives to more performance-driven models. A number of the CEOs also cited engagement with non-governmental organizations, which is moving beyond philanthropic relationships to address more sensitive policy and performance issues. As Thames Water commented in their response: "We need to avoid the idea that businesses can somehow decide for themselves what constitutes responsible behavior and then conduct dialogue around their own definition. Businesses have to start out by recognizing that a key driver of corporate social responsibility is stakeholder expectations and they therefore need to start by understanding, which means listening to, those expectations and what they are based on." In short, these relationships need to be seen as a core process in being a responsible company, not simply an afterthought or "bolt-on".

Most of the companies responded to the specific question about their engagement with contractors and other business partners along their supply chain.

Supply chain management and getting business partners on board: Supply chain management was cited by a number of respondents as an important area of stakeholder engagement. The level of engagement with business partners – such as contractors, suppliers and distributors – on corporate citizenship issues, however, is still relatively limited. The majority of companies involved in this survey responded that their values and business

principles are communicated to these business partners, but only a small number of the companies are engaging more actively with suppliers and contractors to encourage compliance to these principles. As expected, companies from the retail and consumer goods sector, with global supplier and vendor networks and strong brand names, tend to be the most engaged, together with companies that have a large "footprint" in terms of major infrastructure development or extractive industries.

Figure 5: Supplier Engagement

"Please indicate in which of the following areas your company has defined corporate requirements/guidelines for the selection and ongoing evaluation of key suppliers and service providers worldwide." (SAM 2002)[4]

Royal Ahold, in partnership with the plantations that supply its coffee, has developed a structured approach to improving the social and environmental performance of its corporate brand coffees sold in the Netherlands, Sweden, Norway, the Czech Republic and the USA. The company uses the "Utz Kapeh" code of good coffee growing practice, which stipulates social and environmental criteria in addition to those on quality and food safety. Ahold assists its suppliers to meet "Utz Kapeh" standards, which brings important business benefits as it professionalizes their operations. Independent auditors certify the coffee plantations. Ahold aims to have 100% of its private label coffee certified.

Phillips-Van Heusen works actively with its suppliers and contractors to enhance compliance with the company's corporate values and principles. In addition to their "Statement on Corporate Responsibility", Phillips-Van Heusen has defined a clear set of expectations in their publication entitled "A Shared Commitment," addressed specifically to their contractors. The issues covered range from legal requirements to work conditions, health and safety provisions and contribution to the local community. Suppliers have to submit, on a yearly basis, a comprehensive evaluation form, reporting on their compliance with general business regulations, as well as Phillips-Van Heusen's standards as defined in "A Shared Commitment". The company also requires all contractors to have their business audited and factories inspected before establishing a business relationship.

Other examples: EDF organized panel discussions with their suppliers to review the company's corporate ethical charter. Boots, Siemens, Organizações Globo and Coca-Cola have web-pages dedicated to suppliers and/or business partners. As part of its contract bid process, Thames Water provides information on its commitment to sustainability, as well as case studies. McDonald's invites suppliers to attend their worldwide and regional owner/operator and manager conventions, and Statoil hosts Suppliers Days, where the company presents relevant policies and forthcoming activities. WMC puts contractors that work on site through the same induction programmes as their employees, including a review of WMC's sustainability policies and standards. Rio Tinto and Anglo American require that key policies and procedures be integrated into major contracts. The language of Coca-Cola's Supplier Guiding Principles programme is embedded in all commercial agreements for new and renewed suppliers. Information is provided on the company website for all potential suppliers so they are clear on what is expected of them from the beginning.

10 REPORTING PUBLICLY WITH VERIFICATION

In the last couple of years, a growing number of companies have started reporting on their corporate citizenship activities – either as part of their annual report, or increasingly in a separate corporate social responsibility or sustainable development report.

In our sample, 48% of respondents produce a separate corporate social responsibility or sustainable development report. For many, 2001 was the first year they reported on these issues, and several of the companies emphasize that this is a learning process and that in future reports they wish to be more explicit and provide more measurable results. As the CEO of Deloitte, Jim Copeland, comments; "Recent events have shown quite dramatically that non-financial attributes such as culture, honesty and integrity can carry a range of financial implications. If a company chooses to approach its non-financial attributes as a source of competitive advantage, measurement becomes the next logical step." Most of the companies include information on their corporate citizenship activities on their web-page and in their annual report.

Using External Benchmarks and Verification

Challenged to measure their corporate citizenship performance, companies are turning to a continuously growing set of indicators and standards. Most standards tend to be developed in the USA or Europe, and focus on a particular aspect of corporate citizenship. Examples include SA 8000 for work related standards, AA 1000, a social accounting and assurance standard, the ISO 14000 series on environmental performance, and different financial and governance standards as well as the financial indexes like DJSI, FTSE4Good and Domini Social Index, ranking companies not only on their financial performance, but also on their environmental and/or social record.

Responding to growing demand from companies and stakeholders for more standardized approaches, the Global Reporting Initiative has defined a set of general reporting principles and guidelines. This initiative was established by a multistakeholder group of companies, government bodies, academics and NGOs. An increasing number of companies are looking to the GRI framework when developing their corporate responsibility report.

This trend was reflected in our findings. As the figure below shows, 40% of the CEOs from companies that do produce a report stated that their company was using the GRI framework – either formally or as a general reference point or guideline. For those that did not report on the GRI, the most common rationale was that they preferred using their own company specific reporting system.

Figure 6: Companies Using GRI for their Reporting
Companies producing a corporate citizenship or sustainability report and the use of GRI. (World Ecomonic Forum CEO Survey 2002)

- 60%
- 40%

■ % of companies that produce a report but do not use GRI

■ % of companies using GRI
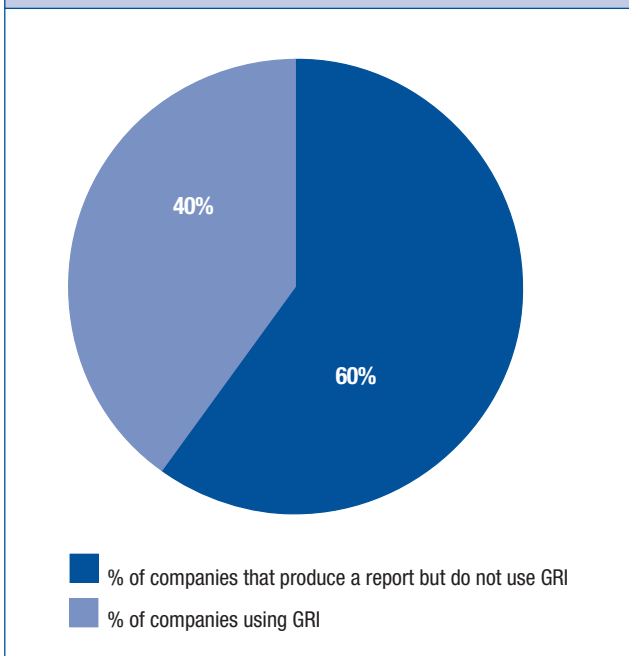
V Conclusion

As for verification, almost all of the companies which produce a separate CSR report state that they get it verified by a third party. When asked what kind of verification was used by the companies, there were a variety of answers. A small majority of respondents worked with traditional auditing firms like PWC, Ernst & Young, KPMG, Deloitte Touche Tohmatsu and Arthur D. Little, but some worked with smaller specialized consulting firms, as well as NGOs. In addition to a single verifier, a couple of companies responded that they are involving two or several external institutions in the process of assessing their report.

Between December 2001 and April 2002, for example, EDF worked with two different social rating agencies, Arese and Triodos, to evaluate the company's overall environmental and social performances. The company's sustainability report is one of the elements of the evaluation, together with interviews of managers and/or questionnaires. The outcome of the analysis will be reported back to the EDF management board providing feedback to future work processes.

Rio Tinto has its social and environmental performance data verified by independent auditors Arthur D. Little, and has also engaged in a process of external assurance with other organizations. In 2000 and 2001, for example, it contracted the International Business Leaders Forum in partnership with Synergy, the Oxford Centre for Innovation, to undertake an external assurance review of its reporting policies and programmes for those years. The purpose was to examine the company's internal systems of reporting and to increase the accountability and transparency of its reporting to shareholders and other stakeholders by challenging the assertions and assessing the consistency of statements made in Rio Tinto's social and environmental reviews.

As we stated at the outset, business leaders around the world are under growing pressure to demonstrate outstanding performance not only in terms of competitiveness and market growth, but also in their corporate governance and corporate citizenship. The linkages between competitiveness, governance and citizenship – at the level of both the firm and the nation – are likely to grow stronger and to become more crucial to the agenda of both public and private sector leaders. Central to all three of these strategic issues is the question of trust. In today's world this includes not only trust and confidence in a company's numbers, products and services, but also in its publicly stated values, its integrity and its leadership.

Building Trust is the theme of the World Economic Forum's Annual Meeting 2003 and is likely to remain a crucial leadership challenge for the foreseeable future. Implementing clear values and policies for global corporate citizenship is a key element of meeting this challenge. Such a process is neither easy nor a quick fix. The CEOs who answered our survey can all point to progress and good practice in the past year, but for these and other companies there is an ongoing challenge of keeping up with changing societal and business drivers and constantly assessing the risks and opportunities that these drivers create. There is also pressure to "walk the talk" in terms of reconciling corporate values and policies with corporate practice. Above all, in today's complex and uncertain world there is a need to continually assess the appropriate boundaries between the public, private and non-profit sectors. There are no easy answers to any of these challenges but, as the survey results illustrate, there are some common themes and there are growing opportunities to share tools and experiences in implementing responsible business practices around the world.

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You can also find more information about the initiative on the World Economic Forum website: www.weforum.org/corporatecitizenship

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