


Responsible Competitiveness

Reshaping Global Markets Through Responsible Business Practices

Summary of Findings

December 2005

 **AccountAbility**

in association with FUNDAÇÃO DOM CABRAL

FDC
DEVELOPING EXECUTIVES AND COMPANIES

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AccountAbility and FDC wish to express sincere gratitude to the following organisations that hosted international dialogues and workshops or supported the work: UN Global Compact, European Commission, Centre for Social Markets, Confederation of Indian Industry, African Institute of Corporate Citizenship, Instituto Ethos, UniEthos, ProHumana, UK Department for Trade and Industry, Rockefeller Brothers Fund.

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Production of this report has been supported by the Rockefeller Brothers Fund. Any errors, omissions, and views expressed are solely those of the authors.

Summary of Findings

Profiling Responsible Competitiveness

The Challenge

All nations, regions and communities share the three-part development goal of satisfying the needs of their citizens; playing their part in securing broader global public goods including civil and environmental security and basic human rights; and generating economic development.

Realising this goal requires markets and regulation that create a 'race to the top' of escalating productivity, human development and environmental responsibility. The potential exists for such a positive relationship, but a competition-driven 'race to the bottom' remains a very real possibility. The facts of pervasive poverty and inequality suggests that the 'trickle down' of undirected economic growth will not deliver sustainable development on its own. What is required is a more responsible form of competitiveness.

Corporate Responsibility Constrained

Business leaders increasingly recognise the need to act responsibly. This is exemplified by the growth in adoption of the UN Global Compact's 10 Principles, and the business community's engagement in addressing the UN Millennium Development Goals.

But individual businesses cannot go against the grain of the market. Being responsible sometimes does and sometimes does not pay. As with anything in business, success depends on a combination of good ideas, skills, luck and circumstance. While the growing significance of intangible assets has created opportunities for leveraging responsible business practices, the intensification of competition and the short-termism of investors constrain such practices.

Responsible Competitiveness means markets where businesses are systematically and comprehensively rewarded for more responsible practices, and penalised for the converse.

The challenge is to evolve a responsible basis on which competitiveness is achieved. This requires a crucial shift to a 'tipping point' in how markets reward business. As Oded Grajew, former Special Advisor to the President of Brazil, and Founder and President of Instituto Ethos, argued, "the responsible competitiveness of nations is essential to achieve sustainable development in today's globalised world".

Exploring Responsible Competitiveness

AccountAbility has joined with the United Nations Global Compact and a network of research institutes, business schools and civil society organisations to explore how responsible business practices can most effectively become an embedded feature of global markets.

Summarising three years' work, we provide here an overview of the current practice and future potential of Responsible Competitiveness. This is grounded in concepts, cases and statistics, including the latest Responsible Competitiveness Index (RCI) covering over 80 countries, and concludes with proposals for advancing the practice of Responsible Competitiveness.

The Practice of Responsible Competitiveness

The Global Policy Dialogue and extensive applied research has illuminated the growing practice of Responsible Competitiveness, from all parts of the world and covering sectors as diverse as wine, textiles and information and communication technology. "It makes sense in economic terms", argued *Kathryn Gordon*, *OECD's* Chief Economist. "It is almost true by definition that appropriate business behaviour is good for competitiveness." *Deepak Sood* at the Confederation of Indian Industries, commented, "Greater corporate responsibility can play an important role in moulding tomorrow's global markets. Nations that fail to address corporate responsibility issues expose businesses to potential costs such as those associated with corruption and poor health and safety". *Sean de Cleene*, Executive Director of the *African Institute of Corporate Citizenship* reflected: "The future for countries like Malawi is in niche markets, and perhaps improved social and environmental performance can be value added – the market will pay a premium for something that meets people's values".

Against this however, have to be set concerns that Responsible Competi-

tiveness is not significant in global markets, or indeed can be part of the problem: it can be a *distraction* from the real need to maximise economic growth as a development driver; it is *too weak to count* in offsetting the 'race to the bottom' price competitiveness that promotes unsustainable business practices; it *confers competitive advantage on multinationals and developed economies* at the expense of developing countries and small and medium enterprises so vital to their economies; it is a *zero-sum game* that will be competed away if a first mover advantage appears significant.

The practice of Responsible Competitiveness is increasing, catalysed by diverse contexts and drivers:

- ❖ **Under pressure** - *Responsible Competitiveness practices often evolve in response to a perceived economic threat.* For example in response to the threat to livelihoods and economies posed by the end of the Multi-Fibre Arrangement, initiatives have been established in several countries to establish a new basis for competitiveness in apparel and textiles. For example, the Cambodian initiative seeks to strengthen competitive advantage by demonstrating compliance with international labour standards.
- ❖ **Owning standards** – *Responsible business standards have historically been seen as a constraint to developing country exports, but some countries are responding by establishing their own standards as a way of actively building competitive advantage.* The Chilean Association of Exporters for example, has established a Chilean social and environmental standard for horticultural exports. In the short term, the standard is cheaper to certify and more closely aligned to the particulars of the Chilean fruit sector than internationally administered schemes. In the longer term, they hope to use the standard as a means of differentiating themselves in the highly competitive fruit export market.
- ❖ **Building business infrastructure** - *Responsible Competitiveness practices can work by impacting on an economy's infrastructure and the way that its social characteristics contribute to competitive advantage.* For example the EU is

seeking to develop a distinctive European competitiveness that builds on its diversity, consensual political processes, tendency to internalise costs into markets, and collaborative approach to education, health and public infrastructure. It therefore uses ICT to provide a means through which new forms of partnership can be developed.

Framework for Responsible Competitiveness

A Framework is needed to aid our understanding of what circumstances are required to bring about systemic changes across entire markets and economies. Key elements of such a Framework include:

- ❖ **Valuing Productivity** – emphasising the importance of societal expectations and demands in determining the productivity of an enterprise, a community or a nation, both because of the cultural, institutional and personal motivational factors that drive efficiency and effectiveness, and because of the crucial place of demand-side factors in valuing products and services.
- ❖ **Structural Productivity** – emphasising the relevance of competitiveness at community, national or regional, as well as the enterprise, level, and the proposed three-tier approach to analysing this: (a) the enterprise level; (b) the level of corporate responsibility clusters, and; (c) the place of corporate responsibility in driving both company and system-level innovation and flexibility.
- ❖ **Civil Learning** – emphasising how the dynamic pathways of exemplary behaviour by individual businesses can influence changes in societal expectations, expand the role of business in delivering public goods and, ultimately, alter the role of business in society.

Responsible Competitiveness strategies enhance productivity by *shaping business strategies and practices, and the context in which they operate, to take explicit account of their social, economic and environmental impacts*

Responsible Competitiveness Framework Summary



The Responsible Competitiveness Index

AccountAbility developed and released the world's first Responsible Competitiveness Index in 2003 in order to stimulate debate on the links between corporate responsibility and national competitiveness. Then, in 2005, AccountAbility, together with Fundação Dom Cabral, improved on the Responsible Competitiveness Index increasing both its robustness and country coverage. It provides two unique perspectives:

- ❖ *National Corporate Responsibility Index (NCRI)* - nations' state of corporate responsibility, allowing comparison between countries and regions, across variables and over time.
- ❖ *Responsible Competitiveness Index* - links the NCRI with nations' competitiveness, drawing on the World Economic Forum's Growth Competitiveness Index.

The NCRI suggests the following results:

- ☑ **Nordic** countries score well alongside **Canada, Austria** and **Belgium**.
- ☑ **South Africa** is the highest ranking emerging economy (excluding Eastern Europe), followed closely by **Korea, Chile, Malaysia, Costa Rica** and **Thailand**.
- ☑ East Europe seems to be pursuing a sustainable path. **Estonia** and **Slovenia** in particular are well-ranked.
- ☑ *There were some good performers in Africa* including South Africa and Mauritius, but other countries like Zimbabwe and Algeria are amongst the lowest scoring overall.
- ☑ In **Latin America** the positive examples are Chile and Costa Rica. Latin America scores poorly on the *internal dimension* of corporate responsibility.

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

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

It is important to highlight the fragility of the data, and associated statistical and theoretical problems. Such measures therefore need to be treated as indicative, rather than proof of possible causal relationships. But the RCI 2005 is certainly a significant step forward in both the measurement and understanding of Responsible Competitiveness. Taken together with the case study material, research and results of the dialogues, it shifts the debate towards one, which needs to explore the circumstances under which Responsible Competitiveness can play a significant role in enhancing a country's competitiveness whilst promoting its sustainable development.

Advancing Responsible Competitiveness

Responsible Competitiveness offers concrete, practical ways for actively building what UN Secretary General Kofi Annan refers to as the 'human face of globalisation'. Centrally, it:

- ❖ Illustrates how strategies rooted in Responsible Competitiveness can play a significant role in enhancing a country's economic competitiveness in ways aligned to sustainable development.

*The **Responsible Competitiveness Index** offers support to the proposition that increasing competitiveness can be encouraged by corporate responsibility practices.*

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- ❖ Offers both an analytic framework and the metrics to better understand the potential and practice of Responsible Competitiveness for nations, communities and businesses.

Advancing Responsible Competitiveness as an approach to globalisation is a real option and, in some instances, already a grounded practice. This practice varies considerably over time and between regions, sectors and market circumstances. Despite this variation, there appear to be several common elements that will be needed to underpin sound and scaled up Responsible Competitiveness strategies and practices.

Responsible Competitiveness is the precondition for an acceptable, viable globalisation that aligns market liberalisation and the extension of business opportunities with reductions in poverty and inequality, and environmental security.

ADVANCING RESPONSIBLE COMPETITIVENESS

- ✓ **Strategy-aligned corporate responsibility** is a prerequisite for Responsible Competitiveness.
- ✓ **Collaborative approaches to raising the bar** are an essential ingredient of Responsible Competitiveness.
- ✓ **Sector-based strategies** have to date been the preferred basis of Responsible Competitiveness strategies and practices.
- ✓ **National and regional strategies** could gain momentum to build on multi-sector synergies in Responsible Competitiveness.
- ✓ **Investor responsiveness** is essential for widespread take-up of Responsible Competitiveness strategies and practices.
- ✓ **Trade, investment and competition rules** need to be sensitised to encourage Responsible Competitiveness.
- ✓ **Responsibility standards** need to be better aligned with competitiveness opportunities.

Responsible Competitiveness is not a 'cookie cutter' solution, but provides a crucial policy lens on how best to address complex circumstances and multiple policy aims.

Responsible Competitiveness: Reshaping Global Markets through Responsible Business Practices argues that responsible business practice is becoming an important driver of national and regional economic competitiveness.

Responsible Competitiveness's findings are based on a wealth of sector and issue-specific cases from Brazil, Cambodia, Chile, Europe and South Africa, two new innovative country-level indices, and findings emerging from a Global Policy Dialogue on Responsible Competitiveness conducted over two years in association with the UN Global Compact and partners from Africa, Asia, Europe and Latin America.

The Responsible Competitiveness Index is an innovative, country-level index that provides metrics and methodology for exploring the relationship between corporate responsibility and competitiveness, and includes the National Corporate Responsibility Index that measures the national state of corporate responsibility covering 80 countries across five continents.

Responsible Competitiveness predicts that governments worldwide, as well as businesses, will increasingly build responsibility issues into their strategies to develop and maintain their national competitiveness. It provides a robust policy framework for this purpose and proposals for both policy and research.

Responsible Competitiveness is the precondition for an acceptable, viable globalisation that aligns the extension of business opportunities and roles in development with reductions in poverty and inequality, and environmental security.

The full report can be ordered from www.accountability.org.uk

Price: €80.00

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This summary report and the *Responsible Competitiveness Index 2005: Technical Paper* are available from www.accountability.org.uk and www.fdc.org.br

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