

## ACCOUNTABILITY PRESENTS ...

# Responsible Competitiveness

## Making Sustainability Count in Global Markets

SIMON ZADEK AND ALEX MCGILLIVRAY

**T**he need for a more responsible basis on which businesses and economies compete in international markets has never been greater. Global corporations with global strategies contribute to rising inequality and falling economic opportunities for lower-income communities across the developed world. Low wages and poor working conditions are sources of international competitiveness for businesses from Dhaka to Johannesburg, and weak environmental regulatory enforcement continues to deliver profitable opportunities to many firms, whether they are mining copper, shipping oil, or cutting down forests. Such markets that reward poor social and environmental behavior will impede our collective efforts to address today's greatest challenges, from water scarcity and food insecurity to civil unrest and the rise of fundamentalism. Economic protectionism, underpinned by xenophobia and racism, is the consequence of diminished confidence that open international markets can deliver the goods.

A generation of innovative business strategies and practices are emerging that deliver profits from more responsible behavior. At their minimum, they protect companies' reputations and brands, reducing the risks of consumer boycotts, recruitment bottlenecks in the face of bad press, or restricted or more expensive access to capital. Beyond this, companies have enhanced productivity through improved working conditions and driven product innovations by engaging with communities and understanding their issues and needs. Global leaders like General Electric have built multibillion dollar businesses offering energy-efficient products, and last year UK con-

sumers alone purchased around US\$60 billion worth of goods and services marketed with ethical virtues such as child labor, human rights, and arms control.

The challenge is to move beyond the exceptional and exemplary cases of responsible behavior to establish new norms of "responsible competitiveness" in global markets. Exceptional cases of responsible business behavior are important sources of insight and inspiration but will only deliver significant impact if they serve to reshape how markets more systematically reward and penalize all businesses' social and environmental impacts. Nike and Levi's, as premium brands appealing to socially and environmentally-conscious consumers, may successfully secure a competitive edge through improved labor standards. But achieving such standards across the whole apparel and footwear sector, including cheaper brands selling to more price-conscious consumers, requires accepted and enforced market rules. Ikea or Home Depot, similarly, might ensure that their wood products are made from sustainable forest reserves, but this will have little impact unless such practices are scaled up across all wood products.

Achieving responsible competitiveness across global markets requires the right combination of business, government and civil society policy and action. Since 2002, AccountAbility has built a framework enabling the measurement and analysis of factors that advance the responsible competitiveness of nations. Pascal Lamy, Director-General of the World Trade Organization, summarizes the key drivers in his overview of this work in identifying the need for "forward looking corporate strategies, innovative public policies and engaged and vibrant civil societies."

Innovative means of combining these three drivers of responsible competitiveness have emerged over the last decade. In particular, a host of collaborative initiatives, involving businesses, NGOs, and public institutions including governments and international agencies like the UN's International Labour Organization (ILO), have emerged to set voluntary rules, providing codes of conduct and standards for reporting and consumers labels. For example, factory conditions for millions of people working in the global supply chains of apparel and textiles sectors have improved over the last decade

**SIMON ZADEK** is AccountAbility's Chief Executive and Senior Fellow at Harvard University's John F. Kennedy School of Government.

**ALEX MCGILLIVRAY** is AccountAbility's Head of Programmes. Both are co-authors of "The State of Responsible Competitiveness 2007," which can be found on the AccountAbility website.



**Koreans demonstrate against the Samsung Group in Seoul, demanding that the company take more responsibility for an oil spill involving one of its barges.**

through several such initiatives, including the Fair Labor Association, the Ethical Trading Initiative, and Social Accountability International. Similar improvements have taken place in other sectors and issues, from privacy on the internet to the responsibility of lotteries. For example, the Forest Stewardship Council, the leading international body dealing with sustainable forestry, currently oversees the certification of forests covering over 20 million hectares.

Collaboration is also core to responsible competitiveness when new statutory mechanisms beyond voluntary agreements are needed. Government initiatives to establish effective regulatory frameworks require the support of leading businesses and civil actors. The high-stakes case of climate change illustrates this point. Businesses' willingness to create the innovative products and processes to enable us to address climate change will depend on whether governments can strike an international deal that delivers high and stable carbon prices, whether through an international carbon market or carbon taxes. But in most countries, business and civil society support would be needed for such a deal to be made. In the United States, an alliance of businesses and NGOs, the United States Climate Action Partnership, has been created to lobby the government to establish such a deal. Unsurprisingly perhaps, this alliance includes businesses

that stand to gain from high carbon prices.

Tracking the significance of responsible business practices in driving national economic competitiveness helps in building strategies for advancing its importance in global markets. AccountAbility has built a unique index of the responsible competitiveness of nations. In its fourth global report on the topic, "The State of Responsible Competitiveness 2007," the Responsible Competitiveness Index (RCI) measured the progress of 108 economies in embedding responsible business practices into their respective economies. So although it does not directly measure international competitiveness, it does provide a comparative measure of how significant responsible business practices are in the overall functioning of national economies. Specifically, the RCI 2007 does this through a multivariate econometric model designed to measure the relative importance of three inter-related domains: corporate strategies, public policies, and effective civil society engagement. The first area is business action measuring the application of governance, social and environmental good practice, codes and management systems at the firm level. The second area is policy drivers, which are seven measures of the strength of public policies and "soft power" that encourage responsible business practices. Finally, social enablers measures broader social and political environment that enable businesses, govern-

## SPOTLIGHT

ment, and civil society organizations to build effectively collaborations to reshape markets.

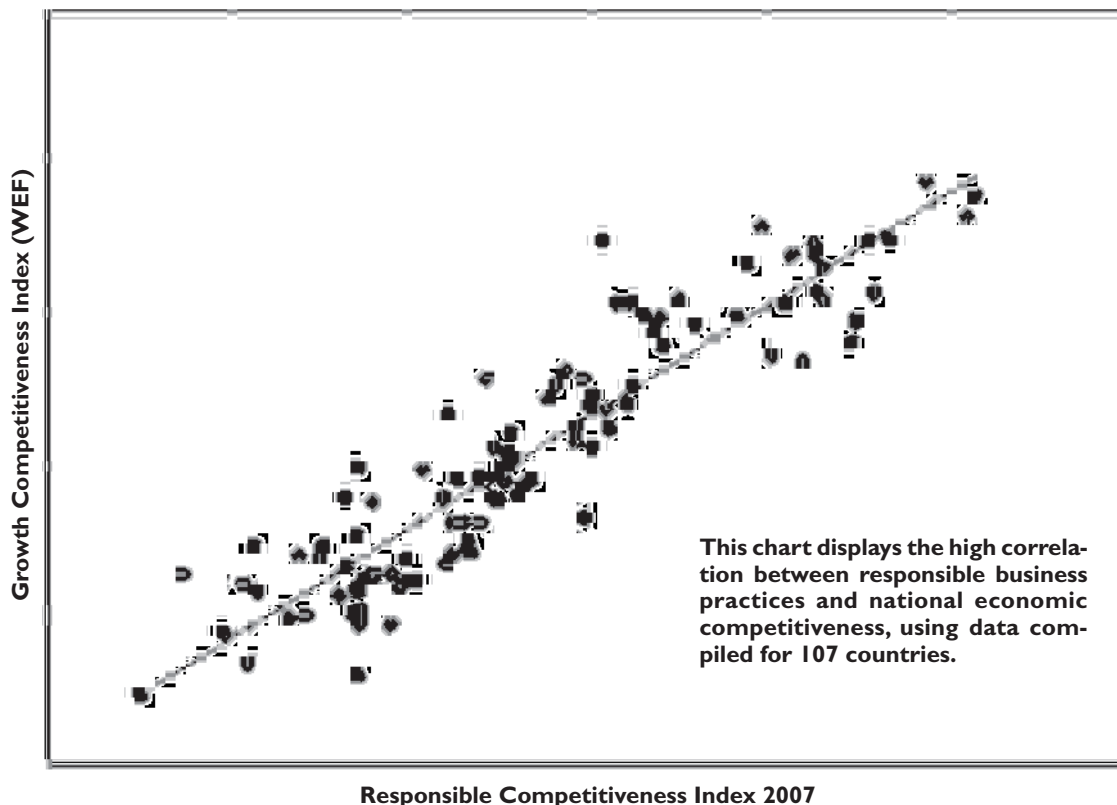
The RCI 2007 includes 21 data streams covering measures of corruption, environmental management, tax avoidance, and the ability of civil society to effectively challenge corporate behavior, among others. The data is all drawn from authoritative sources as diverse as Amnesty International, the International Organization for Standardization, the ILO, Transparency International, the World Economic Forum, and the World Bank.

The headline results indicate that European countries in particular are more advanced in embedding responsible business practices at the heart of their economies, with North America, Chile, Costa Rica, South Africa, and several Asian countries following closely behind. Nordic countries dominate the list, with Sweden taking first place and Denmark, Finland, Iceland, and Norway all being in the top six. Thirteen of the top 20 countries are European, joined by Hong Kong, Japan, and Singapore from Asia; Canada and the United States; and Australia and New Zealand. South Africa leads the BRICs in 28th position, with Brazil, India, Russia, and China extending down the list in that order. Emerging economies like Chile, Malaysia, and South Korea perform within the top quartile, often better than a number of recent entrants to

the European Union. Among the low-income countries, Zambia and Uganda perform better than countries at comparable levels of development.

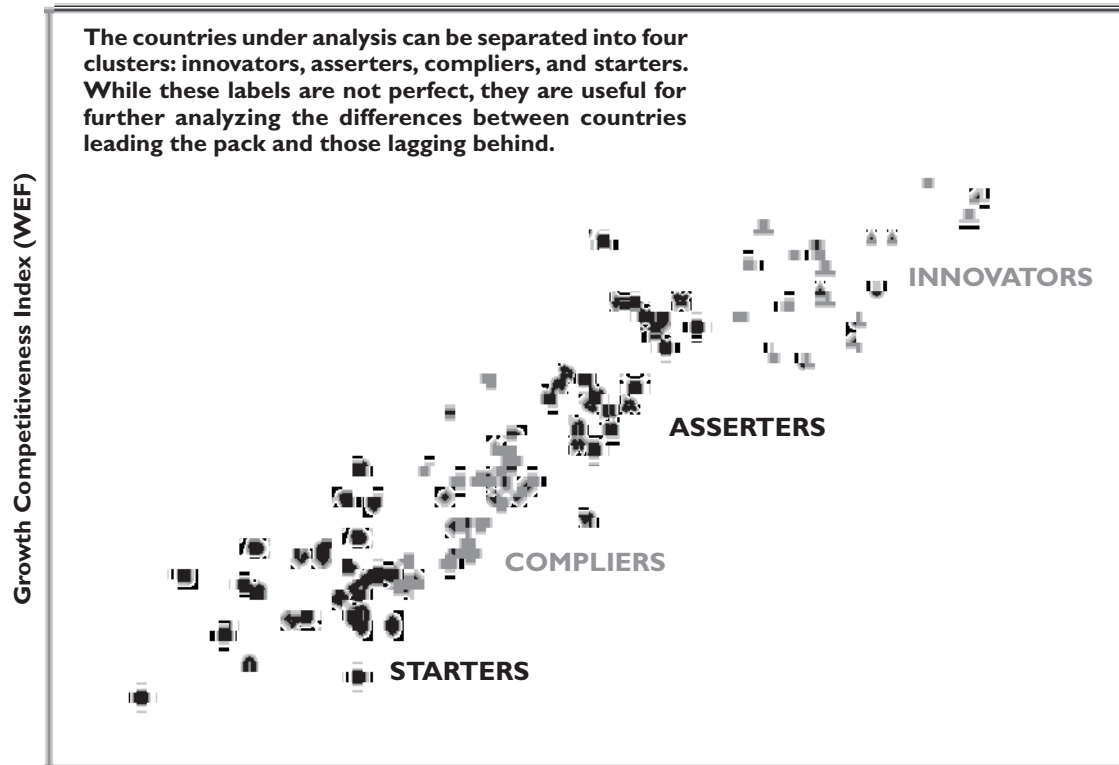
The RCI provides a data-driven view of the extent to which social and environmental factors are built into nations' economies. For example, higher-scoring economies might be underpinned by stringent environmental regulations, high rates of business adoption of voluntary environmental management systems like ISO14000 and active environmental campaigners, whereas lower scoring economies may have high levels of institutionalized corruption, a high incidence of tax avoidance or restrictive regulations and norms preventing civil society organizations from challenging corporate misdemeanors. Such characteristics shape the manner in which businesses and entire economies function, and so compete with each other. The RCI 2007 therefore provides a means of assessing the extent to which responsible business practices are a factor in determining how any particular nation competes in global markets. So, for example, the fact that Brazil scores better than China indicates that the former's underlying competitive proposition in global markets is driven more than the latter's, in aggregate, by responsible business practices.

### Growth Competitiveness Index versus Responsible Competitiveness Index



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"The State of Responsible Competitiveness 2007." AccountAbility

Responsible Competitiveness and Stages of Economic Development



Responsible Competitiveness Index 2007

"The State of Responsible Competitiveness 2007." AccountAbility

Comparing these results with well-known national competitiveness indexes provides one cross-check of whether the RCI is aligned with conventional measures of national competitiveness. The World Economic Forum's annual Global Competitiveness ranking is the best-known of these measures and seeks to factor in measures of market flexibility, technological development, workforce educational standards, and enabling political environment, among others. The World Bank's annual Doing Business Index provides a different lens by measuring factors that make business easier, such as the ease of border customs regulations and procedures. There is a relatively close fit between these indexes and the RCI ( $R^2=0.85$  for the correlation between the RCI and the World Economic Forum's Growth Competitiveness Index). This correlation indicates that there is a high correspondence between the level of development of responsible business practices and measured national competitiveness across the hundred or so countries common across the indexes. Interestingly, it also provides one measure of how far countries are achieving competitiveness with a "responsibility deficit" (countries that lie to the left of the correlative line in the graph) and those with "competitiveness deficits" that lag in competitiveness despite the level of responsible

business practices achieved (countries that lie to the right of the line).

The implications for action vary between countries, largely depending on their stage of economic development. Headlines and correlations must be treated with caution given the enormous differences between the countries covered, as with other wide-angle lens international indexes like the Human Development Index and the World Economic Forum's Competitiveness Indexes. Examining subsets of countries is more helpful. A principal components analysis suggests four statistically-robust clusters of countries, broadly distinguished by their stage of development. While highlighting that there can be no cookie-cutter approach to building responsible competitiveness, the clusters do allow us to speculate as to what they represent: starters, compliers, asserters, and innovators.

The starters are the laggards comprised of 31 low scorers, including China, Bangladesh, and Russia; any have signaled a commitment to responsibility through signing and ratifying international treaties and other policy drivers but struggle to implement the basics, like worker health and safety, product safety, and corruption. The compliers is a cluster of 32 countries, which, except for India, are middle-income and account

for US\$1 trillion of global trade. Compliers include Brazil, Turkey, and Mexico, and focus on demonstrating progress, meeting international labor and environmental standards, and seeking to capture a share of quality-conscious branded markets. Comprising 24 countries, the asserters group is perhaps best placed to seize opportunities in responsible competitiveness. Some, like Chile and South Africa, actively promote international standards suited to their own strengths in order to gain competitive advantages. Some are building national responsibility brands to attract foreign direct investment and export a first generation of global product and corporate brands. Finally, the innovator group is the most developed cluster. These 20 countries are embedding responsibility in the core of their domestic economies, stewarded by relatively well-enforced statutory regulations. Their societies also comprise of ethics-conscious consumers underpinned by civil activism. Knowledge-based innovation is key to the competitiveness of these economies. Thus they require flexible working conditions and dynamic and trusted public and private institutions.

Responsible competitiveness strategies will therefore vary between countries depending on their economic structure and stage of overall development. China's (87th in the RCI) economic success has to date been largely underpinned by "cheap and dirty" exports, competitive by virtue of low labor costs, poor working conditions, and non-existent or weakly enforced

environmental regulations. But these practices and the associated "China Brand" will not help China move toward more sophisticated products nor establish its first generation of global, and globally branded multinationals. China's future economic success will depend in no small measure on its ability to demonstrate a responsible approach to business and economics. The Chinese government clearly understands this, as manifested in the forced closures of factories producing contaminated food, strengthened labor laws, and harsh penalties for corruption among senior officials. Official Chinese responses to environmental concerns by the international community are shifting from defensive references to claims of responsibility. As an example, a handbook recently produced by the Chinese Forestry Ministry "positively guides and standardizes Chinese companies' sustainable forestry activities overseas, promotes the sustainable development of forestry in those countries, [and] protects the international image of our government being responsible." China's problems and shortfalls continue to outweigh its record of good practice. But the stage is certainly set for it to take pragmatic leadership in advancing responsible business practices at home and internationally.

Europe, at the other end of the development scale, has a very different set of challenges to face in sustaining its competitive advantage in key global markets. Its inclusive development model, founded on the principle of social dialogue between labor, business, and the state, has

delivered low levels of inequality and high levels of cohesion across a community of almost 30 nations and upwards of 400 million people. At the same time, it has created institutional rigidities and market inflexibilities, resulting in profound risks at a time where economic dynamism is a requirement for survival in global markets. Günter Verheugen, Vice President of the European Commission in charge of Enterprise and Industry, sees leadership in responsible business practices as an opportunity for renewing Europe's inclusive development model while freeing the continent of its unwieldy constraints to economic vitality. "The key word for competitiveness in today's knowledge-based economy is innovation," argues Vice President Verheugen, "... and the best enterprises have realized that CSR and innova-



**A farmer holds cocoa beans in Punta Gorda, Belize. Chocolate makers are increasingly using small farmers as providers of organic cocoa beans.**

tion are intimately linked.”

Today’s experimentation provides concrete evidence that responsible competitiveness strategies are the key to creating tomorrow’s sustainable global economy. But such a future is not guaranteed. The potential of responsible competitiveness is not sufficiently appreciated by business leaders, policy makers or activists, because of backward-looking convention, out-dated advice, poor statistics, and competency gaps. More specifically, business laggards, often risk averse and from failing industries or cautious business associations, actively impede the efforts by governments or even business-led coalitions to advance responsible competitiveness strategies and practices. Many public institutions, overly influenced by business laggards, remain unconvinced that competitiveness can be associated with new forms of accountability, and so allow or actively champion lower social and environmental business standards. Entrenched civil society and labor organizations are

ment agencies. The European Community has identified leadership in product innovation linked to climate change as one of the continent’s greatest economic opportunities of the 21st century.

Third, national and regional strategies deal with multi-sector issues and opportunities, including of course the contentious issue of whether and how social and environmental issues get factored into international trade and investment agreements, and measures to improve the enforcement of labor and environmental and anti-corruption measures and corporate governance. Beyond this, we see a growing number of countries seeking to embed responsible competitiveness as one element of its national brand, such as Saudi Arabia recently highlighting the place of responsible competitiveness in its “10x10” national competitiveness strategy. Promoting the use of a new generation of sustainability standards in global markets is clearly one element of both country and sector level strategies.

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overly focused on campaigning for compliance, failing to understand how to leverage competitiveness to achieve social and environmental gains.

AccountAbility advocates a four-point program. First, is measuring responsible competitiveness. Tracking progress, or its lack, is in itself a way to overcome such backward-looking resistance. The Responsible Competitiveness Index is in this sense doing its job, with the growth of national and regional focus lists and associated analysis already extending across the Americas with a specific Brazil focus, China, Europe with specific focus on UK sub-regions, and this year planned for India and the Arab world with specific focus on Jordan and Saudi Arabia. Furthermore, AccountAbility has now joined with the United Nations Environment Programme (UNEP) to launch the County Carbon Competitiveness (“3C”) Index, measuring the preparedness of nations to compete in tomorrow’s high carbon priced world.

Second, sector-based strategies are critical to success. For example, Cambodia and Lesotho, among other nations, are advancing the competitiveness of their apparel and textiles sectors on the back of improved labor and environmental standards. Comparable examples already exist in tourism, flower exports, wine, and vegetables and fruit, often promoted by national and regional develop-

The fourth focus is on business-aligned strategies. Responsible competitiveness will ultimately fail unless businesses are able to remodel their strategies and practices to deliver products and processes sensitized to their social and environmental impacts and potential. A host of initiatives and institutions have emerged to help businesses do just that, ranging from adapted services offered by well-trusted advisors from McKinsey to KPMG to new business clubs and initiatives like the UN Global Compact, Instituto Ethos in Brazil, the World Business Council for Sustainable Development, and the Global Leadership Network.

Responsible competitiveness strategies can reshape tomorrow’s global markets in ways that take social and environmental issues into account. Achieving this, however, necessitates more than quick-moving businesses working alone. Overcoming the resistance of backward looking business and political interests will require innovative collaboration that combines smart public policies, with aligned and business and civil society strategies, creating a new generation of market practices, norms, and standards. Based on the first experimental decade, we can optimistically conclude that responsible competitiveness strategies and practices have been achieved, to the benefit of businesses, communities, and nations. ■