

# Responsible Competitiveness

## Corporate Responsibility Clusters in Action

Simon Zadek, John Sabapathy, Helle Døssing & Tracey Swift  
January 2003

---

 The Copenhagen Centre

---

 AccountAbility  
institute of social and ethical accountability

---

# Acknowledgements

---

This report was prepared by Simon Zadek, John Sabapathy, Helle Døssing and Tracey Swift. It is the third in a series from The Copenhagen Centre and AccountAbility exploring the link between corporate responsibility and international competitiveness.

This study was supported by the Employment and Social Affairs DG of the European Commission. The opinions and recommendations of the report are those of AccountAbility and The Copenhagen Centre and not necessarily endorsed by the EU Commission.

The authors are particularly grateful to the critical insights and support provided by Jim Baker, Dominique Bé, Giovanna Ceglie, Viscount Etienne Davignon, Maya Forstater, Niels Højensgård, Georg Kell, Pascal Lamy, Jens Erik Lund, Robert Madelin, Ed Mayo, Philip Monaghan, Claire Nacamuli, Sunita Narain, Nicolas Thery and Sabine Weyand.

**The Copenhagen Centre – New Partnerships for Social Responsibility (TCC)** is an autonomous, international knowledge centre established by the Danish Government in 1998. Focusing on social cohesion, TCC strives to promote voluntary partnerships between business, government and civil society in order to provide opportunities for the less privileged to be self-supporting, active and productive citizens. TCC serves as an intermediary for governments, businesses, social partners, NGOs and civil society organisations in developing forums for innovative activity and debate.

For further information on this or related areas of The Copenhagen Centre's work please contact Helle Døssing at [hed@copenhagencentre.org](mailto:hed@copenhagencentre.org) and visit [www.copenhagencentre.org](http://www.copenhagencentre.org).

**AccountAbility's** mission is to *promote accountability for sustainable development*. As a leading international professional institute, AccountAbility provides effective assurance and accountability management tools and standards through its AA1000 Series, offers professional development and certification, and undertakes leading-edge research and related public policy advocacy. AccountAbility has embraced an innovative, multi-stakeholder governance model, enabling the direct participation of its organisational and individual members who span business, civil society organisations, and the public sector from different countries across the world.

For further information on this or related areas of AccountAbility's work please contact John Sabapathy at [john@accountability.org.uk](mailto:john@accountability.org.uk) and visit [www.accountability.org.uk](http://www.accountability.org.uk).

# Contents

---

Foreword	i
1. Summary and Policy Perspectives	1
2. The Mainstreaming Challenge	7
3. Competitiveness and Corporate Responsibility	15
4. Corporate Responsibility Clusters	23
5. Towards Responsible Competitiveness	40
Endnotes	48



# Responsible Competitiveness

## Foreword by Anna Diamantopoulou

---

When the Lisbon Summit in March 2000 set the strategic goal for the European Union to become the most inclusive and competitive society in the world and made a special appeal to companies' sense of social and economic responsibility, it renewed and expanded our commitment to Corporate Social Responsibility (CSR).

In entering 2003, I believe this is a good moment to take stock of some of the impressive developments and highlights that have followed the Lisbon Declaration. The period has indeed proved us right in our CSR commitment. Not only is CSR now on everybody's lips, it has also moved beyond the narrow focus on individual companies and is now framed within the wider collective context of economic, social and sustainable development in Europe and beyond. Crucial to this has been the adoption in July of the European Commission's Communication on "Corporate Social Responsibility: a business contribution to sustainable development"; the establishment of the European Multi-stakeholder Forum and its aim to maintain and expand the crucial dialogue between all involved actors; the World Summit on Sustainable Development in Johannesburg in September 2002; and most recently the Danish EU presidency conference "Mainstreaming CSR across Europe" in November 2002.

In this whirlpool of global and regional action, two needs are particularly striking to me:

- 1) It is increasingly crucial that we engage stakeholders and create partnerships as a prerequisite for understanding partners' expectations and needs. Indeed, many companies now recognise the importance of engaging in dialogue with stakeholders, in order to align company values with those of society at large;
- 2) It is imperative to scale up CSR if we are to achieve lasting societal benefits. Furthermore it is clear to me that *corporate social responsibility practices will remain limited unless they support national economic competitiveness strategies and outcomes* as this report argues.

For a long time CSR has been a fundamentally micro affair and the focus has been on the business case for CSR, i.e. how businesses can do good whilst enhancing business success. This is an important precondition for embedding the benefits of CSR in core business practice and provides a context in which we can move on to address macro-level effects. I strongly believe that CSR can contribute to the achievement of our EU-wide

---

objectives of growth, competitiveness, better governance, and sustainable development. The Lisbon strategic goal and the appeal to businesses are unique because they announce the links between a competitive economy, an inclusive society and CSR. But we must also acknowledge the policy challenge of creating these links in practice.

This is a policy challenge that goes well beyond the borders of the European Union. How do we address the question of creating business models and forms of international competitiveness strategies that fulfil both growth and social and environmental challenges, such as those reflected in the Millennium Goals and the Kyoto Protocol?

It is crucial for me to ensure that these issues remain part of the economic, social and development agenda. To achieve this, research, debate and policy dialogue must help us improve our understanding, and the basis for action must continuously be improved and supported. Until now, there has been little work on how to scale up from micro CSR business cases to the macro challenges of competitiveness and sustainable development. To date, CSR has not been seen as an opportunity for gaining leverage over these broader policy objectives.

Within this context the ongoing work by AccountAbility and the Copenhagen Centre to define the links between CSR and national competitive advantage is highly necessary and very welcome. The introduction of *Corporate Responsibility Clusters* as the pivotal mechanism through which to enhance forms of international competitiveness rooted in CSR practices, is both enlightening and thought provoking. In addition, the report and its analysis provide valuable policy perspectives that can inform the European Community and other policy leaders in taking this agenda forward with a balanced view of all of the available policy instruments.

I know that this report will find a wide and engaged readership and I look forward to supporting the evolution of the important debate that this partnership has initiated.

**Anna Diamantopoulou,**  
**Commissioner for Employment and Social Affairs,**  
**European Commission**

# 1. Summary and Policy Perspectives

---

## **The Scaling-up Challenge**

The private sector is now recognised as having a key role in delivering sustainable development – through its impacts on the natural environment and social and economic development. And there has been progress, with ample evidence that increasing numbers of companies are integrating social and environmental policies into their business practices. But when is enough ‘good enough’? Even with an optimistic view of the growth in corporate responsibility practices, there remains little confidence on the part of the general public in most countries that business is willing to become active in combating social exclusion, poverty and environmental insecurity.

Corporate responsibility is above all else viewed as being about how businesses can ‘do well by doing good’. Much attention has focused on developing the ‘business case’ that provides an economic rationale for companies to invest in improving their environmental and social performance. But there are limits to the ‘business case’ that are inherent in any particular market constellation. Some of the measures demanded of companies in the name of corporate responsibility are incompatible with current business models and markets. Pharmaceutical companies cannot alone provide affordable drugs to the poor, and footwear companies cannot just decide to pay workers in Mexico or Vietnam a wage comparable to that earned by workers in London or New York. The challenge is not so much to ‘find’ profitable opportunities in today’s markets, as to create markets (in societies) that systematically reward responsible practices.

## **Corporate Responsibility and Competitiveness**

Scaling up corporate responsibility requires that it be integral to and supportive of, broader sustainable development strategies and policies. Sustainable development depends on the health of the economy and its pattern of social, environmental and economic impacts. Economic health in turn does depend on international competitiveness, which plays a key role in determining a country or region’s pace of economic development as well as its social and environmental characteristics.

The mainstreaming of corporate responsibility therefore requires it to be at least consistent with, and preferably mutually reinforced by national and regional competitiveness strategies. The European Community has acknowledged the potential role that corporate responsibility might play in realising its goal of becoming, “*the most competitive knowledge-based*

---

*economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”<sup>1</sup>* The same holds for other countries and regions. South Africa’s policy of black empowerment is challenged for its impact on the nation’s international competitiveness. Vietnam’s responses to international criticism about labour standards in its footwear sector are in danger of pricing the country out of this market as manufacturing multinationals shift towards lower-cost parts of the region. But there is really no clear understanding yet as to how corporate responsibility might be mainstreamed in ways that contribute to national and regional economic competitiveness.

The question is whether corporate responsible practices can play a significant role in driving ‘responsible competitiveness’, characterised by a positive relationship between national and regional competitiveness and a nation’s sustainable development performance. Businesses can compete effectively across the responsibility spectrum, spanning the investment in environmentally-friendly technology and raising productivity by improving their employees’ work-life balance, through to cutting corners on environment and labour standards and engage in corrupt relationships with governments.

The relationship between international competitiveness and corporate responsibility is not a simple one. However, our research suggests that corporate responsibility can, *under certain conditions*, stimulate innovation, investment or trade, and so competitiveness.

### **Corporate Responsibility Clusters**

The potential for ‘*corporate responsibility clusters*’ has been identified as *creating competitive advantage within one or several sectors arising through interactions between the business community, labour organisations and wider civil society, and the public sector focused on the enhancement of corporate responsibility*. Corporate responsibility clusters come in different shapes, sizes and types with different types of organisation leading their development. Common, however, are their underlying effects on business performance by: expanding business ability to learn from diverse, rich sources; grow competencies to translate these learnings into improved business performance; gain support from a growing network of service providers that enable companies to more effectively manage their relationships and reputation; and produce benefits from an approach to public policy that moulds markets in ways that reward responsible practices. The research has posited four broad

---

types of clusters, each characterised by different dynamics, institutional relationships, and forms of leadership:

- **Challenge clusters** tend to be initiated by civil society actors. They are characterised by antagonistic relationships between participants forming at least the initial spur for the development of competitive advantage.
- **Market-making clusters** are often led by one or more companies. They involve remoulding competitive conditions from the inside-out, by innovating more sustainable products, services or business processes.
- **Partnership clusters** involve formal, multi-sectoral partnerships supporting competitive advantage.
- **Statutory clusters** involve public policies focused on corporate responsibility standards and practices that support competitive advantage.

These four types of clusters are neither static nor distinct phenomena. They rarely take one form for prolonged periods of time, and often combine several or all of these forms at different stages in their development. There may indeed be a typical sequencing in the development of clusters. Clusters considered often appeared to go from confrontation through market-making, partnership and then statutory forms.

Corporate responsibility clusters draw on, and yet take us beyond, Michael Porter's seminal work on industrial clusters. Core to the difference is that clusters that form around corporate responsibility practices and outcomes are not only made up of businesses, but include NGOs, labour organisations and a range of different public bodies. Furthermore, whilst Porter's original thinking on clustering focused on the role of geographic proximity in stimulating innovation, learning and productivity, our research raises the possibility of geographically-dispersed clustering, for example along value chains. Global value chains mean that clusters may in effect extend along international supply chains.

Corporate responsibility clusters throw a different light on the roots of international competitiveness. But their potential is not evenly distributed across sectors, value-chains, geography, or time. Labour intensive sectors like textiles and footwear, for example, might seem obvious sector cluster candidates. However, their current potential is reliant on companies' sense of the commercial importance of the 'ethical concerns'

---

of citizens in key European and North American markets and on how closely these concerns reflect the reality of the workers and communities affected. Pharmaceuticals might have seemed an unlikely cluster candidate just a few years ago, with low retail brand visibility, and high-tech supply chains. But the explosive issue of ‘access to health’ has changed all that, and today there is far greater likelihood that corporate responsibility clustering might arise. Clusters are driven by two dominant factors.

- **The ‘legitimacy’ effect:** clustering is most likely to arise where the potential is greatest for making social and environmental aspects of the value-chain of tangible concern to stakeholders who count.
- **The ‘productivity’ effect:** clustering is most likely to arise where the potential is greatest for translating social and environmental enhancements in the value chain into labour and resource efficiency, and productivity gains.

Legitimacy and productivity effects that create business advantage are the pre-requisites for clustering to arise, but not sufficient. What makes legitimacy and productivity effects relevant to the development of clusters are the ways in which the potential gains can be increased through the synergies arising out of interactions between the companies and with other actors in society. The legitimacy effects, for example, depend to a large extent on the vibrancy of civil society organisations in raising public attention and responsiveness. At any point in time this may be directed at individual companies or sectors. But over time, such vibrancy extends beyond, and indeed is enhanced by the very success of these individual initiatives. This is also true for public bodies and service providers, who develop competencies that can be more widely applied over time, with collective as well as individual effects.

### **The Role of Public Policy**

The challenge in scaling up corporate responsibility is to shape sectors, entire markets, and ultimately the global economy in ways that mean business strategies and practices can *only* be successful if they contribute to, and do not undermine, sustainable development. Regulation clearly has always had a role to play in this regard, and still does. But regulation that undermines national and regional competitiveness will understandably be resisted, both by the business community and other communities who have much to gain from economic growth.

---

The challenge then is to shape public policy in ways that deliver responsible business practices and competitiveness. Business benefits from responsible practices are clearly a key ingredient in any such policy. But such benefits are themselves dependent on the evolving shape of markets, as well as being a driving force of such changes. The challenge is not to frame public policy within existing business models, but to nurture the evolution of new ones.

The potential for *corporate responsibility clusters* is by no means conclusive. But the evidence is sufficient to conclude that they might offer a significant route for scaling up corporate responsibility by delivering competitiveness and sustainable development outcomes. In summary then:

- Scaling up corporate responsibility can be more effectively achieved where it supports, and is supported by national and regional competitiveness strategies.
- Public policy aiming to scale-up corporate responsibility practices should be established within broader competitiveness strategies.
- Competitiveness strategies, similarly, should reflect the potential for corporate responsibility to support 'responsible competitiveness'.
- 'Corporate responsibility clusters' offer a pivotal mechanism for scaling up corporate responsibility practices through their effective integration into national and regional competitiveness strategies.

Public policies aimed at enhancing overall competitiveness or supporting corporate responsibility practices will often be specific to particular sectors, situations or even companies. Furthermore, promoting corporate responsibility clustering has to occur in the context of issues such as access to markets, trade barriers, and competition policy. In a European context, this general thrust is acknowledged in the European Commission's recent Communiqué on 'corporate social responsibility', and occur reinforced through the mandate of the Commission's recently established Multi-Stakeholder Forum for CSR (CSR EMS Forum). The same is true beyond Europe. The Doha 'Development' round is one where the question of corporate responsibility has already surfaced. Bilateral trade and investment agreements increasingly include issues and aspects concerning labour and environmental standards. Corporate governance

---

codes, and reporting and stock exchange listing requirements – to name a few – are no longer distinct from the issues underlying corporate responsibility, and are seen as key in defining the basis on which nations nurture not only the probity but the competitiveness of their business communities.

Public policies to amplify corporate responsibility practices need to be, and indeed are being, formulated in the context of this complexity at an international level, and also at regional, national, and even community levels. We identify a number of key avenues to explore:

- **Refining our understanding of ‘responsible competitiveness’;** there is a need to refine our understanding of the potential for ‘responsible competitiveness’, where national and regional competitiveness strategies enhance, and are supported by, corporate responsibility practices and clusters.
- **National, regional and sector analysis;** there is a need for more detailed empirical studies examining at national, regional and sector levels of the links between corporate responsibility and responsible competitiveness, and the role that corporate responsibility clusters might play in strengthening these links.
- **Standards, tools and competitiveness;** there is a need to explore the potential competitiveness impacts of reporting and other standards and tools associated with corporate responsibility practices, and how such impacts can be managed.
- **Responsible competitiveness, winners and losers;** there is a need to understand the potential for winners and losers in scaling up corporate responsibility within a broader competitiveness strategy, particularly the place of SMEs within such developments.
- **Redefining competitiveness measures;** there is a need to redefine the basis on which national and regional competitiveness is measured to include key aspects of corporate responsibility that, particularly through clustering, can impact on competitiveness.

## 2. The Mainstreaming Challenge

---

### **Progress... But Not Enough**

*If 'corporate responsibility' is to contribute significantly to sustainable development, it must grow beyond current levels of uptake and impact. Public policy can help to create market environments where companies that act responsibly thrive at the expense of irresponsible companies.*

The private sector, through its impacts on the natural environment and social and economic development, is now recognised as having a key role in delivering sustainable development. The United Nations *Report of the World Summit on Sustainable Development* remarked that, “a notable difference between [the] Rio and Johannesburg [summits] is the more conspicuous presence of business at the latter.”<sup>2</sup> And there has been progress. Globally around 4,000 companies produce social or environmental reports.<sup>3</sup> Trillions of dollars are now invested via Socially Responsible Investment (SRI) funds.<sup>4</sup> Underlying this are deeper shifts in how the role of business is understood. The former Danish Minister of Social Affairs, Karen Jespersen, recalls that, “there were definitely a lot of concerned questions raised back in 1994 when we launched the *Our Common Concern* campaign to engage the private sector in tackling some of Denmark’s social problems.” Since then, Ms Jespersen continues, a general consensus has emerged in Denmark: social challenges cannot be tackled alone, but instead have to be addressed in partnership. Business, the public sector and civil society all play a part in developing socially cohesive societies.<sup>5</sup>

But when is enough ‘good enough’? Jane Nelson, Director of Policy and Research, International Business Leaders Forum, writing in the *‘It Simply Works Better’ European CSR Campaign Excellence Report 2002-2003* report says that, “Despite the growing focus on corporate responsibility, there are probably less than 3,000 major companies, if that, which are systematically and strategically addressing corporate responsibility issues throughout their operations. The UN Global Compact, for example, has about 700 companies in its network. The national European networks affiliated to CSR Europe mobilise a few thousand companies. Yet UNCTAD estimates that there are some 60,000 transnational corporations, which have around 800,000 foreign affiliates.”<sup>6</sup>

Even with an optimistic view of the growth in corporate responsibility practices, there remains little confidence on the part of the general public in most countries concerning the willingness of the business community to become active agents of development. The most recent

---

World Economic Forum ‘trust’ survey, conducted by Environics and Gallup, place large businesses at the bottom of their list of trusted institutions.<sup>7</sup> Indeed, the ‘most trusted’ institutions identified in the 46 country survey were the armed forces and NGOs, neither of which offer much in the way of role models when it comes to public disclosure. Concern about the actual *impact* of reporting has been raised in recent research published by CSR Europe and AccountAbility, where the evidence suggested the mass of corporate reports to date have had little effect either on company decisions and actions or on the way external stakeholders view these companies.<sup>8</sup>

**What is ‘Corporate Responsibility’?<sup>9</sup>**

*‘Corporate responsibility’ covers the ‘why, when and how business actively manages its social, environmental and economic aims, performance and outcomes, and their relationship.’ ‘Corporate responsibility’ focuses on where businesses have options and therefore choices to make and justify to their stakeholders, including their role in shaping public policy and regulations.*

These concerns are, ironically, in part a sign of success in bringing business to the table to debate and impact on its role in society. Expectations have been raised by the very success over the last decade, in moving issues such as human rights, drug pricing, and labour standards from being ‘none of our business’ to becoming the subject of dialogue, new practices, measurement and reporting for major corporations. But concerns about the role of business in society are sadly more than this. They are deeply rooted in the simple observation of the continued decline in many quality of life indicators for the world’s economically poor but also increasingly in wealthier communities, as well as the emergence of new challenges such as HIV / AIDS.<sup>10</sup>

**Beyond Today’s Market**

Corporate responsibility is above all else viewed as being about how businesses can ‘do well by doing good’. Much attention has focused on developing the ‘business case’ that provides an economic rationale for companies to invest in improving their environmental and social performance. Most work has therefore focused on how best to enhance corporate social and sustainability performance at minimal cost or, preferably, with financial benefits.<sup>11</sup>

---

The sources of potential business benefits are variously described, but in the main fall into the overlapping realms of legitimacy and productivity:

- **Legitimacy** – legitimacy concerns the benefits of being seen to meet social, environmental and ethical standards in terms of improved reputation and relationships with key stakeholders such as customers, investors, staff regulators, suppliers and local communities. These can translate into better performance in product, labour and capital markets.
- **Productivity** – productivity concerns the direct benefits of social and environmental policies and innovations in terms of cost savings, quality improvements, staff morale, product development, understanding of new markets, better risk management and innovation.

Perspectives on the ‘business case’ have themselves evolved. This has been described in terms of ‘three generations’ of corporate responsibility.<sup>12</sup> (Figure 1) The *first generation* involves little in the way of a business case. Activities are in the main marginal to the business and in any case involve insignificant costs. The *second generation* requires a more robust analysis of the costs and benefits of corporate responsibility, closely integrated into the overall business model for success. Responsibility at this level involves greater thought, greater risks, and almost certainly greater costs. Equally the opportunities for gain are more substantial, whether through reputation protection and development, or through innovations in products and services and business processes.

“The societal benefits of CSR practices will remain limited unless they can be integrated into broader strategies, and public policies certainly have a role to play in this respect.”<sup>13</sup>

**Pascal Lamy, Commissioner for Trade, European Commission.**

But there are limits to the ‘business case’ that are inherent in any particular market constellation. Some of the measures demanded of companies in the name of corporate responsibility are incompatible with current business models and markets. Pharmaceutical companies cannot alone provide affordable drugs to the poor. Oil companies cannot just get out of petrochemicals from one day to the next. Companies selling alcohol cannot just stop their marketing because of the detri-

mental impact of its products. And footwear companies cannot just decide from henceforth to pay workers in Mexico or Vietnam a wage comparable to that earned by workers in London or New York. The challenge is not so much to ‘find’ profitable opportunities in today’s markets, as to create markets (in societies) that systematically reward responsible practices.

**Figure 1:** Generations of Corporate Responsibility

	<b>Tools &amp; Processes</b>
<b>3rd Generation</b> Competitive Responsibility	Multi-stakeholder standards and partnerships, institution building, CR-oriented advocacy and public policy, alignment with national competitiveness.
<b>2nd Generation</b> Strategic Corporate Responsibility	Sustainability management, sustainability auditing and reporting stakeholder dialogue, social investment
<b>1st Generation</b> Non-strategic Corporate Responsibility	Philanthropy, short-term risk management, industry standards.
<b>Legal Compliance</b>	Regulation covering tax, health and safety, workers rights, consumer rights, environmental regulations.

A ‘third generation’ of corporate responsibility is emerging in which businesses and their stakeholders realise the need for collective action. The third generation model recognises the importance of the business case for corporate responsibility, but does not just aim to simply respond to the opportunities for ‘doing well by doing good’ but to remould markets to ensure that responsible companies win out in the markets for products, labour and finance. In order to achieve this, corporate responsibility must go beyond the actions of individual companies acting alone. The third generation of corporate responsibility is about the business community entering into dialogue and partnership with their stakeholders in moulding markets in ways that reward responsible companies, and penalise the rest. As Adair Turner, Vice Chairman of Merrill Lynch Europe

---

argues, “confused arguments about competitiveness are used to suggest stark ‘no alternative’ conflicts between environmental improvements and prosperity, rather than trade-offs of benefits and costs. Policies that aim to make markets work better, such as charges for road use are rejected as limitations on economic freedom. Attempts to reflect environmental benefits in and costs in economic decisions are derided as the concern of anti-market dreamers.”<sup>14</sup>

### **Public Policy and Corporate Responsibility**

Corporate responsibility initiatives, particularly to develop tools and standards that promote transparency, have generally been supported by policy makers.<sup>15</sup> But corporate responsibility has been largely marginal to public policy. It has not been seen as a core target of public policy, or as an opportunity for meeting broader policy objectives. Its absence from the crucial debates about the sources of international competitiveness and economic growth has been notable,<sup>16</sup> as has a link to the basis on which nations and business communities access capital and markets.<sup>17</sup> These debates have highlighted the tensions between the economic development potential of trade and investment liberalisation on the one hand, and the potential downsides of market-based strategies on poverty and environmental security.<sup>18</sup> Within debates on firm and national level competitiveness, social and environmental welfare has largely been seen either as an aspect of the business environment or as a broad outcome of economic growth, rather than as an integral aspect of the very business strategies underpinning trade and investment.<sup>19</sup> An important exception to this has been the growing body of work exploring the comparative environmental quality of production technology associated with foreign direct investment.<sup>20</sup>

### ***Voluntary-Mandatory Roundabouts***

Typically public policy approaches to corporate responsibility have been debated along the axis of ‘voluntary’ to ‘mandatory’ alternatives. Conceived thus, both have upsides and downsides. The EU for example, has outlined a voluntary definition of Corporate Social Responsibility as a ‘concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders *on a voluntary basis*’. Using this definition, the EU characterises corporate responsibility as behaviour that goes over and above legal requirements, and is adopted because businesses deem it to be in their long-term interest to integrate economic, social and environmental performance management.<sup>21</sup>

---

In supporting this approach, the UK Minister for E-Commerce, Stephen Timms, who also holds the 'Corporate Social Responsibility' brief, argues that, "If regulatory forms of reporting were to be brought in, [*corporate responsibility reporting*] would simply be shipped to the auditing department and one would lose the innovation of some current approaches. Government needs to be very cautious about stripping or putting a dead hand over some of those good, innovative things."<sup>22</sup> Viscount Etienne Davignon, Chair of CSR Europe, similarly points out the danger of an over-emphasis on regulation, "...instead of trying to think about how you can be creative, you are going to think how you can strictly comply while avoiding a negative constraint on the management of your company. It does not encourage those who are more inventive."<sup>23</sup>

"With several leading companies advancing the cause of labour standards and respecting basic workers' rights in a variety of host countries it is only a matter of time before labour becomes a competitive problem within and between nations...It's difficult to imagine a world 50 years from now where there won't be labour regulation at a global level."<sup>24</sup>

**Jim Baker, Head, Multinationals, International Confederation of Free Trade Unions.**

Others like the limits of voluntarism in scaling up the impact of corporate responsibility. Advocates for mandatory intervention such as Friends of the Earth and the New Economics Foundation argue that, "CSR strategies have only been taken up where there is a strong business case to do so, and have provided only limited results. There is now a pressing need for both business and government to acknowledge that it is in all of our interests for there to be stronger regulation of corporate behaviour—to level the playing field, protect our common assets and provide accountability more widely to stakeholders."<sup>25</sup> This position does have some business support. The Co-operative Bank, for example, has called for a "well-thought out regulatory regime that delivers sustainability whilst enhancing the long-term competitiveness of...business."<sup>26</sup> Nike, perhaps surprisingly to some, have argued for "a [*mandatory*] global system that measures every multinational against a core set of universal standards using an independent process of social performance monitoring akin to financial auditing."<sup>27</sup>

---

“The question is not between voluntary and mandatory measures but between half-hearted and whole-hearted measures.”<sup>28</sup>

**Jonathan Porritt, Director, Forum for the Future.**

### ***Market-Mandatory Dynamics***

Advocates of voluntarism and mandatory approaches tend to oversimplify the argument. Every country operates a blend of mandatory and incentive-based instruments, non-compulsory government and inter-governmental directives, and more formal regulatory arrangements.<sup>29</sup> Public policy clearly seeks to determine, set and enforce key minimum standards, such as those embedded in key UN conventions and declarations concerning labour, human rights and environmental standards, and subsequently embodied within the UN Global Compact principles. But this can be a troubling pathway where there is considerable diversity in practice (which makes standardisation difficult), or where it creates negative effects such as creating unemployment or stifling technological innovation. The UK Minister for Corporate Social Responsibility argues that, “I don’t think it’s possible to come up with a list [*of corporate responsibility issues*] for all companies for which you can say, ‘that’s everything.’”<sup>30</sup>

On the matter of competitiveness, the conventional wisdom is that ‘more regulation reduces competitiveness’. But the evidence does not bear out this simple perspective. Regulation can, for example, be key to ensuring a level playing field in maturing markets. Deborah Spar, in her insightful work *‘Pirates, Prophets and Pioneers’*, highlights the historical role of regulation and other public policies in stabilising markets following hectic periods marked by dramatic innovations.<sup>31</sup> More contentiously, perhaps, some argue that smart regulation can be a source of competitiveness. After all, several highly-regulated Nordic countries are top performers on WEF’s competitiveness index. Denmark’s strong regulatory approach to environmental issues, for example, has been accompanied by its international leadership in the development of environmental technologies for domestic use and export. Most problematic of all, perhaps, is the troubling issue of the relationship between social and environmental regulation and the competitiveness of developing countries, an issue that plagues the public debate and negotiation around trade rules. But even here, the role of standards is very unclear, as Pascal Lamy, the European Commissioner for Trade points out (below).

---

“We need to distinguish between process and substantive standards. We believe that process standards can significantly enhance competitiveness. Stakeholder engagement, particularly with the workforce but also external stakeholders, is key. So is verification and compliance to show people that you are doing what you say you are doing. Developing countries that may see substantive standards set by foreign companies or multilateral institutions as an infringement of their sovereignty are likely to see process standards more positively, as these imply a welcome transfer of management know-how.”<sup>32</sup>

***Pascal Lamy, Commissioner for Trade, European Commission***

The question then is not one of ‘to regulate or not to regulate’, as the cruder edge of the public debate would suggest. Regulation clearly does and should play a role in moulding markets into efficient and civilised means by which we create products, services and wealth, as well as social and environmental outcomes. The appropriate question concerning regulation is *how and when*, not *whether*. Furthermore, the question is where does regulation fit with other strategies to ensure that markets play their allotted role in driving the allocation of resources towards efficient and innovative processes that deliver what societies need and demand? Crucially, these questions have to be answered in the context of competitive pressures between companies and communities, to which we now turn.

## 3. Competitiveness and Corporate Responsibility

---

### Revealing the Link

*There is a critical relationship between corporate responsibility and the competitiveness of nations and communities; this relationship has not been adequately explored to date, although available evidence suggests that it may be a stimulus to productivity, innovation, investment and trade.*

Sustainable development depends on the health of the economy and its pattern of social, environmental and economic impacts. Economic health in turn does depend on international competitiveness, which plays a key role in determining a country or region's pace of economic development and its social and environmental characteristics.

The mainstreaming of corporate responsibility raises the challenge of how to make an impact at local, national and regional levels. It is not enough to assume that business case benefits at a company level aggregate to produce national level competitive advantages.<sup>33</sup> Surprisingly, there has been practically no research or even debate to date on the policy question of the relationship between competitiveness and corporate responsibility. Certainly the European Community has formally acknowledged the potential role that corporate responsibility might play in it realising its goal of becoming, "*the most competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.*"<sup>34</sup> Within Europe, and internationally, businesses and multi-sector partnerships are increasingly being called on to tackle issues of social exclusion, which constrain economic development at a local level, through for example urban regeneration, minority integration and intermediate employment programmes.<sup>35</sup> But there is really no clear understanding as yet as to how corporate responsibility might be mainstreamed in ways that contribute to national and regional economic competitiveness.

This issue is similarly of concern to other countries and regions. South Africa has pursued a policy of black empowerment as an integral part of its economic development strategy. Yet in doing so, it faces challenges that this might negatively impact on its international competitiveness and so ability to attract foreign direct investment. Vietnam has sought to respond to international criticism about labour standards in its all-important, export-based, footwear sector. Yet it has simultaneously voiced concerns that in doing so it may price itself out of this market as manufacturing multinationals shift towards lower-cost parts of the region, notably China.

### **Understanding Competitiveness**

“To understand competitiveness, the starting point must be the sources of a nation’s prosperity. A nation’s standard of living is determined by the productivity of its economy, which is measured by the value of goods and services produced per unit of the nation’s human, capital, and natural resources. Productivity depends both on the value of a nation’s products and services, measured by the prices they can command in open markets, and the efficiency with which they can be produced. True competitiveness, then, is measured by productivity.”

***Peter Cornelius and Michael Porter, World Economic Forum***<sup>36</sup>

Inappropriate or poorly timed regulation may have the right aims, but delivers the wrong results. Similarly, a policy that relies on individual company initiatives in the hope that others will follow suit, because it ‘always pays to be good’, is no policy at all, and is also unlikely to deliver. Clearly business initiative and public policy need to be linked in creating an environment, which fosters competitive *and* responsible businesses. Achieving this requires that far more be understood about the actual and potential linkages between competitiveness, corporate responsibility and sustainable development.

### **A Birds-Eye View**

The World Economic Forum (WEF) has recently released two country indices, one on competitiveness and one on environmental sustainability.<sup>37</sup> They offer interesting perspectives on the possible relationship between corporate responsibility and international competitiveness. Some countries score well in both indices: notably, Finland comes in number two on competitiveness and 1st in terms of environmental sustainability, with Sweden coming 5th and 3rd respectively. But across the world as a whole no such pattern can be found. The USA crosses the line first on competitiveness, but comes a poor 45th out of 142

“International trade is not a zero-sum game. When productivity rises in Japan, the main result is a rise in Japanese real wages. American or European wages are in principle at least as likely to rise or fall, and in practice seem to be virtually unaffected...asserting that Japanese growth diminishes US status is very different from saying that it reduces the US standard of living...”

***Paul Krugman, MIT***<sup>38</sup>

countries on environmental sustainability. Germany comes in 14th on the competitiveness stakes, whilst ranking 50th in environmental sustainability. South Africa is comparable to Japan on the scale of environmental sustainability, but comes 19 places lower when it comes to competitiveness.

These are of course not statistically robust comparisons. Rankings must always be used with caution, particularly when they aggregate large amounts of information across very diverse circumstances. These two rankings are of course no exception, even taken separately. That the UK comes in just below Myanmar on environmental sustainability is almost certainly an unhelpful comparison. Similarly, some would view with concern that the US, with its energy intensive consumption patterns and policy void on global warming, does not come far lower in the environmental sustainability rating.

**Figure 2: Competitiveness and Environmental Sustainability**



---

“Unless we can build a global consensus around the principles for managing global integration that ensures the benefits of growth include and empower the poor and women, protect the environment; reinforce rather than undermine human rights, the rule of law and national institutions; and regulate trans-border activities through a set of modern and accountable international institutions...the current trade liberalization process will degenerate into a new protectionism.”

**Mark Malloch Brown, United Nations Development Programme<sup>39</sup>**

This issue at stake is, however, about policies and strategies, not measurement. The simple comparison of country performance across indices affirms the commonsense stance that businesses can compete (and can compete effectively) in quite different ways. Some invest in environmentally-friendly technology, raise productivity by improving their employees’ work-life balance, and lower long-term supply costs by building long-term relationships with quality suppliers. Others, on the other hand, compete by cutting corners on environment and labour standards, seek to prevent sustainability-friendly public policies, engage in corrupt relationships with governments that undermine public interest, and actively resist the extension of employee rights. Between these extremes are of course many less clear-cut variants, and in practice most businesses are driven by prevailing market conditions and behavioural norms.

The question is whether corporate responsibility practices can play a significant role in driving ‘responsible competitiveness’, characterised by a positive relationship between national and regional competitiveness and a nation’s sustainable development performance.

### **On Responsibility and Competitiveness**

The conventional wisdom about the links between initiatives and outcomes aiming to enhance social and environmental outcomes and economic competitiveness comes in two forms.<sup>40</sup>

- 1) *Positive business inputs*, such as an educated workforce, a reduced level of crime, improved transport and a working judiciary. These positive societal outcomes can be partly internalised as business benefits, but are essentially resource inputs externally developed and delivered, rather than a part of business strategy and associated outcomes.

---

2) *Negatively impacting competitiveness* such as burdensome environmental regulation and increased employee rights. These initiatives to improve social and environmental outcomes are seen to have negative impacts on business where they increase business costs or reduce market flexibility and the overall dynamics of the social economy. Once again, these are not part of business strategy or associated outcomes.

Of the two, convention today perhaps leans most towards the latter negative view of the link between competitiveness and initiatives directed at the enhancement of social and environmental outcomes. Europe's publicly provided welfare model is often cited as a fatal source of competitive disadvantage, as is its relatively strong regulatory framework for protecting employee rights. Public debate and research adopts the language of 'consumer choice' and market flexibility' to signal the need to reduce 'businesses' social costs' and to 'rebalance the relationship between rights and entrepreneurship'. Such perspectives carry across to the realm of corporate responsibility. Critics like ex-OECD economist, David Henderson, and Financial Times journalist Martin Wolf, argue that corporate responsibility will in practice increase social exclusion and poverty precisely because it increases business costs and reduces market flexibility.<sup>41</sup>

Certainly there is a real and understandable concern that corporate responsibility can impact *negatively* by damaging a country's economic dynamism and productivity by introducing inessential, unproductive factors into the business equation. This is a particular issue for developing countries, which often see corporate responsibility 'at best' as a cost of business, and at worst an overt attempt by interests within developed countries to introduce non-tariff trade barriers to offset their comparative disadvantages in global markets. A recent report prepared by the International Institute of Environment and Development for the World Bank, *Public Sector Roles in Strengthening Corporate Responsibility*, highlights the potential for corporate responsibility to pose real trade barriers to developing countries, citing for example Columbia's recent appeal to the WTO in relation to cut flower exports, arguing that voluntary EU eco-labelling schemes damaging Colombian access to the EU markets exemplifies this type of concern.<sup>42</sup>

Casual evidence at least suggests that once the initial entry costs have been overcome (an important but perennial caveat), corporate respon-

### **Corporate Responsibility As Trade Enhancer**

“Among the other important elements of the enabling environment [for FDI] are the host country’s labour market standards. By taking steps against discrimination and abuse, the authorities bolster employees’ opportunities to upgrade their human capital, and strengthen their incentives for doing so. Also, a labour market where participants have access to a certain degree of security and social acceptance lends itself more readily to the flexibility that is key to the success of economic strategies based on human capital. It provides an environment in which MNEs based in OECD countries can more easily operate, applying their home country standards and contributing to human capital development.”

***OECD Foreign Direct Investment for Development – Maximizing benefits, Minimizing costs.***

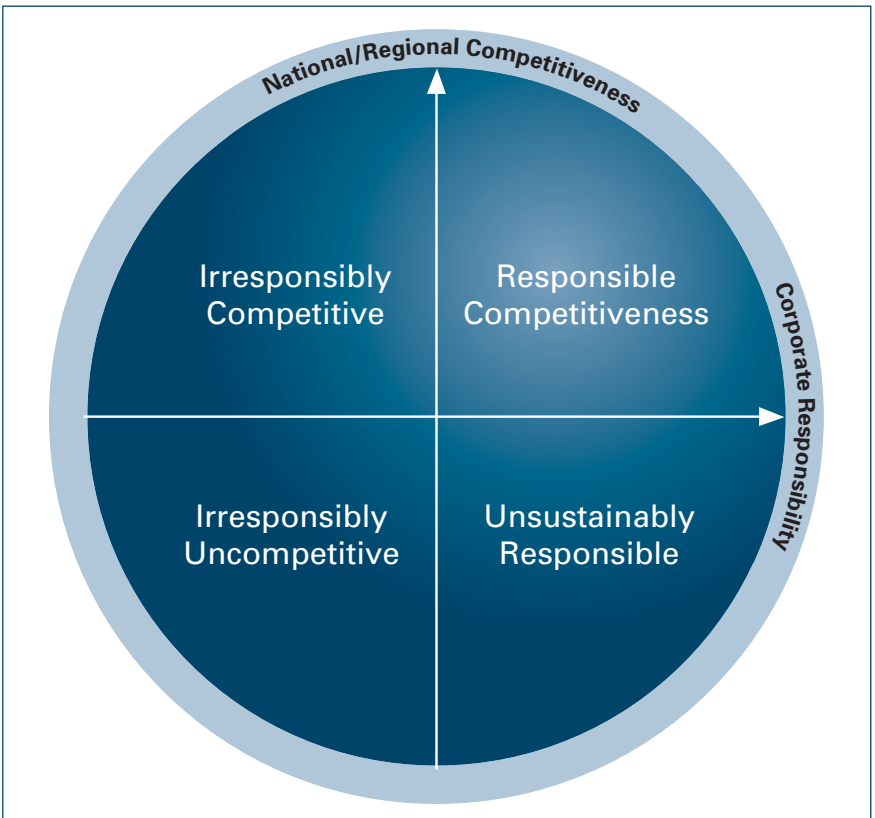
sibility can seemingly become a gateway to trade and development. A recent report by SustainAbility and Instituto Ethos cites numerous examples of this potential in practice.<sup>43</sup> The Hua Hui Industrial Company in China, for example, found that addressing buyers’ needs for guarantees of factory labour standards by acquiring SA8000 certification increased new orders by 30%. While this does not suggest that if all companies got SA8000 they would all increase orders by 30%, if such certification succeeds in becoming an industry standard requirement, companies that fail its requirements may find orders drying up altogether. The Indian government has recognised that such criteria are simply part of the next stage of development through its Ministry of Textiles initiative to disseminate information to 7,500 companies on a variety of quality, social and environmental standards such as ISO 9000 QMS, ISO 14000 EMS and SA8000.<sup>44</sup> As UNCTAD states, “even traditionally significant recipients of export-orientated Foreign Direct Investment need to keep moving up the value chain to sustain rising wages and to maintain their competitiveness as an export base.”<sup>45</sup> Even in the Columbian cut-flower example cited above, the government now supports its own industry programme encouraging the adoption of environmental standards. And in the Economic Processing Zones notorious for undercutting national labour laws, the International Confederation of Free Trade Unions has found (logically) that zones “with coherent and comprehensive policy frameworks, provisions for human resource development, good working and living conditions, and stable labour relations attract quality investors.”<sup>46</sup>

“In India...the auto industry has been under a lot of pressure from environmentalists [and] they have now set the most stringent emissions standards in the world for two-wheelers. The industry was initially not happy with it – but then found out that it was able to find the technology to meet those norms, and now finds that it has helped its competitiveness...”

**Sunita Narain, Director, Centre for Science and Environment<sup>47</sup>**

Environmental improvements can be a means for companies to move up an economic value added chain. An example of this would be India’s Century Textiles gaining new customers as a result of it meeting the Ecotex certification needed by its original German customer.<sup>48</sup> Similarly, in Thailand, the Global Corporate Governance Forum found that 76% of corporate respondents achieved cost savings from ISO14001 while over 65% claimed production efficiencies. Thus while the initial nego-

**Figure 3: Responsible Competitiveness**



---

tiation of social or environmental standards into pricing or investment agreements may not always be welcome, the fact that "...MNEs generally are found to provide technical assistance, training and other information to raise the quality of the suppliers products; assist local suppliers in purchasing raw materials and intermediate goods and in modernising or upgrading production facilities", means that they also assist their supplier partners in becoming more competitive themselves.<sup>49</sup> Environmental regulation can increase the rate of induced technological innovation within firms.<sup>50</sup> Indian 'three-wheeler' manufacturers, for example, have strengthened their comparative advantage over Chinese rivals because of the stronger environmental regulations introduced in India.

The relationship between competitiveness and corporate responsibility at an international level is not a simple one (Figure 3). Nations can be found within each four quadrants representing the relationship between competitiveness and responsibility. The preceding illustrations suggest at the very least that corporate responsibility:

- Need not necessarily be a barrier to innovation, investment or trade.
- Can be a stimulus to all of these, and so to competitiveness.

The question remains therefore as to under what conditions corporate responsibility can enhance competitiveness.

## 4. Corporate Responsibility Clusters

---

*‘Corporate responsibility clusters’ offer the potential for linking and scaling up company-level corporate responsibility practices and outcomes, to create a broader impact on competitiveness and sustainable development.*

### **Corporate Responsibility Clusters**

The original conception of competitive clustering was provided by Professor Michael Porter, who proposed that companies could gain competitive advantage where the determining conditions of their physical location provided them with better staff, suppliers, infrastructure, insights, information and irritants than their competitors.<sup>51</sup> These clusters were seen as organic, more or less spontaneous outgrowths that emerged because of the fulfilment of some or all of the following conditions: strong local peers competing; discernible and sophisticated local demands, which pre-empt or drive non-local demands; and local capacity supporting the clusters’ needs and continual innovation.

#### **Clusters – The Original Vision?**

“An improving business environment gives rise to the formation of clusters. *Clusters* are geographically proximate groups of interconnected companies, suppliers, service providers, and associated institutions in a particular field, linked by commonalities and complementarities. Clusters such as software in India or high-performance cars in Germany are often concentrated in a particular region within a larger nation, and sometimes in a single town.”

**Michael Porter, Harvard University**<sup>52</sup>

Cornelius and Porter describe clusters as follows. “Clusters affect competitiveness in three broad ways: first, by increasing the productivity of constituent firms or industries. In the California Wine Cluster, for example, the local presence of specialized suppliers of machinery and inputs enables wineries to lower transaction costs and reduce capital costs by keeping stocks of material inputs low. The intense local rivalry between competing wineries then provides incentives to mobilize these assets and drives the productivity to allow wineries to support the high costs of real estate and labor in northern California. Second, clusters increase the capacity for innovation and thus for productivity growth. Opportunities for innovation can often be perceived more easily within clusters, and the assets, skills, and capital are more available to pursue them. For example, new prototypes can be tested with sophisticated local customers. Third, clusters stimulate and enable new business formation

---

that supports innovation and expands the cluster. The local presence of experienced workers and access to all the needed inputs and services, for example, reduces the barriers to entry. In California, introducing a new line of wine or starting a new winery are much easier than at other locations.”<sup>53</sup>

### **Corporate Responsibility Clusters – the Next Step**

‘Competitive advantage within one or several sectors arising through interactions between the business community, labour organisations and wider civil society, and the public sector focused on the enhancement of corporate responsibility.’

The potential for *corporate responsibility clusters* was identified during the initial research, and has been explored during this second stage of research.<sup>54</sup> Such clusters, the initial research argued, could *create competitive advantage within one or several sectors arising through interactions between the business community, labour organisations and wider civil society, and the public sector focused on the enhancement of corporate responsibility.*

In this second stage of research, different types of clusters were explored drawing on several illustrative cases (as well as many other illustrations), opinion leader interviews, and a literature review.<sup>55</sup>

### **Cases Studied Included:**

- South African ‘black empowerment’, labour standards and the wine industry.
- Water management companies and community engagement.
- Vietnam footwear industry and labour standards.
- Pharmaceuticals and access to health.
- UK carbon emissions trading.

### **Cluster Shapes**

Corporate responsibility clusters come in different shapes, sizes and types with different types of organisation leading their development. Common, however, are their underlying effects on business performance by: expanding business ability to learn from diverse, rich sources; grow competencies to translate these learnings into improved business performance; gain support from a growing network of service providers that enable companies to more effectively manage their relationships and reputation; and benefits from an approach to public policy that moulds markets in ways that reward responsible practices.

**Figure 4:** Corporate Responsibility Clusters



**Challenge Clusters**

*Challenge clusters tend to be initiated by civil society actors. They are characterised by antagonistic relationships between participants forming at least the initial spur for the development of competitive advantage.*

Clusters are often confrontational in their early stages, with change happening through campaigns like those in the late 1990s against companies such as Royal Dutch Shell, Adidas and Monsanto, and earlier against Nestlé and Union Carbide. In most of the cases considered, from pharmaceutical pricing to environmentally-friendly urban transport technology in India, and the trend towards deregulation and privatisation of water supply infrastructure and/or its management, national or international civil society groups were an important driver in provoking action. At this stage, the business community mainly ‘feels the pain’ of public debate and outrage, of de-motivated employees and difficulties in recruitment and, in some cases, reduction in sales, profitability and share prices.

---

However, even at this stage the human and broader institutional infrastructure for clustering is developing. For example, the European-wide Clean Clothes Campaign (CCC), although targeted at the textiles and footwear sectors has fostered a growing community of NGOs working on labour standards issues across many different sectors and contexts. Born as a straight public campaign, the CCC has spawned a generation of NGOs working not only as campaigners but also as partners with companies in implementing codes of conduct and associated programmes. The same campaign, even from an early ‘confrontational’ stage, directly led to the emergence of a host of service providers and business networks supporting business initiatives addressing labour standards issues. Similarly in the case of pharmaceuticals, where the initial confrontations not only established the issues that might underpin clusters in their later development, but also catalysed the development of institutional competencies and relationships that could subsequently be part of effective clustering.

An interesting observation is the differing speed with which confrontations over time ‘generate’ the basis for the next stages of clustering. There is some evidence of an acceleration in the pace at which partnering relationships emerge from confrontations. This is not surprising, given the *cumulative* experience, competencies and inclinations to translate confrontations into leadership or partnership-based actions. It is unlikely, for example, that we would see the reoccurrence in the current climate of extended conflicts such as the baby milk-related campaign against Nestlé, or inconclusive conflicts such as that with Monsanto over genetically-modified organisms. In this light, and without in any way reducing their importance, many confrontations become the means by which business is brought to the table to encourage active engagement in emerging issues.<sup>56</sup>

### **Market-Making Clusters**

*Market-making clusters are often led by one or more companies. They involve remoulding competitive conditions from the inside-out, by innovating more sustainable products, services or business processes.*

Confrontation is the beginning not the end of the story. The next stage can see leadership companies emerging from confrontational experiences, by responding with new policies, strategies, often supported by new personnel and, critically, new models of learning and change. In the mid-1990s, companies such as The Body Shop took leadership roles

---

in re-moulding aspects of sector practice, in this case to effectively halt animal testing in cosmetics and body care products (at least in the mid-price range). Novo Nordisk, the Danish pharmaceutical company, has for several years been the acknowledged sector leader in dealing with most social and environmental performance issues. The company has provided an impetus for other companies in the sector by taking a strong lead on key policy issues and also practices such as ‘triple bottom line’ reporting, for example coming joint-first in the UNEP/SustainAbility ‘global reporters’ rating for the last two years. Companies like Adidas, Levi Strauss and Nike have taken the lead in addressing labour standards issues in their global supply chains, and in so doing have catalysed comparable actions by other companies in their sector segments. The leadership taken within their sector by BP and Royal Dutch Shell is a further case in point. These two companies have taken a lead in offering a new ‘energy’ vision for their sector, and in many ways for business as a whole. These two companies have continued to drive forward the underlying differentiation by leading the business community in areas such as human rights, community development, anti-corruption, trading emissions and social and sustainability reporting.

Key to the success of these leadership initiatives, even at an early stage, has been their market-wide effects. Crucial in enabling these innovations and in making them relevant to business competitiveness has been the emergence of business opportunities for expert service providers, notably consultants, designers, and public relations companies willing and able to grasp the realities of the new agenda. NGOs like the New Economics Foundation became internationally renowned for its ‘social audit’ work with The Body Shop and other ‘first movers’, just as companies like the strategic consultancy, SustainAbility, both enhanced their own visibility and reinforced their approach in key markets.<sup>57</sup> Equally, if not more important are the non-market effects. This development of networks of NGOs and public bodies served not only to push specific companies for new practices, but also to legitimise these practices and advocate them across the sector and elsewhere, thereby actually creating the conditions under which they offer a competitive advantage.

### **Partnership clusters**

*Partnership clusters involve formal, multi-sectoral partnerships supporting competitive advantage.*

Previous sections have highlighted that there are limits to how far

### **Cluster 1**

#### **Clustering to Promote Competitiveness by Improving Vietnamese Labour Standards**

The footwear industry is one of the key export industries in Vietnam. The Vietnamese government is keen to build on this and continue to attract foreign companies. One of the ways it is pursuing this objective is support for a cluster of companies that are addressing the need for decent workplace standards.

An initial prompt for this was the release of a report on the Vietnamese Footwear Industry highlighting the use of hazardous chemicals, poor ventilation, inadequate safety equipment and a lack of training that was endangering the health of footwear factory workers. The result was a multi-stakeholder action plan, the *Vietnam Business Link Initiative*, involving private, state-owned and foreign invested factories. The plan was endorsed and resourced from January 2000 by the local and international footwear industry, worker representatives, government departments, Vietnam Chamber of Commerce and Industry, the International Business Leader's Forum and Nike, Pentland and Adidas-Solomon. The initiative has since been endorsed by the Vietnamese Ministry of Planning and Investment. Current activities include training of factory managers in Hanoi, Ho Chi Minh City and Haiphong on a variety of health and safety issues; workshops introducing the SA8000 labour standard certification system; supporting the development of a governmental inspection and monitoring agency. Future activities will include engagement with major Taiwanese and Korean investors in the Vietnamese footwear and garment industries and a remit expansion to include the garment and textile industry.

In this case both multinational contractor and Vietnamese suppliers have sought to develop a competitive cluster that effectively delivers improved labour standards in footwear factories, thereby reducing private social audit and potential reputation costs to high-profile, branded clients.<sup>58</sup>

individual companies can go it alone in driving social and environmental performance aims and outcomes into their core business strategies, processes and products and services. The nature of 'public goods' such as infrastructure, public security, social safety nets and environmental protection are such that the benefits go to society and are not limited to

---

those who pay for them. Therefore businesses that alone seek to deliver significant public goods as a core part of their business strategy are unlikely to be rewarded by the market.<sup>59</sup> This, combined with the increased pressure on business to engage in addressing public policy challenges, has driven the emergence of multi-sectoral partnerships<sup>60</sup> in their efforts to re-mould markets and their position within them.

There are literally thousands of multi-sectoral partnerships that have emerged in recent years.<sup>61</sup> Obviously these partnerships are incredibly diverse, as the Business Partners for Development initiative and many others have amply demonstrated.<sup>62</sup> Many of course are not about *changing* business, but focus instead on mobilising cross-sector resources and commitments, often through cause-related marketing.<sup>63</sup> Others, and a growing number, at least in part concern how business goes about its business, and in particular address their social, environmental and economic performance. In practice, however, both types of partnership can over time impact on business performance. AccountAbility's *Innovation through Partnership* research programme amply demonstrates how even straightforward philanthropic partnerships can sometimes, almost accidentally, generate business-aligned innovations.<sup>64</sup> IBM, for example, has combined the skills of its R&D function with its Community Affairs function to create a process innovation, which draws on the insight of community groups resulting in product innovations in the services it offers. Similarly, the British retail giant, Tesco, like its Dutch counterpart, Ahold, has established cross-sectoral partnerships as a core element of its approach to store development in low-moderate income areas. The important relationship between corporate responsibility and innovation was also highlighted by the recent publication by CSR Europe in association with Ashridge Management School, *Exploring Business Dynamics*.<sup>65</sup>

Just as partnership purposes differ, so do their outcomes. Many partnerships deliver at best some public goods and business benefits, the latter often confined to reputational gains and employee motivation. A small but growing number, on the other hand, impact more broadly on the workings of the market. In our cases, the Vietnam Business Links initiative is a clear example of such a partnership, designed to shift both the labour practices of the Vietnamese footwear industry, and the international community's perception of that practice. The German-based Forum for Sustainable Development, the Italian Resource Centre on Corporate Social Responsibility, and the recently launched European CSR Academy, are all examples of national and regional partnerships aiming to re-

---

align business practices towards sustainable development practices.<sup>66</sup> Ongoing action research by The Copenhagen Centre is investigating the potential of local cross sector partnerships across Europe to address social challenges, which hinder local economic development.<sup>67</sup> Internationally, Social Accountability International, the Global Reporting Initiative and AccountAbility illustrate cases of partnership-based standards development intended to impact on the broader workings of the business community.

The 'Water Cluster' of Business Partners for Development, the Third World Water Forum, the Africa Water Facility, the Water Media Network and the EU Water Initiative are just a few of the large number of multi-sector initiatives forming in the water sector in recent years to promote 'responsibility' in private water management contracts.<sup>68</sup> Taken together, there is no doubt that such partnerships have and will continue to change the basis on which business is done in this sector. Similarly for partnerships in diamond, energy, mining and pharmaceutical sectors; issue-specific partnerships covering, for example, labour standards, aspects of the environment, and human rights; and very broad, multi-sector, multi-issue partnerships such as the UN Global Compact.

There is of course considerable variation in the extent and manner in which partnerships have an impact on competitiveness. Some have clear geographic implications, or at least intentions. In the case of water management, the dominant role of the French water companies has arguably been reinforced by the increasing focus on social and environmental aspects of performance. Clearly the intention of the Vietnam Business Links Initiative is to enhance the competitiveness of the nation's footwear industry.<sup>69</sup> Partnerships can also have *indirect* competitiveness impacts, sometimes unintended. The South African wine industry's main export market is the UK, which means that it has been particularly impacted by the Ethical Trading Initiative (ETI), a UK-based partnership working around labour standards in global supply chains. It may indeed be that the ETI gives the UK's food retail sector a competitive edge in export markets. Unexpected and unplanned for, however, is that it will give the South African wine industry an additional competitive edge if labour standards becomes a significant issue for wine exports beyond the UK. The converse, controversially, can also be true. Labour standards partnerships such as the ETI, the Clean Clothes Campaign and the Fair Labor Association, are seen by some as creating barriers to trade for developing countries, thereby advantaging the textiles and footwear sectors in North America and Europe.

---

### **Statutory Clusters**

*Statutory clusters involve public policies focused on corporate responsibility standards and practices that support competitive advantage.*

Public policy is playing an increasingly important role in the evolution of corporate responsibility practices.<sup>70</sup> In most instances, these governments play a role of supporting, facilitating and in some instances mediating the development of corporate responsibility initiatives. The roles of the US Government in supporting the Fair Labor Association, the Norwegian Government in the area of 'ethical trade', and the European Commission in supporting a wide range of corporate responsibility initiatives are all cases in point. Increasingly, however, practice and debate is focusing on statutory roles, such as the new French legislation on sustainability reporting, the Belgium Government's social labelling initiative, and the UK Government's mandatory requirement for pension funds to disclose their social and environmental policies.<sup>71</sup>

Public sector involvement in the development of clusters tends to start at a very early stage. For labour standards, the very fact that the challenges often arise from the failure to enforce existing labour legislation, often based on ILO-related commitments and obligations, meant that governments were involved from the outset. Similarly, in the case of pharmaceuticals, government and international public agencies were involved from the beginning because of the fact that intellectual property rights issues were seen to lie at the heart of drug pricing.

Public sector roles in the evolution of corporate responsibility clusters change over time, often moving from the facilitation of dialogue to the negotiation of new market rules and, often to statutory measures. In the case of water management, local public authorities wishing to contract private water management companies, have worked with the International Finance Corporation amongst others, in integrating social and environmental performance issues into tendering and contract compliance. The case of Vietnam is centrally about how best the Government, working with business, can ensure compliance with appropriate legislation without damaging (or with a commensurate increase in) competitiveness. The UK Government's lead in using statutory instruments to drive down carbon emissions is also an interesting case. As the case study below highlights, the UK Renewables Obligation requiring electricity companies to provide 3% of electricity from renewable energy sources by 2002/3 is expected to accelerate R&D where shorter-term interests might otherwise

---

constrain investment to take advantage of future competitive opportunities.

As the former Chairman of Shell International's Committee of Managing Directors, Sir Mark Moody Stuart, pointed out at the Johannesburg Summit, '*business must embrace appropriate regulation that enables healthy competition, and reduces competition that has damaging social and environmental consequences*'. Similarly, there have been a growing number of companies signalling the appropriateness of regulation as a means of edging corporate irresponsibility out of the competitive equation. Increasing numbers of companies, for example, have embraced the call for regulation to reduce the incidence of bribery in international trade, the basis on which carbon emissions are counted, and the need for consistent public disclosure of sustainability performance.

### **Cluster 2**

#### **Clustering for Long-term Carbon Competitiveness**

The UK Government has introduced a range of market-based incentives into its energy system which: offer financial payments to energy companies that collectively agree targets for their industries and trade or buy surplus allowances (the *Emissions Trading Scheme*); tax certain business' use of CO<sub>2</sub> producing energy sources thereby encouraging a reduction in CO<sub>2</sub> producing processes (*Climate Change Levy*); oblige electricity companies to provide 3% of their electricity supplies from renewable energy sources (*the Renewables Obligation*).

The instruments encourage clustering through market leadership while the binding *Renewables Obligation* introduces public sector rule-making activities into the cluster-formation process. The interventions encourage clustering by companies in responding, either through formal alliances in the case of the *Emissions Trading Scheme*, more informally through the *Climate Change Levy* or through competition for a niche customer market as in the case of the *Renewables Obligation* for UK electricity companies.

The *Climate Change Levy* is intended as market-making. Based on predictions of more mainstream international corporate carbon trading in future years, it is designed to give UK companies a 'heads-up' in making R&D adaptations that will make adjusting easier in the future. The *Emissions Trading Scheme* also encourages the same sort of clustering. Thirty-five UK companies have signed up to individual emissions reductions targets in return for which the government is making £215 million available as an incentive.<sup>72</sup> The *Emissions Trading Scheme* also

---

### **Clustering for Long-term Carbon Competitiveness** (Cluster 2 cont.)

enables groups of companies to collaborate in reducing their emissions collectively. The *Emissions Trading Scheme* creates a mini-market over a five-year period (trading started in April 2002) between companies where the currency units are measured in terms of tonnes of CO<sub>2</sub> emitted. Meeting annual targets leads to the payment of incentives to participating companies. The market is technically global although the UK is leading in terms of establishing structures to coordinate emissions trading. Sellers will be companies who have exceeded their own targets while buyers will be companies who have failed to meet their targets and wish to buy other companies' surpluses.

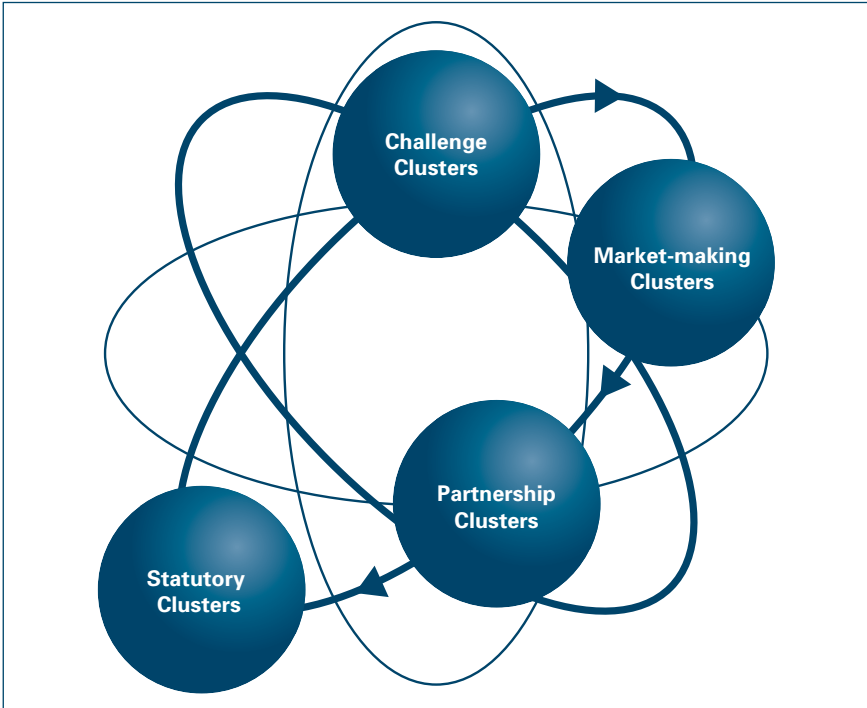
These instruments are explicitly intended by the UK Government to provide participating companies with a competitive advantage by encouraging participants to identify how best to profit from resource productivity and low-carbon energy options ahead of more mainstream activity. In particular the policy instruments were designed to forestall any overall loss of competitiveness to affected industries.<sup>73</sup> The *Emissions Trading Scheme* and the *Renewables Obligation* are designed to encourage companies to innovate competitively in advance of a projected mainstreaming of the activities (e.g. much higher levels of emissions trading are expected at the end of this decade). The *Climate Change Levy* has been specifically designed as a levy not a tax for the Exchequer (overall monies raised are returned back to the most affected sectors via a cut in National Insurance Contributions). While the schemes remain very new, government expectations of the innovation effects are nevertheless high.<sup>74</sup>

### **Cluster Dynamics**

#### ***Evolving Features***

The four types of clusters described above are neither static nor distinct phenomena. Clusters rarely take one form for prolonged periods of time. Rather, they combine several or all of these forms at different stages in their development. The pharmaceuticals case demonstrates this admirably, with an evolution from confrontation through market-making, partnership and most recently to a statutory form. The case of Vietnam's footwear industry follows a similar pathway, initiated through confrontation, and now firmly in the partnership stage. Indeed, there appeared from the cases considered to be a general sequencing to these forms, albeit with many exceptions and nuances.

**Figure 5: Cluster Sequencing**



There may indeed be a typical sequencing in the development of clusters. Clusters covered in this research often appeared to go from confrontation through market-making, partnership and then statutory forms. This may of course be an incomplete and therefore inaccurate observation, since what is being observed is a segment of stages in an on-going process. It could be argued, for example, that a preponderance of European initiatives in the late-1990s were rooted in Europe's historical tradition of partnerships, or that the apparent lack of leadership in the US in this field has been rooted in its compliance-based approach to businesses' contract with society at large. However, with this caution in mind, the view about stable sequencing may nevertheless be a *useful* simplification, and one that in future work bears further examination.

### ***Inter-Actor Productivity***

*Corporate responsibility clusters* draw on, and yet take us beyond, Michael Porter's seminal work on industrial clusters. Core to the difference is that clusters that form around corporate responsibility practices and outcomes are not only made up of businesses. They also include NGOs, labour organisations and a range of different public bodies. The nature

---

of the relationships between these actors changes over time, as the previous section has already indicated. A confrontational relationship in one period may form the basis for intimacy through partnership at a later stage. A facilitative approach to public policy in one period may later take on statutory overtones.

But what is important for the cluster's formation is not so much the 'tone' of the relationship as its productivity. Confrontation between Nestlé and other companies supplying baby milk powder and the International Baby Milk Campaign over a twenty-year period, according to some, did little to change the rules of the game. The company remained unresponsive for a long period of time, and then failed to capitalise on its (positive) response through competitive tactics. The campaigners, whilst developing sophisticated non-market networks, failed to drive their view of responsible practices into the market in ways that create significant competitive opportunities.

On the other hand, hard campaigning in relation to drug pricing and labour standards has created conditions under which individual companies could gain competitive advantage, and indeed where corporate responsibility clusters might over time emerge. For example, NGOs and labour organisations working on codes and labour standards from the mid-1990s onwards have subsequently found themselves deeply engaged in partnership learning, competencies development and regulatory discussions across different sectors, and often in different countries. As part of this, they have been integral to the process of building new market norms originating in their early encounters with specific companies.

Furthermore, these clusters include governments and public agencies that can facilitate new social contracts and 'export' these societal models in ways that increase the competitiveness of businesses most able to operate in such environments. The case of Vietnam's footwear industry illustrates a further pathway for this extension of norms, involving the UK Government's Department for International Development, and subsequently also the World Bank and the International Labour Organisation. These interventions are made with development benefits in mind, not with a view to financial gains for businesses from particular countries. There is little doubt, however, that those companies that stand to gain most from such initiatives are those whose brand and product propositions are tied up most closely with labour standards issues. These companies in turn tend to be high-value brands that have taken a lead

---

role in initiatives such as the Ethical Trading Initiative, the Fair Labor Association, and Social Accountability International's SA8000 certification system.

### ***Cluster 3***

#### **Clustering to Promote Pro-Poor Competitiveness in Pharmaceuticals**

Developments in the pharmaceuticals sector following the legal cases in South Africa and Brazil over the procurement and pricing of drugs to treat HIV / AIDS is shifting the basis of company and national-level competitiveness.

In 1998, 41 pharmaceutical companies took legal action against the South African government, demanding the ending of the Medicines and Related Control Amendment Act no. 90 of 1997. The law allows the Minister to disregard patent rules in the interest of public health. Although the law – and the lawsuit of the companies – were not confined to AIDS medicines, it was the issue of access to cheap medicines of the 4.2 million, HIV infected people in South Africa that hit the international headlines, and eventually led to a settlement in April 2001. The pressure, especially from NGOs engaged in the fight for cheaper AIDS medicine to the many infected and ill people in the developing world, fuelled the increasing pressure on the patent rules on essential medicines.

The lawsuit against the Republic of South Africa damaged the reputation of pharmaceutical companies, and increased the pressure for providing cheap medicines (especially AIDS medicines)<sup>75</sup> It also brought to the surface tensions for a sector under private control central to the public policy goals of health, and the impact of the international patent system that both encourages R&D in tomorrow's health solutions, and yet also restricts access to drugs at affordable prices.

Confrontation unquestionably triggered the promotion of new strategies by pharmaceutical companies. Initially these involved individual company initiative, but have increasingly involved enabling partnerships. For example, six of the leading multinationals entered an agreement with the UN, WHO and UNAIDS, immediately before the settlement to discuss their contribution to make care and treatment accessible to poor people, and agreed to accelerate the price reductions with a special emphasis on the less developed countries in Africa.<sup>76</sup>

---

### **Clustering to Promote Pro-Poor Competitiveness in Pharmaceuticals** (Cluster 3 cont.)

A purely voluntary approach is not, however, satisfactory for many companies, particularly those marketing higher-price, branded (as opposed to generic) drugs. Long-term competitiveness for R&D-based companies depends on clear and enforced rules on intellectual property, not an environment where ad hoc exceptions in order to improve access to drugs become the norm. The R&D-based pharmaceutical sector is therefore in negotiations with governments and NGOs, as well as the WTO to clarify and agree on a regulatory basis (covering intellectual property rights) for going forward that will go some way to satisfying the demand for lower priced drugs for poor communities in need, and at the same time consolidate and reinforce their own ability to compete.

### ***Geographic Dispersion***

Porter's original thinking on clustering focused on geographic proximity. It is the innovation, learning and productivity effects associated with this form of proximity that connects cluster-thinking to community, national and regional competitiveness. Our research raises issues about this perspective, and raises the possibility (and uncertain implications) of geographically-dispersed clustering. Corporate responsibility clustering along value chains is perhaps the easiest version of these to understand. Global value chains mean that clusters may in effect extend along international supply chains. The case of Vietnam illustrates this point. Whilst appearing in the first instance in the developed markets for products produced in Vietnam, partnership and potentially statutory clustering are emerging in Vietnam itself. Similarly in the case of food retailers and producers impacted by the UK-based ETI. South African wine-producers have sought to communicate and capitalise on their improved labour practices through communication with consumers beyond the ETI affected markets.

There are other forms of clustering that are more difficult to interpret (or indeed predict, which we return to in the next chapter). Developments in water management outlined in Cluster 4 have been triggered by the complex chemistry between the privatisation of water management and the political and social dynamics concerning access to water. In this context, the major international players, especially two French companies, have taken a leading role in the emerging debate and practice about how to square this circle. These companies have tended to consolidate this

---

dominance, in part through their growing leading edge experience in handling the social and environmental engagement, and compliance conditions embedded within water management contracts. It is important here to distinguish between those aspects of French competitive clustering associated with responsible business practices, and those aspects rooted more straightforwardly in two companies' commercial dominance of the market.

#### **Cluster 4**

##### **Clustering to Promote Competitiveness through Social Engagement in Water Management**

The international water market is undergoing change in terms of deregulation and privatisation, not least in developing and emerging economies. General access to safe water is a development, environmental and health issue, and the entering of water into the international market economy as a commodity, is a very sensitive issue. This situation thus represents a market opportunity for the international water companies, but a politically sensitive market opportunity with a high degree of public awareness and demand for transparency and social responsibility. It is crucial for water businesses to secure a reputation for responsible practices, as well as concrete knowledge of operating in a development context with many different stakeholders.

France, which is a global leader in private water management,<sup>77</sup> is known for the special "French model", implying a close partnership between the public and the private sector. As deregulation of public services took pace at the global level, these early experiences of French multinationals were extremely useful and have given the big French companies a head start in the international market. As Viscount Davignon comments, "*[French water companies] have created their existence in a purely national environment. They have expanded their business on the basis of the comparable advantage of their model versus others.*"<sup>78</sup>

This competitive advantage has been reinforced by embedding the experience of leading water management companies into the very fabric of the market through inter-company collaboration, joint initiatives with public bodies, and ultimately through establishing 'responsible practices' into contract bidding requirements and to access to finance, for example through the International Finance Corporation.

Cross sector partnership clustering involving multinationals, local

---

### **Clustering to Promote Competitiveness through Social Engagement in Water Management** (Cluster 4 cont.)

companies, municipalities and NGOs, are now widely used in the water business, both in France and when entering emerging markets. The Business Partner Programme was co-convened by the World Bank, WaterAid and Vivendi in 1998 as a three-year initiative to study, explore and promote tri-sector partnerships as an approach to meet water and sanitation needs of poor communities. The initiative brought together 18 organisations from the 3 sectors (public, private and civil society), including Vivendi and Suez, and focused on 8 tri-sector partnerships in developing countries.<sup>79</sup> Experience from these initiatives reinforced the view that the policy context and engagement of various partners is crucial in creating innovative solutions and cost-effective access to water and sanitation. Tariffs, fees, billing systems, technical standards as well as various forms of regulation, including economic, environmental and public health regulation, must be discussed and agreed upon to avoid conflict and achieve sustainable solutions.<sup>80</sup> Furthermore, conclusions from BPD research study<sup>81</sup> indicate that tri-sector partnerships can leverage the competencies of different sectors to ensure successful innovative approaches to service delivery and that more cost-effective and sustainable water systems can be achieved.

Even more challenging is the interpretation of the pharmaceuticals case. Here, the new market norms on tiered pricing, for example, do not have any clear-cut geographical clustering effect. In moving towards tiered pricing, branded, R&D-based pharmaceutical companies are seeking to rebuild public confidence, retain the patronage of public bodies, and secure their underlying business models, which require intellectual property rights to be enforced. Whilst perhaps loosening the market in favour of lesser-known companies operating out of Asia or Latin America, tiered pricing and other initiatives are tactical moves to retain control over the high priced markets in Europe, North America and Japan. In this case it is unclear as to what are the geographic, competitive impacts of these developments, if indeed there are any at all.

## 5. Towards Responsible Competitiveness

---

*Public policy can promote ‘responsible competitiveness’ by encouraging corporate responsibility clusters, which extend the take-up of corporate responsibility and align it with national and regional competitiveness.*

### **Mapping Potential**

The potential for clusters is not evenly distributed across sectors, value-chains, geography, or time. Labour intensive sectors like textiles and footwear, for example, might seem obvious sector cluster candidates. However, their current potential is reliant on companies’ sense of the commercial importance of the ‘ethical concerns’ of citizens in key European and North American markets and on how closely these concerns reflect the reality of the workers and communities affected. On this basis, their future potential will therefore depend on more concrete evidence of these concerns translating into concrete actions, whether as consumers, voters, investors or employees. Even if this happens, this cluster may remain restricted to branded products such as Levi Strauss and H&M, since there has to date been little sign of significant pressure on very low-cost (in effect, unbranded) products in this market. Furthermore, it is not clear whether the same pressures to demonstrate responsibility towards workers in global supply chains will exist in the major growth markets of Asia and Latin America.

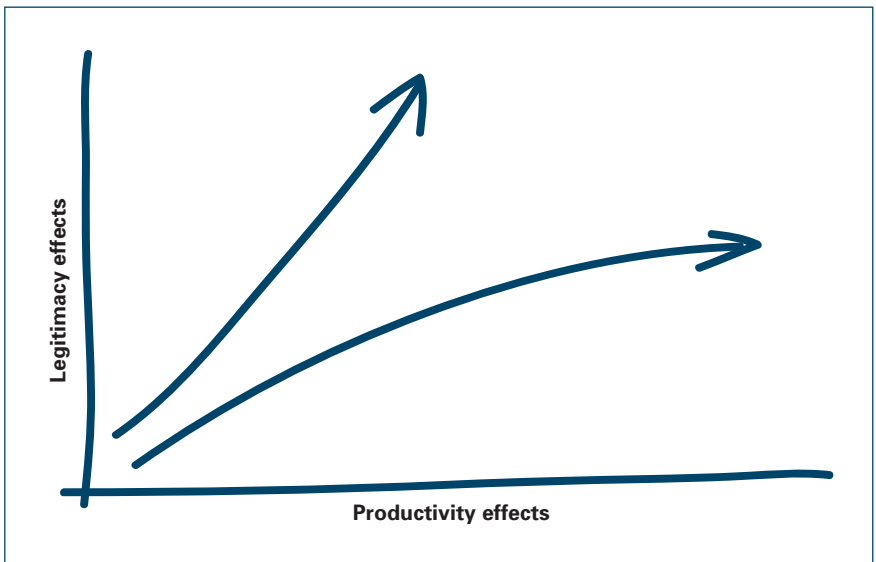
Pharmaceuticals might have seemed an unlikely cluster candidate just a few years ago, with low retail brand visibility, and high-tech supply chains (i.e. a low likelihood of problems like child labour). Of course the explosive issue of ‘access to health’ has changed all that, and today there is a far greater likelihood that corporate responsibility clustering might arise. But as the last chapter highlighted, the introduction of new responsibility practices into this sector does not necessarily lead to geographic clustering, and so might not form the basis of national or regional competitiveness. Alternatively, new practices can have ‘perverse’ competitiveness (and so economic development) impacts through clustering. It is possible, for example, that tiered pricing in this sector could in overall terms benefit R&D-based companies based largely in Europe and North America at the expense of Asian or Latin American pharmaceutical companies.

### ***The ‘Legitimacy’ Factor***

Corporate responsibility clustering is most likely to arise where the potential is greatest for making social and environmental aspects of the value-chain of tangible concern to stakeholders who count. International

competitiveness in this sense becomes more rooted in what Georg Kell at the UN Global Compact referred to as ‘socialised’, as opposed to ‘natural’, forms of comparative advantage (‘natural’ in this sense being understood as being for example the comparative costs of resources and labour, whilst ‘socialised’ aspects being the stakeholders’ ‘ethical’ perceptions of the value-chain, rather than only the value of the resulting product and service).<sup>82</sup>

**Figure 6:** Mapping Potential



Consumers have to date been the most significant stakeholders driving this aspect of clustering, in particular a fairly specific segment of the top 10-20% of consumers in the world’s richest markets, notably in Europe and North America. The attention and leverage of this stakeholder group has in most instances been focused on (apparently) easy-to-understand, emotive issues associated with known and named companies, particularly those with retail brands. Combinations like child labour and Ikea, Premier Oil in Burma, and pharmaceutical companies in relation to HIV / AIDS, offer relatively easy points-of-access for time-scarce consumers wanting to demonstrate their care in public debate and market action. The potential, for example, of the Vietnam case of clustering around labour standards is dependent on the leverage of this stakeholder group.

Wealthy consumers are not, however, by any means the only legitimacy driver of clustering. The case of private water management highlights

---

the potential for very poor communities, as consumers, voters and activists, to drive social standards into sector performance. The pharmaceuticals case illustrates how a combination of Northern campaigners and developing country governments can achieve legitimacy-based effects independent of any significant, actual or potential retail consumer action. In the latter case, there is of course a consumer-effect, but in this instance the consumers are the public bodies whose procurement of drugs forms the bedrock of the sector's business model. Here the legitimacy effects are mediated by the need for elected governments to demonstrate their responsiveness to international development issues, specifically the emotive challenge of balancing access to health for the world's poor against a perception of the pharmaceutical sector's profiteering at their expense.

"If you hold the value of corporate responsibility dear, then I think the primary producer has to be the one that gets more out in the value chain, and I think that we have to find some way of doing it, nobody has found that way yet. And today, most countries are just undercutting each other in the primary commodity trade."<sup>83</sup>

**Sunita Narain, Director, Centre for Science and Environment.**

### ***The 'Productivity' Factor***

Corporate responsibility clustering is most likely to arise where the potential is greatest for translating social and environmental enhancements in the value-chain into labour and resource efficiency and broader productivity effects. There are many studies purporting to show that some responsible practices increase employee motivation and productivity, reduce the employee costs of recruitment and retention, reduce supplier costs by enhancing mutual trust, etc.<sup>84</sup> Such gains, where significant, can enhance the potential for clustering to emerge. The case of water management is not only about 'legitimacy' (as described above). A significant cost of doing business for companies taking contracts in urban areas with large communities that cannot afford to pay for water, are associated with damage to and theft of infrastructure, and non-payment of customer fees. Adopting a 'community engagement' approach to operationalising water management contracts can reduce these costs. Similarly, the case of statutory clustering around emissions trading might actually increase costs in the short term, but is clearly aiming to provide participating companies with a longer-term cost-based competitive edge as such trading schemes become part of doing business internationally.

---

Employee-related productivity effects may not, however, always be as large as some argue or might wish. The prospect of employee productivity gains is an oft-used argument in support of active promotion from improved labour standards in global supply chains (see, for example, the literature produced by the Global Alliance for Workers & Communities). These gains have, however, been hard to realise, or at least measure. One possible reason for that is that workplace quality and motivation-related productivity improvements may be more easily gained where the workplace itself is subject to change, say as a result of improved production technology. In such situations, there is a need to ensure that workers are willing and able to be flexible, and can pick up new skills and working patterns. This is of course not so relevant to sectors where production technology is relatively static, and work patterns relatively fixed and functionally well-defined, such as across most (although not all) of the textiles and footwear sectors.

Access to and cost of capital is a further potential source of resource productivity gain. Responsible practices here relate most directly to risk as perceived by the investment community. Insofar as they reduce risk, the overall cost of capital falls, and resource productivity increases. The recent experience of the US following the Enron and WorldCom debacles is a *negative* case in point, where an increase in overall uncertainty towards the US business community increased risk premiums and so the average cost of capital. Conversely, companies leading in the corporate responsibility area are in general seen as having strong corporate governance, and a better than average approach to managing risks. This is, for example, the basis on which Sustainability Asset Management, in its construction of the Dow Jones Sustainability Index, understands the relationship between companies' triple bottom line performance and specifically potential financial success.

### **Connectivity Counts**

Legitimacy and productivity effects are the two most obvious, inter-related, sources of *business advantage* from corporate responsibility practices. Business advantage is clearly a pre-requisite for clustering to arise, but is not sufficient. What makes legitimacy and productivity effects relevant to the development of clusters are the ways in which the potential gains can be increased through the synergies arising through interactions between the companies and with other actors in society. The legitimacy effects, for example, depend to a large extent on the vibrancy of civil society organisations in raising public attention and responsiveness.

---

At any point in time this may be directed at individual companies or sectors. But over time, such vibrancy extends beyond, and indeed is enhanced by the very success of these individual initiatives. NGOs like Oxfam International and Save the Children Fund have grown stronger through their successes in tackling companies on labour standards issues, and using this strength in subsequent campaigns targeted at other sectors. This is also true for public bodies and service providers, who develop competencies that can be more widely applied over time, with collective as well as individual effects.

### **Cautionary Perspectives**

Corporate responsibility clusters are one means to amplify responsible competitiveness. Furthermore, that the potential can be identified in advance opens the way to considering possible public policies as a means of accelerating and amplifying their effects. But before turning to this, it is as well to consider and summarise what may be some of the possible dangers and downsides of such clusters. Two cautions emerged during the research as being potentially most important:

- *Corporate responsibility may have direct negative competitive and development effects.* The most obvious danger is for clusters to have negative effects on national competitiveness and so on economic growth and development. As we have already noted, Vietnam is challenged in seeking to build competitiveness on the back of improved labour standards, with the very real threat of regional manufacturers shifting their production facilities to lower cost countries, notably China. France's attempt to create a climate of business transparency and engagement through its new reporting regulations could backfire if it were to significantly increase costs without commensurate business-aligned learning and innovation benefits. Belgium's push forward on social labels could provide international leadership, but alternatively could create added costs, increased consumer confusion, and reduced market dynamism. In short, public policies aimed at enhancing corporate responsibility do not necessarily enhance productivity and overall competitiveness, and might actually reduce, both with resulting negative economic and development impacts.
- *Corporate responsibility may have negative competitive and development effects through increased market concentration.* Research sponsored by the European Commission confirms that small and medium sized companies (SMEs) see themselves as actively responsible in

---

their practices. However, corporate responsibility as a strategy for gaining business advantage has to date been largely the preserve of large corporations.<sup>85</sup> This raises the possibility of it increasing barriers to entry, and so constraining the potential for new market entrants, and indeed pushing out smaller market players. Such a perspective raises the potential for corporate responsibility constraining the ability of developing countries to develop their indigenous business communities, as well as reducing competition, with associated effects on choice and prices. The pharmaceuticals and water management cases might in the future both be relevant in these regards. As we have argued above, tiered pricing (to deliver lower prices in developing countries) by R&D-based pharmaceutical companies are one strand in their competitive strategy to protect their license to operate within their primary developed country markets. The ability of the French water management companies to build ‘community engagement’ competencies and practices could equally consolidate their position in their international markets and so reduce competition with similar impacts on choice and costs.

These cautions are perspectives that need to be taken into account when considering the potential for scaling up corporate responsibility and the role of public policy in this regard.

### **The Role of Public Policy**

Corporate responsibility offers real potential for delivering business success aligned to sustainable development. The challenge in scaling up this potential is to shape sectors, entire markets, and ultimately the global economy in ways that mean business strategies and practices can *only* be successful if they contribute to, and do not undermine, sustainable development. Regulation clearly has always had a role to play in this regard and still does. But regulation that undermines national and regional competitiveness will understandably be resisted, both by the business community and other communities who have much to gain from economic growth.

The challenge then is to shape public policy in ways that deliver responsible business practices and competitiveness. Business benefits from responsible practices are clearly a key ingredient in any such policy. But such benefits are themselves dependent on the evolving shape of markets, as well as being a driving force of such changes. The challenge is not to frame public policy within existing business models, but to nurture the evolution of new ones.

---

It is in this context that AccountAbility and The Copenhagen Centre have explored the potential for *corporate responsibility clusters* to provide one mechanism through which scaling up can be achieved. The evidence is by no means conclusive, as demonstrated by the twists and turns of the discussions in the preceding sections and chapters. But the evidence is sufficient to conclude that *corporate responsibility clusters* might indeed offer a significant route for scaling up corporate responsibility by delivering competitiveness and sustainable development outcomes.

In summary then:

- *Scaling up corporate responsibility can be more effectively achieved where it supports, and is supported by national and regional competitiveness strategies.*
- *Public policy aiming to scale-up corporate responsibility practices should be established within broader competitiveness strategies.*
- *Competitiveness strategies, similarly, should reflect the potential for corporate responsibility to support ‘responsible competitiveness.’*
- *‘Corporate responsibility clusters’ offer a pivotal mechanism for scaling up corporate responsibility practices through their effective integration into national and regional competitiveness strategies.*

Public policies aimed at enhancing overall competitiveness or supporting corporate responsibility practices will often be specific to particular sectors, situations or even companies. Furthermore, promoting corporate responsibility clustering has to occur in the context of issues such as access to markets, trade barriers, and competition policy. In a European context, this general thrust has been readily acknowledged in the European Commission’s recent Communiqué on ‘corporate social responsibility’, where the broader trade and development context is highlighted not merely as context but as integral to the mainstreaming process. The broad mandate of the European Union’s recently established Multi-Stakeholder Forum for CSR (CSR EMS Forum), including the specific inclusion of issues concerning trade and development, is further testimony to the significance of these relationships going forward. The same is true beyond Europe. The Doha ‘Development’ round is one where the question of corporate responsibility has already surfaced. Bilateral trade and investment agreements increasingly include issues and aspects concerning labour and

---

environmental standards. Corporate governance codes, and reporting and stock exchange listing requirements – just to name a few – are no longer distinct from the issues underlying corporate responsibility, and are seen as key in defining the basis on which nations nurture not only the probity but the competitiveness of their business communities.

Public policies to amplify corporate responsibility practices need to be, and indeed are being, formulated in the context of this complexity, at an international level, and also at regional, national, and even community levels. We identify a number of key avenues to explore:

- ***Refining our understanding of ‘responsible competitiveness’***; there is a need to refine our understanding of the potential for ‘responsible competitiveness’, where national and regional competitiveness strategies enhance, and are supported by, corporate responsibility practices and clusters.
- ***National, regional and sector analysis***; there is a need for more detailed empirical studies examining at national, regional and sector levels of the links between corporate responsibility and responsible competitiveness, and the role that corporate responsibility clusters might play in strengthening these links.
- ***Standards, tools and competitiveness***; there is a need to explore the potential competitiveness impacts of reporting and other standards and tools associated with corporate responsibility practices, and how such impacts can be managed.
- ***Responsible competitiveness, winners and losers***; there is a need to understand the potential for winners and losers in scaling up corporate responsibility within a broader competitiveness strategy, particularly the place of SMEs within such developments.
- ***Redefining competitiveness measures***; there is a need to redefine the basis on which national and regional competitiveness is measured to include key aspects of corporate responsibility that, particularly through clustering, can impact on competitiveness.

## Endnotes

---

- 1 Lisbon Summit, March 2000.
- 2 United Nations (2002), Report of the World Summit on Sustainable Development, United Nations.
- 3 Estimates by The Global Reporting Initiative  
<http://www.globalreporting.org>.
- 4 See [www.ethicalperformance.com](http://www.ethicalperformance.com).
- 5 In The Copenhagen Centre, CSR Europe and the International Business Leaders Forum (2002) *It Simply Works Better: Campaign Report on European CSR Excellence 2002-2003*, TCC, Copenhagen  
[www.copenhagencentre.org](http://www.copenhagencentre.org).
- 6 *ibid.*
- 7 <http://www.weforum.org>.
- 8 CSR Europe & AccountAbility (2002) *Impact of Reporting: The Roles of Social and Sustainability Reporting on Organisational Transformation*, CSR Europe & AccountAbility, Brussels ([www.accountability.org.uk](http://www.accountability.org.uk)).
- 9 This definition is consistent with the European Commission definition of 'corporate social responsibility' that focuses on its 'voluntary' nature, whilst highlighting the important aspects of corporate responsibility that concerns the formulation of public policy.
- 10 Forstater, M., J. MacDonald and P. Raynard (2003) *Business and Poverty: Bridging the Gap*, IBLF, London ([www.iblf.org](http://www.iblf.org)).
- 11 See for example, Holliday, C., Schmidheiny, S. and Watts, P. (2002) *Walking the Talk: The Business Case for Sustainable Development*, Greenleaf, Sheffield; Zadek, S., and Weiser, J. (2000) *Conversations with Disbelievers*, Ford Foundation, New York.
- 12 Zadek, S. (2001) *The Civil Corporation: the New Economy of Corporate Citizenship*, Earthscan, London and S. Zadek (2001) *Third Generation Corporate Citizenship: Public Policy & Business in Society*, AccountAbility / Foreign Policy Centre, London.

- 
- 13 In the preface to Swift, T., and Zadek, S. (2002) *Corporate Responsibility and the Competitive Advantage of Nations*, The Copenhagen Centre / AccountAbility, London ([www.accountability.org.uk](http://www.accountability.org.uk) and [www.copenhagencentre.org](http://www.copenhagencentre.org)).
- 14 Turner, A. (2001), *Just Capital*, Macmillan.
- 15 European Commission (2002), Communication from the Commission Concerning Corporate Social Responsibility: A Business Contribution to Sustainable Development, Com (2002) 347 Final, European Commission, Brussels. See also AccountAbility's forthcoming report for the European Commission on Mapping Standards for Corporate Social Responsibility.
- 16 Commission of the European Communities (2002) *Productivity: The Key to Competitiveness of European Economies and Enterprises*, Communication from the Commission to the Council and the European Parliament, Commission of the European Communities, Brussels.
- 17 See for example, UN Conference on Trade and Development (2002) *Trade and Development Report 2002*, UNCTAD New York; and M. Porter, J. D. Sachs, and J. W. McArthur (2002) *World Economic Forum Global Competitiveness Report 2001-2002*, World Economic Forum, Geneva.
- 18 See for example, Stiglitz, J. (2002) *Globalisation and its Discontents*, Penguin, London.
- 19 Bhagwati, J. (2002) *The Wind of the Hundred Days: How Washington Mismanaged Globalization*, MIT Press, London.
- 20 Zarsky, L. (1999) *Havens, Halos and Spaghetti: Untangling the Evidence About the Relationship Between Foreign Investment and the Environment*, Nautilus Institute for Security and Development, presented at Conference on Foreign Direct Investment and the Environment, *OECD Environment Directorate*, The Hague, The Netherlands, 28-29 January, 1999 ([http://www.nautilus.org/papers/enviro/zarsky\\_oecdidi](http://www.nautilus.org/papers/enviro/zarsky_oecdidi)).
- 21 European Commission (2002), Communication from the Commission Concerning Corporate Social Responsibility: A Business Contribution to Sustainable Development, Com (2002) 347 Final, European Commission, Brussels.

- 
- 22 Comments made at the launch of Forum for the Future's *Government's Business* report, 25th November 2002, London.
- 23 Interview with Helle Dossing 10th October 2002.
- 24 Interview with Tracey Swift, October 2002.
- 25 Doane, D (2002), *Why the CORE Bill is good for Business*, New Economics Foundation.
- 26 Ken Lewis, Executive Director, Group Resources, The Co-operative Bank in the Foreword to *Government's Business*
- 27 Phil Knight, CEO and Chair, Nike at the launch of the UN Global Compact, quoted in the Financial Times, 1st August 2000.
- 28 Comments made at the launch of Forum for the Future's *Government's Business* report, 25th November 2002, London.
- 29 For helpful discussions of the different public policy instruments actually available see Performance and Innovation Unit (2000) *Rights of Exchange: Social, Health, Environmental and Trade Objectives on the Global Stage*, Cabinet Office and Fox, T. et al. (2002), *Public Sector Roles in Strengthening Corporate Responsibility*, World Bank.
- 30 Comments made at the launch of Forum for the Future's *Government's Business* report, 25th November 2002, London.
- 31 Spar, D. (2001) *Pirates, Prophets and Pioneers: Business and Politics Along the Technological Frontier*, Random House, London.
- 32 Interview with Simon Zadek and Niels Hojensgaard, 10th October 2002.
- 33 Swift, T., and Zadek, S. (2002).
- 34 Lisbon Summit, March 2000.
- 35 See for example Kjaer, L and Raynard, P (2002) *Local Partnerships in Europe: an action research project, Second Phase Summary Report*. The Copenhagen Centre, Copenhagen.

- 
- 36 Cornelius, P., Porter, M. et al (2002) *Global Competitiveness Report*, World Economic Forum / Oxford University Press. For the European Commission see European Commission, (2002), *European Competitiveness Report*, European Commission. See also the UK Department of Trade and Industry's annual competitiveness indicators, taking a similar position.
- 37 Cornelius, P., Porter, M. et al (2002), *Global Competitiveness Report*, World Economic Forum/Oxford University Press. The country-level sustainability index was prepared by a group of WEF 'Global Leaders for Tomorrow', more information on which is at [www.weforum.org](http://www.weforum.org).
- 38 Krugman, P. (1996), *Pop internationalism*, M.I.T.
- 39 Mark Malloch Brown, UNDP Administrator, cited in Holliday, C., Schmidheiny, S. and Watts, P. (2002) *Walking the Talk: The Business Case for Sustainable Development*, Sheffield, UK: Greenleaf pp 51–52
- 40 From Swift, T., and Zadek, S. (2002).
- 41 The classic statement is Henderson, D. (2001), *Misguided Virtue – False Notions of Corporate Social Responsibility*, Institute of Economic Affairs.
- 42 Fox, T. et al. (2002), *Public Sector Roles in Strengthening Corporate Responsibility*, World Bank.
- 43 SustainAbility (2002), *Developing Value*, SustainAbility, Instituto Ethos and the International Finance Corporation.
- 44 Ibid.
- 45 UNCTAD (2002), *World Investment Report*, United Nations.
- 46 [www.icftu.org/English/tncs](http://www.icftu.org/English/tncs).
- 47 Interview with Helle Dossing, 6th October 2002.
- 48 SustainAbility (2002), *Developing Value*, SustainAbility, Instituto Ethos and the International Finance Corporation.
- 49 OECD (2002), *Foreign Direct Investment for Development*, OECD.

- 
- 50 Porter, M. and Van der Linde (1995), 'Towards a new conception of the environment-competition relationship', *Journal of Economic Perspectives*, Vol 9(4).
- 51 Porter, M. *The Competitive Advantage of Nations*, Macmillan, 1990. See also one of Porter's more recent publications, M. Porter (2001) *Enhancing the Microeconomic Foundations of Prosperity: The Current Competitiveness Index*, Oxford University Press, Oxford.
- 52 Cornelius, P., Porter, M. et al (2002), *Global Competitiveness Report*. World Economic Forum / Oxford University Press.
- 53 Ibid.
- 54 The validity of applying the conceptual framework of clusters to complex socio-economic problems for developmental goals is signalled through Porter's own work with the Initiative for a Competitive Inner City in the US whose regeneration approach has been widely influential on for example both the UK and Nicaraguan governments.
- 55 Cohen, J. (2002) *Corporate Responsibility and the Competitive Advantage of Nations: Phase 2 Literature Review*, unpublished working paper, AccountAbility, London.
- 56 This observed acceleration might not hold for some sectors and issues, such as tobacco, or be reversed in differing political climates, or over differing issues emerging within sectors over time.
- 57 [www.neweconomics.org](http://www.neweconomics.org); [www.sustainability.co.uk](http://www.sustainability.co.uk)
- 58 For more information see [www.vcci.com.vn/vbli](http://www.vcci.com.vn/vbli).
- 59 Edwards, M. and S. Zadek, "Governing the Provision of Global Public Goods: The Role and Legitimacy of Nonstate Actors.", in Inge Kaul Pedro Conceição, Katell Le Goulven and Ronald U. Mendoza, eds. (2003), *Providing Global Public Goods: Managing Globalization*, New York, Oxford University Press.
- 60 Also called new social, cross-sector and tri-sector partnerships.

- 
- 61 Nelson, J., and S. Zadek (2000) *Partnership Alchemy: New Social Partnerships in Europe*, The Copenhagen Centre, Copenhagen ([www.copenhagencentre.org](http://www.copenhagencentre.org)).
- 62 BPD (2002) *Putting Partnering to Work: 1998-2001 – Tri-sector Partnership Results and Recommendations*, BPD, [www.bpdweb.org](http://www.bpdweb.org).
- 63 See Zadek, S. (2002) *Working with Multilaterals*, Business for Social Responsibility, San Fran., for a description of the different purposes of partnerships.
- 64 Sabapathy, J. et al (2002) *Innovation through Partnership*, AccountAbility, London ([www.accountability.org.uk](http://www.accountability.org.uk)).
- 65 CSR Europe/Ashridge Management School (2002) *Exploring Business Dynamics: Mainstreaming Corporate Social Responsibility in a Company's Strategy, Management and Systems*, CSR Europe, Brussels.
- 66 The Copenhagen Centre, CSR Europe and the IBLF (2002) *it Simply Works Better: Campaign Report on European CSR Excellence*, The Copenhagen Centre, Copenhagen.
- 67 Kjaer and Raynard (2002) *op cit*.
- 68 <http://www.bpd-waterandsanitation.org/english/kyotoportal.htm>.
- 69 <http://www.vcci.com.vn/vbli/>.
- 70 Fox, T., Ward, H. and Howard, B. (2002) *Public Sector Roles in Strengthening Corporate Social Responsibility*, paper prepared by IIED for World Bank, Washington DC.
- 71 Cowe, R. and J. Porritt (2002) *Government's Business: Enabling Corporate Sustainability*, Forum for the Future, London.
- 72 See [www.etr.defra.gov.uk/reports/Targets\\_Baselines\\_and\\_allowances.htm](http://www.etr.defra.gov.uk/reports/Targets_Baselines_and_allowances.htm).
- 73 See the current debate between the UK's Confederation of British Industry (CBI) and the think tank Green Alliance, who have published almost simultaneous reports offering very different views of the

---

competitiveness impacts of the UK's energy taxation strategy: For Green Alliance see, Ekins, P., et al (2002), *Next Steps for Energy Taxation – A Survey of Business' Views*, Green Alliance, London. For the CBI see <http://www.cbi.org.uk/ndbs/press.nsf/0363c1f07c6ca12a8025671c00381cc7/54299262a055d64880256c5200347524?OpenDocument>.

74 See for example, *The Energy Review*, UK Cabinet Office Performance and Innovation Unit, Chapter 6. Options for a Low Carbon Energy System, Performance and Innovation Unit, 2002.

75 According to a report in the Wall Street Journal in 2001, a price war is breaking out in the market for AIDS drugs in poor countries, as pharmaceutical giants seek to blunt a growing threat from generic-drug companies and recoup some moral high ground amid the crippling epidemic (cf. [www.economist.com.na/2001/160301/story16.htm](http://www.economist.com.na/2001/160301/story16.htm)).

76 Partly as a result of the lawsuit, the interpretation of TRIPS rules has become a political battlefield, and the industries increasingly have to demonstrate the need for patents, which were much more widely accepted a few years ago. For instance, the EU wants to support parallel production in cases of emergency and to support interpretation of TRIPS in favour of developing countries (Poul Nelson in Information 03-03-2001).

77 More than 70% of its national water services is being privately managed, and French multinationals Vivendi and SUEZ (Lyonnaise des Eaux) hold 70 % of the international privatised water business.

78 Interview with Helle Døssing, 10th October 2002.

79 cf. <http://www.bpd-waterandsanitation.org>.

80 Ken Kaplan: BPD Water And Sanitation Cluster: Overview of a Three-Year Initiative, April 2002 (<http://www.bpd-waterandsanitation.org>) and Kaplan and Jones: The workshop series: Private sector workshop report, December 2000.

81 BPD Research and Surveys Series, Jeremy Colin and Harold Lockwood: *Making Innovation Work through Partnerships in Water and Sanitations Project*, February 2002.

---

82 Thanks to Georg Kell for offering these and other observations during the interview programme.

83 Interview with Helle Døssing, 6th October 2002.

84 See for example SustainAbility (2002), *Developing Value*, SustainAbility, Instituto Ethos and the International Finance Corporation; and J. Weiser & S. Zadek (2001) *Conversations with Disbelievers*, Brody & Weiser, New York.

85 The fair trade movement is a notable exception to this.

## Related Documents

---

### **The Copenhagen Centre & AccountAbility**

*Corporate Responsibility and the Competitive Advantage of Nations* (2002), Swift, T. and Zadek, S.

*Corporate Responsibility Clustering – Leveraging Corporate Responsibility for National Competitive Advantage* (2002), Zadek, S., Sabapathy, J., Døssing, H. and Swift, T.

### **The Copenhagen Centre**

*Perspectives on the New Economy of Corporate Citizenship* (2001), Zadek, S., Hojensgard, N., Raynard, P.

*Government as Partners – The Role of Central Government in Developing New Social Partnerships* (2001), Gribben, C., Pinnington, K. and Wilson, A.

*Partnership Alchemy – New Social Partnerships in Europe* (2000), Nelson, J. and Zadek, S.

### **AccountAbility**

*Innovation through Partnership* (2002), Sabapathy, J., Swift, T., Weiser, J., Polycarpe, M.

*Conversations with Disbelievers – Persuading Companies to Address Social Challenges* (2000), Weiser, J., Zadek, S.

*Impacts of Reporting – The role of social and sustainability reporting in organisational transformation* (2002), Rubbens, C., Monaghan, P., Bonfiglioli, E., Zadek, S. (with CSR Europe).

*Third Generation Corporate Citizenship – Public Policy and Business in Society* (2001), Zadek, S. (with The Foreign Policy Centre).

AccountAbility publications can be obtained by contacting us on +44 (0)20 7549 0400 or on [publications@accountability.org.uk](mailto:publications@accountability.org.uk). It is also possible to order from our website at [www.accountability.org.uk/resources](http://www.accountability.org.uk/resources).

Designed & Typeset by Ethical Media  
[www.ethicalmedia.com](http://www.ethicalmedia.com)

Printed on Brand X, 100% recycled from de-inked waste paper

---

*"The report and its analysis provide valuable policy perspectives that can inform the European Community and other policy leaders in taking this agenda forward."*

**Anna Diamantopoulou, Commissioner for Employment & Social Affairs**

*"The business case for corporate responsibility has been a key debate for a number of years. But, very little has been done to move the debate beyond the truly important, but also limited perspective of the micro case for responsible competitiveness. We need to know more about the links between corporate responsibility and the competitiveness of nations and regions, including the public policy dimension. We need to know how markets can be moulded to ensure that responsible companies win out in the markets for products, labour and finance."*

**Mads Øvlisen, Chairman, Novo Nordisk A/S**

**Responsible Competitiveness: Corporate Responsibility Clusters in Action** is the third in a series of reports produced by AccountAbility and The Copenhagen Centre exploring how best to mainstream corporate responsibility to achieve significant sustainable development impacts.

The report explores the relationship between corporate responsibility practices and the international competitiveness of nations and regions. In particular, it assesses the potential of *Corporate Responsibility Clusters* as a means of reshaping sectors, entire markets, and ultimately the global economy.

In reflecting on the policy implications of the research, the report concludes that:

- Scaling up corporate responsibility can be more effectively achieved where it supports national and regional competitiveness strategies.
- Public policy aiming to scale-up corporate responsibility practices should be established within broader competitiveness strategies.
- Competitiveness strategies should reflect the potential for corporate responsibility to support 'responsible competitiveness.'
- 'Corporate responsibility clusters' offer a pivotal mechanism for scaling up corporate responsibility practices.



Supported by the Employment and Social Affairs DG of the European Commission

© The Copenhagen Centre & AccountAbility 2003

ISBN 1-901693-10-4 / €60 / Members – discounted price €30