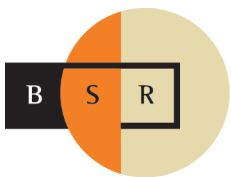


Partnering to Strengthen Public Governance

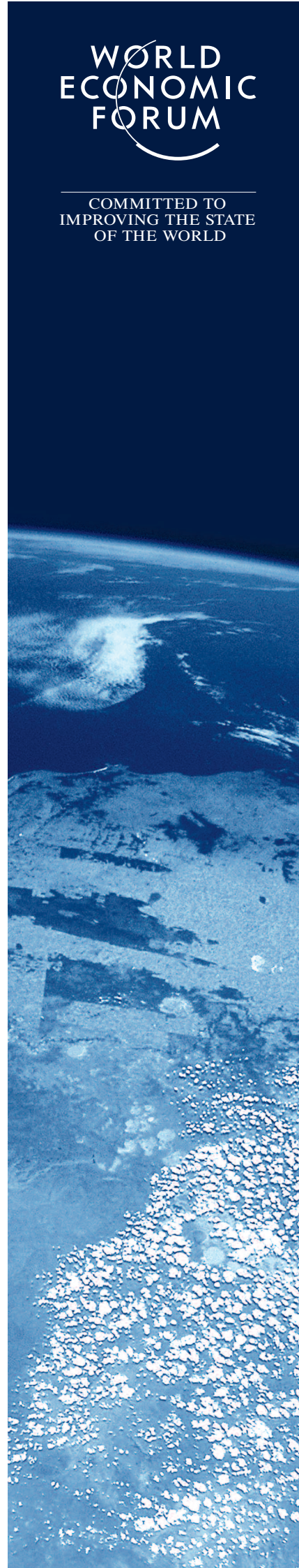


The Leadership Challenge for CEOs and Boards

World Economic Forum
Global Corporate Citizenship Initiative
in partnership with



Business for Social Responsibility



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REF: 090108

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Preface

Over the past 18 months, the World Economic Forum Global Corporate Citizenship Initiative (GCCCI) Advisory Committee, which is composed of top corporate citizenship executives of leading Forum member companies, explored how companies can contribute constructively to efforts to improve public policy frameworks and the capacity of public institutions. The project has attempted to improve understanding of the business case for improved public governance and provide guidance on how businesses can engage in public-private efforts to strengthen the effectiveness of such frameworks and institutions. The outcome of these deliberations is a CEO leadership statement and supporting analysis that together provide a roadmap for business leaders seeking to work with governments to improve the enabling environment for sustainable economic growth and development.

Partnering to Strengthen Public Governance: The Leadership Challenge for CEOs and Boards builds on “Global Corporate Citizenship: The Leadership Challenge for CEOs and Boards”, a joint statement on global corporate citizenship signed by CEOs and chairmen of over 40 companies under the auspices of the World Economic Forum Global Corporate Citizenship Initiative in January 2002. Both leadership statements recommend frameworks for action, that offer practical steps chief executives, board directors and executive teams can draw upon in developing their firm’s corporate citizenship agenda.

The rationale for business to engage in efforts to strengthen public governance is strong. Governance frameworks that enable sustained economic growth are far more likely to be developed if businesses collectively engage and capture the opportunities to align governance structures with their goals for advancing sustainable business practices.

Demonstrating how weaknesses and shortcomings in public governance hinder business activity and sustainable economic growth, and providing examples of how businesses in partnership with governments and other stakeholders are helping to improve public governance, *Partnering to Strengthen Public Governance: The Leadership Challenge for CEOs and Boards* offers CEOs and boards of directors some guidance on the development of an effective engagement strategy on relevant public governance challenges.

The CEO-signed leadership statement and supporting report were produced in partnership with Business for Social Responsibility (BSR) – our lead partner in this project – as well as AccountAbility, the Corporate Social Responsibility Initiative of Harvard University’s John F. Kennedy School of Government and The International Business Leaders Forum (IBLF). Special thanks are due to Aron Cramer, President and Chief Executive Officer, Business for Social Responsibility (BSR), USA; Angel Gurría, Secretary-General, Organisation for Economic Co-operation and Development (OECD), Paris, who drafted the foreword; and the executives of the Global Corporate Citizenship Initiative (GCCCI) Advisory Committee, members and other signatory companies, who provided the guidance and input on which the report is based. We are grateful for the helpful guidance and comments on the report provided by Jane Nelson and Simon Zadek. And we wish to express special appreciation to Associate Director Valerie Weinzierl, who managed the project very effectively on the Forum’s behalf, and her GCCCI colleague, Senior Manager Christine Salerno, as well as to Janet Hill and Kamal Kimaoui for editing and layout of the report, respectively.

We at the World Economic Forum are particularly pleased to issue this report, which seeks to illuminate an important aspect of corporate global citizenship – a concept that lies at the very heart our organization’s mission. We hope that our partners, members and other constituent communities find it a useful tool for building public-private and multistakeholder collaborations to advance progress on global and regional problems.



Richard Samans
Managing Director
World Economic Forum

Foreword

Investments in places with weak public governance pose some of the most difficult ethical dilemmas confronting international business today. In addition to the human suffering it causes, weak public governance forces companies and managers to ask: if governments cannot or will not assume their roles and responsibilities, what then is the role of business? The Organisation for Economic Co-operation and Development (OECD) has developed an awareness-raising tool that provides guidance for companies operating in such difficult circumstances. In the same spirit, the Global Corporate Citizenship Initiative (GCCCI), which gathers business leaders from around the world, has established a “Partnership to Strengthen Public Governance” with the aim of developing a framework for business engagement in promoting more effective public governance.

The OECD and GCCCI statements communicate similar and complementary messages. First, both recognize that everyone – the citizens of weak governance zones, international and local businesses, home and host governments – has much to gain from strengthening public governance: enhanced human welfare, higher sustainable growth and the creation of new markets. Second, both acknowledge that the business sector is a valuable partner in public sector reform, one that can do much to create and sustain the impetus for reform. Yet, such business activities can also give rise to suspicions if they are perceived as improper involvement in local politics. To allay these fears, the OECD and GCCCI both stress the importance of transparency for such activities and of working in partnership with national and international actors that share their interest.

As the head of an intergovernmental organization whose mission is to help governments design and implement more effective public policies, I recognize that strengthening public governance is an ongoing challenge for us all. Moreover, creating and sustaining the will to reform is a critical ingredient of successful

public sector reform. I can therefore only welcome the GCCCI's offer to be a partner in promoting stronger public governance and confirm that the OECD will continue to facilitate cooperation on policy reform among member and non-member governments, business, civil society and other international organizations, drawing on each other's competencies, roles and responsibilities.



Angel Gurría
Secretary-General
Organisation for Economic Co-operation and
Development (OECD)

I. The Leadership Challenge

The opportunity to leverage business activity to create sustainable economic growth has never been greater. Today, the business community recognizes, as never before, the essential imperative to deliver economic growth that marshals natural resources, spreads the fruits of the global economy and contributes to fair and equitable social development. Over the past several years, the business community has devoted considerable attention to corporate responsibility, bringing a spirit of innovation and partnership to address significant social and environmental questions with value for business and society. In many cases, however, these programmes have focused on symptoms rather than addressing root causes.

We believe that the time is right to build on recent progress and make a more systemic impact. This statement outlines an approach to corporate global citizenship, with a focus on business engagement to promote more effective public governance. Public governance includes the fair and efficient workings of traditional public functions, including setting and enforcing rules and regulations, delivery of public goods, development of guidelines for the smooth working of global trade, operating principles for public-private partnerships (PPPs) and additional means of promoting collaborative solutions to public questions.

As such, we are committing to a leadership agenda, expressed in the following framework for action, which will broaden and deepen the international business community's contribution to improved public governance. Structured along the lines of the 2002 Leadership Challenge of the GCCI, this framework charts an exciting new course for corporate responsibility and corporate citizenship programmes.

We believe that business has an important role to play in this regard. This framework agenda has the potential to create the conditions in which businesses can flourish, governments can more effectively deliver public goods and social protection and, most importantly, societies can enjoy the fruits of sustainable economic growth. While expressed through the prism of what business can do, we recognize that business will be most successful in pursuing this agenda where it does so with full respect for the unique position of government, in a transparent and accountable manner, and in collaboration with civil society.

We embrace this framework, and invite other business leaders to:

1. Provide Leadership

- Include public governance approaches in corporate responsibility and corporate global citizenship strategies
- Use opportunities for dialogue with public sector leaders to raise this topic and communicate with civil society
- Communicate the business case for strengthening public governance, including global governance
- Support public-private-civil society collaboration as an essential tool for addressing core questions

2. Define What It Means for Your Company

- Identify the opportunities for impact that are most relevant to your company
- Implement strategies based on your company's areas of greatest competence

3. Make It Happen

- Make public governance an element of all corporate global citizenship activities
- Align government affairs and corporate global citizenship activities in support of essential business strategy
- Set goals, measure performance and review progress
- Build industry coalitions/collaborations to address systemic issues

4. Be Transparent About It

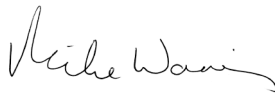
- Report publicly on progress and challenges
- Engage in dialogue with the public sector and civil society on how to address barriers and increase positive impacts

We represent businesses from across the world, in different industry sectors. While all businesses share a common interest in effective public governance, we also recognize that companies interact in a wide range of governance environments and that their approaches to this question will vary.

Alexander V. Izosimov
Chief Executive Officer
AO VimpelCom



Michael Wareing
International Chief Executive
Officer
KPMG



Jalees Ahmed Siddiqi
Managing Director and Chief
Executive Officer
Pakistan State Oil Company
(PSO)



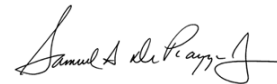
Jaime Augusto Zobel de Ayala II
Chairman
Ayala Corporation




Richard T. Clark
Chairman, President and Chief
Executive Officer
Merck & Co.



Samuel A. DiPiazza, Jr
Global Chief Executive Officer
PricewaterhouseCoopers



John P. Connolly
Chairman of the Global Board
Deloitte



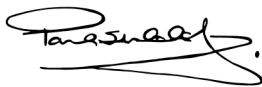
William H. Gates III
Chairman
Microsoft Corporation



Kishor A. Chaukar
Managing Director
Tata Industries



Paul S. Walsh
Group Chief Executive
Diageo



Mark G. Parker
President and Chief Executive
Officer
Nike



E. Neville Isdell
Chairman and Chief Executive
Officer
The Coca-Cola Company



James S. Turley
Chairman and Chief Executive
Officer
Ernst & Young



Lubna S. Olayan
Chief Executive Officer
Olayan Financing Company



II. A Framework for Action

Introduction

In recent years, appreciation of the value of corporate engagement in social and environmental issues has increased substantially both inside and outside the business community. In 2002, a group of nearly 50 CEOs and board chairs of World Economic Forum member companies contributed to this shift by issuing a public call to action to their peers on global corporate citizenship¹. They called for corporate responsibility and corporate citizenship agendas to evolve well beyond philanthropy. In addition, they recommended a specific management framework for CEOs to use in leading their management teams through a deliberate thought process to construct a broader approach aligned with and integrated into core business strategies and competencies. When properly anchored in a company's so-called zones of influence, corporate citizenship has the potential to be a primary framework through which firms manage risk and generate economic value for shareholders while contributing more broadly to sustainable economic growth and development.

In issuing this leadership statement, these leading CEOs acknowledged the centrality of effective governance as a critical enabler of economic and social progress: "There is little doubt that legitimate and legal businesses prosper where ... there is democracy with the government operating effectively in terms of collecting taxes, promulgating sensible regulation, within a liberalized and competitive economic environment, facilitating required investments in needed physical and social infrastructure and services, providing a fair and effective framework for commercial law, and ensuring an absence of corruption."

Since then, more businesses have taken up the challenge to include in their strategies a set of questions that once were considered "non-business" issues. However, they have also come to understand the enormous complexities of dealing with these issues, in both developing and developed countries, which are often characterized by serious problems in public governance. Today, having come to understand the important but often complex link between social and environmental issues and business success, the challenge for companies operating internationally is increasingly how to move beyond managing stakeholder demands and reputational risks related to these issues (the traditional province of corporate responsibility) to working with governments and other stakeholders to address the deficiencies in public governance that often fuel such demands and risks as well as stunt business activity and economic growth. This is an important new frontier of corporate global citizenship in which companies perceive themselves as stakeholders in the international system in their

own right and make a civic contribution by participating actively in the construction of a world economy whose contours and institutional architecture remain very much in development.

Changes in public policy and technology over the past generation have spurred extensive integration of product and services markets across much of the world economy, in effect greatly expanding the license to operate of multinational firms. But in many instances, the strength of national legal frameworks and the domestic institutions that administer them remains highly inconsistent, and global frameworks have yet to emerge to fill the gap. Companies are often asked to compensate for this uneven and underdeveloped governance environment by taking voluntary action, such as signing codes of conduct, conducting their own labour audits or providing health, education or environmental services to the communities in which they operate. But these steps, while worthwhile, tend to have a limited rather than systemic effect since they, by design, seek to work around or compensate for the underlying problem rather than resolve it.

Like previous GCCI reports, this report seeks both to advance understanding of a critical dimension of corporate citizenship and to illuminate the corresponding potential for leadership by CEOs and boards. It does so through a combination of analysis and illustration, making special reference to the experience of GCCI companies to more widely encourage emulation by Forum members and the international business community. Specifically, the report:

- 1) Describes how weaknesses and shortcomings in public governance hinder business activity and sustainable economic growth
- 2) Illustrates the various ways in which businesses in different regions and sectors are helping to improve public governance, often in partnership with governments and other stakeholders
- 3) Provides a framework that CEOs and boards of directors can use to lead their companies in the development of an effective engagement strategy on relevant public governance challenges

Defining the Issue

Public governance has two fundamental dimensions: rules (law, regulation and administrative guidance) and institutional capacity (the resources and capabilities of agencies that administer rules). It can also involve situations in which government is one of a variety of actors working together to establish or implement norms through collaborative processes including business and civil society. In this sense, public governance extends to the increasingly diverse rule-making and enforcement environment that marks

some of the most important debates on sustainable economic development.

Problems in public governance tend to take one or more of three forms:

- 1) **Bad governance** is characterized by deep flaws in the domestic enabling environment, such as corrupt institutions, ineffective or discriminatory laws or regulations, the presence of civil conflict or other security threats, gross human rights violations, etc.
- 2) **Weak governance** is characterized by insufficient institutional capacity and/or political will resulting in government's failure to implement or enforce domestic laws or international obligations, deliver basic public goods and systems, or plan for and respond adequately to natural disasters, health pandemics and humanitarian crises.
- 3) **Underdeveloped global governance** is characterized by a lack of rules or institutional capacity at the multilateral or global level necessary to create a level playing field or greater certainty regarding issues that have an important bearing on commercial and investment decisions across national borders (e.g. labour, environment, product safety or technical standards, etc.).

Each of these types of governance deficits interferes to one degree or another with economic development and social and environmental progress. And while governance failures can often be placed within these discrete categories, the three types can be related. Where global governance is unclear, for example, greater pressure is placed on underdeveloped national governance systems, and vice versa. The impact of governance challenges is most often discussed in relation to developing economies, yet they are present in developed economies as well, with similar effect. It is equally true that the public governance challenge is a multifaceted one with complex linkages, as decisions taken by diverse parties at local, national and global levels affect governance in multiple locations.

Understanding the Business Case

Business, no less than any other element of society, has a very large stake in effective public governance.

First, business does not operate in a vacuum. Investment and commerce are crucially dependent on the quality of a country's legal and institutional enabling environment, which is an important determinant of its international economic competitiveness. This has been documented over the years as both fact and perception by, among others, the World Bank's *Doing Business* reports and the annual *The Global Competitiveness Report* of the World Economic Forum. Poor public governance has

been clearly demonstrated to undermine the conditions necessary for businesses to prosper and economies to grow, notably by fuelling economic inefficiency and political instability.

Conversely, effective governance frameworks create the conditions in which innovation and risk taking are likeliest to thrive. Particularly with respect to economic governance, the business community has an inherent stake in more effective rules and institutions as well as a special competence to help construct them. At the same time, companies need well-educated and healthy workforces and operating environments such that, in many countries (including developed economies), they have a stake in strengthening key elements of a country's social infrastructure, such as its educational and health systems.

Second, as stakeholder demands for action and disclosure multiply, business has a growing reputational stake in clarifying its role on social and environmental questions, and the boundaries between public and private responsibilities. The weaker the governance environment is in a given jurisdiction, the greater are the societal expectations placed on companies. In this sense, the level of public trust in the business community is linked to the strength of public institutions.

Finally, the business community has an enormous stake in the ongoing international integration of national economies, a process that is well advanced but not irreversible. There is growing concern in many quarters about inequality, economic dislocation, poverty and migration and, from time to time, these are manifested in calls to limit trade and investment. The social consensus behind an open global economy has been eroding in some countries because of perceptions that international aid, trade, monetary, labour, environmental and other arrangements are not up to the task of generating broad-based and sustainable economic growth. Business is sometimes seen as complicit in these shortcomings of the international system. To the extent this lack of public confidence in global and national institutions leads to greater protectionism and tighter restrictions on the mobility of capital and labour, the international business community will be the first to feel its effects.

The chart below illustrates the impact of such governance deficits on business. The linkages displayed point to opportunities for companies to make focused contributions to efforts to strengthen public governance.

| | Governance Deficit | Impact on Business |
|---|---|---|
| Bad Governance | <ul style="list-style-type: none"> • Endemic social conflict • Disputed/cancelled/absent elections • High levels of corruption • Inefficient administrative and regulatory processes | <ul style="list-style-type: none"> • Business interruption resulting from increased volatility and conflict • Legal risks and financial outlays related to bribery and corruption • Unreasonable costs and barriers to establishing and operating businesses • Increased cost and political risk of providing security for people and fixed investments |
| Weak Governance | <ul style="list-style-type: none"> • Lack of basic public goods supporting economic and social development (e.g. water, healthcare, education) • Weak or uneven enforcement of existing laws and regulations (e.g. labour, environment, consumer safety) • Failure to adapt rules to emerging problems and circumstances • Poorly developed conflict resolution mechanisms (i.e. impartial judiciary) | <ul style="list-style-type: none"> • Business interruption resulting from increased volatility and conflict • Legal risks and financial outlays related to bribery and corruption • Unreasonable costs and barriers to establishing and operating businesses • Increased cost and political risk of providing security for people and fixed investments |
| Underdeveloped Global Governance | <ul style="list-style-type: none"> • Endemic lack of consensus through existing structures (e.g. WTO Doha Round) • Absence of structures to address key global issues (e.g. climate change, human rights) • Conflicting or duplicative frameworks over best way to address key regional and global issues (e.g. climate change, natural resource management) | <ul style="list-style-type: none"> • Risk of diminished political support for open trading system • Heightened risk due to lack of long-term framework for planning capital investments • Diminished license to operate resulting from low levels of trust in business • Business uncertainty regarding rules and guidelines |

Illustrating Business Engagement

In the 2005 GCCI report, *Partnering for Success*, Sir Mark Moody-Stuart, Chairman, Anglo American, United Kingdom, said: “As businesses, we cannot and should not try to address [poor governance] on our own. But we can join in an effort with civil society organizations, with labour unions, with international financial institutions to try to build the governance structures which can address this issue.”

Businesses have long been engaged in public governance debates and initiatives, particularly with respect to issues specifically affecting their industry sector. The past decade or so has seen the development of numerous business initiatives, often in collaboration with other actors, that directly or indirectly seek to strengthen public governance in a wider sense. These examples of business engagement on such problems as climate change, corruption, and disaster relief – often through PPPs – demonstrate the potential for deeper engagement by the private sector in collaborative efforts that have positive impacts on governance deficits. These efforts have taken numerous forms, including dialogue with government; provision of technical expertise and other resources for institutional capacity building; and participation in and support for collaborative rule-setting and enforcement mechanisms.

Business engagement in promoting effective governance is most effective, and most credible, where it reflects key principles including transparency, dialogue and respect for the unique role of public institutions, and recognizes the central value of working with civil society organizations.

The ideal way for business to engage effectively is at the intersection of its capacity and legitimacy. Business maintains its legitimacy where it engages in capacity building that enables government to operate effectively, rather than displacing core public functions or intervening in a manner that distorts public functions. Business maintains its influence where it is understood to be applying its core strengths for the benefit of institutional capacity building.

The following is an overview of recent and ongoing collaborations by business with governmental or civil society actors to strengthen public governance as well as a number of specific illustrations. The examples reflect initiatives that have a range of objectives. While they may have a particular focus on economic, social or environmental questions, many of them reflect the increasing recognition of the inherent linkages between these elements, and lead to strengthened governance that advances all of these goals.

Business Engagement in Partnerships to Strengthen Public Governance

I. HELPING TO REMEDY BAD GOVERNANCE (National/Regional)

| A) Economic | B) Social & Environmental |
|---|---|
| <p>1) Improving Frameworks and Policies</p> <ul style="list-style-type: none">Brazilian Pact For Integrity and Against Corruption (PACTO)Extractive Industries Transparency Initiative (EITI)Transparency International Integrity PactsPartnering Against Corruption Initiative (PACI)* <p>2) Strengthening Institutional Capacity</p> <ul style="list-style-type: none">Global Partnership for the Prevention of Armed Conflict | <p>1) Improving Frameworks and Policies</p> <ul style="list-style-type: none">Kimberly ProcessUN Special Representative's Mandate on Business and Human RightsVoluntary Principles on Security and Human Rights (BSR and IBLF) <p>2) Strengthening Institutional Capacity</p> <ul style="list-style-type: none">South Africa's Business Against Crime InitiativeThe Kosovar Refugee Registration ProjectUNHCR Council of Business Leaders |

II. HELPING TO STRENGTHEN WEAK GOVERNANCE (national/regional)

| A) Economic | B) Social & Environmental |
|--|--|
| <p>1) Improving Frameworks and Policies</p> <ul style="list-style-type: none">Committee for Economic Development (CED)Global Information Technology Report (GITR) Country Policy Roundtable Series*OECD Corporate Governance RoundtablesTransatlantic Business Dialogue and Transatlantic Economic Council <p>2) Strengthening Institutional Capacity</p> <ul style="list-style-type: none">Africa Investment Climate FacilityBusiness Action for Improving Customs Administration in Africa (BAFICAA)Business Action to Stop Counterfeiting and Piracy (BASCAP)Business Coalition for Capacity BuildingRussian Foreign Investment Advisory Council | <p>1) Improving Frameworks and Policies</p> <ul style="list-style-type: none">Global Fund to Fight AIDS, TB and Malaria Country Coordinating MechanismsILO Better Work Initiative <p>2) Strengthening Institutional Capacity</p> <ul style="list-style-type: none">Business Coalitions on HIV/AIDSEducational Quality Improvement Programme (EQUIP) and Instituto Qualidade no EnsinoIndia Business Alliance to Stop TB, China Health Alliance & Ghana Healthcare Systems Project*Jordan, Rajasthan and Egypt Education Initiatives*MFA Forum and its implementation of the Collaborative Framework in Bangladesh and Lesotho |

III. HELPING TO DEVELOP GLOBAL GOVERNANCE

| A) Economic | B) Social & Environmental |
|---|---|
| <p>1) Improving Frameworks and Policies</p> <ul style="list-style-type: none">Global Governance Initiative*Institute for International Finance "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets"International Monetary Convention Project*Mainstreaming Responsible Investment (GCCI and AccountAbility) and Principles for Responsible Investing (Global Compact/UNEP)Voluntary Hedge Fund Principles <p>2) Strengthening Institutional Capacity</p> <ul style="list-style-type: none">Financing for Development Initiative*Global Alliance for ICT and Development | <p>1) Improving Frameworks and Policies</p> <ul style="list-style-type: none">Carbon Disclosure Standards BoardForest and Marine Stewardship CouncilsGleneagles Dialogue Initiative*Global Fund on HIV/AIDS, TB and MalariaGlobal Reporting InitiativeGuiding Principles for Public-Private Collaboration in Humanitarian Action (UNOCHA and World Economic Forum)*UN Global CompactVoluntary Carbon StandardWHO's Stop TB and RBM Partnerships <p>2) Strengthening Institutional Capacity</p> <ul style="list-style-type: none">Global Business Coalition on HIV/AIDSLogistics & Transport Industry Humanitarian Relief Initiative*UNESCO-Fast Track Initiative-Forum Global Education Alliance* |

* Denotes World Economic Forum Initiative

Business Engagement in Partnerships to Strengthen Public Governance

SELECTED ILLUSTRATIONS

I. Helping to Remedy Bad Governance (National/Regional)

- **Voluntary Principles on Security and Human Rights** promote the application of human rights principles in the provision of security in the oil, gas and mining sectors. A coalition of companies from these sectors (e.g. BP, Shell, Chevron and Rio Tinto), human rights and humanitarian organizations (Human Rights Watch, International Alert, the International Committee of the Red Cross) and national governments (the Netherlands, Norway, UK and US), with the secretariat held jointly by Business for Social Responsibility (BSR) and the International Business Leaders Forum (IBLF) established these principles and provide a platform for implementation and dialogue. The principles relate to private security providers and public security providers, and risk assessments concerning both. The principles include explicit reference to the need for “developing institutional capacities and strengthening the rule of law”, and participants “recognize the important role companies and civil society can play in supporting these efforts”. www.voluntaryprinciples.org
- **Partnering Against Corruption Initiative (PACI)** – Initiated by CEOs from World Economic Forum member companies and launched in Davos in 2004, PACI brings together over 130 companies, many of which are leaders in their industries (i.e. AIG, Fluor, Merck & Co., Rio Tinto, Royal Dutch Shell, The Coca-Cola Company, UPS), to combat corruption by practicing a zero-tolerance policy towards bribery and implementing effective internal compliance programmes. This multi-industry and multinational initiative is a partnership with Transparency International and the Basel Institute of Governance. Following CEO signature to the PACI Principles for Countering Bribery, the initiative provides a platform for companies to develop, implement and monitor their own programmes through peer network meetings and support tools. The initiative began through collaboration within and among the Engineering & Construction, Mining & Metals and Energy Industry Partnership communities of the World Economic Forum. The framework they have developed is now being adopted by country-based groups of companies (e.g. Romania) and development finance institutions (e.g. the IFC and IADB/IIC). www.weforum.org/paci

II. Helping to Strengthen Weak Governance (National/Regional)

- **Business Action to Stop Counterfeiting and Piracy (BASCAP)** – Facilitated by the International Chamber of Commerce (ICC), this cross-industry initiative aims to leverage collective business action to enhance government efforts to fight counterfeiting and piracy, strengthening protections for intellectual property. This effort brings together businesses from all parts of the world to enhance innovation, protect health and safety, and reduce the loss of tax revenues arising from black market products. Businesses, working with the ICC and other industry groups, have made available new information resources governments can use to combat piracy; conducted awareness raising efforts to highlight the costs of piracy and counterfeiting, and have mapped public and private efforts to protect intellectual property rights to avoid duplication. Through regular inputs into intergovernmental forums such as the G8, the World Intellectual Property Organization and the World Customs Organization, BASCAP also seeks to strengthen national and international regulatory and enforcement efforts as well as enhance policy-related initiatives and public-private partnerships to address this question. www.bascap.com
- **Global Health Initiative and Global Education Initiative Country Partnerships** – In 2004, the World Economic Forum’s Global Health Initiative (GHI) catalysed the creation of an innovative, large-scale partnership in India to extend the reach of the public health community’s efforts to eradicate tuberculosis. The India Business Alliance to Stop TB engages 34 Indian and multinational companies in the provision of prevention and treatment services to approximately 4 million employees and dependents. Similarly, the GHI recently launched the China Health Alliance, a group of Chinese and multinational firms that is developing a pilot programme in Guangdong province to provide HIV/AIDS and TB prevention and treatment services to their workforces in cooperation with Chinese public health authorities and donor agencies. The Forum’s Global Education Initiative has pioneered large-scale multistakeholder partnerships to strengthen public primary and secondary education systems in Jordan, Rajasthan and Egypt. In each of these health and education partnerships catalysed by the Forum, groups of businesses enter into an arrangement with the national and/or provincial government for the express purpose of strengthening their capacity to provide quality basic human services to their populations by applying relevant core business competencies. www.weforum.org/globalhealth; www.weforum.org/education

III. Helping to Develop Global Governance

- **Gleneagles Dialogue Initiative** – In 2005, at the invitation of British Prime Minister Tony Blair, a group of 24 World Economic Forum CEOs developed a set of recommendations regarding climate change policy for the G8 Summit in Gleneagles. In particular, the diverse group of business leaders called for action to create a long-term policy framework to guide energy and environmental policy. At the summit, G8 leaders created a three-year Gleneagles Dialogue process with 12 additional countries for the purpose of expanding understanding of paths to a low-carbon energy future. The Forum was invited to facilitate further private sector input into this new process, whose recommendations will be delivered to G8 leaders at their July 2008 summit in Hokkaido, Japan. In partnership with the World Business Council on Sustainable Development, over 40 Forum Industry Partner companies are now working on three sets of policy recommendations: a long-term climate policy framework to succeed the Kyoto Protocol; a financing mechanism to leverage public capital in the World Bank and other multilateral development banks for the purpose of stimulating private investment in low-carbon energy systems in developing countries; and steps that governments and businesses could take together to stimulate changes in the behaviour of consumers to take advantage of the many opportunities to reduce greenhouse gas emissions that have a zero cost or even produce a positive financial return. www.weforum.org/en/initiatives/ghg/index.htm
- **Institute for International Finance “Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets”** – In 2004, major sovereign issuers of international bonds and global leaders of private finance agreed to general principles to provide a basis for strengthening crisis prevention and enhancing predictability of crisis management in the banking and financial markets of emerging economies. The principles focus on four areas: transparency and timely flow of information; close debtor-creditor dialogue and cooperation to avoid restructuring; good faith actions; and fair treatment. The agreement on the principles represents the result of an unprecedented cooperative effort by leading emerging market issuers and the private sector. The current focus is to further broaden the support for the principles and to move forward to implementation. It is expected that the principles will evolve over time to ensure that they remain consistent with changing global realities. By doing so, the principles can make a continuing significant contribution to the robustness of the international financial system. www.iif.com/emp/principles

III. The Role for Business: Framework for Action

“ Adoption of good governance principles provides greater transparency to government actions and increases the political efforts efficiency by favouring the coordination of private sector expectations on the governmental intentions and actions. Good governance helps to strengthen companies, harmonizes interests and contributes for less volatile results. In this sense, good governance can enhance the investors' confidence and, particularly when the government also adopts good practices, can promote the overall economic soundness. ”

*Henrique de Campos Meirelles
Governor of the Central Bank of Brazil*

Business leadership to promote effective public governance is needed to meet the most urgent public challenges and create the conditions for sustainable and widespread economic growth. The key challenge – and opportunity – is to build on existing collaborative efforts to achieve more systemic impact.

The following is a leadership agenda, expressed in the form of a framework for action, that can broaden and deepen the international business community's contribution to improved public governance. Structured along the lines of the 2002 GCCI

Leadership Challenge, this framework charts an exciting new course for corporate responsibility and corporate citizenship programmes. It has the potential to create the conditions in which business can flourish, governments can more effectively deliver public goods and social protection and, most importantly, societies can enjoy the fruits of sustainable economic growth. While expressed in terms of what business can do, this agenda is likely to be most successful when business pursues it with full respect for the unique position of government and in collaboration with civil society.

1. Provide Leadership

- Include public governance approaches in corporate responsibility and corporate global citizenship strategies
- Use opportunities for dialogue with public sector leaders to raise this topic and communicate with civil society
- Communicate the business case for strengthening public governance, including global governance
- Support public-private-civil society collaboration as an essential tool for addressing core questions

2. Define What It Means for Your Company

- Identify the opportunities for impact that are most relevant to your company
- Implement strategies based on your company's areas of greatest competence

3. Make It Happen

- Make public governance an element of all corporate global citizenship activities
- Align government affairs and corporate global citizenship activities in support of essential business strategy
- Set goals, measure performance and review progress
- Build industry coalitions/collaborations to address systemic issues

4. Be Transparent About It

- Report publicly on progress and challenges
- Engage in dialogue with the public sector and civil society on how to address barriers and increase positive impacts

1. Provide Leadership

Engaged leadership from CEOs and boards of directors is essential to advancing this agenda. Senior executives have a unique ability both to legitimize business action on this topic and provide clear directional advice about ways their companies and industries can act most effectively. Business leadership employing the power of persuasion by setting the agenda is one of the unique ways progress can be achieved on effective public governance.

Include public governance approaches in corporate responsibility and corporate global citizenship strategies

Corporate citizenship has sometimes been viewed as what companies do *in spite of government*, rather than an agenda undertaken in collaboration with the public sector and engaged civil society organizations. By establishing board processes to ensure that corporate responsibility and corporate global citizenship strategies embrace a public governance dimension, business leaders will ensure that their social and environmental strategies are more effective. Just as business leaders redefined corporate citizenship in 2002 as going “beyond philanthropy”, visionary executives can take the next step by demonstrating and reinforcing the importance of achieving systemic results through improved public governance.

Use opportunities for dialogue with public sector leaders to raise this topic and communicate with civil society

Business leaders are in a unique position to make the case for improved governance through their interaction with public sector leaders and civil society. By taking appropriate opportunities to communicate their interest in this agenda, the private sector can play a catalytic role. As numerous recent polls illustrate, poor governance is considered one of the primary barriers to economic growth and development. Where business executives express their interest in creating fair, transparent and efficient governance structures, these can help to improve the investment climate in a manner that benefits citizens, business and the public sector.

Communicate the business case for strengthening public governance, including global governance

The business case for engagement is clear, but needs reinforcement. Business leaders have the opportunity to underline the importance of this agenda through internal communications, in industry settings and in public dialogues. The business case is demonstrated by noting the negative impacts of poor governance, by demonstrating the potential benefits of improved governance and, most importantly, through action.

Support public-private-civil society collaboration as an essential tool for addressing core questions

Action is the ultimate opportunity for leadership. By consistently and publicly endorsing partnerships to address business’s support for advancing key development questions, progress on public governance is likelier to advance more quickly and thoroughly. Business can also demonstrate needed leadership by looking for opportunities to develop industry-wide collaborations for broader impact.

2. Define What It Means for Your Company

This framework will be most effective where companies shape their activities to be consistent with their core strategies, strengths and interests. Public governance is a broad topic, presenting the risk of addressing questions outside a company’s core capacity and legitimacy. Just as other aspects of a corporate responsibility or corporate global citizenship strategy must be relevant to a company’s activities, so too should this initiative. The following steps can help define a specific agenda and mode of engagement for individual companies.

Identify the opportunities for impact that are most relevant to your company

Not all aspects of this topic will apply to all companies. Some questions, such as governance and its impact on climate change and equal application of laws, are relevant to all companies. Where companies in different industry sectors have distinct areas of interest, ranging from access to water to intellectual property rights to infrastructure development, tailored strategies are best. For this agenda to resonate, companies need to focus their attention on the questions most material to their medium- to long-term interests.

Implement strategies based on your company’s areas of greatest competence

Companies that have engaged on this topic have chosen different means of engagement. Some have catalysed new partnerships and collaborations, lent technical assistance or provided support for institutional capacity building. Others have chosen to focus their efforts on advocacy or shaping formal public policy efforts on a national or intergovernmental scale. Each of these options has legitimacy and importance.

3. Make It Happen

The overall agenda of corporate engagement in society and for the environment has matured beyond an era of awareness raising to the development of actionable solutions. The same dynamic is present in addressing public governance.

Make public governance an element of all corporate global citizenship activities

Few topics on the corporate global citizenship agenda are without a public governance dimension. Companies will make real progress by establishing the practice of assessing what the governance issue is and how they can integrate a public governance dimension into the solutions they develop. This can mean looking at the opportunity to bring public entities into the discussion of solutions, identifying multistakeholder opportunities to address key questions or considering how to transition innovative efforts to sustainable models invoking public-private collaboration under clear governance models.

Align government affairs and corporate global citizenship activities in support of essential business strategy

While traditional government affairs activities and effective public governance are not identical concepts, they overlap. Sometimes the agendas for these two activities are developed in isolation, or may even conflict. Companies can contribute to effective public governance by seeking greater alignment between their corporate global citizenship efforts and government affairs initiatives.

Set goals, measure performance and review progress

As with all business activities, measuring progress is essential. While measuring contributions to effective public governance can be challenging, opportunities to do so include:

- 1) Setting a goal of including a public governance element in all their critical corporate global citizenship initiatives
- 2) Measuring whether key initiatives result in systemic changes that include the public sector
- 3) Ensuring that all multistakeholder initiatives in which a company participates have an effective governance process established and implemented

Build industry coalitions/collaborations to address systemic issues

There are sometimes limits to what individual companies can do, and those in a given location or industry often face similar public governance challenges. One valuable way to address this is through industry collaboration. The sensitive nature of this topic is particularly well suited to progress through collaboration. Companies should look for opportunities to leverage their influence alongside that of industry colleagues, those with common interests in particular issues and others working in geographic clusters.

4. Be Transparent About It

The public nature of this topic suggests the need for transparency, which in this context has two mutually supporting pieces: reporting publicly on the company's actions and pursuing dynamic dialogue with stakeholders about efforts to promote effective governance. As with so many other aspects of successful engagement on public issues, accountability is critical.

Report publicly on progress and challenges

The growing imperative for transparency in business reporting has spawned many useful platforms for public communication on this issue. Companies can demonstrate their commitment to improving governance by including information about their efforts in their sustainability reports, and including measurements of progress and shortcomings.

Engage in dialogue with the public sector and civil society on how to address barriers and increase positive impacts

Business actions to promote effective governance are likely to be strengthened by collaborative action with other institutions knowledgeable about the topic. As with many elements of the debate around business's engagement in society, business has much to learn from institutions with perspectives different than its own. Interaction on key dilemmas will likely unlock unforeseen opportunities to develop innovative solutions with complementary partners who will make such efforts more effective.

We encourage companies to undertake efforts to implement the steps outlined here, and look for opportunities to widen the circle of companies seeking to make progress on this critical issue. We commit to reporting annually on our efforts to implement the steps described here, and to identifying barriers to progress and opportunities to address those barriers.

Additional Resources

- *Doing Business*, The World Bank Group, <http://www.doingbusiness.org/>
- Global Governance Initiative, World Economic Forum, <http://www.weforum.org/globalgovernance>
- Nelson, Jane, "A Responsibility for Government – How Far Should Companies Go?", in *Whose Responsibility? The Role of Business in Delivering Social and Economic Change*, ed. Amanda Jordan and Amy Lunt. Smith Institute, 2006.
- Nelson, Jane, *The Public Role of Private Enterprise: Risks, Opportunities and New Models of Engagement*, CSR Initiative, Harvard University.
- *Partnering for Success*, CSR Initiative, Harvard University and International Business Leaders Forum, and World Economic Forum Global Corporate Citizenship Initiative, <http://www.weforum.org/pdf/ppp.pdf>
- Schwab, Klaus, "Global Corporate Leadership: Working with Governments and Civil Society", *Foreign Affairs*, 2008.
- *The Global Competitiveness Report 2007-2008*, World Economic Forum, <http://www.weforum.org/gcr>
- Zadek, Simon, *The Civil Corporation*, Earthscan, 2007.

¹ *Global Corporate Citizenship: The Leadership Challenge for CEOs and Boards*, World Economic Forum in partnership with The International Business Leaders Forum, 2002

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You can also find more information about the World
Economic Forum's engagement on corporate global
citizenship at www.weforum.org.

The **World Economic Forum's** public-private partnership initiatives engage leading business, government and civil society partners in collaborative efforts to improve the state of the world through joint action and dialogue. Senior executives of these diverse institutions drive structured project activities, interactive discussion, and cutting-edge research and analysis to generate new insights, build partnerships and catalyse action. Initiatives are facilitated by Forum staff teams with a breadth of sectoral and regional expertise. www.weforum.org

Business for Social Responsibility (BSR) is a not-for-profit business membership organization that helps its 250 member companies integrate social and environmental matters into their strategies and operations. BSR serves its member companies through consulting, research, convenings, and collaborative action. Headquartered in San Francisco with offices in Paris, Beijing, Guangzhou, Hong Kong and New York, BSR works with companies and stakeholders to create a more just and sustainable global economy. <http://www.bsr.org>

AccountAbility is an international non-profit, membership organization established in 1995 to promote accountability innovations that advance responsible practices of business, government, civil society and other institutions. Its 200 members include businesses, service providers, non-governmental organizations and research bodies; they elect AccountAbility's international Council, which includes representatives from all five continents. AccountAbility has developed the AA1000 Sustainability Assurance and Stakeholder Engagement Standards, as well as leading-edge research on the governance and accountability of partnerships and links between responsible business practices and the competitiveness of nations. AccountAbility works with its members to help them build alignment between corporate responsibility and business strategy by advancing joint learning and development of analytic tools. www.accountability21.net

The **International Business Leaders Forum** works with business, government and civil society to enhance the contribution that companies can make to sustainable development. Founded by H.R.H. The Prince of Wales, it is an independent, not-for-profit organization currently supported by over 100 of the world's leading businesses. www.iblf.org

The **Corporate Social Responsibility Initiative of the Kennedy School of Government, Harvard University** is a multi-disciplinary and multistakeholder programme that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility and public policy, with a focus on the role of business and new types of partnership between companies, governments and civil society organizations in addressing global development challenges. Founded in 2004, the Initiative undertakes research, education and outreach activities that aim to bridge theory and practice, build leadership skills and support constructive dialogue and collaboration among different sectors. <http://www.ksg.harvard.edu/m-rcbg/CSRI>



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