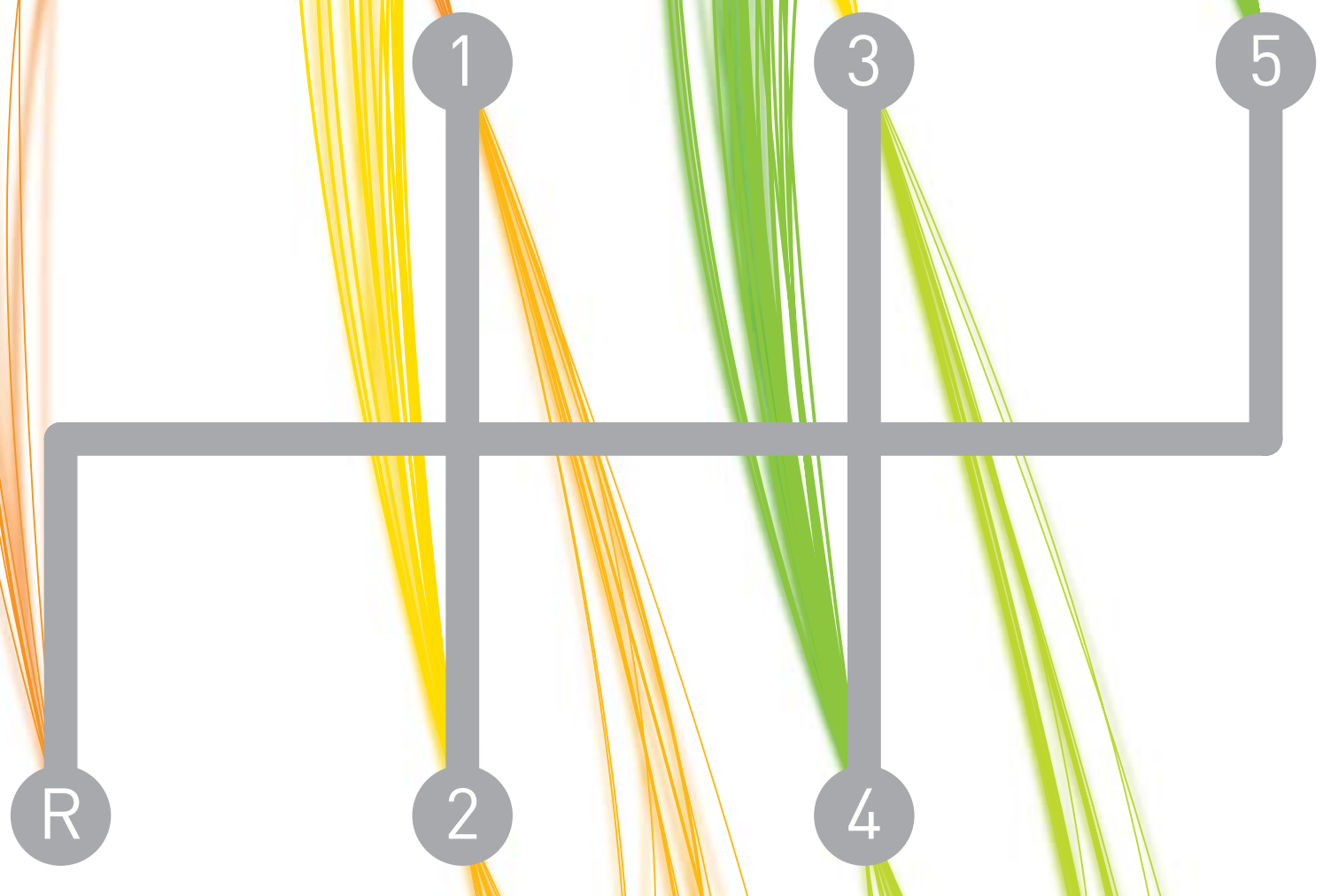


Gearing Up

From corporate responsibility to good governance and scalable solutions



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The Millennium Development Goals

A key aim of *Gearing Up* is to make the link between corporate responsibility initiatives and wider sustainable development challenges. In this context, it may be helpful to consider the Millennium Development Goals (MDGs).⁰¹ The MDGs, which form part of the Secretary General's road map towards the implementation of the United Nations Millennium Declaration, are a summary of the development goals agreed at international conferences during the 1990s.

While achieving the MDGs would not guarantee 'sustainable development', they do remind us that there is at least some consensus at the global level on the need to achieve greater progress on fundamental challenges. So, for example, by 2015 all 191 UN Member States have pledged to meet eight goals.⁰²

The obvious question is what does all this mean for companies and business coalitions? An insightful, user-friendly analysis can be found in the report *Business and the Millennium Development Goals* by the United Nations Development Programme (UNDP) and the International Business Leaders Forum (IBLF).⁰³ *Gearing Up* aims to provide guidance on how corporate responsibility efforts can be scaled up to make a meaningful contribution to achieving these goals.

- 1 Eradicate extreme poverty and hunger:** Cut by half both the proportion of people living on less than a dollar a day and the proportion who suffer from hunger.
- 2 Achieve universal primary education:** Ensure that all boys and girls complete a full course of primary education.
- 3 Promote gender equality and empower women:** Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015.
- 4 Reduce child mortality:** Reduce by two-thirds the mortality rate among children under five.
- 5 Improve maternal health:** Reduce by three-quarters the maternal mortality ratio.
- 6 Combat HIV/AIDS, malaria and other diseases:** Halt and begin to reverse the spread of HIV/AIDS and reverse the incidence of malaria and other major diseases.
- 7 Ensure environmental sustainability:** Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources; reduce by half the proportion of people without sustainable access to safe drinking water; and achieve significant improvement in the lives of at least 100 million slum dwellers by 2020.
- 8 Develop a global partnership for development:** The biggest section by far, covering such developing country issues as tariff and quota reduction in export markets, enhanced debt relief and access to affordable essential drugs in developing countries.



Novartis



Pfizer



SAP



DaimlerChrysler



Novo Nordisk

SustainAbility Foreword

A question which taxes historians is 'What if?' Theodore Rabb, for example, asks what might have happened to America's political culture if the *Mayflower* had never sailed – and the critically important 'Mayflower Compact' never been signed.⁶⁴ Who knows, but in the same spirit:

- Q Are voluntary initiatives like the Global Compact likely to make a significant difference to the world?**
- A Not if they continue to operate in isolation of mainstream governance systems.**

But UN Secretary-General Kofi Annan and the Global Compact team *are* creating a nexus of thinking and potential action that *could* help catalyze a profound transformation of global governance. The key challenge for business – and for governments – is now to work out how to drive the current generation of responses to such challenges as climate change, HIV/AIDS and corruption to the necessary scale. To do that, they will need to change gear. If they can do so, we believe that 2020's answer to the Global Compact 'What If?' question will be very different.

This project has been one of the most interesting and challenging in SustainAbility's own short history. Founded in 1987, we have focused on achieving sustainable development with business, through markets. But since the mid-1990s we have also signaled a new era emerging, with governments – or more accurately governance – moving to center stage.

Our thanks to Georg Kell and to Gavin Power of the Global Compact for asking us to launch this project and for their help in shaping it. It would have been impossible without the generous support of our primary sponsors: Novartis, Pfizer and SAP and our other corporate supporters, DaimlerChrysler and Novo Nordisk.

Our Steering Group (Susan Aaronson, Kenan Institute; Jermyn Brooks, Transparency International; André Fourie, National Business Initiative; Michael Massey, UK Department of Trade and Industry; Kenneth Ruffing; and Achim Steiner, IUCN) usefully challenged our thinking, as did Professor John Ruggie and Jane Nelson of Harvard's CSR Initiative. That said, the resulting report is very much our own responsibility. Other acknowledgements can be found at the end of the report, but we particularly thank the SustainAbility team for their support, Shelly Fennell for the Executive Summary, Dr Alois Flatz for helping make the 'business case' (page 05), Joy Sever of Harris Interactive for her work on the Millennium Development Goals (page 13) and Rupert Bassett for his design.

Seb Beloe
John Elkington
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 SustainAbility

Global Compact Foreword

Voluntary initiatives such as the Global Compact seek to fill voids. They respond to demands and needs that governments are either unwilling or unable to meet.

Complementing state-driven activities, voluntary initiatives rely on private motivation – engaging actors who traditionally have not aligned their strategies with the goals of the international community. Their flexibility and innovation can deliver significant positive change with a minimum of resources. And, as innovative experiments in cooperation, they can chart new ways of solving old and new problems.

However, for voluntary initiatives to succeed, demonstrating impact is only a necessary precondition. Over time, they need to legitimize how they affect the changing relationship between public and private responsibilities. And, more importantly, they need to show that they have the potential to tackle root causes of the challenges they seek to address.

As many global partnerships and other private initiatives are now maturing from an initial phase of experimentation, the issue of whether and under what conditions private-led initiatives can help bring about lasting and systemic improvement is of central importance. It is not only about scaling up good micro solutions so that good practices are more than one-time efforts that produce improvements within a small confine. It is also about learning how to work together. And above all it is about identifying the leverage points where private actions can stimulate positive public policy responses and vice versa – where good policy incentives can augment promising solutions.

The question of whether good corporate practices can indeed bring about lasting improvements is of particular importance to the extent that government/governance failures are in many instances the root cause of many of the challenges we face today.

As the emerging relationship between private and public actors is charting new courses, the search for viable answers to these questions is bound to be controversial. Yet, we must find answers to these questions if voluntary initiatives are to be more than temporary responses to unmet demands and needs.

We asked SustainAbility to analyze this question because we believe that a broader debate will be required to find viable answers. This study is not meant to be a scientific analysis. Rather, it is meant to provoke a timely debate and to motivate actions. We very much hope that the study will succeed on both counts.

Georg Kell
 Executive Head
 Global Compact Office



Seb Beloe



John Elkington



Kavita Prakash-Mani



Jodie Thorpe



Peter Zollinger



Georg Kell

Executive Summary

Despite achieving impressive momentum, the corporate responsibility (CR) movement is bumping up against real limits. Most company initiatives are too peripheral from core businesses, too isolated from one another, and too disconnected from wider systems to make much of a collective impact. To reach its full potential, the movement must shift gear. Specifically, companies must address the fundamental questions of how to achieve the necessary scale in their responses to global problems and how to help catalyze the development of more effective global governance frameworks.⁰⁵

Scorecards on our case study issues are equally worrying. Globally, absolute CO₂ emissions have increased 8.9% since 1990, compared with the 60% reduction the Intergovernmental Panel on Climate Change has called for by mid-century. In the poorest countries, less than 10% of the six million people who need anti-retroviral medicines currently get them. Chronic disease, such as diabetes, is rapidly emerging as a global pandemic and corruption is proving an intractable challenge. In short, the combined actions of governments, business and civil society to address sustainable development issues are being outpaced by the problems.

The project

In October 2003, the UN Global Compact asked SustainAbility to evaluate the extent to which CR initiatives are helping drive the transition to more sustainable forms of development.⁰⁶ In particular, we were asked to consider whether good corporate performance can act as a stimulus to bring about the governance improvements that will be necessary to address the sort of challenges spotlighted in the UN's Millennium Development Goals (MDGs).⁰⁷ In our case studies, we focus on climate change, corruption and health, in the form of HIV/AIDS and chronic diseases.

To produce *Gearing Up*, we convened a steering group; interviewed CR leaders across business, government and civil society; tested public attitudes toward the MDGs through an opinion poll; reviewed corporate best practice and analyzed case studies of business.

Hitting the limits

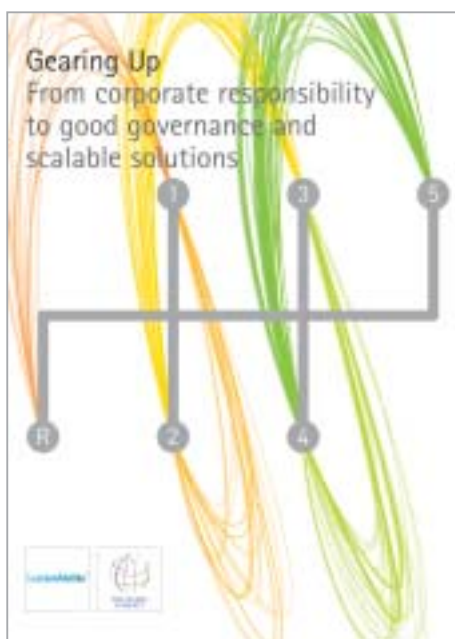
As usual, there is both good news and bad. The good news is that many CR initiatives are evolving in the right direction, with a growing variety of companies acknowledging a wider range of stakeholders and acting on an increasing number of key issues. The bad news is that most such initiatives still sit at a distance from the company's core business activities, disengaged from long-term strategy. As a result, even leading companies pursue disjointed and at times conflicting activities, for example lobbying for lower social and environmental standards.

The CR and wider sustainability debates are now entering a new, more challenging phase. We plot the evolution of the agenda in **Waves** (pages 14–15). If the **Wave 1** (1969–1987) agenda focused on government policy and regulation and the **Wave 2** (1988–1998) agenda on markets, the **Wave 3** (1999–ongoing) agenda will build out from these earlier waves to address a range of governance and scaling issues linked to responsible globalization (see Chapter 6).

How are we doing?

Despite high-level buy-in to both the priorities and targets of the MDGs, there seems to be growing pessimism about our ability to achieve them within the agreed timescale. For example, the Global Governance Initiative, hosted by the World Economic Forum, has concluded that – at best – collective global efforts towards goals like the MDGs are 30–40% of the effort necessary to achieve them.⁰⁸

Largely a product of the post-Wave 2 era, the CR movement has often evolved in the context of weak – or weakening – government leadership. It has made real progress, but is constrained by a lack of appropriate links to wider global, regional and national governance frameworks.



Equally, few companies have so far sought to create CR-related market opportunities, to evolve relevant new business models or to encourage government policy development and action in line with their stated CR goals.

In effect, the current approach to CR may be reaching its system limits. While a small but growing number of bold and visionary companies have made considerable strides and are to be commended for their achievements, their numbers will remain small as long as the business case for getting in front of the corporate pack remains weak.

So government involvement is going to be crucial. Critically, as some of our respondents noted, and a point we firmly endorse, the challenge is not to get companies to take on the responsibilities of governments but to help ensure governments fulfill their own responsibilities. Our case studies all underscore the crucial roles that governments must play, setting the course, developing incentives and generally helping to create a stronger business case.

Breaking through

In the full report we assess examples of private sector leadership in preparing the ground for public policy responses, drawing lessons on how CR efforts can be scaled up and distilling our recommendations for business through a **Corporate Responsibility Gearbox** (pages 34–36).

Shifting into 'top gear', companies need to foster progressive alliances with other business actors, civil society organizations and — above all — governments. The aim: to help scale up CR by linking into system-level change, particularly in governance frameworks. At the macro level, this will involve championing more responsible and sustainable forms of globalization through processes led by agencies like the World Trade Organization (WTO) or, regionally, through market frameworks like the European Union or the North American Free Trade Agreement.

At the micro level, leading companies are building out from purely corporate and supply chain initiatives to co-evolve responses like the California Climate Action Registry (page 22), the Extractive Industries Transparency Initiative (page 28) or Oxford Vision 2020 (page 26).

Our recommendations will likely prove uncomfortable for those who fear greater government control over business and for those uneasy with greater business influence over governments.

To the first group, we would say that stronger government policies in these areas are necessary and probably inevitable. The real issue is how we can make them more effective, consistent and predictable. Some companies, indeed, already view CR-related public policy as a driver of long-term competitive advantage. To the second group, we would say that while concerns over undue corporate influence on policy cannot be dismissed, there is a growing need for companies to speak out in favor of policies that deal proactively with CR and wider sustainable development issues. However, to be seen as legitimate participants, companies will need to demonstrate significantly greater consistency and transparency across their public policy activities while simultaneously working more closely with civil society organizations on shared policy goals.

It is not clear that a role for companies in changing governance structures either at the micro or macro level would have been possible or even desirable until relatively recently. But the growing focus on 'responsible globalization' — and the linked acceptance (and experience) of collaborations between government, business and civil society — are opening a window of opportunity. And there are compelling, near-term and tangible business reasons for action, including helping to prevent the unfolding backlash against globalization and to reverse the recent erosion of trust.

Compact challenge

The Global Compact is well placed to help business open out this window of opportunity. But to do so, it must address reputational issues of its own. The new focus on governance means that such voluntary initiatives will be held to higher levels of transparency and accountability. As the stakes rise, external stakeholders will be increasingly concerned to ensure that voluntary initiatives do not serve as camouflage or alibis for participants.

The Compact is introducing new integrity measures to address the issue of 'free riders' among its participants. For example, there is now a requirement that signatory companies regularly communicate their progress in implementing the Global Compact's principles. Those failing to do so will be de-listed. And the Global Compact Office is also working on establishing even more robust safeguards and governance frameworks.

We strongly endorse this new direction. We also very much welcome the introduction of the tenth principle on corruption. That said, we offer a number of additional suggestions for the Global Compact in *Gearing Up*. So, for example, we recommend that all signatory companies regularly and rigorously review their actions for consistency with both the letter and the spirit of the Global Compact principles.

To this end, we propose the **Global Compact Challenge for Participants** (page 37), which we hope a growing number of signatories will use to test and expand the commitment of their boards. The ultimate outcome should be an evolution in CR, leading to higher levels of trust in society and more effective governance to address sustainable development goals.

1

Introduction

Nature of the challenge

1.1 The challenge

Just as history repeats itself, so does human thought. 'Governance', by no means a new concept, became a buzzword in the 1990s. 'Corporate' governance rose up the agenda in 1992, particularly following the publication of the Cadbury Report in the UK.⁹ That same year, the World Bank released *Governance and Development*, making the case that weak governance lay behind the poor progress of development efforts to date.¹⁰ A decade later the spotlight has opened out, with those seeking 'responsible globalization' now calling for meaningful 'global governance'.

SustainAbility has been dealing with such issues for some time, in the course of work with business, international government agencies and non-governmental organizations (NGOs). So when, in October 2003, the Global Compact asked us to help with a project at the heart of the global governance debate, we were cautiously enthusiastic – the caution reflecting our recognition of just how complex some of these issues can be.

In what follows, we make extensive use of the term 'corporate responsibility' (or CR). By this we mean an approach to business that embodies transparency and ethical behavior, respect for stakeholder groups and a commitment to add economic, social and environmental value.¹¹ (See 'Jargon Watch' on page 38 for a glossary of terms.) Two premises create the central paradox we address in *Gearing Up*:

- First, that the voluntary CR movement has evolved as a pragmatic response to pressing needs. Companies are being asked to address problems and contribute to solutions (even deliver public goods) because governments have been unable or unwilling to do enough.¹²
- Second, because of the weakness or absence of appropriate governance systems, CR initiatives are generally disconnected from wider frameworks.

As a result, they risk being little more than drops in the ocean when compared with the scale of the challenges. At worst, they may even undermine long-term solutions by deflecting attention from the root problems.

Given these premises, this study focuses on three questions:

- Does CR have the capacity to deliver real progress towards sustainable development?
- Where do governments fit in the CR puzzle?
- Can business play a constructive role in governance by preparing the ground for the necessary public policy changes?

Here – and throughout the report – we use the word 'governance' to refer to mechanisms, processes and institutions which set the 'rules of the game' for societies at the domestic or global levels. Ann Florini, who heads the Global Governance Initiative of the World Economic Forum, compares governance to a computer operating system: 'Just as operating systems set the parameters within which computers function,' she says, 'governance systems set the parameters within which societies function. At the global level, however, the operating software is still in the beta-test stage of an early version – not able to do much, and with plenty of bugs still in the code.'¹³

Governments are a fundamental component of governance, but increasingly non-state actors from business and civil society are seen to play key roles. Our challenge has been to explore how business, through its evolving CR initiatives, can play a constructive and legitimate role in governance, thereby contributing to the 'systemic change' – change at the level of public policies and frameworks – necessary to achieve substantial progress on sustainable development. We conclude with a challenge for the Global Compact, its signatories and other CR leaders.

'The global system is indifferent to good or bad behavior. And, post-Cancún, the trade agenda is headed nowhere. The buck needs to land in the right place: we need to name and shame governments. We must also create coalitions to tackle issues like agricultural subsidies. Governments, NGOs, business and academics must work together – but for this to happen we need to defuse the mutual suspicion.'

Professor Jean-Pierre Lehmann
IMD and The Evian Group
Switzerland

'Although it is the Government's responsibility to provide public goods, this does not always happen simply because of the sheer magnitude [of the challenge]. Sometimes companies do raise questions about appropriate boundaries, but today the debate is less about public vs. private – it is accepted that companies should supplement the Government's efforts to bring about all-round development.'

Sushanta Sen
Confederation of Indian Industry
India

Panel 1.1
Costs of failure

Markets have been successful in evolving efficient solutions in many areas. To understand why, we need to get a bit technical.¹⁴ The main driver for efficiency is the desire of market players to create excess returns over cost in a competitive environment. Cost is determined primarily by the cost of business operations, as well as the cost of capital based on real interest rates, inflation and risk premiums. In the case of a company, the equity risk premium (ERP) is the premium over risk-free returns, usually measured by the real bond yield,¹⁵ that must be earned to compensate for the greater risk of equity.

Risk premium fluctuations impact the economic cycle much like changes in interest rates, yet the ERP is unobservable and difficult to quantify. The 10-year ERP of the STOXX 50 companies¹⁶ is thought to be about 2 to 2.5%. Throughout the 1990s, the economy benefited from the peace dividends that followed the end of the Cold War.

Since 2000, however, there has been a dramatic increase in ERP, peaking in the first quarter of 2003 at the beginning of the Iraq War at 5.5% — an increase of around 3% against the 10-year average (Figure 1.1).

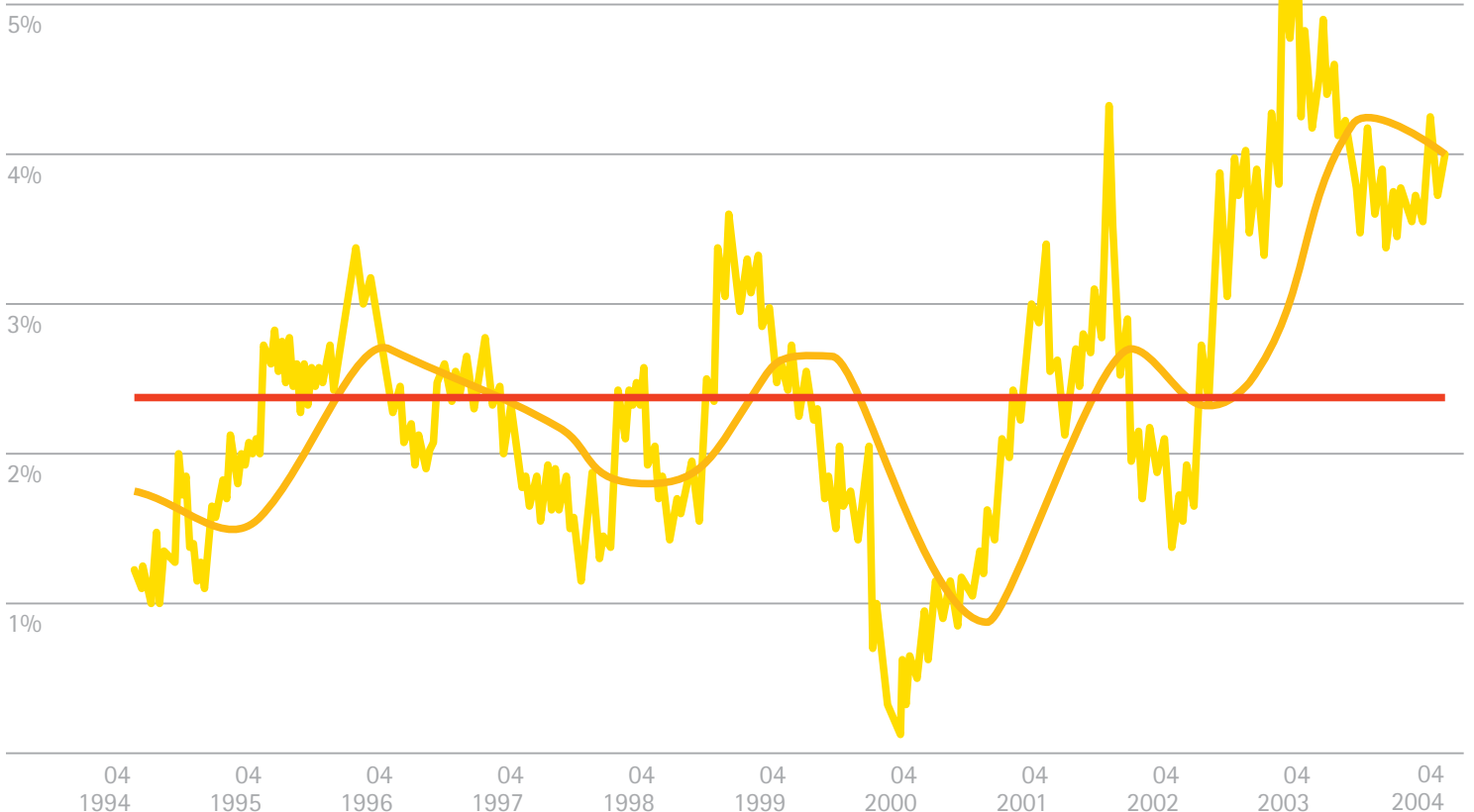
Several external shocks contributed to the historically high ERP. Corporate scandals rocked confidence and trust in the economy. This trend was aggravated by increasing social tensions and the fight against global terrorism. And during the 1990s the cost of ecological disasters reached US\$670 billion, three times up on the 1980s figure.¹⁷ Although it is difficult to quantify the effect of external shocks, intuitively there is a relationship. As the chart shows, such external disruptions have immediate impacts on the risk premium with a dramatic increase in its volatility, making clear investment decisions even more difficult.

As growing numbers of investors search for 'safe havens' like government bonds or even precious metals, the required ERP continues to grow. Reversing this trend to stimulate long-term economic development will require policy frameworks to ensure low equity risk premiums over time. And this, in turn, will require action to tackle the root causes of falling trust levels and, even more challenging, ecological disasters, social tensions and terrorism.

Figure 1.1
Rising equity risk premium
Equity risk premium (ERP) over time compared to 10-year average and rolling 12-month average.

ERP
12-month average
10-year average

Source: WestLB Equity Markets (on basis of STOXX 50, 10-year government bond yield).



1.2

The market – and beyond

We acknowledge that this assessment may prove disquieting both for those who would like to see less business influence over governments and for those who would like less government control of business. But the messages in this report are in no way a recommendation that business should take over government functions, nor do they undermine our continuing support for:

- Markets;
- Establishing (and accepting) boundaries to corporate responsibility;
- More effective governance, which requires both greater government responsibility and effectiveness, and a clear, responsible role for civil society.

Society and business both need strong, healthy governments. While markets have proved to be enormously successful in many areas, they are notoriously subject to periods of irrational exuberance – and irrational gloom. They often fail to take proper account of externalities like end-of-life product waste and climate change, or the negative social effects of globalization. And to date they have been unable to recognize and reward wider definitions of success adequately.

The CR movement has focused on encouraging companies to measure, manage and mitigate negative environmental and social impacts, and to maximize positive impacts. However, we conclude that, despite good intentions, the various voluntary initiatives which claim to contribute to sustainable development do not have the capacity to achieve critical mass at the pace likely to be required. The problems, in short, are likely to race ahead of the current generation of responses.

This is not surprising, given the fact that most voluntary initiatives were largely designed as free-standing initiatives aimed at dealing with specific challenges as they related to particular corporations.

Gearing Up looks at how corporate responsibility initiatives can scale up their impact by linking to governance frameworks. In addition to the case studies in Chapter 5, examples of these types of initiatives appear in boxes like this one throughout the report.

By contrast, resolving major sustainable development challenges of the sort outlined in Chapter 2 will require more concerted action from all sectors of society. Slow progress on the Kyoto Protocol, the limited political traction achieved by 2002's World Summit on Sustainable Development, and the difficulties of the Doha Round of trade talks all underscore the complexity of the challenges we face. Yet the costs of failure, most of our respondents acknowledged, will be enormous.

The cost to business will probably include a further weakening of societal trust, injecting growing friction into companies' operating environment. In addition to business disruptions and quantifiable financial costs (see Panel 1.1), the results are likely to include ever-rising demands on business to contribute to environmental and social equity. Yet, as trust continues to erode, the private sector's ability to engage in governance debates successfully – and to define where the justifiable and necessary boundaries of CR lie – will be further undermined.

Clearly, the world we are attempting to describe is complex. None of the key actors we refer to – business, government or civil society – are homogeneous. And their specific contexts and challenges change at the global, national, regional and local levels. Our aim, however, is to sketch a path through this maze while acknowledging that there are few, if any, 'one size fits all' solutions.

While the messages in *Gearing Up* are aimed towards larger national and global organizations, real progress will clearly require implementation by those at the local and grassroots levels. Governments can help provide these connections. We also hope to encourage local organizations to challenge – and, where appropriate, translate our messages in ways that are meaningful in different institutional and cultural contexts.

1.3

Methodology and report structure

The *Gearing Up* project was informed by a mixture of desk research, interviews, surveys and case studies, and guided by a steering group. The case studies, which focus on climate change, health (which we take in two parts, HIV/AIDS and chronic illnesses like type 2 diabetes) and corruption, form the report's backbone. The focus on these three areas does not imply that they are the most critical issues we face, although all are important and involve significant scalability issues. Instead, they were chosen as areas where CR initiatives seem to be building momentum, which could help us explore the role of business leadership in preparing the ground for wider policy change.

To provide context, we begin by considering the strengths and weaknesses of the current generation of CR initiatives in Chapter 2 and explore the evolving agenda (particularly the growing focus on systemic issues) in Chapter 3. Then we consider future opportunities in Chapter 4, focus on four case studies in Chapter 5, extract some key lessons in terms of 'scalability' and systemic change in Chapter 6, and offer our conclusions and recommendations in Chapter 7.

We end with a vision which takes a step beyond our original brief to consider what the Global Compact might evolve into. To bring these trends and perspectives to life, we quote some of the thought-leaders and practitioners that we interviewed or otherwise engaged for this project.

Panel 1.2 From red to green

Low levels of trust and other forms of social capital result in high-friction markets and business environments. To give some sense of the dynamics, we now consider two fictitious countries. Both are caricatures but are intended to illustrate how low levels of trust between governments, civil society organizations and business make the notion of shared governance untenable.

Country A

- Government sees its resources squeezed and pleads poverty, lack of public support or competition between nations or world regions as an excuse for inaction on global challenges. The privatization push of the 1980s has resulted in the government withdrawing from the direct provision of many public goods and services, although it maintains regulatory oversight.
- NGOs, meanwhile, attack both business and government for the failure to achieve greater progress. Business lobbying and campaign finance are blamed for 'regulatory capture' and for slow government progress on implementing international treaties for sustainable development. The 'revolving door' between business, industry association and government positions fuels suspicions that business is government.
- Business sees little evidence of joined-up governance, arguing that government needs to undergo the same sort of process re-engineering that companies went through in the 1980s. NGOs are still often regarded as little more than agitators.

Country B

- Government is relatively new to democracy and economic liberalization. Good intentions are often frustrated by weak institutions and the lack of experience and resources – and constrained by global imperatives and foreign agendas. Problems of bribery and corruption lead to major inefficiencies, significantly undermining development.
- Civil society is vibrant at the grassroots level but weak nationally, with limited access to – and major distrust of – the real centers of power in the public and private sectors. The globalization of American-style capitalism is seen as a fundamental part of the problem.
- Business feels undermined by bureaucracy, corruption, lack of policy stability and government accountability, economic uncertainty, currency crises and regional instability. Those competing at the global level complain of a particularly uneven 'playing field'.

These high friction worlds are represented by the red triangle in Figure 1.2. In this red scenario, low levels of trust increase friction in the system, with different sectors fighting (or 'scapegoating') each other. Worryingly, there is often a 'first mover disadvantage' in which pioneering companies or politicians risk low rewards coupled with damaging attacks from all sides.

By contrast, in a high trust, lower friction world represented by the green circle in Figure 1.3, there is collaboration between all three sectors. While retaining their independence and a certain level of healthy friction, the sectors work together to create a vision, agree milestones and innovate. There is clear leadership. In the green scenario, governments orchestrate priorities and marshal resources, NGOs attack bad companies and work with good ones, and business learns to think and act long term. With its potential to move relatively fast and on a significant scale, the private sector is increasingly attractive as a change agent.

Interestingly, most of those we spoke to were confident that high trust, low friction conditions could be achieved, at least in democratic societies. 'There is still a lot of denial, no doubt,' says Dr R K Pachauri, head of The Energy Research Institute (TERI) in India and Chairman of the Intergovernmental Panel on Climate Change, 'but in a democracy citizens are smart enough to change direction when they feel that the change of direction will be in their interest.' In the green scenario, all sectors work together to mobilize the public. In the simplest terms, Chapters 2 through 7 begin to test the ability of current CR initiatives to switch the lights from red to green.

Figure 1.2
Red triangle

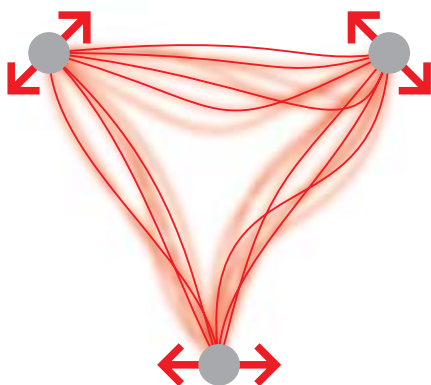
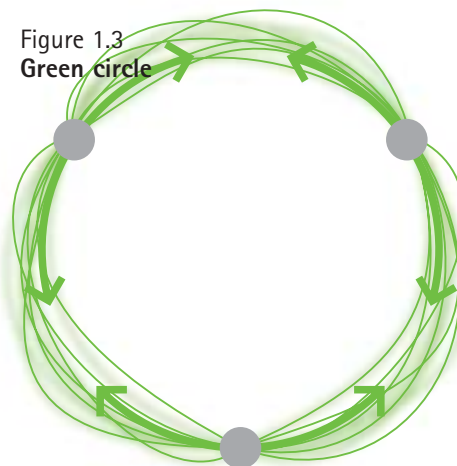


Figure 1.3
Green circle



2 End of the Beginning? CR: necessary, but not sufficient

2.1 Progress report

Before exploring the role of business and business-led CR initiatives in systemic change (Chapters 4–6), we first sketch out where we are now – and how we got here. This chapter considers CR efforts to date; the next one looks at the wider context.

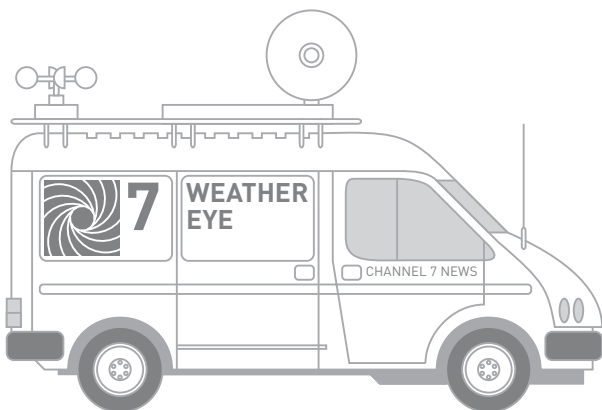
To begin on a positive note, there have been significant changes in the way business views corporate responsibility. From the defensive stances adopted by most companies in the heyday of government-driven responses to environmental challenges, or the paternalistic social projects more common in the developing world, leading companies have begun to explore new ways forward with an expanding range of external stakeholders. In the process, we have seen:

- **Growing acknowledgement of the legitimate (crucial) role of companies.** While there remain skeptics, there is an emerging consensus among civil society, government and business that far-sighted companies can play an important role in developing and implementing sustainable development solutions.
- **Acknowledgement by companies of a wider range of stakeholders.** In addition to the 'traditional' stakeholders that companies have long acknowledged a need to engage – particularly shareholders and regulators – there is a growing consensus on the importance of other stakeholders. These include employees, customers and trade associations, as well as NGOs, community groups and even 'the environment' or 'future generations'.

- **Involvement of a significant number of leading companies.** Among the more obvious examples: more than 1,400 companies participate in the Global Compact, with 50% from developing countries, and over 400 companies now use part or all of the Global Reporting Initiative (GRI) guidelines to report on their social and environmental performance.
- **A clearer understanding of the business case (and its limits).** The current 'business case' has real limits in driving CR 'to scale'. But the extent of the business case for CR, and the links with investment value drivers such as reputation, risk management, corporate governance and management quality, are increasingly recognized by business, government and the financial community.

That said, and while these have been significant achievements, they say nothing about progress on global goals like the MDGs (inside front cover). To test progress, let's consider the four major challenges represented in our case studies (Chapter 5) – climate change, corruption and two aspects of the health agenda: HIV/AIDS and chronic illness like type 2 diabetes.

For each issue, we consider responses relevant to the CR agenda (at the levels of major instruments, business, governments and multilaterals, and civil society) and progress. Our aim here is not to provide a comprehensive analysis, which has been undertaken by the Global Governance Initiative,¹⁸ for example. Nor is it to detract from the efforts of the few bold, visionary companies that have made great strides in CR. Rather it is to sketch out the types and levels of current CR responses in the context of the scale of the challenges. The focus is mainly on business and our conclusion, in the simplest terms, is that 'CR is not enough.'



Business Trust

The Business Trust is an initiative of 145 companies working in partnership with government in South Africa. In one project aimed at job creation, for example, companies from different sectors helped develop an international tourism marketing campaign to facilitate industry development.
www.btrust.org.za

2.2

Climate change

The Intergovernmental Panel on Climate Change (IPCC) concluded that, 'An increasing body of observations gives a collective picture of a warming world and other changes in the climate system . . . caused primarily by the addition of large amounts of heat-trapping gases from the use of fossil fuels (e.g. coal, oil and gas) as sources of energy.'¹⁹

Without reductions in greenhouse gas (GHG) emissions of approximately 60% from 1990 levels, the IPCC argues, the world is likely to experience drastic changes in weather and natural systems, affecting virtually every aspect of life. Some go further. A scenarios project commissioned by the Pentagon concludes that if abrupt climate change takes place, 'disruption and conflict will be endemic [and] . . . once again, warfare would define human life.'²⁰

How are we responding?**Major instruments**

- 1992 UN Framework Convention on Climate Change
- 1997 Kyoto Protocol
- 1997 OECD Guidelines for Multinational Enterprises (revised in 2000) via reference to precautionary approach
- 2000 Global Compact via reference to precautionary approach

To date, however, the failure of Australia and the US to ratify the Kyoto Protocol means that such international efforts lack real political and economic bite.

Business

Most business-led initiatives focus on management and developing the technical means to cut GHG emissions. Examples:

- Internal GHG reduction targets
- Systems to help make greater reductions more cheaply, including emissions trading systems
- Low-GHG technologies

Governments and multilaterals

Governments have adopted various approaches, from promoting technological solutions (e.g. US National Climate Change Technology Initiative) through to setting reduction targets and developing policy frameworks and implementation tools to meet them. Examples:

- Over 120 countries have ratified the Kyoto Protocol.
- The EU has committed to an overall reduction of 8% in GHG emissions from 1990 levels by 2012.
- In India, energy policy initiatives cut gross carbon emissions in 2000 by over 5%.²¹
- The World Bank has launched funds to support carbon emission reduction projects.

Civil society

The current focus is on research, lobbying governments, creating risks for companies (e.g. through shareholder and legal activism²²) and developing tools for companies to address climate change.

Examples:

- Carbon Disclosure Project (involving investors, foundations and NGOs)
- Climate Action Network's lobbying activities
- Environmental Defense's Partnership for Climate Action with US companies
- World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD)'s Greenhouse Gas Protocol

In addition, a pioneering new global effort, The Climate Group,²³ brings together the experience of corporations, governments and financiers including Swiss Re, Interface, Lafarge, BP, Shell, the UK and German Governments, the City of Toronto and environmental groups such as WWF-UK. The aim is to analyze joint learning in coming up with solutions.

How is CR doing?

- Many corporations have committed to (and some have achieved) significant absolute reduction targets. Among notable examples, DuPont achieved its target of reducing emissions by 65% from 1990 levels.
- Globally, however, absolute CO₂ emissions have increased 8.9% since 1990,²⁴ compared with the 60% reduction IPCC identified as necessary by mid-century.

2.3

Health

Human health, represented by four separate MDGs, is key to sustainable development. While the world's most urgent health problems derive from communicable diseases and poverty in developing countries, chronic illnesses are becoming a major concern in both developed and developing worlds. Below, we consider progress on both communicable disease (HIV/AIDS) and chronic illness (type 2 diabetes).

2.31

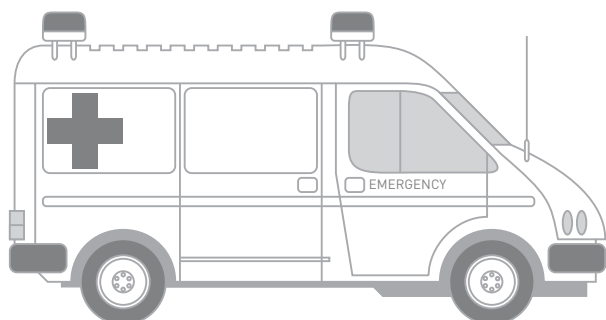
HIV/AIDS

Worldwide 40 million people are estimated to be living with HIV/AIDS, about 6% of whom are children. In 2003 there were 5 million new HIV infections, while 3 million of those living with AIDS died.²⁵ HIV/AIDS devastates societies, striking people between the ages of 18 and 45, in the prime of their working and reproductive lives. This boosts poverty, increases the numbers of homeless and orphans, and cuts agricultural and manufacturing productivity.

Although Southern Africa is the worst hit region with 12 million infected, there are already about 4 million infections in India and up to 1.5 million in China. In China, 10 million people could be infected by 2010.

'Climate change and water are coming around the corner at 100 mph, but climate in particular is becoming a proxy for the entire environment — and of our ability to change our economic system, globally.'

Peter Goldmark
Environmental Defense
USA



Other regions facing high future incidences include Indonesia, Papua New Guinea, Vietnam, several Central Asian Republics, the Baltic States and North Africa.

How are we responding?

Major instruments

1996	International Guidelines on HIV/AIDS and Human Rights
2000	Millennium Development Goals
2001	ILO Code of Practice on HIV/AIDS and the World of Work
2003	WHO/UNAIDS '3 by 5' Initiative

Business

Leading companies focus on HIV/AIDS in the workforce. Examples:

- Workplace education, prevention and care programs
- Voluntary counseling and testing
- Provision of anti-retroviral (ARV) and other AIDS-related treatment for workers

In addition, companies have run community outreach programs, including through specialist business associations that encourage company action and co-investments with governments, multilaterals and foundations.

The pharmaceutical sector, of course, is also a key actor in developing the drugs to treat AIDS. The sector has recently begun to reduce the cost of life-saving drugs in developing countries – albeit only after substantial pressure from civil society and governments.

Government and multilaterals

Government responses vary greatly. Brazil has offered free ARVs since 1991. In other countries, like South Africa, China and India, progress has been slower. In 2003 the South African Government, under intense pressure, adopted a plan to make ARVs available at public hospitals from 2004.

Aid and multilateral agencies, particularly UNAIDS and WHO, are involved in many initiatives. For example, the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria aims to attract, manage and disburse resources to fight these diseases. On the other hand, the WTO's TRIPS²⁶ agreement proved a major obstacle to the availability of affordable ARVs in developing countries – at least until recently.

Civil society

NGOs are very active both at the international and local levels, with foundations playing an increasing role. In addition to helping fill gaps in the provision of medical and welfare services, civil society has worked at the systemic level. Examples:

- The Treatment Action Campaign in South Africa has campaigned for access to affordable, quality treatment.
- NGOs have campaigned for pharmaceutical companies to cut the price of drugs for developing countries.
- The Clinton Foundation has negotiated deals with medical and pharmaceutical companies to discount crucial diagnostic tests and generic drugs.
- The Bill and Melinda Gates Foundation's Global Health Program has focused on accelerating the development and deployment of health interventions, including partnering with Merck in Botswana to develop a national HIV/AIDS plan.

How are we doing?

- Some leading companies offer workplace HIV/AIDS plans. Daimler-Chrysler South Africa, for example, launched a program in 2001 to provide care, monitoring and ARV treatment, with insurance benefit to cover employees and their families: a total of 23,000 people.²⁷
- Even so, in the world's poorest nations less than 10% of the six million people who need ARVs currently get them.²⁸

2.32

Type 2 diabetes and related chronic illnesses

Type 2 diabetes²⁹ is often described as a 'sentinel' disease, in that it signals the existence of a cluster of other chronic conditions – including obesity, cardiovascular diseases and hypertension. Currently, 171 million people suffer from type 2 diabetes around the world – and this is expected to more than double to 366 million by 2030.³⁰ In China alone the incidence of cardiovascular diseases has been growing by 200-300% per year. The World Health Organization (WHO) estimates that diabetes now kills more people each year than does AIDS.³¹

While traditionally seen as diseases of the developed world due to links with obesity, type 2 diabetes and the related cluster of diseases are in many ways 'diseases of development'. In other words, as developing countries advance economically, diets change, levels of smoking increase and levels of exercise will likely decrease.³² These all contribute to the increased prevalence, impact and cost of chronic diseases. There are already more diabetics living in India than in any other country in the world, with several middle-eastern countries and China also expected to become 'leaders' in the disease in the near future. Moreover, in developing countries these problems are made more pressing since the burden of mortality, morbidity and disability is more likely to fall on younger generations than in developed countries.³³

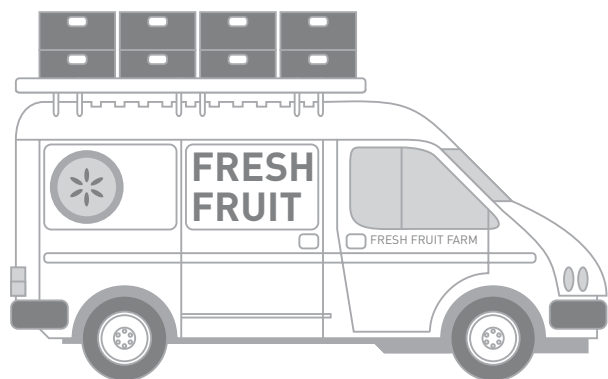
How are we responding?

Major instruments

2004	WHO's Global Strategy on Diet, Physical Activity and Health
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Business

A range of businesses have been affected by this set of problems, including food companies (product impacts), the financial community (liability and insurance costs) and the retail, entertainment and sports industries (promotion of healthy living). So far significant responses have come from:



- The food and beverage sector: McDonald's, under pressure, says it plans to phase out 'super size' fries and drinks blamed for 'supersizing' waistlines,³⁴ and introduce main course salads in Europe during 2004. Unilever has gone further, launching its 'vitality program', which includes reviewing its entire product portfolio for its influence on health – as well as looking at what the company can do to encourage 'active living'.
- The financial community: Several companies have published reports assessing the financial impact of obesity on sectors like health insurance and food and drink, including the long-term performance of the sector (focusing particularly on the effect of potential lawsuits).³⁵

Government and multilaterals

There is no government in the world that has succeeded in reducing obesity levels once they have started to rise (except during wars).³⁶ Some national governments (e.g. Brazil, Singapore, Thailand, UK) have taken steps to address the issue through public information, improvements in school food and encouraging increased physical activity. WHO, meanwhile, has issued calls for reductions in fat, salt and sugar in foods. The US Food and Drug Administration (FDA), by contrast, has chosen to limit responses to encouraging better food labeling. One of the US Health Secretary's special assistants has gone so far as to publish an attack on WHO's Global Strategy on Diet, Physical Activity and Health.³⁷ One key reason: powerful lobbying by such vested interests as the US sugar industry.³⁸

Civil society

Although civil society organizations have had a major influence – usually in a developed country context – there is a concern that potential advocacy groups, which tend to come from specialist organizations of health professionals, have still not developed into powerful promoters of prevention and control policies.³⁹ In addition, there seems to be a worrying lack of responsibility among the general public regarding the lifestyle choices that contribute to chronic illnesses.

How are we doing?

- Individual companies, particularly food and beverage companies, have begun to assess their contributions to obesity, and their potential exposure to business risks associated with the issue (catalyzed in part by the response from the financial and legal communities).
- Globally, however, the incidence and impact of type 2 diabetes and related illnesses is still growing enormously and is expected to accelerate – with 75% of the growth in the overall incidence of the disease expected to take place in developing countries over the next 25 years.

2.4

Corruption

Corruption is a complex and pervasive problem, involving the exploitation of power for personal gain. The act of corruption is generally hidden and its effects go far beyond the actual bribe paid, making the real costs hard to count. Still, the World Bank estimates the annual global cost of corruption at more than US\$1,500 billion.⁴⁰ In addition to undermining democracy and the rule of law, corruption:

- Depletes and diverts national wealth;
- Distorts competition by acting as a barrier to entry;
- Deters investment;
- Creates apathy and weakens civil society;
- Contributes to environmental degradation;
- Creates divisions that may lead to civil conflict.

The private sector may be directly implicated in corruption, through bribery, 'facilitation payments' or corporate fraud. According to a 2002 survey, 39% of companies had lost business in the previous five years because a competitor had paid a bribe.⁴¹ In addition, companies may indirectly facilitate corruption through complicity in money laundering or as the source of funds for government embezzlement, fraud and corruption.

How are we responding?

Major instruments

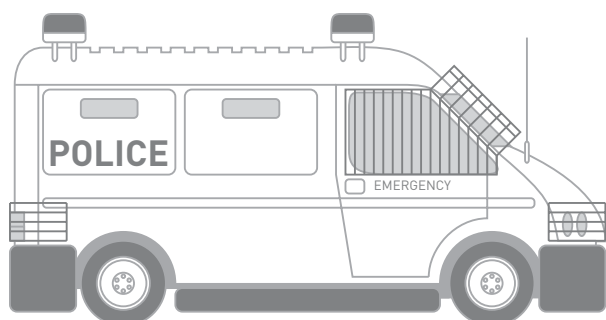
1990	Financial Action Task Force on Money Laundering
1997	OECD Anti-Bribery Convention
1997	OECD Guidelines for Multinational Enterprises (revised in 2000)
1999	OECD Principles of Corporate Governance (revised in 2004)
2000	Wolfsberg Principles
2002	Business Principles for Countering Bribery
2003	UN Convention against Corruption
2004	UN Global Compact adoption of 10th principle on corruption

Business

Where business is showing leadership, the focus is mainly on internal procedures and codes of conduct forbidding bribery and promoting transparency. Examples:

- 85% of European companies and 92% of US companies have codes of conduct – although few have consistent and effective implementation mechanisms.
- Some companies regularly publish their tax and revenue payments to governments.

In addition, some firms have supported multi-stakeholder initiatives at the international level – such as Transparency International / Social Accountability International's 'Business Principles for Countering Bribery'; and at the national level – such as the Convention on Business Integrity developed by Accenture, Cadbury Nigeria and SAP to tackle corruption in Nigeria.⁴² Parts of the investment community also support anti-corruption initiatives as a means of increasing transparency and decreasing risk.



Government and multilaterals

Governments have taken steps to address some aspects of corruption. Examples:

- Several governments have developed stronger anti-money laundering regulations.
- There has been a focus in the OECD on improving corporate governance, and on the practices of multinational companies abroad, especially since the signing of the OECD Anti-Bribery Convention.
- Some developing countries have pledged to 'clean up' the public administration – although effective action is less common.
- The Extractive Industries Transparency Initiative (EITI) has focused on aspects of corruption related to the 'resource curse'.⁴³

Civil society

Civil society organizations have played a major role in raising awareness, leading by example and putting corruption on the agenda of most developed country governments and their agencies.

The Publish What You Pay campaign, for instance, is a civil society coalition founded by eight NGOs including Global Witness, Transparency International and the Open Society Institute. It calls for oil and mining companies to publish payments to governments in resource-rich developing countries, allowing both governments and companies to be held accountable.

How are we doing?

- A growing number of corporations have anti-bribery policies – with leading companies also taking firm action. As a result of BP's zero tolerance policy on bribery, for example, 165 people were dismissed for unethical behavior and 29 contracts with third party organizations were terminated or not renewed in 2003.⁴⁴
- However, the level of corruption, while decreasing in a few countries, is increasing in others. A recent World Bank study finds evidence of an overall deterioration in the control of corruption globally.⁴⁵

2.5

Shortcomings of corporate responsibility

It is clear that some companies have made significant strides in managing important environmental and social challenges. Yet the many individual achievements of CR are collectively not enough when stacked up against the scale of the change which is needed. Some critics argue that by its very nature and chartering business is ill-suited to help drive real progress. Thus far it has been called upon to tackle governance shortcomings only because it seemed the only realistic option. In addition, the spate of corporate scandals in the US and Europe has encouraged some responses (e.g. Sarbanes-Oxley in the US, the Higgs Inquiry in the UK) to focus back on financial integrity, rather than exploring corporate roles and responsibilities in relation to a wider range of ethical, social and environmental concerns.

Even so, the question remains why the commitments of leading companies have not yet translated into more significant progress on sustainable development goals. Among the reasons we heard were: the fact that only a fraction of companies worldwide are addressing CR; a lack of a sense of urgency; the proliferation of initiatives; the lack of a clear global policy framework, contributing to a sense of ever-shifting goal posts for business; and a focus on components rather than the system. 'The CR movement forces companies into thinking "what am I doing?"' notes André Fourie of South Africa's National Business Initiative (NBI). 'They think more about what goes into their GRI report than how they connect to systemic change. Yet, ultimately, this is not about reducing CO₂ emissions by 1% but about helping build a system that reduces society's total emissions by 60%.'

These deficits have a micro and macro aspect, although both are mutually reinforcing. At the micro (corporate) level, CR is often an add-on, leaving core business models and operations largely untouched. At the macro (policy and systems) level, a link is not being made between failure to meet sustainable development goals and the impact it will have on long-term corporate objectives and interests. Or where businesses are making this link, they may be paralyzed into inaction by the 'prisoners' dilemma' (see Panel 2.2).

'The root of the problem is typically found within the company itself. All too often one sees a lack of integration and different departments operating in isolation. It is here at the micro level that the training of personnel is critical.'

Klaus Töpfer
UNEP
Kenya

Business Leaders Initiative on Human Rights

Seven multinationals have been helping to test and develop ways of working with the new UN Norms for Transnational Corporations, in order to contribute to the development of this global normative framework.

www.business-and-human-rights-seminar.org/blhr.htm

Panel 2.1

Are the Millennium Development Goals achievable?

Many thoughtful business people appreciate that the MDGs (inside front cover) have high-level buy-in to both priorities and targets, that they span national and international governmental systems, and that they have broad support from other sectors of society. But few are optimistic about the prospects for real success. 'Unless we find ways of speeding up,' says WBCSD's Björn Stigson, 'it's hard to see how the MDGs can be achieved. Resources are not being provided. Official development assistance is not increasing. I don't see lifting of trade barriers. I am pessimistic about progress.'⁴⁶

Early in 2004, as part of the *Gearing Up* project, Harris Interactive agreed to include some questions about the MDGs in an online poll in the US. From a balanced sample of nearly 4,000 people, the poll found that just 15% had heard of the goals, with better educated and better off people slightly more likely to have done so. Here are some of the other results:⁴⁷

Which goal is most important?

When respondents were asked to say which of the eight goals they thought most important, the top result (42%) was for eradicating extreme poverty and hunger. This time women, older people and less well-educated respondents were most likely to vote for this goal. The second highest score (16%) was for ensuring environmental sustainability, followed by developing a global partnership for development (13%), achieving universal primary education (11%) and combating HIV/AIDS, malaria and other diseases (10%). The other three achieved lower scores: reducing child mortality (4%), promoting gender equality and empowering women (2%) and improving maternal health (1%).

Will we succeed?

When we asked how confident respondents were about the ability of the UN and member states to achieve the MDGs by 2015, only 4% were very confident – and less than a third (31%) were either very or somewhat confident. Interestingly, however, the goals that people had said were most important were seen to be least likely to be achieved – relating to poverty and hunger (22%), diseases (30%) and environmental sustainability (30%). The top score (just 38%) was for reducing childhood mortality.

Who is doing least?

Despite the best efforts of billionaires like Bill Gates, wealthy individuals were seen to be doing least (29%), with local, state and national governments next in line (18%), followed by large, multinational corporations (16%).

Who should be doing more?

This question threw up an interesting set of results (Figure 2.1). National governments topped the list (37%), followed by large multinational corporations (18%). In the latter's case, respondents argued that more money should be made available, but that essential changes to business practices would also be required to achieve the MDGs. Intergovernmental organizations, such as the UN and World Bank, scored 14%, with NGOs way down at 4%. Interestingly, although wealthy individuals and local governments were seen to be doing the least, they were not high on the list of candidates who should be doing more.

Panel 2.2

Prisoners' dilemma⁴⁸

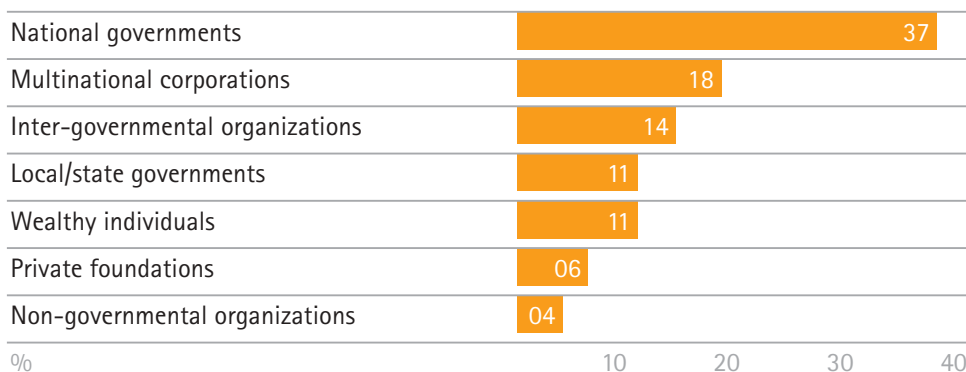
Resolving problems like HIV/AIDS or climate change involves the production of a public good – and belongs to a type of collective action problem described as the 'prisoners' dilemma'. Collectively, society would benefit from solutions, but there is little or no incentive for any single actor to take the first move and risk bearing all the costs alone. Indeed the individual incentive is to do nothing and hope to 'free ride', benefiting from the action of others. The result is generally collective inaction, despite the fact that cooperation would have been the best outcome for all.

Some ways have been suggested for overcoming the prisoners' dilemma. Individuals may take action if they have reasonable assurance that other relevant actors will participate. This is likely to require transparency, communication and a degree of trust between the actors involved, as well as a sense that all have a stake in the outcome. The collective action or 'progressive alliances' we discuss in Chapter 6 may fit this criterion. It also helps enormously if the problem is perceived as urgent and affects key actors directly.

Alternatively, an external agency can alter the set of incentives, creating conditions that ensure that action is directly in the self-interest of all involved. In most cases, this will be provided through government action, e.g. through public policy, regulation, taxation and economic instruments. This is almost certainly behind the high score for governments in the Harris Interactive poll (Figure 2.1).

Finally, there is leadership. Whether it comes from public, private or civil society sectors, leadership can play a role in changing the understanding, ideas and beliefs of actors. Leaders can persuade individuals that their contribution can make a difference, and can also help provide assurance – backed up by the threat of sanctions – that any action taken by one individual will be reciprocated.

Figure 2.1
Who should be doing more to achieve the MDGs?



3 Hitting the Limits The wider context

3.1 We have been here before

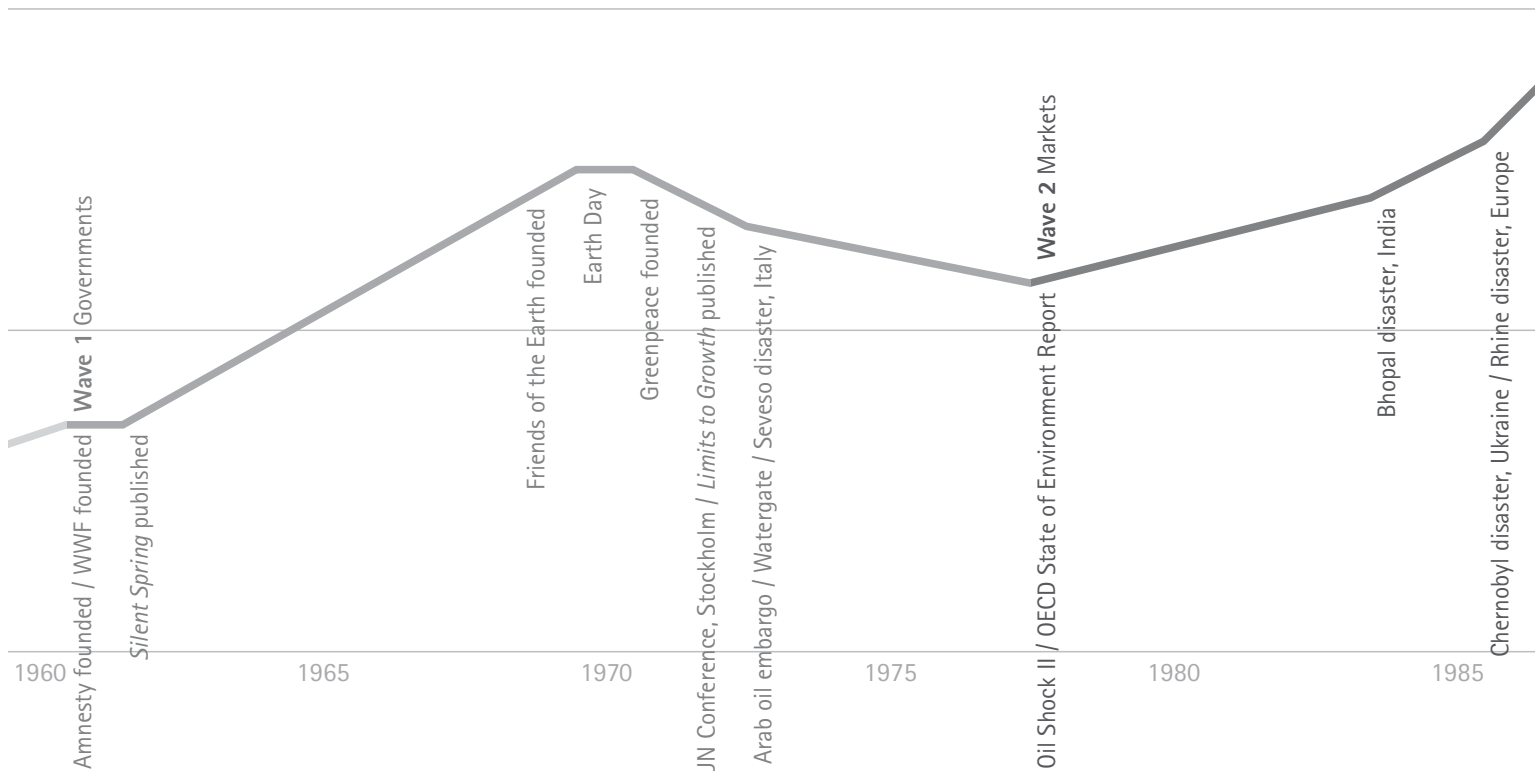
In addition to the shortcomings discussed in Chapter 2, the potential of CR to make real progress is limited by existing governance systems. 'The collaboration of governments, business and civil society organizations is impeded not by the lack of will of individuals and society,' argues Achim Steiner, director general of IUCN, 'but by the framework conditions and norms in which they respectively operate.' As David Korten, author of books like *When Corporations Rule the World*,⁴⁹ stresses, 'the issue is structure.'

While many leaders in business, civil society and government may agree with these assessments, the solutions they propose vary wildly. Global Compact participants, for example, who work within existing political and market systems, are likely to think in terms of continuous improvement rather than radical – let alone revolutionary – change. Others, like most of the participants in the annual World Social Forum meetings in Brazil and India, conclude that the system itself is the problem, arguing that 'Another World is Possible'.⁵⁰

We have been here before. Professor John Ruggie, responsible for Harvard's new Corporate Social Responsibility Initiative and a key architect of the Global Compact, explains: 'We in the industrialized world were slow to learn the lesson that markets must be embedded in broader frameworks of social values and shared objectives if they are to survive and thrive. Before we got to that point, we had struggled through the collapse of the Victorian era of globalization, a world war, the rise of the left wing revolutionary forces in Russia, right wing revolutionary forces in Germany and Italy as well as the Great Depression.'

When the lesson did finally sink in, Ruggie says, 'we called the new understanding by different names: the New Deal, the social market economy and social democracy.' The basis of these social bargains was that all actors agreed to open markets – but they also agreed to 'share the social adjustment costs that open markets inevitably produce'. Governments' role was in 'moderating the volatility of transaction flows across borders and providing social investments, safety nets and adjustment assistance – but all the while pushing liberalization'.⁵¹

Figure 3.1
Pressure waves 1961–2010



Panel 3.1
Pressure waves

From 1960, three waves of public pressure have shaped the evolving CR and sustainable development agendas in the OECD world.⁵² Each wave expands the political and business agendas and is then followed by 'downwaves' where public concern falls, and implementation and consolidation take place. As Figure 3.1 illustrates:

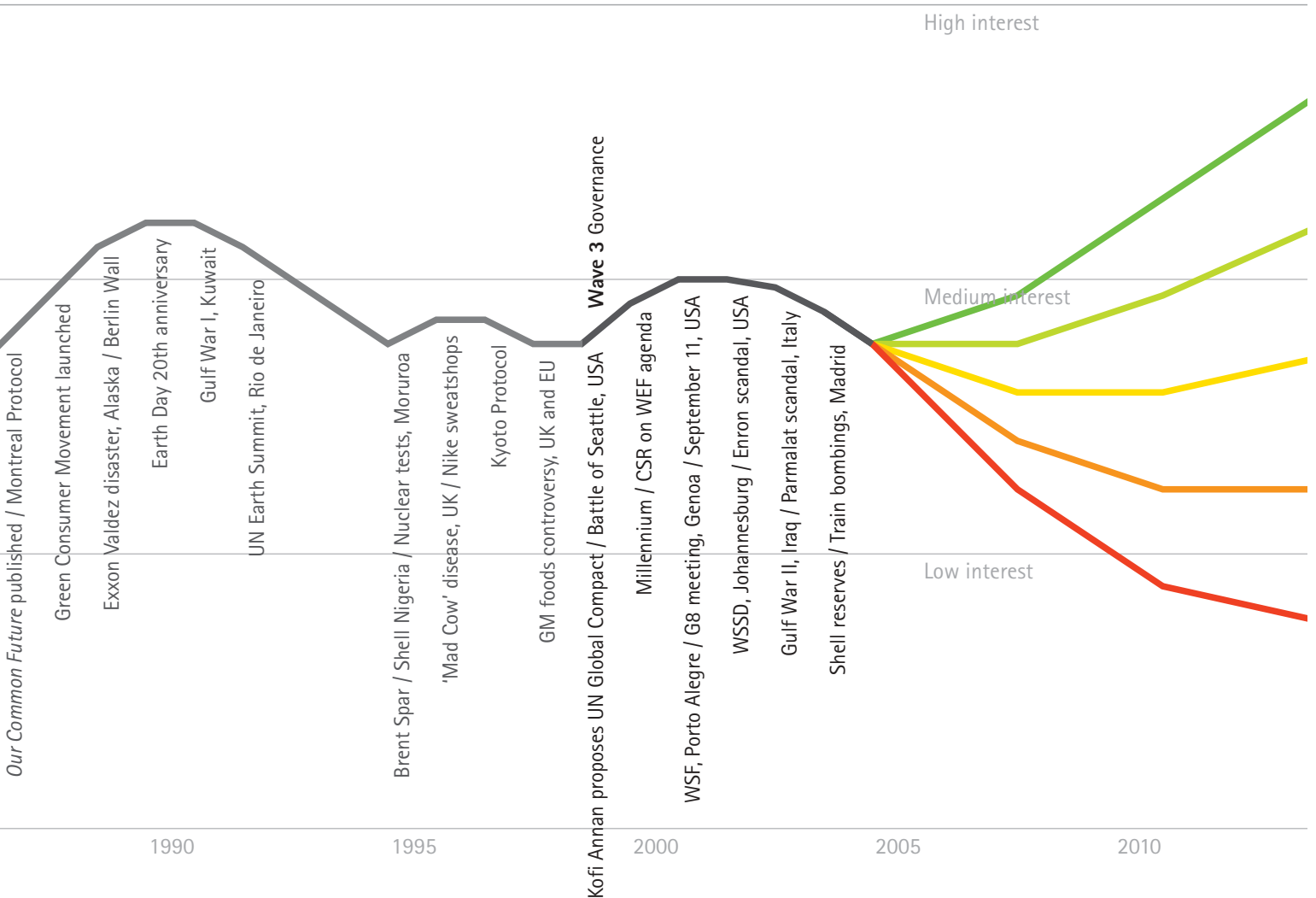
Wave 1 (peak 1969-73) built from the early 1960s, focusing on issues like the Vietnam War and environmental and natural resource limits. Governments were in the spotlight. Major development projects were increasingly subjected to environmental impact assessments. Downwave 1 saw a secondary wave of NGOs and environment ministries formed, resulting in a flurry of policy-making and regulation across the OECD. The focus was on high-impact companies and industries, with business largely forced into compliance mode.

Wave 2 (peak 1988-91) saw growing interest in the integration of the environmental and socio-economic aspects of 'sustainable development', with a recognition that business would often have to take the lead. Markets were in the spotlight. Downwave 2 was notable for the introduction of a range of tools (e.g. life-cycle assessment, auditing, reporting) to make value chains more transparent, and a growing focus on management standards and reporting of progress. Competitive advantage entered the picture alongside compliance.

Wave 3 (peak 1999-2002) focused on globalization. Governance, both global and corporate, was increasingly in the spotlight. Protests focused not just on companies but also on major global organizations like the WTO, IMF, World Bank and World Economic Forum (WEF). Downwave 3 is now under way. It is likely to see a new period of consolidation – and a growing focus on governance. Governments will be back in the spotlight, but expectations are likely to run well ahead of their potential to deliver.

At the 2004 WEF meeting, scenario planner Peter Schwartz argued that by 2014 'the most significant economic actor in the world will be the network economy, existing without reference to borders, without reference to physical reality itself'. And the biggest risk the global economy would face would be fragmentation, over US unilateralism, trade talks or climate change.⁵³

Our high road (green) and low road (red) trajectories to 2010 are designed to show how CR may morph, while acknowledging that wild cards could affect the process and even derail globalization itself, among them catastrophic terrorism⁵⁴ or abrupt climate change.⁵⁵



3.2

1989 changed the game

New trends that had been developing and converging for some time came to a head in 1989, with profound implications for capitalism and democracy. From the fall of the Berlin Wall and collapse of many Communist regimes, to Tiananmen Square in China and Nelson Mandela's release from Robben Island in 1990, the old world order was changing, in some cases convulsively.

Official development aid and sovereign debt fell, while foreign direct investment and commercial debt took off. At the same time, the new 'common sense' (most famously articulated as the 'Washington Consensus'⁵⁶) called for a rolling back of the state role in the economy in favor of privatization and liberalization. Domestically, taxes on mobile sectors of society like corporations were reduced, while charges rose for the poorer, non-mobile strata.

'Before 1990 it was in the best interest of capitalism and the corporate world to show great respect for stakeholders and for democratic majorities,' notes Professor Dr Ernst Ulrich von Weizsäcker, founder of the Wuppertal Institute and now Chairman of the Environment Committee of Germany's Bundestag. 'There was always some danger of countries going communist if majorities felt that capitalism was massively "unfair".'

3.3

A new focus on the private sector

If 1989 saw capitalism unleashed into new markets, the early 1990s saw the boundaries between the public and private sectors becoming increasingly fluid. As the role of governments was scaled back, expectations of corporate responsibility have increased. 'After emasculating the state, it is no longer morally defensible to consider all broader and longer-term responsibilities the affair of the state,' von Weizsäcker comments.

The 1992 UN Earth Summit spurred the development of the CR agenda, with voluntary initiatives as an experimental policy tool. These initiatives have since multiplied both in number and in the scale of their ambitions, whether focusing on specific industries (e.g. chemicals, finance, pulp and paper, cement, transport), on the sustainable management of particular resources (e.g. forests, fisheries, minerals) or on broader agendas (e.g. global governance, human rights,⁵⁷ corruption).

Then, five years ago, UN Secretary-General Kofi Annan called on business leaders 'to join the United Nations on a journey'. He also commented that business was already well down the road with a journey of its own, globalization. At the time, he noted, globalization appeared like 'a force of nature', seeming to 'lead inexorably in one direction: ever-closer integration of markets, ever-larger economies of scale, ever-bigger opportunities for profits and prosperity'.⁵⁸

However, even ten months before the Seattle protests against the WTO, the Secretary-General felt it necessary to warn that globalization would only be as sustainable as its social foundations. 'Global unease about poverty, equity and marginalization', he stressed, 'are beginning to reach critical mass'.⁵⁹ These issues are no less important today, although the focus has shifted to political and security concerns in the wake of 9/11, Iraq and Madrid – which, some would argue, are intimately connected to unresolved problems of poverty and inequity.

Our conclusion is that system-level changes will be necessary as CR initiatives run up against system limits. As ex-President Bill Clinton argued at the 2004 World Economic Forum summit, the scale of the challenges the world now faces is such that continuous improvement will not be enough. Instead he called on business leaders to create integrated systems and infrastructures, focusing on how to 'systematize' responses 'to scale'.⁶⁰

'Systemic change is needed. Discontinuities will lead the core of the global economic system – i.e. the financial community – to value the material importance of sustainability management.'

Ernst Ligteringen
Global Reporting Initiative
The Netherlands

4

Window of Opportunity

Next steps for CR

4.1

Rights, rules and systems

Every era has its great challenges. Today, once again, 'the world cries out for repair,' as Joshua Margolis and James Walsh note in *Misery Loves Companies*.⁶¹ One thing that changes, however, is who we expect to do something about it. During the first CR wave and downwave (pages 14–15), we turned to governments. In the second wave and downwave the focus was increasingly on markets. Now, in the post-9/11 world, the focus is shifting to issues linked to governance, security, civil liberties, human rights and climate change.

In the process, the spotlight is likely to shift from individual company actions and business-led voluntary initiatives to system-level challenges. 'There is a piece missing from the World Summit on Sustainable Development and the MDGs', notes Oran Young of the Governance for Sustainable Development Program.⁶² 'There are many aspirations but the problem is how to achieve them. The missing piece has to do with initiatives to restructure institutional arrangements — the rights, rules and decision-making systems that establish social practices governing the relations among players. This may not be managed by something conventionally called government — it may be managed by governance systems without formal government agencies at all.'

As Chapter 3 highlights, CR can be seen as a pragmatic response where governance has failed or been weak. To ensure longer-term success, however, the CR community will need to ensure two parallel changes.

The first will involve a shift from engagement in a seemingly endless list of special projects, which often fail to address the company's main impacts, to a more coherent approach with stronger links between CR and both core business activities and wider governance frameworks. The second change will involve business working harder to overcome enormous skepticism about its ability to play a constructive role.

As David Korten puts it, 'The idea that publicly traded corporations constituted for the sole purpose of maximizing the short-term profits of shareholders can provide consequential and constructive leadership toward resolving any of the Millennium Development Goals is simply wishful thinking.' Like it or not, surveys of trust in institutions routinely show that Korten's analysis accords with the views of many others — from academics and development practitioners to much of the general public.

This need not be the case. What follows is our assessment of how responsible business can help contribute to the necessary restructuring of market economies and the evolution of sustainable governance systems, along with a discussion of some of the steps business must take in order to credibly, legitimately and effectively play such a role.

4.2

Rethinking self interest

Some critics see calls for business to engage directly in governance as dangerously naive. Business interests are already engaged, for example through the funding of US presidential campaigns, which — they argue — is a key part of the problem. But there are good examples to range alongside the bad and ugly. Think, for instance, of the vital, constructive role played by the business community in South Africa in the waning days of the apartheid regime. While many companies benefited from and actively supported apartheid, some far-sighted business leaders helped smooth the transition to democracy.

During the 1980s, representatives of some major companies began meeting clandestinely with the African National Congress (ANC), when it was still a banned (and socialist) movement — worried that the escalating violence and absence of social justice and democracy would lead to irreversible polarization if something was not done. Once the ANC was 'unbanned', the business community already had a positive relationship, through a group known as the 'Consultative Business Movement'. Ultimately, in collaboration with the South African Council of Churches, it helped broker multiparty peace negotiations.

Kimberley Process

The Kimberley Process Certification Scheme, aimed at stemming the flow of 'conflict diamonds', was created in 2002, following two years of collaboration between governments, the diamond industry and NGOs. Participants continue to work together to ensure the integrity of the certification scheme.

www.kimberleyprocess.com

Clearly, the actions of business people were in their own self-interest, but at the same time supported the national interest. According to André Fourie of NBI in South Africa, 'the initiative was started by a few visionary business leaders – but by the end everyone was behind it. In hindsight it seems so sensible! But at the time, the reaction to the efforts of the early business leaders was that it was "stupid and dangerous".

In this case, which is easier to 'read' because it happened some time back, business leaders took principled steps into the area of governance and systemic change. And they took these steps because the issues were directly linked to core success factors for their business. The problem, as discussed in Chapter 2, is that most business leaders still do not make the necessary connections between sustainable development and their core business strategy and longer-term profitability. But best practice companies are now laying foundations for the bridges that will eventually span these divides.

4.3

Working together

It is not clear that the type of governance shift that we are envisioning was as possible 20, ten or even five years ago. Currently, though, a window of opportunity may be opening up, suggesting a maturation in the types of relationships that are feasible. Internationally, we are seeing a growing focus on 'ethical' or 'responsible' globalization. Thought-leaders including Kofi Annan, Bill Clinton, Jagdish Dhagwati, Mary Robinson, John Ruggie and Joseph Stiglitz are among those making the case that globalization has much to offer the world if undertaken in a responsible way, i.e. with adequate governance and safety nets.

Citizens in many developing countries are achieving greater rights and recognizing greater responsibilities, with civil society increasing in size and skills. Although trust in both business and government often remains low, the potential for collaboration clearly exists. Internationally, NGOs such as Oxfam, CARE and WWF are actively increasing their capacity to work with business in forging solutions to key sustainable development challenges.⁶³

This does not suggest that dissent has ceased to exist – which is neither likely nor desirable. However, collaborative relationships such as tri-sector partnerships⁶⁴ are increasingly becoming an alternative and complementary model. True – the focus so far has generally been on delivering specific projects on the ground rather than wider governance impacts, and these collaborations are unlikely to deliver all they have promised. Still, they demonstrate shifting relationships between government, business and civil society and an opportunity for more constructive joint working.

The question now, however, is whether leading businesses will rise to the governance challenge, or whether they will allow this window of opportunity to close? The price of failure will be enormous, not only in terms of direct costs to business (see Panel 1.1, page 05), but also because we risk a severe backlash.

As Harvard's John Ruggie has pointed out, the present state of affairs is unsustainable. 'The gap between market and community will be closed; the only issue is how and in what direction. I believe the world needs open markets: business to maximize its opportunities, the industrialized world to sustain prosperity, and the developing countries because an open world provides the best hope of pulling billions of poor people out of abject poverty. But . . . rollback, a shift away from globalization, is the more likely outcome unless we manage to strengthen the fabric of global community. Ironically, nobody is better positioned or has greater capacity to play the lead role today than business itself.'⁶⁵

4.4

Proceed with caution

In Chapter 5, we analyze some existing efforts in which business is contributing to – and often taking a lead role in – governance. First, however, we ask the obvious question: What are the risks inherent in suggesting that non-elected bodies with profit as a core motive engage directly in governance and public policy processes? More specifically, here are five issues raised by our interviewees and respondents:

- **Who should drive?** When it comes to picking priorities, it is clear that only governments have the necessary legitimacy, although business and markets play a critical role in achieving the rapid scaling of solutions. As Elliot Schrage of the US Council on Foreign Relations puts it, 'The car shouldn't decide what road to take – rather the driver should decide how to use it. Similarly, it's not that companies and governments are incompatible, but they have different roles.' To stretch the metaphor slightly, modern cars and their engines are increasingly efficient helping drivers reach their destinations more quickly and easily – and, hopefully, the same will increasingly be true of business.
- **What if our failures outnumber successes?** Given the scale of the challenges, experimentation is key, which guarantees failures along the way, some of them spectacular. We need to make the space for experimentation and innovation, with rapid prototyping, shared learning from failures and a determination to deploy scalable solutions (see Chapter 6) as fast as possible. We must mimic natural evolution, but lacking evolutionary timescales we will need to fiercely select from the field of innovations those that are most likely to succeed and invest in them. NGO expertise is also emerging as key to many innovation processes.

'With the private sector increasingly center stage, questions are being raised around prior assumptions that global public goods can only be tackled (ethically and practically) by the public sector.'

Nigel Twose
The World Bank Group
USA

- **What about the risk of 'regulatory capture'?**⁶⁶ The potential for close relationships between business and government to distort the development of regulation and policy was a concern raised by many interviewees. But most didn't see it as a new risk. As Halina Ward of IIED puts it, 'Unless we are going to block companies from lobbying altogether – which is unrealistic – there is a need to call for opening up and transparency, and for the building of a positive role' (see Panel 6.2). Provided that there is transparency, and that civil society is also represented, considerable potential exists for positive public policy change.
- **What happens where governance is weak?** In some developing countries – and at the global level – there is a risk of unequal relationships dominated by more powerful entities, including large companies. More concerted efforts are needed to strengthen the capacities of governments and civil society. 'Southern governments need to consciously invest in the capacity to manage negotiations and relationships not only with global corporations but also with domestic commercial entities,' notes Kumi Naidoo of Civicus.
- **What if CR is seen as someone else's agenda?** Several interviewees warned that CR could suffer if it were to be seen as an Anglo-Saxon concept (see Panel 4.1). But most also stressed that, while the language is contested and many of the models currently clustered under the CR label have been most fully developed in the Anglo-Saxon world, there are underlying principles that are universal. Still, there is an urgent need both for a more balanced debate on CR globally, and for global ideas and practices to be translated in a locally meaningful way. 'You can't organize these processes of change simply at the global level,' explains Sir Mark Moody-Stuart, Chairman of Anglo American. 'You've got to get the right actors together in the right way at local level to exert influence on government and persuade them to do the things that need to be done.'

Panel 4.1
An Anglo-Saxon agenda?

We asked our respondents whether they saw a threat of the CR agenda being perceived as peculiarly Anglo-Saxon. Here are a few representative replies:

'The CR debate is very much an Anglo-Saxon and Scandinavian concern. In the International Chamber of Commerce we try to get other continents and cultures involved, but the Commission on Business and Society mainly consists of Americans and Western/Northern European representatives.'

Jouko Kuisma
Kesko Corporation
Finland

'The concept of CR does exist historically in Japan as well, which we can confirm even in the 17th century. Edo-era merchants made it a rule to respect the interests of foreign business counterparts. The point is that the Anglo-Saxon debate on CR seems to be centered only on their historical and social criteria, which naturally deal with Catholicism, Protestantism and Western European Individualism.'

Kiyoto Furuta
Canon
Japan

'The essence of CR is an ancient, living story that all the world is telling together. But because the West has more than 200 years of modern capitalism employing "jungle rules" and entering post-industrial society, its thinking is more systematic and its experience more pragmatic. However, CR is becoming a vital concern in China!'

Dr Shuaihua Cheng
Shanghai Municipal
Development Research Center
China

'Certainly not. The issue is actively debated in such non-Anglo-Saxon places as Japan, France, Brazil, India and South Africa. But using English as the lingua franca for international debate sets up the trap of taking American and UK material as the de facto benchmark. It would be a mistake to assume that Anglo-Saxon material arguing that the-less-regulation-the-better represents a general global view.'

Ernst Ligteringen
Global Reporting Initiative
Netherlands

Market Transformation Programme (MTP)

The MTP is a structured strategy review process, conducted in partnership with business, consumers, experts and other bodies, aimed to develop policy strategy for advancing the resource efficiency of traded goods and services in the UK.
www.mtprog.com

5 Case Studies Four examples

5.1 Introduction

When we first began to think about the role that business could play in scaling up efforts to tackle major sustainable development challenges, there appeared to be a number of promising examples where the private sector was both showing leadership and preparing the ground for positive public policy responses. These include efforts to deal with HIV/AIDS in the workplace, the development of carbon trading schemes as a response to climate change, and the growing momentum around issues like corruption and chronic illness – which correspond to the challenges spotlighted in Chapter 2.

We chose to develop case studies on specific initiatives in these four areas to explore how business might engage in appropriate efforts towards improved governance for sustainable development. What, in the context of global commerce, could be called 'soft infrastructure'.⁶⁷

We are not spotlighting these cases as successful examples of public-private partnership, although some may be. Instead the focus was on drawing lessons on how business might contribute to systemic change. We wanted to understand the potential roles, drivers and dilemmas that businesses – as well as governments and civil society – face in collaborating and in scaling up these initiatives. Why, for example, have certain companies become involved in systemic and policy issues, and what ensures that their role is seen to be legitimate and appropriate? And we also wanted to explore how critical mass had been (or could be) achieved and what barriers still impede progress.

While Figure 5.1 (page 21) summarizes the four initiatives, the rest of the chapter sketches out key aspects of each case in more detail. Chapter 6 then sets out some of the trends and lessons we derived from them.

Legend

Achieving real progress in the 'promising examples' outlined in this chapter will require significant forward momentum. Momentum is created by business, government and civil society actors taking **initiative**, providing **incentives** and driving **innovation**. Yet all three actors face potential **barriers** and **dilemmas** that undermine progress. The following arrows appear in the diagrams on pages 23–29 illustrating some of the forces inherent in each case example.

Panel 5.1 Poverty: 'the' issue

For many people, poverty is the most important challenge the world faces (for example, see the responses to the MDG poll, page 13). Poverty alleviation is one of the ultimate goals of a responsible market system and companies, as engines of economic growth, have the potential to play a major and direct role.

We have not directly addressed poverty through our case studies, seeing it as a 'meta case'. Different initiatives deal with different dimensions of poverty. Our case studies on corruption (page 28) and HIV/AIDS (page 24) provide two examples. A third relates to the development of new business models to increase companies' business with the poor – in ways that are beneficial to the poor as well as the company. This is the focus of both the WBCSD's Sustainable Livelihoods Project⁶⁸ and the UN's 'Growing Sustainable Business (GSB) for Poverty Reduction' initiative.

The GSB, led by UNDP and the UN Global Compact in partnership with business, NGOs and labor, is based on two key activities. First, it seeks to develop commercially viable projects with positive economic, social and environmental impacts. The focus is on adapting business to meet the needs of the poorest and developing small local enterprises. Second – and directly relevant to the themes in *Gearing Up* – it aims to link to the wider system by contributing to the creation of an enabling environment, including strengthening policy and legislative frameworks, creating trust and other forms of social capital, and building capacity.

To date, however, most GSB pilot schemes have focused on business development projects, rather than on working with governments to change underlying framework conditions.

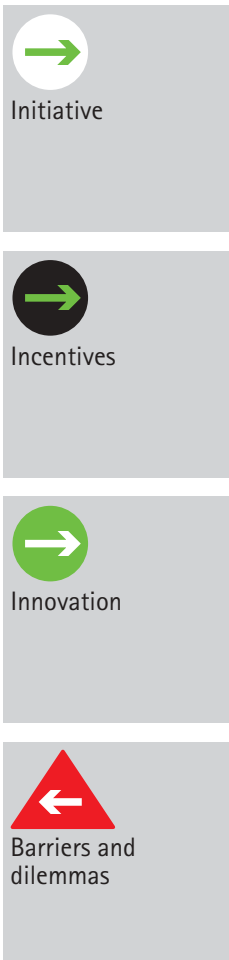


Figure 5.1
The case studies: a summary

Case 1 California Climate Action Registry Linking to Markets	Case 2 Workplace Anti-Retrovirals Showing Leadership	Case 3 Oxford Vision 2020 Providing Foresight	Case 4 Extractive Industries Transparency Initiative Offering Incentives
<p>Who?</p> <ul style="list-style-type: none"> California State Government, city governments NGOs (e.g. Environmental Defense, CERES, WRI) 46 charter members, mostly companies 	<p>Who?</p> <ul style="list-style-type: none"> Individual companies in South Africa (e.g. Anglo American) NGO partners (e.g. loveLife) 	<p>Who?</p> <ul style="list-style-type: none"> WHO Oxford University Novo Nordisk 	<p>Who?</p> <ul style="list-style-type: none"> UK Government with ten developed and developing country governments NGOs, including 'Publish What You Pay' Coalition Companies in the extractive sector 46 institutional investors
<p>Aim?</p> <p>Voluntary registry to encourage companies to increase energy efficiency and decrease GHG emissions.</p>	<p>Aim?</p> <p>Comprehensive HIV/AIDS management systems, including providing ARV treatment to better control HIV/AIDS in the workforce.</p>	<p>Aim?</p> <p>Develop for WHO a comprehensive strategy on chronic disease, including obesity.</p>	<p>Aim?</p> <p>Publication of revenue flows from the extractive sector to host governments, along with government revenue flows from natural resources, so that governments can be held accountable for revenues.</p>
<p>Business role?</p> <p>Initiative</p> <ul style="list-style-type: none"> Lead by example Advocate to other businesses to participate <p>Innovation</p> <ul style="list-style-type: none"> Technical expertise 	<p>Business role?</p> <p>Initiative</p> <ul style="list-style-type: none"> Lead by providing ARVs and demonstrating potential benefits <p>Incentive</p> <ul style="list-style-type: none"> Peer pressure <p>Innovation</p> <ul style="list-style-type: none"> Share best practice 	<p>Business role?</p> <p>Initiative</p> <ul style="list-style-type: none"> Leadership bringing other companies on board <p>Innovation</p> <ul style="list-style-type: none"> Problem definition, strategy formulation, how to maximize leverage from public health care resources 	<p>Business role?</p> <p>Initiative</p> <ul style="list-style-type: none"> Some companies were already publishing <p>Incentive</p> <ul style="list-style-type: none"> Encourage host governments to take part Promise of investment for host governments <p>Innovation</p> <ul style="list-style-type: none"> Reporting protocol
<p>Business case</p> <p>Long-term</p> <ul style="list-style-type: none"> Influence development of future policy Protect early action Encourage consistency in regulation 	<p>Business case</p> <p>Immediate</p> <ul style="list-style-type: none"> Slow or reverse loss of personnel and productivity Decrease risk and costs 	<p>Business case</p> <p>Long-term</p> <ul style="list-style-type: none"> Widen networks Test business model Shape market strategy 	<p>Business case</p> <p>Medium-term</p> <ul style="list-style-type: none"> Reduce corruption and provide more stable operating environment Create level playing field
<p>System change?</p> <ul style="list-style-type: none"> Investors drive greater understanding and awareness. Limited progress because business case not compelling. Wider progress requires embedding in government and market systems. 	<p>System change?</p> <ul style="list-style-type: none"> Significant individual efforts but collaborative approach within South Africa is missing. Progress achieved primarily within the business community. Wider progress requires linking into government frameworks and leadership on reform of health systems. 	<p>System change?</p> <ul style="list-style-type: none"> Founding organizations are providing initial vision and leadership. Need for more public and corporate consciousness and involvement, especially in food industry. 	<p>System change?</p> <ul style="list-style-type: none"> Progress achieved by focusing on systemic issue specific for extractive sector. As yet, critical mass of countries not achieved. Need to create appropriate incentives to bring more governments on board.

Case 1 California Climate Action Registry Linking to Markets

The United States — the largest emitter of GHGs and, perhaps not coincidentally, a notable 'skeptic' on climate change — represents the most important market where business has not yet provided a convincing response to the issue of climate change. One example, though, of how business is helping to prepare the ground for an effective response is the California Climate Action Registry.⁶⁹

The Registry was established by the State of California in 2000 to encourage companies and other organizations operating in California to increase energy efficiency and cut GHG emissions. Protocols and tools developed by the Registry enable companies to register GHG emissions baselines for their operations, and then measure changes against this baseline.

The Registry serves as a:

- Key component in developing the 'market infrastructure' and accounting frameworks for trading carbon;
- Means of engaging the technical expertise of business in crafting solutions;
- Open-source model, allowing stakeholders to review protocols in detail.

The number of Registry members doubled from 23 at its launch in 2002 to 45 in early 2004, including companies such as BP and PG&E Corporation. Key success factors:

- The involvement of the State of California provides confidence to business that registered GHG reductions will be honored in future regulatory regimes.
- The use of the GHG Protocol developed by WRI and WBCSD as a key foundation document encourages NGO support.

- There is a growing sense in the US business community that GHG regulation is coming, coupled with a desire among switched-on business leaders to prepare for (and help shape) regulation.
- There is a growing interest among investors (e.g. pension funds) in carbon exposure.

Key challenges

Although the number of companies participating is significant, it is still minute when compared with the overall business community. But the Registry is working hard to build critical mass. Potential pitfalls:

- Lack of political traction for action on climate change would leave the Registry vestigial, unconnected to other aspects of market infrastructure.
- The emergence of alternative regulatory approaches or shifting priorities could result in a loss of support from business.
- The loss of support from the NGO community would undermine legitimacy.
- A public perception that the industry is trying to configure the system in its own favor, a concern expressed around emission trading regimes in the US, would weaken credibility.

Conclusion

The Climate Action Registry demonstrates the value of involving business in the provision of technical expertise in developing and testing of complex economic instruments to reshape market frameworks. The initiative has also provided a framework (known as the Climate Action Registry Reporting Online Tool, or CARROT) for companies to report their performance over time.

The Registry also illustrates the importance of involving government and NGOs to provide predictability and credibility respectively. Ultimately, however, the example illustrates that with issues of long-term overuse of the public commons, the business case only becomes compelling for companies when regulatory action is expected. This is the critical driver in stimulating business interest in addressing climate change.

Companies that are committed to this regulatory agenda could be taking bolder action. For example, a small group of companies have joined WWF in calling for mandatory caps on carbon-dioxide emissions⁷⁰ in the US. Leadership companies could also help the financial community understand the value of effective carbon risk management by disclosing information on how they quantify their risk and what they are doing to protect and boost the company's value.

'Those that move to decarbonize their products do it because they see a carbon-constrained world coming. And our pension funds are interested because they see that there are going to be winners and losers shaping up.'

Diane Wittenberg
California Climate Action Registry
USA

Business

Government and multilaterals

Civil society



'Charter members' lead by example



Encourage other businesses to participate



Registry founded by State of California



City governments as 'charter members'



Threat of regulation



Raise public awareness and create pressure for action



Technical expertise in refining protocols



Develop GHG Protocol which serves as basis for Registry protocol



NGOs are represented on the Technical Advisory Committee



Regulation is still far away (and may not happen)



Costs of involvement



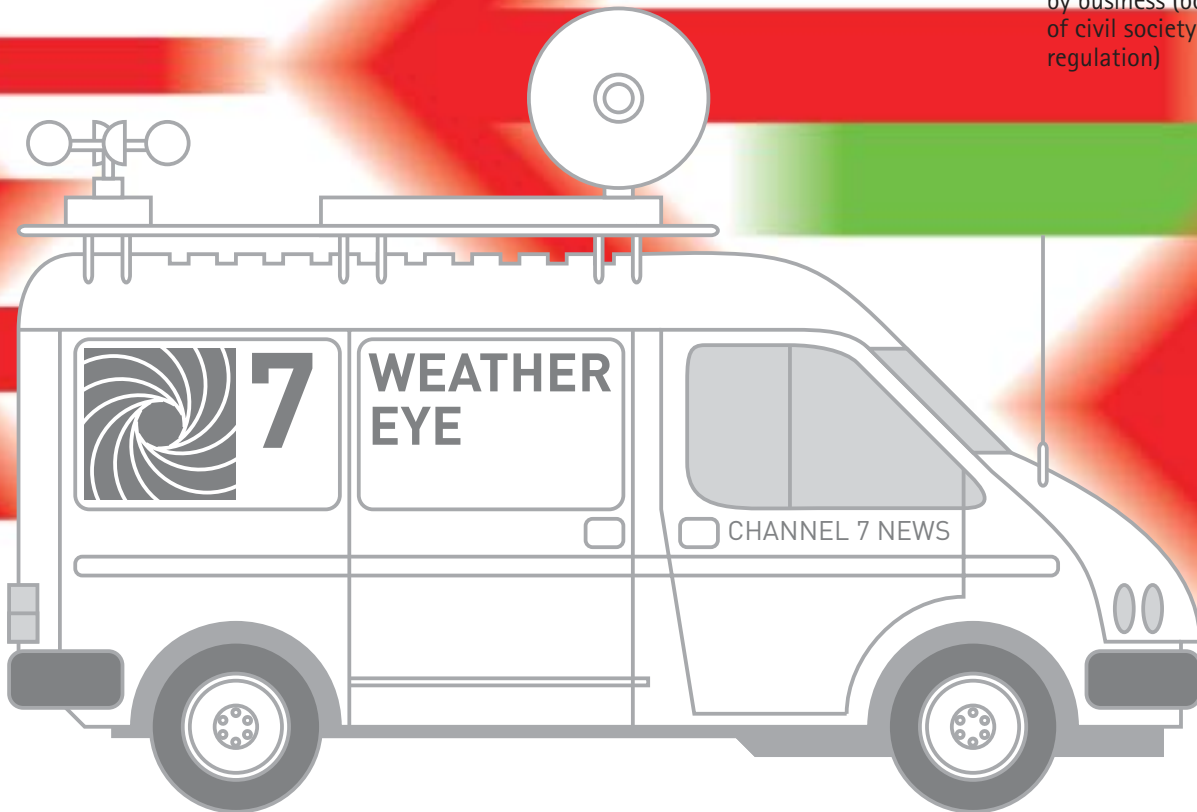
Lack of federal leadership in the US on climate change regulation



Potential for capture by business (both of civil society and regulation)



Limited resources



Case 2
Workplace Anti-Retrovirals
 Showing Leadership

An increasing number of initiatives and coalitions seek to involve business in efforts to tackle HIV/AIDS, related to both prevention and treatment. So far, the most proactive examples coming from the private sector relate to workplace HIV programs, including the provision of ARV treatment. A handful of companies currently operate such programs — particularly in South Africa, where the government has not been proactive until recently.

But the threat is immense. For example, Anglo American, South Africa's largest private sector employer, estimates that an average of 24% of its employees are currently HIV positive, although this varies significantly by business unit. The company has had a workplace program to combat HIV/AIDS for 15 years, including education and awareness-raising, prevention and treatment, anonymous prevalence testing, wellness programs, combating stigma and discrimination, and support for vaccine research.

The company has also supported community projects, for example through investing in the NGO 'loveLife'. This project aims to reduce the infection rate among young South Africans by bolstering public sector health infrastructure to make it more attractive and accessible – and helping to prepare for the roll-out of the Government ARV program.

In 2002 Anglo went beyond current corporate best practice to provide ARV treatment at company expense to HIV-positive employees who have progressed to a stage of infection where treatment is clinically indicated. ARVs are provided to employees, but not dependents, contractors or the community. When Anglo first acted, there was a push back from South Africa's Ministry of Health, ostensibly because of the lack of consultation.

Anglo's program to provide ARVs is generating direct benefits to the company as well as to employees, and indirect benefits to families and the wider community. At present, there are 1,300 employees who have been on ARVs over the past 12 months, of whom 92% are at work and able to continue playing an active role in society. A further 3,000 employees in earlier stages of infection are on wellness programs.

Key success factors:

- Anglo has its own direct delivery healthcare infrastructure and the scale to make an ambitious program work.
- Leadership by local management has been key to participation in voluntary counseling and testing in those operations where uptake is highest.
- There has been collaboration, wherever possible, with trade unions.
- Workers have seen desperately ill colleagues seemingly being restored to 'health' – which provides the power of personal experience.

Key challenges

Anglo and similar companies have demonstrated that progress can be made in the short term by treating employees in the absence of public policy. While denial and stigma remain major barriers, awareness-raising, education and a demonstration that treatment can work are beginning to show results. Yet with 5.3 million HIV-infected South Africans at the end of 2002, it is clear that corporate programs cannot address the problem at the required scale.

There have been important reasons why a more effective and collaborative governance approach towards HIV/AIDS in South Africa has not developed. While some companies have led, other parts of the business community have acted as barriers.

The most notable example is the pharmaceutical sector, backed by the WTO, which was initially unwilling to allow cheaper generic drugs to be produced or imported into South Africa.

Until recently, too, the South African Government opposed nationwide treatment. While the Government had some understandable concerns about the true lifetime costs of the full treatment regime and the impact on long-term public policy and budget choices, communication and execution of its response was poor. The questioning of the causes of AIDS and the emphasis on the toxicity of the drugs hindered progress in combating the disease.

While drug prices have fallen and government policy has changed, the continuing stigma around the disease and the generally high level of distrust between civil society, business and government in South Africa have been additional barriers, helping to explain the fragmentation of responses.

Conclusion

This case shows the potential for companies to play leadership roles and innovate in tackling major challenges where government is unwilling or unable to take action, at least when the company is convinced that there is a compelling (moral or business) case. However, without this missing government link, individual companies cannot solve systemic issues like HIV/AIDS on their own. Unilateral approaches raise the real risk of creating 'islands of influence'. Substantial progress in destigmatizing the issue, combating discrimination, raising awareness and providing treatment will ultimately only be achieved with government as the driving force.

'At Anglo American we believe that business has a crucial role to play in fighting the AIDS epidemic. We have to be proactive in our response and dare to be different. We have to be prepared to take risks and to lead the way. And we must also persuade the constituencies that we influence to join us in meeting our common challenge.'

A J Trahar
 Anglo American
 South Africa²¹

Business

Government and multilaterals

Civil society



Lead by example, providing ARVs to employees



Help make cheaper drugs available



Multilaterals co-invest in local projects



Create 'peer pressure' by proving business case and highlighting what is possible



Pressure on pharmaceutical companies for cheaper generic drugs



Pressure on government to change its stance on HIV/AIDS



Business coalitions share best practice and facilitate partnership



Appropriate boundaries for workplace action are uncertain



Political sensitivity of issue



Difficulty in developing capacity and infrastructure to provide ARVs



Cost of ARVs



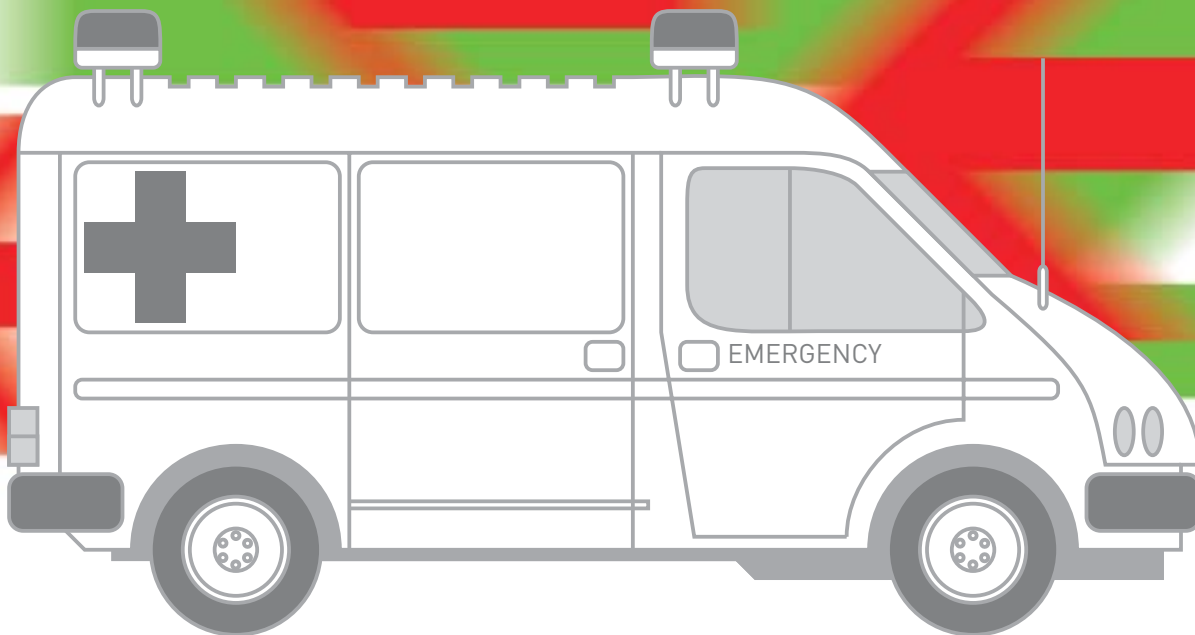
Stigma and denial which are undermining greater uptake of workplace programs



Difficult to make a difference without government support



Lack of funds



Case 3
Oxford Vision 2020
 Providing Foresight

Preventing type 2 diabetes and other chronic illnesses is much easier than curing them, but prevention takes multi-sector, long-term initiatives. Three organizations, Novo Nordisk, Oxford University and WHO have joined forces under the banner of 'Oxford Vision 2020'⁷² to develop a coherent approach to addressing – and hopefully reversing – the growth in type 2 diabetes and related chronic illnesses.

Oxford Vision 2020 is a significant endeavor, not least because it has successfully engaged organizations from a broad variety of sectors that affect or are affected by chronic diseases. In addition, as one participant put it, 'there is no vested interest apparent – this is a vision for public health', creating the potential for partners to foster genuinely innovative approaches.

Among the organizations represented at the first meeting in September 2003 were a range of companies (e.g. Novo Nordisk, Johnson & Johnson, JP Morgan, Nestlé and Pepsico), civil society organizations (e.g. trade unions, NGOs and academic institutions) and a range of governments and multilaterals (e.g. UK, South Africa, WHO, World Bank and OECD).

The overall initiative is targeted primarily at policy-makers and politicians as well as at consumers and patients. Though still relatively new, a number of important successes have been achieved including in establishing five critical priorities for the initiative:

- Quantify the economic burden of chronic diseases, both in terms of healthcare costs and of economic productivity – and to define causes, effects and solutions.

- Mount a successful advocacy program to push chronic diseases higher up the political agenda in health departments, as well as across finance, education, employment and transport.
- Develop a new business model for private industry, to encourage the development of healthier foods and to expand the focus of the pharmaceutical industry to include health promotion.
- Use the success of tobacco control strategies to develop a multi-level framework to better manage chronic diseases.
- Explore new partnerships between public and private organizations to communicate to consumers, employers and health professionals.

Working groups have been set up to address each of these priorities. The next step will then be to test the best ideas at community level.

As Daniel Miller of the World Bank, a participant in the initiative, put it, 'We have identified gaps in our knowledge related to the impact of chronic disease on the economies of developing countries and the financial impact of chronic disease on poor households. [We have also] identified critical next steps to radically meet information needs, so a compelling case for chronic disease prevention and control can be made to policy makers and decision makers in government.'

Key challenges

- The initiative is still at a relatively early stage and there are a range of challenges and potential pitfalls:
- There is a high level of public ignorance regarding the significance of these issues in terms of public health and the economy.
 - The US Government has adopted a defensive approach to obesity.

- The enormous complexity of the agenda and the need for multi-sectoral responses may complicate and slow progress.
- Mistrust between project participants, including between business on the one hand and NGOs and multilaterals on the other, could become an enduring problem.

Conclusion

Oxford Vision 2020 shows how business can take the lead in helping convene far-sighted initiatives to tackle new societal challenges. While there are barriers, there are also some important drivers that ensure active engagement by participants. Companies taking a lead can potentially gain a first-mover advantage in understanding and responding to emerging pressures on their businesses. The academics involved have an opportunity to apply their knowledge in a real-world setting, and for WHO and other multilaterals and governments this initiative represents a potentially powerful opportunity to address an increasingly pressing public health issue.

- However, in order to be successful, the initiative will require participants to move well beyond their 'comfort zone' in exploring new solutions to type 2 diabetes and other chronic illnesses. Companies in particular will need to:
- Start 'thinking out of the box' in terms of their own direct business interests (with a focus on business models, not public relations).
 - Link with leading partners in different sectors, maximizing 'core competencies'.

'There is a first mover advantage for leading companies if they can put their business resources behind this and be ready for the change that is clearly coming.'

Stig Pramming
 Novo Nordisk
 Denmark

Business

Government and multilaterals

Civil society



Novo Nordisk's leadership boosts convening power, especially with other companies



WHO is focusing attention on an 'orphan' problem denied by many in business and society



University of Oxford adds convening power



Business thinking helps in problem definition, strategy formulation and gaining maximum leverage from public health care resources



Academic experts and researchers bring considerable intellectual horsepower



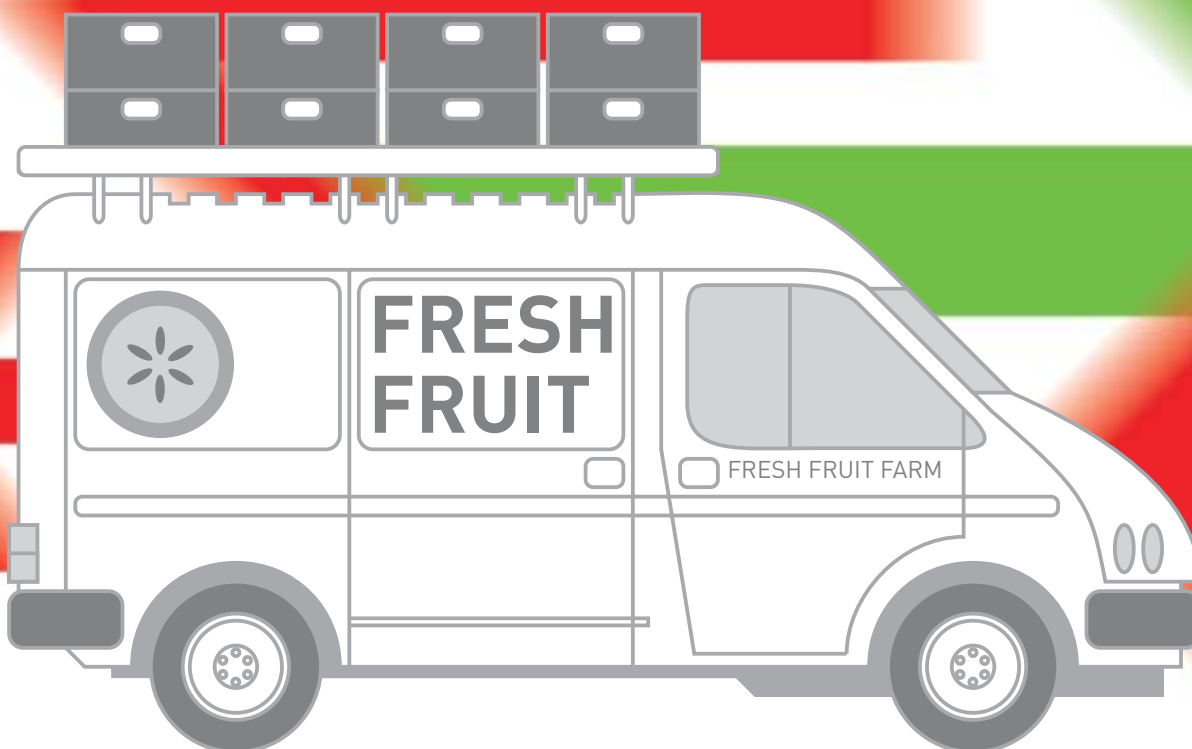
NGOs know how to 'market' causes that are important to citizens/consumers



Appropriate boundary between company input and government responsibility



Being seen to 'sell out' to the private sector



Case 4
**Extractive Industries
 Transparency Initiative (EITI)**
 Offering Incentives

The EITI⁷³ encourages companies in the mining, oil and gas industries, together with host governments in resource-rich countries, to publish revenue flows from the extractive industries to host governments – and to complement these with the publication of government receipts. The aim is to make it easier for civil society in these countries to hold governments accountable for how such revenues are managed and distributed.

Launched by the UK Government at the World Summit on Sustainable Development in 2002, the EITI is supported by a growing number of countries (e.g. Azerbaijan, France and Ghana) and companies (e.g. Rio Tinto and Shell). Civil society groups, including the Publish What You Pay coalition, are also active. The EITI has been particularly timely given the increased oil development in West Africa and the Caspian Sea region in the last few years, areas with poor records on corruption.

In June 2003 the EITI's principles and actions were agreed, and Azerbaijan, Ghana, Indonesia, Nigeria, Sierra Leone, and Trinidad and Tobago volunteered as potential pilots for the scheme. Work has been ongoing since then to create an adequate framework for revenue disclosure within each country.

Given the complex nature of corruption and the range of actors and interests involved, priorities and positions are bound to vary enormously. Yet trust is being developed through the process as the EITI focuses on finding common ground and identifying incentives – using the combined persuasive power of the different actors involved to bring companies and countries on board. The narrow scope (one sector and one aspect of corruption) has also made it easier to gain consensus.

In 2004 Nigeria became the first country to host a stakeholder workshop on the initiative. A Steering Committee has been formed with a view to ensuring full publication of 2004 revenues in early 2005. Also in 2004, the number of signatories to an Investors Statement in support of the EITI doubled to 57, which collectively represent US\$6.9 trillion. The longer-term significance of investors in driving this agenda is huge.

Key challenges

While the initial momentum is promising, some important actors from both business and government have still not signed on. The initiative may risk stalling unless a few key (and successful) pilots are achieved in each world region, creating momentum and pressure for peers to follow suit. Failure to achieve critical mass in a meaningful way would likely result in withdrawal of support by the NGO community, and possibly other actors.

A more intrinsic barrier to achieving the aims of the EITI is the lack of well-developed civil society institutions in some implementing countries. Successful implementation will require quite sophisticated advocacy organizations that can engage with policy-makers and companies on fairly equal terms, holding both to account.

Conclusion

Given the negative impact of corruption on the operating environment for business (see Chapter 2), there is a medium- to long-term business case for companies to engage in anti-corruption efforts. There are clear roles that business (including the investment community) can play in influencing governments to curb corruption and in providing mechanisms like reporting frameworks to enhance transparency, accountability and the quality of governance.

While individual companies can and have shown leadership – including publishing payments unilaterally – this strategy can be perilous in some situations. For example, when BP in Angola promised transparency around their payments to the Government, the announcement was met with a swift rebuke and a threat to the company's future in the country. BP was forced to back down. The energy giant's experience underlines the importance of collective solutions. In particular, there is a need for collective private sector advocacy to persuade governments and wider society that bribery and corruption are unacceptable and counter-productive.

'For companies, especially those involved in the extractive industries, investments are of a long-term nature and involve significant up-front capital. A good operating environment is therefore essential – and good governance and transparency are fundamental.'

Alan Detheridge
 Shell
 UK

Business

Government and multilaterals

Civil society



Lead by example (e.g. through unilateral reporting where possible)



Encourage host governments to take part



Promise of investment provides an incentive



UK Government creates space for dialog and brings key actors together



WSSD provided incentive for UK to act



Participating governments create peer pressure on other governments



Initial call for transparency of revenue flows and for companies to publish what they pay



Create pressure for companies and governments to act



Develop realistic reporting methodology



Unilateral action can negatively impact profits and business activities



Leverage is limited where host country unwilling



Tackling corruption is one of many competing priorities



Those that benefit from corruption will resist



Distrust of both government and business



6 Going to Scale Getting from here to there

6.1

Progressive alliances

Given the clear gap between the nature and scale of the challenges we face and the potential of current responses to bridge that gap, we now turn to the issues of scale and scalability. While most interviewees and respondents did not instantly recognize what we meant by such words,⁷⁴ of those who did, several pointed to the sort of 'progressive alliances' between companies, governments and civil society spotlighted in the case studies.⁷⁵

Respondents from Novartis, for example, note that many of the issues they face as a healthcare company can only be addressed through coalitions with other credible third parties – physicians, health departments and patient groups. 'Partnerships alone may not match the scale of global problems,' they concluded, 'but effective partnerships are a necessary component.'

Major sustainable development challenges like health, climate change and corruption cannot be addressed by a single actor (whether from government, the private sector or civil society), especially as they are rarely contained within one geographical boundary. Solutions typically lie in cooperative efforts to change or develop governance frameworks. Yet all too often traditional CR efforts do not explicitly consider scale issues.

This is a problem. As Mary Robinson of the Ethical Globalization Initiative explains, 'Many companies involved in corporate responsibility initiatives are only now beginning to recognize that individual efforts could have a much greater impact if they were scaled up by working more systematically with wider industry groups and with a broader set of stakeholders.' And, she continues, 'We shouldn't expect that business would be either able or willing to scale up their own efforts in addressing social issues without direct support and involvement from government and civil society. It's a two-way process.'

In this context, we offer the following conclusions on the roles of business, governments and NGOs in creating progressive alliances – and in ensuring that they deliver results. We indicate in brackets where the conclusions relate back to our case studies.

- **Market solutions will be crucial in solving global challenges**, but the evidence of current market failures (Cases 1–4) suggests the need for new approaches at the level of governance and market signals, including pricing.⁷⁶ Governments have a critically important role to play in these areas.
- **Companies can (and should) take a lead**, in initiating new approaches to addressing challenges like the MDG targets particularly where there are governance failures at the national or global level. Clearly, companies are most likely to take the lead where the business case is compelling (Case 2), although Novo Nordisk's action on type 2 diabetes suggests that some companies are thinking about long-term strategy as well as shorter-term imperatives.
- **Ultimately, however, scaling requires wider collaboration**, given the limits to what individual companies can achieve (Cases 2, 4). Well-designed and clearly targeted alliances leverage the core competencies of different players, and also help ensure that they become stakeholders in the creation of new rules.
- **Companies can bring innovation, implementation skills and other forms of know-how to bear** (Cases 1–4), particularly where markets and relevant policies are involved. They also have a good deal of financial muscle. The financial sector, meanwhile, has a key role both in creating real incentives for positive action (Cases 1, 4) and for ensuring longer-term scalability (Panel 6.3).
- **Governments and multilateral agencies must create the pre-conditions for scale** by moving CR beyond the leadership companies, re-tuning market incentives (Case 1) and changing societal behavior (Cases 2, 3). Multilaterals cannot generally regulate, but they do have influence – including over governments (Case 4). Ultimately, with societies facing competing choices on how to allocate scarce resources, governments' key responsibility will continue to be making judgments about priorities.

'Evolutionary models for achieving sustainable development goals are likely to include Global Action Networks which allow both space for experimentation as well as the flexibility needed in generating a global perspective.'

Steve Waddell
Strategic Clarity
USA

- **Civil society organizations potentially bring credibility.** They can help to make the preferences of society known in a more responsive and immediate fashion than most electoral processes allow (although issues of accountability loom large here, too⁷⁷). This role can be strengthened where civil society forms coalitions around issues and positions (Case 4). In addition, civil society is often well placed to bridge gaps between companies, governments and multilateral organizations and the grassroots, to provide expertise and to act as watchdogs, ensuring initiatives remain on track.
- **Alliances provide a safe space to develop and test new solutions,** set new agendas and show what is possible (Cases 1–4), potentially changing the language of debate. 'It's often the case that estimates of complexity and cost are extremely high – when it turns out after the fact that the actual costs are a fraction of what had been predicted,' concludes Oran Young of the Governance for Sustainable Development Program. Alliances can be designed to drive change within sectors (Case 4) or across sectors (Cases 1, 3).
- **Alliances also help reshape incentives,** throttling back on pressures encouraging unsustainable behavior and accelerating best practice. For example, where the business case for acting more sustainably is weak or lacking (Case 1), governments and civil society can fill the gap through regulation and enforcement, the use of economic instruments and information campaigns – and by praising or shaming companies for their responses.
- **But alliances bring their own dilemmas.** Alliances require compromises between the objectives of diverse members which can undermine the overall aim of the initiative – although alliances with a very specific scope may be less vulnerable (Case 4). And alliances can run the risk of 'capture' by one or more parties where there is an unequal balance of power or skills, as may be the case between multinational companies and developing country governments.
- **Finally, there is a central role for corporate advocacy.** Our cases show how companies can play a role in developing policy frameworks to address key challenges. Yet generally companies have not made strong, coherent calls for the systemic changes that would be necessary to scale up the initiatives they are involved in (Cases 1–4). Meanwhile, regressive corporate lobbying is a key barrier to scaling up CR responses. Think of the sugar industry and obesity, the pharmaceutical industry and HIV/AIDS, and certain extractive sector companies and corruption.

6.2

Tipping points

Despite the potential identified by our case studies, none has yet reached the 'tipping point' necessary for CR to achieve ongoing, systemic change. So how do we move from a promising initiative to the necessary critical mass?

- **A clear threat can help . . .**
The 1987 Montreal Protocol to deal with ozone depletion showed what can be achieved in a short time with a clear threat, energetic activist campaigns and strong leadership (in this case, from the United Nations Environment Programme). Although the chemical industry initially claimed that it was too difficult to eliminate CFCs and lobbied against controls, once it became clear they were on a losing track companies like DuPont and ICI swung into action with substitution strategies.
- **. . . and/or a clear opportunity**
This is an area rich in opportunities: to save costs, to build reputation, to grow tomorrow's markets. One initiative, involving Florida's Agency for Health Care Administration (AHCA) and Pfizer, aims to teach underserved, chronically ill populations in the state about disease management in pursuit of good health. The state saved US\$15.9 million in the first year of operation (2001-02), with 52% of patients showing improvements in their physical health score.

Panel 6.1

Scalability challenges

The terms 'go to scale', 'scale up' and 'scalability' seemed to explode from nowhere during the 'New Economy' era,⁷⁸ but the basic concepts had been around for years. Chemical engineers have long talked of the challenges of successively scaling up processes from the test-tube to bench, pilot and production scales. As new quality, health, safety and environmental requirements emerged, so the need to ensure these also scaled grew in tandem. Scalability then became an issue successively for the biotechnology, ICT and nanotechnology industries.

So what, in headlines, have we learned from mainstream scalability challenges?

- Where different parts of a system scale at different rates, bottlenecks result.
- While scalability is often assumed, not all technologies or ventures that need to scale have the capacity to do so.
- Pilot projects often fail to take into account the challenges of moving to (and operating at) significantly larger scales.
- Few innovations that have been wildly successful have been planned from the outset with scalability in mind.
- Things that scale well often emerge from small, opportunistic experimentation, rather than grand strategic plans.

Interestingly, some leading ICT companies are now bringing scalability thinking to their philanthropic activities. Cisco Systems, for example, has evolved its Networking Academy Program, using a mix of face-to-face teaching, a web-based curriculum and online assessment tools. One result is that the program now extends to 149 countries, with over 10,000 academies across the globe. Social objectives are central: in Jordan, Cisco is working with the Government and the UN Development Fund for Women (UNIFEM) to boost significantly the number of women entering the ICT sector.⁷⁹

- **Leadership**
In an ideal world, government would provide clear leadership, but we don't live in an ideal world and other actors have often had to step into the breach. In most of our case studies, civil society was the initiator. Yet companies can also play a key role where they recognize their business depends on healthy people, societies and markets. For example, under the leadership of Fluor, the largest publicly quoted construction company in the US, 19 major international engineering and construction companies signed and adopted business principles for countering bribery at the 2004 World Economic Forum.
- **Opportunism**
The opportunist has a bad name, but the strategic opportunist should be better respected. As AccountAbility Chair Tom Delfgaauw puts it, 'I have become a great believer in never wavering about long-term objectives, but offering lots of short- and medium-term, often rather opportunistic solutions and possible actions to companies. We need to create momentum, even through small steps – but in an increasing number of companies.'
- **Convergence**
If voluntary initiatives are to link into governance systems, there is likely to be a need for some convergence. 'If CR remains the domain of a few pioneers,' warns GRI's Ernst Ligteringen, 'and if we seek to progress with just an incremental strategy, it's not going to be enough. The invisible hand of the market will play its role, but to a larger extent we also need political will among a critical mass of government, corporate and social institutions. If this were to happen, the pieces of a global CR architecture could fall into place.'

- The Global Compact, the OECD Guidelines for Multinational Enterprises, the GRI's Sustainability Reporting Guidelines and the AA1000 standard could form the skeleton of the emerging system.'
- **Cultural sensitivity**
Intentionally or not, different cultures in different groups can impede effective communication and collaboration. Several respondents, both from government and the private sector, spotlighted this problem. Ann Sherry, CEO of Westpac in New Zealand, notes, 'The biggest obstacles are that business and government speak different languages on these issues, that they work to different time horizons, and that business is more focused on implementation, while government thinks about policy and political impact. Much could change if these barriers were bridged.'
 - **Critical mass**
'First movers' are crucial, but achieving critical mass also requires 'fast followers' who understand the initiative's vision and potential, and can bring additional weight, practical ideas and credibility. Without these fast followers, initiatives lose momentum and the costs of first mover status can outweigh reputational and other benefits. In our case studies, government at one level or another often acted as convener or integrator to help bring these fast followers on board.
 - **Incentives**
The final tipping point is generally reached when initiatives become embedded in governance systems, through which incentives are created to bring the rest of the companies on board. Clearly, markets have the potential to create powerful incentives (Panel 6.3), but as our case study on climate change suggests, progress through the market alone is often an uphill task, so again government action will likely be critical.

6.3

Trust and legitimacy

Levels of trust in business have fallen considerably. And it is abundantly clear that one reason why so many interviewees and respondents expressed concerns about involving business in new forms of governance links back to negative perceptions of corporate lobbying. David Korten puts it starkly: 'The most important responsibility of the corporate sector in addressing the Millennium Development Goals is to stop funding disinformation and lobbying campaigns that seek to undermine any serious effort to achieve them.'

Lobbying by business is an inevitable, critically important part of democratic politics, but – almost by definition – is usually reactive. So is it time to rethink how lobbying is done? True, industry insiders counter that this is a 'no go' area: 'You can't be transparent about lobbying,' said one business interviewee. 'Why would a company show its hand?' And many outside industry were equally skeptical. But Panel 6.2 poses some questions that should now be asked of corporate boards in relation to their CR initiatives generally and to their lobbying (and lobbyists) in particular.

In addition to rethinking lobbying, greater trust will need to be built through greater transparency and the open, interactive and reasonably equal involvement of major stakeholders, especially civil society. Many traditional relationships between business and governments that have been most distrusted have been strictly two-party affairs. As Fanny Calder, an associate fellow at the UK's Royal Institute of International Affairs, explains, 'Big business has often had very close relationships with governments – this is not new. To be legitimate, however, business should be attempting to influence governments through processes that involve other actors.' Good ideas won't get off the ground if the process is seen as illegitimate.

'There needs to be a willingness on the part of large businesses to be frank and candid about the power imbalances in their relationships with economically weaker entities, whether they be civil society groups or Southern governments.'

Kumi Naidoo

Civicus, South Africa

'Several companies engaged in addressing global challenges are doing so because their leadership sees the need for systemic change. This has greater impact when: (i) the corporate is very large with an extended sphere of influence; (ii) a group of corporates in a sector are able to coordinate action; or (iii) a group of corporates in different sectors are able to drive cumulative cross-sectoral change.'

Bernard Sheahan

International Finance Corporation
USA

'In general, CR debates and initiatives are far more oriented to "closer to home" matters than the more general themes you refer to. But this should be tempered by the fact that developments in CR are taking place at a rapid pace, so it is not at all inconceivable that initiatives may emerge that scale up to match the scale of the problems you [are focusing on].'

Professor Peter Pruzan

Copenhagen Business School
Denmark

Panel 6.2 Corporate lobbying

Many concerns about involving business more deeply link back to the problematic, controversial history of corporate lobbying against progressive policy on sustainable development challenges. We believe that there is a need to re-engineer corporate lobbying and to promote a wider understanding of the favorable business conditions that lobbying⁸⁰ seeks to secure. We would advocate three key minimum standards, and invite companies to answer three related questions:

- 1 Single interest lobbies fighting small points of policy can undermine the achievement of widely-held environmental and social objectives. Companies that support CR should, at a minimum, not be advocating lower environmental and social standards where these conflict with such objectives.

Q Are we advocating the lowering of standards, anywhere?

- 2 While 'mandated trade associations'⁸¹ often represent the lowest common denominator, company membership of such associations is believed to be essential. Leading companies, however, need to ensure that their message to their association is consistent with their CR goals.⁸² As Stephen Tindale from Greenpeace UK has put it, 'One of the largest reputational risks a company can face is exposure as a hypocrite.'⁸³

Q Are we comfortable that our association positions align with our own?

- 3 Companies (and governments) should be as transparent as they can in terms of where they stand on issues about which they are engaging in the public debate or making representations. Transparency will always be limited by the constraints of the law and commercial confidentiality requirements, but even the best companies could do more to make their policy positions clear on key issues.

Q Are we doing enough to communicate our public policy positions?

Furthermore, there is a clear and growing need for companies to speak out in favor of policies that deal proactively with sustainable development issues — and an increasingly robust business case for doing so.⁸⁴ This business case rests on a growing recognition that:

- Social and environmental pressures are not going to go away, and it behooves companies to lobby governments to address these issues directly as a way of taking the heat off of the private sector, which is ill-equipped to address these issues.⁸⁵
- Companies that resist regulation on principle may find that a more positive approach can bring opportunities to work with government and other stakeholders in ensuring that rules are efficient, provide a solid basis for long-term planning and are consistent both within government and across different states and regions.⁸⁶

Panel 6.3 Financial markets

A necessary condition for going to scale will be the active, constructive involvement of financial markets. Financial markets allow for effective exchange of material information, a prerequisite for the efficient allocation of capital. As our case studies show, they can also play an important role in providing incentives (or, often, disincentives) for more responsible behavior from companies, as well as governments. In addition, the finance sector can exert leadership by calling for voluntary and regulated disclosure around environmental and social issues (e.g. The Carbon Disclosure Initiative⁸⁷ or the US Investor Network on Climate Risk⁸⁸).

Financial markets are themselves subject to a rapidly growing number of CR-related initiatives and actions. They include screening by investment (pension) funds, research reports by mainstream, dedicated index families, the Equator Principles on project finance, UNEP-FI and the Global Compact's own Financial Sector Initiative.⁸⁹ These efforts aim to help improve the quality of investment decisions by integrating CR issues into mainstream processes because they are considered material to value creation and risk.

Capital markets — that is, the stock exchanges of the world — are another key leverage point with enormous potential to advance the CR and sustainable development agendas. The Global Compact is now actively partnering with stock exchanges and exchange federations: BOVESPA, Brazil's main stock exchange, and the Jakarta Stock Exchange have both joined the Compact as signatories, while other exchanges and exchange bodies are launching awareness campaigns on the Global Compact with listed companies.

A pioneering example of systemic change led by a capital market is the 'Social Stock Exchange'⁹⁰ launched by BOVESPA. The Social Stock Exchange parallels the functioning of a traditional exchange, except that it helps 'social profit organizations' (non-profits) raise capital from 'social investors' (donors), which is paid back in the form of 'social profit' (a more just society).

PLURAL – Diversity as a Strategy for Business Development

Following the World Conference Against Racism in Durban, 15 companies in Sweden have been engaging in a multi-stakeholder dialog on diversity in the corporate world — providing innovation in helping to address the shared societal challenge of immigration and counter some of the negative images of migrants. www.eginitiative.org/documents/sweden.html

7

Next Steps

It's time to shift gear

7.1

Conclusions and recommendations

We began this project with three questions: First, does the CR movement have the capacity to deliver real progress on sustainable development? Second, where do governments fit in the CR puzzle? And, third, can business play a constructive role in governance by preparing the ground for wider policy change? Our conclusions are as follows:

- **CR has made significant strides in some areas**, but as currently practiced lacks the capacity to deliver real progress on key dimensions of sustainable development. Insufficient links to wider governance frameworks and processes create islands of influence and leave the majority of companies engaging in 'business as usual'.
- **New forms of governance are evolving, but they still lag the challenges.** Among the critical functions of governments is a responsibility to set priorities, develop incentives and help create a stronger business case for corporate involvement. Civil society and business meanwhile have a role to play in supporting government action towards sustainable development – and in advocating and helping develop stronger frameworks where governance is weak. As Oded Grajew from Brazil's Ethos Institute puts it, 'The idea is not to take responsibility away from government. It's to get government to fulfill its responsibilities.'
- **Business involvement is a necessary condition for success.** Business people can bring fresh perspectives, help test new policy frameworks, evolve innovative and more efficient models, and transfer skills and technologies. But, to be trusted, companies must increase transparency and external engagement, and show more progress on integrating CR priorities into core operations and business models.

What follows in this chapter are our recommendations to different actors on how to help CR scale up and link to governance systems. Our recommendations for civil society organizations and for governments are summarized in Panels 7.1 and 7.2, while the Global Compact itself is addressed in Section 7.4. The bulk of this chapter, however, focuses on business – particularly on companies and business organizations supporting the Global Compact. We argue that business needs to shift into higher gears in the Corporate Responsibility Gearbox (Figure 7.1).

7.2

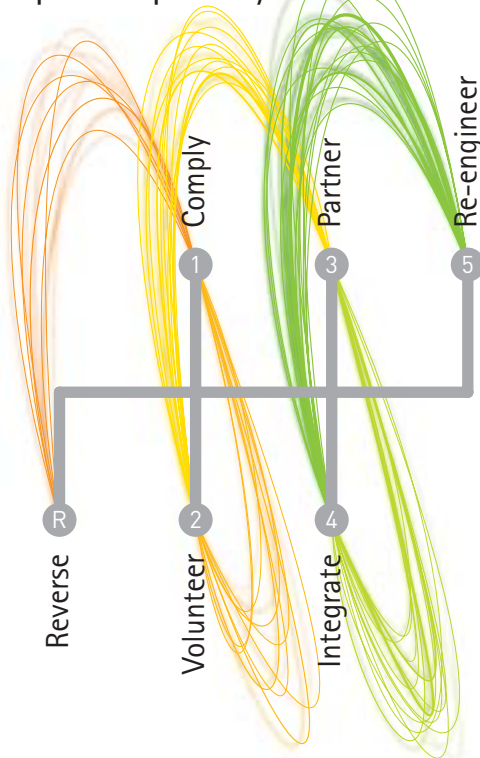
Five forward gears (and reverse)

Some weaknesses of the current CR agenda are identified in Chapter 2. They include both micro and macro issues. At the micro (corporate) level, CR initiatives are often unconnected to core business activities. While effective communication is vital, in too many cases, the skills of most people fielded by business to take part in CR initiatives are more suited to managing public relations challenges than evolving new business models. At the macro (policy and systems) level, economic, governance and political operating systems also remain largely untouched by CR efforts.

Future CR initiatives will need to focus on creating incentives and building a critical mass of entrepreneurial talent in support of sustainable development. In the process, firms must learn to think of public policy as a driver of longer-term competitive advantage, transparently advocating policies which help reinforce their CR efforts and punish laggards.

Think of the challenge in terms of a Corporate Responsibility Gearbox (Figure 7.1). As companies or sectors shift through the gears of change, the levels of engagement and integration themselves change. The smoothness with which this can be done depends on the degree of political, institutional and economic synchronism, that is the extent to which corporate, market and governance systems work together – and the degree to which leaders can balance internal and external priorities.

Figure 7.1
Corporate Responsibility Gearbox



The ultimate outcome of timely gear-shifting should be higher levels of trust in society, enabling greater system change to address sustainable development goals, with significantly less social, political and economic friction. Inevitably, however, while some companies move steadily towards the upper gears, others will be forced to shift back down, for example when hit by controversies, market reverses, mergers or a change of CEO.

So let's run quickly through the gears, remembering that it may be necessary to 'jump start' a corporate 'engine' in a higher gear, rather than shifting through each gear in succession.

1st Gear: Comply⁹¹

When companies first collide with emerging social agendas, we hear protests that the 'business of business is business', with some limited acknowledgement of wider society through traditional channels like charitable giving.

- PR and legal departments play a major, defensive role.
- Stakeholder engagement is mainly interpreted as philanthropy.
- Relations with government are seen in terms of compliance with legislation and paying taxes.⁹²
- No business case is perceived for going beyond compliance.
- The key drivers are activism, the media and government.

2nd Gear: Volunteer

Some companies begin to move 'beyond compliance'. CR and sustainable development issues are increasingly acknowledged as both legitimate and requiring constructive responses. The emphasis here is largely on measuring and managing direct operational impacts.

- The scope of CR widens though it is still seen primarily as public relations.
- Stakeholder 'engagement' is more active, but still often one-way.
- Relations with government still largely focus on taxes, compliance and lobbying.
- Voluntary industry standards evolve, often independently of governments.
- The business case mainly focuses on risk management and eco-efficiency.
- Corporate peer pressure now emerges as a key driver.

Panel 7.1

Recommendations for civil society

The early and ongoing involvement of a diverse range of civil society organizations will be critical.⁹³ Specific recommendations for civil society organizations:

- Help establish clear priorities for action.⁹⁴
- Work to strengthen incentives for positive corporate action, by holding all high-impact companies to account, not just branded companies, and by recognizing (and partnering with) leadership companies.
- Invest in progressive alliances and investigate scalability.
- Establish clear 'rules of engagement' to protect their integrity and independence.
- Enhance transparency and accountability, ensuring legitimacy in holding business, government and other actors to account.
- Increasingly promote system-level reforms, in addition to changes at the levels of companies and value chains.

While these recommendations are mostly targeted at larger national and international NGOs, grassroots organizations also have a vital role to play. They can act as intermediaries between local communities and private or public sector entities, which often have neither the time nor the skills to engage at the community level. Grassroots organizations can also build bridges to local government and help monitor and report on-the-ground results.

Panel 7.2

Recommendations for government

Governments and the wider political system will continue to be the central means by which society makes increasingly complex trade-offs and decides priorities. But many aspects of government will need re-engineering, a point made forcefully to us by respondents like David Varney, chairman of the UK ICT company mm02 and of Business in the Community.

Governments will continue to play a critical role in legislating, regulating and enforcing, although with a more strategic focus on public policies that are known enablers of efficient markets. In parallel, they will increasingly rely on private initiatives as the first line of enforcement. Companies will be asked to demonstrate 'due care' and encouraged to adopt relevant codes of conduct, business principles and management systems. Specific recommendations for governments:⁹⁵

- Clearly communicate looming problems and their likely effects.
- Encourage participation from civil society, business and other stakeholders in progressive alliances.
- Consider how public policy can stimulate key business drivers,⁹⁶ taking into account the impact of policies on small business as well as multinationals.
- Given that business is driven by deliverables, specify desired outcomes.
- Encourage the use of metrics that encompass multiple sectors.
- Emphasize innovation, ingenuity and pragmatic, scalable solutions.
- Support the evolution of markets to price public goods such as the elimination of greenhouse gases.
- Develop a portfolio of policy instruments that reward good corporate performance, e.g. fiscal incentives, procurement policies, endorsements, labeling, training and information, while also penalizing laggards using minimum standards, fines and other disincentives.⁹⁷

Governments in developing countries often face additional challenges in managing and promoting the CR agenda. There is a need to enhance their capacity to implement and enforce existing regulations and to take limitations into account in developing new policies. Another key challenge is to invest in the capacity to handle negotiations and relationships with business, especially multinational companies.

3rd Gear: Partner

Now the company — or sector — is really beginning to motor. But the sheer number of initiatives and partnerships, and the ambitious nature of some of them (think of the key performance indicator sets now proposed by the GRI), can mean that corporate executives feel overwhelmed.

- CR experts take center stage, with CEOs and board members 'wheeled out' for major events.
- Stakeholder engagement evolves into a two-way dialog with wider society, including a range of non-traditional stakeholders.
- There are closer working relationships with government, for example through tri-sector or public-private partnerships.
- The business case now focuses on proactive risk management, reputation building and the co-evolution of solutions.
- The key drivers are civil society, some parts of government and leading businesses, with much of the media (because there is less drama) beginning to lose interest.

4th Gear: Integrate

By now the issues are experienced as increasingly strategic, requiring integrated responses across companies and value chains. But as the issues go mainstream and urgent action is required, tough dilemmas emerge and trade-offs have to be made between competing priorities. Even leading companies may get trapped, oscillating back and forth between business-as-usual and experiments with more radical strategies.

- Top management and boards are now actively involved.
- The company engages with civil society and governments in progressive alliances working towards common objectives.
- The focus is on embedding CR goals in all business processes, starting with product or service development.

- The business case becomes more strategic as businesses begin to connect the dots between long-term corporate objectives and wider societal challenges.
- The drivers are many and various, including growing interest from the financial sector.
- But companies pushing the envelope still often find that the drivers are inadequate in key areas.

5th Gear: Re-engineer

For many people, most of the time, four gears is enough. But there are times when it is necessary to shift into fifth gear, or overdrive. Similarly, it may sometimes be possible to evolve political or market systems through cumulative activity, where a tipping point is reached thanks to the sheer numbers of people or companies thinking or doing the same thing.⁹⁸ However, with the sort of challenges considered in *Gearing Up* it may not be enough simply to do more of the same. The focus needs to shift to systemic change, addressing future markets, market frameworks and business models.

- New players come to the table, including 'change agents' like inventors, entrepreneurs, venture capitalists and investment bankers.
- Progressive alliances target system change, focusing both on governance and markets.
- CR moves beyond products or services to re-examine business models.
- The business case is often negative, in the sense that there may be a 'first mover disadvantage', at least in the short term.
- There are many drivers of change, including growing financial sector and civil society activity, but governments and governance systems once again must play a central role.

Companies in fifth gear, advocating market change and — in some cases — helping to drive 'creative destruction', need to justify such actions on more than just shareholder value. Breaking out of the prisoners' dilemma (Panel 2.2) will often require moral leadership to ensure a timely and productive discourse on the roles and responsibilities of different actors. Listen to Jørgen Randers, a professor at the Norwegian School of Management and a member of BT's stakeholder advisory panel. He argues that companies operating at this level should, 'Do the profitable thing now, and do it as responsibly as possible. At the same time, press hard, on a moral basis, for making more of those responsible things more profitable in the future.'⁹⁹

Both Gears 4 and 5 will depend for their success on the further evolution of financial markets. As Jermyn Brooks, board member at Transparency International, predicts, 'Increasing pressure from the investing community, export credit agencies and project finance banks for compliance — among other things — with the Global Compact would hasten the development of critical mass and effective peer pressure. Eventually, the world stock exchange commissions will come to require disclosures as an indication of compliance with the Compact.'

And reverse gear?

If a normal driver tries to operate a vehicle in two gears at the same time, the gearbox is liable to explode. But some skeptics note the tendency for many companies to keep at least part of their activities in reverse gear. This is also a trick that companies achieve by farming out negative lobbying work to industry federations or lobbyists who fight a largely defensive war. Interestingly, some corporate respondents told us we were naïve to even raise the issue. But unless business can become more transparent and aligned in this area, levels of trust are likely to remain relatively low (Panel 6.2).

'Addressing the scale of the challenges needs more than voluntary initiatives: it needs support, pressure and involvement from governments. Incentives from the market, customers and financial markets are also crucial.'

Martin Tanner

Novartis International
Switzerland

'Governments need to talk softly, but carry the proverbial big stick.'

Pieter Winsemius

Netherlands' Scientific Council
for Government Policy
The Netherlands

'When we . . . bemoan the lack of progress, laying the blame on a lack of political will and strategy, insufficient funds, and vested interests, perhaps our strategy for looking for answers is also misguided. Top down doesn't do it and bottom-up falls short of reaching scale. How about a nutcracker approach to policy formation and interventions?'¹⁰⁰

Pamela Hartigan

The Schwab Foundation
Switzerland

7.3

The challenge

Most of the business people we spoke to would probably accept that their companies currently operate in Gears 1–3, with a few perhaps moving into Gear 4. Again, this shouldn't surprise us. For many CR professionals the challenge is to fine-tune the existing system, not to create a radically different one. That is the way their jobs are defined and, often, the way their company's current business model works best.

Fine, as far as it goes. But moving forward on the major challenges spotlighted by the Global Compact, as well as on the narrower CR agenda, will increasingly mean that companies must progressively shift gears, upwards. For most companies, moving into higher gears will initially require protracted efforts, both internally and externally, to overcome skepticism, vested interests and other forms of inertia.

In the process, business will often need to take extraordinary steps to be seen to be more accountable and build the necessary legitimacy. To help CEOs, boards and CR professionals in Global Compact signatory companies to address the relevant questions, we present 'The Global Compact Challenge' (Panel 7.3).

Panel 7.3

The Global Compact Challenge for Participants

The Global Compact has introduced integrity measures to address the issue of 'free riders' among its participants. There is now a requirement that signatory companies regularly communicate their progress in implementing the Global Compact's principles. Those failing to do so will be de-listed. The Global Compact Office is working on establishing even more robust safeguards and governance frameworks.

We strongly endorse this new direction, unveiled at the June 2004 Leaders Summit in New York. And we also welcome the introduction of the tenth principle on corruption: 'Businesses should work against corruption in all its forms, including extortion and bribery'.

To prepare the ground for the next stage in the Compact's evolution, we encourage signatory companies and organizations to take 'The Global Compact Challenge'. The questions are simple, designed to facilitate board-level discussions of commitment, goals, performance and targets.

Q1 Which gear are we in today?

- Who in our company is engaged in CR?
- To what extent are top executives involved?
- Is there a real business case for further action and investment?
- How are outside actors engaged in our decision-making around CR?
- How well are our efforts linked to wider governance frameworks?
- What are the implications of the CR agenda for our core business model?
- Are different parts of our organization in different gears?
- If so, why – and with what potential implications?

Q2 Where do we want to be by the end of 2007?¹⁰¹

- Which gear do we need/want to be in by 2007?
- What are the main barriers to change and how can we overcome them?
- Who will need to be involved, internally and externally?
- What will be required in terms of our own governance frameworks and processes?
- And, externally, how can we help co-evolve wider governance frameworks?

Q3 How can we achieve scale?

- What system-level changes are needed to ensure real progress against our identified CR priorities?
- Who in our organization currently thinks in terms of scalability and system-level change?
- Do scale-focused progressive alliances exist that we can tap into?¹⁰²
- Who needs to offer what incentives to foster the necessary innovation?
- How can they be encouraged to do so?

7.4

The Global Compact

Taking a step beyond our original brief to assess whether business can play a constructive role in governance, our final recommendations are for the Global Compact itself. The Global Compact's key assets are its UN platform and the courage, authority and appeal of the Secretary-General. To achieve its ambitions and goals, however, the Global Compact, too, must now shift up a gear or two. In addition to its current plans and objectives, including the addition of a tenth principle focusing on corruption, we recommend that the Global Compact carry out the following tasks:

Integrity and transparency

- 1 Impose and enforce clear, time-constrained minimum standards as a requirement for continued association with the Global Compact.
- 2 Support work on the business case in relation to each Compact principle, while encouraging business leaders to acknowledge and accept the ultimate primacy of the 'moral case' over the business case.
- 3 Guide signatory companies towards the GRI framework, moving quickly to agree a minimum set of key performance indicators for each Global Compact priority area.
- 4 Summarize data from signatory companies into a bi-annual Global Compact progress report, including analysis of sector-level and country performance.

The UN

- 5 Explore ways to break down silos between relevant UN initiatives, including ensuring closer linkages between the Compact and the MDGs.
- 6 Encourage the UN to introduce and enforce minimum social and environmental standards for its suppliers in line with Global Compact principles.
- 7 Use the UN's convening power to foster new thinking on ways in which business can help promote necessary changes in governance and market systems, ensuring adequate representation from developing countries.
- 8 Work to ensure that the Compact survives the eventual succession from Kofi Annan's leadership.

Scale

- 9 Continue efforts to expand the involvement of companies in the Compact, including small and medium-sized enterprises and those from developing countries, in ways that reflect local culture and circumstances.
- 10 Use an updated summary of *Gearing Up*, following the June Leaders Summit, as a stimulus for a wider, multi-stakeholder debate on how to achieve scale in addressing such targets as the MDGs.

Some see a future for the Global Compact as a 'Sustainable Solutions Incubator',¹⁰³ which would help produce the progress that, in turn, would demonstrate the Compact's impact and utility. For this to happen, the Compact would need to identify companies and other organizations dedicated to shifting into top gear, co-evolving programs and projects designed from the outset to deliver tangible results.

Jargon Watch**Business case**

The extent to which CR improves business value, as conventionally defined.¹⁰⁴

Corporate responsibility (CR)

A term that can embrace financial integrity, corporate ethics and dimensions of economic, social and environmental value added. In the wake of such scandals as the Enron collapse, the term has often focused back on narrower definitions of financial integrity. However, throughout *Gearing Up* we use CR to refer to a business approach embodying open and transparent business practices, ethical behavior, respect for stakeholders and a commitment to add economic, social and environmental value.¹⁰⁵ Corporate *Social Responsibility* (CSR) is also often used in this sense.

(Public) Governance

Governance is a social function designed to manage interdependencies within human societies. Governance systems include institutions, legal regimes and other arrangements that perform the function of governance by setting the 'rules of the game'.¹⁰⁶ Governance can transcend government to encompass other actors including the business sector and civil society.

Progressive alliances

The Copenhagen Centre has developed the following definition: 'People and organizations from some combination of public, business and civil constituencies who engage in voluntary, mutually beneficial, innovative relationships to address common societal aims through combining their resources and competencies.' Also called global action networks and social partnerships.

Stakeholder

Anyone who affects or is affected by a company's operations. The key perception is that company decision-makers need to consider a range of interests from customers and shareholders to employees, suppliers, local communities, pressure groups and even, potentially, future generations.

Sustainable development

The best known definition is that of the World Commission on Environment and Development: development is sustainable when it 'meets the needs of the present without compromising the ability of future generations to meet their own needs'. It is linked to concepts like economic, social and environmental equity within and between generations.

'In the coming years we expect to see a growing number of companies advocating an international system for CR governance based on UN codes and conventions.'

Simon Zadek
AccountAbility
UK

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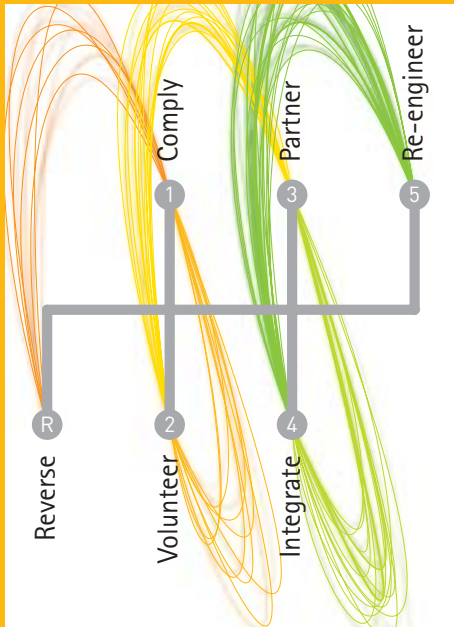
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