



A global scan of corporate citizenship

"The sum of acts of local citizenship does not make a globally involved citizen. Global issues must be addressed on a global scale." – Klaus Schwab, President of the World Economic Forum

Prof Derick de Jongh

The articles we have presented in the last few issues on the state of corporate citizenship around the world emphasise its global dimensions and local features.

What does the public see as the responsibilities of business? A poll asked people around the world whether or not companies were "not at all," "somewhat" or "completely" responsible for various aspects of business operations and their impact on society.

The pollsters found that large majorities in 25 countries hold companies completely responsible for the safety of their products, fair treatment of employees, responsible management of their supply chain and for not harming the environment.

These are of course, operational aspects of firms and well within their control. But, in addition, a significant number held them completely responsible for improving education and skills in communities, responding to public concerns, increasing global economic stability, reducing human rights abuses and narrowing the rich-poor gap.

Add in the category of partially responsible and business is responsible, in the public's eye,

not only for minding its own store, but also for addressing a myriad of the world's ills.

Which nations have the highest expectations of large companies on corporate social responsibility?

It was found that, among the countries surveyed, more than 80% of Brazilians hold business responsible for its performance in ten dimensions of corporate citizenship.

This dips to 59% of the public in Great Britain, 57% in the US and 53% in India. Interestingly, some 46% of Chinese now hold business responsible for citizenship – double the number compared to six years ago.

Researchers reinforce the idea that business is moving from a philanthropic conception of citizenship to a broader view. But the thrust and priorities of corporate citizenship seems to vary from country to country.

On this point the public was asked:

What is the most important thing a company can do to be seen as socially responsible?

Its 2005 study found some notable differences in top citizenship priorities around the globe: the public in the US, Canada and Brazil, for example, puts prime emphasis on community involvement, in Australia, the UK and much of Europe on protecting the environment and in Mexico and China on the quality and safety of products. The most important criterion across the range of countries sampled was treating employees well. To an extent, this reflects the public's traditional conceptions of company responsibilities to employees and the common weal and heightened concerns about products and service in nations embarking on consumerism and global trade.

Country reports affirm that businesses are taking these responsibilities on in advancing their citizenship agenda.

In addition, there seems to be growing interest in environmental sustainability among both the public and business executives worldwide.

McKinsey & Co., for instance, finds that more than 50% of consumers and business leaders in more than ten countries sampled rate "environmental issues including climate change" as the most important issues facing business. The study also found that more than 90% are personally worried about global warming.

Ratings of corporate citizenship around the world: How is business doing overall on its responsibility scorecard?

A multiyear look at public opinion worldwide shows public expectations of companies have been rising and that ratings of their social responsibility have been dropping. Recent data from the Reputation Institute documents that in 25 countries studied, an average of one in five people agree that "most companies are socially responsible."

Roughly 16% of Americans see it this way – fewer than in Mexico (35%) and Canada (26%), but more than in the UK (11%) and Japan (9%).

Plainly there are gaps between public expectations and corporate performance in this arena. To investigate these, the Centre's 2007 State of Corporate Citizenship survey of US business compared executives' views on corporate responsibilities with consumer data.

Interestingly, there was some alignment between executive and consumer ratings on the responsibility of business to provide equal treatment of employees and support for charities and community projects. But there were some

gaps in opinions about management.

For instance, the public (85%) more so than business leaders (74%) believes that corporations should apply the same high standards everywhere they operate in the world.

And the gap grows when it comes to ensuring that products have been produced in a socially and environmentally responsible way. The biggest gaps, however, centre on expectations that business should reduce human rights abuses in the world and help bridge the gap between rich and poor.

In turn, McKinsey & Co. documents a gap between public and corporate views in parts of Western Europe as well as Japan, India and China. In the 2005 and 2006 polling, the public put far more importance than did business leaders on environmental issues, pensions and retirement benefits as well as health care benefits. No wonder these are labelled as key risks facing business in the years ahead.

Still, there is movement afoot: a followup survey finds that today business leaders rate environmental issues every bit as important as consumers do – a 20% increase from 2006 to 2007.

Globally some 68% of executives say large corporations make a positive contribution to the public good to at least some extent. Yet only 48% of the public agree.

This gap is greatest in North America where three out of four executives say corporations contribute to the public good versus 40% of the public.

It is also substantial in Europe and much of the Asia-Pacific region. By comparison, the public in China and India give large corporations better marks than do business leaders. This may have something to do with their unrivalled success at job creation and delivery in the consumer market.

A notable factor related to these gaps is the diminished role of government in the US and a continuing loss of trust and confidence in public officials, but this is also a worldwide phenomenon. Majorities mistrust their national government in polls around the world.

As has been reported, the public everywhere is turning to business, particularly big business, to do more for society and to take better care of the natural environment.

A key question, then, is what motivates business to do so?

Roots of corporate citizenship The GERN

country reports highlight some of the distinct socio-cultural motivations for corporate citizenship around the world. These include:

Religious and moral sentiment

These motives are cited for corporate philanthropy and responsible employment practices in the US, Europe and Latin America (Judeo-Christian roots), in Asia (Buddhism, Catholicism) and in the Middle East (the Islamic value of Zakat – donations).



Prof Derick de Jongh is the Director of Responsible Leadership and Associate Professor in Business Management at the University of Pretoria.

Cultural and corporate values

Differences were also noted to the extent that nations were inclined to a more individualistic versus collective culture with the former more inclined to laissez-faire business practices and voluntary corporate initiatives, the latter more prone to state and industry influence over corporate conduct and the direction of corporate social responsibility.

This may also apply to the adoption of instruments such as the Global Reporting Initiative and involvement in multinational groups such as the UN Global Compact.

Market structure and economy

The relative prevalence of family owned enterprises seems to emphasise corporate responsibility to the common weal more so than public ownership.

This extends to the treatment of employees as 'part of the family' in some cultures as opposed to more impersonal relationships without familial obligations.

Moreover, the countries represented in GERN include those associated with Anglo-Saxon capitalism in the US and UK, a market economy surrounded by a welfare states in much of Europe, a market economy subject to command in China and to royal decree in the United Arab Emirates and the mixed model socioeconomy of Brazil, South Africa and to some extent Chile.

No database or set of surveys is sufficient to parse out the relative importance of these factors for corporate interest in and practices of citizenship in different parts of the world. The GERN authors, however, note that globalisation and the spread of multinational companies have shaped the citizenship agenda in each of their countries.

To this point McKinsey & Co's 2006 survey of more than 4 000 executives in 116 countries found that just 16% adopted the view that business should "focus solely on providing highest possible returns to investors while obeying all laws and regulations."

The other 84% agreed with the statement that business should "generate high returns to investors, but balance that with contributing to the broader public good."

The relative importance of corporate citizenship around the world

Some hunches about the relevance of these socio-cultural and more market based drivers of citizenship can be developed by looking at the relevance of citizenship around the world. For instance, researchers from the Reputation Institute have studied the reputations of more than 600 companies based on 30 000 online interviews with consumers in 25 countries.

In response to a general question, between 50 and 80% of the respondents (depending on the country) agree that citizenship programmes have a strong effect on the reputations of companies.

This perception is strongest in countries such as South Africa, Brazil, China and Mexico where, the researchers argue, companies play a more important role in societal development.

Still, more than 53% of the public in the US

sees a strong link between citizenship and reputation.

Digging deeper into the database, the Reputation Institute's researchers have analysed the relationship between different aspects of a firm and its overall reputation.

The top predictor of corporate reputation globally is what they term the 'heartbeat' factor – the public's overall respect for, and trust in, a company.

In its 2008 global survey, the combined ratings of a company's governance, social responsibility and work place practices made nearly as much of a contribution to its reputation overall,

lia Canada, the US and UK).

This may have something to do with the strength of the regulatory environment in these nations versus, say, Northern European countries. It may also reflect the public's reactions to corporate misdeeds, prominent in the US, the UK, Australia and Canada as well as in South Korea which also makes the list.

When it comes to the relative importance assigned to corporate citizenship, supporting good causes and not harming the environment, the Europeans in general put greater weight on these factors in judging a company's reputation. They also factor work place conditions and how



at least in the public's eyes, as the combined ratings of a company's products, services, innovativeness, financial performance and leadership.

On a country by country basis, there are decided differences in relative importance of the three 'citizenship' factors.

Working with the Reputation Institute, the Boston College Centre analysed the import of each of the three factors associated with citizenship in the countries sampled.

In the case of governance, for example, the importance placed on behaving ethically and being open and transparent is highest in several countries in emerging markets (Chile, Mexico, India) and, interestingly, the most advanced countries with Anglo-Saxon capitalism (Austra-

lia Canada, the US and UK).

companies treat their people into the reputation calculus more so than in other countries. This doesn't mean that the work place is unimportant in ratings of corporations elsewhere. Rather, it means that other factors are simply more important in the public's judgment of companies.

On this count, the Reputation Institute finds that, on average, 75 to 80% of those polled in some 25 countries would "prefer to work for a company that is known for its social responsibility." It also shows that the appeal of corporate citizenship to employees is by no means limited to the US or developed economies with their comparatively prosperous and well educated work forces.

On the contrary, while the Reputation Institute ranks social responsibility as a significant driver in attracting employees in the US (more than 62% say it is important to them), it is even more important in Chile (69%), India (69%), South Africa (77%) and China (79%). Interestingly, it appears less of a driver in the UK (46% say it is important) and Japan (49%).

Summing this up the Reputation Institute reports, for instance, that citizenship is very important to the Chinese. It is a major factor in their ratings of a company's reputation and very relevant in employee and consumer choices.

But note that this relationship works in two

ens the relevance of citizenship in the UK and to a lesser extent France and Germany.

Some of this can be explained by the stage of economic development in countries, the role historically assumed by companies versus the state and the particulars of national culture.

Take, for example, the question of whether or not multinational companies are good for society. In the US, a strong market capitalist country where corporations are neither damned nor praised, public opinion splits roughly 50/50 as to whether or not global companies operate in the best interests of society. In Europe, by comparison, only one in three trust companies in this regard.

to operate and a vanguard is using citizenship to secure a competitive advantage.

Surveys of executives globally paint a similar picture. As an example, a survey by The Economist Intelligence Unit of executives in Europe, the Asia-Pacific and North America finds that some 45% of the sample concur they "explicitly consider the views and impact of external stakeholders" in decision making. But there is a split in the rationale for citizenship: just over half see corporate responsibility as a "necessary cost of doing business" and as many say it gives the firm "a distinctive position in the market."

There seems to be a global consensus among business executives that society has higher expectations for corporate responsibility compared to five years ago.

Looking towards the next five years, some 55% of executives in the Americas, 62% in Europe and 64% in the rest of the world think these expectations will continue to increase. The GERN global reports concur that expectations for corporate citizenship mount in every country studied. But how companies perceive and act on these expectations seem to differ by company, industry and region.

As the GERN report documents, social issues of relevance to business differ around the world. The public too has somewhat different priorities and needs regarding the corporate role in society. One study took a systematic look at the relevance of different stakeholders in different regions of the world.

In Western Europe, for example, customers and government policy makers seem far more influential in shaping corporate sustainability strategies than in the US. American companies, by comparison, are more influenced by the actions of competitors.

And in Asia-Pacific, the key influencer is government. It is also notable that developing world customers are seen as influential in 15% of the companies sampled – a force likely rated as more significant in global businesses.

Management of citizenship

Surveys have only scratched the surface as to how citizenship is managed in companies.

The Boston College Centre's 2007 survey of US industry for example, found that while the majority (60%) said it was part of their business strategy, far fewer incorporated it into their business plans (39%), consulted with external stakeholders (29%) or had an individual or team responsible for citizenship issues (25%).

On a global scale and among a select sample of companies, McKinsey & Co.'s 2007



ways: good corporate citizens are acclaimed and those that perform badly as citizens are devalued and avoided in China. This same relational trend is found in India, Mexico, Brazil, Chile and other emerging markets where the public is interested in corporate citizenship and companies are seen as critical to economic and social development.

By comparison, citizenship is not much of a discriminator in reputational rankings in Russia. Why not?

One theory is that because the great majority of Russians don't trust corporations, they don't give credence to the idea that firms can be good corporate citizens. This negative view of corporate practices and intentions also damp-

Commercial motivations for citizenship

A book, *Beyond Good Company: Next Generation Corporate Citizenship*, documents how firms enact citizenship through the distinct lenses of

- compliance with laws and industry standards,
 - voluntary contributions to society,
 - risk management and
 - game changing,
- by addressing social issues as opportunities to improve the business and society.

The GERN research team estimates that while most companies in each region studied see citizenship in these first two dimensions, increasing numbers attend to risk and their licence



survey of companies participating in the Global Compact found that 90% of CEOs are doing more than they did five years ago to incorporate environmental, social and governance issues into strategy and operations. But gaps are notable: 72% of CEOs agree that corporate responsibility should be embedded into strategy and operations, but only 50% think their firms do so. And six in ten say corporate responsibility should be infused into global supply chains, but only 27% say they are doing so.

Each of the GERN reports emphasised 'performance gaps' in citizenship: between public expectations and business responsiveness and between executive rhetoric and corporate action. McKinsey & Co. points to several barriers that keep companies from implementing an integrated and strategic approach to citizenship.

Chief ones cited include competing corporate priorities (noted by 43%), the complexity of implementing strategy across business functions (39%), a lack of recognition from financial markets (25%) and different definitions of corporate social responsibility/corporate citizenship

across regions and cultures (22%).

What then do we know about how corporate citizenship is managed in different parts of the world?

An Ethical Investment Research Service (EIRS) study of corporate involvement with sustainability found that European companies are generally ahead of those in the US when it comes to responsible business practices.

With respect to managing environmental impacts, for example, European and Japanese companies are clear leaders.

More than 90% of high impact companies in Europe and Japan have developed basic or advanced policies, compared with 75% in Australia and New Zealand, 67% in the US and 15% in Asia excluding Japan.

And nearly 75% of European companies operating in high risk countries have developed a basic or advanced human rights policy compared with less than 40% of North American companies and about a sixth of Asian firms. By comparison, community involvement is enacted in every region studied.

The Society for Human Resource



Management provides an in-depth look at the management of citizenship in the US, Australia, China, Canada, Mexico and Brazil.

Interestingly, Brazil leads the group in corporate involvement in citizenship. Brazilian companies are most likely to have citizenship policies, missions and goals, and to take account of corporate social responsibility in business decisions, Mexican firms and operations also score high in these regards and, like Brazil, are most apt to have active boards of directors engaged in citizenship matters.

Recall that citizenship is a key priority of the public in these countries. One hypothesis is that corporate involvement in citizenship secures a licence to operate and gains market approbation.

In China and India, by comparison, large firms do comparatively well on their overall profile, but mid-size and smaller ones lag behind developing country practices.

Companies in both countries lack a strong employee volunteer tradition, but large numbers in both collected monies or donated in response to natural disasters. Interestingly, they also saw globalisation as a key driver of corporate social responsibility and were more likely than those in other nations to view citizenship as a key source of competitive advantage.

In the SHRM study, the US leads in employee volunteering and donations to charity – traditional areas of engagement strength. Interestingly, the US executives score lowest on formal corporate citizenship policies and don't particularly emphasise broader social goals in their agenda.

Australian and Canadian companies, by comparison, score highly on policies and taking steps to move citizenship into their corporate governance. This same path is being followed by European businesses.

Towards next generation corporate citizenship

The movement towards 'next generation corporate citizenship' takes firms beyond traditional measures of compliance and community contributions to integrating citizenship into the organisation and operations and to factoring it into products and services. Surveys show the public supports this trend.

Polls find that the public all over the world says that the best way for companies to make a positive contribution to society is by working to solve a specific social problem rather than donating monies to charity (although both rank below their primary contribution of developing safer and healthier products and services).

What's involved in next generation citizenship?

Global citizenship

First, it extends citizenship to a global scale. This

means applying world-class standards to operations and dealings in developing and emerging markets. It also means taking account of social and environmental needs around the world and tailoring actions to local needs and culture and conditions. This is very much in keeping with the trajectory identified by the GERN country studies.

What actions are needed on a global scale?

A recent survey of more than 300 experts in the field, found that just 30% rated strategic corporate philanthropy as effective in achieving the UN's millennium development goals. By comparison, nearly 75% credited new business models and innovations as either somewhat or very effective.

Multisector partnerships

The next generation movement also involves multisector partnering to address society's needs. The public certainly approves of this. On a global scale, NGOs earn far more trust than global companies in both the Northern (68% versus 38% are trusted) and the Southern hemispheres (63% versus 46%); and in both they are more trusted than national governments, domestic companies, trade unions and the media.

Who is most trusted to do what's right?

In the US, where trust in business in this regard has been relatively constant since 2001, trust in NGOs has increased dramatically, from 36% in 2001 to 54% in 2006, moving well ahead of business.

NGOs are now the most trusted institution in every country except Japan and Brazil. This push for multisector solutions to the world's most pressing problems is today being advanced by the World Economic Forum and UN's Global Compact.

Business versus government roles

The stress on multisector partnering in meeting society's needs must be considered in the context of tensions in the US over the role of business and government.

The Boston College Centre's surveys found

 <p>e-mail: dqs@dqs.co.za</p>	<p align="center">DQS SOUTH AFRICA DQS German Association for Certification of Management Systems (Pty) Ltd. Managing Director: Francois Labuschagne</p> <p>Tollfree: 0800 11 5901 Tel: +27 (0) 11 787 0060 Fax: +27 (0) 11 787 0115</p> <p>PO Box 672 RANDBURG 2125 South Africa</p>	 <p>Website: www.dqs.co.za</p>
<p align="center">ISO 9001:2000 · ISO 14001 · OHSAS 18001 · SCC · ISO 22000 · HACCP · BRC IFS ISO/TS 16949:2002 · ISMS · SQAS · ISO 13485/88 · CE MARK</p>		



nearly all business leaders adamant that corporate responsibility should be a voluntary option of companies, not legislated or regulated by the government.

The American public's view on this is markedly different. The 2007 Fleishman-Hillard/National Consumer's League survey found that four of five consumers believe that it is "extremely" or "very" important for Congress to ensure corporations address issues such as energy, the environment and health care.

On a global scale, there is not near as much preference for 'free market' solutions to social problems. Majorities in countries including Indonesia, Italy, Argentina and France agree the free market works best when it is strongly regulated.

Furthermore, on the important matter of business emissions, one third of consumers sampled around the globe respond favourably to the idea of increased regulation.

More broadly, a study by Bertelsmann-Stiftung argues that nations with strong states and a tradition of legislation in the social arena (like Poland, France and China) are more apt to

turn to mandate aspects of corporate social responsibility whereas nations good at managing change with traditions of transparency (the U.K. Sweden and Germany) are more apt to rely on voluntary measures and partnerships to steer corporate conduct.

The 'global' solution

Overall the GERN reports and survey data point to a two dimensional evolution in corporate citizenship around the world.

Global standards for social and environmental performance criteria for listings on international stock exchanges, rankings such as the DJSI and PTS4 good and the press for transparency and reporting all impinge on large corporations whatever their origins and wherever they operate.

In a sense, global corporations are being pushed towards adoption of common features of corporate conduct and disclosure.

At the same time, the data show that local traditions, needs and circumstances also factor into corporate conduct. That the public in Brazil has high expectations of corporate conduct, as an example, necessarily shapes the conduct of Brazilian firms and global companies with operations in the nation.

The SHRM study documents the impact on citizenship policies and its role as a source of competitive advantage. This same scenario plays throughout Latin America. In Asia, by comparison, interest is high, but policy and practices are not near as advanced and the brand of citizenship deployed in Japan versus Korea, China, the Philippines and Southeast Asia is diverse.

At this point, the evidence suggests that corporations based in Europe seem to be ahead of the US when it comes to integration and reporting. Many European countries, for example, regulate corporate conduct more so than in the US and set guidelines for firms in

several citizenship arenas.

Moreover, the EU has hosted multiple convenings on corporate social responsibility and sustainability, established working groups between leaders in business, government and NGOs on select issues and issued position papers aimed at companies.

One impact is evident: European firms are far more likely than American companies to issue social and environmental reports and to have them verified by external auditors.

Another feature of next generation citizenship, just beginning to emerge in select corporations, connects it to the very purpose and operating strategies of a business.

In several of the next generation companies profiled in *Beyond Good Company*, the strategic intent of the firm is not simply to go about its business responsibly and sustainably, it is to make a responsible and sustainable business out of addressing the world's social and environmental needs.

All of this means that, as the GERN report spells out, companies are devising global and local corporate citizenship thrusts or, as it might be put, 'glocal' solutions.

Moreover, it is evident that new definitions of citizenship and its centrality to business are being devised by global businesses and by local entrepreneurs.

