

Responsible Competitiveness Index 2003

Aligning corporate responsibility
and the competitiveness of nations

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1. Executive Summary

Meeting the Millennium Development Goals (MDGs) as one step towards sustainable development requires the will, and combined energies and competencies of all. The need in particular to integrate the roles of the business community and governments in delivering economic development, consistent with environmental and social imperatives, is increasingly recognised.

Easy to say, harder to achieve. Positively, the potential for 'corporate responsibility' to deliver business and broader societal benefits has been highlighted through a growing body of contemporary research. Practice and research has, however, been largely confined to micro, company-specific impacts and outcomes. Very important macro-effects, through impacts on market dynamics and overall national competitiveness, are poorly recognised let alone understood, and have to date received little empirical or theoretical attention. This fact has serious negative consequences but also offers opportunities for the development of both corporate responsibility (CR) and competitiveness:

- (a) Policy makers and analysts have failed to create enabling policy frameworks that exploit the potential synergies between economic growth and competitiveness, and social and environmental development.
- (b) Companies face real limits in what they can achieve through responsible business practice and impact, without government action to re-align the basis of competitiveness to benefit these practices.
- (c) The continued failure to link progressive corporate practices with the competitiveness strategies of nations and communities will allow the amplification of inter-related environmental, social and economic development problems.

The two crucial questions are therefore:

1. Whether corporate responsibility impacts can be amplified through their alignment with broader competitiveness developments at national, or indeed regional, sector and city levels.

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2. Whether macro-level competitiveness can be enhanced through corporate responsibility practices, both quantitatively and qualitatively, in terms of its alignment with the principles and imperatives of sustainable development.

If the answer to either of these questions is 'yes', corporate responsibility can play an important role in moulding tomorrow's markets and addressing societal challenges.¹ If the answer is 'no', then corporate responsibility will be more likely to go down in history as a passing spectacle of exceptionally responsible companies, practicing temporary 'sustainability' strategies, rather than a bedrock on which norms of corporate behaviour evolved.

The answer to these two questions will provide some fundamental conclusions about the relevance of corporate responsibility in the future.

This report builds on earlier work by AccountAbility and The Copenhagen Centre exploring the potential for 'responsible competitiveness', where 'an economy's productivity and overall competitiveness is enhanced by businesses taking explicit account of their social, economic and environmental performance'. This hypothesis has been explored further here by considering empirical evidence of the relationship between national competitiveness and macro-measures of corporate responsibility.

We did this by first of all developing a ***National Corporate Responsibility Index (NCRI)*** that examines both the extent to which there is an enabling national environment for corporate responsibility, and the resulting outcomes of corporate responsibility practice. The NCRI results suggest that:

- Scandinavian and Northern European countries put in a strong performance. Finland is the clear winner, and New Zealand and Australia join the Europeans in 8th and 10th places.
- Canada, Panama, Costa Rica and Israel come higher than some European countries in the top 25.

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- Japan, the USA and the former Asian tigers are middle ranked, closely followed by some of the more dynamic developing economies such as Chile, South Africa, India and Brazil.
 - Eastern European countries are only slightly ahead of some of the poorer developing countries like Vietnam and Bolivia.
 - China and Russia perform poorly, on a par with embattled economies such as Nigeria and Indonesia.

We then incorporated this data with existing competitive indices to form the **Responsible Competitiveness Index (RCI)** in order to define what role CR plays alongside commonly accepted drivers of competitiveness (technology, innovation, firm-level strategy, human capital, public institutions, infrastructure and macro-economic context). This report presents the first iteration of the Responsible Competitiveness Index, which represents the first-ever attempt to quantify the relationship between corporate responsibility and a nation's international competitiveness.

The findings of the RCI show that:

- At all levels of income, for the majority of countries the pattern between growth and responsible competitiveness holds up. But as with the NCRI, there are still some misfits on both sides of the line.
- 22 countries out of the 51 could face a potentially significant competitiveness loss from their 'responsibility deficit' – more than 2% change from the existing measures.
- In the cases of China, Japan, Korea and the USA, the 'responsibility deficit' is well in excess of five per cent, suggesting that this could endanger economic growth in these countries, if one accepts the apparent link between income and responsibility.
- Some 16 European and developing countries, such as Denmark, Italy, Costa Rica and Bolivia, could make competitiveness gains on the basis of their corporate responsibility

performance, although at present countries with a significant 'responsibility surplus' are few.

Based on data covering 51 countries, the paper concludes that:

- (a) National measures of corporate responsibility can be established, despite data problems, allowing for a country-based ranking of underlying corporate responsibility practice and its potential.
- (b) Measures of corporate responsibility are closely correlated to both economic growth and conventional measures of national competitiveness; more so than to other measures of economic and human development.
- (c) Incorporating measures of corporate responsibility into existing measures of national competitiveness can improve the latter's explanatory power.

The specific results of the Responsible Competitiveness Index need to be treated with caution given the variable quality of data used and the early stage reached in the RCI's exact structure and content.

This first iteration of the Responsible Competitiveness Index is an initial step in specifying the relationship between national competitiveness and corporate responsibility. Future developments will need to take closer account of other factors, such as sector intensity and countries' underlying stages of development. However, this early step suggests that the relationship can be used as a basis for understanding the potential correlation between competitiveness and CR, and for creating policy frameworks, which can ensure that such potential is realised.

“Responsible competitiveness of nations is essential to achieve sustainable development in today's globalized world. The Index offers a fantastic tool to measure how each country is doing in promoting this approach, and to focus governments, business and civil society on policies to improve their position.”

Oded Grajew, Former Special Advisor to the President of Brazil, and Founder and President of Instituto Ethos

“A nation's competitiveness and underlying productivity is clearly impacted by how its business community deals with social and environmental issues. This report offers for the first time insights into what this relationship might be, and so how to manage it going forward.”

Peter Cornelius, Senior economist at Shell and former Director of the Global Competitiveness Programme at the World Economic Forum

The **Responsible Competitiveness Index 2003** explores the potential for corporate responsibility practices to contribute to national competitiveness. Drawing on two years research by AccountAbility and The Copenhagen Centre, the report sets out the first annual results of two, newly-designed, innovative, country-level performance indexes:

- ❖ The *National Corporate Responsibility Index* describes the comparative performance of 51 countries in embracing corporate responsibility and providing an enabling environment for more responsible business practices in the future.
- ❖ The *Responsible Competitiveness Index* explores the links between corporate responsibility and the competitiveness of the same group of countries.

The report concludes that:

- Incorporating corporate responsibility into measures of national competitiveness can improve the latter's explanatory power.
- Some countries have a significant 'responsibility deficit', suggesting a lower economic growth potential than previously projected.
- Other countries have a 'responsibility surplus', suggesting an upside economic growth potential.

This first attempt to connect micro-level corporate responsibility practices with macro-level productivity and competitiveness effects raises as many questions as it answers. Centrally, however, it indicates the imperative and challenge to ensure that:

- Corporate responsibility is amplified through its alignment with a nation's competitiveness.
- National competitiveness strategies are enhanced, both quantitatively and qualitatively, through their alignment with corporate responsibility practices.

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