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Moving to Next Generation Corporate Citizenship

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CCCD – the Center for Corporate Citizenship Germany is a non-profit organisation at the interface between business, academia, and politics. In cooperation with leading companies, both domestic and foreign, academic institutions and civil society organisations, CCCD acts as a think space and competence centre, providing a platform for dialogue; acting as catalyst and host.

In this capacity, the CCCD arranges forums for exchange between corporate citizens, business, academia, politics and civil society, supplies and carries out applied research, facilitates learning processes through debate and skilling opportunities, and supports cooperation between businesses and partners from civil society, academia, and/or politics.

Using workshops, publications and public events, CCCD also acts as a driving force for the corporate citizenship debate in Germany and for the practical efforts by businesses taking an active role in society.

CCCD is the German partner of the Center for Corporate Citizenship at Boston College, USA, as well as a partner of Business in the Community, UK.



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Management Summary

- Changing public expectations, the media spotlight, pressures from NGOs, aggrieved shareholder resolutions, and of course misconduct or lapses in social performance all bring social issues into a firm's strategic calculus. Executives today are confronted with a paradox. On the one hand, the public holds business leaders in low regard, mistrusts what they say and the motives behind what they do, and sees big companies as too powerful and far more interested in profits than in the welfare of people or health of the planet. On the other hand, the public has high expectations that business should behave more responsibly, concern itself with environmental sustainability, use its resources and talents to improve society, and address itself to social issues as broad as the gap between rich and poor and as specific as the spread of HIV/AIDS.
- Some leading companies have progressed beyond legal compliance, checkbook philanthropy, and stakeholder management to define a next generation of corporate citizenship that takes it from the margins to the mainstream of their business. Mirvis and Googins depict this movement through a developmental model: the stages of corporate citizenship, from an elementary to an engaged, innovative, integrated and, in some instances, transformative approach.
- Leading-edge firms make the link between business and society in their strategies, plans, and value chains from sourcing through to products and services. The essence of their methods: 1) look outside-in to define the issues that are "material" to the firm and to society and 2) consider, from the inside-out, how to address them authentically and distinctly.
- Gathering intelligence on social, political, cultural, and environmental issues that bear on the business once was consigned to the public affairs function in companies and consumed as background reading by strategic planners. Today the scanning and calibration of this kind of information is the work of top executives, board members, and operating managers. The reasons for their sharpened focus on the many issues at the intersection of business and society are twofold: These issues pose potential risks and portend significant opportunities.
- Increasingly, what drives social innovation is shared leadership whereby top executives work in partnership with multiple stakeholders and leaders at every level of the organization step up to the challenge. Interestingly, a study of several companies advancing their citizenship agendas found that middle managers could be the catalysts for change.
- Certainly the public no longer countenances corporate scandals and attempts to cover them over in public relations campaigns. The most effective course of action for firms facing controversies is to increase transparency, implement internal CSR policies, and engage stakeholders.
- European firms are far more likely than American ones to issue social and environmental reports and to have them verified by external auditors. Many see this as offering the field the best of both worlds: American-style free market activity leavened by European-based standards and criteria for corporate conduct. But some managers worry that putting a primary emphasis on accountability and reporting leads to "box checking", along with audits, and reviews; or, in effect, a super-sized version of citizenship based on compliance.
- Firms like Dow Chemical, IBM, Interface Carpets, and Wal-Mart, to name but a few, have made the link between social/environmental issues and their business in their strategies, plans, and supply chain through to products and services. The operating challenge for such companies is to align marketing, manufacture, finance, research & development, and other operational and commercial functions with a strategy that connects them to the needs and issues of society. The strategic intent in these firms is not simply to go about business responsibly and sustainably, it is to make a respon-

sible and sustainable business out of addressing the world's social and environmental needs.

- Some see a sixth stage of corporate citizenship developing, whereby firms respond to global social, political-economic, and environmental threats and opportunities by establishing "extra-organiza-

tional" forms, such as partnerships with other businesses, governments, and civil society. This phase raises questions about the "business of business" in different kinds of socio-economies and invites a new line of inquiry into the respective roles of private enterprise and the public sector in the next stage of corporate citizenship.

Introduction

Consider some examples of how businesses are applying their traditional strengths—research & development, risk management, market prospecting, brand differentiation, management systems development and the like—to a diverse set of commercial, social, and environmental challenges that might otherwise be framed under the mantles of social responsibility, environmental sustainability, or corporate citizenship:

- In light of pricey energy and the threat of global warming, GE launched its “ecomagination” campaign and is investing \$20 billion in technologies to reduce its customers’ energy consumption and carbon emissions;
- Drawing on its open-sourcing philosophy, IBM conducted an electronic “values jam” to engage its employees about the company’s values and today hosts online jams with customers, suppliers, and subject-matters experts in fields of health, transportation, and urban life to identify “innovations that matter—for the company and the world;”
- Plagued by operating in “silos” with a fragmented portfolio of activities, a cross-functional team at AMD assessed social and environmental issues facing the firm, aligned functions with expertise in relevant subjects, and then devised a more integrated and comprehensive citizenship agenda.
- Faced with flat sales in mature markets and local competition in the developing world, P&G, Nestle, and Unilever devised new business models to deliver purified water, affordable cleaning products, and fortified foods to the “bottom of the pyramid;” at the same time, they are working to increase the environmental friendliness and healthiness of ingredients in the full range of their consumer offerings;
- Meanwhile, Johnson & Johnson is tackling the dire nursing shortage; Cisco, Dell, and other high tech firms aim to reduce the digital divide; and Manpower is training millions of hard-to-employ youth.

These companies plus select others have progressed beyond legal compliance, checkbook philanthropy, and stakeholder management to define a next generation of corporate citizenship that takes it from the margins to the mainstream of their business.¹

We have depicted this movement through a developmental model.² The stages of development that we posit—from an elementary to an engaged, innovative, integrated and, in some instances, transformative approach to citizenship—emphasize continuous interaction between a firm and its environment that stimulates organizational learning. At each stage of development, the company’s engagement with societal issues is progressively more open and dealings with stakeholders are more interactive and mutual. In the same way, how companies think about citizenship and their responsibilities becomes more complex, and the organizational structures, processes, and systems used to manage citizenship are more sophisticated and aligned with the business.

Our new book, *Beyond Good Company: Next Generation Corporate Citizenship*, profiles **how leading-edge firms make the link between business and society in their strategies, plans, and value chains from sourcing through to products and services. The essence of their methods: 1) look *outside-in* to define the issues that are “material” to the firm and to society and 2) consider, from the *inside-out*, how to address them authentically and distinctly.** Here we will look from a developmental perspective at some practical examples of how companies are progressing in these two dimensions. To frame their efforts, let us review first what is happening in the new operating environment of business.

¹ Some of the material here is drawn from Bradley Googins, Philip H. Mirvis, and Steven Rochlin. *Beyond Good Company: Next Generation Corporate Citizenship*. (New York: Praeger McMillan, 2007).

² Philip H. Mirvis and Bradley Googins, “Stages of Corporate Citizenship: A Developmental Framework.” *California Management Review* 48, 2 (2006): 104–126.

Development of Citizenship: Outside In/Inside Out

		Stage 1 Compliant	Stage 2 Engaged	Stage 3 Innovative	Stage 4 Integrated	Stage 5 Transforming
Relating to Society: Outside In	Issues Management	Defensive	Reactive, Policies	Responsive, Programs	Pro-Active, Systems	Defining
	Stakeholder Relationships	Unilateral	Interactive	Mutual Influence	Partnership	Multi-Organization Alliances
	Transparency	Flank Protection	Public Relations	Public Reporting	Assurance	Full Exposure
Responding to Society: Inside out	Citizenship Concept	Jobs, Profits & Taxes	Philanthropy, Environmental Protection	Responsible to Stakeholders	Sustainability or Triple Bottom Line	Change the Game
	Strategic Intent	Legal Compliance	Reputation	Business case	Value Proposition	Market Creation or Social Change
	Leadership	Lip Service, Out of Touch	Supporter, In the Loop	Steward, On Top of It	Champion, In Front of It	Visionary, Ahead of the Pack
	Structure	Marginal: Staff driven	Functional Ownership	Cross-Functional Coordination	Organizational Alignment	Mainstream: Business Driven

I. THE NEW OPERATING ENVIRONMENT

A few decades ago it was possible for most senior executives to do their jobs blissfully unaware of issues pertaining to community welfare, the natural environment, the healthcare and work-life concerns of employees, and human rights in nascent global supply chains, among numerous other issues. And they were largely unaffected by activist NGOs and shareholder resolutions, the threat of boycotts and protests, not to mention calls for greater transparency and the dramatic increase in exposure provided by the Internet. No more. Ironically, these changes in the operating environment arose, in part, because of the dramatic increase in the scale, reach, and influence of business, particularly large corporations.

Globalization and Business Power

The last quarter of the 20th century saw a dramatic surge in the relative power of the private sector as the globalization of the world’s economy opened up new opportunities for global businesses.³ The number of multinational corporations doubled in just the past fifteen years (from roughly 36,000 in 1990 to over 72,000 in 2006). And the number of their foreign operations

and affiliates nearly tripled in the same period (from about 240,000 to over 700,000). Today two hundred corporations account for 23 percent of the world’s GDP, and 51 of the top 100 economies in the world are corporations.

The integration of a global marketplace, the internationalization of capital and labor markets, and the retraction of the public sector in the United States and abroad have together spurred this unprecedented growth in business activity. Increased productivity due to innovation and specialization has improved competitiveness and efficiency; greater market opportunities worldwide have raised revenues and expanded the scope of business opportunity; and access to cheaper sources of labor and raw materials continually lowers costs. These advantages have raised the power position of business, often beyond national governments. They have also produced undeniable economic, social, and environmental costs.

3 See Medard Gabel and Henry Bruner, *Globalinc: An Atlas of the Multinational Corporation* (New York: The New York Press, 2003); and Sarah Anderson and John Cavanaugh, “Top 200: The Rise of Corporate Global Power,” the Institute for Policy Studies, December 2000.

Social and Environmental Issues

In the last decades, for instance, the gap between the average per-capita GDP in the twenty richest and poorest countries has doubled; and today four billion people live on less than \$2 per day.⁴ In turn, some 2.4 billion people lack adequate sanitation facilities, even simple latrines, and 1.1 billion lack access to clean water. This combination has dire consequences for the world's poor. It is estimated that close to half of all people in developing countries suffer at any given time from health problems caused by water and sanitation deficits. Two million die annually from infectious diarrhea, 90 percent of them children. These gaps raise challenges for corporations concerning wealth distribution, access to health care and technology, and their license to operate in developing and emerging countries.

On the environmental side, besides global warming, one in four mammal species is in serious decline, mainly due to human activity; fish stocks are eroding; the world's wetlands and forest cover are declining markedly; and desertification puts some 135 million people worldwide at risk of being driven from their lands.⁵ The UN's Environment Programme projects 50 million environmental refugees worldwide by 2010. All of this, of course, calls for the greening of corporations and raises questions for firms dependent on water, marine life, and timber for doing their business.

These global trends of rising poverty and declining eco-productivity have parallels in the U.S. where a fortunate-fifth of the population has seen its earnings grow while the wages of the rest of the workforce stagnate. Wealthy nations have health concerns, too. Europeans and Americans, who constitute just 28 percent of world population, account for 42 percent of deaths from cardiovascular diseases and cancers—diseases often triggered by smoking, sedentary lifestyles, and eating foods rich in salt, sugar, and fat. All food-and-beverage purveyors must now take account of ingredients in their products and how they promote their goods to the public.

Discontent with Business

Executives today are confronted with a paradox. On the

one hand, the public holds business leaders in low regard, mistrusts what they say and the motives behind what they do, and sees big companies as too powerful and far more interested in profits than in the welfare of people or health of the planet. On the other hand, the public has high expectations that business should behave more responsibly, concern itself with environmental sustainability, use its resources and talents to improve society, and address itself to social issues as broad as the gap between rich and poor and as specific as the spread of HIV/AIDS.⁶

Recent surveys by the Boston College Center for Corporate Citizenship, McKinsey & Co., and others show that most CEO's around the world understand the press of expectations and recognize a need for business to play a more engaged and responsible role in society.⁷ A poll of U.S. business leaders, for example, finds that 75 percent believe that the public expects them to exceed laws to make sure products are reliable and safe, and 58 percent that the public expects them to exceed laws to protect the environment. On a global scale, another survey found that just 16 percent of executives in 116 countries held to the view that business should "focus solely on providing highest

4 See World Bank PREM Economic Policy Group and Development Economics Group, "Assessing Globalization" (2000); World Bank, World Development Indicators, 2007, both at worldbank.org.

5 See World Business Council for Sustainable Development, "From Challenge to Opportunity: The Role of Business in Tomorrow's Society" (February, 2006), online at wbcsd.org. UNDPenvironment

6 A 2005 GlobeScan poll asked the public whether or not companies were "not at all" or "somewhat" or "completely" responsible for various aspects of business operations and their impact on society. The pollsters found that large majorities in twenty-one countries hold companies *completely* responsible for the safety of their products, fair treatment of employees, responsible use of raw materials, 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 reducing human rights abuses, preventing the spread of HIV/AIDS, and reducing 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 myriad of the world's ills. For the most comprehensive, longitudinal surveys of public opinion about corporate citizenship, see global polls from Globescan, *Corporate Social Responsibility Monitor (2001-2007)*, at www.globescan.com.

7 Biennial surveys of business leaders, *The State of Corporate Citizenship in the U.S.: A View from Inside 2003-2004*; *The State of Corporate Citizenship in the U.S.: Business Perspectives in 2005*; *The State of Corporate Citizenship in the U.S.: Rhetoric versus Reality in 2007*. (Boston: BCCCC, 2004; 2006; 2008), *The McKinsey Quarterly Global Survey* (January, 2006).

possible returns to investors while obeying all laws and regulations." The other 84 percent agreed with the statement that business should "generate high returns to investors but balance that with contributing to the broader public good."

Powerful New Interests

New agents and forces are bringing these expectations forcefully into business. A growing legion of NGOs that represent varied social and environmental issues and interests are operating at the nexus of business and society.⁸ Over two hundred thousand new citizen groups have been formed around the world since the mid-1980s and global NGOs have been rising in numbers, scale, and scope. Amnesty International, for example, has nearly two million members in every country where multinational corporations do business and the World Wildlife Fund has over five million. Both of **these groups, as well as Oxfam, Greenpeace, and thousands more have historically acted as corporate "watchdogs" and forced companies to account for their social and environmental inaction or misdeeds. Now some are beginning to join with industry in partnerships concerned with human rights, natural resource stocks, climate change, world hunger, and the like.**

The question at hand is what companies are doing in response to this new operating environment. This environment is complex and multi-faceted, with myriad sources of threats and opportunities whose sources are often ambiguous and impact uncertain. Potential responses necessitate tradeoffs and their likelihood of success is inestimable. Meanwhile, the challenges posed multiply as a firm, its competitors, and a field of surrounding interests and actors make strategic moves. From a developmental perspective, this calls for requisite complexity in a corporate response, including thoughtful analyses and a coherent, coordinated plan of action. Are businesses up to the demands?

The State of Practice

Certainly many firms are not operating responsibly, at least in the court of public opinion.⁹ A multiyear look at public opinion worldwide by GlobeScan shows that even as public expectations of companies have been rising, ratings of their social responsibility have

been dropping. Recent data from the Reputation Institute finds that in twenty five countries studied, an average of just one-in-five people agree that "most companies are socially responsible".

Nevertheless, McKinsey & Co.'s 2007 survey of multinational companies finds that 90 percent of CEOs are doing more than they did five years ago to incorporate environmental, social, and governance issues into their strategy and operations. But **gaps are notable: 72 percent of CEOs agree that corporate responsibility should be embedded into strategy and operations, but only 50 percent think their firms do so. And six in ten say that corporate responsibility should be infused into global supply chains, but only 27 say they are doing so.**¹⁰

Within this broad swathe of companies, however, there is a vast range of activity. Some firms are revising their codes of conduct, adopting sustainable practices, and updating their community programs; others are forming citizenship steering committees, measuring their environmental and social performance, and issuing public reports. Select firms are striving to integrate staff functions responsible for CSR-type issues and are moving responsibility – and accountability – into lines of business. And a vanguard is trying to create a broader market for citizenship and offer products and services that aim explicitly to both make money and make a better world. **Looked at from a developmental perspective, these activities can be arrayed as a progression from comparatively simple to more complex, from functional to multi-disciplinary, and from ancillary to more central to the work of an enterprise.** What do these developments in managing citizenship look like in practice?

8 See John Hopkins Institute for Policy Studies, Center for Civil Society Studies, online at www.jhu.edu/~ccss/NGOs

9 For global data see Globescan and the Reputation Institute, RepTrak Pulse 2006: Social Responsibility Report at <http://www.reputationinstitute.com>. On U.S. domestic opinion see GolinHarris, *Doing Well by Doing Good: The Trajectory of Corporate Citizenship in American business*, at www.golinharris.com.

10 McKinsey & Co., "Shaping the New Rules of Competition: UN Global Compact Participant Mirror." (July, 2007). Online at [McKinsey.com](http://www.mckinsey.com).

II. RELATING TO SOCIETY: CITIZENSHIP OUTSIDE IN

Wal-Mart spent a year talking with environmental and consumer experts before launching its new strategy on sustainability. Shell prepares and plans from scenarios on how different developments in society might impinge on their markets, offerings, and license-to-operate. IBM conducts electronic “jams” on broad trends and business-relevant sociopolitical issues with thousands of people and key stakeholder groups around the globe. GE convenes biennial “Energy 2015” and “Healthcare 2015” meetings with a cross-functional group of government officials, industry leaders, key suppliers, NGOs, and academics that feed back into the company’s strategy.

What’s this all about? Gathering intelligence on social, political, cultural, and environmental issues that bear on the business. Once consigned to the public affairs function in companies and consumed as background reading by strategic planners, the scanning and calibration of this kind of information is today the work of top executives, board members, and operating managers. The reasons for their sharpened focus on the many issues at the intersection of business and society are twofold: These issues pose potential risks and portend significant opportunities.

Issues Management: From Defensive to Responsive

What is needed, in a developmental sense, to move a company from a defensive to responsive stance toward society:

- 1) an open, inquisitive, and feedback-rich relationship with the environment;
- 2) well resourced and effective mechanisms for sensing, analyzing, and interpreting what’s going on; and
- 3) an internal culture that is receptive to early signals of threat and opportunity and where the “messenger” is welcomed rather than “executed”. These are, of course, characteristics of people, groups, and organizations as they become more pro-active in dealings with their environments.

Companies just developing these capabilities tend to be “reactive” to emerging social and environmental issues—as was the case with Nike (on human rights issues in their footwear supply chain), Chiquita (work-

ing conditions in plantations), Nestlé (infant formula), Home Depot (selling lumber cut from protected forests) and Walmart (found wanting on many fronts). Nike illustrates how a firm moves from this phase into a more pro-active posture. Simon Zadek, founder of the think tank AccountAbility and adviser to Nike, gives a neat accounting of its transition in handling supply-chain issues through defensive, compliant, managerial, and strategic phases.¹¹

The firm first moved from denying any responsibility (“We don’t make the shoes”) to establishing basic labor codes and employing outside firms to audit compliance. Next, it beefed up its own compliance function and looked at the overall supply chain as well as Nike’s own business practices. This showed how just-in-time procurement methods, internal cost allocation rules, and production incentive schemes encouraged suppliers to pressure their workers and require overtime. These were practices that Nike fixed—at some cost and amidst grumbling. In its strategic phase, Nike has been going after an industry-wide fix that evens the competitive playing field. The company has joined with other shoe and apparel makers, NGOs, and select retailers in groups such as the Fair Labor Association (in the United States) and Ethical Trading Initiative (in the United Kingdom) to ensure broader-based buy-in to, and compliance with, labor and trading codes.

Scanning the Environment

Ian Davis, worldwide managing director of McKinsey & Co., points out, “CSR is limited as an agenda for corporate action because it fails to capture the importance of social issues for corporate strategy”.¹² His firm annually polls top executives worldwide on the importance of various social issues for business. In 2007, envi-

11 Simon Zadek, “The Path to Corporate Responsibility,” *Harvard Business Review* (December, 2004): 125–33; also Mark Kramer and John Kania, “Changing the Game,” *Stanford Social Innovation Review* (Spring, 2006), online at www.ssireview.org.

12 Ian Davis, “The Biggest Contract,” *The Economist* (May 16, 2005); see also Sheila M. J. Bonini, Lenny T. Mendonca, and Jeremy M. Oppenheim, “When Social Issues Become Strategic,” *McKinsey Quarterly* 2 (2006), both online at www.mckinseyquarterly.com.

ronmental issues, including climate change, jumped to the top of the list. McKinsey also asked executives about the relative balance of risks and opportunities posed by such issues. On the risk side, executives saw opposition to free trade, pensions, threats to privacy, and the political influence of companies as key threats to business. By contrast, the bulk of executives surveyed saw an equal balance between risk and opportunity in calls for more investment in developing countries, for ethical standards in advertising and marketing, and for attention to human rights.

education and high-tech AMD, HP, Cisco, Intel, Nokia, and others' efforts to bridge the digital divide, alongside the widespread corporate involvement in the AIDS pandemic, all illustrate how business and society benefit if they work together to reduce their mutual risks.

The lower left quadrant shines a spotlight on how business creates risk for societies. The constant quest for cheap labor, the production of pollution and waste, the sale of junk food and shoddy goods: This is the legacy of business capitalizing on opportunities at the

Business and Society: Risk and Opportunities



		SOCIETY	
		Risk	Opportunity
BUSINESS	Risk	Climate Change Digital Divide, Youth Unemployment, Corruption	Nationalization Access to Medicine Access to Credit Piracy
	Opportunity	Cheap Labor Sourcing, Environmental Damage Bribery	Base of the Pyramid, Micro-Finance, Eco-Effectiveness CSR Partnerships

While there are many models and formats, companies scan their environment from at least two perspectives: What are the risks and opportunities for our business? And what are they for society? This yields a two-by-two matrix of the type familiar to business people.

In the upper left quadrant, business and society are at both at risk. Social issues like the education gap, the digital divide, the scourge of HIV/AIDS, and other infectious diseases all fit here. These not only threaten the well-being and economic futures of peoples and societies, they also limit the growth potential of businesses that cannot get access to skilled labor, commercial infrastructure, and paying consumers. Widespread youth unemployment, mass migrations to mega-cities, and corruption fit here, too. Beyond the obvious costs to society, these create an unstable business climate. IBM's global programs to reinvent

expense of the common good. The rationale for greater transparency from companies operating in this quadrant is straightforward: Access to information about their activities is a deterrent to misbehavior. But there is also an opportunity for business to align itself with aggrieved stakeholders' interests and public welfare. Supply-chain reform by Nike and Reebok in shoes, by Levi Strauss & Co. and the GAP in apparel, and by many high-tech companies in microelectronics is an example. The move into healthier eating-and-drinking categories by food and beverage companies is another. The broad-based interest in environmental sustainability by businesses of all types is a third.

In the upper right quadrant, society in its many forms avails itself of opportunities to protect its interests, but at the expense of business. Nationalization of indus-

tries, erection of trade barriers, and the elimination of agricultural subsidies, patent protection, and intellectual property rights are among the threats to business here. Traditionally business has countered these through lobbying and political contributions. But companies that continue to swim against the tide of shared societal values and good public policy will ultimately create costs for themselves and risk losing their license to operate. Moves by the pharmaceutical industry to make therapies more affordable, and moves by energy users and banks to create a carbon trading market are means to forestall regulation and make risks manageable.

In the lower right quadrant, an opportunity for business is an opportunity for society. This is evident in the movement by business toward microfinance, eco-effectiveness, and creating a market at the bottom of the pyramid. This quadrant, more so than the others, is where companies can play offense, rather than defense, and transition from a philanthropic response to society to a socio-commercial venture. And this quadrant is also increasingly populated by NGOs and even government agencies that are redefining their own roles and working as partners with business.

Defining Issues that Matter

How does a firm decide which issues are most relevant to its interest and set its priorities? One criterion being adopted because of its familiarity in accounting and risk management concerns the “materiality” of issues. The concept of materiality is that companies must take an account of and disclose all information that is material to the financial decisions of its investors. Many companies have been working with Steve Rochlin and colleagues at AccountAbility to incorporate business *and* society’s interests into their operating agendas.

A cross-functional team at AMD “went through a classic SWOT analysis, looking at our strengths, weaknesses, opportunities, and threats in each area,” said Phil Trowbridge, then leading the effort. “But we also asked the fundamental question: Do we have a program that addresses this issue? And if not, do we need one? And how would people rank this issue in terms of

importance to AMD?” Immediately, there were gaps identified: AMD had language about human rights in its value system and business contracts, for example, but human rights had not been considered fully in audits of its supply-chain operations or in the training of procurement managers and staff. The analysis also revealed a huge opportunity for AMD to take a leadership position in addressing the “digital divide” between those with access to the latest technology and those without. This was a key stimulus to the company’s 50x15 program that aims to get fifty percent of the world on the internet until the year 2015.

Stakeholder Relationships – From Adversaries to Partners

Early stages in the development of stakeholder relationships parallel those in issues management: Firms typically take a unilateral approach to their dealings and step-by-step become more interactive and move toward mutual relationships. Take the example of Pfizer who is the target of many interests around the world that see it as taking advantage of consumers for profitable gain. In the past few years, the company has solicited the opinions of a wide range of stakeholders including patient groups, physicians, pharmacists, regulators, business partners, and an assortment of NGOs. It also garnered input from two hundred fifty healthcare opinion leaders around the world.

This research and stakeholder feedback led Pfizer to develop a set of global policies to self-regulate its interactions with healthcare professionals and the public. The policies dictate that physician meetings and customer events be purely educational, that medical communications be accurate and scientifically rigorous, and that marketing materials convey full information on side effects. Sales representatives cannot offer incentives to doctors to recommend or prescribe drugs or to influence clinical trials. These guidelines are supported by an array of compliance machinery – a chief compliance officer with liaisons in every country, regular reviews, hotlines, penalties, and such – as well as high levels of transparency. Pfizer now discloses, among other subjects, information about customer complaints and the company’s political contributions.

Leading firms today typically scan their environment to identify the interests and actors who might influence their fortunes. This involves preparing a stakeholder map that identifies parties within the company, through its value chain, and on its borders, including the media, NGOs, and communities that have an interest in the company and its practices. This kind of outside in mapping stimulates further analysis: a charting of the issues of concern to stakeholders, ratings of their degree of support for or against the company's interests, their ability to influence the course of events, and so on. Sustainability specialist Andrew Savitz describes how such methods can help companies to identify risks and opportunities in their environment and target what he calls the "sustainability sweet-spot".¹³

As companies develop their capabilities, stakeholder dialogues often shift from bilateral conversations to multiparty investigations of issues of common concern. Several compelling examples of this come from the natural resource arena. Ann Svendsen and Myriam Laberge helped to facilitate what they called a "whole system engagement" involving the forester Macmillan Bloedel (later acquired by Weyerhaeuser), environmental groups, First Nation tribes, and local communities on British Columbia's west coast for over eight years. Here there were marked conflicts between and even within the several parties, attempts by the B.C. government to legislate compromises that suited no one, local protest rallies and an international boycott engineered by Greenpeace, and repeated breakdowns in communication. Over time, however, areas of common interest were identified and ultimately an agreement on land use was reached. What led to the success? According to one of the corporate members of the dialogue, **the secret was to get beyond conventional "stakeholder negotiations on social license issues" and to move toward "the next generation model where we ask, 'How do we learn together? How do we innovate together despite the fact that occasionally we hate each other and we can't get along?'"**

Stakeholders as Partners

On a global scale, NGOs earn far more trust than global companies in both the northern (68 versus 38 percent) and the southern hemispheres (63 versus 46 percent); and in both NGOs are more trusted than

national governments, domestic companies, trade unions, and the media.¹⁴ What does this mean for business? A GlobeScan survey found that **85 percent of the public reported that its respect for a company would go up if it partnered with a charity or NGO. Furthermore, a growing segment of the public says that a key indication that a company is socially responsible is that it works directly with a charity group or NGO.**¹⁵

This is one reason that leading companies are partnering with NGOs today. Here are some of the examples of partnerships between business, NGOs, and in some cases government – a new generation of social issue partnerships:

- Community Service–Home Depot and KaBOOM! have partnered in the creation of play spaces for low-income and disaster-affected neighborhoods.
- Education–Dell is working with North American school districts to teach disadvantages students hardware and software skills
- Social Justice–State Farm has teamed up with the Neighborhood Housing Service in Chicago to increase the availability of insurance services for low income communities.
- Digital Divide–Nokia has partnered with the Grameen Foundation to bring affordable telecommunication services to poor villages in developing countries.
- Environment–Chiquita and the Rainforest Alliance have partnered to certify that its plantations promote environmental and social sustainability.

We are also seeing more coalitions of businesses emerging to tackle social issues in partnership with

13 Andrew W. Savitz, *The Triple Bottom Line: How Today's Best Run Companies are Achieving Economic, Social, and Environmental Success—and How You Can Too* (San Francisco: John Wiley & Sons, Inc., 2006).

14 See *The 21st Century NGO: In the Market for Change* (London: Sustainability, 2003); on trust, see Richard Edelman, "Rebuilding Trust through Accountability and Responsibility" (Ethical Corporation Conference, 2002); GlobeScan, *Corporate Social Responsibility Monitor* (2006).

15 GlobeScan, "Report on Issues and Reputation" (2005).

NGOs and governments such as the Business Roundtable's Partnership for Disaster Relief and the Global Business Coalition on HIV/AIDS Tuberculosis and Malaria. **When done well, these programs have the potential to address significant social challenges in areas in which the business impacts society and, in the longer term, directly and indirectly benefit business.**

**Transparency and Reporting:
To Openness and Accountability**

Changing public expectations, the media spotlight, pressures from NGOs, aggrieved shareholder resolutions, and of course misconduct or lapses in social performance all bring social issues into a firm's strategic calculus. McKinsey & Co. asked executives, "When large companies in your industry try to manage sociopolitical issues, which three tactics do they rely on most frequently?" The top three tactics cited: (1) using media and public relations; (2) lobbying regulators and governments; and (3) speeches and public actions taken by the CEO. But a follow-up question in the executive survey asked about the effectiveness of such tactics. Just 35 percent cited media and public relations as an effective tactic; 25 percent cited lobbying; and only 14 percent cited speeches and actions by the CEO.¹⁶

Certainly the public no longer countenances corporate scandals and attempts to cover them over in public relations campaigns. Surveys show that the public – as consumers, investors, and employees – takes a punitive view of "bad corporate behavior": refusing to work for or invest in irresponsible companies, speaking against them to family and friends, and boycotting their products and services.¹⁷

On these counts, the McKinsey study suggests a more effective course of action for firm's facing controversies. Tactics deemed most effective are to increase transparency (cited by 36%), implement internal CSR policies (35%), and engage stakeholders (33%).

Public Reporting

One model of transparency stresses social and environmental reporting. This has firms take an accounting of their social and environmental impact in the form of metrics and criteria such as those advanced by the Global Reporting Initiative (GRI) or the International Organizations of Standardization (ISO 14000), and publish a report on the findings. At this point, the **evidence suggests that corporations based in Europe seem to be ahead of the U.S. when it comes to reporting: European firms are far more likely than American ones to issue social-and-environmental reports and to have them verified by external auditors.**

Now many see this as offering the field the best of both worlds: American-style free market activity leavened by European-based standards and criteria for corporate conduct. Not surprisingly, many American managers reject the idea of external guidelines out-of-hand and chafe at the notion that corporate conduct be further regulated à la the Sarbanes-Oxley legislation that, post-Enron, has required firms to improve their governance and financial reporting. But others we talk to have a different concern and worry that putting a primary emphasis on accountability and reporting leads to "box checking," along with audits, and reviews; or, in effect, a super-sized version of citizenship based on compliance. This other approach includes full exposure to the public of corporate doings, but also internalizes responsibility by creating an integrated citizenship management system.

¹⁶ See "Global Survey of Business Executives," *The McKinsey Quarterly* (January, 2006), online at www.mckinseyquarterly.com.

¹⁷ see Cone, Inc., "2004 Corporate Citizenship Study" (December, 2004), online at Coneinc.com.

III. RESPONDING TO SOCIETY: CITIZENSHIP INSIDE OUT

Conversations with stakeholders, maps of social issues, analyses of complex interactions, ratings of relative priorities: While all of these inform decision making, ultimately executives have to make judgment calls about what to do. **Studies suggest that how a company configures its relationship with society depends on what stage the firm is in relative to its development of citizenship. Comparative neophytes often lack an understanding of their many different connections to society and have neither the expertise nor the machinery to respond to the diverse interests and demands they encounter. Their chief challenges are to put citizenship firmly on the corporate agenda, get better informed about stakeholders' concerns, and take some sensible initial steps. At the other extreme are companies that have already made a significant investment in these regards. Here our interviews suggest that some calibrate their relationship to society in moral terms, some as risk management, and some as a matter of "doing well by doing good." A vanguard takes a holistic view of their role in society that portends fundamental changes in their corporate cultures, operating practices, and commercial strategy.**

Conceptions of Citizenship: Changing the Game

What does citizenship mean in companies? In the most basic formulation it concerns "jobs, profits, and taxes". In firms whose vision goes no further, attention to citizenship is episodic and the company's social and environmental programs are undeveloped. The reasons are straightforward: scant awareness of what it's all about, indifferent top management, and limited or one-way interactions with external stakeholders, particularly in the social and environmental sectors. Many corporations today engage citizenship through community relations and their philanthropic arm, attend to environmental protection, and otherwise go about their business. One company that progressed into a more innovative stage of citizenship early on is Baxter, a pharmaceutical company. The company piloted what would become the Global Reporting Initiative in the early 1990s and began to measure and report on its economic, environmental, and social performance. In 1997, it became one of the first adopters of the CERES (Coalition for Environmentally Responsible Economies) principles to report on and improve its

environmental performance. In the process, the company embraced the still controversial idea that it was responsible to both stockholders and stakeholders and would be held accountable for its performance. Interestingly, this commitment would be tested in Spain in 2001 when six patients died during dialysis treatment—potentially because of problems with filters manufactured by a subsidiary. Baxter responded by recalling the filters, apologizing publicly, taking a \$189 million hit, and reducing, at his own request, the CEO's bonus.

The Baxter story illustrates two ways that a company moves forward in this stage: (1) by broadening its agenda by embracing a more comprehensive concept of citizenship and (2) by deepening its involvement as top leaders assume more of a stewardship role. Most firms seem to get a more mature sense of what citizenship involves as they progress through this stage. A select set of "next generation" corporate citizens is taking one or two steps forward.

Integration

The last decades have seen several integrative frameworks to guide practice in this otherwise uncharted terrain. The idea has been advanced that business is responsible for and needs to take an *accounting* of the full range of its social, economic, and environmental outputs—what England's John Elkington terms the *triple bottom line* (TBL).¹⁸ Concurrently, there has been growing interest in notions of *sustainability* that turns attention to how the natural environment and society fare under the force of commerce. The main ideas and models of sustainability were developed in the arena of environmental studies but the concept has been expanded to include social sustainability or the welfare of people and societies.

These concepts of citizenships reflect a more inclusive view of corporate responsibility and accountability. In embracing them, firms develop a more holistic view of their role in society and assume greater responsibility for their economic, social, and environmental impacts.

18 John Elkington, *Cannibals with Forks: The Triple-Bottom Line of 21st Century Business* (London: Capstone/John Wiley, 1997).

This helps to propel them into regular stakeholder engagement and toward more thoroughgoing measurement and management of their triple bottom line. Their operating challenge is to integrate the efforts and dealings of the different corporate staff groups that handle human resources, government relations, public affairs, health and safety, and environmental and legal matters and to get “everybody on the same page” when it comes to responsible conduct.

Changing the Game

Another step toward next generation citizenship, just beginning to unfold in select corporations, connects it to the very purpose and operating strategies of a business. The strategic intent in these firms is not simply to go about business responsibly and sustainably, it is to make a responsible and sustainable business out of addressing the world’s social and environmental needs.

Firms like Dow Chemical, IBM, Interface Carpets, and Wal-Mart, to name but a few, have made the link between social/environmental issues and their business in their strategies, plans, and supply chain through to products and services. The operating challenge for such companies is to align marketing, manufacture, finance, research and development, and other operational and commercial functions with a strategy that connects them to the needs and issues of society. This implicates the whole value chain of the company, moves citizenship onto senior management’s agenda, and connects it to the very purpose of the enterprise.

In a recent survey by GlobeScan of over three hundred experts in the field, just 30 percent rated strategic corporate philanthropy as effective in achieving the UN’s millennium development goals. By comparison, nearly 75 percent credited new business models and innovations as either somewhat or very effective.¹⁹

We see a set of next-generation corporate citizens moving into this space with new business models aimed at both market and social value creation. What does it mean? On the commercial side, companies are prospecting in “untapped markets.” On the social side, they are reaching out to “underserved communities.” New socio-commercial business models and innovations take many forms and aim at different opportunities and needs; consider:

- Bottom of the Pyramid. With nearly four billion people in this income tier, companies need new business models to enable the poor to become consumers. These models include microcredit, village-level supply and distribution systems, and training for social entrepreneurs;
- Workforce Development. With the youth population exploding, and an aging workforce in Japan and the West, select companies are taking innovative steps to recruit, train, and employ disadvantaged youth and minorities and to activate older workers in new roles;
- Supplier Development. With strong corporate buy-in to the value of diversity and strong societal needs for inclusion of all persons in the economy, leading firms are working with minority, disadvantaged, and inexperienced suppliers to meet commercial and social needs;
- Social research and development. Engagement with untapped markets – whether of consumers, workers, or suppliers – requires rethinking old practices and experimenting with new ones. Some of these new ideas achieve scale or transfer to other products and processes.
- Value Co-Creation. Here customers, business partners, and stakeholders such as government and NGOs work together to create business and social value. Benefits are not only in products and processes, but also in forging more trusting and mutual relationships across sectors.²⁰

Strategic Intent: Citizenship as Strategy

Let’s be straight: not a great many companies take a particularly strategic approach to citizenship. The Center’s 2007 survey of American business finds that six-in-ten companies connect citizenship to their strategy and fewer than forty percent make it part of their

¹⁹ Globescan UN

²⁰ See John Weiser, Michele Kahane, Steve Rochlin, and Jessica Landis, *Untapped: Creating Value in Underserved Markets* (San Francisco: Berrett-Koehler, 2006).

business plans. **The mindset in the most traditional companies often centers narrowly on compliance with laws and industry standards. There are a number of signs that mark a company's transition to engagement with corporate citizenship.** Zadek points out that companies at this stage often adopt a "policy-based approach" to mitigate the likelihood of litigation and risks to reputation.

As companies continue to evolve in this arena, they typically grapple with the business case for their citizenship programs. Our research suggests, however, that the criteria and metrics tend to be functionalized at this stage. Those responsible for social agendas, for example, refer to specific benefits to recruiting, retention, and reputation; those on the environmental front are concerned with factors of risk and life-cycle costs; and those on the financial side stress matters of exposure and access to capital. Meanwhile, senior leaders, taking an enterprise perspective, point to the strength and value of the corporate brand.

Citizenship Value Proposition

Interestingly, **we are finding that many of the companies that move into the integrative phase premise their citizenship efforts less on a specific business case and more on their core corporate values. Exemplifying this "inside out" logic.** Groupe Danone, the French multinational, frames its code of conduct with a value proposition known as the Danone Way. Its origins date to the protest movements of the late 1960s when Antoine Riboud, then Chairman and CEO of a predecessor company, vowed to meet new expectations of workers and society. This was expressed formally in 1974 with a statement setting out a "dual commitment" to business success and social responsibility. Today, this dual commitment is reflected in myriad criteria of citizenship used by Groupe companies in self-assessments that are, in turn, reviewed by a Groupe-level steering committee.

Another version comes from Levi Strauss & Co. that has exemplified a values-led business since founder Levi Strauss first set up his dry goods firm in San Francisco in 1853. Although the company was a pioneer in corporate citizenship, a business downturn beginning in 1997 dampened its social thrust. To reinvigorate the effort, the company has completed a pilot program on inte-

grating its citizenship value proposition into North American operations in areas of human resource management, community engagement, and product sourcing, as well as marketing and sales. North American operating head Robert Hanson says of the value-based turnaround: "We're getting there. Just as in the marketplace, we also need to innovate with citizenship if we want to remain relevant with our stakeholders. This is why we're working to deeply integrate citizenship into our business at every level in our organization."

Bringing Mission to Life

The truest expression of the value proposition for corporate citizenship is when it connects fully to the vision and mission of the enterprise.

A few years ago, the Center worked with Unilever to scan its world and reconsider its role in society. Over two hundred executives of the global company known by home-and-personal care brands like Dove, Lifebuoy, and Vaseline, and food-and-beverages such as Lipton teas, Knorr foods, and Ben & Jerry's ice cream, discussed and analyzed the fair trade trend, problems of rising obesity and malnutrition, the company's impact on air and water, and the like. This stimulated heated debate about the moral responsibilities of corporations versus the moral hazard posed by using shareholders' monies to address the world's problems. Then one executive made this breakthrough comment about Unilever's responsibilities: "It's who we are. And the way we do business ... It's in our genes."

Unilever's historic commitment to society traces to its founder, William Hesketh Lever, who, in the late 1800s, created a company village offering housing to workers at reasonable rents and introduced the then-unheard-of eight-hour workday, sickness benefits, holiday pay, and pensions for both male and female employees. The challenge today, as one executive put it, is "to take Lever's heritage and move it into the new world."

Already, Unilever had been a first mover in its industry on issues related to water, fish, and sustainable agriculture in concert with leading NGOs and select peers. After the study, it adopted a "vitality mission" to bring

vitality to all its interactions with society. This led the firm to reduce dramatically its environmental footprint, move into organic sourcing and fair trade teas, and eliminate trans-fats and put healthier ingredients into its offerings. In so doing, they not only factored social issues into their business decisions, but indeed crafted business strategies to address the tough and often troubling issues facing their business and the world.

Market Creation and Social Change

Take, for example, the problem of obesity that is widespread in the U.S. and Europe and growing in India, China, and elsewhere. Type II diabetes is projected to reach pandemic proportions – from roughly 180 million cases today to 370 million by 2030. At the same time, attitudes have shifted dramatically about the “causes” of obesity. An analysis of *New York Times* articles on obesity found that, in 1990, some 84 percent of the stories stressed that obesity was caused by individual habits and only 14 percent attributed causation to the environment. Thirteen years later, by comparison, personal causes were emphasized in 54 percent of the articles while 46 percent cited environmental causes – a threefold increase.²¹ This naturally poses a threat to fast food franchisers and soft drink purveyors. It also expands the market for healthier foods and beverages. Unilever, like Nestle, Pepsico, and Kraft, has been busy eliminating unhealthy ingredients and offering more healthy alternatives in its product lines.

The company also extended its “bottom of the pyramid” business model through the developing world and launched its Dove “real beauty” campaign in the modern trade.²² CEO Patrick Cescau summed up the logic for Unilever concisely: “Companies that succeed will serve the whole pyramid – with consumers at every economic level ... Social responsibility is not just about sustainable development and building reputation. It’s also about growing markets and fueling innovation.”

Leadership: Top to Bottom

In the development of citizenship within companies, there are still some top executives at an early stage giving mostly lip service to CSR, but increasing numbers are moving from a benign, supportive role into one of enterprise-wide stewardship. They are several reasons why,

For one, a CEO is a much more public figure today than, say, twenty-five years ago. Moreover, just as mistrust of business has climbed in the preceding few decades, so have calls for top leadership to be responsible and accountable for their firm’s social and environmental performance. This compels CEOs to exercise oversight of citizenship in their companies, to report to the Board on associated risks and achievements, and to look out for their own and the firm’s reputation.

“My responsibility is to try and protect the reputation of the brand, protect the people, protect the values, operate within those, and keep a view, without being lost in the heat of the day to day, to make sure there’s balance within the organization, and recognize if you do that over a period of time, you’ll be successful.” This is a clear example of the stewardship role as one top executive defined his job. But there are examples, aside from the high-profile cases of John Browne at BP, or Howard Schultz at Starbucks, where executives have taken a stronger stand vis-à-vis society and assumed a more affirmative role. This takes different forms: GE’s Jeff Immelt’s insight that societal challenges can be turned into business opportunities; Timberland’s Jeff Swartz’s commitment to put social purpose at the center of his firm’s business; and AMD’s Hector Ruiz’s call for chief executives’ to use their power and influence to effect positive social change. **It is in these leadership roles – as champions of citizenship within their firms and as visionaries who set an example for or lead entire industries – that top executives move their companies and themselves into next generation citizenship.**

Trailblazers

Even as these CEOs get high marks and closer scrutiny for leading their companies to the frontiers of corporate citizenship, there is much to learn from their forebears, the trailblazers that came of age in the 1960s and ‘70s. Paul Hawken, for one, founded

21 Regina G. Lawrence, “Framing Obesity: The Evolution of News Discourse on a Public Health Issue,” The Joan Shorenstein Center on the Press, Politics, and Public Policy, Harvard University, 2004-2005, at ksg.harvard.edu.

22 See C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Upper Saddle River, NJ: Wharton School Publishing, 2005).

Erewhon, a natural-foods market, in the early 1960s, then co-founded Smith & Hawken, a garden tool purveyor, in the late 1970s, all the while gaining insights that would appear in his volume, *The Ecology of Commerce*. Ben Cohen and Jerry Greenfield started their company in the late 1970s and twenty years later were touting how to turn “values into value.” The Body Shop’s Anita Roddick got started about the same time. Jeffrey Hollender, CEO of Seventh Generation, makes the point that these trailblazers set an example for corporate leaders today.

A study of trailblazers identified key aspects of their leadership: 1) a core life purpose to make a difference in society; 2) regular dialogue and engagement with a large number of stakeholders; 3) the capacity to enlist people through role modeling and transformational interactions; and 4) comfort with experimentation and letting a new organizational model emerge.²³ Ray Anderson, CEO of Interface Carpets, represents traditional corporate leaders who have embraced this approach to leading a sustainable business. His “wake up” to a new way of running the business came when he was called upon to speak about the firm’s environmental record. He recalls, “the idea that, while in compliance, we might be hurting the environment simply hadn’t occurred to me”. Then he read Hawken’s work and experienced a “spear in the chest”. He thereupon embarked on the wholesale transformation of this company, formed a dream team of advisors, and launched a company-wide sustainability agenda that “greened” its processes and product lines.

Anderson described his larger ambitions thusly: “We used to say that we are weaving a web of customer relationships. And now weaving the web has gone beyond customers to the whole network. So the ‘doing well by doing good’ web grows and customer relationships grow with that and the world gradually shifts direction.”

Shared Leadership

The corporate leader-as-hero model, so prominent from the 1980s to the Enron fallout, has been widely criticized of late and has fallen out of fashion. **Increasingly, what drives social innovation is shared leadership whereby top executives work in partnership with multiple**

stakeholders and leaders at every level of the organization step up to the challenge. Interestingly, a study of several companies advancing their citizenship agendas found that middle managers could be the catalysts for change.²⁴ **By spreading knowledge about the need for and benefits of adopting a more sophisticated form of citizenship and building coalitions of supporters in staff functions and among line managers, these middle managers built momentum to change that their CEO’s, initially indifferent to, ultimately rushed to embrace.**

Management Structures: Margins to Mainstream

For companies in the early stages of development their citizenship profile, responsibilities for handling matters of compliance in these firms are usually assigned to the functional heads of, say, human resources, the legal department, investor relations, public relations, and community affairs. The job of these functional managers is to make sure that the company obeys the law and keep problems that arise from harming the firm’s reputation.

The problem is that social and environmental issues don’t come bundled in staff-sized packages. Are concerns raised about the wages, working, and living conditions of contract employees in a remote supply chain an HR or CR matter? Shouldn’t the health, safety, and environmental people be involved, too, because of questions about the cleanliness of water in the nearby community? And what about the legal department? At this point, staff units are often overwhelmed by engagements with stakeholders and seldom equipped to respond to new issues, opportunities and threats. A company simply needs more *capacity* to address a spectrum of varied interests and needs.

Coordinative Mechanisms

The case of Petro-Canada illustrates the phenomenon. An inventory of existing programs in the compa-

²³ Keith Cox, *Organic Leadership: The Co-creation of Good Business, Global Prosperity and a Greener Future* (Lisle, IL: Benedictine University, 2005); also Keith Cox and Philip H. Mirvis, “Leadership for Global Sustainability” (2006), BAWB, <http://worldbenefit.cwru.edu/forum2006>.

²⁴ Philip Mirvis and Julie Manga, *Integrating Corporate Citizenship: Leading from the Middle*. (Boston: Center for Corporate Citizenship, 2007).

ny in 2002 revealed that activity was widespread but siloed and without alignment or strategic purpose. Says Hazel Gillespie, Community Investment manager, "We all realized that we were contributing to the company's reputation, but we weren't doing it in a coordinated, concentrated, focused, and strategic way."

Asea Brown Boveri (ABB) was a pioneer in addressing this kind of chaos in an orderly fashion. The Swiss maker of power and automation technologies established a sustainability management program in 1992 and today has a Stakeholder Advisory Board composed of the CEO, a sustainability department head, and seven ad hoc advisors. ABB distributes responsibilities among different groups in its global operation. Business ethics, for example, fall under the company's legal department while human resources is responsible for upholding labor principles. In total, nearly 500 people in more than fifty countries have specific responsibilities for sustainability programs and coordinate through work groups and committees.

Governance

A 2006 Conference Board survey of medium to large size multinationals (a select sample of 198 leading companies) suggests that firms are giving citizenship more top-level managerial attention.²⁵ Over 60 percent say that they have formal programs to manage citizenship and sustainability and nearly half say that their Boards routinely review citizenship efforts in their companies. To gather more systematic data on how Boards are operating in this space, what responsibilities they have assumed, and how transparent they are in going about it, the Center conducted a benchmarking of the governance of citizenship in twenty-five firms representing five industries.²⁶ Evidence from this benchmarking tends to support the notion that Boards are also going through stages in their governance of corporate citizenship. Nearly all the firms studied have an enterprise code of conduct and disclose their Board's roles and functions in governance. At the next level of engagement as citizens, however, progressively fewer oversee the full range of financial and non-financial results and compliance with the firm's code of conduct.

Performance Management Systems

One company that has infused its operations, top to bottom, with corporate citizenship is the Danish-based pharmaceutical Novo Nordisk. In the mid-1990s, the company formulated its Novo Nordisk Way of Management (NNWoM). Its centerpiece was its charter that covered values, principles of management, and key commitments, including the ideas that products and services would make a "significant difference in improving the way people live and work" and that its "activities, practices and deliverables are perceived to be economically viable, environmentally sound and socially fair." Through its charter, the company was making a commitment to manage by the triple bottom line—formally adopted in amendments in 2004 to its Articles of Association under Danish Law.

The NNWoM is an operating system that stretches from top to bottom. It's overseen by CEO Lars Rebien and the Board and directed by Lise Kingo, executive vice president and chief of staffs, a member of the top executive team. Among its innovative practices, the company expects all employees to spend at least one day a year with someone connected to diabetes—a patient, a caretaker, or a healthcare professional – and then to suggest improvements for how the company does business. To ensure performance to the highest standards, it has built-in accountability that requires systematic and validated documentation of performance to the company's values-based management system. Each business unit, for example, has a balanced scorecard that cascades triple bottom line goals throughout the organization. The company's annual reporting accounts for performance in all three domains with an extensive analysis of results against targets and a detailed profile of its engagement with stakeholders.

In the spirit of leaving no stone unturned, the company continues to expand its definition of what it means to be a responsible company. As part of its commitment to support the United Nations Universal Declara-

25 The Conference Board. "Reward Trumps Risk: How Business Perspectives on Corporate Citizenship and Sustainability are Changing its Bottom Line." *Executiveaction* #216, November, 2006.

26 Guy Morgan, G., Kwang Ryu, and Philip Mirvis, Leading corporate citizenship: Governance, structure, systems. *Journal of Corporate Governance*. (in press).

tion of Human Rights, and its signing of the UN Global Compact, Novo Nordisk has integrated human rights into business policies and practices, in the form of a Human Rights Management System. "A major challenge in implementing this system was getting decision makers in the global organization to understand and consider the aspects of human rights in every strategic decision they make—just as environmental considerations are already an integral part of the Novo Nordisk Way of Management," explains Elin Schmidt, a vice president of corporate responsibility

management. Now it informs drug pricing and key decisions having to do with licensing local manufacture of generic therapies.

What is most notable at Novo Nordisk is its broad-based organizational audit. To continuously infuse the NNWoM into the culture, a group of thirty to forty non-executive "facilitators" meets with every work unit and every employee, over a three-year cycle, to ensure that actions and decisions live up to the promise of the company's values.

IV. Toward Global Corporate Citizenship

The movement toward "next generation corporate citizenship" takes firms beyond traditional measures of compliance and community contributions to integrating citizenship into the organization and operations and to factoring it into products and services around the globe. 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.

The next generation movement also involves multi-sector partnering to address society's needs. These include initiatives regarding climate change (alliances for carbon trading and energy conservation), natural resources (partnerships around fish, water, and agriculture, as well as food), human rights (codes for supply-chain management and fair labor practices), as well as collaborations concerning access to medicines and, of course, education.

The reasons are manifold, ranging from self-protection to leveling the playing field to leveraging each other's ideas and resources to shaping public opinion and public policy. And their impact can be profound. Firms, NGOs, and governments are working together to combat trade in blood diamonds and to address corrupt business practices in developing countries; multi-business efforts are underway to establish transparency around oil payments so as to ensure fair dealings, to build national health and legal systems in African states, and to promote post-conflict reconciliation among peoples in Northern Ireland, South Africa, the Balkans, and Afghanistan; and business and civil society partners promote peace through sim-

ple-but-difficult measures like creating jobs for youth growing up in lands ripe for conflict and terrorism.

On a global scale, there is not near as much preference for "free market" solutions to social problems. Majorities in countries like Indonesia, Italy, Argentina, and France agree that 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 favorably 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 (e.g., Poland, France, China) are more apt to turn to mandate aspects of corporate social responsibility, whereas nations good at managing change with traditions of transparency (UK, Sweden, Germany) are more apt to rely on voluntary measures and partnerships to steer corporate conduct.²⁷

Interestingly, our colleague **Sandra Waddock posits a sixth stage of the development of citizenship whereby firms respond to global social, political-economic, and environmental threats and opportunities by establishing "extra-organizational" forms, such as partnerships with other businesses, governments, and civil society.²⁸ Conceptually, this phase raises questions about the "business of business" in different kinds of socio-economies and invites a new line of inquiry into the respective roles of private enterprise and the public sector in the next stage of corporate citizenship.**

27 Bertelsmann-Stiftung. The CSR Navigator: Public policies in Africa, the Americas, Asia and Europe. 2007.

28 Sandra Waddock,

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