THIRD GENERATION CORPORATE CITIZENSHIP
Public Policy and Business in Society
Simon Zadek

The role of business in society is one of the most important and contentious public policy issues of our age. Public cynicism about corporate power, fuelled by NGO campaigns, has reached levels that not only leave companies vulnerable but also threaten the consensus for globalisation itself. And though governments recognise that companies will play an essential role in everything from tackling economic development to creating clean technologies, they have not found a way of linking the corporate citizenship debate to their public policy goals.

Simon Zadek argues that for corporate citizenship to work there needs to be a decisive move beyond individual leadership, philanthropic gestures and PR stunts towards collective action with governments and civil society organisations, what he calls **Third Generation Corporate Citizenship**. He sets out an agenda for business in society, taking into account progress so far and shows how through a combination of 'sticks and carrots' governments can play a fuller role in developing the new alliances that will make globalisation sustainable.

Third Generation Corporate Citizenship is not just required reading for public and voluntary sector policymakers and corporate leaders – it is a vital primer for reshaping the debate on globalisation. It launches a new strand in The Foreign Policy Centre's programme on the role of companies in global society.

Simon Zadek is Acting Chief Executive Officer of the *Institute of Social and Ethical AccountAbility*. He is an advisor for businesses, NGOs, international agencies and governments in Europe, the USA and Africa. Most recently he has worked with companies including BT, Nike and Novo Group. His most recent book is *The Civil Corporation* published in July 2001.

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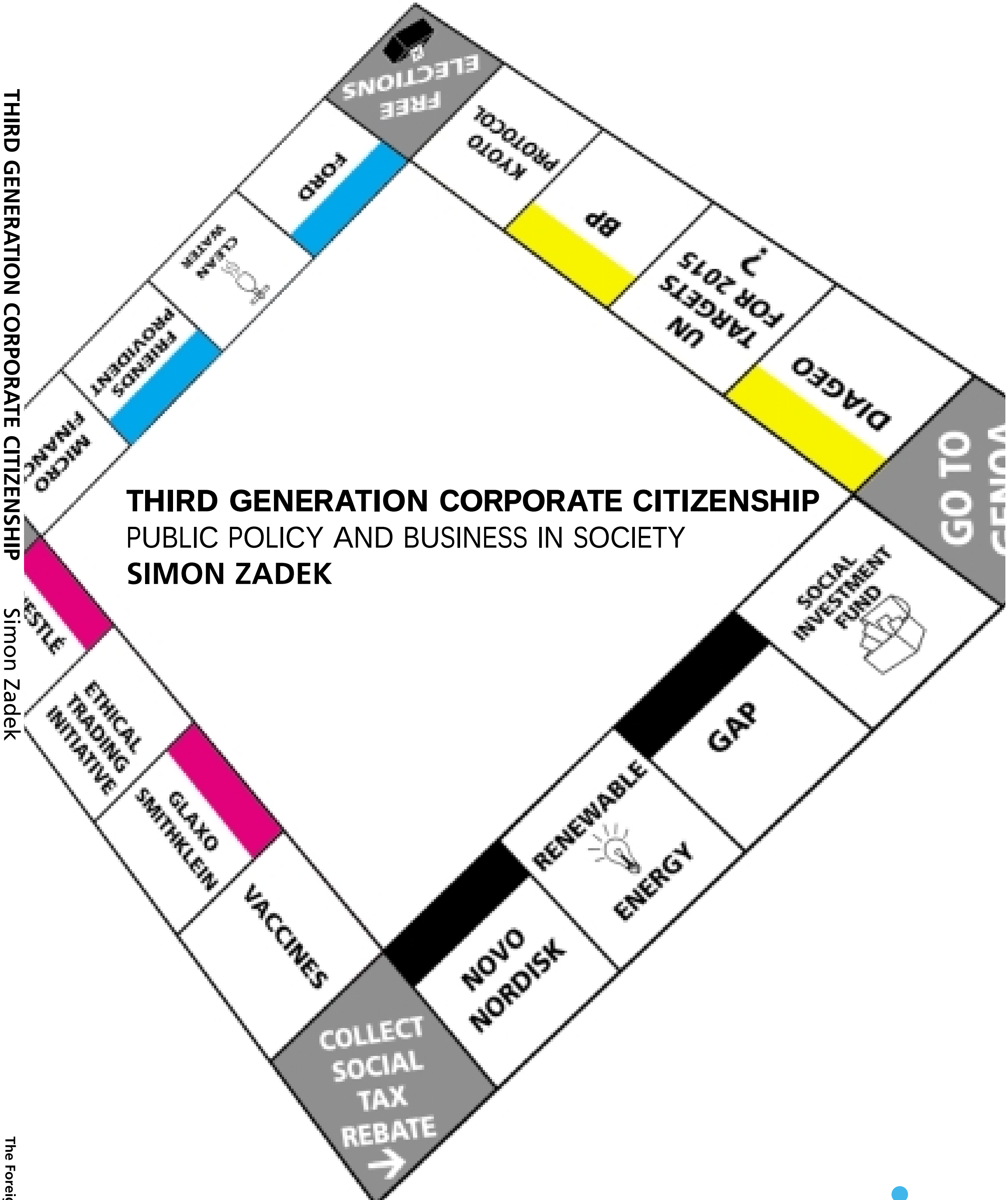

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The Foreign Policy Centre
in association with
AccountAbility
institute of social and ethical accountability

The Foreign Policy Centre

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Third Generation Corporate Citizenship

Public policy and business in society

A Foreign Policy Centre/AccountAbility Report

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The Foreign Policy Centre

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Preface and acknowledgements

Public debate about the behaviour and impact of global corporations has never been more important. As this pamphlet went to print, yet another public opinion survey, this time published by the *Observer*, highlighted people's disbelief in corporate claims of 'social responsibility'. Fairly or not, these extraordinary institutions, emerging from a period of privatisation, trade liberalisation, and resulting business consolidation, are struggling to maintain legitimacy. Street protesters, ethical consumers and investors, and now also concerned governments, are seeking out and beginning to find the Achilles' heels of these corporate giants in efforts to direct and at times rein in their economic and political power.

The events of the 11th September, and their unfolding repercussions, have taken the edge off these civil challenges to the corporate community. Citizens' ethics are being shaped more by short-term, daily events and the fear of unemployment and personal security than by longer-term development challenges. The mainstream political process is focused on immediate concerns and their possible aftermaths. The anti-globalisation movement in Europe and North America has, at least temporarily, been silenced, or else re-positioned to argue the case against war.

But just as corporate citizenship may seem suddenly irrelevant or impossible, so too has its importance become clearer. Current events are framed by the failure to achieve adequate and equitable international development. Until addressed, this failure will continue to reinforce fractured international relations between governments, nations and communities. Any long-term strategy for addressing this challenge will have to go beyond the advocacy of 'more' economic globalisation in its current forms. Global corporations and the wider business community will have to look beyond short-term financial imperatives and face the broader responsibilities that must come with their scale and impact. For this to be possible, corporate citizenship will have to mature beyond cases of individual leadership towards collective action with governments and civil society organisations.

That is the challenge that this pamphlet tries to set out, and it is probably a reflection of the scale of the challenge that I have drawn so heavily on people from business, government and the voluntary sector. This pamphlet has been prepared with the unending encouragement of Mark Leonard, and has benefited from the thoughtful criticisms and insights of Geoff Bush, Barry Coates, Craig McKenzie, Jonathan Cohen, Ian Christie, Barbara Dubach, Phoebe Griffith, Paul Hohnen, Richard Thomas, Mira Merme, John Sabapathy, Tanya Schwarz, Susan Scott-Parker, Rob Blackhurst and Tom Solloway. The text is, nevertheless, the author's responsibility, and draws on his recent book, 'The Civil Corporation: the New Economy of Corporate Citizenship' (Earthscan, 2001), more information about which can be found at www.zadek.net.

Simon Zadek

20 October 2001, London

1. Introduction: Business in Society

The role of business in society is this century's most important and contentious public policy issue. Business's role goes beyond the creation of economic and financial wealth: today it is increasingly moulding society's values and norms, and defining public policy and practice. How business is done will underpin how future local and global communities address social and environmental visions and imperatives. All the biggest issues we face today are deeply informed by business practice, from global warming and animal welfare to peace and security.

But as a public policy issue, the role of business in society is like an 'elephant in the bedroom'.[1] It is so big and so important that policymakers often seem in denial that the issue exists at all. Most governments and public agencies accept as the *de facto* rules of the game the basic tenets of today's global economy, and the role of the corporate community within it. Public policy is increasingly framed in this light, often allowing an accumulation of yesterday's ill-conceived compromise deals to underpin and even justify today's unacceptable social and environmental outcomes. When challenged, governments speak of the limits of their power in the face of liberalised markets, hot capital, and the complexity of global governance. The prevalent view of the 'inevitability of globalisation in its current form' has become as much an excuse for inaction as a description of historical events or possible futures. Not a single government of a major economic power has seriously engaged in debate about the merits of globalisation with the citizens they represent (although the recent interest in French political circles in the so-called 'Tobin Tax' on international financial transactions is perhaps one indication that times are changing). Such an approach to public policy can at very best get most from the status quo, and at worst threatens to be an outright – and wholly unnecessary – disaster.

The topic of business in society has of course been treated in a more boisterous manner on the streets of Seattle and Genoa. But activists leading the assault on corporate power and influence have in the main remained entrenched in their negative critique, encouraged in part by the lack of serious mainstream debate.[2] Few have mapped out credible alternatives for generating and distributing sufficient economic wealth to provide a decent quality of life for a growing world population. Similarly, among those who advocate 'corporate citizenship' as a means of squaring the circle of unfettered trade liberalisation, few have seriously faced up to the challenge of whether corporate citizenship can deliver sufficient social and environmental gains to reverse the underlying pattern of growing poverty, inequality, and environmental insecurity. Few within this community have acknowledged with any real urgency the potential bankruptcy of an approach that fails to meet this challenge.

The elephant that is the role of business in society, although visible, remains critically under-exposed in mainstream policy debate and practice. This pamphlet seeks to cast some light on this issue by probing two key public policy questions. Firstly, what should we reasonably expect from the business community in addressing social and environmental challenges, and what is the role of corporate citizenship in its delivery? This question concerns aspirations, opportunities, and expectations, but also the matter of limits to what business can do given their current mandate, capacities and competitive environment. Secondly, what should we expect from governments and their international agents in addressing the matter of business in society? In particular, what are the most important public policies for making the most out of corporate citizenship, and what can and should national governments do in promoting such policy options at national and international levels?

My suggested answers to these key public policy questions are set out as follows: First, I outline in brief where corporate citizenship is today, and highlight its manifest successes and limitations. Then I describe the development of corporate citizenship as it bears on the emerging governance challenges at national and global levels. Finally, I suggest a strategic framework for public policy, and some specific proposals, that could establish corporate citizenship as a core element of an approach to enhancing the delivery of public goods, both nationally and globally.

2. Generations of Corporate Citizenship

The scale which corporations have achieved through mergers, acquisitions, and the opportunities opened through national and international market liberalisation has transformed them from businesses as 'financially viable producers and purveyors of needed (or at least wanted) goods and services' into vast, complex, 'profit-needing' institutions that, almost incidently, deliver goods and services. Extraordinary facts about this historic transformation have been turned into apparently mundane truths. It is today almost passé amongst opinion leaders to point out that 51 of the 100 largest economies in the world today are corporations, or that the top 200 corporations have sales equivalent to one quarter of the world's total economic activity. We seem to accept as normal that General Motors has annual sales equivalent to the GDP of Denmark, and that the annual sales of Sears Roebuck are comparable to the total annual income of over 100 million Bangladeshis.[3]

And size counts. Global corporations deeply penetrate the political economy of both developing countries and super-powers. Their investments underpin the capital base of many emerging economies, and their donations are essential to ever-more-costly political campaigns. These mega-institutions are accused of sapping the means of national governments to represent their citizens' best interests. The effect of this, it is claimed by many intellectuals and civil activists, has been to unleash a competition between the world's communities to cut public spending, privatise public assets, convert often severely curtailed public services into private profit-centres, and to draw back from any regulation that constrains business activities, particularly those of the corporate community.

People have become distrustful towards, and often savagely cynical about, corporations. Many companies score badly in opinion polls about which of society's institutions are most trusted to 'do the right thing'. One opinion survey on public attitudes towards business, for example, found that over half of Europe's citizens surveyed across twelve countries considered that business does not pay enough attention to its social responsibilities.[4] In the UK, where the privatisation of public services has progressed furthest, fewer than one in nine people, according to a recent poll, believe that business will significantly improve public services. Distrust towards corporations has at times turned into concrete action by consumers and NGOs in the form of ethical shopping, boycotts and action at shareholder meetings. Over one quarter of Europeans said in the same survey that they had engaged in one or other activity in the previous six months that either introduced ethics into actual consumer purchase decisions or else made such views known by other means. Many more say that they would, given half a chance. It should be noted, however, that the results of such attitudinal studies must be treated with a degree of caution, as few respondents will ever describe themselves as 'unethical consumers' when questioned.

Attitudes towards the corporate community are neurotic, to say the least. The system encourages consumers to put ethics aside as they enter the markets for goods and services, their own labour, and their investments for their old age or ill-health. The same people who are critical of corporations in surveys continue to buy life-saving medicines developed on the back of animal testing, eat Nestlé chocolate, and cook with genetically modified tomato purée.[5] The most telling image from Seattle was that of a demonstrator kicking in the windows of a Nike-selling retail outlet while wearing Nike trainers. Certainly there are exceptions to this, as witnessed by the fate of companies like Huntington Life Sciences whose business was seriously undermined by the extreme actions of fundamentalist animal rights activists. However, these cases remain, to date, the exception. There are no unfilled job vacancies at Exxon Mobil because of their virulent opposition to the Kyoto Protocol. Few if any accountholders walked away from NatWest when it was revealed that, despite its hard-won green and community credentials, the company had invested in an extremely profitable, and altogether very efficient, tropical forest-stripping venture. Philip Morris's sales of its Kraft food products remain unaffected by allegations related to their cigarette sales.

It is precisely the combination of antipathy and dependency that lays the foundations for the inconsistencies in the relationships between business and society. This is exactly why the demonstrations from Seattle to Genoa cannot be dismissed as isolated actions by a few unrepresentative crazies – as many of our mainstream political leaders would have them seen. Far from it. These incidences are the edges of deep fractures in our pursuit of already damaged national, and wholly underdeveloped global, social contracts.

The virus-like effects of civil action are playing themselves out in company after company, across sectors, cultures and countries.[6] Moreover, these effects are more demanding with each subsequent generation. Demands for labour codes of conduct in the footwear and apparel sector that seemed daunting and unrealistic barely a decade ago seem meek compared to the challenges now facing many companies, such as the global pharmaceutical industry. Few, if any, global corporations – particularly those with retail brands – feel protected by a mentality of 'business as usual'. Business is booming for organisations advising companies on how to meet the terms of the emerging and volatile relationships with diverse parts of society, whether consultants like KPMG and Edelman Communications or the more engaging elements of Greenpeace and Amnesty International.

Although the short-term direct financial impacts of civil campaigns have been limited, business managers are hyper-sensitive to potential damage to their companies' intangible assets. The economist James Tobin has been one of many to demonstrate the growing importance of assets such as intellectual capital, skills, research and development (R&D), brands, relationships and reputation in the knowledge economy. At the heart of his case is the calculation of the ratio between the market value of a company to the value of its recorded tangible assets, which he called 'q'. In 1996, for the UK stock market as a whole, the average value for q stood at 1.3, while for knowledge-based stock, such as Zeneca, it was 6. In the USA, the average was 1.5, while for Microsoft it was 15.[7] Interbrand estimates that one-quarter of the world's total financial wealth is tied up in a single part of a company's intangible assets – its brand value.[8] It is concern for these intangibles that has underpinned the emergence of what Michael Willmott calls the 'citizen brands', essentially reputations built around the proposition that successful corporations will 'put society at the heart of their business'.[9]

So what has been the response of companies? They *are* responding, whether by virtue of their enlightened leadership, the brute force of actual or expected market pressure, or – most likely – some muddled combination of the two.

The first response from the corporate community is that it is 'doing its job' by creating economic wealth. After all, over three quarters of international investment in developing countries – the lifeblood of economic growth – comes from private sources, mainly large corporations. Corporations like Shell International and South African Breweries are increasingly incorporating measures of their economic contribution into their non-financial reports.[10] Such investment and trade can and does at times underpin an economic growth that can alleviate poverty. As the UN Human Development Report points out, "…people in many countries live a much longer and healthier life than just two decades ago. In 31 of the 174 countries included in the Human Development Index (HDI), life expectancy has increased by more than a fifth since 1975… Between 1975 and 1997 most countries made substantial progress in human development, reducing their shortfall from the maximum possible value of the HDI".[11] It is this apparent link that underpins the argument of those advocating a trade-liberalised, business-as-usual public policy environment as the most effective means of alleviating poverty and overcoming environmental challenges. Indeed, advocates rightly point out that investment from global corporations can bring with it higher environmental and labour standards than prevailing local conditions.[12]

Anti-corporate views typically undervalue the positive income and wealth gains that can accompany globalisation. Even companies many people love to hate, such as British American Tobacco, are the prime sources of livelihood for many agricultural communities and, in some instances, handle the product that is the main source of export earnings for entire nations. A recent study by the Washington-based Centre for Economic and Policy Research, for example, suggests that the economic growth rates of the majority of developing countries, and many human development rates, have worsened during the period of accelerating globalisation (1980-2000) as compared to other periods.[13] As inequality within developing (and developed) countries and between the North and the South grows, it harms the very consensus for globalisation which is the licence to operate for all global companies. This is why companies need a more concerted response to the critique of their role as the main actors in the globalisation process.

The second stage of corporate response is corporate citizenship. By ‘corporate citizenship’ I mean here where businesses have explicit social or environmental aims that go beyond what the national or local rule of law requires of them. Of course this can mean many different things, which goes some way to explain the suspicions towards corporate citizenship. Just within one sector, food retailing, Tesco’s highly successful programme of donating computers to schools sits uneasily under the same rubric of ‘corporate citizenship’ as Littlewoods’ leadership in addressing labour standards in global supply chains, Waitrose’s approach to common ownership as part of the John Lewis Partnership, or Iceland’s high-profile stance in the market-sensitive campaign against genetically modified organisms. Indeed, all of these examples are entirely different to the radical ambitions and approaches of parts of the fair trade movement, such as the innovative Day Chocolate Company and Cafédirect.

Such diversity becomes all the more problematic when it appears within a single company. The Ford Motor Corporation has sought to take a leadership role within the automobile sector in using the principles of sustainable development to frame its business strategy. But it remains unclear how this squares with alleged racism within the company’s facilities at Dagenham, or their approach to the recent revelations over apparent fatal weaknesses in the alchemy of their Sports Utility Vehicles (SUVs) and Firestone tyres. Certainly, technological developments underwritten by companies like Ford are likely to dramatically reduce the environmental footprint of tomorrow’s vehicles, but how does this square with the continued overall increase in vehicle-related emissions that accompanies the rapid growth in the number of vehicles sold worldwide?[14]

It is therefore useful to unpack the notion of corporate citizenship into discrete elements. One approach outlined below and described elsewhere in more detail is to frame differences in generational terms, each subsequent generation raising the bar on the challenge and aspirations underlying corporate citizenship.[15]

The First Generation frames the question, *“Can corporations be responsible in ways that do not detract from and may add commercial value to their business?”* For many business communities, philanthropy is simply part of the way business is done. Often, it is part of how senior management, and in some instances private owners, comply with the needs of their individual leadership roles in their respective societies. This generation also marked the rise of corporate citizenship as a route for corporations to defend themselves against the financial pain (and often managers’ and employees’ personal humiliation) associated with public campaigns following alleged social or environmental misconduct. In both of these cases, citizenship generally involves ‘bolt-on’ philanthropy unrelated to a company’s overall strategies, business processes, and footprints.

The answer to the First Generation challenge is a measured ‘yes’.

Philanthropic costs either yield limited but worthwhile financial benefits such as positive reputational effects or are so low that they don't impact on commercial success. Corporate citizenship as an integral element of a communication strategy to combat public criticism was also proving more effective than the alternative, more high-handed denials of culpability or even responsibility adopted by, for example, Nestlé in its handling of the long-running campaign about baby milk marketing.

The Second Generation of corporate responsibility raises the question: *"Are responsible companies more likely to prosper in the future?"* This question takes the debate beyond the short-term frame of simple cost-benefit analysis and pain alleviation. It poses the challenge of whether corporate citizenship can underpin or at the very least be an integral part of a business's long-term strategy for success.

The response to the Second Generation challenge seems to be a qualified 'maybe'. GlaxoSmithKline and other pharmaceutical companies are rapidly finding ways to provide lower-cost access to drugs in commercially marginal markets across Africa; telecommunications companies like BT and Cisco have launched a multitude of initiatives to overcome the so-called Digital Divide;[16] extraction companies like Rio Tinto, BP and Shell have invested heavily in improving the social and environmental outcomes associated with their site operations; and brands like Nike and Marks & Spencer have done much to clean up social and environmental performance in their supply chains. This is the emerging heartland of corporate citizenship.[17]

Research suggests that companies that take key principles of sustainable development into account in forging and implementing their business strategies consistently out-perform the market.[18] Such results do not mean that 'being good' automatically leads to 'doing well'. But as Reto Ringger, President of Sustainability Asset Management, the architects of the Dow Jones Sustainability Index, explains, "companies which are better managed environmentally indicate more sophisticated management throughout the company… And good management is the single most important factor in corporate profitability, growth, and future earnings". Businesses that embrace corporate citizenship effectively deepen their associations with stakeholders. In doing so they build the insight, will and capacity to learn and respond by innovating their processes and products in ways that are likely to enhance their longer-term business strategy and performance.

One of the most important drivers of Second Generation Corporate Citizenship has been the growth of 'socially responsible investment' (SRI). This was originally little more than a route to allow socially conscious investors to avoid supporting businesses doing things that they did not like – tobacco, arms, and the like. But the value of today's ethical investment portfolios worldwide has been estimated by the research consultancy Cerulli Associates at about £1 trillion.[19] In the UK, a recent survey by the UK Social Investment Fund found that 60% of the largest pension funds (with combined assets of £300bn) had adopted formal policies committing them to 'engage' with the companies they invest in to encourage best practice. The rapid growth of the activity in the UK can be largely attributed to the leadership role taken by the UK Government, for example in building a regulation into the Pensions Act in 2000 that required pension funds to disclose their policies on corporate, social and environmental responsibility.

Growing belief in a 'win-win' space where improved social and environmental performance yields business benefits is beginning to allow for the formation of a bedrock of mainstream corporate citizenship. As the previous comments highlight, the combination of evidence on performance and government interventions has enabled inroads to be made into influencing the behaviour of the all-important financial sector, particularly the large institutional investors.[20] Certainly, these business-aligned objectives and potential outcomes do enhance the potential significance of corporate citizenship. Equally, however, these reputational gains have fuelled cynicism – lending credence to the view that strengthening corporate citizenship is 'just another way for them to make money'. Moreover, because corporate citizenship has often manifested itself in the first instance as a defensive strategy, public debate often focuses on the question of whether it is 'real' or not. This means that many companies find themselves in a 'no-win' situation where they are faced with an ever-growing litany of demands and have no way of satisfying their critics. An emerging industry of external verifiers has not done much to offset the critical view that profit-seeking companies cannot change their spots. Many, like David Korten, insist that real accountability costs real money and therefore cannot be good for the financial bottom line.[21] This, to the critics, proves that the new socially responsible rhetoric must be a media-savvy way to protect the share price and shareholder value in an age of increased scrutiny. They argue further, as does Susan George from the Transnational Institute, that even if there are a few isolated examples of good practice, this will not deliver substantial public goods. Furthermore, they conclude, these small successes will undermine pressures for transnational regulation that, if enacted, would be far more effective in securing accountability across the business community.

There is certainly substance to these concerns. The main rump of the investment community remains unimpressed by social and environmental issues. A recent survey undertaken by MORI on behalf of the UK-based organisation, Business in the Environment, concluded that only three percent of mainstream financial analysts (i.e. not SRI specialists) spontaneously mentioned social or environmental factors when listing what they took into account in judging companies' financial performance and potential.[22] Furthermore, the current economic downturn and collapse in the profits, dividends, and share prices of many companies will tend to focus managers on short-term opportunities and needs *even if* social and environmental issues are a significant factor in longer-term financial performance. Such evidence and trends in no way dismiss the practice and prospects of Second Generation Corporate Citizenship. However, they provide a sobering reminder of the need to maintain perspective on the significance of the successes to date.

Corporate citizenship can be superficial and inadequate. In its worst form, it can be a conservative safety valve that offsets the pressure for much needed structural change in markets, in the ways of the business community, and in the role of government. Where I part ways with many of its critics is in my belief that such outcomes are not a *sine qua non* of corporate citizenship. Whether corporate citizenship can live up to its potential is a strategic challenge rather than some given truth.

This then brings one to the need for Third Generation Corporate Citizenship. The more daunting challenge here is: *"Is corporate citizenship likely to be significant in addressing growing levels of poverty, exclusion, and environmental degradation?"* To what extent, for example, will the responsible behaviour of the world's largest purveyor of alcoholic beverages, Diageo, *actually* reduce the level of alcoholism and the associated abuse, crime, violence and death? Will the results of Ford embracing sustainable development make a significant difference to the growing environmental and health problems caused by traffic-related pollution?

The simple answer to the Third Generation challenge is that current, essentially voluntary, approaches by individual companies to corporate citizenship will *in themselves* not contribute significantly to resolving deeply rooted social and environmental problems. However large companies have become, few if any are individually able to refocus the markets in which they operate towards more sustainable production and distribution of goods and services that meet real needs. If a company like GAP effectively implemented an agreed labour code of conduct throughout their supply chains, it might *directly* benefit as many as 5 million workers. But this seems limited when set against the 1.2 billion living in absolute poverty. That does not make such voluntary initiatives by individual companies wrong or bad – just limited. This shows how Third Generation Corporate Citizenship will need to involve collective processes that move beyond individual initiatives and seek to forge progressive alliances between business, government and NGOs in raising the global performance bar. Failure to achieve this maturity in corporate citizenship could mean that the wider public policy aims of governments are hampered by businesses that are unwilling to put longer-term business success and overall social progress above short-term profits. Moving to Third Generation Corporate Citizenship will therefore involve broadening our idea of citizenship so that it is not just a commitment to developing communities that benefit companies but also a recognition of the need to respect government's duty to deliver public policy goods.

The stakes are high, as the credibility of democratic governments will also be affected by their ability to change the underlying relationship between business and society. The issue is not merely whether there are things that the government can and should do to encourage corporate citizenship. Rather, the challenge is whether the government can find ways to raise the strategic significance of corporate citizenship in addressing social and environmental challenges, both to business as an imperative, and as an enabler of more effective government policy, both nationally and on the global stage. At this level the role of the business community – and so the contribution of corporate citizenship – becomes a matter of governance rather than merely one of operational competencies and capacities.

Corporate Citizenship's Generational Challenges

First Generation
Can corporations be responsible in ways that do not detract from, and may add, commercial value to their business?

Second Generation
Are more responsible companies likely to prosper in the future?

Third Generation
Is corporate citizenship likely to make a significant contribution to addressing the growing levels of poverty, exclusion and environmental degradation?

Source: S. Zadek (2001) The Civil Corporation, Earthscan, London

3. Delivering Public Goods

Public goods are those that citizens consume collectively, such as fresh air and road signs. They possess a number of features which mean that they will not be provided adequately by the market, the most important being that once the goods are provided, it is not possible for companies to restrict access only to those who have paid. They become publicly available and, with individuals able to enjoy their benefits freely, companies become unable to secure payment for them. The upshot of this is that firms are unwilling to provide them in sufficient quantities, if at all. In an effort to secure an adequate provision of public goods, communities have resorted to building collective, non-market mechanisms for assembling and allocating the requisite resources.

Many goods have both private and public characteristics. There are generally private (for example, financial) benefits to education. But at the same time education may also be a public good – it has public benefits which the individual will not take into account when deciding how much he or she is prepared to pay to be educated. For instance, the educated person over her lifetime may generate ideas and economic wealth that benefit wider society. The difference between private benefits and public benefits is, put simply, the externality. Since, in this case, public benefits are greater than private benefits, it is an example of a positive *externality*. The greater the positive externality, the more the good or service is likely to be underprovided in private markets because the price individuals are prepared to pay results in a level of supply beneath that which would occur if the full benefits to society were taken into account.

The cause of privatisation over the last two decades has largely been underpinned by a loss of confidence in governments' ability and will to secure the fulsome provision of public goods. The roll-call of failures is well known to all, and includes inadequate public investment, low public sector productivity, shortfalls through over-politicisation of public services, and in some instances malpractice and outright corruption. Yet the ballooning role of the private sector over the same period – both commercial and non-profit – has equally demonstrated that it has great difficulty in effectively delivering things like adequate public transport and clean streets, let alone more complex public goods such as health and education.

The fallout from the various failures of both pure state and commercial mechanisms to adequately deliver many essential public goods has been the boom in the idea and practice of multi-sector partnerships. Their emergence signals a recognition of the need to find effective means for delivering public goods in the light of widespread dissatisfaction with public services and the need to tap into the advantage of private sector provision. At the same time various studies, such as the Institute of Public Policy Research's *Building Better Partnerships*, have highlighted significant weaknesses in private sector provision of public services. There is a danger of a backlash, and governments in the UK and elsewhere, as well as international public agencies like the World Bank, need to reassess their current approaches to the delivery of public goods that basically subsidise privately-contracted provision. This challenge is already front page news in the UK, from the Mayor of London's legal and moral challenge to the Government's decision to part-privatise the capital's underground system, through to the escalating shortages of nurses and teachers as they show their discontent by leaving public services altogether.

Most partnerships created between government and business to deliver public goods have nothing to do with corporate citizenship. They have been framed, in the main, as interest-based alliances, where direct commercial gains are offered in exchange for some agreed performance measure, the retreat of the state from direct provision, and generally public money. But another variant of partnership has also emerged, rooted deeply within the philosophy and practice of corporate citizenship. Such partnerships have been dubbed 'new social partnerships' by the main European think-tank in the field, The Copenhagen Centre,[23] and 'tri-sector partnerships' by the World Bank and others.[24] These partnerships are also based on the premise of interest-based alliances, where common ground between the business and not-for-profit partners can bridge commercial imperatives and public interests. What distinguishes these partnerships from those previously described is that the business partners enter the relationship with an explicit interest in achieving social and environmental aims that goes beyond short-term fee-for-service or goods-for-sale strategies. Commercial interests, in these contexts, have more to do with the participating businesses' broader licence to operate, which they see as having to be earned and sustained through demonstrable participation in addressing public policy objectives.

Some have argued that all of these partnerships are ultimately underpinned by the same currency – business advantage and profit. But new social partnerships, for want of a better distinguishing term, involve businesses entering into a broader social contract that commits them – to some degree – to addressing societal aims. A privatised hospital may be obliged to treat a minimum number of people at a particular price. A health-related new social partnership, on the other hand, will (or should) frame its over-arching objectives in terms of the health of a community, even though it may also set operational delivery targets. The difference is not merely a matter of degree. At stake here are the terms on which business engages with society.

In noting this critical difference, it is equally important not to mistake design for practice or ambition for outcome. Many new social partnerships are essentially vehicles for small-scale, high-profile philanthropy. In many instances, all that happens is that the time and energy of civil activists and public bodies are absorbed by businesses in a disappointing spirit of reputation management. But equally, there are stunning cases of success. Sometimes these are small-scale but effective for those communities involved – such as the initiatives highlighted by the UK-based Business in the Community Awards. In other cases, the partnerships aims at broader targets with more diffused but nevertheless demonstrable impacts, such as the UK-based Ethical Trading Initiative, Business Partners for Development, the Forest Stewardship Council, and some of the emerging initiatives focused on access to health.

It is possible that traditional private-public partnerships will become more efficient in coming years as some of the dust settles, the hubris dissipates, and the lawyers, bureaucrats and technicians sort out how best to get the job done. But even in the best-case scenario, these partnerships will be highly constrained in what they can achieve. As subsidies vanish, and yet many people remain poor and unable to pay their own way, the fundamental limits of these partnerships will become clear for all to see. They will, like all initiatives that rely exclusively on private markets, under-deliver critically important public goods.

But the successes and failures of new social partnerships will not be constrained in the same way by the limits of the market. They are essentially designed to address market externalities, delivering under-provided public goods by finding indirect means to reward commercial and non-commercial partners. Ericsson's contribution to the UN disaster relief operations is not part of a service contract, but it will clearly improve its reputation in public institutions which will be major purchasers of telecommunications contracts in the future. The Danish pharmaceutical company, Novo Nordisk, is not paid to deliver training in diet management for diabetics, but the fact that it does this with public health authorities in a number of countries deepens its relationship with these bodies for the longer term, with commensurate financial rewards. New social partnerships are a modern manifestation of the 'reciprocity economy', where the exchange of goods and services is part of durable, longer-term social relationships rather than only direct, short-term, one-to-one market transactions.[25]

The business case for Third Generation Corporate Citizenship depends more on the efficacy of these longer-term reciprocal relationships than the shorter-term financial rewards associated with the earlier, and less significant, generations. The challenge in making the Third Generation work is therefore also quite different from those associated either with other kinds of traditional partnerships or with early forms of corporate citizenship. The challenge is to find innovative means for rewarding commercial partners for their real contributions to addressing the public good. Some of these mechanisms might focus on customer information, such as social labels and other forms of market-aligned communication tools.[26] Many, however, will be less direct, as in the cases of Ericsson and Novo Nordisk highlighted above. Above all, there will need to be a shift from merely rewarding the unusually responsible company to penalising those businesses who continue to neglect their broader responsibilities. Some penalties will be straightforward market signals, such as people choosing not to buy a company's products or being unwilling to work for them. However, these market signals alone rarely do the job. A different form of penalty comes into being where there are more structured, institutionalised approaches to changing the rules of the game, whether statutory, or whether, as is increasingly the case, of a non-statutory nature. It is here that engaging the business community in the more effective delivery of public goods becomes fundamentally a matter of governance.

4. The New Civil Governance

July 26th 2000 could go down in history as the day the roles of business in global governance were irrevocably changed. On that day, the UN Secretary General, flanked by the heads of key UN agencies, hosted the inauguration of the Global Compact, a partnership with the business community to further the realisation of the core UN conventions and declarations covering labour standards, human rights and the environment.[27]

The name plaques announcing those in attendance highlighted the significance of the moment. Arrayed around the UN's semi-circular chamber in New York was a powerful blend of business, NGOs and labour organisations – the architects of tomorrow's world. Present of course were the most well-known corporate giants, such as BP, the Ford Motor Corporation, Rio Tinto, Shell and Unilever; and some of the newly emerging corporate titans, such as the Brazilian communications corporation, Globo, the Indian conglomerate, Tata, and the South African utilities company, Eskom. Also in attendance were businesses' traditional and new-found partners, including the International Confederation of Free Trade Unions, Human Rights Watch and the World Wide Fund for Nature.

The UN Global Compact is one of the many recently established partnerships that are rapidly redefining both the terms on which companies go about their business and how public goods can most effectively be delivered. These partnerships, whilst diverse in scope and form, share the aim of harnessing business in pursuit of such goods, both to mobilise businesses' resources, and yet also to guide their growing political and economic power. These two objectives are clearly uncomfortable bedfellows. Yet they are the hallmark of today's governance crisis, where increased expectations of what responsibilities business can and should shoulder go hand in hand with a growing and visible unease about the manifest inadequacy of existing governments to accommodate these changing roles of business in society.

Partnerships between business, governments, and civil society organisations most obviously succeed by combining their different roles. In some instances, however, these partnerships are more than 'delivery mechanisms' and need rules to make them legitimate and accountable. The Global Reporting Initiative (GRI), for example, is a multi-sectoral alliance created to develop and promote guidelines, particularly for global corporations, to publicly measure their performance according to sustainable development targets.[28] There is no formal GRI membership, but engaged companies are expected to apply the guidelines to their own public reporting.[29] There are no explicit rules governing the behaviour of civil society organisations (e.g. NGOs and labour organisations) involved in the GRI. However, implicit rules include the assumptions that businesses have a basic right to operate for commercial gain, and that civil society organisations will reach a consensus on the definition of non-financial performance ratings. The many players around the GRI table, including corporations, labour organisations, UN agencies, and human rights, development and environmental NGOs, contribute their considerable expertise to the process, while the variety of these participants adds to the Initiative's legitimacy.

Another example of civil governance at work is the UK Ethical Trading Initiative (ETI). Formed in 1997, the ETI is an alliance of companies, NGOs, and trade union organisations committed to working together to raise standards of labour.[30] Important in this context is that the ETI is more than a network or a forum. It has developed a set of rules that govern aspects of its members' behaviour, notably the Base Code that sets out the minimum standards that need to be attained for workers in the member companies' global supply chains. The role of government in encouraging key players to join the ETI has been particularly important, as well as the more traditional pressure from campaigning

NGOs. Indeed, the ETI has in effect become a 'must belong to' initiative for UK-based retailers, and its code has become the key benchmark against which retailers' own codes are assessed.

The early stages of *civil governance* tend not to carry the weight and direct implications of statutory law. At the same time, civil governance has, or can have, a number of characteristics that take the position of the company beyond 'self-regulation'.

- It involves rules that the companies, and also sometimes governments and NGOs, agree to abide by. These rules are overseen by institutional structures and processes that involve non-commercial organisations, and increasingly government and international bodies.

- It includes systems of penalties and rewards for non-compliance, although to date these remain poorly defined.

But civil governance can evolve into more complex hybrids involving statutory regulation as well as privately enforced rules such as those within GRI and the ETI. A case in point is in the area of 'conflict diamonds'. Amid growing concern over human rights violations in the diamond-producing countries of war-torn northern Africa, the World Federation of Diamond Bourses and the International Diamond Manufacturers Association passed a resolution at their Antwerp meeting in July 2000, creating the World Diamond Council (WDC).[31] The Council's mandate is the development of a tracking system for the export and import of rough diamonds. Unlike the GRI and ETI, the WDC is predominantly an industry body that has provided a vehicle for business to engage with governments, international agencies, and NGOs on the public policy dimensions of the diamond trade. Significantly, a broad consensus has been reached on the need for statutory regulation rather than only voluntary standards. This illustrates how business can find itself pushing for legal enforcement of responsible practices.

Another case in point is that of the anti-bribery standards, which originated as a voluntary approach pursued by individual companies, developed into a multilateral convention agreed by the OECD and finally were incorporated into many countries' national legislation. This shift towards business supporting collective solutions enforced by law is a critical element of the Third Generation of corporate citizenship.

While civil governance is key to the development of rules which make companies accountable, it is also an effective shield for companies that engage in Third Generation corporate citizenship because it can rebuff the more unfair and irrational attacks by NGOs and other organisations and also populist and generally negative campaigning. Finally, it deepens the learning processes within companies, and also other constituencies, that act to shift their understanding of the issues and how best to address them effectively within the competitive thrust of the global market place.

At the same time, civil governance brings with it dangers. Most obvious is that the legitimisation of business in such governance roles makes it all the more critical to ensure that corporations adopt progressive policies and practices with regard to social and environmental issues. A failure to ensure this is akin to asking the poacher to turn gamekeeper. Government needs to ensure that it doesn't lose its right to be critical. Without securing *real* performance shifts in corporate members' approach to labour standards in global supply chains, initiatives like the GRI and the ETI will always be in danger of reducing pressure for change, echoing the fears of the critics of corporate citizenship. For civil governance to help, and indeed not to become part of the problem, the rules governing those involved have to be well-defined, enforceable, and the resulting performance of those covered needs to be visible to all. All three cases described – the ETI, the GRI and the WDC – have been publicly challenged to demonstrate their effectiveness in really shifting business behaviour. This is, in the main, a good thing. Private, non-statutory rules are hard to enforce, and the institutionalisation of civil governance in partnership models should not erode civil society's right to challenge in visible and sometimes quite impolite ways. The weaknesses of immature forms of civil governance also highlight the continued need for government. Governments, as the examples above illustrate, have a key role to play in establishing the rules for such governance arrangements to be developed and put into practice.

5. Competitive Citizenship

The social and environmental impact of corporate citizenship will continue to depend on market pressures. The usefulness of corporate citizenship as a key element of public policy therefore depends on which of its elements do – or can be made to – pay. The 'business case' and corporate citizenship have become joined in current debate about the changing role of business in society. There is a veritable industry concerned with proving – or occasionally disproving – that business can benefit shareholders by doing good to other stakeholders and society at large.[32] This is not the place to parade the evidence for and against the business case – other reports document this exploration well enough.[33] The evidence, in short, suggests that some businesses can and do benefit financially by both First and Second Generation corporate citizenship.

Third Generation corporate citizenship, however, requires dramatically more than individual companies doing a little bit better. And in an era where corporate behaviour can determine access to markets, corporate social responsibility can give countries and companies real competitive advantage. To deliver public goods one needs to build competitive clusters that reward good social and environmental behaviour. For corporate citizenship to make a real difference at this level requires that we reach a point where companies that do not play ball are noticed and penalised, rather than the 'especially good' company standing out from the market norms. It takes such communities of businesses in close proximity to begin to build the collective innovation to make a real difference. Such collective processes have of course been analysed under a different guise by Harvard professor and founder of the Boston Consulting Group, Michael Porter. Writing extensively on the significance of enterprise clustering as a source of competitive advantage, he argues convincingly that the alchemy of co-operation and competition acts as an accelerator of innovation, as well as creating synergies in supply chains, marketing and other functions.[34]

Cluster effects focused on corporate citizenship provide one possible source of competitive advantage and there are many countries that can position themselves to make the most of this. But there is also a real opportunity for the UK, with its dominant financial status, its high concentration of NGOs and combination of Anglo-American business ethics and European-style social justice, to develop a competitive advantage as a cluster of excellence in Corporate Social Responsibility (CSR). A recent benchmark study of global corporations' social and environmental public reporting by the United Nations Environmental Programme and the strategic consultancy SustainAbility Ltd placed eleven UK corporations in the global top 25 (and no fewer than four out of the top five) including the BAA, BT, the Co-operative Bank, Shell and United Utilities.[35] Many non-British companies that figured in the same list would certainly confess to having been deeply influenced by UK experience in their approach to social and environmental accountability and performance, such as Novo Nordisk (ranked second), South African Breweries (ranked twentieth) and Ford Motor Company (ranked eighty-second).

Cynics would argue that this particular indicator of UK leadership in the field of corporate citizenship is superficial at best, reflecting little more than the dual Anglo-American obsession with measurement and self-promotion. The significance of these two cultural traits should certainly not be underestimated, and goes some way to explaining why UK companies tend to very visibly lead in the area of social and sustainability reporting. Certainly, good corporate citizenship exists in many forms all over the world. The continental European tradition, for example, has historically led in addressing social exclusion through labour market interventions. US corporations have led the way in working in communities, and in some sectors also have the cutting-edge experience – largely as a result of public pressure – in handling labour standards in global supply chains. South Africa can be looked to for its recent leadership in seeking to build a broader base of business equity ownership as part of its black empowerment strategy. And of course particular corporations from around the world offer celebrated cases of good corporate citizenship, such as Tata in India, Ayala in the Philippines, and Globo in Brazil.

But it is nevertheless the case that the UK has emerged as a hotbed of experimentation for corporate citizenship. Many of the acknowledged international opinion leaders in the field of corporate citizenship reside in the UK. Companies like BP and Shell are compared favourably with Exxon Mobile and Texaco for their leadership in debate about global climate change; and retail chains like Sainsbury's and Littlewoods are seen as leaders in addressing labour standards in global supply chains as compared to their global rivals, notably Wal-Mart. Many of the international business networks have modelled themselves on the experience of International Business Leaders Forum and Business in the Community.[36] Similarly, multi-sector initiatives like the Ethical Trading Initiative are considered world class and have informed their equivalents elsewhere in the world. Although not the leader in socially responsible investment by value (the USA takes this position by a long lead), the UK financial community has in some ways been increasingly responsive to the calls for greater engagement in social and responsible investment. A company seeking a London Stock Exchange listing is now required to disclose social and environmental policies. The forthcoming guidelines of the Association of British Insurers and National Association of Pension Funds will require companies to make various disclosures about significant social and environmental issues, policies, management systems and performance. These guidelines are likely to be endorsed by investors with over £1 trillion worth of assets.

The UK Government has taken some serious and innovative steps to support corporate citizenship. It has led the world in its legislation requiring pension funds to publicly explain their approach to social and environmental issues, an approach replicated now in Australia, France and Germany, and being considered for the European Community as a whole. The proposed revisions to Company Law will require companies to disclose social and environmental issues that might significantly impact on their future financial performance. Many government departments have established specialised units and policies towards corporate citizenship. The UK Government has – mainly through the Department for International Development – been a major source of support for international corporate citizenship initiatives like 'Business Partners for Development' and ongoing work through the International Labour Organisation (ILO) to promote the effective take-up of core ILO conventions and voluntary corporate codes and practices. Obviously, the international hegemony of its dominant language, English, plays a role in establishing the UK's leadership in corporate citizenship. However, the substance to Britain's leadership in the field of corporate citizenship goes well beyond such linguistic advantage. The very nature of the UK business model, and its growing international importance, goes some way to explaining why it has generated what can usefully be seen as its mirror image: good corporate citizenship.

Corporate citizenship strategies have arguably emerged because of the UK economic model's shortfalls as much as its strengths. The fact that the increase in inequalities and social exclusion of the 1980s was coupled with the liberalisation of financial markets in the UK means that it is no coincidence that this is where the most consistent drive for SRI has emerged. Moves towards measurement and transparency about social and environmental performance similarly draw on the Anglo-American focus on transparency as a source of accountability, and the associated models of corporate governance.

The UK is in many ways an unwieldy blend of on the one hand the US traditions, with unfettered markets and privatised provision, and on the other hand the European tradition of social partnership. During the eighties, of course, the UK approach lent more towards the US model than ever before, driving down the welfare floor and opening up financial markets. But New Labour has brought back to the table a search for a renewed social contract that effectively bridges our muddled traditions and delivers both economic vigour and the benefits

of the European welfare model. Companies with a strong presence in the UK markets have responded to this political swing towards more balanced development. Their social indicators and reports, for example, are as much a conversation with the public about the shape of a new social contract as they are robust performance measures. The fact that German and French companies often view the UK experience of corporate citizenship with marked disdain is, from this perspective, hardly surprising. They point to the perceived strengths of their centralised models of governance and declare: 'we have always practiced corporate citizenship – the UK is merely catching up in an inevitably ad hoc, individualistic manner'.

The European social partnership tradition is under pressure. The institutional arrangements that underpin the tradition are in danger of becoming sclerotic. This creates rigidities that pose real dangers for continental Europe in a period where innovation and adaptability lie at the heart of economic success. The strongest indication of the rise of UK (as opposed to US) styles of corporate citizenship within the wider European business community perhaps lies in the activities surrounding their non-European operations. The French utilities giant Suez may indeed adopt a classically French approach within its domestic borders, but it adopts the flexibility of the Anglo-American model, including working closely with NGOs, in Africa, Asia, and Latin America.[37]

The European Commission's recently published Green Paper on Corporate Social Responsibility is a clear sign that continental Europe is opening itself to a move away from historic approaches to social partnership between business and other parts of society.[38] The general direction that this might go in can already be discerned, although the consultations have just begun. It is likely that the emphasis will be on voluntary rather than statutory approaches, although the law might well be used to standardise the disclosure of social and environmental information. Whilst this will certainly draw inspiration from the historic experience of social partnership across continental Europe, some of the key lessons are in practice being learnt from the British and North American approaches to corporate citizenship.

Continental Europe has much to contribute in the maturing stages of corporate citizenship. It is more experienced in engaging business in long-term partnerships, consensual approaches to decision-making and, in particular, in the development of public policy. Most important, perhaps, is that the continental European understanding of business's role in society is far more oriented than the UK's towards achieving a balance between profit and social needs, a critical ingredient of Third Generation corporate citizenship.

Consequently the most important driver of the UK as leader is the fact that it is home to a disproportionate number of the world's most powerful development, environmental and human rights organisations. Transnational NGOs like Amnesty International, Christian Aid and Oxfam represent merely the most famous pressure groups and top the charts of UK public opinion poll on matters of trust. This – largely benign – element of our colonial legacy has proved a vital force in many campaigns aimed at the corporate sector, historically for example against Nestlé, and more recently against Monsanto, Shell and many others.

The presence of a set of confident and vocal NGOs seems a somewhat paradoxical reason to underpin the competitive advantage of UK business. But that is exactly what it has proved to be. It has resulted in UK companies becoming, through force of need, amongst the world's most sophisticated operators when it comes to dealing with NGOs and related social and environmental issues. Related to this is that a huge infrastructure of consultants of every conceivable shape has emerged to advise business. London houses numerous world class organisations in the field, such as Business in the Community, the Centre for Tomorrow's Company, Corporate Citizenship Company, the Institute of Social and Ethical AccountAbility, the International Business Leaders' Forum, and SustainAbility Ltd. Certainly there are other leading organisations elsewhere, such as CSR Europe, Business for Social Responsibility in the USA, and Instituto Ethos in Brazil. However, compared to the UK, there is no one place where so many world-class service providers and networks are located. There is no doubt at all that this close proximity has created a classic Porter-type clustering where competition and co-operation go hand in hand.

Corporate Citizenship can be understood for its potential to underpin broader competitive advantage. The comments on the UK case are not intended to suggest that the UK somehow harbours the perfect conditions to take advantage of this phenomenon. They merely seek to highlight what variants of corporate citizenship will be generated by a community's culture, norms and institutions, and how best to promote these variants as both a source of competitive advantage, and a means to address public policy objectives more effectively.

6. Public Policy and Corporate Citizenship

The enhanced role of corporate and civil society actors is often framed as being accompanied by a shrinking role for national governments. We hear of their growing irrelevance in a borderless world. It may indeed be true that national governments are weakened by the increasingly global nature of decisions that need to be made. But these facts do not make governments less important. The need for strong government is all the greater where international public agencies like the World Trade Organisation (WTO) are only accountable to citizens indirectly through the membership of national governments. This becomes even more significant where international negotiations are increasingly subject to pressures from both the business and non-profit communities, and when these sectors form an increasingly important mechanism for delivering public goods. The more we rely on diverse institutional mechanisms to deliver public goods, the more do we need the over-arching stewardship that democratic and accountable government provides to ensure that it all adds up to the right level delivered in the best way to the right people.

The key message for governments from the demonstrations around the meeting of the WTO in Seattle in late 1999 is not that the street activists were right or wrong in what they were saying, or even in how they said it. It was that the governments that sat around the negotiating table had conclusively failed to establish their claims to legitimacy in many people's minds.

Most governments have failed to rise to the challenge and have seen resistance to globalisation as a problem of communication rather than as a result of genuine concerns about poverty and inequality. Instead of treating those protests about globalisation with barely concealed contempt, political leaders should go out of their way to show how seriously they take these concerns and to demonstrate how governments and companies can make globalisation contribute to poverty alleviation and sustainable development. One part of the response will be to show that governments can secure business's contribution to public policy aims. It is clearly not possible to focus purely on national legislation in enhancing the contribution of business. It is not just that it would lead to an outflow of mobile capital and a diminished competitive position for relatively captive capital that nevertheless faces international competition – it ignores the fact that many of the most creative responses come from within the business sector. At the same time, an approach that merely exhorts business to 'do the right thing' is inadequate, since the most that can be expected from this approach is First or occasionally Second Generation responses by a few companies.

Government's task is to develop a policy framework that enables it to enhance the delivery of public goods in the context of a globalising political economy. This will mean going beyond compliance to mobilising the active support of the business community. Partnerships that position corporations purely in the role of commercial provider of public goods and services may in some instances be effective. But even in the best scenario, this market route will not be sufficient to enable government to fulfil its mission.

The Third Generation of corporate citizenship requires that governments, business and non-profit organisations embrace at the very least the following principles and their practical implications:

(a) Government should embrace the underlying *principle of corporate citizenship* – that the purpose of business is more than just to make a financial profit, and that business is therefore more broadly accountable to society than its responsibilities to shareholders. From this perspective, the business case is not the *justification* for corporate citizenship, but what *enables* corporations to address their wider purpose. Furthermore, potential financial rewards to corporate citizenship are not so much something existing to discover and take advantage of, so much as a result that needs to be created for corporations to be successful.

This principle takes public policy beyond the view of corporate citizenship underpinned by ‘enlightened shareholding’ to one that more fully embraces a broadening of the underlying purpose of business. In practice, this broadening purpose is increasingly reflected in the mission statements of some of the world’s largest corporations. Governments are beginning to support this in their pronouncements. Witness Tony Blair’s statement that “many of Britain’s best-known companies are already redefining the traditional roles of the corporation. They are recognising that every customer is part of the community and that social responsibility is not an optional extra”.[39]

Such leadership statements are certainly supported through, for example, the requirement that pension funds disclose any social and environmental criteria applied to their investments, and through the forthcoming guidelines of the Association of British Insurers that will require that UK-listed companies publicly report on their approaches to managing risks associated with social and environmental policies and impacts. However, Third Generation corporate citizenship will need to extend beyond the management of risk on behalf of shareholders, just as the visions of governments must extend beyond short-term electoral demands, and those of NGOs must not be determined solely by fundraising imperatives. Governments have a critical role to play in making this possible and necessary, but have failed so far in meeting this challenge. The Company Law Review, for example, whilst extensive and in many ways progressive, has failed to set the stage for such a broadening of business purpose, in that it argues that the responsibility of companies to their broader stakeholder community should be limited to where it serves the interests of their shareholders. Despite this, the European policy debate emerging following the publication of the EU Green Paper on Corporate Social Responsibility offers an important route for promoting a broadening of the purpose of business.[40] In this respect, the UK Government has an opportunity to take a leading role in bringing together the continental European tradition of social partnership with the UK’s leading-edge experience of corporate citizenship. This could underpin future European policy initiatives in the field of corporate governance and disclosure requirements.

(b) Government should establish the *principle of competitive citizenship* as a core element of its support for British business. Certainly it helps to sponsor awards for good practice and to document the growing body of company-level evidence of the business case. However, this falls far short of the strategic approach needed to take advantage of the potential for competitive clusters discussed above. Initiatives like the Dow Jones Sustainability Index and FTSE4GOOD are highlighting which business sectors are likely to prosper in the future as they realise opportunities associated with social and environmental gains. Government can do much more to support the knowledge infrastructure required for businesses to take advantage of such opportunities, as they are already beginning to do; for example, through DFID’s business responsibility resource centre located at the International Business Leaders’ Forum.

The effective promotion of an enabling environment for competitive citizenship must, however, extend further than information provision. There are a host of public instruments that need to be refocused to support competitive citizenship. Government should amend the Export Credit Guarantee Department’s (ECGD) mission statement to include its own development objectives and environmental goals. This will prevent any repeat of experiences such as the Ilisu Dam debacle, particularly if the ECGD is also banned from underwriting projects which jeopardise the human rights of workers and the local community. Beyond the avoidance of the negative, however, bodies such as ECGD should actively search out and support business propositions that consolidate the reputation of British business for being sensitive and innovative in its approach to social and environmental issues. More generally, fiscal policy should reflect governments' interpretation of good corporate citizenship, just as it currently provides incentives, and indeed often 'perverse subsidies', for all manner of investments and other activities. Similarly, there is enormous scope for orienting government procurement to such performance criteria. Such an approach would have implications, for example, for the criteria of Best Value. 'Joined-up thinking' would suggest the need to define them more broadly than merely by narrow efficiency measures and direct cost.

A familiar objection is that such policies would be inconsistent with international agreements, particularly the rules overseen by the World Trade Organisation that seek to prohibit trade restrictions based on the conditions of production of goods and services. For example, under these rules it is problematic and possibly illegal for governments to require some products to be labelled according to the labour conditions prevailing in their production. But these rules are there to be moulded through precedent and, if necessary, changed in pursuit of equitable development. Though achieving an agreement would be fraught with complexity, the Government should at least publicly make clear that it is lobbying for a change in the rules. The rules are currently being tested, for example, by the Belgian Government that is seeking to pass national legislation that sets out an approach to voluntary social labelling. Indeed, most European Union governments are currently inclined towards legislative interventions to enhance the competitive gains of corporate citizenship. The UK Government helps in consolidating and reinforcing the lead gained by the British business community through voluntary initiatives by promoting appropriate enabling legislation that prevents this lead being eroded through pure price-based competitive strategies.

It is important that these principles be extended to all international organisations. At EU level, the government should support the extension of this principle across Europe in the context of the EU Green Paper. This should encourage the European Commission to benchmark the performance of governments in creating an environment conducive to good corporate citizenship. This would publicise the most successful in, for instance, tailoring their corporate taxation regime to social and environmental goals, and force the poor performers to raise their game. The Corporate Social Responsibility agenda should be pursued internationally through the work of the Department for International Development (DFID).

(c) Government should embrace the *principle of civil accountability*, which would involve an overhaul of its approach to public accountability in the light of the increasingly intimate relationships being forged between public agencies, non-profit organisations, and business. The growth of public-private partnerships in its broadest sense is exposing a democratic deficit, at local, national, and international levels. The intention was for the public good to be assured through a combination of regulatory oversight, shared risk and an emphasis on performance contracts based on clear measures of outputs and outcomes. There is little evidence that these safeguards have been as effective as they need to be in ensuring, for example, that public services are really improving and that there are real long-term savings in public funds.

This is not necessarily a sign that public-private partnerships cannot work, or that business is over-exploiting the commercial opportunities opened up by these partnerships. As important is that the outdated, inadequate mechanisms for ensuring public accountability make public bodies weak partners in their dealings with business. Public accountability needs to reflect the new reality of public bodies – including local authorities – being increasingly encouraged, empowered and indeed often cajoled to enter into arrangements with parts of the business community. The activities of politicians and civil servants need to be more visible, as must be the basis for their decisions. Service shortfalls and cost overruns associated with privatisation, inadequate regulatory oversight, or inappropriate partnership arrangements need to be published and those responsible held to account. The government needs to review and publish options for revising the accountability of all public-private partnerships. The National Audit Office should publish an annual report detailing the cumulative cost of all Public-Private Partnership schemes, together with an analysis of their value for money. This would allow greater public scrutiny: currently this information is not available in one document – it can be found in information published separately by departments and individual investigations by the National Audit Office.

Account also needs to be taken of the underlying citizenship strategy of potential business partners. On this basis, governments may well continue to offer public contracts across the entire spectrum of the business community, but should seek to restrict ‘partnerships’ to those relationships formed with businesses that demonstrate common cause in addressing public policy objectives.

A particular aspect of civil accountability concerns the development of a new generation of Generally Applicable Accounting Principles for Sustainability (GAAPS) that embrace social, environmental, and economic aspects to enable comparative organisational performance in these spheres to be measured and communicated.

The last decade has seen a rash of exciting experiments by individual companies and alliances like the Global Reporting Initiative, the Institute of Social and Ethical AccountAbility’s AA1000 stakeholder-based process standard,[41] the London Benchmarking Group’s community engagement benchmarking standard,[42] and the labour-focused standard embodied within Social Accountability International’s SA8000. The UK Government is already offering some support to work in this field, such as the SIGMA initiative of the British Standards Institute, Forum for the Future, and the Institute of Social and Ethical AccountAbility.

There is an urgent need to accelerate such work and bring closure in agreeing a basic framework for social, environmental and overall sustainability accounting, auditing and reporting that will underpin tomorrow’s Generally Accepted Accounting Principles for Sustainability (GAAPS). Such a standard must conform to best practices and enhance businesses’ ability to respond to the needs of customers, as well as those of investors and the financial community, as they seek assurance that their investments comply with emerging social and environmental governance frameworks, such as those established by the Association of British Insurers. Ultimately, an effective GAAPS must fulfil the needs emerging as a result of new statutory legislation, such as the social and environmental elements of the proposed revision to UK Company Law.

Government should make clear its commitment to developing such standards for use throughout the business community, as well as for public agencies and private, non-profit organisations. Practically, it should increase its currently modest support to UK and international initiatives working in this area, focusing not just on management tools (such as SIGMA) but also on the development of formal accounting, auditing and reporting frameworks such as AA1000 and the GRI. As part of this support, the Government should be more active in the wake of the advent of the EU Green Paper on Corporate Social Responsibility in promoting a European-level approach to these developments. Finally, the Government should commit its own operational departments to the annual publication of sustainability reports as a contribution to evolving standards that would also be appropriate for public bodies and partnerships.

(d) Finally, the Government should embrace the *principle of global accountability*, which acknowledges the need for mechanisms to hold global institutions such as corporations to account globally. International conventions, negotiated mainly through the United Nations, have long provided an aspirational backbone of universal values, rights and accountability. These conventions have of course been agreed between sovereign states, and have historically applied to private institutions and individuals only where rooted in national and regional legislation. The OECD Convention on Foreign Corrupt Practices is a case in point, agreed by OECD governments and over time incorporated into national legislation in the UK and elsewhere.

International conventions are, however, increasingly impacting directly on the policies and practices of global corporations. The Ethical Trading Initiative is underpinned by a Base Code adopted voluntarily by its corporate members that effectively operationalises the core labour conventions established through the International Labour Organisation. The UN Global Compact has been built around nine core principles that are simplified versions of key human rights and environmental and labour-related UN conventions. Today's reality is that leading corporations recognise the need to embrace internationally-applicable social and environmental standards.

The dilemma remains, however, that these standards are neither internationally applicable nor enforceable across the corporate community. This creates an uneven playing field for those corporations adopting competitive citizenship strategies, which in turn threatens the viability of these strategies. From this perspective, it is perhaps unsurprising to find Phil Knight, Nike's CEO, arguing in favour of international regulation governing performance disclosure at the time of the launch of the Global Compact: "We believe in a global system that measures *every* multinational against a *core set of universal standards* using an independent process of social performance monitoring akin to financial auditing".[43]

Global accountability for global institutions is the clarion call of many of those most concerned with the role of corporations in the downsides of globalisation. Disagreement on this as a principle certainly exists. However, the real devil lies in the practical question of how best to achieve meaningful accountability without either undermining national sovereignty or the potential for economic development. For example, many governments of countries with export-based development strategies such as China, Brazil and India oppose any social or environmental clauses in international trade arrangements, arguing that such clauses will do more development damage than good by restricting their economic growth. Others have argued for an extension of the rule of law as it exists in Western Europe and North America to cover the activities of these regions' corporations elsewhere in the world. This route for building globally enforceable rules of accountability has been set out in a recent paper by the Royal Institute for International Affairs on 'foreign direct liability'.[44] The basic idea mirrors the case of General Pinochet, arrested in the UK for alleged human rights abuses in Chile. It aims to encourage countries where most global corporations are headquartered to accept more responsibility for regulating the impact of their corporations' overseas activities. Formalising a basis on which corporations can be challenged in public debate for their international performance is another possible route, where compliance is a reputational rather than a statutory matter. The European Parliament's work in building a 'monitoring platform' for labour standards is one such experiment, where corporations are effectively invited to face accusations and give evidence at the European Parliament regarding their approach to labour standards in their global supply chains.

The dilemmas and challenges facing any attempt to extend global accountability should not prevent the Government from embracing the principle that seeks to ensure mechanisms of accountability that are commensurate in reach and scope with those of the institutions to which they are to be applied. Leaders in corporate citizenship should, moreover, openly acknowledge this need – as BP did in the case of global warming, as many companies did in the lead-up to the OECD Convention on Foreign Corrupt Practices, and as Nike has now done in the case of social auditing in relation to labour standards.

7. Conclusion: Forging a New Deal with Business

Corporate citizenship in almost any form is to be welcomed, celebrated and encouraged. Sadly, however, most of its current manifestations will not contribute significantly to achieving national and international public policy objectives, particularly those that seek to address the most daunting global challenges of extensive and growing poverty and inequality, and environmental security. This is all the more important when it becomes clear that corporate citizenship is critical in shoring up the consensus for globalisation in the face of growing public dissatisfaction. Even if this is uncomfortable for the Left we need to accept that a powerful, *progressive* business lobby is a key element in ensuring that government raises its aspirations and potential for success.

Governments can only make limited changes at a national level without eliciting international responses. This is particularly so where the fortunes of the corporate community are concerned, where there is ample opportunity for falling foul of WTO regulations, or earning corporate departures sparked by discontent over business conditions. This does not, however, make governments impotent. It means that they have to operate at many different levels at the same time, and find the appropriate balance between carrots and sticks.

The proposals set out above together seek to strike the necessary balance between short and longer-term aims, and between national and global processes and needs. That does not, of course, make them all easily and equally digestible. In some instances, the proposals are a natural extension of what the UK Government is already doing, such as promoting the competitive dimensions of corporate citizenship, and accelerating their support for the development of relevant standards. Some proposals, such as those with implications for Company Law, are more challenging. What they all do is to try to make sense of business's role in society.

The leadership of individual businesses in corporate citizenship will not offset the appearance and reality that the structure of global corporatism has become part of the problem. Turning this around requires enormous ambition from governments and business alike. However, the stakes are high. There are extraordinary costs in failing to deal with this to the satisfaction of the citizens of an increasingly globalised world. Pervasive poverty, inequality and environmental insecurity simply cannot be seriously addressed in a world organised as it is today. The credibility of government is at stake.

The current menu of policy options on offer from the mainstream political community will not do the job. Similarly, their alter ego – the radical critique from the streets – currently has little to contribute to the debate. Third Generation corporate citizenship strategy tries to set out a credible framework for moving forward that builds on what is already there and yet seeks to break down some of the more intractable institutional barriers to success.

NOTES

[1] Thanks to Judy Kuszewski at SustainAbility for showing me the relevance of this metaphor during our Australian conference tour.

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