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CORPORATE RESPONSIBILITY AND COMPETITIVENESS

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ABSTRACT

Sector-wide responses to corporate responsibility (CR) are increasingly important. It is argued that corporate responsibility will represent the next generation of business activity on sustainable development and discusses that, in the context of competitiveness. There is a need for a holistic definition of competitiveness, which makes it possible to determine the competitive position of an organization in a measurable form. Such a measurement should allow a comparison of the competitive position of an organization against that of its competitors. Understanding how these companies achieve success has become easier in recent years. Management styles and disciplines have converged – from East to West and between sectors – and the greater sharing of experience through the total quality movement has helped codify and transfer best practices. There is a need for a holistic definition of competitiveness, which makes it possible to determine the competitive position of an organization in a measurable form. Such a measurement should allow a comparison of the competitive position of an organization against that of its competitors .

Keywords: Competitiveness, Corporate Responsibility, Flexibility

Introduction

Sector-wide responses to corporate responsibility (CR) are increasingly important. It is argued that corporate responsibility will represent the next generation of business activity on sustainable development and discusses that, in the context of competitiveness. Business strategies are formulated to determine the way in which organizations can move from their current competitive position to a new stronger one. This can only be achieved by improving an organization's competitiveness.

The meaning of competitiveness differs from organization to organization. Some organizations view competitiveness as the ability, to persuade customers to choose their offerings over alternatives while others view competitiveness as the ability, to improve process capabilities continuously. In other words, core competences as well as capabilities that drive such competences are considered to form the essence of competitiveness. However, these factors are interrelated and difficult to quantify, thereby reducing the potential of their application in the process of strategy development. There is a need for a holistic definition of competitiveness, which makes it possible to determine the competitive position of an organization in a measurable form. Such a measurement should allow a comparison of the competitive position of an organization against that of its competitors.

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Why the Organizations Practice Corporate Responsibility?

Traditionally Corporate Responsibility has been approached as a single company issue. But there's a limit to what is possible for one company to achieve. These companies need to achieve balanced leadership – taking a progressive approach but not wishing to bear all the risks of being out in front. Most of the companies tackle the low-hanging fruit of CR and try and push their business model to deliver further benefits of a sustainable approach, they will experience more societal barriers – not being supported by legislation, weak international standards, and consumer disengagement and so on. These need to be overcome by the entire sector if businesses are to continue to move forward on sustainable development and generate a competitive edge through better CR performance.

Through partnerships with a range of organizations, companies, suppliers and sector bodies can find different and innovative solutions to CR challenges. In this way an industry can work together to raise standards, sharing the developmental costs and the risks as well as the benefits and opportunities of improving CR standards. This is not a new phenomenon. Cross-company collaboration has been especially important in sectors that have a poor reputation as a sector – notably oil & gas, chemicals and extractive industries. These sectors have needed to demonstrate, as an industry, that they are tackling their key impacts. “Responsible Care” and the “Extractive Industries Transparency Initiative” (Forum for the Future, 2006) are examples of the commitments that have emerged from these approaches. This sort of action is often driven by pressure from non-governmental organizations (NGOs) or the threat of legislation to address industry inaction on key societal impacts. The Equator Principles (www.equator-principles.com), for example, address NGO concerns about the unaccountable nature of project finance. Developed by the financial sector, in conjunction with stakeholders, these principles aim to ensure that social and environmental risks are fully assessed in decisions about Project Finance – whether to fund a dam or a pipeline. (www.cia.org.uk/newsite/responsible_care/care.htm).

Competitiveness

Organization's competitive position can be measured through a mapping process of its business environment. In doing so it will:

- Redefine the concept of competitiveness by integrating the notions of customer values, shareholder values and an organization's ability to act and react within its changing competitive environment.
- Introduce the concept of sustainable competitiveness and demonstrate the conflicting nature of the factors, which determine an organization's competitiveness.
- Develop a concept, which enables mapping the competitive position of an organization and its competitors.
- Construct a framework for measuring competitiveness.
- Demonstrate the way in which the competitive position map can be used in the development of business strategies.

Corporate Responsibility and Competitiveness

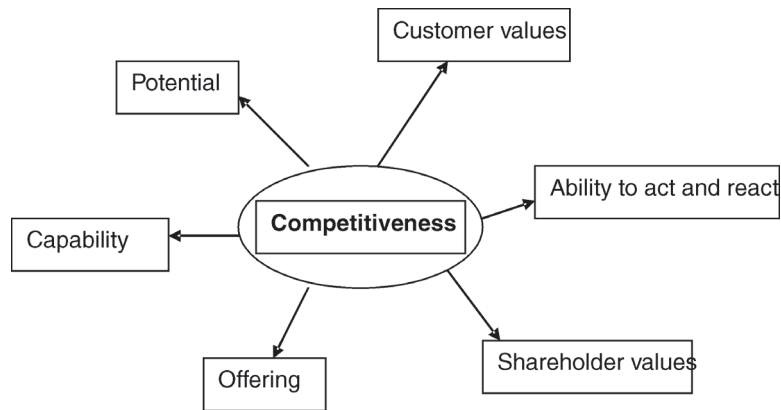


Figure1: Components of Competitiveness

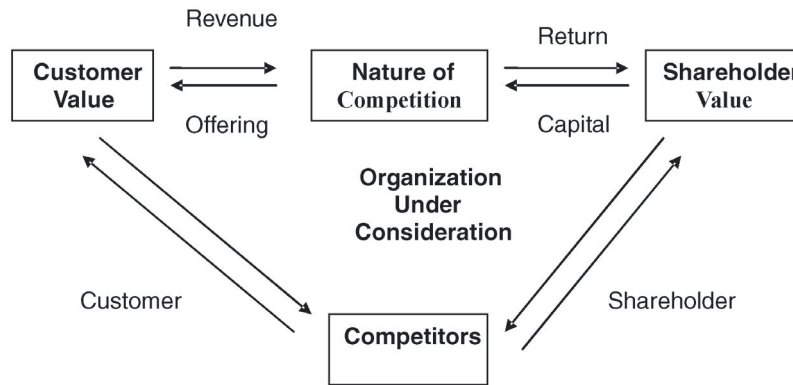


Fig: 2 Conceptual Framework for Defining Competitiveness

CR Initiatives Affect Competitiveness at Industry-wide

For corporate responsibility one of the core drivers at a company level is competitive differentiation. The economist John Kay has described competitiveness in terms of four parameters – capacity to innovate; key internal and external relationships; reputation and strategic assets (Kay, 1993). In an assessment conducted for the UK Department for Trade and Industry and Forum for the Future, he saw all these elements linking back to potential benefits that sustainable development could deliver (Pearce, 2003). Sustainable development presents new challenges that require innovative approaches. Engagement with stakeholders ensures greater responsibility and builds corporate value. Trust, brand and reputation are built on a responsible approach. Finally strategic assets – critical to a company’s performance – can be more easily attained on the basis of a responsible approach. Tesco’s license to build new supermarket stores for example has been built on job creation, particularly for the long-term unemployed.

Sector-wide CR competitiveness as a driver becomes more complex. While it continues to drive performance in some areas, it can also risk being a barrier to a more collaborative

approach. If an entire sector is collaborating on CR, the reward of competitive advantage for each company involved is diluted. Sector-wide approaches still have the potential to deliver competitiveness, but in a slightly different way. This works on three levels: Enabling greater leadership: generating baseline frameworks or standards for a whole sector can, and should, provide an enhanced platform for the progressive business to innovate and drive further differentiation around CR; improving the competitiveness of the whole industry: industries compete with other industries for consumer interest. Taking an industry approach enhances the opportunities available for the whole sector; Enhancing competitiveness geographically: The British Cement Association, for example, took a proactive approach to sustainability, aiming to ensure the sustainability of cement in the UK through responding quickly and creatively to carbon constraints. (Oliveira *et al.*, 2005). So competitiveness is an important driver of CR and has the potential to limit a collaborative approach. As such it needs to be considered carefully when developing an industry-wide approach (Stephanie Draper, 2006).

Competitive Dynamics of Responsibility

Being responsible sometimes does, and sometimes does not pay (Zadek, 2001). The economics of responsibility are subject to underlying market dynamics, like any other aspect of business performance. It is these dynamics that can amplify or undermine responsible behaviour. Such dynamics do not merely involve businesses, but can and do engage non-market actors, civil society organizations and national and international public bodies. Indeed, it is collaboration between these diverse players that in practice has driven some of the most important instances of enhancing responsible business practices.

Responsible Markets

Achieving the moral and pragmatic imperative symbolized by the UN's Millennium Development Goals requires responsible markets in the sense that markets reward companies that embrace responsible practices in their daily business operations. This is the only way in which competitive markets will create a race to the top of escalating productivity, human development and environmental responsibility.

The potential exists for a positive relationship between the political and social rights and conditions, and on the productivity growth and rising living standards (Sen, 1999). Indeed, many highly respected economic and political commentators believe that, they necessarily go hand in hand (Wolf, 2004). Business as usual can and does deliver social and environmental, as well as economic gains. But a competition-driven race to the bottom remains a very real possibility (Stiglitz, 2002). This can be readily observed where competition is intense, and where the world's attention and pressures are absent. Competition can drive down labour costs, or encourage the destruction of the natural environment through a mixture of extraction and dumping. The visible and unsustainable downsides of economic success are driving growing numbers of business leaders to recognize the need to do business in a different and more responsible way. Businesses are increasingly acknowledging their broader roles in society (Fussler *et al.*, 2004). The many examples of businesses delivering improved social, economic and environmental outcomes, often at no cost and increasingly with accrued competitive gains, point towards a revitalized social contract with business that draws on its insights and competencies in addressing public policy goals as a normal part of doing profitable business (Holliday *et al.*, 2002; Zadek and Weiser, 2001). The need for a responsible vision and practice of globalization is widely acknowledged. However, the market's invisible hand creates its own motion and direction, and the negative impacts of global competition, sometimes irreversible, are not easy to prevent. Consumers care, but often not enough to create success out of

responsible behaviour. Some investors are concerned with some social and environmental risks, but most remain focused on short-term returns where such risks are negligible (Zadek *et al.*, 2005).

The challenge is to evolve a responsible basis for competitiveness. This requires a tipping point in how markets reward business. There is a need to transform and scale up leadership cases and make them the new business-as-usual (Sustainability, 2004). As Oded Grajew, Former Special Advisor to the President of Brazil, and Founder and President of Institute Ethos, argued, the responsible competitiveness of nations is essential to achieve sustainable development in today's globalized world (quoted in MacGillivray *et al.*, 2003)

The Practice of Responsible Competitiveness

The challenge and vision of responsible competitiveness is to embed social and environmental goals and outcomes in the very heart of competitiveness. This is a different approach from today's prevalent practice of seeking to balance the needs of competitiveness with other societal interests, as if these were distinct goals requiring different policy instruments. A responsible competitiveness strategy, in contrast, would aim to: enhance productivity by shaping business strategies and practices, and the context in which they operate, to take explicit account of their social, economic and environmental impacts. The practice of responsible competitiveness is increasing and catalyzed by diverse contexts and drivers:

- Under pressure – responsible competitiveness practices often evolve in response to a perceived economic threat.
- Owning standards – responsible business standards have historically been seen as a constraint to developing country exports, but some countries are responding by establishing their own standards as a way of actively building competitive advantage.
- Building business infrastructure – responsible competitiveness practices can work by impacting on an economy's infrastructure and the way that its social characteristics contribute to competitive advantage.

To better understand how best to recognize or stimulate the when and the how, there is a need to establish a framework for understanding responsible competitiveness.

A Framework for Responsible Competitiveness

Three-tiered Drivers

Whether competitiveness is a matter for companies or nations is the tip of the iceberg of an extensive debate about the nature, source and agencies of competitiveness (Turner, 2001). Businesses do compete of course, but so do nations and regions through differences for example in their cultures and institutional arrangements. Bjorn Stigson, Chief Executive of the World Business Council for Sustainable Development, illustrates this point, when arguing that: the US is superior to Europe at utilizing labour, labour productivity is much better, and capital productivity is much better, but the US is way behind on resource productivity, when it comes to utilizing physical resources. Ex-Harvard President, Lawrence Summers, similarly stresses the fact of competition between nations and regions; it will not be enough for us to just leave no child behind. We also have to make sure that many more young Americans can get as far ahead as their potential will take them. How we meet this challenge is what will define our nation's political economy for the next several decades" (Friedman, 2005). The potential of responsible competitiveness is grounded in several tiers or ways in which competition between nations and communities takes place:

- Direct, specific business benefits (not discussed here given the existing mass of relevant literature).
- Corporate responsibility clusters.
- Innovation and flexibility.

Responsibility Clusters

Accountability, working with The Copenhagen Center, identified the potential for corporate responsibility clusters for linking and scaling up company-level corporate responsibility practices and outcomes (Zadek *et al.*, 2003). Four drivers of such clusters were identified that could and did in specific circumstances create competitive advantage within one or several sectors arising through interactions between the business community, labour organizations and wider civil society, and the public sector, focused on the enhancement of corporate responsibility: Civil society-initiated, characterized by antagonistic relationships between its participants forming at least the initial basis for the development of competitive advantage, Business-initiated, involving remoulding competitive conditions from the inside-out, by innovating more sustainable products, services or business processes, Partnership-initiated, involving formal, multi-sectoral partnerships supporting competitive advantage, Statutory-driven, involving public policies focused on corporate responsibility standards and practices that support competitive advantage. What is important is not so much the tone of the relationship underpinning the cluster as its productivity. Confrontation between Nestlé and the International Baby Milk Campaign, according to some, did little to change the rules of the game. On the other hand, hard campaigning in relation to drug pricing and labour standards has created conditions under which individual companies could gain competitive advantage, and indeed where corporate responsibility clusters might over time emerge.

Innovation and Flexibility

Responsible competitiveness can arise through the impact of corporate responsibility on business innovation and flexibility. This can take two forms; the micro-level argument is essentially a sub-set of the broader business case view of corporate responsibility. Rather than viewing business benefits in static terms, such as reputation and brand gains, or even recruitment and motivational benefits, the innovation argument suggests that corporate responsibility enables businesses to become better, for example, at developing new products, processes and distribution channels (Sabapathy and Weiser, 2003). The macro-institutional innovation effects are potentially, however, the most important for responsible competitiveness. At its heart is the argument that suggests credible, responsible business practices:

- Strengthen the legitimacy of the business community.
- Enhance trust between it and other key institutional players, such as labour organizations and public bodies.
- Reduce labour-related conflicts and burdensome statutory regulations.
- Increase the flexibility of business to respond to changing market circumstances.

In effect, this argument reverses into the well-known and widely-accepted view that where business is more trusted, it is given more latitude to do what it takes to remain competitive

Organizational Focus as a Basis for Global Competitiveness

Organization's core competence is guided by the corporate strategy - those competences on which the multinational operates. Operating strategies for competitiveness are either cost,

customer or innovation-based. Firms utilizing a low-cost strategy provide customers with quality products and services at competitive prices (Aaker, 1992; Porter, 1980; Treacy and Wiersema, 1995). These companies follow an organizational philosophy of leading the industry in price and convenience. Relying on economies of scale and competitive pricing, organizations position themselves in the market as a cost leader. It is important to differentiate the concept of cost-based corporate strategy from pricing strategy. Whereas the latter seeks to position the product in the consumers' eyes using price as a cue, the former focuses on becoming the most cost-efficient producer of the product. Multinationals utilizing this strategy, such as McDonald's, United Parcel Service and Coca-Cola, target customers who are interested more in getting quality products at the lowest possible price with the least possible hassle than in the specific product features or attributes they are buying (Porter, 1980; Treacy and Wiersema, 1995).

India's Competitiveness

Over a decade has passed since India embarked on liberalization. There has been no dearth of fervent declarations affirming India's determination to acquire the capabilities that will add to its competitiveness and enable it to be counted among other recognized global players (Gupta, 1998). However, India has been able to cash on inherent and acquired advantages in terms of competitiveness. Three different bodies assign three different grades to India:

Table 1: India's competitiveness status (1999)

1	1999 World Competitiveness Year Book	39th out of 47 countries (Nancy, 1999).
2	Geneva-based World Economic Forum (WEF) (Global Competitiveness Report)	53rd position out of 59 countries
3	World Bank	40th rank out of 46 countries

In all these three evaluations, the rankings on certain specific parameters are more worrisome than the overall figures. India's weakest areas in all the surveys include: uncertainty in government policies; infrastructural deficiencies; unsatisfactory corporate and financial management of both private and public sector enterprises; inept corporate boards; insufficient attention to human development; low productivity; undependable quality; inadequate customer orientation; and negligible investment on R&D, with special reference to information technology (B.S. Sahay, Jatinder N.D. Gupta & Ramneesh Mohan, 2006).

Measuring Potential of Competitiveness

Responsible competitiveness requires some measure of how much it does. There are some serious challenges in responsible competitiveness i.e., in measuring the practice and potential, just as there are challenges in measuring any specific aspects of competitiveness. At the micro business level, these challenges are well documented. At the macro-level, there have been far fewer attempts to measure the impact of responsible business practices on national or regional competitiveness. Those that exist often focus on specific aspects of responsibility, such as corruption. The World Economic Forum has made an interesting excursion into this field in its recent publication on gender and competitiveness (WEF, 2005). In these and other instances, such as the level of education of the workforce, the responsibility driver of competitiveness being measured is broader than what businesses choose to do, and closer to a measure of a specific quality of the enabling environment, which of course impacts on business and which is in part created by business, for example through its lobbying.

Implications

Responsible competitiveness goes beyond voicing concerns about globalization and offers practical ways to make a difference in actively creating what UN Secretary General Kofi Annan refers to as the human face of globalization, or what we have referred to here as responsible competitiveness. Centrally, it illustrates how strategies rooted in responsible competitiveness can play a significant role in enhancing a country's economic competitiveness in ways aligned to sustainable development and offers an analytic framework and the metrics to better understand the potential and practice of responsible competitiveness for nations, communities and businesses.

The practice varies considerably, over time and between regions, sectors and market circumstances, there are seven common policy elements that could underpin responsible competitiveness strategies and practices:

- Strategy-aligned corporate responsibility is a prerequisite for responsible competitiveness. As long as corporate responsibility remains a side activity for the business community, it will not deliver sustained competitive advantage at the micro-level, let alone the sector or macro-level.
- Collaborative approaches to raising the bar are an essential ingredient of responsible competitiveness.
- Sector-based strategies have to date been the preferred basis for responsible competitiveness strategies and practices. Although responsibility issues, such as labour standards, clearly have multi-sector relevance, their application in pursuit of competitive advantage has in general been on a sector basis. There is a need to take a step forward in developing suitable tools for sector-based analysis, policy development and for the measurement of impact potential and practice.
- National and regional strategies could gain momentum to build on multi-sector synergies in responsible competitiveness. There are clearly some multi-sector, geographically concentrated aspects of responsible competitiveness, such as corporate governance or, as the cases of Brazil and South Africa illustrate, higher level compacts between business, the state, and civil society.
- Investor responsiveness is essential for widespread take up of responsible competitiveness strategies and practices. Cross-border project investment is increasingly sensitized to social and environmental issues, for example through the Equator Principles. But country-risk profiling by financial institutions, credit agencies and even public development bodies largely ignores measures of the "state of corporate responsibility"; the important exceptions are measures of corruption and in some instances broad measures of corporate governance.
- Trade, investment and competition rules need to be sensitized to encourage responsible competitiveness. Public policy and debate about trade and investment and corporate responsibility have historically focused on compliance, which has raised concerns over de facto non-tariff barriers to trade. Competition policy has to date been almost entirely ignored in the more contemporary approach to corporate responsibility.
- Responsibility standards need to be better aligned to competitiveness opportunities. Smart standards need to move beyond balancing the needs of the market with social and environmental imperatives, to being more active catalysts of responsible competitiveness strategies and practices. The control of international standards is a key aspect of this.

Taking forward these seven action points would advance responsible competitiveness and so contribute to underpinning the next phase of globalization with acceptable business practices. In this way, responsible competitiveness could become a key element in enabling nations, regions and communities to achieve the three-part goal set out above: satisfying the needs of their citizens, playing their part in securing human rights and security on a wider scale, and generating the economic growth which allows them to achieve the first two goals. (Simon Zadek, 2006).

Conclusion

Understanding how these companies achieve success has become easier in recent years. Management styles and disciplines have converged – from East to West and between sectors – and the greater sharing of experience through the total quality movement has helped codify and transfer best practices. As a result, the world's best companies have evolved quite similar approaches to common needs even though they operate in dissimilar environments. Some organizations view competitiveness as the ability to persuade customers to choose their offerings over alternatives while others view competitiveness as the ability to improve continuously process capabilities. In other words, core competences as well as capabilities that drive such competences are considered to form the essence of competitiveness. However, these factors are interrelated and difficult to quantify, thereby reducing the potential of their application in the process of strategy development. There is a need for a holistic definition of competitiveness, which makes it possible to determine the competitive position of an organization in a measurable form. Such a measurement should allow a comparison of the competitive position of an organization against that of its competitors

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