Corporate citizenship: defining terms and scoping key issues

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Introduction

Around the world countries as diverse as the US, India, Japan, South Africa, Britain, France, Singapore, Brazil and Australia have excellent examples of individual and collective action by highly effective corporate citizens. The type and ownership of the business, the economic, social and cultural environment in society differs, but the determination of many leading businesses to play a role in the development of their home country and in others where they trade, is manifest.

Today business is perhaps the critical factor in the economic, social and cultural development of industrial and non-industrial countries alike. It creates jobs, pays taxes, large companies support an immense number of small and medium sized businesses in the value chain, and business contributions to education, social services civic and cultural development are of increasing importance. In addition, business activity is perhaps the main focus of local, national and global environmental debates as well.

All around the world in business, government and the non-profit community, the term 'corporate citizenship' is being increasingly used to describe the role of business in society. The term is ill-defined and little understood. This paper sets out The Corporate Citizenship Company's definition of the term , its scope and our approach to the issues corporate citizenship raises for both business and society.

1. The new global context for the corporate citizenship debate

1.1 The debate about the role and behaviour of business in society at home and abroad is not new. The activities of the British East India Company are a good example. It was founded in 1600 and arguably the first modern multi-national company. It sold opium to China to pay for tea to ship to Britain and America, which in turn was sweetened by slave-produced sugar from the Caribbean. Its Governor General was impeached for bribery, corruption and over-wheening power in dealing with the peoples of India, while its 'fat cat' executives, called 'nabobs', bought up far too many seats in parliament for the liking of Britain's landed aristocracy.

1.2 This, and other early exercises in corporate power, coupled with the excesses of 'laissez-faire' capitalism in the industrial revolution with its mass dislocation of people to squalid cities, provoked the reaction of communism and socialism. Which, from 1917 onwards in both the developed and developing world, sought to bring private economic power under the control of the state. Various degrees of state control over economic, social and cultural life have been tried and found wanting in the past 20 years. Global society is moving back to giving private enterprise a greater role firstly and most forcefully in the economic sphere, but also in the social and cultural ones too.

1.3 The election of Mrs Thatcher's and Mr Reagan's conservative governments in the UK and the USA signalled the end of the post-war consensus about the dominant role of the state in Western society. Their approach was based on expanding the role of the market and cutting back the role of the state. This was achieved by:

- cutting business and personal taxes;
- privatising state economic assets;
- de-regulating a wide range of business activities;
- confronting and reducing the power of organised labour;
- cutting government spending on a wide range of social programmes and promoting personal responsibility for welfare provision.

The advocates of private enterprise began winning the argument and private firms gained the benefits of much greater commercial freedom.

1.4 At the same time, critical global trends were developing and opening up vast new opportunities for the re-invigorated private companies of the USA, Western Europe, Asia and the rest of the world:

- the collapse of command economies in Russia, China and other countries opened vast new markets and bases of production;

- developing world countries with protectionist and socialistic governments soon followed suit and in the past ten years, some 3 billion people have recently made the transition from command and state controlled to market economies;

- **Table 1** below shows that private investment has flooded into developing countries. It now exceeds public investment by a factor of 8:1 overall. Even in the poorest and least developed countries the strategy is to increasingly develop trade and investment, not just public sector aid;

- at the same time trade barriers in goods, services and particularly financial services, have been coming down rapidly and fuelling the integration of the world's economy;

- global systems of physical and electronic communications have been established to support global economic integration and play a vital role in creating and fulfilling demand for goods and services.

Table 1
Net long-term resource flows to developing countries 1990 compared with 1997

Source of funds	**1990**		**1997**	
	US $bn	% total	US $bn	% total
Official flows	56.9	57	39.1	12
Private sector finance	19.4	19	135.5	40
Private sector direct investment	24.5	24	163.40	48
Total	100.8	100	338	100

Source: World Bank Debtor Reporting System 1998/9

1.5 These and many other factors have all led to a massive transfer of power to the private business sector, and a relative decline in the power of government. As **Table 2** below shows, many of the world's 45,000 transnational companies are now much larger in revenue and estimated job-dependent population terms than most small countries. Private business has moved into the vacuum created by the contraction of the state, and plays a major role in all aspects of our global economy, society and culture.

Table 2
Countries and multi-national companies compared

Countries			**Companies**			
	GDP $bn	Population (million)		Annual revenues $bn	Direct employees	Population dependent (million)
Denmark	156	5.2	General Motors	168	647,000	9.7
Hong Kong	142	6	Ford	146	371,702	5.5
South Africa	131	42	Toyota	108	130,736	2.4
Malaysia	80	20	Hitachi	75	330,152	4.9
Pakistan	60	136	Siemens	63	379,000	5.6
New Zealand		5	Philips	41	262.500	3.9
Ireland	53	3.5	PepsiCo	31	486,000	7.2
Bangladesh	29	118	Pemex	28	120,945	1.8
Sri Lanka	13	18	McDonalds	11	237,000	3.5

Sources: GDP and population figures from *World in Figures* 1998: *The Economist*. Company revenue and employees from *Fortune* Magazine, 4 August 1997.

1. 'Population dependent' is an estimate: calculated by including, in addition to direct employees, three supplier jobs in the company's backward linkages; one supplier job in the forward linkages and the assumption that all these workers in the supply chain have a spouse and two children

2. GDP and Annual revenues are not directly comparable in a technical sense, corporate value added would be most accurate but the comparison helps make a general point about the relative size of major companies and smaller countries.

1.6 Capitalism is, with very few exceptions, increasingly at the heart of our global society and the debate about corporate citizenship is a debate about the type of behaviour the world wants from its global, national and local companies. It is a debate of great importance to the future of all countries, rich and poor alike; each in different ways are effected by the gathering trend towards global economic integration.

2. Defining our terms

2.1 There is no absolute definition of what the term corporate citizenship means. It means different things to different people, within companies and without. There is an ongoing debate and very few companies have articulated clearly what the term means for them in the modern global economy. The historical use of the term, still very current in the USA, largely means the voluntary philanthropic contributions that businesses make over and above their mainstream activities. A fuller discussion of this traditional approach is presented in **Appendix I.**

2.2 However, this definition is not adequate to describe the approach of European, Japanese, many US, and most developing world corporations. In post-war years the rise of consumer and environmental concerns for example, has led to a broadening of the definition to include the total impact of the business on society at all levels of operation.

2.3 More specifically, there is a strong parallel between the position of companies and individual citizens in society. They are endowed with both rights and responsibility in the conducting of their business. Companies have the right to property and to advertise for example, but must also pay their suppliers, workers and taxes. In addition, they are expected, like individual citizens, to make a voluntary contribution to help maintain the overall well being of the society that sustains them, and some do, but not all by any means.

2.4 Leading companies themselves are tending to prefer the term 'citizenship' because of its implied balance between rights and responsibilities. NGOs, the media and church groups on the other hand tend to stress corporate responsibilities and want to expand the scope of those responsibilities. They are still suspicious of the power of business but are increasingly recognising its powerful role in shaping our global society and its great potential as a partner in addressing social and other issues.

3. The three components of the corporate citizenship debate today

3.1 The corporate citizenship debate today is broad ranging, but has begun to focus on three key components of profound importance to the development process. They are in descending order of importance:

i) the basic values, policies and practices of a company's owned and operated business at home and abroad;

ii) the management of environmental and social issues within the value chain by business partners, from raw material production to product disposal;

iii) the voluntary contributions made by a company to community development around the world.

These distinct areas of debate about corporate citizenship are briefly reviewed below.

3.2 *Basic business policy and practice*

The everyday activity of business has a much more profound social impact than its small voluntary community contributions, however valuable. The real power of a business to affect society lies in the vast churn of cash that represents its revenues and expenses. The realisation of this profound connection between the everyday activity of companies and the well being of society is driving a new, more comprehensive approach to corporate citizenship and social and environmental responsibility. Companies are society's great wealth creators. They create jobs, train employees and provide healthcare for their families, transfer technology around the world and produce a vast array of goods and services which enhance and even save many lives. They collect and pay huge sums in taxes, making government possible in many parts of the developing world.

3.3 Just as individual citizens have choices about how they manage their lives, companies have choices about how they manage their business. What approach they take to labor and customer relations for example, can determine whether or not they are seen as good citizens. The best of the world's companies are setting high standards of behaviour in many aspects of business and wider social conduct. Behind these companies lie millions of small and medium-sized local firms in the value chain that also create jobs and pay taxes. Good corporate citizens have a major impact on how these business partners in turn run their local businesses.

3.4 At the core of the corporate citizenship debate the idea has emerged that companies are accountable not just formally to their owners but also in less well-defined ways to a group of wider key stakeholders for their actions. This view has become central to the management of corporate citizenship and social responsibility issues. Companies of all types are more and more giving a public account of their relations with employees, customers, investors, business partners and governments, as well as the wider society and community. Examples include Shell, BP, Diageo, South African Breweries, Tata Steel, Telecom Italia and The Body Shop.

3.5 The types of issues companies review and analyse by stakeholder include:

Employees	Wages levels, accident rates, spending on training and how downsizing is handled.
Customers	The price and value of goods and services, quality issues, how complaints are handled and values in broadcast advertising.
Investors	The return on investment, corporate governance, directors share dealings and transparency in financial information.
Business partners	The jobs sustained, the transfer of technology and the timely payment of bills.
The community	Charitable gifts and community investment, the willingness to listen and engage in dialogue.
Government	The payment of taxes, a fair transfer pricing policy and compliance with financial and other laws and regulations.

3.6 In addition, the physical environment is increasingly being treated like a human stakeholder, sometimes described as "future generations". The moral language and claims used to discuss social and ethical issues are being increasingly extended to other species (eg animal 'rights') and aspects of the physical environment. Detailed environmental reports, covering the whole product life cycle, are now common from leading companies, and the quality of management and measurement of these issues is dramatically better than 20 years ago.

3.7 *Corporate responsibility in the value chain*

A new aspect of the current debate about corporate citizenship, following in some respects development in the environmental field, is the way in which companies are being asked to account for the behaviour of business partners in the forward and backward linkages of the value chain. Companies can trace environmental impacts from the acquisition of raw materials, through all levels of manufacturing, distribution and sale of products. They are similarly being asked to provide similar accounts on social issues.

Examples of **backward linkages** include leading British retailers like Marks and Spencer and Sainsburys being asked about the conditions of employment and wages of their suppliers in Africa or Asia. Business linkages to the developing world where food and products like clothing are being sourced from societies where low wages, poor conditions, child labour and environmental problems are endemic; they are a cause for concern to consumers in Europe.

Examples of **forward linkages** include concerns about the misuse of products and their safe disposal. Environmentalists have long asked questions about what responsibility the manufacturer or retailer has for safely disposing of or recycling products once used. Similarly in the social sphere questions are asked about the responsibility of drinks companies like Diageo and South African Breweries to help control drink driving and under age consumption of their product. The misuse of prescription pharmaceuticals are similar issues of social responsibility and major pharmaceutical companies are also working on issues such as creating access for the poor to high priced life saving drugs.

Appendix II gives a simple map of the types of social and environmental issues that have emerged for oil companies in the value chain. They are different for other companies but the methodology is now well established.

3.8 Voluntary contributions to society

The third area of focus in the debate is the voluntary contributions that companies make to the community. Companies are expected to play a role as good citizens in making a contribution to the maintenance of the fabric of society that sustains the framework of law and civilisation, within which they do business. It is in this arena that most NGOs interact with companies. It is a small but valuable part of the overall picture of corporate citizenship because of both the practical help and symbolic value of the engagement with the wider society.

3.9 The London Benchmarking Group[1] has argued that there are now three basic types of voluntary contributions that companies make to society around the world. They are set out in **Figure 1** below. It is vital to understand these corporate motives if more companies are to be engaged in projects. A few companies around the world have made a major commitment to philanthropy. Many in the developing world are engaged in community investment on issues like health because they need to protect employees and to get business done. All companies wherever they are respond to an argument of direct commercial self-interest.

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[1] The original 6 companies have now been joined by another 12 leading companies from different industries working together to better define, monitor, measure, and report corporate community involvement.

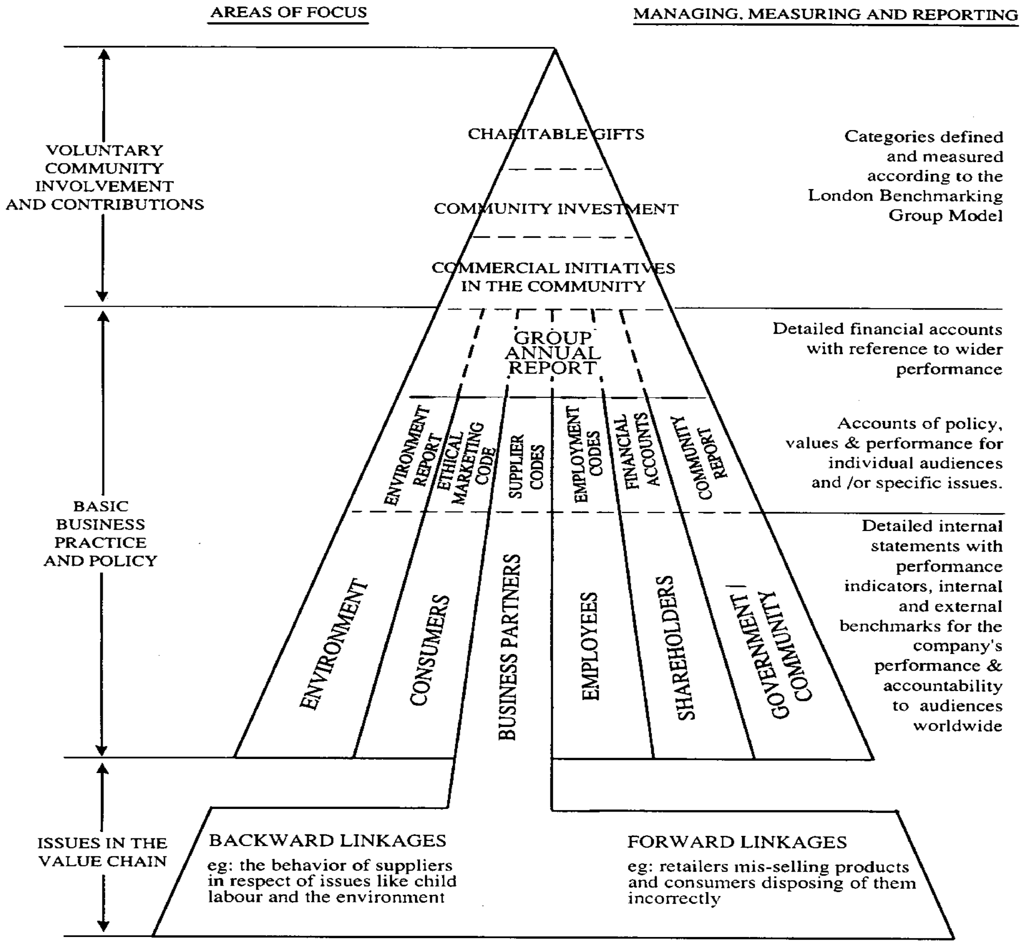
Figure 1
Three forms of voluntary corporate contributions to society

Type of activity and motive	Examples	Outcomes for the business
Charitable gifts aimed at promoting the common good.	Corporate philanthropic donations and support for employee volunteering and giving.	Measurable benefits to the business are rarely sought but a reputation is established for being a 'caring company'.
'Community investment' from community budgets aimed at a few areas of interest to the company, and designed to protect and promote its long-term interests.	Support for local anti-crime initiatives by retail businesses and work to improve education and training, or local health provision to benefit employees, their families and the wider community.	The returns to the business are measurable in some degree by an improved physical or social environment in which to do business and a better pool of potential employees.
Commercial initiatives to achieve a wide range of business goals and promote brands, supported from business budgets such as marketing, human resources and research.	Cause-related marketing, support for research in universities and supplier development.	Returns to the business are measurable in terms of increased sales and market share or access to new ideas and best qualified employees and suppliers.

3.11 *Reporting on corporate citizenship*

These three areas of focus in the corporate citizenship debate are summarised in **Figure 2** below. This also indicates how leading companies are increasingly making policy commitments to their stakeholders and in respect of basic business policy and practice, as well as wider contributions to society and the activities of partners in the value chain. Reviewing and reporting on all of these three aspects of corporate activity is the basis of their renewed interest in 'social auditing', which takes us into the debate about monitoring and measuring the all-round impact a company has in society.

Figure 2
The three main areas of focus in the corporate citizenship debate



3.12 Figure 2 maps the full scope of the concept of corporate citizenship. Measuring the performance of the company in all three areas is a distinct discipline and is the subject of a separate paper we will publish based on our experience of helping to manage this task for three international consumer goods companies with multiple brands operating in a multiplicity of countries. The approach is fundamentally a management tool, but one which underpins and radically improves public reporting of the role of a company in society.

4. The corporation and the non-profit sector

4.1 The previous sections of this paper have defined the concept of corporate citizenship in our global economy, putting it in its historical context. This clearly shows that the interaction between business and the societies in which it trades is profound and multi-faceted. Companies are both the source of many benefits to global society and deeply involved in many of its most pressing problems. However, the mechanics for engaging business in a dialogue with the other key elements of society about its development are very limited, all too often conducted through charity fundraisers.

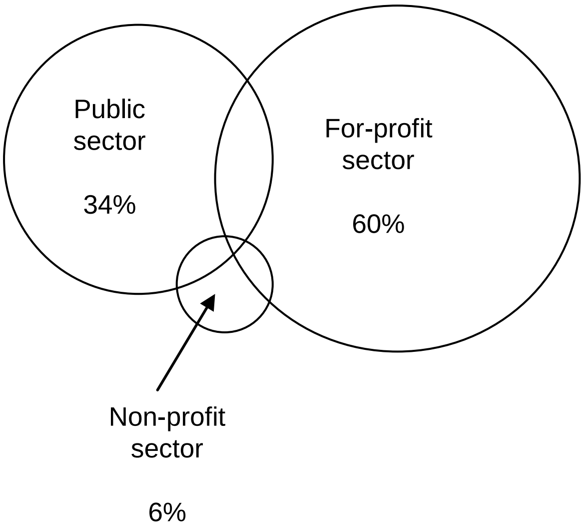
4.2 The social organisation of countries is tending to follow a global trend towards the establishment of three distinct organised sectors, each of which operate with its own distinct goals and organisational styles to meet different aspects of society's needs and wants. These sectors are:

- the public sector, representing national, local and other forms of government;
- the for-profit sector representing private business;
- the non-profit sector representing a wide range of citizen-led, independent organisations providing services and campaigning in the public interest.

These organisational sectors operate within the context of a network of informal relationships in society which are of particular importance in developing countries.

4.3 The balance of economic significance in a given country varies greatly between these sectors. All countries have well-developed public and for-profit sectors, with varying shares of GDP, but the level of development of the non-profit sector varies greatly. **Figure 3** below shows the three sectors in the USA where the non-profit sector is most developed and best financed. In Britain the non-profit sector is estimated at about 4.5% of GDP. In post communist countries like Hungary it is estimated at 1.5%, while the sector is barely legal in China. It is very active in countries like India, Bangladesh, Jamaica and South Africa (where it has a very active interface with private business), but little is known of its scale and funding sources.

Figure 3
Approximate shares of GDP between the organised sectors of US society in 1997



A key issue to be faced in developing the dialogue between business and the wider society is the need for strengthening of the non-profit sector as a partner in the process. Again little is known about the size and effectiveness of the non-profit sector across the world or more particularly the role that business takes in supporting it.

4.5 However the most recent report from the Johns Hopkins University Center for Civil Society Studies points out that across a 19 country average (mainly western industrialised) 49% of the income of the sector comes from fees earned for services. Another 42% comes from public sector support. The latter is increasingly just another form of fee income as governments contract out national and local services to the non-profit sector. This is not a bad thing. To flourish and be truly independent, non-profits need multiple streams of income from a variety of sources supplemented by a wide range of volunteer effort.

4.6 However, in this study philanthropy on average only accounts for about 11% of revenue. Furthermore, in the USA, where we have good figures, corporate philanthropy is by far the smallest component of total philanthropic support for non-profits. As **Table 3** shows, the total of US philanthropic giving in 1997 was $143 billion broken down amongst several sources.

Table 3
Philanthropic giving by source: USA 1997

Source of giving	% of total
Individuals	76.2
foundations	9.3
Bequests	8.8
Corporations	5.7
Total	100

Source: Giving USA

4.7 However, before dismissing corporate philanthropy as a factor in sustaining the non-profit sector, it is important to realise that the complete opposite of the US case is true in most developing and all former communist countries (which contain the vast majority of the world's population). In these countries there is only the most limited tradition of individual giving (not least because the mass of people are very poor) and there are few, if any, benevolent rich people to set up foundations or leave bequests to fund charities. Consequently, 94% of the philanthropic funding sources taken for granted in the USA, do not exist in the countries containing the vast majority of the world's people.

4.8 Consequently corporations have a major role to play in helping the emergence of a non-profit sector. In the 19th century the USA itself was a developing country. The spirit of self help that played a great part in its development was greatly fostered by corporations and their wealthy leaders such as Ford, Rockefeller, and JP Morgan for example. In most of the developing countries of the world today, private corporations and governments dominate society and they have a critical role to play in helping to kick start the spirit of voluntary action and self-help amongst ordinary citizens.

4.9 Companies in particular can support employees as volunteers as models of citizen activism and support non-profit organisations themselves with funds, in-kind giving and executive time. They can also offer contracts for service provision to non-profits. In this way companies will help in fostering the spirit of nation building in many developing and newly established pluralistic democracies.

4.10 In developing countries social conditions are different and some leading business people seek to address the massive social problems that exist and to build up educational, social and physical infrastructure. For example, the city of Jamshedpur in Bihar, India has been built by the Tata Steel company that runs much of its social services. Similarly, the Anglo American Corporation in

South Africa provides a wide range of services and facilities to its employees and the wider community. Just as in 19th century America, developing world businesses know that they cannot operate effectively if certain basic social conditions do not exist. If government is not capable of providing these conditions, business has often been willing to do the job.

4.11 This is broadly what happened in the USA in the 19th century, and with the contraction of the state around the world, the same needs to happen in other countries, but in a fraction of the time. Many corporations will continue to play a modest but valuable role in supporting the voluntary sector in industrialised countries like Britain. In developing countries they should be taking an more active lead in building the sector. Not least to create the stable social environment they need in which to grow and prosper. Non-profits now represent a vital component in the mix of social organisations and business needs them as partners in the process of development and vice-versa.

Appendix I

An historical perspective on corporate community involvement

As large industrial corporations developed in the 19th century, many of their owners assumed an active, and indeed leading, role in the development of the local communities and society where they were based. Business leaders helped get schools and universities built, and made financial contributions over and above their taxes to support infrastructure projects, museums, sports and recreation facilities. Great cities like Manchester, Bombay, New York and Sydney were given many of their public assets such as libraries and concert halls by the business leaders of the time. These business leaders such as Carnegie, Rockefeller and Wellcome went on to endow great foundations to carry on the community work that they saw as their 'social responsibility' or good citizenship.

This tradition seems to have been based on two complimentary motives. Firstly, the ethical imperative, often articulated by religious fellowships, that those who have wealth and power should help those that do not, and so charitable giving was expected of wealthy industrialists. Secondly, there is an element of social investment in which the business would gain long-term benefits, from having first class schools, technical institutes and universities in their city. US business schools, for example, were often started by business leaders and still receive extensive support from companies.

However, these sorts of wider contributions to 19th century society did not dispel a deep dissatisfaction with capitalism on the part of workers and others. They sought to abolish the combination of the economic power and charity of rich capitalists and replace it with public ownership of 'the means of production' with a rational system of entitlements and social services managed by the state.

Except in the USA, governments worldwide came to dominate social provision in developed and developing countries alike. Business paid its taxes and national and local government provided the services and took care of social and cultural affairs. The 19th century tradition did not completely disappear in developed countries with the advent of large welfare states in post war years, and it still continues today. George Soros, Ted Turner and Bill Gates in the USA organise their personal 'philanthropy' like earlier generations of business leaders.
Companies in the USA, Europe and beyond did continue to make small charitable gifts throughout the 1950s and 60s, but the word 'social' more or less dropped out of a discussion of corporate responsibility because of the role of the state in educational and welfare provision. It became focused on issues much more internal to the management of the business, such as how a company treated its employees

and customers. Consumer power emerging in the 1950s grew to be a force to shape corporate behaviour as did environmental concerns in the 1970s and beyond. A definition of corporate citizenship that went beyond charitable contributions became established in the debate, but community activities also were re-defined.

A new wave of active community involvement by British companies re-emerged in the 1980s when the first wave of plant closures took place and as the perceived cause of the problem companies felt the need to do something to mitigate the impact of their business decisions. They launched a wave of economic renewal and job creation projects for communities badly impacted by business restructuring. In this connection, companies developed a strategy of community 'engagement' using people and in-kind resources as well as cash.