

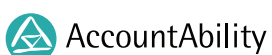
Responsible Competitiveness in Europe

Enhancing European Competitiveness
through Corporate Responsibility

Executive Summary

Project Partners

December 2006



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Executive Summary

THE COMPETITIVENESS IMPERATIVE

Europe's economic challenge is to secure its position in global markets facing intense challenges from both its traditional competitors, the USA and Japan, and emerging economic powers, notably China and India. In a globalizing economy Europe can succeed if it integrates with other regions while building competitiveness at home.

Whilst Europe excels in some sectors, its overall performance remains lacklustre. Europe's 'innovation scoreboard' shows disturbing evidence of under-performance across many countries and sectors; other studies point to serious shortfalls in many sub-regions. Europe has fallen 26 points in the World Economic Forum's latest Competitiveness Ranking, due to insufficient and unfocused R&D; skills deficits and labour market inflexibilities; a failure to capitalize on homegrown creativity; and consumer hostility to innovative products.

Europe has a particular opportunity to take advantage of emerging developments in global markets. Environmental and natural resource limits, consumer health concerns, demographic changes and an increasingly globalised market for information are just a few of the factors reshaping market conditions to internalise social and environmental factors as key sources of economic value and competitive advantage.

Europe's economic opportunity lies in leveraging its past leadership in bringing environmental and societal issues to the forefront of its approach to business and economy. This has historically been grounded in the region's vision and practice of social partnership, and more recently in its leadership in advancing responsible business practices, for example in relation to climate change, corruption and human rights.

Responsible Competitiveness strategies seek to take advantage of emerging global market conditions by enhancing the role of social and environmental drivers of productivity and international competitiveness of individual companies, the business community, and so countries and regions.

This study assesses the potential for a European Responsible Competitiveness strategy. It builds on five years of policy and strategy-focused research on Responsible Competitiveness led by AccountAbility, including two iterations of the Responsible Competitiveness Index that for the first time provides a quantitative assessment covering over 80 countries

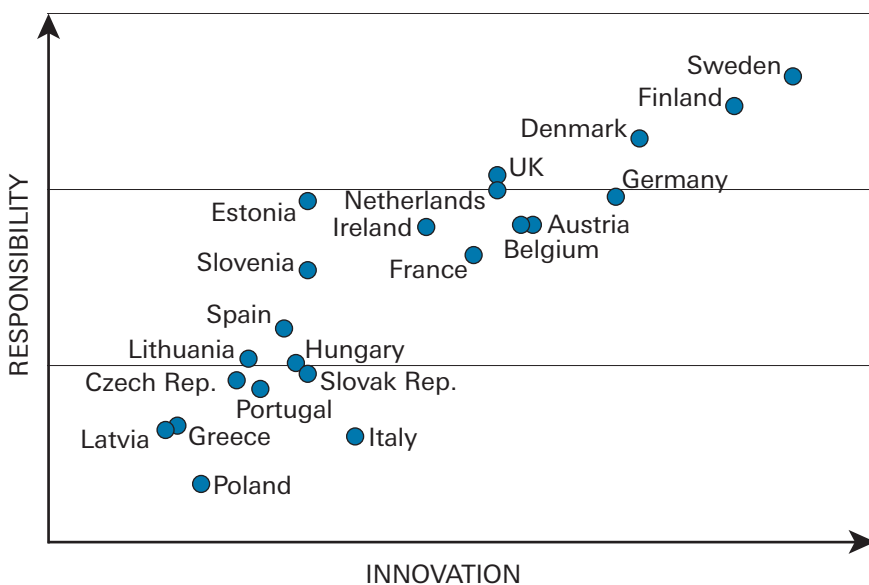
of the potential for responsible business practices to enhance national competitiveness.

The study has been undertaken by a **unique collaboration led by AccountAbility, ESADE, the European Policy Centre and INSEAD**, and funded by the European Commission, with engagement and support from IBM, Microsoft, Novo Nordisk, and the SAM Group. The European Academy of Business in Society (EABIS) facilitated the project. The focus is on three key sectors: Information and Communication Technology (ICT), Financial Services and Pharmaceuticals.

FINDINGS: EVIDENCE FOR RESPONSIBLE COMPETITIVENESS

The research analysed a wide range of data on the linkages between responsible business practices and the drivers and outcomes of competitiveness. Comparing responsible business practices and competitiveness drivers at national level in Europe, as measured by AccountAbility’s national-level Corporate Responsibility Index and the European Innovation Scoreboard, shows a broad correspondence between the two (see chart).

Figure: Innovation performance versus Responsibility (AccountAbility’s NCRI) for 23 European countries (2005 data).



The considerable variation between countries outside the Nordic group is noteworthy, in both responsibility and innovation indicators. Achieving greater convergence across the region is a major factor for those working to build responsible competitiveness at the sector level.

Sustainability assessments were provided by the SAM Group for over 200 European companies in the three sectors. Subsets of this sample were compared with databases on research intensity, productivity and profitability. Despite relatively small sample sizes, variations in performance are observable depending on where a company is headquartered, at sector level.

Three key findings emerged from these analyses:

- ❖ Companies from all three sectors are succeeding in combining responsibility, research intensity, productivity and profitability, showing that responsible competitiveness is possible;
- ❖ Some companies are achieving economic results without strong performance on responsibility, suggesting they are yet to be convinced; and
- ❖ Other companies score well on responsibility without seeing strong economic performance, indicating that there is a small risk of low returns in terms of 'competitive advantage' from CSR initiatives for some of the companies active in these sectors.

These results suggest that marrying responsibility with competitiveness is possible at both national and sector levels, though not easy or inevitable.

The data suggest that there are different pathways towards responsible competitiveness, with different patterns of investment and innovation in different sectors.

Three high-level social dialogues, one for each sector, were held in Brussels, Fontainebleau and Barcelona. Building on these multi-stakeholder dialogues and follow-up research, the study reveals **a number of examples where businesses – working singly or collaboratively with other social partners – are operating in the responsible competitiveness nexus to reshape regional and global markets:**

- ❖ ICT companies are making major contributions to *improving educational attainment for competitiveness in underperforming regions*, for example in 60 secondary schools in Brandenburg and in building skills for employability among 20,000 recently unemployed textile workers in Portugal;
- ❖ The launch of pre-paid credit cards, complementing existing credit card networks, has *built financial inclusion among 2.2 million customers in Italy*;
- ❖ Mobile telecommunications companies are using expertise gained in Africa to enable remittances to be sent through mobile phones, *bringing considerable savings and improved security to the transactions*;
- ❖ *Healthcare for diabetes sufferers in Poland has been improved* through a national programme that has trained 3,500 doctors, supported by a pharmaceutical company and the International Diabetes Federation.

The study also identifies **a number of recent innovations at sectoral level that have the potential to build responsible competitiveness**, such as efforts by European banks to build on the Equator Principles through the responsible project finance of individual commodities; concerted work on increasing the sustainability of supply chains in the ICT sector; and promotion of Advance Market Commitments whereby government would provide financial incentives for the development of vaccines needed to tackle a range of diseases prevalent in developing countries.

These cases confirm the relevance of the sectoral approach to responsible competitiveness. However, the dialogues also pinpointed a number of significant issues in Europe – such as obesity, ageing, employability and short-haul air travel – that can only be tackled by cross-sectoral approaches. The European Alliance on Skills for Employability and the Global Innovation Outlook are interesting examples of these.

FINDINGS: CHALLENGES AND OPPORTUNITIES

Empirical evidence and case studies show that some companies are moving towards responsible competitiveness in all three sectors. Even so, a complex set of **issues, for individual businesses, sectors, sub-**

regions and Europe as a whole, were raised by participants in the three sector dialogues.

Some challenges in aligning responsibility and competitiveness are sector-specific, such as the need to rebuild consumer trust in the pharmaceuticals sector; to operationalise the Equator Principles in real-life investment decisions; and to grow demand among consumers for eco-design in ICT.

Other issues are applicable across the three sectors, and more broadly, such as the need to reach agreement on the most effective blend of flexibility and security in labour markets; the role of public purchasing in building new markets for responsible products and services; and how smart laws and regulation can be used to promote responsible competitiveness.

The three dialogues covered a number of common areas where challenges must be overcome for sectors as a whole to advance in responsible competitiveness.

- 1. Trust in businesses' motivation.** This issue was particularly raised for the pharmaceutical and the financial sectors, but impacts on other sectors in Europe. Civil society actors in Europe have become more critical of the fundamental motivations for companies' engagement in CSR initiatives in the past two years. Leading companies want to be judged on their results in boosting jobs and growth while meeting social needs.
- 2. Companies' ability to deliver.** Despite the inspired statements of purpose and the acknowledged commitment of champions in all three sectors, the data show a 'long tail' of companies – not necessarily SMEs – that have lower CSR performance. Responsible competitiveness is a new phenomenon so this is not surprising, but brings reputational risks that are difficult for leading firms to manage. This issue was brought up and discussed particularly in the pharmaceutical and financial sector dialogues.
- 3. Perceptions of trade-offs between CSR and competitiveness.** Many companies appear to be concerned that the relationship between CSR and their competitiveness is one still characterized by negative spillovers. There is a need for more robust work to build

solid business cases to show how positive spillovers come into play when companies go beyond CSR and apply effective Responsible Competitiveness strategies.

- 4. Sector system responsibilities.** There are growing calls for shared responsibility at sectoral level, involving multiple actors in the business system. They argue that the alignment between responsibility and competitiveness cannot be achieved unless and until all stakeholder groups active in the sector invest in changing their aspirations, mindsets and behaviours. Conversely, companies are increasingly moving across sector boundaries, making traditional sector definitions less distinctive.
- 5. Calls for policy leadership.** As a consequence of the combined effect of numbers 1–4, the traditional stand-off between representatives of companies and those of their stakeholders on opposite ground regarding the issue of regulation of CSR practices and standards is less clear. There are now a number of cases of business firms combining to call for policy leadership. One example is the Corporate Leaders Group on Climate Change, including CEOs from finance, pharmaceuticals and ICT companies calling for stronger policies in Europe to capture a global market in low carbon products estimated at Euro 600 billion a year by 2050. Another is the Business Leaders Initiative on Human Rights, again represented by all three sectors.

A deeper analysis of the sector dialogues allowed us to identify three areas that emerged as the fundamental basis for the perspectives presented by the different groups of participants.

- 1. Purpose:** Understanding of the purpose of the firm and consequently of its appropriate governance. The question of whether firms exist to serve, as their ultimate goal, the collective objective to constantly improve social well-being for all citizens, rather than to simply raise their economic wealth levels, is a fundamental point of debate across Europe, and one that is always lingering underneath the surface of “polite” exchanges of opinions.
- 2. Competitiveness:** A connected challenge lies in the definition of competitiveness at a sectoral or firm level. Participants at the dialogues spoke in similar language of the “triple bottom line”

nature of responsible competitiveness, but the underlying logic of causality among the returns to investments in economic, social and human capital was clearly different. We found substantial challenges among academics, businesses and policymakers to the traditionally accepted drivers and outcomes of competitiveness, suggesting the need for more in-depth work to understand which specific CSR activities can impact on which specific aspects of competitive advantage.

- 3. Learning:** Developing the competencies necessary to support constructive dialogue, as well as the internal change processes required to accomplish the task of integrating responsibility in the standard operations of the sectoral actors is a major challenge that is still poorly recognized as such, let alone articulated and addressed. This is a challenge not just for business firms and sector bodies. The legitimacy of NGOs in particular, as carriers of specific stakeholders' interests, depends crucially on their capacity to understand not only their own audiences' expectations but also the contributions of business to the jobs and growth agenda.

THE RESPONSIBLE COMPETITIVENESS SECTORAL FRAMEWORK

A policy tool for assessing sector-level potential for responsible competitiveness strategies has been developed and piloted. This framework is designed to support a qualitative assessment of:

- ❖ **Aspirations:** the credibility and trust assigned to the sector companies' commitment to play their role in developing social cohesion and equitable development, vis-à-vis the other roles they play in enhancing economic wealth;
- ❖ **Capacity** to identify the factors that hinder, as well as those that enable, the fulfilment of this role by companies in the sector.
- ❖ Willingness to engage in the market **transformation processes** required to internalize costs in a competitive fashion.

	ASPIRATIONS AND ALIGNMENT (Does X Care?)	CAPACITY (Does X Know)
DEMAND ACTORS		
Consumers ¹ Business Customers Investors Employees/Unions Supply Chain Partners ² Local Communities Government ⁴	<ul style="list-style-type: none"> • How relevant are their objectives the sector companies' role in developing social cohesion and sustainable development, vis-à-vis the usual roles they play in dealing with them? • How explicit are they in stating their commitment to the development of Responsible Competitiveness (RC) in the sector? 	<ul style="list-style-type: none"> • To what extent are they of assess development sector companies • How clear are they in stating what might hinder, and what might promote development of companies
SUPPLY ACTORS		
Business Firms Industry Associations Industry Regulators Governments ⁶ Standard Suppliers ⁷ Consultancies Educational Institutions Research Institutions ⁸	<ul style="list-style-type: none"> • How explicit are vision statements on their responsibility to contribute to social, as well as economic, development? • How integrated are social equity concerns in the strategy formulation and implementation processes? • Has the company achieved a strategic alignment between core business objectives, policy priorities, regional competitiveness challenges and societal needs? • How explicit and strong are their commitments to help sector companies deliver social equity, in addition to economic returns? 	<ul style="list-style-type: none"> • How clear are they in stating what they can do to promote social and equity development • How developed are their RC practices in the sector companies • How clear are they in stating what companies can do to promote social well as economic

1 Including consumer associations and issue-specific NGOs specialized in product liability complaints

2 Including associations of manufacturers/service suppliers, business networks of alliances, JV partners, as well as standard (transactional and relational) suppliers/buyers relationships

3 Including location-specific NGOs, local consortia and associations, local government bodies

4 Note that governments, at both national and super-national level, may be part of the demand (policy statements), as well as of the supply side of RC in a given sector

5 Including product price and features for customers, short-term economic returns to shareholders, wages and work conditions for employees, etc.

CAPACITY (Does X Know?)	TRANSFORMATION (Does X Engage?)
<ul style="list-style-type: none"> To what extent are they capable of assessing the presence and development of RC practices in sector companies? How clear they are on the factors that hinder, and those that enable, the development of RC practices in sector companies? 	<ul style="list-style-type: none"> To what extent are they engaged with companies and supply-side partners in shaping the sector’s business practices towards increasing levels of RC?
<ul style="list-style-type: none"> How clear are sector companies on how they can contribute to social cohesion and equitable, together with economic, development? How developed are RC practices in the sector companies? How integrated are RC practices in their operating routines? How clear are they on how sector companies can contribute to social, as well as economic, development? 	<ul style="list-style-type: none"> How engaged are the sector companies with their stakeholders in shaping the sector’s RC practices? How much are sector companies investing to change their own operating practices towards meeting their RC aspirations? How engaged are they in helping sector companies, as well as all actors in the system, develop RC business practices?

6 On the supply side, government authorities intervene as owners of the legal framework determining behavioural boundaries within a sector, as well as direct suppliers of RC in the public administration sector activities

7 These are organizations that develop and control the application of standards related to different quality dimensions in management behaviour, such as the International Standards Organization (ISO)

8 Including private foundations, state (e.g. National Centres for Research), and supra-national (e.g. EU D.G. Research) institutions that fund research in various social sciences related to the RC challenge

KEY LEVERS FOR EUROPEAN ACTION

Europe has unique characteristics that offer a potential edge in exploiting Responsible Competitiveness opportunities, but innovation is required to catalyse them into effective use.

- ❖ *Internalisation.* Europe has an historic leadership role in internalising social and environmental costs, but has not always succeeded in aligning its approach to competitive realities.
- ❖ *Collaboration.* Europe's social partnership vision provides the essential collaborative context, but the approaches taken need to be more closely aligned to market dynamics and competitive outcomes.

RECOMMENDATIONS

Core policy recommendations aimed at providing an enabling environment for Responsible Competitiveness strategies and practices are:

- 1. Assess the potential to incentivize actors to engage in Responsible Competitiveness strategies and practices identified through the dialogues and research.** This might include reviewing:
 - ❖ Assessment frameworks for providing research funding targeted to the identification, diffusion and retention of Responsible Competitiveness strategies and practices among both market and non-market actors in all the major sectors of economic activity.
 - ❖ Tax benefits to businesses engaging in partnerships seeking to implement Responsible Competitiveness strategies.
 - ❖ Public procurement criteria with a view to upgrading scores for businesses that can demonstrate effective Responsible Competitiveness approaches.
 - ❖ Support to NGOs and consumer associations that engage in Responsible Competitiveness strategies and practices.
- 2. Reinvent 'social dialogue' so that it can fulfil its historic role in a contemporary setting** of underpinning the design and implementation

of Responsible Competitiveness strategies and practices. The research discovered several examples of innovative multi-stakeholder approaches. Effective initiatives should:

- ❖ Be inclusive without being formulaic;
- ❖ Focus on creativity and innovation;
- ❖ Tackle the issue, not the sector;
- ❖ Rely on a commitment to collaborative work;
- ❖ Build partnership along the whole value chain; and
- ❖ Promote mutual accountability.

3. Launch a major capacity-building initiative, building on the outcomes of effective sectoral dialogues, aiming at enhancing understanding and the need for integrating responsible practices with competitiveness policies in addressing the 21st Century challenge of advancing employment, growth and sustainable development. This should include increased:

- ❖ Focus on sector-based collaborative research and pilot projects, using and further developing the framework developed in this study.
- ❖ Research to bring together more innovation, competitiveness and responsibility metrics at sectoral level in order to understand trends, causalities and assessments of overall sectoral performance, to include more variables and more small and medium enterprises and privately held companies.
- ❖ Awareness in national and regional public bodies of the crucial links underpinning Responsible Competitiveness.
- ❖ Appreciation across civil society of the realities, need for, and potential of Responsible Competitiveness. There is a major role for business schools here.
- ❖ Knowledge within the business community of emerging opportunities related to Responsible Competitiveness strategies,

including the downside consequences of them being acted on by their competitors.

- ❖ Understanding the roles of public policy in shaping markets that reward responsible business practice.

In conclusion, there is great potential for European leadership in advancing Responsible Competitiveness strategies and practices in ways that build on the region's historic strengths while addressing some of its contemporary weaknesses. In so doing, Europe can further its own prosperity and security, and also accelerate the re-alignment of tomorrow's global markets to the imperatives of sustainable development.

These opportunities are available for Europe – and also for other regions. 'How We Compete' is also the subject of intense policy debate in the USA, Japan and other advanced economies. Opportunities will soon become risks to Europe if the region does not seek to take advantage of them in a timely manner.

Research Partners

AccountAbility

AccountAbility is an international non-profit, membership organisation established in 1995 to promote accountability innovations that advance responsible business practices, and the broader accountability of civil society and public organisations.

Our 200 members include businesses, NGOs and research bodies, and elect our international Council, which includes representatives from Africa, Asia, Europe, Latin America and North America such as Civicus, Microsoft, and PricewaterhouseCoopers.

In pursuant of these goals we focus our energies on what we term the three “Cs” – **citizen** participation, **competitiveness**, and **collaboration** – by utilising our core expertise and exercising our unique multi-stakeholder networks.

AccountAbility’s leading-edge accountability innovations have included several ‘world first’s’: the AA1000 Series Sustainability Assurance and Stakeholder Engagement Standards, the Partnership, Governance and Accountability framework, the Responsible Competitiveness Index covering the links between responsible business practices and the competitiveness of over 80 countries, and, in collaboration with csrnetwork, the Accountability Rating, of the world’s largest companies published annually with Fortune International.

AccountAbility is convener of the MFA Forum, an international alliance of business, international development agencies, NGOs and labour organisations working on the links between national competitiveness and labour standards in global supply chains.

AccountAbility and the Centre for Corporate Citizenship at Boston College are co-founders and convenors with IBM and GE of the Global Leadership Network, an international network of leading businesses committed to building alignments of corporate responsibility to business strategy by advancing joint learning and relevant analytic tools and benchmarking.

European Policy Centre

The European Policy Centre (EPC) is an independent, not-for-profit, think-tank, committed to making European integration work. The EPC works at the 'cutting edge' of European and global policy-making providing its members and the wider public with rapid, high-quality information and analysis on the EU and global policy agenda. It aims to promote a balanced dialogue between the different constituencies of its membership, spanning all aspects of economic and social life.

More information on The European Policy Centre can be found at www.theepc.be

ESADE

At ESADE Business School we aim to educate and train individuals, to generate and disseminate knowledge, and to favour social debate, by focusing on rigour and excellence, with a clear and international profile but also deeply rooted and committed with our environment. Thus, in the face of the major economic and social challenges of our world, in a context of cultural and religious pluralism, we not only want to be an independent space in which different points of view can be freely expressed and discussed, but we aim to transform society toward respect for individual dignity and human rights.

In the end, we are pioneers: which means to innovate and take risks, and also to accept and embrace criticisms. We have been leaders in Europe to provide MBA and executive programs in English, to hold the "triple crown" of quality certifications, and to create and promote international networks and activities in the field of corporate social responsibility. Because we have always believed that business does not operate in isolation, but is one of the actors in society, co-responsible for its governance. Thus, our strategy in regards to education, research and social debate is instrumented through this framework, where our training programs, our knowledge generating efforts, and our dialogue initiatives are constructed on the interaction and interrelation of businesses with the public sector and the third sector.

For more information please log on to www.esade.edu

INSEAD: The Business School for the World

As one of the world's leading and largest graduate business schools, INSEAD brings together people, cultures and ideas from around the world to change lives and transform organizations. The unique global perspective and multicultural diversity of INSEAD are reflected in all aspects of its research and teaching. Currently, at the school's two comprehensive and fully connected campuses in Asia (Singapore) and Europe (France), 143 renowned faculty members from 31 countries inspire more than 880 MBA participants, 55 executive MBAs, over 7,000 executives and 64 PhD candidates. On both campuses, faculty conduct leading edge research projects with the support of 17 Centres of Excellence. The INSEAD-Wharton Alliance extends the reach of INSEAD business education and research across three continents.

More information on INSEAD can be found at www.insead.edu

The European Academy of Business in Society facilitated the project:

The European Academy of Business in Society

Established in 2002 by leading companies and business schools in partnership with the EU Commission, EABIS aims to integrate corporate responsibility into the mainstream of business theory and practice in Europe. EABIS funds collaborative research, education and training projects and hosts numerous events and workshops across Europe to develop more and better knowledge and learning on corporate responsibility. It also leads the EU Commission funded 'European Platform for Excellence on CSR' (CSR Platform) project as the designated centre for excellence on CSR Research under the Sixth Framework Programme. With a European focus, but a global outlook, EABIS' membership currently numbers 70 institutions, spans four continents and 19 countries and includes some of the world's largest global corporations including Shell, Unilever, IBM, Johnson & Johnson and Microsoft and Europe's top business schools.

More information is available at www.eabis.org

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Other Resources



The Materiality Report

Aligning Strategy, Performance and Reporting



Responsible Competitiveness 2005

Reshaping Global Markets Through Responsible Business Practices



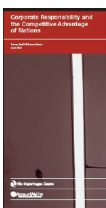
Responsible Competitiveness 2003

Aligning Corporate Responsibility and the Competitiveness of nations



Responsible Competitiveness

Corporate Responsibility Clusters in Action



Corporate Responsibility and the Competitive Advantage of Nations

These can be downloaded from www.accountability21.net. Alternatively contact AccountAbility, 250-252 Goswell Road, London EC1V 7EB United Kingdom, +44 (0) 20 7549 0400.

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Responsible Competitiveness in Europe:

Enhancing European Competitiveness through Corporate Responsibility

How can Europe build its competitiveness through responsible business practices? This report summarizes the findings of an in-depth inquiry into three key sectors: **ICT, pharmaceuticals and finance.**

It describes a practical framework to assess the potential of companies in each sector to build competitive advantage by reshaping markets to reward responsible goods and services.

The report reflects the **real perspectives** of stakeholders in all three sectors, from academics and innovators to campaigners and policy makers.

It presents **best practice examples** of how companies and partners are already starting to shape responsible markets across Europe and beyond.

The report argues that **Responsible Competitiveness** is possible but not easy. Each sector faces different challenges: from building trust and growing consumer demand to pooling knowledge and going to scale.

More broadly, European policy makers now have a unique opportunity to create **innovative market incentives, reinvigorate social dialogues and invest in capacity-building.**

Europe, the report concludes, can and should build a more responsible and competitive approach to jobs, growth and sustainable development.

The full report, *Responsible Competitiveness in Europe: Enhancing European Competitiveness through Corporate Responsibility* can be downloaded from www.accountability21.net/research

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