



**Asia-Pacific
Economic Cooperation**

Corporate Social Responsibility in the APEC Region

Current Status and Implications

**Economy Paper:
The United States**



THE CENTER
FOR CORPORATE
CITIZENSHIP
AT BOSTON COLLEGE

Perspectives on Corporate Social Responsibility in the United States

Bradley K. Googins, Ph.D. and Steven A. Rochlin
The Center for Corporate Citizenship at Boston College

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I. Introduction

In many quarters around the world, the US private sector suffers as the bete-noire of the corporate social responsibility¹ (CSR) debate. The perception exists that US businesses, supported and sheltered by an accommodating set of laissez-faire policies, laws and incentives resist— if not actively work to undermine—CSR. Surveys repeatedly find skeptical attitudes toward US businesses—particularly multinationals—and a lack of trust that these businesses are motivated by anything other than greed and self interest.

The reality, however, is that CSR among US businesses is complex and idiosyncratic. US business attitudes and approaches to CSR are anything but uniform. CSR in the United States is shaped by a mix of ideology, market forces, limited government intervention, historical tradition, growing external pressures and individual values. At the same time the same global trends and forces shaping the CSR debate around the world are penetrating the United States. These trends are viewed by many executives with a mix of apprehension, resignation and in some cases welcomed inspiration.

Inside US firms, one will find wide-ranging and diverse commitments to society— many of which stand as exemplary models of CSR practice. At the same time, one will find companies that while operating within a legal framework, work counter to the tenets and principles that proponents define as good CSR. It is not uncommon to find both experiences within the same organization.

CSR continues to evolve and gain momentum as a business issue in the United States. While CSR has taken on increased importance for business, it remains considerably undeveloped both in concept and in practice. CSR activity remains relatively rudimentary, considerably fragmented and lacks coherent strategy that would align and integrate it into the business. Old forms of philanthropy and concepts of giving back to

the community largely dominate public and private conceptions of CSR, yet considerable pockets of innovation are emerging, bringing with it new leadership and conceptions of CSR.

This paper attempts to analyze and document the current state of CSR in the United States. In doing so it must be understood that CSR is in the midst of a major transition from old forms and models to a yet-agreed-upon concept and practice that would identify a universal set of characteristics, elements and operating processes and principles. This transitional status is a reflection of the turbulent waters that are battering current models of business and a process of globalization that is reshaping the very nature and purpose of the firm in relationship to public sector and civil sector roles and responsibilities across the globe. Because the forces surrounding CSR are in such an active stage of surfacing and colliding with existing concepts and practice, it should not be surprising that any attempt to capture this phenomenon and present a coherent picture will be both difficult and transitory during this time of change. Nevertheless there are some demonstrable characteristics of CSR in the United States that can be described. These characteristics point to the drivers and forces that are currently shaping CSR, while at the same time they begin to suggest pathways to the future and the next steps in this evolutionary process.

US businesses find themselves at the center of a debate over whether CSR will maintain a status as a largely “discretionary” feature of business practice, which involves certain behaviors and activities as part of the cost of doing business or whether CSR will more fundamentally influence the conditions and rules of the competitive global marketplace. At present, the evolving performance and attitudes of US businesses position them with the complex and sometimes confusing potential to play the role of both global leader and global laggard in social responsibility.

As perceived laggard, US companies often oppose efforts to:

- Engage in collaborative discussion about establishing new rules and standards for

¹ It should be noted at the outset that CSR is used interchangeably with other terms such as corporate citizenship, sustainable development and corporate responsibility.

business practice (e.g., “fair” wages for employees throughout the supply chain, climate change, policies to enable access to products and capital assets, etc.)

- Broaden accountability and transparency beyond shareholder financial considerations
- Account for and bear the costs of externalities

As a potential leader, US companies can contribute and build upon their experience to:

- Form public-private collaborations to address societal challenges
- Build intersections between compliance systems and strategy
- Use innovation to create breakthrough solutions to societal challenges

The rest of this paper explores the state of corporate citizenship in the United States. It begins by setting a context around the global expectations for CSR. It then provides further context around US historical traditions and influences that shape CSR today. From there the paper summarizes the traits that define CSR performance among US companies. It then

explores how external stakeholder groups are influencing US corporate behavior and concludes by summarizing the major challenges and opportunities that may shape CSR going forward.

II. Global Expectations for CSR

To understand CSR in the United States it is important to review global expectations for CSR compared to the historical relationship of the US private sector to society.

From a global perspective, the CSR field lacks a common understanding and definition of its principles and requirements. It even lacks a commonly accepted term that captures the roles, obligations and relationship of business to society as CSR competes with other monikers such as corporate citizenship, sustainability and corporate responsibility. Nevertheless, as the field of CSR matures, some common elements and characteristics have begun to emerge. Figure 1 offers a broad listing of the essential elements that define good CSR.



Generally, proponents encourage active governance and management systems that establish broad accountability to a range of stakeholders reinforced by transparency

regarding ethical performance. These in turn should be reinforced through formal operating systems and strategy that integrates CSR into core business practice and decision-making.

CSR then manifests through the efforts companies make to contribute positively to healthy and inclusive societies, environments and economies.

Taken together a set of six expectations rest at the core of responsible corporate social performance:

- Broadening accountability beyond shareholders to stakeholders that include communities, the environment, labor, customers, suppliers and government
- Establishing rules and standards for business practice that demonstrate accountability to the interests, needs and concerns of stakeholders (e.g., “fair” wages for employees throughout the supply chain, climate change, policies to

- enable access to products and capital assets, etc.)
- Formally committing to bear the costs of what economists term “externalities” (e.g., the costs of pollution)
- Forming public-private-community partnerships to address societal challenges
- Designing a business case for CSR that leads to the integration of CSR into strategy, decision-making and performance management systems
- Encouraging companies to seek innovative, breakthrough solutions to societal challenges

Figure 2 captures The Center for Corporate Citizenship at Boston College’s definition of CSR.

Figure 2

Definition of Corporate Social Responsibility

The Center for Corporate Citizenship at Boston College defines the essence of corporate citizenship as how a company delivers on its core values in a way that:

- * Minimizes harm
- * Maximizes benefit
- * Builds accountability and responsiveness to key stakeholders
- * Supports strong financial results

How do these expectations relate to the historical relationship of business to society in the United States?

III. Historical Perspectives of CSR in the United States

CSR in the United States cannot be understood outside the historical context that shaped and defined the emergent nation some 400 years ago. From the early years business was quite active in both shaping American society and in defining its roles and responsibilities. American history is replete with corporate involvement, from the leadership of the mercantile class in the American Revolution, to the creation of a welfare capitalist system that enabled the early industrialists to create total communities to

ensure their ability to compete with the industrial leaders of England. Other periods were to follow where the excesses of an unfettered model of capitalism led to national scandals such as the Teapot Dome scandal that tarred big business and laid the foundation for the love-hate relationship between business and the public that persists up to present day.

Business has always maintained a central role in American society. Economic interests have been critical in ensuring prosperity and the way of life as envisioned by the founding fathers and the constitution. To better understand the role of business in American society, four dominant characteristics have to be understood:

- ***The role of the individual***

Paramount to understanding any facet of American life is the central tenet of individual rights and freedoms. In reacting to the central powers of the European monarchies, Americans embodied a very different concept of society where every individual would be free to exercise their way of life within a much lighter and less intrusive form of government. This characteristic found its way into folklore and law and quickly became a definer—and differentiator—of American life.

The consequence for business has been profound. Individual storekeepers and shopkeepers were given broad latitude to succeed. The American dream continues to be based on an individual founding his or her own business and being set free to prosper within an environment involving minimal regulation and constraints.

- ***Small government***

Not surprisingly, given the primacy of the individual, government would take a minimalist model and laws ensured the space and protection that would allow business to flourish. Any attempt to impose regulation or compliance would be met with suspicion and passed only with great reluctance.

Individual charity became the safety net in place of government support.

The backbone of the American community support system was based on the strong Protestant Christian principles of giving to the community, lending a hand and community barn-raising, all of which fed off an informal duty laced with strong moral obligations to take care of fellow citizens in need. This would be the antidote to big government

- ***Economic liberalism***

Relative to other advanced democracies, the US economy has increasingly adopted the principles of economic liberalism. This encourages a mix of policies and rules of the road that:

- Encourage competition in part by limiting as much as possible the formation of

monopolies or oligopolistic “trusts” and promote free trade and open markets

- Create incentives and remove barriers in order to promote entrepreneurial activity and new business formation
- Limit as much as possible taxation on business and investors
- Establish the primacy of the rights of the owners and shareholders of the company over other stakeholder interests and create a set of policies and mechanisms to protect the rights of owners
- Allow for companies to possess the legal rights and considerations of individual persons
- To the extent politically feasible, establish pro-growth policies and supportive public investment in critical infrastructure that foster productive business climates
- Incentivize, reward and protect the creation of intellectual property

The result has created a model sometimes called “shareholder capitalism.” At the level of the firm, the United States has led the formation of the modern definition of the corporation and its management. This includes:

- Tight monitoring of managers to prevent opportunistic behavior that compromises the interests of shareholders
- Competitive strategy influenced by Michael Porter’s Five Forces which encourages competition through the value chain with other businesses, employees, suppliers, regulators and customers.²
- Placing a value on encouraging innovation and the process of, as termed by Schumpeter, “creative destruction”
- Increasing efforts to encourage “right to work” provisions that limit the influence of organized labor

- ***Citizenship***

The role of citizen became an important obligation for all of those who participated in this society. If you were to benefit from the relatively few strictures of this society, you had rights and responsibilities that were

² Ghosal, Sumantra. “Bad Management Theories are Destroying Good Management Practice.” *Academy of Management Learning and Education*. (2005, vol. 4, no.1) 75-91

incumbent upon you. Citizenship became an important element of society and you would be expected to carry out your citizenship as a member of this society

The very fabric of American business life became grafted upon these four characteristics to form a contradictory set of views and expectations for CSR in the United States.

Taken together these historical trends have had conflicting influences on CSR in the United States. On the one hand, the aftermath of the Great Economic Depression of the 1930s and the post-World War II recovery strengthened a vision of CSR that is focused on keeping the corporate house in order for the benefit of shareholders. This view is well articulated by Nobel economist Milton Friedman, who states, “Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as possible.”³

At the same time, expectations remain for those engaged in the economic sphere to contribute to society as a responsible citizen. In the early years this would manifest in a company’s contributions to the health and welfare of the towns in which it operated. In later years this would become defined as creating employment and paying taxes. More recently issues of environmental sustainability or fair wages and working conditions have emerged under this rubric of citizenship.

But key to all of this remains the belief and the practice that American business should be free to pursue its economic goals with minimal oversight and regulation from government. A General Motors CEO once put it most succinctly: “What is good for General Motors is good for America.”

As a consequence of these historical attributes, business and the US economy have thrived. Among advanced democracies, the US ranks along the top in GDP, productivity, business start-ups, long-term unemployment, university graduates, R&D expenditure, volunteerism and

charitable giving. Yet at the same time, among these peer nations, the US ranks along the bottom in rates of poverty, economic inequality, carbon-dioxide emissions, life expectancy, infant mortality, homicide and healthcare coverage.⁴

In light of these dichotomies private sector executives are beginning to embrace more expansive definitions of CSR than proposed by Friedman. While behavior lags behind these evolving attitudes, CSR is taking on complex forms that update the legacy of the distant past while maintaining the boundaries set by the strictures of American shareholder capitalism.

IV. Scope of Current US CSR Attitudes and Practice

Although no systematic study of CSR practice has been conducted, there are many indicators that more and more American executives are embracing CSR concepts and during the past decade have built a continuum of practice.

A recent survey of 1,189 executives from small, medium and large businesses finds that leaders of US companies see CSR as a central component of good business practice:

- 81% of executives indicate that CSR needs to be a priority for companies.
- 69% agree that the public has a right expect good corporate citizenship.
- And, 64% say that corporate citizenship makes a tangible contribution to the company bottom line.

The results of the survey, which appear to contradict the conventional view of executive attitudes, find that a majority believe business has multiple stakeholder commitments and should balance the interests of investors, employees, consumers, communities and the environment.

³ Ibidl, 79

⁴ Halstead, Ted, editor. *The Real State of the Union*. (New York: Basic Books, 2004.) 9.

Figure 3:		
Business' role in society: Two perspectives		
	<u>Public Steward</u> (667 respondents)	<u>House in Order</u> (413 respondents)
maximizing profits	X	X
managing financial reporting accurately	X	X
operating ethically	X	X
ensuring employee health and safety	X	X
providing employee benefits	X	X
providing jobs	X	
protecting the environment	X	
improving conditions in communities	X	
protecting consumers	X	
working with suppliers to ensure ethical operations	X	

Figure 3 shows that US private sector executives hold two perspectives about the role of their company in society. Slightly more than 6 out of 10 view businesses as societal stewards that integrate internal obligations to keep the company house in order with external obligations to do right by society. The remaining respondents take a more internal operational view that focuses primarily on fulfilling employee and shareholder obligations.

capture the dimensions of the continuum of practice and to act as an assessment tool for those companies trying to develop a strategy.

The survey findings reveal that the majority of executives do not dispute whether corporate citizenship is valuable. Rather, the differences among them concern perceptions of:

- The *scope* of the requirements for the relationship of business to society as a corporate citizen
- How companies perform as corporate citizens⁵

The Center for Corporate Citizenship at Boston College has been working with more than 1,000 leading America companies over the past 20 years and recently developed a framework called “The Stages of Corporate Citizenship” to both

⁵ Rochlin, Steven A and Stephen Jordan, editors. *The State of Corporate Citizenship in the US: Business Perspectives in 2005*. (The Center for Corporate Citizenship at Boston College and The Center for Corporate Citizenship at the US Chamber of Commerce. September 2005.)

Figure 4:



Stages of Corporate Citizenship

	I. Compliant	II. Engaged	III. Experienced	IV. Integrated	V. Transforming
Citizenship Concept	Jobs, Profits & Taxes	Philanthropy, HS&E	Stakeholder Orientation	Sustainability, Triple Bottom Line	Corporate DNA, Change the Game
Strategic Intent	Legal Compliance	License to Operate	Business case: Clear Benefits	Value Proposition: Deliver on Promise	Business Model: Market Creation
Leadership	Lip Service, Out of Touch	Supporter, In the Loop	Steward, On Top of It	Champion, In Front of It	Visionary, Ahead of the Pack
Structure	Marginal	Functional Ownership	Cross-Functional Coordination	Aligned across the Business	Driven by the Business
Internal Culture	Defensive	Reactive, Policies	Responsive, Programs	Responsible, Goals & Measures	Pro-active
Stakeholder Relationships	Unilateral	Inter-Active	Mutual Influence	Win-Win	Partnership
External Orientation	Flank Protection	Public Relations	Public Reporting, Transparency	Accountability	Assurance

The scope of CSR practice in the United States can be found along the five dimensions of the horizontal axis. This normative model moves from companies that demonstrate the bare minimum compliance with laws, regulations and public expectations. The next stage reflects companies that begin to design stand-alone programs that may range from community support to environmental management. The third stage represents building experience and incorporating expansive views of governance, stakeholder dialogue and a concept of CSR that integrates throughout business lines and staff functions. The fourth, strategic stage documents a level of sophistication whereby CSR drives strategic decision-making throughout the business. The final stage is more aspirational

and defines a business that transforms its mission to serve the long term interests of both shareholder and society alike.

The seven dimensions listed on the vertical axis determine the critical management elements that exemplify tangible organizational systems and processes to manage CSR.⁶

Although no large-scale study has been conducted to determine the percentage of companies at each stage, hundreds of citizenship practitioners from US based multinational

⁶ Mirvis, Philip and Bradley K. Googins *Stages of Corporate Citizenship: A Developmental Framework*. 2005 (Boston: The Center for Corporate Citizenship at Boston College, in review, 2005.)

companies have rated their company. Most find that their businesses are not at any single stage of citizenship: in some aspects their firms are integrated, in others innovative and in still others just getting started. However most companies overall are in a transition phase in which they are in the midst of either contemplating or moving from stage 2 to stage 3.

In practice, this paints a picture of CSR in the United States that looks incoherent: at times well-designed and conceived and other times neglected and discordant. While actual performance varies widely from company to company and industry to industry, The Center for Corporate Citizenship at Boston College finds some relatively consistent features that represent both the best and worst of US CSR performance.

- **Governance and shareholder accountability**

Until the scandals of the past few years, governance reform was a backburner issue and quite divorced from CSR. However in the wake of the accounting scandals of Enron and Worldcom among others, companies, shareholders and both federal and state governments have placed governance reform front and center. Eighty-four percent of US executives believe it is either critical or very important for companies to manage and report on company finances accurately.⁷ The scandals have served to increase the momentum for a series of policies and behaviors that were already gaining acceptance prior to the high profile scandals. As documented by Ghosal, these include:

- Expanding the number of independent directors on boards so they can effectively police management without conflict of interest
- Splitting the position of Chairmen and CEO to reduce the power of the CEO
- Creating “markets for corporate control, i.e. hostile takeovers so that raiders can get rid of wasteful managers”

⁷ Rochlin, Jordan. *Op. Cit.* (State of Corporate Citizenship, 2005.)

- Paying managers in stock options so they can relentlessly pursue the interests of stakeholders.⁸

At the organizational level, however, governance has not been well integrated into existing CSR operations. Governance reform—underscored by the Sarbanes-Oxley legislation—principally focuses on creating controls, transparency and reporting on financial management. While more and more activists call for broader reform that integrates stakeholder concerns, the reform proposals that gain traction provide very little attention toward social, environmental or economic concerns.

And only a few companies have been able to integrate governance into CSR. As with multinational corporations around the globe, more large US companies such as Ford Motor Company and Coca-Cola are creating board level committees to oversee the company’s social, environmental and economic performance.⁹ These companies, however, are the exception, not the norm.

- **Active involvement in public life**

Globally, US companies receive considerable negative attention for providing political contributions to elected officials and the perceived influence they have within the political process. At the same time, US companies also play an uncommon role as partner and advisor in a wide range of public issues and concerns. Companies are frequently encouraged to lend their voice to public discourse from issues ranging from the future of primary education to national security policy. Executives and managers advise public policy, support the delivery of critical services and public goods, solve community problems and participate in dialogue on major societal issues.

The experience of companies in an urban center such as Cleveland, Ohio is not uncommon.

⁸Ghosal, Sumantra. “Bad Management Theories are Destroying Good Management Practice.” *Academy of Management Learning and Education*. (2005, vol. 4, no.1,) 75-91.

⁹ David Grayson, Adrian Hodges. *Everybody’s Business: Managing Risks and Opportunities in to-day’s global society* (London: Dorling Kindersley, 2001.) 246

Business leaders from a variety of industries, representing both large and small businesses, shared a deep concern regarding the region's economic uncertainty. Corporate executives joined a leadership planning process that resulted in "Cleveland 2010," a community redevelopment initiative. Inspired by the effort, specific companies launched companion initiatives. For example, Key Bank created innovative new products and services to bring financial assets and independence to residents of under-served low-income communities within the Cleveland. A local energy utility plans to revitalize unused office space in distressed areas of the city.¹⁰

The issues in which companies take active involvement are varied. No single social issue enjoys a majority of support across the spectrum of business. However, seventy-five percent of US companies overall are actively involved in supporting or taking action in at least one societal issue area. In aggregate:

- Forty percent are actively involved in supporting community development
- Thirty-eight percent are actively involved in improving the safety and efficacy of products
- Thirty-six percent are actively involved in providing training for the incumbent workforce
- Thirty percent are actively involved in expanding access to affordable health care insurance
- Twenty-eight percent are actively involved in improving K-12 education.¹¹

Examples abound, from Pfizer's work to redevelop a distressed borough of New York, to the efforts of Honeywell and General Mills to reduce the rate of violent crime in Minneapolis, to IBM's efforts to "reinvent" the way education is delivered, to AMD's effort to build a local skilled high-tech workforce. The public and corporate shareholders alike both tolerate and often encourage businesses to take on a major role in public life. Whether or not it is in the best

interest of the public for business to perform these roles is infrequently debated.

- **Community engagement**

By most standards community engagement has been the hallmark of CSR practice in the United States. Traditional community relations, corporate foundation and corporate contributions and employee volunteering and engagement have all been tied to a community engagement strategy. Despite the conceptual reach of CSR across many issues and functions, it has been the community engagement staff that has served as the primary CSR lead.

The strength of community engagement is the envy of other countries without the traditions and customs that have led to a community focused CSR practice. Rough estimates by Giving USA place US corporate giving at \$12 billion a year. While this may represent less than 10 percent of total charitable giving in the United States, corporate giving performs an important role in that giving very often supports both general operating needs as well as specific programs for nonprofit service organizations. A notable example was the extraordinary support provided by the US private sector in response to the Asian Tsunami. The US Chamber of Commerce estimates contributions of \$565 million in cash, employee and customer matching grant programs, volunteer time and in-kind donations to support relief services. In contrast, a significant proportion of individual charitable giving tends to go to entities that provide some direct benefit such as religious and academic institutions.

Moreover, the estimation of \$12 billion in corporate giving is likely low. A study conducted by the Committee to Encourage Corporate Philanthropy and The Center for Corporate Citizenship at Boston College finds that a group comprised of only 71, albeit very large, US firms accounted for \$7.56 billion in 2004.

In 2003, 70 percent of executives from small, medium and large companies survey reported their company made at least some charitable grants to community and nonprofit organizations. Fifty-five percent possess at least some formal

¹⁰ Rochlin, Jordan, *Op. Cit.* (State of Corporate Citizenship, 2005.)

¹¹ Rochlin, Jordan. *Op. Cit.* (The State of Corporate Citizenship, 2005.)

programs to encourage employee volunteering. And 52 percent made donations of products and services.¹²

The resulting programs of numerous leadership companies can be the envy of aid institutions. Pfizer, for example, loans executives and scientists to help enhance the capabilities of HIV/AIDS organizations serving less developed countries. Capital One Financial supports a program to provide safe alternatives for at-risk youth in their headquarters site of Richmond.

Chevron-Texaco partners with USAID to support community development in Angola. Home Depot partners with the non-profit Hands-On network to catalyze volunteering and community service across the United States. The list goes on.

As related in Figure 5, IBM is a distinguished leader in community engagement.

US companies—while often criticized for resisting the call to build formal stakeholder accountability—demonstrate leadership relative to other businesses in engaging with local communities. Numerous businesses from utility TXU, to pharmaceutical giant Merck, to chemical manufacturers Dow and Arch form community advisory panels that influence local operational decisions. Retailers such as Target work with customers and towns to identify and support local needs.

The challenge for a community orientation, however, is to broaden the wider CSR world and serve a wider range of stakeholders. Most large companies are in the midst of making the transition from a narrow orientation to community engagement to the broader scope of CSR.

Figure 5

IBM's Involvement in Communities

IBM identifies as a core value “innovation that matters—for our company and for the world.” This value encourages IBM to embed corporate citizenship principles into research and development (R&D), product development and innovation. The upshot is a reinforcing system that promotes product innovation and good citizenship. For instance:

- The company will consistently seek opportunities to see if promising innovations may possess broader societal benefit as well as market opportunities. IBM developed a set of applications to offer the public broader access to art and culture including digitally restoring Michelangelo's Pieta. The effort resulted in patents used in tele-medicine. IBM further built off its developing data warehousing applications to determine if it might support better information management in schools. The effort led to its landmark Reinventing Education initiative.
- IBM also sees the potential to use its community engagements as beta sites to test promising new technologies before introducing them to the market. Its voice recognition technologies have been refined and improved through application with senior citizens, children and adults helping them to learn to read. And new grid technology is being first applied to humanitarian problems and then used in the commercial arena.

¹² Rochlin, Steven Kathleen Witter, Phil Mirvis and Stephen Jordan. *The State of Corporate Citizenship in the US: An Inside View* (The Center for Corporate Citizenship at Boston College with US Chamber of Commerce Center for Corporate Citizenship, 2003.)

- **Compliance**

While compliance—both to formal legal requirements as well as increasingly to the expectations of the “court of public opinion”—is deeply embedded into American society, it has been largely taken for granted within the CSR framework. Some would argue that compliance is a legal obligation, a given for any company and that CSR begins where legal compliance leaves off. Most large companies have compliance staffs, particularly in the areas of environment, ethics and governance. Recent developments have increased the role and importance of compliance, given the failures and scandals that have rocked American business.

Two aspects of compliance practices are worth noting. In many instances compliance and CSR co-exist without much interaction. For example ethics offices have little interaction or association with the company’s CSR activities. Consequently ethics and CSR are seen as different entities.

A few leading companies are spearheading efforts to redefine compliance as meeting the spirit and letter of the law. Definitions of the spirit of the law are vague and not well operationalized. Nevertheless it represents an attempt to better integrate the compliance function with the overall CSR strategy. Figure 6 describes the effort that is developing within GE.

Figure 6

GE, compliance and strategy

To be a great company, you have to be a good company first, GE CEO Jeffrey Immelt says. "The world's changed. Businesses today aren't admired. Size is not respected. There's a bigger gulf today between haves and have-nots than ever before," said Immelt. "It's up to us to use our platform to be a good citizen. Because not only is it a nice thing to do, it's a business imperative."

For GE this leads to two key strategies. The first is to be the world’s leading compliance company. This means, says Immelt, that GE will adopt the highest standards for dealing with governments and comply with those standards in all of its worldwide operations. It also means that GE will ensure and enforce employee compliance with internal codes of conduct, ethical principles and values. Doing so is key to GE’s effort to manage risk, build reputation and maintain relationships. “We’ve walked away from otherwise attractive deals because of a lack of transparency,” says Bob Corcoran, vice president of corporate citizenship for GE. “Our customers and governments know that when you deal with GE you never ever have to worry about how we got the job. As democracy and public voice grows around the world, having integrity can be a positive thing and positive selling aspect for GE.”

This is part of the dynamic of GE’s “Spirit and Letter” campaign, which has become a standard company practice. A company of more than 300,000 employees cannot expect perfect performance. Instead, if employees compromise core values, company leaders ask what employees should have known and, after discovering the mistake, whether the appropriate individuals took action. GE’s general counsel heads the process. Every year, all employees above the level of factory worker are obliged to sign their commitment to the company integrity policy. GE’s 500-person audit staff reviews integrity and compliance.

Moreover, every business conducts a process called “Session D,” the Compliance Process, in which the business unit, audit staff and CEO compare reviews of performance along the company’s integrity policy. Employees receive extensive training on compliance. As a result, the company walks away from a variety of financing deals, new business opportunities and potential sales that contradict the spirit and letter of its integrity policy. According to Bob Corcoran, the potential revenues sacrificed were more than made up for by the “ability to effectively manage risk to our reputation and our operations.”¹³

¹³ Rochlin, Steven A., Bradley K. Googins. *The Value Proposition for Corporate Citizenship* (Boston: The Center for Corporate Citizenship at Boston College, 2005). 2, 9, 11

This example illustrates a broader trend in US CSR in which companies utilize the constraints imposed by compliance demands around a specific issue or area of practice to spur broader strategic thinking and innovation.

Often times US companies are compelled to adopt a more strategic approach toward compliance. In certain instances, US companies have found themselves lagging behind and losing out to competitors that have reaped advantage by taking a strategic approach to an area considered within the compliance framework.

The most obvious example in recent years is quality. Once motivated by competitive pressures from Japanese exporters, American companies adopted quality principles with gusto. Product quality is now a non-negotiable facet of competitive strategy for US companies. In other arenas business leaders have learned over time to adjust to regulatory rules and turn compliance into competitive advantage.

In the past, US companies would often do the least amount possible in order to comply with laws and regulations around employee health and safety. Leading companies such as DuPont, Alcoa and GM have learned that safety is both an ethical imperative and competitive advantage. Healthy and safe employees are more productive employees.

Slowly yet steadily, US companies have taken the same approach with:

- **Environmental management.** Major producers find that good environmental management reduces waste and inefficiency, thereby controlling costs. Industrial giant 3M has generated millions in savings from its innovative “Pollution Prevention Pays” initiative.
- **Diversity.** For companies such as IBM and Xerox the promotion of gender, racial and ethnic diversity as critical to the long term success of their businesses
- **Work-life balance.** The US labor force leads the world in number of hours worked per week. Companies such as software maker SAS increasingly prioritize policies that encourage employees to balance work and non-work time.

US companies show talent at moving perceived compliance liabilities to strategic opportunities. Despite this experience, US companies are often slow to identify the upside of compliance. US companies remain conflicted over greenhouse gas emissions. Companies are increasingly calling to change policy to limit obligations to support employee healthcare and retirement benefits. Corporate lobbyists actively work to roll back regulation and influence monitoring and enforcement. Recent reports of questionable food safety and undue influence over drug approvals have raised serious concerns about corporate influence regarding compliance standard setting.

In this regard, US companies actively resist the idea that CSR should be formally mandated. Eighty percent of executives agree that CSR should be completely voluntary—no laws/regulations should govern it.¹⁴

- **Human resource management**

Executives from large US companies cite particular importance utilizing socially responsible practices to support employee needs, interests and development. Figure 7 shows that executives view providing benefits and jobs as core elements of good CSR. And behaving responsibly is viewed as supporting employee recruitment, retention and satisfaction.

¹⁴ Rochlin, Jordan. *Op. Cit.* (State of Corporate Citizenship, 2005.)

Figure 7

**Inside large US companies:
Attitudes of executives regarding employees**

- 94% cite ensuring employee health and safety as important to the role of the company in society
- 78% cite providing employee benefits as important to the role of the company in society
- 75% cite providing jobs as important to the role of the company in society
- 73% cite building employee diversity within your business as important to the role of the company in society
- 58% indicate their company is actively involved in providing training for the incumbent workforce
- 55% find citizenship helps recruit and retain employees
- 51% have witnessed increased employee satisfaction due to the company's corporate citizenship efforts
- 47% cite supporting employee volunteerism as important to the role of the company in society
- 44% provide training and development opportunities for lower-wage employees

Nevertheless, CSR in the United States has been largely an outside-in model, focused on contributing to the community, addressing environmental issues and addressing supply chain issues outside the country. The employee as a key stakeholder has received a great deal of rhetorical support, but has not been well integrated into the CSR model—in concept or in practice.

As the primacy of the shareholder capitalism model has grown, employees as stakeholders have taken a backseat to shareholders. The implicit promise of long term employment has been supplanted by the financial demands to utilize workforce reductions as tool to manage investor expectations to keep costs low.

While other countries work to build opportunities for productive dialogue between organized labor and management, companies in US often pursue more adversarial relationships. For example, companies such as Wal-Mart deploy extensive resources to ensure that unions do not secure a foothold inside the corporate walls.

Human resource departments have been largely segregated from CSR efforts despite what would appear to be natural alliances.

Where critical CSR issues such as diversity and work life have become quite well developed, they have done so outside the pale of CSR. Organizational silos have not served either well and these issues have been cordoned off into benefits rather than linked to the businesses' core values that underlie CSR.

- **Human rights**

The issue of human rights has been primarily encased in global practice, particularly in the supply chains of American companies. Even though companies have been reluctant to embrace the more formal mechanisms such as the United Nation's Global Compact, NGOs and activist groups have been very successful in confronting business practices overseas or along the supply chain that have not lived up to the basic human rights principles. Nike with its supply chain and the oil company Unocal with its operations in Burma are good examples. Forty-seven percent of executives from companies of all sizes (and 64 percent of executives from large companies) believe it is very important for companies to working with suppliers/ vendors to ensure they operate ethically.¹⁵

¹⁵ Rochlin, Jordan. *Op. Cit.* (State of Corporate Citizenship, 2005)

Large companies in particular are following the calls of those in Europe to establish standards of conduct and enforcement for human rights in the supply chain. A consortium of high-tech companies such as IBM, HP, Dell, Intel and others have agreed to a common set of principles and monitoring mechanisms. Retailers such as Levi Strauss & Co., Nike, Timberland, Eileen Fisher and others have worked to establish and enforce codes of conduct as well. Extractive industry companies from the US such as Unocal have worked with governments to establish principles of human rights and security in conflict zones.

Nevertheless, US companies have not generally been in the forefront of global leadership on the issue. Most have been satisfied to let economic principles drive operating decisions and have relied on local law and enforcement—whether demonstrating teeth or not—to bear the responsibility of upholding human rights.

- **Environmental stewardship**

The environment is probably the most well developed component of CSR in the United States. In part strong consumer and NGO activity has led to both strong legislation and compliance in this area. Standards are relatively well developed and enforcement is equally strong. Many of the industry groups such as the chemical companies have also developed industry wide efforts such as its “Responsible Care” initiative.

- **Organizational effectiveness and performance**

Organizational efforts to develop effective CSR and link it to business performance lags far behind the aspirations of most companies. In many ways the CSR movement is following that of the quality movement whereas the basic processes, tools and frameworks developed over time become essential to the core business strategy. As CSR has become more critical to business, the movement toward organizational effectiveness and performance has quickened. The involvement in CSR by the large professional consulting firms such as Abt, Booz Allen Hamilton, KPMG and

PriceWaterhouseCoopers is one indicator of this development.

Many companies are involved in formal and informal programs to address these issues. Many corporate teams are engaged in developing strategy and in building new teams. At the same time promising new models, frameworks and tools are emerging from research and development efforts.¹⁶

Large companies are increasingly creating formal systems and management practices to support CSR. 3M provides training to executives and middle managers on operating with values. Companies like Timberland and IBM are working to build what IBM CEO Sam Palmisano terms a “values based operating system.” Companies with strong social missions such as Aveda, Tom’s of Maine, Green Mountain Coffee Roasters and Seventh Generation build CSR into the core operating system and expect all managers to perform against high expectations. Led by IBM, such US companies as GE, 3M, FedEx, Cargill, Manpower and GM are collaborating with Japanese, European and Latin American companies Omron, Diageo and Cemex to form the Global Leadership Network on Corporate Citizenship. The Network’s purpose is to define and encourage the alignment of CSR with core business strategy.

Figure 8 provides an idea of the progress large US companies are making in building formal CSR systems.

¹⁶ see *Value Proposition for Corporate Citizenship and Integration: Critical Like for Corporate Citizenship: Strategies and real cases from 8 companies*

Figure 8	
Adoption of formal CSR systems in large US companies¹⁷	
<p>What companies currently possess The company includes CSR responsibilities in the following:</p> <ul style="list-style-type: none"> • Reputation management (87%) • Responsibility to improve corporate citizenship with the company is shared by many people (67%) • Employee communications (64%) • Public relations (58%) • Annual plans (56%) • Vision or mission statement (54%) 	<p>What companies could leverage better The company includes CSR responsibilities in the following:</p> <ul style="list-style-type: none"> • Strategic plan (41%) • Work unit goals (36%) • Corporate website (33%) • A report about the company’s social, environmental performance (24%) • Manager performance appraisals (18%)

Extrapolating from the data above, the transition of many US multinational companies toward a more strategic CSR is very much in process. Many of the largest US-based multinationals are actively contemplating and developing a strategic approach to CSR. However, few guidelines, frameworks or tools have been developed to guide their process, although a few companies are providing some leadership in this area.¹⁷

The companies on the leading edge of developing CSR strategy¹⁸ are pioneers in a largely unexplored and undeveloped landscape. Organizational efforts are underway in these leading companies to pull together what are generally disparate organizational functions, departments and individuals, all of whom are related to some piece of CSR. The emergence of CSR cross-functional teams is a response to this organizational fragmentation and is becoming commonplace in many large multinationals. In these early stages, the attempt to develop a strategic approach to CSR is met by challenges around integrating, aligning and institutionalizing CSR into a cohesive organizational strategy. Consequently the US CSR landscape reveals a very active and exciting R&D phase in which innovative strategic frameworks are being developed,

although generally in isolation from one another. One thing seems clear: what has passed for CSR during the past decade will have little resemblance to CSR in the decade ahead.

V. External CSR Engagement

Parties and interests external to the firm have to this point exerted significant influence over the evolution and adoption of global CSR practices. In the United States, such external institutions and stakeholder groups possess unique characteristics that have and will affect the course of CSR.

These external institutions constitute an important part of the CSR picture in the United States, but in most cases do not resemble what might be found in other parts of the world. Their attitudes toward CSR and the role they do—or do not—perform are critical to understanding the ways in which US CSR differs from the rest of the world.

¹⁷Manga, Julie, Phil Mirvis, Steven Rochlin, Kristen Zechhi. *Integration: Critical Link for Corporate Citizenship: Strategies and real cases from 8 companies.* (Boston: Boston College Center for Corporate Citizenship, 2005)

¹⁸ For case examples see *Integration: Critical link for Corporate Citizenship* pp 47-61

- **Government**

For the most part government is relatively quiet on the CSR front. Compared with most countries across the globe, US government involvement is minimal. The anti-regulatory climate and strong business lobby ensure more of a hands-off stance by government. CSR is not generally part of the government vernacular, nor is it built into legislative processes for the most part.

There are, of course, some notable exceptions. Sarbanes-Oxley is the latest effort to result from policy and mechanisms to protect shareholder interests since the creation of the Securities and Exchange Commission more than 70 years ago. Compliance is also quite pronounced in the environmental arena, with relatively strict enforcement through the 35-year-old Environmental Protection Agency. In the financial arena, the Community Reinvestment Act has been in place for over 25 years, requiring financial institutions to invest in economically depressed communities. This stands out as a unique government intervention in mandating business involvement in the CSR arena.

However, the appetite for both firm regulation and accompanying enforcement has followed a pattern of peaks and valleys. Since the 1980s the trend has turned markedly toward deregulation with diminished commitments for enforcement.

In its stead, recent Administrations have become more interested in encouraging CSR through awards for good corporate stewardship and promotion of global human rights administered through the Departments of Commerce and State, respectively. During the last 10 years government agencies have also engaged in pilot tests and experiments to find alternative approaches to encourage responsible practices. For example, regulation such as the Toxic Release Inventory (TRI) has experimented with the tool of transparency to in effect outsource regulation and enforcement to the proverbial court of public opinion. The TRI enables communities to identify which companies store and use hazardous chemicals.

Other initiatives have applied economic theories such as tradable permits to encourage companies to minimize harmful externalities.

And government agencies have performed the role of facilitator working to broker agreements between companies and activities. Government agencies performed such a role in reaching land use agreements for logging interests, cattle ranchers, sport hunters and environmentalists in the American Northwest.

One will find more activity, albeit highly idiosyncratic, among state governments in the United States. State legislatures have proposed a variety of pieces of legislation that require public agencies to purchase from “responsible companies.” Some have advanced to the level of the WTO dispute settlement process. State governments may also require certain industries such as health systems and regulated utilities to demonstrate support for local communities.

Overall, the influence of public sector institutions tracks the inconsistent CSR performance of US companies. In some arenas government dedicates extensive resources. In others one will find exciting innovations. And yet in others there is complete neglect of the issue. Relative to many countries, government in the United States is as much a partner with business in addressing issues as it is an adversary or referee.

- **Representative business organizations**

There are many business associations and industry groups that, for the most part, are lobbying organizations located in Washington and in state capitals. Virtually all sectors have these associations and they play a very critical role in the legislative process, but most have been quite uninvolved in CSR. A few of the larger ones, however, have developed some initiatives in CSR. The US Chamber of Commerce has performed an active role in engaging business leaders in local community and economic development. More recently the national Chamber has established a Center on Corporate Citizenship which focuses on

public-private partnerships. The Conference Board, a broad business coalition has a number of roundtables that bring together business leaders as affinity groups around issues such as philanthropy, environmental sustainability and work-life balance. The National Association of Manufactures has program initiatives in workforce development. The American Chemistry Council, the chemical manufacturers' industry association, requires that members conduct an audit of their processes to ensure sustainable environment, health and safety practices.

Associations tend to mirror individual corporate members in that many become involved in contributing leadership and solutions to a major societal challenge. However, associations are typically conservative and work to limit the obligations placed on their members to perform an active role in society.

- **Consumer organizations**

There are no substantial leadership consumer organizations or movements tied to CSR in the United States. Most of the consumer groups are focused on single issues such as product safety, product quality, responsible advertising, pricing and consumer health and welfare among others. But unlike the consumer movements found in countries such as Brazil or Canada, those in the US have not been engaged in the CSR agenda to any great extent. Specific interest groups will band together to use their purchasing power to influence corporate behavior or broader public policy. For example, college students have launched and supported boycotts around specific goods and products, often related to human rights, child labor and workplace conditions along the supply chain.

- **NGOs**

The NGO world presents a considerably more complex picture. Because of such a strong philanthropy tradition in the US many of the NGOs are focused on raising funds and delivering services. So, for example, Save the Children USA would look quite different

from Save the Children in Europe in that it would be more associated with collecting revenue to support their mission. It should also be noted that U.S businesses are noticeably absent from joining in on multinational initiatives such as the United Nations' Global Compact. This reflects the growing isolation by the US on a variety of multi-lateral initiatives.

The environmental NGOs, on the other hand, have been considerably more involved with companies in both negotiating legislation and in launching collaborative initiatives. Organizations such as The Nature Conservancy, Environmental Defense and The Rainforest Alliance, to name a few, have been quite active with corporations on the issues of the environment.

On a local level there are numerous examples in the area of economic development where industries and neighborhood community development groups have created great value to both through win-win economic development initiatives.¹⁹

There is evidence that NGO involvement is changing from a more traditional nonprofit fundraising operations to becoming more active in the pushing the social agenda and in developing partnership around major social issues both in the United States and around the globe. More recently other NGOs such as Oxfam America on fair trade coffee and CARE regarding genetically modified food, have taken more of an advocate's position in creating dialogue and collaborations with businesses.

- **Organized labor**

Organized labor continues on a downward trend in the United States. Companies have been successful in securing "right to work" status in many of their production locations. Globalization, outsourcing and downsizing have provided extensive bargaining leverage.

¹⁹ Rochlin, Steven and Janet Boguslaw. *Business and Community Development: Aligning Corporate Performance with Community Economic Development to Achieve Win-Win Impacts*. (Boston: The Center for Corporate Citizenship at Boston College, 2002).

And organized labor's own management difficulties and strategies have contributed to increasing disinterest among its potential and existing membership.

While organized labor remains a political force, its influence over CSR in the United States has been on the decline. Unions in the United States have not been an active voice for advocating CSR as a movement; rather they tend to engage along specific issues of concern.

- **Inclusion of small and medium enterprises (SME)**

Small and medium enterprises remain somewhat below the radar screen on CSR. Because the size, visibility and clout of the Fortune 500 in the U.S is so great, SMEs tend to be somewhat overlooked. Much of the frameworks, tools and case examples are from large companies, with the untested assumptions that large companies will lead the way and their innovation will spill over into SMEs.

Recent research indicates that SMEs share similar attitudes as large companies toward the importance for business to perform and active and positive role in society. In addition, SMEs engage in support communities and social causes at comparable rates to large companies.²⁰ A few organizations have been created such as the Initiative for a Competitive Inner-City to focus in part on encouraging the development and growth of SMEs in poor communities located in the urban core.

Taken together, these external groups help give rise to the dichotomous CSR performance described earlier. These groups play conflicting roles. Some push the adoption of CSR practices. Some focus on narrow bands of interests to the exclusion of broader CSR considerations. And others encourage companies to resist CSR altogether.

On the one hand, in this environment US firms possess the opportunity to innovate and build an approach to CSR that aligns with core business strategy—progressing toward a the development of a truly responsible business model. In this context US companies demonstrate the potential to excel in:

- Working in partnership with government, NGOs, associations and communities to address collectively social causes and societal challenges
- Finding opportunities to, over time, embrace compliance systems and utilize them as a catalyst to inspire more creative strategy and innovation
- And to apply business and economic principles to society's most difficult problems and innovating breakthrough solutions

On the other hand, businesses are buffeted by conflicting expectations from external institutions and stakeholder groups. This creates an ever shifting landscape. The most unconsciously creative can take advantage to find the seams and largely avoid or resist any of the deeper obligations defined by proponents of global CSR. The less savvy become enormously frustrated by there perceptions of a never ending set of demands accompanied by an ever changing set of rules.

In this context, US companies often resist:

- Attempts to engage in collaborative discussion on establishing new rules and standards for business practice (e.g., “fair” wages for employees throughout the supply chain, climate change, policies to enable access to products and capital assets, etc.)
- Calls for broader accountability and transparency beyond shareholder financial considerations
- Demands to account for and bear the costs of externalities

As a result it is difficult to predict how CSR will develop and progress in the United States.

²⁰ see Rochlin, Witter, Mirvis, Jordan. *Op. Cit. (State of Corporate Citizenship, 2003)*

VI. Challenges and Future Opportunities

The State of CSR in the United States is in a very fertile and expansionist period of its development. The past few years have seen the issues of CSR more prominently positioned within the public and within corporations. At the same time the transition to a more effective CSR and the ability to define and achieve excellence remains in very early and rudimentary stages. There are many challenges and great opportunities in the United States for CSR. Below are seven that seem most germane to the future:

1. Create a new value proposition and open up opportunities for CSR

In order for US companies to successfully move through this transition to a CSR for the 21st century it will be essential to articulate and implement a new value proposition that speaks to the value that CSR brings to business and society. The traditional case for CSR remains too undeveloped and does not speak to CSR as a business essential. Leading companies have begun to develop a more robust value proposition that positions CSR as a means of reducing risk and harm to the business and society and at the same time opens up new opportunities for the business and society.²¹

2. Move from a philanthropy focused CSR to a strategic CSR

Corporate philanthropy has traditionally carried the notion of CSR in the United States and has served as a hindrance to a more effective and strategic CSR. Companies need to find a new place for philanthropy within their CSR framework, not just as strategic, but integrated into the overall CSR strategy.

3. Link CSR to public policy

Corporations today are faced with a range of social issues that have great impact on their business as risk and opportunity. Globalization and the evolution of the company in today's world have brought tremendous power and influence to

business. The boundaries between business and public policy continue to overlap and business will have to become more comfortable and skilled in carving out an appropriate role in participating in the public policy arena. Both business and society will gain from this new role.

4. Develop CSR leadership

Currently, there is too little leadership around CSR within the corporation and the CSR field. The voice for CSR is rather muted and the vision of what CSR is and its value to business and society is poorly developed and communicated. CSR needs a more public face and leaders are essential for ensuring that the power of CSR for both business and society is better understood. _

5. Strengthen CSR intermediaries

For a country as large as the United States with the size and scope of its business sector, it is amazing that the institutions and intermediaries that focus on CSR are so few. While CSR has grown considerably over the past decade, CSR institutions have not. Compared with other parts of the globe, the CSR field is considerably undersized. If business is to transition to a more essential CSR it will need these institutions to assist them in this transition, both those that focus on working with business from within and those NGOs that are essential for driving change from the outside. New partnerships between business and these organizations are also essential to ensure growth and development as well as capacity building.

6. Strengthen the CSR strategic infrastructure of companies

A great deal more work needs to be done in providing useful tools, frameworks, models and capacity building for companies attempting to make a transition to a more strategic CSR. Currently research is in early stages and even though there have been some useful framing done, much work remains in building out the strategic model of CSR. Considerable work needs to be done on all levels, including more research into the integration, alignment and

²¹ Rochlin, Googins. Op. Cit. (*Value Proposition*)

institutionalization of CSR, including capturing benchmarking data, measurement and evaluation outcomes and capacity building for staff and organization.

7. Establish global CSR

For most US-based multinationals, going global in CSR marks a significant challenge. The future growth of most business both in terms of markets and employees lies outside the US. However the CSR function has been slow to globalize. Reflecting somewhat the parochial nature of American society, most CSR is deeply rooted in local and national settings. From both a risk and an opportunity perspective, the CSR function has to broaden its frame of operations, create a greater presence and develop a fundamental understanding of the complexities and challenges of establishing a global CSR.

The context and performance of US companies is complex, inconsistent and contradictory. That said, evidence exists that CSR in the United States is in the midst of a significant transition to a more strategic and global approach. While influenced by developments across the globe, CSR in the United States has been slow to evolve and will continue to develop in the context of U.S. political, social and economic forces and traditions. A great deal of innovation is occurring within individual companies, nevertheless there has yet to emerge significant frameworks and models that will drive a more strategic CSR.

Whatever course businesses take, the presence of CSR has established a foothold in the United States. It is now up to the global community to productively engage with the business leaders of the world's largest economy to craft a definition of CSR that brings out the best of what US business has to offer and the global community needs.

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VII. Summary

Corporations in the United States are not the laggards often portrayed by proponents of global CSR. Nor are they leaders.

From the available data buttressed through observation, in the United States it is reasonable to conclude that:

- CSR practice is widespread. It would be an extremely rare company that did not have some CSR activity
- CSR practice is considerably variable, with no model having emerged that constitutes the gold standard
- Most companies are in a transitional phase and engaged in an up tempo learning mode
- Pockets of innovation are opening up new ways of practicing citizenship
- Attempts to understand and implement global CSR practice are at a very early and largely undeveloped stages²²

Prepared By

Center for Corporate Citizenship at Boston College
55 Lee Road Chestnut Hill, MA 02467 USA

Tel: (1) 617-522-4545

Email: ccc@bc.edu

www.bc.edu/corporatecitizenship

FOR THE ASIA-PACIFIC ECONOMIC COOPERATION SECRETARIAT

35 Heng Mui Keng Terrace Singapore 119616

Tel: (65) 6775-6012 Fax: (65) 6775-6013

Email: info@apec.org

Website: www.apec.org

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²² Blowfield, Michael. *Going Global: Managers' experiences working with worldwide stakeholder*. (Boston: The Center for Corporate Citizenship at Boston College, 2005.)