

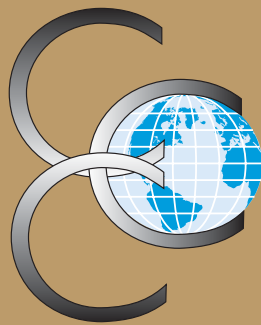


The State of Corporate Citizenship in the U.S.

Business Perspectives in 2005



THE CENTER
FOR CORPORATE
CITIZENSHIP
AT BOSTON COLLEGE



United States Chamber of Commerce
Center for Corporate Citizenship

Produced in cooperation with:



survey methodology

Survey Methodology

The State of Corporate Citizenship in the U.S.: Business Perspectives in 2005 utilized the following methodology:

- An invitation to complete the survey was sent by the U.S. Chamber of Commerce to a random sample of its members. Respondents could complete the survey either online or via mail. Follow-up was conducted via telephone. An incentive to receive one of 15 \$100 gift certificates, awarded by random selection, was also offered to participants.
- The sample was intended to closely mirror the U.S. population of small, medium-sized, and large businesses. The U.S. Chamber of Commerce's membership provides a close approximation of the actual composition of U.S. businesses. The project over-sampled large businesses in order to produce a significant number of responses for separate analysis. This sample was supplemented by the members of The Center for Corporate Citizenship at Boston College, which skews toward large businesses. For more information on the sample and a comparison with the U.S. business population, see boxes on pages 12 and 13 and Appendix A on page 47.
- The survey utilized 27 multi-part questions and was administered between February and April 2005.
- Surveys were completed by 1,189 respondents. The response rate was approximately 5%, with a margin of error of +/- 3%.
- The following individuals completed surveys: chief executives/directors/owners (approximately 70%), vice presidents (11%), and managers/administrators (14%). Five percent of the sample did not provide their titles.

The 2005 report incorporates vignettes and quotes from respondents who have completed the survey. This information was obtained after data collection was complete and does not reveal any confidential information from these participants' survey results.

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foreword

Foreword

For 35 years, Milton Friedman, the elder statesman of “Chicago School” economics, has argued that social initiatives are “fundamentally subversive” because they undermine the profit-seeking purpose of public companies. But most business leaders have charted a different course than Friedman would advise, and few would consider their approach subversive.

The attitudes and actions of businesses — regardless of size, sector, or region — show that businesses play a wide-ranging role in our society. According to the 2005 State of Corporate Citizenship survey, most are motivated to be good corporate citizens by both their values and bottom-line results. Many see that businesses generally, and their company specifically, should help strengthen communities because the health of society and business are inextricably linked.

For a large and growing share of business executives, the question isn’t whether they should adopt a robust approach to their corporate citizenship responsibilities. They’ve already answered with a resounding “yes.” They believe it is not just appropriate, but it merits their commitments of time, attention, and budget. For them, the question has already shifted from *if* they should to *how* they can formulate and implement appropriate corporate citizenship practices.

This second in an ongoing series of surveys brings into sharper focus a more comprehensive picture of the state of corporate citizenship in the United States. A first-rate project team conducted the survey. The Center for Corporate Citizenship at Boston College brings academic rigor to this research. In addition, The U.S. Chamber of Commerce’s Center for Corporate Citizenship — an affiliate of the world’s largest business federation — promotes the practice of corporate citizenship. And the Hitachi Foundation has had an enduring interest in the role of business in society throughout our 20-year history.

This survey is unique in including the voices of small and medium-sized businesses, as well as their larger counterparts. It directly captures motivations, challenges, priorities, and practices from a full range of business leaders. It is also unique in assaying how businesses help address the needs of low-income people. And it is a benchmark for gauging how attitudes evolve and practices progress over time.

The new survey offers information in the context of four trends influencing the business environment:

- **Economic and business recovery:** The 2003 survey was collected during the recovery from a mild national recession. In 2005, almost half of executives reported that their company's financial performance was above average over the last year. Only 21% cited below-average financial performance.
- **Responding to corporate abuse and fraud:** In 2003, regulatory enforcement and legal actions alleging business malfeasance and fraud seemed constantly in the news. The 2005 survey reflects heightened attention to this. Over four-fifths of respondents see managing and reporting company finances accurately as critical or very important. And a fifth reformed their accounting systems within the last two years.
- **Growing globalization:** Every business is now facing or will soon face the complex challenges of global integration. Globalization may soon overshadow today's business tenets. But contrary to expectations, the 2005 data did not reveal great differences between the corporate social responsibility attitudes and actions of U.S.-focused firms and those more oriented to the global marketplace.
- **Investing in low-income communities:** Half of all businesses are involved in some way toward improving conditions in economically distressed communities. For example, more companies are hiring from low-income communities. The 24% of business in 2005 is almost double the 2003 rate, and holds true across all sizes of businesses. Finally, most business leaders are maintaining or increasing their financial and other commitments to these areas.

Many of the 2005 findings reinforce the 2003 results. Others provide new perspectives. The overall project is aimed at sparking a better, deeper dialogue about the role of business in society. As we continue and refine our benchmarking series, we also hope to influence attitudes and practices, leading to greater congruence between social and economic prosperity.



Barbara Dyer
President and CEO
The Hitachi Foundation

key highlights

Key Highlights

The State of Corporate Citizenship in the U.S.: Business Perspectives in 2005 marks the second biennial survey of the attitudes, commitments, and experiences of executives in small, medium-sized, and large businesses toward corporate citizenship.

The first survey, conducted in 2003, found that executives see corporate citizenship as a fundamental part of business practice. In 2005, the responses of the 1,189 executives surveyed from small, medium-sized, and large companies issued the same verdict.

Executives tend to define a broad array of corporate citizenship attitudes and practices that include serving the interests of shareholders, employees, the environment, customers, and communities. The data in the 2005 survey show that companies are actively involved in public life, participating in a wide range of social issues. However, the data also suggests actions tend to lag behind expressed attitudes.

Key highlights from the 2005 survey include:

1) Executives see corporate citizenship as a central component of good business practice.

Consistent with the findings from 2003, executives define corporate citizenship as a business essential.

- Eighty-one percent of executives indicate that corporate citizenship needs to be a priority for companies
- Sixty-nine percent agree that the public has a right to expect good corporate citizenship
- And sixty-four percent say that corporate citizenship makes a tangible contribution to the company bottom line. Among large company executives, 84% see tangible bottom-line benefits

The majority of executives do not dispute whether corporate citizenship is valuable. Rather, the differences among them are in perceptions of:

- The scope of the requirements for businesses' relationship to society as a corporate citizen, and
- How companies perform as corporate citizens.

2) A majority of U.S. business executives believe business has multiple “stakeholder” commitments, and should balance the interests of investors, employees, consumers, communities, and the environment.

Executives hold two perspectives on their companies' roles 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.

3) Internal considerations motivate companies to adopt corporate citizenship.

Consistent with the findings of 2003, few executives report external pressures from government, laws, or communities as driving their companies to adopt corporate citizenship. Instead, business considerations serve as the principal driver. Seventy-three percent of executives say upholding business traditions and values motivates or drives their company's efforts to be a good corporate citizen. Over half (56%) cite improved reputation and image as a key driver. And 44% say corporate citizenship is part of business strategy.

4) A lack of resources limit companies' efforts to become better corporate citizens.

Also consistent with 2003, few executives report active skepticism or resistance to corporate citizenship. Approximately 1 in 10 cites a lack of support for corporate citizenship from either top management (10%), middle management (8%), or employees (16%). Only 13% indicate that corporate citizenship is of no significant benefit to the business.

Instead, 54% of executives report that a lack of resources limits their company's efforts to become better corporate citizens.

5) Companies are actively involved in public life.

The majority of businesses are actively involved in initiatives and behaviors related to corporate citizenship. This suggests that, increasingly, the question is not *whether* companies have roles and obligations as citizens, but *how* companies should engage with society.

Nearly all large companies surveyed (98%), and 75% of companies overall, are actively involved in supporting or taking action in at least one societal issue area.

The issues in which companies take active involvement are idiosyncratic. No single social issue enjoys a majority of support across the spectrum of business. 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

6) Attitudes outpace behaviors.

Findings suggest that executives are committed to corporate citizenship more through word than through deed. While the majority of respondents agree that it is very important for companies to be involved in environmental and community issues and to influence ethical practices throughout the supply chain, less than half report extensive involvement in supporting or addressing related social issues around climate change, education, healthcare, and responsible sourcing.

And, while the majority of executives see corporate citizenship as a business essential that brings tangible value to the bottom line, just over half identify that limited resources prevent companies from improving citizenship efforts.

7) One in 2 businesses report active involvement in economically distressed communities.

Over half of all businesses (51%) report that they are involved in a significant or very significant way in economically distressed communities. Large companies are the most involved, with 70% participating in one form or another. Sixty-two percent of medium-sized business and 47% of small businesses also report significant or very significant involvement. Almost one-third (31%) of businesses provide training and development opportunities for lower-wage employees. And more companies are hiring from low-income communities in 2005 (24%) than in 2003 (12%).

8) Company investments in corporate citizenship remained stable.

Company investments in corporate citizenship remained stable during the resurgent economy. Consistent with 2003, 3 in 10 respondents report their companies increased investment in corporate citizenship efforts over the past 12 months, while 65% have maintained current budgets. This trend has endured in both difficult economic times (2003 with 56% maintaining budgets and 30% increasing citizenship budgets) and in the current improved economic and financial climate.

Forty-six percent report their companies' financial performance improved over the last 12 months, compared to 31% of executives in 2003. In 2005, 21% report poor to below-average financial performance, compared to 32% in 2003.

Of those companies that report improved financial performance over the last 12 months, 41% increased their investment in corporate citizenship. In contrast, only 1 in 10 companies that reported no increase in financial performance reduced their investment in corporate citizenship. And nearly 2 in 10 increased their investment despite the lack of improved financial performance.

9) Executives give companies mixed reviews as corporate citizens.

Half of respondents rate their company's performance as a corporate citizen as average. Three times more companies (38%) rate their corporate citizenship as above average/excellent than below average/poor (12%).

Ninety-two percent believe that many companies do a great deal more for their communities than is talked about or known. However, nearly half (47%) agree that "many companies promote corporate citizenship, but are not truly committed to it."

10) Large companies are more likely to have an expansive definition of their roles and obligations in society, and are more likely to be involved in a wide range of social and environmental issues.

Just as in 2003 there are broad areas of agreement between small, medium-sized, and large company business executives. Executives from small and medium-sized companies tend to share similar attitudes and engage in similar activities as executives from large companies. However, the 2005 survey finds differences among the intensity of attitudes among small, medium-sized, and large companies, as well as notable differences in involvement in issues.

- While a majority of respondents across the spectrum concur, executives from large companies are more likely to see corporate citizenship as contributing to the bottom line (84% large, 65% medium-sized, 61% small).
- Sixty-four percent of executives from large companies indicate that corporate citizenship is part of the company's business strategy, compared to 45% for medium-sized, and 41% for small. Large companies were more likely to have increased investment in corporate citizenship activities in the last two years (68% large, 40% medium-sized, 21% small). And they are more likely to be involved in a wide range of social and environmental issues.
- Large companies appear more motivated and influenced by their relationships with stakeholders, including employees (55% large, 34% medium-sized, 25% small), customers/consumers (53% large, 36% medium-sized, 33% small), and communities (50% large, 24% medium-sized, 20% small).

Executives from large companies seem especially focused on human capital issues such as expanding workplace diversity (60% large, 33% medium-sized, 20% small), training for the incumbent workforce (58% large, 46% medium-sized, 29% small), and increasing employee satisfaction (51% large, 41% medium-sized, 28% small).

Conclusion

Corporate citizenship in the U.S. represents a spectrum of interests and issues, rather than a uniform "one-size-fits-all" strategy. However, the number-one motivation for engaging in corporate citizenship is the same across this spectrum: expressing their company's internal traditions and values.

These findings update the 2003 results, and provide an expanded analysis on the state of corporate citizenship in the United States in 2005. The third State of Corporate Citizenship report will be released in 2007.

DEFINING CORPORATE CITIZENSHIP

For the purposes of this report, we define corporate citizenship as the commitment of companies to:

- **Minimize risks:** work to minimize the negative consequences of business activities and decisions on stakeholders including customers, communities, ecosystems, employees, shareholders, and suppliers.
- **Maximize benefits:** contribute to societal and economic well-being.
- **Be accountable and responsive to stakeholders:** build relationships of trust that involve becoming more open about the progress and setbacks businesses experience in an effort to operate ethically.
- **Institutionalize and integrate values into operations:** engineer corporate citizenship into the core of the business in a way that supports economic and financial goals.

overview

ETHICS AND REPORTING

In 1990, only 70 CSR reports were produced globally. By 2003 that number increased to more than 1,500.

Source: Association of Chartered Certified Accountants and Corporateregister.com

Among Global 250 companies, 64% published corporate responsibility information as part of an annual report or as a separate report in 2005.

Source: KPMG

More than 1,000 professionals in the fields of business ethics, compliance, and conduct are members of the Ethics Officer Association.

Source: Ethics Officer Association

Overview

Since the release of the first State of Corporate Citizenship report, based on data from 2003, attention to the roles and responsibilities of business in society has grown considerably in scope and attention. Consider just a few notable developments:

- Management consulting firm PriceWaterhouseCoopers reported in 2004 62% of U.S. companies required to comply with the Sarbanes-Oxley Act of 2002 see it as integrated with other corporate regulatory compliance processes, only 34% say it is not.
- The U.S. Chamber of Commerce Center for Corporate Citizenship has tracked the U.S. private sector involvement in relief and reconstruction efforts after the December 26, 2004 tsunami and found that companies contributed more than \$565 million in cash, employee and customer matching grant programs, volunteer time, and in-kind donations — a historical outpouring of U.S. corporate support for a single international disaster. Early indicators suggest that the corporate response to the relief and reconstruction needs in the Gulf Coast region created by Hurricane Katrina will exceed all previous private sector efforts.
- Judicial proceedings have begun to resolve the outcomes of the 2001-2002 corporate scandals in the energy, finance, accounting, and telecommunications industries.
- The performance of the overall economy and the financial condition of the business sector shifted significantly.

Economic and business climate: key trends from 2003 to the 2005 survey

- Nominal GDP grew 7% in the nine quarters from the first quarter of 2001 through the first quarter of 2003. It increased by 14% from the second quarters of 2003 and 2005.¹
- Corporate profits grew slowly or declined in 2001 and began to rebound at an increased pace in 2002. Corporate profits increased by a total of 22% between the first quarters of 2001 and 2003. They grew 35% between the first quarters of 2003 and 2005.²

¹Bureau of Economic Analysis, "Current Dollar and 'Real' Gross Domestic Product," 7/29/2005, Web site.

²Bureau of Economic Analysis, National Economic Accounts, Table 1.12 "National Income by Type of Income," Revised July 29, 2005 and released August 31, 2005.

- The Dow Jones Industrial Average fell sharply from the 10,000-point level at the closing of 2001 to as low as 7,300 (-27%) at the depths of the 2002 market. The DJIA recovered strongly, opening 2003 at 8,600 and rising to the 10,800 plateau in mid-2005 (+25%).³

In addition, there have been a number of academic, media, and outside commentaries that have had significant impact on the development of the field of corporate citizenship:

- *The Economist* devoted a cover story to express skeptical opinions of corporate citizenship and subsequently published a rebuttal by the world-wide managing director of McKinsey & Company, a global management consulting firm.
- C.K. Prahalad's book *Finding the Fortune at the Bottom of the Pyramid*, encouraging businesses to do good and do well in low-income communities, hit the business best-seller list.
- In 2003, socially responsible investment funds controlled more than \$2 trillion in assets and have emerged as a significant force in corporate governance debates.⁴
- The U.S. Council for International Business (USCIB) estimates that there are more than 1,000 codes of business conduct being produced by civil society, multilateral organizations, and trade associations.

Against this backdrop, it is clear that the field of corporate citizenship is evolving, and that an increasing number of companies are actively managing their ethical, civic, and social engagement at unprecedented levels.

To date, The State of Corporate Citizenship surveys provide the most comprehensive examination of the attitudes and expectations of business executives from small, medium-sized, and large companies regarding the definition of and actions to practice their corporate citizenship. The data provide a deeper understanding of businesses' attitudes toward corporate citizenship.

³DJIA Data Source: Dow Jones Indexes, Web site, www.djia.com

⁴Social Investment Forum, 2003, "Socially Responsible Investing Trends in the United States."

WHAT QUALIFIES A COMPANY?

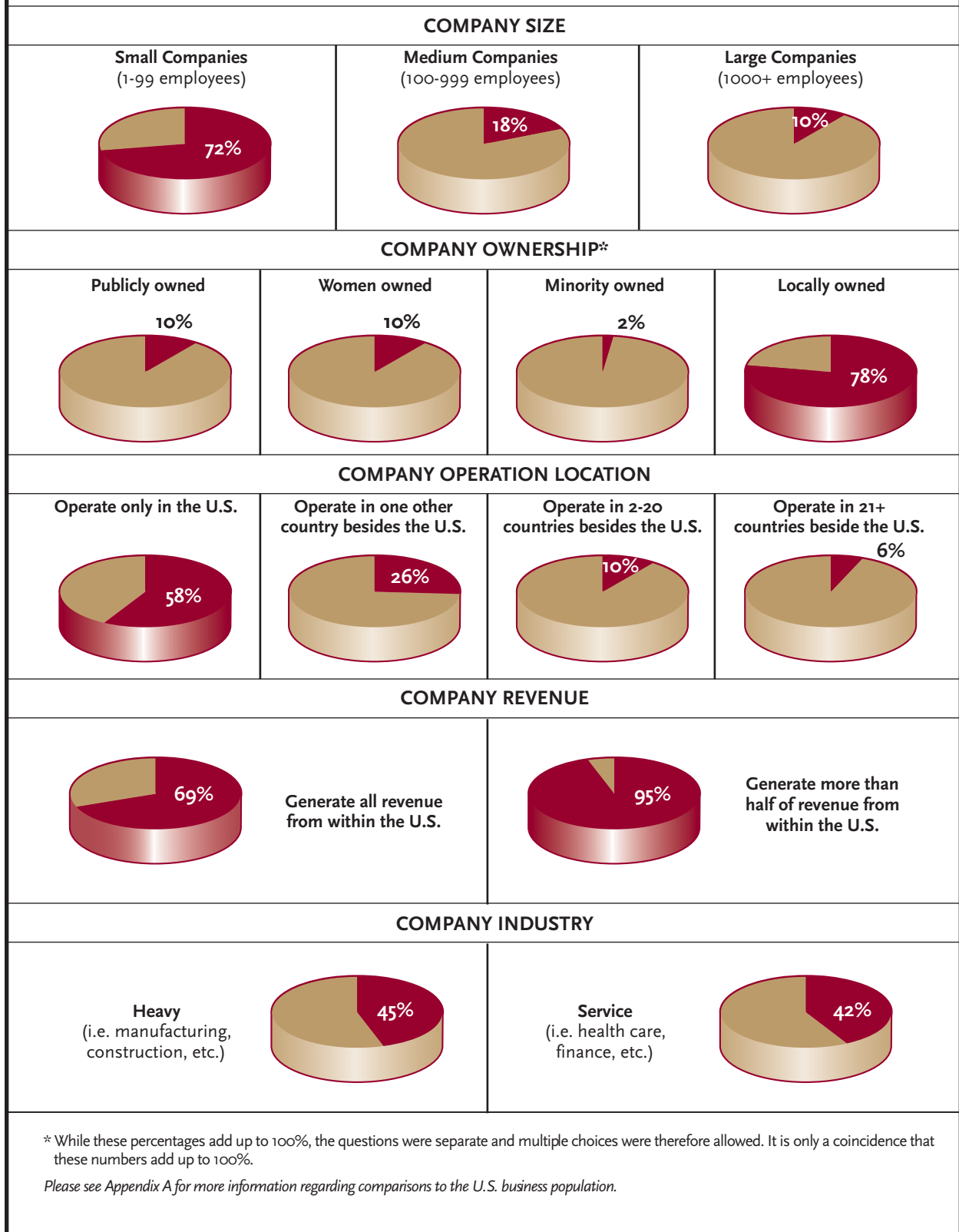
For this survey, executives based in the United States associated with companies with U.S. operations were eligible to participate.

WHO ARE THE RESPONDENTS?

Some 1,189 executives responded including:

70%	Chief executives or directors/owners
11%	Vice presidents
14%	Managers/administrators
5%	No title provided

Figure 1:
Description of 2005 survey sample
 Total responses = 1,189 • Margin of error +/- 3%

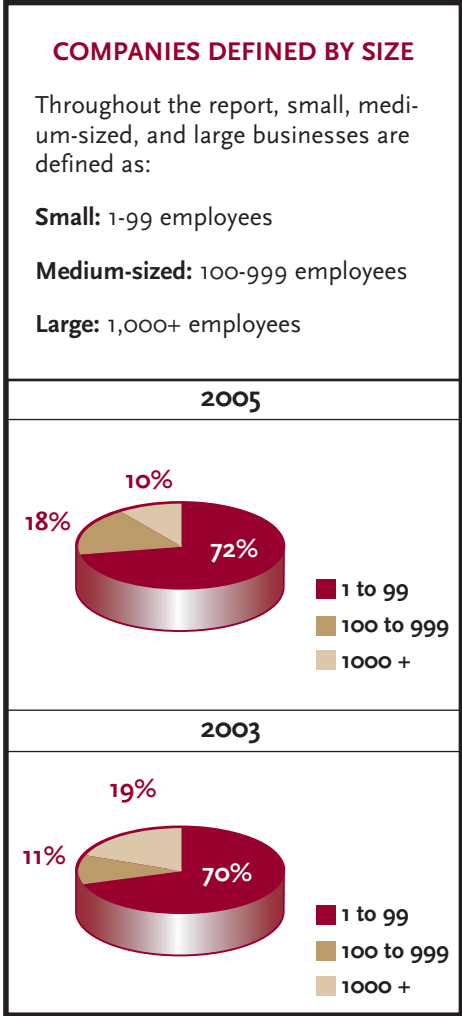


Survey Goals

The primary goal for this survey was to sample small, medium-sized, and large U.S. businesses to determine:

- What are the attitudes of U.S. businesses toward corporate citizenship?
- How do U.S. businesses define their role in society?
- What drives companies to adopt corporate citizenship?
- What inhibits adoption?
- What activities and initiatives are businesses undertaking in communities?
- How are businesses involved with lower-income communities?
- How has investment in corporate citizenship overall changed since 2003?
- How do businesses rate their corporate citizenship performance?

While primarily designed for a business audience, this report will be valuable to anyone with an interest in the role of business in society. As such, corporate managers, governments, and non-governmental organizations (NGOs) alike will find useful data and analyses to help them understand where U.S. business leaders see corporate citizenship heading and how this perception has changed in the past two years.



findings

Findings

The ensuing sections report the results of the 2005 State of Corporate Citizenship survey along the following aspects:

1. Attitudes of business executives toward corporate citizenship in the United States
2. How the role of business in society is defined by executives in the United States
3. Factors that drive companies to adopt corporate citizenship and factors that inhibit adoption
4. Factors that limit companies from becoming better corporate citizens
5. Types of corporate citizenship practices that companies demonstrate
6. How attitudes toward corporate citizenship align with behaviors
7. How businesses engage with lower-income communities.
8. How investment in corporate citizenship has changed since 2003
9. How executives rate the performance of their corporate citizenship efforts
10. How survey results differ based on business size, sector, or geographic region

What are the attitudes of business executives toward corporate citizenship in the United States?

Executives see corporate citizenship as a central component of good business practice.

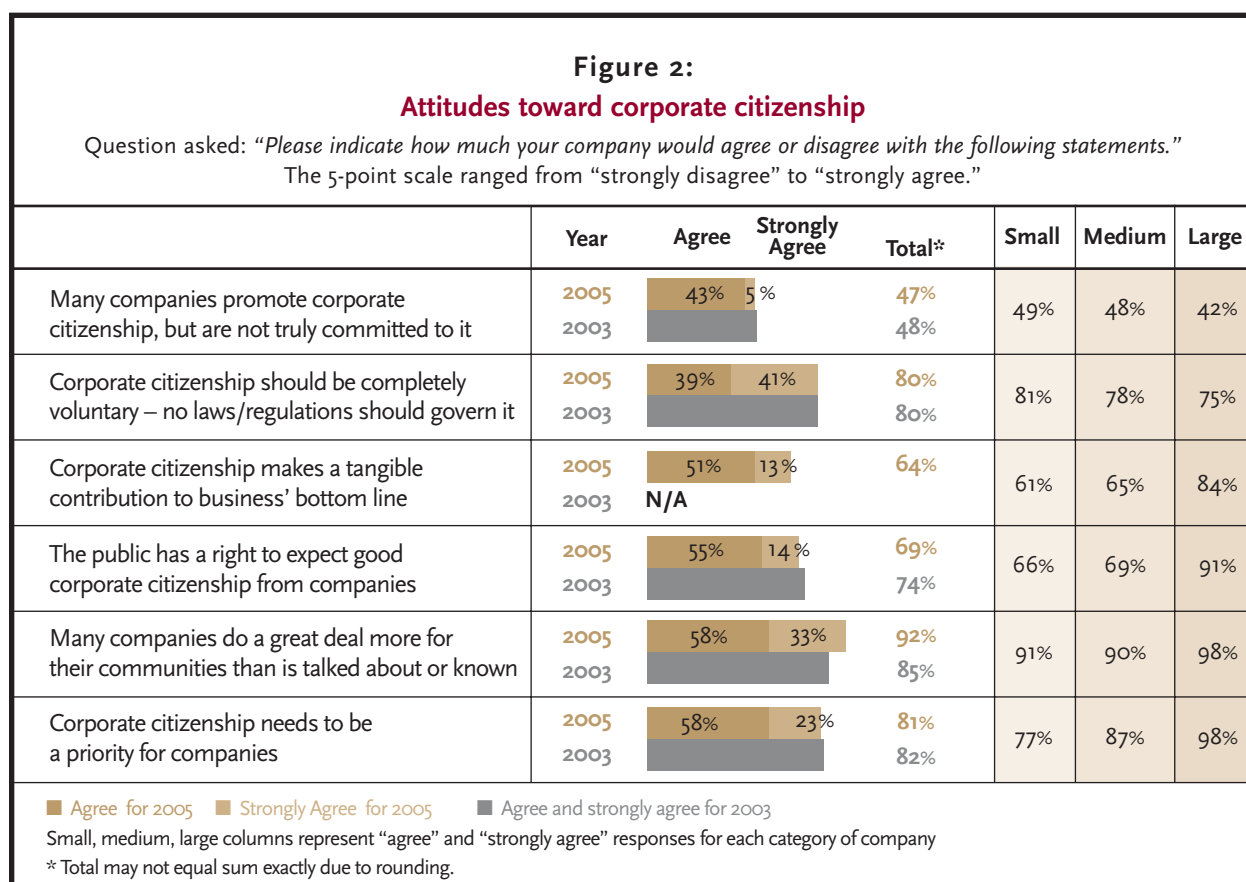
As in 2003, executives maintain consistently strong attitudes regarding the value and importance of corporate citizenship.

Figure 2 shows that 81% believe that corporate citizenship needs to be a priority for companies, yet 80% agree it should not be enforced through additional laws and regulations. Sixty-nine percent of companies agree that the public has the right to expect good corporate citizenship, and 64% believe that corporate citizenship makes a tangible contribution to a business' bottom line.

A majority of executives from small, medium-sized, and large companies share these views. However, executives from large companies report significantly higher figures:

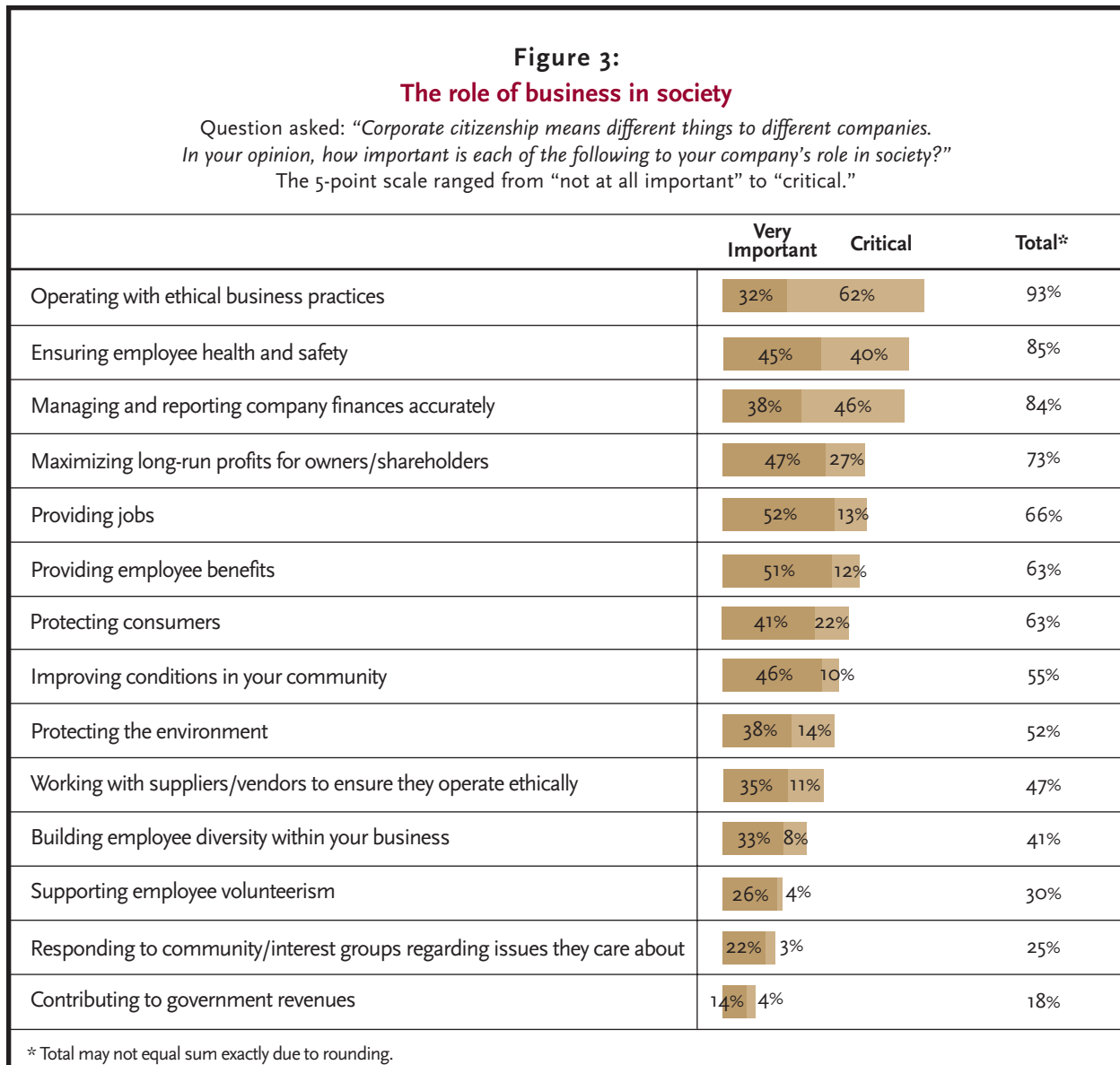
- Corporate citizenship needs to be a priority for companies (98% large, 87% medium-sized, 77% small)
- The public has the right to expect good corporate citizenship (91% large, 69% medium-sized, 66% small)
- Corporate citizenship makes a tangible contribution to the bottom line (84% large, 65% medium-sized, 61% small)

While findings are lower for small companies, it is noteworthy that more than 6 in 10 executives from small and medium-sized companies share the opinion that corporate citizenship should be a priority, the public should expect it, and it contributes tangibly to the bottom line.



The findings suggest that the majority of executives do not dispute whether corporate citizenship is important. Rather the differences lie in:

- How companies operate as corporate citizens, and
- The scope of businesses’ engagement in society as a corporate citizen.



How is the role of business in society defined by U.S. executives?

A majority of U.S. business executives believe business has multiple “stakeholder” commitments, and should balance the interests of investors, employees, consumers, communities, and the environment.

Consistent with the findings from the 2003 report, many executives characterize a wide range of behaviors and practices as vital to the role of business in society. Figure 3 shows what respondents see as businesses’ most important roles in society.

In aggregate terms, operating with ethical business practices tops the list at 93% with ensuring employee health and safety and managing and reporting accurate financial records rounding out the top three responses for the roles of business in society. The next four most widely-cited roles of business in society are maximizing long-term profits, providing jobs, providing employee benefits, and protecting consumers. And more than half of business executives also believe that improving conditions in their community and protecting the environment is a critical or very important part of their business’ role in society.

A majority of U.S. executives believe that they have multiple stakeholder commitments and have to balance the interests of investors, employees, consumers, communities, and the environment.

Nearly half the respondents (47%) identify “working with suppliers/vendors to ensure they operate ethically” as very important or critical to their companies, suggesting that many executives agree that the roles of companies extend beyond their own actions to those of their broader business supply chain. This is a notable area where size matters. Sixty-four percent of executives from large companies rate this as very important/critical, compared to 48% from medium-sized and 44% from small. One would expect this difference as big companies typically have more extensive purchasing and supplier relationships.

Fewer executives assign importance to roles such as supporting employee volunteerism (30%), responding to community and interest groups (25%), and contributing to government revenues (18%).

Figure 4 shows that executives hold two perspectives of business' role in society. Slightly more than 6 out of 10 see business as a public steward that integrates internal operations to “keep the company house in order” with external strategies that engage for the benefit of society and the environment. The remaining take a narrower view that focuses on meeting internal obligations to shareholders and employees. This grouping of companies appears to be aligned with company size, as companies with more than 1,000 employees are more likely to hold the broader perspective of their role in society.

What drives companies to adopt corporate citizenship? What inhibits adoption?

Internal considerations motivate companies to adopt corporate citizenship.

Figure 4:
The role of business in society: Two perspectives
 Question asked: “How important is each of the following (business practices) to your company’s role in society?”
 Each category represents a set of practices that respondents cited as “very important” or “critical.”

	Public Steward (667 respondents)	House in Order (413 respondents)
Maximize profits	✓	✓
Manage financial reporting accurately	✓	✓
Operate ethically	✓	✓
Ensure employee health and safety	✓	✓
Provide employee benefits	✓	✓
Provide jobs	✓	
Protect the environment	✓	
Improve conditions in communities	✓	
Protect consumers	✓	
Work with suppliers to ensure ethical operations	✓	

Consistent with the findings of 2003, few executives report external pressures and demands from government or laws as drivers for engaging in corporate citizenship. Instead, internal considerations serve as the principal drivers. Seventy-three percent of executives say upholding business traditions and values drives their company’s efforts to be a good corporate citizen. As shown in Figure 5, this finding holds true across small, medium-sized, and large companies. Rounding out the top three drivers of corporate citizenship are reputation/image and business strategy.

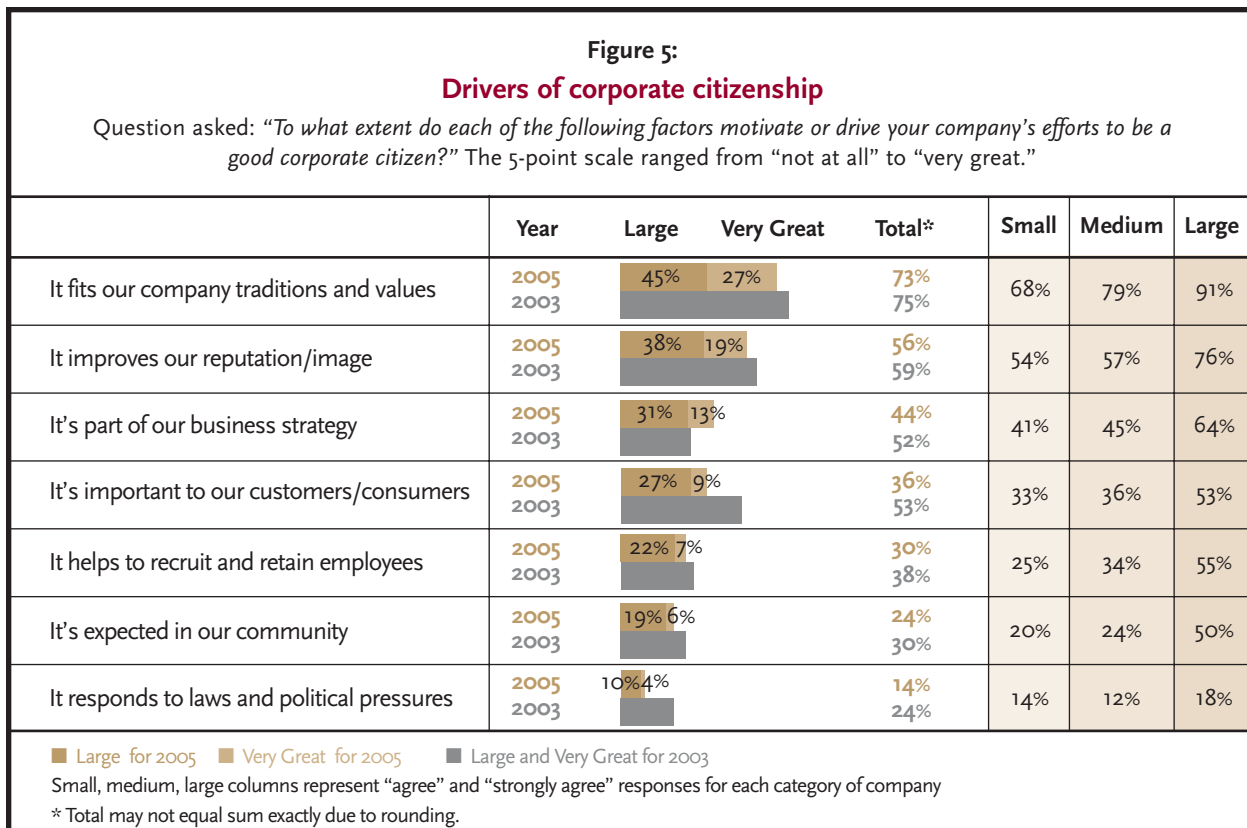
Executives from large companies report that they experience a range of motivations for their corporate citizenship activities. These executives are more likely to experience motivating impulses centered on their relationship with key stakeholders. Specifically:

- Employees (55% large, 34% medium-sized, 25% small)
- Customers (53% large, 36% medium-sized, 33% small)
- Communities (50% large, 24% medium-sized, 20% small)

In addition, large-company executives connect corporate citizenship to strategic business objectives more often than their peers in small and medium-sized firms. These executives see the greatest opportunities to align corporate citizenship with business strategy (64% large, 45% medium-sized, 41% small), and to further company reputation (76% large, 57% medium-sized, 54% small).

Employee relations – A key focus for large companies

The data suggest that executives from large companies place special priority on human capital issues. Ninety-eight percent of executives of large companies say their companies' performance as a corporate citizen is of interest to their employees. When all responses are considered, the data suggest that large-company executives particularly focus on the role of business in supporting the health and safety, development, loyalty, diversity, and (relative to executives from small



Using citizenship to engage employees

“I see the trend [in corporate citizenship] as moving toward a more holistic approach; really taking a look at who we are as a company, what our ethical values are, and how we treat our employees,” said Douglas Sabo, director of government and community relations for McAfee Inc., an antivirus and computer security company. “You need to keep the different citizenship drivers in mind. For sales it’s customers, for legal it’s compliance, for HR the employees are it.” Mr. Sabo expects that a new internal corporate citizenship council involving these departments will build a cross-functional portrait of citizenship at McAfee.

McAfee customers depend upon the company’s

24/7 computer security solutions and its web of 2,900 McAfee employees located in 39 countries. Combined with its numerous mergers and acquisitions, the company’s spread challenges it to maintain a cohesive approach to citizenship among all employees.

For now, McAfee focuses on building strong relationships in the communities in which it does business as a means of engaging its diverse employee base in the corporate culture. McAfee’s investment has also been useful for the company in introducing them to government officials and key community stakeholders.

A values-based approach: An inner compass for corporate decision-making

Described by CEO Sam Palmisano as a “touchstone for decentralized decision-making,” IBM’s values guide a range of choices — from freeing IBM to know when to take leadership on key social, environmental and economic challenges to allowing an individual to lean on corporate philosophy when making difficult business decisions. With a values statement in hand, employees are empowered with the flexibility to make truly innovative business decisions that align with the company’s mission.

“We believe that if you’re a company that intends to be around for the long term, then your values are the key to long-term financial success,” says Stanley S. Litow, IBM’s vice president of corporate

community relations. “We don’t make decisions like these because of a short-term business case. But we have faith that making decisions like this will make our business stronger and more profitable in the long run. The history of the company bears this out.”

Rolling out this approach to management depended upon one of the company’s key stakeholders — its employees. An unprecedented online dialogue encouraged IBM employees to share their concerns, ideas, and aspirations for the company’s approach to values and to discuss what role values played. Performance evaluations incorporate measures based on the values statement.

and medium-sized firms) the civic engagement of employees. More specifically:

- Ninety-four percent cite ensuring employee health and safety as important to the role of the company in society (86% medium-sized, 84% small)
- Seventy-eight percent cite providing employee benefits as important to the role of the company in society (68% medium-sized, 60% small)
- Seventy-five percent cite providing jobs as important to the role of the company in society (66% medium-sized, 63% small)
- Seventy-three percent cite building employee diversity within your business as important to the role of the company in society (35% medium-sized, 36% small)
- Fifty-eight percent indicate their company is actively involved in providing training for the incumbent workforce (46% medium-sized, 29% small)
- Fifty-five percent find citizenship helps recruit and retain employees (34% medium-sized, 25% small)
- Fifty-one percent have witnessed increased employee satisfaction due to the company's corporate citizenship efforts (41% medium-sized, 28% small)
- Forty-seven percent cite supporting employee volunteerism as important to the role of the company in society (26% medium-sized, 28% small)
- Forty-four percent provide training and development opportunities for lower-wage employees (38% medium-sized, 27% small)

What limits companies from becoming better corporate citizens?

A lack of resources is the most frequently cited inhibitor to companies' efforts to become better corporate citizens.

Consistent with 2003, few executives report active skepticism or resistance to corporate citizenship. Figure 6 shows only 10% cite a lack of support for corporate citizenship from top management, only 8% cite lack of middle-management support, and just 16% say it's not of interest to their employees. Only 13% agree that corporate citizenship is of no significant benefit to the business.

Figure 6:

Barriers to corporate citizenship

Question asked: "To what extent do the following limit your company's efforts to be a better corporate citizen in your communities?" The 5-point scale ranged from "not at all" to "very great."

	Year	Large	Very Great	Total	Small	Medium	Large
Lack of resources	2005 2003	38% 16%		54% 46%	59%	48%	38%
Not of real interest to our employees	2005 2003	14% 2%		16% 14%	18%	18%	2%
No significant benefit to the business	2005 2003	11% 2%		13% 9%	13%	13%	8%
Not sure what being a good "corporate citizen" means	2005 2003	7% 3%		10% 11%	11%	8%	9%
Top management does not support it	2005 2003	8% 2%		10% 18%	9%	12%	9%
Middle management does not support it	2005 2003	7% 1%		8% 9%	7%	11%	6%

■ Large for 2005 ■ Very Great for 2005 ■ Large and Very Great for 2003

Small, medium, large columns represent "large" and "very great" responses for each category of company

Figure 7:

Business involvement in societal issues

Question asked: "To what extent is your company acting or supporting action by others to address the following:" The 5-point scale ranged from "not at all" to "very great."

	Large	Very Great	Total	Small	Medium	Large
Supporting community development	30%	10%	40%	37%	43%	56%
Improving the safety & efficacy of products	27%	11%	38%	34%	41%	56%
Providing training for the incumbent workforce	27%	9%	36%	29%	46%	58%
Expanding access to affordable health care insurance	22%	8%	30%	32%	28%	17%
Improving K-12 education	20%	8%	28%	22%	31%	55%
Improving the environment	20%	6%	26%	23%	23%	39%
Improving community college and higher education	19%	6%	25%	19%	32%	51%
Ensuring infrastructure development	16%	7%	23%	23%	24%	22%
Responding to disasters	16%	5%	22%	16%	26%	48%
Helping to safeguard civil or human rights	12%	3%	15%	15%	11%	21%
Expanding international trade	10%	4%	14%	11%	16%	33%
Helping to support dependent care	11%	3%	14%	12%	16%	26%
Reducing poverty	11%	2%	13%	11%	14%	19%
Improving public health	9%	3%	12%	11%	11%	23%
Developing alternative energy sources	7%	2%	10%	8%	9%	19%
Addressing global climate change	5%	1%	6%	5%	3%	15%

Rather, 54% of executives cite a lack of resources as the leading barrier to their companies' efforts to become better corporate citizens. This has increased since 2003, when 46% of executives reported lack of resources as a barrier. This inhibitor is more acute for executives in smaller firms, as shown in Figure 7.

What type of corporate citizenship practices do companies demonstrate?

Companies are actively involved in public life.

The majority of businesses are actively involved in initiatives and behaviors related to corporate citizenship. This suggests that, increasingly, the question is not *whether* companies should practice corporate citizenship, but *how* they should engage with society.

Nearly all executives from large companies surveyed (98%), and 75% of companies overall, are actively involved in supporting or taking action in at least one societal issue area.

The issues in which companies take active involvement are idiosyncratic. No single social issue enjoys a majority of support across the spectrum of business. Figure 7 shows that in aggregate:

- Forty percent support 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 healthcare insurance
- Twenty-eight percent are active in improving K-12 education

Figure 8 shows a comparison by company size of the top five societal issues in which executives report their companies are actively involved. While large companies are more likely than smaller companies to be involved in many of these issues, the exception to this trend is with expanding access to affordable healthcare. Thirty-two percent of small companies and 28% of medium-sized companies say this is an issue in which they are heavily involved, compared to only 17% of large companies.

Figure 8:
Top 5 corporate involvement and societal issues by company size

Question asked: “To what extent is your company acting or supporting action by others to address the following issues.”
The top 5 were determined by the frequency that issues received a response of “large” or “very great” extent.

Large	Medium-Sized	Small
Providing training for 58% the incumbent workforce	Providing training 46% for the incumbent workforce	Supporting 37% community development
Supporting community . . . 56% development	Supporting community . . . 43% development	Improving the safety 34% and efficacy of products
Improving the safety 56% and efficacy of products	Improving the safety 41% and efficacy of products	Expanding access 32% to affordable health care insurance
Improving K-12 55% education	Improving 32% community college & higher education	Providing training 29% for the incumbent workforce
Improving 51% community college & higher education	Improving K-12 31% education	Tie: Ensuring 23% infrastructure development & Improving the environment

How do attitudes toward corporate citizenship align with behaviors?

Attitudes outpace behaviors.

Findings suggest that executives’ attitudes are stronger than their businesses’ corporate citizenship actions. While the majority of respondents agree that it is very important for companies to be involved with environmental issues, community issues, and responsible supply-chain practices, less than half report extensive involvement in supporting or addressing the related social issues of climate change, education, healthcare, and responsible sourcing.

And while the majority of executives see corporate citizenship as a business essential that brings tangible value to the bottom line, just

Helping to improve K-12 education

Harvey Neu believes that integrating youth into the workforce during their high school years can help them develop a strong work ethic and steer their future career paths.

As president of Neu's Building Center, a hardware store in Menomonee Falls, Wisconsin, Mr. Neu works with the local high school to hire students to work during the summer or part-time after school. The students learn skills in plumbing, carpentry, electrical wiring, inventory control, customer service, and other areas. Mr. Neu works with students enrolled in both the school's vocational program and college preparatory courses, and as part of the deal, reports back to the teachers on the students' performance.

"Some call it mentoring, some call it other things, but I think it's just a wonderful way to get kids excited about a career path," he explained. "Sometimes they follow this career path and some-

times they go to college to study something else, but this training helps them figure out where they are going."

One person whom Mr. Neu hired as a 16-year-old now serves as the company's general manager. Another past student-hire now runs his own business, building up to 100 houses a year.

"The sky's the limit for these kids, as long as they have a vision and can start developing skills and interests early on," he said.

"With low-paying jobs being transferred overseas or replaced by computers, it's important for students to gain non-replaceable skills that require face-to-face interaction," Mr. Neu continued. "At the high school age, they are full of potential and I just think this is a great opportunity to help them succeed."

Working with ethical vendors and suppliers is "critical"

"I believe in partnering with our vendors and suppliers," explains Bob Benkowski, the general manager of Lake Arrowhead Association, a 3,000-acre recreation retirement community in Rome, Wisconsin. "I don't have to give mandates to my suppliers — they know our business as well as we do."

Working with ethical suppliers is of utmost importance to Mr. Benkowski. "If I did not have ethical suppliers, I would not be able to work with them."

Lake Arrowhead has 2,100 members, with many of the members living on the premises. Members enjoy a 36-hole golf course, a 300-acre man-made lake, tennis courts and other athletic fields, two clubhouses, and two pools. Mr. Benkowski oversees the relationships with Lake Arrowhead's food

and beverage vendors. He says the day-to-day food and beverage needs are easy to manage because of the good working relationships he has with his vendors and suppliers. The food vendors come to the premises once a week to talk to Mr. Benkowski about the association's needs, and the beverage vendors are able to completely manage the inventory.

"For me, my relationship with my suppliers is simple: I hold them accountable. They know my expectations and they know this business, and we are in agreement that they are held accountable for their work," says Mr. Benkowski. "But, if they were not ethical and if that trust was not there," he continues, "it would be a totally different game. I would not be able to hold them accountable, and that would be a problem for the association."

over half identify that limited resources prevent companies from improving citizenship efforts.

In 2003, the questionnaire asked, “Should business play an active role in addressing the following [corporate citizenship] issues?” In 2005, the research team modified this question to read “To what extent is your company acting or supporting action by others to address the following [corporate citizenship] issues?” This modification was an attempt to gather more precise findings on actual corporate behavior.

One can interpret the question in 2003 as being more aspirational and the modified question as being more behavioral. The contrast in findings is quite revealing. As demonstrated in Figure 9, the aspirations of businesses exceed actual practice. For example:

Consumer values driving citizenship strategy

For Expedia, the online travel agency giant, corporate citizenship aligns with key strategic business drivers, including brand differentiation, employee retention and loyalty, and partner relationships, which encompass the online retailer’s alliances with the groups that provide the company with its inventory.

For brand differentiation, Expedia sees customers as their primary stakeholders. The decision to more actively focus on brand differentiation came after Expedia found that consumers were often unable to distinguish between online travel distributors. Marj Charlier, director, corporate social responsibility at Expedia says, “We want to interact with the customer outside of the transaction, and talk with them about something they care about. Our customers are travelers, and because of that we have chosen to have a conversation with them

that celebrates world treasures and world cultures.” Through a celebration of the world’s most special places via a new partnership with the United Nations Foundation, including ecosystems, national parks, ruins, and monuments, Expedia is looking to differentiate its brand among consumers while giving back to the communities that make their business possible. Says Ms. Charlier, “You’re much more likely to use your businesses assets efficiently if you align your citizenship with your business.”

From her position in the communications department, Ms. Charlier has close relationships with marketing to ensure a two-way dialogue regarding consumer expectations. She has partnered with them to conduct a consumer needs assessment, using an Expedia Consumer Panel, which will baseline these concerns for ongoing tracking.

- In 2003, 59% of respondents indicated that business should play an active role in improving K-12 education. In 2005, 28% indicated that they are actively involved in this to a “large” or “very great” extent.
- In 2003, 51% of respondents indicated that business should play an active role in expanding access to affordable health-care. In 2005, 30% expressed that they are working on this to a “large” or “very great” extent.
- In 2003, 32% of respondents indicated that business should play an active role in helping to safeguard civil or human rights. In 2005, 15% expressed that they are working on this to a “large” or “very great” extent.
- In 2003, 25% of respondents indicated that business should play an active role in reducing poverty. In 2005, 13% expressed that they are working on this to a “large” or “very great” extent.
- In 2003, 50% of respondents indicated that business should play an active role in developing alternative energy sources. This year, only 10% indicated that they are heavily involved in doing so.

In addition, in 2005 while 52% of respondents report that “protecting the environment” was “critical” or “very important” for the role of business in society only 26% say they are doing something to a “very great” or “large” extent on their own or with others to improve the environment. Forty-seven percent say, in the 2005 survey, that it is very important to work “with suppliers to ensure they operate ethically,” however, only 11% report in the same survey that they have “a formalized audit system with their supply chain to monitor ethical business practices.”

How are businesses engaged with lower-income communities?

A majority of businesses are involved with lower-income communities.

In 2005, the survey explored a focused topic on private-sector involvement in economically distressed communities.

More than half of all businesses (51%) report that in economically distressed communities they are involved in a significant or very significant way in at least one of these activities: providing training and development opportunities for lower-wage employees, hiring,

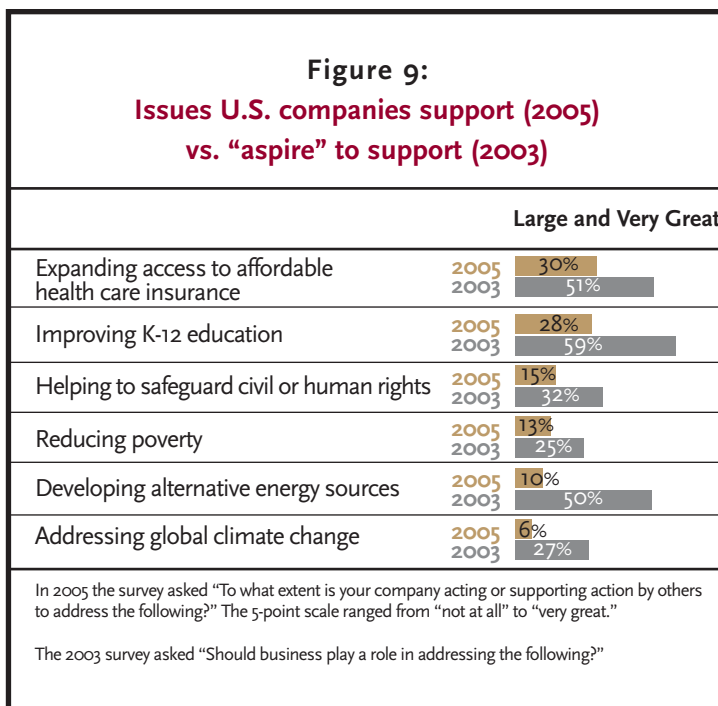


Figure 10:

U.S. businesses' involvement with low-income communities

Question asked: "To what extent is your company involved in any of the following?"
The 5-point scale ranged from "not at all" to "very great."

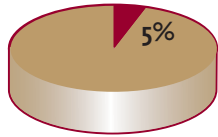
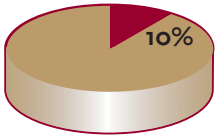
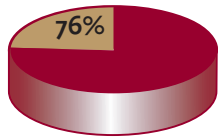
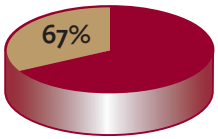
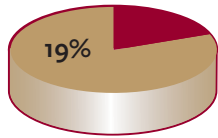
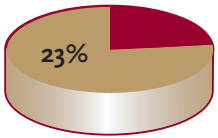
	Year	Large	Very Great	Total*	Small	Medium	Large
Providing training and development opportunities for your lower-wage employees	2005	25%	6%	31%	27%	38%	44%
	2003			33%			
Hiring people from economically distressed communities	2005	18%	5%	24%	22%	28%	26%
	2003			12%			
Improving conditions in economically distressed communities	2005	12%	4%	15%	12%	17%	31%
	2003			19%			
Locating your company's facilities or jobs in economically distressed communities	2005	9%	2%	11%	11%	13%	13%
	2003			10%			
Offering job training programs to people in economically distressed communities	2005	10%	2%	11%	10%	14%	18%
	2003			12%			
Purchasing from minority-owned suppliers	2005	8%	3%	11%	7%	7%	41%
	2003			16%			
Purchasing from women-owned suppliers	2005	8%	3%	11%	8%	8%	38%
	2003			17%			

■ Large for 2005 ■ Very Great for 2005 ■ Large and Very Great for 2003
Small, medium, large columns represent "large" and "very great" responses for each category of company
* Total may not equal sum exactly due to rounding.

Figure 11:

Change in U.S. businesses' efforts with low-income communities

Question asked: "Over the past year or two, have your company's overall efforts related to economically distressed communities (and people) been reduced significantly, reduced somewhat, remained the same, increased somewhat, or increased significantly?"

	2005	2003	Small	Medium	Large
Reduced significantly/somewhat			6%	3%	2%
Remained the same			80%	71%	57%
Increased somewhat/significantly			14%	26%	41%

improving conditions, locating facilities and jobs, and offering job training programs. Large companies are the most involved, with 70% participating in one way or another. Sixty-two percent of medium-sized businesses and 47% of small businesses also report significant or very significant involvement.

Since 2003, the percentage of executives indicating that their companies are hiring from low-income communities has doubled, from 12% in 2003 to 24% in 2005. Moreover, this increase in 2005 is consistent across businesses of different sizes (26% large, 28% medium-sized, 22% small).

Figure 11 shows that 76% of executives report that their companies' efforts related to economically distressed communities over the previous two years has remained the same. However, 41% of large companies, 26% of medium-sized companies, and 14% of small companies indicated that they have increased their efforts since 2003.

How has investment in corporate citizenship overall changed since 2003?

Company investments in corporate citizenship remained stable.

Company investments in corporate citizenship remained stable during the resurgent economy. As shown in Figure 12, 3 in 10 respondents report that their companies have increased investment in corporate citizenship efforts over the past 12 months, while 65% have maintained the same level of investment. This trend has endured in both difficult economic times (in 2003, 56% of companies maintained investment levels and 30% increased investment) and in the current, improved economic and financial climate. Executives from large companies set the pace. More than two-thirds of large companies increased corporate citizenship investment, compared to just one-fifth of small companies and two-fifths of medium-sized companies.

While 31% of executives in 2003 reported improved financial performance, in 2005 46% said their performance has improved during

Employee relations as a vehicle for citizenship

Scanlan International, Inc. was founded in 1921 and began by making surgical scissors for the Mayo Brothers. Today, it produces specialized surgical products for surgeons and hospitals around the globe. The company produces all its single-use, sterilized products in St. Paul, MN.

At the St. Paul factory, the company employs a diverse workforce of 100 people including Hmong, Nigerians, Somalis, Filipinos, and Hispanics. Thorough employee training is provided to teach each worker how to do things “the Scanlan way,” and the business offers employees extensive benefits. Beyond health and dental coverage, employees can participate in the 401 (k) plan and are eligible to receive money for education. President Tim Scanlan also notes, “We embrace all of our

associates as family members. Everybody knows everybody and we encourage everybody to know everybody.” The congenial atmosphere, quality jobs, and benefits keeps turnover low.

The company’s enlightened practices toward its workforce have also helped its bottom line — with 15 percent growth in the past year. Scanlan also notes the spread of these practices in Minnesota’s healthcare and medical manufacturing industry: “We know that if people are treated like you want to be treated amazing things can happen — not just in your business but in your community. It has a ripple effect. It is like planting flowers in your garden. Look around in a couple of years and the neighbors are also planting gardens and the neighborhood looks pretty good.”

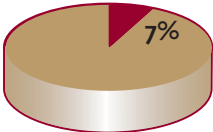
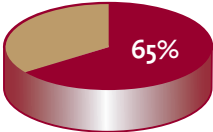
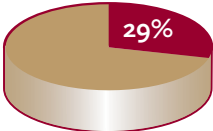
the last 12 months (70% large; 52% medium-sized, 41% small). Poor to below-average financial performance was reported by 32% in 2003 and dropped to 21% in 2005 (11% large, 20% medium-sized, 23% small).

There is a moderate statistical correlation between business performance and corporate citizenship investment, meaning those that have experienced improved financial performance over the last 12 months are likely to have increased their investments in corporate citizenship efforts. Figure 13 shows that of companies that experienced improved financial performance, 41% increased their investment in corporate citizenship at least somewhat. In contrast, only 1 in 10 companies that reported no increase in financial performance reduced their investment in citizenship. And nearly 2 in 10 increased their investment while experiencing no increase in financial performance.

Figure 12:

Change in corporate citizenship investment

Question asked: "Compared to two years ago, is your company investing more, less, or the same amount of time, money, and attention in its corporate citizenship efforts?"

	2005	Small	Medium	Large
A lot less/somewhat less		7%	4%	4%
About the same		72%	56%	28%
Somewhat more/a lot more		21%	40%	68%

Small, medium, large columns represent responses for each category of company

Figure 13:

Investment in corporate citizenship and business performance

Question asked: "Compared to two years ago, is your company investing more, less, or the same amount of time, money, and attention in its corporate citizenship efforts?"



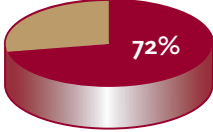
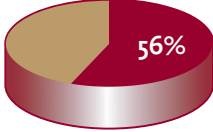
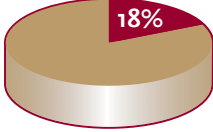
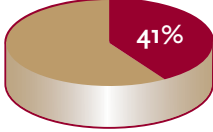
Investment in CC Efforts	No increase in Business Performance	Increase in Business Performance
A lot less/somewhat less		
About the same		
Somewhat more/a lot more		

Figure 14:

U.S. business' new initiatives 2005

Question asked: "In the past two years, has your company experienced or initiated any of the following?"
 Respondents were asked to check all that apply to their company.

	2005	Small	Medium	Large
Expanded efforts in the workplace to manage diversity	27%	20%	33%	60%
Reformed your company's accounting systems	21%	19%	22%	33%
Consolidated your company's supply chain	17%	16%	14%	31%
Defined business strategies to align with societal needs	15%	13%	17%	30%
Formalized audit system with supply chain to monitor ethical problems	11%	7%	16%	32%

Small, medium, large columns represent responses for each category of company

Figure 15:

U.S. business' positive experiences 2005

Question asked: "In the past two years, has your company experienced or initiated any of the following?"
 Respondents were asked to check all that apply to their company.

	2005	Small	Medium	Large
Received positive media coverage for your company's corporate citizenship efforts	35%	25%	48%	73%
Received awards/recognition for your company's corporate citizenship efforts	33%	26%	48%	61%
Increased employee satisfaction due to your company's corporate citizenship efforts	33%	28%	41%	51%
Increased customer satisfaction due to your company's corporate citizenship efforts	29%	29%	30%	21%

Small, medium, large columns represent responses for each category of company

Consistent with the findings regarding increased internal investment, Figure 14 shows that only a minority of companies initiated citizenship-related initiatives such as managing workplace diversity (27%), reforming accounting systems (21%), consolidating supply chain (17%), defining business strategies to align with society's needs (15%), and auditing ethical supply chain practice (11%).

How companies have benefited from investing in corporate citizenship

Approximately one-third of executives report that their companies experience positive benefits from corporate citizenship activities. As shown in Figure 15, these benefits range from awards and recognition to positive media coverage to increased employee retention and customer satisfaction. In all cases except one, a higher percentage of large companies experienced the benefits of corporate citizenship.

Only a small percentage of executives report that their companies have engaged in activities that have negative impacts on society. Figure 16 shows that 3% of companies overall have incurred fines for violations of environmental regulations, employee lawsuits, or supplier lawsuits.

How do executives rate the performance of their corporate citizenship efforts?

Executives give companies mixed reviews as corporate citizens.

Figure 17 shows that half of the executives rate as average their companies' corporate citizenship performance. Three times as many (38%) rate their company as above average/excellent than below average/poor (12%). Executives from large companies are especially positive, with 71% rating their company above average or higher. This more than doubles the ratings of executives from small companies (32%) and far outpaces medium-sized firms (47%) as well.

Figure 16:

Negative experiences of U.S. businesses

Question asked: "In the past two years, has your company experienced or initiated any of the following?"
 Respondents were asked to check all that apply to their company.

	2005	Small	Medium	Large
Incurring fines/penalties for violations of environmental regulations		2%	4%	7%
Incurring lawsuits from employees for harassment		1%	5%	9%
Incurring lawsuits from suppliers		1%	4%	6%

Small, medium, large columns represent responses for each category of company

Figure 17:

Overall corporate citizenship performance

Question asked: "How would you rate the overall performance of your corporate citizenship efforts?"

	2005	2003	Small	Medium	Large
Poor/below average			14%	8%	4%
Average			55%	45%	25%
Above average/excellent			32%	47%	71%

Small, medium, large columns represent responses for each category of company

Do survey results differ based on business size, sector, or geographic region?

Large companies are more likely to have an expansive definition of their role and obligation in society, and are more likely to be involved in a wide range of social and environmental issues.

Just as in 2003, there are broad areas of agreement among small, medium-sized, and large company business executives. Executives from small and medium-sized companies tend to share similar attitudes and engage in similar activities as executives from large companies. However, the 2005 survey finds differences among the intensity of attitudes among small, medium-sized, and large companies, as well as notable differences in involvement in issues.

Improving the environment: Company-wide engagement

“There is an increasing importance for multinational companies to engage in corporate citizenship ... they have a role in setting the standards, and in raising the bar,” said Keith Miller, manager, environmental initiatives and sustainability at 3M.

For 3M, raising the bar means innovation across their environmental policies. The year 2005 celebrates the 30th anniversary of their Pollution Prevention Pays (3P) initiative, which accounts for 2.2 billion pounds of prevented pollution and a cost savings of \$1 billion just in first-year savings, aggregated across each program that is part of the initiative.

3P programs must reduce costs and cut energy use, greenhouse gas emissions, or pollution. While for manufacturing this means process improvements, the work incorporates laboratory involvement and product development, such as

3M’s recent conversion to a water-based adhesive from solvent-based. Meanwhile, logistics teams examine recycling and transportation of products and supplies. R&D laboratories are awarded for innovative product development, such as a “green step” award for new, eco-friendly product ideas. Guardian Awards are presented for reduction of toxic pollutants; Mobius Awards are accolades for packaging waste reduction; and Mover Awards are given for decreases in transport-related energy costs.

Core to 3M’s environmental, health, and safety strategy is also a systematic examination of each product and its environmental, health, safety, and energy impacts at each stage in the product life-cycle — from raw material, R&D, manufacturing, and consumer use, to disposal. The goal is to evaluate each product by 2010.

Figure 18 identifies the most substantial differences in attitudes among executives at small, medium-sized, and large companies.

Executives from large companies more frequently prioritize the importance of:

- Building employee diversity within the business
- Improving conditions in communities
- Working with suppliers/vendors to ensure they operate ethically
- Supporting employee volunteerism
- Responding to community/interest groups regarding issues they care about

Figure 18:
Differences in corporate citizenship attitudes by company size

Question asked: “Corporate citizenship means different things to different companies. In your opinion, how important is each of the following to your company’s role in society?”
The 5-point scale ranged from “not at all important” to “critical.”
Results displayed represent all “very important” and “critical” responses.

	Small	Medium	Large
Ensuring employee health and safety	84%	86%	94%
Maximizing long-run profits for owners	70%	77%	87%
Providing employee benefits	60%	68%	78%
Providing jobs	63%	66%	75%
Improving conditions in your community	53%	53%	75%
Protecting consumers	61%	64%	74%
Building employee diversity within your business	36%	35%	73%
Working with suppliers/vendors to ensure they operate ethically	44%	48%	64%
Protecting the environment	50%	51%	61%
Supporting employee volunteerism	28%	26%	47%
Responding to community/interest groups regarding issues they care about	23%	25%	44%
Contributing to government revenues	16%	15%	32%

The data also suggest that executives from large companies are more likely to:

- See corporate citizenship as highly relevant to contributing to the bottom line (84% large, 65% medium-sized, 61% small), and as part of the company's business strategy (64%) compared to 45% for medium-sized and 41% for small
- Have an expansive perception of the role of business in society and are more likely to report that their companies are involved in a wide range of social and environmental issues
- Have increased investment in their corporate citizenship efforts (68% large, 40% medium-sized, 21% small)
- Report their company performs "above average" or "excellent" as a corporate citizen (71% large, 47% medium-sized, 32% small)
- Report specific actions taken, such as reforming their accounting systems, expanding efforts to manage diversity in the workplace, and defining business strategies to align with societal needs

Executives from large companies are also more likely to cite the influence of stakeholders such as employees, customers, and communities and to focus on human capital issues such as training for the incumbent workforce, diversity, and employee satisfaction.

Executives from large companies tend to agree that the community has a right to expect them to be good corporate citizens, and they are willing to take on more obligations than smaller companies.

Regional differences are small.

The 2005 data did not reveal great differences in corporate citizenship attitudes and actions between companies that operate only in the United States and those that have an international presence. And, while differences by location within the United States were also minimal, the results show some variation in how executives define their companies' corporate citizenship priorities.

Midwest

Relative to other regions, executives in the Midwest are:

- Most likely to agree that corporate citizenship should be completely voluntary — no laws/regulations should govern it (83%)

Northeast

Relative to other regions, executives in the Northeast are:

- Most likely to prioritize providing employee benefits as a critical element of the role of the company in society (70%)
- Most likely to prioritize protecting the environment as a critical element of the role of the company in society (58%)

Northwest

Relative to other regions, executives in the Northwest are:

- Most likely to agree the public has a right to expect good corporate citizenship from companies (77%)
- Most likely to prioritize employee diversity as a critical element of the role of the company in society (50%)
- Most likely to identify “lack of resources” as a key obstacle to practicing corporate citizenship (63%)
- Most likely to have increased the company's overall efforts related to economically distressed communities (26%), but least likely to prioritize hiring individuals from these communities (15%)

Southeast

Relative to other regions, executives in the Southeast are:

- Most likely to prioritize maximizing long-run profits for owners as a critical element of the role of the company in society (79%)
- Most likely to prioritize involvement in:
 - Improving community college and higher education (33%)
 - Responding to disasters (28%)
 - Improving K-12 education (33%)

Southwest

Relative to other regions, executives in the Southwest are:

- Most likely to have performed financially above average or better over the last 12 months compared to the previous year (54%)
- Most likely to be interested in expanding access to affordable healthcare insurance (35%)
- Least likely to identify “lack of resources” as a key obstacle to practicing corporate citizenship (50%)

Outlook

What does the future hold for corporate citizenship in the United States?

In the results from both the 2003 and latest survey, U.S. executives send a strong message that businesses have an important role as stewards for shareholders and society alike. For executives, the question is not *whether* corporate citizenship fits in the day-to-day operations of the firm, the question is *how*.

Many executives believe that they have to integrate community, social, and ethical concerns into the management of their businesses, and that these activities are paying dividends for them.

In addition, the vast majority of respondents indicate their company is actively involved in contributing to at least one major societal challenge. Companies are involved in an array of issues, from engaging in workforce development to supporting K-12 education to improving economically distressed communities and more. The data suggest that the private sector is quite engaged in public life, including public policy, charitable service delivery, societal problem solving, and dialogue on major issues. But the data also show that individual companies have independent and unique needs and objectives, and that they believe their corporate citizenship activities should be strictly voluntary. Clearly, the private sector has performed and will continue to perform as an active participant in public life.

However, while executives prioritize a variety of societal obligations as very important/critical, fewer report that their own companies are following through with active programs and initiatives.

Few witness skepticism or resistance to corporate citizenship at any level, be it the boardroom, middle management, or line employees. A healthy proportion cites business drivers from reputation to strategic leverage, all underscored by the company's commitments to traditions and values. Yet a lack of resources remains as the biggest obstacle from improving performance as a corporate citizen that a plurality of respondents rate as "average."

The question raised by the survey is whether corporate citizenship is ready to turn into a strategic discipline inside companies. Is there a shift taking place from a philanthropic or public relations focus toward the goal of maximizing the effectiveness of corporate social engagement? Are companies becoming increasingly sophisticated about how they manage business and society relations, and social issues that affect the long-term success of their business?

The data suggest that large companies may be best prepared to embed corporate citizenship as a fundamental operating strategy. Executives from large companies are more likely to note the influence of stakeholders and more likely to identify strategic value from performance as a corporate citizen.

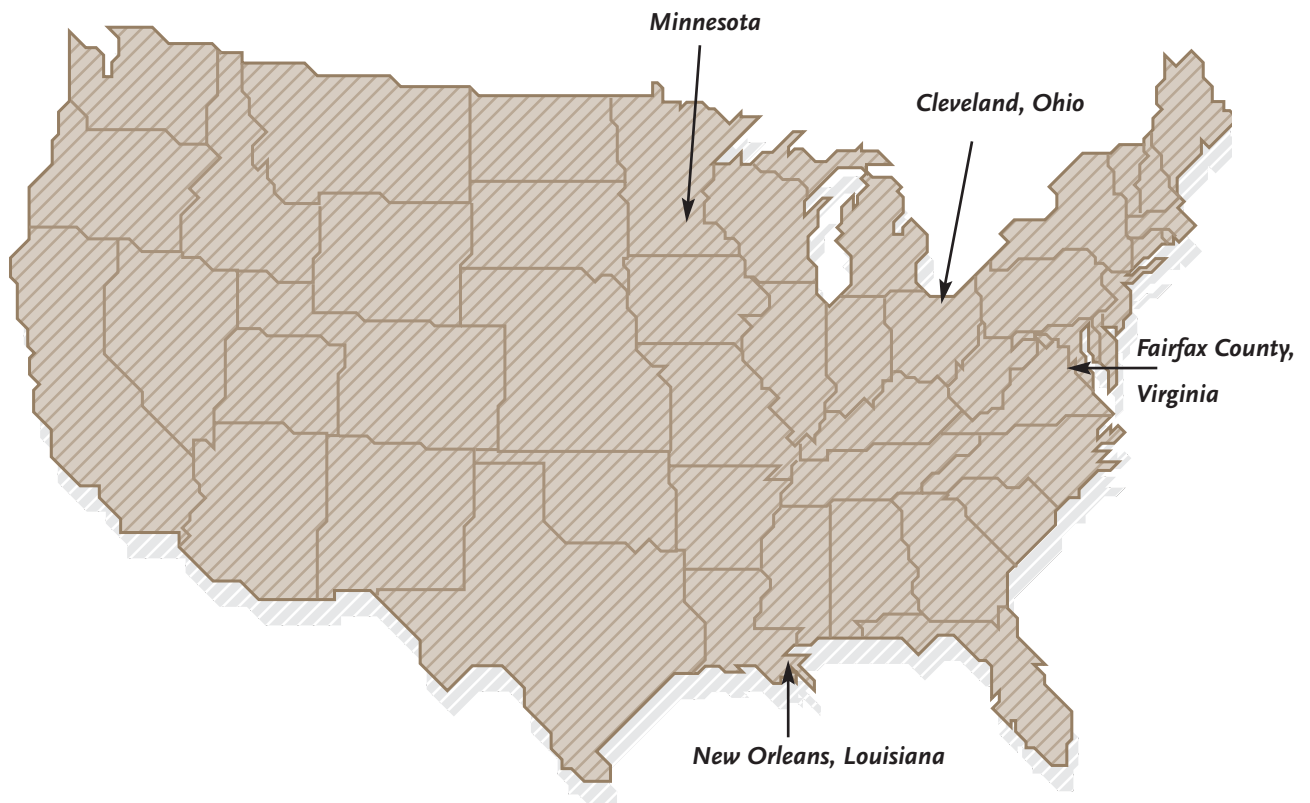
This is in no way meant to discount the potential of small and medium-sized companies. But the survey, in one of the more notable differences from 2003, does suggest a modest split between the expressed attitudes and commitments of large companies vs. small and medium-sized. It will be useful to observe whether corporate citizenship becomes more entrenched in large companies as “business as usual.”

The findings also indicate that corporate citizenship programs continue to be diverse, idiosyncratic, and specialized. No single social issue enjoys a majority of support across the spectrum of business, though a majority of large businesses express commitment and involvement in workforce training (58%); supporting community development (56%); and improving product safety (56%), K-12 education (55%), and community college and higher education (51%). Large companies also tend to pay special attention to issues related to their employees and see more opportunities to leverage corporate citizenship to support employee concerns.

In 2005 corporate citizenship in America falls across a spectrum, rather than a uniform one-size-fits-all strategy. As the complexities of society become greater and the expectations of the public and private sectors shift, the role of business will certainly evolve. In what manner and to what extent? News headlines, annual reports, and business analysts will provide partial answers until the next biennial State of Corporate Citizenship survey in 2007 provides the fuller picture of this very dynamic part of the U.S. landscape.

Regional Profiles

As a supplement to the 2005 survey, the research team conducted a series of focus groups with business leaders in several areas of the country including two locations in Minnesota; Cleveland, Ohio; New Orleans, Louisiana; and Fairfax, Virginia. Highlights from these discussions follow.



State-wide Perceptions: Minnesota

State Profile: Minnesota

Research conducted by Grow Minnesota!, a coalition of Minnesota Chambers of Commerce led by the state chamber, found that in 2003-2004:

- Fifty-one percent of companies experienced increased profitability
- More than half planned to increase employment in the next year
- Almost 75% rated their communities as strong places to do business
- Minnesota's fastest-growing profession is computer engineering (141% growth rate over 10 years)
- Minnesota is headquarters for 19 of the Fortune 500 companies, claiming \$237 billion in revenue in 2003

Source: Minnesota Chamber Web site and Minnesota Department of Employment and Economic Development

At the Minnesota Chamber of Commerce, business leaders discussed Minnesota's corporate citizenship activities, with dominating themes including business leadership in the community and the importance of education.

Focus group participants described community leadership in a number of ways. One person spoke of his role as a city council member and his belief that business involvement in state and local government could help create favorable conditions for affordable housing, quality education, a high quality of life, and other state and community issues. Others said that business leadership boils down to leading by example and "causing action" — being active participants in fixing community problems. Minnesota's medium-sized businesses received praise for their increasing involvement in making the state stronger.

Minnesota participants believed the state's long-term success will largely depend on the availability of quality education at the state, regional, and school district lev-

els, as well as the ability to prepare the next generation for the workforce. One noted that economic development is often built around education centers that serve as "magnets for brain power" which, he concluded, is what he wants for Minnesota.

When asked what corporate citizenship means, one participant said that Minnesota business leaders feel a "sense of ownership over each others' futures," which motivates them to help maintain a high quality of life, educate the children, and attract new business. Another said that Minnesota has always exemplified corporate philanthropy, and others cited employee well-being and the balance between work and play as a shared value that makes the quality of life and the ability to do business in Minnesota strong.



Local Perceptions: Mankato, Minnesota

"The Greater Mankato business community takes great pride in their commitment and dedication to their support of philanthropic efforts. As a regional center for Minnesota, businesses understand that in today's competitive marketplace, we must be willing to support diverse initiatives."

— David Schooff, president, Greater Mankato Chamber of Commerce

The research team also visited the Greater Mankato Chamber of Commerce, located in the southern part of the state.

A specific challenge emerged as a driver for business investment and involvement in the community: The Mankato business leaders expressed concern about the disproportionate allocation of public funding for the Minneapolis-St. Paul area versus funding for the rest of the state, or what they called "Greater Minnesota."

From the perspective of the Mankato business leaders, budget choices such as funding a Metro Transit exten-

sion in Minneapolis-St. Paul as opposed to funding highway improvements around the Mankato area have a direct civic, social, and economic impact on the local business community. One participant said, "If we don't get support to build out our infrastructure here, and improve our education capabilities here, we will continue to see a brain drain and the flight of our young people to places that can offer more opportunities." Several participants said avoiding this outcome was one of the motivators for education programs and other civic initiatives to make Mankato a great place to invest in and do business.



Striving for Global Competitiveness: Cleveland, Ohio

Local Profile: Greater Cleveland Area

- Largest economic area in Ohio
- Headquarters for 110 companies, including 12 Fortune 500 companies
- Greater Cleveland houses 150 international companies from 25 countries
- Education: Half of the greater Cleveland population has had at least some college-level education
- Average unemployment rate (2002): approximately 6%

Source: *The Greater Cleveland Partnership*

The research team coordinated with Business Volunteers Unlimited to organize a focus group of Cleveland-based business leaders. They discussed how their deep concern about the region's economic uncertainty led them to participate in a leadership planning process that resulted in "Cleveland 2010," a community

redevelopment initiative. For example, some companies have developed innovative customer service plans to bring goods and services to underserved communities within the Cleveland area. A local utility company representative also talked about efforts to invest in and revitalize old office space in distressed areas of the city.

Also of particular concern to the Cleveland participants was the dichotomy between the inner city and the suburbs. Participants cited a need to maintain significant responsibility for Cleveland's future direction as the next wave of business leaders begin transitioning into their roles. Nevertheless, they rated the state of corporate citizenship in Cleveland very strongly, particularly due to concern about the future of the city.



Deep Concern About Local Conditions: New Orleans, Louisiana

Local Profile: Greater New Orleans

- Economic Development: Greater New Orleans, Inc. was founded to create 30,000 new jobs and \$1 billion in new payroll by January 2009
- Region comprises the city of New Orleans and the surrounding 10 parishes in Southeast Louisiana; accounts for approximately one-third of state's economy
- Education: 77% of adults hold at least a high school diploma
- Average household income: \$49,075
- Unemployment rate: 6.8% (2000)

Source: Greater New Orleans, Inc. Web site

(Editor's Note: As the destructive power of Hurricane Katrina leveled the Gulf States region it also revealed that economic hardship is not new to the Greater New Orleans area and reinforced the prescient messages from a June 2004 session with the local business community, described below. As this report goes to print only days after the hurricane, we are witnessing early support for relief efforts from the U.S. business community that is expected to reach historic levels.)

In June 2004, the State of Corporate Citizenship research team met with 20 business leaders in New Orleans just as the new New Orleans Chamber of Commerce was established. The primary concern the business leaders expressed related to the high unemployment rate compared to the national average, as well as the need to invest in social infrastructures to support the local community. A second leading theme of the discussion was the need to invest in education.



Additionally, the participants in New Orleans commented on the need for:

- Local companies to have a better mechanism to determine relevant and effective community partners.
- Local nonprofit organizations to gain a better understanding of the available opportunities to work with local businesses.
- More training and knowledge in local businesses on how to work more effectively with local community partners.
- Better reporting about the positive contributions that businesses make.

Corporate citizenship was seen as a way for companies to help out the hardest hit members of the community, and they saw partnerships and support for nonprofit organizations as a way to use their limited dollars and resources as effectively as possible to address these needs. They also said that there needed to be a spirit of civic renewal, and increased transparency and a willingness to engage in open dialogue on the part of the public sector.

Explosive Growth and Development: Fairfax County, Virginia

Local Profile: Fairfax County

- More than 28,700 businesses
- More than 543,000 jobs
- 4,700 technology firms, 332 foreign-owned firms, six Fortune 500 firms
- Ten percent self-employment rate (2003)
- Median family income: \$95,600

Source: *Fairfax County Chamber of Commerce and Fairfax County Economic Development Authority*

Fairfax County, located just outside Washington, D.C., has experienced rapid growth over the last few years, and has benefited significantly from the development of real estate, technology, defense, healthcare, and government services firms.

Fairfax County companies were highly concerned about infrastructure and the ability of transportation, medical, education, and other services to keep pace with the rapid growth in commercial activity and population.

They also cited the need to be able to work more effectively with community service providers; develop greater coordination amongst themselves and with government agencies, private foundations, and other donors; and get more credit for what they are doing in the community. They said that while the will to be involved in the community is strong, they would like to continue to improve their effectiveness in terms of engaging social issues.

Business leaders said that there is tremendous positive energy in every sector, and that the biggest challenge facing the business community is dealing with the challenges associated with rapid growth.



Appendix A: Sample Comparison to U.S. Business Population

The survey respondents were a random sampling of members of the U.S. Chamber of Commerce, which skews toward smaller companies, and members of The Center for Corporate Citizenship at Boston College, which skews larger. The company size of respondents by employee count is heavily weighted toward small companies, as is the U.S. business population, though the proportions are different. Figure 19 compares company size by employee count of the 2005 sample to that of American businesses as determined by the 2001 Census data. The perspectives of large companies were deemed critical by the research team, and these companies were over-sampled to ensure sample sizes large enough to draw viable conclusions.

The 2005 survey respondent companies are 10% women-owned and 2% minority-owned. The research team suspects these groups are underrepresented as compared to the general population. The 1997 Census data show that 26% of firms are women-owned, while nearly 15% are minority-owned.

Though this may be due in part to differing definitions — the Census data does not include publicly held companies, while the data in this report do — the Census data also shows that 82% of minority-owned businesses are sole proprietorships. Given that the 2005 respondent sample includes more large companies than the general population, the pool may have included greater minority-owned and women-owned businesses had smaller companies been more heavily represented.

**Figure 19:
Small, Medium-Sized,
and Large Companies:
2005 Respondents vs. General Population**

Company Size by Employee Count	2005 Sample	2001 Census Data
1-99: Small	72%	98%
100-999: Medium-Sized	18%	2%
1000+: Large	10%	0%

2003 Respondents

Company Size by Employee Count	2003 Sample
1-99: Small	70%
100-999: Medium-Sized	11%
1000+: Large	19%

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- Alice Korngold, President and CEO, Business Volunteers Unlimited, Cleveland
- Bill Lecos, President and CEO, Fairfax County Chamber of Commerce
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- David Olson, President, Minnesota Chamber of Commerce
- Harvey Neu, President, Neu's Building Center
- Jackie Reis, Director, Building Business Investment in the Community, Minnesota Chamber of Commerce
- Douglas Sabo, Director of Government and Community Relations, McAfee Inc.
- Tim Scanlan, President, Scanlan Industries
- David Schooff, President and CEO, Greater Mankato Chamber of Commerce

The Center for Corporate Citizenship at Boston College,

a membership-based research organization, is committed to helping business leverage its social, economic and human assets to ensure both its success and a more just and sustainable world. As a leading resource on corporate citizenship, The Center works with global corporations to help them define, plan and operationalize their corporate citizenship. Through the power of research, executive education and the insights of its 350 corporate members, The Center creates knowledge, value and demand for corporate citizenship.

The Center offers publications including a newsletter, research reports, and white papers; executive education, including a Certificate program; events that include an annual conference, roundtables and regional meetings; and a corporate membership program.

www.bc.edu/corporatecitizenship

U.S. Chamber of Commerce Center for Corporate Citizenship

is a business service organization of the U.S. Chamber of Commerce. It exists to enable and facilitate corporate civic and humanitarian initiatives particularly in terms of civic engagement, economic development, economic security, and disaster management/economic recovery. It is ideally positioned to do so through its close interaction with government policymakers and many leading civic groups, community service organizations, industry associations, and individual businesses.

The CCC's core competencies include policy analysis and development; research and data gathering; facilitating public-private partnerships; coordinating crisis response networks; and producing events, conferences, and networking.

<http://www.uschamber.com/cc>

The Hitachi Foundation is an independent nonprofit philanthropic organization established by Hitachi, Ltd. in 1985. The Foundation seeks to address conditions that perpetuate economic isolation in America. The Foundation invests to expand opportunities for economically isolated people to work and earn living wages and accumulate savings and assets. The actions and interaction of business and community are fundamental to this goal. The Foundation focuses at the intersection of two sectors where path-breaking business and community practices are underway. By illuminating the business and community roles in this equation, the Foundation hopes to have a profound influence in both sectors as they strive to strengthen corporate citizenship and civil society.

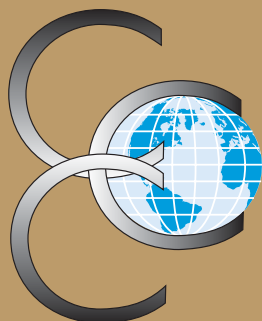
<http://www.hitachifoundation.org>



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