

**What Will It Take to Create a Tipping Point for  
Corporate Responsibility?**

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### **ABSTRACT**

In the context of corporate scandals, growing concerns about human and labor rights in global supply chains, environmental degradation, and globalization's impact on developing nations, many questions have arisen about what it will take to restore public trust in corporate integrity. This paper explores the emerging pressures for companies to manage responsibilities more proactively and investigates what elements of internal corporate responsibility management and external corporate responsibility assurance will need to be in place before a 'tipping point' for responsibility can conceivably be generated. The paper argues that generally accepted responsibility management systems, analogous to accepted quality management systems, will need to be systemically in place within companies. Insufficient alone, responsibility management systems will need to be supplemented by external responsibility assurance systems, comprised of three additional elements: generally accepted principles and codes that provide a foundation of accepted values, globally accepted multiple bottom line audit and reporting guidelines comparable to GAAP within the accounting industry, and credible external verification, monitoring, and certification systems relevant to the various stakeholder and ecological practices involved in managing corporate responsibility.

## **What Will It Take to Create a Tipping Point for Corporate Responsibility?**

In the context of corporate scandals, growing concerns about human and labor rights in global supply chains, environmental degradation, and globalization's impact on developing nations, many questions have arisen about what it will take to restore public trust in corporate integrity. While many companies claim to have established and adhere to corporate codes of conduct, sometimes affecting their entire supply chains, and while numerous voluntary initiatives have sprung up that provide a range of frameworks that companies can use to manage stakeholder and environmental responsibilities, the wave of corporate (and other institutional) scandals and misdeeds in the early 2000s makes clear that corporate integrity, trustworthiness, and even compliance with the rule of law is problematic. Despite the many voluntary initiatives that have been developed ostensibly to ensure that companies meet their obligations and responsibilities to the broader societies in which they operate, non-governmental organizations (NGOs), environmentalists, and labor unions, critics still question whether voluntary actions by companies to monitor their own behavior can be credible. Further, scans of the companies involved in many of the initiatives to be discussed below suggest that in many ways it is the 'usual suspects' who are actively developing and promoting corporate responsibility agendas. Despite a great deal of momentum, the push for more responsible companies apparently has yet to reach a tipping point (Gladwell, 2000). This paper will explore some of the initiatives that might potentially be linked together to create just that tipping point.

### **A Context of Competing Interests**

Both inside and outside of companies, the outcry against the abuses that have been so prominent in the US press since the collapse of companies like Enron Corporation, Anderson, and WorldCom has raised public awareness about corporate responsibilities. Expectations about how companies should act in the world, with respect to specific stakeholders like investors and employees, to communities where they operate, and to the developing nations whose labor force provides much of the manufacturing capability for the modern transnational company, have steadily grown in recent years, even without the current wave of abuses, frauds, and malfeasance. Evidence for these changing expectations comes in the form of new and emerging institutional forces at play in the environment surrounding companies today that may have some potential to lead to important new governance structures in the future.

Companies today operate in a complex landscape of competing pressures. For publicly held companies, of course, the dominant pressures of the past 25 years or so have focused largely on financial performance, with an emphasis on 'maximization of shareholder wealth.' Pressures from the financial community have generated the currently dominant model of investor capitalism (Useem, 1999; Kelly, 2001), which tends to shunt aside other stakeholders' interests. Accompanied by shifts in CEO

compensation during the 1980s and 1980s that rewarded high flying financial performance, short-term orientation, (some would say greed, too), and created what one scholar characterizes as the ‘curse of the superstar CEO’ (Khurnana, 2002), the financial community placed huge faith in CEOs’ capacity to deliver (financial) value and performance. Pressures from Wall Street and other financial markets and the accompanying cult of the CEO are blamed by many observers for the corporate arrogance, scandals, earnings restatements, and other forms of malfeasance that have plagued corporate America because they focus attention on short-term as opposed to long-term results. Faced with continuing monumental pressures from shareholders and Wall Street to achieve constantly increasing bottom line results, companies too frequently succumb to a ‘profits at any cost’ mentality that puts shareholder interests above all others.

### **Countervailing Pressures**

Yet there are countervailing pressures from other stakeholders to those coming from the financial community. Despite the dominant logic of investor capitalism based largely on Chicago school economic theory, these countervailing pressures have begun to emerge from the strengthening of civil society and voice of the wide range of social, political, and environmental activists, like the ones who became highly visible in 1999 in the Seattle protests surrounding the meeting of the World Trade Organization. One source of new pressures in the direction of more responsible management comes from the growing social investment movement, which has been claimed to be the fastest growing segment of the market since the stock market began plummeting. Social investors demand more responsible practices on the part of companies in which they invest (e.g., Gravitz et al., 2001), which appears to pay off in performance results (or at least creates few penalties) (e.g., Guerard, 1997; Angel & Rivoli, 1997; Waddock, Graves & Gorski, 2000). Pressures for responsibility also come from customers, who are demanding “green” and otherwise responsible products and companies (Rochlin and Christoffer, 2000), as well as from employees are choosing where to work on the basis of corporate reputation for responsibility (Greening & Turban, 2000).

Today’s anti-corporate activism is sometimes aimed at specific companies, particularly those that are powerful and dominant within their industries, i.e., those that are highly visible (e.g., Nike,<sup>1</sup> Starbucks,<sup>2</sup> and Wal\*Mart<sup>3</sup>). Such activism can include company-specific websites and campaigns, which feature news, boycott or protest tactics, and relay information that can damage companies’ reputation and brand image. Such websites sometimes also feature chat rooms where complaints and comments are lodged that can raise questions about the company’s overall level of responsibility. Other

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<sup>1</sup> Part of Oxfam America’s campaigns. See <http://www.caa.org.au/campaigns/nike/index.html>. See also, e.g., <http://www.dogeatdogfilms.com/mikenike.html>,

<sup>2</sup> E.g., <http://www.organicconsumers.org/starbucks/index.htm>.

<sup>3</sup> One site is devoted to the ‘best anti-Wal\*Mart links, e.g., <http://www.bit-net.com/~dka/Resources/Best%20Links.html>, but see also <http://www.walmartwatch.com/>, and the Teamsters’s anti-Wal\*Mart page, [http://www.teamsters63.org/Teamster63/walmart/Walmart\\_01.html](http://www.teamsters63.org/Teamster63/walmart/Walmart_01.html), as other examples.

websites and activist pressures deal with specific industries or are aimed more generally at big-business per se. The latter tend to emphasize overall anti-corporate, anti-global activism around specific practices, power, and issues (e.g., labor practices, general anticorporate websites, sweatshop watches, and environmental activism). These types of websites have names like Corporate Watch,<sup>4</sup> Adbusters,<sup>5</sup> and Sweatshop Watch,<sup>6</sup> to name a few. So powerful are these activists in impacting corporate reputation negatively that the public relations profession and their member companies have begun developing ‘anti-corporate activism’ tactics and giving advice for dealing with activists to companies under fire.<sup>7</sup>

Anti-corporate activism has been aided by media attention to the current spate of corporate scandals, the negative impacts of globalization on some people, and capacity for communication provided by the worldwide web. Media pressures and popular books have also created significant new pressures on companies with brand identities and reputations that matter to them. Books like Naomi Klein’s *No Logo*,<sup>8</sup> Charles Derber’s *Corporation Nation* and more recent *People before Profit*, Schlosser’s *Fast Food Nation*, and Barbara Ehrenreich’s *Nickel and Dimed: On (Not) Getting By in America*<sup>9</sup> (among many others) have raised awareness of the role that multinational giants play in creating problematic social conditions at home and abroad. Such books have created significant reputational problems for certain brand name companies, which have also been targeted by labor, human rights, anti-corruption, and environmental activists. At the same time, by highlighting values other than economic, they have also raised important issues of social justice, safety, manipulation of citizens and consumers by corporations, and power.

Recognition of natural resource limitations combines with companies’ exploitation of raw materials to generate additional concerns. Environmental management, sustainability, and company reputation have become considerably more important today, particularly since the European Union’s issuance of a white paper on corporate social responsibility in 2002 that focuses heavily on issues of environmental sustainability. Additionally, new institutions, such as ratings and rankings of companies’ stakeholder-related practices (“Best Companies to Work For” and the like) publicize companies’ practices, for good or for ill. The proliferation of global standards, new reporting schemes for multiple bottom line reports, and monitoring companies (all to be discussed in detail below) have enhanced public awareness of issues raised by corporate behavior and raised the stakes for companies that desire to be perceived (or to actually be) responsible.

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<sup>4</sup> See: <http://www.corpwatch.org> and <http://www.corporatewatch.org.uk/>.

<sup>5</sup> For examples, see: <http://www.adbusters.org/home/>,

<sup>6</sup> See, e.g., <http://www.sweatshopwatch.org/>, <http://swatch.igc.org/swatch/codes/ucas/>, <http://www.people.fas.harvard.edu/~fragola/usas/index.html>, <http://www.uniteunion.org/index.htm>, and <http://www.nlcnet.org/> for some prominent examples.

<sup>7</sup> See, e.g., <http://www.e911.com/exacts/EA060.html>, and [http://www.e911.com/exacts/EA060\\_2.html](http://www.e911.com/exacts/EA060_2.html) for examples of the ways companies are being advised to respond to activism.

<sup>8</sup> For examples of some of the activism generated by this book, go to: <http://www.nologo.org/>.

<sup>9</sup> Notably, this book has now been turned into a play.

The corporate scandals in the US of the early 2000s also created numerous calls for reform of corporate governance, mostly in the interest of serving shareholder better, but also creating a context in which transparency and accountability have come to the forefront of thinking about corporate governance. In the US, the Sarbanes-Oxley Act of 2002 (Public Law No. 107-204, 2002) aims to hold executives and auditors more accountable to shareholders. Among other things, Sarbanes-Oxley requires CEOs and CFOs to personally certify the full compliance of the company's disclosure documents with SEC requirements, prohibits loans to company officers and directors, and requires reimbursement of incentive-based compensation when a company is found guilty of earnings misstatements (Metzger, Colihan, Stubblefield, and Best, 2002). Many observers, believing that Sarbanes-Oxley is insufficient to create a level of transparency and independence of corporate reporting that would satisfy not just shareholders but also other stakeholders have called for additional reforms. One group, called the Stakeholder Alliance has proposed a "Corporate Accountability Act" that would ensure auditor independence (see <http://www.stakeholderalliance.org/CorpAccAct.html>). Others call for more significant reforms that would bring employees onto boards of directors (as they already are in the German system, for example), bar law-breaking companies from receiving government contracts, and establishing a "corporate duty of loyalty in law to the public good" (Kelly, 2003). Such reforms, if implemented, would have the consequence of opening up corporate activities to a broader array of stakeholders, creating an environment for companies of greater transparency and accountability, which is much demanded by many corporate critics.

Further, the external environment facing business changed rather dramatically during the 1990s with the evolution of the worldwide web and its almost instantaneous global communications capacity. The Internet provides a revolution in communication capacity that allows for the emergence of new organization forms for the 21<sup>st</sup> century analogous to that of the railroad and telephone/telegraph studied by Chandler (1962). Just as corporate structure, facilitated in the 19<sup>th</sup> and early 20<sup>th</sup> century by these new communication and transportation tools, shifted from simpler forms (functional or simple structures) that needed to be managed close to home toward multi-divisional (M-form) structures where control could be extended geographically (Chandler, 1962), so a similar evolution in form has occurred with the advent of the worldwide web—the network structure. In large measure, it is this capacity of a network of suppliers and customers to communicate across vast distances that combined with the merger and acquisition phenomenon, the development of workable quality management strategies, just-in-time inventory systems, and cost pressures to create the drive for outsourcing to global suppliers that raised awareness of issues of human and labor rights, sweatshop conditions, child labor, and ecological damage.

Unlike previous structural evolutions documented by Chandler (1962), today's network structure is characterized by permeable boundaries, not only within the primary scope of the company's responsibilities (Preston & Post, 1975), but, more dramatically, by demands for voice and input into corporate affairs by external stakeholders who have witnessed the impact of corporate activities on employees, local communities, developing countries, governments, and the natural environment (not to mention industrialized

nations). Using the very technologies that created corporate network structures and fueled by the instantaneous communication capacity of the web, concerned actors from civil society, environmentalists, labor, and anti-corruption advocates have used their 'voice' (Hirschman, 1972) in new ways to create a context of new demands on companies for responsibility, accountability, and transparency that are becoming harder for companies to ignore.

Companies with long global supply chains, e.g., most of the footwear and many toy and clothing companies, have been hard hit by scandals associated with labor and human rights practices in the manufacturing companies from which they source their products. Other companies have been targeted for involvement in countries that have abusive regimes in place (e.g., Burma/Myanmar and Nigeria). In some instances the reputational damage has been severe enough to push targeted companies into the lead in developing external monitoring, certification and verification procedures; however, voluntary initiatives by companies alone lack the credibility to satisfy external critics. Such voluntary initiatives on the part of companies will be discussed below as essential components of the emerging set of institutions that need to be in place to provide any degree of credibility to corporate efforts to prove themselves responsible to external critics. Arguably, it will be at least in part a structured system of voluntary initiatives, probably coupled with shifting mandatory and regulatory requirements, involving both internal and external actors in different parts of the world that will create a context for an eventual tipping point toward effective management and reporting of corporate responsibility and corporate citizenship.

### **Elements of a Tipping Point**

The landscape of the corporate responsibility 'movement' has shifted rather dramatically since the early 1990s, when a relatively few outside-the-mainstream academics and forward-thinking companies were talking about corporate 'social' responsibility. In that context social responsibility really took on the connotation of discretionary activities directed at the betterment of society (Carroll, 1979; 1998). Today, a corporate philanthropy, volunteer, or community relations program is no longer sufficient to reassure stakeholders that a company is being responsible. Indeed, the terminology has shifted to reflect the changing scope of demands on companies, from the 'do good' stuff of philanthropy that used to represent corporate 'social' responsibility, to new terms that encompass corporate strategies and practices, including corporate citizenship, corporate responsibility, and stakeholder engagement (Andriof & Waddock, 2002).

In contrast to corporate 'social' responsibility, which is frequently delimited to discretionary activities (Carroll, 1998), corporate citizenship, corporate responsibility, and related terms have a broader emphasis that involve the company's treatment of an interactions with their stakeholders, nature, and the broader societal environments as enacted through their strategies and operating practices (Marsden & Andriof, 1998; Marsden, 2000; McIntosh, Leipziger, Jones & Coleman, 1998; Waddock, 2002). In

today's climate, as the Conference Board's director of research in global corporate citizenship, David Vidal was quoted as saying in the executive magazine *Across the Board*, 'Citizenship...deals with primary business relationships that are part of a company's strategic vision, and a good business case can be made for corporate citizenship' (Vogl, 2003).

The pressures on companies that have created this business case for corporate citizenship aim for more responsible, accountable, and transparent behaviors. But, especially in the current climate of distrust about corporate integrity and financial audits, corporate critics, social investors, employees, and customers are unlikely to take companies' word that they are behaving responsibly at face value. Skeptical stakeholders increasingly demand assurance (some might say more credible assurance than has been provided of late by financial audits) that there is reality behind the corporate rhetoric of responsibility and citizenship. Because pressures related to what we can call corporate integrity come from a wide range of mostly external stakeholders, it is becoming increasingly clear that *systems* of inter-related institutional structures inside and outside companies may be necessary.

Two kinds of interconnected systems will potentially be needed. Internally, companies will need to develop (and in many cases already are developing): internal *responsibility management systems* that establish corporate standards and codes of conduct and ensure that they are being implemented. These management systems are already being supported by a growing array of corporate citizenship/responsibility consultancies, as well as trade, industry, and business association initiatives that provide information and education, and voluntary multi-stakeholder alliances that provide guidance and input into internal corporate management systems from a range of perspectives.

Externally, there will also need to be a linked set of what might be called *responsibility assurance systems*, the structure of which is already beginning to emerge. To provide credibility to responsibility management systems internally, companies will need to adhere at minimum to globally accepted norms or standards of practice, which are developed internally through accepted responsibility management systems of the type briefly discussed above. For the sake of transparency and accountability, they will also need standardized external reporting structures for what is called the triple bottom line (Elkington, 1998) of economic, social, and ecological responsibility. Finally, to satisfy skeptics, there will need to be a credible system of certification, monitoring, and verification related to reported corporate practices, undertaken by organizations independent of the company and incorporating the views of numerous stakeholders. The outlines of both internal and external systems (see Figure 1) have already begun and will be the focus of the next two sections.

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Figure 1 about here

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## **Internal Responsibility Management Systems**

In response to the external pressures and criticisms noted above, as well as some specific laws in the US affecting government suppliers (e.g., the Foreign Corrupt Practices Act), many companies have already developed internal corporate codes of conduct. Although many defense contractors have had codes of conduct in place since the scandals of the late 1970s and early 1980s (mostly as anti-corruption and anti-bribery measures), companies in other industries have only recently responded to the pressures for greater responsibility by implementing codes, e.g., in the retail, footwear, toy, and other highly visible brand-sensitive sectors.

All the codes of the conduct posted on obscure walls, lying unread in desk drawers, or written in English in developing nations, however, will not satisfy many corporate critics. Further, given the dominance of the shareholder wealth maximization model, most companies need a reason beyond admonishments from business ethicists and corporate critics to behave responsibly. For most companies, that means finding a business reason to take responsibility management seriously. The reputational problems that attend more sophisticated customers, employees, and social investors are beginning to supply that reason, as well as mounting evidence that managing responsibly makes good business sense.

The simple analogy here is to the quality movement, which was hardly taken seriously in most American firms until their Japanese and German competitors were quite literally eating their market share in industries like electronics, consumer products, and automobiles. Even the loss of market share or, indeed, whole industries, was an insufficient wake-up call. It was not until companies in the European Union threatened to stop doing business with suppliers that did not conform to ISO quality standards that there was a serious business reason to implement standardized quality standards (Evan & Lindsay, 2002). Perhaps, as will be discussed below, similar threats will be needed to make corporate citizenship real.

For some companies, particularly those buffeted by recent scandals of various sorts, corporate citizenship activities are already real. In companies taking their citizenship seriously, internal responsibility management systems are evolving to support these codes of conduct and focus realistically on stakeholder engagement processes (Svendsen, 1998; Lawrence, 2002; Waddock, Bodwell & Graves, 2002; Waddock & Bodwell, 2002). Similar in many respects to quality management systems, responsibility management are systemic management approaches to managing stakeholder and environmental impacts and other responsibilities. Just as with both quality and environmental management approaches, as best practices begin to be more widely disseminated through mechanisms like the Global Compact's Learning Forum or case studies and research, it is likely that within the next dozen or so years, generally-applicable and well-respected approaches to responsibility management will be developed and promulgated.

Even rigorous implementation of internal codes of conduct and extensive responsibility management systems are unlikely to be sufficiently credible to activists on the outside of the firm. As a result, a growing array of related initiatives that compliment and support internal corporate responsibility management practices but provide external validity, transparency, and accountability has now begun to evolve. It is with the creation of a responsibility assurance system, i.e., the integration of these external verification systems and their implementation by a large number of multi-national companies throughout their supply chains that arguably creates the context for a tipping point.

### **External Responsibility Assurance Systems**

For the new imperative towards corporate responsibility to ‘tip’ over into becoming a business imperative in a business environment that demands continual growth and profits, external institutional forces pushing for more responsibility, transparency, and accountability will likely need to coalesce. Many scenarios that might create this tipping point are feasible in the emerging context of institutional pressures, including, of course, the potential for new government regulation that mandates specific behaviors, practices, or reports. For example, the US Securities and Exchange Commission (SEC) voted in January 2003 to require mutual fund companies to disclose their policies on voting proxies as well as the actual votes. In 1999, the United Kingdom became the first nation to pass a law requiring the trustees of pension funds to disclose their approach to issues related to social responsibility in their investment strategies, or not, as the case may be. France has a similar law that applies to companies listed on the Paris stock exchange instead of pension funds, and Johannesburg’s Stock Exchange mandates compliance with specific codes of conduct (Vogl, 2003). The UK’s pioneering law set the stage for other disclosure regulations like the SEC ruling in the US, which do not necessarily regulate what a fund does but requires a new level of transparency about decision criteria that make less responsible practices more apparent to critics.

This type of mandate has potentially interesting effects on funds and the companies whose stock is in those funds, since neither the fund managers nor the companies wish to be seen as irresponsible. In a recent report on the 1999 UK law, the UK group Social Funds reported on a study of the implementation of the British law:

The report found that 59 percent of the UK pension funds surveyed, representing 78 percent of total assets, incorporate socially responsible investment into their investment strategies. Only 14 percent of funds, representing 4 percent of total assets, state specifically that social concerns will not be taken into account. These results suggest that larger pension funds are more likely to take socially responsible investment considerations into account than smaller ones. (Posted at <http://www.socialfunds.com/news/article.cgi/article391.html>)

Laws like these and others that may be forthcoming could potentially create a new institutional framework around the level of transparency, accountability, and report content that companies *must* achieve whether or not they care about being accepted as

good corporate citizens. For many of the most vociferous corporate critics, only governmental mandate, significant power reduction, or the complete dismantling of corporate 'personhood' and the attendant rights will satisfy the concerns they raise or otherwise radically reshaping the relative power and influence of corporations on society (e.g., see Korten, 1999).

Short of mandate or such radical surgery on the modern corporation, however, what elements beyond voluntary codes of conduct and responsibility management are essential to creating a systemic approach to external responsibility assurance? Arguably an interlinked system consisting of at least the following elements will be needed:

- Generally accepted foundational principles, values, and guidelines that provide minimal standards that all companies are expected to meet with respect to core stakeholders and the natural environment.
- Globally recognized systemic approaches to responsibility management that can be applied uniquely to each company but provide for comparable levels of responsibility and stakeholder-related outcomes.
- Globally accepted multiple bottom line audit and reporting guidelines and principles that detail the content, scope, and credibility of what is reported, comparable to GAAP, Generally Accepted Accounting Principles.
- Credible external verification, monitoring, and certification systems built around overall responsibility management practices or related to specific issues (e.g., child labor, sweatshop working conditions, labor rights, living wage, environment, corruption).

Many of the pieces that would constitute such a voluntary institutional framework have already begun emerging and will be discussed in the following sections.

**Foundational Principles, Values, and Guidelines.** In addition to internal company-specific codes of conduct discussed above, there has been a proliferation of more general codes of conduct written by various groups external to companies that begin to point in the direction of what Donaldson & Dunfee (1999) term hypernorms, or globally accepted ethical principles. Most large multi-nationals have voluntary codes in place, which run the gamut from individual company codes, codes developed by trade associations, codes developed by companies in conjunction with other key stakeholders, and codes developed by international multi-lateral bodies like the OECD guidelines (Jenkins, 2001; Kolk et al., 1999).

Internal company codes are now supplemented by other codes written by a variety of groups external to any given company. Some codes are written by industry or business associations. Among these industry/business association codes are the Caux Principles for Business, Business Charter for Apparel Industry Partnership, the Keidanren Charter for Good Corporate Behavior, Keidanren Environment Charter, the Canadian Business for Social Responsibility Guidelines, the World Federation of the Sporting Goods Industry Model Code, and the Clean Clothes Campaign,<sup>10</sup> among others. Still other

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<sup>10</sup> See <http://www.cleanclothes.org/codes.htm>.

codes have been developed by multi-lateral or multi-stakeholder organizations and are intended to incorporate the perspectives of a range of stakeholders, not just businesses. Among these are the OECD (Organization for Economic Cooperation and Development) Guidelines for Multinational Enterprises,<sup>11</sup> the International Labour Organization's Tripartite Declaration on Principles concerning Multinational Enterprises and Social Policy,<sup>12</sup> and the Caux Roundtable Principles for Business.<sup>13</sup> Other codes are region-specific, e.g., the original Sullivan Principles (which dealt with South Africa and have morphed into the Global Sullivan Principles),<sup>14</sup> the Maquiladora Standards of Conduct (Mexico/Central America),<sup>15</sup> and the McBride Principles (Ireland).<sup>16</sup> Some industry associations have attempted to forestall critiques of their companies' practices by implementing codes of conduct (e.g., the Chemical Industry Association Code of Conduct<sup>17</sup> and Responsible Care,<sup>18</sup> and the Fair Labor Association's apparel industry workplace code of conduct<sup>19</sup>).

The proliferation of codes of various sorts creates a great deal of complexity for companies, resulting in a need for rationalization of codes over time. Many codes cover similar issues, though some leave out issues that are important to particular stakeholder groups (Kolk, van Tulder, and Welters, 1999). Codes of conduct literally codify the values that are important to be met, no matter what the competitive circumstances, providing a foundation or core that provides minimal standards that Donaldson & Dunfee (1999) term hypernorms. One recent book on codes argued that codes were an "idea whose time has come" (Williams, 2000). Over the next few years, it will be increasingly important to come to a common and globally-accepted understanding about what the underlying principles (hypernorms, see Donaldson & Dunfee, 1994; 1999; Donaldson, 1996 for initial efforts in this direction) are across this panoply of codes of conduct to avoid 'code overload' and possibly resulting disaffection from the implementation of fundamental standards. Simplicity may be key to gaining true corporate adherence to codes and principles, particularly if, on the other side of adopting a code is the necessity of being transparent about implementation processes and impacts.

One of the most striking of the array of codes and principles is the United Nations' Global Compact. Designed as a network to draw in companies and get them to agree to uphold a relatively simple set of nine foundational principles, the Global Compact carries the weight of the UN's moral authority, global reach, and multi-lateral approach to problem solving. The nine principles are each based on internationally agreed documents, such as the UN Declaration on Human Rights and the Environment, the Rio Principles, and the International Labor Organization's core conventions. The GC attempts to gain corporate adherence to the principles by getting CEOs of companies to

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<sup>11</sup> See <http://www.oecd.org/pdf/M000015000/M00015419.pdf>.

<sup>12</sup> See <http://www.ilo.org/public/english/employment/gems/eoo/inter/declartn.htm>.

<sup>13</sup> See <http://www.cauxroundtable.org/ENGLISH.HTM>.

<sup>14</sup> See <http://globalsullivanprinciples.org/principles.htm>.

<sup>15</sup> See <http://enchantedwebsites.com/maquiladora/cjm.html>.

<sup>16</sup> One company example is posted at: [http://www.iccr.org/products/proxy\\_book02/gca/macbride.htm](http://www.iccr.org/products/proxy_book02/gca/macbride.htm).

<sup>17</sup> See <http://www.sourcerer.co.uk/html/english/code.htm>.

<sup>18</sup> See <http://www.cia.org.uk/industry/guiding.htm>.

<sup>19</sup> See <http://www.lchr.org/sweatshop/aipfull.htm#WORKPLACE>.

make a public commitment to its principles and then join in the network of now nearly 800 companies from all parts of the world that have signed on. Of course, companies signing onto the GC would likely also have to have place a more extensive internal code that would outline the specifics for that company or its industry context, but the GC's nine principles represent a fundamental foundation of globally agreed values that provide a starting point and common ground from which other localized initiatives can potentially be built. As with many of the industry and multi-stakeholder codes, the GC's principles are voluntarily accepted and signed onto by companies. Because of the voluntary nature of the GC, no enforcement procedures are in place, however, the GC has linked to other important initiatives in the chain of interlinked systems that will ultimately be needed if external corporate critics are to be satisfied. Key elements of that systemic voluntary system will be clearly recognized, standardized social, ecological, and economic reporting and auditing procedures for the responsibility management systems companies put into place.

**Recognized and Accepted Responsibility Management Systems.** To make such a voluntary system work (and it is not entirely clear that the system, ultimately, will be entirely voluntary), at least one more major element needs to be in place, and that involves internal corporate management systems for managing responsibility, analogous to those already developed to manage quality. In other work, colleagues and I have termed such systems total responsibility management (TRM) approaches to make the analogy to quality management systems clear (Waddock & Bodwell, 2002; Waddock et al., 2002). Such management approaches will need to be systematized in much the same way that quality and environmental management systems have been over time. Such systems are now evolving with names like ethics management, responsibility management, and corporate citizenship management, but they are in early stages of development as companies begin to figure out how to actually implement their codes of conduct, values, and vision as systematically as they implement other management functions and responsibilities, like human resources, environment, and quality.

The ISO quality standards, Baldrige Award criteria, Deming Prize Criteria, and European Quality Award have focused companies on the important management and organizational change and development issues associated with implementing quality management systems. Similar standards, processes, and perhaps awards may be needed in the responsibility management arena to highlight not just best practices within one domain of stakeholder interest, but systemic management approaches for managing a company's impacts on stakeholders and the natural environment, which is the essence of responsibility management. But, as will be discussed in the next section, external critics will need verification that what companies say they are doing is what they are actually doing, hence the role and need for multiple-bottom-line reporting standards and guidelines.

**Multiple Bottom Line Reporting Standards and Guidelines.** Just as the accounting industry has had to develop generally accepted accounting principles

(GAAP), so too there is a need for commonly-agreed reporting standards for what has been termed the triple bottom line (Elkington, 1998): economic, social, and environmental. In the wake of the US-based corporate scandals traditional financial accounting, analysts and accountants are beginning to recognize the importance of coming to commonly-accepted reporting standards globally. In a recent book, DiPiazza and Eccles (2002) argue that to restore public trust after the scandals of the early 2000s in the US, financial accounting will need to be built on three core concepts: a spirit of transparency, a culture of accountability, and people of integrity. They further propose that in the future corporate financial reporting will need to be based on global GAAP (generally accepted accounting principles). Global GAAP also need to include industry-specific standards for measuring and reporting performance, and company-specific information. All of this information needs to be integrated into a holistic model for reporting out corporate performance. Although DiPiazza and Eccles are not talking about triple (Elkington, 1998) or multiple bottom-line reporting, much the same demands need to be met for bottom lines that impact important stakeholders and the natural environment.

In response to external pressures focusing on sustainability, many companies have already started to issue environmental reports in the past ten years. Some have issued social reports to report on their social impacts. Elkington (1998) terms reports that focus holistically on economic, social, and environmental reporting the ‘triple bottom line,’ and this TBL seems to be the minimum focus needed to report holistically on a company’s stakeholder and environmental impacts. As global GAAP needs to develop for financial reporting, so too is a global set of standards and reporting principles for the triple (or multiple) bottom lines needed. Many of the remaining large accounting firms are working on more holistic audit systems (Bell, Marrs, Solomon & Thomas, 1997; Lewellyn & Sillanpää, 2000), balanced scorecard approaches (Kaplan & Norton, 1992), or corporate responsibility audits (Waddock & Smith, 2000).

One important recent initiative aimed at developing global reporting standards is the Global Reporting Initiative (GRI). Given its origin in a multi-stakeholder collaboration on a global level, GRI has the potential to become the generally accepted framework of principles for companies voluntarily reporting on economic, social, and environmental (sustainability) related practices. The GRI,<sup>20</sup> which was founded by CERES (the Coalition for Environmentally Responsible Economies) is partnering with the United Nations Environment Program (UNEP) and is officially linked to the UN Global Compact and its set of nine foundational principles, which also enhances its credibility. Although GRI has faced some criticism because of the complexity of its standards and principles, it fundamentally aims to develop comprehensive and comparable reporting standards related to what GRI terms sustainability, which encompasses social, environmental, and economic issues.

GRI works in collaboration with key international agencies of the UN as well as other stakeholders to foster its credibility and extend its reach. Further, GRI embraces some of the standards generated by voluntary business organizations like the World

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<sup>20</sup> See <http://www.globalreporting.org/index.htm>.

Business Council for Sustainable Development (WBCSD) (e.g., the Greenhouse Gas Protocol). Still, as the next section will discuss, because of the voluntary nature of GRI and adherence to principles and codes in the absence of mandated codes and reporting requirements, companies are likely to find that external and credible verification, monitoring, and certification processes is an ever more common and important as part of the total package of responsibility assurance.

### **Credible Verification, Monitoring, and Certification.**

Given the issue of credibility associated with voluntary initiatives, externally verifiable measurement of a company's sustainability and responsibility practices is quite possibly going to become another necessary concomitant to GRI or whatever reporting standards emerge as GAAP for responsibility. After all, there must be something that is verifiable, consistent, and reflective of actual practice to report. Thus, the Global Compact's nine principles, or whatever set of principles or code of conduct is adopted, and the GRI's reporting standards, or some similar set of generally accepted reporting standards, need to be supplemented by measurement, monitoring, and verification systems that directly assess corporate practices if they are to be credible.

Companies are in the spotlight for a number of different types of practices, including human rights, labor standards, working conditions, child labor, environment, participation in certain problematic regimes, and corruption, to name the most prominent. Various systems have been developed in the past few years for monitoring companies practices in these different domains. Among the leading contenders for assessing practices are the SA 8000 labor standards, and the AA 1000 stakeholder engagement and triple bottom line assessment tools. In the environmental arena, the ISO organization has developed the ISO 14001 environmental standards, which are analogous to ISO quality standards. Such assessment methodologies, though still voluntary, allow companies to create measurements that can be audited by external verifiers and certifiers, providing considerably more credibility than if produced solely by the company.

Important questions remain, however, as what types of enterprises are best prepared to undertake responsibility audits of corporate practices and produce the reports, particularly in light of today's widespread lack of credibility of the large accounting firms and the relatively limited capacity of NGOs presently to undertake such verification. Some research suggests that accounting firms are not at this point well equipped to undertake social or ecological audits (O'Rourke, 1997, 2000). Further, organizations with specific missions to focus on stakeholder or ecological monitoring and verification, as noted above, are now emerging, though as will be discussed below, the rationalization process that probably needs to occur may make creating linkages among such enterprises important.

### **No Tipping Point Yet But...**

Gladwell in *The Tipping Point* (2000) suggests that three types of individuals are necessary to ‘tip’ something: connectors, mavens, and salespeople. A similar set of organizational or institutional actors is very likely needed to create a tipping point for responsibility assurance and management. Although, as detailed above, there are many forces pushing in the direction of responsibility, there are possibly more powerful economic and bottom-line forces that push companies toward ever greater globalization, efficiency, and growth and away from responsibility. Thus, a tipping point for responsibility is by no means guaranteed. Using Gladwell’s (2000) framework, this concluding section will attempt to determine whether the requisite institutional elements to create a tipping point toward responsibility may now be in place or emerging.

**Connectors.** The vast array of codes from many sources has created a degree of code overload and some confusion about the differences between principles (e.g., the Global Compact), standards and codes of conduct (e.g., the Sullivan Principles or OECD Guidelines), reporting structures (e.g., GRI), and monitoring and verification processes and organizations (e.g., SA8000, AA 1000). Clearly, to generate a tipping point several things need to happen. One is to create ‘connectors’ (Gladwell, 2000) or connections among the various initiatives working within the domain of responsibility assurance, in this case networks or alliances of linked activities that provide all of the necessary functions in a credible way, without creating overload.

One organization well positioned to make this case is the World Business Council for Sustainable Development,<sup>21</sup> entered into an alliance with the UN Global Compact in early 2003. WBCSD boasts 160 transnational corporations in its membership roster, while the Global Compact had more than 600 signatories as of this writing. Among the goals of WBCSD are to create sustainable development and to promote accountability and reporting standards, key elements needed for creating a tipping point. Operating in partnership, the two organizations will also share good practice model and tools that companies are developing as they attempt to implement the GC’s nine principles.<sup>22</sup> The Global Compact carries with it the credibility and convening power of the United Nations. Because the UN has developed globally agreed standards, nine of which are included in the GC’s principles, it has possibly the world’s best chance of producing agreement on cross-cultural relevant values and principles or hypernorms (Donaldson & Dunfee, 1999).

In true network fashion, the GC is also creating linkages to other important organizations in the chain of links that, it was argued above, will be needed. Not only does the GC has numerous signatory companies, but it is also linked to the GRI and its reporting standards, which in turn is linked to the SA8000 labor monitoring procedures and the AA 1000 processes for stakeholder engagement and responsibility monitoring.

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<sup>21</sup> Home page, <http://www.wbcds.ch/index.htm>, see [http://www.wbcds.ch/newscenter/releases/20030116\\_globalcompact.htm](http://www.wbcds.ch/newscenter/releases/20030116_globalcompact.htm) for a discussion of the GC alliance.

<sup>22</sup> See [http://www.wbcds.ch/newscenter/releases/20030116\\_globalcompact.htm](http://www.wbcds.ch/newscenter/releases/20030116_globalcompact.htm).

**Mavens.** Some of these same organizations, industry associations, and consultants also serve in the capacity of experts or ‘mavens’ (Gladwell, 2000). One aspect of the GC, for example, is a Learning Forum in which signatory companies allow cases about their practices to be written up by academics and others for dissemination as good practice to other companies. Consulting firms with expertise in business ethics, corporate integrity, social auditing for performance management, corporate citizenship, corporate responsibility, and environmental/sustainability management are cropping up alongside the development of standards. Members of these enterprises along with academic experts on corporate citizenship and responsibility frequently write cases or publish articles that provide the knowledge base necessary for companies to take up new practices.

**Sales.** The ‘sales’ role (Gladwell, 2000) is also needed, since the business case, while increasingly being made strongly by organizations like the WBCSD as well as through marketing, reputational, and corporate responsibility research is also being taken at the international level. Peak business organizations like the US Conference Board, the global WBCSD, the International Business Leaders Forum in England, the Center for Corporate Citizenship at Boston College, the Ethics Resource Council in Washington, and Business for Social responsibility, to name only a few, promulgate the need for better management of corporate responsibility to their members in increasingly direct ways. Without the other linkages, of course, skeptics’ view that such promotion is simply window dressing might be justified, however, the other pieces increasingly are in place.

**Finally.** ...Even if all of the pieces in the responsibility management and assurance ‘system’ discussed above are fully in place, it still may take a different kind of incentive to push responsibility into a tipping point. Once again, the quality analogy is helpful, for it was not until companies within the European Union demanded that their supply chain companies *also* live up to ISO quality standards that the quality movement ‘tipped’ into becoming a business imperative (Evans & Lindsay, 1999). Something comparable may be necessary to make responsibility truly a business imperative. Whether that impetus will come from the European Union, which recently issued a white paper on corporate responsibility, from members of the Global Compact (or similar enterprise) enjoining their suppliers to also live up to responsibility standards or forfeit business with them, or from some other source is yet unknown. But arguably something along these lines needs to happen if responsibility is to actually ‘tip’ into becoming a business imperative.

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## The Landscape of Pressures on Companies



