

# Taking Corporate Responsibility Seriously? Trends...Pressures...and Moving Forward

Sandra Waddock  
Boston College

**4<sup>th</sup> International Seminar on Corporate Citizenship  
Taking CSR Seriously, Rome, October 15-16, 2004**

# Context

- Scandals
- NGO activism and anti-corporate tactics
  - Includes protests, websites, and campaigns
- Growing concerns about:
  - human and labor rights, sweatshops
  - Globalization's impact on developing nations
  - Continued environmental degradation
  - Power dynamics in the developed world
  - Corruption, transparency, and corporate accountability
  - CEO compensation levels (in US, particularly)
  - Short-term orientation of company leaders, strategies



# Growing Pressures for Change (Greater Responsibility) on Companies

- **Direct anti-corporate protests**
  - Company-specific activism (e.g., boycotts, anti-company websites and campaigns, chat rooms)
  - General anti-corporate activism (e.g., protests, anti-corporate/MNC websites like Corporate Watch, Adbusters, Sweatshop Watch)
  - Popular press anti-corporate/brand books
    - E.g., *No Logo*, *Nickel and Dimed*, *Fast Food Nation*
- **Social investment movement**
  - Socially-conscious funds
  - Shareholder resolutions
  - Social investment (community-based)
  - Dow Jones Sustainability Index, FTSEforGood



# Definitions

- Corporate citizenship
  - Business citizenship
- Corporate responsibility
  - Corporate social responsibility
  - Corporate community involvement
  - Corporate community relations
- Corporate social performance
  - Corporate community relations
  - Corporate reputation
- Stakeholder theory

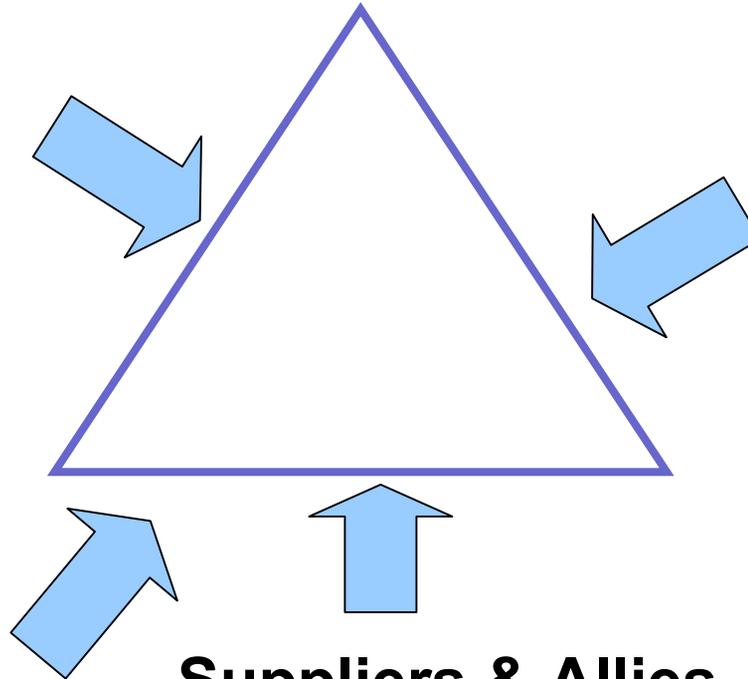
# Demands from Primary Stakeholders

## Owners

- Profits
- Long term viability
- Social investment

## Customers

- Good price and quality
- Acceptable ethics
- 'No sweatshops'
- No child labor
- 'Green' products and services



## Employees

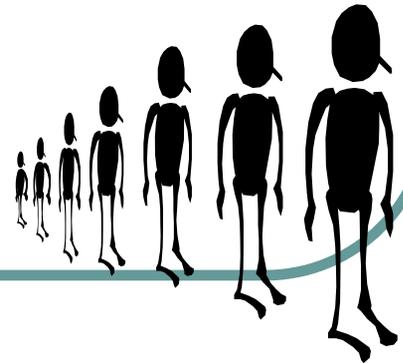
- Pay
- Benefits
- Safety and health
- Rights at work
- Meeting ethical expectations
- Recruitment, job selection

## Suppliers & Allies

- Fair trade
- Continued business
- Meeting commitments
- Visibility with NGOs

# More Pressures...

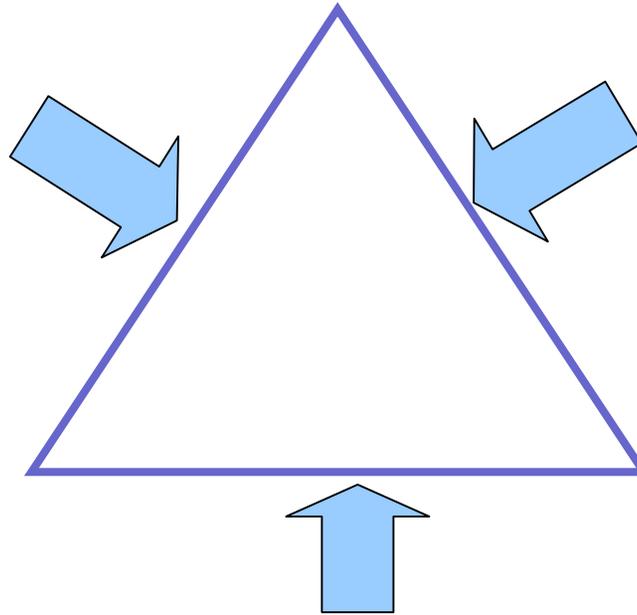
- Environmental concerns/activism
  - Sustainability as EU CR emphasis
  - Continuing ecological deterioration
- New mechanisms like ratings and rankings
  - Best company for...this/that practice
- Regulation (especially in EU nations)
  - Social/environmental criteria disclosure for pension funds
- Corporate governance reform
  - Sarbanes-Oxley in US
  - Demands for greater transparency in reporting multiple types of impacts



# Demands from Secondary Stakeholders

## Governments

- Compliance with law
- Contributing to society
- Anti-corruption
- Transparency movement



## Community

- Neighbor of choice
- Infrastructure
- Facilities

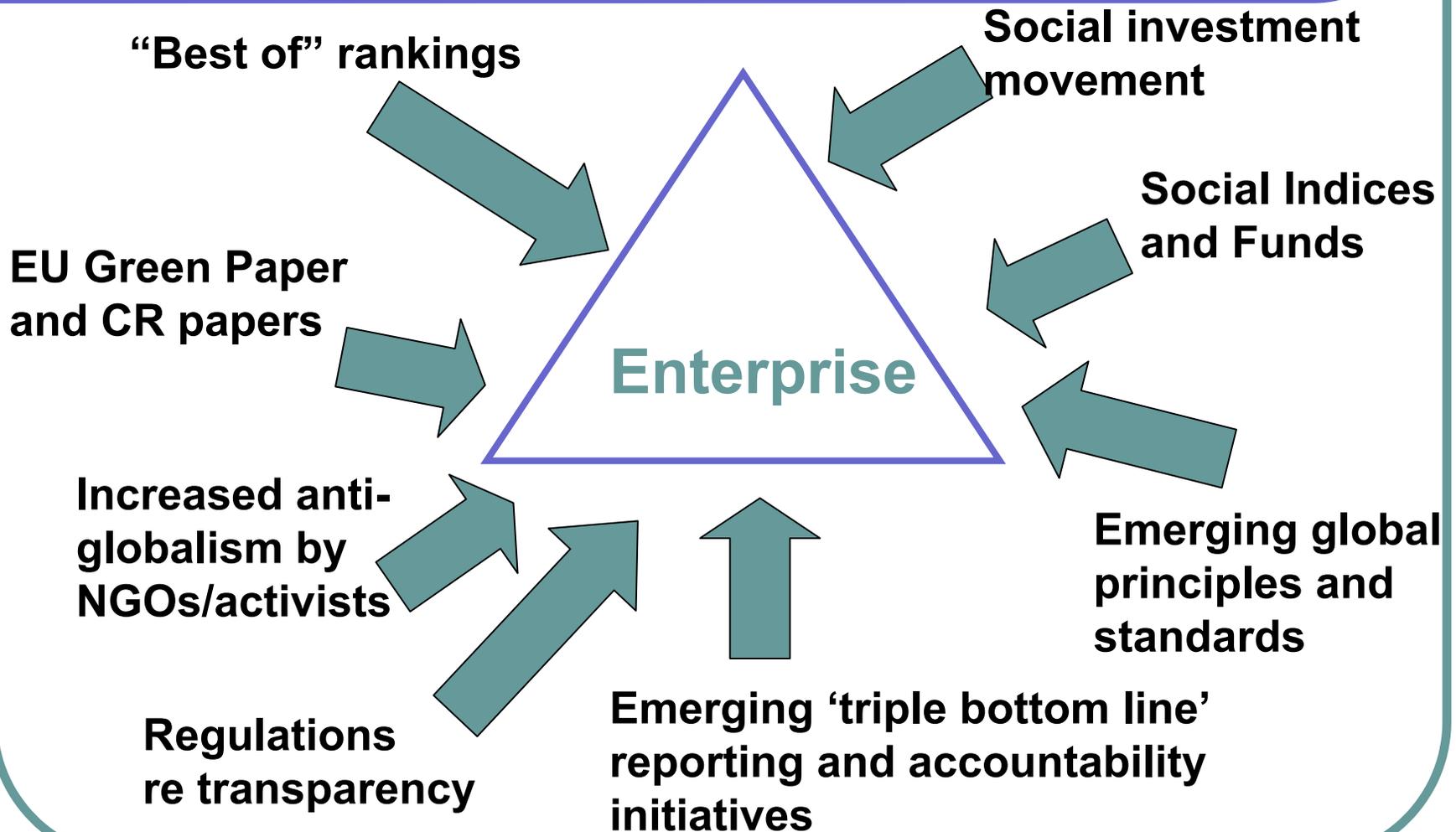
## Environment

- Environmental management
- Sustainability

## NGOs and Activists

- Contributing to society
- Meeting legal and corporate citizenship levels
- Jobs and new businesses
- Economic development

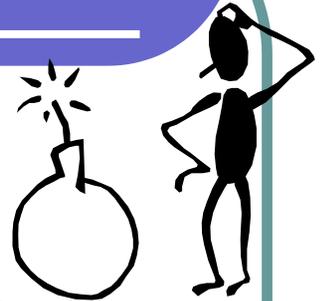
# General Societal/Institutional Pressures



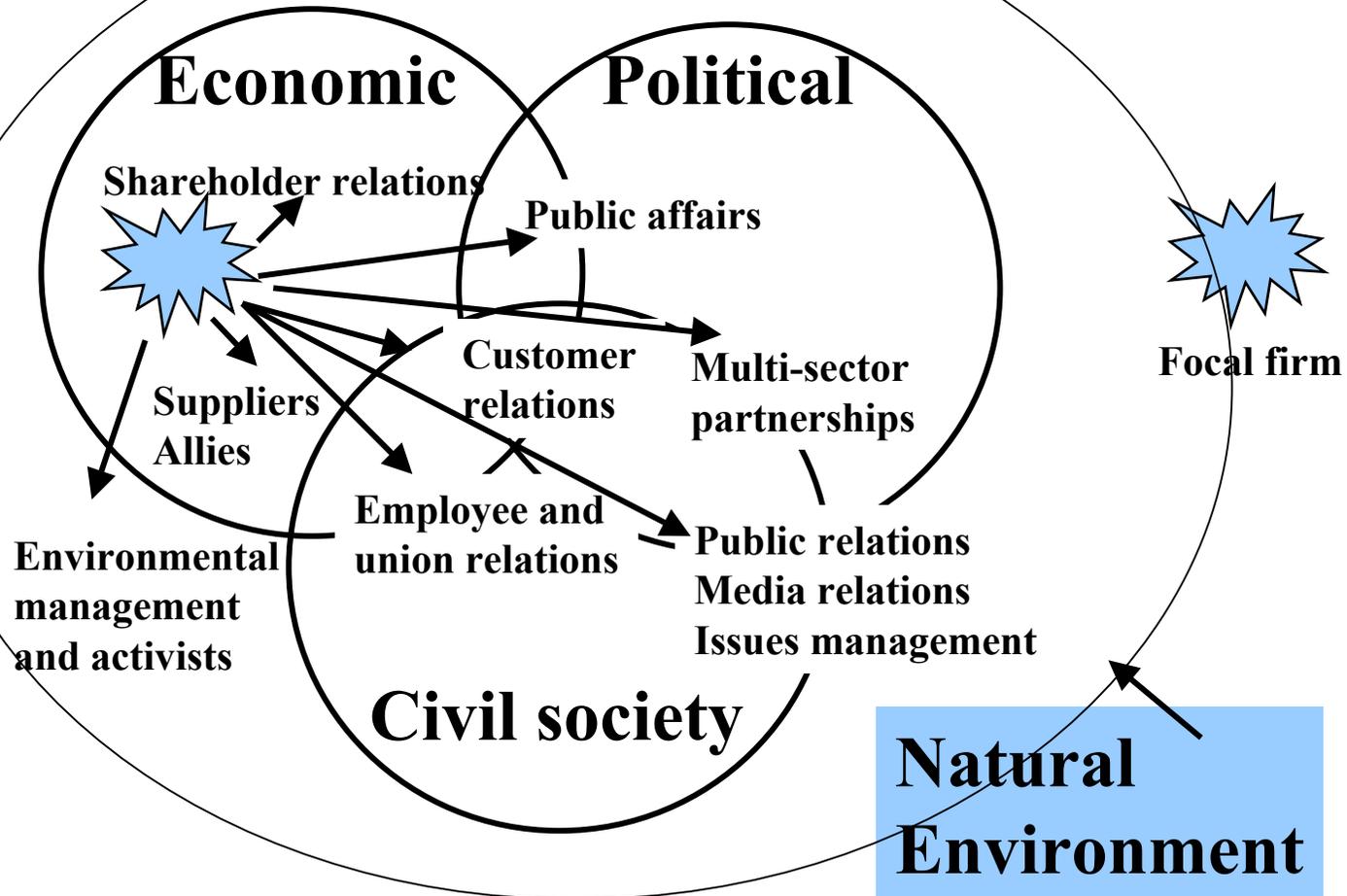
# Trust:

## It's not just the scandals...

- Excessive executive compensation
- Down and 'right' sizings, M&A (employee loyalty)
- Loss of local jobs, community impacts
- Outsourcing: labor, human rights, corruption, ecological concerns
- Deceptive advertising, marketing, and promotional practices, especially re unsafe or wasteful products
- Failures of public trust by accounting firms focused on consulting revenues
- Continued ecological deterioration (re human civilization)
  
- Corporate critics won't rest easy with self-regulation.
- Companies won't rest easy with regulation.

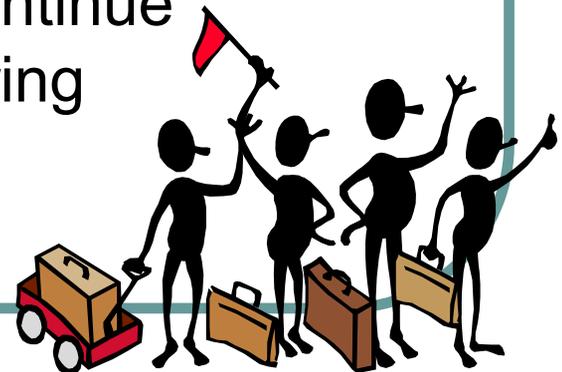


# Boundary Spanning Functions...



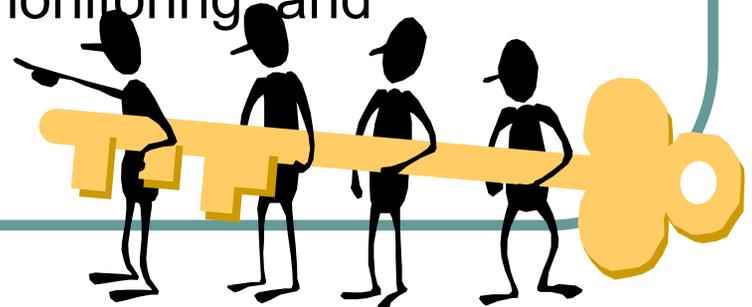
# Issues in Managing Responsibly

- What trust existed has been eroded.
- Companies have real power/resources
  - Of the largest economies in the world, 51 are corporations; only 49 are countries. *(Financial Times, Feb. 6, 2002)*
- Corporate responsibility no longer just 'do good'
- CR needs to be integral to corporate activity in all its business relationships
- Demands for accountability, better governance, transparency, responsibility likely to continue
- Need CREDIBLE approaches to ensuring responsible practices



# Elements of a Tipping Point for Corporate Responsibility

- Internal responsibility management systems
  - Similar to TQM (e.g., TRM/total responsibility management approaches)
  - Responsive to pressures
  - Necessary but insufficiently credible externally
- External responsibility assurance system
  - Generally accepted foundational principles
  - Globally accepted multiple bottom-line reporting requirements/systems
  - Credible external verification, monitoring, and certification systems
- And maybe ...mandate



# Responsibility Management



- **Progressive (brand and actively criticized) businesses are proactively managing stakeholder relationships**
- **Developing voluntary (!) responsibility management systems internally**
- **Focused on ‘responsibility’ not just ‘social responsibility’**
- **Emphasizing treatment of workers, supply chain management, environment management, human/labor rights.**
- **TRM Approaches include**
- **Inspiration**
  - Vision
  - Stakeholder engagement
  - Foundation Values
- **Integration into**
  - Strategy
  - Human resource practices
  - Management systems
- **Innovation and Improvement**
  - Indicators
  - Improvement processes
  - Transparency/reporting

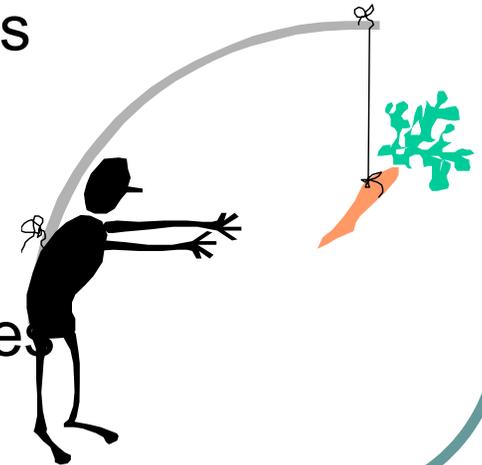
# Transparency: Responsibility Assurance

- No more 'trust me'
    - Move to 'show me'
  - But still voluntary measures
  - Adds a degree of credibility and 'assurance' that what is rhetoric=reality
- Involves 3 elements:
    1. Accepted principles and standards
    2. Credible verification, certification, and monitoring
    3. (Standardized) reporting



# Responsibility Assurance: Globally Accepted (Foundation) Principles

- “Hypernorms” (Donaldson & Dunfee)
- Codes of conduct congruent with internationally-accepted values
- Proliferation of codes (global, industry, NGO generated, multi-stakeholder, regional/national, and multi-lateral, e.g., UN)
- Creates complexity/confusion, demands rationalization, simplification, and standardization
- E.g., UN Global Compact’s ten principles



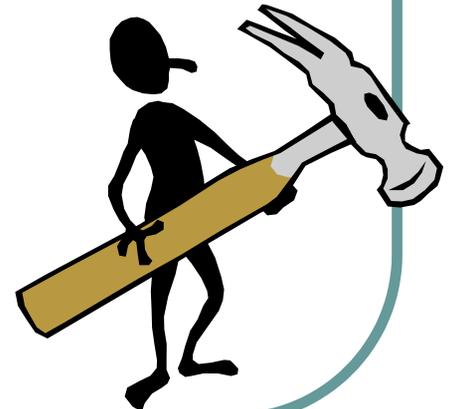
# Responsibility Assurance: Multiple Bottom-Line Reporting Standards

- **Global GAAP for economic and social/ecological reporting**
- **Necessary even within accounting industry to restore trust and create comparability across nations/companies**
- **Credibility is key...can mean external verification**
  
- **E.g., Global Reporting Initiative (GRI)**
  - Originated as multi-stakeholder collaboration
  - Global in scope, comprehensive in focus
  - But complex and hard to implement still
  - Linked to Global Compact and other peak organizations like WBCSD
  - 333 companies (plus 18 in accordance) by end 2003



# Responsibility Assurance: Credible Verification, Monitoring, Certification

- Trust demands credibility in reporting practices
- External verification systems that adhere to principles can provide this
- Need for trained certifiers, clear standards (well beyond accounting)
  - E.g., SA 8000 labor standards
  - E.g., AA 1000 triple bottom line assessment tools
- E.g., coming voluntary ISO corporate responsibility standard
- Linked to the rest of the assurance system



# Is voluntary action enough?

- **Core to effective markets: Social capital and Trust**
- Voluntary not likely to satisfy corporate critics/stakeholders ...
  - Current 'reach' of voluntary initiatives is...
  - Small (e.g., 1000 of some 60,000-70,000 TNCs in GC, less than 50 are US companies)
  - 45% of largest 250 companies produce sustainability reports (KPMG, 2002)...
    - but still compliance driven and not (generally) externally audited
  - **Still no global governance system or institution to set reporting guidelines or create a mandate**
- **Responsibility management tends to develop mainly under pressure from activists re brand name companies.**
  - What about the unbranded companies?
  - What about the millions of SMEs?



# Emerging Laws and Regulations

- **UK: Socially Responsible Investment Regulation (2000)**
  - Pension fund managers required to disclose policies on SRI
- **Belgium: Social Label Law (2003)**
  - Annual reporting how CSR is assessed in pension funds
- **France: (2001)**
  - Listed companies required to have social and environmental assessment
  - Retirement funds need to rely on financial and social criteria
- **Australia (2003)**
  - Investment firms disclose how SRI is incorporated
- **Germany (2001)**
  - corporate reporting S/E policies



- **Netherlands (2002)**
  - Mandatory OECD guideline compliance for export credits
- **Norway (1999)**
  - Required environmental reports
- **Sweden (1999)**
  - Required environmental reports
- **CSR criteria be introduced in member states**
- **US (2002)—Sarbanes-Oxley**
- **EU: requiring CSR criteria be introduced in member states**
- **Japan (2003)**
  - Audits of listed companies include risk related to viability, and brand image
  - **EU memo to Parliament, required**



# Institutional Integrity...

- **Reality has not always matched the rhetoric of corporate citizenship in the real world**
  - may necessitate new approaches, some of which beginning to emerge in laws around the world
  - Though proactive action can potentially forestall legislation
- **Key, as Dow Votaw pointed out long ago, is the very legitimacy of the firm in global society.**

