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

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

Customers
- Good price and quality
- Acceptable ethics
- ‘No sweatshops’
- No child labor
- ‘Green’ products and services

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

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

Community
- Neighbor of choice
- Infrastructure
- Facilities

Environment
- Environmental management
- Sustainability

Demands from Secondary Stakeholders
General Societal/Institutional Pressures

- "Best of" rankings
- Social investment movement
- Social Indices and Funds
- Emerging global principles and standards
- Increased anti-globalism by NGOs/activists
- EU Green Paper and CR papers
- Regulations re transparency
- Emerging ‘triple bottom line’ reporting and accountability initiatives
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...

- Economic
  - Shareholder relations
  - Suppliers
  - Allies
  - Environmental management and activists

- Civil society
  - Customer relations
  - Employee and union relations

- Political
  - Public affairs
  - Multi-sector partnerships
  - Public relations
  - Media relations
  - Issues management

- Natural Environment

Focal firm
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.