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The development of corporate responsibility/ corporate citizenship

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Abstract

This paper outlines the emergence of corporate responsibility/corporate citizenship as part of corporate practice. The paper first defines the terms, then briefly focuses on the history of corporate citizenship and its evolution over time, highlighting the current popularity of the term both in academic and practice-based work. It turns next to an assessment of the current pressures and dynamics facing major corporations, highlighting the internalization of corporate responsibility practices into companies' business models, and a growing infrastructure that involves new standards and principles, the social investment movement, NGO pressures, multi-sector collaborations particularly around so-called bottom-of-the-pyramid strategies, internal and external responsibility management approaches, and stakeholder engagement, as well as transparency and reporting. Finally, the paper addresses how some of the current pressures are likely to evolve in the future, noting the emergence of new conversations like Corporation 2020, which focus on the core purposes and definition of the corporation, as well as other pressures that are likely to continue to develop, with a brief discussion of the implications for practice of all of these shifts.

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Introduction

Corporate citizenship (CC), corporate social responsibility (CSR), corporate responsibility (CR), and sustainability are all terms that have become very popular in the 2000s in both the globalizing world of corporate practice and in academia, as companies struggle to cope with the demands being placed on them for greater accountability, responsibility, and transparency. Even small and medium-sized enterprises are finding themselves caught up in a ceaseless set of demands from stakeholders to be more responsible, accountable, and transparent around environmental, social, and governance (ESG) issues. These demands go far beyond earlier expectations that companies might create philanthropic programs to prove that they could contribute to social well-being.

CC/CR: definitions, context

Today's demands for greater CC derive from a wide range of both internal and external stakeholders and go far beyond the explicit contributions that companies make to better society, which is what is generally understood as CSR (e.g., Waddock, 2004). Many



stakeholders also want to ensure companies' adherence to increasingly rigorous standards of business practice and global norms that cover issues formerly seldom seen on the corporate agenda, for example, human rights, environmental sustainability, transparency, security and safety, avoidance of abusive regimes, with others emerging all the time. Taken together, these demands have increasingly affected business strategies and practices and form a core of what can be called CR or CC. More and more, CC is becoming an integral part of how businesses express themselves publicly and internally to their stakeholders.

The term "corporate citizenship" or corporate responsibility implies significantly more than does corporate *social* responsibility, which connotes companies' efforts to directly benefit societies (e.g., philanthropy, volunteerism), or the discretionary responsibilities of the firm (Carroll, 1979, 1998). CSR is the more narrow conception frequently associated with what some critical observers call "window dressing," that is, businesses undertaking philanthropic, collaborative, or volunteer initiatives designed to disguise the fact that, for example, their supply chain policies permit mistreatment of workers in factories, their products are produced wastefully, are harmful, or create excessive pollution, or other important standards of responsible corporate practice are not met. The term sustainability has entered the vocabulary as a possible synonym for CR or citizenship; however, the term sustainability had its origins in the Brundtland Commission Report, *Our Common Future* (1987), released in 1987, with a dominantly ecological orientation.

The focus on corporate governance has also been heightened in the wake of the numerous scandals of the early 2000s, and the latest terminology that focuses attention on corporate practices in the social investment community at least seeks attention to ESG. The term CR perhaps best reflects the integral nature of what is being sought – a way to describe the inherent duties and responsibilities associated with all corporate actions and impacts (Logan *et al.*, 1997; Marsden and Andriof, 1998; McIntosh *et al.*, 1998; Waddock, 2004). CC or CR (the terms are used interchangeably) therefore involves the company's business model and the impacts of the business model, strategies, and practices on stakeholders, nature, and societies.

The emerging understanding is that companies cannot escape the responsibilities inherent in their

activities and impacts. Some degree of responsibility – presumably ranging from egregious to excellent – is integrally bound to any activity or decision that affects others, that is, to stakeholders. As a note, the classic definition of a stakeholder, according to Ed Freeman's seminal 1984 book (see also the updated version, Freeman *et al.*, 2007) is "one who is affected by or affects" the corporation (and nature).

CR/CC: the past

Interest in CC seems to have dramatically risen in the past few years, both on the corporate side and in academic circles. Curious, I ran a search on Business Source Complete and roughly totaled mentions of the term (using quotes to delineate it), both in all publications and in academic only publications (see the chart: Mentions of Corporate Citizenship for the results of this search). The first use of the term "corporate citizenship" in Business Source Complete was as long ago as the late 1950s in a speech given by an insurance executive, but it languished, with sporadic usages, both academic and popular, until the mid-1990s, when popularity began to increase.

However, there is, apparently legal precedence to this terminology. The first academic use and first apparent attempt at defining CC seems to have been in 1861, according to a *Harvard Law Review* article by Detlef F. Vagst, who found that a "ship-owning corporation was determined to be a citizen of the jurisdiction under whose laws it was created" (Vagst, 1961: 1503), a view that prevailed until the time of World War I, when the definition was tightened to necessitate a controlling interest. But most of the early usage had to do with owners or directors and their citizenship, so that court matters could find proper jurisdiction, not the citizenship activities of the company itself. By 1926, another Act had been passed that tightened the definition still further, requiring for jurisdiction that corporations be organized in the US, be majority held by US citizens, and that the president of the board be an American along with at least two-thirds of the rest of the board, a constraint tightened to three-quarters ownership by 1938 (Vagst, 1961: 1520). As noted, these uses seem to have mainly been around determining jurisdictions for various legal rulings, rather than holding companies to any kind of higher standard, as the current terminology appears to do.

The term corporate citizenship as we understand it today began to gain popularity in the mid-1990s,

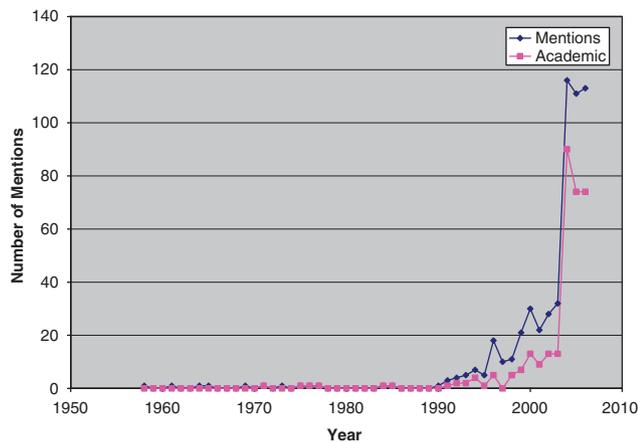


Figure 1 Citations for Corporate Citizenship.

as Figure 1 shows. In 1997, the Hitachi Foundation published what was possibly the first widely distributed corporate report on CC by that name. Written by David Logan, Delwin Roy, and Laurie Reggelbrugge, it was entitled *Global Corporate Citizenship – Rationale and Strategies*. The next year a British group, Malcolm McIntosh, Deborah Leipziger, Keith Jones, and Gill Coleman, published *Corporate Citizenship: Successful Strategies for Responsible Companies* (1998). The same year another European pair Chris Marsden and Jörg Andriof published an article entitled “Towards an Understanding of Corporate Citizenship and How to Influence It,” in a journal called *Citizenship Studies* (1988), although Karen Paul had used the term academically in a 1992 article on Japanese business published in *Business & Society*. These books and articles seem to have picked up on what was beginning to happen in corporate practice and capitalized on it academically, because as the chart indicates, there was growing usage in the more popular media simultaneously with growing academic usage.

Usage of the term CC limped along with a mention every couple years, either academically or in the popular press, until the mid-1990s (about 1994), when the term began to gain real traction and usage increased. In about 2004, usage exploded, as can be seen in the rough estimates from Business Source Complete (Figure 1), which also was the year that the *Journal of Corporate Citizenship*, a journal that attempts to link theory and practice, founded in 2001 by Britain’s Malcolm McIntosh, seems to have been picked up by Business Source Complete.

CC/CR: the present

At this writing, CC and its analog terms – CR, CSR, business ethics, and sustainability – have become part of the corporate lexicon and practice to a non-trivial, but sometimes overstated, extent. In part, this growth in interest has happened because a new CR infrastructure evolved during the last quarter of the 20th and into the 21st century deliberately placing new pressures on companies around their ESG performance for greater accountability, responsibility, and transparency.

These pressures have directly affected the integration of CR into practice in a mostly positive way, despite continued pressures from the dominant economic logic for short-term financial results and the externalizing of as many costs as possible. Indeed, some practitioner members of the Boston College Center for Corporate Citizenship’s Advisory Board (on which the author sits) now talk about “getting CC into the DNA” of the company, meaning that they are integrating the notion of responsibility deeply into the company’s strategies and operating practices, not just its charitable and volunteer work (Googins *et al.*, 2007). Examples include companies making sustainability a centerpiece of their strategy as, for example, the carpet manufacturer Interface has done, or paying attention to inputs from stakeholders and practices in different units throughout the company’s supply chain as companies with extended supply chains, such as Nike and Reebok, now increasingly must do if they are to retain their reputations.

This integration is beginning to happen in some of the most progressive companies, albeit there are still many companies that simply practice what above was called CSR, establishing foundations or charitable giving programs as their major way of dealing with these issues. Such companies are still in what Mirvis and Googins (2006) characterize as stage 2 of five stages of CC, with the more integrated models at later stages of development. More progressive firms that take the whole array of issues embedded in ESG very seriously have begun developing functions and practices that explicitly contend with these issues.

One group of progressive companies has joined a network focused explicitly in integrating CC into practice. Called the Global Leadership Network (GLN),¹ this group of companies is focused on aligning corporate strategies with their social, environmental, and economic performance. GLN, which was co-organized by the Boston College Center for Corporate Citizenship and the British



international not-for-profit AccountAbility, aims to foster “excellence in CC to generate scalable, long-term sustainable value for business and society.”² In 2007, GLN partnered with the UN Global Compact and the International Finance Corporation to focus on the integration of CC practices into companies that are signatories to the Global Compact using GLN’s four-part framework, which encompasses business strategy, engaged learning, operational excellence, and CC leadership. GLN is only one of many internal corporate initiatives that have been driven by external pressures for change, by criticisms of current corporate practice, and by constructive pressures seeking greater transparency, accountability, responsibility, and sustainability.

How pressures and standards are different today from the past

There are numerous external dynamics that help explain why CC has come to the fore in recent years and suggest that increasingly high expectations and standards are being applied to companies. Below some of the new pressures that point companies in the direction of greater responsibility will be very briefly explored.

Social investors

In its 2007 Trends Report, the US Social Investment Forum (SIF) identified US\$2.71 trillion in assets under management up 18% from US\$2.29 trillion 2 years earlier³ that use one of the three major strategies of social investors: screening, shareholder advocacy, and community investment. This number is estimated by SIF to reflect about one in nine investment dollars in the US. Assets in ESG-screened mutual funds were estimated at \$201.8 billion, and approximately \$1.9 trillion in socially screened separate accounts for individuals and institutions.⁴

Social investment is obviously still a relatively small portion of the total investment universe; however, it now represents a significant enough proportion that companies are under significant pressures to meet the demands of these activist and socially aware investors. Recalcitrant companies face the risk of embarrassing shareholder resolutions submitted by activist investors that contradict management’s recommendations or pressures from activist institutions with major company holdings. Institutional investors, today own more than 50% of all equity, are particularly powerful because many of them are now so large that they can be called “universal investors.” As universal investors,

they own shares in much of the “universe” of shares and can no longer follow the traditional “Wall Street Rule” of walking away when they do not like management’s policies or decisions, in part because divestment will move markets and in part because they are already invested in the entire market. Instead, many of these institutions have realized they must pressure management for desirable changes, for example, on ESG issues or governance, as well as competitive matters. This recognition has led to increasing pressures on companies for more responsible performance because many of the more active institutions are the ones, like TIAA-CREF, Calvert, and CALpers (the California pension fund), that were already concerned about ESG issues.

Other pressures

There are multiple other sources of pressure on companies today that attempt to foster greater CR. For example, one source of pressure on companies is the constantly evolving ratings and rankings game that has emerged since *Fortune* magazine first published its “Most Admired” companies ranking in the early 1980s. Companies now get rated by various publications on a variety of responsibility-related issues, including diversity management, best environments for women, overall rankings of CR, and various aspects of environmental performance, to name just a few arenas.

Leading companies also exert significant peer pressure on their peers when they step out front on ESG-related issues. Some do so, as will be discussed below, by signing onto various standards, such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, or the Caux Roundtable Principles, while others do so by joining peer-to-peer associations emphasizing core ESG issues.

One such association is the World Business Council for Sustainable Development, which is a coalition comprised of the CEOs of nearly 200 of the world’s leading companies that, according to the website, “provides a platform for companies to explore sustainable development, share knowledge, experiences and best practices, and to advocate business positions on these issues in a variety of forums, working with governments, non-governmental and intergovernmental organizations.”⁵ Some of these associations are industry specific, as with the Forest Stewardship Council or the chemical industry’s Responsible Care Organization, while others include companies from many different industries, such as Business for Social



Responsibility, Ceres (an environmentally oriented group), and the Caux Roundtable.

Activists, interest groups, pressure groups, lobbies, and non-governmental organizations (NGOs), which have proliferated in recent years, also place considerable pressure on companies around their specific areas of interest. This so-called third sector has grown dramatically since the 1950s when the term NGO was invented according to Wikipedia and according to Hall-Jones (2006). Now equivalent to the world's eighth largest economy, NGOs focus on issues as broad ranging as human and labor rights, environment, economic development, poverty alleviation, pollution, corruption, and a wide range of other societal and human issues. Their clout is growing, particularly internationally, where one estimate suggests that there are as many as 40,000 NGOs in existence, and where their presence and influence is both pro-social and sometimes greeted with skepticism (Anheier *et al.*, 2004).

Many NGOs work explicitly to get companies to change their practices through active anti-corporate campaigning. Companies that have faced the wrath of an NGO or an activist group, as happened with Coca Cola's use (NGOs and activists would say misuse) of water supplies in India in the mid-2000s, have begun to understand the importance of engaging proactively with this type of external stakeholder, particularly when the NGO is willing to sit at the table to try to work things out. Some NGOs are willing to work collaboratively with companies on various types of projects related to such needs as economic development, environmental resource usage, education, or healthcare.

This type of collaboration, also called public-private partnership, social partnership, and multi-sector collaboration, can be a fruitful way for many companies to deal with some important stakeholder groups. It can also serve as a way of scanning the external environment for potential problems and, increasingly, potential new opportunities. Some of these new opportunities are evident in initiatives that companies have begun taking to deal with what Prahalad (2005), Hart (2005), and Prahalad and Hammond (2002) call bottom of the pyramid strategies. In their bottom of the pyramid work, Prahalad and Hart advocate that large multinational companies can find new markets for their products and services with the very poor by modifying those products and services specifically to meet the needs of these markets. These authors

suggest that there is potentially a large amount of money to be made in such markets, a claim that has been disputed by Karnani (2006).

Despite the criticisms, the notion of serving the poor through new entrepreneurial initiatives, whether derived from existing large businesses or created anew by entrepreneurs with multiple bottom lines in mind, has grabbed a good deal of attention and considerable resources. Today, many companies are putting some of their philanthropic dollars, as well as business investment money, into these new markets in the hope of generating new business as well as goodwill.

Major developments in CR/citizenship practice

For large companies, the whole issue of goodwill has gained steadily companies in importance over the last several decades, in part because of trust issues noted above, and in part because for many companies much of their value no longer rests in tangible assets like plant and equipment. Rather, for many large companies today, more than half of their assets are thought to be intangible rather than tangible assets, (e.g., Galbreath, 2002; Lev and Daum, 2004; Savitz and Weber, 2006). It is the shift from tangible assets to intangibles that helps to explain the increasing importance of corporate reputation to many companies, particularly brand-identified companies, and hence their willingness to engage with stakeholders to form new types of partnerships and work in arenas in which previously they would not have become involved.

To deal with the proliferating pressures around reputation and CC, many companies – particularly large multinationals – have evolved internal responsibility management systems that include codes of conduct and specific responsibility monitoring with respect to different stakeholder groups. Progressive firms are rapidly adopting new practices related to how they deal with specific stakeholder groups including employees, customers, investors, suppliers and distributors, local communities, and governments. Some of these shifts will be explored briefly below.

Standards, principles, and codes

One of the striking developments in the CC arena since the late 1990s has been the proliferation of codes of conduct, standards, and principles that attempt to set the bar higher for corporate performance around issues related to how different stakeholder groups are treated. There are numerous



such codes, principles, and standards now, including the Caux Roundtable Principles, the CERES (environmental) Principles, the Equator Principles (financial services), the Principles for Responsible Investing, and the OECD Guidelines for Multi-national Enterprises, to name a few.

Standards and principles, particularly when they are promulgated by public bodies that represent multiple interests, including business, NGOs and civil society, and government, typically encompass generally agreed fundamental or core values that have achieved a degree of consensus around them. The same degree of consensus may or may not be true of corporate codes of conducts, values, or principles that are internally developed, which also have proliferated since the 1990s. Because of the need to build consensus around them, the development of many prominent codes and standards typically has included multiple stakeholders. As a result, some of the more general standards have achieved a degree of credibility and some moral authority to begin influencing corporate practice.

In this context, one way that many companies attempt to demonstrate their CC today is by signing up to a notable set of principles or standards. Perhaps the best known, and certainly the largest, of these initiatives is the United Nations Global Compact, whose 10 principles focus on human rights, labor rights, environmental sustainability, and anti-corruption. These principles are all based on globally agreed UN treaties and related documents. By early 2008, nearly 5000 participants, including some 3700 corporations, had become signatories to the UN Global Compact, agreeing to adhere to the 10 principles (see www.unglobalcompact.org for specifics). As much as anything else, the Global Compact, which lacks enforcement capability (except to de-list inactive companies, which it has started to do), serves as a moral authority and aspirational guidepost to companies that hope to be considered good corporate citizens, in part because of the backing of the United Nations.

Coping with stakeholders

As attention to CC has increased in recent years, companies have evolved new strategies for developing their relationships with different stakeholder groups. Called stakeholder engagement, these practices typically involve, at minimum, companies seeking feedback from key groups like employees, customers, communities, investors, suppliers, and sometimes even NGOs that are critical of the

companies' performance, on how their products, services, and practices are being received by those groups. More progressive firms have developed explicit stakeholder engagement policies that permit actual engagement with stakeholders on a give and take basis (rather than the more one-sided perspective of companies receiving information from stakeholders) and will claim that they are engaged in dialogic processes that permit learning on both sides.

Companies sometimes detail on their websites the explicit commitments they have made to various stakeholders in a form of transparency that to some extent commits them to action. For example, Coca Cola details the explicit commitments it has made to its stakeholders. For instance, on its website, Coca Cola argues that "We value the relationship we have with our employees. The success of our business depends on every employee in our global enterprise. We are committed to fostering open and inclusive workplaces that are based on recognized workplace human rights, where all employees are valued and inspired to be the best they can be."⁶

A US-based member of the UN Global Compact, Coca Cola has developed an explicit workplace rights policy that it "encourages" its independent bottling partners to uphold also. By way of transparency, Coca Cola details specific practices associated with this workplace rights policy encompassing freedom of association and collective bargaining, forced and child labor, anti-discrimination practices, work hours and wages, safety and health practices, and stakeholder engagement policies related to employees and the community. The company has also transparently articulated its policies with respect to customer (the "marketplace"), the natural environment (especially its stewardship of water, a critical resource for a beverage company), and the community. The combination of these practices is what Waddock and Bodwell (2007) term "responsibility management": the way that companies manage the practices and strategies that influence their stakeholders and the natural environment.

As many critics might point out, however, the mere articulation of policies does not necessarily lead to perfection, and Coca Cola, like other global companies, has certainly experienced its share of criticism, particularly around water usage, which is essential to its core business. In response to critics, many companies have reached out to a growing cadre of CR consultants, who help them improve



their responsiveness to demands coming from a range of stakeholders with wildly different interests, as well as to improve their CC generally.

Corporate citizenship efforts are sometimes decried as nothing more than window dressing (or, when the UN Global Compact is involved, “bluewashing,” that is, wrapping the company’s image in the blue UN flag). This critique is magnified by the ongoing acquisitions of some of the pioneering CC consulting firms by public relations and advertising firms (e.g., the 2007 acquisition of Britain’s pioneering CC Company by Chime Communications). Despite these criticisms, however, there are many companies that take seriously the need to engage more frequently and more openly (with at least a semblance of power sharing) with key stakeholders, and manage those relationships explicitly. These relationships include ones with internal stakeholders like employees, and external ones including customers, activists and NGOs who might be critical of the firm’s activities, local communities, and the multiple levels of government with which companies necessarily engage in the course of doing business.

Reporting out: sustainability reports and the global reporting initiative

Many companies now detail their ESG practices and results in what are called triple bottom lines (Elkington, 1998) or sustainability reports. One 2005 study by KPMG found that more than half of the *Fortune* 250 largest firms now issue such reports, and that nearly two-thirds do so when traditional annual reports that include ESG information are included.⁷ Indeed, one country, France, in 2001 passed a law mandating the issuance of triple bottom lines (ESG) reports by all companies listed on the French stock exchange.⁸

At this writing, the world’s leading contender for a common ESG reporting framework is the Global Reporting Initiative (GRI).⁹ More than 1000 companies were formally reporting using the GRI’s G3 (third version) reporting standards, which were created by a multi-stakeholder group and are undergoing constant improvement to make them easier to use and more accessible to managers. GRI is intended to provide common reporting standards for ESG issues across different companies in different industries, in much the same way that generally accepted accounting principles provide a common financial reporting framework.

Waddock and Bodwell (2007) note in discussing the responsibility management framework that

companies are already *managing* stakeholder relationships and their associated responsibilities, sometimes well, and at other times not so well. Thinking about managing responsibilities in much the same way that quality and environmental issues are managed simply makes the process explicit (Waddock and Bodwell, 2004). The use of consultants, the visibility afforded by the Internet, and the transparency associated with that visibility all provides a boon to companies that want to be good corporate citizens. It also simultaneously puts them in a glaring and sometimes uncomfortable spotlight. Progressive companies are aware that this spotlight exists and know that their reputation, at least to some extent, is dependent on how external and internal stakeholders respond to their initiatives. Companies that sit at the leading edge of practice are aware of the need to be explicit about their stakeholder and natural environmental practices because the transparency afforded activists and critics by the internet leaves companies, especially big companies, increasingly less wiggle room.

Monitoring, verification, and certification

Despite the transparency of the Internet and the ease with which stakeholders can communicate with each others about corporations, trust in business remains at very low levels in the US. The US Better Business Bureau reported in 2007 that less than half of 1200 individuals surveyed trusted businesses and what trust existed previously was in decline, with the exception that two-thirds of those surveyed said that they trusted small businesses more than large ones.¹⁰ Earlier that same year, the international public relations firm Edelman published a similar international survey of 3100 executives in 18 companies in different countries showing that trust in companies was related first to quality products (and, presumably, services) and second to issues of CR, with treatment of employees as the most important factor within that category. The survey results suggested that issues undermining public trust in companies include unethical labor practices, environmental problems, defective products, accounting scandals, excessive executive compensation, regulatory investigations, and layoffs.¹¹ The Edelman survey also highlights improving public trust in companies, following the notorious scandals of the early 2000s, with overall trust in business ahead of that in governments and the media, but behind trust in NGOs. For example, 53% of respondents reported



trusting business (up from a low of 44% just after the scandals) in the 2007 survey for US respondents, with respondents in France, Germany, and the United Kingdom less sanguine at 34% trusting businesses (yet only 25% trusted media and 22%, government).¹²

The fact that so many people distrust companies (notably, even with the improved results in the late 2007 survey, 45% of respondents still do not trust large companies) suggests that the credibility of companies' own reports about their responsibility activities may be questioned by many observers. In partial response to this concern, many companies have begun bringing in external groups to study their internal and supply (and increasingly distribution) chain practices. Supply chain practices have been particularly prominent subjects of study. An increasing number have begun to produce reports verifying that they are actually doing what their own codes of conduct, standards, and public information, say they are doing.

Such certification, monitoring, and verification services have proliferated since the 1990s when issues of CR really began to gain prominence. Leading organizations in the verification, monitoring, and certification domain include SAI (Social Accountability International)¹³ with its SA8000 labor standards, typically applied to supply chain management, and accountability,¹⁴ and with its AA1000 stakeholder and sustainability standards. In 2008, ISO, the international standard setting body known best for its work on quality and environmental standards plans to issue a set of CR standards (ISO 26000) that will provide similar guidance on a voluntary basis to companies around CR issues as is now provided for quality and environmental issues.¹⁵

CC/CR: the future

The emerging infrastructure around CR discussed above is, of course, almost entirely voluntary to this point. There are, however, numerous countries where laws regarding various aspects of disclosure and reporting requirements have begun to be put into place, and issues of climate change are likely to move other governments forward quickly as the 2000s proceed. Further, some scholars have argued that companies' activities in dealing with issues like education, health care (witness the HIV/AIDS crisis in Africa), and economic development, and particularly their multi-sector collaborative activities, form a bridge into public policy arenas

previously reserved entirely for governments (e.g., Matten and Crane, 2005; Moon *et al.*, 2005; Scherer *et al.*, 2006). This means that boundaries among the sectors have become less clear and responsibilities associated with CC even more demanding in some circumstances.

The relative importance of voluntary vs mandatory responsibility

Structures like the GRI and UN Global Compact have emerged largely without governmental involvement, in part because the problems that they are intended to deal with are global in scope, and because governmental powers are restricted to national boundaries. Many corporations are multinational, and hence remarkably rootless in any real sense while nations, of course, are rooted in specific locales. The relative rootlessness of transnational corporations (TNCs) creates concerns about their commitment to any given society. The lack of global governance infrastructure issues raises the concerns about how to control the massive entities that many TNCs have become, particularly in light of the fact that they are basically efficiency machines (Greenfield, 2002) focused on what Frederick (1995) called economizing, while externalizing as many costs as possible. Further, the fact that many corporations control more resources than do many countries (one study in 2000 found that of the 100 largest revenue producers in the world, 51 were companies rather than countries; Anderson and Cavanagh, 2000) suggests a need for new mechanisms of governance.

The terminology of CC perhaps implicitly understands the connection of voluntary initiatives under the CC umbrella and attempts to hold these multinational institutions accountable to the sort of emergent set of global standards outlined in this paper, much as citizens are held accountable to their nations' standards. It also reflects the fact that many companies have moved into a space of action formerly reserved for governments, including, of course, lobbying and political fundraising activities that many observers consider to be problematic, although it appears likely to continue to evolve in the future. This shift has happened in part because of the weakened status and stature of many governments today and their inability to tackle some social problems effectively (e.g., Matten *et al.*, 2003; Matten and Crane, 2005), while companies are considered to be highly innovative, efficient, and able to move quickly. Still, one can



legitimately question whether it makes sense for an institution like the multinational corporation to have a great deal of power vested in it in societies when companies' primary modus operandi is focused on the maximization of wealth for one particular group of already well-off stakeholders, the shareholders.

Transparency is posed as one possible solution to the issue of power, and with the access permitted by the Internet to information, appears also to be an unavoidable future imperative. Underlying transparency is a second critical imperative for businesses, particularly large corporations – legitimacy. It is not clear, however, that even complete transparency would satisfy critics, since transparency and even greater CR or accountability would not change the fundamental power equation, which is where the legitimacy question resides. Corporate critics, including many NGOs and activists, are basically concerned about the imbalance of power that currently exists between ordinary citizens and corporations, particularly multinational corporations, especially when companies and their interests are tightly linked into the political process. No change of rhetoric and no amount of transparency is going to effectively deal with that concern, particularly as corporations continue to push into what many consider to be domains rightfully belonging to public policy makers, for example, education, health care (especially around such world health issues as HIV/AIDS in Africa), disaster relief, water, and other resource management.

What would be of benefit, these critics might suggest, would be better, perhaps mandatory rather than voluntary, ways of holding companies accountable for their actions, of controlling their cloud and impacts. Such critics believe that ensuring that companies' business models – and not just their philanthropy – actually *do* provide societal, stakeholder, and ecological benefits. In an odd sort of way, that kind of accountability takes corporations back to their origins, for companies originally were vested with corporate charters only to the extent that their businesses actually benefited society (Derber, 1998; Greenfield, 2007). The laws passed to date in various countries (e.g., France, England, South Africa, Japan, and with Sarbanes–Oxley, to some extent, the US) have more to do with disclosure than company practices. Presumably, future laws will begin to grapple with more fundamental issues of practice, perhaps legislating labor and human rights or

environmental standards in new ways with an eye towards sustainability.

Such conversations involving the fundamental purpose, orientation, and social benefits of the corporation have, of course, a long and colorful history (cf., the book by Joel Bakan called *The Corporation* and the movie by the same name, or see Reich (2007) for a synopsis of some of this history). But these conversations have begun in earnest thorough attention like that generated by an initiative formed by the Boston-based Tellus Institute called Corporation 2020.¹⁶ Corporation 2020 has articulated six principles of what the initiative's organizers call corporate redesign. These principles state that corporations should harness private interests to serve the public interest, should accrue fair returns for shareholders but not at the expense of legitimate interests of other stakeholders, should be operated sustainably (to use its ecological definition), should distribute wealth equitably among those who contribute to their creation, should be governed transparently, ethically, and accountably, with fuller participation, and should not infringe on universal human rights.¹⁷ Combined, these principles provide a platform for discussing how societies can retain the benefits of capitalism and the economies that corporations bring while simultaneously serving the needs of societies and the natural environment for their own sustainability. Corporation 2020 co-founder Allen White understands that the types of changes implied by the Corporation 2020 principles will not happen all at once, or perhaps not quickly, but believes that some change in the direction implied by these principles will ultimately take place.

Ultimately, the meaning of the term CC/CR will include that companies' major impacts tend to be vested not in the charitable, or, arguably, even the political, activities of the firm, but in the ways that the firm chooses to implement its business model. This definition, of course, includes the political actions taken on behalf of the firm and its industry since these are integrally related to how a firm conducts its business, but also has to do with the strategies and operating practices a firm employs as it goes about producing, selling, and distributing goods and services. The explosion of interest in CC that has taken place since the 1990s – and continues apace – suggests that the issue is unlikely to go away any time soon. Even the conservative *Economist* grudgingly admitted in a special issue in January 2008 that issues of CR were



here to stay – and can be expected to continue to gain public attention.

Progressive companies, particularly those with brand reputations to protect, have already recognized this new reality and are working proactively to ensure that they are out in front of emerging issues by

- Stating their values and vision with respect to responsibilities to society, stakeholders, and the natural environment explicitly and clearly, then integrating that vision and values into strategies and operating practices.
- Detailing how they are living up to the vision and values.
- Being more transparent and producing sustainability or multiple bottom lines reports in accordance with best practice (including sometimes admitting when there are problems and detailing what is being done about them). Most likely, today this means using the GRI's framework for reporting.
- Having their sustainability or multiple bottom lines report audited by a credible entity that certifies that the company is actually doing what it states it is doing with respect to ESG and stakeholder issues. Taking action to put themselves into a position of interacting and engaging with stakeholders, including critical NGOs willing to work with them. Joining leading CR initiatives, associations, and organizations that keep them in touch with emerging thought leadership, events, and demands.

The world that today's companies face is tumultuous and increasingly connected. Arguably, the demands for CC today are similar to the demands that companies faced in the early 1980s for quality (see Waddock and Bodwell, 2004), when most managers felt that quality was not something that could readily be managed, could not be measured, and that few customers cared about it. But can anyone imagine a business today without a quality program embedded in its way of doing business? As the embeddedness of quality as a business imperative today suggests, companies that resisted the need for quality improvement programs were proved wrong. One can see the outlines of a similar trajectory around the issues related to managing corporate responsibilities into the not too distant future. Visionary executives know this and have begun ensuring that their companies are on this already moving train.

Notes

¹GLN website, <https://www.globalleadershipnetwork.org/>, viewed 20 November 2007.

²GLN website, <https://www.globalleadershipnetwork.org/>, viewed 20 November 2007.

³SIF 2007 Trends Report, posted at: http://www.socialinvest.org/pdf/SRI_Trends_ExecSummary_2007.pdf, viewed 17 March 2008.

⁴*Ibid.*

⁵World Business Council for Sustainable Development website, about WBCSD, posted at: <http://www.wbcd.org/templates/TemplateWBCSD5/layout.asp?type=p&MenuId=NjA&doOpen=1&ClickMenu=LeftMenu>, viewed 30 November 2007.

⁶Coca Cola website, http://www.thecoca-cola.com/citizenship/workplace_rights_policy.html, viewed 26 November 2007.

⁷Social Funds website, <http://www.socialfunds.com/news/article.cgi/1742.html>, viewed 26 November 2007.

⁸The law is found in Article 116 of *Nouvelles Régulations Economiques*.

⁹For information about the Global Reporting Initiative, visit: www.globalreporting.org/Home, viewed 27 November 2007.

¹⁰Angus Loten, Survey: Trust in Business Fading. Inc.com, 7 November 2007, posted at: <http://www.inc.com/news/articles/200711/trust.html>, viewed 27 November 2007.

¹¹Employees Key to Trust, Survey Suggests, CBC News, 1 March 2007, posted at: <http://www.cbc.ca/consumer/story/2007/03/01/edelman-trust.html>, viewed 27 November 2007.

¹²Edelman Trust Barometer, 2007, Business More Trusted than Media and Government in Every Region of the World, 22 January 2007, posted at: <http://www.edelman.com/news/ShowOne.asp?ID=146>, viewed 27 November 2007.

¹³For information on SAI, go to: <http://www.sa-intl.org/>, viewed 28 November 2007.

¹⁴For information on accountability, go to: <http://www.accountability21.net/>, viewed 28 November 2007.

¹⁵For more information on ISO 26000, go to: <http://isotc.iso.org/livelink/livelink/fetch/2000/2122/830949/3934883/3935096/home.html?nodeid=4451259&vernum=0>, viewed 28 November 2007.

¹⁶More information on Corporation 2020 can be found at: <http://www.corporation2020.org/>, viewed 30 November 2007.

¹⁷A complete version of the Principles for Corporation 2020 can be found at: <http://www.corporation2020.org/>, viewed 30 November 2007.



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