

# Creating corporate accountability: Foundational principles to make corporate citizenship real

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**Creating Corporate Accountability:  
Foundational Principles to Make Corporate Citizenship Real\***

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**ABSTRACT**

This paper explores the growing array of initiatives aimed at creating corporate accountability with the goal of attempting to uncover the foundation principles that underlie them and create a ‘floor’ below which practices are ethically questionable. Using the Global Compact’s nine principles and the work of Transparency International as guides, foundational principles seem to exist in the areas of human rights, labor standards, environment, and anti-corruption initiatives.

## **Creating Corporate Accountability: Foundational Principles to Make Corporate Citizenship Real**

Many countries, global bodies, and companies around the world are struggling with how to turn foundational principles articulated in a growing array of principles, codes of conduct, and standards from statements about what *ought* to be done in corporate practices into what *is* in the marketplace. Increasingly corporations' figurative feet are being held to the fire of social activism aimed at creating greater accountability on the part of companies for the impacts that they have, not just with respect to investors, but on others stakeholders as well. If these pressures are to effect real change, they need to be underpinned by generally agreed foundation principles that are implemented not just rhetorically in corporate codes of conduct but in day-to-day operating practice. Before that day actually comes, however, there needs to be general agreement on the fundamental principles themselves. This paper will explore some of the growing array of initiatives aimed at creating corporate accountability with the goal of attempting to uncover foundation principles that are embedded in global agreements and corporate practices.

Global brands are often targets of exposés and activist pressures (e.g., Klein, 2000; Schoenberger, ca. 2000; Schlosser, 2000) as public attention shifts from topic to topic. As early as the 1960s and 1970s environmental concerns—and the company-produced chemicals causing them—became high on the public agenda. The publication of Rachael Carson's *Silent Spring* in 1962 and the attention paid to ecological issues on Earth Day #1 in 1970 were significant events in the US raising public awareness of corporate impacts on the natural environment. Other social issues came to the forefront of public opinion during this period as growth of single-issue pressure groups such as Greenpeace and Amnesty International gained momentum. Among other incidents, the consumer boycott of the Nestle Corporation for its sales of infant formula in developing nations by religious groups began in the late 1970s and culminated in Nestle's appointment of an internal infant formula audit commission. Combined with a global boycott of products from companies operating in South Africa, these and similar forms of consumer activism vividly demonstrated the usefulness of consumer movements to attempt to change corporate behavior and hold companies accountable through publicity, boycotts, and related forms of activism.

Another source of increasing pressure for corporate accountability is the social or ethical investing movement, which is now estimated by the Social Investment Forum to include some two trillion dollars in equities screened on social criteria in the US alone. Social investing gained steady currency in the 1980s and 1990s, with socially conscious investors initially demanding that companies withdraw from South Africa. Although social investing is yet to become fully mainstream, there is sufficient investor interest with about one of every eight dollars invested in screened equities<sup>1</sup> that even major investment houses like Smith Barney and large pension funds like TIAA-CREF have begun to get into the act and create social funds. In the US, the Dow Jones Sustainability Group Index focuses on five corporate sustainability principles: innovative technology,

corporate governance, shareholder relations, industrial leadership, and social well being, with the latter category explicitly emphasizing positive corporate responsibility with respect to society. In the United Kingdom, the FTSE4Good index, launched in July 2001, focuses on three areas: environmental sustainability, positive stakeholder relationships, and upholding and supporting universal human rights. By the 1990s, corporate governance activists had also become sophisticated in their use of shareholder resolutions targeted at specific corporate practices (e.g., Rivoli, 2003; Proffit, 2000a, 2000b; Graves, Rehbein & Waddock, 2001). Shareholder activists annually submit hundreds of such resolutions, frequently aimed as negotiating tools to gain management attention even when they were withdrawn before voting.

Inside companies, outsourcing, strategic and other alliances, and just-in-time inventory management systems began to blur the boundaries between companies and their suppliers and customers during the 1980s and 1990s. Outsourcing created new global supply chains, often in developing nations, and human rights, labor, and environmental activists became concerned corporate practices in the increasingly long supply chains of consumer goods, clothing, and toy companies, among others (Rivoli, 2003). Boundaries between multinational companies and their suppliers, clear perhaps in the eyes of managers, were and are much less clear to activists wanting to create corporate accountability.

In the 1990s the rise of the Internet fueled new levels of activism and strengthened the capacity of civil society's non-governmental organizations (NGOs) to organize efforts fighting against sweatshop labor conditions, human rights abuses, child labor, anti-democratic regimes, political infractions, and ecological damages. Anti-globalization activists continue to demonstrate these concerns whenever international bodies fostering free trade, like the World Bank or World Trade Organization, attempt to meet. Legal developments, consumer requirements, technological innovation, and NGO activism are increasingly geared towards sustainability guidelines and the triple-bottom line of economic, social, and ecological assessment, measurement, and reporting criteria (Elkington, 1998; European Commission, 2001), rather than traditional, more unidimensional financial reporting standards.

Finally, the work of Transparency International (TI), founded in 1995, has again and again pointed out the need to weed out corruption in government and in business, receiving global attention for its now annual country-based "corruption index" (see <http://www.transparency.org/>). In May 2002, TI issued the 2002 Bribe Payers Index, as a means of determining whether any progress is being made on the anti-bribery front since the ratification by many nations of the OECD's Anti-Bribery Convention two years earlier. The conclusions reached hardly encouraging: awareness of the anti-bribery convention is generally low, while perceived bribery-paying (corruption) among companies in the 15 countries surveyed was relatively high. According to a TI spokesperson the findings 'signal the rejection by multinational firms of the spirit of

international anti-bribery conventions, while their actions lead to a huge misallocation of very scarce resources in developing countries.’<sup>1</sup>

### **The Gap Between Ideal and the Real...**

Demands for greater corporate transparency and accountability, as well as anti-corruption measures are fostering significant new accountability, reporting, and transparency initiatives among coalitions of business, labor, human rights, investor, and governmental bodies. Indeed, a database created by the International Labor Organization and available over the Internet lists nearly 450 websites of industry and business associations, corporate, NGO and activist group, and consulting organizations that have developed and are promulgating a wide range of relevant policy initiatives. These initiatives include a mix of transparency and reporting initiatives, codes of conduct, principles, and fair trade agreements.<sup>2</sup> Responses to these demands are varied. Many companies, particularly those under NGO and social activist pressures to reform labor and human rights abuses in their supply chains, have formulated their own codes of conduct. Notable among these companies are Levi Strauss, Nike, and Reebok, all significant targets of activism.

The proliferation of standards, principles, reporting initiatives, and codes threatens confusion and continued lack of implementation unless there is a common set of principles shared among them. Below we explore whether in the emerging proliferation of initiatives, there might be a common set of foundation principles or standards that could, if actually implemented, suggest standards of management practice. The array of emerging standards suggests that there is a gap between growing public expectations from a variety of stakeholders and actual company performance else this array of initiatives would not occur. Pressures from a wide range of stakeholders appear to be pushing companies toward a common set of guidelines of what *ought* to be and away from the stark and not always pleasant realities of global competition (Frenkel, 2001; O’Rourke, 1997, 2000; Greider, 1998). But this change is happening neither quickly nor systemically as of yet, nor is it entirely clear that voluntary standards alone will satisfy corporate critics or develop what Goodpaster (2003) calls corporate conscience. As a starting point, however, one thing is clear: for standards to be effective over the long term, agreement on fundamental principles or foundational values must be found, and, as Sethi (2003) has argued, companies must be held accountable for their implementation.

### **The Argument for Foundation Principles**

Foundation principles, if they exist, would provide a *baseline* below which it does not make ethical sense to go. As noted, however, such principles or values make sense

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<sup>1</sup> TI Advisory Council Chairman Kamal Hossain, quoted in a TI press release, May 14, 2002, ‘Russian, Chinese, Taiwanese and S. Korean companies widely seen using bribes in developing countries,’ posted at: [http://www.transparency.org/pressreleases\\_archive/2002/2002.05.14.bpi.en.html](http://www.transparency.org/pressreleases_archive/2002/2002.05.14.bpi.en.html).

only if there is sufficient global agreement about the standards that they create a level playing field for companies adhering to them. For example, corporate critics ask whether a company that employed 180 forced laborers yesterday and only 160 today could really be considered to be more responsible through this reduction. Yes, there is an improvement in practice, but most people would likely agree that slavery is reprehensible under any circumstances. Fundamental or foundation principles would suggest where the “floor” but not the “ceiling” of responsible practice lies. Such baseline level behaviors, practices, and values are foundation values. *Foundation values are generally agreed standards that provide a floor of acceptable practice* going below which is ethically and managerially problematic. Donaldson & Dunfee (1999) term such general principles or values ‘hypernorms’ and suggest that relatively universal consensus must exist for them to exist at all. They define hypernorms ‘entail principles so fundamental to human existence that they serve as a guide in evaluating lower level moral norms’ (1994, p. 265).

General agreement (by businesses) on a common set of foundational principles—a baseline or ‘moral minimum’ (Donaldson & Dunfee, 1999) for operating practice—would be an important development in providing a level playing field for companies. Schwartz (2002), for example, argues for a set of universal moral standards, including trustworthiness, respect, responsibility, fairness, caring, and citizenship, which could underpin the development of codes and principles themselves. Agreement on foundation principles could help companies avoid the information overload and code mania that some are currently experiencing as the number and types of initiatives grow, as well as disparities between developed and developing nations (e.g., Behrman, 2001).

Donaldson & Dunfee (1999) provide a framework for core values, built upon the need for system integrity that builds trust and the mutual respect that emerges from Kant’s categorical imperative. Donaldson’s (1996) argues that these basic principles of respect are useful aids for searching out commonly agreed foundation values:

- Respect for core human values, which determine the absolute moral threshold for all business activities.
- Respect for local traditions.
- Respect for the belief that context matters when deciding what is right and wrong.

(Donaldson, 1996, p. 6).

From these guiding principles, Donaldson (see also Donaldson & Dunfee, 1999) articulates three core values derived from the work of philosophers and theologians. All involve the critical element of respect. Core or foundational principles, then need to emphasize what McGregor Burns (1978) terms end values, which ultimately, as Donaldson & Dunfee (1999) point out, respect:

- human dignity,
- basic rights, and

- good citizenship (which involves working together to support and improve the institutions on which the community depends).

(Donaldson, 1996, p. 7-8).

These guiding principles negotiate the tension that exists in treating people as ends, not means, and treating each individual as unique and deserving of respect and dignity, while simultaneously holding valuable the context of community or common good that makes societies work.

### **Spheres and Related Values**

For purposes of discussion, let us conceive of human society as consisting of three dominant and intersecting spheres of activity: economic/business, government/political, and civil society (Waddock, 2002; Waddell & Brown, 1997; Waddell, 2000), all of which are underpinned by the natural environmental sphere from which all living beings draw life-giving resources (Waddock, 2002) (see Table 1). Core purposes within each of these spheres differ, hence there are likely to be foundational values or hypernorms associated with each sphere, though these will clearly merge into other spheres as well. Businesses, operating in the economic sphere, emphasize efficiency or ‘economizing’ (Frederick, 1995) and wealth generation. Governments, operating in the political sphere, emphasize the rule of law and establishing the ‘common good’ through the use of coercive power through values of power aggrandizing (Etzioni, 1961; Frederick, 1995; Waddell, 2000; Waddock, 2002). NGOs and other civil society organizations are primarily associated with relationships (generation of social capital) and community-building via “civilizing” activities (Putnam, 1993a, b; Waddock, 2002).

The long-term wellbeing of human society or civilization is necessarily and irrevocably linked to the state of the natural environment. The natural environment needs to be able to support human life if human society is to survive (though the environment will, in some form, survive in any case) (Maturana and Varela, 1998). The dominant ‘goal’ of the environment, if the environment can be said to have a goal, is ecologizing (Frederick, 1995) since what “waste” is produced naturally is consumed as food in another part of the system. Thus, we identify three spheres of human civilization underpinned by the ecological environment or four spheres in which we need to seek foundation principles: economic, governmental, civil society, and environmental.

To the extent that foundation principles exist, chances are they exist within broad-based consensus documents, generated not from theory but from agreements by the nations of the world, such as those promulgated by the United Nations, perhaps the longest-existing multi-lateral global enterprises. Although a few nations may not agree with principles articulated in these broad-based consensus documents (e.g., China on human rights), they nonetheless represent the world’s best efforts to find agreed values to date. Indeed, the recent development of the UN’s Global Compact, launched in 1999 by Secretary General Kofi Annan, provides significant insight into the relatively few values that may have achieved the status of global agreement that may serve as candidate for



actual hypernorms. Four principles deal with labor rights and can be said to fall within the economic sphere. Two principles deal with human rights, which fall within the civil society sphere, and two are ecological principles within the environmental sphere that underpins human civilization. The ‘missing 10<sup>th</sup> principle’ is a transparency or anti-corruption principle, which falls most dominantly within the governmental sphere, albeit its influence affects all three spheres of human civilization (Post, 2002; Vogl, personal communication). Below we will explore emerging foundation principles within each of the four spheres.

### **Economic Sphere Foundation Principles**

Businesses operate within the economic sphere with the dominant goal of economizing (Frederick, 1995). Since it is employees who produce the work of organizations, labor standards are certainly one important arena in which foundation principles are needed. Economizing means using resources, including human resources, in the most efficient way possible (and, in our current system at least, externalizing whatever costs can be externalized [Frederick, 2002]). In the human resource arena, economizing strategies can stand in some (at least apparent) degree of tension with respect for human dignity (Donaldson, 1996) (see Table 1). Despite a growing body of evidence to the contrary (c.f., Margolis & Walsh, 2001; Wood & Jones, 1995; Pava & Krausz, 1995; Waddock & Graves, 1997), many managers still believe that there is a trade-off between productivity and corporate responsibility. Further, in terms of management style, many managers also believe in what Pfeffer & Veiga (1999) term “failed assumptions,” i.e., that treating people with toughness and disrespect will achieve higher productivity than will treating them respectfully and well (see also Dessler, 1999).

In the economic sphere, principles derived from ILO standards and the UN Declaration on Human Rights are particularly relevant, according to Hartman, Shaw & Stevenson (2001; Hartman et al., 2003), who have extensively analyzed global documents. The International Labor Standards (ILS) of the ILO were developed with government policy in mind, targeting the development of national labor laws.

Companies, of course, are subject to labor laws in countries where they have a presence, but the ILSs do not generally specifically target companies. Such standards involve the fundamental principles of respect for humans as ends, not means, and, fundamentally, for human dignity at work (e.g., Donaldson & Dunfee, 1999).

The International Labor Standards cover a broad a range of areas and lack universal acceptance in their entirety; thus they lack key traits necessary to serve as a foundation for economic sphere principles. A narrower group of principles, targeted directly at companies, has more recently been articulated in the ILO’s Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (referencing the ILO’s Fundamental Principles), the OECD Guidelines for Multinational Enterprises, and the UN Secretary General’s Global Compact. Each of these target a more limited number of organizational behaviors – specifically behaviors concerning

issues like child and forced labor, freedom of association, and discrimination – that have been accepted as universally applicable by much of the global community.

Others have also thought about what fundamental principles might exist in each of the spheres discussed above, particularly with respect to primary stakeholders, or those stakeholders without which a business cannot exist (Clarkson, 1995; Freeman, 1984). Employees quite literally make up the business, hence deserve special consideration, particularly because employees are more directly affected by corporate operating practices than are other stakeholders. In the labor domain, some theorists suggest the need for a system of “ratcheting labor standards” (Sabel, O’Rourke, & Fung, 2000, p. 1) based on “a compact list of incontestable human rights of the workplace.”

Specifically with respect to labor standards, Hartman, Shaw & Stevenson (2001) demonstrate through an analysis of existing global labor standards, that there *are* certain basic labor rights that are relatively universally acknowledged, which build on the concept of human dignity and rights identified as fundamental by Donaldson & Dunfee (1999). These minimal labor rights are derived from the UN Declaration on Human Rights, UN International Convention on Economic, Social and Cultural Rights, Caux Round Table Principles, International Labor Organization labor standards. They are operationalized by the SA 8000 labor standards, as well as being found in many corporate and business association codes of conduct. Based on Hartman et al., for labor rights, the following foundation principles may represent the minimal set of conditions and standards to which all companies’ labor standards *should* (which is not to say companies always do) adhere:

- Just and favorable working conditions, including a limit to the number of hours a human should have to work each day and a healthy working environment;
- Minimum age and working conditions for child labor;
- Nondiscrimination requirements regarding the *relative* amount that a worker should be paid and the right to equal pay for equal work;
- Freedom from forced labor; and
- Free association, including the right to organization and to bargain collectively in contract negotiations

(Hartman et al., 2001).

Despite that even these minimal standards are not always achieved in practice because of economizing efforts by companies, from an economic sphere perspective, all of these foundation principles rest on the bedrock of human dignity and respect for the human capital invested by workers, treating people as ends rather than as means to an end (e.g., of profitability). The emergence of no-sweat, no child-labor, Rugmark, and related labels that signify that baseline labor standards have been met attests to a growing international consensus on such standards as the floor (moral minimum) of acceptable practices.

### **Governmental Sphere Foundation Principles**

Sustaining the integrity of the business and economic system demands *trust* in the system, particularly at the intersection between government (with its power to regulate and create the rules by which businesses operate) and business. Trust is the key to sustainable nations and a sustainable economic system. Governments have the capacity to use coercive power (power aggrandizing tendencies, Frederick, 1995) to create the system under which other types of entities exist. System integrity is fundamentally undermined by corruption and bribery, which has the tendency to make both the economic and political systems untrustworthy. Accountability in corrupt systems is nonexistent and companies that participate in corruption, which the Transparency International report cited above suggest is quite rampant, work against system integrity and the necessary foundation of trust. Transparency International (TI) and the World Bank, two global organizations working at the country level on the issue of corruption, have highlighted the need for foundational principles built on the concept of system integrity. An anti-corruption principle would thus be what Post (2002) characterized as the missing tenth principle in the Global Compact.

As stated on the TI website, there are several reasons for fostering system integrity, integrity that structures business-government relationships and ultimately fosters democracy. The reasons are:

- Humanitarian, as corruption undermines and distorts development and leads to increasing levels of human rights abuse;
- Democratic, as corruption undermines democracies and in particular the achievements of many developing countries and countries in transition;
- Ethical, as corruption undermines a society's integrity; and
- Practical, as corruption distorts the operations of markets and deprives ordinary people of the benefits which should flow from them. (Source: <http://www.transparency.org/welcome.html>)

Foundation principles for government (and business) as developed by TI are based on the Organization for Economic Cooperation and Development's (OECD) 1997 Convention on Combating Bribery of Foreign Officials in International Business Transactions, an internationally-agreed convention that makes bribery illegal in many nations of the world. This convention was ratified by 34 signatory countries, including the OECD countries, which account for some three-quarters of global trade by June 2001.<sup>3</sup> The convention makes bribery a criminal act and eliminates the deduction for bribes that was formerly allowable in some signatory nations. Using this convention as baseline guidance for ethics in practice, Transparency International fosters "integrity systems" in government, that is a complex set of institutions, laws, and regulations aimed at fighting corruption in all of its manifestations (for more details see "The Integrity Pact" at [http://www.transparency.org/activities/ip\\_attachm-a.html](http://www.transparency.org/activities/ip_attachm-a.html)).

TI's core principles form the foundation of possible baseline principles with respect to the interactions of business and government, as well as providing some guidance for business transactions and reporting. Interestingly, TI's core principles are

similar to the ethical principles of the numerous business initiatives aimed at improving management practice analyzed by Liedtka (1998), suggesting their broad applicability. TI's mission statement articulates its foundation principles as:

- Participation;
- Decentralization;
- Diversity;
- Accountability; and
- Transparency.

(Source: [http://www.transparency.org/activities/ip\\_attachm-a.html](http://www.transparency.org/activities/ip_attachm-a.html))

These principles are important because of the coercive power commanded by governments (Etzioni, 1961) to accomplish their fundamental goals of creating the rule of law to which citizens, individual and corporate, must adhere. While more authoritarian regimes might not agree with the foundational democratic values expressed by concepts of participation and decentralization, these same underlying values are, in fact, to be found in the corporate initiatives aimed at fostering effectiveness (Liedtka, 1998). Principles fostering democracy, encompass different people, nations, cultures, and personal expression. Further, many scientists recognize that biological diversity results in a healthy ecology (Maturana & Varela, 1998; Capra, 1995; Frederick, 1995). Extending this consideration to society is the basis of suggesting the value of diversity, because the diversity of local cultures differences among individuals (Donaldson & Dunfee, 1999) is also important in fostering both differentiation and integration across nations and corporations.

### **Civil Society Sphere Foundation Principles**

Basic human rights are possible candidates for fundamental principles associated with the civil society sphere, which is the realm of 'social' organizations, family, church, schools, and non-governmental organizations. Foundation principles related to human rights are most well known from their promulgation in the UN Declaration on Human Rights, first written in 1948 and more recently updated to include basic environmental concerns as well as human rights. Based on this declaration and other sources, Donaldson & Dunfee (1999) suggest that there is significant cross cultural agreement on the following principles all of which respect the dignity and humanity of individuals:

- The right to freedom of physical movement.
- The right to ownership of property.
- The right to freedom from torture.
- The right to a fair trial.
- The right to nondiscriminatory treatment.
- The right to physical security.
- The right to freedom of speech and association.
- The right to minimal education.
- The right to political participation.

- The right to subsistence.  
(Source: Donaldson, 1989, cited in Donaldson & Dunfee, 1999, p. 68)

Some of these foundation principles are highly congruent with the labor rights identified above in the economic sphere. As with the governmental foundation principles, the foundational human rights identified by Donaldson & Dunfee (1999) also foster democratic values (i.e., the right to political participation and the freedoms of speech and association) rather than more authoritarian values. Simultaneously, these rights allow for individual, national, and cultural differences (i.e., nondiscriminatory treatment and the freedom of speech and association), in what Donaldson & Dunfee (1999) term the “moral free space” where individual differences of opinions about right and wrong exist.

It is important to note that these human rights are agreed principles about what *ought* to be and come from consensus documents from the international community. Nonetheless, these principles are not necessarily representative of the way people necessarily are *actually* treated in different parts of the world today, particularly under the pressures of global competitiveness that seek for ever-lower costs (or greater economizing efforts). Even though there is widespread agreement on these principles, as found in UN documents, there are still many countries (and companies) that are run as dictatorships, where democracy and participation are not universally valued.

Despite that participation (democracy) has been shown in multiple studies to be effective in bottom-line terms (Pfeffer & Viega, 1999), it is still not universal. Discrimination along ethnic, religious, gender, and other lines is still commonplace. Universal franchise, freedom of association, and living wage are highly contentious issues in many parts of the world. Using outdated assumptions, some managers believe that there is a trade-off between achieving some of these principles in practice and generating the most efficient operations. As a counterpoint, however, Motorola achieved considerable success with its slogan that “quality is free” (Post, Preston & Sachs, 2002). We might as easily argue that a similar understanding could be generated about human dignity and responsible treatment of people, both at work and in civil society: “Responsibility is free.” There need not necessarily be a conflict between profitable enterprise and respect for basic human values, as multiple studies on the relationship between corporate responsibility and profitability indicate (Margolis & Walsh, 2001a, b).

More fundamentally, perhaps other values simply sometimes outweigh purely economic ones. In his important book, *Fast Food Nation*, Eric Schlosser puts the core issue starkly:

The market is a tool, and a useful one. But the worship of this tool is a hollow faith. Far more important than any tool is what you make with it. ...If all that mattered were the unfettered right to buy and sell, tainted food could not be kept off supermarket shelves, toxic waste could be dumped next door to elementary schools, and every American family could import an indentured servant (or two), paying them with meals instead of money. ...The great challenge now facing

countries throughout the world is how to find a proper balance between the efficiency and the amorality of the market. ...An economic system promising freedom has too often become a means of denying, as the narrow dictates of the market gain precedence over more important democratic values. (Schlosser, 2001, pp. 260-261).

### **Ecological Sphere Foundation Principles**

If nature can be said to have a goal, it is likely to be what Frederick (1995) calls ecologizing. The economizing that is inherent in industrialization (Frederick, 1995) when combined with the basic ecologizing processes of nature (Frederick, 1995) points in the direction of a possible foundation value for the nature environment of:

- Sustainability or ecologizing (Frederick, 1995).

Nature, that is, wastes nothing as Frederick's (1995) extensive review of the biology literature attests. What is waste for one process becomes food for others, creating a cycle that sustains itself in creating the conditions for life on earth as we know it, or what some have called the Gaia hypothesis, the hypothesis that the earth itself is a living system (Lovelock, 2000).

The ecological or environmental sphere provides the basic elements necessary for human civilization to survive and prosper, according to biologists Maturana & Varela (1999). Though processes of industrial development sometimes disconnect us from this reality, human civilization can survive only within a narrow range of ecological conditions, though the "environment" will go on whether humans are a part of it or not. The health of the natural environment with respect to human civilization is currently threatened, largely from the impact of human beings and processes of industrialization (e.g., Diamond, 1992; Hawken, 1999; Hawken, Lovens & Lovens, 1999; Capra, 1983; Freeman, Pierce & Dodd, 2000). The need for sustainable development has never been more real (e.g., Gladwin, Kennelly & Krause, 1995; Hawken, 1999), despite the continuing emphasis in the economic system on growth, consumption, and continued use of natural resources.

The Global Compact, building on the consensus fostered through the UN's Agenda 21 and the Declaration on Human Rights and Environment, reinforces the need for sustainability by emphasizing the following core environmental principles as its foundation principles:

- Taking a precautionary (preventative ) approach to environmental challenges;
  - Responsible and ethical management products and processes from the point of view of health, safety and environmental aspects; and
  - Development and diffusion of environmentally sound technologies.
- (Source: <http://www.unglobalcompact.org/gc/unweb.nsf/content/thenine.htm>)

Although corporate and indeed human practices are currently far from sustainable (e.g., Hawken, 1999; Diamond, 1992), the growing concerns about environmental issues suggest the need for the types of foundation principles found in the Global Compact and elsewhere.

### **Challenge Ahead: Moving from Principles to Practice**

This paper has identified a set of foundational principles for the issues of labor, human rights, system integrity, and environmental practices, based on what is contained in globally-agreed (mostly UN-based) documents. These documents by virtue of the international consensus on which they are based promulgate basic standards that arguably *ought* to be followed by the brands, retailers and their suppliers around the globe. Of course, as evidenced by a continuing stream of exposés put forward by the BBC, New York Times, *Sixty Minutes* and a host of other outlets, frequently such standards are not met. After years of hard won progress in the major industrialized countries on the range of issues covered by these foundational principles, the globalization of production and the disaggregation of supply chains appears to have brought us back full circle to some of the more egregious business practices of the past, including sweatshops, abusive working standards, and growing ecological deterioration.

Given this unsatisfactory state, it is not surprising to find a wide variety of initiatives emerging to better regulate, ensure compliance with standards, and establish some system of accountability and comparability. To avoid external regulation, many companies are engaged in voluntary initiatives to monitor their own practices through codes of conduct or by joining initiatives that attest to their adherence to foundational values. Voluntary initiatives include The Fair Labor Association (FLA), Ethical Trading Initiative, Clean Clothes Campaign, to name just a few. Some companies agree to monitor their suppliers' labor practices and submit to external verification through organizations like Social Accountability International's SA 8000 standard. Others are attempting to become more transparent through active engagement with stakeholders and living up to AccountAbility's AA 1000 series of labor/workplace standards guidelines. Some entire industries' professional associations, including the Direct Selling Association and the Chemical Industry have started self-regulatory process, such as chemicals' Responsible Care initiative and the DSA's code of conduct to attempt to guide their members toward more responsible practices that live up to global standards and expectations.

OECD guidelines on multinationals, the Caux Roundtable's Principles, and the Global Sullivan Principles, among others, are all attempts to boost standards by promulgating global codes of conduct and what we have termed foundational principles that are widely agreed. One major initiative is the Global Reporting Initiative (GRI), which is attempting to provide reporting mechanisms for social and environmental reporting similar to those already in place for financial reporting. By 2003 about 1000 of the more than 70,000 transnational corporations in the world had joined this initiative. Just as new expectations and norms, standards, and regulations evolved in the US and

elsewhere during the early 1900s to respond to the most egregious abuses of industrialization, so today are new global mechanisms beginning to evolve that have some potential to hold companies more accountable for their practices and to meeting foundational principles.

Combined with internal responsibility management systems, these initiatives constitute the beginnings of what I have elsewhere termed a responsibility assurance system (Waddock, in press). We can see the outlines of a voluntary global system that establishes standards and enforces standards beginning to emerge, in part the result of civil society and non-governmental organization anti-corporate activism, but at this point the system is still voluntary and many critics of globalization and of the power of the modern transnational firm believe that voluntary standards will need to be complimented by mandate. For example, the Global Compact (GC), Global Reporting Initiative (GRI), SA 8000, and AA 1000 contain three core elements of responsibility assurance: standards of conduct or the foundational principles discussed above (e.g., the Global Compact), monitoring, verification, and certification processes to ensure that what companies say they are doing is what they are actually doing (e.g., AA 1000 and SA 8000), and reporting guidelines for reasonably standardized external communication of what is being done that is relatively comparable across companies and nations (e.g., GRI).

Each of the core elements of responsibility assurance addresses a different element of an important continuum that reinforces the foundational values discussed above. For example, the GC articulates nine foundation principles, as discussed above, which are supplemented by principles of respect, dignity, and care for the community as identified by Donaldson & Dunfee (1999). The GRI provides a common reporting tool that provides for comparability across companies and other institutions using it, as well as a degree of transparency not currently available. SA 8000 and AA 1000, and related International Standards Organizations (ISO) standards on environment, provide specific means for assessing company performance in the important arenas of the multiple bottom lines associated with ensuring that companies are held to higher standards than some are meeting today in the global arena. Whether these are the specific initiatives that will, in the end, create a 'new business imperative' of corporate responsibility (Waddock, Bodwell & Graves, 2002) at the global level, these *types* of initiatives, along with continued activism and public pressure, are among the types that will be needed to bring about more accountable corporations that meet these basic standards of practice.

Such voluntary initiatives may never satisfy corporate critics, particularly in light of the reality that, for example, of the nearly 70,000 transnational corporations, only about 1000 had signed the Global Compact by early 2003, and the reach of the GC hardly touches the millions of small and medium-sized enterprises in the world today. Peer pressure from companies within the same industry does have the capacity to shift corporate attention to the reporting of social and ecological as well as economic/financial performance—and what gets measured is what managers tend to pay attention to, thus, the existence and promulgation of reports does have some potential, in and of itself, to shift attention toward foundational principles such as those discussed above. Such



reports and monitoring of supply chain activities is particularly important for companies with brand reputation to protect, who have been targets of anti-corporate or anti-globalization activism, as the membership of the Fair Labor Association attests.

Further, although some companies are now voluntarily producing triple bottom line reports (Elkington, 1997) that focus on economic, social, and ecological performance, and engaging in verification of standards in their supply chain factories, some managers are questioning their usefulness—as well as whether they are even being read. New regulatory mechanisms, such as the Sarbanes-Oxley Act in the US, and recent legislation in France and the UK that mandates that pension fund managers report how they deal with ecological and social issues within their funds have far-reaching potential shift priorities of they continue to spread to other nations, and become the norm. Although specific behaviors are not required in these European laws, the mere fact of having to report how these issues are considered draws new attention to underlying standards.

Additionally, we can make an analogy to the quality movement. Quality became a business imperative during the 1980s in part because of customer demands for better quality, in part because the Japanese had already set a high standard of quality that forced others to focus on quality, and in part because European Union companies began requiring that suppliers meet ISO quality standards (Evans & Lindsay, 1999). Perhaps it will take a similar sequence of events around corporate responsibility, underlying corporate responsibility for all companies, branded or not, to begin taking foundational principles seriously. For instance, what might be the impact of current EU companies requiring their suppliers to meet SA 8000 labor standards, to join the Global Compact and uphold the principles, reporting out using GRI standards?

Alternatively, what if several major transnational corporations that have long or extensive supply chains (e.g., Wal\*Mart) or employ people on a global basis (e.g., McDonalds) determined that they—and all of *their* suppliers had to be certified as meeting foundational standards? The chain reaction of such moves would create a cascade effect, much along the lines of the quality movement, that would, in fact, make the implementation and meeting of foundational principles a way of doing business. Resultant attention from the general public, the press, and competitors could conceivably create an entirely new context in which foundational principles as related to the very stakeholders who constitute the company and without which it cannot do business are met as part of the company's basic license to operate—its fundamental social contract.

The world today is far from either voluntary or mandated assurance that foundational principles—basic human and labor rights, ecological principles, or the transparency that provides trust in the integrity of the system—are in fact being implemented. Yet, as can be seen from the sketch given above, there are forces in place that are pushing in the direction of establishing and implementing core principles to make corporate citizenship real, not just rhetoric. Only time, competitive conditions, political will, and the social movements that underlie the development of that political will, will determine whether the ultimate outcome is in the best interests of humanity—meeting the

basic needs of people for respect and dignity, of human civilization for a sustainable global ecology, of democracy for systemic integrity.

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**Table 1. Sphere System Goals and their Implications for Foundation Values**

<b>Sphere</b>	<b>System Goal</b>	<b>Respect for...</b>	<b>Implies....</b>
Economic	Economizing	Human dignity	Respect for employees, labor standards Respect for product/service integrity
Government	Power aggrandizing	Basic rights	Respect for system integrity, transparency, and the rule of law
Civil Society	Relationship	Community	Respect for local traditions, context, and basic human values
Environment	Ecologizing	Future generations	Respect for ecological sustainability that supports human civilization

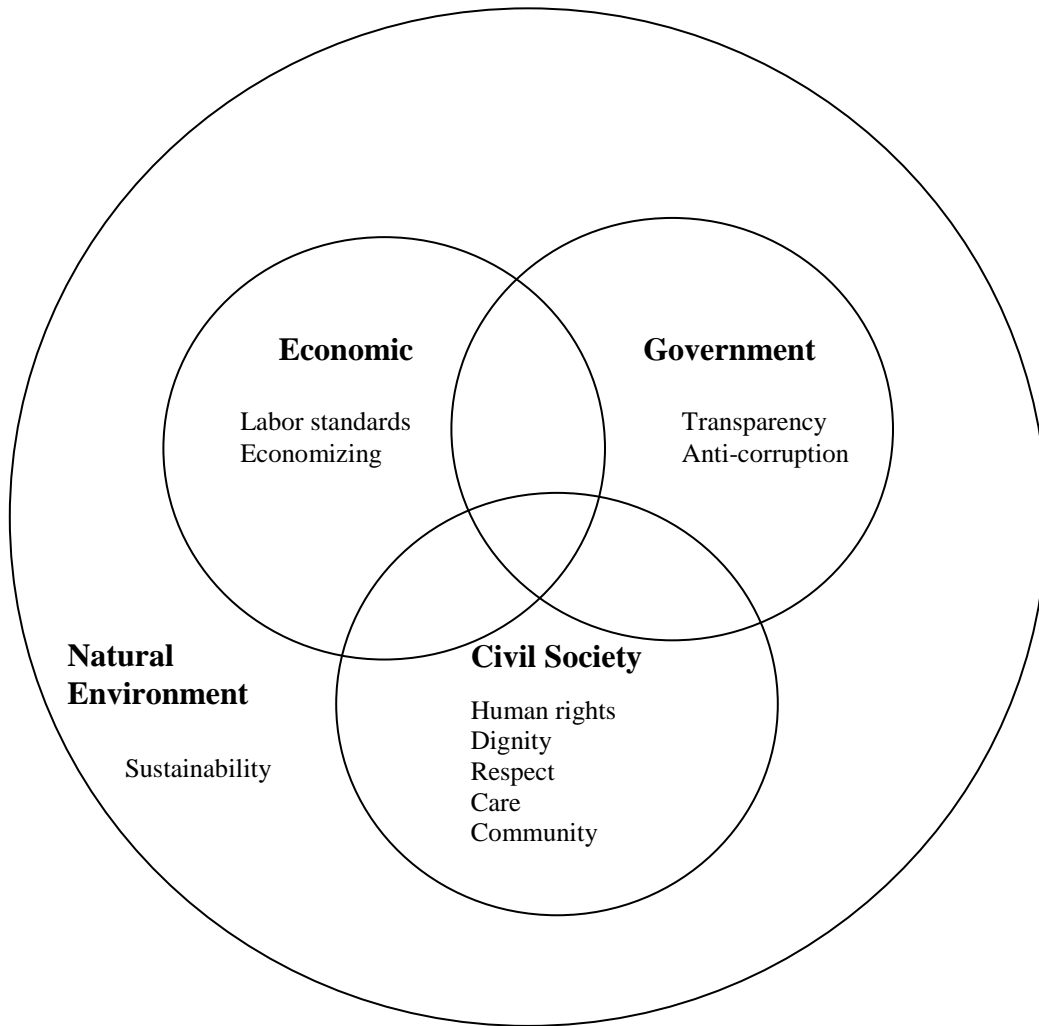
Sources: System goals adapted from Frederick, 1995 and Waddock, 2002; core values of human dignity, basic rights, and community (good citizenship) adapted from Donaldson, 1996.



**Table 2. Foundation Values in the Spheres of Human Civilization and Natural Environment**

<b>Economic Sphere</b>	<b>Governmental Sphere</b>	<b>Civil Society Sphere</b>	<b>Ecological Sphere</b>
<ul style="list-style-type: none"> <li>• just and favorable working conditions</li> <li>• minimum age and working conditions for child labor;</li> <li>• nondiscrimination;</li> <li>• freedom from forced labor; and</li> <li>• free association,</li> </ul> <p>Source: ILO Conventions, Donaldson &amp; Dunfee, 1999; Hartman, Shaw &amp; Stevenson, 2001.</p>	<ul style="list-style-type: none"> <li>• Participation,</li> <li>• Decentralization,</li> <li>• Diversity,</li> <li>• Accountability,</li> <li>• Transparency.</li> </ul> <p>Source: Transparency International</p>	<ul style="list-style-type: none"> <li>• Freedom of physical movement;</li> <li>• Ownership of property;</li> <li>• Freedom from torture;</li> <li>• Right to a fair trial;</li> <li>• Nondiscriminatory treatment;</li> <li>• Physical security;</li> <li>• Freedom of speech and association;</li> <li>• Right to at least a minimal education;</li> <li>• Right to political participation;</li> <li>• Right to subsistence.</li> </ul> <p>Source: Donaldson &amp; Dunfee, 1999; UN Declaration on Human Rights and Environment</p>	<ul style="list-style-type: none"> <li>• Sustainability</li> <li>• Precautionary (preventative ) approach to environmental challenges;</li> <li>• Responsible and ethical management products and processes; and</li> <li>• Development and diffusion of environmentally sound technologies.</li> </ul> <p>Sources: Frederick, 1995; Global Compact.</p>

**Figure 1. Foundation Values**



## Endnotes

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<sup>1</sup> See <http://www.investorhome.com/sri.htm>. This screen is notably broad, including shareholder resolutions, as well as direct investments in screened companies and mutual funds.

<sup>2</sup> See ILO's Business and Social Initiatives: [http://oracle02.ilo.org:6060/vpi/VpiSearch.First?p\\_lang=en](http://oracle02.ilo.org:6060/vpi/VpiSearch.First?p_lang=en).

<sup>3</sup> As reported at <http://uspolicy.usembassy.be/Issues/WTO/factsheet.062901.htm>.