SUSTAINABILITY CHALLENGE # 7:

CAVEATS OF 'BEING FIRST' AND 'PRO-ACTIVE'

Introduction: the strategic business case involves a tactical dilemma[1]

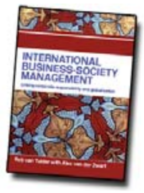
It pays of to be a first-mover in Corporate Responsibility. Many of the leading firms in the world as regards Corporate Responsibility – in the definition of the Financial Times – are also on the top list of the world's most respected companies (Table 1). Five out of the first ten firms can be found on both lists. Many of these firms also have a well respected brand which represents a sizable factor of goodwill that in many stock exchanges increases the market capitalization of the company. So the business case for a leader position in CSR and ICR (International Corporate Responsibility) seems relatively easy to make. There are some caveats, however.

Table 1 Most admired companies, 2004

Most respected companies:	*Best for Corporate Responsibility:*
1. General Electric	**1. Microsoft**
2. Microsoft	**2. Toyota**
3. Toyota	3. BP (15)
4. IBM	**4. General Electric**
5. Coca-Cola	**5. IBM**
6. Dell	6. Royal Dutch/Shell (34)
7. Wal-Mart	7. Johnson & Johnson (14)
8. Citigroup	8. Honda (19)
9. Procter & Gamble	9. McDonald's (27)
10. Hewlett-Packard	**10. Wal-Mart**

Source: Financial Times, various editions; between brackets is score on parallel list.

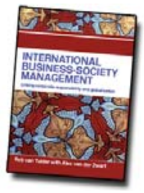
[1] This dossier was written by Alex van der Zwart and Rob van Tulder. The dossier further elaborates one theme addressed in the book "International Business-Society Management" (Van Tulder with Van der Zwart, 2006, Routledge) in particular in chapter 13 (International Corporate Responsibility) and chapter 20 (the stakeholder dialogue). References in the text to Figures, Chapters and Tables, refer to the original book. The dossier is intended to illustrate how this particular issue can be approached by practitioners in business as well as NGOs. Last updated: March 2006.



The business case for International Corporate Responsibility (as developed in chapters 8 and 13) is best served by firms who move into the direction of pro-active ICR tools, such as broad international codes of conduct, unambiguous international quality marks, certificates and pro-active sustainability reports. They are all manifestations of responsible business practice and they are also instruments to make ICR verifiable and communicable. The great advantage of explicit and public forms of self-disciplining is that companies develop initiatives to deal with societal issues that government has not (yet) been able to do. For companies, self-disciplining has a number of advantages. In the first place, it can *close expectational gaps* (chapter 9) with respect to issues. Stakeholders are better informed about what they may expect of a company. In the second place, it allows companies to *anticipate stricter legislation.* Through timely settlement of an issue, companies display their self-regulating, disciplining and normalizing capacity. In the third place, initiatives can *distinguish a company* in a competitive market. Since credibility and reliability are two important pillars of reputation, the latter will be strengthened (see chapter 11). This has been at the core of the successful entry strategy – through leadership in CSR - of companies like The Body Shop, Ben and Jerry's, Max Havelaar.
A company could, for instance, allow NGOs to check whether it uses child labour or forced labour (Schwartz and Gibb, 1999: 124). External and independent verification of the company's reports enhances its reliability, offers possibilities for interaction with other stakeholders and gives a thruthful and accurate picture for stakeholders watching from the sidelines, which lower the change that they will be wrongfully attacked by critical NGOs. Institutionalised independent initiatives such as GRI, implementation of the OECD guidelines and unambiguous and international quality marks also signal a more pro-active stance towards ICR. It increases the comparability and therefore the credibility and reliability of companies adhering to these initiatives (Kaptein and Wempe, 2002).
At the same time, however, companies may remain reticent in accepting sophisticated forms of self-regulation and independent monitoring. Eight arguments can be put forward to explain the hesitance and fear of companies. They provide eight (*realistic*) caveats for actors that would like to (*idealistically*) push the ICR initiative forward. In chapter 20 it is explained that a pro-active ICR strategy ultimately requires a *pragmatic-idealist* approach (see Table 20.3). Taking the following eight caveats into account should help develop a realistic agenda for pro-active companies, NGOs and governments.

1. Transparency as Western imperialism

International stakeholders have to make a decision on the basis of good information, also about the manner in which companies engage with socially sensitive issues. That requires transparency, verification and combating information asymmetry. Transparency, however, is an Anglo-Saxon norm which other cultures regard as a less valuable goal to strive for. On the basis of the code of conduct and reporting study, this actually appears to be the case in practice. American companies have codes of conduct particularly to prevent damage claims and further regulation. Northern European companies have more voluntary codes and operate more strictly regulated environments, whereas Asian and Southern European companies are much less inclined to regard transparency as part of interface management.



2. Creating expectations that are too high

A company that makes commitments without knowing exactly what stakeholders want can unintentionally create high expectations. A company makes itself vulnerable in this way. Moreover research by the *Ethics Resource Centre* shows that in the mid nineties social performance of companies without codes of conduct could be just as high as companies with a code (Van Luijk and Schilder, 1997: 95).

3. Moral paradox of transparency: being conspicuous

Enhancing transparency and disclosing information about certain sensitive issues increases the likelihood of conflict. It offers more points for critical stakeholders to latch onto. The weaknesses in company policy are magnified. Companies that explicitly proclaim values are called to account more readily and they are watched more closely than companies that do not. In this way, companies believe that by being transparent they 'wake sleeping dogs'. The more explicit companies are about their commitment to ethical conduct, the harsher the moral spotlight. NGOs naturally want to verify such proclamations. Making values explicit could lead to punishment if they are not honoured. It provokes corrections. Foucault (1977) writes about the punishing effect that accompanies transparency - especially when it is imposed by external parties. Having a code of conduct, quality mark, certificate or social report makes one vulnerable (Liubicic, 1998). Companies that are transparent and disclose a lot of information, which should be regarded as a worthy pursuit are nevertheless often criticised on the content of the report which could be discouraging. In this way, it would appear that the greatest willingness and goodwill of a company can be met with weightier obligations and higher expectations. This also explains why some companies avoid too much publicity surrounding initiatives such as codes of conduct (Sajhau, 1997). Being a frontrunner can be a disadvantage. The playing field is whimsical and there is much at stake.

4. An open-ended construction: where is the finishing line?

Many entrepreneurs who are confronted with ICR issues ask themselves how far their moral responsibility stretches, the underlying question being: 'is their no end to it, won't I become entangled in an open-ended construction if there is always be some stakeholder group to raise a new problem that needs to be put on my agenda?' It is undeniable that the limits of responsibility are continuously being stretched. Societal groupings are keen to have clear-cut and stringent rules in place to regulate the issues they represent. This means that they frequently press for further elaboration, refinement and modification of the sustainability report and code of conduct for example. According to entrepreneurs, some disciplining demands even amount to 'corporate suicide' (van der Heijden, 1996).

5. What is the reward?

Research attributes higher share prices and larger profit margins to sustainability-oriented companies than it does to less sustainable companies, but the evidence is flawed to say the least (see chapter 8). So for individual companies it is not always evident that stakeholders reward enhanced transparency, ethical conduct, honesty and openness for instance by means of reporting. 'Any company that forgets that the (sustainability) debate can be a minefield is in danger of losing its corporate legs' (Elkington, 1999: 166). In individual cases a negative correlation has been detected between transparency and reward: more transparency provides better insight for analysts, the media and investors into the weaknesses of the organisation and even cause investors and clients to reject a company. Having a code, a report or participating in the *Global Compact*, for example, is no foolproof buffer against conflicts.

6. Costs and market position

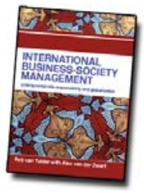
Codes of conduct and reports involve costs, among other things, for monitoring and ensuring compliance: drawing up a code is only the beginning. The introduction of a quality mark involves submission, evaluation and user costs and such a quality mark could also affect one's market position in a competitive market, certainly when the self-imposed disciplining is strict. Developing and complying with a code could therefore affect one's competitiveness on the international playing field. Given that the norms of Asian companies are less strict and the desire for transparency less pronounced, they are all set to seize projects that are left behind. Competition can be such that moral standards are under continuous pressure. This is a clear symptom of the trade-off between ethics and efficiency in order to operate effectively (Triple-E). Finally, a report could also contain information that can affect one's competitiveness.

7. Who exactly is the enquiring party?

Another reason for reticence is the doubt that exists over who requires openness and transparency. For Shell it was clear: at the English shareholder meeting in 1997, the Board of Directors was asked to report on the extent to which the *Shell Business Principles* are acknowledged and complied with within the organization as a whole. It prompted a large number of other initiatives including stakeholder dialogues. Often it is secondary or more distant stakeholders – the most vocal international or host country NGOs – in particular who demand disciplining measures. The question, however, is whether they also articulate the concerns and expectations of stakeholders other than primary stakeholders such as consumers, suppliers and investors. An example that illustrates this is Akzo Nobel, which in 2001 ceased publishing an integrated sustainability report due to high cost and a lack of interest among primary stakeholders (Van Tulder, Van der Zwart, 2003). In 2005 Akzo Nobel decided to continue publishing CSR reports.

8. Suspicion: window dressing

Self-regulation will not lead to new rules of the game if a large part of NGO mistrust is not overcome. NGOs are alert to practices that smack of window dressing. At the same time, companies fear that they might come across as lacking in credibility and reliability. Good intentions can generate mistrust. Initiatives that are undertaken under the blue flag of the UN – where companies act as UN sponsors – are regarded as *bluewash* practices. According to NGOs, it is a camouflaging strategy to divert attention. The wilful diversion of attention from practices going on in factories overseas is referred to as *sweatwash*. Finally there is also *greenwash*, where ´green´ marketing and profiling by means of voluntary codes is regarded as cover-up underlying polluting practices so as to sidestep binding legislation or pull the wool over stakeholders' eyes. Stakeholders often mistrust companies who make green claims or profess to being socially responsible. Company



watch dog, CorpWatch give an annual *green* and *bluewash* prize to companies who in their view distinguish themselves through *window dressing.*[2]
Initiatives that lack credibility and reliability or spectacularly bloated media campaigns are easily pierced through where an apparent ethical revival is revealed as a facelift lacking in substance. It has appeared that many sector codes and industry quality marks often embody 'lowest common denominator' strategies with the result that are no more than superior forms of *window dressing*. NGOs are very alert to this.

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[2] For the *Green* and *Bluewash Award*, see: http://www.earthsummit.biz and http://www.corpwatch.org consulted on 24 July 2005.