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MNEs and the UN Global Compact: An Empirical Analysis of the

Organizational Implementation of Corporate Citizenship

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MNES AND UN GLOBAL COMPACT:

AN EMPIRICAL ANALYSIS OF THE ORGANIZATIONAL

IMPLEMENTATION OF CORPORATE CITIZENSHIP

ABSTRACT

The UN Global Compact (UNGC) is the largest "corporate citizenship" (CC) initiative in the world. Almost 5000 companies have signed the initiative whereby they voluntarily commit themselves to adhere to ten principles in the areas of human rights, labor rights, the environment and anti-corruption (www.unglobalcompact.org). More than nine years after the launch of the UNGC the question arises on how far the participants have progressed in the implementation of the Compact's principles. This paper presents the results of an empirical assessment of the implementation process at five large Swiss corporations that have been participants of the UNGC since the initiation of the Global Compact. The results illustrate that CC is a learning process and corporations are at different stages of development. To date, only few companies are implementing CC as intended by the founders of the UNGC. Also, some aspects show that companies assume a political role in their global business activities. In our study we make two contributions: (1) we develop an *analytical tool* for the assessment of how deeply corporate citizenship is embedded in the organizational structures and procedures of the UNGC companies. (2) With the help of this tool we deliver *empirical insights* into the implementation of CC at five large Swiss multinational corporations that are members of the UNGC. In addition, the study confirms the theoretical argument of recent literature in political CSR that multinational corporations are contributing to emerging global governance structures.

INTRODUCTION

Today many multinational companies publicly commit themselves to *corporate citizenship* (CC).[1] As the idea of integrating companies into the solution of global public goods problems (e.g., climate change, see Kaul et al., 1999; Kaul et al., 2003) has become increasingly popular, the question is no longer *why* companies should engage in CC, but *how* they effectively do so. This raises the issue of what CC actually entails. The CC definitions in academia and practice vary. They stretch from philanthropic approaches[2] to the "business case,"[3] and do not provide a coherent orientation for the implementation process in management practice. As a result, CC has become a label to describe various corporate activities that may not contribute to what CC has originally been promoted for, namely to ask companies to fill regulatory gaps in situations where governments are unable or unwilling to provide public goods or guarantee basic rights (Scherer et al., 2006, 2009).

In an effort to systematize the various labels that have been used to describe the relations of *multinational enterprises* (MNEs)[4] with society (e.g., "corporate philanthropy," "corporate social responsibility," "corporate citizenship"), Matten et al. (2003) developed an "extended view" of CC that takes account of the new role of MNEs in globalization. Their conceptualization is based on the observation that in a globalized world, *global governance* −

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[1] See for example the Fortune Global 500 ranking, which displays the world's largest companies according to how well they conform to socially responsible business practices (http://money.cnn.com/magazines/fortune/fortune_archive/2006/10/30/8391850/index.htm). In the US, however, companies are less inclined to make a public commitment to CC due to their fear of litigation (Williams 2004).

[2] A philanthropic understanding of CC is, for example, reflected in the 2007 Sustainability Reports of Koc Holding (CC is mainly operated from the independent Vehbi Koc foundation that sponsors the arts etc., see http://www.koc.com.tr/en-US/SocialResponsibility/SocialProjects/) or the Oil and Natural Gas Company (CC is mainly understood as community affairs, including building hospitals and schools; see http://www.ongcindia.com/community.asp).

[3] The "business case" of CC is, for example, highlighted on the websites of Nestle ("creating shared value," see http://www.nestle.com/SharedValueCSR/Overview.htm) or Philips (focus on "green innovations," see http://www.philips.com/about/sustainability/oursustainabilityfocus/index.page)

[4] For the purpose of our study we use the concept of the multinational enterprise (MNE) in a broad sense. Unlike the OECD definition of transnational corporations (TNCs) that emphasizes foreign direct investments (FDI) only, we call a company a multinational enterprise when the main part of its business activities reach beyond the borders of its home country, either by FDI, by licensing, by sourcing, or by trade (import and exports). The concept of the enterprise is not restricted to the legal corporate form, but in this paper enterprise is treated as synonymous with company, even though the five Swiss companies in our study are corporations in a legal sense. Our framework, however, focuses on "big" companies and does not consider the special characteristics and challenges of small and medium sized companies (SMEs), which will be investigated in a further study.

referring to rule-making and rule-implementation on a global scale – is no longer a task managed by the state alone (Braithwaite & Drahos, 2000; Kaul et al., 1999; Kaul et al., 2003; Zürn, 2002). Instead, TNCs as well as civil society groups contribute to the formulation and implementation of rules in public policy areas that were once largely the responsibility of the state (see Scherer et al. 2006). Matten and Crane, therefore, suggest that "corporate citizenship" describes "the role of the corporation in administering citizenship rights," with corporations providing social rights, enabling civil rights and channeling political rights (Matten & Crane, 2005: 172 et seq.).

Against this background, the purpose of our research project is, on the one hand, to clarify what CC stands for, and, on the other hand, to assess whether and how companies are implementing CC. This paper is embedded in the context of a larger research project on the political role of companies in a globalized world.[5] In the present paper we will focus on the development of the methodology for assessing CC.

The research project contributes to the literature in two ways. It theoretically develops an analytical tool to assess the "embeddedness of CC" in organizational structures and procedures, and then applies this tool to provide empirical insights into the implementation process of the CC of large corporations with headquarters in Switzerland.

The project closes research gaps, firstly, by developing an assessment tool for corporate citizenship. Existing tools are neither linked to corporate citizenship theory, nor are they methodologically sound (see below). Secondly, empirical data on the organizational "embeddedness" of corporate citizenship will be collected in order to establish baseline data on the implementation process. At this point in time comparable studies have not been conducted. Our study may, therefore, deliver a framework for future comparative studies on the implementation process in various countries, or on companies with various characteristics, such as size or industry.

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[5] References omitted for the purpose of anonymous review process.

The paper is divided into four parts. In the *first part*, the research design and the operationalization of the CC concept will be presented. The concept of CC will be developed based on a definition of CC that describes a distinct role for business in emerging global governance structures (Matten & Crane, 2005). In the *second part*, and, based upon the previously introduced CC concept, a tool will be developed to assess the "embeddedness of CC" in corporate structures and procedures. The degree of "embeddedness" is considered as the main indicator for assessing whether corporations are prepared to realize CC systematically through daily business routines. The tool will be derived from an organizational learning model drafted by Zadek (2004). The model identifies five typical stages of the development of companies that engage in CC, with the final stage, the "civil stage," covering CC as conceptualized in part one. The problem of the legitimacy of "political" activities of private actors will be discussed in the operationalization of this final stage (Palazzo & Scherer, 2006; Suchman, 1995). According to conventional wisdom, private actors are supposed to stay out of the political sphere (see critically Scherer & Palazzo, 2007). Any political activity by private business firms, therefore, must be analyzed in terms of its social acceptability (Suchman, 1995). Conclusively, the organizational implications of corporate legitimacy are included in the proposed framework of analysis. In the *third part*, the results of the empirical analysis of five Swiss UN Global Compact (UNGC) business participants are sketched out to illustrate the validity of the provided tool.[6] The results show that although all five companies joined the UNGC at the same time, they are at different stages of the development process. Implications and limitations of the research are summarized in the *conclusion*.

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[6] The case selection criteria are described under 1.2

1   CORPORATIONS AS CORPORATE CITZENS

1.1   The United Nations Global Compact and its Challenges

In 1999, Kofi Annan presented the UN Global Compact (UNGC) to business leaders at the World Economic Forum in Davos. Annan asked business leaders to join this initiative and to voluntarily support human rights, implement social and environmental standards, and to fight corruption in their business operations and their entire sphere of influence.[7] The goal of the CC-initiative is to promote responsible business conduct and, with over 5000 business participants the UNGC, it has, over the course of the last several years, become the largest global initiative of its kind (UN Global Compact, 2009). The UNGC, thus, currently presents the most popular means through which CC can be exercised (Banerjee, 2007; Gilbert & Rasche, 2008).

The effectiveness -- and ultimately the credibility -- of the UNGC has, however, been contested by a number of groups. Particularly civil society organizations claim that the UNGC could undermine the role of the UN and provide a forum for corporations to "bluewash" questionable business activities (Banerjee, 2007; Nolan, 2005). The "washing of corporate reputation" through CSR and the fascade of CSR has been a concern of critics for a number of years (see Laufer, 2003; 2006: 164 et seq.). It is also argued that the ten principles are too vague and thus difficult to implement (Deva, 2006). The main critique, however, refers to the UNGC's institutional design, particularly its lack of performance criteria and monitoring requirements (e.g., Amnesty International, 2003; Banerjee, 2007). Accordingly, Sethi (2003: 2) argues that "the Compact provides a venue for opportunistic companies to make grandiose statements of corporate citizenship without worrying about being called to account for their actions."

The UNGC, however, was not designed as a regulatory instrument with a policing mechanism (www.unglobalcompact.org). As a *learning forum*, the UNGC rather supplements

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[7] Originally the UNGC focused on human rights, social and environmental standards. Fighting corruption as an additional responsibility was not added until 2004.

existing regulation and relies on public accountability, transparency and the enlightened self-interest of companies, labor and civil society groups to mainstream its ten principles in business activities around the world and catalyze actions in support of UN goals (UN Global Compact, 2005). As UN general secretary Ban Ki-moon recently pointed out:

> "The United Nations Global Compact has already brought together nearly 5,000 businesses from over 130 countries. They are advancing responsible business practices and contributing to the Millennium Development Goals." (Ki-moon, 2008).[8]

Consequently, not all critiques of the UNGC is entirely justified (Rasche, 2008). Nevertheless, in order to remain credible and communicate impact-related information, the UNGC must not only strengthen its accountability measures but it must also come up with a method to meaningfully assess the status and the progress of the initiative. Such a focus on the implementation of the UNGC's principles would not alter the nature of the UNGC but merely control whether the institutional learning fosters CC-practices at company level.

Consequently, the UNGC introduced the "UN Global Compact Annual Review" at the Leaders Summit in Geneva in 2007. It includes quantitative survey-based data on the overall progress of implementing the ten principles that constitute the CC-understanding of the UNGC throughout the world. Rasche (2008) argues, however, that in order to make the information more valid, the available quantitative survey-based data should be supplemented with detailed qualitative interview-based data. In this manner, one can also assess the factors that cannot be quantified but nonetheless influence the implementation of CC. We therefore see two challenges to research: (1) to develop an assessment tool that is methodologically sound, and (2) to conduct an empirical study on the CC implementation that is embedded in current theories on corporate citizenship and TNCs' contributions to global governance.

(1) A previous research project among UNGC participants in Switzerland, conducted in 2003, demonstrates that surveys do not sufficiently serve to reveal the actual state of im-

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[8] Speech available at: http://www.un.org/News/Press/docs//2008/sgsm11815.doc.htm

plementation of the UNGC principles (Zillich, 2003). The preliminary results of this survey originally suggested that the companies' implementation of the UNGC principles is already very advanced (Zillich, 2003). In their self-assessment reports the participating companies claimed to apply fully developed management policies during the implementation process. Yet, interview-based data, as collected after the aforementioned survey, does not correspond with these findings. This can probably be explained by the popularity of the UNGC, for which surveys are routinely filled out, surveys which lend themselves to making "politically desirable" statements about the state of implementation rather than to revealing information that mirrors the actual state of development (see Fernandez & Randall, 1992; Randall & Fernandez, 1991). For example, in the survey of 2003, companies were asked whether and how they communicate the mission of the UNGC to employees and how they ensure compliance. All companies replied that they inform employees about the UNGC; some said that they conduct training courses on CC, and some even claimed to have introduced an incentive system to motivate employees to apply the UNGC principles (see Zillich, 2003: 22). In-depth interviews with company representatives that were performed after the survey, however, revealed that, while indeed all companies at some point inform employees about the UNGC (e.g., in a brochure for all new employees), training courses that simulate ethical decision-making situations have yet to be developed. Also, the alignment of incentive structures is a work-in-progress with very limited impact on promotions and bonus payments to date (see below). This experience highlights the validity problems that are linked with CSR-surveys. Such a distorted account might not necessarily be intended. It may also result from a lack of knowledge on the part of the survey respondents who are often only in charge of corporate communication and, thus, quite far removed from operational CC.

Against this background, Fernandez and Randall's (1992) analysis of the methods in ethics research is interesting. The authors analyzed the social desirability response effects in survey-based ethics research. They conclude that in the study of business ethics there is a ten-

dency for respondents to deny socially undesirable traits or behavior and to admit to socially responsible ones (Fernandez & Randall, 1992). For this reason quantitative researchers should be very careful when developing analysis instruments and interpreting results in order to diminish this social desirability effect. Qualitative interviews create the opportunity to account for the bias directly and to rectify it during the course of the data collection. Qualitative interview studies, however, create their own problems of subjective bias. Therefore, in the design of our study, we have attempted to compensate for this bias.

In addition, CC and its organizational implementation represent an empirically relatively unexplored field. The CC concept is highly abstract and the definition of several aspects of CC is still ambiguous. A qualitative approach helps to better understand the characteristics of CC in practice. It serves to fine-tune the definition of CC and to develop the concept further into a valuable theory. There is also some precedence for this kind of conceptual approach in the literature. For example, the study of ethical leadership at first chose an interview-based approach over quantitative methods in order to further sharpen the concept and to develop theory (Brown et al., 2005). The assessment of the "embeddedness" of CC in organizational structures and procedures thus follows a similar research pattern to advance CC in theory and practice.

(2) A second problem of existing assessments of the CC commitment of companies is their weak link to theoretical concepts. Popular rankings and surveys in the field (e.g., Dow Jones Sustainability Index[9], Good Company Ranking[10] etc.) are usually based on a set of indicators, which are intuitively relevant for measuring the state and progress of implementing CC, but were not systematically derived from a theoretical framework and a clearly defined CC concept such as, e.g., Matten and Crane's (2005) extended view of CC or Scherer and Palazzo's (2007) political conception of CSR. With only a few exceptions, academic empiri-

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[9] For more information on the Dow Jones sustainability index see http://www.sustainability-indexes.com
[10] For more information on the Good Company ranking see http://www.manager-magazin.de/magazin/artikel/0,2828,462214,00.html

cal studies of the implementation of the UNGC and CC are virtually non-existent. Rieth's very early analysis of the UNGC in Germany represents more of an overview than a systematic assessment (Rieth, 2003). Likewise, the only existing preliminary impact analysis of the UNGC does not systematically develop criteria that assess the organizational implementation of CC, but rather relies on survey-based data that provide a broad overview of the significance of the UNGC for the participating companies, with all the bias problems mentioned above (McKinsey 2004, 2007).

Last but not least, the surveying of companies is a *limited method* to assess the implementation of CC as it neglects the reactions of the various stakeholders to whom companies are ultimately accountable and it relies on a single data source, namely the self-assessment of responsible managers, or, even worse, the assigned members of the corporate communication departments who are normally rather detached from the various value change activities in which problematic CC issues may occur. As we will see from the definition of CC below, for valid measurement of the CC implementation the viewpoints of the various constituencies of the company must be included. Thus, a method that integrates the voices of various stakeholders draws a more accurate picture of the "embeddedness of CC." Stakeholder opinions about the corporate implementation of CC are therefore integrated in the interactive dimension of CC in the assessment tool.

The reason why to date no comprehensive and systematic effort has been made to assess the impact of the UNGC lies, according to the executive director of the UNGC, Georg Kell, in the high costs that are involved in gathering and evaluating information at different levels of data aggregation (see Kell, 2005: 63). The study presented in this paper contributes to the preparation of an impact assessment of the UNGC by analyzing the status of its implementation at company level.

1.2   Designing the research on CC

In order to avoid the methodological deficiencies of existing studies of CC, our research project was designed as follows:

(1) To circumvent the above-mentioned problems of quantitative studies *in-depth case studies* of five Swiss multinational corporations were conducted. Yin (1984) defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used (see Yin, 1984: 23). The in-depth analysis of each particular company in this study includes initial document analysis, three rounds of interviews with corporate representatives and cross-checks of the interview statements by reviewing, on the one hand, written policies, procedures and training manuals and, on the other hand, the reactions of stakeholders. For example, if a corporation states that it is "open for discussing controversial issues with stakeholders," the minutes of past meetings with stakeholders were requested and stakeholders were also asked to comment on this statement. Switzerland was chosen as the context for the study because of practical and theoretical reasons. From a theoretical perspective, Switzerland presents and interesting environment for studying the implementation of the UNGC because the Swiss government as well as a number of Swiss multinationals were among the main supporters of the UNGC. Due to this support, one could expect that the Swiss participants are particularly advanced in implementing the UNGC principles and that the analysis of Swiss participants of the initiative could probably reveal "good practice" models for CC implementation. Thus, the cases were chosen because it is believed that understanding them will lead to better comprehension and perhaps to theorizing about a still larger collection of cases (for support on this methodological argument see Silverman, 2005: 126; Stake, 2005: 446). For practical reasons and from the perspective of a Swiss university, focusing the research on Swiss TNCs facilitated access to data and resources. The focus on companies with their home base only in one legislative, political and

social context also excludes the potential national influence on the commitment of companies to CC. All selected companies joined the UNGC in its first year, between 2000 and 2001. The reason to choose only companies that joined the UNGC right after its inception was to allow the maximum time period for embedding CC in organizational structures and procedures as it is assumed that this integration process is time-consuming. It is also assumed that analyzing organizational structures and procedures at MNEs is easier than at SMEs due to their higher degree of formalized processes (Murillo & Lozano, 2006; Spence, 2007). Therefore, SMEs were not included in this study.[11]

In order not to prime the interviewees for "CC" as a controversially defined concept and to avoid terminological confusion, neither CC nor "Corporate Social Responsibility" (CSR), or any other terms describing the company's commitment to the UNGC, were used during the interviews. Instead, corporate representatives were first asked to describe all activities that serve the purpose of the UNGC. After this first round of interviews, specific aspects of the CC implementation such as complaints procedures or training courses were discussed in semi-structured interviews, based on the indicators of the assessment tool described below. To reduce the effects of "political desirability", the interview partners were then also asked to provide evidence for their statements by presenting written procedures, training manuals etc. The minutes of the meeting were drafted based on the recordings of the interviews. The interview partners then had the chance to review the text and correct factual inaccuracies. In no case, however, were the interviewees allowed to completely withdraw their original statements. This cross-check merely served to ensure the correctness of statements and it also diminished the effects that various contexts can have on the interview situation (see Fontana & Frey, 2005: 695). There is a growing realization that interviewers are not neutral tools as envisaged by survey research and thus, negotiating the final text of the protocols corresponds with this latest trend in interviewing (Fontana & Frey, 2005: 716).

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[11] The implementation of the UNGC at SMEs is analyzed in a subsequent study.

(2) The choice of assessment criteria was closely tied to organizational studies and management literature. Indicators for CC were derived from a theoretical framework that was developed based on a definition of CC by Matten and Crane (2005) and will be outlined in brief below. This theoretical link makes the assessment tool distinct from both existing assessments, as previously described (McKinsey, 2004, 2007; Rieth, 2003), and guide books on how to implement the UNGC (e.g., Fussler et al., 2004).

(3) When corporations assume *economic and political* roles, it is consistent to argue that these should also be held accountable (Palazzo & Scherer, 2006). The CC activities of UNGC member companies can be considered as legitimate as long as they comply with social norms, values, and expectations (Oliver, 1991). The legitimacy concept employed in this study understands *legitimacy as a social construct* (Suchman, 1995; Palazzo & Scherer, 2006). This means that legitimacy is ascribed to the companies by their constituencies. The research design, therefore, not only includes the analysis of the company's CC programs, but also the level of integration and appraisal of various stakeholders. The amplitude of the discrepancy between the self-evaluation and the external perception of a company's CC commitment is a good proxy for the legitimacy aspect that has to be built into the implementation of CC, if CC implicates a *political* role for corporations.

Unlike the literature on "political strategies" or political lobbying that focuses on the role of power and corporate attempts to influence the political system so that business interests are served (see, e.g., Hillman, Keim, & Schuler, 2003), we adopt a broader concept of politics and emphasize the role of process and communications. Otherwise the above mentioned legitimacy gap cannot be closed. Therefore, by *political* we refer to activities "in which people organize collectively to regulate or transform some aspects of their shared social conditions, along with the communicative activities in which they try to persuade one another to join such collective actions or decide what direction they wish to take" (Young, 2004: 377).

1.3   Developing a CC Concept

Matten and Crane (2005: 173) define corporate citizenship as "the role of the corporation in administering citizenship rights for individuals." This definition of CC lays the foundation for our empirical study and points to *three critical issues* which need to be considered in order to build a *CC concept* that can be operationalized and examined empirically: (1) the limits of corporate responsibility, (2) the lack of guidelines on how to realize corporate citizenship, and (3) the lack of prescriptions on how to resolve legitimacy challenges. We will discuss these issues in the following.

(1) Matten and Crane's definition of CC does not spell out any *limits of corporate responsibility* (on such limits see, e.g., Santoro, 2000; Steinmann, 2007). In its current form, companies would be responsible to provide citizenship rights everywhere and for everybody. Yet, for corporations whose primary role is an economic one this is not feasible. In the context of the UNGC, the delineating concept is the so-called "sphere of influence". Within their "sphere of influence," companies are expected to apply the UNGC principles. The discussion about how to define this sphere is, however, far from being settled. In order to continuously reconcile the expectations of various stakeholders and adjust the definition to the respective situation, managing a dialogue over the limits of corporate responsibility must become a routine for corporations.[12] While it is acknowledged that the definition of the "sphere of influence" has to be a negotiated term, for this study, the focus regarding a company's "sphere of influence" will be placed on all activities that are directly linked to the company's core business and value creation (Steinmann, 2007). This focus corresponds with the UNGC's priorities for implementing CC and it also helps to sort out activities that are probably 'nice to have' but not at the heart of the business and thus less relevant (e.g., banks using recycled

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[12] For an overview of the current debate on the "sphere of influence" see e.g., Gasser (2006). Gasser argues against a "top-down" definition that is based on objective criteria. He proposes instead to define the "sphere of influence" in discourse and according to the specifics of the situation. Statement available at: http://blogs.law.harvard.edu/ugasser/category/sphere-of-influence/

paper). Consequently, in order to realize CC in day-to-day business routines, core business processes on all levels and in all areas have to be adjusted in line with CC requirements.

(2) The extended concept of CC proposed by Matten and Crane (2005) is purely *descriptive* and does not outline practical guidelines on what corporations could do to realize CC in their organization. The authors make clear that they do not advocate that corporations should engage in CC and consequently they also do not provide specific strategies or procedures on how to implement CC. Self-regulation, however, has already become a common corporate practice and initiatives like the UNGC create further incentives for such political activities of corporations. Indeed, most corporations today have formally adopted a Code of Conduct and/or become a participant of a CC-initiative in order to highlight their commitment to the new "political" role of business firms in emerging global governance structures (Detomasi, 2007). Nevertheless, it is still not clear how these structures and procedures should be designed to instill CC into the organization. Empirical studies on the implementation of CC are scarce and a systematic review of "good practice" examples does not exist. Since such practical guidelines are missing, most corporations are still experimenting with the design of organizational structures and procedures that are supposed to promote CC in daily operations. For example, some corporations have set up designated CC departments while others believe that in principle all line managers should be in charge of CC. Likewise, it is unclear how to design incentive structures, training manuals or impact studies. Thus, many aspects of the technical implementation of CC have yet to be analyzed and developed.

(3) The CC definition of Matten and Crane (2005) does not yet provide any *guidance on how to solve the legitimacy question* that arises when corporations are conceptualized as actors with a public, hence a political role. Matten and Crane themselves are aware of this issue and they are rather pessimistic with regard to the legitimacy problems that their CC definition implies. However, we suggest that their theory can be further extended so that corporate behaviour is exposed to stricter democratic accountability. By placing private actors in

the public sphere, as Matten and Crane do by defining corporations as "guarantors of citizenship rights," they also help supporting the argument that these state-like functions need to be controlled just like democratic states are controlled by their citizens (Scherer et al., 2006). Corporations and their managers are, however, not elected or controlled like democratic governments. Therefore, we need to further develop this theory of corporate citizenship with the aim of assessing and justifying CC measures and policies where their legitimacy is called into question (see Palazzo & Scherer, 2006; Zürn, 2000: 190).

To this end, Palazzo and Scherer propose a "communicative framework" to legitimize the rule-making activities of private actors in global governance processes (Palazzo & Scherer, 2006).[13] Their concept builds on Suchman's typology of organizational legitimacy (Suchman, 1995), which differentiates between *pragmatic*, *cognitive* and *moral legitimacy*. To achieve organizational legitimacy, corporations have to "pursue socially acceptable goals in a socially acceptable manner" (Ashforth & Gibbs, 1990: 177). Palazzo and Scherer (2006) argue that, given the conditions of globalization, neither *pragmatic* nor *cognitive legitimacy* is sufficiently manageable. *Pragmatic legitimacy* results from the calculations of self-interested individuals who ascribe legitimacy to corporations as long as they benefit from the corporation's activities. To ensure continuous approval, companies would need to produce the requested output and possibly manipulate the societal context and the perception of relevant stakeholders. For doing this, they might not always have sufficient power and resources. *Cognitive legitimacy* operates mainly on a subconscious level based on shared values, norms and beliefs. In light of the *pluralization* of modern societies, however, such a homogeneous background can no longer be assumed, as values and expectations in a global society will not automatically overlap but instead have become heterogeneous (Palazzo & Scherer, 2006). Under these conditions, an adaptation to a particular set of social expectations will not resolve the legitimacy problem since the adaption to one set might lead to a misfit with another set of

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[13] For an alternative legitimacy concept see e.g. Wolf, 2005. In contrast to what is suggested in our paper Wolf treats legitimacy as an observable and countable phenomena that can be measured objectively.

social expectations. Palazzo and Scherer, therefore, conclude that *moral legitimacy* will become the most important source for gaining organizational legitimacy for corporations.

> "In the current transition from stable industrial society to a globalized post-industrial society, *cognitive legitimacy* is eroding (e.g., shareholder-value ideology, free and open market narratives, normative homogeneity) while *pragmatic legitimacy* (e.g., lobbying, branding, strategic public relations) provokes growing resistance (e.g., anti-globalization movement, no logo movement). Therefore, *moral legitimacy* has become the core source of societal acceptance." (Palazzo & Scherer, 2006: 78).

Moral legitimacy refers to a conscious moral judgment on the corporation's products, organizational structures, processes and leaders. It is based on an "explicit public discussion" which creates the opportunity for corporations to justify and explain their decisions. At the same time, it obliges corporations to participate in the discussions and consider alternative arguments (see Suchman, 1995: 585). The challenge, therefore, is to convince rather than manipulate opponents (Palazzo & Scherer, 2006). To realize moral legitimacy, the corporation has to shift from an economic, utility-driven, and output-oriented view towards a political, communication-driven and input-oriented approach. Palazzo and Scherer (2006) therefore suggest linking organizational legitimacy with the concept of *deliberative democracy* (Habermas, 1996). "Processes of deliberation lead to better and broader accepted political decisions and a deeper mutual understanding of the stakeholders involved and thus contributes to sustaining moral legitimacy" (Palazzo & Scherer, 2006: 81).

Nevertheless, although *moral legitimacy* is becoming increasingly significant in the global context, *all three forms are important to ensure organizational legitimacy,* and corporations are well advised to *develop the ability to switch between the different forms of legitimacy* depending on the circumstances (e.g., the urgency of the issue or according to the expectations from stakeholders). In order to do so, corporations have to develop "antennas" to track societal trends by engaging with stakeholders on a regular basis. Scherer et al. (2008)

developed criteria that indicate when a switch to moral legitimacy and dialogue is most recommended. They show that, ideally, corporations pick up societal issues before they emerge and proactively design their response.

Since the "legitimacy" of a corporation is regarded as a critical resource for a company's "licence to operate", these considerations on how to manage organizational legitimacy in the global context are not merely an academic exercise. Corporations are resource-dependent, and to operate in a way that is perceived as legitimate in an increasingly heterogeneous environment is vital for the corporation's survival. Integrating elements that increase accountability and reconcile the multiplicity of contradictory moral and legal requirements of a global society (e.g., through dialogue, transparency, participation etc.) thus represents a serious challenge for the management (Palazzo & Scherer, 2006).

1.4   Operationalizing CC

The three critical issues of the CC-concept based on Matten and Crane's definition of CC as outlined above constitute the *theoretical framework* from which *observable indicators* can be derived. Subsuming these theoretical insights results in three dimensions for CC: commitment measures, structural and procedural measures, and interactive measures.

(1) Corporate Citizens ensure that their commitment is firmly embedded on a commitment level. Implementing CC on a commitment level ensures that the corporation demonstrates that it is in principle willing to systematically fill regulatory gaps through their global business activities in line with international regulations or universally accepted rules such as human rights. This applies to cases, in particular, in which states are unable or unwilling to do so (Hsieh, 2009). This implies an explicit commitment to CC by the leadership of the corporation. As a result, CC should feature in strategic documents and in basic policies, e.g., the company's mission statement or the Code of Conduct. The commitment, however, is not necessarily visible in official statements only, but can also be apparent in the culture of the or-

ganization and the ethos of the firm representatives. Therefore, the commitment level of CC covers both formal and informal elements. And therefore, the empirical research will be designed in a way to capture both aspects, formal and informal, by interviews on the one hand and by the review of documents on the other hand.

(2) CC must be embedded on a *structural and procedural* level in order to ensure that the commitments are realized. The structural and procedural dimensions describe the internal 'embeddedness' of CC in daily operations. This includes the alignment of specific policies, e.g., in the area of human resources (recruitment, promotions, bonuses, training), the installment of complaints procedures, reporting and evaluation mechanisms. Its characteristics range from a command and control type of implementation to a more participatory implementation of CC. Integrating systematic compliance checks in all core business activities, yet allowing for discursive ethical reflections in dilemma situations as prescribed by insights gained from the comparison of compliance and the integrity approach (see Paine, 1994), makes it possible to define the limits of CC adequately to context and situation.

(3) An *interactive* aspect in the implementation process is indispensable for realizing CC. The interactive dimension describes the relationships of the corporation with external stakeholders. It ranges from monologue to dialogue. In order to communicatively construct organizational legitimacy solid stakeholder relationships based upon regular dialogue and participants' trust are required (Suchman, 1995). This interaction helps the corporation to develop antennas for societal trends and concerns and to react according to the level of urgency and consistency of societal issues (Scherer et al., 2008).

The indicators within these three categories are supposed to address every critical aspect for systematically implementing CC issues in organizations.

This *theoretical framework* thus leads to the following *indicators* -

(1) On a *commitment* level, corporations should develop and agree to *CC guidelines* that are valid no matter in which part of the world the company is doing business. This kind

of *explicit adoption of CC* is reflected in the *company's mission statement* as this expresses the company's strategic orientation (Kaplan & Norton 1996). The alignment of the mission statement with the CC commitment also indicates the support of the company's leadership which has proven essential for successfully implementing CC (Mamic, 2004). In addition, CC can be formally manifested in a *code of conduct* and feature on a *policy* level. However, at the same time, one has to consider that the commitment to CC can also be shown in the actual behavior of top level executives or firm owners. This commitment may even be prevalent in cases when there is no formal CC mission statement, but only the personal ethos and integrity of the firm's leaders as is the case in many small and medium sized or family own businesses. As our study focuses on big corporations, the formal aspects of commitment may be more obvious. But the informal part must not be neglected.

(2) In order to turn CC from a commitment on paper into a living concept that each employee is aware of and is able to employ, additional incentives and drivers are necessary. This kind of *structural and procedural CC* helps to fully embed the CC values in *core business routines*. Organizational theory and management literature provide insights about *how to design the structural and procedural implementation of new issues, also e.g. CC* (see e.g., Oliver & Holzinger, 2008). Bonn and Fisher (2005) identified three potential weaknesses in incorporating business ethics into corporate governance: (a) a bureaucratic and formalized approach, (b) lack of implementation and (c) lack of integration throughout the organization (Bonn & Fisher, 2005: 731).

(a) To avoid the first potential weakness, the literature on the *compliance and integrity approach* for managing ethics is particularly valuable (Paine, 1994; Stansbury & Barry, 2007; Steinmann & Olbrich, 1998; Steinmann & Kustermann, 1998). These approaches demonstrate that formal rules and sanctions alone cannot induce behavioral changes which are usually necessary to realize CC in practice (Nielsen, 2000). This is because ethical challenges are highly complex and unpredictable so that they cannot be sufficiently resolved by predetermined for-

mal rules. These kinds of rules are in principle inflexible and incomplete (Paine, 1994; Stansbury & Barry, 2007). Therefore, in addition to more formal and rules based "compliance" mechanisms, "integrity" measures that are more informal and values based have to be established. These integrity measures enable employees to discuss dilemma cases, reflect on existing rules and appropriately apply the general guidelines for CC to specific cases (Paine, 1994; Steinmann & Kustermann, 1998). The compliance and integrity approaches, however, are not mutually exclusive. Weaver and Trevino (2001) argue that effective ethics programs should combine accountability for violations of agreed-upon norms (i.e. compliance) with a strong values focus, as this is necessary to maintain a sense of fairness among employees (Heinemann 2007; Weaver & Trevino, 2001). Thus, when implementing CC, components of both compliance and integrity must feature in the design of organizational structures and procedures.

(b) A number of authors identified elements that can help to counter the second potential obstacle for of *structural and procedural* CC, namely, lacking implementation measures (Adam & Rachman-Moore, 2004; Bonn & Fisher, 2005; Casell et al.1997; Schwarz, 2004; Waters, 1978). Schwarz (2004) identified *senior management support, training* and *reinforcement* as being important factors that determine the effectiveness of codes of conduct. Adam and Rachman-Moore (2004), as well as Johnson and Smith (2002), showed that the *role model of top-management* is also a factor determining whether the implementation of ethics policies will succeed. Bonn and Fisher (2005) point out that the creation of an *ethics committee* that is in charge of coordinating and facilitating the implementation process is beneficial as long as it does not lead to sidelining the responsibility for ethic programs.

(c) The same principles as for the lack of implementation also apply to the third potential weakness, namely, the low level of integration of ethic programs throughout the organization. An even greater emphasis, however, is put on *communication, training* and *an active involvement of leadership in the implementation process* (see Bonn & Fisher 2005: 736).

All these elements feature in the assessment tool (see *appendix*).

To determine a company's "sphere of influence" beyond the core business, the corporation ultimately has to engage with stakeholders. Certain rules, however, can also be outlined upfront. Santoro (2000), for example, develops a "fair share theory" that provides guidelines on how to bridge the gap between what is being demanded of the corporation and what is possible.

(3) The *interactive* element of the CC implementation in the third set of indicators primarily helps to *ensure organizational legitimacy* in cases where pragmatic legitimacy or cognitive legitimacy cannot be achieved, but moral legitimacy must be established. As outlined above, to maintain organizational legitimacy, the corporation must on the one hand *strengthen its relationships with stakeholders and create forums that enable moral legitimacy* as this will be the crucial form of legitimacy in the global context (Palazzo & Scherer, 2006). On the other hand, the corporation must learn to decide under which circumstances which form of legitimacy is most appropriate. Deliberation might not be necessary for each issue and thus the corporation has to learn to read societal trends, make informed judgments about how to react to them and be able to switch to a different form of legitimacy strategy when issues change their status. This is only possible, if the corporation has developed solid relationships with relevant stakeholders on a local and global level, actively engages in the dialogue on CC, and uses the expertise of civil society organizations to design new tools that facilitate the implementation of CC (Rasche & Esser, 2006). As discussed in the literature, these structural and interactive elements that support the implementation of CC are also helpful for the implementation and control of business strategies (Simons, 1995; Steinmann & Kustermann, 1998).

These theoretical elements constitute an ideal concept of CC that should, however, not be understood as a blueprint for CC that could be applied directly. Rather, these elements describe *principles* that a corporation should keep in mind when implementing CC.

2   ASSESSING THE "EMBBEDDEDNESS" OF CC

The tool that was developed to measure the degree of "embeddedness" of CC is based on Si-mon Zadek's organizational learning model (Zadek, 2004).[14] To this date, only few empirical studies have been conducted on the CC engagement of companies (exceptions are, for exam-ple, the UNGC Annual review 2007). Zadek's analysis of the sportswear manufacturer *Nike* describes *Nike's* evolution in becoming a corporate citizen as a *learning process in five stages* (see Zadek, 2004: 127). From initially denying any responsibility (*defensive* stage), *Nike* moved to adopt a policy-oriented compliance approach (*compliance* stage) and soon thereafter embedded societal issues into core management processes (*managerial* stage). Zadek reports that today *Nike* sees opportunities to add value to its business through the integration of socie-tal issues in their business strategies (*strategic* stage) and on some issues even promotes broad industrial participation (*civil* stage). Thus, the study emphasizes the role of organizational learning (see also Banerjee, 1998). As conceptions of company responsibility become more complex at successive stages of development, the requirements for the management of corpo-rate citizenship will be more demanding, as the appropriate organizational structures, proc-esses and systems have to be more elaborate and comprehensive.

Zadek's description of the final learning phase, the *civil* stage, corresponds with Mat-ten and Crane's (2005) definition of CC. In this stage corporations actively engage in *collec-tive rule-making processes* on a global level and, thus, not only fulfil an economic but also a *political* role. These *political* activities of corporations in the *civil* stage require legitimating measures.

The *tool* to assess the current stage of development at the level of the firm consists of indicators covering the three aspects of the ideal CC concept (see *appendix*). To assess the *commitment level of CC*, the *mission statement,* as the expression of the company's strategic

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[14] Alternative models of "stages" of corporate citizenship on a firm level were, for example, developed by Post & Altman (1992). They describe the progressive integration of environmental policies in company policies.

orientation, and the *code of conduct,* as the behavioral guideline for employees, were ana-lyzed. In addition, it was examined how the companies had distributed *responsibilities for CC internally* as this represents a good indicator for CC's role and "embeddedness". Since all companies in the sample are participating in the UNGC, it was also examined whether they are fulfilling the *reporting requirements* of the initiative.

For the *structural and procedural implementation of CC* in the company's core busi-ness processes, it was assessed whether *training on CC* is offered and whether it follows a systematic pattern, whether *incentive structures* are aligned with CC premises, whether a *complaints mechanism* was established to report violations of the code or clarify dilemma situations, and whether *evaluations* are conducted in order to identify the need to make cor-rective adjustments to the implementation process of CC.

The final set of indicators, the interaction level of CC, refers to the *legitimacy of CC* and covers the company's *level of participation in collaborative CC-initiatives* as well as the *quality of stakeholder relationships.*

These theoretically derived indicators were also cross-checked with CC-experts.[15] This served to ensure that the indicators are intelligible and coherent. The experts confirmed their relevance and comprehensiveness and provided suggestions for how to operationalize them in each learning stage.

The *characteristics of the indicators* in each learning phase were determined by break-ing down the ideal model of CC (in the *civil* stage) into the previous stages of development. The *defensive* stage normally does not apply to companies that have signed up for the UNGC, as they voluntarily accept some kind of citizenship responsibility. This stage is, nonetheless, included in the scale to operationalize the lower limit of CC engagement. The *compliance*

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[15] The following experts were interviewed for this study: Auret van Heerden, President and CEO of the Fair Labor Association, Claude Fussler, Consultant and Senior Advisor to the UN Global Compact, Prof. Dr. Klaus Leisinger, President and CEO of the Novartis Foundation for Sustainable Development and Special Advisor of Kofi Annan for the UNGC, Dr. York Lunau, former contact point for the Swiss UNGC network.

stage represents a very limited, purely legalistic view of responsibility, referring to a policy-based compliance approach (Paine, 1994). The *managerial* stage, as the least well-defined stage in Zadek's learning model, merely describes a transition period while implementing CC elements into core business processes. The *strategic* stage discovers CC as a potential competitive advantage and turns it into an explicit business strategy ("CC as a business case"). The *civil* stage is characterized by *integrity elements* according to the integrity approach (Steinmann & Olbrich, 1998) and the mission to achieve *collective action* on CC issues (Zadek, 2004). The latter can be regarded as the particular *political dimension of CC* (see *appendix*).

3   CC AT A SAMPLE OF SWISS MNES

The data collection took place in 2007 and involved approximately fifteen representatives of the five Swiss companies (ABB, Credit Suisse, Nestle, Novartis, and UBS) that joined the UNGC in its first year. The analysis of their activities in the context of the UNGC revealed a number of interesting results. First of all, despite the similar time length of participation in the UNGC, their implementation of CC is at very different stages of development. None of the investigated companies realizes aspects of CC in the *civil* stage. Most companies, however, have moved selected aspects of CC beyond the *compliance* stage and are currently busy installing measures that could be placed in the *managerial* or even in the *strategic* stage of development. Due to space limitations, selected cases are used to illustrate the status quo of embedding CC.

The progress of the *commitment to CC*, including the strategic integration of CC in the mission statement, as well as basic policy documents and the internal coordination of CC-work, critically depends on the support and involvement of the top-management. The most detailed information on responsible business conduct is available on the Novartis website (http://www.corporatecitizenship.novartis.com). While the role of top-management is not ex-

plicitly mentioned on this website, the fact that such detailed information is publicly available indicates that top-management endorses this business orientation. Interviews with Novartis's representatives supported this impression and the review of the Novartis intranet prominently features the CEO, Daniel Vasella, who in a video message highlights the significance of CC for Novartis: 'Business ethics is a business topic. I take this theme very seriously.' Vasella also warns that any violation of the code of conduct and other CC-policy documents will be treated as a violation of a law.

In terms of the internal coordination of CC work, all examined companies could present a contact person in charge of the CC topic. In some cases, these work for the communication department and are mainly responsible for drafting the sustainability report (Nestle, UBS), in other cases, separate CC or CSR-departments were created to ensure the proper handling of CC (ABB, Novartis, CS). The corporate representatives that work in designated CC or CSR departments, however, all reported that they are understaffed and/or isolated from core business processes. At ABB, officially only a single person is running the Corporate Responsibility department and at the Credit Suisse (CS), a representative of the Sustainability department said, "many plans to improve the implementation of CSR are on hold because of the lack of staff to execute them." The CSR-department did not have a mandate to initiate and coordinate CC-related projects in any of the cases, and, thus, their level of influence is rather low. The decision-making power is vested in newly created CC-committees at the level of the executive board. The committee proposes the CC-strategy which then has to be endorsed by the board. These committees usually draw their expertise from a number of departments and representatives (e.g., the UBS has appointed environmental representatives in each business unit). The frequency of interaction, however, between the committee members and the CC or CSR-departments could not be assessed in the context of this study.

Also, the protocols for decision-making differ amongst the companies. While at Novartis, the CEO, Daniel Vasella, seems to be personally involved in CC-topics and the ABB

representative in charge of CC discloses close connections to senior management in the interview, other CC-departments are obviously struggling to receive appropriate attention from the top-management (UBS, CS).

In order to design basic policies on relevant CC-issues, each company must interpret and concretize the UNGC principles in its own business context. Only recently, however, companies have started to position themselves in regard to the Human Rights principles, for example. Only last year, the UBS issued a Human Rights Declaration and Nestle reported that it considers providing "access to water" as their contribution to the UNGC's Human Rights principles. Due to this rather late reflection on the principles, the concrete operationalization that should reflect in policies, procedures and guidelines is in most areas not yet very advanced (with the exception of the environmental area).

Nevertheless, all companies meet *basic commitment* requirements of CC with minor differing characteristics due to the different level of involvement by top-management. All companies refer to the UNGC on their websites, they internally assigned responsibilities for CC, and they largely integrated the UNGC principles in internal codes of conduct and basic policy documents (e.g., Human Rights policies of ABB, Novartis and UBS).

	Defensive	Compliance	Managerial	Strategic	Civil
Strategic Integration and Leadership Support		UBS	CS, Nestle, Novartis	ABB	
CC-Coordination		CS, Nestle		ABB, Novartis, UBS	

Tab. 1: Results of the commitment dimension of CC   Source: own research results

The implementation of *structural and procedural drivers for CC,* in contrast, varies a great deal between the selected cases, which might be a consequence of the different levels of involvement by top management. As a result, the full alignment of incentive structures, the development of training courses, and the creation of a complaints procedure beyond cases that

touch upon legal compliance issues is happening rather slowly, if at all. From the sample, *Novartis* is most advanced in designing procedures that embed CC in everyday business routines. Novartis's mission in this respect is to 'establish, promote and enforce integrity standards throughout the company' and, to this end, it has developed innovative training material to sensitize all employees for the topic, they have introduced an integrity dimension for performance appraisals in order to evaluate employees according to *how* they have reached their goals, and they define milestones for the CC implementation process and regularly evaluate their achievements. Milestones and results of the self-assessment are publicly available on the *Novartis* website and in their annual report (Novartis, 2005). What is still missing in Novartis's structural and procedural dimension of CC in order to reach the civil stage of implementation is, on the one hand, the implementation of the above described measures in all company divisions including its supply chain, and, on the other hand, a greater emphasis on participatory elements in the procedural implementation.

The other companies of the sample are lagging behind considerably in this aspect of the implementation. What is particularly weak is the internal collaboration for the implementation of CC, for example with the Human Resource department (to recruit, to conduct performance appraisals, to promote and to determine bonus payments depending on the respect for CC) as well as the Compliance function (to signal that violating the Code is treated just as strictly as violations of the law). At most companies it was even impossible to identify a contact person in the Human Resource Department who could be interviewed for this study (ABB, CS, UBS), and, in most cases, it was not possible to establish whether the compliance function is also able to handle cases of violations of the Code of Conduct (UBS, CS). Another problem is that CC-measures are often not transparent to internal and external stakeholders and are, consequently, not fully functioning (e.g., complaints channels). A representative of the Credit Suisse said that 'many sustainability policies and procedures already exist, but it is frustrating to see how little individual employees know about them.'

None of the companies has so far fully established a management process based on a systematic impact evaluation of current CC-activities. Likewise, the reporting does not follow a standardized reporting mechanism along key performance indicators. Until now, only *Novartis* and *ABB* report according to the reporting criteria of the Global Reporting initiative (GRI), as recommended by the UNGC (GRI, 2006). Reporting according to GRI is an important step towards the standardization of CC-reporting. It increases transparency, ensures comprehensiveness and enables consumers to compare the CC-performance of different companies. The other companies also use the GRI criteria as an orientation, but they argue that reporting "in accordance with GRI" would not be suitable in their industry and for their type of business. All companies, however, submitted "Communication of Progress" (CoP) to the UNGC office and the CoPs of ABB, Nestle and Novartis were even awarded for having made "notable" contributions by the UNCG office.

	Defensive	Compliance	Managerial	Strategic	Civil
Policy and Procedures		CS, UBS	ABB, Nestle	Novartis	
Incentives		ABB, Nestle, UBS	CS	Novartis	
Training		CS, UBS, Nestle	ABB	Novartis	
Complaints Channels		ABB, CS, Nestle, UBS		Novartis	
Evaluation		ABB, CS, Novartis, Nestle, UBS			
Reporting			CS, Nestle, UBS	ABB, Novartis	

Table 2: Results of the structural and procedural dimension of CC   Source: own research results

The indicators measuring the *"interactiveness"* of the CC implementation are the ones that are least distinct. Up to this point in time, the implementation process at the examined corporations was mainly designed by corporate decision makers. The expertise of external stakeholders on certain issues was neither systematically integrated, nor did the majority of the companies give stakeholders the opportunity to comment on corporate activities in the context of CC, for example by setting up a public discussion forum. As a result, although some companies are making a serious effort to implement CC, external stakeholders remain suspicious. Some company representatives report that constructive consultations with external stakeholders take place regularly at various levels and in different departments in the organization but that these meetings would not be reported as CC engagement (Novartis). A Nestle representative reports that meetings with civil society organizations are now often conducted confidentially in order to build trust and to avoid the media hype that usually develops around such meetings and that severely restricts the parties' room for negotiation and compromise. The CS has drawn up a stakeholder map for Switzerland to strategically identify groups that are influential, yet also constructive, and it keeps a record of interactions with certain external stakeholders. Some companies (e.g., ABB, Nestle) focus on establishing solid stakeholder relationships at the local level. ABB has submitted a case story about one of its local dialogues to the UNGC website.[16] In addition to local dialogue structures, ABB established a stakeholder dialogue at headquarters on specific issues (e.g. human rights). But the event is not public and only invited guests are allowed to participate. Nestle representatives talked about local stakeholder dialogues in interviews, but the information could not be verified.

To sum up, although the "unofficial" record for engaging with stakeholders might look slightly more positive than the data collected for this study, it can still be concluded that the *interactive aspect of CC* is at best patchy and not yet part of the implementation process of CC at the examined companies. While most companies agree with the principle of integrating

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[16] Case study on the value of stakeholder engagement for ABB in Sudan, see: http://www.unglobalcompact.org/data/ungc_case_story_resources/doc/EF5ECE7A-C772-4A60-A3C1-458CC74D5765.pdf

stakeholders, an ABB representative, for example, argues that 'if a company seeks to earn a license to operate, it really needs to be listening to as many voices as possible,' its implementation is still at the very beginning. External stakeholders are not integrated on a regular but merely on a case-by-case basis and most of the time interaction takes place in a situation of crisis. This is also reflected in the rather arbitrary participation in collaborative CC-initiatives. The UBS, for example, admitted that they are not taking a proactive stand in these initiatives but tend to wait and see what peers do or until they are directly contacted by external stakeholders.

To verify this interactive aspect of the CC implementation and to get an idea of the external credibility of the companies' CC program, a number of civil society organizations were asked to comment on the companies' CC engagement (Baumann, 2004; Frank, 2004; Seiler, 2005; Weber, 2005). While their overall assessment was rather negative – as was expected due to their mission and mandate – some external stakeholders noticed a change in the behavior of companies towards NGOs. They confirmed that companies have become more open about discussing certain issues and they are in general no longer as defensive as in previous years (e.g. according to external stakeholders, the CS has become more responsive in recent years while the UBS is still rather passive).

	Defensive	Compliance	Managerial	Strategic	Civil
Quality of Stakeholder Relationships		UBS	ABB, CS, Nestle, Novartis		
Level of Participation in Collaborative CC-initiatives		CS, UBS	Nestle, Novartis	ABB	

Table 3: Results of the interactive dimension of CC   Source: own research results

	Defensive	Compliance	Managerial	Strategic	Civil
Commitment			CS, Nestle UBS	ABB, Novartis	
Structural and Procedural		CS, Nestle, UBS	ABB	Novartis	
Interactive		UBS	CS, Nestle, Novartis	ABB	

Table 4: Aggregate results of all companies[17]   Source: own research results

The tool has thus proven helpful to determine the status of development of the CC-programs at the respective companies. In the concluding section, some of the limitations of the assessment method will be described.

4   CONCLUDING REMARKS – LIMITATIONS, IMPLICATIONS, AND SUGGESTIONS FOR FURTHER RESEARCH

The research has a number of methodological and practical limitations. On a methodological level, many of the points of critique apply to Zadek's model, and are typically advanced against stage models (Stubbart & Smalley, 1999). It assumes that firms progress through stages sequentially while there might be multiple paths through these stages. The model ne-

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[17]The aggregated results are calculated as follows: Each learning stage is operationalized with increasing points for more advanced stages of development (defensive stage: 1, compliance stage: 2, managerial stage: 3, strategic stage: 4, and the civil stage: 5). The items i_d within each of the three dimensions are all weighted equally and the average learning score LS_{cd} for each company c (c∈C; C = {ABB; CS; Nestlé; Novartis; UBS}) and dimension d (d∈D; D = {commitment; structural & procedural; interactive}) is calculated. The companies will be categorized in the defensive stage for a learning score $LS_{cd} < 1.5$; in the compliance stage for $1.5 \leq LS_{cd} < 2.5$; in the managerial stage for $2.5 \leq LS_{cd} < 3.5$; in the strategic stage for $3.5 \leq LS_{cd} < 4.5$; and in the civil stage for $4.5 \leq LS_{cd}$. For example, in the structural and procedural dimension, Novartis scores 4 (strategic stage) in five out of six items and 2 (compliance stage) in one item. The aggregated learning score for Novartis for the structural and procedural dimension $LS_{NovartisSPS}$ is calculated as follows: (5 x 4 + 1 x 2): 6 = 3.66. The scores were rounded to the first decimal number behind the comma. Therefore, the final score for Novartis in the structural and procedural dimension is 3.7 and on the aggregated level, the company will thus be categorized in the strategic learning phase. The precise results of the LS_{cd} of the *commitment dimension* are ABB (4.0), CS (2.5), Nestle (2.5), Novartis (3.5), UBS (3.0); for the *structural and procedural dimension* ABB (2.7), CS (2.3), Nestle (2.3), Novartis (3.7), UBS (2.2) and for the *interactive dimension* ABB (3.5), CS (2.5), Nestle (3.0), Novartis (3.0), UBS (2.0).

glects the motives and events that drive the progression through stages[18] and it heavily simplifies a complex implementation process as no company is at any single stage of corporate citizenship but some aspects of the implementation process are at the *strategic* stage, while others are still in the *compliance* stage. In addition, Zadek developed his stage model for CC by analyzing only one case. Whether the development of *Nike* is also representative for companies of different industries remains to be tested. For example, *Nike's* main driver for organizational learning was the continuous pressure of NGOs, and it is questionable whether companies that are less exposed to public scrutiny would have made such progress (den Hond & de Bakker, 2007; Zyglidopoulos, 2002). For example, companies that have no visible brand name that could be targeted by NGOs are of this kind.

The advantage of Zadek's stage model, however, is that it helps structure the empirical findings and it gives managers an idea which aspects need to be strengthened to make progress in the implementation process of CC.

On a practical level, the research was limited by the time constraints of company representatives and the initial difficulty to build trust. It was relatively easy to get access and to arrange a first meeting with CC managers of the UNGC companies. Company representatives were, however, very reluctant when it came to moving beyond the initial round of interviews to a more thorough assessment of existing documents, processes and procedures. This suspicion was probably caused by NGO exposés that companies had experienced in the past. In order to assess the actual status quo of CC implementation, it was necessary, though not just to record the attitudes of the company representative in charge of CC, but also to review formalized procedures and discuss their acceptance and functioning with various employees on different hierarchical levels and from various value chain functions. To enter this second round of the empirical study, several rounds of meetings were required to build trust and assure company representatives that the results of the study will not be used for any "naming

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[18] For an advanced version of Zadek's stage model that specifically addresses the trigger mechanisms that make a firm move from one stage to the next, see Mirvis and Googins (2006).

and shaming" tactics of NGOs. Nevertheless, the second round of empirical assessment could not be fully completed at each company due to the time constraints of the company representatives.

Yet, the data quality suffices to draw the following implications from the research results.

On a *practical level* the research shows that, in contrast to the results of the initial survey on 2003 (Zillich, 2003), companies are still far from fully embedding CC in their daily business routines. While all companies made a *formal commitment to CC* and created the *preconditions on a commitment level* to implement CC, its implementation on a *structural and procedural* level varies extensively among the companies. While some companies have started to align their business procedures to the requirements of the UNGC, other companies still treat CC as an isolated topic that is managed by few individuals and is not yet embedded in the corporate culture. On the *interactive* level, none of the companies seems to *systematically integrate stakeholders* into the designing and discussing of CC activities. As a result, the *organizational legitimacy of corporations* suffers rather more from the current CC engagement than it profits. Therefore, corporations should analyze their CC implementation and identify the elements that require further efforts, particularly the ones that involve relationship-building.

On a theoretical level, although only few companies are fully realizing CC throughout the company, some aspects of the implementation at *each* company demonstrate that the implementation of the *civil* stage is quite possible. The application of the assessment tool thus *systematically confirms* that companies engage in *political* activities on a global level and it supports the anecdotal evidence on which the theoretical argument about the role of corporations in the global governance mechanism was originally based (Scherer et al., 2006).

Further research could be conducted on additional cases to further *test and refine the assessment tool*. One important aspect that featured in the research was that an additional *pol-*

icy issue-specific assessment might be a useful supplement to the company approach suggested by Zadek's model. The empirical study in Switzerland indicated that companies are for example more advanced in designing and implementing policies and procedures in the environmental realm than in the human rights realm. Stakeholder groups also differ in these issue areas and, while stakeholder engagement might be institutionalized in one area, it might still be absent in others. Consequently, the "embeddedness of CC" might be at different learning stages, depending on the policy issue. Further research could, therefore, be focused on adapting the model to take into account the unequal speed of implementation in the four issue areas addressed by the UNGC (human rights, labor, environment and corruption).

Moreover, to circumvent the difficulties of data gathering at company level, the tool could be presented as a *self-assessment tool,* which companies use to assess their status of development on their own (and confidentially, if they wish) and to design the next steps of their CC-implementation according to the results.

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Appendix: Corporate Citizenship Assessment Tool (stages according to Zadek, 2004)

	Defensive "It's not our job to fix that!"	**Compliance** "We'll just do as much as we have to"	**Managerial** "It's the business, stupid!"	**Strategic** "It gives us a competitive edge"	**Civil** "We need to make sure everybody does it"
Commitment CC					
Strategic integration/ Leadership support	No strategic integration and no leadership support. Leaders are even against any form of engagement.	Legalistic approach; focus on compliance with local and international laws in the mission statement and code of conduct	Elements of CC are mentioned in a recently revised mission statement and code of conduct	Elements of CC are mentioned prominently but selectively in the mission statement and in the company's documents. Top management refers to CC if it is beneficial for the company's goals. Legal compliance is more important than compliance with the Code.	CC is a significant value in the company's mission statement and all other documents of the company. Respecting stakeholders' demands is central to the company's mission. CC has been used by top management to justify company decisions. Legal compliance and compliance with the Code is equally important.
CC-Coordination	No CC-coordination	Legal & compliance manages the aspects of the UNGC that are relevant to their department. No coordination of other aspects. PR replies to enquiries about CC. Top management is not involved in the implementation process.	Creation of a special Committee that is drafting the CC-strategy. Recommendations are forwarded to the Executive Committee which decides over the implementation on a periodic basis. No effective coordination on lower levels in the organization. PR replies to inquiries about CC: Top management is not involved in the implementation process.	CC-Committee is drafting the CC strategy in line with the overall company strategy. Recommendations are forwarded to the Executive Committee which decides over the implementation on a periodic basis. The PR department serves as the contact point for all CC matters. Other departments work on the implementation on an issue-specific basis. Top management is selectively involved in high-profile topics.	CC-Committee is drafting the CC strategy in line with the overall company strategy. Recommendations are forwarded to the Executive Committee which decides over the implementation on a periodic basis. A CC-department is in charge of coordinating the implementation process. Top management is directly and regularly involved.
Structural and Procedural CC					
Alignment of policies and procedures	No alignment of policies and procedures and no intention to do so in the future.	The abstract CC-commitment exists but it was not translated into policies and procedures. Policies and procedures exist only if they touch on legal or compliance issues.	CC-commitment is being translated into policies and procedures. Some, but not all elements of CC are integrated in core business processes (work-in-progress).	CC-commitment was translated into policies and procedures. Elements that can support business strategies have been integrated in core business processes. The global supply chain is not included in the definition of policies and procedures unless it is regarded as part of a risk management process.	All elements of the CC-commitment were translated into policies and procedures. These are the basis for all business processes, including the management of the global supply chain. Policies and procedures are regularly reviewed and revised; feedback from internal and external stakeholders is integrated.
Alignment of incentive structures	No alignment of incentive structures and no intention to do so in the future.	Incentive structure is not aligned, however, violations of legal rules are punished.	Incentive structure is being aligned with the CC commitment but the process is not yet completed in all sections of the company.	Incentive structure is aligned with the commitment to CC, but the consequences of violating CC principles are unclear.	Incentive structure is fully aligned with the commitment to CC and is an important factor for assessing individual performance. Decisions over promotion and bonus depend on respect for CC principles.

Provision of training on CC requirements	No training on CC	Training on how to comply with legal provisions is provided.	Information on the company's commitment to CC is provided to employees but no training has yet been developed.	Training courses are designed to raise awareness. No specific groups are targeted for specialized training courses.	Training is provided to all employees to prepare for decision-making situations and encourage discussion. Training courses are adapted to the company's context and specific groups within the organization are targeted for follow-up courses. The company shares training material and initiates the development of training material for innovative topics.
Creation of a complaints procedure	No possibility to file complaints	"Legal and Compliance" department is handling complaints	The reporting of the violation of CC-principles is not promoted and there is no separate complaints channel. Problems shall be discussed with supervisors.	A confidential complaints channel is provided, easy access is guaranteed. However, the procedure is not transparent and the cases are not analyzed.	A confidential complaints channel is provided, easy access is guaranteed. The procedure is communicated and the cases are analyzed to further improve the systems. Reporting is a duty.
Evaluation of CC implementation	Since the company disapproves of CC, no activities and no evaluation take place	Assessments only take place in the context of compliance (business audits). No other assessments are planned.	Assessments only take place in the context of compliance (business audits). Assessments of CC-aspects are planned but not yet conducted as the collection of data on the CC-commitment is still underway.	Assessments on CC-aspects are conducted by professional audit firms which verify the correctness of the company's data on social and environmental initiatives in the annual report. The company measures outcome but not impact.	Impact assessment methods of CC initiatives are developed in multistakeholder forums. Methods are revised regularly. Results are discussed publicly (both, positive and negative).
Reporting on CC	Since the company disapproves of CC, no activities and no reporting take place	Reporting on all legally required issues but no separate CC-report	"Sustainability report" as a business routine. GRI reporting guidelines are not followed due to a lack of data/experience	Separate sustainability report according to GRI guidelines plus additional publications on innovative projects. PR manages the communication on CC.	No separate sustainability report as CC-data is fully integrated in the annual report. CC-data is produced based on KPIs that are gathered regularly and GRI guidelines are followed. Regular reporting on good practices and lessons learnt in the context of CC. Transparency of targets, means and measurements.

Interactive CC

Quality of stakeholder relationships	Stakeholder relationships are regarded as unnecessary	No systematic engagement with stakeholders. Dialogue is organized ad hoc in situations of crisis.	Informal engagement with stakeholders. Dialogue is regarded necessary because it is treated as a "best practice" for CC. It is unclear whether and how stakeholder engagement will influence the company's policy.	Engagement with stakeholders on a strategic basis. Dialogue is regarded necessary with groups that can potentially harm or benefit the corporation. Civil society's expertise is valued if it can help the corporation to achieve its goals.	Engagement with stakeholders on a regular/need basis. Dialogue with stakeholders is seen as a necessary seismograph for society's changing awareness of particular issues. Civil society's expertise is regarded as a valuable asset in order to problem-solve.
Level of participation in collaborative CC-initiatives	No participation in collaborative CC-initiatives	Engagement in initiatives that can help to improve compliance with legal provisions.	Membership in CC-initiatives and fulfillment of all formal requirements but no proactive engagement.	Membership in a number of prestigious CC-initiatives and fulfillment of all formal requirements. Selective additional engagement if the promoted project can improve reputation	Membership in CC-initiatives, including verification organizations, to improve current methods of implementing CC and to share CC good practice examples and lessons learned. Proactive engagement and efforts to integrate companies that are not yet members.