

Executive Summary

Research Plan

Problem Statement

The UNGC is the largest Corporate Citizenship (CC) initiative in the world. More than 6.000 companies had by October 2010 signed up for the initiative, thereby voluntarily committing to ten principles in the areas of human rights, labor standards, the environment, and anti-corruption (www.unglobalcompact.org).

Ten years after the launch of the UNGC, the credibility of the initiative is at stake. Numerous critics argue that the UNGC provides a forum for companies to “bluewash” questionable business practices, which in turn threatens the integrity and overall legitimacy of the UNGC organization itself. A comprehensive review of the implementation of the UNGC’s principles at the company level is required to assess whether these accusations are justified. Presently, however, only very few empirical assessments of the implementation of CC at the company level exist. Most of them employ a survey-based research methodology that, due to the “social desirability” effects in ethics research, is not able to capture the actual status of CC implementation.

Extant studies do not differentiate between large multinational enterprises (MNEs) on the one hand, and small and medium sized enterprises (SMEs) on the other. At first sight, the UNGC might be interpreted as focusing primarily on MNEs, and MNEs are usually considered when looking at “best practice” examples. However there has been no empirical testing of the assumption that MNEs are more advanced in the implementation of CC than SMEs. SMEs might, due to their smaller human and financial resources, approach CC differently than MNEs, but this does not necessarily mean that they are less effective in implementing CC. In order not to systematically discriminate against SMEs, the tools applied to assess the degree of CC implementation must therefore take into account the differences linked to the respective size of the company.

Furthermore, it has recently been argued that the UNGC’s mission is widely misunderstood in the sense that private governance schemes such as the UNGC do not substitute but complement the regulation efforts of public actors. The analysis of the perceptions and legitimacy beliefs of different stakeholder groups and their development over time may deliver insights on how the UNGC can further facilitate the process of creating public support for the involvement of private actors in global governance processes.

General Research Objective

The project addresses the research gaps outlined above. First, appropriate assessment criteria for MNEs and SMEs are theoretically derived and used to empirically assess the organizational “embeddedness” of CC (sub-projects 1 and 2). Second, the perceptual mechanisms underlying the interrelation of beliefs regarding organizational legitimacy on the hand, and legitimacy of the UNGC on the other hand are conceptualized (sub-project 3). Both topics are interrelated and seem equally important for the further consolidation of the UNGC initiative. For companies, the value of participating in the initiative is heavily motivated by the UNGC’s reputation, while in turn the initiative’s credibility effectively depends on the actual imple-

mentation of its principles and the successful accomplishment of CC goals by participating companies.

Propositions

The assessment of the organizational “embeddedness” of CC will describe the status quo of the corporate engagement in global governance structures, and possibly provide systematic evidence for the theoretical claim that, in a globalized world, corporations are no longer merely *economic* but also *political* actors. Furthermore, as the study of the UNGC involves analyzing the legitimacy problems that arise when private actors become involved in global governance, we analyzed the antecedents and consequences of the mounting criticism towards the UNGC initiative. We argue that there is an interrelation between the perceived appropriateness of CC implementation at the company level and the communicatively constructed legitimacy of the UNGC initiative. We examined these aspects in detail in order to effectively address the current criticism and to maintain the credibility of the UNGC.

Research Methods

The research methods applied in this project have been chosen to ensure methodological fit with the research questions and objectives. For sub-projects 1 and 2, we have first developed theoretically derived conceptual models for the assessment of corporate citizenship among large and small companies respectively. These frameworks were based on a detailed scrutiny of the existing literature, supported by empirical evidence we gained through conversations with company and UNGC officials, as well as other experts. The subsequent qualitative analyses applied the same method in the two sub-projects, namely a case study method, which is commonly defined as an empirical inquiry that investigates particular instances of a contemporary phenomenon within its real-life context, which might possibly change over time; and including multiple sources of evidence as well as rich empirical data. This method also allowed controlling for social-desirability response effects which often occur in survey-based ethics research in particular.

For sub-project 3 we developed a conceptual model grounded upon the sociology and cognitive psychology literatures. By means of computer-assisted content analysis and correspondence analysis we identified legitimacy associations between the UNGC and its corporate signatories in public communication strategies of both critics and proponents of the UNGC.

Research Collaboration

The two project leaders Andreas Scherer and Guido Palazzo defined the groundwork of the project and have been very active in advancing a common research agenda between the project members at the Universities of Zurich and Lausanne. Dorothee Baumann and Christopher Wickert collaborate closely in the further development of their respective sub-projects. A comparison paper between MNE and SME approaches to global governance is in preparation. Patrick Haack and Andreas Scherer collaborate closely, as exemplified by two papers under review. Furthermore, Patrick Haack and Christopher Wickert (together with Dennis Schoeneborn) are collaborating closely in the study of standardization of CC beyond the UNGC, particularly focusing on the Equator Principles standard. Overall, institutional cross-fertilization has been significant as exemplified by various collaborative paper projects, conference participations, and a major joint conference organization (SNIS-Panel at the 4th International

CSR-Conference in Berlin, September 2010). We expect a further intensification of this academically and personally enriching exchange.

Schedule

The schedules for the three sub-projects have been conducted according to the following research steps:

- Phase 1: Literature review, establishment of contacts with respective case companies, preparatory conceptual work (first year of project)
- Phase 2: Data Collection (partly first and mainly second year of project): Secondary data, Primary data (interviews, follow-up interviews, content analysis)
- Phase 3: Evaluation and summarizing of empirical findings, presentation and publication of results

Obtained Results and Analysis

Sub-Projects 1 (MNEs¹) and 2 (SMEs)

In sub-projects 1 and 2 we discussed the political role of private actors in global governance. We argue that a political role exists in parallel to the apparent economic role of business firms. In our studies, we deliberately focused on large (MNEs) and small (SMEs) actors respectively. We developed two variants of a common conceptual framework for the two types of companies. The conceptual framework took into account the respective differences in organizational structures, factors which influence motivation, such as ownership, and further triggers and obstacles to explicitly engage in global governance. After the development of the frameworks, we carried out qualitative case-based studies to systematically assess whether MNEs and SMEs do have a role in global governance – defined as the collective efforts in rule-making and rule-implementation on a global scale. Both case studies had an explorative character, in order to analyse the currently neglected research field of the organizational implementation of CC. A key focus of the sub-project targeting MNEs has been to discover possible misalignments between commitments and organizational embeddedness of CC. The sub-project targeting SMEs aimed to discover how and why SMEs understand and approach global governance issues in principle. Compared to MNEs, even fewer studies yet exist on this topic for the SME realm. Our studies thus allowed generating propositions for further qualitative and quantitative analysis about the role of MNEs and SMEs in global governance and in the UNGC. For the empirical analysis, we conducted one case study with a set of five MNEs of different industries; given a high embeddedness in global supply chains among MNEs in general, these companies were selected according to the length or their participation in the UNGC initiative. As outlined in the paper by Baumann & Scherer (2010), we assumed that such companies were particularly advanced in implementing the UNGC principles. For the other case study (paper by Wickert, 2010), we analyzed a set of seven SMEs. To study data-rich case material, we selected SMEs which on the one hand had showed a high embeddedness in global supply chains (namely companies in the textile industry) and on the other hand had an already comprehensive engagement in CC (i.e. best-practice examples). Both the MNEs and the SMEs were based in Switzerland. In this way we assured that home country differences would not unduly influence the comparison between MNEs and SMEs.

¹ Sub-project 1 has also been supported by the Swiss National Science Foundation (SNSF).

For MNEs, the following key results can be extracted from the study (sub-project 1):

- Overall, the implementation of CC varies across the sample – some companies are just beginning with the implementation of CC while others are already quite advanced.
- All MNEs of the sample are fairly strongly committed to CC. However, embedding CC in organizational structures and procedures is an enormous task for MNEs that takes time and resources. The consistent handling of CC requires drafting CC policies and procedures; their implementation requires political will from the main decision-makers.
- All companies have at least one strongly developed aspect of their CC program. Highlighting this aspect could serve as a “good practice” example for other companies.
- The implementation of CC at the sampled MNEs is imbalanced across the three examined dimensions – MNEs are strongly committed to CC but the degree of implementation varies strongly on the structural and procedural dimension. In addition, all companies of the sample have a rather weakly developed interactive dimension. This imbalance bears a number of risks:
 - (1) By not systematically implementing CC in structures and procedures, MNEs are particularly vulnerable to crisis cases that often expose all kinds of implementation gaps. Crisis cases are also more likely to occur and it will be more difficult to respond to them in a credible way.
 - (2) In order to sustain responsible business practices over time it is necessary to deeply embed CC policies into the organizational structures and procedures so that these cannot be changed easily in an economic downturn or when a new top management team comes in that puts less emphasis on responsible business behaviour.
 - (3) By not interacting with critical stakeholders, MNEs can easily misjudge the materiality of different CC issues and, as a result, don't set the right priorities for their CC engagement. MNEs might also end up approaching CC issues not in the most effective manner because they do not integrate the expertise of external stakeholders.
- The strong commitment to CC can thus raise expectations that the MNE cannot fulfil given their lack of interaction and their unsystematic implementation of CC in structures and procedures.

For SMEs, the following key results can be extracted from the study (sub-project 2)

- There is a high awareness for global governance issues among the sample and members of interviewed companies demonstrated a high level of perceived connectedness to the raised problems in their value chains. It can be concluded from the results that initial awareness and commitment to engage in global governance does not depend on size or resource configuration, but rather on the industry and the resulting exposure to the global governance thematic.
- The interviewed SMEs showed a high willingness to engage collectively with other actors, such as peer companies and civil society actors, to approach global governance issues. Most of the SMEs were to relatively high degrees actively involved in multistakeholder initiatives. Accordingly, being small and thus having a limited or marginal impact was not used as an argument for not engaging in global governance. Rather, the small impact evoked the strong need to approach problems jointly.
- A lack of financial or human resource has not been mentioned as a significant constraint to implement practices of political responsibility in daily operations. As such, the interviewed SMEs had a wide array of practices in place, which were either self-developed

(requirement sheets for suppliers or own audit checklists) or relied on established certification schemes like SA8000 or ISO14001.

- The motivation of SMEs to engage in global governance, manifested in the company culture, was predominantly influenced by intrinsic reasons, i.e. engaging out of conviction, and less because of strategic or business reasons. All of the SMEs in the sample nevertheless established a business case for their engagement, but only for a minority was it a dominating driver over conviction and personal ethics (largely influenced by the founder and/or owner-manager of the firm).
- The SMEs showed a high level of employee awareness of global governance issues and the respective rules implemented. Due to their limited size, flat hierarchies and organizational complexity, spreading of global governance awareness to employees' mindsets was reported to be relatively unproblematic.

Sub-Project 3 (Legitimacy)

Overall, the legitimacy of the UNGC, understood as its societal acceptance and achievement of a taken-for-granted status, is contested. Proponents of the UNGC commend the initiative as being highly successful in promoting learning opportunities regarding the organizational implementation of CC. Critics of the UNGC, in contrast, disapprove of the initiative as a viable tool for global governance and point to supposedly weak monitoring and enforcements mechanisms. They further argue that low entry barriers and requirements enable free-riding of corporate signatories. As a consequence, under-performing firms enjoy the reputation benefits of UN association and "bluewash" their corporate image, without actually changing their business practices.

The research on legitimacy associations between the UNGC and participating companies resulted in the following conclusions:

- We conceptualized legitimacy associations between different legitimacy objects as "legitimacy spillovers" where legitimacy may be transferred to a recipient object (positive spillover) or withdrawn from a recipient object (negative spillover) without causing a change in the legitimacy of the originating lower-level entity. Hence, the UNGC is affected by both positive and negative legitimacy spillovers originating from (non-) activities and attributes of corporate signatories.
- In contrast to the extant literature which emphasizes horizontal legitimacy spillovers, that is, legitimacy transfers occurring within one level of analysis (e.g. the industry level), spillovers between the UNGC and corporate signatories can be characterized as vertical spillovers as they transcend levels of analysis, i.e. they involve both the organizational and global level of analysis.
- A major conceptual finding of sub-project 3 clarifies that the main perceptual mechanism underlying the construal of vertical legitimacy relations is very distinct to the mechanism explaining horizontal relations. Specifically, similarity-based assessments of legitimacy relations – prevalent in most studies on horizontal relations – are insufficient for two reasons. First, the occurrence of spillovers cannot be explained by similarity given the dissimilarity between the UNGC and participating companies. Arguably, the network-based initiative of the UNGC does not share a lot of core attributes with a prototypical signatory. Second, an account based on similarity cannot explain why negative spillovers are supposed to produce stronger effects than positive spillovers, an assertion frequently made in the spillover literature.

- We show that vertical spillovers in global governance are driven by people's gut feelings towards actions and attributes of lower-level entities. In other words, audience members unconsciously rely on their emotional reactions towards participating companies for making a judgment about the legitimacy of the UNGC. Given the stronger impact of negative emotion in information-processing our arguments also account for the positive-negative asymmetry in spillover effects.
- Furthermore, the construction of legitimacy spillover is dependent on the characteristics of audience members. Heterogeneity in legitimacy-ascribing audiences entails very different spillover effects contingent on the fit or congruence between internal emotional dispositions and external legitimacy accounts put forward in communication activities. Hence, the communication strategy of the UNGC Office needs to bear in mind that UNGC legitimation efforts are put at risk by the non-rationality of emotion- and identity-based beliefs of audience members.
- A major empirical finding of sub-project 3 is the demonstration that legitimacy spillovers are not solely an *emergent* property of social reality. Instead they are *strategically* employed by both UNGC proponents and UNGC critics in communicative interaction. A computer-assisted content analysis and subsequent correspondence analysis of framing patterns illustrates that legitimacy claims are made in close association with emotion-arousing metaphors and meaning structures.

Cross-Project Findings:

- We have outlined key cross projects findings between sub-projects 1 and 2 in the section above. Furthermore, both the conceptual framework and the case study for SMEs have been developed after completion of the study on MNEs. As such, it was intended to differentiate the SME framework and relate the findings to those for MNEs. During the development of the study on SMEs, the MNE study served as a reference point for its further specification and elaboration.
- The issue of legitimacy and legitimacy associations as elaborated in sub-project 3 shifts the focus from the structural and process-related aspects of the organizational implementation of UNGC principles elaborated in sub-projects 1 and 2 to the issue of the perception and societal evaluation of corporate implementation efforts. Given that sub-project 3 focuses on legitimacy assessments of the general public, legitimacy dynamics of MNEs and not so much of SMEs are most relevant for sub-project 3. The centrality of MNEs is furthermore enhanced by the current practice of national and global media systems to cover celebrated firms and to scandalize corporate misconduct, in turn multiplying – for better or for worse – the potential impact of legitimacy spillovers. Hence, a major insight informed by both sub-project 1 and 3 relates to the finding that legitimacy spillovers are most relevant for UNGC-MNEs relations. Still, in particular for the local or regional context, UNGC-SMEs relations may also play a considerable role for the legitimation of the UNGC.
- In addition, findings stemming from our additional study of CC standardization beyond the UNGC gave insights about the diffusion of CC practices among multinational corporations. We placed a particular focus on the Equator Principles standard in the project-financing industry, as prior research considers this standard as very successful in terms of industry-wide diffusion. Our findings indicate that standardization can be grasped as a discursive negotiation process addressing both future prospects and risks for a standard to reach “depth”, that is, to move beyond formal adoption to actually affecting organizational logics and practices.

Correspondence between Obtained Results and Previously Expected Results

- At the beginning of our project, we expected that in particular for companies operating in zones of weak governance and environmental and social regulation, a political role, next to an economic role for private actors exists. This claim has been substantiated by our exemplary case studies. Also, we found systematic empirical evidence for our assumption that the engagement of SMEs is not necessarily inferior to that of MNEs. We presume this claim to be corroborated in subsequent quantitative studies that further explore the generalizability of our findings.
- However, both studies on MNEs and SMEs could not find evidence that companies participating in the UNGC are necessarily better or more advanced than companies not doing so. In the interviews conducted among the MNEs, interviewees stated that their participation in the UNGC was not necessarily a main driver for their CC engagement. However, the UNGC was regarded an overarching initiative and the “roof” under which further initiatives were structured.
- For SMEs, participation in more specific multistakeholder initiatives such as the Fair Wear Foundation (FWF) seemed to be equally advantageous in terms of learning and gaining CC knowledge. To ensure analytical rigour of the case study by analyzing a single industry, we could only approach a limited number of SMEs participating in the UNGC. Thus, we included SMEs in the sample, which were either UNGC participant, FWF member, or no member of a multistakeholder initiative, although we had initially intended to analyze only UNGC participants.
- Finally, the subjective bestowal of legitimacy and the interdependence of legitimacy objects residing at different levels of analysis (organizational and global level) could be confirmed as expected. We expected to identify a relevant amount of news stories on the UNGC in the general news media. As we found out during the course of our research, however, the topics of CC and the UNGC receive only marginal treatment in the general public and rarely constitute the major topic of a news story. We therefore shifted our attention towards more specialized media, i.e. topic-related blogs and the output of UNGC communication (speeches, announcements) in order to detect strategies that are constitutive of the legitimacy spillover phenomenon.

Practical Application of Results

- The conceptual frameworks for MNEs and SMEs have a high practical relevance, in particular for the UNGC initiative and the participating companies themselves. We therefore suggest the application of our research results in the following ways:
 - The conceptual frameworks provide a reference point for political responsibility and global governance engagement. Thus, they can be used as assessment tools both for companies themselves as well as third-parties like civil society organizations, researchers, or the UNGC Office and related institutions.
 - MNC-results document the status quo of CC implementation at the sampled companies. Due to the chosen sampling method, the patterns of the results of project 1 (MNEs) are representative for Swiss MNEs that joined the UNGC.
 - SME-results highlight best-practices in the Swiss context. They can be illustrated as such, e.g. in events of the Sustainability Forum Zurich Learning Platform for SMEs, as examples and “learning inspiration” for other SMEs.
 - Results provide direct advice for the selected companies because they highlight the strengths and weaknesses of each CC programme. Both MNEs and SMEs demon-

strated high interest in the results because they regard the assessment as a valuable learning and development opportunity.

- Both frameworks provide valuable and directly applicable information for the UNGC Office on how to engage MNEs and SMEs and assess their performance respectively. The development of a publication of a CC manual targeting UNGC participants (MNEs and SMEs) is planned in cooperation with the UNGC Office.
- The practical relevance of our research on legitimacy spillovers between the UNGC organization and corporate signatories has been highlighted by the UNGC's specification and tightening of its integrity measures and delisting procedures. As for December 2010, nearly 2,000 corporate signatories have been delisted from the UNGC participant list for their failure to communicate on progress in implementing the UNGC principles. These steps mirror the UNGC's effort to better differentiate itself from free-riding behavior on the cost of its overall credibility. Likewise, the recent introduction of a Differentiation Framework for Performance and Disclosure establishes reporting criteria at basic, intermediate and advanced levels in sustainability implementation and transparency, and helps the UNGC to better clarify that under-performing corporate signatories do not affect the legitimacy of the UNGC as such but reflect slow but necessary learning experiences of participating companies. The research team and the UNGC office will discuss further policy implications of the interrelation between corporate and UNGC legitimacy.
- Enhancing our understanding of the processes underlying CC standardization will also be relevant for organizational practice: If the hypotheses of our study on the Equator Principles standard can be further validated, this may prove highly relevant for non-governmental organizations (NGOs) which aim for promoting the substantive adoption of CC standards by MNEs. The identified process pattern counter-intuitively suggests that it may be useful for NGOs to initially accept a "weak" standard (i.e. as a lowest common denominator) as a first step of the standardization process provided that NGOs manage to leverage discursive practices that help to enhance the depth of standard implementation in a series of next steps.

Topics for Further Exploration

- Both sub-projects 1 and 2 provided a theoretical discussion of the topic followed by explorative studies in which several propositions about MNEs' and SMEs' role in global governance have been generated. These propositions build the basis for further quantitative survey-based research among a larger multinational sample of companies. A comparative analysis between MNEs and SMEs is planned to bring together the key differences and similarities regarding motivations to engage in global governance.
- As regards the issue of legitimacy of the UNGC and related private governance schemes (sub-project 3), there are three avenues we deem particularly important to explore in future research. First, surveys, experiments, and their combination in survey and panel experiments will enable us to empirically test the impact of hypothesized legitimacy relations. Second, we plan to address the issue of the interpersonal aggregation of spillover effects. So far, our research neglected the fragmented nature of global constituencies and the role of communicative interaction to deal with such heterogeneity. In order to better tackle the dialogical nature of legitimacy construction, in the near future we intend to apply, modify, and extend the "Deliberative Polling" research design in political science. Third, although sub-project 3 has emphasized legitimacy transfers ratcheting upwards from corporate signatories to the UNGC, we maintain that vertical spillovers are not necessarily restricted to a bottom-up rationale. We plan to study other types of vertical relations, e.g., to examine whether the legitimacy of private business firms or sub-organizational entities

(e.g., boards of directors or CEOs) is affected by the legitimacy of the UNGC and if so, whether effects and mechanisms are comparable to the case of bottom-up relations. Likewise, we intend to analyze bottom-up and top-down legitimacy relations between the UNGC and the broader UN organization.

- A joint future topic that emerges from the cross-project findings is the focus on *internal* legitimacy dynamics that facilitate the implementation of a CC standard within the organization as opposed to external legitimacy pressures originating from the general public, as have been emphasized in the extant SNIS project.

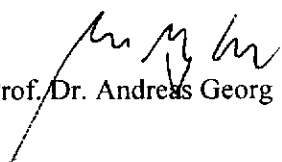
Practical and Policy Recommendations

- Results from the sub-project 1 suggest that MNEs need tools to facilitate the internal implementation of CC. Apparently, MNEs have difficulties mainstreaming CC in their daily business routines. Training manuals and implementation tools, which are consistent with the provided conceptual frameworks, would support the internal implementation process.
- Furthermore, MNEs need additional opportunities to engage with critical stakeholders in order to build trust. Consequently, MNEs need to better approach these stakeholders in the development of their CC programmes.
- Results from sub-project 2 suggest that SMEs can and should be approached by initiatives like the UNGC and engaged in global governance as much as MNEs. However, the ways to engage SMEs adequately are distinct from those for MNEs, as illustrated in differences in the conceptual frameworks for the analysis of CC implementation in MNEs vs. SMEs. The results from the empirical study highlight further best-practices which could be promoted by initiatives like the UNGC to engage more SMEs.
- Results point out that in order to motivate SMEs to engage in CC from a mere instrumental/business-case-oriented perspective is not always optimal. Among many SMEs, intrinsic motivation and ethical values play a major role for these companies to accept an active role in global governance. The design of practice-oriented tools and initiatives needs to better consider these issues when outlining respective strategies or roadmaps for SMEs.
- Sub-project 3 illustrates that the legitimacy of the UNGC is closely intertwined with the legitimacy of corporate signatories. Hence, UNGC officials need to pay scrutiny on how to shield off detrimental consequences of negative legitimacy spillovers stemming from a signatory's attributes and actions and how to benefit from positive spillovers originating from well-performing corporate signatories. UNGC officials need to further specify their communication strategy on how to maintain and strengthen UNGC legitimacy considering the workings of the evaluation process of emotionally opposed audience members.

Expected and Past Publications (articles, books, conference presentations, workshops, etc.)

➔ See separate annex document

Signatures by Project Leaders


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