

Corporate Social Responsibility Practices and Environmentally Responsible Behavior: The Case of The United Nations Global Compact

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ABSTRACT. The aim of this paper is to shed some light on understanding why companies adopt environmentally responsible behavior and what impact this adoption has on their performance. This is an empirical study that focuses on the United Nations (UN) Global Compact (GC) initiative as a Corporate Social Responsibility (CSR) mechanism. A survey was conducted among GC participants, of which 29 responded. The survey relies on the anticipated and actual benefits noted by the participants in the GC. The results, while not conclusive, indicate that companies have more than one reason for adopting environmentally responsible behavior and that ethical and economic reasons co-exist. In terms of performance, the impact of participation in the GC seems to

be particularly high in securing network opportunities and improved corporate image. The results indicate that companies that have participated many years in the GC, have submitted the most projects and have attended the most GC meetings also regard their CSR involvement as having had a strong, positive influence on their market performance. GC participation does not result in significant cost advantages, but this does not seem to have been regarded as a goal anyway. Costs seem to be affected to a large extent by existence of in-house research and development and the capability of developing environmentally sound technologies. Overall, the company receives both ethical and economic benefits from joining the GC.

KEY WORDS: corporate social responsibility, economics, environmentally responsible behavior, ethics, the United Nations Global Compact, Turkish case study

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This paper modestly accepts the challenge introduced by Garriga and Mele (2004), namely integrating economics and ethics. As they argue, although some research has investigated this problem before, it is far from being resolved. Moreover, they stress that this integration is necessary to increase corporate participation in Corporate Social Responsibility (CSR) activities in the future. Thus, this paper aims to (1) investigate corporate motivations for taking part in CSR activities and (2) analyze the impact of CSR on company performance. This might help to visualize the linkage between motivations and results of undertaking CSR practices along both ethical and economic dimensions.

When the relationship between business and society is considered, companies face a conflict of

aims between maximizing shareholder and stakeholder value. On the one hand, some claim that CSR helps to meet objectives that produce long-term profits, while others claim that CSR is a step towards a decent society because companies are doing what is ethically correct. Could it not be both? It seems the United Nations (UN) Global Compact (GC) initiative as a CSR mechanism aims to do so, particularly when it comes to environmental issues.

This paper examines in particular how CSR practices affect a firm's environmentally responsible behavior, especially economic and ethical aspects of that behavior. To do so, an empirical study was conducted on companies that take part in the UN GC initiative.

The UN GC is a voluntary initiative that relies on public accountability, transparency, and enlightened self-interest of companies. The basic idea is that the voluntary involvement of companies within the areas of human rights, labor rights, environmental degradation, and anti-corruption can encourage private innovativeness and concern within these areas in a manner that regulation has not been able to do adequately, thereby hastening the emergence of a more sustainable and just future (Kell and Levin, 2002).

It is within this context that the paper examines CSR initiatives in general – and the UN GC in particular. The main hypothesis is that the UN GC might be an important driving force in bringing about the adoption of environmentally responsible behavior, and the reason for this is that it is perceived as having both economic and ethical value for the participating companies. To investigate this hypothesis, this paper examines the following two main questions:

- (1) Why do companies participate in the UN GC?
- (2) What are the impacts of UN GC participation on firm performance?

The paper is structured as follows. Sections “Corporate social responsibility” and “The UN Global Compact” provide the theoretical background to CSR and the UN GC. Section “Methodology” lays out the methods and techniques that have been used for data collection, analysis, and interpretation, while section “The analysis of the UN Global Compact participants” furnishes a

thorough description of the data. Section “Conclusions” finalizes the paper with some concluding remarks and suggestions for further research.

Corporate social responsibility

To put the UN GC into a wider context, this section will start by describing the CSR field of research, with particular emphasis on environmental aspects.

Although no formal definition of the concept has been agreed upon, there are a couple of definitions that have become quite well used. This paper prefers the definition used by the World Business Council on Sustainable Development (WBCSD):

Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

The emergence of the CSR field

Although some studies date the beginning of the academic interest in CSR as far back as the 1850s (Balza and Radojicic, 2004; Doane, 2004; Smith, 2003), it is only recently that it has acquired the position it currently has within teaching and research institutions, corporations, governments, intergovernmental agencies and NGOs (Garriga and Mele, 2004).

The year 2000 was the watershed for attempts in support of CSR initiatives. For example, government leaders called for greater “corporate environmental and social responsibility and accountability” in the Johannesburg Declaration and Plan of Implementation of the 2002 World Summit on Sustainable Development (UN, 2002 and 2003). Along similar lines, the Commission of the European Communities published a Green Paper, “Promoting a European Framework for Corporate Social Responsibility,” in 2001 (Aaronson and Reeves, 2002; Tencati et al., 2004).

Various surveys have provided evidence for these trends. CSR Europe reported that 62% of fund managers and financial analysts have noticed a

growing interest in Socially Responsible Investment over the past 2 years (CSR Europe, 2003). An on-line survey of CSR practices among the FTSE 100 companies reports that 97 of them include CSR information on their website, and 81 issue a full CSR report (CTN Communications, 2003).

Basic CSR concepts

As CSR refers to voluntary initiatives taken by the business community to act responsibly in relation to all stakeholders, we would like to elaborate on three important aspects of CSR initiatives: voluntarism, stakeholder management, and networking.

The first idea is that of encouragement instead of punishment, in other words voluntarism. It is argued that companies can address social responsibility issues in a more efficient and productive manner if they are allowed to do so by themselves – voluntarily – and not in response to government regulations (Bryane, 2003). This is because regulatory approaches have several undesirable features that may be avoided through CSR (Gjølberg, 2003; Kemp, 1995). For example, in a regime where regulation is the only force behind social progress, companies that already perform well vis-à-vis CSR issues do not have any incentives to improve their performance further.

Voluntary actions of companies may be shaped through their codes of conduct/code of ethics where the company publicly states what ethical and moral codes it will adhere to. The Institute of Business Ethics (2006) defines a code of conduct as that which helps companies to establish and articulate corporate values, responsibilities, obligations, and ethical ambitions of an organization. The statements provide guidance to employees on how to handle situations which pose a dilemma between alternative right courses of action, or when faced with pressure to consider right and wrong (Adams et al., 2001). Voluntary initiatives and codes of conduct of individual companies have mushroomed over the last few years (Kerkow et al., 2003). In 2001, 94 out of the 100 largest trans-national corporations had published codes of conduct (OECD, 2001). Another study found that more than 500 companies in the USA adhered to some kind of codes of conduct (Kerkow et al., 2003).

The second main concept CSR relies on is stakeholder management (Garriga and Mele, 2004; Knox et al., 2005). This means that companies should no longer be held accountable only to their shareholders. Rather, other parties influenced by their operations should also be taken into consideration. Such stakeholders may include customers, employees, suppliers, partners, and local neighborhoods, among others.

As a separate aspect of stakeholder management, many CSR initiatives might be seen as a relatively new form of relationship between private and public actors. It is in their mutual best interest to establish an arena for communicating and collaborating in a positive and constructive manner. As noted above, several researchers argue that moving away from a strict command-and-control regime to a more “partnership-like” one can facilitate a higher involvement of companies in sustainable development (Maxwell and Lyon, 2004; Montalvo, 2002). A “softer” type of relationship can build upon the diffusion of knowledge, as well as share and establish common goals towards which all parties strive (Granovetter, 1982; Singh, 2003). Examples of such collaboration might be that of business with universities, trade unions, government agencies, governmental research facilities, and non-governmental organizations.

One important aspect of many CSR initiatives is the network effect that results from the interactions occurring through these initiatives. Many, if not most, CSR initiatives, e.g., the UN Global Compact, WBCSD, Prince of Wales ILBF, BSR, SDI, GRI, CSR Europe, to mention a few, are membership- or participation-based organizations (Moir, 2001; McKinsey, 2004). Their practices involve disseminating information through, for instance, web pages, newsletters, scientific papers, and best-practice studies, as well as bringing companies together for meetings, conferences, and seminars. These communication channels can contribute significantly to the diffusion of technologies and environmental management practices (Kemp, 1995; Luken et al., 2004). By spreading information and bringing companies together, such initiatives provide opportunities for companies to learn about real-life examples of how other businesses have conducted their socially responsible projects and to get information about or get in contact with potential project collaborators.

Microperspectives on CSR and environmental issues

The definition of CSR covers both “sustainable economic development,” a concept that refers to its economic aspect, and “working with stakeholders,” which refers to its ethical side. However, the motivation of companies in adopting CSR is interpreted differently, depending on whether theoreticians come from the field of ethics or economics. According to theories pertaining to ethics, companies are generally expected to adopt CSR practices purely to do the right things and for the good of society. Garriga and Mele (2004) list four alternative ethics-based theories as relevant: namely normative stakeholder theory, universal rights, sustainable development and the common good approach.

In economic theory, CSR is seen only as a strategic tool to achieve economic objectives and ultimately, wealth creation, where company is responsible to shareholders (Garriga and Mele, 2004). Companies will apply CSR as long as they can benefit economically from conducting socially responsible behavior, such as creating a brand that will improve marketing (Lantos, 1999). Thus, the main motivation is increasing profit.

The case of environmentally sound technology is a perfect case for illustrating and understanding CSR practices where economic concerns might be combined with the ethical ones. On the one hand, this issue is fundamentally based in the sustainable development and the common good approach. On the other hand, it is claimed that it can also be economically viable to become environment friendly, if it is done in the correct manner. The World Commission on Environment and Development report (1987) “Our Common Future” (also known as “The Brundtland Report”) is a good example of suggestions related to methods for economic growth that do take environmental issues into consideration by combining economics with ethics.

Seen from an economic perspective, being environmentally conscientious might involve investments in technology, methods, tools, and raw materials that are higher than is the case for the environmentally indifferent. However, it is also claimed that these investments will bring advantages in a number of ways, resulting in increased profits in the end. Although the literature is full of arguments that society is expected to gain while firms lose from

investments in environmentally sound technology (Blackman, 1999; Jaffe et al., 2002), there is a growing body of research indicating the “win-win” view. Accordingly, adopting environmentally conscious behavior becomes a source of technological innovations that brings advantages to companies as well as society (Porter and van der Linde, 1995; Singh, 2003). These advantages range from improvement in corporate image to cost reductions (Griffin and Mahon, 1997). A recent study clearly shows that the stock-market premium goes up in firms that participate in the GC (Fussler et al., 2004).

In its assessment of the current state of CSR initiatives, the SustainAbility initiative concluded that it is necessary to obtain a clearer understanding of the business case for CSR, as it seems that the current understanding is not sufficient for ensuring a voluntary participation among the vast majority of companies (SustainAbility, 2004). In other words, similar to Garriga and Mele (2004), SustainAbility (2004) raises the issue of combining ethics and economics if CSR applications need to survive.

How can this daunting task be accomplished? As one of the early modest steps, this paper aims to observe a real life case: the UN GC. It is hoped that the observations made will serve to improve the understanding of both the ethical and economic aspects of CSR practices that will strengthen voluntary initiatives such as the UN GC. The next two sections provide details of the empirical analysis carried out in the paper.

The UN Global Compact*The UN Global Compact and environment*

The UN GC was officially launched in July 2000. The UN Secretary-General, Kofi Annan, made an appeal for business to work alongside the UN to “initiate a global compact of shared values and principles, which will give a human face to the global market” (United Nations, 1999). Given as such, the motivation of UN GC is basically ethical. It is the world’s largest voluntary network; significantly larger than initiatives such as the WBCSD, Prince of Wales International Leaders Business Forum, Global Reporting Initiative, and SA8000 (McKinsey, 2004).

The UN Secretary-General regards the GC neither as a binding set of regulations nor as a code of conduct for companies but rather as a basis for a dialog forum in which mutual learning among companies is to be promoted with examples of best practice (Kerkow et al, 2003). But in practice, similar to individual company declarations of codes of conduct, the UN GC invites businesses to become participants of this organization and follow the ten¹ principles related to human rights, labor rights, environmental protection, and transparency. The principles relevant for the discussion in this paper are those concerning environmental issues:

Principle 7: Businesses should support a precautionary approach to environmental challenges.

Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.

Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.

The GC was designed as a voluntary, multi-stakeholder initiative that would encourage and help corporations find solutions to the problems within the abovementioned areas. Multi-stakeholder approaches are a step forward in stakeholder management. They reflect a new paradigm in international cooperation that sees the future of international cooperation in global partnerships, coalitions for change or global public policy rather than cooperation of traditional multilateralism of the nation-states. The push for multi-stakeholder approaches goes back to the 1992 Rio Conference on environment and development, but reached its climax at the Johannesburg Summit in 2002.

It is evident that the UN GC is soundly based on ethical values and that it is easily related to all the relevant arguments raised in ethical theories: emphasizing stakeholders, focusing on universal rights, being concerned with sustainable development and taking into consideration the common good. However, seen from an economic perspective it is difficult to judge the UN GC based purely on the principles and its basic ideas. Its contribution to a company's economic well-being can only be warranted through an empirical investigation such as that which was carried out for this paper.

In the course of the 5 years since its inception, the GC has gathered close to 2,300 participants in more than 80 countries.² Seven per cent are NGOs and

13% consist of labor organizations, universities, municipalities, associations, and foundations (McKinsey, 2004). It is still growing rapidly, with approximately 500 new member companies being added per year over the last 3 years.

The participation is by far the greatest in Europe, which comprises close to 45% of all participants. As was the case for the Kyoto Protocol, the WBCSD and the GRI, it proves difficult to get companies from the US and Australia on board. The UN GC Office put in much time and effort during the initial years to get US companies on board, but that proved difficult due to three obstacles: (1) fear of potential legal liabilities as a consequence of signing the letter of application, (2) concern about the implications of the Compact's labor rights provisions, and (3) a relatively lower assessment of the potential benefits of association with the UN (McKinsey, 2004).

The GC has been successful in recruiting companies from developing countries, with more than 50% of its members located outside the OECD. When it comes to the type of company that participates, there is a distinct contrast between developing and industrialized countries. Most of the participating companies from industrial countries are transnational ones while those coming from developing countries are primarily small and medium-sized enterprises. Ellen Kallinowsky of the UN GC Office argued that for developing country companies, the Compact seemed attractive from a networking and learning perspective, while the transnational corporations of the industrialized countries saw the Compact as a tool for reputation management (interview Kallinowsky, 2004).

Assessing the impact of the UN Global Compact

While it is difficult to either propose or oppose voluntary initiatives without empirical evidence, even measuring the ultimate goal itself is difficult when it comes to voluntary initiatives. As Korhonen noted: Sustainability is a difficult concept. It is difficult because one can never really measure it. It is possible only to know if the world has been sustainable and only by looking backward. (Korhonen, 2003)

As a result of this, it also becomes inherently difficult to measure CSR efforts. Although an action taken

by a company may have reduced the environmental impacts per produced unit, an increased number of produced units might very well outweigh the positive effects. The automobile could be given as an example of this. Although the current automobile is much less polluting than the early model T-Ford, the environmental impacts of the automobile industry are much more far-reaching than ever before. This is an example of the difference between eco-efficiency and eco-efficacy and indicates the necessity of a systemic perspective and a holistic approach that entails accurate measures of CSR (Korhonen, 2003).

However, for an organization such as the GC, a starting point might be to assess the level of impact it has had within companies. This might mean not actually measuring the output as “how much sustainable development” the Compact has induced, but rather how much its underlying ideas and culture have been adopted by the various actors within the system. The GC initiated two such assessment projects, which both produced reports published during the spring 2004.

In the first of these, the Compact arranged for an impact assessment to be performed by the consultancy agency McKinsey & Company. The objective was to look at the impact of the GC within participating companies and NGOs, governments, trade unions and the UN itself, as well as the impacts of participation among these actors. The report concluded that the GC was effective in building a solid participant base, accelerating changes within companies and catalyzing a proliferation of “partnership projects” between companies, NGOs, trade unions and the UN. However, “inconsistent participation and divergent and unmet expectations limit the impact on companies and continue to threaten the GC’s long-term credibility with participants” (McKinsey, 2004).

The second report was produced by SustainAbility (2004), a leading consultancy agency specializing in sustainable development with business through markets. This report aimed at investigating “the extent to which current CSR initiatives are helping drive the transition towards more sustainable forms of development.” The report concluded that although “a small but growing number of bold and visionary companies have made considerable strides [...] their numbers will remain small as long as the

business case for getting in front of the corporate pack remains weak.” The report also highlighted that too many company efforts were too peripheral from core business, isolated and disconnected from a wider system to contribute significantly. In other words, SustainAbility concluded that CSR was approaching the limits of its current state and that companies needed to gear up their efforts if any significant progress should be made.

It should, however, be noted – as it was by both these reports and by the Head of Global Compact Learning Forum, Kallinowsky (2004) – when assessing the GC, it is necessary to acknowledge the limited time that has passed since its inception. It should be evident that developing a global organization with participants from all regions, religions, cultures, ideologies and beliefs, business areas and scientific disciplines is a difficult and time-consuming task (Kell and Levin, 2002; Küskü and Zarkada-Fraser, 2004). When also taking into account the multi-stakeholder perspective – with the inherent need of meeting the expectations of a diverse set of actors such as NGOs, governments, businesses, intergovernmental organizations, and trade unions – it is clear that a significant amount of time for removing start-up problems and adjusting the path is to be expected.

Methodology

This study started with an analysis of the existing literature within the areas of (including, but not restricted to): innovation studies, CSR³ (and the UN GC in particular), and network organizations (van Dijken et al., 1999; Doane, 2004; Geroski, 2000; Granovetter, 1982; Hart, 1995; Montalvo, 2002; Rogers, 1995).

During the preliminary literature review, it became evident that there was not much empirical evidence available on CSR initiatives, especially regarding the UN GC, which has practically not been investigated empirically at all (Kell and Levin, 2002; Welford, 2004).⁴ One reason for this might be that it is a new initiative. However, there are other CSR initiatives that have not been investigated empirically, either. This might be due to the fact that the interest in CSR is a new phenomenon. Hence, studies concerning practical CSR applications are likely to flourish this decade.

The study aims at investigating the UN GC as a CSR instrument on the basis of two questions:

- (1) Why do companies participate in the UN GC?
- (2) What are the impacts of UN GC participation on firm performance?

The first question aims to find out the motivations behind becoming a UN GC participant. In addition to what is contained in the definition of CSR, the literature review highlighted two main reasons – based in ethics or economics. Garriga and Mele (2004) admit that integrating the economics and ethics of CSR from a theoretical perspective is a vital, even if difficult challenge. Asking the GC participants about their motivation might help us to see how this corresponds to the real world. A list of motives has been derived from literature in economics, management and ethics (see Table II). The economic motivations are to a large extent straightforward. The ethical motivations comprise mainly stakeholder-related items and two general motivations. The emphasis on understanding the stakeholder-related motivations comes from the fact that the GC itself is a multi-stakeholder initiative. One general motivation is “to apply CSR” that shows the commitment of the company to the declaration of universal rights and the common good embedded in the GC. Another general motivation comes from sustainability theory: “being part of sustainable development efforts.”

The second research question aims to find out the impacts of UN GC participation on firm performance on the basis of the motivations classified in the first question. It will be fair to judge a company’s performance by comparing their goals and the results gathered in those dimensions. This study will investigate economic and ethical benefits of becoming a GC participant. The analysis of economic performance will include two extra items to the list given in Table II, namely profits and costs. Companies are directly asked whether becoming a GC participant increased their profits and what reductions took place in different cost items (i.e., labor, raw material, and energy costs).

Note that it is quite difficult to see the direct impact of the UN GC participation on various performance criteria such as image and labor costs

since there are many factors that affect these criteria. It would also be very difficult to perform such a study in practice, as the statistical analysis would require a very large base of current and historic data on each company to be able to distinguish these various factors. To avoid this problem, our study will attempt to measure the perception of managers by asking about relative impact by using the Likert scale where 1 indicates low impact of being a GC participant on a particular performance criteria (i.e., reduction in waste amount) while 5 indicates highest impact. Since this study is related to the motivation for becoming UN GC participants – which is a highly subjective issue – it is very relevant to investigate these issues from the subjective standpoints of these companies.

The investigation of research questions mentioned above has been done via a thorough literature survey, both qualitative and quantitative data analysis and a small number of interviews with key actors. The rationale for gathering empirical evidence is to test the validity of existing and new theories on the subject against “real life” experiences of the companies. The specifics of these methods are elaborated on in section “The analysis of the UN Global Compact participants.”

The questionnaire included 60 questions. While most of them were multiple-choice, there were a number of open questions as well. The questionnaire was taken and modified from a survey on Turkish UN GC participants that was conducted by Dilek Cetindamar and Yildiz Arıkan of Sabanci University (Cetindamar and Arıkan, 2004).

The UN GC had approximately 1,400 participants around the time this research was initiated (Spring 2004) and we wanted to include as many of these companies as possible. Unfortunately, the Compact Office did not provide a complete list of compact participants and their contact information. As a result, the only feasible solution was to search the online database of the UN GC participants in order to find those that had provided contact information.

There were approximately 200 companies that had registered their contact information, i.e., either fax number or e-mail address in the UN GC participant database, but only 113 of these were concerned with the environmental principles. The questionnaire was sent to these 113 companies, of

which 33 (29%) were located in developing countries. The contact information that was listed in the database was primarily to employees within either environmental management department or the CSR department (or equivalent).

The collection of data took place during April and June 2004. A total of 29 companies responded to the survey, giving a response rate of 26%. Since it is difficult to encourage companies to respond, it appears to be normal to achieve modest response rates of 20–40% within the social sciences (Cetindamar and Arikan, 2004; McKinsey, 2004; Welford, 2004).

The relatively low response rate was partly due to the fact that the consultancy agency McKinsey had performed a similar type of survey for their impact assessment just a short time before this study's survey was conducted. The authors of this paper were not aware of the McKinsey study when this survey was initiated, and the results of the McKinsey study were not published until the very end of this research period.

In addition to the survey, a series of semi-structured interviews and discussions were conducted with key actors within the UN GC system, researchers within the CSR field, and an employee of a participating NGO. These interviews were aimed at acquiring information on the UN GC and how the Compact interacts with its participants.

Most importantly, Kallinowsky – Head of the UN GC Learning Forum – was interviewed during Part 1 of the First UN GC Academic Conference in Istanbul, 31st May–1st June 2004

(Kallinowsky, 2004). During the same conference, Luken – a researcher from UNIDO – and Steve Halls – Director of the UNEP International Environmental Technology Center – were also interviewed to get their perspectives as UN representatives for the future plans and directions of the UN GC.

The analysis of the UN Global Compact participants

This section provides a thorough presentation of the data collected from the 29 UN GC participants who completed the questionnaire. After summarizing the general company data, the analysis of the two research questions is presented.

General company data

The general features of the responding companies are presented in Figure 1. Among them, 5 (17%) are from developing countries. The companies are generally quite large and mature. All of them reported of sales figures of above \$50 million USD, with 72% reporting export figures of above \$10 million USD and 96% having been in existence more than 10 years. The majority of companies (86%) have a separate CSR department within their organization. The distribution of UN GC participation is quite evenly distributed across years.

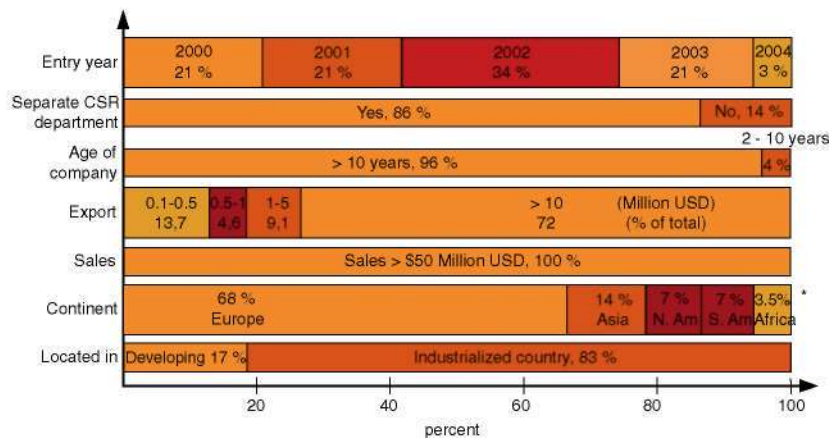


Figure 1. General data on the participating companies.

*There were no companies from Australia & the Pacific.

TABLE I
Breakdown of companies according to industry

Sector	Frequency	Sector	Frequency
Finance & Insurance	5	Commerce & Distribution	2
Food & Drink	3	Pharmaceuticals	1
Energy	3	Others	1
Oil & Petrochemicals	3	Telecommunication	1
Manufacturing	3	Automotive	1
Textiles & Leather	2	Information Technology	1
Pulp & Paper	2	Personal care & Household products	1

TABLE II
The reasons for becoming a GC and the impact of being a GC participant on these reasons

Reasons	Importance*	Ethical/ economic origin	The impact of being a GC participant on*
Legal procedures	2	Economic	NR
To improve corporate image	4	Economic	4
To be able to enter foreign markets	2	Economic	2
To compete with firms in the global market	3	Economic	3
To distinguish your firm	4	Economic	3
To fulfill the environmental requirements of TQM**	3	Economic	3
To decrease unit production cost	2	Economic	2
To increase corporate efficiency	3	Economic	2
To increase customer satisfaction	3	Both	3
To increase employee satisfaction	2	Both	2
Pressure of stakeholders	2	Both	2
To be part of sustainable development efforts	5	Ethical	5
To be good citizen	4	Ethical	4
To get access to UN's experience in CSR	3	Ethical	4
To get access to UN's network	3	Ethical	4

NR – Not related.

*1 = lowest, 5 = highest; **TQM = Total Quality Management.

Note: All companies responded this question and the importance values are the average of 29 respondents.

Table I presents the distribution of companies by sector. The categorization of industries is adopted from the UN GC website. The companies are fairly evenly distributed across industries, with a slight over-representation of firms operating in finance and insurance.

The majority of companies in the survey have such goals as producing in the most environmentally friendly way (93%) and offering environmentally friendly products (81%) and services (80%).

Motivations of becoming a UN Global Compact participant

Based on the literature review, 15 items were selected as the reasons for becoming a UN GC participant. As shown in Table II, two of them, namely “corporate citizenship” and “to be part of sustainable development efforts,” might be considered as a direct expression of ethical values. Considering employee and customer satisfaction as

well as pressure of stakeholders might be seen as serving not only to satisfy stakeholders in general and try to get their involvement in company (ethical reason), but also to keep them doing business with the company (economic reason). Two items investigating the UN network fall into the stakeholder-related concerns, hence they fit into the ethical category. It is important to remind the reader that the list of ethical reasons was selected in a pragmatic way to avoid having to get into details of conflicting ethical theories since these discussions were not part of the focus of this paper. The remaining eight items are expressions of economic reasons in different formats.

Table II clearly shows the importance of being a part of sustainable development efforts. By itself, it is the most influential reason for all companies becoming a UN GC participant. This statement supports the emphasis given in the definition of CSR, namely the commitment of business to contribute to sustainable economic development. But ethical reasons are not enough to explain why companies join the UN GC. Companies have more than one reason, including both ethical and economic ones, and they vary a lot.

Impacts of becoming a Global Compact participant

Besides showing the motivations for becoming a UN GC participant, Table II also contains values for the self-assessment of the impact of the UN GC on individual firms in terms of objectives when initially joining this initiative. All companies indicate that being a UN GC participant completely influences their sustainable development efforts, showing the highest impact in their ethical performance. High impact scores (namely those of 4) are observed on their network opportunities, citizenship, CSR experience and corporate image. This means that three of the top four goals in becoming a participant have been satisfied to a great extent. A very important goal – distinguishing themselves from other companies – does not seem to be fully acknowledged by the majority. Although firms place great importance on distinguishing themselves from their competitors, the impact of being a GC participant on this particular goal was modest.

Interestingly, of the companies responding to the survey, only 16% consider reductions in unit costs as a motivation for becoming a GC participant. When comparing this to the reported results in this area we see that this did not occur; only 4% of companies experienced such unit cost reductions. When it comes to the other potential economic benefits – profitability and cost items – we see similar results. Perceived importance of the impact of being a GC participant on increase in profit is low; similarly, the reductions in energy costs while the impact on reducing labor and raw material costs are the lowest.

One positive finding is that “better network opportunities” receive high scores. This confirms earlier studies (McKinsey, 2004) and it is in accordance with the UN GC ideas as the Compact wishes to establish itself as an actor in the global structure of corporate or corporation-involved networks (see <http://www.unglobalcompact.org>).

Another interesting finding is obtained when data on “better network opportunities” are examined with respect to the origin of the company. It seems that companies from developing countries do not experience increased network opportunities to the same extent as companies from industrialized countries do. As noted in section “The UN Global Compact,” it is believed by key Compact Office employees that companies from developing countries sign up for the UN GC partially because of a potential increase in networking opportunities. In other words, they have higher expectations than companies from industrialized countries with respect to the networking features of the UN GC. On face value, while this could be an explanation for the difference between companies from developing and developed countries in their responses to this question, another might be that companies from developing countries that answered this question are not truly representative of mainstream companies. This might be likely, not only because there were so few companies from developing countries that completed the survey, but also because the companies that have completed this survey do not represent the company base of the UN GC very well either.

Using factor analysis, the impacts of becoming a GC participant may be collapsed into three components (see Appendix Table A1 for details). One interpretation of the results of factor analysis is as follows: component 1 is related to internal costs

(reliability = 0.9854), component 2 subsumes competitiveness issues (reliability = 0.9104), and component 3 is based on market performance issues (reliability = 0.8079).

The reliability of these components was investigated through reliability analysis and produced the scores presented in parenthesis following each component above. Four variables (labor costs, energy costs, unit production costs, and raw material costs) constituted the internal costs component. All these cost variables received low impact ratings. Thus, the overall impact of becoming a GC participant does not seem to affect costs. On the positive side, it seems that the two other factors – regarding competitiveness of the firm compared to its competitors and market performance in more general terms – are positively related to UN GC participation.

Furthermore, a linear regression was carried out to observe what factors affect the benefits gained from being a GC participant. Even though the sample is small and the results might not be generalizable, the statistically significant results (α less than 0.1) modestly indicate that internal costs are likely affected by in-house R&D capability. Finally, the market performance component seems to be affected by three factors: the year in which the company became a GC participant, the number of GC meetings attended, and the number of environmental projects submitted to the GC. In other words, market improvement of firms is positively affected by how long the firms have participated in the UN GC, the number of environmentally responsible projects in which the firms engage and the number of UN GC meeting they attend.

Conclusions

Corporate Social Responsibility initiatives are expected to encourage voluntary cultural and managerial change in firms that will create the basis for sustainable development. This paper investigates a special CSR mechanism – the UN Global Compact – to shed some light on understanding (1) why companies adopt environmentally responsible behavior and (2) what impact UN GC has on firm performance.

Regarding the first question, as the sample shows, CSR practices might be a way of com-

mitting businesses to contribute to sustainable economic development, since being a part of sustainable development efforts is the most influential reason for all companies in becoming a GC participant. But ethical reasons are not enough in explaining why companies join the GC. Companies have more than one reason – including both ethical and economic ones – and they range significantly. In addition, as the second half of the CSR definition highlights, companies need to work with their stakeholders and the practice of GC participants clearly indicates a heightened involvement of stakeholders in their environmental problems. However, while NGOs participate in the GC, they do not seem active in the network and do not have strong collaborations with firms. This might be an improvement area to consider when looking for ways to improve GC management and NGOs in general.

The assessment of second question considers the actual impact GC participation has had on firm performance. The major benefits of participation in the GC are acquiring better network opportunities and increased corporate image. The longer firms participate in the GC, the greater the number of projects they develop and the more they attend GC meetings, the better market performance they experience. GC participation does not result in significant cost advantages, but this does not seem to be an objective of becoming a GC participant anyway. It is also observed that cost gains seem to be determined more by the capability of both in-house research and development, as well as the development of environmentally sound technologies. These results might be illustrative in showing that managerial attitude and organizational change are not the only factors needed to influence the cost advantages of firms; solid technological capabilities are also essential.

This study confirms that becoming a GC participant, in other words, adopting voluntary CSR practices that supports multi-stakeholder management is to the benefit of firms not only in the long run but also in the short run. The benefits are not limited to ethical values such as doing the right thing by not polluting environment but they contain economic values too such as reducing the amount of waste and lowering labor costs. The overall analysis might help to see the linkage be-

tween motivations and results of undertaking CSR practice.

Due to the small sample size and the measurement problems of CSR in general regarding the analysis of behavior and its impact on actual performance, the study results are limited. Future studies should concentrate on large-scale in-depth studies in companies where behavior might be observed. The help of other disciplines such as psychology might be helpful in designing the research methodology. The longer the time passes from the inception of the GC, the better observations will be. Taking another global research will be useful in the coming years to observe whether the illustrative trends found in this study continue.

Appendix

Result of factor analysis of impacts of Global Compact participation on firm performance

	Component		
	1	2	3
Improvement in corporate image		0.853	
Competitive advantage		0.873	
Distinguishing among competitors		0.844	
Increase in stakeholder satisfaction			-0.787
Increase in customer satisfaction			-0.831
Increase in profitability			-0.849
Decrease in labor costs	0.942		
Decrease in raw material costs	0.942		
Decrease in energy costs	0.920		
Decrease in unit production costs	0.920		

Note: A threshold level of 0.75 has been set to present the results more clearly.

Notes

¹. At time of inception, there were nine principles regarding human rights (3 principles), labor rights

(3 principles), and environment (3 principles). The tenth principle regarding transparency was adopted at the Global Compact Leaders Summit 24th of June 2004 (<http://www.unglobalcompact.org>).

². As of January 25th 2006, source was: <http://www.unglobalcompact.org>

³. CSR is here meant in the broad definition of the term and includes other terminologies such as Corporate Responsibility (CR), Corporate Social Accountability (CSA), Socially Responsible Investing (SRI), etc.

⁴. As noted in the previous chapter, the two initiatives on measuring the impact of the UN GC carried out by SustainAbility and McKinsey & Co were published during the concluding phases of this study.

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