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# Corporate Accountability: A Path-Goal Perspective

Nancy E. Landrum<sup>1</sup> Cynthia M. Daily<sup>2</sup>

## ABSTRACT:

Corporations are increasingly seeking corporate accountability. There have been a growing number of principles, standards, measurement tools, and guides for reporting, stakeholder engagement, and assurance to aid corporations; many of which are discussed here. Yet corporations are faced with a confusing array of competing protocols and a complex challenge in defining how to navigate the process to improve accountability. Path-goal theory offers a perspective which allows us to present a simplified 3-step path to guide corporations. However, path-goal theory also reveals problems inherent in the current approach, namely, an ambiguous situational context and lack of leadership that is directive, task-oriented, and that clears obstacles on the path toward corporate accountability.

**Keywords:** Corporate accountability, path - goal theory, accounting tools

**JEL Classification:** M14, M41

## 1. INTRODUCTION

There has been great pressure on corporations to be more responsible and accountable in economic, social, and environmental actions. Accountability implies that companies are responsible and transparent in their actions. In order for society to judge whether companies have impacted them negatively or positively, society members need information about corporate activities and performance. The pressures for increased accountability have come from multiple sources including state/government, market/economic, and civil society (Waddock, 2008b). In response, a growing number of principles, standards, measurement tools, and guidelines have been developed and have created an emerging infrastructure to help guide the corporation towards improved performance (Waddock, 2008b). Although principles can be applicable to all industries, standards should be relevant and applicable to specific users. Therefore, international standard setting organizations are engaging various groups of stakeholders, including business, to define relevant and applicable accountability standards for specific users. Increasingly, companies are using these standards to identify areas of concern to stakeholders, business risks, and opportunities to improve their triple bottom line performance. Despite the increased uptake in usage of these various accountability standards, companies and other stakeholders could find it difficult to navigate their way around in the less transparent standards jungle and to translate the relevant and applicable ones into responsible business practices.

This manuscript proposes that more effort is needed to link and harmonize various standards with the principles, measurement tools and reporting frameworks. At present, the various standards differ in scope, content and approach, which makes it difficult for companies to use them conjunctively. The contribution of this manuscript is to map the current accountability landscape, present a simplified 3-step path for corporations, and identify how fragmentation could be overcome.

We first review the current options available to corporations and then draw upon Robert House's (1971, 1996; House & Mitchell, 1974) path-goal leadership theory, taking a macro-level approach and applying the theory at an organizational level of analysis. We propose that the path toward corporate accountability is a 3-step process. In viewing the move toward corporate accountability within the framework of path-goal theory, we are able to identify obstacles facing companies. We argue that situational factors and leadership are important factors in the current 3-step process. Currently, an ambiguous situation, the lack of leadership, and the lack of a clearly defined path present the primary obstacles to companies pursuing increased accountability. We then offer recommendations for the future based upon the tenets of path-goal theory. We suggest that leadership and a clear path are necessary to guide corporations in the pursuit of accountability.

## 2. ACCOUNTABILITY

In this section, we explain the concepts of accountability and sustainability as well as the problems and confusion associated with the various terminology used to describe corporate accountability, attempting to clarify and explain the terminology. We then go on to provide a summary of current protocols being utilized by corporations.

### 2.1 Defining Accountability

Corporations are being pressured by stakeholders to be more sustainable, to pursue a triple bottom line, and to be more accountable for their actions. In order to be responsive to stakeholder pressures and demands, corporations are seeking ways to increase accountability and transparency. But companies identifying paths to accountability face various obstacles as will be discussed throughout this manuscript. A first problem for companies that are starting to explore the accountability landscape lies in its broad range of names, terms, and definitions used, which can create confusion amongst various stakeholders and company

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executives. When used in relation to companies, accountability is often referred to as corporate citizenship, sustainability, triple bottom line, or corporate social responsibility (CSR), amongst other terms. And even if the same term is used by different people, as in the case of CSR, it turns out that CSR as a general term means different things to different stakeholders, and is used in several different ways, depending on culture, region or stakeholder (Globescan, 2008)

Another general term that is frequently used is sustainability. Sustainability is often an all-encompassing term and a difficult one to define. The most common definition is that of the Brundtland Commission's description of what it means to develop the world in a sustainable manner: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Commission, 1987).

When related to business, the sustainability concept requires that a business expands its focus beyond economic and profit-driven activities and measures of success to ensure viability for future generations. In business, sustainability can also be defined as the point of intersection of a corporation's economic, social, and environmental activities, impacts, and measures of success, as illustrated in Figure 1 (Elkington, 1998). The company will maximize its societal effects (both socially and economically) and minimize its environmental effects as the company seeks to widen its perspective on what is best for all stakeholders and society at-large. This requires a focus on the long-term health and survival of economic, social, and environmental systems while reducing negative impacts, for without healthy economic, social, and environmental systems in which to operate, the company may cease to be viable (Landrum & Edwards, 2009). This broader perspective does not come at the expense of a company's own financial performance, but is viewed strategically in order to ensure the company's own long-term health and survival (Elkington, 1998).

We will use the term accountability throughout this document when referring to a corporation's relationship to, and impact on, social, environmental and economic systems. A clear path should lead corporations to become accountable actors by changing their way of doing business in order to contribute to sustainable development of the planet and its inhabitants.

### 2.2 Economic

Companies have long measured and reported financial results. With a triple bottom line focus, one moves beyond the financial impact within the company and begins to take a wider view of the

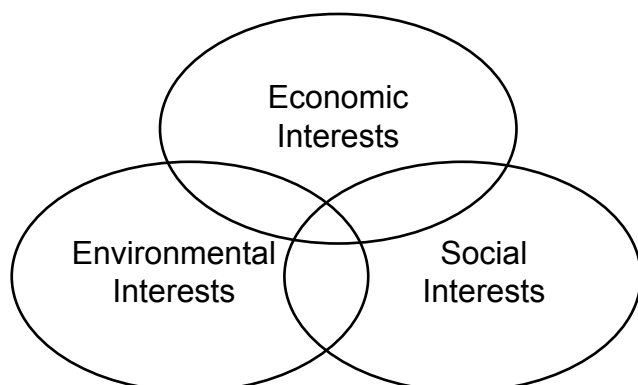


Figure 1. (Elkington, 1998)

economic, social and environmental impact on stakeholders, communities and the environment. Surveys show that companies are increasingly implementing sustainability programs by setting goals, measuring impacts, and reporting performance in all three areas (KPMG International, 2008; Sustainable Investment Research Analyst Network, 2007a, b). Toward this end, companies can use various standards to identify, measure and report on relevant issues in each of the three sustainability areas.

### 2.3 Social

To date many companies have defined social impact internally (diversity in hiring, providing benefits and equal opportunities to employees, etc). The trend of measuring economic and social impacts within a sustainability framework has been to expand our view to include external economic and social impacts (the community, the society, and the broader world) to ensure minimum negative impact and maximum positive impact on social systems (Landrum, 2008). Increasingly, these socio-economic impacts are being measured and reported by companies (KPMG International, 2008; Sustainable Investment Research Analyst Network, 2007a,b).

### 2.4 Environmental

Over the years, measurement tools have been developed to measure environmental impacts, such as carbon footprint analysis, life cycle analysis, full cost accounting, carbon accounting, and material flow analysis. Examples exist of companies decreasing their production of greenhouse gas emissions, reducing energy usage, reducing waste, and creating products designed for cradle-to-cradle usage (Wal-Mart, 2007-08, 2009). According to Mindy Lubber, President of Ceres, "company disclosure on climate-related risks is increasing, carbon costs are being factored into company capital planning and corporate leaders are calling for mandatory caps on greenhouse gases." (Lubber, 2007) Companies across various business sectors have made commitments to make changes that will reduce their negative impacts or ones that contribute to environmental protection.

### 2.5 Protocols

After one develops an understanding of the meaning of the term accountability, a second problem evolves. There exists an expansive array of competing protocols designed to help corporations increase accountability. We have grouped these into six broad areas of protocols: principles, standards, accounting tools, reporting frameworks, stakeholder engagement, and assurance (Table 1). The number of competing protocols can be confusing and overwhelming to the business attempting to navigate its way toward increased accountability. We offer an overview of each of these six types of protocols.

### 2.6 Principles

Although principles can guide company performance on many levels, in this discussion of principles, we will address only those high-level principles which guide overall corporate behavior. The most familiar principles which seek to address the three pillars of sustainability (social, environmental, and economic) are presented in the United Nations (U.N.) Global Compact(2004). The U.N. Global Compact contains ten principles for responsible and



**Table 1: Principles, standards, accounting tools, reporting, stakeholder engagement, and assurance protocols.**

Principles	Standards	Accounting Tools	Reporting	Stakeholder Engagement	Assurance
<ul style="list-style-type: none"> <li>•U. N. Global Compact</li> <li>•AA1000 AP 2008</li> <li>•ISO 26000</li> <li>•Ceres Principles</li> <li>•UN Norms</li> <li>•OECD Guidelines</li> <li>•ICC Business Charter</li> <li>•Global Sullivan Principles</li> </ul>	<p><b>GENERAL</b></p> <ul style="list-style-type: none"> <li>•SVN Standards</li> <li>•SIGMA Project</li> </ul> <p><b>Social focus</b></p> <ul style="list-style-type: none"> <li>• ISO 9000 (labor only)</li> <li>•SA 8000 (labor only)</li> <li>•OHSAS 18001</li> <li>•Fair Trade</li> </ul> <p><b>Environmental focus</b></p> <ul style="list-style-type: none"> <li>•ISO 14000</li> <li>•Kyoto Protocol</li> <li>•LEED</li> <li>•FSC</li> </ul> <p><b>INDUSTRY SPECIFIC</b></p> <ul style="list-style-type: none"> <li>•AIP</li> <li>•Common Codes for the Coffee Comm.</li> <li>•Responsible Care</li> <li>•Equator Principles</li> </ul>	<p><b>GENERAL</b></p> <ul style="list-style-type: none"> <li>•Measuring Impact</li> </ul> <p><b>Environmental focus</b></p> <ul style="list-style-type: none"> <li>•GHG Protocol</li> <li>•Global Water Tool</li> <li>•GEMI Water Sustainability Tool</li> <li>•Life cycle assessment</li> </ul>	<ul style="list-style-type: none"> <li>•GRI</li> </ul>	<ul style="list-style-type: none"> <li>•AA1000 Stakeholder Engagement Standard</li> </ul>	<ul style="list-style-type: none"> <li>•AA1000 Assurance Standard</li> <li>•ISAE 3000</li> </ul>

sustainable business activity in the areas of human rights, labor, the environment, and anti-corruption. The principles themselves are stated in broad terms, but organizations are provided with additional information including the reasoning behind certain principles, examples of the principles at work, and tools for implementation of the principles. According to the U. N. Global Compact website:

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption (United Nations Global Compact, 2004:1).

Since its inception in 2000, over 7700 organizations, including over 5300 businesses, nonprofits, academic institutions and public agencies worldwide, have become signatories (United Nations Global Compact, 2009). In addition, companies can identify how they contribute to the U.N. Millennium Development Goals (MDG) which are supported by the U.N. Global Compact. The MDG cover eight goals (with more than 20 accompanying targets and over 60 indicators) signed by 192 UN member states and more than 23 international organizations with the goal of achievement by 2015 (United Nations, 2010). These goals are related to poverty, education, gender equality, child mortality, maternal health, disease, the environment, and global partnerships (United Nations, 2008). Another well-known set of principles for corporate conduct is the AA1000 Framework, developed by AccountAbility, a global, non-profit organization (AccountAbility, 1999). In October 2008, the framework was revised, separating the principles from

the assurance standards and resulting in two distinct documents: the Accountability Principles Standard 2008, or AA1000 APS 2008, and the AccountAbility Assurance Standard 2008, or AA1000 AS 2008. While the assurance standard is designed to clarify expectations of the assurance provider, the principles standards state that[A]s principles rather than prescriptive rules, they allow the organization to focus on what is material to its own vision and provide a framework for identifying and acting on opportunities as well as managing non-financial risk and compliance. (AccountAbility, 2008b:7)

The AA1000 APS 2008 present three principles: inclusivity, materiality and responsiveness. They refer to inclusivity as the foundational principle, requiring its adherence as the precursor to achievement of materiality and responsiveness. Inclusivity is the starting point for determining materiality. The materiality process determines the most relevant and significant issues for an organisation and its stakeholders. Responsiveness is the decisions, actions and performance related to those material issues (AccountAbility, 2008b:9)

The principle of inclusivity requires that companies include as stakeholders, all of those that can impact the company as well as those that the company impacts. Therefore, these principles require foremost, that organizations actively engage with all stakeholders and with their input, design and implement responses to those issues most significant to its own vision of sustainability. In addition, the AA1000 Framework is designed to complement the Sustainability Reporting Framework of the Global Reporting Initiative, a reporting framework to be discussed later.

In addition to the well-known U.N. Global Compact and the AA 1000 framework, there are several additional principles. Among these are the Caux Round Table Principles, the Coalition of Environmentally Responsible Economic Principles (CERES), The Natural Step, the Aspen Principles, the Organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance and Guidelines for Multinational Enterprises, the International Chamber of Commerce (ICC) Business Charter for Sustainable Development, the Global Sullivan Principles of Social Responsibility, and the ILO Declaration on Fundamental Principles and Rights at Work and Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights (also known as UN Norms for Business or UN Norms).

KPMG, an international accounting firm, conducted a survey of the top 250 companies of the Fortune 500 (referring to them as the Global 250 or G250) and the 100 largest companies by revenue for 22 countries where KPMG operates (referring to these as N100) addressing their efforts in the area of sustainability. This survey shows that a minority of G250 and N100 companies applied these additional principles (KPMG International, 2008: 29). This review reveals that there are many competing principles which exist to guide responsible corporate behavior, however, the U.N. Global Compact and the AA1000 framework appear to be the most widely recognized and utilized.

**2.7 Standards**

Standards encompass specific actions, behaviors, or activities expected of corporations. Standards have been developed by various organizations over the years, of which some are in the form of general guidelines, while others are in the form of certifiable standards. General guidelines cover specific or a broad range of



sustainability issues and support companies in identifying relevant issues. Examples are Social Venture Network (SVN) Standards of Corporate Responsibility (Social Venture Network, 1996-1999) Certified B Corporations, the Corporate Responsibility Index, and the Sustainability-Integrated Guidelines for Management Guidelines, or SIGMA Project (SIGMA Project, 2003).

In general, the certifying standards are focused on a particular issue, product or management system, rather than a broad range of sustainability issues. Companies can adopt standards to improve managements systems, to have business operations certified related to labor issues or health and safety issues, and to abide by fair trade practices and responsible sourcing. Organizations interested in having 'green' buildings can refer to the U.S. Green Building Council's Leadership in Energy and Environmental Design certifications, whilst companies active in the forestry sector can turn to the Forest Stewardship Council (FSC), and companies sourcing products from developing countries can label these with a Fair Trade trademark. The same company can opt to apply various standards simultaneously, such as LEED certification for the building, ISO 14000 certification for environmental systems, SA8000 or OHSAS 18001 occupational health and safety certification for subsidiaries, whilst marketing FCS and Fair Trade products.

In addition to these certification systems which can be applied to various types of companies that are operating in various sectors, there are also sector-based initiatives that work toward standards or codes of conduct. For example, the Apparel Industry Partnership (AIP), Common Codes for the Coffee Community, the Responsible Care program of the chemical industry (Kolk & Tulder, 2006), and the Equator Principles for financial services companies.

A recent criticism of standards suggests that the norms do not provide sufficient justification to be universal, the standards do not provide guidance on how to engage with stakeholders, and the standards do not represent voluntary participation (Gilbert & Rasche, 2007). In addition, there is a phenomenon called 'standards fatigue'; corporate executives face difficulty in choosing amongst various standards, deciding how to apply them, determining costs and benefits that they bring, and understanding how they relate to each other (Ligteringen & Zadak, 2005). Furthermore, there is no clear guidance regarding implementation of these standards. When applying different standards simultaneously, there are no instructions on how to deal with conflicting demands of the standards or conflicting demands between the standards and the regulatory framework of a country in which the company tries to apply the standard. Additionally, there is the problem of inconsistency between various standards; they might cover similar issues but use slightly different wording, definitions and requirements. It is unclear how a company should choose between standards or if a company should use the standards jointly.

There is a sea of confusion over the multiple standards available. The primary weakness in this area is the lack of one clear general standard. A general standard that offers clear guidance notes for implementation and covers all areas of sustainability that might be relevant to a company is currently missing (Ligteringen & Zadek, 2005). This standard should be compatible and linked to other existing popular standards (Ligteringen & Zadek, 2005).

The International Standards Organisation (ISO) is attempting to fill this vacuum by developing the ISO 26000, which is due to be published in mid 2010. This social responsibility guidance

standard would be voluntary and not a certification standard: "Our work will aim to encourage voluntary commitment to social responsibility and will lead to common guidance on concepts, definitions and methods of evaluation." (International Standards Organization, 2008).

### 2.8 Accounting Tools

For the purpose of our discussion, we define accounting tools as various formulas, calculators, or other tools that permit quantification of the concept being measured. Measurement tools, calculators, and/or formulas allow the company to assess its current behavior to establish a baseline, to set goals for improvement (as per the standards selected), and to measure future behavior to determine progress. These accounting tools generally provide no comparative threshold, benchmark, or measurable standard.

The World Business Council for Sustainable Development's (WBCSD) Measuring Impact framework assists the corporation in quantifying governance, (environmental) sustainability, assets, people, and financial flows (World Business Council for Sustainable Development & International Finance Corporation, 2008b). The WBCSD Measuring Impact framework is designed to work with the reporting format of the Global Reporting Initiative. Following our 3-step path toward accountability, this is the first indication of integration across the steps and in an attempt to tie principles with measurement tools, yet is obviously missing integrated standards. The standards are an important connection between principles and measurement tools.

The Greenhouse Gas (GHG) Protocol was jointly created by the World Resources Institute and the World Business Council for Sustainable Development (WBCSD). The GHG Protocol (World Resources Institute & World Business Council for Sustainable Development, 2004, 2005) guides a company in creating base year measurements of greenhouse gas (GHG) emissions, both direct and indirect, and allows the company to determine its own future goals for reduction. This tool can be used to implement the ISO 14064 standard on GHG emissions. The WBCSD is currently in the process of mapping the GHG Protocol connection to ISO standards. This is another important step in integration across the 3 steps, but fails to connect the GHG Protocol tool and ISO measurable standards to any of the sets of principles for corporate conduct.

To add to the arsenal of measurement tools available, the World Business Council for Sustainable Development's (WBCSD) Global Water Tool was launched in 2007 and updated in 2009. The tool assists companies and organizations to standardize water footprint measurement, accounting, and reporting (World Business Council for Sustainable Development, 2007, 2008a). In addition, the Global Environmental Management Initiative (GEMI) has developed two water sustainability planning tools (2002, 2007), which offer guides for the corporation in analyzing corporate water usage throughout the supply chain, determining water-related risks and opportunities, determining if the business case exists to create a water strategy, assess water uses and needs, and examine the availability of water in their region. All three tools are



related to a specific environmental focus on water usage and do not consider broader environmental impacts nor are the tools integrated with any particular standard or principle.

Life cycle assessments seek to quantify a product or process' environmental impact over its lifetime. The assessment begins at the point of acquisition of raw materials and continues through to the transformation of the materials into an end product and the disposal (or reuse) of the product at the end of its life cycle.

In lieu of quantifiable progress toward standards, some companies may choose a narrative approach describing anecdotal evidence of performance. Some corporate impacts are not immediately quantifiable. For example, indirect impacts, such as changes in eco-systems, may take years before they can be quantified and measured. Stakeholder engagement and assurance are important supporting activities throughout the Standards & Accounting Tools step of the process.

### **2.9 Reporting**

Several of the standards and accounting tools discussed above offer reporting guidelines for using the particular standard or tool. However, our discussion of reporting guidelines encompasses the broader challenge of sustainability reporting for the entire corporation.

Companies have historically viewed social and environmental issues as risks, thus the procedures used in the past include performing a risk assessment and quantifying the financial impact of the risk, the cost to abate the risk (ROI, NPV), or a cost-benefit analysis to help determine whether or not to address the risk. Stakeholder management (Freeman, 1984; Post, Preston & Sachs, 2002) has been another approach used to examine social and environmental issues; companies seek to partner with, manage, or neutralize stakeholders on social and environmental issues.

However, through the lens of sustainability and ensuring the long-term health and survival of economic, social, and environmental systems, companies are increasingly moving toward measuring the triple bottom line. Companies must respond to the demand to be good corporate citizens without neglecting financial performance.

The number of companies going beyond financial reporting and now reporting social and/or environmental practices and/or impacts has increased substantially (Kolk, 2004). In fact, the world's largest global companies report on their social and environmental performance and global companies who fail to report performance in these areas are in the minority (Global Reporting Initiative, 2007b). The SIRAN annual report (dated December 2009) on the practices of companies in the S&P 100 Index reveals that 66% of companies listed in the Index produced a formal sustainability report, and 93% provided sustainability information on their web site. (Sustainable Investment Research Analyst Network, 2009). Ho and Taylor (2007) found that social and environmental reporting is more prevalent among firms in manufacturing industries.

There has been a steady increase in the number of U.S. companies reporting on sustainability performance according to a recently published report by accounting firm KPMG. A survey of the 100 largest companies by revenue (N100) for 22 countries showed that the total stand-alone and integrated corporate responsibility reports increased from 71% in 2005 to 91% in 2008 in the United States (KPMG International, 2008:16). The Securities and Exchange Committee (SEC) recently issued

Commission Guidance Regarding Disclosure Related to Climate Change, effective February 8, 2010 "to provide guidance to public companies regarding the Commission's existing disclosure requirements as they apply to climate change matters." (Securities and Exchange Commission 2010:1) The SEC also stated in the release that the Commission's Investor Advisory Committee will hold a public roundtable to consider climate change disclosure issues in Spring 2010. Although not necessarily mandatory, sustainability reporting is increasing globally – including North and South America, Europe, Asia, Africa and the Middle East. In fact, the global report output has more than tripled in the past eight years (Corporate Register, 2008)

Although companies have generally accepted reporting standards for preparing financial reports, designed to make the resulting reports more credible, more consistent and comparable, a similar framework of generally accepted reporting standards is needed for sustainability reporting. According to a study conducted by KPMG using the Global Fortune 250 (G250) and the N100 in 22 countries, the most accepted framework for sustainability reporting is the G3 developed by the Global Reporting Initiative (KPMG International, 2008).

The Global Reporting Initiative (GRI) is an international effort to establish a standard reporting framework on the economic, social and environmental impact of entity activity. The G3 Guidelines, which is the third and latest version of the framework, was published in 2006. The GRI's Sustainability Reporting Framework is used by three-quarters of the G250 and nearly 70 percent of the N100 (KPMG International, 2008). The KPMG report provides evidence that some form of sustainability reporting has become the expectation rather than the exception and the GRI's Sustainability Reporting Framework has definitely emerged as the predominate standard for reporting.

The G3 framework for sustainability reporting is based on principles for defining the report content and principles for ensuring report quality. Those basic principles are defined below:

## **3. REPORTING PRINCIPLES FOR DEFINING CONTENT**

### **3.1 Materiality**

The information in a report should cover topics and indicators that reflect the organization's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.

### **3.2 Stakeholder inclusiveness**

The reporting organization should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.

### **3.3 Sustainability context**

The report should present the organization's performance in the wider context of sustainability.

### **3.4 Completeness**

Coverage of the material topics and Indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organization's performance in the reporting period. (Global Reporting Initiative, 2007c)

## 4. REPORTING PRINCIPLES FOR DEFINING QUALITY

### 4.1 Balance

The report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance.

### 4.2 Comparability

Issues and information should be selected, compiled and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and could support analysis relative to other organizations.

### 4.3 Accuracy

The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance.

### 4.4 Timeliness.

Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.

### 4.5 Clarity.

Information should be made available in a manner that is understandable and accessible to stakeholders using the report.

### 4.6 Reliability.

Information and processes used in the preparation of the report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information. (Global Reporting Initiative, 2007d)

These guidelines can improve internal reporting for management as well as external reporting for stakeholders. By providing a standardized framework for reporting, comparisons can be made within an organization over time, and between different organizations. In an effort to improve reporting, the GRI released its first version of an eXtensible Business Reporting Language (XBRL) taxonomy in 2006 and is currently working on the second version. XBRL provides a method to tag information in a report, making it possible to locate, analyze, store and exchange information and then automatically present the information in the desired way (Global Reporting Initiative, 2010). According to one report, this "...taxonomy for the many indicators itemized in its [GRI] sustainability framework, could automate sustainability reporting in much the same way that the SEC believes XBRL will aid the production of financial reports" (Environmental Leader, 2009).

Firms using the G3 Guidelines are required to declare the level to which they have applied the framework. The GRI application levels are self-assessed levels based on the company's sustainability report content, and the extent to which the GRI guidelines have been applied. The levels are C, B and A for beginners to advanced reporters, respectively. Each level can also have a plus (+) indicating that the company has utilized third party assurance. In addition to the guidance provided by the GR3, GRI provides sector supplements to compliment the guidelines and to provide specialized guidance for unique needs. For example, there are sector supplements for airports, automotive, food processing, apparel and footwear, and others. Since the GRI guidelines and sector supplements are the most commonly used reporting

framework for sustainability, we propose that principles, standards, accounting tools, and assurance standards be integrated to complement the GRI reporting guidelines.

## 5. STAKEHOLDER ENGAGEMENT.

Stakeholder engagement is an informal or formal process put in place by an organization to work cooperatively with its stakeholders. Stakeholders often include employees, customers, suppliers, shareholders, the community, interest groups, and any others with a legitimate stake or interest in the operations of the business. Stakeholders often have a reciprocal relationship with the company; stakeholders are affected by and can affect the business' activities, products/services, and associated performance (AccountAbility, 2005a).

Currently, many companies claim to be conducting some form of stakeholder engagement. According to latest KPMG study on practices in corporate responsibility reporting, 54 percent of the G250 researched companies reported that they engaged in informal stakeholder dialogue, whereas 62 percent say they conduct formal or structured stakeholder engagement. However, N100 has lower engagement levels, with 35 percent involved in informal dialogues and 42 percent taking structured approaches to stakeholder relations.

Although stakeholder engagement is actively conducted by companies, there is no standard approach (Roloff, 2008). The current standards demand stakeholder dialogue as part of the implementation process, but give limited advice on how engagement is supposed to be organized (Gilbert & Rasche, 2008). AccountAbility (2005a) issued a draft version of the AA1000 Stakeholder Engagement Standard, but we have found no information on its usage by companies or when it is due to be published formally. Companies that are in need of guidance can refer to this draft standard or to guide books on stakeholder engagement developed by various organizations, such as the International Finance Corporation (2007), AccountAbility (2005b), and Stakeholder Research Associates (2005).

When it comes to stakeholder engagement, companies seem to be left in the dark facing problems in deciding who to involve, how to involve them, and how to manage cost and time limitations (Gilbert & Rasche, 2008). Another problem with stakeholder engagement is that stakeholder input and requests sometimes conflict with short-term interests of shareholders. The current legislative framework protects the interests of the shareholders, while not necessarily the interest of other stakeholders (Global Reporting Initiative, 2008).

## 6. ASSURANCE.

The final issue to consider is auditing and assurance of claims made in reports (sometimes referred to as a social audit, an ethical audit, or monitoring). Similar to a financial statement audit, assurance providers for sustainability audits examine not only the report, but the underlying systems that produce the information in the report. These findings are compared against standards or a set of criteria for reporting. The purpose of the assurance is not to judge the policies of the organization, but to determine if the





sustainability report fairly reflects the operations. We address two assurance guidelines in this paper, those provided by AccountAbility (AA1000 Assurance Standard 2008) and the International Auditing and Assurance Standards Board (the International Standard for Assurance Engagements, or ISAE 3000 revised). According to the KPMG 2008 survey, 62% of the G250 and 54% of the N100 use the ISAE 3000 and 33% of the G250 and 36% of the N100 use the AA 1000 AS, identifying these two standards are the predominate assurance standards (KPMG International, 2008:65)

The AA1000 Assurance Standard 2008 (AA1000 AS 2008), which was released in October 2008, has many improvements over the older version (AA1000 Assurance Standard 2003). This latest version identifies two types of assurance (based on the scope of the engagement), and then specifies the minimum standards required for each of those. According to AccountAbility, identifying two types of engagements allows for more specific guidance during an assurance engagement. The Type 1 engagement addresses the adherence of the organization to the AccountAbility Principles while the Type 2 engagement goes further and also evaluates the reliability of performance information. (AccountAbility, 2008c).

The AA1000 AS 2008 also specifies two levels of assurance, moderate and high with clear guidelines on the objectives and type and quantity of evidence required. According to AccountAbility (2008d), these assurance levels were purposely designed to align with the levels described in the ISAE 3000 (to be discussed later) where high assurance is aligned with ISAE 3000's reasonable assurance level and moderate assurance is aligned with ISAE 3000's limited assurance level.

Before accepting an assurance engagement under AA1000 AS 2008, the provider must be independent, impartial and competent according to the criteria established in the standard. Once the engagement has been accepted, the standards provide guidance on planning and performing the engagement and reporting on the results (AccountAbility, 2008a). Assurance providers using the AA1000 AS 2008 should use the AA1000 APS as criteria when evaluating an organization.

The International Auditing and Assurance Standards Board (IASB) of the International Federation of Accountants (IFAC) has put forth the International Standard on Assurance Engagements (ISAE) 3000 (hereinafter the revised version) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information to address issues related to providing assurance on non-financial statements (International Federation of Accountants, 2008). These standards are broader in scope than the previously discussed AA1000AS 2008 since they address not just sustainability reporting, but reporting of all non-financial statements.

Like the AA1000 AS 2008, the International Standard on Assurance Engagements, or ISAE 3000 (International Federation of Accountants, 2008) provides for two types of assurance engagements, but they identify what they refer to as the reasonable assurance engagement and the limited assurance engagement. The difference between the two types is based on the reduction in the assurance engagement risk level with each. In order to accept or continue this type of assurance engagement, the subject matter must be the responsibility of another party, not the assurance provider or the intended users. Since this standard addresses the performance of a wide range of assurance engagements, it also specifies that the assurance provider must have the specialized skills and knowledge required for the specific type of engagement.

Like most assurance engagements, there is also a requirement for independence. Once the engagement has been accepted, the standards provide guidance on planning and performing the engagement and reporting on the results.

There is still a great deal of variation in assurance standards, as well as in those who provide the assurance. In addition to the general corporate guidelines put forth by the AA1000 AS 2008 and the ISAE 3000, several organizations provide assurance guidance specific to its own particular measurement standard. For example SustainAbility International provides SAAS SA8000 certification for individuals to provide assurance specifically on the implementation and reporting of SA8000 standards. According to the KPMG 2008 survey, 70% of the G250 and 65% of the N100 companies surveyed used a major accountancy organization to provide assurance (KPMG International, 2008:63). However, not all assurance engagements are conducted by accounting organizations. Some companies have chosen to establish in-house assurance teams or external committees to provide stakeholder assurance. Engineering firms, as well as specialized assurance organizations also provide external assurance for stakeholders.

## 7. PATH-GOAL THEORY

Researchers have previously applied micro-level theories of human behavior in a macro-level context (DiMaggio & Powell, 1983; Prahalad & Bettis, 1986). This research has shown that individual constructs can help us understand and explain organizational phenomenon. In a similar vein, we provide an organizational-level of analysis applying path-goal theory to the context of organizational pursuit of international accountability standards.

Robert House's path-goal theory (1971, 1996; House & Mitchell, 1974) is a theory of individual leadership behavior. Path-goal theory presupposes leaders, situational characteristics, and followers. In path-goal theory, there are four situational characteristics and each situation calls for a different type of leadership style. In a situation in which followers lack confidence, the most appropriate leadership style is supportive or relationship-oriented. In a situation that is ambiguous, the most appropriate leadership style is directive or task-oriented. In a situation in which the job is not challenging, the most appropriate leadership style is achievement-oriented and sets challenging goals. In a situation in which the rewards are not motivating, the most appropriate leadership style is participative to engage followers in identifying rewarding outcomes.

Path-goal theory states that the leader's task is to (1) define the goal for the organization, (2) clearly define the path to achieve the goal, and (3) remove obstacles to performance. The leader tasks of defining the goal, clearing the path, and removing obstacles are essential in helping followers successfully achieve the goal set forth. While other theories may suggest that leadership is not always necessary (Howell & Dorfman, 1981; Kerr & Jermier, 1978), leadership remains a critical construct in path-goal theory.

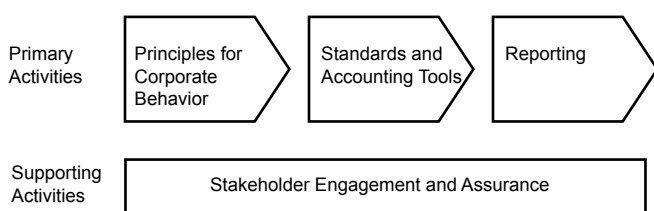
We use this framework to discuss a proposed 3-step path that companies take whilst struggling to identify the path toward increased corporate accountability. Rather than a micro-level internal focus on individual leadership within the organization, we apply this theory at an organizational level of analysis. Thus, we view the "leader" as an organization or regulatory body that provides oversight of the process (or "path") which organizations follow in the pursuit of increased accountability. In this view, the "goal" is defined as the pursuit of accountability. Continuing this



application, we view the “followers” as the companies pursuing the goal of accountability and a triple bottom line.

## 8. THE PATH TOWARD ACCOUNTABILITY

As companies seek to be more accountable, sustainable, and measure triple impacts (economic, social, and environmental), companies must determine the best approach to do this. To date, the approaches have been as varied as the corporations undertaking the task. Yet, to simplify this process, we suggest that companies follow a three-step sequential process, as mapped in Figure 2: (1) the identification of principles for responsible corporate conduct, (2) the identification of appropriate standards and accompanying accounting tools, and (3) sustainability reporting. Supporting activities in this 3-step process include stakeholder engagement and assurance. This three-step path shows how the six types of protocols (from Table 1) can work together and it helps demystify the path toward accountability.



**Figure 2. Three step path for increased corporate accountability.**

### Step 1: Principles

Principles for corporate behavior can direct corporate action within the three realms of sustainability. There are a number of organizations that have put forth principles for responsible and sustainable business behavior. Each business should review the various principles on corporate behavior and determine which is most appropriate to the business and to the ideals deemed most important by management, shareholders and other stakeholders.

From our previous discussion, we note that several sets of universal principles for corporate conduct exist: the U.N. Global Compact, AA1000 Framework, CERES, and others. Of these, the U.N. Global Compact and AA1000 are most widely used.

### Step 2: Standards & Accounting Tools

Standards. Once a business has determined appropriate principles for corporate behavior, the next step is to identify standards that guide the company towards adhering to and implementing the principles. In our previous discussion, we have identified numerous sets of standards for corporate behavior. While some sets of standards cover all three pillars of sustainability, most are limited in their coverage. The absence of integration between principles in step one and standards in step two can be problematic and could hinder a company from proceeding through to step three.

#### 8.1 Accounting tools.

Once the business has determined appropriate standards, the question turns to quantification or measurement of impacts. There is a plethora of available tools, depending upon the direction the company has decided to follow in terms of social impact, environmental impact, economic impact, or a complete three-pronged approach to sustainability. Assuming that a company has selected appropriate principles and matching standards that help the company carry out the principles, the company must select the correct accounting tools to quantify the chosen standards. The accounting tools must work hand-in-hand with the standards in

order to track and measure target corporate behaviors. Only one tool, Measuring Impact, addresses all three areas of sustainability but this tool is not well integrated with any particular set of standards.

In this step along the path, the absence of integrated standards and accounting tools for sustainability becomes problematic. The lack of direction in this part of the path leads to fragmented approaches, lack of consistency or standardization, varying interpretations of how to apply principles of corporate conduct, varying selections of measurement tools, and no guidance.

### Step 3: Reporting

In this step, corporations determine the scope and format of the sustainability report and communicate progress in accountability and sustainability performance. This is the only step of the path in which there is not an array of competing protocols. The GRI has emerged as the standard for sustainability reporting and is readily accepted worldwide. In addition, the GRI reporting framework in step three and the Global Compact principles in step one of the path are complimentary; step two (standards and accounting tools) is not well-integrated.

#### 8.1 Supporting Activities

Stakeholder engagement is a supporting activity along the three-step path toward increased corporate accountability. Stakeholders should be involved throughout the process, offering input and feedback to the organization on its social, environmental, and economic performance. This input and feedback is to be considered as the organization identifies appropriate principles for corporate conduct, selects standards and accounting tools, and reports on its sustainability activities. Assurance is another supporting activity along the three-step path toward increased corporate accountability. The purpose of the assurance is not to judge the policies of the organization, but to determine if the sustainability report fairly reflects the operations. Stakeholder engagement and assurance throughout the process is critical (Gilbert & Rasche, 2008). Both activities must be performed throughout the 3-step path toward increased corporate accountability.

## 9. DISCUSSION

In following path-goal theory, we propose there is a 3-step path toward increased corporate accountability (Figure 2). Corporations begin by (1) identifying a set of principles of corporate conduct to which it adheres. This process is supported through the engagement of key stakeholders. The corporation then advances to the (2) selection of standards and appropriate accounting tools to aid in measurement. Again, the process engages key stakeholders. At this step in the process, assurance is important to validate the processes and measures that are in place. The company is then able to (3) report on social, environmental, and economic strategies, objectives and performance. During the reporting process, assurance continues to be of importance to verify that activities and performance are properly reported.

After reviewing the three steps, it becomes obvious that there are many options from which to choose along every step of the path and there is little integration between



principles, standards, accounting tools, reporting guidelines, stakeholder engagement guidelines, or assurance guidelines. The primary area in which there is lack of integration is within step two: standards and accounting tools.

International standard setting bodies like Global Compact and GRI are collaborating to link their standards and to make them compatible where possible (Gee & Vijn, 2005), however, more needs to be done in this area. AccountAbility, GRI, and ILO are involving one another in rounds of revisions of their standards and representatives of these organizations serve on each other's technical committees and other governance bodies. Also, the ILO, GRI, OECD and Global Compact principles and standards cover issues that are universal norms, which are indirectly derived from international treaties, declarations and conventions, and are more or less in line with each other (Gee & Vijn, 2005; Waddock, 2004). However, companies operating in different sectors and regions appear to need more guidance relevant to their circumstances and, as such, are involved in developing private codes of conduct or industry-specific principles, standards, and tools. In some cases, assurance guidelines have been developed for these specific standards and tools. At this point, it is not clear how these fit into the web of the high-level principles and other general standards and tools and more research should be conducted to map the overall landscape.

Companies need to decide which principles, standards, and tools to use and how. The absence of comprehensive standards and integrated measurement tools—linking and harmonizing the various principles, standards and tools - for sustainability is problematic. The lack of definition for this part of the path leads to fragmented approaches, lack of consistency or standardization amongst the various steps, varying interpretations of how to apply principles of corporate conduct, varying selections of measurement tools, and no detailed guidance in standards for stakeholder engagement and assurance.

By applying House's (1971) path-goal theory at an organizational level of analysis, we examine the situational characteristics present in the current atmosphere of corporate pursuit of sustainability and increased accountability. Path-goal theory identifies four situational variables: follower confidence, degree of challenge present in the job, extent to which the reward is motivating, and the level of ambiguity present.

The first situational variable to consider is follower confidence. In a situation in which followers lack confidence, leadership style should be supportive or relationship-oriented. To date, many organizations have pursued sustainability through the selection of principles, standards and measurement tools, and a reporting framework. In spite of the lack of guidance and direction and the existence of numerous options, organizations have been courageous in the pursuit of sustainability and have historically found their own way or path. Thus, we conclude that the situational context does not reflect a lack of confidence among followers.

In a situation in which the job is not challenging, the leadership style should be achievement-oriented; we believe that this is clearly not the case. Given the complex nature of creating a sustainable business, it is our conclusion that this is a highly challenging situational context.

In a situation in which the rewards are not motivating, the leadership style should be participative and engage followers

in identifying motivating rewards. Researchers and businesses have presented the business case for sustainability (Cap Gemini Ernst & Young Center for Business Innovation, 1996). While it is possible that there is intrinsic motivation to pursue sustainable business operations, it is more likely that extrinsic motivation, or outside pressures, explains the current move toward sustainability. Regardless of motivation, rewards can exist in the form of improved relations with stakeholders and also in the form of positive outcomes in image, reputation, cost savings, and other factors. Yet as long as adherence to international accountability standards and sustainability reporting is voluntary, motivation and rewards are limited to those companies that participate in the process. Therefore, we conclude that lack of motivating rewards moderately defines the situational context.

In a situation that is defined by ambiguity, a task-oriented directive leadership style is necessary. Given the current context under which organizations are defining their own path toward increased accountability, we believe that ambiguity is the most salient situational characteristic. Thus, ambiguity of the task presents the first problem we have identified inherent in the process that companies currently follow. Ambiguity exists because there are numerous options (see Table 1) along the path as a result of the emerging infrastructure of principles, standards, tools, and guidelines (Waddock, 2008b). An additional source of ambiguity is the lack of clarity in what is expected in order to achieve the goal of accountability, sustainability, and triple bottom line performance and lack of clarity and direction on how to achieve the goal.

Depending upon the situational variables present, path-goal theory identifies the most appropriate leadership style. In our view, we have determined that ambiguity as the defining situational characteristic. A situational context that is highly ambiguous calls for directive task-oriented leadership, which leads to the next problem: lack of leadership over the path process. At this time, there is no regulatory or certifying body serving as a leader to provide oversight of the process and to ensure integration and compatibility of the various accountability principles, standards, and tools. In an ambiguous situation, the directive leadership requires that the leader define a clear path toward the goal and to remove obstacles along the path so that followers may successfully achieve the goal. Within our context, the goal of accountability, sustainability, and triple bottom line performance seems to be understood by followers, or companies, but the absence of a leader (a regulatory or oversight organization) to provide clarification and direction along the path is missing.

Third, the path is not clearly defined. Clarification of the path is the responsibility of the leader. The primary obstacles that obscure the path are the lack of integration across the steps of the path, particularly in standards and tools, and the lack of guidance in implementation. With the myriad of options available in principles, standards, tools, reporting frameworks, and assurance (Table 1), the result has been a highly varied and fragmented approach toward corporate accountability and responsibility. There is not one clear and integrated path that spans all three steps (principles, standards and tools, and reporting) that is overseen by a leader.

Thus, the lack of leadership appears to be the primary problem defining the current accountability landscape. Leadership, in turn, would need to be directive and task-oriented in this ambiguous context and would clarify the path for followers. But the question of what agency or regulatory body would oversee the path remains unanswered. Since the 1970s, there have been waves of

attempts to create international codes of conducts for companies. The Tripartite Declaration of Principles Concerning Multinational Enterprises of the International Labour Organisation (ILO), the Guidelines for Multinational Enterprises of the Organisation for Economic Cooperation and Development (OECD), and the United Nations Centre on Transnational Corporation (UNCTC 1978) were attempts to develop mandatory sets of codes of conduct for corporations. However, provided "the lack of international consensus about the function, wording and about potential sanctions against noncompliant companies" [emphasis added] (Kolk & Tulder, 2006: 150), these codes were adopted as 'voluntary', thereby weakening the intended effects. Although the OECD Guidelines and ILO Declaration still exist, the UNCTC Codes were "abandoned in 1992, due to differences of interest between northern and southern countries" (Kolk & Tulder, 2006: 150).

A renewed interest in international standards came at the end of the 1990s. The Global Compact came into existence in 2000, the ILO Declaration on Fundamental Principles and Rights at Work in 1998 were released, the OECD Guidelines for Multinational Enterprises were revised and adopted by the governments of 30 members OECD countries and Argentina, Brazil and Chile in 2000, and the approval of the UN Norms for Business in 2003 all shows renewed interest in international standards for corporate responsibility at the end of the 90s (Gee & Vijn, 2005). More recently, major accounting institutes around the world, including the American Institute of Certified Public Accountants, The Prince of Wales, the Climate Disclosure Standards Board, and the Institute of Chartered Accountants in England and Wales supported a call for a "set of universally accepted standards for the disclosure to shareholders of climate change-related information connected to financial performance and to mainstream financial reporting" (Conference of Parties on Climate Change, 2009).

## 10. RECOMMENDATIONS

We have examined the current process of corporate pursuit of sustainability from the perspective of path-goal theory using an organizational level of analysis. In this view, we have identified three primary problems with the current process: (1) ambiguity of task, (2) lack of leadership, and (3) lack of a clearly defined path. In order to address these three problems, the current situation calls for leadership to define and clarify the path to guide follower corporations in the pursuit of sustainability. This recommendation derives from path-goal theory and has been supported at an individual level of analysis. We believe that the same recommendation can be supported at an organizational level of analysis.

We are in an era of renewed interest and pressure for responsible business practices, for usage of international accountability standards, and for the increased uptake of standards by companies. Yet the current lack of guidance and coherence in the standards jungle leads us to argue for a leading institution to oversee the proliferation of standards, the integration into a universal framework, and to guard the rules of the sustainability game. Recently, Wal-Mart developed a sustainability index, creating a common language and methodology for assessing sustainability among suppliers. In much the same way, the leading institution should create a common language and methodology for measuring and reporting sustainability within corporations. This would also create an effective method for external stakeholders to compare corporate performance and reporting.

Similarly, Stiglitz (2006) argues that corporate social responsibility (CSR) alone is not enough; the world needs to develop international legal frameworks and international courts to keep companies accountable for their actions. According to Stiglitz (2006), CSR should be supplemented by stronger regulations. Companies adhering to higher standards should welcome regulations that support initiatives they endorse, to protect them from unfair competition by free riders that are claiming to adhere to the same standards, but in practice are greenwashing, or using these as public relations exercises (Stiglitz, 2006).

Elkington (2006) argues that the triple bottom line agenda currently is at the beginning of a transformation towards more sustainable business practices requiring companies, governments and other stakeholders find ways to transform corporations to become more sustainable social actors in society. This poses a government challenge: how to facilitate a regulatory framework, provide incentives to integrate CSR into core corporate practices and discourage unsustainable practices. However, even though there has been increased legislation, governmental institutions have not been able to adequately address social and environmental issues on an international level (Gilbert & Rasche, 2008).

Our analysis shows that the current ambiguous situation requires leadership. A leading institution could support governments in creating the right environment for sustainable corporate practices. In addition, a leading institution could aid in the development of one comprehensive integrated approach across the three-step path (principles, standards and tools, and reporting). An integrated approach would clarify and solidify the appropriate path for companies, thereby reducing ambiguity for followers as well as for stakeholders. The leading institution would oversee this integration and harmonization of various accountability standards and work with states to lead companies along the path. Consistent with Stiglitz (2006), Gilbert & Rasche (2008), Waddock (2008a), and others, we propose that leadership is needed. Leadership would then have the responsibility of reducing situational ambiguity and clarifying the path for followers.

## 11. CONCLUSION

Sustainability and triple bottom line reporting are an increasing trend in the United States as well as worldwide. In order to be more sustainable, companies must take into consideration the economic, social, and environmental impacts of business activities. This requires a focus on the long-term health and survival of economic, social, and environmental systems affected by the company.

The current business environment reflects a wide range of attitudes and approaches toward increased accountability and sustainability. We have offered a review of the numerous options available to corporations. There are a tremendous number of competing protocols in the areas of principles for corporate conduct, standards and accounting tools, stakeholder engagement and assurance guidelines. The only protocol for which there appears to be no competing protocol is in the area of sustainability reporting.

Borrowing from path-goal theory, we sought to simplify



the sometimes confusing and overwhelming number of options available and we suggest that companies follow a three-step path: (1) the identification of principles for responsible corporate conduct, (2) the identification of appropriate standards and accounting tools, and (3) sustainability reporting. Supporting activities that must be included at every point along this 3-step path include stakeholder engagement and assurance. However, the application of path-goal theory itself reveals problems inherent in the current accountability landscape.

First, we have identified that the most salient situational characteristic is ambiguity. Ambiguous situations call for a directive and task-oriented leader, which reveals the second problem: lack of leadership. In an ambiguous situation, not only is directive and task-oriented leadership necessary, but the primary responsibility of the leader is to remove obstacles and clarify the path. This leads us to the third problem: obstacles along the path. Obstacles identified include the lack of integration of protocols along the 3-step path and the absence of implementation guidance. Thus, in order to resolve these problems, the most pressing recommendation for the future is the identification of a leading organization or regulatory body to provide oversight. That is, we conclude that lack of leadership to oversee international accountability efforts stands as the greatest barrier to effective implementation of corporate responsibility.

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