Global Corporate Citizenship:
The Scope and Limits of Corporate Social Responsibility

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The last decade has witnessed a substantial increase in the number and scope of corporate codes of conduct that define standards for the practices and policies of global firms with respect to such issues as human rights, environmental conditions, and labor practices. One or more industry codes now exist for forestry, toys, apparel, sports equipment, footwear, coffee, cocoa, bananas, tourism, electronics, chemicals, minerals and mining, diamonds, gold, and financial services, among other sectors.

Such codes vary in their structures, mechanisms and governance. Some are primarily or entirely governed by firms, others by NGOs and still others by multi-stakeholders, including unions, firms and non-government organizations. Some rely on product labeling, others on certification, while still others have adopted more informal mechanisms for defining compliance. They also vary in their transparency and the specificity or stringency of their standards. But what all these codes have an common is a recognition that global firms, markets and industries do have global social impacts and that global firms have a responsibility to monitor these impacts and to make an affirmative contribution to improving the welfare of citizens in developing countries who are directly and indirectly affected by their business operations. They also typically represent forms of 'soft law' or non-state, market-based regulation, as their standards are not legally binding.

The growth of various mechanisms of global private governance primarily reflects a widely held perception that the scope and effectiveness of government regulation of global business activity has not kept up with the growth and expansion of global markets. Due to economic deregulation, privatization and trade liberalization, many governments appear unable or unwilling to adequate many critical dimensions of global business activity, a structural global 'governance gap' has emerged. Thus many global firms appear to be as powerful or important as national governments. Moreover, the fact that many citizens in developing countries have not adequately benefited from economic globalization has created a public backlash against global firms and markets. In brief, global firms have come to be regarded as both the 'source" of the shortcomings of globalization as well as part of the "solution' to these shortcomings. Global CSR both reflects the growth and rise of neo-liberalism and an effort to imbed neo-liberalism in a network of formal and informal social constraints.

The growth of private global regulatory mechanisms has also been informed by four additional factors. First, the emergence of a large number of global brands has made many global firms increasingly vulnerable to public challenges to their reputations. These firms are highly risk averse: they do not want to be regarded as less responsible then their competitors. Second, many NGOs have become more willing to work with firms, groups of firms and industry associations, or in other words, to seek to change business behaviors though developing cooperative rather than adversarial relationships. Third, many firms now also regard it as in their interest to cooperate with NGOs. Such cooperation promises a number of benefits, including helping firms anticipate, avoid and more effectively respond to changing public expectations from multiple stakeholders. Fourth, many western governments have decided that it is their political and economic interest to attempt to improve corporate conduct overseas by voluntary measures rather than through legally binding regulations. A number of governments, including those of the United States, Great Britain, Austria, and Germany, have played important roles in promoting the development of voluntary corporate standards.

By contrast, consumer and investor pressures, whose role and impact is often applauded by CSR advocates, have played a modest role in prompting substantive changes in business conduct. However many global firms

have come to understand that a bad public social reputation can make it harder for them to attract, retain and motivate employees and this represents an important incentive for many companies. Some firms have gained a competitive advantage from CSR, but they generally operate in niche markets. On the whole, firms engage in global CSR not so much to develop a reputation for being 'responsible' but to avoid developing a reputation for being 'irresponsible.

A critical question has to with the impact of voluntary codes and business commitments to global CSR. To what extent and on what dimensions have they improved business practices in developing countries. This is a difficult question to answer as the social and environmental impact of business is so complex and multi-dimensional. In some areas, such as labor conditions, they have been noticeable improvements, while on other dimensions, such as corruption, progress has been slower.

To generalize, the impact of voluntary standards on corporate conduct has been affected by three broad factors. The first is public reputation; firms that have highly visible consumer brands are more likely to change their behaviors than those which sell generic goods or who only market for other firms. The second has to do with economics. More profitable firms are likely to behave more responsibly than less profitable ones, and firms are more likely to change their conduct if they can do so at minimal cost and without incurring a competitive disadvantage. The third, and most critical, has to do with the relationship between pressures from western activists on global firms, and the interests and preferences of governments and civil society in those developing countries where the western firm is engaged in business. The more congruent are the local economic, social and political environment and institutions with global pressures for CSR, the more likely it is that western pressures will have a discernable impact. In the final analysis, improving conditions in developing countries is the responsibility of their governments and citizens. Voluntary standards can supplement responsible and effective governments, but they cannot substitute for them.