7. Codes of conduct as a tool for sustainable governance in MNCs*

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INTRODUCTION

This chapter discusses and analyses an increasingly popular tool that companies use to meet the goal of corporate sustainability. Codes of conduct (CoC), codes of ethics and codes of practice, have become extremely popular over recent years and have been widely adopted across industries, countries and sectors (Leipziger 2003; Sethi 2003; Wood *et al* 2004). While initially codes have tended to focus on corporate governance issues (Aguilera and Cuervo-Cazurra 2004), this has increasingly shifted towards broader societal issues. In particular multinational corporations (MNCs) have adopted CoCs in the context of growing public concern about working conditions in their overseas operations and the responsible use of their economic power more generally (e.g. Emmelhainz and Adams 1999; Gordon and Miyake 2001; Kolk 2005; Kolk and van Tulder 2004; Kolk *et al* 1999; Pearson and Seyfang 2001).

Elsewhere in this volume the concept of sustainability has been discussed at length and we follow a similar path in this chapter by understanding sustainability as the simultaneous effort of balancing economic, social and environmental goals

* Published in: Benn, S.; Dunphy, D. (Eds.): *Corporate governance and sustainability – Challenges for theory and practice*, London (Routledge) 2006, forthcoming

for a corporation, often epitomized in the popular concept of the ‘triple bottom line’. As such, sustainability is another metaphor for describing corporate social responsibility, corporate citizenship or ethical business conduct and for the purpose of this chapter we will use sustainability as a synonym for these concepts.

The chapter begins by describing the context in which codes exist and the importance of self-regulation (codes more specifically) in governing corporate attitudes and behaviours, particularly when operating in a transboundary environment. Codes are then defined, described and characterized to ensure a thorough understanding of what codes are and how they can be used by organizations. Lastly, the chapter discusses the issue of codes, sustainability and governance, and where and how codes can be used most effectively to further societal objectives.

CODES OF CONDUCT AS REFLEXIVE REGULATION

CoCs are an approach of voluntary corporate self-regulation. As such they represent a clear contrast to governmental, mandatory regulation. To better understand the function, role and constraints of CoC for sustainable corporate governance, it is helpful to discuss the antecedents and characteristics of the social, political and economic factors that have encouraged this trend towards more self regulation of industry. We would like to highlight three crucial developments.

First, the *institutional failure* of governmental institutions in most developed economies to maintain a consistently high level of regulation in the last quarter century or so. Some have argued there is a more fundamental failure of modern democracy in regulating societies towards sustainability(e.g. Beck 1994, 1996, 1997a; Giddens 1990). They suggest that while a highly regulated welfare state was a key element of the 'modernization' process of western society over the last two centuries, we have entered a phase where governments are increasingly faced with the - mostly unintended – 'consequences of modernity' (Giddens 1990). While these governmental institutions have been able to implement the logic of wealth distribution, they are intrinsically unable to serve as institutions which 'manage' the side effects of industrial modernity. As Beck argues, societies as a result are governed by a form of 'organized irresponsibility' which leaves in particular the ecological, economic and social risks of modern societies unaddressed. Consequently, at the heart of the new epoch of 'reflexive modernity' we witness the emergence of a political arena below the institutions of traditional political actors. In this sphere of 'subpolitics' (Beck 1997b) these 'consequences of modernity' are tackled by a plethora of actors, including civil society groups and – most notably – corporations which, due to resource and power differentials in relation to other civil society actors, take a dominant role in this process – a role which in many cases replaces or at least eclipses those of governments (Moon 2002). CoCs play a crucial element in this process, and as we will discuss later in this chapter, this often results from collaboration between multi stakeholders from civil society.

A second reason for governmental retreat from direct regulation is of a more *political* and *ideological nature* (White 2003: 8-15). Partly informed by institutional failure of the classic welfare state but also as a phenomenon in its own right, there has been a significant shift in political thinking and practice since the 1980s in most liberal democracies. The more extreme view, on the right of the political spectrum, is highly suspicious of the idea of a government responsible for so many aspects of its citizens' life. At the core of this libertarian model is the key importance of private property, a free market economy and a limited state. Consequently, beginning with the Reagan and Thatcher governments, we witnessed a reduction of state involvement which leaves significant areas of former governmental functions delegated to private actors or simply abandoned.

The new centre-left governments in Europe in the late 1990s, most notably in the UK, have followed a similar approach. In principle, the state is still responsible for guaranteeing basic citizenship rights but in practice it ensures access to the goods and services for its citizens by enabling their provision by private actors. The 'enabling state' (Deakin and Walsh 1996; Gilbert and Gilbert 1989) involves corporations increasingly delivering goods and services which in the initial liberal model were clearly a responsibility of governments. However the more corporations deliver telecommunications, public transport or health services, the higher are the public demands that the companies involved adhere to certain standards and be accountable to the public about the quality and price of their services. CoCs are a tool enabling corporations to address these issues.

The third contributing factor to this shift in regulatory approaches is the increased internationalization of economic, social and political processes, often referred to as ‘*globalization*’ (Turner 2000). The central characteristic of globalization is the progressive *deterritorialization* of social, political, and economic interaction (Scholte 2000), whereby a growing number of social activities are now taking place beyond the power and influence of the nation state. This development is closely linked to the rise of new libertarian political thinking which in particular encouraged liberalization of world trade, reduction of regulation for foreign direct investment and increased economic freedom for corporate actors. Theoretically the governments of nation states still have full sovereignty in their own territories. However crucial changes effected by globalization place limitations on the exercise of that sovereignty because: (a) nation states are exposed to economic, social, and political action beyond their own control; and (b) actors within their own territories encounter less constraints on relocating activities into territories beyond the control of their original government. While the first aspects put governments under pressure to provide more freedom to economic actors in order to secure employment and attract investment, the latter exposes government to the constant threat by corporations to exit if the government imposes unacceptable levels of regulation, taxation and control, sometimes referred to as the ‘race to the bottom’. Thus globalization provides an incentive to governments to refrain from the often costly and controversial regulation of sustainability related issues, such as environmental issues or protection of workers' rights. At the same time, corporations are increasingly exposed to public scrutiny of and outrage at many of their (perceived) shortfalls in achieving sustainability. As a consequence, in the absence of governmental regulation some corporations increasingly resort to self-regulation.

Governments also encourage corporate self-regulation as a way to meet societal objectives with alternatives (primarily CoCs) that side step the limitations associated with more traditional forms of legislation and regulation discussed above (e.g. International Council on Human Rights Policy 2002; Lenox and Nash 2003; Ruhnka and Boerstler 1998). These self-regulatory strategies involve participation from non-legal bodies in the development, monitoring and enforcement of desired social objectives (Wotruba 1997; Carroll and McGregor-Lowndes 2001; Martin 2003; Ruhnka and Boerstler 1998) Self-regulatory initiatives offer a means to control corporate behaviour across borders as they are not tied to any particular political system or territory, and therefore can be applied in a variety of locations within corporations, industries or sectors, depending on the scope of the initiative and the will of the corporation in implementation.

In the context of decreased governmental influence on regulatory processes CoCs are part of a wider trend in regulation which has been discussed under the label of 'reflexive regulation'. Reflexive regulation can be defined as 'a legal theory and a practical approach to regulation that seeks to encourage self-reflective and self-critical processes within social institutions concerning the effects they have on the natural environment' (Orts 1995b: 780; see also Orts 1995a). Reflexive regulation contrasts to the conventional models in sustainability related regulation. Reflexive models of environmental politics are to be found in many forms and appearances (Gibson 1999; Ten Brink 2002). Common to all is the fact that the corporations are no longer only the object of environmental regulation, but are also becoming active participants in the regulatory process also referred to as "responsive" or "enforced" self-regulation (Ayres and Braithwaite 1992). On the transnational level, voluntary codes of conduct adopted by MNCs have become the most common form of reflexive regulation of the last decades (Kaptein 2004).

BASIC TYPES OF CODES OF CONDUCT

There is no standard definition of CoC. Virtually every piece of literature on codes has its own definition, although the definitions are largely similar. Whether written by the corporation, or by a multistakeholder alliance for a wide range of corporations, CoCs can be defined as a voluntary set of commitments that either influence corporate attitudes and behaviours or are undertaken by the corporation to define their intentions and/or actions with regard to ethical and other issues, or towards a range of stakeholders from a market-based perspective. (Kolk *et al* 1999; Kaptein and Wempe 2002; United States Council for International Business

2000; ILO n.d.a; ILO n.d.b; Forcese 1997; Alexander 1997; Dickerson and Hagan 1998; OECD 2001; Diller 1999)

As with definitions, there are a variety of ways to understand the types of codes. Some are typified by the organization that created the code, some by the kind of content found in the codes, some by the intended function of the code and some by the progression of codes over time. Table 7.1 summarizes different ways in which codes have been categorized.

INSERT TABLE 7.1 HERE

The literature on code types suggests two main debates: First, should codes be written by corporations, or should they be written by external bodies, and second, should code content be written as principles or rules as both have different implications for understanding and implementing the code from various stakeholder perspectives? The next section discusses the debate within the literature on these questions.

Corporate vs. Multistakeholder Codes

Company codes provide limited information on CSR and the kinds of initiatives expected of corporations operating in a global market due largely to the structure of the code document and the fact that guidance or clarification on code commitments are usually found within a separate document (Bondy 2003). They are typically written by a representative of the company or industry, with little or no input from outside groups and are often a vision of where the managing group or board of directors would like the company to be in the future. Therefore they do not reflect the way in which the corporation currently operates, nor do they typically meet the needs of other stakeholders affected by the corporation. Futhermore, company codes are also subject to the whims of senior management (Sodeman 1995).

The Clean Clothes Campaign (1998) lists four major drawbacks of company codes:

1. Vaguely defined – corporate codes do not specify precisely the limits of their responsibility;
2. Incomplete – many company codes exclude the right to organize, refer only to child labour or in other ways are not complete;
3. Not implemented – an important flaw in company codes of conduct is the lack of information on how these codes are being implemented or monitored;
4. Not independently monitored - controlled or internal monitoring assumes a willingness to take the company at its word only.

The two major benefits associated with company codes are the assumption that by virtue of creating the code, the corporation recognizes the importance of mitigating CSR issues at least superficially and that the code and resulting changes are driven from within and thus likely to be more successful where there is an intention to implement (WBCSD 2000).

Multistakeholder codes on the other hand are generally not aspirational, but determine the bare minimum of acceptable commitments to a wide variety of interested stakeholders. This results from a process of bargaining, negotiating and compromise between diverse groups coming from government, business coalitions, NGOs, and academia for example, where the aim is to meet as many of the needs as possible through generating consensus. According to Dickerson and Hagen (1998), these codes are actually superior as they produce a minimum normative consensus that can be applied universally. Both Dickerson and Hagen (1998) and Kolk van Tulder and Welters (1999) would agree that multistakeholder codes are better at articulating, guiding and assessing corporations on the business-society interface than are individually created or company codes. Resulting from the consensus process, Jeffcott and Yanz (2000) suggest that multistakeholder codes are seen to be more effective in dealing with issues related to the developing world and to supply chain management.

The resulting multistakeholder code can provide consistency and standardization of wider stakeholder expectations for companies participating in the codes and the stakeholders affected by the corporations. Also, it is argued that multistakeholder codes provide SMEs with an opportunity to participate in the use of codes without having to undertake development costs, particularly those associated with stakeholder engagement (Blowfield 2000).

Multistakeholder codes also require more transparency and accountability from member corporations, as audit reports from company codes are usually provided only to management (Blowfield 2000) where assessments on implementation of multistakeholder codes are generally required by the organization who created the code and are therefore available publicly. Also, when corporations commit to these externally created codes, they create a more visible accountability relationship with key internal and external stakeholders.

What makes this argument so interesting is that although the literature suggests corporations should be using multistakeholder codes, the vast majority used by corporations are those created internally (OECD 1999; Bondy *et al* 2004). This issue will be discussed in more detail below.

Principles vs. Rules Based Codes

Principles-based codes are typically a short list of statements that can cover a wider variety of issues because the commitments are not targeted at specific behaviours or actions and are meant to guide behaviour in a variety of contexts.

Thus, they are more flexible and relevant over longer periods of time. By nature of their structure, they require individuals to think before acting to ensure their behaviour is in line with the code. However, this flexible structure invites a variety of possible interpretations for each statement, and makes them notoriously difficult to measure and thus report.

Rules-based codes can be a large list of more specific behavioural commitments, although this is not always the case. The rules tell individuals what they can and cannot do based on commitments made in the code. This provides a clear indication of expected behaviour surrounding particular issues, and provides external parties with a clear indication of the commitments and actions to be taken by the organization. Rules-based codes can also be much easier to measure. The major problem with rules-based codes is that they cannot cover every situation that arises and thus will not be an effective guide in areas not covered by the code, and must be constantly updated to address omissions and the changing situations faced by corporations.

The most effective CSR code of conduct is one that combines both principles and rules. The code would include an introductory section describing the author's perspective on CSR, codes of conduct, the appropriate role for corporations in society, and instructions on how to use the code. The introduction would indicate priorities and anticipated timelines for implementation of different phases (if a company code) etc., confirm that the code is not intended to act as a list of do's and don’ts, but that it provides specific commitments to attitudes and behaviour which may be more or less appropriate depending on the specific organizational context. The remaining text of the code would comprise each individual principle, with definitions of key terms (particularly those with vague or multiple meanings), how the term has been operationalized for action (or the rules for implementation), and the indicators to measure and report on progress.

The different types of codes and classification systems found in the literature help to highlight four important elements in understanding codes of conduct. The four elements: code author, content, function within the corporation and “genre”, indicate the importance of these code characteristics in the literature and thus in analysing and understanding codes. In other words, by using these characteristics to classify the types of codes available, the authors have emphasized the overall importance of the four elements in understanding codes. These typologies provide a somewhat specific understanding of some of the important characteristics of codes.

CODE CHARACTERISTICS

After having identified the nature and key types of codes we will now discuss in more detail the various characteristics of CoCs. Wotruba (1997) provides a succinct summary of the literature on the major dimensions upon which codes can be characterized. He lists five separate continuums under which all codes can be characterized to varying degrees.

1. Specific vs. General – this dimension describes to what degree the commitments found in codes are focused on specific behaviours or general statements. Operational codes fall on the specific side as they indicate expectations for specific kinds of behaviour. By contrast, model codes are on the general side as they typically suggest more sweeping comments on preferred philosophies and appropriate corporate intentions towards particular issues or groups.
2. Comprehensive vs. Selective – this dimension focuses on the breadth of topics covered by the code. Individual corporate codes are usually more selective as they include only issues appropriate to the unique operating conditions of the corporation. Multistakeholder codes usually attempt to be more comprehensive and cover a wider range of issues to be applicable to more organizations or industries.
3. Positive vs. Negative – this dimension describes the tone of the code. Some codes are written as aspirational statements about intentions for behaviour in the future and therefore are more positive in nature (such as many internally written codes and/ or principles-based codes) (Aaronson and Reeves 2002; Lad 1991). Other codes are written as a set of rules that indicate unacceptable behaviours (rules-based codes), indicating what members 'shall not do' and thus are negative in nature.

4. Voluntary vs. Mandatory – this dimension indicates the degree to which corporations undertake codes voluntarily. Although defined as a voluntary tool based on market issues, some codes are effectively mandatory for certain corporations in particular contexts. For instance, in the UK corporations must comply with the Combined Code if they want to be listed on the London Stock Exchange. Chemical industry associations require their members to comply with Responsible Care as part of their membership with the association, ensuring social and environmental impacts of the industry are prevented or mitigated. In these contexts, corporations are essentially forced to comply with the codes, making them mandatory.
5. Equilegal vs. Supralegal – this dimension describes the degree to which commitments listed in the codes are mere reflections of already existing legislation and standards (equilegal) or have moved beyond the minimum requirements of the legal environment (supralegal).

Each of the four code typologies differentiate between codes on content and structure, although in some cases this is done implicitly such as with the author typology. Therefore, these typologies would appear differently on Wotruba's (1997) five continuums of code characteristics. For instance, the code type 'model' from within the author typology would tend towards the general, selective and positive sides of the first three continuums. By definition, these codes would certainly be voluntary (fourth continuum) and might fit anywhere on fifth continuum depending on the focus of the individual code. A regulatory code from the content typology however is likely to be on the specific, selective, negative ends of the first three spectrums, varied where it sits on the fourth continuum and likely to be on the equi-legal side of the fifth continuum. Thus, code type indicates a likelihood towards the appearance of certain content and structure.

The location of the respective codes on these five continuums can also indicate the likelihood of code effectiveness if implemented efficiently, and the credibility of the code according to external parties. As credibility depends on effective monitoring, enforcement and transparency (ILO n.d.a) codes written in such a way as to lend simplicity to these processes will be viewed as more effective. They will therefore generate more credibility for the corporation and its CSR initiatives and create a stronger accountability relationship with key stakeholders.

EVALUATING CODES OF CONDUCT AS A TOOL FOR SUSTAINABLE CORPORATE GOVERNANCE

There is ongoing debate about whether codes of conduct are effective corporate governance tools which move organizations towards increased sustainability and conformity to societal expectations. Discussions of code effectiveness inevitably evaluate their structural and functional benefits and limitations particularly to determine if codes are in fact capable of helping facilitate changes in the impacts of corporations on society. A variety of perspectives influence this debate.

Industries, businesses, NGOs and governments each have their own reasons for supporting or being concerned with codes, and may push for changes to make codes more effective for their own needs. The following discussion is summarized in Table 7.2 below and a more complete list of benefits and limitations can be found in Appendix A.

INSERT TABLE 7.2 HERE

Benefits of Codes

Primarily, codes are flexible documents that can be tailored to individual corporations, industries, countries, international contexts, issues or groups (Aaronson and Reeves 2002). Therefore, corporations can identify those commitments applicable to their operational considerations, stakeholder base and governmental requirements (as is the case in the US) (Ruhnka and Boerstler 1998). This flexibility allows for creative and innovative solutions to complex social and environmental problems, and also allows for rapid changes to commitments required to keep pace with the changing needs of the marketplace, corporation and/ or stakeholders (Australian Government 1997; WBCSD 2000)

Codes are less costly to create, implement, administer, monitor and enforce than legislation or legal regulation. The reduced costs of regulation achieved through codes are in essence transferred from governments to corporations, as all costs of internal codes are born by the corporation. The same is true of corporations that implement multistakeholder codes. However, as the corporation only commits to activities applicable to its operations, the costs are less for them in the long-term as they only deal with appropriate issues and not those mandated for all corporations by legislation. Not only do codes reduce the cost of regulation with regards to development and implementation, they also reduce costs to the legal system as stakeholders use avenues other than the courts to seek remedies from the corporation. Code disputes must be addressed through non-legal or market routes such as trade associations or consumer groups, (Gibson 2000; Wotruba 1997; Carroll and McGregor-Lowndes 2001) as they are not enforceable in law except as part of a contract.

If codes based on certain issues are used by a large enough percentage of corporations, the codes can mitigate the need for additional government legislation. This is particularly true when the codes proactively cover issues of potential concern to stakeholders, which in turn can help corporations avoid external pressure such as negative media attention and consumer boycotts that in some cases can be the impetus for government legislation (Gibson 2000; Wotruba 1997).

Industry or multistakeholder codes can ensure a level playing field where all corporations within a set of criteria undertake the same costs of implementation and administration of the code, therefore, maintaining fair competition between the corporations. These external codes can also create a transparent benchmark from which to build trust with stakeholders and create confidence in the industry (Martin 2003; Gibson 2000).

Codes are also very important in regulating corporations across borders. Governments and corporations recognize the importance of codes in being able to create some consistency in cross-border operations and transactions resulting from the lack of effective international institutions in creating structure in the international context (Martin 2003; Carroll and McGregor-Lowndes 2001).

Codes can actually provide economic benefits to corporations through increased customer loyalty and reputation, and can enhance trust in corporations that make steps to effectively implement the code (Sethi 2002; Wotruba 1997). Creating and effectively implementing a code can create a competitive advantage for the corporation and/ or help to create a niche market with stakeholders who judge corporations by not only what they produce but also how they produce it. The competitive advantage created by codes can also restrict new entrants to the market because of the costs associated with competing on CSR issues as well as product and price issues (Gibson 2000; Wotruba 1997).

Development and implementation of effective and credible codes requires the creation of partnerships with other organizations, or disclosure to other organizations not solely focused on profit motives. Thus, codes allow other organizations to influence the philosophies or decisions corporations make regarding their social and environmental impacts and/ or leverage their behaviour (Jenkins 2002; Sethi 2002; World Resources Institute 2003; Martin 2003).

By virtue of making public commitments to social and environmental issues, corporations make themselves more visible and vulnerable to external pressure and negative attention should they fail to achieve their social and environmental objectives (Gibson 2000; Jenkins 2002). This visibility that results from code adoption also helps creates an accountability relationship with key stakeholders because it identifies responsibilities and commitments and suggests intended actions. This in turn gives stakeholders some power to ask questions surrounding implementation and performance, and to demand rectification of identified problems. In essence, committing to a code provides a subtle power shift away from corporations to interested stakeholders by allowing them a voice and the opportunity to directly affect corporate decision making.

Codes can also create a benchmark from which corporations can be measured, audited and held publicly accountable and can encourage corporations to place the same expectations on their suppliers, thereby inducing more corporations to be socially and environmentally responsible (World Resources Institute 2003; Jenkins 2002). Thus codes, whether multistakeholder or company code, can act as a set of criteria in enabling the measurement of corporations and other organizations in relation to their non-economic issues and commitments.

Limitations of Codes

The two most common critiques of codes are the lack of accountability mechanisms such as monitoring provisions and sanctions, and the inability or unwillingness of corporations to effectively implement code commitments. Many areas for concern with codes deal with the way in which they are written. Many codes are written as vague and/ or broad philosophical concepts with little to no information on specific actions to be taken or plans for implementation, and the meaning of commitments can vary depending on the perspective and intent of the reader. The impact of codes with more general commitments are difficult to measure and it can therefore be hard to determine if the corporation is in fact living up to them. Often codes deal with specific issues that result from negative media attention, such as Nike and child labour, or are specific to a certain group of issues such as labour or the environment, without the inclusion of other pertinent issues from different areas. For instance, many organizations such as the ILO, Ethical Trading Initiative etc. have developed codes dealing only or primarily with labour issues. These codes lack the same attention to other issues such as human rights, environment, community issues etc. and thus only deal with one area of corporate impact.

Codes with vague or broad commitments also create problems because they are open to a wide variety of interpretations which in turn create unforeseen expectations from stakeholders who understand the commitment differently from the corporation. This problem is enhanced because corporations have limited resources and must choose appropriate initiatives which are within their means to implement. This means that not all issues mentioned by stakeholders can be dealt with by corporations regardless of their sincerity to act.

Since codes are intended to fill regulatory voids, the concern over implementation and enforcement is a serious one. If corporations effectively implement codes and work on continual improvement of their social and environmental objectives, codes become increasingly difficult to implement. The easiest and most obvious areas for improvement are usually the first to be accomplished. Although these early successes help to encourage buy-in from corporations and their employees, once the easiest tasks are completed, it becomes increasingly difficult to continue the same level of progress in achieving new social and environmental objectives. This is the problem of "low-hanging fruit" – once it is gone, the amount of resources required to continue "picking fruit" may outweigh the benefits to the corporation and its stakeholders.

Another critique is that individual corporations who adopt codes are usually already leaders in the industry or innovative with regards to CSR issues and it usually the same corporations who are members of multiple voluntary initiatives. Multistakeholder codes suffer from low membership and are typically used as model codes, not adopted as written.

Codes are also found to be over represented in industries with highly visible consumer products, brands or corporate images (such as apparel or other consumer goods industries) or large environmental or social impacts (such as extractive or pharmaceutical industries) and under-represented in industries with low consumer visibility, business-to-business sales or where the cost of production is high in proportion to the price of the product. In practice, codes are often found to have few provisions requiring social and environmental responsibility of suppliers, and focus primarily on issues that are either of large importance in the media, or have the ability to heavily impact the corporation in some way.

There is also a concern that corporations do not make their employees or other stakeholders aware of codes they have committed to, nor are they translated into languages that employees in other countries can understand. In other cases, the codes are critiqued for not having complaints procedures or secure channels for employees to indicate non-compliance within the corporation without fear of retaliation (Sethi 2002; World Resources Institute 2003; Martin 2003; Jenkins 2002; Carroll and McGregor-Lowndes 2001; Wotruba 1997; Diller 1999; Gibson 2000).

Often, this debate includes the use of different code types to illustrate benefits and limitations identified by the author. For instance, business coalitions tend to favour model or corporate codes because of the flexibility (structural) and transboundary (functional) nature of these code types. Many NGOs on the other hand favour intergovernmental or operational codes as they often prescribe right and wrong action (functional) and create minimum thresholds based on stakeholder consensus (structural).

In essence, the literature suggests that codes have the potential to be a powerful tool for self-regulation of corporations but only where the intent to implement co-exists with adoption. Codes can fill a global regulatory and governance gap that can be unique to specific corporate contexts or stakeholder viewpoints, where corporate intentions are formalized, creating greater transparency and accountability with respect to its business-society interface. However, the code must be developed with at least minimal consideration of affected stakeholders, methods for measuring corporate performance with it, and how it will be implemented for it to be an effective and credible tool amongst stakeholders.

ENCOURAGING SUSTAINABILITY BY COCS?

Clearly, the literature indicates that codes are quite varied in type, content, structure and use. But how does this translate into MNC practices? This final section will discuss motivations for corporations using codes, the relationship between codes and broader sustainability goals and finally look at whether codes are an effective tool for encouraging sustainability within corporations.

It turns out that MNCs, regardless of their home culture, may in fact articulate a small set of similar motivations for code adoption. Although the motivations articulated are generally in keeping with the four main groups assumed in the literature (stakeholder regulation, stakeholder communication, competitive advantage and mitigation of risks and/ or threats), these motivations appear to be similar in different cultures. Figure 7.1 is based on our study of the top 50 MNCs in Canada, the UK and German and illustrates the most common motivations presented by corporations across these cultures (Bondy et al. 2004).

INSERT FIGURE 7.1 HERE

Based on this research, when MNCs provide a motivation for adopting a code that is not mandatory[i], they list guides for behaviour, protection and/or enhancement of corporate reputation, consistency across a global framework, compliance of key stakeholders, communication of commitments, creating and/or maintaining trust, formalization of commitments and legal compliance most commonly. Thus, motivations for MNCs using codes to engage in CSR seem to be converging on a global scale around areas related to strategic business interests, communication and compliance.

Interestingly, there does not appear to be a relationship between the type of code used by the corporation and their reason for adopting it. In some cases there was a synergy between the type of code and the motivation (such an industry code and adopting it to gain membership with the industry and to protect its reputation), while in other cases the type of code and the motivation for adopting it were disconnected (such as a company code and adopting it to create or maintain trust of key stakeholders). The code type, and the benefits and limitations associated with these did not appear to have any kind of systematic impact on the motivations presented for adopting codes, regardless of the type adopted.

Evidence from this study suggests that in fact codes are not primarily a tool of sustainability related goals. To foster those, companies tend to resort more to other tools such as reports, policies, dedicated websites etc. Going back to the definition of sustainability provided at the start, this study suggests that codes on aggregate, do not in fact significantly further social and environmental imperatives for business success nor do they deal in any meaningful way with the social and environmental externalities of business activities. However, some of the codes in our sample are excellent examples of both furthering sustainability imperatives and including some externalities of business functions, but this is not true in the aggregate. Thus, codes are more often tools for governing organizational imperatives rather than governing the corporation towards increased sustainability.

CONCLUSION: CAN CODES ENCOURAGE CORPORATIONS TO ACT SUSTAINABLY?

Arguably, codes are not a panacea for solving problems in the business-society interface and corporations, governments and the public need to better understand the nature, potential, restrictions and appropriate contexts of codes. They are certainly not, and cannot be, a catch-all solution to regulating corporations and the business-society interface. Codes provide one way of helping corporations understand the complexities of sustainability, and act as a guide for awareness and implementation of these issues. Inside a corporation, codes need to be a part of a much larger system of cultural commitments, values, accountability, actions and continual improvement etc. They need to be embedded within the corporation's attitudes and actions, while enhancing its strategic direction.

Codes though may have a particular potential in the areas of risk identification and management. Codes written by external parties can help the corporation to identify additional areas of potential risk on non-economic issues. They may help to identify potential threats to brand image or reputation, physical environmental liabilities, or processes, facilities, products or services with potential for environmental and social liabilities. Due to the flexibility of codes, as new risks are identified based on changes within the global market place, they can easily be modified and enhanced to respond with commitments to reducing negative and enhancing positive impacts, thus becoming part of a risk management strategy. In this way, codes can also be a powerful tool for risk management and an impetus for corporate scanning of potential future issues.

Codes themselves cannot change a corporation's behaviour. The success or failure of a code is dependent on the corporation's desire, ability and available resources to implement code commitments. Therefore, a good code, with clear language, strong commitments and a base philosophy similar to the one of the adopting corporation is much more likely to produce effective initiatives, but cannot determine how successfully a corporation will engage in CSR. In the literature on CoCs, there are few, unequivocal recommendations with regard to implementation. Exceptions include Newton (1992), who stressed the importance of maximising the *participation* of organization members in the development stage in order to encourage commitment and 'buy-in' to the principles and rules of the code. Webley (2001) further contends that in order for codes to have credibility, companies must be willing to *discipline* employees found in breach of them. Similarly, Treviño et al.'s (1999) survey revealed that *follow-through* (such as detection of violations, follow-up on notification of violations, and consistency between the policy and action) tended to be much more influential on employee behaviour than the mere presence of a code, regardless of how familiar employees might be with it. These are sensible suggestions and findings. However, clear research findings relating to the effect of codes and their implementation on employee decision-making and behaviour are still relatively limited (Cassell *et al* 1997).

These considerations about the key role of code implementation are linked to a more fundamental debate about the relation between bureaucratic control – of which CoCs are an important mechanism – and the ethical behaviour of individuals (Crane and Matten 2004: 132-137). This issue is critical in determining the potential of CoCs to foster sustainable corporate behaviour. Bureaucracy has been argued to have a number of effects on ethical decision-making (Weber 1947; Jackall 1988; Bauman 1989; 1993; ten Bos 1997; Kornberger et al. 2004). In particular, sceptics argue that individual morality tends to be subjugated to the functionally-specific rules and roles of the bureaucratic organization. Thus, effective bureaucracy essentially 'frees' the individual from moral reflection and decision-making since s/he needs only to follow the prescribed rules and procedures laid down to achieve organizational goals. This can cause employees to act as 'moral robots', simply following the rules rather than thinking about why they are there, or questioning their purpose. This particular criticism has been reiterated in some recent studies on CoCs (Kornberger *et al* 2004; Schwartz 2000). Clearly, CoCs will only function if the broader culture of the organization is oriented towards sustainability and a code thus is just one supporting tool to foster this goal (Sims and Brinkmann 2003).

Most importantly, codes, if developed appropriately, can provide a set of criteria for use by corporations and their auditors to measure performance on social, environmental and economic related initiatives and actions. Codes can thus become a powerful tool useful to all key stakeholders in strengthening the business-society relationship and rebalancing power between groups within society. This process will take time, as corporations and key stakeholders determine what the critical terminology means and how codes are to be operationalized, implemented, administered and measured.

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Appendix A

Advantages and Limitations of Voluntary Initiatives and Codes of Conduct

Structural
Advantages
• Code is applicable across boundaries and government jurisdictions
• Better suited to rapidly changing or complex contexts than regulations
• Allow for flexibility and creativity in designing solutions, helps to create best practice
• Emphasis on prevention
Limitations
• Limited implementation or process information
• Limited scope of content
• Content not appropriate in certain industries or contexts
• Lack of monitoring, auditing or verification commitments
• Lack of information disclosure, reporting or feedback mechanisms
• Vague, ill-defined responsibilities towards suppliers, business partners, contractors and subcontractors
• Content focussed on issues highly damaging to reputation
• Drafted with little or no help from variety of stakeholders
• Commitments weak or vague
• Cannot set or enforce limits specific to individual facilities

• Cannot deal with negligent or poor performers (free-riders)
Individual Corporations
Advantages
• Influence corporate behaviour
• Acceptance by firms of responsibility for activities
• Acceptance by firms of responsibility for supplier/ business partner, contractor and subcontractor activities
• Protect or enhance reputation
• Not required to sign other agreements
• Establishes management commitment
• Competitive advantage/ race to the top
• Long term cultural changes in business management
• Implemented wisely, can achieve change without forcing early retirement of capital stock and resultant loss in economy and jobs
• Encourage awareness of new or more efficient technologies
Limitations
• May have negative, unintended effects
• Costs of development, implementation, auditing and/or certification
• Cannot be applied where no business self-interest
• Finite resources
Societal

Advantages
• Corporations accountable externally for code provisions
• Emphasizes business not separate from remainder of society
• Creates stakeholder confidence in corporation
• Improved dialogue and trust between industry and other two sectors
• Promotes partnerships and shared ownership
• Can provide useful product information to consumers, reducing information asymmetries
• Helps reduce compliance and enforcement costs
Limitations
• Limited adoption to date
• Adopted only by industry leaders
• Adopted due to external pressures, not for ethical or business reasons
• Concentrated in consumer goods sector
• Concentrated in firms that export or have overseas operations
• Codes seen as panacea
• Too many codes in existence
• Confusion over which codes are credible
• Suppliers faced with variety of different codes from different corporations

• Codes may undermine the position of trade unions
• Fear codes may replace regulations and government control over corporations
• Risk of creating trade barriers

Table 7.1 Summary of Code Types

Code Types	Example of criteria used	Real world example of codes
Author Organization (e.g. Jenkins, 2002; World Resources Institute, 2003; Wotruba, 1997)	• Company	• Nike Code of Conduct
	• Industry association	• Responsible Care (chemical industry)
	• Model (acts as an example – created by variety or organizations)	• International Code of Ethics for Canadian Business
	• Inter-governmental	• OECD Guidelines for Multinational Enterprises
	• Multistakeholder (negotiated between numerous stakeholders)	• CERES Principles
Content (e.g. Langlois and	• Regulatory	• Vodafone Code of Ethics
	• Philosophical	• Global Compact (quasi-code)

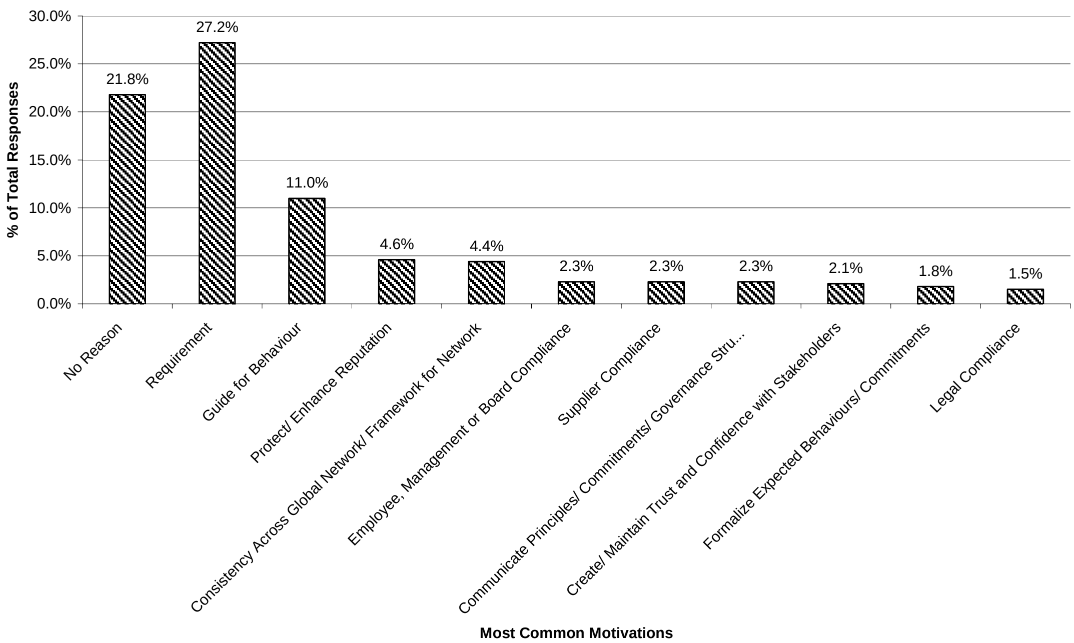
Schlegelmilch, 1990; ILO, n.d.a.; Rezaee *et al* 2001)	• Social responsibilities	• Social Venture Network Standards of Corporate Responsibility
	• Management philosophy	• Nike Code of Conduct
	• High road (aspirational)/ Low road (rules of behaviour)	• Global Sullivan Principles/ Glaxosmithkline Code of Conduct
Code Function (e.g. Kolk *et al* 1999; ILO, n.d.c.; Diller, 1999)	• Guide or restrict corporate behaviour • Influence other actors/ carry out self-regulation • Operational or subscription • Model (acts as an example)	• Virtually all codes • Ethical Trade Initiative Base Code • Social Venture Network Standards of Corporate Responsibility • International Code of Ethics for Canadian Business
Progress Over Time/ Historical Progression (e.g. Mendes and Clark, 1996)	• First generation • Second generation • Third generation • Fourth generation • Fifth generation	• Bell Canada Enterprises • WPP Code of Business Conduct • Royal Bank of Canada Code of Conduct • Responsible Care • CAUX Round Table Principles for Business

Table 7.2 Summary of Code Benefits and Limitations

Benefits	Limitations
• Flexible, can be uniquely tailored • Relatively inexpensive • Provide space for innovation and creative problem solving of targeted issues • Create potential for competitive advantage • Mitigate need for governmental regulation or intervention • Level playing field of competitors within same industry • Create order and structure in transboundary environment • Enhance trust, customer loyalty and reputation • Allow stakeholder influence in governance decisions • Create pressure to follow through on commitments	• Lack accountability mechanisms (monitoring, sanctions) • Cannot enforce proper implementation • Often written as broad philosophical statements therefore hard to measure • Adopters already leaders in industry and with CSR issues • Over-represented in industries with high visibility, customer products, focus on brand image or reputation and large environmental or social impacts, and under-represented in industries with low visibility, primarily business to business sales or where production costs are a large part of final sale price • Lack expectations for suppliers

through formalization and publication of commitments • Create benchmark for measurement and identification of progress	• Unknown to majority of employees • Do not include complaints process or whistleblower protection

Figure 7.1: Most Common Motivations Articulated for Adopting Codes



[i] Mandatory codes refer to those codes corporations must comply with to become members of certain bodies or groups. For instance, to be listed on the London Stock Exchange, companies are expected to comply with the Combined Code which deals specifically with corporate governance issues. Other examples of codes deemed mandatory in this study include the German Code of Corporate Governance and Responsible Care.