Canada’s Corporate Social Responsibility (CSR) Policy:
Insights from Recent CSR Research and a Comparative Industry Study

By José Carlos Marques

Research to Practice Policy Briefs
PB-2012-09 | jc.marques@mail.mcgill.ca
Canada’s CSR Policy: Insights from Recent Research

Contents

List of Acronyms................................................................. 1
Executive Summary ............................................................ 2
Policy Brief ........................................................................ 3
Introduction and Objectives.................................................. 4
Background ........................................................................ 5
  “Hard” vs “soft” regulation – two decades of debate on CSR.................. 5
  CSR debates in the Canadian context ....................................... 6
Corporate Social Responsibility: Theory ...................................... 10
  Why private regulation?.......................................................... 10
  How can CSR codes be harmonized across an entire industry? ............... 11
Corporate Social Responsibility: Evidence ..................................... 13
  CSR – An effective form of regulation? ..................................... 13
  CSR – An effective business strategy? ..................................... 15
  New directions in CSR research ............................................. 16
Insights from a Comparative Case Study of Two Industries’ Efforts to Harmonize CSR Codes ............ 17
  Preliminary research conclusion ............................................. 21
Conclusion and Preliminary Policy Implications .................................. 23
  Policy implications in the Canadian context .............................. 24
Appendix A – Annotated bibliography ............................................ 26
Appendix B – Abbott & Snidal’s “Governance Triangle” ....................... 29
Appendix C – Methodological approach and research design .................. 31
References ........................................................................... 33
List of Acronyms

CIDA: Canadian International Development Agency (Government of Canada)
CIM: Canadian Institute of Mining, Metallurgy and Petroleum
CFP: corporate financial performance
CSP: corporate social performance
CSR: corporate social responsibility
DFAIT: Department of Foreign Affairs and International Trade (Government of Canada)
EICC: Electronic Industry Citizenship Coalition
EITI: Extractive Industries Transparency Initiative
ETI: Ethical Trading Initiative
EU: European Union
FLA: Fair Labour Association
FWF: Fair Wear Foundation
FSC: Forest Stewardship Council
GeSI: Global e-Sustainability Initiative
ICT: information and communication technology
IFC: International Finance Corporation
IO: international organisation
ISEAL: International Social and Environmental Accreditation and Labelling
MAC: Mining Association of Canada
MNE: multinational enterprise (MNE).
MSC: Marine Stewardship Council
MSI: multi-stakeholder initiative
NGOs: non-governmental organisations
NSMD: non-state market-driven
OECD: Organisation for Economic Cooperation and Development
PDAC: Prospectors and Developers Association of Canada
RA: Rainforest Alliance
SCFAIT: Standing Committee on Foreign Affairs and International Trade
WRAP: Worldwide Responsible Accredited Production
Global industries are increasingly governed by private governance initiatives such as CSR codes and multi-stakeholder initiatives (MSIs), generally understood to be a form of “soft” regulation. Recent years have witnessed the promotion and accelerated proliferation of this form of regulation. The ensuing fragmentation, divergence and competition between different initiatives has generated considerable concern from multinational enterprises (MNEs) and governments alike, with some suggesting that this approach has resulted in a complex and problematic form of governance of global industries that has failed to achieve intended effects.

The rich body of literature and empirical evidence from various industries available for synthesis and analysis provide valuable insight to policymakers grappling with whether or how to support and promote the development of effective CSR codes. Most importantly, academic research indicates that there is no evidence that the contemporary, decentralized form of CSR is either an effective form of regulation or a viable business strategy for increasing profits and managing risk. Moreover, the conventional theoretical argument for how codes of conduct are developed and harmonized across entire industries seems inadequate when confronted with empirical evidence. Recent thinking in the field suggests the need to consider institutional factors in addition to market and risk-based explanations for how firms deal with social and environmental issues and how CSR codes can be harmonized across entire industries.

Based on the above, this brief addresses the feasibility of industry-wide private regulation in the Canadian mining industry. It does so by: 1) Synthesizing the most recent literature evaluating CSR and MSIs; 2) Assessing preliminary findings from a comparative study of the information and communication technology (ICT) and apparel industries; 3) Applying the insights generated from each of these to the Canadian CSR policy context.

Preliminary findings suggest the following: 1) Canada’s current CSR policy framework is likely to reinforce the status quo rather than produce an industry-wide solution as it does not address one of the main problems (industry-wide reputational risks posed by irresponsible companies); 2) Efforts toward the development of industry-wide CSR codes need to more carefully consider the operational/competitive context. Self-regulation may be less feasible in highly fragmented industries characterized by a dearth of collaborative institutions; 3) Fragmented industries require a stronger government presence. Private and public governance should not be viewed in a dichotomous manner but as self-reinforcing; 4) MSIs at an industry-wide level (involving trade associations and NGO coalitions) may be preferable to more decentralized initiatives. These need to strike a careful balance between MSIs’ more inclusive, democratic processes and trade associations’ exclusionary membership base.
Policy Brief

a) **Policy addressed**: Canada’s current Corporate Social Responsibility (CSR) policy strongly emphasizes CSR and multi-stakeholder initiatives (MSIs) as socio-political risk management tools. It also recognizes the need for further policy development resulting from research analysis aimed at understanding the international CSR context.

b) **Significance of the issue**: Global industries are increasingly governed by private governance initiatives referred to as MSIs. Recent years have witnessed the promotion and accelerated proliferation of various CSR codes based on MSIs. The resulting fragmentation, divergence and competition between different initiatives has generated significant concern, with some suggesting that this governance approach has resulted in a complex and problematic form of governance of global industries that has failed to achieve intended effects. The existing body of scholarship on the topic and a comparative perspective of various industries provides considerable insight on the matter.

c) **Canada’s interest in the issue**: Like many other industries, the Canadian mining industry faces important social and environmental challenges that must be addressed if it is to continue to flourish. Canada’s current CSR policy is intended to “improve the competitive advantage of Canadian international extractive sector companies by enhancing their ability to manage social and environmental risks” (DFAIT, 2009).

d) **Policy Recommendations**:
   - Canada’s current CSR policy framework is likely to reinforce the status quo rather than produce an industry-wide solution as it inadequately addresses one of the main problems (industry-wide risks posed by irresponsible companies);
   - Efforts towards the development of industry-wide CSR codes need to more carefully consider the operational/competitive context. Self-regulation may be less feasible in highly fragmented industries characterized by a dearth of already existing collaborative institutions;
   - Fragmented industries and less-institutionalized industries may require a stronger government presence. Private and public governance should not be viewed in a dichotomous manner but as self-reinforcing;
   - MSIs at an industry-wide level (involving trade associations and NGO coalitions) may be preferable to more segmented initiatives. These need to strike a careful balance between MSIs’ more inclusive, democratic processes and trade associations’ exclusionary membership base.
Introduction and Objectives

Due to its dominant position in the global extractives sector, the government of Canada’s current corporate social responsibility (CSR) policy is oriented towards the mining industry. Defining CSR as “the voluntary activities undertaken by a company to operate in an economically, socially and environmentally sustainable manner” (DFAIT, 2009; p.1), the policy’s focus is on helping firms develop the capacity to operate in a responsible manner in challenging socio-political environments. The chosen approach emphasizes capacity building in the foreign/host countries, voluntary firm-level CSR initiatives and adoption of various international standards including the Equator Principles, Voluntary Principles on Security and Human Rights, and the Global Reporting Initiative. As outlined in section two of this brief, there is palpable dissatisfaction and concern from all stakeholders with the current policy – a lack of progress, a repolarisation of positions by the different stakeholders, and a fragmentation of initiatives are amongst the main concerns.

The Canadian debate on CSR was initially triggered by mounting evidence of irresponsible behaviour on the part of a small number of Canadian mining companies operating internationally. From an economic standpoint, the predominant concern was safeguarding the reputation of the Canadian mining industry from the irresponsible practices of a narrow group of companies. The main legislative proposal for dealing with this issue, Bill C-300, was heavily contested by the mining industry based on the argument that its adoption would put Canadian mining companies at a competitive disadvantage versus competitors from other countries. Canada’s current policy follows a similar to the conventional approach to CSR (see Figure 1 below), which this brief will argue is problematic and unlikely to address the industry-wide concern over reputational risk. Rather, the current CSR policy is likely to reinforce the status quo - the firms most likely to improve their operations as a result of the current policy are likely those that had the best practices to begin with, while the worst offenders are likely to continue free-riding and posing a risk to the entire industry. CIDA’s (2011) recent partnership announcement provides an illustration of how the status quo is being reinforced. It is focused on partnering with a small number of companies and NGOs and capacity building in an equally small number of countries, in some cases funding an expansion/extension of existing projects. While such efforts are clearly valuable, how such an approach will address broader industry-wide reputational risk concerns remains unclear.

This policy brief addresses these concerns. More specifically, it explicitly addresses the question of what would be required for the mining industry to operate in a responsible manner on an industry-wide scale. The objective of this brief is to provide a new vantage point, based on a large body of research analysis and new empirical evidence from other industries, from which to view the CSR debate in Canada. The policy suggestions provided are intended to contribute to DFAIT’s recognition of further policy development driven by research projects on the international CSR context (DFAIT, 2009; p.2).
This brief is organized as follows. Section 1 provides a brief overview of the academic debates in favour and against new forms of governance and regulation such as CSR, as well as the debate on CSR in the Canadian context. In a second section, the main arguments put forward for the need for private regulatory initiatives and the theoretical rational for how such initiatives can be scaled up to entire industries are reviewed. A third section provides a broad overview of the literature on CSR’s effectiveness as a form of regulation and as a business strategy, highlighting recent conclusions and new research directions. The fourth section outlines preliminary results of a comparative research study currently underway. The fifth and final section draws conclusions for both future research and for the Canadian policy context.

Background

“Hard” vs “soft” regulation – two decades of debate on CSR

Whereas for most of the past century, labour unions, citizens and employees would call on the nation-state for redress, today, non-state actors are increasingly active rule-makers and enforcers (McNichol 2008). The regulation of global production chains that span the developed and developing world represent a new challenge that firms, non-governmental organisations (NGOs), international organisations, and business associations have responded to with the development of a plethora of global norms, corporate social responsibility (CSR) codes, standards, guidelines, and certification schemes. These rules, which lie outside what is conventionally understood as applicable law, have come to be known as “soft” or “collaborative” regulation (Djelic & Sahlin-Andersson, 2008; Haufler, 2001).

The debate on new forms of governance and regulation has been characterized by a dichotomy between those who argue state regulation (hard) is the only legitimate form of rule-making and those who view the increasing necessity for new, soft forms of regulation (Utting & Marques, 2009). Proponents of hard regulation criticize voluntary regulatory approaches for being merely “greenwash” \(^1\), aimed at diverting public attention, countering threats of regulation and legitimizing what is essentially a “business-as-usual” approach (Christian Aid, 2004; Doane, 2005; Greer & Bruno, 1996). This perspective emphasizes the structural conditions of contemporary capitalism that pose fundamental obstacles to voluntaristic approaches (Cutler, 2008; Marques & Utting, 2010; Newell, 2005; Newell & Frynas, 2007).

Proponents of soft regulation assert the need for new collaborative forms of governance in an era when many states appear unable to govern and regulate in the new global era and where global trade is increasingly characterized by human and labour rights concerns, environmental issues, and potential political pitfalls, including corruption. They argue that social pressures from civil society can trigger

---

\(^1\) Disinformation provided for reputational enhancement purposes.
industry-wide learning processes via networked dialogue and cross-sector collaboration (Steven Bernstein & Cashore, 2007; Scherer & Paltz, 2011; Zadek, 2006, 2008). Various multi-stakeholder institutions based on these principles have sprung up in the last decade to fill the regulatory void.

**CSR debates in the Canadian context**

In Canada, the debate on CSR has focused on the mining/extractives industry, the country’s largest industrial sector. Mining is one of the few sectors in which Canada plays a global leadership role, with a strong external investment presence and the world’s leading mining financing centre (Natural Resources Canada, 2011). Recent years have witnessed a particularly heated public debate on the accountability of the overseas activities of firms in the extractives sector (see Table 1 below for a timeline of events). Long-standing concerns over human rights abuses, corruption and environmental issues involving Canadian companies were brought to public awareness in a Parliamentary report and debated in a series of roundtable sessions. Overseen by a multi-stakeholder Advisory Group from industry, the investment community, civil society and academia, the roundtable sessions led to a report comprising a number of recommendations.

**Table 1: Timeline of events - public debate regarding CSR and the extractives industry**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>38th Parliament’s Standing Committee on Foreign Affairs and International Trade (“SCFAIT”) issued its report, <em>Mining in Developing Countries - Corporate Social Responsibility</em> (based on the third report from the Subcommittee on Human Rights and International Development of the Standing Committee on Foreign Affairs and International Trade), calling on the federal government to “put in place a process involving relevant industry associations, non-governmental organisations and experts, which will lead to the strengthening of existing programmes and policies in this area, and, where necessary, to the establishment of new ones.” (SCFAIT, 2005).</td>
</tr>
<tr>
<td>2006</td>
<td>Responding to the Parliamentary report, the government held four National Roundtables on Corporate Social Responsibility and the Canadian Extractive Sector in Developing Countries between June and November 2006. Locations included Vancouver, Calgary, Toronto and Montreal. These cross-sector dialogues were overseen by a multi-stakeholder Advisory Group (representatives from industry, the investment community, civil society and academia).</td>
</tr>
<tr>
<td>2007</td>
<td>On March 29, 2007, the Advisory Group issued a report synthesizing the results of the Roundtables as well as incorporate the input from 104 written submissions received on the topic (Advisory Group, 2007).</td>
</tr>
<tr>
<td>2009</td>
<td>On February 9, 2009 Bill C-300, <em>An Act respecting Corporate Accountability for the Activities of Mining, Oil or Gas in Developing Countries</em>, a private member’s bill, is introduced by Liberal MP John MacKay (House of Commons, 2009).</td>
</tr>
</tbody>
</table>
The debate came to a head in 2009 as a result of two specific developments. In February of that year, Bill C-300 was tabled by John McKay, Liberal Member of Parliament (An Act respecting Corporate Accountability for the Activities of Mining, Oil or Gas in Developing Countries). The proposed legislation sought to regulate the relationship between Canadian government agencies (Export Development Canada, the Department of Foreign Affairs and International Trade, and the Canadian Pension Plan) and Canadian extractive companies operating in developing countries. The objective was to curtail abusive practices by a narrow group of Canadian companies that tarnished the reputation of the Canadian mining industry as a whole (Drohan, 2010). This was to be achieved by providing the government the power to investigate overseas operations and guideline compliance based on a complaints mechanism operated by the Ministry of Foreign Affairs and International Trade. Leading mining corporations, industry groups and the EDC strongly opposed the Bill, arguing that it would put Canadian mining firms at a competitive disadvantage vis-à-vis competitors from other countries (McArdle, 2009).

In March 2009, the Canadian government issued a response to the Advisory Group’s 2007 report in the form of a CSR policy (Building the Canadian Advantage: A CSR Strategy for the International Extractive Sector; see Table 2 below for details) (DFAIT, 2009). The policy emphasized the development and implementation of risk management best practices via shared resources and collective learning (DFAIT 2009):

- “Many companies are looking to the Canadian government for guidance and support in managing the risks of operating in complex and challenging environments.” (p1)
- “As noted by many industry representatives, corporate social responsibility makes good business sense since it enables companies to better manage the social and environmental risks of their operations.” (p6).
- “While the primary responsibility for CSR rests with companies, information, education programs and tools are needed to enhance the capability of Canadian companies to address CSR in their operations. In response to this identified need, the government will support the development of a CSR Centre of Excellence. The Centre will serve as a forum through which sector stakeholders can provide timely access to high-quality CSR tools and information for clients in industry and government, at home and abroad.” (p6).
Table 2: Government of Canada’s four-pronged CSR policy:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Support initiatives to enhance the capacities of developing countries to manage the development of minerals and oil and gas, and to benefit from these resources to reduce poverty.</td>
</tr>
</tbody>
</table>
| ii. | Promote, primarily through the Department of Foreign Affairs and International Trade and Natural Resources Canada, the following widely-recognized international CSR performance guidelines with Canadian extractive companies operating abroad:  
  - International Finance Corporation Performance Standards on Social & Environmental Sustainability for extractive projects with potential adverse social or environmental impacts;  
  - Voluntary Principles on Security and Human Rights for projects involving private or public security forces; and,  
  - Global Reporting Initiative for CSR reporting by the extractive sector to enhance transparency and encourage market-based rewards for good CSR performance.  
  
  Canada has applied to join the Voluntary Principles on Security and Human Rights as a Participating Country. |
| iii. | Set up the Office of the Extractive Sector CSR Counsellor to assist stakeholders in the resolution of CSR issues pertaining to the activities of Canadian extractive sector companies abroad. |
| iv. | Support the development of a CSR Centre of Excellence within an existing institution outside of government to encourage the Canadian international extractive sector to implement these voluntary performance guidelines by developing and disseminating high-quality CSR information, training and tools. |

On October 27, 2010, Bill C-300 was defeated by a vote of 140 to 134 on the third and final reading in the House of Commons.

Since that time, CIDA has played an increasingly prominent role, participating in the CSR Centre of Excellence, creating a CSR strategy focal point, managing the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development Secretariat on behalf of the Government of Canada, and hosting a series of cross-sectoral roundtables (CIDA, 2011). Most notably, on September 29, 2011, CIDA announced its funding of three pilot projects involving three different trilateral partnerships. As part of CIDA’s Sustainable Economic Growth Strategy and intended to support Canada’s CSR strategy, each of these projects aims to assist developing countries in building their capacity to manage their resources in a sustainable and equitable manner (CIDA, 2011).

The Canadian government’s policy and approach has been criticized by all parties - civil society, academia and the mining sector companies. The announced CIDA projects have proven controversial, further stimulating an already heated debate (Coumans, 2012; Nutt, 2012; Oxhorn, 2012; Sagebien & Lindsay, 2011). The most frequently heard complaint concerns the lack of progress and retrenchment following the 2007 roundtable discussions, a direct result, many claim, of the Canadian government’s failure to assume a leadership role. Accordingly, there have been calls for greater government
involvement and stronger guidance, with some pointing to the endorsement by the UN Human Rights Council of the "Protect, Respect and Remedy" policy framework\(^2\) as a renewed opportunity for Canada to assume a leadership position with regards to CSR and human rights issues in the global mining industry (Drohan, 2010).

A recent report commissioned by the Mining Association of Canada’s (MAC) International Social Responsibility Committee surveyed various representatives from government, industry, civil society and academia (On Common Ground Consultants, 2012). The report captures the general sense of unease, disappointment and frustration with the current state of affairs. Three specific issues stand out:

1. **Lack of progress leading to renewed polarization:** “Because of the delays in developing the government’s CSR strategy, as well as the retrenchment of stakeholders into polarized positions over Bill C-300, the forward momentum of the Roundtables has been lost.” (p.11)

2. **Fragmented initiatives:** “[G]overnment, industry, civil society and academic institutions all have undertaken new actions and initiatives since the Roundtables; however, there have been challenges in communicating these actions and a lack of unifying forces to make them add up to something greater than the sum of their parts. Future multi-stakeholder dialogue should address these ‘missing links’ and strive to make the important efforts of many actors more convergent and coherent ” (p.11)

3. **Foregone opportunity for Canada to display leadership:** “Now, leadership and momentum on CSR issues is often happening at the international level and not in Canada.” (p.11)

The report also suggests the important role to be played by the report’s sponsor, the Mining Association of Canada (MAC), possibly signalling the intention of trade associations such as MAC to play a stronger leadership role.

- “The Mining Association of Canada has an important role in advancing future multistakeholder dialogue on issues related to CSR and the extractive industry; and, the current research and report can be used as a tool to communicate a willingness to discuss and address the issues related to the Roundtables recommendations on the basis of fact and with an understanding of current priorities and emerging issues.” (p.12)

---

\(^2\) The *Protect, Respect and Remedy* policy framework is a proposal for managing business and human rights issues. Authored by Professor John Ruggie, the UN Secretary General’s Special Representative on business & human rights and endorsed by the UN Human Rights Council, the framework is the result of an extensive global consultation process with business, NGOs, governments, local communities, academics, legal practitioners and numerous other groups. It is based on three complementary and interdependent pillars: the state duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect human rights; and the need for greater access by victims to effective remediation. The framework has been endorsed by both international business groups such as the International Chamber of Commerce and international NGOs such as Amnesty International. See [http://www.business-humanrights.org/SpecialRepPortal/Home](http://www.business-humanrights.org/SpecialRepPortal/Home) for more details.
Corporate Social Responsibility: Theory

Why private regulation?

Regardless of the debate for or against soft regulation, dramatic changes have taken place in the regulatory sphere during the past few decades. Why have private regulatory approaches become so widespread? Various literatures suggest that private regulatory schemes are required for four main (interrelated) reasons:

1) The decentralization and global scale of production (Gereffi, Humphrey, & Sturgeon, 2005) that contrast sharply with the local nature of communities, traditional labour movements, and redistributive mechanisms.

2) The “rolling back of the state” that occurred during the neoliberal period which encouraged the notion of minimal regulation, the restriction of “policy space” and the promotion of self-regulatory markets (Stiglitz, 2003; Utting, 2005);

3) The current lack of regulatory capacity demonstrated by states in developing countries to ensure firm compliance with existing legislation and regulation (O'Rourke 2003);

4) The lack of political will and the inevitably protracted timeframe required to reach agreement on a global regulatory code; the impossibility of monitoring the thousands of TNCs and their supply chains on a global scale – i.e.: “enforcement gap” (Ruggie, 2003).

As a result, some scholars assert that national control over social adjustment processes, epitomized by the socio-political pacts of the last century, have become untenable, and that one of the most promising paths to re-regulating and mitigating the negative consequences of global markets are soft regulatory approaches, such as voluntary corporate social responsibility (CSR) initiatives, involving business and civil society (Ruggie, 2003).

CSR at the individual firm level has generally been met with high levels of scepticism by civil society as the short-comings of individual company codes quickly became apparent (Utting, 2002)\(^3\). While stand-alone corporate efforts were frequently labelled as illegitimate “greenwashing” by NGOs, many companies saw the benefits of engaging in collective efforts (McNichol 2008; Seidman 2007). In numerous industries, this has resulted in a shift in focus to more encompassing initiatives - “collaborative governance” and “scaling up” have become part of the mainstream thinking and discourse (Davis, 2005; SustainAbility & The Global Compact, 2004; Utting, 2002; Zadek, 2006). The predominant organizational vehicle for organizing such collaborative efforts has become the multi-stakeholder initiative (MSI) which will be discussed below.

\(^3\) Although there have been some documented cases of successful MNE-NGO partnerships (Perez-Aleman & Sandilands, 2008).
How can CSR codes be harmonized across an entire industry?

In order for CSR to function as an effective form of self-regulation, it must be diffused across the relevant population of firms. How is CSR hypothesized to “scale up” to entire industries? According to Zadek (2006), companies progress from a “defensive” posture, where they deny the problem, to various higher order stages: “compliance” where CSR initiatives are perceived as a cost; “managerial”, where such issues are integrated into management processes; “strategic”, where potential there is a synergy between the issues and the business; “civil”, where leading companies persuade other firms to move through the same stages by partaking in MSIs (Zadek, 2006). Similarly, a non-state, market-driven theory (NSMD) as suggested by Bernstein and Cashore (2007), affirms that certification systems progress through various, increasingly encompassing stages of development: initiation, building support and political legitimacy.

Although there are slight variations in reasoning, the argument for how CSR can become an effective form of soft regulation can be conceptually understood as following a three stage process (see Figure 1 below): 1) an increase in social risk inherent in firms operating transnationally, particularly in developing countries; 2) the creation of forums and institutions that facilitate stakeholder dialogue and norm development and best practice development; 3) the resultant market pressures upon laggard firms to adopt best practices. Each of these is further explained below.

1) Social Pressures/Risk from NGOs: First, the notion of increased social risk is the basis upon which arguments for a business case for social responsibility rest. As corporations have grown ever larger and extended their operations overseas, their exposure to a broader set of stakeholders (foreign governments, civil society, local communities, etc.) and issues (environmental, political, and social) have
increased. These risks need to be managed and mitigated as they threaten the reputation/legitimacy or the operations of corporations (Baron, 2006; Baron & Diermeier, 2007). As such, an effective CSR response on the part of corporations is argued to be an essential part of risk management program (Davis, 2005; Economist, 2008; Kytle & Ruggie, 2005). Such an argument is reinforced by the long-standing claim that corporations “do well by doing good”, meaning that socially responsible corporations will reap financial rewards as a result of their socially-beneficial behaviour (Carroll & Shabana, 2010). NGOs have figured prominently in the literature analyzing how firms become more socially engaged (de Bakker & den Hond, 2008; Doh & Guay, 2006; Spar & La Mure, 2003). Conroy, for example, asserts that companies’ strong emphasis on branding provides civil society with the means by which to exert leverage. Targeting companies where they are most vulnerable - their brands - is a strategy can be exploited and parleyed into the meaningful transformation of corporate behaviour (Bendell & Murphy, 2002; Conroy, 2007; Keck & Sikkink, 1998) as was done in the various sweatshop campaigns against GAP and Nike, environmental campaigns against Home Depot, and ongoing campaigns against Walmart (Bartley, 2003; Seidman, 2007)\(^4\).

2) **Dialogue and norm development facilitated by multi-stakeholder Initiatives (MSIs):** Continued social pressure from NGOs leads participants into dealing with highly complex and ambiguous challenges via networked forms of partnership and collaboration. MSIs are collaborative institutions, viewed as facilitators of collective action, generating and coordinating change by providing a forum for cross-sector dialogue, learning and negotiation (Kell & Levin, 2003b; McIntosh, Waddock, & Kell, 2004; Zadek, 2006). Norm development, standard setting and best practice development are the core activities of these initiatives\(^5\). Numerous MSIs have sprung up to fill the governance gaps referred to above. In comparison to bilateral company-NGO partnerships, many of these initiatives include numerous stakeholders from both industry and civil society that can be either industry-specific or pan-industry. Popular MSIs include the Fair Labour Association (FLA), which is focused on the garment and apparel sector but has recently conducted factory audits for Apple in the electronics sector. Some MSIs, such as the UK-based Ethical Trading Initiative (ETI), were devised from the start to be pan-industry. There are dozens of MSI initiatives around the world. Most industries have at least one MSI initiative and some, such as the apparel industry, have numerous (see illustrative case below).

3) **Market and institutional pressures:** Once the resultant networks coalesce and develop new norms and business practices, pressures to adopt the new way of doing business is propagated throughout the

\(^4\) Investigating the mechanisms by which NGOs successfully acquire leverage over corporations, King (2008) points to their effectiveness in obtaining media attention for their campaign issues.

\(^5\) WWF, an NGO involved in setting up numerous MSIs defines them as: “voluntary, market-based approaches that employ multi-stakeholder consultation and negotiation to develop a set of principles, criteria, and indicators for more responsible production, sourcing, and manufacturing practices within or across a given sector or product. Many MSIs result in the development of a standard that includes product labelling as well as comprehensive verification, accreditation, and certification. However, MSIs do not always result in certification schemes; for example, they may be comprised of roundtables that develop standards and/or share best management practices (BMP).” (6)
relevant population of firms via a market logic. The new norms and practices are expected by customers/buyers and investors. Companies that have not adopted the new responsible practices will be at a competitive disadvantage and have trouble finding financing. Concrete benefits will materialize to the “leaders” that are early adopters of the new norms and practices, providing examples (demonstration effect) for “laggard” companies to emulate (S. Bernstein & B. Cashore, 2008; Carroll & Shabana, 2010; Ruggie, 2002; Zadek, 2007).

Corporate Social Responsibility: Evidence

CSR – An effective form of regulation?

The effectiveness of MSIs and private certification schemes has however been strongly contested. The diverse criticisms include: the restriction of practices to particular ad-hoc issues; weak compliance procedures and poor monitoring practices; exclusionary and technocratic MSIs; impact upon developing countries not being properly considered; duplication of the governmental monitoring systems with little added benefit; a lack of competencies and capacity required to deal with complex social issues; NGO cooption; the “crowding out” of unions, and workers getting punished for participating. However, two of the most frequently referred to weaknesses are: 1) inadequate transparency resulting in a dearth of available public data and 2) the fact that these schemes cover too few companies and only a small percentage of the market (Fransen & Kolk, 2007; McNichol, 2008; O’Rourke, 2003; Reed, Utting, & Mukherjee-Reed, 2012; WWF, 2010).

Though many of these initiatives are quite recent, some have been operating for a decade or longer, providing a sufficiently long track record for assessment purposes. For example, both the ETI and the FLA have been operating for over ten years and the Forest Stewardship Council (FSC) has been around since 1993. The few independent assessments that have been undertaken provide a much needed perspective concerning their effectiveness and the challenges they face in reaching their stated objectives. For example, two recent independent appraisals of the ETI code of conduct initiative provide a mixed review. While there have been some improvements for salaried employees in developing country suppliers, particularly in the areas of health and safety, contract employees (the majority of the workforce) have witnessed few improvements and labour rights remain unaddressed (Barrientos & Smith, 2006; Schaller, 2007). Findings also revealed the contradictory demands imposed by buyers that suppliers pointed out made compliance exceedingly difficult. On the one hand, they request certain codes of conduct concerning working hours and employment conditions, but on the other hand, they impose commercial terms and deadlines that render compliance with the codes of conduct difficult, cutting margins and shortening lead times (Barrientos & Smith, 2006; Schaller, 2007). Another study focusing on
Nike’s (firm-level) certification program, but applicable to MSI efforts, highlights the difficulties involved in improving labour practices, even when there is strong social pressure to do so and considerable resources are invested. The study conducted by Locke, Qin, and Brause concludes that strong countervailing pressures (from unions, states, NGOs or a mix of these) combined with “comprehensive, transparent monitoring systems and (a?) variety of management system interventions” is required (2006).

A concern with the literature on MSIs is that the model cases referred to by proponents are not unequivocal examples of successful initiatives. Evaluation criteria tend to be ambiguous. The FSC and the FLA, for example, are frequently referred to as successful cases of private certification (Bartley, 2007; Conroy, 2007). However, assessments of these programs cast doubt on whether they can be considered unqualified successes (Utting, 2002; WWF, 2010). Concerning the apparel industry, likely the industry with the most activity in CSR code development, Conroy writes: “even in 2007 there are no widely credible, enforceable labor standards and no widely applicable labor certification system in the footwear and apparel industries” (2005:12). Bartley also suggests that efforts have been less successful than hoped with regards to setting standards in the case of labor (2007). Such assessments cast doubt on one of the key mechanisms thought to provide leverage to civil society. If the corporate “brand” provides such significant leverage for certification programs, then why have such extensive efforts in apparel, one of the most “brand-conscious” industries, not been successful?

Whether these initiatives can be characterized as “private” is also open to discussion. McNichol (2008), for example, clearly points out the challenges and limitations of the FSC and highlights the important role played by governments in legitimating and supporting the initiatives. Conroy (2005), Bartley (2007) and Vogel (2005) all mention the role of government in getting some of the more successful certification initiatives off the ground. Vogel adds numerous other examples to the list of government involvement in private certification schemes, including the British government’s support for the Ethical Trading Initiative (ETI), and ten governments’ support of Publish What You Pay, promoting transparency in the extractive industry (2005:167). Two prominent examples include the United States’ Clinton administration’s support for the formation of the FLA and labour standards in general, as well as the Austrian government’s support of the FSC just as the program was taking shape. One can speak of an informal alliance between civil society and states, in which governments, unable to regulate due to supranational trade rules, institutional constraints, or for other possible reasons, provided the financial backing and political legitimacy for NGOs to expand their role beyond that of a pressure group and/or collaborator to become institutional entrepreneurs, instigating change and spearheading certification initiatives.

A recent Financial Times article suggests MSIs such as EITI, the Kimberley Process and Voluntary Principles on Security and Human Rights (all dealing with the mining industry) are not working as intended (Williamson, 2010). Like nearly any other collective initiative based on dialogue and consensus, the interest cleavages can easily result in disagreement and gridlock. Moreover, what may have
appeared as an innovative form of governance a decade ago is insufficient for the greater levels of turmoil and crisis being witnessed today. According to the article:

‘These initiatives are certainly at an interesting inflection point; there is a coming of age,’ admits Graham Baxter, acting chief executive of the International Business Leaders’ Forum, a business alliance. ‘Initially, there was a flush of enthusiasm that government, business and civil society leaders could really grab the ball and run with it, ahead of regulation,’ he says. Now the question is: ‘Is this approach really working?’ (Williamson, 2010)

**CSR – an effective business strategy?**

Likely one of the most researched topics in the management literature has concerned itself with establishing a “business case” for CSR. This firm level approach has attempted to quantify the relationship between a firm’s corporate social performance (CSP) and its corporate financial performance (CFP). The first empirical quantitative studies examining the CSP-CFP relationship appeared in the early 1970s. Since that time, over one hundred and seventy studies have been conducted on the topic – one hundred twenty seven of these between 1972 and 2002, and over forty during the following five years (Margolis, Elfenbein, & Walsh, 2007; Margolis & Walsh, 2003). Clear evidence of a relationship between CSP and CFP has proven elusive. A sizeable number of individual studies demonstrated either a negative, inconclusive or non-significant relationship, leading some researchers to call for the cessation of research on the CSP-CFP link, arguing that the nature of the relationship is likely too complex to be accurately measured and analyzed, conditioned by contingency factors, or non-existent (Margolis & Walsh, 2003; Peloza, 2009; Rowley & Berman, 2000).

Studies utilizing recent meta-analytical\(^6\) statistical methods capable of synthesizing the entire body of empirical studies on the subject have reinforced this view. Syntheses of the literature using this new methodology (Orlitzky, Schmidt, & Rynes, 2003) have provided some evidence of a weak and highly volatile CSP-CFP relationship. Building on such research, Margolis et al. (2007) suggest that: 1) CFP may in fact predict CSP rather than the other way around; and 2) the relatively small overall effect size implies that the rationale for engaging in CSP may in fact not be CFP. As such, this literature suggests the relationship is highly dependent on context.

The link between CSR and risk mitigation is also contradicted by empirical evidence. While some studies suggest that CSP lessens risk (Orlitzky & Benjamin, 2001), there is also some evidence suggesting that

---

\(^6\) Whereas previous integrative literature analyses used the “vote counting” technique, prone to subjective interpretation of the overall results of numerous individual studies, these new meta-analyses are based on statistically aggregated results that quantify and correct for sampling and measurement errors in the studies included (Dalton & Dalton, 2005; Hunter & Schmidt, 1990).
CSR may actually increase risk by raising expectations of firm's social performance (Luo, Meier, & Oberholzer-Gee, 2012). The latter supports Mintzberg's assertion: “[T]he stock market is willing to reward social responsibility only to a point. It pays to be good but not too good” (Mintzberg, 1983).

Taken as a whole, it has recently become clear that despite considerable scholarly attention, research results have proven inconclusive and theoretical conclusions ambiguous and somewhat contentious (Gond & Crane, 2010). This body of literature highlights the narrowness of current conceptualizations and the need for greater depth and nuance in understanding what leads companies to address socially beneficial behaviour. It underscores the fact that the frequently heard adage, “doing well by doing good”, used by proponents of CSR, is altogether too simplistic. While CSR may provide a means by which to consider the relationship between business activities and society, it seemingly provides an inadequate lens for understanding the empirical complexity and nuance created by the overlapping economic, social and political spheres operating on different levels. CSR must be understood as embedded in a broader social and political context (Blowfield & Murray, 2008; Newell, 2005; Utting, 2008; Vogel, 2005).

**New directions in CSR research**

The apparent impasses in the CSR literature has given added momentum to new directions in the field that establish the need to broaden the boundaries of analysis to encompass institutional, contextual and political explanations for why corporations might engage in socially beneficial activities (Brammer, Jackson, & Matten, 2012; Crouch & Maclean, 2011; Marques & Utting, 2010; Mayer & Gereffi, 2010; Scherer & Palazzo, 2011; van Oosterhout, 2010; Vogel, 2008). Campbell for example argues “that the relationship between basic economic conditions and corporate behavior is mediated by several institutional conditions” (2007b, p. 946). Important variables suggested include country context (Matten & Moon, 2008) and stakeholders that are rarely referred to in the CSP literature: governments, international organisations (IOs) and business associations (Aguilera, Rupp, Williams, & Ganapathi, 2007; Campbell, 2007a).

There is greater recognition of the need for a more nuanced, empirically and theoretically-grounded understanding of the contemporary role of corporations in governance and development, and the potential and limits of private regulatory approaches (Bartley, 2007; Levy, 2008). This more balanced approach recognizes that regulation in and of itself would not necessarily address certain key issues of concern to “the global justice movement” relating to unequal power relations and the nature of the economy (Newell 2008), but also that the self-regulating model of the market is also problematic. Although many now agree that some form of private regulation is desirable (Kell & Levin, 2003a; O'Rourke, 2003; Utting, 2005), the process by which this is achieved has not been sufficiently explored,
or has tended to disregard key conceptual, historical, empirical, political and institutional dimensions (Utting & Marques, 2009).

Overall, the most recent writing on the topic suggests that a number of shortcomings need to be addressed. The most important of these concerns the level of analysis at which these studies are conducted. First, the literature is predominantly based on empirical analysis at the firm level, often operating within one national context. This is problematic because, for the most part, globalization, offshoring and outsourcing have resulted in the predominance of organisational structures that are organized as global supply chains that cross multiple national boundaries and often involve numerous actors from different countries. Even the more recent emphasis on institutional and contextual factors remains anchored in a national context. Second, although tremendous importance is attributed to the need to “scale up” standards (i.e.: develop uniform standards across large populations of firms), there is little empirical research on the harmonization or coordination of CSR codes, particularly at the industry level. Third, the few studies that do concentrate on the scaling up of standards via MSIs have tended to focus on either the FSC or the FLA, leaving a host of other MSIs understudied. They also tend to eschew analysis at the industry level, often restricting the scope to the effects upon member firms.

The short empirical illustration below summarizes a research project that addresses these specific shortcomings.

**Insights from a Comparative Case Study of Two Industries’ Efforts to Harmonize CSR Codes**

As discussed above, strong NGO pressure campaigns, multi-stakeholder initiatives (MSIs) and market-based pressures have been promoted as the main mechanisms by which to develop industry-wide CSR codes. However, comparisons of CSR code setting initiatives at the industry level reveal various degrees of success as well as alternative approaches that involve very different, yet under-researched, forms of organisation for code setting activities. Illustrative of these differences are two of the most publicly visible consumer goods industries – apparel and information and communication technology (ICT).

There are some striking similarities in the ICT and apparel industry. Both have been targeted by NGOs for their abusive purchasing practices and exploitation of workers in developing countries and both are vital

---

7 This section provides initial results of a PhD thesis examining the process and role of different actors in the development of global, industry-wide codes of conduct. A preliminary study involving fifteen interviews with representatives from business associations, MSIs, global NGOs, consultants, and the UN has been recently completed (May 2012) and the data are being analyzed. Preliminary results have provided validation of both the viability and relevance of the study and the research design. Twenty-five in-depth interviews are currently being planned for late 2012 and early 2013. See Appendix C for details on the study’s research design.
to numerous developing country economies\(^8\) (O’Rourke, 2003; van Liemt, 2007). Both have been targeted by activist campaigns for their labour violations involving sweatshop conditions in overseas supplier factories. The media’s characterization of Apple’s human rights issues in their supply chain (Chan & Pun, 2010) provides a near carbon-copy replication of Nike’s supply chain issues in the 1990s (Bangeman, 2006; Frost & Burnett, 2007).

However, the divergent outcomes of attempts at developing industry-wide CSR codes are equally striking. The apparel industry, widely demonized by NGOs for decades, has developed numerous codes of conduct in order to deal with the issue – some developed as MSIs and some by business associations (see Figure 2 below). Despite some of the strongest social pressures applied to any industry and decades-long attempts at code development and concerted coordination efforts by MSIs, it remains one of the least successful cases of CSR standards harmonization, characterized by a highly fragmented proliferation of efforts in competition with one another (see Table 3 below). The numerous codes of conduct have resulted in a great deal of duplication of efforts, hampering progress in improving conditions in the supply chain.

*Table 3: Apparel Industry – Main players*

<table>
<thead>
<tr>
<th>Category</th>
<th>EU only</th>
<th>US / EU</th>
<th>US only</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSI (multi-stakeholder initiative) codes</td>
<td>FWF (Fair Wear Foundation, Amsterdam); ETI (Ethical Transparency Initiative, London)</td>
<td>SAI (Social Accountability International); SAC (Sustainable Apparel Coalition)</td>
<td>FLA (Fair Labor Association, Washington)</td>
</tr>
<tr>
<td>BA (business association) codes</td>
<td>BSCI (Business Social Compliance Initiative, Brussels); NICE (Nordic Initiative Clean and Ethical, Copenhagen)</td>
<td></td>
<td>WRAP (Worldwide Responsible Accredited Production, Washington)</td>
</tr>
<tr>
<td>NGO (non-government organisation) coalition</td>
<td>CCC (Clean Clothes Campaign, Amsterdam)</td>
<td>Sedex (Supplier Ethical Data Exchange); Global Social Compliance Programme (GSCP)</td>
<td></td>
</tr>
<tr>
<td>Supply chain information Clearinghouses (cross-industry)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IO (Inter-governmental Organisation)</td>
<td>ILO (International Labor Office, UN)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

\(^8\) In 2003, the global value of the IT industry’s exports surpassed those of the agriculture, textiles and garment industries combined - fifty-five percent of these exports were from developing countries (ILO, 2007).
A clear example of the fragmentation and competition characterizing the industry is a recent attempt at co-operation between various MSIs and code development organisations - the Joint-Initiative Project (JO-IN). Organisational participants included the Clean Clothes Campaign (CCC), Ethical Trading Initiative (ETI), Fair Labour Association (FLA), Fair Wear Foundation (FWF), Social Accountability International (SAI), and the Workers Rights Consortium (WRC). This joint attempt to decrease duplication and increase effectiveness by developing a common code of conduct ended after just two years due to disagreement and conflict (Fransen, 2011). Since the failure of JO-IN, a number of new initiatives have been started by apparel brands dissatisfied with the current state of affairs (see Figure 2 below for a timeline of events in the global apparel industry).

The ICT industry provides a sharp contrast to the fragmentation and lack of cooperation characterizing the apparel industry. Although the global ICT industry has been subjected to comparatively little social scrutiny in comparison to the apparel industry, it represents one of the more successful cases of CSR
standards harmonization of any industry. Rather than fragmentation and competition between code-setting initiatives, industry-wide coalitions have formed on both the business and civil society side (see Table 4 for a listing of the main players in the industry by geography).

In recent years, the ICT industry has been in a state of “institutional flux” - recent years have witnessed a series of advocacy campaigns against it followed by the creation of an international coalition of NGOs (GoodElectronics)\(^9\) formed to target industry practices. Two industry business associations, the Global e-Sustainability Initiative (GeSI)\(^{10}\) and the Electronic Industry Code of Conduct (EICC)\(^{11}\) have collaborated on the development of a common code of conduct on labor, health/safety, environment, and ethics performance (van Liemt 2007). While GeSI’s membership is predominantly in the telecommunications sector and EICC’s membership almost exclusively hardware manufacturers, numerous companies are members of both associations. The alliance between the two business associations is frequently referred to as highly successful - collaborating in numerous stakeholder alliances, and jointly organizing audit training for supply chain auditors (see Figure 3 below for a timeline of events in the global ICT industry). For example, they have joined the US State Department’s Public-Private Alliance for Responsible Minerals Trade (PPA), a joint initiative between industry, governmental agencies, and civil society intended to deal with to deal with mineral sourcing issues in the supply chain.

**Table 4: Electronics Industry – Main players**

<table>
<thead>
<tr>
<th></th>
<th>EU only</th>
<th>US / EU</th>
<th>US only</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSI (multi-stakeholder initiative)</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BA (business association)</td>
<td>GeSI (Global e-Sustainability Initiative, Brussels)</td>
<td></td>
<td>EICC (Electronic Industry Citizenship Coalition, Washington)</td>
</tr>
<tr>
<td>NGO (non-government organisation) coalition</td>
<td>GoodElectronics (Amsterdam)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Clearinghouses</td>
<td>UN-ITU (International Telecommunications Union); UNEP (UN Environment Programme)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This example of joint collaboration on an industry-wide scale and the successful scaling up a CSR code to an entire industry appears to be institutionally modelled on the industry’s technical standard setting [9 Described as “an international network on human rights and sustainable production in the electronics industry” (www.goodelectronics.org).](#)
[10 Initiated in 2001, GeSI is focused on aligning the responsible practices with the UN Millennium Development Goals (www.gesi.org).](#)
[11 Formed in 2004, the EICC has been adopted by major brands intending to harmonize codes of conduct (www.eicc.info).](#)
initiatives (e.g. the development of hardware and telecom standards). As such, it differs greatly from the MSI initiatives characteristic of the apparel industry. This provides an alternative model to the current conceptual NGO-MSI-MARKET model for scaling codes to an entire industry (see Figure 1 above). Rather than being a joint product resulting from deliberation and agreement between firms and NGOs, the CSR codes are developed by the business associations in consultation with a coalition of NGOs (i.e.: the GoodElectronics coalition). As a result, the governance structure for code development has, somewhat paradoxically, been described by some civil society groups as being "less legitimate" (because it does not involve NGOs in each aspect of code development and implementation as prescribed by the MSI model) and by business groups as being "more legitimate" (because it is more encompassing, involving a larger proportion of the total number of firms in the industry – therefore more representative of the industry and supply chain).

Figure 3 – Global ICT industry – high-level timeline of collective initiatives

Preliminary Research Conclusion

The research project referred to above has provided a wealth of data and significant insight into the process by which codes of conduct are developed and the factors that facilitate or impede their harmonization across global industries. Although the project is at an early stage and a number of findings require further validation, investigation and elaboration, some insights are emergent. One important finding suggests that the existence of collaborative industry practices and structures existing prior to code
of conduct development activities, significantly facilitate code harmonization – what might be referred to as an “institutional history”. More specifically, existing practices and institutions such as industry-organisational routines and processes (for example, ongoing technical standards setting and industry-level policy deliberations) provide the practical and ideational basis for the development of norm setting practices in the social standards realm as well. By its very nature, the ICT industry is characterized by numerous forms of inter-firm and inter-organisational collaboration. The most commonly referred to forms of inter-firm collaboration in this industry are the research and development (R&D) joint ventures intended to engender technological innovation. However, the industry is also characterized by extensive networks in the form of working groups, associations, and coalitions continuously working on the development of both software and hardware standards required for seamless interoperability (for example the USB standard used across the computer industry or the GSM standard used by nearly all telecom/cellular phone operators).

During the interviews conducted for the research study, participants in both industries spoke of the abundance or lack of existing standards-setting initiatives (i.e. Existing prior to the attempts at developing CSR standards) as a key determinant for whether or not code of conduct development initiatives are likely to be harmonized across the industry. The ICT’s extensive forums, groups and networks engaged in ongoing collaboration were referred to as a sort of “collaborative mindset” in the industry whereby pre-competitive collaborative activities are part of the institutional infrastructure. As such, this initial finding suggests that firms in industries where competition is characterized by the need to establish common industry infrastructure are more likely to successfully harmonize social codes of conduct across their industry. These industries are effectively emulating themselves by reusing and adapting existing institutional infrastructure, processes and practices.

When transferred to a new setting (in this case from a technical environment to a socio-political environment) such existing tight-knit networks may become exclusionary by their very nature. As these standard-setting initiatives are based on existing industry institutions, they will by their very nature tend to be perceived as less democratic and less legitimate by the new set of stakeholders. Whether the resultant code-setting governance structure is more effective in dealing with social and environmental issues than the conventionally prescribed NGO-MSI-MARKET governance model (i.e.: able to integrate more participatory processes while maintaining their ability to drive consensus on an industry-wide scale) remains unclear at this point in time. Such an assessment should be feasible as the research project progresses.
Conclusion and Preliminary Policy Implications

Global supply chains in nearly all industries are increasingly governed by private governance initiatives often referred to as MSIs. Recent years have witnessed the promotion and accelerated proliferation of various CSR codes based on these private governance structures. As a result, the debate over hard versus soft regulation has largely been overshadowed by consideration of how various forms of private regulation, particularly CSR/MSIs, may be rendered more effective.

Yet, our understanding of the key elements of private regulation remains unsatisfactory and some aspects remain significantly understudied. The existing body of research has produced inconclusive findings that suggest that these issues are complex socio-political phenomena that go beyond easily described relationships. There is no conclusive evidence that CSR is either an effective form of regulation or a viable business strategy. Overall, there has been a recent amount of concern over the proliferation and divergence of codes and competition between code-developing entities, resulting in a complex and problematic form of governance of global supply chains. Moreover, the conventional theoretical argument for how codes of conduct are developed and scaled to entire populations of firms seems inadequate.

Nevertheless, this rich body of literature and empirical evidence available to be studied and synthesized provides some important insights, not least of which to policymakers grappling with whether or how to support and promote the development of effective CSR codes. Recent thinking in the field suggests the need to consider context-specific institutional explanations for whether and how firms deal with social and environmental issues, and how CSR codes can be scaled up to entire industries or across multiple industries.

Via a comparative study of the ICT and apparel industries, this paper has focused on understanding what factors contribute to cases of code convergence. Preliminary implications suggest that efforts towards the development and harmonization of codes of conduct need to more carefully consider the operational context, particularly how existing inter-organisational networks and institutions may facilitate/constraint standards-setting and adoption. It suggests that industries that are more concentrated and characterized by existing collaborative institutions are more likely to overcome collective action problems such as the harmonization of CSR standards across the entire industry. The feasibility of self-regulation via code harmonization may be less feasible in diffuse industries with a large number of firms, and characterized by a lack of collaborative institutions. Yet, the development of CSR standards based on such governance structures, such as that in the ICT industry, may be considered by civil society to be less legitimate and democratic due to the reduced participation of NGOs. Whether these forms of governance are able to integrate more participatory processes while maintaining their ability to drive consensus remains an open question worthy of further research efforts.
Policy implications in the Canadian context

Based on the above review of the CSR and MSI literatures and the preliminary results from a comparative research study of CSR in two global industries, the following policy implications are suggested to be of relevance to the Canadian context. These are broken down by reader profile:

- **Government policymaker/analyst**: Recent events and new initiatives (On Common Ground Consultants, 2012) indicate that the CSR policy environment might be evolving towards a variation of the conventional NGO-MSI-MARKET model (see Figure 1 above).
  - This is likely to result in a reinforcement of the status quo rather than an industry-wide solution for two specific reasons: 1) Standards-setting activities are likely to become and remain fragmented and in competition with one another; as demonstrated by the apparel industry, fragmented and competitive initiatives are more likely to impede progress on an industry-wide scale. 2) The third element in the model (MKT) is missing in the mining industry (i.e. is not a consumer-facing market such as apparel and ICT) and therefore is not subjected to the same brand risk concerns. This will result in a limited number of companies improving their operations, while laggard companies continue to operate in an irresponsible manner. Rather than brand risk, the risk profile consists of firm-level operational risk and industry-level reputational risk – this suggests an orchestrated industry-wide response rather than a market diffusion approach.
  - The industrial/competitive context needs to be carefully considered and factored into the policy equation. Competitive dynamics and the historical pattern of collaborative activity in the industry (at both the national and international level) needs to be examined as it may signal what form of collective standard setting and CSR governance is most appropriate. In the case of a highly fragmented industry with few existing collaborative institutions, a stronger government presence may be required.
  - While the conventional NGO-MSI-MKT model fails to recognize the importance of government to an effective private regulatory scheme, the literature review above suggests otherwise. As highlighted by several articles in the annotated bibliography below, government involvement and leadership has frequently been a critical factor in successful large-scale private regulatory initiatives. Private and public governance should not be viewed in a dichotomous manner but as self-reinforcing.
• **Trade associations**: Recent stocktaking by one of the industry’s national trade associations (MAC) has suggested the need to re-establish an MSI dialogue and advocated a stronger role for trade associations (On Common Ground Consultants, 2012).
  
  o This recommendation seems warranted as both MSIs and business associations have an important role to play in scaling up and creating a level playing field at both the national and international levels - particularly by building consensus and engaging in advocacy that highlights the industry-wide risks posed by free-riding companies.
  
  o The tension and balance between business associations’ membership and code development activities, and MSIs’ more inclusive, democratic processes and governance structures needs to be carefully considered. While fragmentation and endless deliberation impede learning and agreement, the inclusion and active participation of all concerned stakeholders in the process is likely to result in a more legitimate and effective outcome. An integration of both approaches is required. How to achieve a balance between the two requires careful consideration.

• **NGOs**: Recent events have resulted in increased tensions and consternation within Canadian civil society. As frequently noted, a strong civil society is essential to desirable private and public governance efforts. Some organization implications that can be drawn from this brief include:
  
  o Capacity-building NGOs: CIDA’s recently announced NGO projects can be used as a clear learning mechanism from which to draw lessons for operationalizing CSR practices in the field. In order for such efforts to benefit the industry as a whole, clear channels need to be established to share expertise and inform MSI deliberations, policy and practice at an industry level.
  
  o Advocacy focused NGOs: Industry-wide coalitions appear to have proven successful in industries such as ICT. Effective industry-wide deliberation calls for well organized business groups and civil society sectors. Rather than targeting individual firms, advocacy efforts should remain targeted at the entire industry and at government policy.
Appendix A – Annotated bibliography


| main research question | • What conceptual tools can we use to understand the new kind of international regulatory system arising out of the failure of international "Old Governance" (treaties and intergovernmental organizations)?
• What do we learn from the application of these conceptual lenses? |

| key findings or conclusion | • The diversity of new regulatory institutions can be understood by means of a "Governance Triangle" that provides a depiction based on the governance roles played by different actors (see Appendix B).
• The domestic "New Governance" (NG) model of regulation can be adapted to the international level in order to develop a "Transnational New Governance" (TNG) model.
• TNG is particularly suitable for international regulation because it demands less of states and IGOs.
• However, TNG requires states and IGOs to act as orchestrators of the international regulatory system. At the moment there exists an orchestration deficit. Remediying this deficit would greatly strengthen private initiatives and help all parties achieve their regulatory goals. |

| representative quote | • "TNG [Transnational New Governance] has arisen spontaneously, in the vacuum left by the regulatory failures of international OG [Old Governance]. Often TNG is billed as a purely private affair, and private TNG has had some success on a modest scale. But its success has been limited by its extreme decentralization and the small scale of its constituent schemes, and more broadly by a pervasive orchestration deficit. The full potential of TNG can only be achieved by bringing the state back in to transnational regulation." |


| main research question | • Why did the same regulatory form emerge in two otherwise quite different fields in the 1990s? |

| key findings or conclusion | • Similar systems of private regulation based on certification have recently emerged to address environmental issues in the forest products industry and labor issues in the apparel industry.
• A historical and comparative case study approach reveals that these fields experienced roughly similar dynamics of controversy, conflict, and innovation, resulting from a particular type of social movement strategy and a neo-liberal institutional context. |

| representative quote | • Prediction: "While I have focused on explaining the apparel and forest products cases, the analysis has uncovered a story that is potentially generalizable to other settings, given several conditions. If social movement pressure exists and is directed at companies that place value on their brand reputations, and if commodity chains in the industry are heavily international in scope, then I would expect processes in these fields to look similar to the apparel and forest products fields. Specifically, I would expect social movement campaigns and industry responses to generate demand for some overarching system to evaluate company claims." (457) |
Cana’s CSR Policy: Insights from Recent Research


<table>
<thead>
<tr>
<th>main research question</th>
<th>How do multi-stakeholder standard-setting initiatives fare compared to other collaborative initiatives?</th>
</tr>
</thead>
<tbody>
<tr>
<td>key findings or conclusion</td>
<td>Standards developed by MSIs have emerged as the preferred method for global rule-setting for responsible business behaviour. The stated benefits include their potential for effective consensus-building, knowledge-sharing and interest representation. However, despite these advantages, analyses of MSI benefits and drawbacks are lacking.</td>
</tr>
<tr>
<td></td>
<td>This paper finds that while MSI standards are often more specific and well-elaborated than other types of standards, monitoring and evaluation aspects often exclude stakeholders, thus missing an important opportunity to be truly inclusive (this is particularly true with regards to stakeholders from developing countries).</td>
</tr>
<tr>
<td></td>
<td>Moreover, the concept of “multi-stakeholder” and “stakeholder participation” require greater specification – while some MSIs are truly inclusive, others merely include some consultation processes.</td>
</tr>
</tbody>
</table>

| representative quote | “it is not always clear that multi-stakeholder standards are truly multi-stakeholder in their operations. This also has to do with the fact that this type of standards relies on expectations about interaction between companies and stakeholders, which is as yet too little specific on what constitutes a ‘good’ or ‘appropriate’ stakeholder and what ‘good’ or ‘appropriate’ stakeholder involvement actually entails.” (678) |


<table>
<thead>
<tr>
<th>main research question</th>
<th>How should scholars of transnational regulation best assess the character and significance of third party certification and labelling programs in international commodity trade?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Do they represent novel forms of rule-making and enforcement, or are they simply extensions of existing modes and logics of oversight within states?</td>
</tr>
<tr>
<td></td>
<td>Do voluntary, market-based oversight initiatives threaten or weaken existing state-based forms of oversight, as some critics allege, or do they complement them?</td>
</tr>
</tbody>
</table>

| key findings or conclusion | “National” versus “global” influences on markets: The governance fields that serve to define and constitute the nature of relationships in those markets are located primarily within national borders. Even in the highly internationalized wood trade, existing markets are populated by actors located in national institutional environments, and most struggles over governance occur within national borders – even when they are organized as international efforts by multinational coalitions. |
| | Even in conflicts largely constituted by non-state actors, sovereign states accord legitimacy to NGOs and help enforce rules. When stakeholders disagree over the content or application of new non-state para-regulatory initiatives, they turn to public regulatory authorities as potential allies and arbiters. State agencies are often called in to codify, standardize, and legitimate standards and practices that define common rules for certification programs (Palmer 1996). |

| representative quote | “state engagement with ‘non-state’ institution-building is concretely evident in many forms, including: participation or mediation in stakeholder meetings; commissioning ‘white papers’ on the appropriateness or efficacy of an NGO effort; facilitating conflict resolution; and standardization of ‘national’ program requirements. In acknowledging the powerful ways in which state agencies are involved in non-state para-regulatory efforts, this study nonetheless also shows that non-state actors have asserted new forms of autonomy in the regulatory sphere. As the case study of the FSC [Forestry Stewardship Council] demonstrates, all action in governance fields is not state-mediated. The FSC and other NGO-controlled programs are typically...” |

### main research question
- What are the achievements/limitations of the private regulation of global corporate conduct?
- What would it take to make civil regulation a more effective form of global economic governance?

### key findings or conclusion
- The future effectiveness of global business regulation depends on the extent to which private and public authority, civil and government regulation, and soft and hard law, reinforce one another.
- While private regulation has resulted in some substantive improvements in corporate behavior, it cannot be regarded as a substitute for the more effective exercise of state authority at both the national and international levels.
- The business case for CSR is really not that important in the bigger scheme of things;
- Ultimately, private regulation must be integrated with and reinforced by more effective state-based and enforced regulatory policies at both the national and international levels.

### representative quote
- “Global business activity can only become more effectively governed if the inadequacies of both government regulation and civil regulation are recognized by both firms and governments. The future effectiveness of global business regulation depends on the extent to which private and public authority, civil and government regulation, and soft and hard law, reinforce one another.” (83)

---


### main research question
- Are MSIs measurably and permanently shifting markets towards improved economic, environmental and social outcomes?

### key findings or conclusion
- Assessing MSI effectiveness is hampered by the fact that: 1) many schemes are still at the development stage; 2) there is insufficient comparable and meaningful data available to draw definitive conclusions and relationships.
- Nevertheless, this review concludes (based on interview data), that given the right circumstances, MSIs can produce positive economic, environmental and social impacts.

### representative quote
- As one interviewee noted: “‘MSIs are an important tool in the toolbox but they are not a panacea.’ It is important to work with all relevant stakeholders to ensure that the necessary complementary mechanisms are in place to make MSIs work. Without proper governance by governments and multilateral agencies (e.g. to address land use and property rights; to tackle corruption; to reduce poverty), MSIs will continue to fight an uphill struggle.” (13)
- “However, the scale of impacts of MSIs on markets and supply chains is questioned by some of the interviewees because: (i) evidence-based data is insufficient; (ii) MSIs may not address sustainability issues comprehensively as they are focused on a single crop, field or plantation; (iii) their outcomes are a result of negotiation and compromise, thus there is a risk to lower the bar; and (iv) MSIs face challenges to effectively engage bad performers and address the issue of green-washing.” (14)
Appendix B – Abbott & Snidal’s “Governance Triangle”

Source: Abbott & Snidal (2009)

<table>
<thead>
<tr>
<th>Zone 1</th>
<th>IECA</th>
<th>OECD</th>
<th>ECO</th>
<th>BM</th>
<th>EMAS</th>
<th>IFC</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Zone 2</th>
<th>GAP</th>
<th>BS</th>
<th>ICC</th>
<th>RC</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Firms only)</td>
<td>Individual labor rights scheme of Gap, Inc. 1992</td>
<td>The Body Shop's &quot;Trade Not Aid&quot; initiative 1991</td>
<td>Int'l Chamber of Commerce Charter for Sustainable Development 1991</td>
<td>Responsible Care, chemical industry environmental scheme 1987</td>
</tr>
<tr>
<td>Zone 3 (NGOs only)</td>
<td>SULL</td>
<td>Sullivan Principles 1977</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------</td>
<td>------</td>
<td>------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>AI</td>
<td>Amnesty International Human Rights Guidelines for Companies 1997</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CERES</td>
<td>CERES Principles on environmental practices and reporting 1989</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RUG</td>
<td>Rugmark labeling scheme to control child labor in carpets 1994</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>GSULL</td>
<td>Global Sullivan Principles on economic and social justice 1999</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>WRC</td>
<td>Worker Rights Consortium 2000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Zone 4 (Firms + States)</th>
<th>ISO14</th>
<th>International Organization for Standardization 14001 environmental management standard 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UNGC</td>
<td>United Nations Global Compact 2000</td>
</tr>
<tr>
<td></td>
<td>TOI</td>
<td>Tour Operators Initiative 2000</td>
</tr>
<tr>
<td></td>
<td>EQP</td>
<td>Equator Principles 2003</td>
</tr>
</tbody>
</table>

| Zone 5 (NGOs + States) | TCO   | TCO Development environmental and energy standards for computers |

<table>
<thead>
<tr>
<th>Zone 6 (Firms + NGOs + States)</th>
<th>IFOAM</th>
<th>International Federation of Organic Agriculture Movements 1972</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FLA</td>
<td>Fair Labor Association; apparel industry scheme 1999</td>
</tr>
<tr>
<td></td>
<td>FLO</td>
<td>Fairtrade Labeling Organization “fair trade” umbrella scheme 1997</td>
</tr>
<tr>
<td></td>
<td>FSC</td>
<td>Forest Stewardship Council certification, labeling scheme 1993</td>
</tr>
<tr>
<td></td>
<td>GRI</td>
<td>Global Reporting Initiative; standards for social, environ. reports 1997</td>
</tr>
<tr>
<td></td>
<td>SAI</td>
<td>Social Accountability Int’l standard for supplier labor practices 1997</td>
</tr>
<tr>
<td></td>
<td>MH</td>
<td>Max Havelaar Fair Trade certification, labeling for coffee 1988</td>
</tr>
<tr>
<td></td>
<td>MSC</td>
<td>Marine Stewardship Council 1997</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Zone 7 (Firms + NGOs + States)</th>
<th>AIP</th>
<th>Apparel Industry Partnership; Clinton Administration initiative convening firms, unions, NGOs, other industry stakeholders 1996-7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EITI</td>
<td>Extractive Industries Transparency Initiative; UK disclosure scheme for payments by firms, host government expenditures 2002-03</td>
</tr>
<tr>
<td></td>
<td>ILO</td>
<td>International Labor Org. Declaration on Multinational Enterprises 1977</td>
</tr>
<tr>
<td></td>
<td>KIMB</td>
<td>Kimberley Process on conflict diamond trade 2003</td>
</tr>
<tr>
<td></td>
<td>VPSHR</td>
<td>Voluntary Principles on Security and Human Rights (private security forces) 2000</td>
</tr>
</tbody>
</table>
The methodological approach and research design of this study are aimed at overcoming many of the problems and omissions identified with the research to date. Empirical testing of the research questions listed above will be achieved via a comparative analysis (Yin, 2002) of the global apparel and ICT industries’ efforts to create harmonized codes of conduct. Details concerning the studies’ methodological approach and research design are outlined in Table 1 and Figure 1 below. The use of a qualitative research methodology in particular was chosen because of the fact that little theory currently exists regarding code-setting initiatives. A comparative case design is intended to overcome the difficulties associated with the single case studies, particularly the ability to generalize.

### Table 1 – methodological approach and research design

<table>
<thead>
<tr>
<th>Comparative dimension</th>
<th>efforts to create harmonized codes of conduct in two different industries: 1) global apparel; 2) global ICT (information and communications technology)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit of analysis</td>
<td>embedded units of analysis that will consist of different corporate code of conduct (CCC) initiatives in two different industries (apparel and ICT)</td>
</tr>
<tr>
<td>Sampling</td>
<td>purposeful (maximum variation) sampling (Patton, 2002) of industries shall be used in order to obtain rich samples from which to draw insights (industries face same issues yet diverge strongly in terms of outcomes)</td>
</tr>
<tr>
<td>Data sources</td>
<td>triangulation of data shall be emphasized; mix of qualitative and quantitative data, including interviews, archival data, NGO reports, corporate reports, newspaper articles, etc.</td>
</tr>
</tbody>
</table>

A number of approaches are utilized to analyze and interpret the qualitative data. These include a combination of several strategies based on Langley (1999): narration of events and processes (sometimes referred to as “thick description”), visual mapping of events in different industries, and synthesis. Each of these strategies potentially contributes a unique perspective, and the suitability of each approach to the research at hand will be assessed as the study progresses. The use of multiple research methods is intended to safeguard against the shortcomings inherent in the use of any one approach and
increase the overall quality of the research. The qualitative research strategies proposed are designed to shed new light into the actual mechanisms (processes, events, activities, choices, etc.) underlying the relationships amongst variables.

The qualitative research aspects of the study provide a more holistic perspective that goes beyond the determination of causal relationships. These are drawn upon to highlight the underlying mechanisms and processes at play as well as the importance of the contextual factors, a shortcoming in quantitative management research, and especially acute in the CSP/CFP and code-setting literature (Aguilera, et al., 2007; Margolis, et al., 2007).

In addition to the use of multiple methods, additional forms of triangulation are emphasized regarding the qualitative research aspects. Data sourced from interviews with various participants (see Table 2 below) are compared in order to assess divergent perspectives and varying points of view on the same phenomena. For each industry, interviews are being conducted with participants from firms, business associations, NGOs, MSIs and international intergovernmental organisations. Interview data is being compared to documentation obtained either during interviews, from websites, meeting minutes, CSR reports, or other official documentation.

In addition to the above listed forms, a final type of triangulation that will be used to increase confidence in the findings and the quality of the research is a review of the analysis by participants. Such a technique, which entails presenting the analysis to those that were interviewed and requesting feedback on the contents, will provide a check on the precision, fairness, comprehensiveness and overall validity of the analysis (Patton, 2002, p. 560) and an opportunity to improve the final output.

### Table 2 - data sources

<table>
<thead>
<tr>
<th>Level</th>
<th>Source 1</th>
<th>Source 2</th>
<th>Source 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>firm</td>
<td>Interviews w/ firm managers</td>
<td>Firm-specific codes of conduct</td>
<td>CSR brochures, press releases; Media scans (newspapers)</td>
</tr>
<tr>
<td></td>
<td>Interviews w/ business association reps</td>
<td>Association codes of conduct; observation at industry group meetings and MSI forums (or access to minutes);</td>
<td>Industry codes of conduct; association websites &amp; press releases; Media scans (newspapers)</td>
</tr>
<tr>
<td></td>
<td>Interviews w/ MSI reps</td>
<td>MSI codes of conduct; observation at meetings and MSI forums (or access to minutes);</td>
<td>Media scans (newspapers)</td>
</tr>
<tr>
<td>society</td>
<td>Interviews w/ NGO reps</td>
<td>observation at NGO coalition meetings and MSI forums (or access to minutes);</td>
<td>Media scans (newspapers)</td>
</tr>
<tr>
<td></td>
<td>Interviews w/ International Organisation reps (UN, ILO, UNCTAD)</td>
<td>observation at conferences and MSI forums (or access to minutes);</td>
<td>Media scans (newspapers)</td>
</tr>
</tbody>
</table>


Davis, I. (2005, May 26th 2005). The biggest contract - By building social issues into strategy, big business can recast the debate about its role. *The Economist*


Oxhorn, P. (2012, March 19, 2012). Right or Wrong, Aid Partnerships are Inevitable *Globe and Mail*.


