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**Accountability in a Global Economy:  
The Emergence of International Accountability Standards**

**ABSTRACT:** This article assesses the proliferation of international accountability standards (IAS) in the recent past. We provide a comprehensive overview about the different types of standards and discuss their role as part of a new institutional infrastructure for corporate responsibility. Based on this, it is argued that IAS can advance corporate responsibility on a global level because they contribute to the closure of some omnipresent governance gaps. IAS also improve the preparedness of an organization to give an explanation and a justification to relevant stakeholders for its judgments, intentions, acts and omissions when appropriately called upon to do so. However, IAS also face a variety of problems impeding their potential to help address social and environmental issues. The contribution of the four articles in this Special Issue is discussed in the context of standards' problems and opportunities to foster corporate responsibility. The article closes by outlining a research agenda to further develop and extend the scholarly debate around IAS.

## INTRODUCTION: THE EMERGING GLOBAL INSTITUTIONAL INFRASTRUCTURE FOR CORPORATE RESPONSIBILITY

Over the last two decades there has been a proliferation of international accountability standards (IAS) intended to encourage and guide corporate responsibility, and to provide multinational corporations (MNCs) with ways to systematically assess, measure and communicate their social and environmental performance (e.g. the UN Global Compact, SA 8000, Global Reporting Initiative, ISO 14001). Although these standards differ in detail – e.g. the UN Global Compact being a principle-based initiative, while SA 8000 reflects a tool for monitoring and certification – they all aim at holding corporations accountable for their judgement, acts and omissions. Despite their growing popularity in practice, IAS have only recently received ~~any more~~ research attention (Bernstein & Cashore, 2007; Gilbert & Rasche, 2007; Jamali, 2010; Rasche & Esser, 2006; Waddock, 2008; Williams, 2004). This Special Issue of *Business Ethics Quarterly* ~~wants to make~~ aims at making a contribution ~~to that~~ narrows this research gap and deepens our understanding of these standards.

Standards in general constitute a form of regulation by defining rules about what those who adopt these rules should (and should not) do (Brunsson & Jacobsson, 2000). While standards occur in several areas of economic governance, the corporate responsibility field has witnessed the emergence of numerous transnational<sup>i</sup> initiatives aimed at standardizing firms' behavior with regard to social and environmental issues. We label this diverse set of initiatives “international accountability standards” and define them as *voluntary* predefined rules, procedures and methods to systematically assess, measure, audit and/or communicate the social and environmental behaviour and/or performance of firms (Gilbert & Rasche, 2008; Rasche, 2009a). We understand corporate accountability to be about providing ~~answers~~ answerability to relevant stakeholders about the consequences of a firm's actions and omissions (Crane & Matten, 2007). Accountability connotes that organizational stakeholders ~~can~~ better have a right to judge a firm's actions and omissions and hold the firm responsible for those actions or omissions. Because of their heterogeneous nature IAS provide different mechanisms through which corporate accountability can be improved (e.g. reporting of information, auditing of production facilities). Needless to

say, the different standards also differ with regard to the strength of their underlying accountability mechanisms.

We characterize IAS as *soft law*, as such standards are not ~~enforced~~-enforceable through legally binding regulations. Abbott & Snidal (2000) refer to *hard law* as legally binding obligations that enjoy a high degree of precision. Soft law, by contrast, is non-binding and often not as precisely formulated as hard law. We should not treat the hard law/soft law distinction as a dichotomy. Categorizing IAS as soft law does not indicate that these initiatives are completely voluntary. There are at least three reasons for this. First, soft law can “harden” over time. ISO environmental standards, for instance, are referred to by government regulation for the definition of key terms (Roht-Arriaza, 1995). Second, pressures for standard adoption exist in certain industries making selected standards prerequisites for entering business relationships. For instance, most major brand name companies in the global apparel industry require their suppliers to be certified in compliance with auditing standards for labor conditions (Locke, Amengual, & Mangla, 2009). Third, deliberately ignoring standards as a way to account for a firm’s social and environmental impacts can weaken existing stakeholder relations. Many firms have adopted standards because of pressure from stakeholder groups such as NGOs, consumers and unions (Utting, 2008). Without doubt, non-binding (soft) regulations have their limits – largely because standardizers cannot claim hierarchical authority, nor can they impose sanctions or draw on rigorous enforcement mechanisms. However, in times where the direct applicability of international law to non-state actors remains limited (Kobrin, 2009) and the extraterritorial application of national law is selective and without much consequence (Kurlantzick, 2004), IAS reflect a timely and realistic solution to address social and environmental problems.

We suggest that IAS mainly occurred because of a lack of transnational regulation of social and environmental issues related to corporate activity. More precisely, we argue that IAS are ~~a~~-mechanisms ~~to~~-that attempt to fill the omnipresent governance voids ~~which~~-that the rise of the global economy has created. These voids occurred and are sustained because of an increasing imbalance in global rulemaking (Ruggie, 2002). While those rules that are supposed to protect basic human rights and the natural environment are still weak and/or not enforced, policies supporting the expansion of global markets have gained significant strength. For instance, legal

regulations to ensure the global protection of intellectual property rights were designed and implemented from the 1980s onwards (Maskus, 2000), whereas working conditions in global supply chains, including child and forced labor practices, remained largely unaddressed (Bales, 2005). IAS are ~~one-way~~s to address those areas where enforceable transnational legal regulations have not occurred yet.

This Special Issue of *Business Ethics Quarterly* aims to further investigate whether IAS represent an effective mechanism to address the abovementioned challenges. On the one hand, IAS fit very well into the post-Westphalian context where regulatory authority is increasingly fragmented and public and private actors exercise governance jointly (Scherer, Palazzo, & Matten, 2009). Ruggie (2004: 500) makes this point very clear when arguing that “[...] the very system of states is becoming embedded in a broader, albeit still thin and partial, institutionalized arena concerned with the production of global public goods.” On the other hand, the proliferation and overlap of standards creates problems for managers who must decide for or against the adoption of particular initiatives. In addition, the impact of IAS remains uncertain, leading to claims ~~around~~—that such initiatives might lack accountability themselves (Adams, 2004; Deva, 2006; Gilbert & Rasche, 2007; Williams, 2004). This Special Issue seeks to develop and deepen these discussions. Since the implementation of IAS usually goes hand in hand with a significant investment in time and money, offering a mere description of these initiatives is not enough. We believe that there needs to be a more profound examination of the opportunities and problems associated with the different types of IAS in order to help managers make better decisions ~~for or against certain~~with respect to specific initiatives.

This introduction is structured as follows. In the next section we provide an overview of the different types of IAS. This overview ~~is supposed to provide~~s a more fine-grained perspective on standards and also differentiates the standards discussed in the four subsequent papers. Next, we provide a brief summary of the four articles in this Special Issue and evaluate their contribution in the context of the existing academic discourse. In the following section we discuss problems and opportunities associated with IAS. In the concluding section we point to some challenges that need to be addressed by future research.

## TYPES OF INTERNATIONAL ACCOUNTABILITY STANDARDS

In absence of well working global governance structures to ensure that firms are responsible, accountable, transparent and ecological sustainable, a large institutional infrastructure has emerged that helps to coordinate and structure companies' responses to environmental, social and governance (ESG) issues (Göbbels & Jonker, 2003; Leipziger, 2010; Paine, Deshpandé, Margolis, & Bettcher, 2005; Waddock, 2008). This infrastructure has been fueled by issues related to globalization, outsourcing and other impacts of corporate behavior, particularly that of multinational corporations. Its emergence is, we believe, not coincidentally linked to the growing popularity of the Internet, with its capacity to link activists, corporate critics and other observers instantaneously, not to mention to make transparent activities that used to be relatively easy to hide.

IAS are an integral *part* of this new institutional infrastructure for corporate responsibility. While codes of conduct are firm-specific and developed by firms themselves, IAS are defined by third parties and often set up in a multistakeholder way (Vogel, 2008). So far, there is no consensus about a classification of IAS. Any attempt to classify such standards must take into account their heterogeneous nature. Although IAS share some similarities, they can also differ with regard to important dimensions such as the content and scope of their underlying norms, their targeted audience and their geographic applicability (Jamali, 2010; Rasche 2009a). Being aware that there is no complete taxonomy for these initiatives, we propose to cluster them along four different categories:

- ~~principle~~Principle-based standards,
- ~~certification~~Certification standards,
- ~~reporting~~Reporting standards, and
- ~~process~~Process standards.

### Principle-based Standards

The first category of IAS is referred to as principle-based standards (e.g., the UN Global Compact, OECD Guidelines for Multinational Enterprises, The Clarkson

Principles of Stakeholder Management). They represent broadly defined principles with regard to social and environmental problems that are mainly used as a guideline for action and a starting point for dialogue, learning and the exchange of best practices. Principle-based standards are neither a seal of approval for firms' actions nor do they represent a compliance-based assessment framework for corporate responsibility issues (Rasche, 2009b). Rather, these sets of principles aim at helping to shape corporate behaviors by providing a baseline or floor of foundational values and principles that responsible companies can attempt to live by. Sets of principles that are prominent today focus broadly on a wide range of corporate responsibilities.

With ~~currently~~ more than 6,100 business and more than 2,300 non-business participants (as of August 2010), the UN Global Compact is the most widely ~~used~~ accepted principle-based initiative ~~to catalyze catalyzing a~~ voluntary participation of firms in corporate responsibility activities (Kell & Ruggie, 1999; Rasche & Kell, 2010; Leisinger, 2007). Companies ~~can~~ voluntarily join the UN Global Compact and commit themselves to aligning their operations and strategies with ten universally accepted principles focusing on human rights, labor rights, environmental sustainability and anti-corruption. By signing onto these principles (and actually implementing them), business, as a primary agent driving globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere. Unlike other IAS (e.g. certification standards like SA 8000), the UN Global Compact has no intention ~~to of enforce enforcing~~ or ~~measure measuring~~ the behaviour of participating firms. The initiative rather intends to bring together business and non-business actors to discuss, learn about and advance its underlying principles (Ruggie, 2001, 2003; Kell & Levin, 2003; Kell, 2005; Rasche, 2009b; Williams, 2004). Business participants have to report annually on the progress they made against the ten principles in what is called a Communication on Progress (CoP).

The OECD Guidelines for Multinational Enterprise represent a second major principle-based standard and were first adopted in 1975 by the Organization for Economic Cooperation and Development. They specially focus on the practices of multinational corporations from member nations. Developed from “without” companies rather than inside of companies, these guidelines move well beyond the issues of compliance, individual ethics and anti-bribery of earlier internal company-

based codes of conduct. The OECD Guidelines provide a more general framework for business behaviors and practice and focus on areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition and taxation (OECD, 2010). The idea was to promote the roles of business enterprises in contributing to economic, environmental and social progress, particularly around issues of sustainable development.

Other notable examples include the Caux Roundtable's Principles, developed in 1994 and submitted to the UN World Summit in 1995 and the Clarkson Principles of Stakeholder Management, among numerous others (for an overview see Waddock, 2008). In recent years, principles have sprung up for specific industries, some spawned by the UN Global Compact, including the Principles for Responsible Investment and the Principles for Responsible Management Education. As further examples, the Equator Principles are meant to help financial institutions benchmark for social and environmental issues, and the International Non-Governmental Organisations (INGO) Commitment to Accountability Charter focuses on transparency and accountability for INGOs. Whatever their focus, it is clear that since the 1990s there has been a huge explosion of such principles by which businesses are increasingly expected to live.

### **Certification Standards**

Certification standards (e.g., SA 8000, the Fair Labor Association [FLA], the Marine Stewardship Council, ISO 14001) differ from principle-based standards because they involve certification, verification and monitoring of production facilities against predefined criteria. It is in fact this element that provides external observers and critics in particular with a degree of assurance that stated standards are actually being met. Many of these certification schemes include both a set of principles that companies are expected to live up to and a process either for implementing those standards and, more importantly, for monitoring and verifying that they are in fact being lived up to (Bernstein & Cashore, 2007). It is the latter aspect of verification and monitoring that is both called into question at times and is at the heart of these standards as they attempt to provide external validity to what companies say they are



doing. Certification standards can include industry-specific organizations like Rugmark International, the Forest Stewardship Council and the Marine Stewardship Council, or more general entities like Transfair, the FLA and SA 8000. Although most certification standards focus on the enforcement of rules via auditing and certification, their precise operating procedures and practices differ (e.g., the FLA publishes the results of its monitoring efforts, while SA 8000 does not).

One of the most widespread certification standards for social issues is SA 8000 (Gilbert & Rasche, 2007; Stigzelius & Mark-Herbert, 2009). SA 8000 is based on the International Labor Organization's core labor conventions and is applicable across a wide variety of industries and geographic regions (except Myanmar). While participants in principle-based initiatives are typically entire corporations, certification standards like SA 8000 usually only certify single production facilities. As of December 2009, there are over 2,100 SA 8000-certified facilities in 63 countries (Leipziger, 2010: 204). SA 8000 represents an important breakthrough because it was the first *auditable* social standard aiming at promoting labor rights for workers around the world. Independent auditors, who assess corporate practices on a wide range of issues, will visit every facility seeking SA 8000 certification. Once an organization has implemented necessary corrective actions it can earn a certificate attesting to its compliance with the standard. The certifications are valid for three years and there are a number of unannounced surveillance visits after the initial certification.

Although certification is often seen as a promising mechanism to ensure accountability (Leipziger, 2010), there are also problems ~~attached~~associated with them. Empirical studies have revealed problems related to the social and environmental auditing industry (CCC, 2005; O'Rourke, 2000, 2003; Locke & Romis, 2007). While financial auditing is heavily regulated, social and environmental auditing faces much less, if any, substantive regulation and common standards. In the absence of general standards regarding qualifications needed to perform audits, it has been observed that financial auditors, who received a quick introduction into social issues, often carry out social audits. O'Rourke (2000: 6), for instance, finds that "auditors did not appear to have adequate knowledge of occupational health and safety issues or hazard recognition." In addition, production facilities are usually

notified before audits take place and factory managers often provide all of the requested information which are subsequently used by auditors (CCC, 2005).

## **Reporting Standards**

Reporting standards provide comprehensive and standardized frameworks for economic, social and environmental reporting. They define indicators and guidelines that corporations can use to standardize non-financial reporting practices and to communicate their social and environmental impact to interested stakeholders (Rasche, 2010: 504). The need for reporting guidelines is evident when looking at the enormous differences in terms of content and structure of corporate responsibility reports (Owen & O'Dwyer, 2008).

Currently, the global standard for reporting on ESG issues is the Global Reporting Initiative (GRI), which attempts to provide a standardized framework for non-financial reporting that is akin to GAAP or generally accepted accounting principles for financial reporting (GRI, 2010). Hundreds of companies in over 60 countries issue GRI reports on a regular basis (Leipziger, 2010: 491). Started in the late 1990s, the GRI is a multistakeholder initiative in which companies and other types of organizations voluntarily undertake to report their ESG activities in standard format using a common set of principles and indicators that aim to provide transparency around sustainability and social information (Levy, Brown, & de Jong, 2009). The G3 guidelines, which were released in 2006, are the third version of GRI's reporting framework and are published as a public good for any interested entity to use. According to the GRI (2010), among the benefits of using this framework is the capacity to benchmark one organization's performance on ESG issues against others', as well as highlight an organization's commitment to sustainability.

The G3 framework or GRI's reporting guidelines have several parts: principles and guidance on how to report, along with protocols for reporting, and guidance on what to report that includes a set of standard disclosures for all industries and sectors as well as sector-specific supplements. The idea behind the GRI is to foster transparency and accountability, while simultaneously providing cross-industry and -company information that enables comparisons of companies in different industries, of different sizes and in different parts of the world. The guidelines provide a

framework that guides how environmental and social reporting is to be done, and it also defines standard disclosures and relevant indicators. The protocols are like a “recipe” for indicators, which include definitions, methods for compiling data, scope and other technical specifications. The sector supplements evolved to deal with criticisms that it was difficult to compare across some industries because of specific types of information or unique issues facing that industry. Reporters can choose their level of application from A to C (depending on the scope of reporting) with + assigned for enterprises that provide external assurance for their reports.

### **Process Standards**

While principle-based and certification standards define minimum performance targets outlining *what* reflects socially and environmentally responsible behavior, process standards focus on the question of *how* corporate accountability can be achieved by an organization (Leipziger, 2010: 41). Process standards (e.g. AA1000) only define methods and processes that can be used by corporations to develop an organizational framework around corporate accountability. Process standards offer essential managerial guidance on how to manage towards corporate accountability in a firm. Without an explicit focus on high-quality implementation processes, improvements in social and environmental performance cannot be achieved.

The AA1000 Standard Series reflects the most prominent example of a process standard. It provides organizations with an internationally accepted, freely available set of principles to frame and structure the way in which they understand, govern, administer, implement, evaluate and communicate their accountability (Göbbels & Jonker, 2003). Developed through a multi-stakeholder engagement process, the AA 1000 standards have three main components. The AA 1000 AccountAbility Principles Standard is a framework to help organizations understand the process of achieving greater accountability towards its stakeholders, for example by focusing on the inclusivity of stakeholder engagement. The AA 1000 Assurance Standard provides an approach that assurance practitioners can use to evaluate an enterprise’s adherence to the principles. The third element is the AA 1000 Stakeholder Engagement Standard, which is a framework that can help companies develop rigorous and useful stakeholder engagement processes.

One other emerging process standard is the ISO 26000 social responsibility standard due by the end of 2010. It is being developed as a voluntary guidance standard that will encourage commitment by enterprises to responsible practice as well as providing a common framework around concepts, definitions and evaluation. Experts from 99 ISO member nations and 42 public and private sector organizations are developing the standard. The ISO 26000 guidelines are expected to provide agreement about definitions, core subjects, and integration processes of social responsibility in organizations. It came about in part because of disagreement on these issues and in reaction to the need to provide an integrated framework around issues of corporate responsibility. Unlike ISO 14001, this ISO standard does not define management systems which can be certified by external assurance providers. However, the standard lists a variety of management practices giving guidance on integrating the management of social issues throughout an organization (see points 7.1-7.8; ISO, 2009). It is in this spirit that we list this initiative as a process standard.

The four standard categories provide an overview of the differences between existing IAS. It should be noted, however, that the discussed categories are not mutually exclusive. There is some overlap between the different categories and a single standard may exhibit features of more than one category. For instance, while SA 8000 is primarily a certification standard, it also defines management systems (and thus processes) which factories have to adopt when implementing the standard (Leipziger, 2010). A similar overlap exists between the reporting and process standards – the GRI not only defines performance indicators for reporting but also standardizes the reporting process itself. Vice versa, AA1000 is compatible and partly redundant with the GRI in that it also provides principles outlining how to achieve high-quality assurance of non-financial information (Cooper & Owen, 2007: 650).

### **NOVEL INSIGHTS INTO THE STANDARD PHENOMENON: THE CONTRIBUTIONS TO THIS SPECIAL ISSUE**

The papers selected complement each other in that they discuss the accountability of different IAS from a variety of theoretical perspectives and, at the same time, shed light on numerous aspects related to standards' production, diffusion and practical implementation. Overall, we received twenty-five submissions by the end of the

deadline. Fifteen papers were found suitable for the review process, while four papers were finally selected for publication. These articles are not meant to offer a comprehensive portrait of the field of IAS, but rather signify a subset of interesting research areas. All of the papers make a significant contribution to investigate in more detail the opportunities and problems IAS create for standardizers, businesses and other stakeholders.

*Michael Behnam* and *Tammy MacLean*, in “Where is the Accountability in International Accountability Standards? A Decoupling Perspective” explore the question of why certain types of IAS are more prone than others to being decoupled from organizational practices. They answer this question by applying a neo-institutional perspective to analyze structural variations across the different types of IAS. By doing so the paper highlights one of the core problems of IAS, namely decoupling. Following Meyer & Rowan (1991: 58) “Decoupling enables organizations to maintain standardized, legitimating formal structures while their activities vary in response to practical considerations”. Hence, a decoupled IAS is akin to window dressing: it exists in name only, without the resources and support of other organizational functions (Weaver, Treviño, & Cochran, 1999). As a consequence, the adoption of IAS does not lead to significant improvements in social accountability.

The major strength of the paper lies in a comparative analysis of different types of IAS from a neo-institutional perspective which is so far missing in the literature. Behnam & MacLean introduce a framework to evaluate principle-based, certification and reporting standards with respect to the likelihood of these types of IAS being decoupled from a firms’ business processes. The authors’ analysis suggests, “[...] that when IAS are clearly defined, have a high cost of adoption, require evidence of compliance and also levy significant sanctions for non-compliance, they are likely to be more fully integrated into the day to day operations of the company than those with ambiguous expectations, low cost of adoption, and that lack sanctions and accountability.” Behnam & MacLean believe that the problem of decoupling is one of the core issues which needs to be addressed in theory and practice. Their paper can help to stimulate a discussion on how to make IAS themselves more accountable and less likely to be decoupled in the future.

In “Decoupling of Standard Implementation from Certification: Does Quality of ISO 14001 Implementation Affect Facilities’ Environmental Performance?” *Deepa Aravind* and *Petra Christmann* claim that the literature on IAS in general and certification standards such as the ISO 14001 Environmental Management System (EMS) in particular have not paid sufficient attention to implementation of standard requirements in certified firms. There is evidence that despite third-party auditing some organizations achieve standard certification without continuously complying with standard requirements and incorporating the approved practices in their daily activities (Boiral, 2003; Christmann & Taylor, 2006). Like Behnam & MacLean, Aravind & Christmann draw on institutional theory to explore this issue and consequently label this phenomenon as decoupling. Again it becomes clear that decoupling is one of the biggest problems of IAS.

Aravind & Christmann argue that such decoupling of certification from implementation raises concerns about the effectiveness of certifiable standards like ISO 14001 as governance mechanisms because low quality of standard implementation may compromise the environmental performance benefits intended by the standard. So far there is only limited empirical evidence on opportunities and problems of IAS. This is why the paper makes a contribution to the debate on the effectiveness of certifiable management standards by empirically investigating these issues in the context of ISO 14001. Based on a sample of 72 ISO 14001 certified and 72 matched non-certified facilities in the United States the authors explore how variations in the quality of implementation among certified firms affect their environmental performance. The results of the study are striking because Aravind & Christmann find that while on average certified facilities do not differ significantly in their environmental performance after certification from non-certified facilities, certified high-quality implementers have better post-certification environmental performance than their non-certified counterparts. These empirical results highlight the importance of quality of standard implementation to overcome the decoupling problem and cast doubt on the effectiveness of governance systems based on certifiable management standards.

*Magali Delmas* and *Maria Montes-Sancho*, in “An Institutional Perspective on the Diffusion of International Management System Standards: The Case of the Environmental Management Standard ISO 14001” also provide empirical insights into the IAS-phenomenon. They claim that the last decade has seen a proliferation of

IAS but that we still have only limited understanding on how different standards diffuse internationally and over time. The paper helps to narrow this research gap by investigating the factors that facilitate or hamper the diffusion of IAS from an institutional perspective. In particular Delmas & Montes-Sancho analyze how national institutional factors affect the adoption of the international environmental management standard ISO 14001, using a panel of 139 countries from 1996 to 2006. Their consideration of the role of national governments is particularly important for our knowledge about ISO 14001 because this standard is often considered to be complementary to governmental regulation.

A major strength of the paper is that, in contrast to other studies in this field of research, Delmas & Montes-Sancho take a longitudinal approach, covering a decade of data. They also draw a distinction between different phases in the process of institutionalization. Regulative or coercive pressures seem to have a greater impact on the adoption of ISO 14001 in the take-up phase of the diffusion of the standard but might fade over time, while normative and cognitive forces tend to be more effective at promoting the standard in the later phases of diffusion. Based on the results of their empirical study Delmas & Montes-Sancho draw interesting conclusions for IAS in general. Other IAS such as ISO 26000 bear a number of similarities to ISO 14001 and hence, the diffusion process of this standard most likely will follow a similar pattern. One can expect that countries with governments involved in the development of ISO 26000 will be among the early adopters of this standard. We can also expect that countries with high levels of ISO 14001 adoption will be countries with higher levels of ISO 26000 adoption. Moreover, legal systems probably have an impact on the adoption of ISO 26000 because of the broad differences in how social issues are regulated across the world.

*Doug Schuler* and *Petra Christmann*, in “The Effectiveness of Social Certification Schemes: The Case of Fair Trade Coffee” explore the production and trade of fair trade coffee in the US market. They start from the assumption that fair trade employs a market-based governance system which is based on a specific type of IAS, namely certifiable standards. On the one hand, such standards aim at providing social benefits to farmers and their communities. On the other hand, fair trade initiatives use certification as a tool to communicate to consumers by marking products manufactured according to fair trade standards (via fair trade labels like TransFair, Equal Exchange, As Green as it Gets). Many authors and practitioners

have expressed skepticism about the prospects of such market-based governance systems to provide an effective foundation for responsible social behavior of MNCs. The factors that can explain such variations of different market-based governance systems, however, have not yet received much attention in the literature (Vogel, 2008).

Schuler & Christmann claim that the existing literature has primarily focused on the behavior of the certified firm and largely neglected the role of consumer behavior. Consumer purchasing behavior, however, is critical to the effective functioning of market-based certification schemes. Without consumer demand for fair trade products firms probably would not seek certification. In light of this Schuler & Christmann integrate the literature on market-based systems for global governance with the literature on consumer behavior and develop a comprehensive model that investigates how the structure and promotion of market-based governance systems affect the development of social benefits. A key lesson learned from the application of the model to fair trade is that the success of social certification schemes is highly dependent on different design criteria of these schemes such as stringency of requirements, enforcement and promotional activities. At the same time, success of different fair trade initiatives is linked to the degree of involvement of the consumer with the product.

### **OPPORTUNITIES AND PROBLEMS: EVALUATING STANDARDS**

The discussion of IAS in the academic literature identified numerous opportunities and problems (Black, 2008; Domask, 2003; Gilbert & Rasche, 2008). On the one hand, a variety of scholars see standards' multi-stakeholder and multi-level approach towards economic governance as opportunities (Bernstein & Cashore, 2007; Ruggie, 2004). On the other hand, research also suggests that the swift increase in standards and the missing control over implementation results are problems (Christmann & Taylor, 2006; O'Rourke, 2003). This section extends these perspectives by arguing that the identified opportunities are often turned into problems (because they are not sufficiently used), whereas some of the problems could potentially be turned into opportunities (if they were adequately addressed).

#### **Turning Opportunities Into Problems**



Multi-stakeholder Governance: Most of the standards we are concerned with in this Special Issue reflect collaborative governance arrangements (Utting, 2002; Zadek, 2008). They bring together a variety of actors such as: businesses, NGOs, labor organizations, UN agencies, government entities, academic institutions and business associations. While the exact mix of stakeholders and their role in standard governance and implementation remains an issue which needs to be assessed on a case-by-case basis, scholars see a variety of advantages attached to multi-stakeholder governance. Börzel & Risse (2005), for instance, argue that collaboration between state and non-state actors increases the problem-solving effectiveness of governance arrangements. Particularly non-state actors often act as knowledge providers in the context of uncertain and complex regulatory problems (e.g. global warming, see also Abbott & Snidal, 2000).

While this argument looks at the output side of economic governance, other authors have turned towards the input side by highlighting the enhanced legitimacy of decision-making in the context of multi-stakeholder collaboration. Bernstein & Cashore (2007: 361), for example, suggest that the multi-stakeholder nature of standards can turn these initiatives into “legitimate arenas in which to mediate disputes and address policy problems” (see also Fung, 2003). Palazzo & Scherer (2006) support this perspective by arguing that legitimacy, in the context of transnational governance, mainly rests on communication and mutual understanding among public and private actors. Viewing public deliberation as a source of legitimacy puts emphasis on the inclusiveness of standards as well as their capacity to ensure free and equal discourses among participants.

Of course, there are standards, such as the Forest Stewardship Council (Scherer & Palazzo, 2007), which are designed according to deliberative criteria. However, we suggest that a range of standards currently do not reflect inclusive and well-balanced discursive arenas. Examining the design of ISO 26000, Tamm-Hallström (2008: 58) finds “that it was difficult for ISO to create groups that could play on equal terms; all stakeholder groups were not equally represented and some stakeholders had more financial and other resources to influence not only the content of the standard but also the shaping of the agenda, organization and procedures of the standard-setting work.” Another example concerns the Fair Labor Association. Whereas trade union representatives were initially involved in the standard, they pulled out after disputes

over certification requirements. In a similar vein, Gilbert & Rasche (2007) observe that a few key stakeholder groups dominated the process of norm justification in the context of SA 8000. Lacking inclusiveness reflects a problem because legitimacy is essential to standard setters (Cutler, 2001, Picciotto, 2008). IAS' governing authority depends on the perceived appropriateness and justification of their rules by a community (Bernstein, 2005). Because neither states nor international organizations mandate the activities of standards, there is need to "democratize" their activities through an inclusive approach to decision-making (Black, 2008).

Multi-level Governance: Voluntary standard setting not only includes several stakeholders in policy design and implementation but also stretches across multiple levels of governance. The work of international organizations, like the UN, is often criticized as it is assumed that global policy making is too remote from local realities (Dahl, 1999). Many of the standards this Special Issue is concerned with explicitly link global policies to local practice. For instance, the ten universal principles of the UN Global Compact are "translated" into national contexts through local networks (Rasche & Kell, 2010). Local networks reflect "epistemic communities" (Foucault, 1970) facilitating the solution of global policy issues by developing a shared set of principled beliefs around idiosyncratic problems at the national level. IAS' multi-layered governance enhances their transformative capacity by allowing for flexibility and adaptation. Real-life solutions to governance problems are often influenced by local particularities (e.g. religious norms) and thus cannot be approached through a one-size-fits-all regulatory mentality. Hence, addressing social and environmental problems requires that regulations are adapted to local circumstances and over time.

The flexibility inherent to IAS can also turn into a problem because the possibility of adaptations, as Abbott & Snidal (2000) remark, creates opportunities to decouple local practice from global norms (see also the contribution by Behnam & MacLean in this issue). While certifications can reduce the likelihood of decoupling, there is still evidence that auditing cannot always ensure full and ongoing compliance (Khan, Munir, & Willmott, 2007, O'Rourke, 2003). Christmann & Taylor (2006), for instance, find ISO-certified firms in China are able to choose their level of implementation strategically (e.g. depending on expected sanctions). Decoupling of local practices is even more a problem when standards' accountability mechanisms are weak. In particular the annual reporting requirement in the context of the UN

Global Compact has been criticized for not providing sufficiently detailed and standardized information about firms' adoption behavior (Arevalo & Fallon, 2008; Deva, 2006). The existence of weak couplings between global policies and local implementation can lead to adverse selection (Williams, 2004). Firms, which implement substantively, shy away from standards because they are not able to credibly communicate their higher performance. The "bad" drives out the "good" since the existing information asymmetry constraints stakeholders' ability to precisely judge the level of implementation.

### **Turning Problems into Opportunities**

Proliferation of IAS: The scope and number of non-state regulatory initiatives has increased significantly over the last two decades. Bernstein & Cashore (2007), for example, list a wide variety of certification-based initiatives in numerous sectors. Particularly in the area of labor rights several, largely overlapping, audit schemes exist: the Clean Clothes Campaign (CCC), the Ethical Trading Initiative (ETI), the Fair Labor Association (FLA), the Fair Wear Foundation (FWF), Social Accountability International (SAI) and the Workers Rights Consortium (WRC). Interested firms can also sign up to a variety of principles to make their commitment to corporate responsibility public – for instance, the Global Sullivan Principles, the UN Global Compact, the Caux Roundtable Principles for Business and the CERES Principles.

The swift expansion of IAS is positive insofar as social and environmental concerns moved into the mainstream of business thinking and make it hard for firms to ignore their impact on society any longer. However, there are also several problems attached. Most importantly, uncertainty increases as "competing sets of voluntary standards struggle for dominance, and as actors remain unclear about the costs of compliance, or its absence, and about when governments might intervene to impose a potentially different, mandatory regime." (Kirton & Trebilcock, 2004: 6) Increased uncertainty about which standard will remain in the market can negatively affect their perceived legitimacy as a solution to governance problems. Standards' legitimacy, by which we mean them being viewed as "desirable, proper, or appropriate" (Suchman, 1995: 574), is lowered because a critical mass of stakeholders is unlikely to grant an

initiative general support and governing authority as long as its future remains uncertain. With a variety of voluntary initiatives competing for participants the scaling up of IAS in terms of their number of participants becomes harder. Of the 82,000 MNCs worldwide (UNCTAD, 2010) only a minority participates in voluntary initiatives so far, mostly limited to certain geographical areas (e.g. North America and Europe) and selected sectors (e.g. the apparel industry).

The problem of standards proliferation can be turned into an opportunity when recognizing that there are important linkages between IAS from *different* categories (Rasche, 2010). For instance, the GRI reporting framework can be used to fulfill the Global Compact's annual reporting requirement. ~~Not much different~~ Similarly, ISO 14001 certifications can be strengthened when considering the AA1000 guidelines for managing stakeholder relationships. Exploring linkages between existing IAS can reveal essential complementarities. Currently, standardizers do not explore these complementary relationships sufficiently because they remain too focused on their own operations. A related strategy to address this problem would be to encourage standard convergence *within* categories. For instance, a convergence among the numerous certification standards in the area of labor monitoring would be a much welcome development. Suppliers often have to obtain multiple certifications to maintain their contracts with MNCs (O'Rourke, 2003). ~~Not much different~~ For example, there are numerous overlapping certification and labeling schemes in the global coffee industry (Bitzer, Francken, & Glasbergen, 2008). Convergence between similar IAS needs to be encouraged since the market for standards is unlikely to support a great variety of competing and overlapping initiatives in the long run.

Missing Control over Results: While the existence and proliferation of IAS can hardly be denied, a variety of scholars have pointed to the problem that standards ~~setting and assurance entities~~ themselves are not accountable. Bendell (2005), for instance, suggests that many initiatives are driven by what a few large MNCs, Western NGOs and accountants as well as consultants push for. Nolan (2005) emphasizes that relations between the UN system and businesses in the context of the Global Compact can lead to firms capturing the UN agenda without ~~due important~~ accountability mechanisms being in place. There are also numerous reports on the limited impact of factory auditing in global supply chains (Locke et al., 2009; O'Rourke, 2000, 2003; Stigzelius & Mark-Herbert, 2009). This evidence suggests

that the accountability of accountability standards is limited and needs further investigation and discussion (see also the papers by Behnam & MacLean as well as Aravind & Christmann in this issue). If the overarching goal of these initiatives is to make businesses answerable for their actions, judgments and omissions by publicly committing to universally accepted behavioral rules, there needs to be more discussion of how stakeholders can hold these standards themselves accountable.

There are numerous ways to scale up the accountability of IAS and thus turn this problem into an opportunity. First, stakeholders need to be given more opportunities to meaningfully participate both in the governance and implementation of standards. Certification standards, for instance, often suffer from weak auditing because certification bodies follow a pure compliance approach without considering the perspectives and opinions of local stakeholders (Fung, O'Rourke, & Sabel, 2001). Participative social and environmental auditing would not only be in line with recent theoretical ideas on the deliberative nature of corporate responsibility (Scherer & Palazzo, 2007) but would also strengthen the accountability of existing standards. Second, IAS can also strengthen their own accountability by fostering transparency around what exactly corporations do in support of the standard. Without such information it is virtually impossible to independently evaluate the results. For instance, although the UN Global Compact requires its participants to report annually on progress against how its ten principles were addressed, these publicly available reports are not standardized making it hard for stakeholders (e.g. consumers, investors, NGOs) to exactly judge and compare performance. Many certification standards organizations also limit their own accountability by not publishing auditing reports. Without access to these reports it is impossible (a) to judge the exact level of compliance of a certified factory, (b) to find out which factories were rejected certifications and (c) to see which data was used during the auditing process. Understood in this way, strengthening the accountability of IAS offers opportunities to also increase their impact on the social and environmental challenges they are concerned with.

## **MOVING WITH THE TIMES: A RESEARCH AGENDA FOR INTERNATIONAL ACCOUNTABILITY STANDARDS**

Although research on IAS has expanded significantly over the last years, there are still many knowledge gaps waiting to be filled. In the following we outline some key ideas around which future research could emerge. We believe that this research agenda is best addressed through multi-disciplinary thinking. Studying standards implies to not only consider their adoption and production (topics which management scholars have traditionally emphasized) but to also explore their role in and contribution to global economic governance as well as their relation to harder forms of law. As a result, we believe that further researching IAS creates exciting opportunities for research blending that blends disciplines such as political theory and international relations, management theory, legal studies, economics, sociology and (political) philosophy.

First, we need to develop a much better understanding of the role of hard and soft law in the context of IAS. Simply classifying standards as being about soft law obscures both the rich variety of soft law and the heterogeneous nature of IAS. As Abbott & Snidal (2000: 422) remark, “the choice between hard law and soft law is not a binary one.” Hard law refers to governance arrangements characterized by (a) legally binding obligations (enforced through the authority of the state), (b) a high degree of precision in rulemaking trying to achieve unambiguous regulations, and (c) a delegation of authority for enforcing rules to state organs. Soft law, by contrast, emerges when either one or a combination of these three dimensions is weakened (Abbott, Keohane, Moravcsik, Slaughter, & Snidal, 2000). Using this more fine-grained understanding of soft law, future research can start to discuss standards with regard to their proclaimed level of obligation, the precision of their underlying rules and the nature of the delegation of authority (e.g. to NGOs). Looking at standards through this perspective allows for a more differentiated analysis distinguishing between harder forms of soft law (e.g. standards which promote precise rules and delegate enforcement authority to independent third parties) and softer forms of soft law (e.g. standards which promote pure self-regulation and are imprecise in their underlying rules). Moreover, the discussion of hard and soft law can also enrich standards insofar as hard law often already backs what seems like a voluntary obligation at the surface. Clapham (2006: 71), for instance, argues that non-state actors may have “not only the capacity to enjoy rights and obligations, but also the

capacity to be held accountable for failure to fulfill those obligations to which they have been subjected.”

Second, further researching IAS calls for rethinking our understanding of compliance. To follow a standard implies to comply its underlying rules. Our traditional understanding of compliance is based on organizational ethics programs which are supposed to “prevent, detect, and punish legal violations.” (Paine, 1994: 106) At first ~~sight~~ glance such a definition of compliance does not seem to work for IAS. If standards are voluntary, non-participation cannot reflect a legal violation. March & Olsen (2009: 2) suggest a different concept of compliance which they label the “logic of appropriateness”. According to this logic, compliance means to follow rules which are seen as “natural, rightful, expected, and legitimate.” Looking at compliance in this way calls for research exploring the relationship between compliance and the perceived legitimacy of standards’ rules. If legitimacy rests on deliberation, as Palazzo & Scherer (2006) have argued, the level of compliance with a standard is likely to be influenced by the nature and scope of the deliberations underlying its rules. Hence, a deliberative understanding of legitimacy is not only necessary because of the immanent problems related to pragmatic and cognitive legitimacy, but also, and maybe most of all, because it is a precondition for increasing the impact of standards. Understanding compliance in terms of a “logic of appropriateness” is also important since what counts as appropriate behavior in the light of *universal* standards can differ from context to context. For instance, differences in national labor laws influence whether the right to collective bargaining can be exercised in practice. Standards like SA 8000 and the UN Global Compact, which promote this right as a universal principle, need to look into what is considered to be appropriate corporate behavior in light of these constraints. SA 8000, for instance, requires that corporations respect the right of workers to freely elect their own representatives in those cases where the right to collective bargaining is restricted under law.

Third, while the adoption and diffusion of IAS is often emphasized by scholars’ research (Bernstein & Cashore, 2007; Christmann & Taylor, 2006), the production of standards has not attracted much research attention (for exceptions see Boström, 2003 and Tamm-Hallström, 2008). Studies looking at the production of standards would open the “black box” of standardization to explore a variety of largely unaddressed questions: (1) Most IAS claim to be based on multi-stakeholder development

processes involving a variety of business and non-business stakeholders. However, we have only limited knowledge about the inclusivity and micro-political dynamics of these processes. Particularly when considering that some fear that IAS promote rules that wealthy nations impose upon the developing world (Banerjee, 2003; Fung, 2003), there is need to research whether and to which extent standards are responsive to stakeholder claims from these regions. (2) We also know very little about actor motivations, and the factors influencing these motivations, within the process of standard development. Actor motivations not only differ between distinct stakeholder groups, but can also vary *within* apparently homogenous groups. In addition, (national) institutional environments can shape actors' motivations (e.g. state failure can motivate NGOs to participate in IAS). (3) Investigating standardization processes also calls for more longitudinal studies. Many standards not only were revised and updated but also changed their underlying institutional design. Etzion & Ferraro (2010), for instance, study the role of analogies in institutional change in the context of the GRI. They show that the GRI's early framings of analogies aimed at reducing uncertainty for would-be adopters by stressing similarities with existing institutions, while at later stages the analogies created dissimilarity and incongruence to spur further innovation in institutional design.

Our discussion demonstrates that further research on the adoption, diffusion and production of IAS is needed to enhance our understanding of this fairly recent phenomenon. The standards discussed in this Special Issue are part and parcel of a fundamental transformation of what John Ruggie (2004) calls "the global public domain". For many years this domain was dominated by nation states and interstate politics. What is novel about IAS is that they do not gain their policy-making authority from sovereign states (Bernstein & Cashore, 2007). Rather, these initiatives are part of a new transnational arena providing global public goods based on the involvement of business and non-business stakeholders. However, it is too often ignored that states will still play an important role in shaping this new global public domain by supporting existing initiatives (e.g. through funding) and translating voluntary rules into enforceable regulations (e.g. Denmark recently introduced a law requiring non-financial reporting). In this sense, standards are an important complement, but not a substitute, to what nation states and intergovernmental institutions aim to achieve.



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## **NOTE:**

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<sup>i</sup> We use the term “transnational” to signify that, while “international” assumes an intact state-centric system based on exclusive territorial jurisdiction, the term “transnational” assumes that firms are embedded in a multi-actor system of economic governance and thus influence policy making (for a discussion see Kobrin, 2009: 369-360). Particularly in the context of the standards we are concerned with it is paramount to realize that states are not the only actors exercising governance. In line with this definition, we will also talk about “transnational governance” and not “global governance” (Djelic & Sahlin-Andersson, 2006).