

Opportunities and Problems of Standardized Ethics Initiatives – a Stakeholder Theory Perspective

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ABSTRACT. This article explains problems and opportunities created by standardized ethics initiatives (e.g., the UN Global Compact, the Global Reporting Initiative, and SA 8000) from the perspective of stakeholder theory. First, we outline differences and commonalities among currently existing initiatives and thus generate a common ground for our discussion. Second, based on these remarks, we critically evaluate standardized ethics initiatives by drawing on descriptive, instrumental,

and normative stakeholder theory. In doing so, we explain why these standards are helpful tools when it comes to ‘managing’ stakeholder relations but also face considerable limitations that can eventually hamper their successful expansion. We suspect that this discussion is necessary to conduct meaningful empirical research in the future and also to provide managers with a more clear-cut picture about a successful application of such initiatives. Third, we outline possible ways to cope with the identified problems and thus demonstrate how standard-setting institutions can improve the initiatives they offer.

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ABBREVIATIONS: FLA: Fair Labor Association; GRI: Global Reporting Initiative; ISEA: Institute for Social and Ethical Accountability; MNC: Multinational Corporation; NGO: Non-Governmental Organization; SA 8000: Social Accountability 8000; SAI: Social Accountability International; UN: United Nations

Introduction

The organization of corporate efforts to achieve credibility and trust vis-à-vis stakeholders is one of the key challenges for multinational corporations (MNCs). MNCs cannot neglect urgent problems like child labor, low safety standards, and corruption (Kolk and Tulder, 2004). All corporate actions have social, environmental, and economic impacts of one sort or another and MNCs cannot escape responsibility for those impacts, be they negative or positive. Global power of MNCs always correlates with global responsibility. As social and environmental problems are boosted to a new level, the sensitivity of stakeholders to

corporate activities in these fields has increased as well (Crane and Matten, 2004, p. 42). Although there has been a growing mass of legislation over the last couple of decades, governments have not yet been able to adequately address these social and environmental issues on an international level (Boatright, 2000; Goodell, 1999; Velasquez, 2000; Rasche et al., 2007). Therefore, in line with Hess (1999, 2001) and Gilbert (2003), we propose to consider *standardized ethics initiatives* (e.g., the UN Global Compact, SA 8000, and the ISO 26000 series that will be launched in 2008) as promising approaches that complement efforts by legislation to better address social and environmental issues (Frost, 2005; Sandberg, 2006). Such initiatives allow organizations to improve their understanding of demands placed upon them by constituencies, since they offer self-reflective and communicative procedures holding firms accountable for what they do (Belal, 2002).

Standardized ethics initiatives, within this article also called 'standards' or 'initiatives', represent pre-defined norms and procedures for organizational behavior with regard to social and/or environmental issues (Rasche and Esser, 2006, p. 253; Smith, 2002, p. 21). Adherence to these standards is ensured either by the organization itself, its stakeholders or independent institutions (i.e., auditing bodies). Whereas standardized ethics initiatives are increasingly used by firms to show their accountability toward stakeholders – for instance, around 4200 organizations comply with the UN Global Compact, 1373 production facilities are certified following SA 8000, and about 200 firms report in accordance with the Global Reporting Initiative (all data as of October 2007) – the academic community remains notably silent when it comes to a critical evaluation of these standards (for exceptions see Gilbert, 2001, 2003; Gilbert and Rasche, 2007). Although a selection of articles and books describe and list these initiatives (Göbbels and Jonker, 2003; Leipziger, 2001, 2003; McIntosh et al., 2003), an explanation of the *opportunities and problems* they create, seems to fall off the agenda.

Addressing this research deficit is essential for at least three reasons. First, considering the recent increase in the quantity of standards (Leipziger (2003) identifies 32 initiatives) and the resulting pressure from NGOs and other stakeholders, many managers

wonder whether they should 'hop on the train' and show compliance (Rasche and Esser, 2006). Since the implementation of standards usually goes hand-in-hand with a significant investment in time and money, offering a mere description of these initiatives is not enough: there needs to be a profound examination of the opportunities and problems they create in order to help managers make better decisions about the standard best suited to their firm. Second, those institutions that release standards (e.g., the United Nations) often express dissatisfaction with a lack of input from academics and practitioners regarding the meaningful extension of the initiatives, which is necessary to build trust in a time of growing cynicism from a range of stakeholders (Kell and Levin, 2003; Leipziger, 2003). Third, most standard-setting bodies are not very self-reflective and thus tend to obscure the problems associated with their standards. For instance, even though most standards demand 'stakeholder dialogue' as part of the implementation process, they only give limited advice on how these dialogical processes are supposed to be organized.

This article attempts to address these research gaps by explaining problems and opportunities created by standardized ethics initiatives from the perspective of stakeholder theory. Although stakeholder theorists, admittedly, are a broad church (Donaldson and Preston, 1995; Mitchell et al., 1997; Phillips et al., 2003; Stoney and Winstanley, 2001) and other perspectives such as insights from institutional theory (Beck and Walgenbach, 2005) add to the debate as well, we think that a discussion of these standards from the perspective of stakeholder theory is worthwhile for three reasons. First, stakeholder theory is particularly concerned with those groups of people that produce standards (e.g., NGOs) and are supposed to benefit from their implementation (e.g., employees). Standards, as Leipziger (2003, p. 36) indicates, are supposed to provide more accountability toward a firm's stakeholders by giving interested constituencies verified information about its acts and omissions regarding social and environmental issues.

Second, the implementation of standards has to be legitimized by stakeholders. That is to say, stakeholders are usually asked to provide feedback whether a standard is implemented appropriately and whether the 'content' of the standard really

reflects their ‘local’ concerns (ISEA, 1999; Leipziger, 2001). Third, stakeholder theory includes *descriptive* (i.e., reasoning about how corporations consider stakeholder interests), *instrumental* (i.e., reasoning about whether it is beneficial for firms to consider stakeholder claims), as well as *normative* (i.e., reasoning about why corporations should consider stakeholder claims) elements (Donaldson and Preston, 1995). Descriptive, instrumental, and normative stakeholder theory informs the discussion of standardized ethics initiatives because the question *why* organizations should account for stakeholder interests and *whether* it is beneficial to do so is inevitably linked to a discussion of *how* standards are put into practice.

Considering these insights, the objectives of this article are threefold. First, in order not to simply take standardized ethics initiatives for granted, we introduce their basic characteristics and commonalities. We emphasize that most initiatives share a set of attributes that we can use as a ‘common ground’ for our discussion (Carlson and Blodgett, 1997; McIntosh et al., 2003; Waddock, 2004). Second, by relating in-depth insights about the nature of accountability standards to descriptive, instrumental, and normative stakeholder theory, we explain a variety of problems and opportunities created by the initiatives that have not yet been taken up within the academic discussion but that can inform future empirical research and managerial practice. Third, based on the identified problems, we offer our recommendations to the institutions responsible for launching standardized ethics initiatives (e.g., the United Nations) about how they can meaningfully extend these concepts and thus make them more appealing to organizations.

To reach these objectives we proceed as follows. In section “Introducing standardized ethics initiatives”, we offer a structured discussion of standards and thereby outline commonalities and differences among existing initiatives. In section “Main lines of stakeholder theory”, we briefly introduce stakeholder theory. As there is not ‘one’ stakeholder theory but rather a variety of more or less coupled contributions (Freeman, 1984; Hillman and Keim, 2001; Kaler, 2002, 2003; Phillips, 2003; Stoney and Winstanley, 2001), we rely on Donaldson and Preston’s (1995) widely accepted distinction between descriptive, instrumental, and normative

stakeholder theory to map the field. In section “Assessing standardized ethics initiatives”, we draw on this distinction to analyze problems and opportunities created by the standards. We thereby hope to present convincing arguments that standards reflect a range of opportunities that managers should not simply let go, but at the same time also face problems that can endanger their successful implementation. On the basis of this discussion, the section “Implications – challenging standards’ problems” demonstrates how selected standards can be meaningfully extended to tackle some of the problems we have uncovered.

Introducing standardized ethics initiatives

Standardized ethics initiatives as tools to hold firms accountable

We use the term ‘standardized ethics initiatives’ as an umbrella-concept for voluntary (usually global) standards defining norms and procedures for organizational behavior with regard to *social and/or environmental issues*. These standards hold organizations ‘accountable’ for their doings and omissions, which is to say, they help firms to be answerable for their actions by assessing and communicating their impact on society and the environment (Brunsson and Jacobsson, 2000, p. 10; Gray, 2001, p. 11). In this sense, standard-setting institutions (hereafter: standardizers) develop predefined norm catalogs telling organizations (hereafter: adopters) which social and/or environmental issues to account for (Gray, 2001, 2002; Mathews, 1997).¹

As the definition indicates, on the one hand, standardized ethics initiatives share a certain common ground (which we discuss in more detail below); on the other hand, they have three particular differences:

- (1) *Standards differ with regard to the issues they standardize*: Some standards offer norms for either environmental or social issues (e.g., the FLA Workplace Code only addresses social issues), whereas others address both dimensions (e.g., the UN Global Compact).
- (2) *Standards differ with regard to the processes they standardize*: The initiatives we are interested

in, standardize processes of social and/or environmental accounting (i.e., the identification of relevant issues to be accounted for), auditing (i.e., the verification of the information that was collected on these issues), and/or reporting (i.e., the communication of this information to interested stakeholders). For instance, whereas SA 8000 has a clear focus on accounting and auditing, the Global Reporting Initiative only standardizes the reporting of information (Rasche and Esser, 2006, p. 253). Consequently, not all standards demand verification of compliance with their underlying norm catalog.

- (3) *Standards differ with regard to the specificity of their norms:* Some standards formulate general and aspirational norms that apply to almost every organization (e.g., the UN Global Compact), whereas other standards deliver very detailed norms that are tailored to a specific industry (e.g., the workplace code of the Fair Labor Association mostly addresses the apparel industry).

Commonalities among existing standardized ethics initiatives

Even though standardized ethics initiatives are quite diverse regarding the ‘content’ of their norms and the processes they standardize, there is a common ground. Following Gilbert and Rasche’s (2007) discussion of standardized ethics initiatives (see also Gilbert 2001, 2003), we argue that all standards can be traced back to the classic contractualist idea that

draws a distinction between macro- and micro-level contracts (see Figure 1). This distinction helps economic actors to deal with the question of why there should be contracts (e.g., standards) and how they can be enforced (Keeley, 1988; Locke, 1690/1948; Rawls, 1971).

The macro-level contract is a normative and hypothetical contract among economic participants [which] defines the normative ground rules for creating the second kind of contract. The second is an existing [micro-level] contract that can occur among members of specific communities, including firms, departments within firms, national economic organizations [...] and so on. (Donaldson and Dunfee, 1994, p. 254)

In the following, we discuss both levels with regard to four exemplary initiatives: the UN Global Compact, SA 8000, the Global Reporting Initiative, and the Fair Labor Association (for an overview see Table I). These initiatives were chosen in view of the fact that, according to Leipziger (2003), they are among the most widely used. These four standards also act as exemplary reference points throughout our further discussion, not to limit but to sharpen our argumentation and to link theoretical insights to practice.

On the *macro-level*, standards act as macro contracts and provide norm catalogs that define what organizations are responsible for. The Global Compact, for instance, defines 10 principles in the areas of human rights, labor, the environment, and anti-corruption to which organizations should adhere (Kell, 2005; Kell and Levin, 2003; United Nations, 2006; Williams, 2004). Comparably, SA 8000 defines eight central guidelines to audit ethical

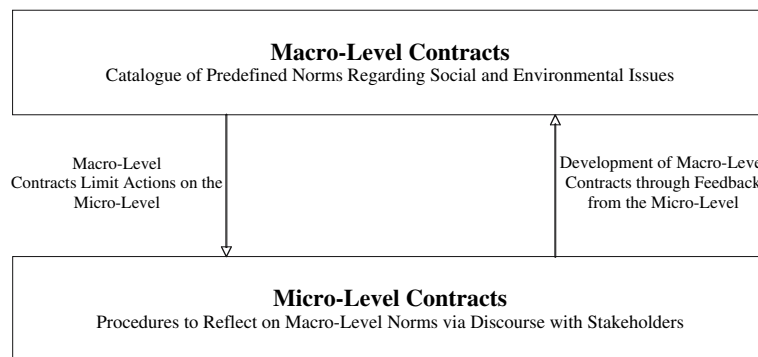


Figure 1. A framework to analyze standardized ethics initiatives (adopted and modified from Gilbert, 2003).

Opportunities and Problems of Standardized Ethics Initiatives

TABLE I

Overview of four selected standardized ethics initiatives (all data as of October 2007)

	UN Global Compact (4200 endorsers)	Social Accountability 8000 (1373 certified facilities)	The Global Reporting Initiative (about 200 reporters)	The Fair Labor Association
Macro-level contracts	Ten overarching principles on human rights, labor, the environment, and corruption	Eight key guidelines on workplace conditions (e.g., child labor, forced labor, wages, and health and safety)	A variety of indicators organized in six central categories (e.g., environment and product responsibility)	Nine key principles (e.g., on wages and benefits, hours of work, harassment and abuse, and non-discrimination)
Micro-level contracts	Development of local level networks between participating firms and other stakeholders	Implementation of a management system including procedures for stakeholder dialog	Requires stakeholder dialog to identify relevant indicators from the overall list	Development of relations with local labor, human rights, and religious organizations

workplace conditions throughout global supply chains and thus defines norms that prohibit child labor and discrimination (Gilbert, 2001; Leipziger, 2001; SAI, 2001). The Global Reporting Initiative (GRI) provides predefined indicators in six central categories (e.g., with regard to environmental pollution) that firms should use to compose their sustainability reports (GRI, 2002). In a similar manner, the Fair Labor Association defines norms that organizations are supposed to implement and monitor in order to bring their manufacturing sites into compliance with FLA standards (FLA, 2006a). Of course, macro-level contracts can at best provide a broad frame that needs to be complemented by procedures enabling the discursive clarification and contextual adaptation of these norms on the micro-level (Teubner, 1983, p. 254).

On the *micro-level*, the implementation of macro-level contracts within the respective organization (e.g., manufacturing site or subsidiary) takes place. Inevitably, standard implementation has to consider certain contextual requirements (e.g., with regard to the location of the manufacturing site, its primary

industry, and size) which influence, how abstract macro-level norms are embedded into day-to-day operations (Leipziger, 2001, p. 107). Most standardized ethics initiatives take into account that there can be no one-size-fits-all approach and thus offer guidance on how to come up with a discursive interpretation of macro-level contracts on the micro-level. This, of course, requires dialogical processes that allow firms to critically reflect upon their practices and the demands placed upon them by their stakeholders (Hess, 2001, p. 310).

SA 8000, for example, proposes in its guidance document to “investigate, address, and respond to the concerns of employees and other interested parties” (SAI, 2001, p. 8). Leipziger (2001, p. 96) emphasizes that during implementation of SA 8000 cooperation with NGOs is unavoidable since NGOs understand local needs and can help to make the rather abstract macro-level norms manageable (on the micro-level). Likewise, the Global Compact asks for establishing local (i.e., regional) learning networks on the micro-level. These bring together implementing organizations and other stakeholders

in order to develop innovative solutions to particular problems arising with regard to the 10 (macro-level) principles (Kell and Levin, 2003, p. 158). In as much the same way, the FLA asks participating companies to develop close relationships with local labor, human rights or religious organizations to ‘operationalize’ the workplace code of conduct (FLA, 2006a). Similarly, the GRI requires adopters to engage in stakeholder dialogs to identify relevant indicators from the general list provided by the standard on the macro-level (GRI, 2002). These examples illustrate that standardized ethics initiatives move toward a procedural understanding of regulation by fostering the implementation of a discursive infrastructure that helps participating firms to make sense of the macro-level norms in their respective micro-level environment (Nonet and Selznick, 1978; Orts, 1995; Teubner, 1984, 1983).

Standardized ethics initiatives – the role of stakeholders

Since we use stakeholder theory as a framework to explain opportunities and problems of standardized ethics initiatives, we need to investigate the role of stakeholders with regard to these initiatives. Stakeholders play three different roles in the context of the standards we are interested in. First, stakeholders are the *addressees* of standards. One common feature of standardized ethics initiatives lies in the purported aim to address the information needs of different stakeholders (Owen et al., 2001, p. 265). Standards are supposed to help organizations to identify what they are responsible for and to provide information with regard to these identified issues to all relevant parties (Gray, 2001, p. 11). Second, stakeholders are also *participants* in the process of standard implementation. Standards ensure that internal as well as external stakeholders are included in the accounting, auditing, and reporting processes that organizations perform with regard to social and/or environmental issues (ISEA, 1999, p. 16). Whereas this enables stakeholders to participate in processes on the micro-level, most standards also include stakeholders in the development process of macro-level norms. Third, stakeholders also act as ‘*watchdogs*’ checking whether corporations really comply with a standard they claim to have implemented. This role of stakeholders is particularly important in the context of those

standards that do not demand independent verification of compliance. In this case, interested stakeholder groups (e.g., NGOs and trade unions) are asked to issue complaints about non-compliance to the respective standard-setting institution. Considering these three different roles of stakeholders, it becomes obvious that (a) stakeholders are at the heart of the phenomenon we are interested in (i.e., standards) and, consequently, (b) stakeholder theory can act as an appropriate perspective to explain the opportunities and problems that standards create.

Main lines of stakeholder theory

In opposition to an exclusive focus on a firm’s stockholders, stakeholder theory makes serving the interests of those groups and individuals identified as ‘stakeholders’ the primary purpose of an organization (Kaler, 2003; Phillips, 2003; Reed, 1999). Based on the assumption that *all* stakeholders have more or less legitimate interests in an organization, stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes (Jones and Wicks, 1999, p. 207). Starting with the trailblazing work of Edith Penrose (1959/1995), who opened the ‘black box’ of the firm and enhanced our understanding of stakeholders inside and outside the organization (Pitelis and Wahl, 1998), stakeholder theory gained momentum in the 1980s and 1990s (Clarkson, 1995; Donaldson and Preston, 1995; Freeman, 1984; Freeman and Reed, 1983; Friedman and Miles, 2002; Jones and Wicks, 1999; Mitchell et al., 1997; Pajunen, 2006; Phillips, 2003). These and other academic contributions provide a wide range of different perspectives on stakeholder theory (for an overview see Stoney and Winstanley, 2001). It is not our intention to review stakeholder theory in this article but to use it as a theoretical framework to pursue our research goal. Hence, we do not defend any particular version of stakeholder theory or even stakeholder theory in general. Our concern with stakeholder theory lies in assessing its potential to help us identify and explain the problems and opportunities that standardized ethics initiatives bring about.

Against this background, we rely on Donaldson and Preston’s (1995) distinction between

‘descriptive’, ‘instrumental’, and ‘normative’ aspects of stakeholder theory for several reasons (for a critique see Kaler, 2003). We use this framework since it (a) is the most established one and is consequently known by a variety of scholars (Crane and Matten, 2004, p. 54), (b) captures a considerable amount of the stakeholder literature ranging from contributions that refer to agency theory (Hill and Jones, 1992) to more classical ‘normative’ pieces based on moral philosophy (Reed, 1999), and (c) offers an appropriate framework to scrutinize different standardized ethics initiatives since the three dimensions emphasize fundamental questions that can guide their critical assessment (e.g., whether it is beneficial to use standards to account for stakeholder interests [instrumental aspect] and/or how standards provide appropriate procedures to consider stakeholders [descriptive aspect]).

Descriptive stakeholder theory

The descriptive aspect of stakeholder theory explains *how organizations actually take into account stakeholder interests*. Accordingly, stakeholder theory is used to “describe, and sometimes to explain, specific corporate characteristics and behaviors” (Donaldson and Preston, 1995, p. 70). In this sense, descriptive stakeholder theory attempts to show that concepts introduced by theory somehow correspond to the observed reality in organizations. For instance, scholars have distinguished those firms that practice stakeholder management from those that do not (Clarkson, 1991) and have described a variety of ‘engagement mechanisms’, like interviews, focus groups, and stakeholder committees (Belal, 2002; Friedman and Miles, 2004; Kaptein and Tulder, 2003; Unerman and Bennett, 2004). Some scholars have even proposed generic strategies for stakeholder management (Savage et al., 1991) and general communication models for ‘talking’ to different constituencies (Crane and Livesey, 2003). Whereas some of these contributions quickly move from the *is* to the *ought*, and thus from descriptive to normative arguments (Donaldson and Preston, 1995, p. 77), it is obvious that one important stream of stakeholder theory focuses on how (i.e., by which means) organizations take their stakeholder interests into account.

Instrumental stakeholder theory

Another important stream of stakeholder theory tries to find out *whether it is beneficial for an organization to engage with its stakeholders* (Donaldson and Preston, 1995, p. 71). The goal is to identify connections, or a lack of connections, between the existence of stakeholder management and the achievement of corporate performance objectives. Whereas we are well aware that there are different types of performance objectives, ranging from more traditional definitions (e.g., profitability and growth) to non-traditional performance criteria (e.g., increased stakeholder trust; see Barney, 2002; Ruigrok and Wagner, 2003), our conceptual remarks are not focused on any particular performance measure. Berman et al. (1999), for instance, find evidence that there is a linkage between stakeholder management and financial performance. Similarly, Hillman and Keim (2001) come to the conclusion that stakeholder management leads to improved shareholder value. Another much discussed contribution from the instrumental research strand is Hill and Jones’s (1992) ‘Stakeholder-Agency Theory’ that uses agency theory to model the relation between stakeholders (principals) and managers (agents). In this sense, there is an implicit contract between each stakeholder group and management. Hill and Jones suggest that because of these relations, managers are able to complete tasks in a more efficient way. Thus, the engagement of firms with their stakeholders is positively linked to organizational performance. This brief summary of the literature cannot do justice to the rich conceptions and research designs that have been developed to examine the relation between stakeholder management and certain outcome measures. Yet, it should be clear that this stream of stakeholder theory examines the worthiness of stakeholder management from a perspective focused on outcome.

Normative stakeholder theory

Normative stakeholder theory discusses *why organizations should take into account stakeholder interests* (Donaldson and Preston, 1995, p. 71). This stream of stakeholder theory attempts to reach beyond instrumental arguments that base the question of

‘Why consider stakeholders?’ on an exclusive discussion of performance. Normative stakeholder theory interprets the function of the corporation by referring to certain ‘moral guidelines’. Hence, as Donaldson and Preston (1995, p. 72) remark, “a normative theory attempts to interpret the function of, and offer guidance about, the investor-owned corporation on the basis of some underlying moral or philosophical principles.” Whereas instrumental stakeholder theory is hypothetical in that it is based on claims like, ‘If a firm wants to achieve (avoid) certain outcomes, it needs to adopt (not adopt) particular principles’, normative stakeholder theory is more categorical in that it argues, ‘Do (do not do) this or that because it is the right (wrong) thing to do (from a certain moral point of view)’. Many different moral points of view have been employed to stress the need for considering a firm’s stakeholder. Gilbert (2003) and Reed (1999), for instance, refer to discourse ethical arguments, while Evan and Freeman (1988) aim at reconceptualizing the theory of the firm along Kantian lines, and Gibson (2001) asserts that deontological views in general have offered the strongest arguments for a normative stakeholder approach.

We believe that the distinction between these three aspects is predominantly of analytical nature and is not ‘clearly’ reflected in each and every contribution. Yet, as we will show in the next section, insights from the three aspects can be employed to identify and explain the problems and opportunities created by standardized ethics initiatives. Table II summarizes the key concern of the three approaches to stakeholder theory and lists main contributors of the different research streams.

Assessing standardized ethics initiatives

Opportunities and problems from the perspective of descriptive stakeholder theory

From the perspective of descriptive stakeholder theory there is the question of *how and to what extent standardized ethics initiatives help organizations to account for stakeholder claims*. We argue that, on the one hand, standards reflect an opportunity because they show organizations how to take stakeholder claims into account in practical ways, but on the other hand, they cause problems by offering rather unspecific advice on how to communicate with interested parties.

Opportunities from the perspective of descriptive stakeholder theory

Contrary to firm-specific codes of conduct, which usually simply report *that* it is necessary to account for stakeholder interests (Kaptein, 2004; Sethi, 1999), standardized ethics initiatives give organizations direction in *how* this should be done. Indeed, many standards specify so-called *stakeholder engagement mechanisms* that are supposed to be applied on the micro-level in order to organize the ‘local’ implementation of norms proposed on the macro-level. Focusing on these procedures is important since it gives adopters an idea of how a standard can be implemented throughout the organization. We argue that this distinctive feature of standards helps firms to better account for the interests of their stakeholders and promotes learning processes about a corporation’s local context.

TABLE II
Main lines of stakeholder theory

	Descriptive stakeholder theory	Instrumental stakeholder theory	Normative stakeholder theory
Concern	How do organizations take stakeholder interests into account?	Is it beneficial for organizations to take stakeholder interests into account?	By referring to different moral points of view, why should organizations take stakeholder interests into account?
Selected contributors	Andriof et al. (2003) Clarkson (1991) Mitchell et al. (1997)	Freeman and Evan (1990) Hill and Jones (1992) Sharplin and Phelps (1989)	Carroll (1989) Gibson (2001) Reed (1999)

Consider the following example. SA 8000 delineates a variety of procedures that are supposed to enable organizations to engage with their stakeholders (Rohitratana, 2002). In fact, the standard asks firms to appoint a senior management representative (who acts as a spokesperson and addressee for stakeholder claims), to maintain records of suppliers' commitment to the standard (that act as a catalyst for continuous dialog with business partners), and to install communication mechanisms to uncover and address concerns of interested parties (Leipziger, 2001, p. 75).

Making stakeholder dialogs an inevitable part of standard implementation is favorable because it enables managers to learn about the needs and claims of their constituencies. Indeed, as DeRuisseau (2002, p. 226) remarks, stakeholder engagement is of utmost importance to modifying the general macro-level norms of a standard with regard to the local context of a particular production facility. Modifications of macro-level norms are necessary to account for the idiosyncrasies of a local context (Ortmann and Salzman, 2002). Considering that most managers, particularly in developing countries, lack precise knowledge regarding the concretization of terms like 'health and safety policy' or 'anti-discrimination regulation', this feature reflects an opportunity to better account for stakeholder interests.

Problems from the perspective of descriptive stakeholder theory

Although standards draw managers' attention to the need to engage with a firm's stakeholders as part of the implementation process, the advice that most standards provide on *how* to actually organize this engagement process in general and *how* to frame the communication processes with affected stakeholders in particular is often not specific enough. Merely requesting dialog with local NGOs and other stakeholders can be challenging for managers who do not know (1) who their relevant stakeholders are and whether their claims are legitimate, (2) by which means to talk to them, and (3) how to organize such dialogs in a democratic way (Belal, 2002). Given that many adopting organizations are small- and medium-sized enterprises, which usually lack the financial means to employ consultants, these issues can turn into serious problems (Rohitratana, 2002, p. 61).

As a case in point, Gilbert and Rasche (2007) argue that, even though SA 8000 demands stakeholder dialogs as a key procedure within the overall implementation process, the standard does not offer precise information regarding *how* to organize the discourse and *which* stakeholders to include. The *SA 8000 Guidance Document* simply requires that a firm "shall establish and maintain procedures to communicate regularly to all interested parties, data and other information regarding performance against the requirements of this document." (SAI, 2001, p. 8) In similar fashion, the *FLA's Principles of Monitoring* (2006b, p. 2) state that implementers are supposed to "consult regularly with human rights, labor, religious or other leading local institutions that are likely to have the trust of workers and knowledge of local conditions."

These rather imprecise remarks can turn into operational problems. First, stakeholder dialogs initiated during the implementation of a standard cannot be assumed to involve a full cast of players (ISEA, 1999; Owen et al., 2000; Rasche and Esser, 2006). Although dialog can be the result of standard implementation, communication is often focused on key stakeholders like employees, customers, and shareholders but neglects the legitimate interests of other parties (KPMG, 2002, pp. 24–25). Second, the absence of clear-cut criteria for designing stakeholder dialogs can also be challenging because missing 'discourse rules' hamper the judgment whether a particular claim is legitimate or not. Mitchell et al. (1997) have pointed to the importance of 'legitimacy' as a criterion to rank stakeholder claims. However, to assess the legitimacy of a claim, managers need a well-developed and robust definition of the term, which is currently not provided by any standard. Third, unspecific remarks with regard to the design of required stakeholder dialogs also cause a variety of operational problems. For instance, effective stakeholder dialogs need to be performed in the local language spoken by all participants (Unerman and Bennett, 2004). In addition, the absence of rules that regulate dialog can lead to operational problems when it comes to questions such as: 'How do we deal with confidential information?' These specifications are, we submit, of importance in order to lower the potential of misusing standards as another exercise in public relations (Solomon and Lewis, 2002).

Opportunities and problems from the perspective of instrumental stakeholder theory

From the perspective of instrumental stakeholder theory we are interested in *whether the implementation of standardized ethics initiatives as a tool for stakeholder management is beneficial for companies*. If standards represent one possible way to achieve ‘stakeholder accountability’ (Rasche and Esser, 2006), there is, of course, the question of why organizations should invest in *these* initiatives to account for stakeholder interests (and not in other tools like codes of conduct or ethics hotlines).

Opportunities from the perspective of instrumental stakeholder theory

There are particularly three reasons why accounting for stakeholder interests by means of standards facilitates firms’ performance objectives: (1) increased stakeholder trust, (2) improved productivity, and (3) lowered government fines. First, contrary to internal codes of conduct, some standards ask for verification by independent auditing bodies and thus are more trusted by stakeholders as *not* being about lip service (Sethi, 1999, p. 226). Hence, we suspect that a properly implemented standard lowers the likelihood that a firm’s accountability-related activities result in ‘hypocrisy’ – that is the inconsistency of talk, decision, and action (Brunsson, 1989). Even if no formal certification mechanism is in place, compliance with standardized ethics initiatives is regularly watched by NGOs, which, because standards provide performance criteria for a *variety* of firms, find it easier to assess an organization’s commitment to a standard and compare it with other companies’ activities. As a result, standards entail greater accountability than firm-specific codes of conduct (Leipziger, 2003, p. 37) and increase stakeholder trust, which is associated with lowered costs of conflict (DeRuisseau, 2002, p. 228).

Second, currently existing case studies about the use of standardized ethics initiatives also report enhanced productivity and product quality as a result of implementation. Thaler-Carter (1999) suggests that implementation of SA 8000 results in better-trained workers, which, in turn, enables firms to retain workers more easily and also to increase productivity (for comparable results see also Hanock, 1998). Similarly, Leipziger (2001, p. 3) states that *Balance*

Athletic Shoe, Inc. has reported an increase of 25% in work productivity after it cut working hours among its suppliers due to the implementation of SA 8000. Thus, standardized ethics initiatives are appealing since they point managers’ attention to chronically undervalued costs of ethical failure such as employee turnover or damaged employee morale (Thomas et al., 2004, p. 58; also Goyder and Desmond, 2000; Zadek, 2004).

Third, adherence to standards can also lower potential government fines in the case of exposed misconduct. MNCs are increasingly taken to court in the country of their headquarters for misconduct in developing countries. For instance, the *Financial Times* reports that “any multinational with its parent company in England will be liable to be sued here [in the UK] in respect of its activities anywhere in the world.” (Ward, 2000, p. 35). A similar picture arises in the United States. There, the *Alien Tort Claims Act* (ATCA) allows prosecution for acts occurring outside the U.S. that violate international law. In 1996 the U.S.-based MNC *Unocal Corporation* was sued for human rights violations during its operations in Burma (*National Petroleum News*, October 1996, p. 8). Compliance with standardized ethics initiatives can help firms to reduce or even avoid such problems proactively and, consequently, lower possible government fines and a company’s legal bills in the long run. Although this argument seems ‘functionalistic’, the reduction of long-term legal bills often seems to be one of the key motivations to adopt a certain standard (Leipziger, 2001, p. 8).

Problems from the perspective of instrumental stakeholder theory

Costs associated with the implementation of a standard are typically considered to lower firm performance (Leipziger, 2001, p. 7). How much does it cost to implement a standard? Unfortunately, there is no simple answer to that question. Implementation costs depend on a variety of factors, among them, but not limited to: the nature of the standard itself (Does the standard require third-party certification?), the parties involved in the implementation process (Does the company need to hire consultants?), and the scope of the standard (Does the standard focus on one production facility at a time or does it address an entire corporation?).

Opportunities and Problems of Standardized Ethics Initiatives

One can draw a distinction between different types of costs that are likely to occur. For the sake of simplicity, we can distinguish internal from external costs (DeRuisseau, 2002). External costs arise when a standard requires certification by an independent auditing body. Then, not only the costs for the audit itself, which range from US\$1000–5000 (Hirschland and Kantor, 2006), but also the costs for preparing the audit can create problems for financially fragile and/or small companies in developing countries. External costs also occur when outside consultants need to be hired because the implementing company lacks expert knowledge regarding the content of the standard and the process of implementation. Thus, standards that do not require certification are *not* necessarily ‘cheaper’ to obtain. It is precisely their non-certified and aspirational nature that consumes a lot of management time and thus creates opportunity costs (Gilbert, 2001). Internal costs include expenditures for a gap analysis that is necessary to see what needs to be done in order to qualify for compliance as well as costs for training workers in accordance with standards’ guidelines (Leipziger, 2001, pp. 60–61). Internal expenses also include corrective actions (e.g., a redesign of production processes according to health and safety standards) that are necessary to achieve compliance.

Opportunities and problems from the perspective of normative stakeholder theory

From the perspective of normative stakeholder theory, we are faced with the question of *why organizations should take into account stakeholder interests by adhering to standardized ethics initiatives*. This question, of course, supplements and extends the instrumental dimension of our discussion by emphasizing not merely the instrumental but also, and maybe most important of all, the moral reasons for complying with a certain standard.

Opportunities from the perspective of normative stakeholder theory

A critical analysis of standardized ethics initiatives reveals that each initiative draws on a moral point of view. This moral point of view helps adopting organizations to understand why accounting for

particular stakeholder interests is necessary from a moral–philosophical perspective. Following the line of normative stakeholder theory, one cannot make ethical judgments about the rights or wrongs of certain norms included in a standard without having some ground for justification. Kant (1788/1997) already demanded that reasons rather than blunt preferences should guide parties when choosing mutually acceptable norms. The gist of the argument is that without a sufficient moral justification of a standard, it is not clear why certain norms – and not others – should guide corporate actions. Although we believe that in-depth reflections about the moral points of view of certain standards are rather the exception than the rule, the existence of a well-justified moral perspective can (a) provide those who are responsible for implementation at the micro-level with strong arguments why a particular standard should (or should not) be implemented, and, consequently, (b) represents a reason for winning others (e.g., suppliers) over to this way of self-regulation (Gilbert and Rasche, 2007). This, of course, raises the question what particular moral points of view are represented by the different standards?

A closer look at the standards discussed throughout this article reveals that they are largely based on the idea of communicative rationality; this means they try to arrive at a universally accepted consensus about a particular macro-level contract through discourse. The basic idea of communicative rationality is that the universal validity of a moral norm cannot be justified in the mind of an isolated individual reflecting on an issue but only in a process of argumentation between different stakeholders. Hence, every validity claim to normative rightness depends upon a mutual understanding achieved by individual stakeholders in argument. The concept of communicative rationality as included in the standards is widely discussed in the literature on business ethics (Beschorner, 2006; Gilbert, 2003; Rasche and Esser, 2006; Ulrich, 1998). It is evident that the idea of communicative rationality can be traced back to approaches like ‘discourse ethics’ as developed by Habermas (1990, 1993, 1996, 1999, 2006) or the ‘value added approach to business ethics’ introduced by Bird (1996, 2003). Following this line of thought means that normative validity cannot be understood as separate from the argumentative procedures used

by stakeholders, such as those used to resolve issues concerning the legitimacy of actions and the validity of norms governing their interactions (Schnebel, 2000; Ulrich, 1998).

When assuming that macro-level norms represent the moral point of view of a standard and that micro-level norms represent the local understanding of this moral point of view, we can start to realize why standards offer an opportunity to firms from the perspective of normative stakeholder theory. On the macro-level, standards do not simply delineate macro-level norms but develop them in a *communicative process* in which a variety of stakeholders are included. SA 8000, for example, was developed by an international multi-stakeholder advisory board (SAI, 2005). This advisory board – consisting of representatives from the corporate sector, NGOs, and trade unions – discussed various requirements and came up with the final certification standard.

We argue that the communicative rational manner in which the moral point of view of a standard is developed helps implementing organizations to better understand *why* certain (and not other) norms are of relevance. Indeed, adopters can perceive standards' norms as relevant because advocates of those groups that are influenced by the standard have considered them as important, appropriate, and acceptable. This communicative approach entails greater accountability than internally developed codes of conduct since more than half of internal codes are written by the head office and thus do not represent communicative rationality (O'Dwyer and Madden, 2006).

Problems from the perspective of normative stakeholder theory

Almost all standardized ethics initiatives claim to be valid on a global scale and thus offer *universally valid* contracts on the macro-level. For example, the UN Global Compact is based on 10 'global' principles (Williams, 2004; United Nations, 2006) and the GRI rests on reporting guidelines that are supposed to be valid all over the world (GRI, 2002). From the perspective of communicative rationality as advanced, for instance, in Habermasian discourse ethics, however, a norm can only be universally valid if it is accepted by *all* affected parties in a moral discourse (Habermas, 1999, p. 42). This raises the

question of whether the communicative norm-development process that underlies most standards includes advocates of all affected parties, or at least all primary parties. We argue that, although standards' norm-development process is based on communication, the underlying discourses are often limited to a narrow set of participants.

Gilbert and Rasche (2007), for instance, show that the guidelines of SA 8000, although developed by a *Multistakeholder Advisory Board*, were generated without the auspices of key stakeholders like suppliers from developing countries and, as a consequence, basically represent Western norms. Likewise, Fung (2003, p. 64) argues that the production of most standards is dominated by voices from developed nations and that, consequently, critics see the resulting norms as "rules that wealthy nations impose upon poor ones." Important aspects of macro-level norms cannot be discussed without the inclusion of at least all key stakeholders.

It is also surprising that most standardizers talk to large MNCs (who often require their suppliers to comply with a standard) but tend to ignore production facilities in developing countries that have to implement the standard. Although the GRI (2002, p. 26) demands that "reported information should be complete in relation to the operational boundaries of the reporting organization", its *Stakeholder Council* rarely contains any representatives of MNCs' small subsidiaries. Of course, we are well aware that due to resource and time constraints, standardizers cannot invite *all* affected parties. Nevertheless, we believe that standardizers can do more to work against the regulative idea of an inclusive discourse. We suspect that attempts (a) to make the communicative character of the norm-development process more explicit and (b) to use it as a yardstick to improve the process of developing macro-level norms can make standardized ethics initiatives even more attractive in the long run.

Table III summarizes those opportunities and problems uncovered and explained by our analysis and it also depicts the questions that guided our investigation. We do not claim that our analysis covers all problems and opportunities created by standardized ethics initiatives. We focused on those issues that arise when analyzing standards from the three lines of stakeholder theory.

TABLE III

Problems and opportunities of standardized ethics initiatives from the perspective of stakeholder theory

Standardized ethics initiatives	Stakeholder theory		
	Descriptive stakeholder theory	Instrumental stakeholder theory	Normative stakeholder theory
Underlying question	How and to what extent can standardized ethics initiatives help to account for stakeholder interests?	Is the implementation of standardized ethics initiatives as a tool to account for stakeholder interests beneficial for a firm?	Why do organizations account for stakeholder interests by adhering to standardized ethics initiatives from a particular moral point of view?
Opportunities of standardized ethics initiatives	Standards provide guidance how to practically take into account stakeholder interests by demanding stakeholder engagement	To engage with stakeholders via standards is beneficial because of lowered long-term costs and increased productivity	Standards provide firms with a communicative-rational moral point of view helping them to understand why stakeholder interests need to be accounted for
Problems of standardized ethics initiatives	Advice given on how to design communication with stakeholders is too unspecific leading to implementation problems	To engage with stakeholders via standards creates a variety of costs that can be harmful (especially to small organizations)	The design of discourses to develop norms is often insufficient from a communicative-rational point of view

Implications – challenging standards’ problems

Descriptive perspective – how to organize local stakeholder dialogs?

As identified above, the unspecific advice of standards regarding how to set up stakeholder engagement mechanisms on the micro-level is the crucial problem from the perspective of descriptive stakeholder theory. Of course, there can be no ‘one’ predefined stakeholder engagement mechanism that is part of all standards and tells every implementing organization how to account for stakeholder interests. Yet, by offering unspecific remarks regarding the design of stakeholder dialogs, standardizers neglect existing insights from stakeholder theory.

Concerning the difficulty of determining who counts as a stakeholder and thus who should be consulted when it comes to standard implementation, Mitchell et al. (1997) have outlined a framework to clarify stakeholder salience. According to their argumentation, stakeholders can be identified and

ranked with regard to their *power* as well as the *legitimacy* and *urgency* of their claims (for empirical evidence see Agle et al., 1999). They refer to power as the ability to influence the actions of organizations, legitimacy as the perceived appropriateness of claims (Suchman, 1995), and urgency as an indicator of whether or not these claims call for immediate attention. We believe that it would be helpful to include these remarks in the guidelines that standards offer to help adopters with implementation. Instead of just naming exemplary stakeholder groups, as do the current versions of the *FLA’s Principles of Monitoring* and *SA 8000’s Guidance Document*, managers and auditors should base their decision about who to include in local stakeholder dialogs on more precise criteria.

In addition, standardizers also have to specify their remarks regarding the ways in which firms can communicate with stakeholders. Even though virtually all standards advise their adopters to become engaged in local stakeholder dialogs, they do not offer any remarks on how these dialogs are supposed to be organized. To operationalize stakeholder dialogs, Kaptein and Tulder (2003, pp. 212–213) out-

line a range of preconditions for an effective conversation, such as: establishing clear rules for the discussion beforehand, learning about each others' expectations, and only allowing validated information as a basis for argumentation. Bird (1996, 2003) also advances some procedures required to accomplish "good moral communications" such as: parties should be fully and reliably informed about an issue, interaction should be voluntary, and no party should exercise unjust power in a process of argumentation.

To operationalize these remarks, we suggest that standards should supplement their existing guidelines with a *preamble* comprising criteria for stakeholder identification and procedures for communicating with them. This has the particular advantage that managers can gain a more precise idea of how to design and maintain stakeholder dialogs between a diverse set of people and thus enhance the inclusivity of communication. More inclusive stakeholder communication also provides a better basis for interpreting macro-level norms on the micro-level, which, in the end, can increase the normative validity of norms.

Instrumental perspective – the costs of compliance

Although we discussed the costs of compliance as a problem, it is obvious that serious stakeholder engagement cannot, and should not, be achieved 'for free' (Waddock and Smith, 2000). The costs of compliance should not be reduced (e.g., by not demanding audits), since achieving accountability, as Gray (2001, p. 11) remarks, needs to 'hurt'. Making the implementation of standardized ethics initiatives a cheap(er) endeavor risks fostering cynicism among civil society groups and academics who already criticize firms' interest in standards as too often based on 'rhetoric' and 'lip service' (Solomon and Lewis, 2002; Thérien and Pouliot, 2006). Despite this critique, some standards still shy away from pricey third-party verification. Especially the Global Compact does not demand any kind of verification. Accordingly, Sethi (2003, p. 1) states that "the Global Compact [...] provides a venue for opportunistic companies to make grandiose statements of corporate citizenship without worrying being called to account for their actions." We see two ways in particular to better cope with the cost issue.

First, standardizers can make the costs of compliance more transparent. When examining the

different standards, one hardly finds explicit statements about (a) the nature of costs that occur and (b) exemplary amounts with regard to company size. Enhanced transparency reduces uncertainty among adopters about the costs of compliance. Second, in those cases where MNCs demand compliance from their suppliers, auditing costs could be shared. Currently, sourcing companies bear part of the financial obligation in only 50% of cases (Hirschland and Kantor, 2006) and thus run the risk that their business partners will avoid implementing the standard due to pressures in what are often very competitive pricing environments.

Normative perspective – toward communicative rational norms

Our analysis of standards from the perspective of normative stakeholder theory revealed that, even though standards aim at a communicative rational moral point of view, their norm-development process does not include all key stakeholders. Although the regulative idea of, for instance, Habermasian communicative rationality is not fully realizable in practical communication (Power and Laughlin, 1996), the idea of developing macro-level norms with all key stakeholder groups has a counterfactual potential to facilitate a greater degree of equity among stakeholders and to move from a one-sided prioritization of economically powerful interest groups (Unerman and Bennett, 2004). Hence, to give standards a well-justified fundament and to overcome existing discursive deficiencies, the development process of macro-level norms has to be based upon a communicative process of sense-making to pacifying conflicting positions and to become more *transparent* (Scherer and Palazzo, 2007). In line with others (Habermas, 2006; Scherer and Palazzo, 2007), we believe that standards developed on the basis of dialogs and public justifications accessible to all stakeholders will promote mutual understanding and increase their acceptance in the business world.

Conclusions

This article aimed to introduce standardized ethics initiatives, identify and explain the opportunities and

problems they create from the perspective of stakeholder theory, and provide recommendations on how to deal with the uncovered problems. The most important contribution of our discussion is the exposure of a variety of hitherto neglected opportunities and problems related to standardized ethics initiatives. Inevitably, one could raise a variety of other issues (e.g., the softening of standard requirements due to increased competition between auditing bodies). We are aware that our analysis only discussed selected opportunities and problems. Nevertheless, since our argumentation focused on one specific perspective (viz. stakeholder theory), we see the existence of other opportunities and problems not as a shortcoming but as a chance for further research.

Above all, we consider the practical quality of our analysis as a major strength. Standardized ethics initiatives are on the agenda of many managers, yet not sufficiently discussed by the academic community. Particularly, we see four opportunities for further research. First, we need more conceptual work that discusses the relation between different standards and possible ways for convergence as well as barriers that can eventually hamper a convergence process. Second, we believe that both standardizers and adopting firms can benefit from acknowledging insights from concepts like discourse ethics or the value-added approach to business ethics in order to offer a more solid justification of their respective guidelines and foster communication about the macro- as well as the micro-level contracts. Third, we call for more empirical research about how standardized ethics initiatives are produced. To most stakeholders, the process of norm-development remains a black box. Tamm-Hallström's (2006, 2000) empirical investigations of the production process of ISO standards demonstrate that we can learn a lot from such studies. Finally, it is not only worthwhile to study the production but also the adoption of standardized ethics initiatives by organizations. Single case-based empirical research needs to show how different kinds of firms implement standards and what obstacles they face along the way. We suspect that investigations in these research areas can contribute from and draw on our analysis in order to develop a specific research focus.

Note

¹ Standardized ethics initiatives are different from codes of conduct (Cavanagh, 2004; Mamic, 2005; Sethi, 1999; Sethi and Williams, 2000). First, contrary to standards that are supposed to be applicable across time and space (viz. by different firms in different sectors/countries at different times), codes of conduct are firm-specific and thus *not* generalizable across organizations (Leipziger, 2003; Lozano, 2001; O'Dwyer and Madden, 2006; Preston et al., 1995). Second, standards can, but do not have to, demand third-party certification from implementing companies, while most codes of conduct either offer no monitoring mechanisms at all, or, if such a mechanism is in place, the monitoring is limited to an internal self-observation by the firm (Tulder and Kolk, 2001). Third, codes of conduct do not usually provide any information on how the content of the code is supposed to be implemented (e.g., by subsidiaries or suppliers), while standards typically give some advice on how to install 'management systems' (Leipziger, 2001, p. 59 *et seq.*) that are supposed to ensure that guidelines of the standard are sufficiently implemented.

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