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**MULTINATIONALS AND CODES OF CONDUCT:  
DYNAMICS AND EFFECTIVENESS**

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## **MULTINATIONALS AND CODES OF CONDUCT: DYNAMICS AND EFFECTIVENESS**

**Ans Kolk & Rob van Tulder**

In the course of the 1990s, almost every major company in the world either drew up and implemented a code of conduct or contemplated to adopt such a document to express its corporate social responsibility. But how has this trend developed and what does it actually mean? Are companies indeed increasingly becoming socially responsible and responsive to societal concerns? Is civil society becoming more effective in pressing for responsible business practices? And are governments correct in putting their hopes on corporate self-regulation? Or does this development merely represent better communication (PR) strategies, with codes of conduct as a new form of window dressing? And what can we say about the effectiveness of codes of conduct, from a societal and managerial perspective? Do explicit codes help to tackle major present-day world problems? And are they useful instruments to facilitate the multiple dilemmas involved in 'managing across borders' – the difficulties that multinational companies face when operating abroad?

It is much easier to pose these broad questions, which we did six years ago when starting our research project on multinationals and codes of conduct, than to answer them. Using the evidence that has been obtained over the past few years, this paper addresses the questions formulated above by presenting an overview of the state of current knowledge with regard to international responsibility codes, and indicating areas for further research, management and policy attention. It subsequently deals with the definition and types of codes, the background and dynamics of the code 'movement', the contents of codes and their compliance likelihood, issues regarding implementation and effectiveness, and 'next steps' that can be taken to obtain further insight.

### **DEFINITION AND TYPES OF CODES**

International responsibility codes encompass guidelines, recommendations or rules issued by entities within society (adopting body or actor) with the intent to affect the behaviour of (international) business entities (target) within society in order to enhance corporate responsibility. In this definition, the adopting body can be any societal actor, whereas companies are always the target. It should be noted that companies might design codes for other purposes than for the sake of their own ethical behaviour and corporate responsibility. It is highly conceivable that codes adopted by companies are in essence meant to influence other societal actors: regulators, customers, communities, suppliers and contractors, competitors or shareholders. The possibility that codes may serve other purposes than social responsibility as such is relevant when analysing their properties and substance.

Hence, two types of codes do exist. On the one hand, societal, non-profit actors may use codes of conduct to guide and/or restrict companies' behaviour, thus trying to improve corporate social responsibility. Adopting bodies are either governments or international organisations (at the macro level) or social interest groups such as consumer, environmental and minority organisations, trade unions and churches, at the meso level. On the other hand, codes can be drawn up by companies (micro level) or

business support groups (meso level) such as industry and trade associations, chambers of commerce, think tanks and business leaders forums. In these cases, codes serve to influence other actors and/or to carry out voluntary or anticipatory self-regulation.

With regard to the effect on other actors, one might think of new market opportunities, risk reduction, increased control over business partners or improvement of the corporate image. Except for control over business partners, whereby codes can potentially become strategic instruments, the other aspects are related to public relations. This could be seen with suspicion, as mere rhetoric (cf. environmentalists who accuse multinationals of ‘greenwashing’), but also in a more straightforward, almost existential way, in that companies need a societal ‘license to operate’.

Codes can also play a role in the relationship between the public and private sectors. Companies generally resist excessive government laws and regulations which are seen to restrict their freedom of action. The chances of successfully preventing such ‘command and control’ increase if companies can convincingly show that they can regulate themselves. Self-regulation encompasses voluntary standards adopted by companies or their business support groups in the absence of regulatory requirements, or those which are taken to help compliance or exceed pre-existing regulations (Hemphill, 1992). Thus, codes of conduct are drawn up to anticipate or prevent mandatory regulation.

#### **WAVES OF CODES SINCE THE 1970S**

The first attempts to regulate multinationals’ behaviour originate from the 1970s, when international organisations such as the International Labour Organisation (ILO, in 1977), the United Nations Centre on Transnational Corporations (UNCTC, in 1978) and the Organisation for Economic Cooperation and Development (OECD, in 1976) almost simultaneously tried to design codes of conduct. Governments of both developed and developing countries which faced major inroads of multinationals in their economies showed interest in the debate. Critical social interest groups also pushed the discussion further. But the lack of international consensus about the function, the wording and about potential sanctions against non-compliant companies in particular, moderated the original intention to make the codes mandatory. Instead voluntary codes were agreed, which had only limited effects. The ILO code, for example, was adopted voluntarily by one company, but after trade unions used this code in an industrial dispute with the company’s managers, no other company dared to do the same.

In the 1980s, codes of conduct received rather scant attention. The 1970s’ draft codes of the ILO (the Tripartite Declaration of Principles concerning Multinational Enterprises) and the OECD (the Guidelines for Multinational Enterprises) performed an exemplary function (Getz, 1990). The boldest initiative to develop a code which stimulated multinational corporations to maximise their contribution to economic development, was the UNCTC’s draft code. It never got rid of its ‘draft’ status, however, and was finally abandoned altogether in 1992, due to differences of interest between Northern and Southern countries (Van Eyk, 1995; WEDO, 1995). In the 1980s, the discussion on corporate codes of conduct was largely confined to ‘business ethics’, and was carried on primarily in the United States. A growing number of university centres and specialised journals focused on the study of business ethics. US companies had traditionally been interested in business ethics for a number of national reasons, particularly related to practices of litigation. The international dimension of the debate,

however, remained limited and attention to business ethics in other than US companies was rather modest (Langlois and Schlegelmilch, 1990).

In the 1990s, the efforts to formulate (global) standards for corporate conduct re-emerged. Besides international organisations, governments and NGOs, companies and their business associations (business support groups, BSGs) started to draw up codes in which they voluntarily committed themselves to a particular set of norms and values (see figure 1). Particularly multinationals felt pressurised by increasing societal concerns about the negative implications of international production and investment. Leading NGOs, trade unions and churches came up with concrete suggestions for company codes. The challenge for codification was first met by business associations such as the International Chamber of Commerce (ICC) or the Japanese employers' association Keidanren. A growing number of individual companies, such as Nike, Levi Strauss and Shell, also responded by introducing responsibility codes. For Shell, it meant an update of its company code that was introduced already in the 1970s. For most other companies, the code was their first statement on their (perceived) social responsibility and approach.

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As a result of these tendencies, at the end of the twentieth century, a plethora of codes and statements of corporate responsibility existed, as shown by different inventories (CEP, 1998; ILO, 1998; Kolk, Van Tulder and Welters, 1999; Leipziger, 2003; Nash and Ehrenfeld, 1997; OECD, 1999; UNCTAD, 1996, UNEP, 1998). Particularly the number of private company codes exploded in the last decade of the twentieth century. Measured by sheer numbers, companies have now taken the lead in the 'voluntary' introduction and implementation of codes of conduct. The corporate governance and accounting scandals in the past few years have been a further incentive for the adoption of codes. Although primarily oriented at more internal ethical codes, increased attention to norms and values certainly has an effect in strengthening the 'code wave' as a whole.

#### **A 'CASCADE' OF CODES**

In the development of codes, business initiatives have interacted with the continued work of international organisations, governments and NGOs, resulting in a veritable 'cascade of codes'. A dynamic development can be observed in which the introduction of a code by one company, frequently in response to stakeholder expectations, very often leads to the adoption of comparable codes by others. This might, in turn, incite additional requests by stakeholders, which again requires a company response, sometimes in the form of an update of the code and a specification of policies. A sector where this dynamic process has been shown to exist is the sporting goods industry (Van Tulder and Kolk, 2001).

Sectors that have received particular attention regarding international responsibility codes are apparel, footwear, soccer balls, carpets, agribusiness, retail, tourism and, most recently, electronics (e.g. CAFOD, 2004; ILO, 2003; Sajhau, 1997; Van Tulder and Kolk, 2001; World Bank, 2003a). In many cases, this has been linked to labour rights, particularly the issue of child labour (Jenkins, Pearson and Seyfang, 2003;

Kolk and Van Tulder, 2002a; US DOL, 1997; Wolfe and Dickson, 2002). This focus can be explained from the relatively high (child) labour-intensity of these sectors, and the fact that they usually sell their products on consumer markets, not on business-to-business markets. These peculiarities strongly increase the vulnerability of companies to societal demands for action, and thus the likelihood of code adoption, both at the company and the industry level.

The country of origin has also been important in this regard. Societal pressure has been stronger in some countries than in others. The dynamics of this interaction between various stakeholders has influenced corporate inclinations to draw up codes of conduct. The domestic stakeholder context has affected US companies in particular. A study in the late 1980s, which compared the US and Europe, underlined that the adoption of corporate codes started much earlier and was more widespread in the US (Langlois and Schlegelmilch, 1990). A more recent study in the garment industry confirmed this tendency (Kolk and Van Tulder, 2002a). It must be noted that with regard to the types of codes adopted, particularly concerning the implementation and compliance mechanisms included (see below), European multinationals tend to adhere to clearer and more specific monitoring systems than US multinationals. Japanese multinationals, finally, are least inclined to adopt codes, which seems in line with their general approach to human resource management that stresses informal coordination and control rather than specific contractual relations (Van Tulder and Kolk, 2001).

The interaction between companies and their stakeholders has thus been a crucial factor in the development and fine-tuning of international responsibility codes. This has not only had an impact on the number of codes adopted, but also on their contents.

#### **THE CONTENTS OF CODES: COMPLIANCE LIKELIHOOD**

With growing numbers, the interest in the contents of the responsibility codes has increased as well. The different inventories mentioned above usually include a content analysis, of which the specific components singled out for investigation depend on the approach and objectives of the organisation/researcher in question. However, taken together, these different elements recur in a comprehensive framework developed to analyse and compare codes of conduct (see figure 1).

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This model, first published in 1999 (Kolk, Van Tulder and Welters, 1999), aims to assess the so-called ‘compliance likelihood’, which is the probability that companies will conform in practice to codes either proclaimed by themselves or developed by other actors, and that these claims will in fact be translated into responsible behaviour and action. The compliance likelihood is determined by the compliance mechanisms included in codes and the extent to which the claims put forward are measurable. The more specific the codes are, the better can they be measured and, subsequently, monitored. Monitoring is expected to enhance codes’ comprehensiveness and compliance likelihood.

## **Comparing business and stakeholder codes**

The framework has been used to analyse and compare the codes drawn up by a range of companies, international organisations (IOs), NGOs and business associations (BSGs) (Kolk, Van Tulder and Welters, 1999). Examining, at the time, these four actors' codes with regard to focus, measurability and compliance mechanisms, the codes issued by BSGs proved weakest on all scores. This reflects their 'lowest common denominator' principle: many of the meso codes succeed in attracting considerable numbers of subscribing companies because the statements are very vague. This role of a business association in providing so-called 'club goods' has been demonstrated more specifically in the case of the Chemical Industry's Responsible Care programme (King and Lenox, 2000; Prakash, 2000).

One might see BSG codes as awareness-raising tools. However, once this function has been fulfilled, they seem to become public relations and alibis for more drastic steps rather than active means to increase corporate social responsibility. Only better monitoring and especially the imposition of sanctions might prevent adverse selection, in which the least performing companies tend to subscribe most frequently to BSG codes (cf. Lenox and Nash, 2003).

Whereas BSG codes proved weakest as to specificity and compliance, codes developed by NGOs, trade unions and other social interest groups scored higher, also when compared to IO and company codes. At the same time, however, the compliance likelihood of these NGO codes was not very high. Measurability – with regard to quantitative standards and time horizons – turned out to be even lower than in some company codes, something which also applied to sanctions and financial commitment. A relatively large number of NGO codes did make references to home-country and international standards, though, and were stricter regarding monitoring systems and monitoring actor. In that sense, they clearly fulfilled the function of putting pressure on other actors.

On average, leaving aside the considerable variety that exists, company codes scored better than BSG codes, especially concerning the organisations targeted, their reference to standards, monitoring systems and position of the monitoring actor. Codes drawn up by international organisations were stricter than company codes on aspects such as their nature and the position of the monitoring actor. It must be noted, however, that the compliance likelihood of IO codes was generally not very high (and less than NGO codes). This reveals partly conflict of interests and/or lack of support. Policy competition between national governments often hampers stricter formulations. Taking this into consideration, companies might be better capable of developing cohesive codes that can also be implemented.

## **The role of IO codes**

Regarding the relatively limited compliance likelihood of IO codes, it must also be noted that some of them were never intended to be put into practice, serving mainly as 'model codes' (ILO, 1998). This means that international organisations have had a function in triggering other coalitions and code development. The beginning of an era of multilateral diplomacy can be witnessed in which companies, governments, NGOs and sometimes also business associations bargain over the formulation and implementation of codes of conduct. Examples include the Apparel Industry Partnership and, more

recently, the multi-stakeholder initiative Common Codes for the Coffee Community.

These are dynamic, in a sense ‘never-ending’, processes as codes will continuously be drawn and redrawn on the basis of social bargaining, in which new alliances might be formed. Such an interaction between the different actors has been shown in the sporting goods industry where it led to more sophisticated codes, especially on the part of some companies that were most vulnerable to societal demands, also because of their organisational and strategic peculiarities (Van Tulder and Kolk, 2001; cf. Kolk and Van Tulder, 2004). The framework for analysis indicated above (see table 1) has proved helpful in delineating and tracing such developments.

It also, however, points at international initiatives where the dynamics of fine-tuning towards more specificity, strictness and compliance has been largely absent. The UN Global Compact could be mentioned as an example in this regard. An examination of this IO code using table 1 shows that the likelihood that subscribing companies will comply with it is low. The Global Compact’s nine principles are far from specific and it has a very broad focus. Moreover, the absence of time horizons and quantitative standards makes it very difficult to measure progress with regard to implementation. The code finally also contains rather weak compliance mechanisms. All this means that it will be difficult to enforce compliance on the Global Compact’s subscribers.

While it might be argued that the Compact can still play its role of raising awareness and inciting organisational and institutional learning (e.g. Kell and Levin, 2002), the low compliance likelihood also points at the possibility of a dynamic process in a completely other direction than the ‘triggering’ function indicated above. In a sense, the Compact allows subscribing companies to present a responsible ‘face’ without any guarantee as to implementation (‘bluwashing’). It offers them the possibility to adopt a broadly formulated, unspecific code developed by an international organisation that might crowd out a more detailed corporate code of their own that includes clearer monitoring and compliance mechanisms. This would lead to a downward rather than an upward ‘spiral’ in the development of sophisticated codes.

Some figures on corporate ‘implementation’ of the Global Compact seems to underline this scenario. By April 2003, 635 companies had sent an ‘intention letter’ to the UN secretary general in which they expressed their willingness to participate in the Global Compact. Only 82 might be seen as ‘real’ participants, however, since they appeared to have delivered the expected annual example/proof (over 2002) of the implementation of the nine principles. The other 535 were not able to deliver a proof of their (start with the) implementation and could therefore not be counted as participants according to the Global Compact’s requirements. It is also noteworthy that of the 82 ‘real participants’, only 38 mentioned the Compact in their online corporate communication (in whatever form, including all types of documents available on the websites). In addition, 22 out of the 82 companies participated in the Global Reporting Initiative – the Global Compact Office strongly stimulates companies to use the GRI framework for sustainability reporting to communicate their progress in the implementation of the nine principles.

In April 2003, after the collection of these data, the Global Compact Office has changed the approach, because it viewed that the existing ‘proof model’ did not work well.<sup>1</sup> Companies will no longer be required to post a proof of the implementation of the principles. Instead they are now asked to ‘communicate on progress’ as to the implementation of one or more of the Compact’s principles in their annual financial report or other corporate public documents. The new approach also includes a stronger



encouragement to use the GRI indicators. As a result of these changes, it becomes much easier for a company to be a real Global Compact participant. NGOs have raised strong concerns about this further loosening of the requirements. A crucial issue is that the UN can be seen as offering credibility to corporate efforts while asking very little in return, since there are no real monitoring or enforcement mechanisms and the compliance likelihood is low.

**Codes and specific issues: child labour and poverty**

In addition to an examination of codes for their specificity and compliance in general, as discussed above, the framework can also be used to focus on particular issues. Especially with regard to child labour, the model has been fine-tuned and elaborated for more detailed analysis, with particular attention to minimum-age requirements, monitoring and sanctions (see table 2).

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Codes can also be examined on other social issues in which the role of companies is considered to be important. An example is poverty. In the international discussion on how to combat poverty, the potential contribution of the private sector is frequently mentioned nowadays by a number of international organisations, NGOs and business associations. Company codes can therefore be analysed to see to what extent they address the different components related to poverty alleviation, as distinguished by international organisations such as the ILO, UNCTAD and OECD. Table 3 contains a model with the policy measures that internationally operating companies can take to diminish poverty (the ‘content issues’ which relate to equality of opportunity and treatment, conditions of work, and collective bargaining). The second part of the framework, the ‘context issues’, focuses on what companies can contribute to the eradication of poverty and to greater involvement of the poor.

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Of these two issues mentioned as examples for further elaboration of the content analysis scheme, especially the child labour scheme has been used in different publications. These have shed further light on compliance likelihood and stakeholder interactions.<sup>2</sup> A comparison of child labour codes of the four actors (IOs, BSGs, NGOs and companies) showed that, here as well, those drawn up by NGOs turned out to be most specific, and those developed by business associations the least (Kolk and Van Tulder, 2002b). A dynamic interaction could again be noted, resulting in at least some company codes in particular sectors that are very specific regarding minimum age to employment, monitoring and compliance (Kolk and Van Tulder, 2002a). These studies also showed, however, that the imposition of severe sanctions proved to be a complicated issue, pointing at the dilemmas of codes and the underlying discussion about their effectiveness.

## ON IMPLEMENTATION AND EFFECTIVENESS

In the past few years, several studies and NGO campaigns have focused on whether, how and to what extent codes have indeed been implemented by companies, and how monitoring and verification has worked in practice. Some companies and sectors have received particular scrutiny. Case study examples include the electronics sector (CAFOD, 2004), apparel (BSR, IRRC and O'Rourke, 2001; Jenkins, Pearson and Seyfang, 2002; Oldenziel, 2001) and sports footwear, especially Nike (e.g. Connor, 2001).<sup>3</sup> They point at the limitations of corporate codes of conduct, particularly of those that are vague and lack clear monitoring mechanisms. Deficiencies include the fact that most codes have so far failed to take a supply chain approach, to reckon with home-based workers and to sufficiently involve employees, both in the formulation of the codes and, most notably, in the audit process. The inability of auditors to adequately (independently) monitor codes and reveal suppliers' disguising practices is mentioned as well.

Concerns about the quality of the audit process and the costs of monitoring were also raised in two other recent studies on code implementation commissioned by international organisations (ILO, 2003; World Bank 2003b). The ILO (2003) focused on the management systems for such implementation in footwear, apparel and retail. Based on (and citing) anonymous information derived from 329 interviews with managers and workers from multinationals (MNEs), their suppliers and a limited number of other actors, it concluded that the sports footwear companies were most advanced in the implementation of codes in their operations. Multinationals in this sector had drastically reduced the number of suppliers, and delved relatively deeply into the systems of these remaining suppliers. Apparel companies, which work with much more suppliers, were less advanced in the implementation. Retail companies, finally, have usually thousands of suppliers and, also due to the fact that their key activity is to market and sell other brands, seemed to be least focused on code compliance for their own products.

In addition, sports footwear was, comparatively speaking, most advanced in integrating social responsibility in 'regular' management systems, while the other two sectors approached it more as an 'add-on' to systems already in place. The report noted that the "research consistently revealed an inadequate, if not poor, level of integration of CSR and Code compliance responsibilities in the internal structure of MNEs and suppliers" (ILO, 2003: 246). The sourcing department, crucial in managing the relationship with and 'imposing' requirements on suppliers, was "often the least involved with CSR and Code compliance issues".

The other recent report, published by the World Bank (2003b), summarised the findings of (partly group-wise) interviews of 199 individuals from 164 organisations and companies in apparel and agriculture. It focused particularly on three barriers to improved code implementation, formulated by the World Bank as input for the study. These involved the plethora of codes, the top-down approach and the insufficient understanding of the 'business case'. Especially the first barrier was not really supported by the interviewees. While recognising the inefficiencies related to the large number of existing codes, they did not see much added value in working towards one harmonised code. Most respondents already observed a convergence of forms and contents, and mentioned to see potential for improvement in taking a more focused (industry-level) approach.

The ILO (2003) study neither found that suppliers experienced great problems because of being confronted with multiple codes from different MNEs, since compliance with the most stringent code satisfies all parties. Moreover, if codes focus on different areas (e.g. one on health and safety, and another on working hours), compliance with all of them helps to improve standards across the board. Such overall compliance might be possible, but an important difficulty faced by suppliers is they usually have to bear the costs for (extra) requirements themselves. It can, therefore, not be ruled out that the ‘multiple codes argument’ is merely used as a pretext for non-compliance (World Bank, 2003b), hiding more complicated economic issues related to the distribution of costs and benefits (of code compliance) over global supply chains, including the fact the cost savings were the motivation to outsource production in the first place (cf. Kolk and Van Tulder, 2002a).

As a greater concern than the mere existence of a multitude of codes, both studies mentioned the inconsistent interpretation and application of provisions (World Bank, 2003b), indicated by the ILO more specifically as the lack of indicators and performance metrics related to labour, social and ethical standards. As part of this problem it was stated that for example labour standards aim at governments, not at companies, which complicates application at the factory level. Like the ILO, the World Bank study referred to the complexity of global supply chains as another barrier to implementation of social responsibility. Even more than apparel, agriculture consists of a number of rather different commodity-driven industries.

This points at the broader, structural economic aspects related to codes of conduct, where contradictory forces exist. With regard to monitoring, for example, it could be argued that MNE cooperation to develop shared schemes might be useful to reduce costs, avoid duplication and facilitate compliance on the part of suppliers. This departs from the assumption that such more operational issues are non-competitive, a view not always shared by MNE headquarter staff who fear that sensitive (factory) information might be disclosed. A common approach also makes the efforts of an individual MNE less visible, which might be undesirable in case this company is specifically targeted by NGOs or consumers and wants to show its own CSR profile.

A final issue that needs to be raised is the effectiveness of codes of conduct, in other words, can codes be a useful mechanism for addressing social responsibility? The World Bank (2003b) refers to trade unions’ view that law enforcement and collective agreements are much more effective; NGOs have also emphasised that (existing) regulatory standards need to be strengthened and implemented (e.g. Jenkins, Pearson and Seyfang, 2002). The debate on the effectiveness of codes of conduct has been addressed in a study that focused on child labour (Kolk and Van Tulder, 2002a). It developed a two-by-two matrix to outline the different perspectives that can be taken (see figure 2). While applied to child labour in this case, it identifies in general the extent to which a code of conduct can be effective in dealing with a particular social responsibility problem.

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The positions range from support for the positive impact of corporate codes of conduct (position 1), to emphasis on the unintended negative side-effects of codes, such as, in

this case, the impact on children in case of strict sanctions (position 2), to an effective corporate approach by other means that codes (position 3), and finally, a situation in which it seen as a public, not a private, responsibility to address social responsibility issues (position 4). Effectiveness was explored by a close examination of the nature of the child labour codes that companies have drawn up, and by a survey among a focus group of companies and stakeholders who were asked for their views. The respondents considered codes to be important, though not the only, instruments for addressing child labour. The study also identified the different managerial and policy dilemmas surrounding corporate codes. These aspects of codes, including the complicated issues surrounding effectiveness and implementation examined in this section, are clearly areas that need further investigation. Below some other steps that could be taken will be mentioned.

#### **NEXT STEPS: AN AGENDA FOR RESEARCH, POLICY AND MANAGEMENT**

While codes of conduct might be relatively weak, they are nevertheless part of the current ‘rules of the game’ and vital input for the creation of new international institutions in an era of uncertainty regarding the shape of national and international regulatory regimes (cf. Braithwaite and Drahos, 2001). Especially because many codes are drawn up by large multinationals, their impact goes far beyond the confines of these individual companies. They affect suppliers and other actors within and beyond their value chain, and spill over to other regulatory regimes and rule-setting activities by international organisations.

While the interaction among the various actors has been an important factor in the development of (more sophisticated) company codes, as mentioned in this paper and in the various studies carried out on the contents (compliance likelihood), further steps can be taken to improve our understanding of the role and effectiveness of codes. This means first of all that attention will shift towards multinationals to investigate how codes fit into the strategic choices and dilemmas faced by these companies and their managers. Such a perspective, which examines the management of strategic and ethical trade-offs (Kolk and Van Tulder, 2004), connects strategic peculiarities and imperatives to the organisational purpose to see what room of manoeuvre managers have in dealing with their ‘moral free space’ (Donaldson, 1996), how they (want to) position themselves and the type of ‘ethical leadership’ aimed for.

In addition to this management approach, which examines the strategic effectiveness and appropriateness of codes of conduct at the company level, a global commodity or value-chain perspective can be taken (Barrientos, 2002; Gereffi, Humphrey and Sturgeon, 2004), focusing on the operational effectiveness as well. This not only helps to map the structure and governance of a global network, but also to trace the impact of codes of conduct in the different parts of the value chain. Moreover, it considers how codes of specific actors interact, what the role of powerful or leading actors is or should be, and where the responsibility (must) lie for the formulation, implementation and enforcement of codes of conduct. The debate on these topics is being waged in some chains; coffee is an example, cotton can also be mentioned.

Besides a focus on the *company* (micro level) and the *chain* (meso level), an *issue-specific* perspective is also appropriate. Since many companies have drawn up codes that pay particular attention to topics such as child labour, specific issues can be singled out for further analysis in order to assess what role corporate codes of conduct

can play. This leads to a more general, macro approach, in which international societal issues are identified, followed by an examination of what companies might do to help solve these problems.

Different from e.g. Rischard (2002) who describes 'global problems', we emphasise the fact that issues very often originate from unequal or inappropriate distribution, not so much from want for technological advances, and that they can arise at different levels. While a range of interrelations and interactions exist that should be taken into account, a classification might nevertheless be made, which consists of four categories:

- (A) core social/economic issues that are related to the growth regime of a country, and which are often supposed to be at the heart of any other (re)distribution and wealth problem; this involves particularly income disparity, unemployment and poverty;
- (B) individual rights issues, which cover health, social and human rights (for example, hunger, torture, unequal levels of vulnerability to diseases and unequal access to medicines and education, freedom and work security);
- (C) group rights issues that relate to the specific rights and problems of groups in society (which refers to discrimination on the basis of for example gender, race and age, and to worker and indigenous rights);
- (D) macro/generic rights issues which are connected to the availability of and access to resources and public goods in general, the right to a safe, peaceful, democratic and clean environment.

This classification of issues can be used to generate ideas about the way in which companies are 'part of the problem' and/or 'part of the solution'. It goes without saying that companies that are part of the problem, by directly or indirectly e.g. employing children, prohibiting freedom of association, paying workers less than subsistence levels, or by adhering strictly to HIV-medicine patents or investing in countries where torture takes place, are also important in helping to solve the problem. That explains the drive to adopt corporate codes of conduct, which many companies have done as a defensive reaction, in order to prevent damage to their reputation. Sometimes, however, other companies (or actors) than the ones (in)directly involved in causing/aggravating the problem can play a role in alleviating the situation or putting pressure on the former group. Examples include companies that provide HIV or other medicines to workers and their families, which proactively adopt a code of conduct on issues that do not (yet) affect them (e.g. Shell's 'primer' on child labour), or which force polluting companies to change policies because future business will be threatened (e.g. insurers, banks and pension funds that require a precautionary policy on climate change before investing in companies).

The identification of global issues and (groups/networks of) companies that are part of the problem and/or the solution seems a promising area for further research and essential to a better understanding of how the effectiveness of codes of conduct and other (self)regulatory instruments can be increased. An adequate assessment of the specific role of companies as part of the problem and/or solution is also vital input for negotiations over specific issues at the international level, and for the formation and/or adjustment of international regimes and public/private partnerships.

## NOTES

<sup>1</sup> According to the Global Compact Office, it does not have sufficient capacity to verify the examples submitted on their content; examples that were mentioned to be often submitted from a strategic (public relations) angle. The Office also reported to be overwhelmed with material in so many different languages that even 'we at the UN could not handle it'. We gratefully acknowledge Peter-Willem van Lindenberg for the collection of information on the Global Compact.

<sup>2</sup> More research is under way with regard to the poverty scheme, for which the contribution of Bart Westdijk is acknowledged.

<sup>3</sup> Nike also has its own external monitoring systems, which includes independent activities undertaken by NGOs (<http://www.nikebiz.com>).

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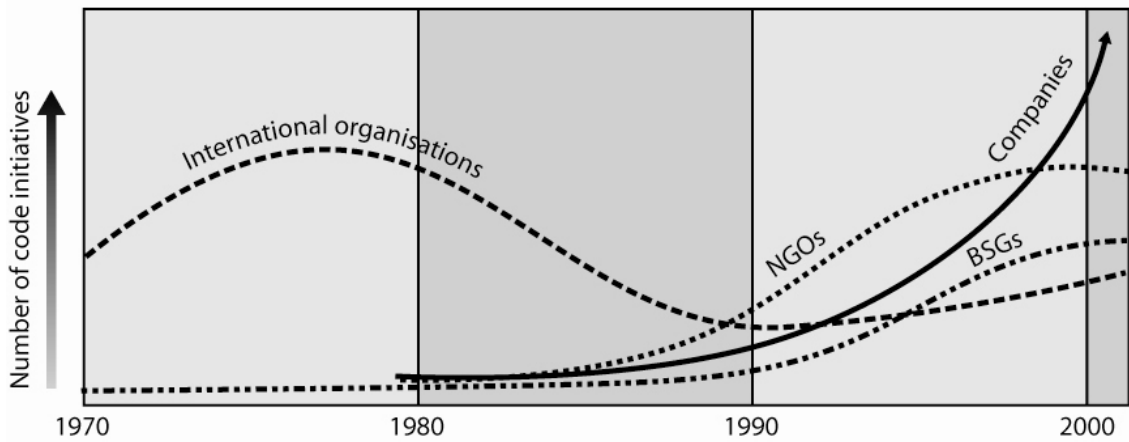
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## TABLES AND FIGURES

**Figure 1. Waves of codes of conduct since 1970**



**Figure 2. Effectiveness matrix of corporate behaviour on social issues**

		Effective in dealing with child labour	
		YES	NO
Having a corporate code of conduct	YES	Position 1	Position 2
	NO	Position 3	Position 4

*Source: Kolk and Van Tulder, 2002a, p. 261*

**Table 1. A model to analyse and compare codes of conduct**

Criteria		Short elaboration	Classification	
S P E C I F I C I T Y	I S S U E S	1.1 Social	1) employment (employment promotion, equality of opportunity and treatment; security of employment) 2) training 3) working conditions (wages and benefits; conditions of work and life; safety and health) 4) industrial relations (freedom of association; collective bargaining; consultation; examination of grievances; settlement of industrial disputes) 5) force (child labor; forced labor; disciplinary practices)	ranging from: 0 out of 5, to 5 out of 5
		1.2 Environment	1) management policies and systems (subdivided into 4 aspects) 2) input/output inventory (6 aspects) 3) finance (2 aspects) 4) stakeholder relations (7 aspects) 5) sustainable development (3 aspects)	ranging from: 0 out of 5, to 5 out of 5
		1.3 Generic	1) consumer interests (consumer needs; disclosure of information; consumer concerns; marketing practices) 2) community interests (community involvement; disclosure of information; community philanthropy/sponsoring) 3) global development (global issues; socio-political setting; fair and free trade practices; third world development; third world philanthropy/sponsoring) 4) ethics (fundamental human rights and freedoms; fundamental ethical values; bribery and facilitating payments) 5) legal requirements (legal compliance; compliance vis-à-vis business partners)	ranging from: 0 out of 5, to 5 out of 5
	F O C U S	2.1 Organizations targeted	general; firms; industries; business partners; internal operations of specific firms	general/firms/ industries/ partners/ internal
		2.2 Geographic scope	global (general); nearly global (frail); general region (moderate); regulatory system (moderate to strong); specific country (strong)	no/general/ frail/moderate /moderate to strong/strong
		2.3 Nature	general prescription/description (general); predominantly general (frail); general and specific (moderate); predominantly specific (moderate to strong); specific (strong)	no/general/ frail/moderate /moderate to strong/strong
	M E A S U R E	3.1 Quantitative standards	% of issues quantified: >90% (predominant); 51%-90% (majority); 25%-50% (medium); 10%-25% (minority); <10% (few) ; none (no)	predominant/ majority/ medium/min- ority/few/no
		3.2 Time horizon	1) quantification % of >90 (predominant); 51-90 (majority); 25-50 (medium); 10-25 (minority); <10 (few); none (no) 2) qualitative division into none defined; vague; clear	ibid.; and none/ vague/clear
		3.3 Reference	none defined; home country; host country; international; or combinations	like preceding box
C O M P L I A N C E	4.1 Monitoring systems and processes	good insight into system and process (clear); reference to some parts, but criteria or time frames are lacking (clear to vague); only general reference to monitoring without details (vague)	clear/clear to vague/vague/ none	
	4.2 Position of monitoring actor	firms themselves (1st party); BSGs (2nd party); external professionals paid by firms (3rd party); combinations of different actors (4th party); SIGs (5th party); legal authorities (6th party)	ranging from: 1st to 6th party	
	4.3 Sanctions	measures have no large implications, e.g. warnings and exclusion of membership (mild); threat to business activities (severe)	none/mild/ severe	
	4.4 Sanctions to third parties	measures such as fines, or demands for corrective action (mild); severance of relationship, cancellation of contract (severe)	n.a./none/mild /severe	
	4.5 Financial commitment	classification according to level of fee or relative investment	low/moderate/ high/very high/none	
	4.6 Management commitment	no commitment stipulated (none); includes a list of endorsing firms (explicit); or with regard to company codes, when business partners must sign it (explicit); commitment implied (implicit)	none/implicit/ explicit	

Source: Van Tulder and Kolk (2001), pp. 273-274

**Table 2. A model to analyse and compare corporate codes of conduct on child labour issues**

Criteria	Short elaboration	Classification	
S P E C I F I C I T Y	1.1 Minimum age to employment	Does the code include a minimum age to employment? If so, what age?	yes (age); no
	1.2. Applicability	Is this a universal minimum age or are country-specific exceptions indicated?	n.a.; universal; country-specific
	1.3. Organization targeted	To whom is the code addressed? General, governments; internal operations of specific firms; business partners (suppliers, subcontractors, vendors, manufacturers)	actor category (exact wording)
	1.4. Reference	Is reference made to international standards (ILO, UN), either implicit or explicit, or to home-country or host-country laws?	none; home; host; international (implicit/explicit)
	1.5. Nature of code	Are alternative measures included in the code (such as education for children)? Or does the code only prohibit child labour?	broad; strict
C O M P L I A N C E	2.1 Monitoring systems and processes	good insight into system and process (clear); reference to some parts, but criteria or time frames are lacking (clear to vague); only general reference to monitoring without details (vague)	clear; clear to vague; vague; none
	2.2 Position of monitoring actor	firms themselves (1st party); BSGs (2nd party); external professionals paid by firms (3rd party); combinations of different actors (4th party); NGOs (5th party); legal authorities (6th party)	ranging from: 1st to 6th party
	2.3 Sanctions and their scope	there are no measures included (none); they apply to company employees (internal); and/or to third parties (respectively 'all' and 'external')	none; internal; external (actor category); all
	2.4 Type of third-party sanctions	measures such as fines, or demands for corrective action (mild); severance of relationship, cancellation of contract (severe)	n.a.; none; mild; severe

Source: Kolk and Van Tulder (2002b), p. 264.

**Table 3. A model to evaluate corporate conduct in relation to the eradication of poverty**

Criteria	Short elaboration	Classification	
C O N D I T I O N S	Equality of opportunity and treatment	1) Eliminate any discrimination based on race, colour, sex (gender equality), religion, political opinion, national extraction or social origin 2) Respect human rights	Ranging from: 0 out of 2, to 2 out of 2
	Conditions of work	1) Wages and benefits should be not less favourable than those offered by comparable employers 2) The normal working week should not exceed forty-eight hours plus twelve hours overtime (with overtime being remunerated at higher rates) 3) The minimum age to employment is respected (for light work: 13 years) 4) The highest standards of safety and health are followed	Ranging from: 0 out of 4, to 4 out of 4
	Collective bargaining	1) Workers have the right to have (and establish) representative organisations of their own choosing which are recognised as partners in collective bargaining 2) The company provides workers' representatives with adequate means and facilities (including information) to conduct meaningful negotiations	Ranging from: 0 out of 2, to 2 out of 2
C O N T R I B U T I O N S	Address special needs	1) Carry out activities in harmony with development priorities, and social aims and structure of the host country (general policy objectives) 2) Obey national laws and regulations	Ranging from: 0 out of 2, to 2 out of 2
	Dynamic comparative advantage	1) Adopt/develop technology to the needs of host countries 2) Invest in high-productivity, high-technology, knowledge-based activities 3) Establish backward linkages with domestic companies 4) Give consideration to conclude contracts with national companies	Ranging from: 0 out of 4, to 4 out of 4
	Training	1) Provide training for employees at all levels which develops useful skills and promotes career opportunities 2) Participate in training programmes organised by/together with governments 3) Make services of skilled personnel available to assist in training programmes	Ranging from: 0 out of 3, to 3 out of 3
	Monitoring	1) Foster and strengthen local capacities to monitor poverty reduction programmes (participatory methods) 2) Encourage the development of local poverty reduction indicators and targets 3) Design poverty monitoring systems which provide evaluations of anti-poverty programmes	Ranging from: 0 out of 3, to 3 out of 3