



Pathways to Corporate Responsibility - Revisited

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2020 Vision – In Retrospect

The death of 1129 workers resulting from the collapse of the Rana Plaza garment factory in Bangladesh on 24th April 2013 may well mark the end of an era of corporate responsibility, and perhaps the onset of a next generation of activities involving different and improved instruments and activities.

Almost two decades of intensive engagement with the apparel and textiles sector in efforts to improve labor standards have delivered a multitude of principles, commitments, codes, auditing and disclosure mechanisms, as well as a veritable industry of business-led, civil society and multi-stakeholder initiatives (Zadek 2000). Such investments, in the main, were made in good faith by all parties seeking to improve worker conditions. Broadly they fell within the envelope of the prevailing features of global value chains that leverage international cost differentials to benefit consumers and the globally integrated enterprise. There is no doubt that the approach delivered some tangible benefits to all. Capitalism was not tamed, but these tangible benefits brought with them a sense of optimism that companies and markets could be encouraged without the need to engage the state as regulator to internalize and so mitigate at least some, hopefully the most serious, negative social and environmental externalities.

Such so-called “civil regulatory” (Zadek and Forstater 1999) approaches blossomed throughout the end of the 1990s and the noughties, and spread like wildfire from the test-bed of apparel and textiles to virtually every visible sector, from codes governing big pharma’s clinical trials to the extraction and sale of gold and diamonds to the rise of sustainability-focused certification for everything from palm oil

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to salmon and soya (Grayson and Nelson 2013). Although each with their unique aspects, the underlying ‘pathways to corporate responsibility’ looked remarkably similar:

1. Brand leaders were publicly accused of profiting from poor ethical practice, or at best negligence;
2. Such companies eventually sued for peace, seeking to bring in their, equally vulnerable, competitors in creating coalitions that established non-statutory rules that would appease their more engaged critics;
3. Such rules would be implemented subject to accountability mechanisms generally focused on public disclosure and the on-going threat of civil re-action to substandard performance;
4. Growing attempts by coalition members to bring in other parts of the industry, both to extend the societal benefits and to level the competitive playing field;
5. Eventually in many instances statutory enforcement would be seen positively as the costs and limitations of maintaining a purely voluntary approach became increasingly apparent on all sides.

Apparel and textiles was not the first sector to be subject to such approaches, there is a long and noble history, from anti-Apartheid civil sanctions through to the long and perhaps ever-lasting baby milk campaign targeted particularly at Nestle (Zadek et al. 1998). Yet there has been a particular cache associated with actions associated with the apparel and textiles sector. This special role of this sector arose because of its intensity and scale, the often-controversial involvement of the international trade union movement, the linkage to international trade agreements, and ultimately the iconic importance of the sector in the classical industrialization pathway of many developing countries.

Such efforts yielded some positive results for many workers in premium product value chains, as well as protecting the premium brands most vulnerable to the public eye. Yet the events of April 2013 in Bangladesh highlighted in terrible fashion the limits of such approaches. The end of the Multi-Fiber Arrangement in 2005, a sector-specific trade access agreement, led to a rapid consolidation of Bangladesh’s role in the global value chain. Cost considerations dominated the growth of Bangladesh sourcing, with brand buyers increasingly willing to turn a blind eye to endemic transgressions of their own code commitments. Two years on from the disaster, the restitution by brands and the government of Bangladesh, both to the families of the victims and more broadly in improving labor conditions, has fallen short of both commitments and even modest expectations. The funds established to serve the needs of those directly impacted have remained under-filled and inadequately disbursed, echoing experience subsequent to the Bhopal disaster and elsewhere. There is little evidence, furthermore, of systematic improvements in labor conditions in Bangladesh.

Unexpectedly, at least for some, these market dynamics, underpinned by Bangladesh’s failure to enforce its own labor laws, has seriously damaged confidence in voluntary labor and perhaps broader sustainability standards. That is not to

say that they do not continue to make a difference to specific groups and circumstances. Furthermore, it is not to say that they should not be encouraged to deliver what they can. However, it is to raise the inconvenient truth for many of us that have invested over decades in making them work the question of how much they can really deliver in the bigger scheme of things.

It is in the light of such experience that the usefulness of the method and messages contained in my article ‘Pathways to Corporate Responsibility’, published in 2004 by the Harvard Business Review, needs to be considered (Zadek 2004). Anecdotal evidence suggests that the article has been used productively to model industry-wide, individual company progress, as well as broader societal processes, as well as being used in business education (Zadek 2006). At the same time, civil society actors with a more aggressive, skeptical or cynical attitude have pointed to the dangers of the arguments underlying this and comparable articles as promoting corporate white and green-washing. Whilst my personal attitudes or interests are not relevant here, what is interesting is whether the underlying micro-to-macro learning framework proposed in the article remain relevant and if so how. Ultimately, should it be dismissed in the face of available evidence. Addressing these questions is the focus of this paper, which reside within a wider analytic lens of whether and if so when and how corporations are “titans or titanics” in the struggle for an inclusive, sustainable economy (Zadek 2012).

The next section, “[Pathways to Corporate Responsibility](#)”, briefly reviews the framework presented in the original article, providing examples of its application in practice. The third section, “[Critical Analysis of Pathways Framework](#)” provides a critique of the framework, drawing on discussions and experience both with academics and practitioners subsequent to its publication. The final section, “[The Civil Corporation](#)” draws some basic conclusions and looks forward to how the micro-to-macro learning framework might be evolved to work more effectively.

Pathways to Corporate Responsibility

Companies don’t become model citizens overnight. Nike’s metamorphosis from the poster child for irresponsibility to a leader in progressive practices reveals the five stages of organizational growth.

Typically for an HBR article, this two-line kick off suggested a focus on the company’s growth and ultimately financial success. Whilst not wrong, the full and more ambitious purpose of the article was to explore the complex and arguably more enduring issue of the learning dynamic between a company and its shifting societal context.

The heartland of the article set out a simple framework that connected five stages of organizational development with an equivalent set of societal learning stages. Set against each other (Exhibit 7.1) for any specific issue, such as labour standards, the article suggested that one might track and even predict the course of events as companies and societies evolve their appreciation of an issue and the associated locus of accountability.

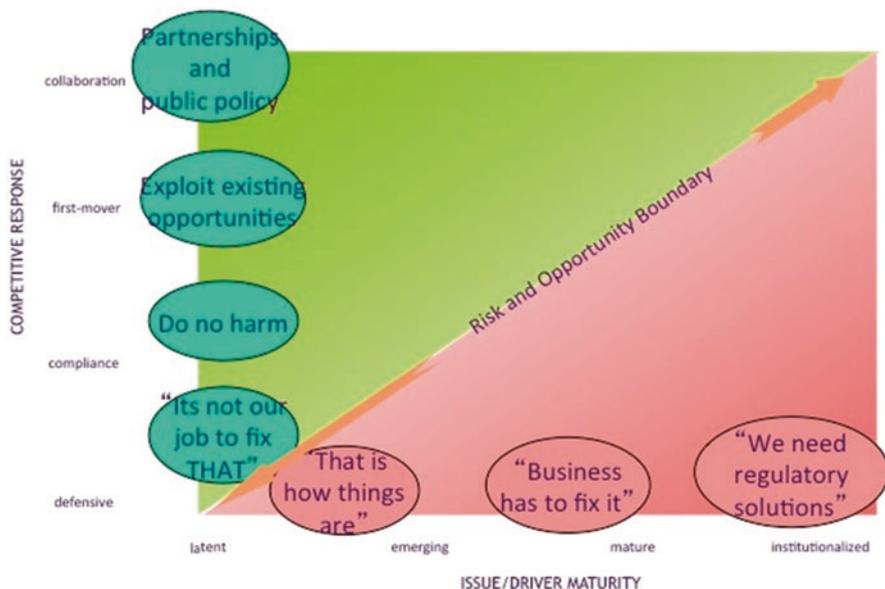


Exhibit 7.1: Corporate and Societal Learning

- For companies, they moved from a stage of denial that the issue in question was their legitimate concern to a point in time when it was firmly embedded in the very fabric of the markets within which they operated, whether through voluntary or statutory action, or some combination of the two.
- Simultaneously, society went through its own learning experience, starting with low awareness of the issue, and gradually evolving to a stage where it demands that business should be held accountable for related outcomes.

Set against each other on a two-dimensional plane, the framework suggested that a company would be increasingly at risk if it failed to evolve through its staged learning in the face of growing societal demands. For example, energy companies refusing to acknowledge the role of carbon emissions in global warming might for a long time be safe given the immature state of the associated debate and science, but would eventually be challenged through public debate. Ultimately, they could find themselves on the wrong side of policy developments, and perhaps even face the consequences of their denial in court. The framework indicated that companies could proactively design pathways along which they managed their scope of visible accountability for broader societal issues in ways that were consistent with the demands of their (ever-changing) stakeholders. In this way they could more effectively manage their risks, which should over time benefit their financial bottom line. Energy companies, to continue the case in point, which joined forces with those fighting for ambitious, international efforts to address climate change would find themselves on the right side of public opinion, and potentially benefit from first

mover opportunities in advancing cleaner technologies, perhaps by shaping such markets though collaborative initiatives that leveraged enabling consumer and investor and policy responses.

Suggesting such linear, two-dimensional, non-reversible pathways was always going to be a simplification at best, a matter to which we will return in section three. First, however, it is useful to highlight possible uses of the framework. Below are outlined three such uses: for public debate, internal to a major company, and the third used for management consulting and linked to business school teaching. On the first, it is interesting to note the comparative Apple-Nike mapping offered in the face of Apple’s first encounter with civil regulatory pressure over labour standards in its Taiwanese, mainland-China based supplier, Foxconn (Exhibit 7.2). The mapping sought to demonstrate Apple’s lagging but closely tracking practice compared to Nike’s formative experience almost a decade previously. Whilst in no sense a scientifically robust comparison, it does suggest that over time and between differing contexts, the same evolutionary patterns can emerge. Sadly, it also suggests in some instances limited meta-learning even when, as in this case, some of the same civil society organisations were involved in both cases, such as the Fair Labour Association, and indeed in some instances even the same individuals.

On the second, use has been made of the tool to establish progress measurement across diverse business units and for the business as a whole for the company in question, the AXA Group. (Exhibit 7.3). The French insurance company has used the tool over a number of years to develop a relatively detailed scoring system that it applied annually to several dozen business units across the world. The scoring system is then linked to a planning, budgeting and senior management reporting process. In this instance, the company’s corporate responsibility team had engendered a degree of friendly competition between business units, reinforced by the fact that the results of the annual scoring was presented to, signed off by, the company’s senior management team.

As a final illustration, the framework has been adapted by myself for use in a strategic management consulting context, an approach subsequently exposed

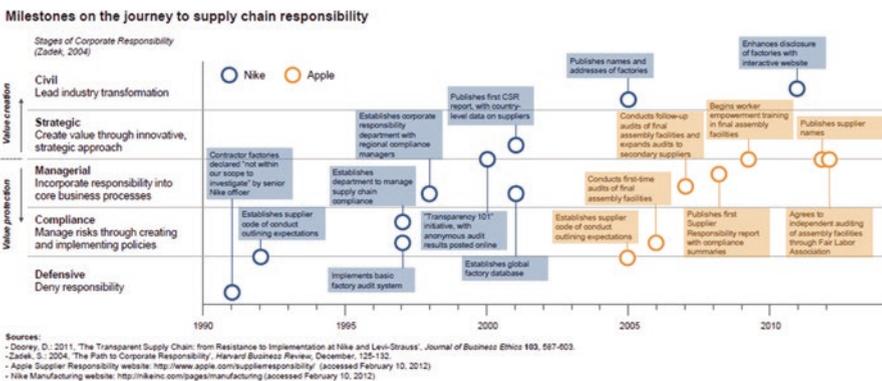


Exhibit 7.2: Apple Following Nike - Slowly

		DEFENSIVE STAGE	COMPLIANCE STAGE	MANAGEMENT STAGE	STRATEGIC STAGE	CRIC STAGE
Shareholders	<ul style="list-style-type: none"> Include a CR Mandate for AXA's Group Board and local entity Boards Creation of a Responsible Investment Working Group (members from ALM / R/C) Define key CR metrics and performance indicators Creation of a Group CR Committee to oversee CR Strategy and report to Board 					
Employees	<ul style="list-style-type: none"> Achieve gender balance at every level in the organization Designate HR Lead on Quality at Work Build CR into executive development programs at AXA University 					
Customers	<ul style="list-style-type: none"> Ensure Clear Communications standards met in all entities Develop Group strategy on micro-insurance Develop "green P&C" offer within the group 					
Suppliers	<ul style="list-style-type: none"> Extend the use of CR clauses into all contracts with suppliers and complete detailed CR assessments of key suppliers in each entity 					
Environment	<ul style="list-style-type: none"> Reduce by 2012 vs 2008: <ul style="list-style-type: none"> CO2 emissions and energy consumption by 20% Paper and water consumption by 15% Ensure that 80% of our paper comes from either recycled or sustainable sources Establish Group environmental guidelines on travel and vehicle fleets 					
Community	<ul style="list-style-type: none"> Launch a Group-wide "CR Week" to raise awareness Establish a NGO partnership to align philanthropy efforts with the CR flagship theme 					

Exhibit 7.3: Axa - Measuring Progress

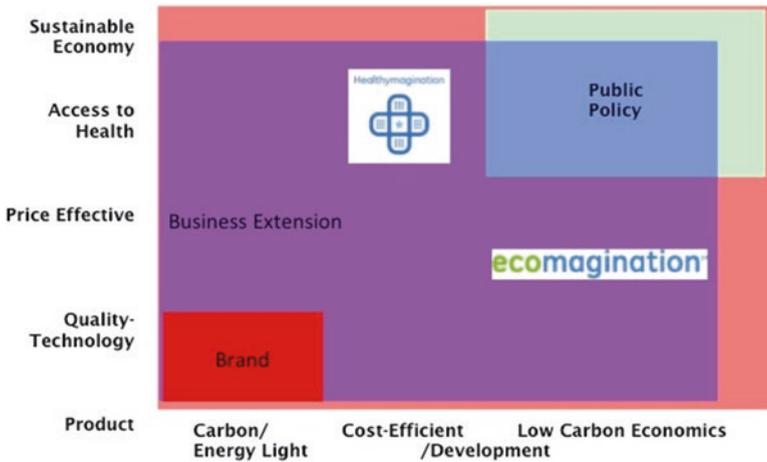


Exhibit 7.4: GE's Product2Sustainability Strategy

through a course entitled 'Business Performance and Sustainability' delivered at Tsinghua School of Economics and Management in Beijing, as well as through a course entitled 'Tri-Sectoral Collaboration' delivered at the Singapore Management University. The approach (Exhibit 7.4) below for the case of General Electric, maps the inter-connectivity between product innovation (bottom left hand) and public policy goals. In this case, the societal and organizational learning and engagement is implicit to the analysis of the nexus between product, policy and brand.

Critical Analysis of Pathways Framework

The framework presented in the original HBR article embodies some important, simplifying assumptions that are worthy of greater exploration. Implied in the framework is a linearity and apparent non-reversibility of the organizational and societal learning. Clearly this is an inadequate reflection of reality, and may be a problematic over-simplification. For example, the Bangladesh case of apparel and textiles provided in the opening part of this essay demonstrates the dangers of assuming continuous improvement. Indeed, not only are reversals possible, but also possible is a simple levelling out or capping of improvements, such as we have witnessed in the area of anti-corruption, despite a decade of intensive, international efforts through a combination of collaborative and legislative approaches. The case can be made, at least for some corporate examples, that companies can lead on aspects of responsible business practices for a period of time, and then decline in energy, leadership and positive outcomes. BP provides a case in point, which under John Brown's leadership opened new avenues for corporate responsibility in the field of anti-corruption through its role in forming the Extractive Industry Transparency Initiative (EITI) and climate change, and his infamous Stanford School speech on the influence of fossil fuel use in climate change. Today, however, following a series of unfortunate and often self-inflicted disasters, the company is at best an ailing oil and gas-focused multinational that has essentially no leadership role in shaping tomorrow's energy transition, let alone the broader global political economy. Similar arguments can be presented for earlier iconic ethical brands such as The Body Shop and Ben & Jerry's, and perhaps in the future will be relevant for today's leaders (Zadek 2012).

Further limitations of the framework, at least in its published form, can be understood best through a game-theoretic lens. The framework is focused on market-societal dynamics that encourage pre-competitive and collectively-competitive collaborative advantage, that in turn may lead to changed market conditions that reward more responsible behaviour. Whilst there are many such cases, such a pathway is certainly not the only option. Under some circumstances, positively, the need for collaboration to create the potential for first mover advantages in overcoming negative societal externalities becomes redundant in the face of positive market dynamics. The falling cost of solar is a case in point, as the earlier need for public-private collaboration to overcome cost disadvantages is superseded by the simple dynamic of market-based competitiveness. In other instances, free riding makes collaboration less advantageous and in the limit undermines such approaches. Financing coal-fired power stations is a case in point, where international cooperation in cutting off financing for carbon-intensive power generation has been undermined by sources of finance unwilling to impose such restrictions. In fact, the case of Bangladesh is a great illustration of the destructive power of free riding in that many brand companies concluded that they could not afford not to source in Bangladesh given the associated cost advantages.

The point here is not that the published version of the framework is wrong *per se*. It is that it is a simple modelling of what is at its core a complex dynamic between market, policy, political and broader societal forces. The challenge with such models is of course to ensure that it has value because and despite such simplifications, and so does not dilute the power of more specific, evidence based analysis.

The Civil Corporation

The strengths and weaknesses of the framework can be still better understood by adding political economy to that of competitiveness and strategy analysis. The original HBR article was informed by the thinking expressed in an earlier piece of writing, *The Civil Corporation*. Finalised in early 2000, its opening lines highlight its focus on a business' degrees of freedom to act, and enabling capabilities:

Judging and ultimately guiding corporate performance requires an examination of whether a business is *doing what it can do* given its range of external options and internal competencies. Internally, this concerns the formal, explicit policies and processes, organizational cultures and values, and patterns of leadership. Externally, this is a question of the multitude of business drivers, from direct, short-term market pressures through to longer-term strategic challenges and opportunities.

A business's contribution to sustainable development therefore needs to be understood in terms of its viable options and what it makes of them. Internal and external factors together create a spectrum of possibilities at any point in time – that define a corporation's practical scope for making decisions between viable choices. Whether and how a corporation acts within its degrees of freedom must be the test of responsibility, and indeed the basis on which management decisions are framed.

These are the fundamentals of the civil corporation. A corporation that is said to be civil is understood here as one that takes full advantage of opportunities for learning and action in building social and environmental objectives into its core business by effectively developing its internal values and competencies (Zadek 2001; italics added)

Reflecting 5 years later in a new introductory chapter to the second edition of the same book, that is, after the publication of the HBR article, my argument focused more on the tougher issue of accountability as compared to the softer processes of engagement and collaboration, and the linkages between business accountability and the broader political economy:

Extending accountabilities of business place it and the state increasingly on a par with each other in key respects. We see a convergence in their legitimacies despite their very different historical foundations, one in security, mediation and political representation and the other through their production of material needs and returns to finance capital. Such a convergence is accelerated by several factors, including the declining legitimacy of traditional electoral routes to the politics of representation, the emerging political empowerment of citizens through their roles in markets, notably as owners of capital, and the growing prevalence and visibility of complex partnerships involving public and private actors tasked to deliver public and indeed private goods (Zadek 2007).

That is, the process simply described in the framework *could* lead to fundamental changes in societies' institutional landscape. Notable in this could be the unintended

erosion of the specialized distinctions of market and non-market actors and their associated basis of accountability and legitimacy, particularly as businesses became legitimate partners in the development of market-governing rules. Such concerns are far from pure theory. It lay at the heart of heated public debate, for example, as to whether the now-collapsed trans-Asian and trans-Atlantic trade agreements being proposed by the US should allow for businesses to directly challenge the legality of government's rights to impose laws within their own sovereign jurisdiction through a distinct dispute mechanism established independently of, and not subject to review by, any one state's judicial process.

Such a political economy lens is very much on the radar of senior executives of companies whose political influence has become visibly greater in the face of market concentration, globalization and economic and financial muscle. It has proved uncomfortable to many energy and mining companies, for example, that the EITI essentially uses them as conduits to improve the public accountability of, in the main democratically elected, host governments. Similarly for the Global Network Initiative, that seeks to leverage the brand sensitivity of companies like Microsoft, Google and Facebook to call into question the rights of governments to acquire information about citizen's using the internet.

In effect, the pathways to corporate responsibility presented in the framework suggest a growing tension between the 'intensive' and 'extensive' basis of accountability. The former, in a corporate context, concerns the primacy of financial shareholders, typical of Anglo-Saxon corporate governance approaches. Extensive accountability, on the other hand, provides for accountability to multiple interests, that could indeed go well beyond requirements imposed through the rule of law. Far from reducing companies' competitive dynamics, this tension extends its scope and places new pressures on the modern corporation that can only be met through the development and application of new capabilities and indeed forms of accountability.

Such reflections led me to reflect, 5 years further on, in 2012, whether there was now a need for:

A 'public fiduciary' (*to*) replace the current, narrow focus of corporate governance of optimizing solely in favour of financial stakeholders. The dominant corporate governance model for publicly-listed companies, broadly the Anglo-Saxon approach, would be overturned in favour of a pluralistic approach where corporate directors' fiduciary responsibility required them to address financial and broader sustainability outcomes.

Once again, such a view is far from being abstract. Adjustments to corporate governance and associated decision-making to incorporate broader sustainability issues are increasingly a mainstream discussion and in some instances practice, from changes to South Africa's pension legislation to broader trustees' fiduciary responsibility to the growing influence of state-owned companies, particularly in emerging markets, and from ownership innovations such as the US-inspired 'B Corporations' through to the expansive policy debate about 'sustainable capitalism'.

Enhancing the Pathways Framework

My review of the original framework presented in the HBR article published over a decade ago highlights both its uses and arguably usefulness, as well as some of its flaws, or at least limitations. On the former, the framework reasonably describes the direction of travel in many instances of the organically extending sphere of responsibility of business, and the manner in which market and societal dynamics over time internalize market outcomes that were previously externalities to business strategies and the financial bottom line. Moreover, the framework breaks down the apparent polarity of individual and collective action, and market collective and policy and regulatory-framed actions, pointing to their interactive dynamic over time. These strengths have led to the framework being used in varied contexts, with a modestly productive effect as far as one can see.

On the matter of limitations, two in particular have been highlighted: the framework's over-simplified, linear, teleological assumptions and its associated lack of depth in considering alternative competitiveness dynamics; and its failure to spell out the potential, political economy feedback effects and deeper institutional implications. Of course, such flaws and limitations could equally be described as issues and aspects brought to light by the framework, enabling discussion and analysis. Indeed, such a, more positive, view would be supported by the experience of applying the framework in practice, as in the ways highlighted in the preceding section. That said, these limitations also constrain the effective application of the framework, and invite further theoretical developments to underpin future iterations of this or comparable frameworks for practical use. Of interest, that is, is how to improve our analytic capabilities in understanding, and actively promoting, the more effective incorporation of sustainable development considerations into business strategy and the broader political economy that shapes markets and associated outcomes.

It is a mute point as to whether work at this nexus can be usefully subject to a singular, analytic framework given the very different, and often contested, narratives governing each of these domains. More likely, is that the intersections of these narratives will be approached through experimentation and associated analysis, the deliberate juxtaposition of different narratives, and experiential work to enable deeper, practitioner learning. That said, any or all of these approaches might benefit from some simple analytic rules of the road that draw from and extend beyond the original framework, including a focus on the:

- Dynamic interactions between organizational and societal learning.
- Merits and dynamics of diverse forms of collective action.
- Evolving product-to-public policy strategies for both business and public interest bodies.
- Developing decision making at the intersection of intensive and extensive accountabilities.
- Shifting macro-institutional architectures, often precipitated by micro-dynamics.

Finally, the shifting geo-political context provides an important macro-driver for reconfiguring our understanding of the territory crystallized through the framework

and framed more broadly by narratives, analysis and practice regarding responsibility, accountability and collaboration in the pursuit of private benefits and public goods. Much of what has been written seeks to do no more than explain and guide markets that exist within broadly liberal political economies. In these contexts, we understandably focus on associated forms of societal learning and organization. As a result, we tend to model the evolution of collaboration between private and public actors from an assumed starting point of their separate and distinct activities and realms of accountability.

Such assumptions were always simplifications of liberal political economies. Yet as I have argued above and elsewhere, such assumptions have often proved reasonably useful frames of reference. Civil society clearly does make a difference, and many spheres of business have taken on aspects of social and environmental responsibility that would have been unthinkable in the past (Zadek 2012). With each step forward into the twenty-first century, however, such assumptions become more suspect. Inter-twinning relationships between business and government can no longer be usefully modeled as distinct, necessitating the darker side of collaboration to be more clearly understood in the context of any narrative about public-private partnerships in pursuit of public goods. From Delhi to London, the power of civil society to shape markets and political processes is under threat. At the same time, decidedly un-civil politics may deliver positive outcomes. The success of the climate negotiations in Paris, for example, depends largely on the leadership of un-liberal societies and political leaderships, notably China.

Shaping corporate responsibility going forward will need to take place, and hopefully succeed in this changing context. Learning pathways and associated institutional innovations and actions in the context of competition and collaboration will remain fundamental to any change processes. In this sense, the framework discussed in this essay does contain the core elements that we will continue to work with, both as analysts and activists, albeit configured to a changing world.

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