

# Corporate Social Responsibility Practices and Environmentally Responsible Behavior: The Case of The United Nations Global Compact

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**ABSTRACT.** The aim of this paper is to shed some light on understanding why companies adopt environmentally responsible behavior and what impact this adoption has on their performance. This is an empirical study that focuses on the United Nations (UN) Global Compact (GC) initiative as a Corporate Social Responsibility (CSR) mechanism. A survey was conducted among GC participants, of which 29 responded. The survey relies on the anticipated and actual benefits noted by the participants in the GC. The results, while not conclusive, indicate that companies have more than one reason for adopting environmentally responsible behavior and that ethical and economic reasons co-exist. In terms of performance, the impact of participation in the GC seems to

be particularly high in securing network opportunities and improved corporate image. The results indicate that companies that have participated many years in the GC, have submitted the most projects and have attended the most GC meetings also regard their CSR involvement as having had a strong, positive influence on their market performance. GC participation does not result in significant cost advantages, but this does not seem to have been regarded as a goal anyway. Costs seem to be affected to a large extent by existence of in-house research and development and the capability of developing environmentally sound technologies. Overall, the company receives both ethical and economic benefits from joining the GC.

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This paper modestly accepts the challenge introduced by Garriga and Mele (2004), namely integrating economics and ethics. As they argue, although some research has investigated this problem before, it is far from being resolved. Moreover, they stress that this integration is necessary to increase corporate participation in Corporate Social Responsibility (CSR) activities in the future. Thus, this paper aims to (1) investigate corporate motivations for taking part in CSR activities and (2) analyze the impact of CSR on company performance. This might help to visualize the linkage between motivations and results of undertaking CSR practices along both ethical and economic dimensions.

When the relationship between business and society is considered, companies face a conflict of

aims between maximizing shareholder and stakeholder value. On the one hand, some claim that CSR helps to meet objectives that produce long-term profits, while others claim that CSR is a step towards a decent society because companies are doing what is ethically correct. Could it not be both? It seems the United Nations (UN) Global Compact (GC) initiative as a CSR mechanism aims to do so, particularly when it comes to environmental issues.

This paper examines in particular how CSR practices affect a firm's environmentally responsible behavior, especially economic and ethical aspects of that behavior. To do so, an empirical study was conducted on companies that take part in the UN GC initiative.

The UN GC is a voluntary initiative that relies on public accountability, transparency, and enlightened self-interest of companies. The basic idea is that the voluntary involvement of companies within the areas of human rights, labor rights, environmental degradation, and anti-corruption can encourage private innovativeness and concern within these areas in a manner that regulation has not been able to do adequately, thereby hastening the emergence of a more sustainable and just future (Kell and Levin, 2002).

It is within this context that the paper examines CSR initiatives in general – and the UN GC in particular. The main hypothesis is that the UN GC might be an important driving force in bringing about the adoption of environmentally responsible behavior, and the reason for this is that it is perceived as having both economic and ethical value for the participating companies. To investigate this hypothesis, this paper examines the following two main questions:

- (1) Why do companies participate in the UN GC?
- (2) What are the impacts of UN GC participation on firm performance?

The paper is structured as follows. Sections “Corporate social responsibility” and “The UN Global Compact” provide the theoretical background to CSR and the UN GC. Section “Methodology” lays out the methods and techniques that have been used for data collection, analysis, and interpretation, while section “The analysis of the UN Global Compact participants” furnishes a

thorough description of the data. Section “Conclusions” finalizes the paper with some concluding remarks and suggestions for further research.

### **Corporate social responsibility**

To put the UN GC into a wider context, this section will start by describing the CSR field of research, with particular emphasis on environmental aspects.

Although no formal definition of the concept has been agreed upon, there are a couple of definitions that have become quite well used. This paper prefers the definition used by the World Business Council on Sustainable Development (WBCSD):

Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life (WBCSD, 2000).

#### *The emergence of the CSR field*

Although some studies date the beginning of the academic interest in CSR as far back as the 1850s (Balza and Radojicic, 2004; Doane, 2004; Smith, 2003), it is only recently that it has acquired the position it currently has within teaching and research institutions, corporations, governments, intergovernmental agencies and NGOs (Garriga and Mele, 2004).

The year 2000 was the watershed for attempts in support of CSR initiatives. For example, government leaders called for greater “corporate environmental and social responsibility and accountability” in the Johannesburg Declaration and Plan of Implementation of the 2002 World Summit on Sustainable Development (UN, 2002 and 2003). Along similar lines, the Commission of the European Communities published a Green Paper, “Promoting a European Framework for Corporate Social Responsibility,” in 2001 (Aaronson and Reeves, 2002; Tencati et al., 2004).

Various surveys have provided evidence for these trends. CSR Europe reported that 62% of fund managers and financial analysts have noticed a