

The United Nations Global Compact

Does Redemption Lead to Managerial Innovation and Improvement?

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ABSTRACT

In 1999, Kofi Annan proposed that trans-national corporations (TNCs) link themselves to the United Nations Global Compact—a new initiative and venture that would allow TNCs to demonstrate their commitment to social responsibility and sustainable development. To date, over 5000 corporations have joined this endeavor, which can be viewed as a new and innovative venture for a corporation and its managers. To test both antecedents and outcomes for this type of management innovation, we draw our sample from the KLD dataset (2002-2006). Our tests confirm that R&D and Capital Expenditures are positively related to SD ventures. In turn, SD ventures are positively associated with firm performance.

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Introduction

In Victor Hugo's *Les Misérables*, Bishop Myriel granted a magnanimous pardon to Jean Valjean. The latter, a convicted felon, had arrived in the town of Digne penniless. Unable to secure lodging, he sought a room in the Bishop's home. In spite of the latter's kindness, in the middle of the night Valjean arose and stole the silverware while fleeing from the house. Caught by the police, he was taken back to the Bishop's place and stood before him as a common criminal. With stolen silverware in view, the Bishop invented an incredible story—he told the police that he had given the valuable objects to Valjean and that the man had forgotten to take the two silver candlesticks also offered to him. According to the Bishop, the police were mistaken to think that this former criminal had stolen the silver! Bishop Myriel then reminded Valjean of the promise, which Valjean could not recollect, 'to make an honest man of himself with the silver'. Shortly after, Valjean out of vile habit stole a boy's silver coin, then he recalled his 'promise' to the Bishop, regretted the theft, and pledged to turn his life around, which he then proceeded to do. The Bishop's forgiveness is in itself an inventive pardon not sought or expected by Valjean (Hampden-Turner and Trompenaars, 2000). Because of it, Valjean redeemed his life. He was no longer the bitter man who had spent 19 years as an inmate crushing rocks in a quarry. Instead, he started life anew and began a truly successful existence.

Though Valjean turned his life around completely, he continued to suffer from, what we would call, a reputation or legitimacy problem. Inspector Javert knew of Valjean's criminal past and pursued him relentlessly. Javert could not tolerate the idea that a former criminal had developed good habits (new routines) and become a good citizen. In the story, the inability to reconcile Valjean's dark past with his current good behavior drove Javert to take his own life. His simplistic fixation upon the past denied him the ability to recognize that people (or firms) are able to develop new habits (or routines).

In presenting the research findings that follow, we delve into the same issues that Hugo explored, but we do not focus on individuals, their redemption, and their contributions to one another. Instead, we examine the case of profit-seeking corporations and their decision to join and follow the United Nations Global Compact (UNGC) principles and the Global Reporting Initiative (GRI) guidelines.

We explain this ‘redemptive’ decision within the secular context of innovation for sustainable development (SD). Relying upon Hugo’s novel for our inspiration, we have organized our paper in four sections. First, we discuss the plight of transnational corporations (TNCs) vis-à-vis the United Nations and the emergence of the sustainable development concept that culminated in Kofi Annan’s redemptive UNGC principles. Second, we develop the concept of SD innovation (Birkinshaw, Hamel, and Mol, 2005) and argue that UNGC/GRI membership is the entrepreneurial decision (labeled SD venture herein), which positions a firm on the path to managerial innovation, socially responsible outcomes, and perhaps corporate financial success. Next, we test our argument on a dataset of 574 large public (American) corporations using a two-stage research design that follows from the invention-innovation dichotomy. Lastly, we provide a discussion and conclusion about our findings and what they reveal about the redemptive benefits of SD ventures as a way for large firms to contribute to sustainable development.

TNCs and the Emergence of Sustainable Development

In a recently published book, Sagafi-nejad (2008) provides a detailed review of the often acrimonious relationship between transnational corporations and the United Nations. We draw extensively from his account given the imprimatur of the United Nations and the collaboration of John H. Dunning on the volume (see also Cetindamar and Husoy, 2007, for a brief review of the UNGC itself). With the benefit of historical hindsight, the predicament faced by TNCs was probably unavoidable. On the one hand, all the national members of the United Nations through the organization’s Charter expressed a desire for the economic development of the world’s people. For those nations outside the Soviet bloc or for those others not relying on a socialist model for economic development, this desire implied reliance upon TNCs as the carriers of foreign direct investment (FDI). On the other hand, when the much sought after development did not occur with FDI, or occurred too slowly, the TNCs were the most obvious suspects and the easiest to blame before the world community at the United Nations.

As Sagafi-nejad (2008, 4) states—“*Some see TNCs as exploitative and driven by profit at all costs; others view them as engines of growth, necessary for economic transformation. Ideas and events*

have both been influenced by this Janus face of TNCs. The UN has debated, studied, and recorded the various faces of TNCs. The ambivalence with which TNCs are viewed is understandable". This ambivalence gave rise over time to a global context wherein TNCs' reputations were often being attacked and their very legitimacy was usually in question.

Through the 1960s, the role of TNCs and FDI for national economic development was rarely questioned, but beginning in the 1970s key events triggered new ideas that were critical of both TNCs and the developed countries, particularly the United States (Vernon, 1971; United Nations, 1974; Gladwin and Walters, 1980). In Table 3.1, Sagafi-nejad (2008, 42-43) summarizes the triggering events and subsequent declarations that attempted to correct the perceived imbalance in world economic affairs. The Declaration for a New International Economic Order was promulgated, and the Group of 77 Nations demanded that this 'New Order' be followed with appropriate deeds from TNCs and their home countries. Furthermore, during this same time period the Group of Eminent Persons was created, under the leadership of de Seynes from the United Nations, to undertake a major study of TNCs. This Group consisted of 20 individuals representing multiple countries, the public sector, the private sector, and academia. After analyzing the problem extensively, the Group of Eminent Persons issued a report and recommended the creation of new organizational entities such as the UN Commission on TNCs and the UN Centre on TNCs. One of the few scholars who questioned the Group's work was Stephen Hymer. He thought that by the end of the century some 400-500 large corporations would dominate the global economy and that a global system of private capitalism would never lead to equitable economic development. Nevertheless, as a result of the Group's effort, the acrimonious attacks on TNC legitimacy were substantially reduced.

For the next twenty years, or until the late 1990s, there was relative calm in the relationship between TNCs and the United Nations; however, the skepticism toward TNCs never totally disappeared. As noted by Sagafi-nejad (2008), toward the end of the 20th century there was an aborted attempt to develop a code of conduct for TNCs, but it was opposed by the latter and eventually failed. In spite of the code's failure, disparate global events (see Vernon's last book, *In the Hurricane's Eye: The Troubled*

Prospects of Multinational Enterprises, 1998) were emerging that would lead to a new call for TNC participation in Responsible Global Capitalism (Dunning's term, 2003, and one of the twenty in the Group of Eminent Persons). The new call, made by Kofi Annan, came at the World Economic Forum (1999) in Davos, Switzerland. Annan's rationale for announcing the United Nations Global Compact, we believe to be based on a confluence of threatening world events. First, the opponents of globalization and the critics of TNCs had scored a major victory in Seattle by shutting down the World Trade Organization meeting (Stiglitz, 2002). Second, the 1998 East Asian financial crisis was still fresh in the minds of many who had thought global capitalism through TNCs would lead to a new sustained world economic order (Stiglitz, 2002). This crisis underscored the risks that even strong economies were susceptible to during an era of global capitalism. Third, the many risks to the earth's ecological balance, first noted by the Brundtland Report (1987) and reinforced periodically by the ominous updates from the Intergovernmental Panel on Climate Change, were becoming starkly obvious as the century came to a close. For many observers of this emerging and threatening world situation, the TNC was seen as a major participant in all three events due to its key role in an economic system based on global capitalism. Thus, to reduce the risk to the global community, many, including the leadership at the United Nations, believed that global capitalism along with its primary driver, TNCs, had to change and behave more responsibly. As explained below, the UN Global Compact represents the principles towards a 'New (fairer and more legitimate) Economic Order'. If TNCs adhere to the UNGC principles, they are in essence engaging in a redemptive act that will hopefully correct the threatening global imbalances and TNC legitimacy issues that emerged fully in the final year of the second millennium.

UNGC & GRI Registrations as SD Ventures

The UNGC and Its Ten Principles

With Kofi Annan's 1999 announcement of the UN Global Compact, the leaders of TNCs, facing a risky macro-environment with pending discontinuities in the global context (see Anderson and Tushman, 1990, plus others), had an opportunity to 'begin life anew'. The UNGC represented a new

path for TNCs (along with other organizational entities like NGOs and local governments) to venture down, with the United Nations as the partner holding supra-national legitimacy. To travel this inventive and collaborative path toward a more legitimate and sustainable corporate life, a TNC has to register for the UNGC and agree to Ten Principles, which are categorized into four groups

(www.unglobalcompact.org):

Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Businesses should make sure that they are not complicit in human rights abuses.

Labor Standards

3. Businesses should uphold the freedom of association and the right to collective bargaining.
4. Businesses should eliminate all forms of forced and compulsory labor.
5. Businesses should effectively abolish child labor.
6. Businesses should eliminate discrimination in employment and occupation.

The Environment

7. Businesses should support a precautionary approach to environmental challenges.
8. Businesses should undertake initiatives to promote greater environmental responsibility.
9. Businesses should encourage the development and diffusion of environmentally technologies.

Anti-Corruption

10. Businesses should work against all forms of corruption, including extortion and bribery.

Thus, by combining normative principles, networks for learning (McKinsey, 2004), and transparency, the United Nations Global Compact has already been acknowledged as an influential Corporate Social Responsibility guideline (Runhaar & Lafferty, 2009; Cetindamar & Husoy, 2007; Kell, 2005; Vormedal, 2005). However, we posit the initial corporate decision to register for the UNGC can also be viewed as an entrepreneurial decision or new venture. Because this new venture implies that the firm will adopt new routines (i.e., sustainable development policies), we label this decision as a SD

venture. In turn, SD ventures should be seen as an inventive first step of managerial innovation (Birkinshaw, Hamel, and Mol, 2005). To show its commitment to the UNGC principles, a TNC has to submit a sustainability report within two years (from the date of registering) and every subsequent year. Likewise, the UNGC now recommends that corporations follow the reporting process suggested by the Global Reporting Initiative (GRI).

The standards for the GRI, which we also consider as a firm's entrepreneurial decision or SD venture, directly emanate from the three main dimensions of sustainable development (SD)—ecological, economic, and social (The United Nations Outcome Document, 2005). Thus, the GRI format provides far more substance to a corporate SD report. In fact, several researchers also identify the GRI as a leading guideline for use by corporations to meet CSR standards. In sum, the corporate decision to join (and follow) the UNGC or the GRI signals a firm's decision to launch a SD venture, with an expectation to implement innovative SD routines

As generally discussed in the innovation literature and also stipulated by Birkinshaw, Hamel, and Mol (2005), an invention does not equate to an innovation. For a new product initiative, the latter requires commercial success. There exist customers willing to pay for its putative value. For an SD venture, there is no (physical) market place where its inventions are sold and bought. To deal with this difference, we have followed Birkinshaw, Hamel, and Mol (2005) who stipulate that a managerial innovation will lead to new or different organizational practices and structures. Of course, mere UNGC/GRI registration (the SD venture or entrepreneurial act) should not be enough to lead organizations to commercial or corporate success. Rather, it is the successful adoption of the UNGC/GRI guidelines what should signal managerial innovation. Birkinshaw, Hamel, and Mol (2005) recognize that distinction (between entrepreneurial acts and innovation-success) and espouse that such innovations be scrutinized for their corporate financial outcomes along with their contributions to the larger society. In light of this distinction, there are two questions we wish to explore in this paper. The first deals with the antecedents of the entrepreneurial decision to engage in SD ventures. The second question looks at the

successes achieved by the TNCs that have adopted the UNGC/GRI principles reflected by its membership.

Theory Development

To address these questions, we are relying primarily on the management innovation model developed by Birkinshaw, Hamel, and Mol (2005). Their thinking, though rooted in the innovation literature, differs somewhat from it because they are looking at innovations for the management of the organization and not at the traditional product or process. As is customary, they make a distinction between invention and innovation; however, the standard for judging an invention to be an innovation is different. This is because there is no standard of commercial success in the marketplace for evaluating a management innovation. Management inventions, like ISO 9000, may be highly successful and awarded innovation status, but that achievement can only be measure indirectly. Thus, they contend that management inventions become innovations when they are accepted as routine organizational practices or structure. The circumstances that lead to the adoption of such inventions remain elusive and are primary to our study of why TNCs join the UNGC. A crucial and original element in their model is the role of middlemen—those who lead the organizational managers initially to consider an invention like the GRI. We agree with their emphasis on middlemen but do not examine this concept due to the near impossibility of measuring it for UNGC registrations. Lastly, the model predicts that management innovations, like the UNGC/GRI, will impact corporate performance. This prediction, if it is accurate as measured herein, will provide evidence for the validity of the management innovation construct and a strong argument for closely examining other such innovations.

Birkinshaw, Hamel, and Mol (BHM), who in keeping with the large literature on innovation, note that adoptions of managerial innovations are a function of corporate entrepreneurship (new ventures) potential. For instance, Trajtenberg (1990) finds that the correlation between R&D spending and patents ranged from .83 to .93. This means that R&D expenditures can be a reasonable proxy for measuring firm *potential* for innovation (Griliches, 1990; Trajtenberg, 1990). For this paper, we assume that firms with a general disposition to engage in innovative endeavors (firms with higher R&D expenditures) are more

likely to engage in entrepreneurial (new venture) endeavors of a particular type (e.g., SD ventures) than firms with (lower R&D expenditures). The reasoning for this seems straightforward. Firms that are experienced on new ventures can afford to attempt a new venture (SD venture) without worrying unduly about the negative consequences, if it fails technological. Likewise, they are more likely to bring the new learned routines (or capabilities) to their productions process (Patel & Pavitt, 1997; Silverman, 1999).

Thus, we hypothesize that—

TNCs with higher entrepreneurial potential have a greater likelihood to engage in SD ventures than those with less potential.

A second antecedent of new SD ventures may well be reputation. Though it is not an element in the BHM model, it underlies the redemptive notion for TNCs being advanced in this study. In its support, King (2008) demonstrates convincingly that U.S. corporations with negative reputations yield readily to third-party pressure from boycotts, usually organized by NGOs. The historical issue of TNC legitimacy noted above in our historical review of TNCs and the United Nations would also lead one to believe that a bad corporate image ‘causes’ a company to seek redemption by joining the UNGC. UNGC/GRI registration and adoption is supposed to demonstrate that a TNC practices responsible global capitalism, hence it is more legitimate. However, there exists the possibility that ‘good’ corporations have more readily joined the UNGC in order to perpetuate their already sterling reputations. TNCs that are initial adopters of the UNGC may already be highly responsible organizations wishing to demonstrate this fact and to make render themselves even more responsible. Thus, the UNGC becomes an enhancer of TNC reputation. Given these two possibilities, we offer dueling hypotheses—

KLD (SD reputation data) scores are positively related to SD ventures.

KLD (SD reputation data) scores are negatively related to SD ventures.

Our third hypothesis follows directly from the BHM (2005) expectation that successful managerial innovations will lead to improvements in corporate performance. We hypothesize—

SD ventures to be positively associated with corporate financial performance.

The Research Study

Sample

Our research sample consist of 574 large publicly traded American firms with available KLD scores and available financial information (e.g., R&D and Capital Expenses figures) within the years of 2002-2006. The Kinder, Lydenberg, Domini Research and Analytics (KLD) scores have been used by several authors to examine corporate social responsibility, and environmental performance (Margolis and Walsh, 2003, 2007; Bagnoli and Watts, 2003; Waddock, 2003; Deckop et al. 2006; Chatterji, Levine, and Toffel, 2009). In fact, the KLD scores are by far the most comprehensive corporate social and environmental ratings available for North American publicly-traded companies (see Waddock, 2003 for an in-depth explanation on the reliability and validity of the KLD rating system). The KLD dataset covers firms from the S&P 500 Index, the Domini 400 Social Index, the Large Cap Social Index, and the Broad Market Social Index.

Dependent Variables

As explained earlier, we identify UNGC/GRI membership as a firm entrepreneurial decision to pursue (and learn about) sustainable development. In sum a UNGC/GRI membership is seen as a *SD venture*. To test whether a firm would engage in *SD ventures*, we identify *SD ventures* as an ordinal dichotomous variable with the following outcomes: firms joining either the UNGC or the GRI between the years of 2002-2006 = 1 and 0 otherwise.

To measure financial performance we use *Tobin's q* (see Bharadwaj et al. for a detailed explanation on why Tobin's q is a superior performance measure to traditional ROA and ROE measures). Simply put, *Tobin's q* is the ratio of the market value of a firm's assets over the replacement value of its assets. Thus, it measures the extent to which the market recognizes a firm's future profitability and growth potential (Chung & Pruitt, 1994; Makri, Lane, & Gomez-Mejia, 2006). Tobin's q is calculated as follows:

$$\text{Tobin's } q = V_i/A_i$$

where V_i = the total market value of the firm i , (i.e. the sum of the market value of equity, preferred stocks and debt), and A_i = the book value of firm i 's total asset.

Independent Variables

Entrepreneurial Potential. To measure a firm's entrepreneurial potential we used two independent variables: *R&D Expenses* and *Capital Expenditures*. Further, we used the natural log form of these variables to normalize the distribution of our variables. Measuring firm R&D Expenses and Capital Expenditures has been a traditional way to measure a firm's ability to develop new products or engage in new ventures (entrepreneurial potential). R&D expenditures are designed to generate returns or benefits over multiple future periods. Capital expenditures reflect the reinvestment needs to generate future growth.

SD Scores. We used KLD scores, firm social responsibility, as a proxy for firm sustainability scores. The KLD ratings cover approximately 80 indicators in seven major sustainability dimensions: Community (charity programs), Corporate Governance (transparency), Diversity (minority's representation), Employee Relations (union relations, health and retirement benefits), Environment (pollution, waste management), Human Rights (global reach) and Product (quality). Furthermore, these dimensions include both positive and negative ratings (strengths and concerns).

However, KLD does not provide an index. That is why several researchers have created their own way to test for the impact of the seven dimensions on firms. For instance, Hillman & Keim (2001:131) created the following system: "The KLD categories are rated on a scale ranging from -2 (major concerns), -1 (concern), 0 (neutral), +1 (strength), to +2 (major strength)." More recently, Godfrey, Merrill, and Hansen (2009) suggest to separate (rather than net) the strengths and concern ratings.

In light of this conflict, between netting positive vs. negative (strengths vs. concerns) or treating positive and negative as separate dimensions, we opted to test each dimension on its own. We figure there is no downside by separating the dimensions, as each of them should stand on their own. Moreover, we also constructed an all positive (and negative) dimensions index and a net KLD index. The dimension

scores came as a result of averaging (rather than aggregating) each dimension's components. For instance, the community dimension has eight positive components, but only five negative ones. In so doing, we were able to construct an overall (net) KLD index.

Control Variables

Size. Firm size can have an effect on SD venture or firms performance. For instance, recent findings by Garz & Volk (2007) suggest that firm size positively relates to GRI registrations (our construct for SD ventures). Similarly to Li, Eden, Hitt, & Ireland (2008) study on R&D alliances, we use the number of employees (natural log) as proxy for firm size. Thus, consistent with standard academic research in business, we used the natural logarithm of *number of employees* to control for the possible positive effect of firm size (cite). We favor the use of number of employees rather than firm assets to avoid multicollinearity.

Industry. To control for industry effects, we used the North American Industry Classification System or 'NAICS' codes (Aggarwal, Dai & Walden, 2006; McMullen & Zahra, 2006). This classification is the standard used by Federal statistical agencies in the United States (<http://www.census.gov/eos/www/naics/>).

Firm ID. To control for firm effects, we gave each firm an individual ID number.

Years. To control for the effect of time, we also use the variables years (2002-2006).

Statistical Methods

In many situations in the social sciences we have a dependent variable that is dichotomous rather than continuous (e.g., whether or not a firm engaged in SD ventures in a given period). Under this condition, the OLS regression is not appropriate due to heteroskedasticity and normality problems (Long, 1997). To properly calculate a dichotomous dependent variable, we use *logistic regression models*. For instance, Davis et al. (2007) used logistic regression models to analyze the likelihood of illegal trading in mutual funds. In turn, we use logistic regression to determine why a firm would be more likely to engage in SD ventures.

To analyze the effect of SD ventures, KLD scores, and other variables on firm performance (Tobin's Q), we run our data using *cross-sectional pooled time series*. In doing this type of analysis, we consider how to overcome the potential for these main methodological problems: panel heteroskedasticity from firm to firm, or year to year; and panel autocorrelation (Beck and Katz, 1995; Harrinvirta and Mattila, 2001). Therefore, we followed Damanpour et al. (2009) methodology (STATA's xtreg command with the 'robust' option). In so doing, we correct for heteroskedasticity and autocorrelation effects across panels.

Results

As explained in the methods section, we used two statistical methods to test our hypotheses. The logistic method includes the use of SD ventures as its dependent variable as it pertains to either the GC or the GRI firm membership. Model 1 (Table I) shows the dependent variable (SD Ventures) and its relationship with the control variables. As can be seen, we effectively control for possible alternative explanations (i.e., firm size, industry, firm, and year effects). In turn, model 2 directly tests hypothesis 1, which predicts a statistical relationship between entrepreneurial potential (i.e., R&D and Capital expenses) and SD Ventures. To this end, the results show statistical significance for the '*entrepreneurial potential*' variables; R&D Expenses with an odds ratio of 1.22 ($p < 0.01$) and Capital Expenditures with an odds ratio of 1.44 ($p < 0.01$). These results strongly support Hypothesis 1.

Competing Hypotheses 2a and 2b suggest that what we labeled as SD Ventures can be the result of (positive or negative) CSR reputation effects. In other words, that either 'good' responsible firms or 'bad' irresponsible firms (those in dire need to change their negative image), are more likely to engage in SD Ventures. Table II (model 3) shows the results for KLD's seven strength dimensions. Four of the strength dimensions are not statistically significant (diversity, employee relations, human rights, and environment). The strength dimensions that are statistically significant are: community, with an odds ratio of 17.24 ($p < 0.01$); corporate governance with an odds ratio of 0.06 ($p < .05$); and product with an odds ratio of 0.03 ($p < 0.10$). These results indicate that firms with high marks on community strengths (e.g.,

charity involvement) are more likely to follow SD ventures. In contrast, firms with poor positive ratings (not negative ratings) on corporate governance and product are also more likely to engage in SD ventures.

Table II (model 4) shows the results for the KLD's seven concern dimensions. Interestingly, none of the concerns was statistically significant. Furthermore, in models 5 we aggregate all seven strengths and all seven concerns, and in model 6 we show a net variable for the 14 KLD ratings (7 strengths plus 7 concerns). However, we did not find statistical significance.

Taken together, these results indicate that the decision to engage in SD ventures is not affected equally by the 14 dimensions. The results show that firms with higher involvement in community affairs are more likely to follow SD ventures. In contrast, firms with low positive ratings on corporate governance and product are also more likely to engage in SD ventures. However, firms with high concerns (high negative scores) in corporate governance and product; or firms with low concerns (low negative scores) in community affairs, were no more likely to go engage in SD ventures. In other words, as per the decision to follow SD ventures, strengths and concerns are indeed separate dimensions.

As indicated in the methods section, we test firm performance by using a cross-sectional time series methodology. Table III (model A) shows the dependent variable (Tobin's Q) and its relationship with the control variables. For this methodology, we added the entrepreneurial potential variables as controls as we wanted to control for the possible positive effects of higher R&D and Capital Expenses. In turn, model B tests hypotheses 3, which predicts a statistical relationship between SD ventures and firms performance. To this end, the results show high statistical significance for the SD venture ($p < 0.001$). These results strongly support hypothesis 3. That is, firms that engaged in SD ventures (2002-2006) had higher performance than the ones that did not. Perhaps, as though provoking is the fact that the entrepreneurial potential variables were not statistically significant. Thus, it is not raw entrepreneurship potential, which explains performance, but rather, a specific form of entrepreneurial ventures: SD ventures.

Discussion of Findings

We began this research study by highlighting the value of the redemptive act—the Bishop’s incredible pardon of Valjean culminated in the latter’s extraordinary contributions to numerous others who crossed his path. Nevertheless, it was impossible for Inspector Javert to accept that a man of ill-repute could turn his life around and do good thereafter. Of course, Valjean only represented a character in a French story, but given the timeless endurance of Hugo’s novel there seems to be a lasting moral truth in his story.

With this human truth in mind, we then posited that TNCs in the twentieth century appeared to be like the criminal Valjean. In the eyes of the global community, the United Nations, TNCs had caused much damage in terms of economic development for the emerging economies. This tendency to blame TNCs for these development shortcomings waxed and waned in the latter half of the past century, but in the final years of the 1990s events co-emerged that placed TNCs and their FDI activities once again in a very negative position. Like Valjean, they had been caught and were seen as having taken silver that was not theirs. In 1999, Kofi Annan offered them an opportunity to redeem themselves through the acts of joining the UNGC, pledging to follow its Ten Principles, and hence contributing to the world’s sustainable development.

To examine how relevant the UNGC as a redemptive act has been to TNCs, a matched sample of 574 U.S. corporations with KLD scores was selected for analysis. Using primarily the Birkinshaw, Hamel, and Mol (2005) model for a theoretical base, we hypothesized that TNCs with more entrepreneurial potential—measured as R&D expenses and capital expenditures— would be more likely to register for the UNGC/GRI. This hypothesis is strongly supported. Firms with entrepreneurial potential, or more resources for undertaking new ventures, are much more likely to innovate and engage in official SD activities. Unlike Valjean, TNCs belonging to the UNGC are not penniless entities. They possess silver, and it inclines them to undertake responsible SD activities.

The second set of competing hypotheses focused on firm legitimacy or reputation, as measured by the KLD scores, and probed which type of reputation pushes a TNC to join the UNGC. In reference to

Hugo's Valjean, a negative reputation would seem to be the primary motivation for a TNC to seek and accept the redemption offered by the UNGC. Nevertheless, that may be too simplistic and moralistic so we offered a competing hypothesis. The results of our statistical tests support both hypotheses. The managerial decision to innovate and join the UNGC cannot be explained with a single motive. Clearly, the decision is complex and depends on multiple factors. For us, this is an important finding that merits further study and underscores the danger of thinking like Inspector Javert and refusing to accept that corporations, perhaps more so than individuals, can evolve and change.

The final hypothesis being reported on this study deals with the relationship between SD ventures, UNGC/GRI, and corporate financial performance. For this sample, we found that undertaking SD ventures did lead to better performance, when measured by Tobin's Q. This performance increase is related to the SD venture itself and not to the entrepreneurial potential variables. Thus, the findings support the Birkinshaw, Hamel, and Mol (2005) model's prediction that management innovation should lead to financial performance improvements.

In conclusion, our findings for SD ventures support the BHM model for management innovation if it is expanded to include legitimacy or reputation effects. Such effects, although complex and in need of more research, do matter for the case of management innovation that aims to launch the TNC down the path of sustainable development. Innovative efforts that seek to make the organization more responsible should not overlook the importance of TNC legitimacy.

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Table I Logistic Regression (SD Ventures)

	Model 1		Model 2	
	z		z	
<i>Independent Variables</i>				
log R&D			1.216**	2.78
log Capital Expenditures			1.444**	2.68
<i>Control Variables</i>				
log Employees	2.651***	21.290	2.074***	5.87
NAICS	1.000***	10.780	1.000**	-3.05
Firm ID	1.000	0.200	1.000	0.21
Year	0.943	-1.380	0.913	-1.32
Observations (N)	1953		1953	
<i>Pseudo R</i> ²	0.381		0.513	
Log likelihood	-988.03		-384.68	
Wald χ^2	510.51***		371.43***	

†P<0.1, *P<0.05, **P<0.01, ***P<0.001

Table II Logistic Regression (SD Ventures)

	Model 3 Strength		Model 4 Concern	
	z		z	
<i>Independent Variables</i>				
KLD:				
Community	17.244*	3.07	0.301	-1.06
Corporate Governance	0.058*	-2.28	0.752	-0.35
Diversity	0.742	-0.29	0.891	-0.20
Employee Relations	3.457	1.32	1.530	0.55
Environment	2.668	0.57	4.043	1.16
Human Rights	1.148	0.61	0.752	-0.17
Product	0.025†	-1.76	0.709	-0.44
log R&D	1.216**	2.75	1.215**	2.82
log Capital Expenditures	1.357*	2.18	1.504**	3.10
<i>Control Variables</i>				
log Employees	2.031***	5.67	2.059***	6.02
NAICS	1.000**	-3.33	1.000**	-3.15
Firm ID	1.000	0.67	1.000	0.22
Year	0.923	-1.13	0.918	-1.25
Observations (N)	1953		1953	
<i>Pseudo R</i> ²	0.527		0.515	
Log likelihood	-373.67		-383.15	
Wald χ^2	373.08***		377.33***	

†P<0.1, *P<0.05, **P<0.01, ***P<0.001

Table III Logistic Regression (SD Ventures)

	Model 5		Model 6	
		<i>z</i>		<i>z</i>
<i>Independent Variables</i>				
KLD Net (Strengths-Concerns)			1.089	0.37
KLD All Concerns	0.948	-0.20		
KLD All Strengths	1.136	0.40		
log R&D	1.218**	2.82	1.217**	2.79
log Capital Expenditures	1.439**	2.67	1.445**	2.70
<i>Control Variables</i>				
log Employees	2.071***	5.90	2.068***	5.89
NAICS	1.000**	-3.03	1.000**	-3.03
Firm ID	1.000	0.24	1.000	0.24
Year	0.913	-1.31	0.913	-1.32
Observations (<i>N</i>)	1953		1953	
<i>R</i> ²	0.513		0.513	
Log likelihood	-384.59		-384.62	
Wald χ^2	371.12***		371.15***	

†*P*<0.1, **P*<0.05, ***P*<0.01, ****P*<0.001

Table IV Cross Sectional Time Series (Log Tobin's Q)

	Model A		Model B	
		<i>z</i>		<i>z</i>
<i>Independent Variables</i>				
SD Ventures			0.56***	5.30
<i>Control Variables</i>				
log R&D Expenses	0.00	0.25	0.00	-0.17
log Capital Expenditures	-0.02	-0.79	-0.02	-1.01
log Employees	-0.06	-2.47*	-0.10***	-3.84
NAICS	0.00	-0.74	0.00	0.06
Observations (<i>N</i>)	1896		1896	
<i>Number of Groups</i> (<i>firms</i>)	574		574	
Wald χ^2	27.74***		53.08***	

†*P*<0.1, **P*<0.05, ***P*<0.01, ****P*<0.001