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# **The Integration of Corporate Social Responsibility into Business Practice in Asia, from 2000 to 2007.**

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## **Abstract**

This paper investigates the relationship between organizational density and decoupling to illuminate the level of integration of CSR (Corporate Social Responsibility) guidelines introduced by the United Nation Global Compact (hereafter UNGC). The author introduces the concepts of “mild decoupling” and “extreme decoupling,” which include the degree of loose alignment between formal rules and activities. Using the data on Asian participants of the UNGC from 2000 to 2007, this article shows that density of the UNGC members at the global level determines whether a company becomes a decoupled participant which fails to communicate with the UNGC board and refuses to engage in the integrity measures.

Whereas, local density influences on the degree of decoupling. These results suggest an institutional theory of decoupling: the increase in global density escalates decoupledness in general, but the increase in local density decreases extreme decoupling. The implications of this study for the neo-institutionalism and organizational decoupling are discussed.

Keywords:

*United Nation Global Compact (UNGC), mild decoupling, extreme decoupling, global density and local density.*

## **1. Introduction**

Organizations frequently adopt formal laws, policies, programs and guidelines, but they also decouple these formal structures from actual practices in the organizations to buffer technical core from external monitoring and evaluation (Meyer and Rowan 1977; Levin 2001). Meyer and Rowan (1977:) noted that decoupling enables organizations to maintain legitimating formal structure while their activities vary in responses to practical considerations. Despite the importance of decoupling in business and institutional theory per se, many neo-institutional analyses have associated with the diffusion or adoption stories. There has been relatively little empirical research conducted to examine mechanisms of organizational decoupling. Although there are some quantitative analyses (e.g. stock repurchase programs and informal decoupling practices (Westphal and Zajac 2001)), most previous studies on decoupling devoted to description of a particular case, such as anti-circumcision policies and continuation of female genital cutting in five African countries (Boyle, McMorris and Gómez 1999), and organized hypocrisies of the international organizations (Lipson 2006). While these studies unfold many details about the decoupling cases, they do not explore the macro-level logics behind decoupling or diversity in decoupling patterns.

This paper considers two main questions: what is the dominant logic that determines whether an organization becomes decoupled? Are there different logics applied to different levels of decoupling? I argue that there is a positive relationship between the overall density of adoption and the likelihood of decoupling from adopted guidelines. The more organizations adopt formal structures, the more adoption becomes ceremonial. Thus, one can expect the less implementation of the rules at the time of the widespread adoption. A number of research on adoption might give some hint that the late adopters are more likely to decouple, because the late adoption itself is a symbolic behavior (Tolbert and Zucker 1983; Westphal, Gulati and Shortell 1997). Still, it is not clear whether the saturated stage of adoption hinders integration between the adopted structures and activities.

I also argue that the density-driven logic of adoption influences on variation in decoupling. So far, decoupling research has been limited to the general aspects of decoupling. To put it again, researchers focused on the issue of “implementation or not.” However, my argument is different from these studies in two respects. First, I view the decoupling as a continuum of coupling. There is a range of coupling. Decoupling phenomena in real life can be found in somewhere between opposite ends: 0% alignment and 100% alignment between practices and guidelines. Although some scholars, including Levin (2001) who defines *selective* decoupling: a mix of coupledness and decoupledness in practice, acknowledge that decoupling is not conceptually discrete, there is few attempt to show empirical evidences. Second, my emphasis is on how the density-driven logics can explain the difference in the scale of decoupling. Population ecologists argue that the increase of organization density in a new market legitimizes the field as well (Carroll and Hannan 2000). It is not limited to intra-population dynamics. Legitimacy in a focal population may generate legitimacy in other fields. Thus, spill-over effects of inter-population legitimacy may influence the increase of organizational density in non-focal fields. In this case, the borrowed legitimacy (or “identity” in Baron’s term (2004)) sets the rules of behavior for new entrants. Consequently, local density increases the likelihood of coupling. Otherwise, the decoupled entrants lose the legitimacy, therefore, barely survive.

This article focuses on the UNGC members in Asia and their integration of guidelines introduced by the UN bodies. I exploit the data on 728 business members and 143 stakeholder organizations (e.g. NGOs, labor organizations, municipalities, universities, foundations and other types of non-profit organizations). The first part of this paper sketches the UNGC – the empirical setting – and the universalized paradigm: socialization of the market.” The second part briefly reviews some of the literature on decoupling and introduces the concepts of

“mild decoupling” and “extreme decoupling,” followed by hypotheses. The next section describes the sample of this study and measures, including model specification. The final part of this essay presents the results and then offers a discussion and conclusion.

## 2. UNGC: Universal guidelines of market socialization

*“Corporate social responsibility is synonymous with corporate sustainability and should be embedded in the business planing process.”* (UNGC 2007:8, Emphasis italicized)

On 26 July 2000, the UNGC, from its origin as an initial idea proposed at the 1999 World Economic Forum in Davos, was launched with several dozen business leaders. With more than 5000 organizations located in over 100 countries, the UNGC has since the world’s largest voluntary corporate citizenship initiative (UNGC office 2005; United Nations 2007). It provides universal guidelines for participants (in particular, business organizations) that are committed to aligning their operations and strategies with ten UNGC principles in the areas of human rights, labor, environment and anti-corruption (UNGC office 2005; 2007).

Table 1. Ten principles of the Global Compact

Main areas	Principles	Foundation for idea	Year of commencement
Human Rights	Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights.	The Universal Declaration of Human Rights	1948
	Principle 2. Businesses make sure that they are not complicit in human rights abuses.		
Labor	Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	The International Labor Organization’s Declaration on Fundamental Principles and Rights at Work	1998
	Principle 4. The elimination of all forms of forced and compulsory labour.		
	Principle 5. The effective abolition of child labour.		
	Principle 6. The elimination of discrimination in respect of employment and occupation.		

Main areas	Principles	Foundation for idea	Year of commencement
Environment	Principle 7. Businesses should support a precautionary approach to environmental challenges.	The Rio Declaration on Environment and Development	1992
	Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility.		
	Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.		
Anti-Corruption	Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.	The United Nations Convention Against Corruption	2003

(Source: *United Nations Global Compact Homepage*, URL: [www.unglobalcompact.org](http://www.unglobalcompact.org))

The UNGC clearly mentions the benefits of participation in its brochures and its homepage, as well. Being a UNGC member is not limited to a simple collaboration with other businesses, NGOs, labor unions and government organizations on critical issues. Rather, it increases legitimacy and license to operate, because business practices are based on universal values (UNGC 2007; UNGC office 2007).

The UNGC does not directly police, enforce or measure the behaviors of member organizations, but it is first and foremost concerned with the social legitimacy of business and markets (UNGC 2007). One of its two objectives is making the Global Compact and its principles part of members' strategy and operations. Thus, it stimulates organizational change through the implementation of the corporate social responsibility guidelines. Although it is not a regulatory tool, the UNGC expects reports from each participant. Member organizations should publish in their annual report or sustainability report as a description of the ways in which they implement the UNGC ten principles into their business. This is called "Communication on Progress (COP)." The Global Compact board believes in the transparency and accountability of the report submitted by participants (UNGC 2007; UN 2007).

A COP is required to include a description of practical changes in actions and an assessment of outcomes or expected results from the change. It surely reveals that participants have taken the UNGC principles. Company participants should publish in a first COP within two years from the entry date of the UNGC, then COPs should be updated every year. The UNGC marks participants as "non-communicating" members which fail to meet the reporting dead-

line of COP, or refuse to engage in dialogue on a matter raised under the UNGC integrity measures within three months of first being contacted by the Global Compact Office about the matter. Further, the UNGC removes “inactive” members that fail to submit a COP within three years of joining the UNGC or within two years of submitting their last COP (UNGC 2007). To establish the business norm for human rights, labor standards, environmental stewardship and the fight against corruption, the UNGC encourages members and celebrates good performance of participants, through the disclosure of a model of COP reports and cases of developing corporate sustainability. Non-business participants are also encouraged to commit their organization to the ten principles and to report on progress made within their organization (ibid).

In this paper, both inactive and non-communicating members are decoupled organizations in the GC guideline implementation. Using the sample of 871 Asian UNGC members, I examine the logics of decoupling and the variation in decoupling.

### **3. Decoupling: from mild to extreme**

Institutional theorists and organization theorists have recognized the importance of decoupling in affecting the existence of organizations. However, scholars working on this issue have typically focused on decoupling cases or conditions for coupling. Case-driven studies on decoupling include critical views on organized hypocrisies of the international organizations, such as the world bank and the UN (Lipson 2006), stories of five African countries about anti-circumcision policies and continuation of local practices (Boyle, McMorris and Gómez 1999) and interpretation of two decoupling cases—the abuse of prisoners in the Abu Ghraib prison and the falsification of architectural internship reports—as deviance within organization (Monahan and Quinn 2006). The existing literature also examines external/internal conditions that may help organizational activities become aligned with structure. For example, corporate ethics communications are easily decoupled, when top managers aware the guidelines (Weaver, Treviño and Cochran 1999). In this regard, Westphal and Zajac (1995; 1998; 2001) conducted a series of decoupling research. They examine the relationship between intra-organizational conditions of power distribution and probability of decoupling. Their sociopolitical explanations of decoupling include stock buyback programs and informal decoupling practices (Westphal and Zajac 2001). Another example is that incentive programs for CEOs can be decoupled, when CEOs are more powerful than board of directors (Westphal and Zajac 1998; Zajac and Westphal 1995).

In many studies, the premise of the notion of decoupling is not continuous. In other words, previous research on decoupling have mainly considered the issue of “implementation or not.” However, my definition of decoupling is differ from the prevailing conception of decoupling. Decoupling is a continuum of coupling. The extremes are quite distinct. At the coupling end of the continuum is 100% alignment between practices and guidelines. At the decoupling end of the continuum is 0% alignment. Decoupling phenomena in organizations can be situated somewhere between two extremes. In previous literature, there are some types of decoupling (e.g. *selective decoupling* in Levin (2001)), but decoupling has been always discrete, not continuous.

In this paper, I define the “mild decoupling” and “extreme decoupling,” at the level of organizational decoupling. I label a focal organization’s delayed implementation of guidelines as that decoupling’s mildness. Mild decoupling can be loose-coupling, whether it is intentional or unintentional. A key point of mild coupling is volatility. An organization defers a decision to change routines, at the moment. It may turn to be a decoupled organization, unless it makes a decision sooner or later. Extreme decoupling almost equals the existing concept of decoupling, but signifies organizational “intention” to decouple. For the research purpose, however, extreme decoupling refers to the decoupled organization.

*Figure 1. A continuum of coupling*



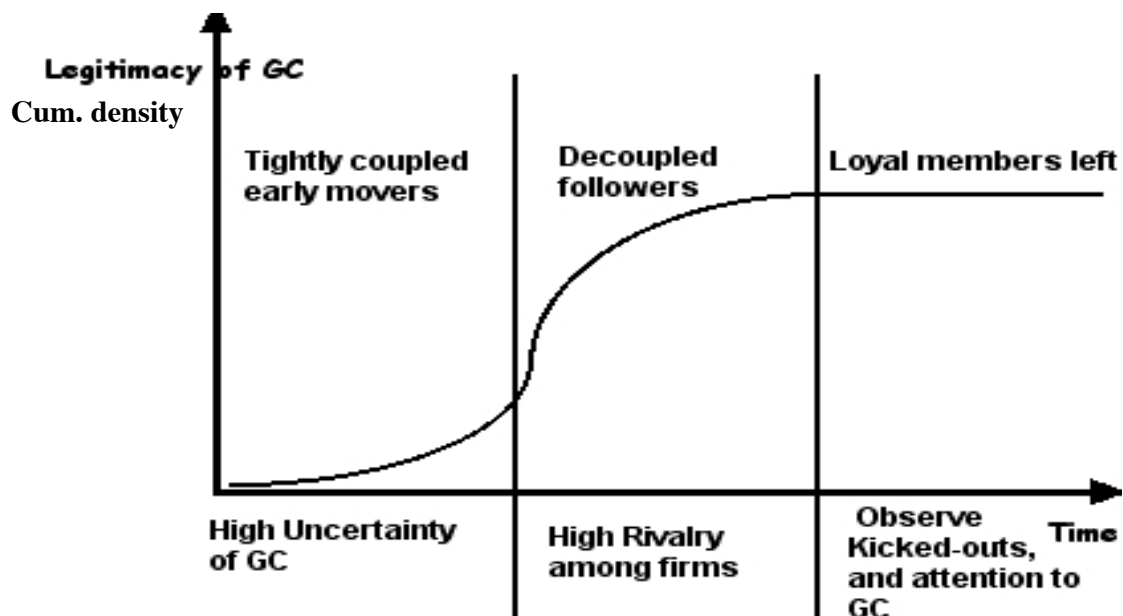
#### 4. Logics behind decoupling: Density-driven hypotheses

Previous research on decoupling conditions has been focused on internal and external factors on organizational implementations. For instance, Westphal and Zajac (2001) found that prior decoupling experience at the focal firm may influence subsequent decoupling. For another example, Weaver et al (1999) revealed that how external expectations of legitimacy and top management commitment to corporate ethics and business concerns lead to integrated and decoupled forms of corporate social performance. Relatedly, institutional research on adoption has led to the important insight that late adopters are more likely to adopt formal structures for the purpose of legitimacy (Levin 2001; Tolbert and Zucker 1983; Westphal et al 1997). In particular, Levin (2001) examined influences of different institutional mechanisms -coercive, mimetic and normative- on late adopters’ implementation in different periods.

**Decoupling or not** At the beginning of the Global Compact, the UNGC itself was a totally new field. Only organizations that are aware of the importance of human rights, labor standards and other universal values, joined the Global Compact. The early members are loyal to the guidelines. Thus, they are more likely to embrace the UNGC rules within their actual behaviors. Take for example, Sasol, a South-African based oil and gas company, participated the UNGC in 2001. It provides human rights awareness and training programs to its employees. Further, it integrates black empowerment policies in actual procedures. Novatis, a multinational pharmaceutical and biotech company headquartered in Switzerland, is another example of early member's coupled behaviors. It joined the Global Compact in 2000 and firstly set a standard of "living wage" for its employees worldwide (UNGC office 2007). Despite low density of UNGC participants, the early movers commit their organizational activities to the ten principles and regularly report COPs. Thus, other things being equal, I suggest:

**H1. Regardless of the overall density, the early members of the UNGC are less likely to decouple.**

*Figure 2. Logics of decoupling*



The aforementioned research on late adopters implies that the adopter density might influence on decoupling of adopters. The number of organizations in the field, called global density, gauge the probability of decoupling. Figure 2 identifies cumulative global density of UNGC members and likelihood of decoupling. The increase of firms in the market co-evolves with the development of both field and its members' legitimacy (Baum and Powell 1995; Carroll and Hannan 2000; Hannan 1989; Hannan and Carroll 1992). The more firms enter, the



higher the level of legitimacy is expected. Therefore, members at the later stage do not need to integrate between the guided rules and their behaviors, because adoption itself is taken-for-granted. In the Global Compact, there was only one member removed from the program. Since 2003, however, the global density has been dramatically increased. The number of decoupling members has been escalated to 621 in 2007. This leads us to expect the following:

**H2. The increase in global density positively influences on the increase of decoupling members.**

**Mild vs. extreme decoupling** Hannan, Carroll, Dundon and Torres (1995) analyzed automobile industry in five European countries and found that the increase of global density strengthens legitimacy. Thus, European density increases entry rates of car manufacturers. Whereas, local density depresses entry rates, due to the competition within a country. In the case of decoupling, effects of the increasing global density reinforces the entry of ceremonial members. However, the expansion of local members hinders the tendency of extreme decoupling. The UNGC noted that being a participant has internal and external benefits, such as the improvement of a focal organization's reputation and risk management by learning and sharing information about issues of human rights, environment and so forth (UN 2007; UNGC 2007). Organizations may use the UNGC membership as their tool to enhance competitive advantages. In this regard, members from the same country become more sensitive to the actions of peers. For instance, a focal firm detects whether its peers meet the deadline of COPs. If a large number of cohort submitted COPs on time, the firm would be punctual. If the peers fail to meet the schedule of COP, the firm also delays the submission of report. The increase in local density means the increase of reference group. It heightens the chance of mild decoupling, being "non-communicating" members.

**H3. The greater local density is observed, the more likelihood of non-communicating is expected.**

Social responsibility has been emphasized in private sectors since the 18th century. For instance, the East India Company in Britain changed its sugar suppliers from producers using Caribbean slave labor to "slaveless" producers in India (The Economist 2002; ISO Advisory group 2004:2). Although it was initiated by a boycott from consumers, the rise to prominence of corporate social responsibility regimes has been continuing to today (Zajac and Westphal 2004). Many societies around the world require business organizations to protect the rights of consumer, worker, and even the environment. Non-business organizations, such as NGOs and labor unions, facilitate the CSR norm. As noted earlier, the UNGC is a universal guide-

line of socialization of the market. Thus, its members devote themselves to exhibit and practice corporate citizenship and social responsibility in the four main areas: human rights, labor, environment and anti-corruption. The UNGC acknowledges the importance of stakeholders and their roles in the advancement of universal values. Civil society organizations, municipalities, universities and other types of non-private sectors can join the program. They are expected to build a partnership or network with business members to help align economic activities with social and environmental guidelines (UNGC 2007). In other words, legitimacy of social responsibility in non-business population may generate legitimacy in the business field. The local density of stakeholder organizations is correlated with the level of coupling of the Global Compact members. The absence of agreement on social responsibility at the local level, makes members more difficult to integrate the guidelines. Since the CSR norm itself is not implemented in the country, doing socially responsible performance seems very strange or may violate the local rules. The abundance of local stakeholders prevents the occurrence of decoupling. Still, members in a country which lack an appropriate number of non-profit organizations, have a high possibility of absolute decoupling.

**H4. The greater local stakeholder density is observed, the less likelihood of inactiveness is expected.**

## 5. Data and Methods

### 1> Data

The initial sample for this study is drawn from 114 UNGC member countries during the period 2000-2007. The membership data was collected from the UNGC website ([www.unglobalcompact.org](http://www.unglobalcompact.org)). The total number of UNGC members from 2000 to 2007 is 5403. Among them, there were 871 Asian members from 21 countries.<sup>1</sup> The Asian participants consist of 728 business organizations and 143 non-business members (or stakeholder organizations, including domestic and international NGOs, labor organizations, cities, foundations, academic organizations and associations). There were also 458 coupling members (or Active members) and 270 decoupling members (Inactive members: 231 and non-communicating members: 39) in the dataset.

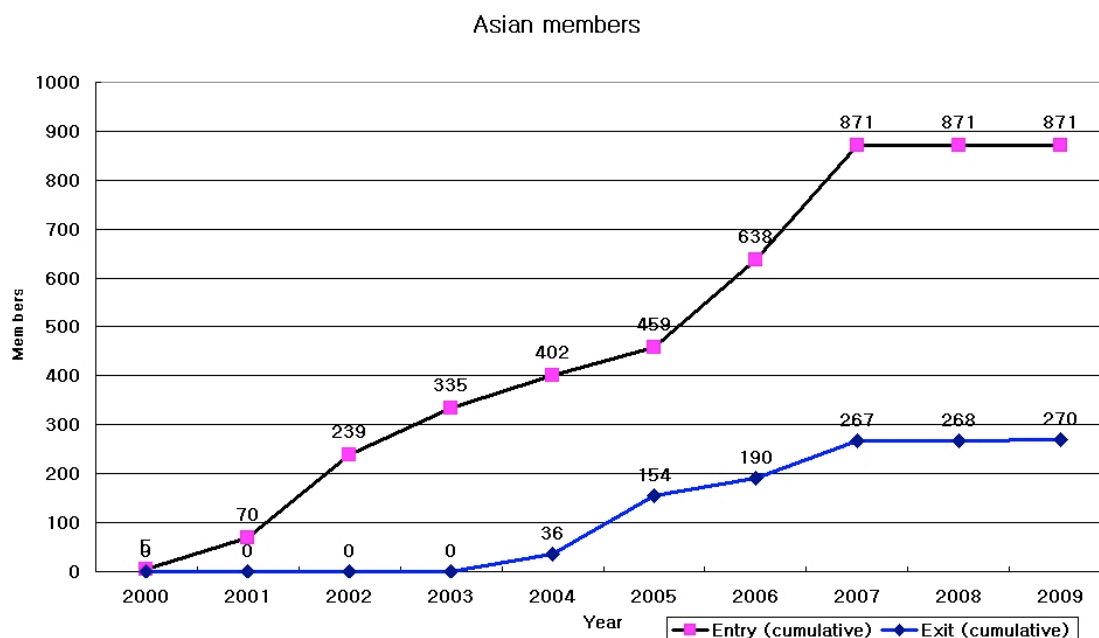
In the context of countries and their participation in the UNGC, developing countries are more likely to join the program, but less likely to integrate the UNGC guidelines. According

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<sup>1</sup> The 21 countries are Afghanistan, Armenia, Azerbaijan, Bangladesh, Cambodia, China, India, Indonesia, Japan, Kazakhstan, Korea, Laos, Malaysia, Mongolia, Nepal, Philippines, Russian Federation, Singapore, Sri Lanka, Thailand and Viet Nam.

to the UNGC statistics, 67% of countries with the most inactive participants are in Africa (40%) and Asia (27%) (UNGC 2006). As the UNGC office has noticed, the patterns of disintegration are captured in the sample. Figure 3 shows how many Asian organizations have promised the earth and how rapidly decoupling members has increased.

*Figure 3. Entry of (or Participation in) UNGC and Exit of decoupling members*



## 2>Variables

**Dependent variables** To test hypothesis 1 and 2, the dependent variable was the hazard rate for decoupling since 2000. Decoupled members were considered if they were (1) inactive participants which failed to submit COPs or (2) non-communicating participants which failed to meet the COP reporting deadline. When a member faces failure to communicate progress, that participant would be labeled “inactive” or “non-communicating. Consequently, the decoupling member would not be permitted to participate in the UNGC. The hazard ratio of decoupling measures the possibility of disintegration between the CSR guidelines and business practices. It is also an appropriate measure of official exit from the program. Thus, I constructed a dummy variable (decoupling = 1, otherwise = 0) to account for the implementation of the UNGC principles.

The third and fourth hypotheses predicts the relationship between local density and the degree of decoupling. I included extreme decoupling dummy variable (inactive members = 1,

otherwise =0) and mild decoupling dummy variable (non-communicating members =1, otherwise =0). Because different decoupling patterns could not be captured by simple decoupling dummies, it needed to be separately measured.

### **Independent variables**

To test hypothesis 1, I measured the early UNGC adopters' likelihood of decoupling using member dummies. Participants which joined the program between 2000 and 2002 are considered as early adopters. Second hypothesis predicts the effect of global UNGC member density on the risk of decoupling. Global density was operationalized as the total number of UNGC members in current year. Similarly, local density in hypothesis 3 was the sum of the total number of UNGC members for each country in current year. Local stakeholder density in the fourth hypothesis was defined as the sum of non-business members (stakeholders) for each country in current year.

### **Control variables**

I added country level controls: GDP per capita, adoption of the declarations for the 4 main areas, number of INGO density and membership. National socio-economic conditions may influence individual organizations' implementation of the global norms. To put the UNGC principles into practice, organizations should change their routines and own standards, as well. It seems more difficult, when there is no social understanding of the UNGC guidelines, such as protection of human rights and elimination of child labor. Not only poor countries, but also countries which agree upon few international guidelines give local UNGC members little support to implement the universal CSR standards. Thus, I controlled for the effects of domestic CSR maturity in general.

I also included organizational and industry-level controls: organization size, membership duration and industrial characteristics (e.g. manufacturing, education, public services). The primary purpose of these variables was to control for potential heterogeneity among members in the sample. I included organization size as dummy variable (small business =1, otherwise =0). Because there is 2-to-3-year grace period for decoupling members, I controlled for membership duration using young member dummy variable. Organizations which participate in the UNGC program in the last 2 years were defines as "young members."

Kim and Miner (2007) noted that there are potentially different effects of environmental conditions in different industry. Organizations in different markets do not experience the identical pressure of CSR. Thus, I constructed industry dummies, to account for the variation in normative implementation.

### 3> Methods

Survival analysis: Event history analysis (Exponential model)

Model 1. predicts the likelihood of decoupling.

Model 2. predicts the likelihood of mild coupling.

Model 3. predicts the likelihood of extreme coupling.

## 6. Preliminary analysis

<Decoupling>

Variables	Baseline Model	Model 1	Model 2
GDP/capita	-0.87(.038)***	-0.77(.040)***	-0.78(.053)***
IGO membership	-0.99(.004)	1.00(.006)	1.03(.009)***
Small firms	1.03(.121)	-0.90(.123)	-0.99(.140)
Young members	-0.38(.069)***	-0.17(.035)***	-0.30(.065)***
Manufacturing	1.05(.099)	1.07(.128)	-0.98(.116)
Education	1.54(.187)***	2.04(.406)***	1.36(.219)*
Public services	-0.00(.000)***	-0.00(.000)***	-0.00(.000)***
Early adopters	-	-0.00(.000)***	-0.00(.000)***
Global density	-	1.00(.000)***	1.00(.000)***
Local density	-	-	-0.90(.009)***
Local stakeholders	-	-	1.05(.036)
Number of obs	2059	2059	2059
No. of failures	245	245	245

Variables	Baseline Model	Model 1	Model 2
Log-pseudolikelihood	-288.32202	-201.1858	-141.37415

<Extreme decoupling>

Variables	Baseline Model	Model 1(H <sub>3</sub> and H <sub>4</sub> )	Model 2
GDP/capita	-0.86(.042)***	1.15(.104)	-0.81(.096)*
IGO membership	-0.99(.005)	-0.97(.011)***	1.01(.017)
Small firms	1.02(.131)	1.07(.138)	-0.96(.153)
Young members	-0.00(.000)***	-0.00(.000)***	-0.00(.000)***
Manufacturing	1.09(.108)	1.13(.106)	1.16(.111)
Education	1.87(.135)***	1.41(.102)***	1.77(.174)***
Public services	1.40(1.43)	-0.20(.220)	-0.70(.934)
Early adopters	-	-	-0.00(.000)***
Global density	-	-	1.00(.000)***
Local density	-	-0.95(.007)***	-0.91(.010)***
Local stakeholders	-	1.25(.062)***	1.10(.072)
Number of obs	2059	2059	2059
No. of failures	210	210	210
Log-pseudolikelihood	-235.19169	-193.91689	-102.52613

## 7. Tentative Conclusion

This study sought to address the effects of organizational density on the integration of guidelines. The findings demonstrate that the global density of UNGC adopters is positively related with the probability of decoupling. Whereas the early adopters are not governed by the density-driven decoupling logics. Mild decoupling occurs when local density increases, but more inactive members are observed when local CSR norm is not fully implemented. This finding means that there are logics of decoupling and factors determining the degree of loose alignment between formal rules and activities. This article has a number of implications.

First, it was shown that at the level of macro-organizational environment, global density effects are likely to operate with other aspects of local density. A second implication for neo-institutional theory is further empirical support for the density-dependent decoupling. A final implication deals with the significance of the devoting attention to variation in organizational decoupling.

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