Certifying Ethical Organizations: Current Status and the Next Steps

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ABSTRACT.

This paper explores certifying organizations for implementing processes or principles that are likely to increase ethical behaviors and decrease unethical behaviors at the workplace. First, several existing certification processes related to business ethics are examined – B Corporation, Fair Trade products, LEED, ISO 14001, and Walmart suppliers and products. Second, several examples of guidelines developed to encourage ethical business activities are examined – ISO 26000, United Nations Global Compact, Federal Sentencing Guidelines, and Optimal Ethics Systems Model. The strengths and weaknesses of these processes and guidelines are summarized with the intent of possibly advocating for the creation of a system for business ethics certification supported by a variety of professional organizations and shifting the focus of business ethics education toward organizational design issues.

KEY WORDS: Certification, Guiding Principles, Federal Sentencing Guidelines, United Nations Global Compact, B Corporation

Introduction

The world is evolving toward a more humane existence through the mechanisms of democratic capitalism, with strong supporting roles attributed to justice and educational systems. Long ago, Aristotle noted that the purpose of political science is the creation of a “just” society composed of highly moral individuals. The continual striving for peace and justice is evident along the path of history that has led to the creation of the United Nations Global Compact, a list of human rights, labor, environmental, and anti-corruption principles and commitments. Newspapers and other media document on a daily basis efforts to improve society – such as legislative efforts to clean the environment – and how far removed we are from achieving social justice.

In *The Better Angels of Our Nature: Why Violence Has Declined,* Steven Pinker attributes "gentle commerce" as one of the major forces as one of the broad forces reducing violence in the world. Pinker grounds his analysis in Immanuel Kant's conception of "perpetual peace, which can be established through three conditions: political democracy, a league of nations, and universal hospitality or world citizenship" (Pinker, 2011, p. 166).

According to Pinker, the free market system is a remarkable evolutionary advancement over feudalism and mercantilism, shifting the framework of commerce from zero-sum games to positive-sum games where two agents voluntarily engage in an economic activity because it advances both their interests (Pinker, 2011, p. 75). The free market system fosters empathy (understanding what potential trading partners and consumers need) and requires a strong national infrastructure (i.e., transportation systems) to ensure success. Government regulation helps to protect stakeholders from harms generated by egregious pursuits of economic self-interest. The evolutionary development of a more humane version of capitalism has contributed to a long period of peace, historically speaking, since World War II as businesses seek to protect the well-being of their trading partners.

Business ethics is an essential building block within a humane version of free market capitalism. The field of business ethics has focused significantly on ethical reasoning, and the application of ethical reasoning to business decisions. An underrepresented area of the field has been how to design organizations so that ethical behaviors and outcomes are maximized and unethical behaviors and outcomes minimized. Yet, outside of academia, this area of analysis is blossoming and taking on great importance. What one measures one focuses on. A key driver has been the practical need to certify that organizations have the mechanisms in place to improve their ethical performance.

Several certification systems already exist for implementing activities associated with a variety of ethical business practices: B Corporation, Fair Trade Products, LEED, ISO 14001, and Walmart Supplier and Product Certifications. In addition, some organizations have facilitated multi-stakeholder panels to develop guidelines for organizations to voluntary adapt, including Federal Sentencing Guidelines, ISO 26000, and United Nations Global Compact.

This paper describes these five certification processes and four voluntary guidelines in terms of their origination, use, standards, and other relevant issues. They are then analyzed in terms of common themes regarding their strengths and weaknesses, as well as issues that any certification scheme must address. The final section presents several next step ideas for the development of a business ethics certification process at the operational level of organizational analysis, with the intent of possibly advocating for the creation of a system for business ethics certification supported by a variety of professional organizations and shifting the focus of business ethics education to organizational design issues.

Certification Processes

B Corporation

In 2007, B Lab, a nonprofit organization, initiated a third-party Benefit Corporation (B Corporation) certification process for branding a business as being ethical, sustainable, and socially responsible (B Corporation, 2012a; Haymore, 2011). The goal of B Lab's cofounders

Jay Coen Gilbert, Bart Houlahan, and Andrew Kassoy is to create a new legal entity recognized by federal, state, and municipal governments that permits managers to consider the interest of employees, communities, and the environment, not just the owners (C Corporation designation requirement), when making decisions. They envision the IRS eventually creating a class of tax benefits for B Corporations, such as taxing them at a 20 percent rate, which is between that of C Corporations (taxed at 40 percent) and nonprofits (not taxed). This would provide businesses a strong incentive to adopt best practices in the treatment of employees, customers, communities, and the natural environment.

In 2009, Philadelphia established the first favorable legislation by providing B Corporations with a $4,000 tax deduction (B Corporation, 2009). One year later, Maryland became the first state to pass B Corporation legislation. As of June 27, 2012, there were 552 B Corporations with $3.11 billion in revenue in 60 industries.[2] B Corporations are typically small or medium sized companies. Many of them cater to socially-concerned consumers, such as Seventh Generation and Numi Organic Tea.

B Corporations pay an annual certification fee based on size. Organizations with revenues under $10 million pay one-tenth of 1 percent of net sales. Larger companies pay 1/20 of 1 percent of sales. The fee is waived if the B Corporation joins 1% for the Planet, an alliance of businesses that donates at least 1% of their annual revenues to environmental organizations.

B Lab staff members, business leaders, and other experts have developed a 160 question "B Impact Ratings System" survey that is graded on a 200 point scale to determine whether an organization meets the multi-items practices, profits, and products criteria of a B Corporation (B Corporation, 2012b) (see Figure 1).

Insert Figure 1 about here

Companies complete the survey with the assistance of a B Lab staff member. Applicants who obtain at least 80 points and amend governance documents to include stakeholder interests are granted a two-year B Corporation certification. Documentation must be provided for at least 20 percent of the survey responses. Every year B Lab staff randomly audit 10 percent of the certified companies. Organizations found to intentionally misrepresent operations have their B Corporation certification publicly revoked.

Fair Trade Products

Fair trade products are typically produced by people earning a living wage and laboring in safe working conditions. The concept of fair trade products began with religious organizations and NGOs in the 1940s sensitive to the living and working conditions of Latin American laborers providing products to the European and American markets. In 1988, a Dutch missionary and Dutch economist created Max Havelaar, the first Fair Trade product certification process. In 1997, other independent efforts to certify fair trade products were brought together under the Fairtrade Labelling Organizations International (FLO) to provide consensus on the certification criteria being applied (Fairtrade International, 2012a; Huybrechts and Reed, 2010).

FLO, headquartered in Germany, currently consists of 25 member organizations. According to FLO's Annual Report, fair trade revenues reached €4.36 billion in 2010, a 27% increase from the previous year (Fairtrade International, 2011). The Fairtrade label appears on thousands of different projects, most notably coffee, fruits, vegetables, and arts and crafts, in more than 50 countries.

The Fairtrade International Standards Committee differentiates among three types of producers: small producers, hired laborers, and contract production (Fairtrade International, 2012b). Fair trade certification differs based on product. FLO-CERT, which is responsible for the certification process, defines the scope of the project and planning process. The project manager conducts product research, such as for coffee production, and develops a draft that is shared with key stakeholders for their feedback. A stakeholder committee consisting of producers, traders, and external experts reach consensus on the product standards, which are reviewed every five years.

Regardless of product type, FLO-CERT is guided by five general objectives (Fairtrade International, 2012c; Moore, 2004) (see Figure 2). FLO-CERT contracts with auditors to certify products and ensure that fair-trade standards are met. The auditors conduct an initial on-site inspection of the producer organization as well as a random sample of individual suppliers, such as farmers. Follow-up audits are conducted annually, though organizations with a proven track record of compliance excellence are put on a three year inspection cycle.

Insert Figure 2 about here

Critics have raised concerns about the standard qualities, the quality of third party certifiers, administrative costs, and insufficient consumer response (Griffiths, 2012).

First, it is difficult to determine the appropriate standard for fair trade products in terms of tradeoffs between maximizing product quality and social benefits (Schuler and Christmann, 2011). If standards are too high, then companies will not apply for certification. If standards are too lax, then companies undeserving of being certified gain certification benefits. Second, not all certifiers apply the same rigorous standards. Third, some people question the high administrative costs relative to the amount of money the producers receive. Fourth, although consumers express a favorable attitude toward fair trade products, their purchasing decisions are greatly influenced by price and convenience. Many consumers do not know that fair trade standards exist, or what they mean.

LEED

The United States Green Building Council (USGBC)'s Leadership in Energy and Environmental Design (LEED) rating system provides eco-friendly measurement standards for certifying building construction and remodeling (U.S. Green Building Council, 2012a, 2012b). Green buildings appeal to companies for economic and socially responsible reasons (Kelly, Bramhandkar and Rosenthal, 2010). In addition to being more eco-friendly, with continually increasing energy costs, green buildings offer the possibility of long-term energy cost savings by managing energy systems more efficiently and effectively. LEED certified buildings are designed to: (1) lower operating costs and increase asset value, (2) reduce waste sent to landfills, (3) conserve energy and water, (4) be healthier and safer for occupants, and (5) reduce harmful greenhouse gas emissions.

LEED building certification began in 1998. In February 2012, the amount of LEED certified buildings surpassed 1.7 billion square feet. Another 6 billion square feet registered, accounting for 36,000 commercial projects.

In the spirit of continuous improvement, LEED has evolved through different certification versions. In 2009, version 3.0 became the new LEED guidelines. The four levels of LEED certification are: Basic (40 points), Silver (50 points), Gold (60 points), and Platinum (80 points). Figure 3 provides examples of eco-friendly practices, and the number of points available, for each of the seven LEED 2009 new construction and major renovations categories. Mandatory practices for certification are noted with an asterisk.

Insert Figure 3 about here

A certified independent third-party verifies that the building has met LEED criteria. Training courses and seminars on LEED certification issues are sponsored by USGBC. Certification is administered by the Green Building Certification Institute, which certifies independent third-parties (Green Building Certification Institute, 2012).

Two common complaints have been that the LEED point system can be manipulated and the system seems very bureaucratic (Schendler and Udall, 2005). First, some building design teams focus more on meeting requirements to obtain a particular LEED point, such as for installing an electric vehicle recharging station that will never be used, rather than optimizing eco-friendliness. Second, sometimes architects and LEED certifiers disagree on the number of points assigned for a best practice and disputes arise over technical details.

ISO 14001

The International Organization for Standardization (ISO) is a nongovernmental organization that certifies organizations for implementing best practices in environmental performance (ISO, 2012a). The British Standards Institute (BSI) Group, the world's largest independent third-party certification organization, has developed more than 25,000 management systems standards, including ISO 14001 (BSI Group, 2012a). ISO, established in 1946, published its first management systems quality standards in 1979. ISO 14001 for environmental management standards was established in 1996 and revised in 2004.

An Environmental Management System (EMS) is the basic component of ISO 14001 certification. The EMS plan is a document that describes how the organization conducts environmental policy development, environmental planning, environmental implementation, environmental monitoring and corrective actions, and management review (Cochran, 1999). ISO 14001 is a voluntary self-regulatory system and reinforces legal compliance and continuous improvement efforts. More than 220,000 organizations in 159 nations have earned ISO 14001 certification (BSI Group 2012b).

ISO develops standards through technical committees comprised of industry and technical experts, and other relevant stakeholders, such as government representatives, environmentalists, and consumer associations. Once consensus is achieved, the standards draft agreement is reviewed by ISO members for comments, including public comments, and a vote.

Figure 4 highlights procedures to document for each of the five sections of an EMS plan. An employee, after reviewing the EMS, should know exactly what to do if she or he wants to propose a new environmental policy or make an environmental performance recommendation.

Insert Figure 4 about here

Criticisms of ISO 14001 are limited. The primary issue is the difficulty of applying ISO 14001 standards, originally designed for large facilities, to small and medium-sized businesses (Biondi, Frey and Iraldo, 2000).

Walmart Suppliers and Products

Walmart, long disparaged by consumer and community activists for being socially irresponsible, has taken a leadership role in certifying suppliers for being environmentally friendly and healthy products (Walmart, 2012a, 2012b). Walmart's motivation is reputational and economic. For instance, eliminating excessive packaging on its private-label line of toys saved $2.4 million in annual shipping costs (Clinton, 2007; Gunther, 2006).

Walmart, which has more than 100,000 suppliers, is impacting the global business carbon footprint by greening its supply chain. In 2010, 93 percent of Walmart's direct sourcing merchandise originated in factories highly rated for their environmental and social practices. Import suppliers must also source 95 percent of their production from factories that receive one of Walmart's top two highest audited ratings for environmental and social practices.

In developing a supplier assessment tool, Walmart surveyed more than 100,000 global suppliers about their sustainability efforts. Then the company sponsored a Sustainability Consortium composed of suppliers, retailers, non-governmental organizations and government officials to research and develop a supplier assessment tool.

In Walmart's initial attempt to create a Supplier Sustainability Index – a universal rating system for assessing a supplier's environmental and social sustainability record – the company developed measures for four performance categories: (1) energy and climate, (2) material efficiency, (3) natural resources, and (4) people and community. Assessment questions for each category appear in Figure 5 (Walmart, 2012c). Walmart pushes best practices further down the supply chain by giving suppliers credit for applying similar eco-friendly standards on their suppliers.

Insert Figure 5 about here

In 2006, Walmart developed a sustainable packaging scorecard in association with its goal to be packaging neutral by 2025 (Walmart, 2012d, 2012e). Walmart defines packaging neutral as "all packaging recovered or recycled at our stores and Clubs will be equal to the amount of packaging used by the products on our shelves." The actual scorecard consists of nine factors, each with an assigned weight.

Walmart is also developing a system for educating consumers through a “healthy food” labels initiative called “Great for You” (Walmart, 2012f). This icon will appear on all food products that meet specific nutrition criteria developed by food and nutrition experts based on guidance from the 2010 Dietary Guidelines for Americans, U.S. Food and Drug Administration, U.S. Department of Agriculture, and Institute of Medicine.

Walmart’s process for certifying suppliers and products remains in the developmental stages.

Voluntary Guidelines

Federal Sentencing Guidelines

The 1991Federal Sentencing Guidelines encourage, but does not require, managers to implement policies and procedures that reinforce ethical behaviors. The guidelines apply to individuals and organizations convicted by a federal court of felonies and Class A misdemeanors (the most serious group of misdemeanors as defined by a geographic region).

The sentencing guidelines are based on the best practices for Ethics Compliance Programs which, if implemented, could reduce the occurrence of unethical and criminal activity. The Federal Sentencing Guidelines are applicable to nonprofits, unions, partnerships, trusts, and universities as well as businesses (United States Sentencing Commission, 2012). Amendments have been made over time to clarify definitions and responsibilities (Hess, McWhorter, and Fort, 2006).

The 16 best practices suggested by the Federal Sentencing Guidelines, divided into 6 categories, appear in Figure 6 (United States Sentencing Commission, 2012).

Insert Figure 6 about here

Guided by the principles of free market economics, the federal government wants managers to decide which, if any, of the best practices they should implement rather than impose a one-size-fits-all approach. An organization that behaves ethically without any of the best practices could continue to operate as it has in the past. But if an employee commits a crime, the judge applies the best practices check-list to determine how much the organization should be punished for the employee's criminal behavior. The judge refers to a standardized chart listing fines for specific types of crime and organizational size, and then adjusts the fine by a culpability multiplier of 0.05 to 4.0 based on the extent to which the organization has implemented the best practices. If some, but not all, of the best practices have been implemented, the fine will be between these two amounts.

Critics of the Federal Sentencing Guidelines note that many organizations remain unaware of the Federal Sentencing Guidelines and organizations settle cases out of court to avoid their application (Krigsten, 2011).

ISO 26000

In November 2010, the International Organization for Standardization (ISO) launched ISO 26000, which provides organizations with guidelines for integrating social responsibility best practices into management processes beyond legal compliance (ISO, 2012b). Unlike ISO 14001 previously discussed, ISO 26000 are voluntary guidelines, not a certification process. The guiding principles were developed to provide a common understanding of what is meant by being socially responsible. The term "social responsibility" was specifically chosen rather that "corporate social responsibility" because the guidelines are applicable to all organizations, not just publically or privately held companies.

In 2001, an ISO committee on consumer policy noted the need to develop standards for social responsibility. A multi-stakeholder committee was formed which led to an ISO Conference on Social Responsibility in 2004 and the development of working groups. In the spirit of broad-minded inclusivity, topic workshops were co-chaired by someone from a developing nation and someone from an industrialized nation (ISO, 2012c). A wide range of expert stakeholders were invited to share their knowledge and mold the principles, including those representing government, industry, labor, NGOs, and consumers. The social responsibility working group was ISO largest working group ever, with 450 participating experts and 210 observers representing 99 ISO member nations and 42 liaison organizations.

ISO 26000 emphasizes the importance of organization's recognizing that they have social responsibilities and identifying and engaging with stakeholders. ISO 26000 provides guidance in the following social responsibility areas: (1) concepts, terms and definitions, (2) background, trends and characteristics, (3) principles and practices, (4) core subjects and issues, (5) integrating, implementing and promoting throughout the organization, (6) identifying and engaging with stakeholders, and (7) communicating commitments, performance, and other information.

As shown in Figure 7, ISO 26000 addresses six core social responsibility subjects, and provides subject scope for multiples issues and related principles, actions, and expectations (ISO, 2012d).

Insert Figure 7 about here

The primary criticism of ISO 26000 is that, unlike many other ISO standards, it is not a certification process. According to ISO General-Secretary Rob Steele, principles allow greater flexibility and experiments, and it was unlikely that the ISO working group would have achieved consensus for certification standards in that “if we’d tried to make this a certification standard, I think we would have become bogged in agreeing on the amount of prescription that would have been necessary to include” (ISO, 2012e).

United Nations Global Compact

The United Nations (UN) has developed guiding principles for conducting business anywhere in the world. In 1999, UN Secretary-General Kofi Annan, the first Secretary-General with a business degree (MS from MIT Sloan School of Management), presented the UN Global Compact Principles to business leaders attending the World Economic Forum in Davos, Switzerland. As of 2012, more than 7,700 businesses from over 130 countries have officially committed to the principles (United Nations Global Compact, 2012a).

Global Compact signatories agree to meet several requirements, including CEO and Board of Directors endorsement, integrating the principles in strategic decisions, annual financial contribution based on sales/revenue to U.N. Global Compact Foundation, and annual “Communication on Progress Report” of Compact progress implementing the 10 principles (Hemphill and Lillevik, 2011). Signatories are delisted from the participant ranks if they do not file a Communication on Progress Report for two consecutive years.

The development of standards for the Global Compact was a multi-stakeholder effort that included UN, corporate, and NGO leaders. Participants examined international agreements such as the Universal Declaration of Human Rights (1948), the Rio Declaration on Environment and Development (1992), the International Labor Organization’s Fundamental Principles and Rights at Work (1998), and the U.N. Convention against Corruption (2003) (Williams, 2004).

As shown in Figure 8, the ten Global Compact principles are in the areas of human rights, labor, environment, and corruption (United Nations Global Compact, 2012b).

Insert Figure 8 about here

Critics highlight three problem areas. The Global Compact (1) lacks an effective monitoring system, (2) lacks an effective enforcement system, and (3) can be used as a public relations “bluewash” strategy rather than sincere engagement.

These three issues were recognized in the beginning developmental stages. A key issue was whether implementing best practices should be voluntary or mandatory. Voluntary was chosen. According to participants developing the principles, there existed a great deal of contextual differences among nations and industries, and that a “trial-and-error” period was essential to engage the business community. As a result, signatories self-report a good faith effort in these matters.

Optimal Ethics Systems Model

The Federal Sentencing Guidelines encourage businesses to voluntarily adopt some of the best practices in business ethics. Business ethics scholars and consultants have also developed a variety of audits and surveys to help organizations account for ethical behaviors (Leap and Loughry, 2004; Weber and Gerde, 2009a, 2009b).

The Optimal Ethics Systems Model synthesizes these various approaches into a systematic best practices framework for reinforcing ethical behaviors, and reducing ethical risks, throughout the workplace (Collins, 2010, 2011). The model highlights processes for hiring, orientation, training, operations, and evaluation (see Figure 9). The processes begin with hiring ethical people and orienting new employees to the organization’s codes of ethics/conduct and ethical decision-making process. Ethics training should be provided on, at least, an annual basis. Operations processes include respecting employee diversity, ethics reporting systems, ethical leadership, engaging and empowering ethical employees, environmental management, and community outreach and respect. Lastly, all of these best practices processes should be assessed for continuous improvement.

Insert Figure 9 about here

Collins has developed a 76 item survey to benchmark the implementation of the best practices ranging from "Yes" to "Sometimes" or "No." The survey is available at the John Wiley & Sons website for *Business Ethics* (Collins, 2011).[3] The eleven best practices categories have survey items ranging from three items for ethical decision making ("Employees are comfortable engaging each other in an ethics discussion when contentious issues arise") to ten items for ethical leadership ("Performance appraisals measure ethical behaviors and attitudes").

Other Certifications, Guidance Documents, and Assessors

This paper examines some of the major certification and guidance documents available for business ethics related issues. Other processes and guidelines have been developed and may be just as relevant. Four other ones are summarized below:

- *Global Reporting Initiative (GRI)* reports community impacts in the areas of education and training, philanthropy and charitable giving, community services and employee volunteering, total community expenditure, and community engagement and dialogue (GRI, 2012a, 2012b).
- *Social Accountability International (SAI)* is a non-government multi-stakeholder organization focused on worker human rights that has developed SA8000 certification

standards which address nine elements: child labor, forced and compulsory labor, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration, and management systems (SAI 2012a, 2012b).

- *International Integrated Reporting Committee (IIRC)* is a multi-stakeholder group established in 2010 by the Prince of Wales Accounting for Sustainability Project, GRI, and the International Federation of Accountants to develop financial and non-financial performance measures in a single document (IIRC, 2012; AICPA, 2012). The corporate performance report is being piloted by sixty-one companies.
- *AccountAbility 1000* is a series of three standards developed by a multi-stakeholder network registered in the United Kingdom: AccountAbility Principles Standard (2008), Assurance Standard (2008), and Stakeholder Engagement Standard (2005) (AccountAbility, 2012a, 2012b). These standards analyze policies, practices, management systems and processes, and performance based on three principles: Inclusivity, Materiality, and Responsiveness.

In addition, socially responsible investment funds and media outlets have developed their own set of criteria for assessing business ethics and social responsibility.

The Socially Responsible Investment (SRI) financial market is huge, accounting for approximately $2.7 trillion in 2007, 11 percent of all investment assets under professional management, up from $639 billion in 1995 (US SIF, 2012). SRI funds screen companies for (1) financial performance – meets financial goals, solid return on investment, *and* (2) social performance – generates social benefits through good employer-employee relations, strong environmental practices, safe products, and respect for human rights.

The FTSE KLD 400 Social Index firms are selected by a committee for having met financial screens (such as earnings, liquidity, stock price, and debt to equity ratio) and social screens (excellent records for community relations, diversity, employee relations, human rights, product quality and safety, and environment and corporate governance) (MSCI ESG, 2012). The firms are evaluated relative to other companies in their industries and the broader market.

Ethisphere, a corporate social responsibility international think-tank, has developed a "Compliance Leader Certification" that benchmarks a company's operations with the U.S. Federal Sentencing Guidelines (Ethisphere, 2012). The organization offers independent third-party verification of compliance and ethics programs in the following seven areas: (1) standards (code and policies), (2) board of director oversight, (3) program structure and responsibility, (4) training and communications, (5) due care, (6) monitoring and auditing, and (7) enforcement and discipline. Certified organizations can use a Compliance Leader Verification (CLV) logo to designate its achievements.

Lessons Learned

This paper explores five organizational certification processes and four voluntary guidelines. There are several common themes these certification processes and guidelines share, both in terms of strengths and weaknesses, and issues to address.

Strengths

Eight of the nine certification processes and guidelines rely on multi-stakeholder panels to develop the criteria, the one exception being the Optimal Ethics Systems Model. These multiple perspectives help to ensure that the criteria are systematic and fair for all stakeholders. In terms of certification, the costs are borne by the organization being certified and conducted by an independent third-party. Stated benefits of certification and adoption of principles include improved reputations, more efficient and effective operations, and enhanced employee morale. Compliance is ensured through reports documenting compliance and outcomes, as well as the threat of certification revocation.

Weaknesses/Issues to Address

A variety of weaknesses and issues that should be addressed are also highlighted in the analysis.

First, developing the certification criteria requires tradeoffs between too strict standards that discourage some organizations from participating, and too lax standards that call into question the criteria quality.

Second, flexibility needs to be provided for organizational size and other contextual factors. One standard may not fit all sizes of organization (small firms with few employees may not need a code of ethics) or types of industry.

Third, certifiers must meet high training and skill standards to maintain certification credibility.

Fourth, administrative costs must be reasonable and bureaucracy limited.

Fifth, consumer awareness needs to be enhanced.

Sixth, nonbinding voluntary agreements can result in insincere adoption for public relations purposes.

Next Steps

Can, or should, the field of business ethics extend support for a business ethics certification process? And if so, should it support an existing certification process or set of guidelines or develop a new one?

In answering the first question, it is essential to define what is meant by “the field of business ethics.” The field can be defined based on academic organizations that meet regularly and/or sponsor peer-reviewed journals, such as the Society for Business Ethics, the International Association for Business & Society, and Social Issues in Management Division of the National Academy of Management. The field can also be defined in terms of other networking organizations, most notably the Ethics Compliance Officers Association and the Ethics Resource Center.

The likelihood of all these organizations agreeing to support a particular business ethics certification process is probably minimal given infrastructure issues, different agendas, and potentially competing interests. Nonetheless, doing so would significantly increase certification credibility, legitimacy, and visibility.

The next daunting issue is which certification process should take prominence? The most broad-based certification processes and guidelines are the B Corporation, Federal Sentencing Guidelines, United Nations Global Compact, ISO 26000, and Optimal Ethics Systems Model. GRI, SA8000, IIRC, AccountAbility 1000, and FTSE KLD 400 Social Index may also serve this purpose.

Fair Trade, LEED, ISO 14001, Walmart supplier and products would not fulfill this need because they are aimed at specific products or stakeholders, although they could be become part of a broad certification system.

From an operational level of analysis, three existing certification processes and guidelines seem most worthy of initial consideration because they were already developed with multi-stakeholder input and are either already in use, or nearly ready to be used: B Corporation, Federal Sentencing Guidelines, and ISO 26000. Among these, only the B Corporation is a certification process.

Some other infrastructure would be necessary to certify organizations using the Federal Sentencing Guidelines or Optimal Ethics Systems Model. ISO 26000 could be transformed into a certification process by ISO, though at this point it might be premature given the five-year period just completed to reach consensus for it to be a guiding principles document. The United Nations Global Compact or some other broad-based model, such as GRI, can also serve as the foundation for certification criteria.

Lastly, current and future business managers must be taught how to design organizations to enhance ethical performance. The end goal of marketing and accounting within the business school curriculum is to teach students how to become high quality marketing and accounting managers and put in place systems that enhance marketing and accounting performance. Similarly, the end goal of business ethics is to teach students how to become high quality ethical managers and put in place systems that enhance ethical performance. The certification processes provide a framework for doing so.

FIGURE 1

B Rating System for Manufacturing Firm: Version 1.0

Part I: Practices (100 points)
a. Governance: mission, transparency, reporting, accountability
b. Employees: communication, training, job flexibility, culture, accessibility, safety
c. Suppliers: accountability, partnership, quality assurance
d. Environmental Impact: accountability, facilities, energy inputs, design, transportation
e. Provide Opportunity to Previously Excluded Populations: leadership, diversity
f. Engage in Community Services: civic engagement policy and practices
Part II: Profits (50 points)
a. Compensate Employees Fairly: compensation, cash benefits
b. Distribute Wealth through Broad Ownership: employee ownership, investor base
c. Charitable Giving: philanthropy
Part III: Products (50 points)
a. Beneficial Products or Services: product or service benefits customers and society
b. Use Beneficial Methods of Production: fair trade suppliers, green building design
c. Target Underserved Populations: low-income or minority consumers

FIGURE 2

Fair Trade Standards

The key objectives of Fair Trade standards are to:

- Ensure that producers receive prices that cover their average costs of sustainable production;
- Provide an additional Fairtrade Premium which can be invested in projects that enhance social, economic and environmental development;
- Enable pre-financing for producers who require it;
- Facilitate long-term trading partnerships and enable greater producer control over the trading process;
- Set clear minimum and progressive criteria to ensure that the conditions of production and trade of all Fairtrade certified products are socially, economically fair and environmentally responsible.

FIGURE 3

LEED Version 3.0 Rating System

Category	**Points**	**Practice**
Sustainable Sites	26	• Construction activity pollution prevention* • Appropriateness of selected site • Brownfield redevelopment • Alternative transportation availability • Stormwater design
Water Efficiency	10	• Water use reduction* • Water efficient landscaping • Innovative wastewater technologies
Energy & Atmosphere	35	• Fundamental commissioning of building energy systems * • Minimum energy performance * • Fundamental refrigerant management* • Optimize energy performance • Green power
Materials & Resources	14	• Storage and collection of recyclables* • Building reuse • Construction waste management • Materials reuse • Recycled content
Indoor Environmental Quality	15	• Minimum indoor air quality performance (IAQ)* • Environmental tobacco smoke control* • Increased ventilation • Low-emitting materials • Controllability of systems • Thermal comfort • Daylight and views
Innovation in Design	6	• Innovation in design (beyond LEED requirements) • LEED accredited professional
Regional Priority	4	• Environmental importance for project's region
* Indicates a required practice		

FIGURE 4

ISO 14001: Environmental Management System (EMS) Plan

What are the procedures for:

Environmental Policy

- Developing environmental policies?

Environmental Planning

- Identifying operations that impact the environment?
- Identifying environmental risks?
- Identifying applicable environmental laws and regulations?
- Establishing short and long-term environmental objectives and targets?
- Developing action plans aimed at achieving the environmental objectives and targets?

Environmental Implementation and Operation

- Determining who is responsible for specific aspects of environmental performance?
- Determining and developing environmental training activities?
- Developing environmental emergency plans?
- Communicating environmental issues and accomplishments to employees and external stakeholders?

Environmental Checking and Corrective Action

- Maintaining records related to environmental performance?
- Monitoring and assessing key environmental objectives and performance measures?
- Determining corrective actions?
- Auditing the Environmental Management System?

Management Review

- Managerial review of environmental performance, including responses to environmental emergencies and the adequacy of environmental accomplishments?

FIGURE 5

Walmart's Supplier Sustainability Index Questions

Energy and Climate: *Reduce energy costs and greenhouse gas emissions* 1. Have you measured your corporate greenhouse gas emissions? (Y/N) 2. Have you opted to report your greenhouse gas emissions to the Carbon Disclosure Project (CDP)? (Y/N) 3. What are your total greenhouse gas emissions reported in your most recently completed report? (Enter total metric tons CO2e, e.g. CDP6 Questionnaire, Section 2b – Scope 1 and 2 emissions) 4. Have you set publicly available greenhouse gas reduction targets? If yes, what are those targets? (Enter total metric tons and target date; 2 fields or leave blank)
Material Efficiency: *Reduce waste and enhance quality* Scores will be automatically calculated based on your participation in the Packaging Scorecard in addition to the following: 5. If measured, please report total amount of solid waste generated from the facilities that produce your product(s) for Walmart Inc for the most recent year measured. (Enter total lbs) 6. Have you set publicly available solid waste reduction targets? If yes, what are those targets? (Enter total lbs and target date; 2 fields or leave blank) 7. If measured, please report total water use from the facilities that produce your product(s) for Walmart Inc for the most recent year measured. (Enter total gallons) 8. Have you set publically available water use reduction targets? If yes, what are those targets? (Enter total gallons and target date; 2 fields or leave blank)
Natural Resources: *High quality, responsibly sourced raw materials* 9. Have you established publicly available sustainability purchasing guidelines for your direct suppliers that address issues such as environmental compliance, employment practices, and product/ingredient safety? (Y/N) 10. Have you obtained 3rd party certifications for any of the products that you sell to Walmart? If so, from the list of certifications below, please select those for which any of your products are, or utilize materials that are, currently certified.
People and Community: *Responsible & ethical production* 11. Do you know the location of 100% of the facilities that produce your product(s)? (Y/N) 12. Before beginning a business relationship with a manufacturing facility, do you evaluate their quality of production and capacity for production? (Y/N) 13. Do you have a process for managing social compliance at the manufacturing level? (Y/N) 14. Do you work with your supply base to resolve issues found during social compliance evaluations and also document specific corrections and improvements? (Y/N) 15. Do you invest in community development activities in the markets you source from and/or operate within? (Y/N)

FIGURE 6

Federal Sentencing for Organizations Guidelines

Category	**Best Practice**
Organizational Personnel Issue	Substantial authority is not given to any employee known to have engaged in illegal activities
Compliance/Ethics Program Personnel	A specific high-level manager oversees the program
	A specific individual is accountable for the program's day-to-day operations
Content of the Compliance/Ethics Program	Code of Ethics
	Procedures for preventing and detecting criminal misconduct or unethical behavior
	Mechanism for employees to anonymously or confidentially seek guidance on, or report, criminal or unethical conduct without fear of retaliation
Management of the Compliance/Ethics Program	Program training for all employees
	Program content is communicated throughout the organization
	Criminal risks common to the profession or industry are periodically assessed
	Periodically assess the program's effectiveness
Rewards and Punishments	Employees are provided incentives for performing in accordance with the program's provisions
	Incentives for ethical behavior and legal compliance are consistently enforced
	Employees violating the program's provisions, or who fail to take reasonable steps to prevent or detect criminal activity, are disciplined
	Disciplinary measures for unethical behavior or criminal misconduct are consistently enforced
After Criminal Conduct Detected	Reasonable steps are taken to respond appropriately to the criminal conduct
	Reasonable steps are taken to prevent similar criminal misconduct in the future
Number of Best Practices	

FIGURE 7

ISO 26000 Subject Areas

Core Subject Area	**Issues**
Human Rights	Due diligence; risk situations; avoidance of complicity; resolving grievances; discrimination and vulnerable groups; civil and political rights; economic and social and cultural rights; and fundamental principles and right to work
Labor Practices	Employment and employment relationships; conditions of work and social protection; social dialogue; health and safety at work; and human development and training in the workplace
The Environment	Prevention of pollution; sustainable resource use; climate change mitigation and adaptation; and protection of the environment, biodiversity and restoration of natural habitats
Fair Operating Practices	Anti-corruption; responsible political involvement; fair competition; promoting social responsibility in the value chain; and respect for property rights
Consumer Issues	Fair marketing, factual and unbiased information and fair contractual practices; protecting consumers’ health and safety; sustainable consumption; consumer service, support, and complaint and dispute resolution; consumer data protection and privacy; access to essential services; and education and awareness
Community Involvement and Development	Community involvement; education and culture; employment creation and skills development; technology development and access; wealth and income creation; health; and social investment

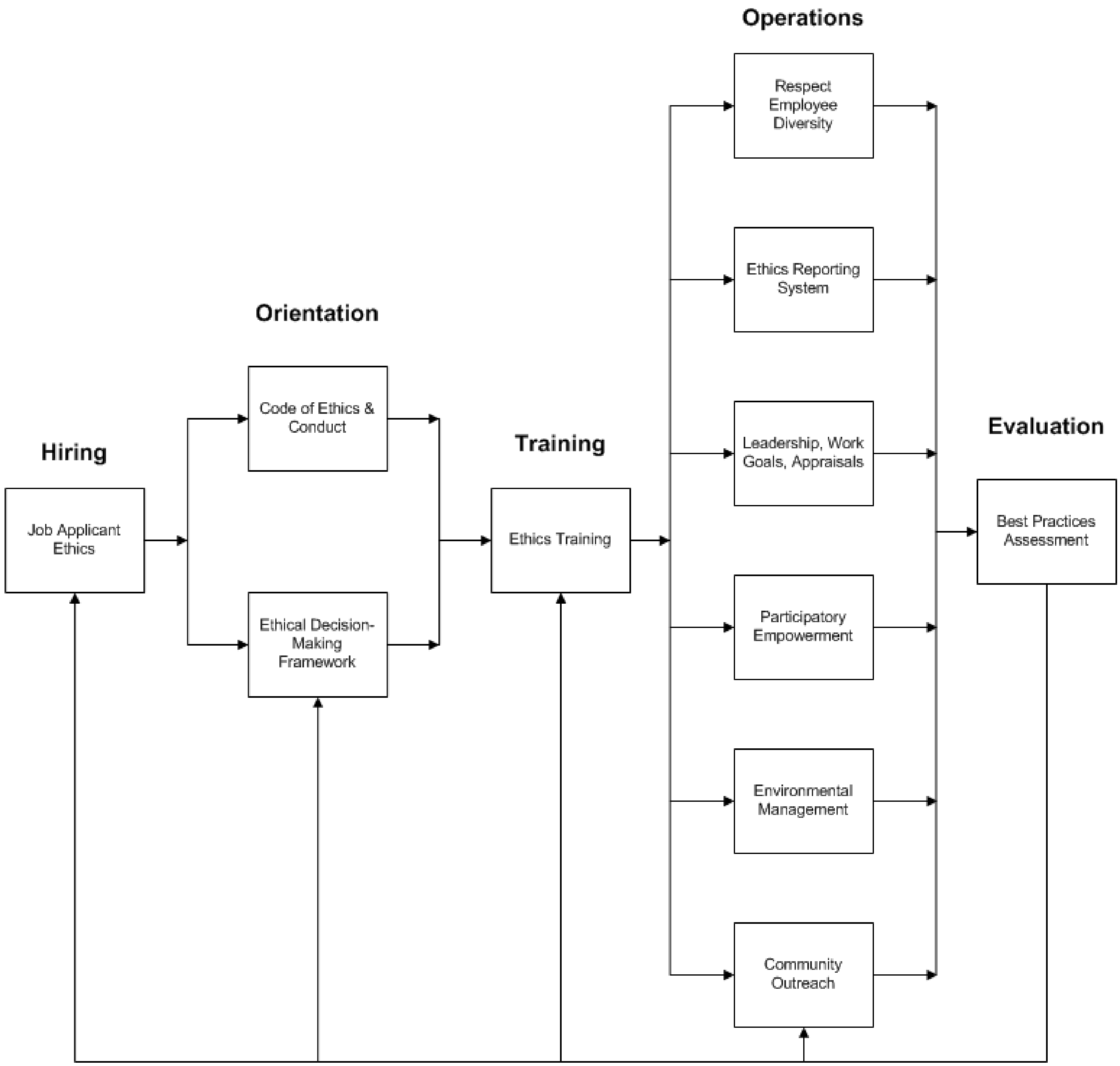
FIGURE 8

United Nations Global Compact

Human Rights • Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and • Principle 2: 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; • Principle 4: the elimination of all forms of forced and compulsory labor; • Principle 5: the effective abolition of child labor; and • Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment • Principle 7: Businesses should support a precautionary approach to environmental challenges; • Principle 8: undertake initiatives to promote greater environmental responsibility; and • Principle 9: 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.

Figure 9

Optimal Ethics Systems Model



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[1] The author thanks two colleagues and attendees at the 2012 Society for Business Ethics conference for very helpful comments on an earlier version of this paper .

[2] B Lab routinely updates this information on its website home page at http://www.bcorporation.net.

[3] The survey is available from the author upon request.