



Is There an “ENGO Case” for CSR?

**Environmental Non-governmental Organizations (ENGOS) and
Corporate Social Responsibility (CSR): Seeking Common Ground
to Build Consumer Support**

Report prepared for:
Pollution Probe

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Pollution Probe is a non-profit charitable organization that works in partnership with all sectors of society to protect health by promoting clean air and clean water. Pollution Probe was established in 1969 following a gathering of 240 students and professors at the University of Toronto campus to discuss a series of disquieting pesticide-related stories that had appeared in the media. Early issues tackled by Pollution Probe included urging the Canadian government to ban DDT for almost all uses, and campaigning for the clean-up of the Don River in Toronto. We encouraged curbside recycling in 140 Ontario communities and supported the development of the Blue Box programme. Pollution Probe has published several books, including *Profit from Pollution Prevention*, *The Green Consumer Guide* (of which more than 225,000 copies were sold across Canada) and *Additive Alert*.

In the 1990s, Pollution Probe has focused its programmes on issues related to air pollution, water pollution, climate change and human health, including a major programme to remove human sources of mercury from the environment. Pollution Probe’s scope has also expanded to new concerns, including the unique risks that environmental contaminants pose to children, the health risks related to exposures within indoor environments, and the development of innovative tools for promoting responsible environmental behaviour.

Since 1993, as part of our ongoing commitment to improving air quality, Pollution Probe has held an annual Clean Air Campaign during the month of June to raise awareness of the inter-relationships among vehicle emissions, smog, climate change and human respiratory problems. The Clean Air Campaign helped the Ontario Ministry of the Environment develop a mandatory vehicle emissions testing programme, called Drive Clean.

Pollution Probe offers innovative and practical solutions to environmental issues pertaining to air and water pollution. In defining environmental problems and advocating practical solutions, we draw upon sound science and technology, mobilize scientists and other experts, and build partnerships with industry, governments and communities.

March 2004

Pollution Probe is pleased to publicly release this report on ENGO views about Corporate Social Responsibility (CSR). CSR (recently being referred to as Corporate Responsibility in some of the literature) is a topic of growing interest, both in Canada and internationally.

This report was commissioned by Pollution Probe with funding support by the Government of Canada. James Sullivan was chosen to be the researcher and author of the report due to his extensive experience and involvement with corporations and their environmental responsibilities. The report contains the author’s conclusions, as informed by interviews, external expert reviewers and internal review by Pollution Probe.

It is our pleasure to submit this report to the public and to decision-makers in government, industry and ENGOs, with the hope and expectation that it will stimulate both dialogue and further convergence of thinking on this important subject.



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Executive Summary

This report examines the issues raised by promoters of the concept of Corporate Social Responsibility (CSR) and identifies the challenges and opportunities that these issues raise for environmental, non-governmental organizations (ENGOs). A framework is proposed through which a common understanding could be built so that support for CSR from ENGOs, and ultimately consumers, may be developed.

The report is presented in three parts. The first begins with a brief review of various views on the responsibility of the corporation, followed by an analysis of definitions, trends, issues and approaches to CSR. The second presents an examination and evaluation of the priority areas in CSR that corporations, ENGOs and consumers have identified. The third presents a framework for next steps to foster cooperation between corporations and ENGOs, as well as with other non-governmental organizations (NGOs), social investment organizations and others that promote CSR, so as to influence consumer behaviour.

Because there is no agreed upon definition of CSR, a literature examination was conducted to identify the range of definitions, as well as trends, issues and approaches relevant to these definitions of CSR. An evaluation was done to determine the priority areas that companies, ENGOs and consumers are most concerned about

in relation to CSR. The information about corporations and consumers was gathered from a literature review, while that about ENGOs was gathered from interviews with a small sample of influential and experienced senior Canadian ENGO staff, due to the paucity of information available on ENGO views of CSR.

This study found that the areas most important to corporations and Canadian ENGOs have little direct correspondence to the various definitions, trends, issues and approaches to CSR. For example, none of the Canadian ENGO priority areas included the issues of corporate governance, shareholder rights and the role of securities regulatory bodies, while active campaigns by European and US based ENGOs do address some of these areas. At the same time, the corporate priority areas in Canada did not include influence on government or the use of CSR as a means of developing better regulations.

The report recommends a three-phase framework for next steps to facilitate the engagement of ENGOs in CSR initiatives in order to build consumer support for these projects.

The first phase concentrates on establishing a minimum level of knowledge and a common understanding that can serve as the foundations upon which the second phase is built.

The second phase concentrates on establishing clear understandings among the various parties about the process for setting policy objectives, determining the policy objectives that are best achieved through collaborative CSR initiatives, and articulating the elements that should be included in such initiatives.

The third phase concentrates on running collaborative CSR initiatives and developing links to consumers in order to respond to their needs and to influence their behaviour.

This report is intended to serve as a starting point for further dialogue among industry and ENGOs, and as a base upon which to build the next steps along the CSR pathway.

Introduction

Purpose of the Report

This investigation examines the issues raised by promoters and observers of the concept of Corporate Social Responsibility (CSR) and identifies the challenges and opportunities these issues raise for environmental, non-governmental organizations (ENGOs). Based on this examination, a framework is proposed through which a common understanding could be built so that support for CSR from ENGO stakeholders may be developed in order to influence consumers.

ENGOs are the focus of this report for two reasons:

1. Despite the large amount of literature now published on CSR, there are no specific studies that address how ENGOs understand CSR and how they perceive it will impact on their particular areas of concern.
2. While CSR initially may have been designed to address the social impacts of corporate activity, the understanding of the areas covered by CSR has grown to include issues of environmental impacts and sustainable development.

Corporate bodies can take many forms, including privately held corporations, joint-stock corporations and government-owned corporations. While the recommendations in this report may be relevant to all of these forms, the main focus of this report is on the most common form of large corporate entities — the joint-stock corporation.

The term “consumers” can be defined in either a narrow or a broad sense. Defined narrowly, a consumer is considered only in the context of commercial transactions as the recipient of a product or service. In a broad definition, a consumer is anyone who enters into any relationship of exchange with an individual or an institution, including corporations. In this sense the term “consumer” is almost the same as “citizen,” excluding those areas exclusively reserved to government, such as taxation or constitutional matters.¹ For this paper, the term “consumer” refers to this broad definition.

Consumers, while not organized in a manner analogous to either ENGOs or corporations, are considered in many sources found in the literature. For example, polling data provides one source of information useful in understanding the expectations of end-use consumers.

This report includes consideration of a stakeholder management approach to CSR, but the report is not designed to consider the issues and concerns of every stakeholder group. The report focuses on corporations, ENGOs and consumers, while the recommendations make clear that successful engagement of ENGOs in

¹ For a succinct explanation of these definitions, see *What is the Scope of Consumer Policy?* New Zealand Ministry of Consumer Affairs. www.consumeraffairs.govt.nz accessed June 25, 2004.

corporate CSR initiatives to influence consumers should occur within a context in which the full range of stakeholders are involved.

It should be noted that while the role of governments in the chartering and regulation of corporations is significant, no effort is made in this report to try to represent the needs and desires of governments relative to CSR. For the purposes of this report, the role of governments is considered from the perspectives of both ENGOs and corporations.

The framework proposed in this report has been developed to take into account the areas that are important, both negatively and positively, to corporations, ENGOs and consumers. Every effort has been made to build the framework on common interests, while taking into account the differences among the three groups.

This report will:

- Clarify what CSR is through an examination of definitions, trends and approaches;
- Examine the needs of ENGOs in response to CSR; and,
- Develop a framework in which ENGOs can become engaged in CSR initiatives, with the goal of building consumer support.

The framework is not intended to propose specific actions or initiatives, such as codes of practice, labelling and corporate reporting. A number of actions and initiatives have been explored in order to identify issues relevant to this report. Some types of activities have been identified as fundamental to the proposed framework for next steps.

This research was conducted in consultation with environmental organizations, industry and consumer representatives, including investor groups. The goal was to develop a framework for action that could lead to building support for CSR by ENGOs in order to influence consumers.

The report is presented in three parts. The first begins with an analysis of definitions, trends, issues and approaches to CSR. The second presents an examination and evaluation of the priority areas in CSR that corporations, ENGOs and consumers have identified. The third presents a framework to build the elements necessary for there to be cooperation between corporations and ENGOs so as to influence consumer behaviour.

Part 1 — The Nature of the Corporation

Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine. If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is?²

The large corporation must become an active agent for social change if it is to make the world safe for itself. Rules of law, democratic institutions, and the ethics of competition and the marketplace are requirements for the continued success of multinational corporations and, indeed, contemporary capitalism. The corporation can no longer pretend to be a reactive participant within the social system, responding (positively or negatively) to pressures and goals arising from other groups. As a dominant institution in society, it must accept responsibility for independent initiative, both with respect to its own goals and the formation of the public agenda. Effective participation requires that the corporation be able to articulate who and what it is from a social perspective, and what role its process and products play in society.³

Business is the only institution that has a chance, as far as I can see, to fundamentally improve the injustice that exists in the world.⁴

These quotes present a range of perspectives that are to be found in business and economic literature. The first, taken from Milton Friedman, is accepted by a number of ENGOs, economists, businesses, and business commentators.⁵ Some of these writers argue that the generation of profit is itself the primary social good provided by companies and therefore as few restrictions as possible should be made on the corporate pursuit of that goal. Some NGOs, including environmental groups, use this same definition as part of their argument in favour of greater regulation of corporations by governments.⁶ If business exists only to make money, the argument states, regulatory constraints must be developed that force business to pay for the full cost of their activities. Both business and NGOs that take this approach would agree that

² Friedman, M. 1962. p. 133 (cited in Henderson, D. 2001. p. 21).

³ Parkash Sethi, S. 1999. p. 20.

⁴ Edward Simon, President of Herman Miller as quoted in Senge, P.M. 1990. p. 5.

⁵ See Foster, P. 2004; Goodpaster, K.E. & Matthews, Jr., J.B. 2003. p. 131-155; Henderson, D. 2001; Christian Aid. 2004.

⁶ Friends of the Earth International stresses that sustainable development can be achieved through developing corporate accountability built on an “enabling policy framework based on a sound regulatory foundation” see www.foei.org/publications/corporates/accountability.html, accessed June 4, 2004.

businesses should have no role in determining what is in society’s best interest. For them public policy objectives are best set by others, normally governments. This is consistent with a legal understanding of the obligations of a corporation, to maximize the generation of profit for shareholders subject only to those constraints established in law.⁷

The second quote takes the position that it is in a corporation’s own best interest to participate in the development of public policy. The corporation has a responsibility to take an active role in social change. The principle, if not only, motivation for taking such an activist stance is to protect the interest of the corporation. To advance this goal, the objective of this interventionist approach requires that social and environmental gains be made secondary to the need to advance the interest of the corporation and to maintain the economic system on which it depends.

The third presents a world in which the corporation is not “a dominant institution,” as stated in the second quote, but is the only institution that has the capacity to correct injustice. In order to achieve this end, the capacity and authority of the corporation must be greater than that of civil society, or governments. The corporation operates without it being subject to institutions of democratic control, such as elections; it is only subject to the will of the shareholders whose influence is proportional to their investment.

These perspectives present views of the core elements for which a corporation is responsible and has the power to act. An

understanding of the nature of the corporation is fundamental to the debate about whether or not CSR is a “good thing.” That a debate on the responsibility and authority of the corporation relative to governments exists is worthy of note.⁸ This paper will not address the underlying theory that is driving this debate. It will address the expectations of corporations, ENGOs and consumers that are, or could be, involved in this debate.

While debates on the authority and responsibility of corporations are being held in a number of fora, it is important to note that these debates are not new. As long as there has been a corporation this debate has been underway.⁹

What is CSR?

Terms and Definitions

A review of the literature indicates that there is no commonly accepted definition of CSR. This contributes to the confusion about the issues and topics included within this subject.¹⁰ Because of the range of definitions, a wide variety of terms have been used to describe CSR. These terms include, but are not limited to:

- Corporate Accountability
- Corporate Citizenship
- Corporate Environmental and Social Responsibility
- Corporate Ethics
- Corporate Responsibility

⁸ For an introduction to this subject see Bakan, J. 2004.

⁹ For a brief introduction to the history of the corporation see: Mickelthwait, J. & Woolridge, A. 2003; and Chapter One of Bakan, J. 2004.

¹⁰ European Commission. 2002. p. 11.

⁷ Bakan, J. 2004. p. 37.

- Corporate Social Responsibility
- Corporate Sensibility
- Ethical Compliance
- Good (Corporate) Governance
- Organizational Responsibility
- Sustainable Development
- Triple Bottom Line

This variety of terms is a reflection of the wide range of perspectives on what is meant by CSR and the particular aspect of the firm at issue.

Definitions of CSR

A number of major studies, including the final report of the Canadian Democracy and Corporate Accountability Commission,¹¹ note that there is no single accepted definition of CSR. Many reports and articles propose a range of definitions of CSR. An examination of these is presented below, focussing on the elements found in them.

In his analysis of CSR, Robert Sexty defines five key elements, or assertions, found in most definitions of corporate social responsibility:¹²

1. Corporations have responsibilities that go beyond the production of goods and services at a profit.
2. These responsibilities involve helping to solve important social and environmental problems, especially those they have helped create.
3. Corporations have a broader constituency than shareholders.
4. Corporations have impacts that go beyond simple marketplace transactions.

5. Corporations serve a wider range of human values than can be captured by a sole focus on economic values.

One concept that is often raised in the context of CSR is that of “Stakeholder Management.”¹³ This is built upon the idea in point three above that corporations have a much broader constituency than just shareholders. Stakeholders are the constituencies that are affected, either positively or negatively by the corporation through its operations, products or services.¹⁴ The stakeholders include voluntary and involuntary stakeholders. Voluntary stakeholders can include employees, shareholders, investors, customers and all those who have made a choice to have links with the company. Involuntary stakeholders are those who are affected by the company’s activity, but have no choice, such as those impacted by pollution, economic dislocation caused by operations, and the use of the company products by others. Using a stakeholder management approach a company seeks to include the needs of all stakeholders, not just those with financial interests, in corporate decision-making processes.

Those who choose to stress the potential of CSR to enhance corporate performance, rather than stressing altruistic objectives, normally include additional elements in their definitions. Most definitions emanating from the business literature stress that CSR is voluntary, or non-regulatory; that is, it applies to corporate performance that is beyond simple compliance with

¹¹ Canadian Democracy and Corporate Accountability Commission, 2001. p. 4; Stigson, B. 2002.

¹² Sexty, R.W. 1995. p. 112.

¹³ Clarkson Centre for Business Ethics and Board Effectiveness, Joseph L. Rotman School of Business, University of Toronto. 1999.

¹⁴ Ibid. p. 2.

legislation and regulation. In addition, these definitions often include the following aspects:

1. An exhortation that a responsible corporation is a hallmark of a well-run business.
2. An acknowledgement that involvement in social and environmental issues may have an impact on the financial bottom line.
3. Recognition that a company that addresses social and environmental issues may retain its “social license” to operate.

A Selection of Definitions of CSR

World Commission on the Social Dimension of Globalization: CSR concerns the voluntary initiatives enterprises undertake over and above their legal obligations. It is a way by which any enterprise can consider its impact on all relevant stakeholders. CSR is a complement to, not a substitute for, government regulation or social policy.¹⁵

Christian Aid (UK): Christian Aid defines Corporate Social Responsibility — CSR — as an entirely voluntary, corporate-led

Elements of Definitions
CSR is voluntary
CSR applies to corporate performance beyond simple legal compliance
Corporations have responsibilities that go beyond the production of goods and services at a profit
These responsibilities involve helping to solve important social and environmental problems, especially those they have helped create
Corporations have a broader constituency than shareholders
Corporations have impacts that go beyond simple marketplace transactions
Corporations serve a wider range of human values than can be captured by a sole focus on economic values
An exhortation that a responsible corporation is a hallmark of a well-run business
An acknowledgement that involvement in social and environmental issues may have an impact on the financial bottom line
Recognition that a company that addresses social and environmental issues may retain its “social license” to operate

¹⁵ World Commission on the Social Dimension of Globalization. 2004. p. 122.

initiative to promote self-regulation as a substitute for regulation at either national or international level. CSR is a catch-all term increasingly used by business, which encompasses the voluntary codes, principles and initiatives companies adopt in their general desire to confine corporate responsibility to self-regulation. Increasingly, corporate self-regulation in the form of CSR is also being embraced beyond the business world by, among others, governments, and multilateral institutions such as the World Bank and UN.¹⁶

KAIROS (Canada): Corporate Social Responsibility (CSR) is the decision-making and implementation process that guides all company activities in the protection and promotion of international human rights, labour and environmental standards and compliance with legal requirements within its operations and in its relations to the societies and communities where it operates. CSR involves a commitment to contribute to the economic, environmental and social sustainability of communities through the on-going engagement of stakeholders, the active participation of communities impacted by company activities and the public reporting of company policies and performance in the economic, environmental and social arenas.¹⁷

Canadian Business for Social Responsibility (CBSR): ... a company's commitment to operating in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders, including investors, customers, employees,

business partners, local communities, the environment and society at large.¹⁸

Canadian Corporate Accountability Commission: ... CSR refers to obligations that go beyond the shareholder primacy concept to include human rights and environmental concerns as well as the interests of employees, suppliers, customers and communities.¹⁹ (An extended discussion of the definition of CSR can be found on pages 5 to 7 of their full report.²⁰)

Business for Social Responsibility: ... CSR is viewed as a comprehensive set of policies, practices and programs that are integrated into business operations, supply chains, and decision-making processes throughout the company — wherever the company does business — and includes responsibility for current and past actions as well as future impacts. The issues that represent a company's CSR focus vary by business, by size, by sector and even by geographic region. In its broadest categories, CSR typically includes issues related to: business ethics, community investment, environment, governance, human rights, marketplace and workplace.²¹

European Commission: A traditional business view has assumed that the main contribution of enterprises to society is made through the provision of employment and the creation of wealth. Any business involvement in social activities will have a trade-off effect against

¹⁶ Christian Aid. 2004. p. 5.

¹⁷ Steering Group of the Global Principles Network. 2003. p. 46.

¹⁸ www.cbsr.ca accessed June 23, 2004.

¹⁹ Canadian Democracy and Corporate Accountability Commission. 2001.

²⁰ Ibid. p. 5-7.

²¹ Business for Social Responsibility — Corporate Social Responsibility (CSR). www.bsr.org accessed June 24, 2004.

profitable activity. Additionally, this traditional perspective suggests that enterprises are in conflict with the good of society, so without external compulsory measures (i.e., regulation), enterprises will always be looking to shift to others the costs and the damage they cause and will always fail to accept share of the costs of social problems.²² Most definitions of corporate social responsibility describe it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.²³

Sustainability and WWF-UK: Stripped to its essence, corporate responsibility requires four things of companies:

- Open and transparent business practices;
- Ethical behaviour;
- Respect for stakeholder groups; and,
- Strong performance on economic, social and environmental issues.²⁴

World Business Council for Sustainable Development: ...the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.²⁵

Trends and Issues in CSR

In a review of the current CSR literature, two clear trends can be identified. One is the identification of CSR as a voluntary commitment that corporations can adopt and implement according to their own design.²⁶

A number of NGOs promote the second trend, including some environmental organizations, which have avoided use of the term “CSR” in favour of the term “corporate accountability.”²⁷ Corporate accountability is viewed as enforceable, either through legislation and regulation or through civil legal proceedings.

Each of the two approaches above employs significantly different discourses. One is based on voluntary initiatives, led by management of leading corporations and often supported by shareholders and institutional investors, while the other relies on regulations, international conventions and legal enforceability in both criminal and civil proceedings.

Globalization is one of the key driving forces behind both of these positions. The growth in global trade and the

²² European Commission. 2002. p. 11-12.

²³ European Commission. 2001, p. 8; see also the Corporate Responsibility initiative of the Canadian Centre for Philanthropy as part of their Imagine campaign, www.imagine.ca.

²⁴ SustainAbility & WWF-UK. 2004.

²⁵ World Business Council for Sustainable Development. 2001. p. 6; See also Varney, D. *Motivate Don't Legislate!* found on the website of Business in the Community www.bitc.org.uk accessed June 24, 2004.

²⁶ A succinct review of CSR from the voluntary perspective can be found at www.bsdglobal.com/issues/sr.asp; A more objective critique can be found in Gibson, R.B. 1999; See also Stigson, B. 2002; Hutchinson, M. 2001.

²⁷ See *Minding Our Business: The Role of Corporate Accountability in Sustainable Development: An NGO report to the UN Commission on Sustainable Development*. 1997; Friends of the Earth International, *Briefing: Towards Binding Corporate Accountability*, www.foei.org/publications/corporates/accountability.html.

internationalization of trade regulations through trade regimes, both bilateral and multilateral, have reduced the ability of national governments to enforce unilateral trade regulations that may be deemed a restraint to trade by bodies such as the WTO, or in the case of Canada, NAFTA.²⁸ While each of these positions represents a differing view of how the benefits of globalization will best be achieved, they both represent a recognition that it is happening and that some action — either voluntary or regulatory — must be taken or the benefits of globalization, either to business or society, will be compromised.

The range of issues included under the heading of CSR is very large; this is because CSR is not a single issue. As a result, no single set of issues is agreed upon. A number of sources list elements that are included under the heading of CSR. These lists tend to be generic lists of areas, such as those listed by the Imagine campaign of the Canadian Centre for Philanthropy:²⁹

- Governance and Management Practices;
- Human Resources Management;
- Community Investment and Involvement;
- Environment, Health and Safety; and,
- Human Rights.

Most civil society organizations tend to focus on specific areas that can be related to these headings. As a result, a list of issue

areas identified by these organizations can be very long, reflecting the priorities and concerns of each organization. In brief, the issues raised by civil society organizations tend to be more specific³⁰ than the issues raised by business and government-based organizations.³¹ This range of issues most commonly includes the following:

- Undue influence on government by corporations;
- The need for corporations to accept the full environmental and social costs of their operations;
- Transparency and corporate reporting;
- Corporate governance (including boards, officers and shareholders);
- Human rights, including Aboriginal and workers’ rights;
- Locating corporate operations in countries with lax legislation, regulation and enforcement;
- Different performance standards in developed and developing countries;
- The relationship between the corporation and civil society, especially those affected by the operations of the corporation; and,
- Accountability of corporate management to shareholders, and shareholders’ ability to influence corporate decisions.

²⁸ Some analysts argue that the authority of government is not actually diminished; rather, its capacity to protect the public interest has been reduced, while a corresponding increase in capacity has occurred to promote the interests of corporations. See Bakan, J. 2004. p. 154.

²⁹ Imagine. *Managing Corporate Responsibility*. www.imagine.ca accessed June 24, 2004.

³⁰ One source of such specifics can be found in the publication of the Steering Group of the Global Principles Network. 2003. www.bench-marks.org. This publication, along with a number of other such sources can be found in McKague, K. 2003. An example of a sector specific list can be found in SustainAbility & WWF-UK. 2004. p. 8.

³¹ Other sources of topic lists include the World Business Council on Sustainable Development www.wbcsd.org; Business for Social Responsibility www.bsr.org; the UN Global Compact www.unglobalcompact.org; and Imagine www.imagine.ca.

Trends in CSR
Voluntary Corporate Responsibility
Mandatory Corporate Accountability
Issues in CSR Literature
Undue influence on government by corporations
The need for corporations to accept the full environmental and social costs of their operations
Transparency and corporate reporting
Corporate governance (including boards, officers and shareholders)
Human rights, including Aboriginal and workers’ rights
Locating corporate operations in countries with lax legislation, regulation and enforcement
Different performance standards in developed and developing countries
Relationship between the corporation and civil society, especially people affected by the operations of the corporation
Accountability of corporate management to shareholders, and shareholders’ ability to influence corporate decisions

Approaches to Implementing CSR

Since the definitions and issues identified under the CSR banner are not generally agreed upon, it is helpful to look at the major initiatives that are being promoted. The following sections describe the types of initiatives currently underway that address CSR. A range of parties, including corporations, industry associations, governments and NGOs, promote various of these initiatives. This survey presents a range of approaches to CSR that are currently employed by parties with a stake in defining the role, purpose and responsibility of corporations.

It should be noted that not all of these approaches are agreed to be part of CSR by all groups. For example, many civil society organizations do not recognize management system standards that do not include specific performance criteria, as legitimate approaches to CSR. On the other hand, many business organizations do not recognize legislation and regulation as an approach to CSR since these clearly cannot be seen as voluntary. The approaches examined below are:

- International “Corporate Accountability Convention;”
- International Standards for CSR Management Systems;

- International and national regulation through securities regulating bodies;
- Legislation detailing rights and responsibilities of corporate officers;
- Shareholder activism; individual and institutional;
- Corporate influence on governments, including lobbying, direct and indirect political contributions and conflict of interest regulations;
- Consumer awareness campaigns;
- Corporate reporting; and,
- Codes of Practice.

International “Corporate Accountability Convention”

This effort has been led by Friends of the Earth and was promoted extensively during the WSSD meetings in Johannesburg, South Africa. The argument in favour states that a convention is needed and that...

This must be backed by effective sanctions and citizen and community rights to consultation, legal challenge and redress over environmentally and socially damaging corporate activities. The approach goes beyond voluntary corporate responsibility initiatives to establish corporate accountability to stakeholder citizens as a legal right. It seeks to help close the democratic deficit created by corporate globalisation by underlying the principles of rights, democracy and equity demanded by communities protesting against corporate globalisation.³²

Business organizations, while supportive of existing intergovernmental agreements, oppose the creation of a new international regime with enforceable provisions that targets corporate accountability.³³

International Standards for CSR Management Systems

Following review and consultation, the Consumer Policy Committee of ISO (International Organization for Standardization) recommended the development of a CSR Management System Standard. In the report, the system is presented as voluntary, and the specific performance objectives of each company would be self-determined:

For those firms adopting a CR [corporate responsibility] management system compliant with ISO specifications, each firm’s CR approach will be based on the input received from its stakeholders, and the appropriate selection of ISO CR management systems standards, working against a backdrop of domestic and international normative instruments. A firm’s decisions concerning the precise substantive CR obligations it will agree to, and the appropriate verification process it will use (e.g., self declaration or third party), is thus a highly tailored and distinctive process, unique to each firm, its stakeholders, and the competitive environment in which it operates. The ISO CR management systems standards are a necessary

³² Friends of the Earth International, *Briefing: Towards Binding Corporate Accountability*. www.foei.org/publications/corporates/accountability.html.

³³ Business Action for Sustainable Development, *Johannesburg Summit 2002: Key Business Messages*. www.basd-action.net/docs/releases/20020904_keybus.shtml.

but not a sufficient condition of success, since an effective CR approach will require that the management system work in conjunction with a range of other stakeholders and instruments.³⁴

Both the use of ISO as the forum for the development of CSR Management System Standards and the concept of these standards may prove problematic. This attitude is reflected in a recent report to the Canadian Labour Congress:

First, ISO accords no place to the public interest in its consultation structures. The balance is tilted strongly against NGOs. Second, paradoxically, the significant strengthening of ISO standards only makes them more convincing as a surrogate for regulation and would thus serve the deregulation agenda, which is the last thing that a real public interest group would want.³⁵

A range of CSR standards is currently under development in a number of countries, including France, Israel and Australia.³⁶ In addition, standards have been developed by some NGOs to address CSR issues.³⁷

International and national regulation through securities regulating bodies

A range of regulation of corporations is effected through securities regulation and enforced by established bodies, such as the Securities Exchange Commission (SEC)³⁸ in the US and the Ontario Securities Commission (OSC)³⁹ in Canada. Canada does not have a national securities commission; as a consequence, the OSC, whose jurisdiction includes the Toronto Stock Exchange (TSX), has many of the characteristics of a national regulator.⁴⁰ These bodies have authority because they regulate the stock exchanges in which the shares of corporations are traded. The nationality of the corporation is not considered; rather, the jurisdiction in which the exchange exists is crucial. Canadian companies that are traded on the New York Stock Exchange are subject to the regulations established by the US SEC, just as an Alberta company traded on the TSX is subject to OSC regulations.

Regulations normally include a range of provisions and include specifics on the governance of corporations and on disclosure rules, including financial, environmental and other areas. In Canada, the provinces establish through corporate

³⁴ ISO Consumer Policy Committee (COPOLCO). 2002. p. 9.

³⁵ Bennett, D. & Canadian Labour Congress. 2000.

³⁶ See AFNOR. 2003; Standards Australia. 2002(1); Standards Australia. 2002(2); The Standards Institution of Israel. 2001.

³⁷ See Leipziger, D. 2001; Business Ethics & Compliance Research Center. 2001; *Canadian Business for Social Responsibility: Guidelines for Corporate Social Performance and Social Venture Network Standards of Corporate Social Responsibility* in McKague, K. 2003.

³⁸ www.sec.gov

³⁹ www.osc.gov.on.ca

⁴⁰ For further information on the discussions about the formation of a single national securities regulator in Canada see WPC Committee to Review the Structure of Securities Regulation in Canada. 2003. Further information on collaboration between Provincial securities regulators in Canada can be found through the Canadian Securities Administrators (CSA) at www.csa-acvm.ca.

law other requirements, including minimum rules for areas such as shareholder resolutions and the holding of annual shareholder meetings.

Some limited campaigns targeting securities regulators have been undertaken, such as the Sunshine Working Group, an initiative of Friends of the Earth US to expand disclosure requirements by the US SEC.⁴¹ Recent changes in the UK require listed companies to prepare annual disclosures that “include details of a company’s objectives and strategies, and provide information on ‘a wide range of factors which may be relevant to an understanding of the business, such as information about employees, environmental matters and community and social issues.’”⁴²

In Canada, securities regulators are one of the bodies that would enforce some of the provisions that environmental and social campaigners call for. These include aspects such as disclosure requirements, the accountability of management to shareholders, and some limited aspects of financial accountability.

Legislation detailing rights and responsibilities of corporate officers

Legislation passed in the United States following the corporate accounting scandals of Enron and World Com has been presented as a governmental response to defining financial and governance aspects of corporate responsibility. The recent passage of the Sarbanes-Oxley Act of 2002⁴³ in the US regulates the way in which financial audits are provided and the makeup and responsibility of the Board of Directors. It also includes a requirement that the CEO personally certify that the company is not in violation of listing requirements. In Canada, the CEO and the CFO must sign off on financial statements.

In addition to the changes underway in securities regulation, there is an ongoing discussion on the legal responsibility of corporations and corporate officers for criminal behaviour by the company. Incidents such as the Westray Mine disaster (1992) in Nova Scotia sparked an effort to amend federal laws.⁴⁴ In November 2003, the federal government passed new corporate responsibility legislation (The “Westray” Bill), which holds managers and officers responsible for, among other things, health and safety violations that were knowingly allowed.⁴⁵

⁴¹ www.corporatesunshine.org accessed June 2, 2004.

⁴² News alert from www.ethicalperformance.com May 5, 2004.

⁴³ A full copy of the text of the Sarbanes-Oxley Act of 2002 can be found at <http://news.findlaw.com/hdocs/docs/gwbush/sarbanesoxley072302.pdf>.

⁴⁴ See Steelworkers background on the Westray Mine. www.uswa.ca/eng/hse/bkg468_2.htm.

⁴⁵ For full details on the legislation see www.parl.gc.ca/common/Bills_ls.asp?Parl=37&Ses=2&ls=C45, which includes a summary of Bill C-45: An Act To Amend The Criminal Code (Criminal Liability Of Organizations).

Shareholder activism: individual and institutional

Shareholder activism, defined as shareholders, both individuals and institutional, who seek to influence a corporation, normally includes letter writing, dialogue, communications and education of the public, and proxy voting as well as the process of filing shareholder resolutions. Shareholder resolutions have been used to significant effect in the campaigns for South African disinvestment⁴⁶ in the 1970s and 1980s and by CERES (Coalition for Environmentally Responsible Economies)⁴⁷ in the 1980s and 1990s to promote support for the CERES Principles. Recent shareholder resolution campaigns have included human rights, sourcing codes, child labour, climate change and a number of other issues. These include projects such as the Markets Initiative in Canada and the Corporate Sunshine Working Group in the US.⁴⁸ Individual investors who loan their proxies to organizations that are leading the campaign have supported some of these shareholder resolutions.⁴⁹

Institutional activism began through actions by Church-based pension funds in Canada⁵⁰ and the US, supported in the 1990s by decisions of large US-based pension funds to actively engage in environmental and human rights issues. The actions of pension funds, such as CalPERS (California Public Employees' Retirement System),⁵¹ have led the way. Since these pension funds began this process, a growing list of investment and pension funds has developed guidelines for the use of their investments in support of shareholder resolutions. The US SEC has recently proposed guidelines that all mutual funds be required to publish their proxy voting policy and voting record.⁵² Similar, but weaker rules have been developed in Canada⁵³ and are in the process of being put in place by provincial regulators.⁵⁴

Some organizations have begun to use shareholder resolutions as part of broader campaigns to draw attention to corporate misdeeds in order to pressure governments to support greater regulation.⁵⁵

⁴⁶ Pratt, R. 1997.

⁴⁷ www.ceres.org

⁴⁸ See www.marketsinitiative.org and www.corporatesunshine.org.

⁴⁹ Examples can be found through TCCR www.web.net/%7Etccr/CorpResp/ShareAlert.htm, Friends of the Earth www.foe.org/pub/newsmagazine/winter99/shareholders.html and the Interfaith Center for Corporate Responsibility in the US www.iccr.org/products/proxy_book02/rezstatus_chart.htm.

⁵⁰ Hutchinson, M. 2000.

⁵¹ Information about CalPERS can be found at www.calpers.ca.gov. Examples of investment fund approaches to shareholder proposals can be found at Ethical Funds Ltd. www.ethicalfunds.com/content/sri/sri_at_ef/shareholder_res2002.asp and Domini Social Investments www.domini.com/shareholder-advocacy/Shareholder-Proposals—Dialogues/index.htm.

⁵² Securities and Exchange Commission, 2002.

⁵³ CSA National Instrument 81-106 Investment Fund Continuous Disclosure www.csa-acvm.ca.

⁵⁴ See Ontario Securities Commission proposed rule 81-801 www.osc.gov.on.ca/en/Regulation/Rulemaking/Rules/rule_20040528_81-801_pro-osc-impl-81-106.htm.

⁵⁵ Bakan, J. 2004, p. 148–149.

Corporate influence on governments, including lobbying, direct and indirect political contributions and conflict of interest regulations

Corporate influence on government has often been raised in the context of CSR. This issue has a number of related aspects, including:

- Large multinationals that operate in developing countries. The relative size and resources of the companies, as compared to governments, compound this issue. How a company behaves in such situations is of concern to many CSR campaigners.⁵⁶
- Bribery and corruption are often raised in the context of how corporations influence governments. The lead organization in addressing corruption is Transparency International.⁵⁷
- The issues of political contributions and lobbying remain of concern to campaigners. This issue is currently pursued in Canada by Democracy Watch.⁵⁸
- Conflict of interest is raised, especially in relation to the rotation of senior staff between large corporations and government.⁵⁹

⁵⁶ A leading organization dealing with this issue is the Third World Network www.twinside.org.sg.

⁵⁷ www.transparency.org and www.transparency.ca

⁵⁸ www.dwatch.ca/camp/corp.htm

⁵⁹ The organization Common Cause has been actively supporting restrictions on “revolving door” practices between governments and industry in the United States www.commoncause.org/states/elaw_overview.htm and while this is a theme that occurs in Canadian CSR initiatives, no domestic organization has a specific campaign addressing this concern.

Consumer awareness campaigns

Boycotts and information campaigns have been used to effect changes in corporate behaviour. The prime example remains the campaign against the distribution of free infant formula in developing countries that targeted Nestlé.⁶⁰ Other campaigns have targeted a number of companies, either to provide information on corporate practices or to promote boycotts. Information campaigns include those promoted by Oxfam⁶¹ relating to coffee and running shoes. Boycotts relating to environmental issues include a campaign by GreenPeace and Friends of the Earth to boycott Exxon-Mobil in the UK, and a complementary campaign by Friends of the Earth Canada to boycott Imperial Oil in Canada.⁶²

Corporate reporting

Corporate reporting campaigns encompass a range of issues, including environmental performance, social impacts, financial transparency and corporate governance. The call for enhanced corporate reporting and other disclosures is part of broader campaigns for greater transparency. Efforts to promote greater disclosures are normally attached to each substantive area in which calls for greater accountability by corporations is promoted. Of particular interest to this evaluation are the efforts to improve corporate environmental reporting.

⁶⁰ www.infact.org

⁶¹ www.oxfam.org

⁶² See www.stopesso.com — a limited campaign against Imperial Oil is being conducted by Friends of the Earth Canada; see also www.foecanada.org/cleanair/boycott.htm.

Corporate environmental reporting has been practiced in Canada since the late 1980s. The annual CICA Corporate Reporting Awards now include a category on sustainable development reporting.⁶³ Corporate environmental reporting is widely supported in Canada by a range of organizations, including the federal government.⁶⁴

The recognized leader in environmental reporting is GRI (Global Reporting Initiative). This organization grew out of the reporting program of CERES. The GRI reporting guidelines⁶⁵ focus most heavily on environmental issues and therefore do not claim to be a fully developed CSR reporting framework. The Canadian government is currently promoting the publication of “sustainability reports” by companies.⁶⁶

Shareholder resolutions have been extensively used in the US and Canada to promote environmental reporting and improved corporate disclosure. While efforts by activists to promote environmental reporting have the longest history, efforts to improve financial disclosure, as well as reporting on social impacts, workers’ rights, and corporate governance, including performance on specific issues (climate change, indigenous peoples, operations in countries with repressive regimes, etc.) are becoming more common in such campaigns.

*Codes of Practice*⁶⁷

Corporate codes of practice, while promoted actively by CSR campaigns during the 1970s and 1980s, have less appeal at present to NGOs. While codes such as those developed by the International Chamber of Commerce and others have relevance to CSR, the lack of implementation and reporting requirements has resulted in civil society campaigners currently choosing to support regulations and reporting systems.

In 1999, the UN launched a program to promote a global code of conduct entitled the UN Global Compact.⁶⁸ This program, which was supported by a number of large multinational corporations, has drawn opposition because “there is no monitoring of corporate adherence to these principles and no enforcement.”⁶⁹

Efforts have been made to develop codes of practice and other tools that relate to social aspects. These are generally newer initiatives than those that have focussed exclusively on environmental codes. As a result, they have been developed in a manner that capitalizes on the experience gained through efforts to develop environmental codes of practice. These include the leading effort of Business for Social Responsibility⁷⁰ and an effort by Amnesty International and the Prince of

⁶³ This category was begun in 1994 and focussed exclusively on environmental reporting, see www.cica.ca//Index.cfm/ci_id/8470/la_id/1.htm.

⁶⁴ www.sustainabilityreporting.ca

⁶⁵ The GRI Reporting Guidelines can be downloaded from www.globalreporting.org.

⁶⁶ See www.sustainabilityreporting.ca.

⁶⁷ McKague, K. 2003.

⁶⁸ www.unglobalcompact.org

⁶⁹ The Alliance for a Corporate Free UN, www.corpwatch.org/campaigns/PCC.jsp?topicid=101 accessed on 24 September 2002. In addition, critical assessments of corporate engagement of sustainable development can be found in Welford, R. 1997. and Smith, T.M. 1998.

⁷⁰ www.bsr.org

Wales International Business Leaders Forum to promote consideration of human rights in business decisions.⁷¹ In addition to the UN Global Compact, a more detailed code has been produced, the OECD Guidelines for Multinational Corporations.⁷²

Approaches to CSR
International “Corporate Accountability Convention”
International Standards for CSR Management Systems
International and national regulation through securities regulating bodies
Legislation detailing rights and responsibilities of corporate officers
Shareholder activism; individual and institutional
Corporate influence on governments, including lobbying, direct and indirect political contributions and conflict of interest regulations
Consumer awareness campaigns
Corporate reporting
Codes of Practice

The Role of Governments

Clearly articulating the role and purpose of the corporation is a necessary beginning point for assessing the role of governments in relation to CSR. The perspectives that were discussed in the section of this report on “The Nature of the Corporation” presented a series of views on whether or not, and if so how, a corporation has a social responsibility. Depending on the perspective adopted on the nature of the corporation, a different set of policies, strategies and actions can be developed.

One perspective is centered on the view of business as having the primary responsibility of generating profits for its shareholders. Based on this view, there are two possible ways in which the role of governments can be seen. In the first, profit is seen as a social good because it is understood as the main driver of economic development. In this approach, government normally has the role of creating the best climate for business. Such a business climate is usually associated with fewer regulations so as to reduce constraints on business to take risks, invest resources, such as environmental constraints, labour costs, taxes and other hindrances to business growth. Given the implied assumption that the goal of business to generate profit is inherently good, adherents of this view argue that business should be free from restraints on competitiveness. The second way to view the role of government is that since business has the sole responsibility of generating profits for the benefit of shareholders, it is the role of governments to develop and enforce legislation and regulations in order to protect the public good. Without such constraints, it is argued, business will seek to maximize profits at the expense of social needs,

⁷¹ www.amnesty.org.uk/business

⁷² The Organization for Economic Cooperation and Development. 2000.

environmental protection and workers rights. The public good is, therefore, best protected through stringent regulation of corporations.

The second perspective on the role of government assumes that business has should actively participate in the development of public policy in order to protect its own interests and to maintain the financial and economic systems from which it benefits. It is therefore in the interest of the corporation to deliver goods or services that meet social needs and minimize negative consequences, such as environmental impacts and social dislocation. This perspective can be associated with voluntary programs, legislation and regulation, or a combination of these methods. In order to facilitate the role of business to achieve its primary responsibility and to make sure that profits are maintained, it is necessary to develop voluntary or compulsory programs that place constraints on businesses to maximize those benefits. Since the priority is on promoting the long-term interests of the company, the constraints serve to reduce profits or limit competitiveness. These compromises would be balanced against the risk of greater regulation or constraints on corporate activity.

In the third perspective, the corporation is understood to be the dominant institution in society. As a result, the corporation may have a responsibility for protecting the environment and producing social benefits. Given its dominance, these social goods would be at the discretion of the company, rather than at the instance of governments, pressure from civil society organizations or other democratic controls, such as elections.

The mainstream of opinion in Canada, especially when compared with the results of a global survey of attitudes conducted by Environics in 2001,⁷³ is that Canadians have some of the highest expectations for responsible corporate performance compared to a large number of other countries. These high expectations are shared by the public in both the United States and the United Kingdom. This would seem to indicate that Canadians support neither the view that corporations should be subjected to minimal regulation nor that the corporation is the dominant social organization. The degree to which corporations should be regulated either to produce primary benefits to shareholders or to society in general was not included in this survey.

Over the past few years, efforts in the US, UK and Canada have been undertaken to examine the roles of government, business and civil society in meeting the public's higher expectation of corporate performance.⁷⁴ While there is considerable variance among recommendations made, due to the differing legal and jurisdictional considerations in each of the three countries, the frameworks proposed are remarkably similar.

⁷³ Environics International. 2001.

⁷⁴ *Corporate Responsibility and Accountability in the Global Marketplace: A Canadian Vision and Next-Steps National Agenda*; Stratos Inc. 2004; Canadian Democracy and Corporate Accountability Commission. 2001; *Promoting Global Corporate Social Responsibility: The Kenan Institute Study Group Consensus*. 2003; Zadek, S. 2001.

All of these reports recommend the development and maintenance of a coherent government policy framework to promote ethical standards in business. This policy framework should include the following elements:

- Promote transparency and encourage disclosure of environmental, social and other aspects of business performance, including investments.
- Encourage compliance with international environmental, social and other standards of business performance.
- Create, at the national level, a senior position to promote CSR, including coordination of national, provincial/state and municipal policies and programs.
- Embed social, environmental and other CSR performance criteria in government purchasing policies.
- Develop mechanisms to require sound performance and disclosure of social, environmental and other CSR aspects from companies seeking access to government programs, including: tax concessions, business support programs, and loans or grants.
- Engage stakeholders in dialogues on CSR, both in relation to domestic and international policies, programs and procedures.
- Application of all of these elements to government-owned operations.

This framework has been developed through consensus-based processes in which both businesses and civil society organizations participated. As a result, positions that are antithetical to one or the other group tend not to be reflected in the final documents; businesses and organizations that do not favour voluntary programs tend not to be represented. The Canadian Democracy and Corporate Accountability Commission

does, however, raise the concern that voluntary programs, in particular the promotion of codes of practice, are normally in response to perceived regulatory threats. Once the pressure to bring in regulations is reduced, the adherence to the code tapers off.⁷⁵

Other initiatives to examine the role of government have come to different conclusions. The “Unity Platform on Corporate Accountability” from the United States calls for a sweeping set of regulatory requirements to be implemented by government. This entire platform is based on the view that governments have failed to clearly define the corporation as being subservient to “a sovereign people.” This can only be achieved through national and international regulatory requirements put in place and enforced by governments that are free of corporate influence and control.⁷⁶ The International Right to Know Campaign, also based in the United States, supports greater access to information on corporate behaviour through changes to domestic legislation forcing greater disclosures, even on operations outside the United States.⁷⁷

Organizations such as the Aurora Institute⁷⁸ in Canada and the Program on Corporations, Law and Democracy⁷⁹ in the United States support changes to the fundamental laws that govern corporations

⁷⁵ Canadian Democracy and Corporate Accountability Commission. 2001, p. 26-27; Office of Consumer Affairs, Industry Canada, and the Regulatory Affairs Division, Treasury Board Secretariat. 1998. p. 8-9.

⁷⁶ CorpWatch. 2002. p. 2.

⁷⁷ www.irtk.org accessed June 25, 2004.

⁷⁸ www.aurora.ca accessed June 25, 2004.

⁷⁹ www.poclad.org accessed June 25, 2004.

that will result in greater corporate accountability. These changes are required, they argue, because the corporation is required to maximize profits, while protecting shareholders through limited liability. In addition, the corporation protected with the legal rights of the person, can never act responsibly because it is both structurally and legally prevented from acting in the interests of society unless it can be demonstrated that those actions primarily serve to increase profits for the benefit of shareholders.⁸⁰

Christian Aid, in its report, *Behind the Mask: The Real Face of Corporate Social Responsibility*, clearly states its reservations on the whole CSR project as being designed to avoid regulatory initiatives:

Business, moreover, has consistently used CSR to block attempts to establish the mandatory international regulation of companies' activities. Its basic argument is that CSR shows how committed corporations already are to behaving responsibly and that introducing mandatory regulation could destroy this good will. Business leaders are also constantly saying that regulation is bad for their profits — the two statements are, of course, not unconnected.⁸¹

...Christian Aid is now calling for a similar framework of international regulation, backed up by national

legislation, to ensure the enforcement of real social responsibility on the corporate world. Introducing the threat of prosecution and legal action, with resulting detailed disclosure of company documents, would create a powerful incentive for companies to behave responsibly.⁸²

While various organizations, such as the proponents of the Unity Platform and Christian Aid, have clearly articulated the role of governments, business writers continue to present it largely as an open question.⁸³

The Linkage Between CSR and Sustainable Development

Recently, the linkage of CSR with sustainable development has been noted.⁸⁴ Different sources see each as a sub-set of the other.

In response to a question about a PricewaterhouseCoopers' survey⁸⁵ on CEO attitudes towards CSR, the United Nations' "Under-Secretary-General Desai's

⁸⁰ "Corporate social responsibility is thus illegal — at least when it is genuine." Bakan, J. 2004, p. 37.

⁸¹ Christian Aid. 2004. p. 2.

⁸² Ibid. p. 3.

⁸³ Henderson, D. 2001. p. 47; Stigson, B. 2002. p. 35.

⁸⁴ "Corporate Social Responsibility and sustainability are often used interchangeably as terms." Speech given by Ed Williams, Marks & Spencer, to Hong Kong conference, February 24, 2004, Business in the Community, www.bitc.org accessed June 24, 2004.

⁸⁵ PricewaterhouseCoopers. Press release retrieved January 31, 2002; Additional surveys of CEOs were conducted by Ernst & Young, retrieved August 27, 2002 and Jericho Communications, retrieved September 27, 2002.

commentary confirmed the survey’s suggestion that the definition of CSR is a work in progress. First, he defined sustainable development, an issue closely related to corporate social responsibility, as a ‘process’ instead of an ‘end state.’⁸⁶

In a guide to CSR for the consulting industry, the Prince of Wales International Business Leaders forum defined the terms as follows:

Sustainable Development is a dynamic process which enables all people to realize their potential and to improve their quality of life in ways which simultaneously protect the Earth’s life support systems. Sustainability can be thought of as the end goal of this process. Companies can contribute to sustainable development by embracing corporate responsibility. This means open and transparent business practices that are based on ethical values and respect for all stakeholders.⁸⁷

Since the primary interest of ENGOs in CSR relates to environmental performance, how that performance, most commonly put in terms of sustainable development, is presented is of keen interest to ENGOs. In the following section, the priority areas of concern to ENGOs will be evaluated. The concept of CSR as a voluntary initiative will be examined against ENGO concerns about regulatory requirements for environmental performance by corporations.

⁸⁶ Baue, W. 2002.

⁸⁷ Singh, A., Prescott, D. & Davey, A. 2001.

Part 2 — Perceptions of Corporations, ENGOs and Consumers

Corporations

Both a challenge and an opportunity, corporate social responsibility is clearly emerging as a central issue for business and as a topic of great interest to all people whom business affects.⁸⁸

This assessment of corporate social responsibility (CSR), by Björn Stigson, President of the World Business Council on Sustainable Development, concludes his overview of CSR as a new business paradigm. It reflects a growing trend, addressed above, to see a clear link between CSR and sustainable development. This linkage provides an opportunity and a challenge for both businesses and ENGOs; an opportunity to participate in and help shape CSR initiatives, benefiting from participation, and a challenge to engage traditional adversaries directly in the development of CSR initiatives.

Three general approaches to CSR can be found in the business literature.

CSR is Good for Business

Some authors adopt the position that CSR, properly adopted, is good for business.⁸⁹ It is a hallmark of a well managed business. Further, some argue, businesses that adopt CSR programs can actually make a better return for their investors.⁹⁰

Others, such as Richard Welford, argue that while changes in the corporation are good for business, their adoption requires a fundamental change in the nature of the corporation. These changes can be transformational, based on changes in individuals’ attitudes and reflected in the corporate culture.⁹¹

CSR Helps to Avoid Future Regulations

The use of CSR and related voluntary initiatives as tools to avoid strengthened or new regulations has been a charge raised by some NGOs against corporations.⁹² This same notion is found in business sources, although with less frequency. A recent report by the Conference Board of Canada raised this point, citing the call by Amnesty International Canada for greater regulation of corporations and noting both the opportunities and risks that lie ahead for

⁸⁸ Stigson, B. 2002.

⁸⁹ Martin, R.L. 2003. p. 83-103.

⁹⁰ Zadek, S. 2001. p. 25.

⁹¹ See Welford, R. 1997. and Welford, R. 2000.

⁹² See Christian Aid. 2004; Canadian Democracy and Corporate Accountability Commission. 2001; Wilson, I. 2000.

businesses on how they deal with social expectations.⁹³ This idea was succinctly summarized by the following quote from General Electric:

Without a proper business response, the *societal expectations* of today become the *political issues* of tomorrow, the legislated *requirements* of the next day, and the *litigated penalties* of the day following.⁹⁴

A voluntary approach does have the disadvantage of increasing costs to those companies that accept these voluntary initiatives, and therefore creating an advantage for their competitors that reject them. For this reason, some companies favour regulation in order to force their competitors to assume the same costs and therefore level the playing field. Even though the concern of penalizing the leaders is often raised, there are few cases where major corporations have publicly called for greater regulation.⁹⁵

CSR is Contrary to the Fundamental Nature of Business

This proposition is usually based on the idea that the successful generation of profits is the prima facie measure that a corporation is doing good.⁹⁶ CSR, therefore, takes a corporation’s focus off of

its primary responsibility and places it on achieving environmental or social goods. The identification of these goods, it is argued, is not a role that the corporation is designed to play. For some business commentators, there is not a sufficiently developed consensus in society to articulate what those social and environmental goods should be.⁹⁷

In addition, there is the fear by that the adoption of CSR objectives by companies can be counterproductive. A company that makes a claim about corporate performance can, in some cases, provide a target for environmental and social NGOs to question a company’s intent, credibility and actual performance. Articles in *The Economist* have made the claim that there is growing evidence that NGOs simply become more aggressive toward firms that seek to work with them, rather than giving credit where credit is due.⁹⁸

Priority Areas in CSR for Companies

Summarizing the above, the following areas are those to which business attaches the highest priority in relation to CSR:

- Encouraging participation in corporate CSR initiatives by stakeholder groups that have been traditional adversaries of business;
- Managing rapid and fundamental change within corporations;
- Leadership by business in designing and implementing changes in response to societal expectations;

⁹³ Conference Board of Canada. 2004. p. 36 ff.

⁹⁴ From an unreferenced document from General Electric, as quoted in Wilson, I. 2000. p. 13.

⁹⁵ For an in depth examination of these issues, see “CSR and Corporate Profitability” in Canadian Democracy and Corporate Accountability Commission. 2001.

⁹⁶ See Friedman, M. 1962; Foster, P. 2004, p. FP19; Henderson, D. 2001. p. 157.

⁹⁷ Henderson, D. 2001. p. 47.

⁹⁸ *Face Value: Get Naked. The Economist.* 2003. p. 66.; *Living with the Enemy. The Economist.* 2003.

- Minimizing the negative impacts that changes will have on profits;
- Gaining maximum benefit in profit, reputation and market share from changes;
- Identification of the group or groups that are responsible for defining the social and environmental good that companies will be expected to work towards;
- Making sure that responsible companies (i.e., those that implement CSR programs) are acknowledged and not made targets for further demands; and,
- Ensuring that CSR can be seen as a success and that it be led by business.

ENGOS

While a significant number of publications, studies and analyses of CSR as it relates to businesses, as well as on the role and responsibility of governments in CSR, have been published, very little has been done to examine how environmental organizations relate to CSR. In order to address this deficiency in the literature, a survey of ENGO leaders was conducted as part of this study to identify the perceptions, experience and understanding of CSR by ENGOS. This section presents the purpose, methodology and results of the survey.

Purpose of the Survey

The survey (see Annex 5) was developed to gain insight into:

- General understanding of CSR by ENGOS;
- ENGO needs and fears related to their involvement in corporate CSR initiatives;
- The role envisioned by ENGOS for governments related to CSR; and,
- How CSR could be used to influence consumer behaviour.

Methodology

The survey was designed to achieve the purpose described above through interviews with senior ENGO staff from a range of organizations.

A 20–30 minute interview was designed for the purpose described above. The questions developed were designed to be open-ended, allowing the respondent to discuss those aspects that the respondent believed were relevant.

To select the interview subjects, an effort was made to identify individuals who had experience working for ENGOS that include a wide spectrum of characteristics. Effort was made to include the following:

- Individuals with experience at the national as well as local levels;
- Individuals who have worked at both research and advocacy-oriented organizations;
- Individuals who have experience in organizations that have both a collaborative and confrontational reputation from the perspective of corporations;
- Individuals who are now or have been chief executives or senior managers of ENGOS; and,
- A balance of males and females.

Based on these characteristics, five interview subjects were selected. These subjects met the following criteria:

Characteristics of Individuals Interviewed	Number of Individuals Interviewed
Experience working for ENGO that concentrates on local issues	1
Experience working for ENGO that concentrates on national issues	4
Experience working for ENGO that has a program based on advocacy	3-4
Experience working for ENGO that has a program based on research	1-2
Experience working for an ENGO that has a reputation for collaborative work, as seen by businesses	3
Experience working for an ENGO that has a reputation for confrontational work, as seen by businesses	2
Are now chief executives of an ENGO	3
Are now senior managers of an ENGO	2
Females	2
Males	3

The interviews were conducted between November 2003 and January 2004. Four of the interviews were conducted by phone, one in person. All of the interviews were conducted by the same researcher and all were tape recorded.

Results

Personal Knowledge of CSR

None of the respondents claimed to have in-depth or specialized knowledge of CSR. All claimed some knowledge of the issues raised by CSR, either through study, experience working in the corporate sector, or experience gained by the collaborations and interactions that each personally had with corporations as a result of their work for ENGOs. One respondent had experience

of collaboration with ethical investment professionals. Two respondents made reference to CSR as having an impact on how they make personal investment decisions. Two respondents indicated that their work on fundraising from the corporate sector had raised many CSR-related issues. All of the respondents expressed confidence in their grasp of general CSR issues and indicated that they had much more to learn about CSR.

All of the respondents saw CSR as voluntary. Two of the respondents saw CSR initiatives as efforts by corporations to either gain or maintain a “social license to operate.” All of the respondents described CSR as a corporation “acting in an environmentally and socially responsible manner.”

All of the respondents expressed some doubt about CSR. While all respondents noted that performance improvements by companies were good, one specifically noted that progress toward companies adopting a “triple bottom line” approach should be encouraged. All of the respondents expressed concern that CSR is used by a number of companies to “greenwash,” or in the term of one respondent, “social-wash” the company’s record.

Organizational Knowledge or Experience with CSR

None of the organizations in which the respondents worked have specific initiatives to study or develop programs related to CSR. While most of the respondents recognized that CSR may have been discussed by their organization, none have had direct experience in a project or program. None of the respondents knew of any formal invitations to their organization to participate in a project that was explicitly identified as CSR.

Two organizations had policies related to accepting donations and one had a policy about where the ENGO’s own funds could be invested. In two of these cases, the organization had a formal written policy with clear procedures for its implementation. All of the organizations sought to maintain their independence when receiving corporate funding.

All of the respondents stressed the need for their organizations to maintain independence. As a result, none had policies that allow for endorsements of a particular company or product. All of the individuals interviewed indicated that their organization supports the endorsement of

types of products, such as organic certified food, while not endorsing a particular product or company.

In the case of several of the organizations, partner organizations in their international networks had programs that are directly concerned with CSR. None of the organizations actively participate in these programs.

All of the respondents noted the willingness of their organizations to work with corporations. None saw government as the only vehicle through which their organizational goals could be achieved. All of the organizations noted that they were actively involved in collaborations with Canadian corporations on issues of environmental performance. All of the respondents stressed their strong preference to being part of positive actions, rather than simply opposing actions by corporations and governments. Three respondents noted the success of third party certification schemes in building stronger relationships between ENGOs and corporations. Two of the respondents noted their organization’s strong relationship with small businesses as being very important to their work.

ENGO Understanding of Corporate Motives for CSR

All of the ENGOs surveyed stated that a primary concern for a corporation when adopting a CSR program is the need to enhance its corporate image. Companies want to be seen by their clients and customers as being good corporate citizens. Some companies wish to be seen as corporate leaders whose performance leads their industry sector. All of the respondents claimed direct experience of some companies in which environmental and

social claims were made without corresponding action in order to inflate the corporate reputation.

Three of the respondents noted that the corporate image must be based on a sound return on investment. For them, a company's actions are always limited by the need to make a profit. All of the respondents said that environmental responsibility could be achieved without sacrifice of profits, but that only a few corporate leaders seemed to understand this.

Four of the respondents noted the importance of senior management and the company's CEO in any decision to adopt and implement a CSR program. The motivations for these individuals can vary greatly. Some cases may be the result of a strictly business decision, while others may be the result of individuals who personally believe it is their responsibility to make changes. All of these respondents agreed that active support and engagement of the CEO is crucial to any corporate CSR program.

All of the respondents noted the issue of the relationship between CSR programs and government regulations. All saw corporate CSR initiatives as often being used by companies to either encourage governments to reduce existing regulations to not implement new regulations. Three of the respondents noted that their organizations would not participate in corporate programs unless the companies were also encouraging governments to raise the standard of performance through changes to existing rules or the introduction of new regulations. For them, an effort to raise the performance requirements for all companies is a necessary component in any decision to participate.

Three of the respondents stated that companies cannot be expected to be the principal actors in efforts to achieve sustainable development. Companies are limited by their markets and their need to make profits. All of the respondents noted that most companies react both to being pressured into making changes and to being induced to follow changes initiated by a company that has taken a leadership role. Corporate motives are therefore complex. Two of the respondents noted that companies often lack a real commitment to the environment, responding instead to a number of factors, of which the environment is only one. Three of the respondents noted that companies undertake environmental initiatives only when there are opportunities for “win-win” environmental improvements, which also bring benefits in terms of increased profits, enhanced reputations, increased share prices or other corporate goals.

ENGO Understanding of the Responsibility of a Corporation

All of the ENGOs surveyed agreed that corporations are responsible to obey the law and to make profits for their shareholders. Two respondents noted that these are the only legal obligations of a company.

Two of the respondents further stated that they viewed the responsibility of a corporation as no different than that of an individual. All respondents agreed that it was the responsibility of governments to set the standards for appropriate behaviour of companies.

One of the ENGOs surveyed noted the responsibility of companies to provide safe and healthy working environments, along with adequate compensation and benefits to employees.

All of the respondents stressed the importance of the external responsibilities of the company. These include:

- Using natural resources efficiently;
- Safeguarding the environment;
- Ensuring the health and safety of the products they produce; and,
- Operating sustainably.

Three of the respondents stressed that minimal compliance with the law is not acceptable; companies should continually seek to improve their performance in all areas of responsibility. One respondent stressed the importance of companies in providing goods and services, while also stressing that the corporation is allowed to operate at the discretion of society.

Four of the respondents stated that the failure of companies to be held accountable for their actions is not the responsibility of the companies themselves; rather, it is a failure of government to adequately regulate them. One respondent noted that the overall impact of business is vastly greater than any other part of the economy, including government. Another respondent noted that with each new law, trade agreement and treaty, corporations are awarded more and more rights and are being held accountable for fewer and fewer responsibilities.

Domestic and International Responsibilities

All of the respondents agreed that companies should not be held accountable to weaker standards simply because they are operating in developing countries that lack good regulations and enforcement capacity. All of the respondents identified the need to have a single set of international performance standards to which all companies can be held accountable.

Two respondents stressed the need for international regulations that are not based on bureaucratic procedures, such as environmental assessment processes. These respondents favoured performance-based regulations over procedure-based approaches.

Two respondents stressed the need for international regulations to be specifically included in trade agreements.

Two of the respondents noted that some international companies have established minimum internal environmental performance targets based on Canadian regulations for all of their international operations. These were cited as examples of CSR initiatives that should be supported.

ENGO Needs from CSR Initiatives

All of the respondents stressed the need to have CSR initiatives deliver performance improvements by the company. Two of the respondents directly linked these performance improvements to biodiversity conservation.

All of the respondents noted the importance of companies being open, forthright and transparent about their performance. All agreed that being able to trust a company is important. Two of the respondents noted the importance to their organization that a company is committed to understanding the need to reduce its ‘ecological footprint’ and to be an industry leader.

Two respondents stressed the need for the CSR initiative to lead to higher performance standards for industry in order to gain the participation of their organizations. For one of these organizations, the changes in performance standards and regulations would need to lead towards sustainability in Canada within one generation.

All of the respondents noted that for their organizations, the environmental aspects of a CSR program would be most important. Two of the respondents stressed the need by their organizations for a solid scientific assessment by professionals of any proposed project.

Areas of Particular Concern to ENGOs in CSR Initiatives

All of the respondents noted that their organizations would not collaborate in any way with companies that they see as providing no benefit to society, such as tobacco producers and arms manufactures.

The respondents agreed that the track record of a company would need to be examined. This would include questions such as:

- Are there other NGOs campaigning against the company?
- What is the record of the company with the ENGO?
- Does the company produce a product compatible with the ENGO’s understanding of sustainability?

None of the respondents demanded a perfect record for the company.

All respondents expressed concern about “greenwashing.” An examination of each initiative would be necessary by each ENGO to make sure that the CSR initiative proposed, and the participation by the ENGO, would not be used to promote a company or a product that does not represent real and substantial progress towards sustainability.

None of the respondents professed to have expertise in the social aspects of CSR. However, each noted that a company with a bad record of social performance would not qualify for collaboration.

Elements that would Facilitate ENGO Participation in a CSR Initiative

All the respondents stressed the need for the company to have an honest relationship with the ENGO. Both would need to agree on the goals to be achieved, and the company should be able to demonstrate that the need to make environmental performance improvements has been made a corporate-level commitment.

Of particular importance is the need to have clear agreement on the goals, and on how achievement of the goals will lead to making performance changes that will help to achieve sustainability. One respondent

stated that the company should demonstrate that it sees environmental protection as a social good.

All respondents stated that it is necessary that the goals of any CSR project in which their organizations participate support the goals of the ENGO.

What Role for Government?

All of the respondents agreed that governments should remove regulatory and other provisions that hinder companies from implementing programs designed to improve environmental performance. All respondents also agreed that governments should focus on their role as regulators that continually raise the performance bar. Most respondents agreed that while regulations are governments’ main tool, they should also use incentives and other methods to encourage performance beyond regulatory minimums. Two of the respondents stated that CSR initiatives should help governments to develop better regulations that continually increase standards of performance. One of the respondents noted that governments should clearly define their roles and stick to them. Another respondent stressed that regulations should be designed with full recognition that companies need to be able to make a profit.

Three of the respondents noted the need for governments to be flexible and to encourage companies to go beyond compliance. One of the respondents stressed the need for governments to use tools, such as GPIs (Genuine Progress Indicators) to track and regularly report on the performance of regulations in achieving environmental goals.

Three of the respondents saw a role for governments to use systems of recognition and reward to encourage better environmental performance. One of the respondents also stated that governments should publicly name and challenge companies that lag behind others in their sector. Two respondents noted that governments cannot by themselves deliver better environmental protection; they must work with companies and NGOs.

One of the respondents stated that voluntary programs could be used by governments to replace regulations. Four saw no role for voluntary programs to do this. None of the respondents could name a single government or industry-sponsored voluntary program that they believe has brought about improved environmental performance in an industry sector.

Three of the respondents saw voluntary non-governmental programs as having a positive role that could be used as part of a CSR program.

Two of the respondents viewed purchasing policies as an additional tool available to governments to encourage better corporate performance.

One of the respondents raised the issue of privatization, pointing out that it only works well for functions that best fit the private sector and for which a profit is normally gained.

Can CSR be used to Influence Consumers?

All of the respondents agreed that companies can have a huge influence on consumers. Most often mentioned was the scale of corporate marketing.

Three of the respondents stated that companies could use CSR programs to mislead; for example, by promoting a company daycare centre while continuing to make toxic compounds. One respondent noted frustration with companies charging dramatically higher prices for environmentally beneficial products.

Two respondents noted that companies use their marketing resources to encourage socially beneficial behaviour, even in cases that can impact sales of their products, when it is in their best long-term interest; for example, distilleries promoting responsible alcohol consumption and designated driver programs.

All respondents agreed that ENGO resources are insufficient to influence consumer behaviour, either individually or

through coalitions of groups. All of the respondents agreed that their organizations should not endorse specific products or companies. One respondent pointed out the risk to an ENGO’s charitable status that this could present.

Three of the respondents felt that ENGOs should support specific programs that promote better environmental performance, such as the EnerGuide program and FSC certified forest products.

Two of the respondents stated that, under the right conditions, collaboration between companies and ENGOs could have a significant impact on consumer behaviour.

ENGO Responses as Compared to Definitions, Trends, Issues and Approaches to CSR

The following table includes the elements of current definitions of CSR, and trends in CSR, which were discussed above. Against each element and trend, a brief summary of the responses has been included.

Is There an “ENGO Case” for CSR?

Aspect of CSR	Survey Responses
Elements of Definitions	
CSR is voluntary	All respondents agree
CSR applies to corporate performance beyond simple legal compliance	All respondents agree
Corporations have responsibilities that go beyond the production of goods and services at a profit	All respondents agree
These responsibilities involve helping to solve important social and environmental problems, especially those they have helped create	All respondents agree
Corporations have a broader constituency than shareholders	All respondents agree
Corporations have impacts that go beyond simple marketplace transactions	All respondents agree
Corporations serve a wider range of human values than can be captured by a sole focus on economic values	All respondents agree
An exhortation that a responsible corporation is a hallmark of a well-run business	Explicitly mentioned by one respondent
An acknowledgement that involvement in social and environmental issues may have an impact on the financial bottom line	Stated by three respondents
Recognition that a company that addresses social and environmental issues may retain its “social license” to operate	Stated by two respondents
Trends in CSR	
Voluntary Corporate Responsibility	All respondents acknowledged that voluntary programs have some value
Mandatory Corporate Accountability	One respondent did not stress the need for mandatory CSR, while all others advocated higher levels for regulations
Issues in CSR Literature	
Undue influence on government by corporations	Indirectly mentioned by four respondents in discussion of government regulations

Is There an “ENGO Case” for CSR?

Aspect of CSR	Survey Responses
The need for corporations to accept the full environmental and social costs of their operations	Explicitly stated by one respondent
Transparency and corporate reporting	Raised by all respondents in the context of collaboration between companies and ENGOs
Corporate governance (including boards, officers and shareholders)	Not mentioned by any respondent
Human rights, including Aboriginal and workers’ rights	Raised by three respondents
Locating corporate operations in countries with lax legislation, regulation and enforcement	Identified as a problem by all respondents
Different performance standards in developed and developing countries	Identified as a problem by all respondents
Relationship between the corporation and civil society, especially those affected by the operations of the corporation	Not specifically addressed by any respondent
Accountability of corporate management to shareholders and shareholders’ ability to influence corporate decisions	Not mentioned by any respondent
Approaches to CSR	
International “Corporate Accountability Convention”	Stated by one respondent
International Standards for CSR Management Systems	Not mentioned by any respondents
International and national regulation through securities regulating bodies	Not mentioned by any respondents
Legislation detailing rights and responsibilities of corporate officers	Not mentioned by any respondents
Shareholder activism; individual and institutional	Not mentioned by any respondents
Corporate influence on governments, including lobbying, direct and indirect political contributions and conflict of interest regulations	Stated by all respondents
Consumer awareness campaigns	Stated by all respondents
Corporate reporting	Stated by two respondents
Codes of Practice	Stated by two respondents

Priority Areas in CSR for ENGOs

Summarizing the above review, the following areas are those to which ENGOs attach the highest priority in relation to CSR:

- Environmental performance with tangible benefits by corporations, especially those that focus on biodiversity conservation and achieving sustainability;
- Support initiatives that seek to develop better regulations and higher standards to which all companies will be held;
- Support for the regulatory role of governments;
- Transparency and accountability by corporations for their environmental performance;
- Making sure that the whole corporation is working towards higher levels of performance;
- Accountability by corporations for their worldwide operations;
- Maintaining ENGO credibility, especially in relation to corporate funding;
- Use of the ENGO name by others to endorse a company, industry, program or product;
- Promotion of high environmental standards, but not to the exclusion of social values;
- Preventing undue influence on government by corporations; and,
- Rewarding corporations that engage stakeholders in order to improve performance.

Consumers

The Millennium Poll⁹⁹ conducted in 2000 and the CSR Monitor Poll¹⁰⁰ conducted in 2001 (both by Environics International) have documented a significant and growing public expectation that companies have a broader responsibility to society, including labour, human rights and environmental factors. In these polls, Canadians have some of the highest expectations in the world for corporate responsibility. These findings continue to be reported in a growing list of surveys that examine aspects of CSR and consumer behaviour. This poll does not provide any direct correlation between these results and actual purchases made by Canadians. Evidence from the United States indicates that while consumers voice these growing expectations, the impact of these expectations on purchasing decisions is considerably less dramatic.¹⁰¹

Despite this lower level of impact on purchasing decisions, evidence from the UK indicates that these expectations can influence consumers. An early effort to measure broader market uptake can be found in the Ethical Purchasing Index 2001, developed by the New Economics Foundation. It found that total consumer ethical purchases in the UK grew by 18 per cent by sales volume and 15 per cent by market share in 2000 over that of 1999.¹⁰²

⁹⁹ Environics International. 1999.

¹⁰⁰ Environics International. 2001.

¹⁰¹ Pomfret, C. *Can Sustainability Sell?* Sustainable Business.com.

www.sustainablebusiness.com accessed November 14, 2002.

¹⁰² Doane, D. 2001.

Subsequent studies have documented growing markets for ethical purchasing in the UK.¹⁰³

In Canada, an Ipsos Reid poll conducted in 2003 produced results that indicate that large numbers of Canadians had positive views about how responsible Canadian Corporations are (14 per cent Very good; 62 per cent Somewhat good). Large numbers of Canadians reported that their views of corporate responsibility influence their purchasing practices.

More than half (55 per cent) say they have consciously decided to buy a product or service from one company over another because they felt the company was a good corporate citizen. About the same number (52 per cent) have consciously refused to buy a product or a service from a company not conducting business in a socially responsible way.¹⁰⁴

These results are consistent with a 2002 Environics poll conducted in Canada, which found that 50 per cent of respondents had rewarded companies they saw as being socially responsible.¹⁰⁵

The international CSR poll conducted by Environics in 2002 reported that a majority of people surveyed agreed that they would sell shares in a company or fund that they felt was behaving in a socially irresponsible way (29 per cent strongly agree; 31 per cent somewhat agree).¹⁰⁶ As with purchasing decisions, the impact on actual investment

decisions remains significantly less than that reflected in this poll. Canadian investment in social investment is currently around three per cent of the market, or just over \$50 billion.¹⁰⁷

These surveys lead to the conclusion that, in Canada, the expectation of consumers and the general public about the social and environmental performance of companies is high. Canada consistently rates as having among the highest expectations for corporate responsibility in the world. While the markets for ethical consumerism are not as developed as they are in western Europe, the high expectations of the Canadian public indicate that those markets may develop, placing even greater pressure on Canadian corporations. The evidence would seem to indicate that this pressure will be felt in both consumer and investment markets. While there is no direct evidence in the above research, it is not unreasonable to assume that these high expectations by the Canadian public will be reflected in debates about governmental regulation of corporate performance.

Priority Areas in CSR for Consumers

In summary, the following areas are those to which consumers attach the highest priority in relation to CSR:

- Identification of companies that are achieving best performance on environmental and social goals;
- Knowing which products are produced by companies that consumers trust to work towards CSR goals; and,
- Understanding which companies are the most deserving for investment.

¹⁰³ The Co-Operative Bank. 2003.

¹⁰⁴ Ipsos Reid. 2003.

¹⁰⁵ Environics International. 2002.

¹⁰⁶ Ibid. Executive Brief.

¹⁰⁷ The Social Investment Organization. 2003.

Priority Areas of Concern to Corporations, ENGOS and Consumers

Corporations	ENGOS	Consumers
Encouraging participation in corporate CSR initiatives by stakeholder groups that have been traditional adversaries of business.	Environmental performance with tangible benefits by corporations, especially elements that focus on biodiversity conservation and achieving sustainability.	Identification of companies that are achieving best performance on environmental and social goals.
Managing rapid and fundamental change within corporations.	Supporting initiatives that seek to develop better regulations and higher standards that all companies will be held to.	Knowing which products are produced by companies that consumers trust to work towards CSR goals.
Leadership by business in designing and implementing changes in response to societal expectations.	Supporting the regulatory role of governments.	Understanding which companies are the most deserving for investment.
Minimizing the negative impacts that changes will have on profits.	Transparency and accountability by corporations for their environmental performance.	
Gaining maximum benefits in profit, reputation and market share.	Making sure that the whole corporation is working towards higher performance.	
Identification of the group that is responsible for identifying the social and environmental goods that companies will be expected to work towards.	Accountability by corporations for their worldwide operations.	
Ensuring that CSR can be seen as a success and that it be led by business.	Use of the ENGO name by others to endorse a company, industry, program or product.	
Making sure that responsible companies (i.e., those that implement CSR programs) are acknowledged and not made targets for unreasonable further demands.	Maintaining ENGO credibility, especially in relation to corporate funding.	
	Promoting high environmental standards, but not to the exclusion of social values.	
	Preventing undue influence on government by corporations.	
	Rewarding corporations that engage stakeholders in order to improve performance.	

Assessment of Priority Areas

The areas identified above as priority areas of concern to corporations, ENGOs and consumers are the elements that will be factored into a framework for next steps in building common ground on which collaboration between corporations and ENGOs can build consumer support for CSR.

It should be noted that these priority areas have little direct correspondence to many of the definitions, trends, issues and approaches to CSR that were identified earlier in this paper. For example, none of the ENGO priority areas addressed the issues of corporate governance, shareholder rights or securities regulatory bodies among their priority areas. At the same time, the corporate priority areas did not deal with corporate influence on government or the use of CSR as a means to develop better regulations.

Based on the available evidence, it is difficult to clearly define the specific causes for this divergence. There are, however, several possible explanations.

1. The divergence of priority areas could exist because the core interests of corporations, ENGOs and consumers are so different that a common set of priority areas that relate to the definitions, trends, issues and approaches to CSR is not feasible. The interests of these three include a wide range of elements: corporations are interested in profits, image and market share; ENGOs in environmental performance and their donor bases; and consumers in price, meeting their needs and desires and, increasingly, in trying to do the “right thing” for society.
2. It is also possible that the divergence may result from differences in the areas in which these groups are knowledgeable. ENGOs, for example, are not known for a deep expertise of capital markets and securities regulation while most corporations are not known as experts on public environmental policy. As a result there may be a hesitancy to engage those elements for which they do not have established institutional competence.
3. The definitions, trends, issues and approaches identified above may be the result of CSR having developed into its own “domain,” removed somewhat from the parties interviewed in this study. This could be the result of CSR becoming a field separate from the specialized areas, especially those of the corporations and ENGOs. The result is that CSR is becoming a concept removed from day-to-day operations. This could be the result of the following:
 - a. CSR could be taking on the characteristics of a generalized concept used by some parties to promote their own interests. In essence, it could be more of a slogan (or mantra) than a specific program with understood goals and anticipated outcomes.
 - b. The characteristics of CSR could be seen by the parties to be more like an academic discipline. In this way, CSR could be abstracted from the way decisions are actually made, either at the corporate level or in the programs of ENGOs.

While the priority areas identified above do not conform to the conventional definitions, trends, issues and approaches to CSR, they do reflect the specific needs of

each of the three groups. Rather than focussing on delivering CSR per se, the priority areas focus on the sectoral needs of each group.

The evidence seems to suggest that while the sectoral needs of each group retain primary importance, the priority areas indicate that each group interviewed does have some understanding of the main interests of the other two. Based on the evidence gathered above, it cannot be concluded that corporations, ENGOs and consumers function as if isolated in separate silos. There is, among all three

groups, an effort to take into account the needs of the others. This is especially the case between corporations and ENGOs. The level of understanding of the needs of the other groups is, however, not very deep. This leaves open the possibility of confrontation among the parties due to a lack of trust and a failure to believe that the groups truly understand the needs of each other.

As a result, the framework for next steps should first of all be designed in a manner that recognizes the importance of these sectoral needs and builds from there.

Part 3 — Framework for the Next Steps

Based on the assessment of the priority areas above, three phases are proposed in a framework for next steps to facilitate the engagement of ENGOs in CSR initiatives, with the objective of building consumer support for these projects.

The first phase involves establishing a minimum level of knowledge and a common set of understandings that can serve as the foundation upon which the second phase can be built.

The second phase involves establishing clear understandings among the various parties about the process for setting policy objectives, determining which policy objectives are best achieved through collaborative CSR initiatives, and articulating the elements that should be included in those initiatives.

The third phase involves running collaborative CSR initiatives and developing links to consumers in order to respond to their needs and to influence their behaviour.

The three phases are designed to address major concerns raised in the priority areas. First of all, the perception that each group fails to understand the motivations and intent of the others is of critical importance. The finding of this study that the priority concerns of corporations, ENGOs and consumers has little direct correlation with the definitions, trends, issues and approaches to CSR should also be addressed. A common understanding of CSR and of the needs of others can form the foundation

upon which specific programs and actions can be built. In brief, the building of trust and a common language is a necessary precondition to action.

Once an adequate level of trust and a common language have been built, it will be possible to focus attention on specifics.

Phase 1

Goal: Establish among various stakeholder groups a common level of understanding of the definitions, trends, issues and approaches to CSR, and the priority concerns of ENGOs, corporations and consumers. The groups involved should include ENGOs, corporations, consumer groups, governments, ethical investors, human rights and development NGOs, and other stakeholders with a significant interest in CSR.

Actions: The following should be undertaken:

1. Communication of the results of this study to groups interested in CSR, especially corporate and ENGO audiences. If possible, efforts should be made to communicate the results to governments and ethical investment proponents.
2. Specific events and publications should be developed to communicate the needs of each group to the others. This should include both independent experts and first hand experience. These events and publications could be targeted to:

- a. Corporate audiences — about the priority areas of ENGOs, which include participation by experienced ENGO staff and other activists;
 - b. ENGO audiences — about CSR and collaborations with corporations;
 - c. Governments — about ENGO and corporate collaborations in CSR initiatives;
 - d. Consumer Groups — about CSR and the potential for collaboration between ENGOs and corporations; and,
 - e. Ethical Investors and CSR Advocates — about the results of this study and how they can better engage ENGOs, corporations and consumers.
2. Using frameworks developed under initiatives, such as the New Directions Group *Criteria and Principles for the Use of Voluntary or Non-Regulatory Initiatives to Achieve Environmental Policy Objectives* (see Annex 6), as a beginning point, an inclusive process should be undertaken that will seek to:
 - a. Establish a clear set of criteria to determine which of the policy objectives are best met through collaborative initiatives; and,
 - b. Establish a clear set of elements that should be included in each collaborative CSR project. In order to foster collaboration, no limits should be placed on the elements considered.

Phase 2

Goal: Develop a broad agreement by the groups about how the objectives of CSR projects should be set, which of these elements are best suited to collaboration between ENGOs and corporations, and how such projects should be constructed.

Actions: The following actions should be taken:

1. Conduct a study to determine how policy objectives could be set in a manner that includes corporations, ENGOs, governments and other stakeholders, and which is not subject to the control of any one of the groups. These policy objectives could then serve as a set of targets that CSR initiatives could be designed to work towards.

Phase 3

Goals: Identify a limited number of CSR initiatives that qualify under the criteria developed under Phase 2 and run them as collaborative CSR projects. Specifically, link the results to consumers.

Actions: The following actions should be taken:

1. Identify CSR projects that qualify under the criteria developed in Phase 2.
2. Develop the projects according to the elements developed in Phase 2.
3. Using these projects, reach out to consumers to encourage them to consider the products and/or services that are linked to the CSR initiatives.

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Annex 2 — Advisory Committee Membership

Joy Kennedy, Kairos Canada

Michael Jantzi, MJRA

Carlos Leschziner, BASF Canada

Nick Murray, Consumers' Association of Canada

Beatrice Olivastri, Friends of the Earth (Canada)

David Wheeler, Schulich School of Business, York University

Gil Yaron, Shareholder Association for Research and Education

Annex 3 — Advisory Committee Terms of Reference

Environmental Non-governmental Organizations (ENGO) and Corporate Social Responsibility (CSR): Seeking Common Ground to Build Consumer Support

A project of Pollution Probe
With funding from Industry Canada

Terms of Reference for the Advisory Committee

Overview of the Project

The objective of this project is to examine the issues raised by promoters of the concept of Corporate Social Responsibility (CSR) and to examine the challenges that these issues raise for environmental, non-governmental organizations (ENGO). The goal of this project is to develop a framework through which a common understanding of CSR can be built so that consumer support can be developed.

This project is national in scope. A final report will be written as an outcome of this research and distributed to NGO, investment, industry and government stakeholders.

This project will:

- Examine definitions and approaches to clarify what CSR is;
- Examine the needs of ENGOs in response to CSR; and,
- Develop a framework in which ENGOs can become engaged in CSR with the goal of building consumer support.

The framework is not intended to propose specific actions or initiatives, such as codes of practice, labelling, corporate reporting or others. These approaches will be raised as examples and in order to identify issues relevant to the project. Some types of activities, for example those which promote stakeholder engagement, may be identified as fundamental to the framework.

This research will be conducted in collaboration with environmental organizations, industry and consumer representatives, including investor groups. The goal is to develop a mutually supported outcome for the purpose of building consumer support for CSR by ENGOs.

Anticipated Results

The outcome of the report will help articulate a framework within which ENGOs may be more comfortable in engaging in CSR related initiatives and in building consumer confidence in CSR claims.

Pollution Probe will itself use the results of this research to further develop its own capacity to become engaged in CSR initiatives.

This research will also serve as a reference point for consideration of future initiatives in CSR by other ENGOs.

Role and Purpose of the Advisory Committee

The advisory committee is designed to provide input into the design of the work plan and feedback on the draft report. These points of input have been designed to make sure that the project is provided guidance by professionals who have experience that would benefit the project and for whom the output of the project may be helpful.

Makeup of the Committee

The Advisory Committee is planned to have between 10–12 individuals as members:

- ENGOs, including those with and without direct experience working on CSR related projects;
- Consumer groups;
- CSR groups; and,
- Industry representatives.

Project Work Plan

The work is planned to be carried out from September 2003 through March 2004. Advisory committee members will be asked to review the work plan for the project and the draft report. Comments of the advisory committee members will be reviewed and incorporated into these two elements of the project.

Time Commitment

The project has been designed to minimize the time commitment necessary from Advisory Committee members. For those who so wish, the views of committee members can be sought through telephone interviews. Submission of written comments is also an option for committee members who so wish.

All members of the Advisory Committee will be sent a copy of the final report.

Time commitment is planned to be approximately 1 (one) day of time over the life of the project.

Background on CSR

Corporate Social Responsibility (CSR) as a concept has been developed and promoted over the last 20–30 years. Most efforts to promote CSR present it as a voluntary commitment that corporations can adopt. Promoters of CSR have traditionally included ethical investors,¹⁰⁸ leading businesses¹⁰⁹ and some parts of civil society.¹¹⁰

¹⁰⁸ In Canada the national network which promotes ethical investment is the Social Investment Organization.

¹⁰⁹ Canadian companies often act in concert with companies in other countries. One of the leading associations is Canadian Business for Social Responsibility.

¹¹⁰ The Canadian churches founded the Taskforce on the Churches and Corporate Responsibility in 1975 — this program is now part of Kairos Canada. The Corporate Responsibility Campaign of Democracy Watch also relates to aspects of corporate responsibility.

Environmental organizations have avoided use of the term CSR in favour of the term “corporate accountability.”¹¹¹ Corporate accountability is viewed as enforceable — either through legislation and regulation or through civil legal proceedings. These groups argue that the level of compliance required by current national legislation is wholly inadequate. In addition they contend that the lack of an international legal framework allows corporations to avoid complying with existing legislation. Their argument continues that the use of voluntary initiatives both undermines existing requirements and efforts to implement new national and international standards since these programs have been designed explicitly to rebuff efforts for new laws.

Proponents of voluntary approaches see CSR as primarily addressing elements beyond legal and regulatory compliance. Some proponents see CSR as being based on the active engagement of a company’s stakeholders in order to determine their needs and expectations. An individual company’s CSR program would then be designed to meet its unique situation.

Both of these concepts make reference to the same issues. These include:

- Influence on government by corporations;
- Avoidance of environmental and social costs;

- Transparency and corporate reporting;
- Human rights;
- Locating corporate operations in countries with lax legislation, regulation and enforcement; and,
- Ability of shareholders and stakeholders to influence corporate decisions.

Each concept, however, is based on a different approach to the solution. One sees voluntary initiatives, lead by shareholders and leading corporations, while the other seeks enforceable regulations and international conventions.

In addition, the concept of Sustainable Development is being increasingly linked to CSR. This is documented in statements by the Chair of the WSSD, Mr. N. Desai, the Prince of Wales International Business Leaders Forum, the Canadian Council of Chief Executives, and the CSR Campaign of Friends of the Earth.¹¹²

The convergence of CSR with that of Sustainable Development has been noted in the literature. Leaders in the UN and industry have clearly noted this change. As a result, ENGOs in Canada will be increasingly called upon to participate in processes, projects and initiatives that link environmental issues to CSR.

In addition, CSR initiatives have been used by companies to build and strengthen their corporate image among consumers. The

¹¹¹ See *Minding Our Business: The Role of Corporate Accountability in Sustainable Development: An NGO report to the UN Commission on Sustainable Development*. 1997; Friends of the Earth International, *Briefing: Towards Binding Corporate Accountability*; CorpWatch. 2002.

¹¹² Baue, W. 2002; Singh, A., Prescott, D. & Davey, A. 2001; Canadian Council of Chief Executives. 2002, September. *Governance, Values and Competitiveness: A commitment to Leadership*; Friends of the Earth International, *Briefing: Towards Binding Corporate Accountability*.

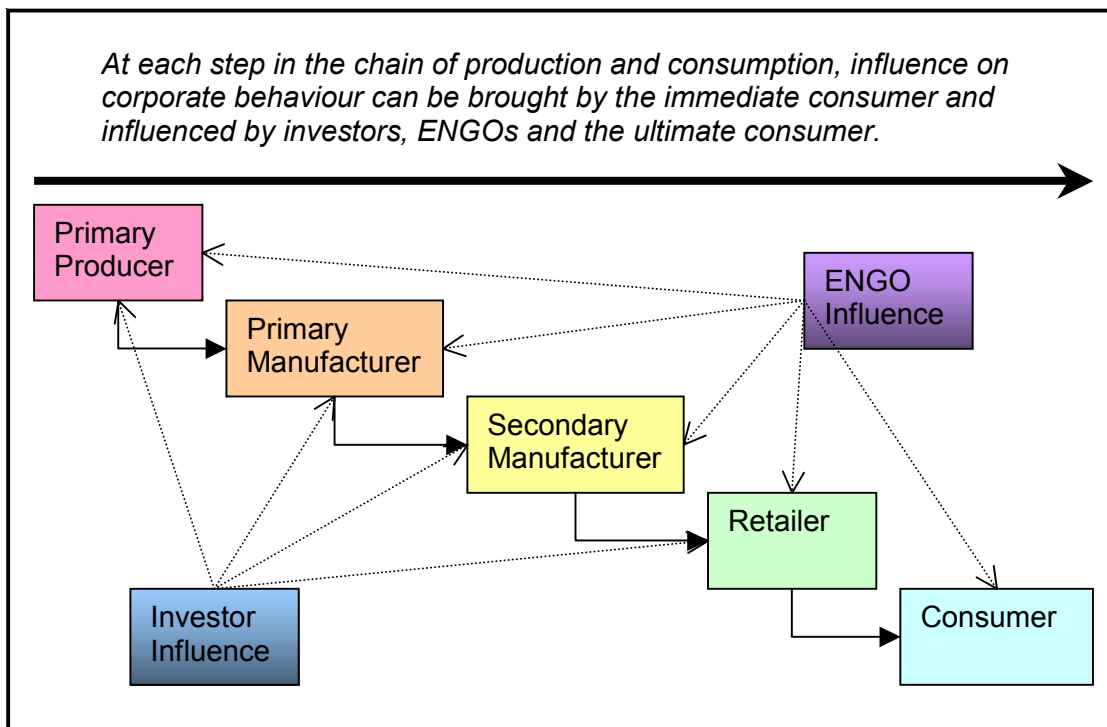
increasing role of corporate image and its relationship to shareholder value further adds to the need for CSR.¹¹³ CSR initiatives, including environmental aspects, have a direct connection between companies and consumers. The challenge of involving ENGOs in these initiatives and building a substantive link to consumers now remains.

At each point in the process, from primary production through to the ultimate consumer, each intermediate actor functions as a consumer. Each company in this process has its own needs and interests relative to the behaviour of its supplier and consequently has the opportunity to influence its behaviour. This process can be driven by the interests of the ultimate consumer and the factors that will influence her purchases. In addition, investors can exert influence through purchases of stocks and bonds, as well as other methods of active ownership.

Throughout this process ENGOs have the opportunity to engage all the parts of this chain through education and advocacy campaigns.

As a result:

- the convergence of “sustainable development” and CSR, ENGOs will be increasingly called upon to engage in the broader debate of corporate responsibility;
- the need of corporations to develop and maintain their corporate image for both their customers and investors will provide an opportunity for ENGOs to actively engage all the actors in the chain of production and consumption; and,
- collaboration with promoters of CSR can provide ENGOs with an opportunity to influence the entire production, distribution and retail chain, adding to efforts to educate the general public and influence decisions of consumers.



Annex 4 — ENGOs Surveyed

Canadian Parks and Wilderness Society
David Suzuki Foundation
Ecology Action Centre
Sierra Club of Canada
WWF Canada

Annex 5 — ENGO Survey

What is CSR?

1. How would you assess your knowledge of CSR?
 - a. On a personal level?
 - b. On an organizational level?
2. In your experience, what are the principle goals that companies have when undertaking CSR initiatives?
3. What is the proper role for business?
4. What is a company responsible for?
5. How do you see the Domestic (national) vs. International responsibilities of a company?

ENGO Needs:

6. What aspects of CSR initiatives do you feel are most important for ENGOs?
7. What aspects of CSR can you support?
8. What aspects of CSR can you least support?
9. What would you need from a company in order to encourage your or other ENGOs to participate in a CSR initiative?

Governmental Role:

10. Should governments become involved in CSR initiatives?
11. What in your understanding of CSR is appropriate for governmental regulation and what is appropriate for voluntary initiatives?

Influencing Consumer Behaviour:

12. Could CSR be used to inform consumers and influence their behaviour?

Annex 6 — Voluntary or Non-Regulatory Initiatives (New Directions Group)

Criteria And Principles For The Use Of Voluntary Or Non-Regulatory Initiatives To Achieve Environmental Policy Objectives New Directions Group

November 4, 1997

This document is endorsed by the following organizations.

Abitibi-Consolidated Inc.
Canadian Global Change Program
Canadian Nature Federation
Clemmer Technologies Inc.
Dofasco Ltd.
DOW Chemical Canada Inc.
Friends of the Earth
INCO Ltd.
Inter-Church Committee on Ecology
International Institute for Sustainable Development
Noranda Inc.
NOVA Corporation
Pembina Institute for Appropriate Development
Pollution Probe
Resource Futures International
TransAlta Corporation
Union pour le développement durable
Wetlands International
World Wildlife Fund Canada

The document is also endorsed by the following individual members of the New Directions Group

G. Firman Bentley
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Executive Summary

New Directions Group (NDG) members wish to ensure the quality and credibility of voluntary or nonregulatory initiatives (VNRIs) employed instead of, or as a complement to, regulations to achieve environmental policy objectives. Recent years have seen an increase in the number of VNRIs but there is as yet no widespread agreement on how to develop these programs, their essential design features and the circumstances in which they should be applied. Existing programs are thus uneven in their rigour and quality. The NDG believes that to engender public trust in VNRIs they must be applied appropriately and designed according to a standard set of principles.

The NDG has brought together leaders from the business and environmental communities to identify those attributes of VNRI that are essential to ensure their quality, effectiveness and credibility. This document presents a framework of criteria and principles that can provide guidance to governments, industry, nongovernmental organizations (NGOs) and others involved in the development and review of VNRI.

Criteria for the Utilization of VNRI to Achieve Environmental Policy Objectives

- A. VNRI should be positioned within a supportive public policy framework that includes appropriate legislative and regulatory tools.
- B. Interested and affected parties should agree that a VNRI is an appropriate, credible and effective method of achieving the desired environmental protection objective.
- C. There should be a reasonable expectation of sufficient participation in the VNRI over the long term to ensure its success in meeting its environmental protection objectives.
- D. All participants in the design and implementation of the VNRI must have clearly defined roles and responsibilities.
- E. Mechanisms should exist to provide all those involved in the development, implementation and monitoring of a VNRI with the capacity to fulfill their respective roles and responsibilities.

Principles Governing the Design of VNRI

Credible and effective VNRI:

- 1. are developed and implemented in a participatory manner that enables the interested and affected parties to contribute equitably;
- 2. are transparent in their design and operation;
- 3. are performance-based with specified goals, measurable objectives and milestones;
- 4. clearly specify the rewards for good performance and the consequences of not meeting performance objectives;
- 5. encourage flexibility and innovation in meeting specified goals and objectives;
- 6. have prescribed monitoring and reporting requirements, including timetables;
- 7. include mechanisms for verifying the performance of all participants; and
- 8. encourage continual improvement of both participants and the programs themselves.

The context and rationale for the NDG criteria and principles are provided on the following pages.

An Emphasis on Quality and Public Trust

New Directions Group (NDG) members wish to ensure the quality and credibility of voluntary or nonregulatory initiatives (VNRIs) employed instead of, or as a complement to, regulations to achieve environmental policy objectives. Recent years have seen an increase in the number of VNRIs but there is as yet no widespread agreement on how to develop these programs, their essential design features and the circumstances in which they should be applied. Existing programs are thus uneven in their rigour and quality. The NDG believes that to engender public trust in VNRIs they must be applied appropriately and designed according to a standard set of principles.

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Achieving Environmental Policy Goals with VNRIs

The available approaches to environmental protection extend from the independent and voluntary actions of an individual company to strict regulations enacted and enforced by government agencies. Most environmental protection options involve some degree of voluntarism on the part of those to whom a policy or regulatory instrument is being applied. And as policy or regulatory instruments are rarely applied

in isolation, voluntary actions on the part of industry are thus a component of most approaches to environmental protection.

The New Directions Group recognizes and encourages this scope for voluntary action but chose to focus its work in those areas in which the potential for voluntary action to address an environmental problem overlaps with the potential for regulatory action. Such voluntary programs may be intended to improve environmental protection in areas where specific regulations currently do not exist, allowing gaps in the regulatory framework to be closed. They may also encourage industry leaders to go beyond compliance with existing or proposed regulations, which could confer a competitive advantage upon participants. These VNRIs also lend themselves to partnerships among government, industry, communities and public interest groups in their development, implementation and monitoring.

The criteria and principles developed by the NDG are intended to ensure the quality, effectiveness and credibility of these VNRIs as public trust in them is critical to their acceptance and success. The following are examples of VNRIs to which the NDG's criteria and principles should apply:

- *Government-industry negotiated agreements* on either a sectoral or company-specific basis;
- *Industry-community or industry-ENGO agreements*, which are similar to government-industry negotiated agreements but which may have no government participation;
- *Challenge programs* in which government challenges the corporate sector to improve its performance in pursuit of an environmental policy goal; and

- *Regulatory exemption programs, which ease the regulatory burden for those participants implementing programs that will enable them to exceed compliance or to achieve performance or compliance objectives more effectively.*

The NDG’s criteria and principles can also provide guidance in the development of a wide range of other VNRI where quality, credibility and effectiveness are paramount — from sectoral projects designed to avert regulations or improve relationships with government and/or the public to ecolabelling programs.

Criteria for the Utilization of VNRI to Achieve Environmental Policy Objectives

VNRI are one of many tools available to meet environmental policy objectives. The NDG believes that while VNRI can provide innovative and effective ways of meeting such objectives they are not appropriate in all circumstances. In determining the most effective means to achieve a desired environmental protection outcome, a decision-making structure is required that enables all potential mechanisms to be evaluated and the most appropriate approach to be selected. The development of such a decision-making structure is beyond the scope of the New Directions Group’s work; however, the NDG identified several criteria that it believes are essential to that process.

- A. *VNRI should be positioned within a supportive public policy framework that includes appropriate legislative and regulatory tools.*

Due to the complexity of environmental protection problems a combination of tools is usually required to achieve the desired results. It is therefore difficult to apply a VNRI in isolation. All of those contributing to an environmental problem are not likely to be equally as compelled to act voluntarily, thus VNRI may need to be underpinned by regulations or supported by other policy instruments. Regulatory backup, or the potential for regulatory action, is an important way to address concerns about the treatment of non-participants or poor performers, and the existence of a VNRI should not diminish the willingness of governments to take regulatory action if necessary.

- B. *Interested and affected parties should agree that a VNRI is an appropriate, credible and effective method of achieving the desired environmental protection objective.*

VNRI must not only be effective they must be seen to be so in order to ensure credibility and public trust. Those interested in or affected by the environmental protection issue in question should be satisfied that the VNRI is the most effective way of achieving the desired results within an appropriate timeframe. This is also important as the cooperation and participation of a variety of parties may

be required to design, implement and monitor the VNRI (see Criterion ‘D’). Early support for and participation in a VNRI by key interested and affected parties can help to ensure the success of the initiative.

- C. *There should be a reasonable expectation of sufficient participation in the VNRI over the long term to ensure its success in meeting its environmental protection objectives.*

Regulations are intended to apply to all of those contributing to a specific environmental problem. VNRIs, by definition, are more selective as participation is voluntary. To be effective, a VNRI must be able to attract sufficient participation to enable the desired results to be achieved. For a widely dispersed problem a large number of participants may be required, while in cases where a few are contributing disproportionately to a problem a critical mass of participants should be attracted to the VNRI. Full participation in a VNRI may not be achievable at the outset but the emphasis should be on high quality participation with recruitment occurring over time.

- D. *All participants in the design and implementation of the VNRI must have clearly defined roles and responsibilities.*

VNRIs lend themselves well to partnerships among industry, governments, communities and public interest groups. Each contributes in different ways and to different degrees depending on the type of VNRI or its stage of development. VNRIs are intended to apply to industry, and often governments, so these bear the greatest responsibility for implementation and monitoring. As VNRIs are intended to

fulfill environmental policy objectives, though, other interested and affected parties have important roles to play. The participation of governments, communities and public interest groups in the development of a VNRI is critical to building public trust and can help to legitimize the initiative.

Governments can contribute to the development of VNRIs by helping to set objectives, establishing a supportive policy and regulatory framework, stipulating minimum design requirements, promoting participation, tracking performance, and intervening if necessary. Communities and public interest groups can help to design VNRIs, assist in setting objectives; contribute to monitoring of the initiative, participate in outreach and communications, support program leaders, and monitor non-participants and non-performers.

- E. *Mechanisms should exist to provide all those involved in the development, implementation and monitoring of a VNRI with the capacity to fulfill their respective roles and responsibilities.*

VNRIs are a relatively new way of approaching environmental protection for governments, industry and other interested and affected parties. The roles and responsibilities required of each will test existing skills, resources and orientation. In order for VNRIs to be successful, partners and participants must be able to acquire or enhance the capacity to enable them to discharge their roles. In some cases this may take the form of technical assistance or management services. In others it may be a need for human or financial

resources. As a new way of achieving environmental protection objectives, and of viewing the relationship among governments, industry and NGOs, VNRI requires openness by participants and a willingness to embrace new skills, approaches and resources.

Principles Governing the Design of VNRI

Once a decision has been made to proceed with a VNRI, the New Directions Group believes that the following principles should guide the design of a program in order to ensure its credibility and effectiveness and secure public trust. The NDG intends that all of these principles be applied as a set, although it is recognized that the emphasis assigned to each depends on the context in which the VNRI is being developed and will change according to the type of VNRI and the stage of its development.

Credible and effective VNRI:

1. *are developed and implemented in a participatory manner that enables the interested and affected parties to contribute equitably*

From the conceptual stage onwards the development and implementation of a VNRI should be open to the participation of those interested and affected parties who are willing to contribute constructively to the initiative. This may include, but is not limited to, leading companies addressing the issue of concern, appropriate public interest groups, communities, labour, government agencies and professional organizations. A VNRI may be dominated initially by a small number of parties as leadership in establishing

the initiative is exercised, but the development of a VNRI and the establishment of its goals should be independent of the self-interest of any party or parties. In most cases, industry will have greater resources and a disproportionate role in implementation; however, governments, communities and other partners each bring strengths to the table that contribute to the success of VNRI (see Criterion D, above). Mechanisms must thus be developed to allow all contributors to the development, implementation and monitoring of a VNRI to participate on an equitable basis.

2. *are transparent in their design and operation;*

As VNRI may be an alternative to regulatory action, the public needs to be confident that the VNRI will result in the same or a better environmental protection outcome than would be achieved through a regulatory approach. This can only happen if the development, implementation and monitoring of VNRI is done in an open and transparent manner with information on the process and the program readily available in an accessible and understandable format

3. *are performance-based with specified goals, measurable objectives and milestones;*

The broad environmental protection goal to be achieved by a VNRI is set by society and may be reflected in a policy statement or commitment on the part of government. The partners in the VNRI should specify how that goal is to be achieved and establish measurable objectives and milestones to enable

progress to be monitored and evaluated. Participants should follow a similar path in determining how they will contribute to the goals of the VNRI.

Public trust is dependent on the performance of both participants and the program itself in achieving the overall environmental goal. VNRIs should thus focus on results rather than process with a clearly defined framework in place outlining performance and reporting requirements for both the program and for the individual participants. As a rule, VNRIs should emphasize the prevention of an environmental problem wherever possible or appropriate.

4. *clearly specify the rewards for good performance and the consequences of not meeting performance objectives;*

Although participation in a VNRI is voluntary, once joined a participant must commit to meeting the performance requirements of the initiative. This is facilitated by ensuring that the benefits of meeting program objectives and the consequences of failing to do so are clearly evident to those enrolling in the VNRI. A VNRI is likely to be most successful when the benefits of meeting performance objectives are clear to all participants and recognition for leaders and for those making substantial improvements in their performance is encouraged. While the consequences of non-performance will vary among VNRIs depending on the environmental problem being addressed, mechanisms should be in place to deal with those participants who fail to live up to their commitments to the VNRI as their lack

of performance affects the credibility of good performers and of the VNRI itself.

5. *encourage flexibility and innovation in meeting specified goals and objectives;*

One of the attractions of VNRIs is the opportunity for flexibility and innovation in meeting environmental protection objectives that is not usually associated with regulatory compliance. The end result of a VNRI is of greater importance than the means of achieving it, provided that the means does not create another environmental problem. Well-designed VNRIs should stimulate the development of creative approaches to solving environmental problems, which can have spin-off benefits in other areas and which can also provide competitive advantages to the developer. That creativity should be encouraged.

6. *have prescribed monitoring and reporting requirements, including timetables;*

Measuring the progress made by the VNRI toward the desired environmental outcome and of the participants in the program in meeting their individual targets are critical to the credibility of a VNRI. Effective monitoring and reporting helps to ensure accountability. Monitoring and reporting provisions for both the VNRI and its participants should be built into the design of the program. This sets clear expectations for participants and contributes to the transparency of the VNRI (see Principle #2).

7. *include mechanisms for verifying the performance of all participants; and*

To evaluate the progress of the VNRI and of individual participants, performance data must be collected in a consistent and verifiable manner. Those accountable for the performance of the VNRI must have the opportunity to test the veracity of claims made by participants, particularly where public claims of performance are being made. Verification can take a number of forms, from internal audits to random inspections to third-party evaluations of performance. Verification procedures will vary among VNRI, but they should be appropriate to the environmental protection objectives of the VNRI and should be specified at the outset.

8. *encourage continual improvement of both participants and the programs themselves.*

For VNRI to remain relevant and effective they should be reviewed on a regular basis to ensure that they continue to contribute to the achievement of the desired environmental protection outcome and that the goals of the program remain appropriate in light of experience, knowledge and changing public values. In addition, participants should be continually seeking new ways to improve their performance within the program, modifying their operations in response to the experience gained.

Appendix I

The New Directions Group

The New Directions Group has provided an informal forum to bring progressive businesses and environmental organizations together to discuss significant issues since 1990. Current members of the New Directions Group are:

G. Firman Bentley	Chairman and CEO, ADAMAC Management
François Bregha	President, Resource Futures International
Dr. Thomas C. Burnett	Director, Environment Health and Safety, INCO Ltd.
Gerald J. Finn	Vice-President, Corporate Government Relations, NOVA Corporation
Dr. Frank Frantisak	Senior Vice-President, Environment, Noranda Inc.
Paul Griss	NDG Coordinator
Don Hames	Director EH&S Regulatory Affairs, DOW Chemical Canada Inc.
Helen Howes	Senior Advisor, Environmental Responsibility / Leadership Department, Ontario Hydro
Mike Innes	Vice-President, Environmental Affairs, Abitibi-Consolidated Inc.
Rob Kerr	Mining Campaign Coordinator, Friends of the Earth
Ron Kruhlak	Past-President, Environmental Law Centre

Julia Langer	Director, Wildlife Toxicology Program, World Wildlife Fund Canada
Rob Macintosh	Policy Director, Pembina Institute for Appropriate Development
Kevin McNamee	Wildlands Campaign Director, Canadian Nature Federation
Anne Mitchell	Executive Director, Canadian Institute for Environmental Law and Policy
Ken Ogilvie	Executive Director, Pollution Probe
Dr. Robert Page	Vice-President, Sustainable Development, TransAlta Corporation
Dr. James Patterson	Executive Councillor, Wetlands International
David Runnalls	Senior Fellow, International Institute for Sustainable Development
Vasudha Seth	General Manager — Environment & Energy, Dofasco Inc.
James Sullivan	Research Associate, Taskforce on the Churches and Corporate Responsibility
Paul Summers	President, Clemmer Technologies Inc.
Glen Toner	Professor, School of Public Administration, Carleton University
Jean Guy Vaillancourt	Union pour le développement durable
Hennie Veldhuizen	Vice-President, Environment, Noranda Mining and Exploration Inc. and Noranda Metallurgy Inc.
Jeff Watson	Executive Director, Canadian Global Change Program
Adam Zimmerman	

Others who have contributed to this project include:

Charles Ferguson	Vice-President, Environment, Health and Safety, INCO Ltd.
Julie Gelfand	Executive Director, Canadian Nature Federation
Brian Kelly	former Director, Environment and Sustainable Development, Ontario Hydro
Gord Lambert	former Director, Sustainable Development, TransAlta Corporation John Moffet Resource Futures International
James Stirling	Assistant Corporate Secretary, Dofasco Ltd.
Brian Young	former Vice President, Environmental Affairs, Abitibi-Price Inc.

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