

**Corporate Social Responsibility:
Standards and Objectives Driving
Corporate Initiatives**

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Letter of Intent

As a former economics student at the University of Toronto with an interest in environmental issues, throughout my undergraduate studies I experienced a strange institutional divide. I was the “economist” in my environmental classes and the “environmentalist” amongst my fellow business students. Convinced that the integration of these two fields was essential to the development of a sustainable economy, my interests directed me to further explore this possibility.

It is an undeniable fact that the private sector plays a major role in the way our economy, environment and society is shaped. The extent of its influence on the global economy is sometimes feared and often heavily criticized. In driving profits, corporate actors balance the various costs and benefits of their activities; in the past, the environmental and social costs of business did not enter the equation. This methodology has led to an unbalanced valuation of natural resources, which has in turn resulted in overexploitation and environmental deterioration. As many individuals, including me, are guilty of flocking towards free merchandise (often offered by corporations as a marketing tactic), companies

have equally entered a race to access maximal “free” resources. This race has led to economic prosperity but has also caused massive environmental degradation.

As social expectations shift, previously perceived externalities of corporate activity are becoming internalized. Corporations are being forced to account for their social and environmental impacts and corporate leaders have come to realize that the “business-as-usual” approach of profit maximization is no longer sufficient in today’s social climate; the use of natural resources, the impact on the environment and the effect of corporate activity on society do come at a cost.

This report has permitted me to gain a better understanding of how and why corporations are responding to shifting social demands through literature review, discussion with corporate social responsibility professionals, academics and various corporations. Its development is an attempt to summarize research findings and bring clarity to individuals like me, seeking to gain a better understanding of “corporate social responsibility.”

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Introduction

Corporate social responsibility (CSR) is a term that has increasingly become a part of corporate dialogue. Encompassing a range of issues and objectives, corporations, non-governmental organizations (NGOs), governments, investment groups and consumers all play a part in the evolving role of the corporation.

The emerging belief that corporations have a greater responsibility to civil society than solely that of driving the economic system through the generation of profits has placed pressure on companies to integrate social and environmental considerations into their business models. Whether this is driven internally through corporate leadership or externally through stakeholder pressure, the demand for corporations to meet the evolving values, interests and expectations of society has led businesses to rethink their mandates.

The events contributing to this movement are diverse, as are the drivers and initiatives that are moving corporations towards increased “social responsibility.”

This report reflects the thoughts and findings of an examination of the CSR debate. It is intended to serve as a guide to better understand various concepts and drivers of CSR.

This report will

- examine the existing definitions of CSR and their use within corporate and NGO dialogue
- consider the various tools through which CSR is being integrated and developed, including standards and guidelines, market incentives, and investment indices
- offer a synopsis of corporate objectives and goals in developing CSR frameworks.

Part I: Shifting Social Expectations and the Role of the Corporation

Shifting Social Expectations

What we are coming to realize is that if we focus on creating societies that enhance the quality of our living rather than the quantity of our consumption, we can move simultaneously towards sustainability and a better life for nearly everyone.¹

The twentieth century has seen an expansion of the global economy and an increase in the quantity of consumption and wealth within developed economies, but this has also resulted in a number of environmental and social problems.

While total world income increased by an average of 2.8 per cent annually from 1992 to 2002,² the ozone layer has been seriously depleted, air and water pollution have become areas of major concern, and much of the world's forests have been harvested. Furthermore, in the last decade of the twentieth century, the number of people living in poverty increased by almost 100 million.³

The recognition that the Earth's natural capital is rapidly deteriorating has led society to realize that present trends of consumption are unsustainable. Corporations and society as a whole are being increasingly challenged to account for their environmental impact, and

attention has been drawn to the corporate activities that lead our capitalist, market-based, industrial, and environmentally destructive economy.

As an increasingly informed public is questioning corporate activity, the expected role of the corporation within society is evolving. According to GlobeScan's annual tracking of Canadian public opinion on corporate social responsibility (CSR) issues, 82 per cent of Canadians now hold companies completely responsible for ensuring their products and operations do not harm the environment (an increase of eight per cent from 2003).⁴

Furthermore, a recent survey conducted by the Economist Intelligence Unit has found that 85 per cent of executives and investors surveyed said that corporate responsibility is now a "central" or "important" consideration in investment decisions.⁵ This study, which surveyed companies and investors about their perspectives on CSR is just one amongst a growing number of surveys and reports that indicate that CSR is an issue of growing importance to society, as well as the business community.

¹ Korten. D. 1995. p. 278.

² The Economist: Pocket World in Figures 2005 Edition. p. 244.

³ Stiglitz, J. 2003. p. 5.

⁴ Canadian Business for Social Responsibility. 2005. p. 6.

⁵ Economist Intelligence Unit. 2005. p. 2.

The Role of Corporate Leaders

Defining the role of the corporation is a fundamental issue at the heart of the corporate responsibility debate. Public corporations have a legal responsibility to maximize shareholder profits, but a shift in corporate mentality led by social expectations and pressure is causing business leaders to rethink their responsibilities. Three perspectives of CSR have emerged: the first views CSR as limited by legal obligations and profit maximization; the second views it as “the right thing to do” for the wellbeing of the environment and society; and the third views it as a method of value creation.

Profit Maximization and Legal Compliance

Traditional economic rationale holds that, by providing goods and services, creating jobs and contributing to economic prosperity, corporate success leads to an improved quality of life (measured in terms of GDP). Any action within the boundary of law that will contribute to the bottom line defines the ultimate “responsibility” of the corporation. Milton Friedman is amongst the strongest proponents of this view:

What does it mean to say that the corporate executive has a “social responsibility” in his capacity as a businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the best interests of his shareholders. For example that he is to refrain from increasing the price of a product in order to contribute to the social objective of preventing inflation, even though the price increase will be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is required by law in order to contribute to the social objective of improving the environment. . . . In

each of these cases the corporate executive would be spending someone else’s money for the general social interest.⁶

Business leaders are not social advocates. They have been trained and hired to run successful companies, which, according to this perspective, are evaluated solely with respect to profit maximization. Corporate laws and regulations serve as the boundary to the means by which corporations are able to drive profitability, but beyond this, corporations have no social responsibility.

A Commitment to the Environment and Society as “The Right Thing to Do”

The traditional image of profit maximizing corporate leadership may be changing. There is evidence of a growing contingent of corporate leaders with a greater social and environmental conscience and purpose. Net Impact, for example, is a group of 11,000 “new generation leaders, committed to using the power of business to improve the world.”⁷ This organization began in 1993 as a student-led initiative when a group of Washington-based MBA students founded Students for Responsible Business. Their goal was to create a network of individuals who were interested in applying their business skills to both make money and have a positive social impact. In 1999, the group evolved into a non-profit professional organization under the title “Net Impact” and now supports more than 100 professional and student chapters in 90 cities and 70 graduate schools.

Furthermore, a recent study conducted by the Stanford School of Business, examining the attitudes of 279 European and North American MBA students, confirms that “more than

⁶ Friedman, M cited in Tapscott, D & Ticoll, D. 2003. p. 68.

⁷ www.netimpact.org accessed July 26, 2005.

ninety percent of the MBA's in the sample were willing to forgo financial benefits in order to work for an organization with a better reputation for corporate social responsibility and ethics."⁸

Several emerging MBA programs, such as the Program in Business and Sustainability at the Schulich School of Business, York University, focus on teaching future business leaders to maintain profitability while protecting the natural environment and maintaining social and ethical responsibilities.⁹ Additionally, the Rotman School of Business at the University of Toronto recently launched the AIC Institute for Corporate Citizenship to provide business leaders with the tools necessary to practice smart social risk-taking and reconcile shareholder interests with those of the wider community.¹⁰

Corporate leaders are increasingly announcing that the operation of their companies is focused on economic, social and environmental gain and that they have an obligation to all stakeholders affected by company operations.

As Canada's leading communications company, we have a responsibility to all stakeholders, including customers, employees, shareholders — indeed, to all Canadians — to be a good corporate citizen — economically, environmentally and socially.¹¹

Global paper producer, Catalyst Paper states that "in the conduct of our day-to-day business there are many individual and collective decisions that we can take that are better choices — choices that measure themselves

against a realm of social, moral and ethical decisions. The decisions that arise from them don't have to cost more, although sometimes they do. That too is a conscious decision."¹²

A Different Approach to Value Creation

Another emerging perspective is one that views corporate social responsibility in a less altruistic light. Today's CEO increasingly argues that integrating social, environmental and financial goals is imperative to what Freidman describes as the fundamental role of the corporation: To make as much money for their shareholders as possible.¹³ Operating in the context of sustainability and social responsibility, Russell Horner, CEO of global paper producer Catalyst Paper states, "We're here to make more for our shareholders. This is just a different approach to value creation."¹⁴ Third-party forest certification, such as the Forest Stewardship Council (FSC), supports sustainable forest practices that aim to ensure the long-term productivity of Canada's forest, thereby sustaining the forestry industry, as well as the communities affected by forestry operations. Mitigating the overexploitation of natural resources and the destruction of the environment will ultimately result in a company's long-term viability and success. These financial motivators drive companies like Catalyst Paper and Tembec to invest in sustainable business practices and adopt long-term approaches to business although this may come at a present cost. These values are embedded in company operations as "the right thing to do" for the environment and society but most importantly for business. This holistic approach to value creation is a step towards what has been referred to as "the sustainability revolution."¹⁵

⁸ Montgomery D. Ramus C. 2003. p. 7.

⁹ www.schulich.yorku.ca accessed July 20, 2005.

¹⁰ www.rotman.utoronto.ca/aicinstitute/centres.htm accessed July 30, 2005.

¹¹ Bell Canada Enterprises Corporate Responsibility 2004 Report p. 3.

¹² NorskeCanada 2003 Accountability Report p.3

¹³ Freidman, M. 1962. p.133.

¹⁴ Canadian Business for Social Responsibility. 2005, June 27. CSR3.

¹⁵ Natrass, B & Altomare, M. 2002. p.1.

Models of Corporate Evolution

It is unclear whether corporate social responsibility evolved out of corporate leaders' belief in the "right thing to do," investment in long-term sustainability of business operations, reaction to external pressures and social demand, or desire to pre-empt the development of future regulation.

Several models have attempted to outline the reasons and ways corporations have moved towards increased sustainability and social responsibility. What is described above as a shift in corporate values and an alternative approach to value creation has also been

examined as a progression towards sustainability.

Five Sustainability Stages

In *The Next Sustainability Wave*, Bob Willard plots this as a five-step progression. Companies move from operating in a way that attempts to profit at any price to operating with the objective of improving the environment, society and the economy. According to Willard, not only does this transition lead to improved environmental performance, but companies are also able to realize cost savings, thereby increasing profitability.

<p>Stage 1: Pre-compliance</p>	<ul style="list-style-type: none"> • No obligation beyond profits • Uses exploitative practices that cheat the system • Ignores sustainability and actively fights against regulation
<p>Stage 2: Compliance</p>	<ul style="list-style-type: none"> • Reactively operates in consideration of laws and regulations • Social and environmental actions are taken as costs • Projects are end-of-pipe retrofits • Gives lip service to CSR
<p>Stage 3: Beyond Compliance</p>	<ul style="list-style-type: none"> • Moves from offence to defence • Realizes operational eco-efficiencies, cleaner processes, and waste management can result in cost savings • Realizes community investment and social marketing can enhance reputation and help maximize shareholder value • Takes sustainability initiatives that are "green housekeeping"
<p>Stage 4: Integrated Strategy</p>	<ul style="list-style-type: none"> • Re-branding as a company committed to sustainability and integrates sustainability in its business strategies • Experiences benefits of sustainability initiatives • Sees investment and opportunity rather than cost and risk avoidance • Makes cleaner products and enjoys competitive advantage of sustainability initiatives
<p>Stage 5: Purpose & Passion</p>	<ul style="list-style-type: none"> • Driven by a passionate commitment to improving the well-being of the company, society, and the environment • Sees actions as the right thing to do

Industry’s Sustainability Learning Curve

In *The Natural Step for Business*, Nattrass and Altomare present the evolution of corporate attention to sustainability as a learning curve that has evolved since the 1970s — moving from the 1970s, at which time companies were not focused on the environmental impact of operations, through to the 2000s, during

which environmental impact minimization has become an objective of product design.

Both Willard’s and Nattrass & Altomare’s models of corporate progression toward increased sustainability reflect a combination of changing corporate cultural perspective of the environment and the increased implementation of and compliance with environmental regulation.

		1st Era COMPLIANCE	2nd Era BEYOND COMPLIANCE	3rd Era ECO- EFFICIENCY	4th Era SUSTAINABLE DEVELOPMENT
					Design for Sustainability
					Integrated Management Systems
					Environmental Cost Accounting
					Product Stewardship/DFE/LCA
					TQEM/Environmental Management Systems
					Stakeholder Participation
					Pollution Prevention/Waste Minimization
					Pollution Control/Compliance
CORPORATE RESPONSE	Before 1970s — Unprepared	1970s — Reactive	1980s— Anticipatory	1990s — Proactive	2000s — High Integration
INDUSTRY GOALS	None	Regulatory Standards	Cost Avoidance Impact Reduction Pre-emption of Regulation Leadership Legitimacy Protection Partnerships Competitive Edge	Profit Centre Approach Eco-efficiency Dematerialization Strategic Environmental Management	Explicit Mainstreaming of Environmental Goals DFE/LCA Systems Environmental Cost Management Resource Productivity Products of Service Culture Change

Part II: What Is Corporate Social Responsibility?

Defining CSR

An industry has emerged with the specific objective of improving corporate social and environmental performance and responsibility. This includes, for example, CSR advocate organizations (World Business Council on Sustainable Development, Canadian Business for Social Responsibility, Conference Board of Canada, Imagine Canada), CSR consultants, and evaluators of corporate social and environmental performance (Michael Jantzi Research Associates, Corporate Knights). These organisations are currently attempting to define exactly what CSR should involve.

Almost every study that examines CSR makes reference to the difficulty associated with defining the term. Originally perceived as corporate philanthropy, CSR has evolved to include a broader set of criteria with an increased focus on sustainability. The following are definitions from prominent Canadian CSR advocate organizations:

Canadian Business for Social Responsibility defines CSR as *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.*¹⁶

The Conference Board of Canada defines CSR as *the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners, investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance.*¹⁷

CSR has thus come to take into consideration three main areas: society, the environment, and the economy. A “socially responsible” company should act in such a way as to address these areas through the development of corporate policies and by obeying the law. The company is responsible for treating its employees well, respecting the communities in which it operates, developing sound corporate governance, ensuring environmental preservation, and supporting philanthropy, human rights and economic prosperity.

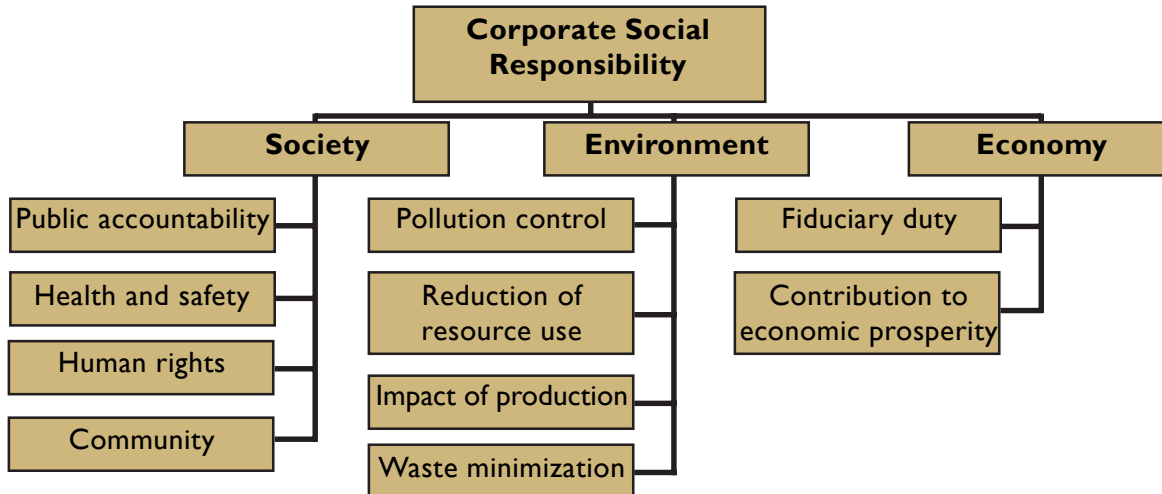
While creating a definition for the term is an attempt at clarification, it has led to a certain amount of confusion. Corporate social responsibility evolved from a moral philosophy discipline, but a number of terms have come to be used synonymously with CSR, each with a distinct disciplinary origin:

- *Sustainable development*, which evolved from economic, ecological, and social justice disciplines
- *Corporate accountability*, which evolved from business law.¹⁸

¹⁶ www.cbsr.ca accessed June 23, 2005.

¹⁷ www.conferenceboard.ca accessed June 23, 2005.

¹⁸ Willard, B. 2005. p.15.



Additional terms include, but are not limited to

- Corporate citizenship
- Corporate environmental responsibility
- Corporate ethics
- Corporate responsibility
- Corporate sensibility
- Triple bottom line

These terms all relate to the role that corporations should play within society. It is for this reason that they have all come to fall under the “CSR” umbrella. To gain a further understanding of what CSR means, the second part of this paper will focus on the corporate perception of CSR and how corporations have come to understand the term.

The Nature of CSR: Voluntary and Regulatory Approaches

Another question that arises when attempting to define CSR is whether it entails the implementation of voluntary initiatives or whether it is simply seen as compliance to regulation in the various areas related to society and the environment. Friedman argues that CSR relates to obeying the law and making as much money for shareholders as possible. In this case, CSR relates to regulatory compliance and more specifically to

compliance with regulation related to society and the environment. CSR has, however, also come to be broadly perceived as a set of voluntary measures that apply to corporate performance beyond legal compliance.¹⁹ From this perspective, CSR is voluntary and is to be distinguished from mere legal compliance.

A Regulatory Approach to CSR

Traditionally, the use of regulatory measures has been the primary means of driving corporations to eventually meet shifting social demand. In a constitutional democracy, the legal system is the mechanism through which social values are expressed and society’s beliefs are enforced. The development of environmental law over the past three decades, for example, reflects the social recognition that the environment must be protected from individual and corporate activity.²⁰ Some argue that effective enforcement of environmental law is the only mechanism that will drive corporations to account for their negative environmental impact. As corporate individuals are traditionally expected to utilise all exploitable resources and minimize all possible costs in order to promulgate growth,

¹⁹ Pollution Probe. 2004. p. 13.

²⁰ Boyd, D. 2003. p.11.

voluntary actions that counter these activities are seen as being in direct contradiction to their mandate.

Regulatory approaches have been adopted as a means of addressing issues related to CSR. The Sarbanes-Oxley Act, for example, was implemented in 2002 following the Enron and WorldCom accounting scandals in the United States. This legislation has served to address issues related to finance and governance. The development of environmental law serves to limit the environmental impact of corporate activity. The Bank Act in Canada has mandated financial institutions to annually produce a "Public Accountability" statement, which is a "statement describing the contributions of the bank and its prescribed affiliates to the Canadian economy and society."²¹

Through the creation and implementation of such corporate law and policy, governments are ultimately responsible for reflecting social expectations of corporate accountability and performance.

A Voluntary Approach to CSR

Voluntary CSR initiatives have also emerged as prominent measures to complement or replace sometimes ineffective regulatory approaches to limiting corporate activities.²² Alcoa Inc., for example, has publicly committed to emission reductions from base year 2000, which include a 60 per cent reduction in SO₂ by 2010, a 50 per cent reduction in volatile organic compounds by 2008, a 30 per cent reduction in nitrogen oxides by 2007, an 80 per cent reduction in mercury emissions by 2008, a 50 per cent reduction in landfill waste by 2007 and a 60 per cent reduction in process water use and discharge by 2008.²³

Organizations such as Imagine Canada have emerged to "encourage businesses to become better corporate citizens by publicly committing to give one per cent of pre-tax profit to community organizations." Since 1988, more than 600 companies have voluntarily signed this commitment.²⁴

Voluntary initiatives can be effective in that they speak to corporate competitive advantage and encourage industry peers to adopt a "me too" strategy. The logic is that if an industry peer is going above and beyond regulation to develop innovative technology to address issues related to climate change, for example, competitors may feel it necessary to match and exceed such initiatives to avoid the possibility of becoming laggards and eventually losing competitive advantage and market share. These types of voluntary initiatives speak to what companies understand well: competition.

The proliferation of voluntary measures has, however, raised skepticism as to their effectiveness in advancing social and environmental objectives. Both industry and government advocate them, while many NGOs remain skeptical as to their credibility.

Moffet and Bregha summarise the reasons for industry and government interest in voluntary environmental initiatives, as well as the concerns of NGOs, in the following way:

Industry interest in involvement in voluntary measures may be driven by:

- desire to influence public policy
- flexibility
- desire to minimize financial and legal liability
- trade and competitiveness concerns

²¹ Laws.justice.gc.ca/en/B-1.01/ accessed July 28, 2005.

²² Gibson, R. 1999 p. vii.

²³ www.alcoa.com accessed July 29, 2005.

²⁴ www.imaginecanada.ca accessed July 29, 2005.

Government interest in voluntary measures may be driven by:

- interest in reducing government intervention in the market place
- reduced demand on government resources
- a belief that voluntary approaches are in some cases more effective than regulatory intervention

Concerns about voluntary approaches:

- Voluntary approaches are used to mask government incapacity to enforce regulations
- By allowing industry to determine its progress towards increased environmental and social responsibility, CSR will only progress as long as companies perceive that they are able to afford implementation
- Voluntary approaches may pre-empt the establishment of future regulatory intervention²⁵

While voluntary initiatives may drive innovation, regulation remains an essential baseline for driving corporate social and environmental performance.

CSR Standards, Guidelines and Indexes

While regulation sets standards for many environmental and social issues, an array of CSR guidelines exists. More than 300 CSR frameworks have been developed internationally by various business groups, governments, academics and NGOs.²⁶ In addition to these, many independent company policies that fall under the CSR umbrella have been developed (environmental impact, human rights, health and safety, etc.).

A partial list of prominent CSR frameworks is included below. These frameworks range from international guidelines for “responsible” business activities to investment indexes representing socially responsible companies.

This abundance of standards, guidelines and indexes has created a complex web of information and approaches to implementing and evaluating CSR. Companies and CSR advocates argue that an internationally accepted and credible standard would assist in evaluating corporate activity in these areas and bring credibility to CSR reporting, while others question whether such a standard is possible.

International Frameworks

United Nations Global Compact
OECD Guidelines for Multinational Enterprises
International Chamber of Commerce Business Charter for Sustainable Development
International Finance Corporation Equator Principles

National Frameworks

Canadian Standards Association Guidelines for Corporate Social Responsibility
Canadian Business for Social Responsibility GoodCompany Guidelines
International Code of Ethics for Canadian Business

Investment Indexes

Dow Jones Sustainability Index
Jantzi Social Index
FTSE4Good
Domini 400 Social Index

Reporting Guidelines

Global Reporting Initiative (GRI)

Assurance Standards

AA1000 Assurance Standard

²⁵ Moffet J., Bregha, F. in Gibson, R. ed 1999. p. 18.

²⁶ Mazurkiewicz, P. 2004.

International CSR Standardization

The challenges associated with developing an international standard are currently being experienced by the International Organisation for Standardization (ISO) as it attempts to develop a social responsibility (SR) standard. ISO develops international standards for everything from traditional manufacturing activities through to mechanical engineering, medical devices, and the newest information technology.²⁷ The ISO 14000 environmental management standard and the ISO 9000 quality management standard are two of the most widely recognized “generic management systems standards” that outline essential features for the establishment of environmental and quality management systems.²⁸ The decision to develop a similar SR standard has been perceived as an important step towards achieving an internationally recognized standard, but it has also raised a number of concerns.

In 2004, ISO announced its intention to develop an international standard on SR for publication in 2008.²⁹ ISO recognized “that social responsibility involves a number of subjects and issues that are qualitatively different from the subjects and issues that have traditionally been dealt with by ISO.”³⁰ For this reason the approach to developing its new SR guideline, ISO 26000, has led some to question whether ISO is capable of entering this realm of standard setting.

In an attempt to modify its standards development process with a view toward fostering a more balanced level of stakeholder participation, ISO established a Working Group (WG) that includes six representatives, one from each of the national member bodies participating in the ISO’s SR work and

representing the following sectors: industry, government, labour, consumer, NGO, and “other” (services, support and research). Consultation with the WG throughout the entire standards development process was intended to create a balanced, multi-stakeholder approach and ensure that its new SR standard be widely accepted by all affected parties.

Some NGO groups believe that the credibility of the ISO SR process may have already been compromised.³¹ ISO’s Technical Management Board (TMB), which is part of its senior management, passed a resolution in June 2005 relating to the nature of the SR standard without consulting the WG. At a time that this issue was being debated by the WG, the TMB resolved that the SR standard would not act as a “management system standard.” The TMB decided that the SR standard would have the status of a guideline. It is arguable that such intervention may have undermined the role of the WG and jeopardized the credibility of the new “multi-stakeholder” approach to standards development.

These events have raised questions about the shape ISO 26000 will take and how it will distinguish itself amongst the existing guidelines on corporate responsibility. Furthermore, some NGOs believe that the development of this standard did not truly take a multi-stakeholder approach and will thus not result in a credible international CSR standard, accepted by all stakeholder groups.³²

The Role of the Global Reporting Initiative

The Global Reporting Initiative (GRI) has emerged as an increasingly used framework for reporting on CSR activities. Launched in 1997 by the Coalition for Environmentally Responsible Economies (CERES), the GRI’s mission is to develop globally applicable

²⁷ www.iso.org accessed July 13, 2005.

²⁸ www.iso.org accessed July 13, 2005.

²⁹ ISO. 2005.

³⁰ ISO. 2004.

³¹ <http://inni.pacinst.org/inni/> accessed July 22, 2005.

³² <http://inni.pacinst.org/inni/> accessed July 22, 2005.

Sustainability Reporting Guidelines.³³ While it has been independent since 2002, it works in cooperation with the UN Global Compact and is in official collaboration with the United Nations Environment Program (UNEP).

“The GRI arose because many different voices — corporate executives, environmental activists, human rights campaigners, investors, and labor leaders, to name just a few — shared the same goal: the creation of a generally accepted standard for the disclosure of sustainability performance. The adoption of the GRI by more than 500 companies, and the GRI’s current work to bring together thousands of global stakeholders in preparation for the next version, shows that we are moving steadily towards that goal.”³⁴

Bob Massie,
Founding member of the GRI board

Transparency on social and environmental activities through reporting is only one component of CSR, but the creation of an internationally accepted reporting guideline assists in benchmarking performance and driving innovation and improvement. The creation of indicators provides “an understanding of the degree to which the organization’s performance may influence the performance of a larger economic, environmental or social system.”³⁵

The GRI may represent a step towards developing the equivalent of generally accepted accounting principles (GAAP) for social responsibility.³⁶ It has established indicators that assist in the evaluation of economic, social and environmental performance. These include economic performance indicators, environmental performance indicators and social performance indicators, as follows (adapted from the 2002 GRI Sustainability Reporting Guidelines):

<p>Economic Performance Indicators</p> <ul style="list-style-type: none"> Measures the company’s direct economic impact on customers, suppliers, employees, providers of capital and the public sector. Measures the indirect economic impact, which relates to major externalities associated with the reporting organization’s products and services. 	<p>Social Performance Indicators</p> <ul style="list-style-type: none"> Assesses labour practices and decent work, including breakdown of workforce, labour/management relations, health and safety practices, training and education, diversity and opportunity. Assesses human rights practices, including strategy management, non-discrimination, freedom of association and collective bargaining, child labour practices, forced and compulsory labour practices, disciplinary practices, security practices and respect of indigenous rights. Assesses social practices, including community impact and involvement, policies related to bribery and corruption, political contributions, and competition and pricing. Assesses product responsibility, including customer health and safety, labelling and customer satisfaction of products and services, advertising policies and adherence to regulation, and policies related to the respect for privacy.
<p>Environmental Performance Indicators</p> <ul style="list-style-type: none"> Measures materials, energy, and water use, impacts on biodiversity, rate of emissions, effluents, and amount of waste, supplier performance, environmental impact of products and services, incidents of fines and non-compliance to regulation, impact of transportation and total environmental expenditures. 	

³³ www.globalreporting.org accessed July 24, 2005.

³⁴ SustainAbility. 2004. p. 38.

³⁵ Global Reporting Initiative. 2002. p. 45.

³⁶ Tapscott D., Ticoll D. 2003. p. 271.

According to the GRI database, internationally, 677 organizations are registered that refer to the GRI in the development of their sustainability or social responsibility reports; 23 of these are Canadian. Of these 23, five companies are registered as reporting “in accordance,” which reflects a strict level of adherence to the GRI reporting guidelines. These companies are Enbridge Inc., Shell Canada Limited, Suncor Energy Inc., Talisman Energy Inc., and VanCity Credit Union.³⁷

While the GRI is an important step towards the development of internationally accepted, credible and comparable CSR reporting, several issues remain to be addressed. For one, many of the social issues that are the subject of performance measurement are not easily quantifiable, therefore a number of the social indicators are qualitative measures of the organization’s systems of operations, including policies, procedures and management practices.³⁸ While it is arguable that a quantitative measure of such policies is not the best approach to evaluation, their qualitative nature does make it difficult to truly compare social performance across industries. Furthermore, the voluntary nature of reporting results in variability in report quality and credibility. Companies are able to selectively report on GRI indicators, which results in a variability of report content from company to company. “In accordance” reporting does require a strict adherence to reporting guidelines and is the standard to which companies are encouraged to comply. The development of “in accordance” reports does require a large capital and human resource investment and only those companies with well established sustainability initiatives are likely to aspire to such a standard.

As the demand for corporate transparency increases, companies are feeling the pressure to produce reports that include quantitative

facts reflecting social and environmental performance. Sustainability and CSR reports consisting of text and pleasant imagery of community involvement and philanthropy are being increasingly criticized and considered insufficient. Reports must also provide environmental and social data to ensure that all activities and impacts are transparent. Although CSR reporting is in its infancy, its development has been approached with a steep learning curve and will continue to evolve and improve with increased experience.

The Role of Socially Responsible Investment

Alongside the development of CSR standards and reporting guidelines, the investment community has been active in evaluating companies’ social, environmental and economic performance.

The Jantzi Social Index (JSI), for example, is a socially screened, market capitalization-weighted common stock index modeled on the S&P/TSX 60. It consists of 60 Canadian companies that pass a set of social and environmental screens.³⁹

The Dow Jones Sustainability Index (DJSI) World, launched in 1999, is another prominent index providing global sustainability portfolios of sustainable companies and is an independent benchmark based on economic, environmental and social criteria. It captures the leading 10 per cent in terms of sustainability out of the largest 2,500 companies in the Dow Jones Global Index that participate in the annual review.⁴⁰ Following the DJSI World, the European DJSI STOXX was launched in 2001, covering the top 20 per cent in terms of sustainability of the companies that comprise the DJ STOXX 600 Index. This pair of indexes was followed by the launch of the DJSI North America and DJSI United States on September 23, 2005.

³⁷ www.globalreporting.org accessed July 29, 2005.

³⁸ Global Reporting Initiative. 2002. p. 52.

³⁹ www.jantziresearch.org accessed July 30, 2005.

⁴⁰ www.sustainability-indexes.com accessed June 20, 2005.

In evaluating corporate sustainability, the DJSI uses information gathered through questionnaires, company documents, media and stakeholders, as well as direct contact with the companies, assessing both general and industry-specific sustainability criteria.

While strictly linking financial performance with social and environmental performance may be tenuous at this point in time, a recent study demonstrates that, from the environmental perspective, this link does exist. Through literary review and an examination of case studies, the main conclusion is that there is "strong evidence for the existence of a positive relationship between environmental governance and financial performance."⁴¹ Furthermore, from January 2000 through June 2005, the JSI achieved an annual return of 4.78 per cent while the comparable S&P/TSX 60 and the S&P/TSX Composite had annualized returns of 4.62 per cent and 3.75 per cent, respectively, over the same period.⁴²

CSR on the Global Agenda

While the motivations for each company to act in a socially and environmentally responsible manner are diverse, the collective impact of these actions is important to international goals set to address environmental deterioration and social inequity.

CSR and International Sustainability

Through a range of international conferences and meetings during the 1990s, a global recognition of and commitment to 'sustainable development' was established. In September 2000, 189 members of state ratified the Millennium Declaration, which formed an unprecedented global commitment to face

some of the world's major challenges. Following this declaration, the Millennium Development Goals (MDGs) were established to form a road map for the implementation of the declaration. These goals, to be met by 2015, seek to address issues related to poverty and hunger, education, gender equality, child mortality, maternal health, disease combat and environmental sustainability, with the ultimate goal of creating a global partnership for development.⁴³ While the main responsibility for achieving these goals lies with government, the private sector has been called upon to play an effective role. An analysis of how business can contribute to the achievement of the MDGs is presented by the UN in *Business and the Millennium Development Goals: A Framework for Action*.

Furthermore, the UN Global Compact was established in 2000 by UN Secretary-General Koffi Annan to create a global network of companies committed to addressing some of the challenges of globalization and to drive the contribution of the private sector to the achievement of the MDGs.⁴⁴

Beyond this, a number of international initiatives have attempted to outline the expectations of corporate activity that include, but are not limited to, the OECD Guidelines for Multinational Enterprises, the Business Charter for Sustainable Development, and the Global Principles Network "Benchmark."

In 2002, the World Summit on Sustainable Development, which was attended by 100 world leaders and more than 22,000 delegates representing 193 countries and intergovernmental organizations, as well as 8,000 representatives from NGOs, business and other civil society groups, met to identify how sustainable development would be

⁴¹ Environment Agency. 2004. p. 1.

⁴² www.jantziresearch.com accessed August 15, 2005.

⁴³ www.un.org/millenniumgoals accessed July 20, 2005.

⁴⁴ www.unglobalcompact.org accessed July 19, 2005.

driven.⁴⁵ Their plan for implementation included the following:

18. Enhance corporate environmental and social responsibility and accountability. This would include actions at all levels to:

- a) Encourage industry to improve social and environmental performance through voluntary initiatives, including environmental management systems, codes of conduct, certification and public reporting on environmental and social issues, taking into account such initiatives as the International Organization for Standardization (ISO) standards and Global Reporting Initiative guidelines on sustainability reporting, bearing in mind principle 11 of the Rio Declaration on Environment and Development;
- b) Encourage dialogue between enterprises and the communities in which they operate and other stakeholders;
- c) Encourage financial institutions to incorporate sustainable development considerations into their decision-making processes;
- d) Develop workplace-based partnerships and programmes, including training and education programmes.⁴⁶

Businesses have thus been identified as essential players in achieving the goals set out by these various international declarations. Their positive collaboration with government,

international bodies and NGOs is seen as an important tool in driving global economic, environmental and social sustainability.

CSR on the National Agenda

In Canada, a myriad of information, literature and studies attempting to understand the role of CSR has emerged over the past decade. While these studies continue to struggle with the definition and best practices for the implementation of CSR strategies, it is evident that it has become a national issue. Recent studies from organizations promoting CSR confirm the following:

The Conference Board of Canada: Corporations must pay heed to social responsibility. There is an urgent need to find ways to balance business opportunity with societal impact in a way that builds value, both for themselves and for society.⁴⁷

Canadian Business for Social Responsibility: Leading corporations simply must balance the needs of all their stakeholders—clients, employees, shareholders, communities and suppliers—because there is such an inextricable link connecting them. To ignore one is to imperil them all: to behave responsibly is to benefit them all. It's as simple as that.⁴⁸

Furthermore, government agencies have confirmed that CSR is imperative to economic and environmental sustainability:

Natural Resources Canada: Corporate social responsibility approaches, tools and concepts are becoming increasingly important to companies who want to maintain or increase their competitiveness in the global marketplace.⁴⁹

⁴⁵ United Nations. 2002.

⁴⁶ United Nations. 2002. p. 15.

⁴⁷ Conference Board of Canada. 2004. p. 40.

⁴⁸ Canadian Business for Social Responsibility, 2005. p. 8.

⁴⁹ Natural Resources Canada, 2005. p. 57.

Environment Canada: Environment Canada is committed to supporting and advancing CSR principles and tools, in partnership with other federal departments, businesses and other stakeholders, to help Canadian industry to become leaders in sustainability, innovation and performance.⁵⁰

In support of these assertions, a simple web search of the S&P/TSX 60 shows that 97 per cent of these companies make reference to some form of CSR on the home page of their web sites. While the extent to which these companies are actively developing and implementing CSR programs varies widely, this figure demonstrates that this notion has entered the Canadian corporate landscape.

⁵⁰ Environment Canada, 2004. p. 26.

Part III: A Corporate Perception of Social Responsibility

While the evolution of CSR has been to a great extent driven by external pressures, the reasons for which corporations choose to act in a socially responsible manner are diverse. To better understand the drivers, challenges and opportunities for developing CSR reports and programs, a sample of Canadian companies was chosen for interview. This section represents a summary of the interview findings.

Interviewed Companies

<i>Company</i>	<i>Industry</i>
Nexen Inc.	Oil and Gas
Dofasco	Steel
BMO Financial Services	Financial Services
Toronto Dominion Bank	Financial Services
Tembec	Forestry
Sears	Retail
George Weston Inc.	Food

Interviewing companies within various sectors provides a broad perspective on the issues and drivers of CSR. For the purposes of this report, only the information discussed throughout these specific interviews will be summarized in the following section. Due to the small sample size, the generalization of the results to the broader CSR movement is limited.

Each company, and industry within which it operates, is subject to its own set of pressures and regulations that affect the development and implementation of various CSR policies.

The areas of priority vary, as do the motivators. The financial services industry, for example, is mandated to develop a “Public Accountability Statement” under the Bank Act, while other industries have no such obligation. Extractive industries have been under great public pressure to account for and reduce their environmental impacts, while the retail industry has been most subject to public scrutiny of its supply chain practices. Without trying to ignore the unique context within which each company operates, the following summary seeks to identify the common factors among the selected companies and their experiences with CSR.

Defining CSR

In attempting to define CSR, most respondents acknowledged the lack of a universal definition. This is emphasized by the fact that the respondents used various terms to describe the notion, including

- corporate citizenship
- sustainable development
- social responsibility
- corporate governance.

One interviewee compared the obligations of the public corporation to its shareholders with the obligations of governments to tax payers. In developing government policy, a range of stakeholders is considered. There is an understanding that as a society there is a range of interests that must be considered in the various decisions made. The interviewee felt that this recognition has only come to be realized by the business community in the past decade or so and is being referred to in terms of CSR.

“Defining CSR is the question of the day because it is such a new field. To me it’s making sure that our company is a solid citizen. I like the term corporate citizen because it means doing your part as a member of society. I think that, as a corporate member of society, we benefit a lot from society and we take a lot from society and we are so integrated in society that it is our duty as a corporate citizen to give back.”

“We use the term sustainability as opposed to CSR or CR because we look at it as a triple bottom line perspective. The financial results are the underpinning. You need to be a viable, competitive, profitable organization, but we don’t want to profit

at any price. For us, it’s about how we can make a link between our economic performance and our safety, environmental and social performance.”

“The term covers the whole range of all relationships and activities of the corporation with all of the stakeholders it touches. No man[sic] is an island, nor is any corporation.”

“CSR encompasses six major areas: communities, environment, customers, employees, shareholders and a broad group of all Canadians. CSR is a collection of these elements and we are doing everything to address these elements distinctly.”

Interview respondents

CSR affects...

- employees
- environment
- customers
- communities
- shareholders
- governments

When asked how the definitions were developed within the company, and by whom, the following themes emerged:

- **External influence:** Companies are not in the business of writing definitions. It is, however, relevant to explain how the company operates in the context of externally developed definitions of CSR.
- **Internal debate:** The definition was developed through the various departments within the organization active in the areas that fall under the CSR umbrella (environment, health and safety, human resources, community affairs). The specific areas of focus were established through various board meetings and internal debates.
- **Founding members:** The CEO and founding executives defined how the corporation would consider society and the environment in company operations.

Prior to the emergence of the term “corporate social responsibility,” the founders addressed these issues within their mission statement and core values.

CSR Policies and Programs

In attempting to identify CSR policies and programs, companies often had difficulty referring to these policies and programs in terms of CSR. The general sense is that these policies and programs were in place before the emergence of the term “corporate social responsibility” and that they are not necessarily categorized as such. The following is a list of policies and programs that respondents referred to when speaking of CSR:

- Environment
- Product certification
- Risk management
- Health and safety
- Food safety
- Conflicts of interest
- Corruption and bribery
- Privacy and confidentiality
- Community affairs and investment

- Corporate governance
- Product sourcing and buying
- Human relations
- Aboriginal relations
- Compliance
- Human rights
- Ethics
- Public consultation

One respondent stated that the areas that comprise CSR are not new to the company but, due to the “CSR movement,” they are increasingly seen through a “CSR lens.” Each individual department is taken out of its “box” and corporate activities are examined as a whole. This focus on CSR causes the corporation to look at how the various activities collectively impact the environment, society and the financial success of the company.

This holistic approach to management leads to greater corporate efficiency and success. How these areas are tied to company performance was explained using the following examples.



When asked whether there has been an evolution in the operations of the organization since the adoption and implementation of these policies, most respondents referred to public reporting of corporate performance as a major driver of change. Many respondents felt that reporting on these issues drew greater attention within the organization and increased individual employee interest in corporate performance in these areas. Providing this information throughout the organization led employees to question their performance and to strive for improvement. Companies have a wide range of policies and programs in place, but without knowledge of performance it is impossible to assess policy implementation and correlate this with corporate performance.

Drivers of CSR

No individual driver is responsible for corporate recognition that social responsibility is essential to business operations. During the interviews, companies explained the various ways in which their organizations began to consider their impacts on the communities and environments surrounding them. Three predominant drivers for strong social and environmental performance emerged: founder passion and vision, a reaction to external pressure, and the desire to establish a competitive advantage over industry peers.

Founder passion and vision:

“CSR has been embedded in the company since its inception.”

“The senior executive established a set of core values and basically said that this is the way that we want to conduct our business.”

Interview respondents

Although companies that establish a true commitment to environmental and social sustainability are rare, CEO dedication is a key

driving factor for good social and environmental performance. These companies are founded on a set of core values that incorporate social and environmental considerations into their business practices. They consider these issues to be an integral part of the decision-making process.

External pressures:

"The 'me too' scenario where you want to do it because your competitor is too, but also because we are getting pushed by shareholder groups who are in turn being pushed by ethical shareholder organizations and NGOs."

"More today than ever before, there is a lot of pressure from communities saying to companies that they have to look at the social impact—it has a cost."

Interview respondents

External pressure has played a major role in driving the CSR movement. Shareholder groups, communities, corporate advocates of CSR, NGOs and various other interest groups have all played roles in encouraging and pressuring companies to address social and environmental issues.

Competitive advantage:

"Over time there may be an improved competitive edge."

"There is always some business sense to it: if there is an opportunity and communities like you, the chances are you are going to get the first crack at it."

Interview respondents

Some respondents believe that over time they may develop a competitive advantage within their industry. Whether through increased market share, increased trust in the organization, or better operational efficiency, there is certainly a business incentive behind the development and implementation of CSR policies and practices.

Benefits Derived from CSR

"Process improvements means that we are not only improving what we are doing externally and improving our role as a corporate citizen, but also we find that a lot of those process improvements save the company a lot of money."

"I am a little internally focused here with employees and customers, but I think that they are the ones who care and then everything else follows."

"A huge project approval process was very smooth because of the emphasis on public consultation."

Interview respondents

In discussing the benefits derived from CSR, respondents shared different successes that their organizations had experienced. These include the following:

Community relations: For companies operating directly with communities, public consultation is an important factor that leads to increased opportunities and smoother operations.

Cost savings: Increased energy efficiency and waste minimization are examples of projects that have reduced company costs. While some of these costs are realized in the longer term, they are tangible and quantifiable benefits of CSR policies.

Employee retention/low turnover rate: Most respondents felt that increased employee satisfaction and loyalty is a major benefit derived from increased corporate responsibility. Young recruits are becoming increasingly environmentally and socially conscious and have been shown to take these matters into consideration when selecting employment. Current employees who are satisfied with corporate practices and "proud" are more likely to stay with the organization over the long term.

Customer satisfaction and trust: For service providing companies, customer trust is essential to corporate success.

Competitive advantage: Acting as both a driver and a benefit, gaining a competitive advantage within industry is essential. Some companies view this as gaining an important part of market share (goods and services) and others see this as increased access to future business opportunities.

Public approval: Often industries are judged by their weakest link. Extractive industries, in particular, must work to improve their collective performance and overall sustainability and reputation to maintain their social licence to operate.

Conflict resolution: A company with a good social and environmental record will be able to minimize the negative impacts of adversity.

Opposition to CSR

"What is it? And why do you talk about it as though it is separate?"

"We run very lean. For additional headcount to be put in place we really have to justify what the benefits are and we are still not clear on that."

"If you stick your head out there, someone is going to take a shot at it."

"Mentalities can be very different. You have to work with people and with suppliers to sell the advantages"

"It continues to be elusive to say that responsible companies are better off than irresponsible companies. . . . What is a bit frustrating for companies that invest in this area is that we would love to see very tangible returns."

Interview respondents

While the individuals interviewed all work within organizations that acknowledge CSR is an important part of operations, even within leading companies uncertainty persists about many aspects of CSR.

As part of the corporate culture, the ability to quantify return on investment is essential. While the potential benefits of CSR policies listed above are vast, expressing them in terms of financial gain and linking them directly to investment in these policies can be a difficult task. While one interviewee argued that making this link is counterintuitive and that corporations should act responsibly because it is "the right thing to do," two interviewees expressed that this link is necessary to gain company support of investment in social and environmental initiatives. The difficulty of quantifying the benefits derived from investment in CSR can make it difficult to advance CSR within an organization.

Some challenging questions raised include

What is it? Often corporations are looking for a crystal clear definition, but this does not exist. Given that so much external debate surrounding CSR exists, how are companies expected to understand something that has no common definition?

Why is CSR a separate issue? Some have a difficult time understanding why CSR is being treated as a separate issue from all other business activities. Is CSR not just good business sense?

Where is the financial link? How will investment in CSR lead to increased financial returns?

Who is evaluating performance? With an array of standards for evaluating CSR, companies are unable to benchmark their performance. How do we know if what we are doing is "good"?

CSR Reporting and Communication

"CSR is not measurable — that has been one of the criticisms of CSR reporting and the CSR area generally. Part of the corporate culture is around measuring results."

"It's like VHS and Beta. We are going to wait until one wins out."

"Often I find that when you get those types of things [CSR reports], you throw them in the garbage... The reports that companies produce are 92 per cent PR crap. Give me the facts."

"Oftentimes companies will make their decisions by looking at their competitors and what they are doing, and when you can't present that in a consistent fashion it's useless."

Interview respondents

Some of the interviewed companies do produce full corporate social responsibility/sustainability reports, some make brief reference to their CSR activities within their annual reports, and others are in the process of developing literature on CSR for the first time.

As mentioned in the previous sections, CSR reporting is an area that is driving many corporations to take a deeper look at their activities. Through the reporting process, companies are forced to examine their performance in areas related to CSR. However, the credibility and quality of reports remains an area of concern.

Companies are increasingly being pressured to publicly disclose all of their activities, whether they be financial, social or environmental. While the financial services industry has been mandated to produce a "Public Accountability Statement" under the Bank Act, most industries have no such requirement.

Determining what to report on and how to report is a major challenge.

According to a KPMG survey, more than half of the world's biggest companies reveal details on their environmental and social performance. This survey, which is published every three years, suggests that CSR reports are becoming increasingly detailed and are covering a wider range of issues. Companies have moved from reporting strictly on environmental issues to reporting on environmental, social and economic issues within their CSR or sustainability reports.⁵¹

As reporting for most industries is voluntary, companies are able to select how and what they decide to report. This raises concerns for both companies and evaluators. From the corporate perspective, the ability to benchmark performance against competition is valuable. With no set standards, a methodical comparison is impossible. This lack of credibility leads many corporations to question report value.

If the report is not seen as credible by the public, external evaluators and other corporations, what is the point in committing resources (money, time and human resources) to its development?

Interviewees expressed some key concerns with respect to CSR reporting, including

- lack of universal reporting standards
- substantial cost of reporting in terms of financial, time and human resources with little proven benefit
- difficulty in tracking accurate data
- lack of credibility
- perception that reporting is merely a PR exercise

⁵¹ KPMG Global Sustainability Services: KPMG International Survey of Corporate Responsibility Reporting 2005. Accessed July 30, 2005, from www.kpmg.com/Rut2000_prod/Documents/9/Survey2005.pdf.

- risk that the voluntary provision of information may invite criticism.

The Global Reporting Initiative (GRI) was described as the “closest thing that exists to a universal standard.” While most of the interviewed companies do not report in accordance with the GRI, they do use it as a guide and admit that they only use indicators they feel are relevant to their business, or indicators they are capable of measuring.

Accurate data tracking and measurement were stated as primary challenges of the reporting process. Two factors include

- Convincing individual managers that tracking information is important. For managers who have been conducting business as usual for a long period of time, the task of measuring the quantity of materials recycled, for example, is sometimes perceived as an unnecessary increase in workload.
- The ability to establish accurate measurement processes takes time to perfect.

The various organizations interviewed range from having a team of individuals dedicated to tracking social and environmental performance, to not having any one individual dedicated to this purpose. Although the level of commitment to this area varies, one interviewee stated that “it’s not a matter of ‘if’” corporations will have to account for their social and environmental performance, “it’s a matter of when.”

In terms of communicating CSR activities and reports, the Internet is the most widely used vehicle of communication. While some companies produce hard copy CSR reports that are distributed to investor groups, community advisory committees, shareholders, employees and NGOs, others believe that providing the information on the company website gives sufficient access to anyone interested in learning about corporate activities. Furthermore, a number of interviewees stated that presentation of CSR activities by corporate executives was an effective means of promoting CSR throughout their respective industries.

Opportunities	Challenges
<ul style="list-style-type: none"> • The GRI is increasingly seen as globally accepted standard of reporting and provides good guidance to companies. • Reporting provides increased measurability of investments made in environmental and social initiatives. • The information is used internally to encourage and motivate employees, and externally to promote CSR practices. • Reporting provides desired information to key stakeholders. • Reporting enables the organization to understand and track its initiatives. • Transparency increases public and investor trust in the organization. 	<ul style="list-style-type: none"> • A truly universal reporting standard has yet to be established. • There are substantial financial, time and human resource costs associated with report development. • Accurate data collection processes are difficult, and take time, to establish. • There is a lack of credibility in reports due to variation in report quality. • Reports are sometimes perceived as a mere PR exercise or “greenwash.” • The voluntary provision of information may invite criticism of corporate activities, which companies are not willing to endure.

“Ultimately...the Consumer Will Decide”

“Where we need to push is with the investors; they are not there yet.”

“At the end of the day, if it’s costing us more, we would like to get more money because we need to be profitable. It’s like BMW: it’s a trademark and people will pay more money for it.”

Interview respondents

Businesses must be able to derive benefit from investment in social and environmental initiatives, which will result from increased consumer and investor demand. One interviewee stated that “ultimately, the consumer will decide” with reference to the further progression of CSR.

From an investment perspective, companies are eager to see a proven correlation between good corporate responsibility and good financial performance. While those advocating CSR believe that this link exists, it has yet to be effectively proven in the marketplace. Two

predominant investment indexes were referred to: Dow Jones Sustainability Index and Jantzi Social Index.

While three interviewees stated that these are important indexes in the sense that they are starting to track the financial performance of socially responsible companies, they also stated that investor demand for social responsibility is insufficient.

Likewise, two interviewees said that consumer demand for “socially responsible” products is not yet evident. Today’s market-based economy does afford consumers with a wide range of choices. Faced with the option of purchasing a “socially responsible” or “sustainable” product at a premium, most consumers will still choose the cheaper alternative. Sustainable products are not yet sufficiently viewed as “superior goods,” but efforts are being made on the part of suppliers and retailers to raise consumer awareness.

All interviewees were confident that both social investment and “social consumption” will gain significance in the marketplace.

Part IV: Summary and Advancing Corporate Social Responsibility

Summary

This paper provides an overview of several prominent indexes, standards and guidelines for CSR and gives a corporate perspective on CSR. Discussions with corporate leaders confirmed that they perceive their social responsibility to be an increasingly integral part of business operations and long-term viability. While the degree to which each company implements CSR policies and programs varies, all the corporate leaders believe that their organizations are addressing or beginning to increasingly address and account for their social and environmental activities.

While a handful of interviewees believe that CSR is “the right thing to do,” most emphasize that corporations are primarily concerned with their profitability and have come to recognize that a wide range of stakeholders are affected by, and can effect the success of, their operations. It is arguable that to ensure access to future opportunities, for example, companies will be required to demonstrate a history of sensitivity toward and respect for the local communities in which they operate. To ensure competitive advantage, they must meet existing and future potential consumer demand for “sustainable” goods. To increase public trust, companies must account for the social and environmental implications of their operations.

Internally, companies are concerned with employee satisfaction, performance and productivity. Increasingly, young graduates appear to be demonstrating preference for organizations with a good record for social

and environmental responsibility. To derive benefits from recruitment and ensure employee job satisfaction, companies must meet these demands.

While interviewees believe that such considerations touch the bottom line, they seek quantifiable evidence of a direct return on investment. Performance of, and demand for, socially and environmentally screened investments, and increased consumer demand for “sustainable” goods, were stated as two factors that will assist in establishing this link, which will in turn encourage the development of CSR initiatives within organizations.

The social and environmental evaluation of companies is, however, increasingly seen as falling within the scope of fiduciary duty of trustees, financial advisers, asset managers and intermediary institutions,⁵² and it is therefore in the best interest of corporations to ensure that they are addressing these areas.

While the lack of standardized CSR guidelines is a challenge in developing and expressing comprehensive CSR programs, the GRI was identified as a key guideline. Its use will enable a more methodical comparison of corporate activities.

Finally, there is evidence of a growing contingent of present and future business leaders who are dedicated to social, environmental and economic performance. This cohort is likely to make a significant positive contribution to the role corporations

⁵² United Nations Global Compact. 2005. p. 3.

will play in achieving international goals of sustainable development. Furthermore, the establishment of management training programs focused on CSR is beginning to assist business leaders in understanding the practical requirements necessary to attain these goals.

Advancing Corporate Social Responsibility

Examples of true corporate dedication to sustainable development from social, environmental and economic perspectives give hope to CSR advocates. Ray Anderson of Interface Inc. sets a primary example:

We believe that there's a cure for resource waste that is profitable, creative and practical. We must create a company that addresses the needs of society and the environment by developing a system of industrial production that decreases our costs and dramatically reduces the burdens placed upon living systems. This also makes precious resources available for the billions of people who need more. What we call the next industrial revolution is a momentous shift in how we see the world, how we operate within it, what systems will prevail and which will not. At Interface, we are completely reimagining and redesigning everything we do, including the way we define our business. Our vision is to lead the way to the next industrial revolution by becoming the first sustainable corporation, and eventually a restorative enterprise. It's an extraordinarily ambitious endeavor; a mountain to climb that is higher than Everest.⁵³

However, this movement is only in its beginning phases. While certain aspects of CSR have been identified as contributing to profitability, obtaining true sustainability objectives requires the commitment of a majority of global corporate leaders, representing a significant shift in corporate culture.

The belief in the possibility of operating a profitable business while ensuring environmental preservation and social responsibility is essential to achieving these goals. This will require business leaders to adopt a more long-term approach to business management. Dave Mowat, CEO of Vancity, remarks that, "In business, it's too easy to focus on quarterly results. We need to think and act as if we'll be around for 20 years."⁵⁴

After having examined the CSR debate through literature review and discussion with CSR professionals, academics, as well as various corporations, it has become evident that the combination of corporate leadership and collaboration among NGOs, government and industry is essential to engaging corporate interest in environmental and social issues. A multi-faceted approach, which includes the development of effective voluntary initiatives, the establishment and enforcement of regulation and policy, and the engagement and education of consumers, investors, and corporate leaders, is required to attain CSR in practice.

⁵³ www.interfaceinc.com

⁵⁴ Canadian Business for Social Responsibility, 2005. p. 10.

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Appendix 2: Interview Guide

1. How do you define “corporate social responsibility” or “corporate responsibility” (CSR)? How was this definition developed and by whom?
2. Does your organization have official CSR policies and programs? If yes, what aspects of CSR are of most importance to your organization and why?
3. How were your CSR policies and programs developed? Were external stakeholders involved? If so, who?
4. Has there been an evolution in your operations since the adoption of CSR frameworks? If so, what has this entailed?
5. What have been the major challenges and opportunities throughout this process?
6. Where do you expect to derive the most value from your CSR initiatives (e.g., employees, customers, communities, governments, external groups, other)?
7. How do you communicate your CSR policies and initiatives (e.g., website, print materials, presentations, other)?