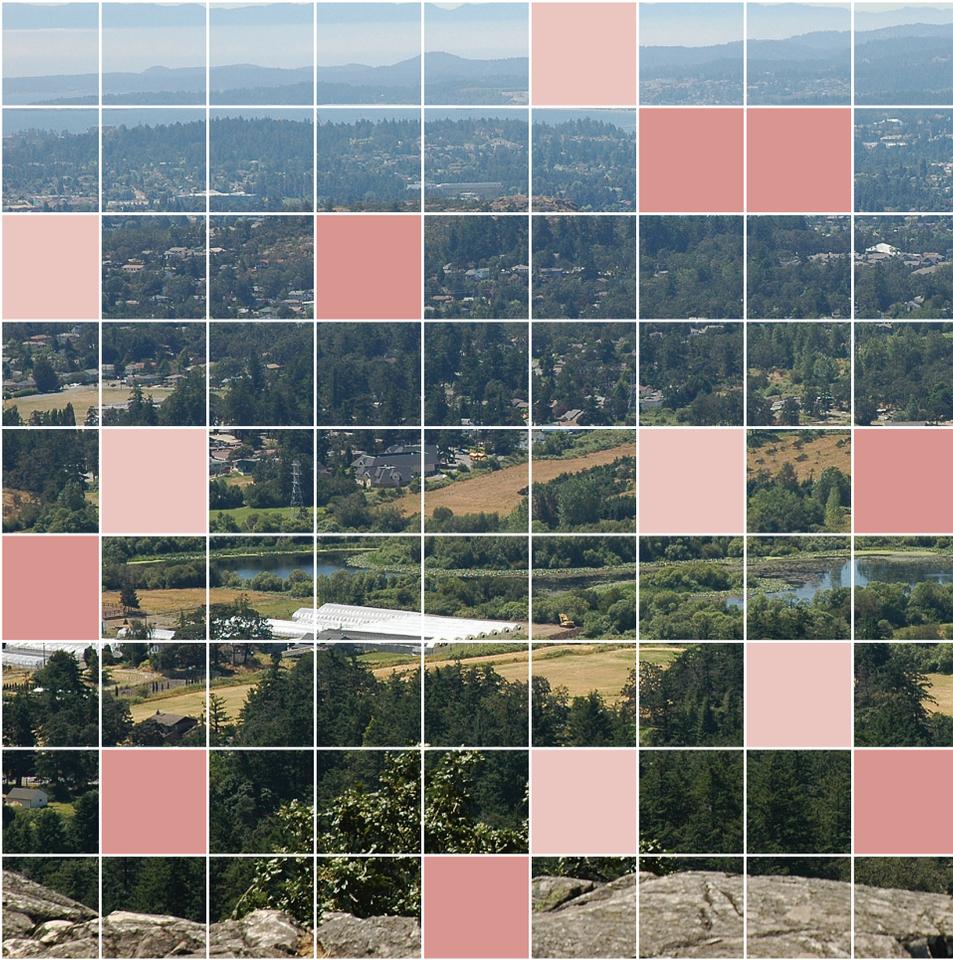


Corporate Social Responsibility

An Implementation Guide for Business



Paul Hohnen, Author
Jason Potts, Editor

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Corporate Social Responsibility: An Implementation Guide for Business

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“Our biggest challenge this century is to take an idea that seems abstract—sustainable development—and turn it into a reality for all the world’s peoples.”

Kofi Annan, former UN Secretary General

Preface

One of humankind’s greatest challenges this century will be to ensure sustainable, just and balanced development. The needs of current and future generations cannot be met unless there is respect for natural systems and international standards protecting core social and environmental values. In this context, it is increasingly recognized that the role of the business sector is critical. As a part of society, it is in business’ interest to contribute to addressing common problems. Strategically speaking, business can only flourish when the communities and ecosystems in which they operate are healthy.

This broad strategic context helps explain the growing appetite among businesses worldwide for authoritative information, company examples and advice about corporate social responsibility (CSR). This guide has been developed by the International Institute for Sustainable Development (IISD) to help respond to that demand. Importantly, the guide should also be useful to the many firms that do not currently have formal CSR policies or programs in place. While not specifically developed for use by public agencies and civil society organizations, the principles of CSR may also be helpful to them in their own sustainability efforts.

The guide, which draws heavily on a 2005 guide prepared by the Government of Canada for a Canadian audience, aims to provide practical guidance to companies operating in the international context.¹ With this in mind, we have made a special effort to highlight issues and examples from around the world.

The guide is primarily intended as an introduction to some of the existing CSR tools and approaches which are currently being used. In publishing this guide, we aim to provide a useful starting point for accessing the many CSR instruments currently available in the marketplace. Governments, multilateral organizations, non-governmental organizations and other groups have devoted considerable time and energy to the promotion of corporate social responsibility giving rise to a vast repository of CSR initiatives, instruments and resources.

Among the better known international instruments this guide draws on include:

- The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises;
- The International Labour Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and Core Labour Standards;
- The UN Global Compact Principles;

¹ *Corporate Social Responsibility: An implementation guide for Canadian business*, 2005.

- The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines;
- The International Organization for Standardization (ISO) standards;
- The AccountAbility AA1000 Series; and
- The Social Accountability International SA8000 standard.

It is hoped that businesses and other organizations interested in implementing a CSR approach will use this guide as a point of departure for CSR design and implementation. The guide reviews key issues to consider, offers options for addressing them and refers to many specific tools that could be of most assistance. Actual implementation of any specific CSR activities will almost certainly involve the use of one or more of the tools referenced in this guide. Our purpose is to provide a framework for helping corporate CEOs, managers and employees navigate across the sea of existing CSR instruments.

Readers should note that this guide considers CSR to be only one aspect of a comprehensive multi-stakeholder effort to improve environmental and social conditions and prevent harm. The complementary actions of all sectors of society—governments, non-governmental organizations, citizens and others—are also necessary.

Firms that choose to implement a CSR approach should note that this will involve a dynamic learning process, for which this guide is merely one source of information and assistance. Sustainable development and CSR are moving targets that cannot be fully “achieved” by one-time activities and decisions. Businesses—and other organizations—should approach CSR as a process of continual improvement, being constantly alert to new issues and considerations. The challenges of sustainable development and market developments imply that a firm could adopt the approaches described in this guide today and face new challenges and opportunities tomorrow.

In preparing the guide we have sought to use international examples of select best practices to illustrate the substance of the subject matter being presented. However, it should be noted that the scope of the review is neither comprehensive nor complete with respect to all CSR activities and initiatives around the world. There are many examples that could further substantiate the guide but for lack of time and resources could not be referenced.² In an effort to ensure the guide’s accuracy and international relevance, we have sought input from an extensive external advisory group of CSR experts and users (see Appendix 1). While the guide does not represent a consensus of the advisory group or members of the advisory group, it does try to reflect the diverse range of viewpoints and cultural contexts from which CSR is approached.

Readers should not be put off by the guide’s length. While it can be read in full, it has been developed so that separate sections can be read independently. This approach has meant that there is some degree of repetition of general points, but it is hoped this will not be a deterrent to those reading it in full. Because it is published as a web-based tool, readers will be able to dip into the most relevant parts (e.g., on guidance for small business) directly.

² A few examples from the East Asian context include: (1) the Singapore Compact that employs a tripartite approach involving business, government and labour, and Global Compact principles; (2) the Thailand Labour Standard (TLS) that consists of a government-led labour standard certificate system; (3) PROPER in Indonesia which is comprised of a government-led Environmental Performance Rating Programme in which the Ministry of Environment rates the environmental performance and pollution levels of businesses; (4) some Chinese initiatives such as the Nanching and Shanghai declarations in 2005 and the CSR Beijing Declaration in 2006; and, (5) within India, the Confederation of Indian Industries (CII).

Finally, it should be noted that neither the initiatives nor companies referenced in this guide are necessarily endorsed by IISD, or by any of the above-mentioned individuals and their organizations. The reader assumes full responsibility for using this guide in any way.

International Institute for Sustainable Development
Winnipeg, Manitoba
Canada
March, 2007

Introduction

Responsible business is good business

“We are committed to creating economic value, but we are not indifferent to how we do it. ... Progressive businesses are gaining competitive advantage by responding to societal signals. ... We prosper by helping society to prosper.”

Idar Kreutzer, CEO Storebrand, 2005

There is growing recognition of the significant effect the activities of the private sector have—on employees, customers, communities, the environment, competitors, business partners, investors, shareholders, governments and others. It is also becoming increasingly clear that firms can contribute to their own wealth and to overall societal wealth by considering the effect they have on the world at large when making decisions.

Business opinion polls and corporate behaviour both show increased levels of understanding of the link between responsible business and good business. Also, investors and financial markets are beginning to see that CSR activities that integrate broader societal concerns into business strategy and performance are evidence of good management. In addition to building trust with the community and giving firms an edge in attracting good customers and employees, acting responsibly towards workers and others in society can help build value for firms and their shareholders.

“There is no way to avoid paying serious attention to corporate citizenship: the costs of failing are simply too high. ... There are countless win-win opportunities waiting to be discovered: every activity in a firm’s value chain overlaps in some way with social factors—everything from how you buy or procure to how you do your research—yet very few companies have thought about this. The goal is to leverage your company’s unique capabilities in supporting social causes, and improve your competitive context at the same time. The job of today’s leaders is to stop being defensive and start thinking systematically about corporate responsibility.”

Michael Porter, Professor, Harvard Business School, at the April 2005 Business and Society Conference on Corporate Citizenship, sponsored by the University of Toronto’s Rotman School of Management

It must be recognized up front that CSR still creates a degree of confusion and controversy. Is the promotion and implementation of socially and environmentally preferable corporate conduct a function of business or government? Is the implementation of CSR practices a cost or a value-enhancer? Is it just public relations? In part, the problem stems from definitional issues, and a perception in some quarters that CSR is more about philanthropy, rather than “doing business” and responding to shareholder interests. The central thesis of this guide is that CSR is an integral part of the new business model.

Properly understood, CSR should be seen as the way that firms—working with those most affected by their decisions (often called “stakeholders”)—can develop innovative and economically viable products, processes and services within core business processes, resulting in improved environmental protection and social conditions.

This approach manifests itself in many forms, including high profile statements made by many corporate CEOs. Launching General Electric’s “Ecomagination” vision of “a cleaner, healthier world,” Chief Executive Jeffrey Immelt underlined the company’s commitment to find the “big answers for the big questions”—climate change, health, water—and to develop solutions, working in partnership with governments and civil society;³ in other words, aligning core business strategy with the changing social and environmental context.

“We believe that the leading global companies of 2020 will be those that provide goods and services and reach new customers in ways that address the world’s major challenges—including poverty, climate change, resource depletion, globalization, and demographic shifts.”

Niall Fitzgerald, former CEO & Chairman, Unilever

Businesses are an integral part of the communities in which they operate. Good executives know that their long-term success is based on continued good relations with a wide range of individuals, groups and institutions. Smart firms know that business can’t succeed in societies that are failing—whether this is due to social or environmental challenges, or governance problems. Moreover, the general public has high expectations of the private sector in terms of responsible behaviour. Consumers expect goods and services to reflect socially and environmentally responsible business behaviour at competitive prices. Shareholders also are searching for enhanced financial performance that integrates social and environmental considerations, both in terms of risk and opportunities.

Governments, too, are becoming aware of the national competitive advantages to be won from a responsible business sector.⁴ At the same time, leading industry associations, such as the World Business Council for Sustainable Development, have also suggested that countries as well as companies might gain a competitive advantage from corporate social responsibility. In much of the developing world, governments and business understand that their respective competitive positions, and access to capital, increasingly depends on being seen to respect the highest global standards.⁵

Even companies which may have a good reputation can risk losing their hard-earned name when they fail to put systematic approaches in place to ensure continued positive performance. The effect of a tarnished reputation often extends far beyond that one firm: entire sectors and, indeed, nations can suffer. Hardly a month goes by without some example of a major corporation suffering a reduced market position as a result of questionable behaviour, with many others subsequently finding themselves to be a part of the collateral damage. These firms frequently expend considerable time and money attempting to regain their reputation, with mixed results.

3 Further details can be found on the General Electric Web site, <http://ge.ecomagination.com>.

4 See “*Responsible Competitiveness: Reshaping global markets through responsible business practices*,” AccountAbility, December 2005, quoted above.

5 See “*Developing Value: The business case for sustainability in emerging markets*,” 2002, a report by IFC, SustainAbility and Ethos.

So what can be done to increase the likelihood that firms can enhance their good reputation, and continue to demonstrate positive business, social and environmental performance?

On a practical level CSR approaches need to be constructed by adapting best practices, existing initiatives and analyses to local contexts and situations. This guide aims to provide objective guidance on these matters within a larger sustainable development framework in a balanced manner.⁶

About this guide

This guide can be used as a primer on corporate social responsibility. As such, it contains information on how to assess the effects of business activities on others, develop and implement a corporate social responsibility strategy and commitments, and measure, evaluate and report on performance and engage with stakeholders.

Senior managers in firms of all sizes—from large corporations to small and medium-sized enterprises to micro-businesses—should find it valuable, as will management teams, board members and front-line employees, and industry association personnel who work with businesses. It is hoped that the guide will also prove useful to those already engaged in CSR activities. Finally, it is hoped that those outside the commercial world (e.g., government officials, representatives of non-governmental organizations and members of the public) will gain insights into the challenges firms face when addressing the effect of their activities on society.

The guide distils ideas and processes from a variety of sources, and is intended to be suggestive, not prescriptive. It has three parts:

- **Part 1** is an overview of CSR—how it is defined, the business case for it and the relationship between CSR and the law;
- **Part 2** sets out a six-stage “plan, do, check and improve” implementation framework for a CSR approach. This part also features information particular to small business, indicated by the magnifying glass icon; and
- **Part 3** looks at stakeholder engagement and the integral role stakeholders can play in implementing an effective CSR approach.



Five appendices contain supplementary information, including a list of key sources for further reading.

Every effort has been made to provide up-to-date examples of CSR practices and initiatives. Nevertheless, readers are encouraged to communicate directly with relevant specialist organizations, industry associations and other experts to obtain the latest information on these and other initiatives.

Questions, comments and suggestions concerning the guide should be sent to:

Sustainable Markets and Responsible Trade Program
International Institute for Sustainable Development
2001 Marie Anne Est
Montreal, Quebec H2H 1M5

⁶ A description of the business case for addressing sustainable development issues is contained in “*Capitalism at the Crossroads*,” by Stuart L. Hart, 2005.

Part 1

An overview of corporate social responsibility

What is corporate social responsibility?

“Social responsibility (is the) responsibility of an organisation for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that is consistent with sustainable development and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organisation.”

Working definition, ISO 26000 Working Group on Social Responsibility, Sydney, February 2007

Corporate social responsibility (CSR) is also known by a number of other names. These include corporate responsibility, corporate accountability, corporate ethics, corporate citizenship or stewardship, responsible entrepreneurship, and “triple bottom line,” to name just a few. As CSR issues become increasingly integrated into modern business practices, there is a trend towards referring to it as “responsible competitiveness” or “corporate sustainability.”

A key point to note is that CSR is an evolving concept that currently does not have a universally accepted definition. Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society. As issues of sustainable development become more important, the question of how the business sector addresses them is also becoming an element of CSR.

The World Business Council for Sustainable Development has described CSR as the business contribution to sustainable economic development. Building on a base of compliance with legislation and regulations, CSR typically includes “beyond law” commitments and activities pertaining to:

- corporate governance and ethics;
- health and safety;
- environmental stewardship;
- human rights (including core labour rights);
- sustainable development;
- conditions of work (including safety and health, hours of work, wages);
- industrial relations;

- community involvement, development and investment;
- involvement of and respect for diverse cultures and disadvantaged peoples;
- corporate philanthropy and employee volunteering;
- customer satisfaction and adherence to principles of fair competition;
- anti-bribery and anti-corruption measures;
- accountability, transparency and performance reporting; and
- supplier relations, for both domestic and international supply chains.

Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner, and thereby establish better practices within the firm, create wealth and improve society.⁷

These elements of CSR are frequently interconnected and interdependent, and apply to firms wherever they operate in the world.

It is also important to bear in mind that there are two separate drivers for CSR. One relates to public policy. Because the impacts of the business sector are so large, and with a potential to be either positive or negative, it is natural that governments and wider society take a close interest in what business does. This means that the expectations on businesses are rising; governments will be looking for ways to increase the positive contribution of business. The second driver is the business driver. Here, CSR considerations can be seen as both costs (e.g., of introducing new approaches) or benefits (e.g., of improving brand value, or introducing products that meet sustainability demands). The remainder of this guide addresses the second of these drivers.

Since businesses play a pivotal role both in job and wealth creation in society and in the efficient use of natural capital, CSR is a central management concern. It positions companies to both proactively manage risks and take advantage of opportunities, especially with respect to their corporate reputation and the broad engagement of stakeholders. The latter can include shareholders, employees,⁸ customers, communities, suppliers, governments, non-governmental organizations, international organizations and others affected by a company's activities (see Part 3, which is exclusively devoted to stakeholder engagement).

Above all, CSR is about sensitivity to context—both societal and environmental—and related performance. It is about moving beyond declared intentions to effective and observable actions and measurable societal impacts. Performance reporting is all part

⁷ In its latest working definition of the scope of “social responsibility,” the ISO 26000 Working Group on Social Responsibility identifies organizational governance, environment, human rights, labour practices, fair operating practices, consumer issues and community involvement as core issues. Resolution 3, Sydney, 2 February 2007.

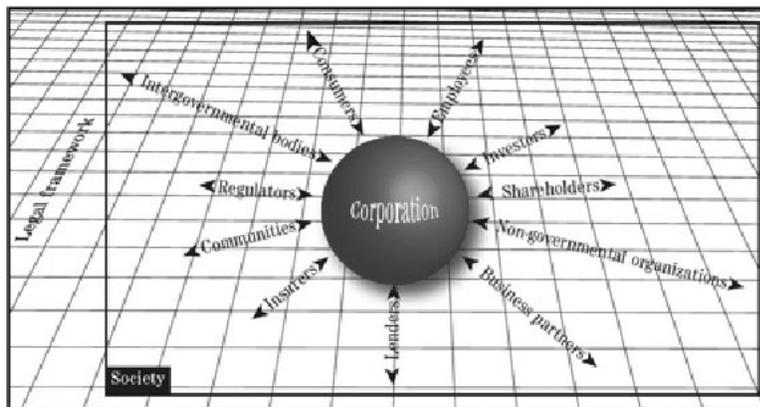
⁸ In cases where employees have elected representatives, these should also be included in the consultation process. For the purposes of this guide, any reference to employees includes worker representative where these exist, and workers throughout the supply chain.

of transparent, accountable—and, hence, credible—corporate behaviour. There is considerable potential for problems if stakeholders perceive that a firm is engaging in a public relations exercise and cannot demonstrate concrete actions that lead to real social and environmental benefits.

Corporate responsibility is “the basis on which business renegotiates and aligns the boundaries of its accountability.”

Responsible Competitiveness: Reshaping Global Markets Through Responsible Business Practices, AccountAbility, December 2005

CSR can involve a wide range of stakeholders



Source: [http://strategis.ic.gc.ca/epic/site/csr-rse.nsf/vwapj/stakeholder.txt/\\$FILE/stakeholder.txt](http://strategis.ic.gc.ca/epic/site/csr-rse.nsf/vwapj/stakeholder.txt/$FILE/stakeholder.txt)

A corporation's stakeholders can include: shareholders, non-governmental organizations, business partners, lenders, insurers, communities, regulators, intergovernmental bodies, consumers, employees and investors.

Why has CSR become important?

“In the flat world, with lengthy global supply chains, the balance of power between global companies and the individual communities in which they operate is tilting more and more in favor of the companies.... As such these companies are going to command more power, not only to create value but also to transmit values, than any other institution on the planet.”⁹

Thomas L. Friedman, *The World is Flat*, 2005.

⁹ This conclusion appears to be supported by public opinion. The 2007 Edelman “*Trust Barometer*” found that a majority of respondents in North America (71 per cent) and Asia (72 per cent) thought that global business plays a role that no other institution can in addressing major social and environmental challenges. Fifty-seven per cent in the European Union and 63 per cent in Latin America also believe this to be true.

Many factors and influences have led to increasing attention being devoted to the role of companies and CSR. These include:

- **Sustainable development:** United Nations' (UN) studies and many others have underlined the fact that humankind is using natural resources at a faster rate than they are being replaced. If this continues, future generations will not have the resources they need for their development. In this sense, much of current development is unsustainable—it can't be continued for both practical and moral reasons. Related issues include the need for greater attention to poverty alleviation and respect for human rights. *CSR is an entry point for understanding sustainable development issues and responding to them in a firm's business strategy.*
- **Globalization:** With its attendant focus on cross-border trade, multinational enterprises and global supply chains—economic globalization is increasingly raising CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things. *CSR can play a vital role in detecting how business impacts labour conditions, local communities and economies, and what steps can be taken to ensure business helps to maintain and build the public good. This can be especially important for export-oriented firms in emerging economies.*
- **Governance:** Governments and intergovernmental bodies, such as the UN, the Organisation for Economic Co-operation and Development (OECD) and the International Labour Organization (ILO) have developed various compacts, declarations, guidelines, principles and other instruments that outline norms for what they consider to be acceptable business conduct. *CSR instruments often reflect internationally-agreed goals and laws regarding human rights, the environment and anti-corruption.*
- **Corporate sector impact:** The sheer size and number of corporations, and their potential to impact political, social and environmental systems relative to governments and civil society, raise questions about influence and accountability. Even small and medium size enterprises (SMEs), which collectively represent the largest single employer, have a significant impact. *Companies are global ambassadors of change and values. How they behave is becoming a matter of increasing interest and importance (see box below).*
- **Communications:** Advances in communications technology, such as the Internet and mobile phones, are making it easier to track and discuss corporate activities. Internally, this can facilitate management, reporting and change. Externally, NGOs, the media and others can quickly assess and profile business practices they view as either problematic or exemplary. *In the CSR context, modern communications technology offers opportunities to improve dialogue and partnerships.*
- **Finance:** Consumers and investors are showing increasing interest in supporting responsible business practices and are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues. *A sound CSR approach can help build share value, lower the cost of capital, and ensure better responsiveness to markets.*
- **Ethics:** A number of serious and high-profile breaches of corporate ethics resulting in damage to employees, shareholders, communities or the envi-

ronment—as well as share price—have contributed to elevated public mistrust of corporations. *A CSR approach can help improve corporate governance, transparency, accountability and ethical standards (see matrix below).*

- **Consistency and Community:** Citizens in many countries are making it clear that corporations should meet the same high standards of social and environmental care, no matter where they operate. *In the CSR context, firms can help build a sense of community and shared approach to common problems.*
- **Leadership:** At the same time, there is increasing awareness of the limits of government legislative and regulatory initiatives to effectively capture all the issues that CSR address. *CSR can offer the flexibility and incentive for firms to act in advance of regulations, or in areas where regulations seem unlikely.*
- **Business Tool:** Businesses are recognizing that adopting an effective approach to CSR can reduce the risk of business disruptions, open up new opportunities, drive innovation, enhance brand and company reputation and even improve efficiency.

Companies should do more, multi-nation surveys suggest

A 2004 GlobeScan CSR survey of more than 23,000 individuals in 21 countries suggests that the public expects more from the corporate sector:

- In industrialized countries, trust in domestic (49 per cent) and global companies (38 per cent) was lower than that of non-governmental organizations (68 per cent), the United Nations (65 per cent), national governments (52 per cent) and labour unions (50 per cent).

While more recent surveys, including the 2007 Edelman Trust Barometer (see footnote 9) show a rise in public trust in business, trust in CEOs remains low.

For their part, CEOs see the importance of sustainability and CSR. According to the 10th PricewaterhouseCoopers Annual Global CEO Survey, 81 per cent of CEOs surveyed (between September and December 2006) agreed or agreed strongly with the statement: *“My company’s development programme focuses increasingly on equipping leaders to take a role in creating a sustainable business environment.”* A similar percentage of respondents in a U.S. Chamber of Commerce survey conducted in late 2005 agreed that companies need to make corporate citizenship a priority.¹⁰

¹⁰ <http://www.pwc.com>; and <http://www.uschamber.com/publications/reports/05stateofcc.htm>.

What is the business case for CSR?

The business case for CSR will differ from firm to firm, depending on a number of factors. These include the firm's size, products, activities, location, suppliers, leadership and reputation (i.e., of the sector in which the firm operates). Another factor is the approach a firm takes to CSR, which can vary from being strategic and incremental on certain issues to becoming a mission-oriented CSR leader.

The business case for CSR also revolves around the fact that firms that fail to engage parties affected by their activities can jeopardize their ability to create wealth for themselves and society, and increase the risk of legal or other responses. Taking into account the interests and contributions of those one affects is the basis for ethical behaviour and sound governance. CSR is essentially a strategic approach for firms to take to anticipate and address issues associated with their interactions with others and, through those interactions, succeed in their business endeavours.

There is growing consensus about the connection between CSR and business success. The World Business Council for Sustainable Development (WBCSD) has noted that a coherent CSR strategy based on integrity, sound values and a long-term approach offers clear business benefits to companies and contributes to the well-being of society.

Investor recognition of CSR in the marketplace

The recent progress of the socially responsible investment (SRI) movement at the domestic and international levels provides evidence that the marketplace is developing both social and environmental information and criteria to supplement the traditional financial criteria used to make investment decisions. Market indexes and professional firms now provide information to mutual funds, private equity funds, venture capital funds, commercial banks and other financial market investors about a wide range of corporate characteristics, including governance, human resource management, health and safety, environmental protection and community development. Some examples of SRI indexes are the Dow Jones Sustainability Index, FTSE4GOOD 100 Index, Jantzi Social Index Canada, Innovest, Calvert CALVIN Social Index and KLD Domini 400 Index. In the U.S., nearly one dollar in every ten under professional management is involved in SRI.¹¹

¹¹ See "2005 Report on Socially Responsible Investing Trends in the United States," Social Investment Forum, 2006.

The indexes, mutual funds and banks involved in SRI state how they define CSR and sustainability. Initially, SRI was about screening out potentially undesirable sectors (e.g., tobacco, gambling). Some associated initiatives have developed to identify and quantify specific risks. The Carbon Disclosure Project, for example, is an effort by a group of fund managers and investors to identify the carbon risks (associated with climate change) of individual firms.¹² It is worth noting that SRI has also moved to using positive criteria related to leadership approaches, planning processes and management practices in areas such as corporate governance and environment. There are many approaches to presenting the information.

Increasingly, mainstream fund managers are examining the advantages of assessing a firm's governance, social and environmental record in making investment decisions. Recently, the impact of decisions by private equity investors on social and environmental conditions has also become an issue in the media.¹³

Potential benefits of implementing a CSR approach

"We believe in CSR because it is a proposition aligned with our values, but also because it makes business sense. Our commercial partners expect from us sound environmental and social practices. We get and understand the message and are actively promoting CSR among associates. We want to be recognised as a responsible industry, adding value to our products."

Ronald Bown, President, Chilean Fruit Exporters Association (at GRI G3 launch, October 2006)

Key potential benefits for firms implementing CSR include:

- **Better anticipation and management of an ever-expanding spectrum of risk.** Effectively managing governance, legal, social, environmental, economic and other risks in an increasingly complex market environment, with greater oversight and stakeholder scrutiny of corporate activities, can improve the security of supply and overall market stability. Considering the interests of parties concerned about a firm's impact is one way of better anticipating and managing risk.

¹² <http://www.cdproject.net>.

¹³ For further information on the performance of SRI funds, see http://www.sristudies.org/html/sixteen_studies.html.

- **Improved reputation management.** Organizations that perform well with regard to CSR can build their reputation, while those that perform poorly can damage brand and company value when exposed. Reputation, or brand equity, is founded on values such as trust, credibility, reliability, quality and consistency. Even for firms that do not have direct retail exposure through brands, their reputation for addressing CSR issues as a supply chain partner—both good and bad—can be crucial commercially.
- **Enhanced ability to recruit, develop and retain staff.** This can be the direct result of pride in the company's products and practices, or of introducing improved human resources practices, such as "family-friendly" policies. It can also be the indirect result of programs and activities that improve employee morale and loyalty. Employees are not only front-line sources of ideas for improved performance, but are champions of a company for which they are proud to work.
- **Improved innovation, competitiveness and market positioning.** CSR is as much about seizing opportunity as avoiding risk. Drawing feedback from diverse stakeholders can be a rich source of ideas for new products, processes and markets, resulting in competitive advantages. For example, a firm may become certified to environmental and social standards so it can become a supplier to particular retailers. The history of good business has always been one of being alert to trends, innovation, and responding to markets. Increasingly, mainstream advertising features the environmental or social benefits of products (e.g., hybrid cars, unleaded petrol,¹⁴ ethically-produced coffee, wind turbines, etc.).
- **Enhanced operational efficiencies and cost savings.** These flow in particular from improved efficiencies identified through a systematic approach to management that includes continuous improvement. For example, assessing the environmental and energy aspects of an operation can reveal opportunities for turning waste streams into revenue streams (wood chips into particle board, for example) and for system-wide reductions in energy use, and costs.
- **Improved ability to attract and build effective and efficient supply chain relationships.** A firm is vulnerable to the weakest link in its supply chain. Like-minded companies can form profitable long-term business relationships by improving standards, and thereby reducing risks. Larger firms can stimulate smaller firms with whom they do business to implement a CSR approach. For example, some large apparel retailers require their suppliers to comply with worker codes and standards.
- **Enhanced ability to address change.** A company with its "ear to the ground" through regular stakeholder dialogue is in a better position to anticipate and respond to regulatory, economic, social and environmental changes that may occur. Increasingly, firms use CSR as a "radar" to detect evolving trends in the market.
- **More robust "social licence" to operate in the community.** Improved citizen and stakeholder understanding of the firm and its objectives and activities translates into improved stakeholder relations. This, in turn, may evolve into more robust and enduring public, private and civil society alliances (all of which relate closely to CSR reputation, discussed above). CSR can help build "social capital."

¹⁴ See, for example, "What Assures Consumers," AccountAbility and National Council, 2006.

- **Access to capital.** Financial institutions are increasingly incorporating social and environmental criteria into their assessment of projects. When making decisions about where to place their money, investors are looking for indicators of effective CSR management. A business plan incorporating a good CSR approach is often seen as a proxy for good management.
- **Improved relations with regulators.** In a number of jurisdictions, governments have expedited approval processes for firms that have undertaken social and environmental activities beyond those required by regulation. In some countries, governments use (or are considering using) CSR indicators in deciding on procurement or export assistance contracts. This is being done because governments recognize that without an increase in business sector engagement, government sustainability goals cannot be reached (see box below).
- **A catalyst for responsible consumption.** Changing unsustainable patterns of consumption is widely seen as an important driver to achieving sustainable development. Companies have a key role to play in facilitating sustainable consumption patterns and lifestyles through the goods and services they provide and the way they provide them. “Responsible consumerism” is not exclusively about changing consumer preferences. It is also about what goods are supplied in the marketplace, their relationship to consumer rights and sustainability issues, and how regulatory authorities mediate the relationship between producers and consumers.

According to the 10th PricewaterhouseCoopers Annual Global CEO Survey, 81 per cent of CEOs surveyed (between September and December 2006) agreed or agreed strongly with the following statement: “My company’s development programme focuses increasingly on equipping leaders to take a role in creating a sustainable business environment.”¹⁵ A similar percentage of respondents in a U.S. Chamber of Commerce survey conducted in late 2005 agreed that companies need to make corporate citizenship a priority.¹⁶

Real firms are reporting real benefits from CSR

There is general evidence that firms are beginning to benefit from their CSR activities. This can be seen from such things as positive media profile (e.g., winning awards, receiving attention), surveys of employee, community and customer satisfaction, and from the success of CSR-driven business lines. Here are some examples.

- The Indian TATA group is engaged in a wide variety of activities directed at helping community development. The company Web site lists examples of the positive media this has generated. http://tata.com/0_our_commitment/community_initiatives/index.html.
- There are now high-profile lists of the most responsible companies. The Innovest firm “100 Most Sustainable Companies in the World” list, for example, has been released annually at the World Economic Forum since 2005. <http://www.innovestgroup.com/>

¹⁵ <http://www.pwc.com/extweb/home.nsf/docid/2AE969AC42DD721A8525725E007D7CF2>.

¹⁶ <http://www.uschamber.com/publications/reports/05stateofcc.htm>.

- The 2007 Edelman Trust Barometer (see footnote 9, above), suggested that there had been an improvement in public perception of business. This may have been due to the increased attention businesses are giving to CSR issues.
- Standard Chartered Bank's "Seeing is Believing" campaign to help cataract sufferers has resulted in a number of awards for the company. See: <http://www.seeingisbelieving.org.uk/fundraise/news.asp>.

Financial market opinion

"There is a growing body of evidence that companies which manage environmental, social and governance risks most effectively tend to deliver better risk-adjusted financial performance than their industry peers."

Jean Frijns, Chief Investment Officer, ABP, 2004

"The consideration of material social and environmental issues should be a part of every financial analyst's normal work. Not only does this make sense from an investment risk perspective; institutional clients are increasingly asking for better integration in fund management."

Thomas Albrecht, Director of Research, Credit Suisse Asset Management, 2004¹⁷

Firms typically put a CSR approach in place for more than just economic reasons. In many cases, it is also due to moral principles, belief that it is the "right thing to do" and concern for the welfare of present and future generations that spur a firm to consider its responsibilities.

Finally, it is also important to acknowledge that while positive or neutral correlations between social and environmental responsibility and superior financial performance have generally been supported by the evidence, conclusive causal links have not. Many studies are being undertaken, with varying conclusions.¹⁸ Overall, one of the keys to ensuring that the effects of adopting CSR are positive for business is through appropriate planning and monitoring.

¹⁷ "Who Cares Wins: Connecting financial markets to a changing world," Global Compact, 2004.

¹⁸ Since its inception in 1990, the Domini 400 Social Index has had an average return of 12.17 per cent, compared with the S&P 500's 11.49 per cent. A Wharton School study however shows SRI funds underperforming a broader universe of funds. Research is continuing on this issue, including through initiatives such as the Enhanced Analytics Initiative <http://www.enhancedanalytics.com>.

Study shows benefits of CSR

Based on a two-year study, the World Business Council for Sustainable Development has drawn several conclusions about the benefits of CSR to companies”

- A coherent CSR strategy, based on integrity, sound values and a long-term approach, offers clear business benefits to companies and helps a firm make a positive contribution to society;
- A CSR strategy provides businesses with the opportunity to show their human face;
- Such a strategy requires engagement in open dialogue and constructive partnerships with governments at various levels, intergovernmental organizations, non-governmental organizations, other elements of civil society and, in particular, local communities;
- When implementing a CSR strategy, companies should recognize and respect local and cultural differences, while maintaining high and consistent global standards and policies; and
- Being responsive to local differences means taking specific initiatives.

The full report is available at <http://www.wbcsd.org>.

“The (U.K.) Government believes that responsible business underpins many of the much larger challenges that we are tackling today. It is essential in driving sustainable development, tackling climate change and in many cases preventing and resolving conflict. Only if governments, businesses and civil society groups working together, can we successfully tackle these key global issues.”

Dr. Kim Howells, British Foreign Office Minister, speaking at the launch of the Web site for the U.K. Network of the UN Global Compact, 6 December 2006

What is the relationship between CSR and the law?

There is a close relationship between CSR and the law. The main instrument governments use to address a firm's social, environmental and economic impacts is the law. Many countries have a wide range of laws, whether at the national, state or local levels of government, relating to consumers, workers, health and safety, human rights and environmental protection, bribery and corruption, corporate governance and taxation. A firm's CSR approach should begin by ensuring full compliance with those laws already in place. No matter how good a CSR policy may be, failure to observe the law will undermine other good efforts. Looking ahead, the CSR activities of firms can be seen as a proactive method of addressing potentially problematic conduct before it attracts legal attention.

SustainAbility's view on the changing landscape of liability

"The issue of past, current and potential liabilities has exercised boards of large companies for decades. This report makes the case that the landscape of liability—and therefore the risks for companies and to shareholder value—is changing and changing rapidly. It explores the evidence, maps the changes and attempts to guide business with the help of studies to navigate new and uncharted territory. The studies examine and draw conclusions in relation to climate change, human rights, obesity and legacy issues."¹⁹

A key feature of the emerging CSR debate is the difference between a "compliance" mentality (i.e., only doing those things that are required) and a "value driven" mentality (i.e., using a CSR approach to innovate and seek new markets). Some commentators argue that a compliance-based approach does not help business, because it tends not to drive innovation and the "out of the box" thinking they see as necessary in the rapidly changing business world. That said, a number of specific legal aspects are worth mentioning.

- **Performance reporting and the law.** In many jurisdictions there are laws in place requiring firms in particular sectors to publicly disclose certain of their practices and activities. The U.K. Companies Act 2006, for example, requires publicly-listed companies to report on a number of specific issues where they are necessary to understanding the company's business. These include environmental matters (including the impact of the company's business on the environment), the company's employees, social and community issues, and risks through the company supply chains. Similar provisions also exist in France and across the EU.

¹⁹ <http://www.sustainability.com/insight/liability-article.asp?id=180>.

- **Corporate governance and disclosure.** Social and environmental issues are increasingly being seen as integral components of the corporate governance agenda.²⁰ In many countries firms issuing securities are required to publicly disclose their corporate governance practices and comply with local guidelines on the subject. A 2005 report by the international law firm Freshfields, Bruckhaus and Deringer²¹ concluded that under the current legal systems of many countries, directors might be in breach of their fiduciary duties if they did not take into account environmental, social and governance issues.
- **Bribery.** CSR also stresses that firms should adopt responsible practices wherever they operate. National laws making it illegal to bribe foreign officials to obtain or retain business on the subject are often based on the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions,²² and the 2003 UN Convention Against Corruption.²³
- **Requirements under different jurisdictions.** It is important to be aware of the varying legal requirements of different countries. In the U.K., for example, legislation requires pension fund trustees to publish a comment in their investment statements on the extent to which their investment policies address social, ethical and environmental issues. As noted above, in European countries laws require companies to report on their social and environmental performance. In the U.S., a number of firms have been sued under the *Alien Tort Claims Act* (e.g., *Doe v. Unocal*), which raises the possibility that corporate liability could be established through transnational civil litigation. The U.S. has also significantly revised its corporate governance legislation in recent years, in particular, passing the *Sarbanes-Oxley Act* in 2002 which establishes stricter standards for all U.S. public company boards, management and public accounting firms. At the United Nations, a Special Representative on Business and Human Rights to the Secretary-General was appointed in July 2005. The Special Representative is expected to identify standards of corporate responsibility and accountability, enhance understanding and recognition of these standards, and issue recommendations on future United Nations work regarding business and human rights issues.

Mention should also be made in this context of the many business codes of conduct that exist. These codes, often developed by a specific industry sector, are usually voluntary and not legally-binding. Nonetheless, they can be used in a legally-binding manner in a contractual context (e.g., in a supply chain). Here, various legal questions may arise, including in relation to whether national, regional or international standards take precedence.

20 The 2004 OECD Principles of Corporate Governance provide an authoritative source of reference, http://www.oecd.org/document/49/0,2340,en_2649_34813_31530865_1_1_1_1,00.html.

21 <http://www.unepfi.org/events/2005/roundtable/press>.

22 http://www.oecd.org/document/21/0,2340,en_2649_34859_2017813_1_1_1_1,00.html.

23 http://www.unodc.org/unodc/crime_convention_corruption.html.

Parliamentary engagement

Government interest in CSR issues takes many forms. Some governments have issued CSR guidance (see Appendix 5) and play a wide range of partnering, facilitating and profiling roles. In some countries, parliaments have also become engaged. On 13 March 2007, the European Parliament adopted a resolution on CSR in which it expressed the view that “increasing social and environmental responsibility by business, linked to the principle of corporate accountability, represents an essential element of the European social model...”²⁴ The Australian government conducted two high-level enquiries into the relationship between business and CSR in 2006. The Parliamentary Joint Committee on Corporations and Financial Services enquiry “Corporate Responsibility: Managing risk and creating value” recommended the “wide adoption of corporate responsibility,” and urged industry associations to actively promote CSR to their members.²⁵ The Corporations and Markets Advisory Committee report “The Social Responsibility of Corporations,” noted that CSR issues presented a conundrum—between the business imperative and wider societal pressure. “A balanced approach,” it concluded, “under which companies are judged according to their overall economic and other contributions and impacts, including how they manage social and environmental issues relevant to their business, is more productive and meaningful.”²⁶ A Spanish parliamentary sub-commission also conducted a review into measures to promote CSR, and reported in 2006.²⁷

“Part of the bargain, the social contract which allows companies to be as large as they are, is that they become engaged in the challenges the world faces, rather than dismissing them as someone else’s problem.”

John Manzoni, Chief Executive, Refining & Marketing, BP plc

²⁴ <http://www.euractiv.com/en/socialeurope/parliament-criticises-commission-csr/article-162431>.

²⁵ http://www.aph.gov.au/senate/committee/corporations_ctte/corporate_responsibility/report/index.htm.

²⁶ [http://www.camac.gov.au/camac/camac.nsf/byHeadline/PDFFinal+Reports+2006/\\$file/CSR_Report.pdf](http://www.camac.gov.au/camac/camac.nsf/byHeadline/PDFFinal+Reports+2006/$file/CSR_Report.pdf).

²⁷ *Report of the Subcommission to Strengthen and Promote the Social Responsibility of Business.*

Part 2

Implementing corporate social responsibility

There is no “one-size-fits-all” method for pursuing a corporate social responsibility (CSR) approach. Each firm has unique characteristics and circumstances that will affect how it views its operational context and its defining social responsibilities. Each will vary in its awareness of CSR issues and how much work it has already done towards implementing a CSR approach.

That said, there is considerable value in proceeding with CSR implementation in a systematic way—in harmony with the firm’s mission, and sensitive to its business culture, environment and risk profile, and operating conditions. Many firms are already engaged in customer, employee, community and environmental activities that can be excellent starting points for firm-wide CSR approaches. CSR can be phased in by focusing carefully on priorities in accordance with resource or time constraints. Alternatively, more comprehensive and systematic approaches can be pursued when resources and overall priorities permit or require. The bottom line is that CSR needs to be integrated into the firm’s core decision making, strategy, management processes and activities, be it incrementally or comprehensively.

The impulse for harmonization also stems from the wider social context. As will be described below, there are a number of governmental and partnership developed initiatives that have emerged to provide guidance on governmental and societal expectations of business. By using these instruments—such as the OECD MNE Guidelines or the UN Global Compact—business users can be confident that they are basing their efforts on internationally-endorsed approaches.

What follows below is a broad framework for implementing a CSR approach that builds on existing experience as well as knowledge of other fields, such as quality and environmental management. The framework follows the familiar “plan, do, check and improve” model that underlies such well-known initiatives as those of the International Organization for Standardization (ISO) in the areas of quality and environmental management systems. The framework is also intended to be flexible, and firms are encouraged to adapt it as appropriate for their organization.

CSR implementation framework and corporate governance

A well-designed CSR implementation framework integrates economic, social and environmental decision making throughout a firm—from the board of directors to front-line officials and supply-chain partners—and is therefore intimately connected with effective corporate governance. A properly governed firm can reap optimal benefits for itself and its shareholders, and in turn for those who are affected by the firm’s activities. At all levels of a firm, inadequate direction and control of its activities and assets can jeopardize its very ability to operate.

Implementation framework

When? (Conceptual phase)	What? (Task delineation)	How? (Checkpoints on the journey)
Plan 	1. Conduct a CSR assessment	<ul style="list-style-type: none"> Assemble a CSR leadership team; Develop a working definition of CSR; Identify legal requirements; Review corporate documents, processes and activities, and internal capacity; and Identify and engage key stakeholders.
	2. Develop a CSR strategy	<ul style="list-style-type: none"> Build support with CEO, senior management and employees; Research what others are doing, and assess the value of recognised CSR instruments; Prepare a matrix of proposed CSR actions; Develop ideas for proceeding and the business case for them; and Decide on direction, approach, boundaries and focus areas.
Do 	3. Develop CSR commitments	<ul style="list-style-type: none"> Do a scan of CSR commitments; Hold discussions with major stakeholders; Create a working group to develop the commitments; Prepare a preliminary draft; and Consult with affected stakeholders.
	4. Implement CSR commitments	<ul style="list-style-type: none"> Develop an integrated CSR decision-making structure; Prepare and implement a CSR business plan; Set measurable targets and identify performance measures; Engage employees and others to whom CSR commitments apply; Design and conduct CSR training; Establish mechanisms for addressing problematic behaviour; Create internal and external communications plans; and Make commitments public.
Check 	5. Assure and report on progress	<ul style="list-style-type: none"> Measure and assure performance; Engage stakeholders; and Report on performance, internally and externally.
Improve 	6. Evaluate and improve	<ul style="list-style-type: none"> Evaluate performance; Identify opportunities for improvement; and Engage stakeholders.
Cross-check: One cycle completed 		Return to plan and start the next cycle.

This guide proposes an implementation framework comprising six key tasks (see chart below). In recognition of the fact that firms are at different levels of sophistication and development with respect to CSR, it is understood that firms may choose to forego a particular aspect or task when it has already been undertaken.

The framework is intended to help boards of directors, CEOs, managers, employees and others assess a firm's effects on society and the challenges and opportunities associated with taking these impacts into account in decision making and business activities. As understood here, a firm's CSR approach should be an integral part of its core business objectives and strategy. Just as importantly, it is also part of a wider trend towards exploring ways to ensure that the individual and collective activities of the business sector advance progress towards internationally-agreed challenges, and create an environment where business is itself sustainable.



CSR and small businesses

"My experience is that a successful company ought to work in a successful community. And companies, particularly in developing countries, have much to contribute. Our approach to developing SR policies/strategies for companies has mainly three components: getting to know the company—who we are: organizational profile (e.g., workers concerns); getting to know the community—who they are: social profile (e.g., community concerns); getting to know each other—carrying out a participatory process with key stakeholders: responsive publication, open house, planning workshops with leaders; understanding the (national and international) context—what the others are doing (e.g., ecosystem concerns); training and analysis."

Hernán Blanco, Executive Director, RIDES, Chile

In most regions of the world—in both the developed and developing world—the great majority of businesses are classified as "small and medium sized enterprises" (SMEs). Whether micro one-person businesses or firms with around 200 employees, SMEs are also the largest employers. While individually their contributions and impacts on surrounding communities and the environment may be small, collectively these impacts are large.

Because SMEs are many and tend to have a lower public profile than their larger counterparts, non-governmental organizations (NGOs) may not target them for failing to take their societal impacts into account. However, the support of the community around small firms is usually more essential for their success than it is for large businesses. In fact, larger firms in the CSR spotlight may seek out as business partners small local firms with CSR approaches in place.

A Canadian Federation of Independent Business survey of its members found that doing things right, even at a cost, is important for small businesses. For example, the survey revealed that "SMEs [small and medium-sized enterprises] are strongly committed to environmental protection, which is evident through their significant progress achieved during the past decade."²⁸

²⁸ Canadian Federation of Independent Business, *The Natural Facts*, June 2001, a survey of more than 4,300 small businesses across Canada.

The distinct challenges facing small business—such as being pressed for time, money and resources—are well known. But while these challenges are great, smaller businesses are also recognizing the value of embracing CSR.

The CSR implementation framework set out in this guide is built around the “plan, do, check and improve” model, which is a sound approach for firms of any size. However, many of the steps may be too elaborate for small businesses.

To address the needs of small business owners and their employees, tips for simplifying the process are provided throughout in boxes marked with the magnifying glass icon. In addition, a list of suggestions for CSR activities particularly suited to small businesses is located on page XX. The suggestions may also be of interest to those in larger firms.

Reflecting the importance of SMEs, there are an increasing number of specially developed toolkits for small business. These include:

- **Introduction to Corporate Social Responsibility for Small & Medium-Sized Enterprises.** This is a free, online, European Commission toolkit for SMEs that includes a self-awareness test, case studies and other materials;²⁹
- The World Business Council for Sustainable Development has a web-based e-learning tool named **Chronos**, which is applicable to SMEs;³⁰
- **The GRI Sustainability Reporting Cycle: A handbook for small and not-so-small organizations.** This handbook offers five phases for a reporting cycle that overlaps with the implementation framework described below;³¹
- CSR Europe's **SMEkey – Unlocking Responsible Business** toolkit;³²
- **“Going for Green: A Manufacturer’s Guide to Lean and Green,”** a publication of the Canadian Chamber of Commerce;
- The **CSR Management System** developed by the Vincular Centre for CSR, Chile, with input and support from the Chilean government and business associations;³³ and
- The United Nations Environment Programme (UNEP) has developed an “Efficient Entrepreneur” family of tools, including a special calendar that gives month-by-month tips.³⁴

The dilemmas and challenges of SMEs have also been the subject of research by organizations. The ISO. A 2006 ISO SME Task Group report entitled “The Global Use of Environmental Management Systems by Small and Medium Enterprises” is of particular interest. The World Bank Institute “Virtual Resource Centre” also provides an overview of many other materials that could be valuable for SMEs.³⁵ In many countries SME toolkits have also been developed by business associations, in cooperation with government and other partners, and these may provide useful guidance.

29 http://ec.europa.eu/enterprise/csr/campaign/documentation/index_en.htm#toolkit.

30 <http://www.sdchronos.org/en/index.htm>.

31 <http://www.globalreporting.org/Services/E-Shop>.

32 http://www.csreurope.org/aboutthissite/alloursites_page92.aspx.

33 http://www.vincular.org/vincular_coleccion_rse/coleccionRSE/1.pdf.

34 <http://www.efficient-entrepreneur.net>.

35 For more information, go to <http://web.worldbank.org/WBSITE/EXTERNAL/WBI/WBIPROGRAMS/CGC-SRLP/0,,contentMDK:20296033~pagePK:64156158~piPK:64152884~theSitePK:460861,00.html>.

These examples are given to illustrate the range of guidance tools that are available to an SME. However, as with larger firms, it is important for SMEs to exercise care in developing their own approach to CSR. Given the existence of authoritative instruments such as the OECD MNE Guidelines (which are applicable to firms of all sizes), for reasons of efficiency and consistency it will be important to adopt existing internationally-approved language and principles as far as possible.

Task 1

Conduct a CSR assessment

What is a CSR assessment?

No firm—big or small—is likely to do anything about CSR, unless the board of directors, CEO, senior management or owners recognize that some sort of CSR-related problem, opportunity or challenge exists. In turn, this recognition provides the fuel for proceeding with a CSR assessment, with the purpose of better understanding the nature of the problem, opportunity or challenge and its significance for the business.

A logical first step is to gather and examine relevant information about the firm's products, services, decision making processes and activities to determine where the firm currently is with respect to CSR activity, and to locate its "pressure points" for CSR action. A proper CSR assessment should provide an understanding of the following:

- the firm's values and ethics;
- the internal and external drivers motivating the firm to undertake a more systematic approach to CSR;
- the key CSR issues that are affecting or could affect the firm;
- the key stakeholders who need to be engaged, and their concerns;
- the current corporate decision making structure and its strengths and inadequacies in terms of implementing a more integrated CSR approach;
- the human resource and budgetary implications of such an approach; and
- existing CSR-related initiatives.

The assessment should identify the main risks and opportunities, and culminate in a thorough gap analysis: where is the organization strong and where is it weak relative to internal goals, peers and best practices? How well is the firm's strategy responding to emerging issues and opportunities? This is essential information for identifying priorities and for selling the approach within and outside the firm.

Why do an assessment?

When the board of directors, CEO and top management or owners do not have an accurate snapshot of how far the firm is down the CSR road, it is unlikely they will be able to make informed decisions about moving ahead. Front-end intelligence gathering in the form of a CSR assessment can save a firm from launching an ineffective CSR approach or heading in a direction that is not sustainable in business terms. An assessment can

also help identify CSR gaps and opportunities and thereby improve business decision making. Importantly, too, it can act as a reminder of existing legal requirements.

Many firms are already engaging in CSR activities without necessarily identifying them as such! Frequently a firm can introduce a CSR approach to support or complement this work without much incremental investment. For example, a firm may have in place quality, environmental, occupational health and safety and other management systems, employee educational advancement programs or community outreach initiatives. These are likely to become important building blocks in a systematic CSR approach. Among other things, a CSR assessment should identify all of these existing implicit initiatives, so they can be properly considered as part of a larger CSR approach.

How to do an assessment

A five stage CSR assessment process is set out below:

1. Assemble a CSR leadership team;
2. Develop a working definition of CSR;
3. Identify legal requirements;
4. Review corporate documents, processes and activities; and
5. Identify and engage key stakeholders.

This is not the only way to do an assessment; rather it is one way a firm can review the full range of its operations through a CSR lens. A number of organizations, such as the GRI, have developed useful tools to help firms perform an assessment. The bottom line is that as long as the firm does a thorough appraisal of its current and potential activities from a CSR perspective then it will have achieved the objective of the assessment.

1. Assemble a CSR leadership team

Like any successful management strategy, a CSR process needs both high level management vision and support, and buy-in at all levels of the company. For this reason, a CSR leadership team would include representatives from the board of directors and top management or owners, as well as volunteers from various units within the firm that are affected by or involved in CSR issues. Other representatives could be senior personnel from human resources, environmental services, health and safety, community relations, legal affairs, finance, marketing and communications. Front-line staff in these areas and any other personnel who may become key players involved in implementing the CSR approach the firm eventually develops should also be on the team.

Employees at all levels should be encouraged to contribute their time, energy and ideas. As the work of the team progresses and a better understanding of the implications of CSR emerge for the firm, it is quite possible that the membership of the team will change.

Even when there are no members of the board of directors on the team, it is vitally important that it be directly accountable to senior management and, ultimately, the board. This acknowledges that effective CSR implementation requires integration of the principles of CSR into the firm's central values and activities. Involvement of the CEO as CSR champion sends a clear signal that the firm considers CSR to be important.

2. Develop a working definition of CSR

The first task of the leadership team is to develop a working definition of CSR for the firm. This will become the basis for the rest of the assessment.

The definition for CSR should be something quite general. Here are some examples:

- CSR is the firm's practices and policies that contribute to the well-being of the environment, economy and society. They address the needs of customers, suppliers, shareholders and employees, as well as those of government, the general public and the communities where the firm operates, without compromising the ability of future generations to meet their own needs.
- CSR is the way the company integrates economic, environmental and social objectives while, at the same time, addressing stakeholder expectations and sustaining or enhancing shareholder value.
- CSR is the overall relationship between the corporation and its stakeholders, which include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of CSR include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance.
- CSR is the responsibility the firm has to its stakeholders. It means that the firm's products and services create value for customers and contribute to the well-being of society. It means the firm operates using ethical business practices and expects the same from its suppliers and partners. It means minimizing the environmental impact of its facilities and products. It means providing jobs, paying taxes and making a profit, as well as supporting philanthropy and community involvement. It means treating employees with respect and being a good neighbour to the people next door as well as those half a world away.

"We started out as bootmakers, but we're more. Like you, we care about the strength of our neighbourhoods, the well-being of our environment, and the quality of life in our communities. We believe in making a difference and invite you to join us."

Banner headline on Timberland Web site, <http://www.timberland.com>.

The team may also wish to identify key values that motivate the firm, and particular concerns it and members of its supply chain have, such as inclusiveness, stewardship and integrity. These could be related, for example, to the environment, workplace, community relations (including diversity issues), human rights, customers, government relations, bribery and corruption, or corporate governance.

Engaging people at all levels of the organization—from employees to managers and members of the board of directors—in developing the definition of CSR from the very beginning will help ensure the approach the firm ultimately takes to CSR will resonate and be supported throughout the organization.

The input of members of the board, the CEO and other senior managers can be particularly helpful in articulating a definition, since they should be able to shed light on the ini-

tial motivations for launching work on CSR. As noted above, wherever possible CEOs and others should reference internationally-agreed standards and instruments, since these offer legitimacy and consistency for CSR efforts.

3. Identify legal requirements

As noted above, a CSR approach is not a compliance-based activity. It is all above voluntary choices a firm makes to improve its performance and the way it relates to society. In this context, an essential step is to ensure that the business already respects existing laws, whether in relation to such things as governance, taxation, bribery, labour, or environment. A good CSR strategy—and the firm's reputation—can be quickly damaged if it is found to be in breach of basic laws.

4. Review corporate documents, processes and activities

With a working CSR definition and an initial understanding of the motivations behind the firm's interest in CSR, the team should then review key corporate documents, processes and activities for actual and potential CSR implications.

- **Documents.** Existing mission statements, policies, codes of conduct, principles and other operating documents are logical candidates for review. External documents associated with programs or initiatives which the firm subscribes to may also need revisiting. These would include sector-wide standards, principles or guidelines. It may be that the existing mission statement, policies or codes address worker relations, customer satisfaction or environmental protection in some regard. It is useful for the leadership team to explore why these items were developed and to learn from them (or at least acknowledge that they are CSR-related). It may be that they were past responses to CSR pressure points. By the same token, an absence of any reference to societal impacts or commitments in these documents may indicate that a culture shift may be required to integrate CSR effectively into decision making and business activities.
- **Processes.** One of the advantages of a CSR approach can be to promote “joined-up” thinking and a more integrated strategic approach to material social and environmental issues. For this reason, existing decision-making processes warrant review. Typically, firms have specific decision-making processes and associated decision-making bodies in place to address particular aspects of operations, and these may affect the CSR approach. For example, a health and safety committee may take the lead in determining the resources, training and implementation of worker health and safety programs. Senior legal counsel may play a key role in decisions about environmental protection activities, in conjunction with senior engineers and other staff. It may also be that various parts of the organization are treated quite differently from one another. In many firms, decision making concerning suppliers is an area that touches on CSR in many regards, including training, wages, and health and safety protection. It is instructive for the leadership team to review these types of decisions, who makes them and how. It is also important to determine whether there is a unit or process in place to coordinate decisions about issues with a societal dimension.
- **Activities.** The firm's activities that relate directly to providing its products or services to users can be closely connected to CSR. In addition to thoroughly examining internal operations for CSR-related challenges and opportunities,

it may be useful for the leadership team to examine those of competitors and firms in other sectors. These can be helpful indications of areas in which the firm might wish to concentrate attention. Practical ideas may also be gleaned by examining activities in other jurisdictions, such as the level of security or conflict overseas, since these may be indicators of challenges or opportunities to come. The team should also consider activities of business partners (particularly supply-chain partners), since these may significantly affect the firm.

5. Identify and engage key stakeholders

Although the work of the leadership team should reveal important social responsibility trends, problems and opportunities to act upon, the team may nevertheless miss important issues that are more evident to those outside the firm. As a result, the team may wish to hold discussions with key external stakeholders about CSR. Mapping the interests and concerns of stakeholders against those of the firm can reveal both opportunities and potential problem areas. Indeed, many leading firms now see stakeholder engagement as central to the task of identifying the issues that are most material to them.

It is important to be clear about the purpose of these discussions, since stakeholders might view it as an opportunity to express their views more generally about the company's behaviour in relation to them. Key to engaging effectively with stakeholders is to map their definition of "success" in working with the company. Identifying the results from this task (e.g., a summary of the CSR assessment that is publicly available) would be helpful. Larger firms may choose to engage one of the many independent consultants specialized in stakeholder mapping to help them with this or other CSR processes. As noted below, another consideration to bear in mind is the capacity of stakeholder groups to remain engaged in any ongoing consultation.

Note that while stakeholder engagement is listed here as the last element of a CSR assessment, firms might wish to do this earlier (see Part 3 of this guide).



Caution

Create a list of the possible elements of a CSR approach and check off what the firm is already doing, noting any gaps. To create the list, define the firm's stakeholder groups (such as employees, representatives of the communities where the firm operates, and critical NGOs) and come up with three or four initiatives for each.



Quick tips

- Consider using one of the many existing self-assessment tools;
- Ask an industry association or CSR-specialist organization whether it offers assistance with self-assessment, (if not, encourage it to do so); and
- Engage a consultant to help perform the assessment.



Reality check 1

“Assembling a leadership team, developing a working definition of CSR with employee/management engagement, reviewing core documents, decision making processes and CSR-related activities, and engaging stakeholders? Do you know how much time it will take to simply recruit and engage a leadership team that represents all of our business lines around the world and our head office, let alone schedule them into regular meetings to manage CSR activities? You’ve got to be kidding!”

Reality check 2: How confident are you that your firm is fully prepared to face sudden developments on CSR issues like climate change? What disruption and costs might be faced if there were some adverse CSR incident relating to your products or services? Done properly, effective CSR implementation does involve a significant investment of resources at the “front end” of the process. However the commercial returns for this investment can flow from your firm being as prepared as possible to address the CSR challenges, opportunities and choices available, and your firm being less vulnerable to unexpected social and environment-related challenges to its activities and products. The working definition is the key element of the road map: it helps to ensure that everything that happens afterward is on-course. Quite often, focusing on a small group of people who are already interested in and knowledgeable about CSR is a good starting point. Develop the members of that group into CSR ambassadors. Also, it is important to realize that change takes time and that optimism must be tempered with patience. Develop a phased plan, budget realistically and get the appropriate sign-offs up front.

Existing CSR tools

The table below includes a small sample of the many CSR self-help tools that are on the market and have been developed largely by the business community.

<p>World Business Council for Sustainable Development (WBCSD) www.wbcsd.org.</p>	<p>The WBCSD is a Geneva-based business association with a membership of some 180 international companies from 35 countries, covering more than 20 industrial sectors. Its mission is to promote sustainable development through economic growth, ecological balance and social progress. WBCSD's free "Corporate Social Responsibility: Making good business sense" publication provides a process for addressing CSR, including a self-assessment questionnaire. The WBCSD <i>Chronos e-learning tool</i> (mentioned above) is also relevant.</p>
<p>Business for Social Responsibility (BSR) http://www.bsr.org</p>	<p>BSR is a non-profit business association headquartered in San Francisco with offices in Europe and Asia. Established in 1992, it offers advisory services, research and conferences on CSR. BSR's "Designing a CSR Structure" tool is a low cost aid for helping identify the steps necessary for a company to consider and set up an internal management system integrating CSR into the entire company's organization and culture.</p>
<p>Global Environmental Management Initiative (GEMI) http://www.gemi.org</p>	<p>GEMI is a U.S.-based organization of companies dedicated to fostering global environmental, health and safety (EHS) excellence through the sharing of tools and information to help business achieve EHS excellence. Since 1990, GEMI has created tools and provided a forum to help business foster global environmental, healthy and safety excellence and economic success. GEMI's <i>SD Planner™</i> is a free self-assessment and planning tool that can be customized to suit the needs of individual companies.</p>
<p>Caux Round Table Self Assessment and Improvement Tool http://www.cauxroundtable.org/resources.html</p>	<p>Founded in 1986, the Caux Round Table is a network of senior business leaders from industrialized and developing nations who recognize that business must take a leadership role in developing a more fair, free and transparent society. In addition to its <i>Principles for Business</i>, the group has developed the <i>Self Assessment and Improvement Tool</i> to help senior executives and boards of directors address growing expectations for responsible business conduct. Modelled after the Malcolm Baldrige National Quality Program, it translates seven general principles for business into seven assessment categories, and considers company performance within each from seven perspectives.</p>



CSR and small businesses

"This seems like too large a task to undertake. We have very limited time and resources in our small office. How can we find all this CSR information and still focus on our day-to-day operations?"

The small size of operations may make it easier to find information on actual and potential CSR activities and impacts. Also, many small businesses operate closely with local communities and understand the issues. Assign one person to create a checklist (see below), with input from other employees, of all the CSR activities and initiatives that the company might put in place, and check off what it is already doing, noting any gaps.

Consider using one of the many existing self-assessment tools and check-lists. Another good resource is industry associations, which quite frequently take leadership roles on issues such as CSR and may offer assistance with self-assessments. Consider working with a non-profit organization to conduct an eco-audit, or hiring a student or consultant.

The main objective is to review current business practices to identify activities that fall under the heading of CSR (e.g., recycling), as well as potential activities (e.g., purchasing products from developing countries where workers are paid living wages or that protect core labour rights). A key resource to draw on in this regard is staff. As the front-line personnel carrying out the functions of the business, employees are often very aware of a number of ways in which the firm's activities affect stakeholders, and frequently have suggestions for improvement.

Sample CSR small business checklist³⁶

Can we:

- Provide a safer working environment and educational assistance to employees?
- Improve contractual relations with employees?
- Enhance gender equality in the workplace?
- Use more energy-efficient appliances (e.g., light bulbs) or vehicles?
- Source more from local suppliers?
- Improve customer service standards?
- Support more local community projects?
- Purchase fair trade products that support workers in developing countries?
- Recycle more waste?
- Ensure a better work/life balance for employees? and
- Be more accessible to customers of various abilities?

³⁶ This checklist might also be relevant to even large firms!

Practical CSR initiatives for small business

Drawing on the activities of small businesses implementing CSR, here is a list of practical CSR activities a small business can do. These initiatives are likely to be of interest to personnel in larger firms as well.

Improving the environment:

- Reduce consumption of energy, water and other natural resources, and emissions of hazardous substances;
- Use or produce recycled and recyclable materials, increase the durability of products, and minimize packaging through effective design (“reduce, reuse and recycle”);
- Train and encourage staff to look for additional ways to reduce the firm’s environmental footprint;
- Use “green” (i.e., renewable energy) power electricity suppliers and energy-efficient lighting;
- Join or start a local “green business” club that can help local firms access conservation grants and expertise for reducing waste, water use and energy;
- Consider using video-conferencing to meet a potential supplier or customer rather than always physically travelling to meetings; and
- Establish an environmental management system with objectives and procedures for evaluating progress, minimizing negative impacts and transferring good practices.

Improving human resource management practices:

- Establish policies to ensure the health and safety of all employees and make the policies known to employees;
- Involve employees in business decisions that affect them and improve the work environment;
- Consult employees on how to handle a downturn in business (e.g., offer the option of all staff taking pay cuts or reduced hours instead of layoffs);
- When layoffs or closures are unavoidable, offer outplacement services, retraining and severance benefits;
- Provide training opportunities and mentoring to maximize promotion from within the organization;
- Extend training to life management, retirement planning and care of dependents;

- Be open to job splitting, flex-time and other work-life balance policies;
- Share training and human resources programs with other local small businesses;
- Consider supporting daycare for children or elderly dependants;
- Encourage a healthy workplace (e.g. implement a smoking ban or drug and alcohol abuse support program); and
- Provide exercise facilities or offer subsidized membership at a local gym.

Promoting diversity and human rights:

- Make sure that all staff know that there are explicit policies against discrimination in hiring, salary, promotion, training or termination of any employee on the basis of gender, race, age, ethnicity, disability, sexual orientation or religion.
- Do not tolerate jokes or behaviour in the workplace that insult employees on the basis of gender, race, age, ethnicity, disability, sexual orientation or religion.
- When hiring, think creatively about where to advertise the job and whether there are any local employability schemes (e.g., run by a local council or employer) to help find work for people who are homeless or disabled.
- Pay comparable wages for comparable work.
- Support organizations that promote fair trade and human rights compliance.
- Check where products are manufactured and look into any associated human rights concerns.

Helping the community:

- Encourage employee volunteering in the community and with financial contributions and help in kind.
- Make some of the business's product or services available free or at cost to charities and community groups.
- Look for opportunities to make surplus product and redundant equipment available to local schools, charities and community groups.
- Buy from local suppliers and strive to hire locally.
- Offer quality work experience for students (job shadowing).
- Collaborate with local teachers to make the business the subject of a school project.

- Use the business's experience to help a local school, charity or community group become more efficient and entrepreneurial.
- Use some of the marketing budget to associate the business or brand with a social cause.

In general:

- Develop new environmental and social products and services; innovation brings competitive advantage.
- Share CSR lessons learned with business customers, business neighbours and fellow members of a trade association or business organization.
- Explain the environmental, social and economic performance of the business to stakeholders and consider their ideas and views as the business develops.
- Commit to an external code or standard or a set of business principles that provides a framework to measure progress on environmental, and social and community issues.

See immediately preceding section5 on SME toolkits.

Task 2

Develop a CSR strategy

"Every business and individual needs to do their bit to tackle the enormous challenges of climate change and waste. While M&S will continue to sell great quality, stylish and innovative products, our customers, employees and shareholders now expect us to take bold steps and do business differently and responsibly. We believe a responsible business can be a profitable business. We are calling this 'Plan A' because there is no 'Plan B.'"

Stuart Rose, Marks and Spencer Chief Executive, announcing a suite of CSR initiatives in January 2007, including the commitment to become "carbon neutral."

What is a CSR strategy?

The CSR assessment generates a base of information the firm can use to develop a CSR strategy. A CSR strategy is a road map for moving ahead on CSR issues. It sets the firm's direction and scope over the long term with regard to CSR, allowing the firm to be successful by using its resources within its unique environment to meet market needs and fulfill stakeholder expectations. A good CSR strategy identifies the following:

- overall direction for where the firm wants to take its CSR work;
- the stakeholders and their perspectives and interests;
- a basic approach for moving ahead;
- specific priority areas;
- a time line for action, responsible staff, and immediate next steps; and
- a process for reviewing and assuring outcomes.

Different firms may be at different stages of awareness of and work on CSR, which will dictate the contents of the strategy. Some may decide to adopt a “minimum necessary” stance. Others may wish to make strategic forays into particular areas.

Why have a CSR strategy?

There is an old saying that “if you don’t know where you’re going, there’s little chance you’re ever going to get there.” This is as true for CSR as it is with any other business approach. Following a CSR strategy helps to ensure that a firm builds, maintains and continually strengthens its identity, its market, and its relationships. Importantly, it provides the framework for a coherent business strategy based on the issues that it and its stakeholders consider material.

How to develop a CSR strategy

The following six steps comprise a suggested way to develop a CSR strategy:

1. Build support with the CEO, senior management and employees;
2. Research what others (including competitors) are doing and assess the value of recognized CSR instruments;
3. Prepare a matrix of proposed CSR actions;
4. Develop options for proceeding and the business case for them; and
5. Decide on direction, approach, boundaries and focus areas.

There is no magic to this. The steps could be done in a different order or be called by different names, but taking them all will increase the likelihood of the firm having a systematic and realizable CSR strategy.

It is clear that a CSR strategy is unlikely to succeed when it is not based on a clear understanding of the firm’s values, when it fails to take advantage of the ideas of those who might provide assistance, and when it does not approach issues systematically, building on strengths and addressing weaknesses.

1. Build support with senior management and employees

Without the backing of a firm’s leadership, CSR strategies have little chance of success. The personal engagement of the CEO is usually vital.

The first step in developing a CSR strategy is for the leadership team to report back to senior management (and, where relevant, the board of directors) about the key findings of the assessment and to gauge interest in moving ahead. Quite likely, the assessment will have indicated that several aspects of current operations are vulnerable to external criticism, or that there appear to be real opportunities for synergies or new products in certain areas. The assessment could also have found that current decision making on CSR issues is not well coordinated or that there is considerable interest in specific CSR issues or pressure from certain key stakeholders in these areas.

It is important for the leadership team to continue to work to build support among employees, given the key role they will ultimately play in CSR implementation. Part 3 on stakeholder engagement provides suggestions on ways to do this.

2. Research what others are doing, and existing CSR instruments

Although it is possible for the CSR leadership team, working with other members of the firm, to develop a CSR approach entirely on its own, there is considerable value in drawing on the experience and expertise of others. Three useful sources of information are other firms, industry associations and CSR-specialist organizations.

If the leadership team finds that companies (in their own country, or elsewhere in the same or related sector) are emphasizing different CSR activities, it could examine the similarities and differences between the company and these firms. Examining the vision, values and policy statements of leading competitors, along with their codes, new CSR-related product lines or approaches, and any initiatives or programs in which they participate, can be very useful. Assessing the benefits, costs, immediate outcomes, resource implications and changes to current practices necessary for the firm to adopt similar approaches may also provide helpful information.

Common mistakes in CSR

Some experts believe that traditional approaches to CSR can actually stand in the way of achieving optimum performance. The Dutch-based Anders & Winst Company lists ten of the most common mistakes:³⁷

- *Lack of vision:* Instead of asking “where are we now?” think about asking “where do we want to be in 10 years?”;
- *Scale of change:* Some of the biggest business and sustainability opportunities will not be achieved by “bolt-on” approaches. Firms should remain open to radically new approaches and major change;
- *Sub-strategic management:* CSR managed at a staff level may fail to address key issues such as new business opportunities and the structure of incentives systems;
- *Risk/opportunity roles:* By bundling these two issues together, companies can fail to optimize the opportunities that a separate approach might offer;

³⁷ Extracted from Ethical Corporation article, appearing at:
<http://www.ethicalcorp.com/content.asp?ContentID=4728>.

- *Selective hearing*: Most organizations do not like criticism, and tend to listen to some stakeholders more than others. It is necessary to engage in what some academics have described as “deep listening;”
- *Maintaining old structures*: Understanding and responding to the demands and opportunities of the future will not always be possible within old management structures;
- *“One World” approaches*: Real differences exist across a firm’s activities, supply chains and customers. While common approaches for multinational firms have many advantages, they can disguise innovations and opportunities that might be possible at the local level;
- *Uneven approach*: Some firms have good policies in one sector or country, which are not being best used in other sectors and regions. This can also give the impression that CSR programs are image-driven;
- *Non-participative management*: “Top-down” CSR processes do not harness the skills and potential of employees. Creation of networks of “change champions” may offer better engagement and results; and
- *Failure to see CSR as innovation*: Good CSR involves continuous innovation that links CSR to the firm’s business model. It can use CSR to identify new technologies, markets and approaches.

<http://www.anderswinst.com>.

Industry associations may be well attuned to CSR developments at home and abroad, and may have undertaken CSR-related work or know of others who have. They may also offer opportunities for networking with colleagues. Another resource to tap into is CSR-specialist organizations devoted to promoting and researching sustainable development and CSR activities. The World Business Council for Sustainable Development (WBCSD), Business for Social Responsibility (BSR), and the Conference Board are among the better known international bodies active in the CSR field which sometimes also have national affiliates or branches. These organizations conduct research, hold conferences and workshops, and issue regular newsletters and other publications on CSR issues.³⁸ A description of these and other organizations can be found in Appendix 2.

At this point it is also useful to explore the existing CSR instruments that have been developed to provide guidance on what to do, and how to do it. Some of these—such as the OECD MNE Guidelines and the UN Global Compact—have been developed by governmental organizations and reflect internationally-agreed norms and standards. Others, such as ISO standards and the GRI, have been developed in partnerships involving business, NGOs and other experts. There are also a large number of sector-specific codes and guidelines that have been developed, often by the business community. In assessing which of these (or which combination) might be most useful, it will be important to consider such issues as who else is using them, and how well they represent governmental or societal expectations. A description of these instruments is set out in Task 3, and in Appendices 3 and 4.

³⁸ See, for example, “Stakeholder Dialogue: The WBCSD’s approach to engagement,” <http://www.wbcsd.org/DocRoot/sY0gbwIH9OPo3doLXocl/stakeholder.pdf>.

3. Prepare a matrix of proposed CSR actions

With this background it should be possible to create a matrix of proposed CSR actions, possibly set out by environmental, social and economic aspects, although there may be some overlap. The leadership team can plot current and possible CSR activities, processes, products and impacts on the matrix, cross-referencing them against the firm's current activities and structure to see how well they fit.

Example of matrix of proposed CSR actions

	Environmental activity		Social activity (e.g., workers, communities)		Economic activity (e.g., quality assurance, customer satisfaction)	
	Current	Proposed	Current	Proposed	Current	Proposed
	Processes	Registered to ISO 14001*	Kyoto emission reductions?	Certified to OHSAS*	SA8000* or Fair Labor Association (FLA)	Registered to ISO 9001*
Products/services	Some products use known logo (e.g., Rainforest Alliance, Organic)	Could products be certified to local energy standard?	None at present	Possible SA 8000 or FLA product certification	Use of ISO 9001 logo on company letterhead	Keep abreast of ISO work on IMS?
Impacts	Internal impact assessment undertaken	Supply chain/community impacts?	Internal impact assessment undertaken	Supply chain/community impacts?	Internal impact assessment undertaken	Supply chain/community impacts?
Responsibility centre	Environmental affairs department		Human resources department		Manager, quality/customer satisfaction	

*These initiatives are discussed in greater detail in Appendix 4.

4. Develop options for proceeding and the business case for them

Two broad options for proceeding at this point are to take an incremental approach to CSR or to decide on a more comprehensive change in direction. The evolution of the Responsible Care program of the Canadian Chemical Producers' Association is a good example of the former. This program started with a broad set of principles but now includes detailed codes, conformity assessment, public reporting and the involvement of community and non-governmental organization representatives.

Step by step approach

The Natural Step is a non-profit organization with offices in 11 countries that uses a science-based systems framework to help organizations, individuals and communities take steps towards sustainability. The Natural Step's mission is to catalyze systemic change and make fundamental principles of sustainability easier to understand, and meaningful sustainability initiatives easier to implement.

The Natural Step framework provides a shared conceptual model, understanding and common language that facilitate cooperation across organizations, disciplines and cultures. The framework encourages dialogue, consensus-building and incremental change—key processes of organizational learning—and creates the conditions for significant change to occur. For more information, go to <http://www.naturalstep.org>.

On the other hand, firms may decide to change direction more fundamentally with regard to the social and environmental effects of their activities. Examples include:

- *Wal-Mart*, the U.S.-based retail chain, has announced major changes in how it plans to use the supply chain to improve social and environmental conditions, and has plans to make its stores entirely powered by renewable energy;³⁹
- *Tesco*, a U.K.-based supermarket chain has announced plans to respond to climate change. These include labelling the carbon intensity of all products, and installing the world's largest solar energy roof on one of its facilities;⁴⁰
- *Interface*, a U.S.-based carpet manufacturer has completely overhauled its product line, production methods and sales practices by adopting the concept of "industrial ecology." The company is internationally recognized for its use of non-toxic, re-usable materials and its practice of recycling used flooring for new products;⁴¹
- *Philips*, a Dutch electronics firm, has launched a range of strategies built around responding to sustainable development challenges. Its "Green Flagship" and "Lighting the Bottom of the Pyramid" campaigns are examples;⁴²
- *Rohner*, a Swiss textile firm that is moving toward closed-loop production and consumption of its textile services. Production combines natural and synthetic fibres that can be fully recycled, and even eaten;⁴³ and
- *Carillion*, a U.K. construction company that is moving from construction to providing integrated infrastructure services, including management, with a range of environmental and social benefits.⁴⁴

39 <http://walmartstores.com/GlobalWMStoresWeb/navigate.do?catg=685>.

40 <http://www.tescocorporate.com/cr.htm>.

41 http://www.interfaceinc.com/goals/sustainability_overview.html.

42 <http://www.philips.com/about/sustainability/Index.html>.

43 http://www.climatex.com/en/story/manufacturer/manufacturer_rohner.html.

44 <http://www.carillionplc.com/about/about.asp>.

Generating ideas. Whatever approach is adopted, a useful first step is to come up with ways for the firm to integrate CSR into operations. Brainstorming sessions could be held with senior managers, employees, key business partners and others.

Participants must be clear on the need to align any CSR approach with the firm's core business objectives, methods and core competencies. With this understanding made explicit, participants can answer questions such as the following, drawing on some of the preparatory CSR work described earlier:

- What social and environmental activities and initiatives has the firm undertaken already?
- What strengths, weaknesses, opportunities and threats do these present?
- What has the firm learned from others that could be helpful?
- What are the firm's CSR goals?
- Where could the firm be in 10 years in terms of CSR activities and outcomes?
- What are the big social issues and how might the firm help?
- If the firm is to be a CSR leader, what changes to current practices and products would need to take place?
- Are there some CSR activities or initiatives the firm could easily undertake now at no or low cost (sometimes referred to as "low hanging fruit")?
- Are there areas in which CSR changes would have a particularly big impact on the firm and others? What are they and what are the likely impacts?
- Can the proposed CSR changes be organized into short-, medium- and long-term deliverables?
- What are the resource implications of these deliverables?
- Are there any changes to the firm's structure that would need to occur to implement any of the deliverables?
- Are there any other obstacles or impediments (e.g., inadequate training or equipment or inappropriate incentive structures) that might stand in the way of taking a more systematic approach to implementing CSR? If so, what are they?
- Are there opportunities for cost reductions?
- What are the potential risks of failing to take into account the broader environmental, social and economic aspects of a business's activities? and
- What should be the priorities for action if the firm decides to do more?

In addition to stimulating new ideas, such brainstorming sessions can also generate excitement and build awareness about CSR activity within the firm. Informal networking can also be a useful way to see whether the firm is on the right track.

Depending on resources, there may be value in drawing on the services of professional facilitators for these sessions. As neutral parties, facilitators may be able to elicit involvement from individuals who might otherwise not put forward their ideas.

Building the business case. The CSR leadership team can draw on the material generated by the assessment, its research into what others are doing and brainstorming sessions to devise a business case for potential initiatives that show the most promise. The business case should focus on a number of elements, in light of the firm's business objectives, methods and core competencies:

- possible leverage points (on which particularly large CSR gains can be made);
- areas in which a firm could potentially gain a competitive advantage;
- areas in which stakeholders might have particular influence;
- short- and long-term goals;
- estimated costs of implementing each option (including that of not doing more on CSR);
- anticipated benefits;
- opportunities for cost reductions;
- broader changes the firm would need to make;
- any risks or threats each option poses; and
- implications of each option for new developments.

Use opinion polls to help provide context

A 2005 poll conducted by GlobeScan showed that environmental (including climate change) issues were rated by respondents in China as the "most important problem facing the world." While globally, wars and conflicts were generally regarded as the most important problem, issues of poverty, unemployment and economic problems also rated highly with environmental concerns. Polls are often a useful indication of changing regulatory and market attitudes, and business opportunities. For more information, go to <http://www.globescan.com>.

5. Decide on direction, approach and focus areas

The CSR leadership team should now have the information it needs to ask senior management for an informed decision on how the firm should proceed. Of immediate importance is determining the firm's general direction, approach and focus areas with regard to CSR, as described below.

- **Direction.** This is the overall course the firm could pursue or the main area it is aiming to address. For example, an apparel company could decide to emphasize worker health and safety. A pharmaceutical company could decide to look at developing country health issues. A forestry company could decide that environmental issues associated with logging are the focus of its activities. A mining company could choose improving relations

with surrounding communities as its chief concern. A company moving into new markets might decide that anti-bribery measures are a target area, and so forth.

- **Approach.** This refers to how a firm plans to move in the direction identified. For example, a firm might decide to first revise its mission, vision, and values and ethics statements, next put a new code of conduct in place, then communicate with and train employees and, finally, address issues with contractors in the supply chain.
- **Focus areas.** These should align most clearly with the business objectives of the firm and, hence, are immediate priorities. The focus areas may identify gaps in the firm's processes, attempt to capitalize on a new opportunity, or address needs of certain key stakeholders. For example, a financial institution could identify new protections for clients' personal information or the opportunities for micro-credit, while a food retailer might decide to focus on combating obesity as an immediate objective.

These decisions will usually involve setting priorities. The size of the problem and its seriousness, the estimated effectiveness of possible solutions and the ease of implementation are key factors to take into account when prioritizing. Also important are the financial and human resources needed to implement the changes, legal and customer requirements, and the speed with which decisions can be implemented.

Because many CSR initiatives have resource implications, they should be assessed with rigour and substance, similar to how normal financial and investment decisions are reviewed. A casual or half-hearted approach could jeopardize the credibility of the CSR initiatives as well as related corporate business prospects.



Caution

Ensure CEO and top management buy-in for CSR—perhaps by first encouraging increased contact between managers and their stakeholders. Without the support of senior managers, it could be difficult to get a CSR strategy off the ground, since other tasks and work duties will often take precedence. Integrating CSR into company objectives and strategy is a good way of ensuring coherence.



Quick tips

- Determine your priorities before developing your strategy, and make sure these are consistent with the firm's mission. Priorities will guide the overall strategy;

- Ensure that proposed actions respond to generally-recognized values and standards, e.g., for protecting human rights and the environment; and
- Join an association with a CSR focus. There are a number of associations that offer assistance with developing a CSR strategy or can make a referral.

Reality check

“I can see the CSR leadership team and even our executive team getting excited about developing a strategy of this nature. What I can’t see is our over-extended middle-management group getting excited about it. In fact, I can see them pushing back, challenging its importance and relevance.”

This is why it is so important to invest time in developing a business case for CSR. Use the same systems and formats as for justifying a reallocation of funding to a new initiative, engaging the finance team in the process. Demonstrating how the CSR plan supports existing or emerging business objectives is an integral part of building support at the middle-management level.

CSR and small businesses



“Our organization is very small and we don’t have many strategies other than growing our business. This process seems too complicated for us.”

Developing a CSR strategy does not have to be complex. Start by picking one area to focus on based on an easily achievable goal. For example, the firm could decide to start making a difference by putting in place a recycling program or installing energy-efficient lighting. Record the CSR activities, however small, that have been implemented and build on those successes year after year. The strategy will become apparent from the priorities that emerge and the actions taken.

Add CSR to the firm’s overall organizational goals by building it into the business plan. Ensure management buy-in for CSR. Without the support of senior managers and/or owners it could be difficult to get a CSR strategy off the ground, since other tasks and work duties will often take over.

Small businesses can also benefit from joining a CSR association or an industry association with a CSR program.

Task 3

Develop CSR commitments

“Business leaders need to speak out now about their role in driving progress in society. For too long we have allowed people to think that business is interested in nothing other than profit, when in fact we see the purpose of business much more widely. We believe that the fundamental purpose of business is to provide continually improving goods and services for increasing numbers of people at prices that they can afford.”

Paul Polman, Former Group President, Western Europe, Procter & Gamble 2005

What are CSR commitments?

CSR commitments are policies or instruments a firm develops or signs on to that indicate what the firm intends to do to address its social and environmental impacts. CSR commitments flow from the CSR assessment and strategy and are developed at the point when a firm moves from planning to doing:

- They ensure that the firm’s corporate culture is consistent with CSR values;
- They help align and integrate the firm’s business strategy, objectives and goals;
- They provide guidance to employees about how they should conduct themselves; and
- They communicate the firm’s CSR approach to business partners, suppliers, communities, governments, the general public and others.

Before developing CSR commitments, firms must understand the range of available commitments and the distinctions between them. A key distinction is between aspirational and prescriptive commitments. Aspirational commitments tend to articulate the long-term goals of a firm and are usually written in general language, while prescriptive commitments, such as codes of conduct, stipulate more specific behaviours to which the firm explicitly agrees to comply.

Aspirational commitments often take the form of vision, mission, values and ethics statements, or charters. In many circumstances, firms may already have aspirational and prescriptive commitments in place that can be adjusted to fully integrate CSR. Aspirational commitments form the backdrop for specific and prescriptive codes of conduct and standards, which are usually designed to benchmark or directly control behaviour.

Aspirational commitments

The main objective of aspirational commitments is to articulate a high level and common understanding of what a firm stands for and how it would like to be regarded. For CSR to

be truly integrated into values, decision making and activities, a firm's aspirational commitments must fully reflect its social and environmental positions.

In the absence of CSR aspirational commitments, there is a risk that various parts of the organization will embark on CSR implementation activities at cross-purposes. The likelihood is reduced when work begins with a shared view of what the firm stands for and where it is heading.

A variety of firms around the world have developed aspirational commitments, which form part of their business and communications strategy.

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- Recognizing that cars are major producers of greenhouse gases, the **Toyota** company has committed itself to move to a "zero emissions" world. Sharp reductions in waste to landfill and products such as the successful Prius hybrid petrol/electric model form part of this strategy. High profile "zero emission" advertisements underline the integrated nature of the commitment.
 - The U.S. **Interface** floor-coverings firm has made a public commitment to "eliminate any negative impacts of our company may have on the environment by 2020," and be "the first company that, by its deeds, shows the entire industrial world what sustainability is in all its dimensions: People, process, product, place and profits ... and in doing so ... become restorative through the power of influence."

Prescriptive commitments

Prescriptive commitments—typically taking the form of codes of conduct and standards—set out specific behaviour changes for which a firm agrees to strive. A firm may choose to: develop its own code of conduct (see, for example, Alcan's code of conduct),⁴⁵ or to sign on to an existing sectoral code or standard (e.g., the Responsible Care initiative),⁴⁶ or some other existing instrument. See Appendices 3 and 4 for a description of some of the key existing CSR initiatives, codes and standards.

A main advantage for a firm developing its own code of conduct is that the code can be tailored to reflect the firm's circumstances. On the other hand, developing a code of conduct can be a lengthy and expensive process, and the end product may not have the credibility of a third-party code, especially those that are derived from existing international norms. In one sense, firms that agree to comply with third-party codes and standards can "piggy back" on the extensive consultation and development process such initiatives require, and their higher profile.

In other circumstances it may be to the firm's advantage to partner with others within the sector or across sectors to develop a code of conduct that addresses specific issues. In Malawi, for example, a code of conduct on fighting corruption was developed on a private sector initiative, together with the UN Global Compact.

45 [http://www.alcan.com/web/publishing.nsf/AttachmentsByTitle/code+of+conduct/\\$file/Code_English.pdf](http://www.alcan.com/web/publishing.nsf/AttachmentsByTitle/code+of+conduct/$file/Code_English.pdf).

46 <http://www.responsiblecare.org>.

There are many third-party, CSR-related codes and standards with which firms may choose to comply. NGOs frequently play lead roles in developing these codes and standards and in ensuring that they undergo multi-stakeholder consultations. Codes and standards are often linked to third-party verification or certification labelling programs. In this last context, it should be noted that the use of a labelling approach might only be effective when part of a wider CSR strategy.

When considering subscribing to existing codes and standards, firms must recognize the significant risks they would face should they “sign on” and then fail to live up to the obligations set out in the codes. Careful examination of a code’s terms at the outset—to make sure they are compatible with the firm’s mission, culture and activities—can reduce the likelihood of later programs failing; there is often a significant investment necessary for firms to “get up to code.”

Sectoral CSR commitments

Increasingly, firms are taking collective CSR initiatives and making collective CSR commitments. These may take the form of sectoral standards, or policy initiatives. Examples include:

- The **Business Leaders Initiative on Human Rights**, in which a number of companies commit to exploring “practical ways of applying the aspirations of the Universal Declaration of Human Rights within a business context and to inspire other businesses to do likewise;”⁴⁷
- The **International Council on Mining and Metals (ICMM) Sustainable Development Framework**. ICMM has also developed a sector supplement; for application in combination with the GRI.⁴⁸
- The **Sustainable Agriculture Initiative Platform**, a framework developed by a number of the leading food manufacturers to develop and communicate their approach to sustainable development;⁴⁹ and
- The U.K.-based **Corporate Leaders Group on Climate Change**, a group of fourteen senior executives who have made public calls for more action by the U.K. government on climate change.⁵⁰

Why have CSR commitments?

As noted in Part 1, customers, communities, business partners, investors, non-governmental organizations and others—including the media—are increasingly asking firms to explain what they are doing to address their societal and environmental impacts. CSR commitments communicate the nature and direction of the firm’s social and environmental activities and in this way help others understand how the firm is likely to behave in a particular situation.

47 <http://www.blihr.org>.

48 http://www.icmm.com/sd_framework.php.

49 <http://www.saipatform.org>.

50 <http://www.cpi.cam.ac.uk/bep/clgcc>.

Because CSR involves voluntary engagements, it might be seen—internally as well as externally—as “more PR than promise.” Like any good policy, clear commitments are a vital component of any firm’s efforts to be transparent, accountable and credible. CSR commitments create the baselines against which behaviour may be subsequently measured. When properly implemented, CSR commitments can increase the likelihood that a firm will appropriately respond to an opportunity and decrease the probability it will engage in problematic conduct.

CSR commitments make it clear to all interested parties what they can expect from a firm. By articulating these expectations up front, the firm decreases the potential for misunderstandings at a later date. In this sense, CSR commitments can improve the quality of the involvement the firm has with its stakeholders. In some cases, in fact, stakeholders will only agree to engage with firms that have clearly stated their CSR commitments. Properly implemented CSR commitments can increase the likelihood of a firm being considered duly diligent and decrease the chances of it being seen as a sub-standard CSR performer. They are also a vehicle to benchmark progress towards improved social and environmental responsibility.

Another benefit of CSR commitments is that they can play a key role in integrating diverse organizations.

Alcan Inc.’s code of conduct

In 2002, the aluminium products and services firm Alcan Inc. published a revised version of its Worldwide Code of Employee and Business Conduct, with which all employees, consultants and suppliers are expected to comply. Employees found to be non-compliant may be subject to disciplinary action, while non-compliant consultants and suppliers may no longer be hired. The code covers human rights, the environment, health and safety, competition, improper payments, workplace harassment, and shareholder, media and community relations.

A set of shared values supplements the code, highlighting the importance of integrity, accountability and transparency, (Alcan defines each of these). The values are intended to reflect and foster an environment within which all employees can seek their full potential. For more information, go to <http://www.alcan.com>.

How to develop CSR commitments

Here is one way of developing CSR commitments, but there are many others, since commitments deal with so many subjects and take so many forms:

1. Do a scan of CSR commitments.
2. Hold discussions with major stakeholders.
3. Create a working group to develop the commitments.
4. Prepare a preliminary draft.

5. Consult with affected stakeholders.
6. Revise and publish the commitments.

The process of developing the CSR commitments should recognize that considerable potential exists for misunderstandings and miscommunication about expectations. These can challenge a successful outcome. Accordingly, the process will need to be pragmatic and focused.

1. Do a scan of CSR commitments

Before developing CSR commitments or agreeing to adhere to third-party CSR codes or standards, it is useful to examine the CSR commitment instruments others are using, particularly leading firms. Importantly, firms should also research CSR instruments developed by governments (see Appendix 5), and intergovernmental bodies such as the UN, the ILO and the OECD. Because governments have developed these instruments in conjunction with other parties, they have a high level of credibility and are good guides to what governments consider to be acceptable and unacceptable behaviours (see Appendix 3, “Key international CSR instruments” for more information). Finally, a review of available third-party codes and standards (such as those in Appendix 4) should be undertaken. Here it can be useful to distinguish between those developed by multi-stakeholder processes (e.g., the GRI), and those that have been developed in other ways.

When considering the CSR commitment instruments of others, it is useful to ask questions, such as the following:

- What people and organizations were involved in developing these commitments? Would these be the same stakeholders who would need to be involved in the firm’s own CSR commitments?
- What are the objectives underlying development of these CSR commitments? Are those objectives the same as or different from those underlying the firm’s CSR objectives?
- Can a particular CSR issue identified by the firm be resolved or addressed through use of these or similar CSR commitments? What are the potential costs, drawbacks and benefits of the various types of commitments? and
- What is the applicability or suitability of these commitments to the organization in light of its scope of activities and geographic range of operations? Will the company benefit from the commitments and how?

2. Hold discussions with major stakeholders

Developing CSR commitments or agreeing to comply with existing codes and standards presents the firm with an opportunity to generate organizational interest in CSR and build agreement about how codes and standards apply to the firm. From that agreement, the firm can develop more practical steps towards implementation. Throughout this guide, the importance of listening to all stakeholder groups is stressed.

Within the company, it is critical that the board, CEO and top management be firmly behind a company’s CSR commitments. Without such support, there is very little likelihood that subsequent CSR activities will effectively take place. Spending time at the outset, “getting the CSR commitments right” in the eyes of board members and top management is time well spent.

Similarly, early and meaningful input from and support of the firm's personnel is very important. Employees possess front-line knowledge of the problems the organization faces and ultimately will play a critical role in implementation. For example, if a firm's code on bribery and corruption were developed without the viewpoints of sales personnel, it would not likely reflect operating reality and could be rejected at the outset.

There may also be value in having informal initial discussions with business partners, supply chain members and other contractors. The objective of these discussions would be to sound these parties out about which commitments to choose and to identify partners willing to help develop them. When the commitments apply to these parties, their involvement and agreement to comply with the terms of the commitments are crucial.

It can also be useful to reach beyond those with whom the firm has contractual relations to more broadly affected groups, such as consumer, labour and environmental organizations, community groups and governments. This can help to confirm initial perceptions of their interests and concerns, and could result in additional people and organizations helping develop commitments. Focus groups, comprising like-minded peers or a broad cross-section of interests, can also be useful for testing new ideas.

As noted elsewhere, there are many independent sources of guidance on how stakeholder consultations can be conducted.⁵¹

Stakeholder advisory groups

In recent years, in addition to conducting ad hoc stakeholder consultations some firms have introduced the concept of standing CSR advisory groups. Often comprising experts from diverse stakeholder groups, such committees can be useful in reviewing CSR plans, publications and performance, and providing feedback on specific issues. Among the firms that have such committees are General Electric, Henderson Global Investors, and Shell.⁵²

3. Create a working group to develop the commitments

The working group should be a cross-section of the organization, from board members to senior management and front-line employees, and could include people who are very enthusiastic about CSR as well as those who are skeptical to give voice to differing opinions on the issues at hand. Contractors and others to whom the commitments apply should also be involved.

Having the right people in the group is essential. They must be dependable, credible and knowledgeable, and have the necessary time and resources to commit to the work involved. Frank discussion should take place at the outset about: the group's objectives; members' responsibilities; anticipated workload and outcomes; and the ground rules on how the group will operate. Regular two-way communication between the working group and the firm as a whole may also be useful.

51 See, for example, the International Finance Corporation (IFC) guide "*Stakeholder Engagement: A good practice manual for doing business in emerging markets*" 2007, [http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/p_DraftStakeholderEngagement/\\$FILE/DRAFT_StakeholderEngagement.pdf](http://www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/p_DraftStakeholderEngagement/$FILE/DRAFT_StakeholderEngagement.pdf).

52 See AccountAbility's "*Critical Friends: The emerging role of stakeholder panels in corporate governance, reporting and assurance*," 2007 <http://www.accountability21.net>.

Finally, it should be noted again that there are options for developing commitments alone, or jointly with others. Business associations regularly develop or update sectoral codes, and there is a growing number of multi-stakeholder frameworks for developing new codes and standards. Some of these are described in the box section below.

International multi-stakeholder processes: A new basis for identifying and implementing CSR commitments in the 21st century?

The development and implementation of a CSR strategy provides an opportunity to link the realities of your corporate environment to the needs and well-being of the larger community. However, undertaking such a process inevitably implies significant front-end investments, the impacts of which may be uncertain over time. In order to minimize the risk, reduce the costs associated with CSR strategies and enable access to a wider stakeholder base in the development of the CSR process, firms are increasingly turning towards international multi-stakeholder processes (IMP) as a way of identifying the key issues for a particular sector, as well as possible solutions.

Although IMPs come in a variety of forms, they typically involve the establishment of a multi-stakeholder platform, round table or discussion group as the basis for identifying sustainable development issues and priorities along international supply chains. Multi-stakeholder processes are particularly well-adapted to identifying CSR and sustainable development opportunities and challenges in international supply chains due to the direct input they receive from those directly implicated in production, trade and consumption along the supply chain.

The recent popularity and growth of IMPs is rooted in their ability to address issues of a global nature more readily than companies or other stakeholder groups might be able to do individually. Participation in an IMP can offer the following advantages:

- IMPs often provide a more comprehensive communications and stakeholder consultation platform than any single actor can maintain or manage. Rather than being one-off stakeholder consultation processes, they often revolve around the establishment of permanent forums for stakeholder dialogue;
- IMPs help avoid conflict of interest problems which might otherwise be associated with strictly internal CSR processes. Independent facilitation in the IMP can help in opening communications and trust between stakeholders with diverse interests. As such, IMPs can offer better risk management protection than purely internal CSR strategies;
- IMPs can provide a neutral platform for coordinating activity between competitors, thereby reducing the risk that might be associated with adopting proactive CSR strategies on an individual basis;

- By bringing stakeholders with competing interests together, IMPs are often seen as “revolutionary” and therefore provide an opportunity for positive branding;
- IMPs, and the commitments associated with them, can be linked directly to products through labelling or advertising campaigns. In turn, these can generate new markets for “sustainable products.” The growth of such markets can help create a virtuous circle of profitability and sustainability for participating firms; and
- IMPs help pool private and public resources for the implementation of joint CSR activities helping to defray costs to individual participants. Often they are supported by governmental bodies.

Due to the complexity of international supply chains and the corresponding CSR issues which can arise, IMPs tend to place high priority on seeking consensus among stakeholders and formalizing such agreement in the form of “minimum standards” for participating members/institutions. Some of the more well-known initiatives include:

AccountAbility: AccountAbility is a non-profit membership organization whose aim is to promote accountability innovations that advance responsible business practices and the broader accountability of civil society and public organizations. Its AA1000 Series are principles-based standards intended to provide the basis for improving the sustainability performance of organizations, and are applicable to organizations of any size, sector and region.⁵³

Extractive Industries Transparency Initiative (EITI): The EITI is a multi-stakeholder initiative involving governments, business and civil society organizations. It has developed principles and criteria for improving the transparency and accountability of payments by the extractives sector to governments.⁵⁴

Forest Stewardship Council: The FSC is a multi-stakeholder standard and certification process which provides formal representation for social, economic and environmental stakeholders, as well as a unique “national process” for developing regionally appropriate guidelines and standards for sustainable forest management. Some governmental agencies have specified FSC certification, or equivalent, as a sourcing requirement.⁵⁵

53 <http://www.accountability21.net>.

54 <http://www.eitransparency.org>.

55 <http://www.fsc.org>.

Global Reporting Initiative (GRI): The GRI is a multi-stakeholder developed and governed framework for developing sustainability reporting guidelines. The GRI's guidelines are available for use by public agencies, firms and other organizations wishing to understand and communicate aspects of their economic, social and environmental performance.⁵⁶

Marine Stewardship Council (MSC): Similar to the FSC, the MSC is an independent, multi-stakeholder non-profit organization whose role is to recognize, via a certification program, well-managed fisheries and to harness consumer preference for seafood products bearing the MSC label of approval.⁵⁷

Social Accountability International (SAI): SAI is a non-profit organization whose mission is to promote respect for international labour standards. Its SA8000 international certification system is internationally recognized as an assurance of good labour practices in international manufacturing supply chains.⁵⁸

Roundtable on Sustainable Palm Oil (RSPO): The Roundtable on Sustainable Palm Oil (RSPO) is a multi-stakeholder learning and criteria development process formed to reduce the negative impacts of palm oil production on rainforests around the world. Based on multi-stakeholder negotiations, the RSPO has managed to secure the buy-in and participation of most of the major producers, traders and manufacturers of palm oil.⁵⁹

Once an IMP is up and running, actual involvement and time commitments can be minimal, with participation being more or less limited to compliance with the IMPs minimum standards. This may involve as little as documenting compliance through normal corporate procedures or the purchasing IMP-“compliant” products.

Notwithstanding the many advantages which can come through association with one or another IMP, they do nevertheless present some challenges for traditional business structures. Most obviously, the participation of stakeholders in an open dialogue geared towards identifying a “common” approach can require compromise from all sides which might be avoided through unilateral action. Another major challenge for many firms is the uncertainty of the outcomes of any IMP. The highly political nature of multi-stakeholder discussions, if not managed appropriately, can exacerbate rather than facilitate trust-building among stakeholders. As such, a certain degree of trust building is usually required before an IMP can be launched successfully.

56 <http://www.globalreporting.org>.

57 <http://www.msc.org>.

58 <http://www.sa-intl.org>.

59 <http://www.rspo.org>.

It is also important to note that IMPs are unlikely to be appropriate for all companies or CSR issues. For example, firms which do not actively operate or source internationally are unlikely to benefit from an international process for implementing CSR. On the other hand, firms dealing with international supply chains involving multiple actors with diverse and conflicting interests are likely to find significant value in the “safe harbour” IMPs can provide.

Finally, IMPs cannot be expected to *replace* an internal CSR strategy. While they can help secure stakeholder buy-in and establish an international infrastructure for addressing CSR issues along international supply chains, they cannot provide a complete package tailored to a particular firm’s full range of activities and interactions with society. It should be noted however that several of the CSR instruments developed by IMPs are mutually compatible and are used in a complementary manner by many firms. The GRI Guidelines, for example, are compatible with the OECD MNE Guidelines and the Global Compact’s requirement for “Communications on Progress.”⁶⁰

4. Prepare a preliminary draft

CSR commitments should be plain-language statements and should contain clear and concise obligations. It is recommended that working group members identify who within the organization will be responsible for implementing the commitments and involve them in preparing the draft. Firms would also be well advised to use existing commitment documents (such as those described in Step 1) as base documents when preparing their own.

5. Consult with affected stakeholders

It has been stressed above that thorough consultations with those affected by a firm’s actions at the outset can prevent problems later. One good approach is to start with the people most likely to be directly affected by the CSR commitments and who are already aware of the associated issues. Next, the working group could have more formal discussions with groups and people who may not be aware of the CSR initiative. A consultation plan can be useful. It should include roles for high-profile officials within the firm who have good communication skills and can clearly explain the CSR commitments and receive feedback. This feedback should go to the working group, who will discuss how and to what extent the final draft will reflect the comments.

Further detail on stakeholder consultation is provided below, in Part 3.

⁶⁰ See “Making the Connection,” Global Compact/GRI, 2006, http://www.globalreporting.org/NR/rdonlyres/0CF87463-ADAD-4CE5-AF95-B89243EB61E0/0/UNGCGR1_MakingTheConnection.pdf.

6. Revise and publish the commitments

Drawing on the input from the consultations, the working group can finalize commitments to be published and shared with all employees as part of the implementation. Often this is done on the firm's Web site, or in a CSR or sustainability report, but there are many options. The Canadian mining firm Teck Cominco even goes so far as to print its commitments on its business cards, which it gives to all employees! It also has a Charter of Corporate Responsibility posted on its Web site.⁶¹

Key international CSR initiatives of governmental or inter-governmental bodies

This guide draws attention to the multiple benefits of firms drawing on existing CSR instruments. In addition to being a ready-made source of wisdom and experience, those that have been developed with governmental input, and based on agreed international standards, offer an additional level of legitimacy and recognition. Some of the most widely used are mentioned below. More information on these and other instruments can be found in the Appendices.

United Nations Global Compact

The United Nations Global Compact, which was first launched 1999 on the initiative of then United Nations Secretary-General Kofi Annan, calls on the private sector to embrace a core set of ten principles pertaining to human rights, labour, the environment, and anti-corruption. These principles have been derived from existing international law. Supported by a small international secretariat and a network of local organizations, the Global Compact acts as a learning forum to facilitate the exchange of experiences and good practice. Based on the level of its use, it is currently the world's most popular multi-stakeholder CSR initiative.

For more information, go to <http://www.unglobalcompact.org>.

OECD Guidelines for Multinational Enterprises (OECD)

In June 2000, the OECD issued its revised Guidelines for Multinational Enterprises. The Guidelines establish non-binding principles and standards for responsible business conduct with the aim of promoting economic, environmental and social progress. They also ensure that MNEs act in harmony with the policies of host economies. It is the most important government-backed CSR code and covers such diversified areas as disclosure, employment and industrial relations, human rights, the environment, anti-bribery measures, and taxation and consumer interests. All 30 of the OECD's industrialized country members have formally adhered to the revised guidelines, as well as nine non-member countries (Argentina, Brazil, Chile, Estonia, Israel, Latvia, Lithuania, Romania and Slovenia). Adhering governments commit to appoint a national contact point to promote the guidelines and to help resolve problems that may arise as they are implemented. Also relevant in this context is the OECD's Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones.

For more information, go to <http://www.oecd.org>

⁶¹ <http://www.teckcominco.com/sustainability>.

International Labour Organization (ILO)

The ILO is a UN specialized agency comprising governments, employers' and workers' organizations. Since its inception in 1919, the ILO has adopted—on a tripartite basis—international labour standards (ILS) covering a wide range of rights at work, including the rights of indigenous peoples. These instruments are the basis of most other social initiatives. The labour content of the revised OECD MNE Guidelines, for example, is based on ILS. The ILO has given special attention to multinational enterprises by adopting the 1977 Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. This recently revised Declaration is a global commitment designed to guide governments, employers and workers in areas of employment, training, working conditions and industrial relations. More recently, the ILO adopted the Declaration on Fundamental Principles and Rights at Work, which focuses attention on the core labour rights dealing with child labour, forced labour, non-discrimination and freedom of association and collective bargaining. This key document has become the basis for the majority of social initiatives, including the labour principles of the UN Global Compact.

For more information, go to <http://www.ilo.org>.

International Finance Corporation (IFC)

The IFC is a member of the intergovernmental World Bank Group of organizations. Its mission is to promote sustainable private sector investment in developing countries. The IFC's new Environmental and Social Standards of IFC came into force in April 2006, replacing previous guidelines. The new standards define the roles and responsibilities of IFC and its client companies. They include: a Policy on Social and Environmental Sustainability on IFC's role and responsibility in supporting project performance in partnership with clients; a Disclosure Policy defining IFC's obligations to disclose information about itself and its activities; and an Environmental and Social Review Procedure, which gives direction to IFC officers in implementing the Policy on Social and Environmental Sustainability and reviewing compliance and implementation by private sector projects.

For more information, see <http://www.ifc.org>.

Equator Principles

The IFC was also closely involved in the creation of the Equator Principles, an initiative of private financial institutions to set down common social and environmental principles for the management of project financing. The recently revised Equator Principles have now incorporated, and are fully consistent with, IFC's environmental and social "Performance Standards," which ensure that there is one consistent standard for private sector project financing for all adhering banks and institutions.

For more information, go to <http://www.equator-principles.com>.

Principles for Responsible Investment

Between 2005–2006, responding to a growing view among investment professionals that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios, the UN Environment Programme (UNEP), the UN Global Compact and business and NGO representatives developed a set of principles that would provide investors with a framework for fulfilling their fiduciary duties on these

issues. The Principles for Responsible Investment aim to help integrate environmental, social and governance (ESG) issues into investment decision-making and ownership practices by institutional investors, and thereby improve long-term returns to beneficiaries.

For more information, see <http://www.unpri.org>.

CSR and human rights

While human rights issues are addressed in many of the instruments mentioned above, there are also many others that are relevant.

Voluntary Principles on Security and Human Rights

The Voluntary Principles on Security and Human Rights set out standards of behaviour for resource extraction companies operating in conflict zones. These principles are designed to help companies ensure security in ways that also promote and protect human rights. The principles were developed in 1999 and 2000 through consultations between the U.K. and U.S. governments, companies and non-governmental organizations, and were jointly launched in December 2000 by the Foreign and Commonwealth Office and the U.S. State Department. The governments of the Netherlands and Norway and a growing number of companies and non-governmental organizations have subsequently signed on.

For more information, go to <http://www.voluntaryprinciples.org>.

United Nations human rights instruments

Although the primary responsibility for the promotion and protection of human rights rests with states, there is growing recognition of the important role that the private sector and other actors can play in avoiding any involvement in human rights violations and more widely promoting respect for human rights. Most multilaterally-endorsed CSR initiatives include a human rights component based in part on key United Nations human rights instruments such as the *Universal Declaration of Human Rights*.⁶² For the most part, however, the human rights sections of existing mechanisms are not as well developed as other aspects of CSR. As a set of draft norms proposed by a UN Sub-Commission showed, there are many relevant international conventions, and controversy about how they should be applied.⁶³ In an effort to better understand the relationship between business and human rights, Harvard Professor John Ruggie was appointed in July 2005 as Special Representative to the UN Secretary-General to look at the issue of human rights and transnational corporations and other business enterprises. The mandate calls for the Special Representative “to identify and clarify standards of corporate responsibility and accountability for transnational corporations and other business enterprises with regard to human rights.”

For more information, go to <http://www.ohchr.org>.

⁶² <http://www.un.org/Overview/rights.html>.

⁶³ See Draft Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights at <http://strategis.ic.gc.ca/epic/site/csr-rse.nsf/print-en/rs00143e.html#draft>.



Caution

Ensure consistent integration of CSR into the organization's mission statement, statement of values, and codes of ethics and conduct.



Quick tips

- To ensure employee buy-in, include employees in the process of developing the vision and values. To spark the process, create a CSR working group or create a framework for identifying the best suggestions, encouraging employees, their families and representatives—or even customers—to put some thought into their submissions;
- Host a visioning session and ask participants to think about what the firm could look like in the future as a CSR leader; and
- Review the CSR priorities to determine which codes of ethics or conduct fit best with the firm's goals, values and business strengths.



Reality check

"Yet another code. And there is already so much criticism that codes without an accountability element are for the most part ineffective. There are more than 250 CSR-related codes and standards in existence. How are we supposed to navigate this landscape and choose something that works for us? How do we know that a newer and better code won't be introduced next year?"

The proliferation of CSR-related codes and standards is a good indication of how new this field is and how much development work is under way. It is also a sign that CSR issues are not going away anytime soon. It is best to begin by designating a staff person to keep abreast of the relevant intergovernmental commitments and non-governmental or private sector codes. One strategy for addressing the proliferation of CSR instruments is to sign on to or adapt an existing instrument that is considered credible and effective in the eyes of your firm's affected stakeholders, and that offers an opportunity to participate in any revisions that may occur. That way, the firm is well positioned in the short run to

demonstrate the benefits to its key stakeholders that flow from meeting the terms of the instrument, while at the same time being well-placed to influence future revisions based on its own experience.



CSR and small businesses

“How can we create commitments in a few simple steps?”

Focus on creating a vision, mission and statement of values for the firm. The vision should explicitly include CSR as one of its core elements. This vision will inform the mission statement and statement of values.

To ensure buy-in from employees, include them in the process of developing the vision and values. Hold a contest for the best suggestions, encouraging employees or their families to come up with imaginative ideas to improve both the business and the world it works in.

Task 4

Implement CSR commitments

“Human development has achieved tremendous advances in the last 200 years, but it has come at a price to our environment. We have started to eat into the natural capital of our world; now we must rebuild that capital.”

Stephen Green, Group Chairman, HSBC Holdings plc

What is CSR commitment implementation?

Implementation refers to the day-to-day decisions, processes, practices and activities that ensure the firm meets the spirit and letter of its CSR commitments and thereby carries out its CSR strategy. If CSR commitments can be called “talking the talk,” then implementation is “walking the walk.”

Why does CSR commitment implementation matter?

As all businesses know, living up to promises—whether business or performance targets—is essential to success. Failing to meet CSR commitments, in the absence of satisfactory explanations, can also lead to problems, including disgruntled employees, shareholders, business partners, customers, communities and others. A firm that effectively implements its commitments is not only less likely to run into problems, but may be more favourably looked upon when problems do arise, as opposed to a firm that continually fails to meet what stakeholders see as its obligations.

How to implement CSR commitments

Every firm is different and will approach CSR implementation in different ways. The steps suggested below show one way to implement CSR commitments:

1. Develop an integrated CSR decision-making structure;
2. Prepare and implement a CSR business plan;
3. Set measurable targets and identify performance measures;
4. Engage employees and others to whom CSR commitments apply;
5. Design and conduct CSR training;
6. Establish mechanisms for addressing problematic behaviour;
7. Create internal and external communications plans; and
8. Make commitments public.

1. Develop an integrated CSR decision making structure

Although every firm is different, each has a decision making structure in place to ensure that it can meet its commitments and customer needs. The key question to ask here is, “given the firm’s existing mission, size, sector, culture, way of organizing its affairs, operations and risk areas—and given its CSR strategy and commitments—what is the most effective and efficient CSR decision making structure to put in place?”

It is essential that the firm align and integrate its CSR goals and decision making with its overall goals and strategies, so that taking CSR considerations into account in corporate decision making becomes as natural as taking customer perspectives into account. Some firms will prefer a centralized CSR decision making structure, others a de-centralized one, while still others will want a hybrid, depending on their operating features and management style. There is no single way of organizing a firm’s CSR decision making.

This guide emphasizes the importance of senior management buy-in from preliminary CSR assessment to strategy and commitment development. It is not likely, therefore, difficult to identify people or committees at the top levels of the firm who will assume key CSR decision making responsibilities.

Given that CSR is fundamentally concerned with transparency, accountability and performance, it is important for the CSR decision making structure to be an integral component of the firm’s governance activities and to be visible. It should also be accountable throughout the organization, from the board, CEO and senior levels, supported by coordinated cross-functional decision making and specialized staff expertise. It is important to develop the CSR decision making structure with a view to the appropriate level of internal and external verification that will be needed.

Assigning CSR responsibilities to board members ensures that CSR issues will receive the attention they deserve, and as a result, form a strong basis for an effective chain of CSR accountability within the organization—all of which supports the board’s corporate governance function. There are several options for board participation: a sitting board member could be tasked with the broad responsibility for overseeing CSR activities; a new member who has specific CSR expertise could be appointed; CSR responsibilities could be added to the work of existing board committees; a new CSR board committee could be formed; or the entire board could be involved in CSR decisions.

A senior official or committee responsible for overall CSR implementation within the firm should be identified and given the resources to do the job. Particular departments having CSR responsibilities (e.g., environmental, health and safety protection, worker relations, supplier relations, community relations, and customer relations) will likely report to the senior official or committee. CSR responsibilities—and incentives—should be built into employees’ job descriptions and performance evaluations.

2. Prepare and implement a CSR business plan

The decision making structure identifies who is responsible for CSR decision making and action within the firm. These people play key roles in developing and implementing the CSR business plan, which should flow from the CSR strategy and commitments. The CSR business plan may be separately described or included as part of the firm’s existing overall business plan. With the strategy, commitments and decision making structures in place, the CSR business plan helps ensure that the words are transformed into effective action. An excellent way of doing this is to determine what human, financial and other resources and activities will be required to carry out the CSR strategy and commitments.

For example, a CSR commitment may be that the firm will not offer bribe payments to officials. The first step to implement that commitment might be to create a training course on the distinction between proper and improper payments, with an online version that includes “frequently asked questions.” A second step might be to review the organization’s incentive and disincentive structure (e.g., commissions) to ensure it does not indirectly encourage improper behaviour. A third step might involve setting up a hotline, while a fourth could be creating “whistle-blower” protection measures. In the CSR business plan, each of these tasks could be further broken down into smaller components, with timelines and resource requirements for each. These obligations should be built into the job description and performance objectives of each lead person.

3. Set measurable targets and identify performance measures

As with any other aspect of business performance, effective CSR implementation requires the setting of measurable targets for the commitments. In this regard, firms behave no differently from individuals. Athletes may set personal goals, such as “win an Olympic medal,” but they frequently set more achievable, intermediate targets such as “run the 100 m sprint in less than x seconds,” “reduce my weight to y kilograms” and “be in the top five at the trials next November.” In essence, these intermediate targets are guideposts along the way to the ultimate goal, providing a gauge of progress and an opportunity for re-evaluation should adjustment in approach, training or resources be necessary. When achieved, targets may also be a source of celebration in their own right. In this sense, they can help build incentive and momentum.

A firm’s approach to setting measurable environmental, economic and social targets and tracking success in meeting them is fundamentally no different from the athlete’s approach to winning an Olympic medal. A widely used approach to measuring success is to identify the objectives underlying a CSR commitment, develop key performance indicators, work out the measurement method and then measure the results. Regardless of the exact approach taken, it should follow the “SMART” guidelines:

- **S**imple;
- **M**easurable;
- **A**chievable;
- **R**eliable; and
- **T**ime-bound.

Here is an example. Underlying a commitment to decrease the amount of waste a facility generates, there might be an objective to reduce solid waste by 25 per cent by the end of the calendar year. The key performance indicator would be the amount of waste sent to the landfill. The measurement method might be the kilograms of garbage produced each month, which would be recorded. Since waste often involves costs (e.g., removal), this might also be linked to financial savings made through waste reduction.

To take another example, a commitment to improve relations with the community might be translated into objectives to double the number of local community or stakeholder meetings the company holds and reduce the number of complaints by half. The key performance indicators underlying this commitment and objectives might be the number of meetings and the number of complaints at the end of the year. The measurement method might be a quarterly tallying of meetings and complaints, which would be recorded.

In both cases, regular review of the commitments, objectives, indicators and measurement methods might lead the firm to modify its objectives. In the second example above, the firm might conclude that increasing the numbers of meetings did not improve community relations, since underlying problems were not also addressed. As a result, a better objective might be increasing the number of resolved complaints.

There may, however, be occasions when measurable targets may not be possible to develop. In such situations, a qualitative target may be an option. One credible method for measuring whether a firm is meeting qualitative targets is by obtaining feedback on their effectiveness from a variety of stakeholders.

CSR targets

The issue of climate change is becoming increasingly central in the CSR context. Firms are adopting a variety of approaches, including setting targets for reduction in greenhouse gas emissions (GHGs), targets for energy efficiency or using renewable energy, or for becoming “carbon neutral.”⁶⁴

- The German chemicals company **Bayer** set a fixed emissions reduction target of 50 per cent between 1990 and 2010. The company already exceeded this target in 2004, receiving awards in the process.
- The **HSBC bank** has identified energy and climate change as one of its CSR priorities. In 2005, it was the first major bank to commit to go completely “carbon neutral.” It is doing this in various ways including by committing to meet its energy needs from renewable sources.⁶⁵
- High profile commitments to become “carbon neutral” have also been made by firms such as **News Corp** (2006) and **Marks and Spencer** (2007).

In many cases, emissions reductions can actually increase profitability by reducing energy costs. As with other aspects of a CSR approach, economic aspects should be fully integrated into corporate strategy.

4. Engage employees and others to whom CSR commitments apply

Following the approach set out in this guide, the input of employees and other key stakeholders has been solicited at every stage, from preliminary assessment, through to strategy development and the articulation of commitments. Employees play a central role in CSR implementation.

64 Many more examples can be found at <http://www.theclimategroup.org/index.php?pid=430>.

65 <http://www.hsbccommittochange.com/index.aspx>.

While overall CSR success depends first on senior leadership, ultimately, CSR implementation largely rests in the hands of employees and, in some cases, suppliers. In a sense, these parties are often a firm's human face (not to mention arms and legs!), capable of acting as ambassadors, advocates and sources of new ideas and information on CSR.

On the other hand, if not properly engaged, employees and suppliers could be a source of problems for all concerned. It is therefore vitally important that there be good communication between top management and employees, employee representatives and suppliers about CSR strategy and commitment implementation. As well, all parties must be fully on side and enthusiastic about implementing a firm's CSR commitments. This will happen when they believe that senior management is serious about CSR and acts in a manner that reflects the spirit of the commitments. Nothing will dissolve a firm's progress faster than a CSR approach that is perceived as being just "hot air."

Bayer invites CSR suggestions from employees

In 2005, the German pharmaceutical, materials and crop science firm Bayer launched a "Triple-I" initiative. This embraced "inspiration, ideas and innovation," and is designed to embed CSR and innovation throughout the business. The scheme specifically invites employees to think about where—in their work, home lives and wider community—there are unmet challenges and business opportunities. In this way, Bayer seeks to empower its 110,000 employees in the process of innovation and change.

Engaging employees, employee representatives and suppliers in implementation means focusing on awareness (employees will be well aware of CSR directions, strategies and commitments from earlier activities, but suppliers may be less so). Employees and suppliers should receive context for and background on the firm's approach to CSR, including the motivation for engaging in it, why the approach was adopted, its relevance to the organization, how it fits with existing firm objectives, how it changes current approaches, and other implications.

Involving employees, employee representatives and suppliers in discussions of how CSR commitments are implemented is a way for these stakeholders to develop a sense of ownership of and pride in the firm's CSR activities. To the extent possible, bringing in a CSR champion to help convey the message is important, since s/he is in the best position to understand the big picture and answer questions. As well, the champion is likely to convey enthusiasm and credibility; the involvement of a senior official signifies how important to issue is to the firm.

Employee support for CSR implementation can be maintained in a number of ways:

- incorporating CSR performance elements into job descriptions and performance evaluations;
- providing regular updates on progress (in meetings or the company newsletter);
- developing incentives (such as monetary and other rewards for best suggestions);

- removing or reducing disincentives (e.g., competing interests such as premature deadlines that encourage employees to choose non-CSR options); and
- offering incentives and recognition for good ideas.

Suncor engaging employees in its CSR initiatives

Suncor Energy Inc. is a public energy company active in Canada's Athabasca oil sands. Suncor has made it a priority to seriously consider in its business practices the interests of its stakeholders, particularly those of its employees. The firm's initial focus was the top 40 people with the most power and influence within the company. Suncor stimulated the imagination and passion of its staff by introducing the concepts of CSR and sustainability at the senior levels of the organization and encouraging these executives to engage in and commit to looking at them strategically. As a result of buy-in from its employees, Suncor has undertaken a range of innovative practices, such as supporting Aboriginal business development, holding solar-powered car washes and building wind farms that have won awards.⁶⁶

5. Design and conduct CSR training

Firms need to train employees directly involved in CSR activities. This is an ongoing commitment, since training needs will change as the CSR issues evolve. A comprehensive approach to training, such as the one taken by IKEA, will ensure employees have information on the firm's CSR commitments, programs and implementation. When the firm's employees speak various languages, training modules must be offered in those languages and must consider employees' cultural orientation. This is particularly true when training employees in various parts of the world. Literacy levels may also need to be assessed.

Studies suggest that the most successful training addresses knowledge, skills and attitudes, and is based on "adult learning" approaches, whereby the learner has input into the development of the learning process. There are five steps to establishing a successful training program:

- conducting a needs analysis;
- setting learning objectives;
- designing the program (i.e., content, format, logistics, timing, duration);
- implementing the program; and
- evaluating the program against the learning objectives.

⁶⁶ <http://www.suncor.com/start.aspx>.

Comprehensive CSR training at IKEA

With 90,000 employees in 44 countries, the IKEA group has developed effective strategies for implementing CSR. IKEA's Co-Worker Environment and Social Responsibility Training Program was created in response to the company's first environmental action plan, launched in 1992. The training covers IKEA's worldwide environmental and social policies, programs, goals and performance, and all aspects of business operations, such as suppliers, transportation waste management, CO₂ emissions, product design and packaging. The program is also designed to show employees how they can help the company achieve its goals in these areas. To facilitate implementation, interactive training is offered in seven languages and is available in classroom and online formats, allowing it to be easily updated. The program is implemented in each business unit by the firm's human resources department and the unit's environmental coordinator. The program has been well-received by employees and has received consistent, top-management support.

6. Establish mechanisms for addressing problematic behaviour

The very future of employees, communities, the environment and firms can depend upon early detection of activity that is contrary to CSR principles and commitments. Auditing and monitoring, while revealing, can only go so far in this regard. For this reason, it is important for firms to put in place mechanisms and processes that will allow for early detection, reporting and resolution of problematic activity.

This is probably one of the most sensitive of CSR activities. In a perfect world, there would be no need to develop mechanisms for reporting problematic behaviour. However, people and organizations are fallible. In the best-managed organizations, there should be no fear of reprisals when approaching a superior to discuss a problem. However, until such a time when this is a reality in all workplaces, mechanisms for reporting and resolving problems are helpful.

Firms should devise approaches that are sensitive to the vulnerable position of employees who see wrongdoing or the potential for non-compliance. In addition to clear communications on the consequences of reporting breaches of CSR commitments, firms could consider anonymous hotlines, email boxes and ombudspersons. Care must be taken to ensure that not only are the mechanisms for dealing with the problems designed well, but also that they are the option of last resort. Anonymous disclosure is open to abuse because it can encourage false or malicious disclosures, since the person making them can escape accountability for their actions. A senior manager should be assigned responsibility for investigating and reporting compliance on these issues.

For more specific guidance on whistle-blowing mechanisms, see the U.K.-based Public Concern at Work Web site (<http://www.pcaw.co.uk>) or visit the Ethics Practitioner's Association of Canada site (<http://www.epac-apec.ca>).

7. Create internal and external communications plans

Information about CSR commitments, activities and performance reporting should be communicated visibly and frequently to all employees. Whether through newsletters, annual reports, Intranet communication, meetings, training or informal mechanisms, employees must know that CSR is a company priority. Updates on CSR should also be put on the agenda of meetings at all levels of the company. External communications plans should ensure that all relevant stakeholder groups are addressed.

8. Make commitments public

For CSR commitments to be most credible, they should be made public. Firms may only wish to make public those commitments they are confident of achieving, but nonetheless work on others quietly with no publicity. A good external communications plan should identify the individuals and groups that need to be aware of a particular CSR initiative and those who should receive hard copies of CSR documents, as well as how those individuals and groups are to be reached. The communications activities might include an awareness campaign, featuring advertising and speeches. Firms may wish to avoid creating CSR reports (see next section) that, through their sheer size, can intimidate potential readers. Web site design can help to ensure that parties can easily access CSR information of interest to them. It is quite possible that communications will have to be tailored to various audiences (e.g., communications to investors are likely to be quite different from those addressed to communities).



Quick tips

- Identify the CSR chain of accountability through the firm;
- Allocate sufficient resources to ensure that CSR responsibilities can be effectively carried out;
- Incorporate key CSR performance indicators into the business plan;
- Inspire and educate. By reaching people on a personal level, they are more likely to take on the challenge of CSR;
- Display CSR commitments on the firm's Web site. This is one of the quickest and easiest sources of company information; and
- Celebrate CSR achievements, motivating the team and building enthusiasm and pride.



Essential

Include CSR-related goals in the job descriptions of officials, from board members through to top management, middle management and front-line employees. Tie the success of CSR initiatives to performance plans and bonuses.



Reality check

“This step makes sense to me, but I really can’t see us changing our corporate structure or creating any more staff positions just to work on CSR. We’re in efficiency mode and we’re downsizing right now. Nobody is getting any new staff. Without the staff, how can we implement CSR?”

Most companies begin by layering CSR into an existing position or portfolio of responsibilities. Most typically, CSR gets directed to senior public affairs, communications or marketing staff. In other instances, it is placed in the human resources, government affairs, environment, health and safety or legal departments. This is a good start, but in most cases this approach becomes unsustainable unless there is strong senior management support, and resources are allocated accordingly. If business conditions were to become worse, people would default to their core responsibilities and CSR would likely drop off the radar screen. One approach is to make the CSR group self-sustaining. This might begin by focusing on cost-saving or revenue-enhancing initiatives, such as energy savings, waste reduction, employee and customer loyalty programs. Another is to “mainstream” sustainable development within the firm, identifying new CSR-related product lines and markets, thus helping to ensure that CSR activities visibly contribute to the bottom line and brand value.

CSR and small businesses

“As a small organization, we have very few staff to devote to CSR. How can we get started on CSR and avoid overwhelming our employees?”

Implementing the CSR strategy and commitments is all about translating talk into action—integrating the firm’s CSR strategy and commitments into the daily routine. But with limited time and resources, it doesn’t always make sense for a small business to hire CSR staff, nor for it to put too much CSR work on one employee’s plate.



Like large firms, small firms often face challenges if they identify too many elements of CSR as being relevant to the company. The result may be that employees given responsibility for CSR are overwhelmed and do nothing, or become over-enthusiastic and bite off more than they can chew. To avoid overwhelming staff, take small steps: choose just one initiative and set targets for it in the first year. If that goes well, add another, and so on.

Ensure that the employees understand the CSR strategy and commitments and support the initiatives. Without the support of employees the implementation plan will likely be significantly delayed and may consequently not succeed. Here are some ideas for engaging employees in the process:

- identify CSR champions to help implement the CSR plan;
- tie the success of CSR initiatives to performance, allocating budgets to these activities;
- incorporate CSR performance indicators into the business plan;
- inspire and educate employees: by reaching people on a personal level, they are more likely to take on the challenge of CSR; and
- celebrate CSR achievements, motivating the team and building enthusiasm and pride.

Task 5

Report and verify progress

“Assuring stakeholders that your organisation is delivering on its commitments is ever more challenging in today’s increasingly complex, interconnected and fast-moving world. All the more so for larger corporations that often have, literally, hundreds of thousand if not millions of stakeholders, clustered into groups with diverse perspectives and interests.”⁶⁷

Tom Delfgaauw, Chair, AccountAbility

What is CSR reporting and verification?

CSR is ultimately about improving performance. As such, reporting, verification and assurance are important tools to measure whether change has actually taken place, giving interested parties an opportunity to see how well the firm is meeting its commitments and what affect that is having.

Reporting is communicating with stakeholders about a firm’s economic, environmental and social management and performance. When done well, reporting should address how societal trends are affecting a firm and, in turn, how the firm’s operations are affecting society. As such, reporting can demonstrate a company’s motivation and willingness to position itself in a broader context. There is a delicate balance between providing sufficient information to be open and transparent, on the one hand, and burdening employees and stakeholders with excessive data, on the other. The objective is to share information with stakeholders to gain their trust and be viewed as credible. The reporting itself can also be assured, with third parties assessing the report’s reliability.

Verification (also known as conformity assessment or assurance) is a form of measurement that can take place in any number of ways: internal audits, industry (peer) and stakeholder reviews, and professional third-party audits. Firms should tailor their approach to verification to suit the corporate culture, and the context for and objectives and content of their CSR strategy and commitments.

Verification involves on-site inspections and review of management systems to determine levels of conformity to particular criteria set out in codes and standards to which the firm may have agreed to adhere (see examples in Appendix 4). Many of these codes and standards enable and encourage third-party certification and auditing.

Initiatives such as the Global Reporting Initiative (GRI), the AccountAbility AA1000 series and the UN Global Compact (see Appendices 3 and 4) are playing a major role in shaping the rapid evolution of CSR reporting and assurance.

67 “What Assures,” 2006, AccountAbility.

- In the mid 1990s, only a handful of firms reported on aspects of their performance other than financial issues. By 2006, over two-thirds of the Fortune “Global 250” were reporting on social and environmental policies and activities.⁶⁸
- The UN Global Compact requires its participants to make an annual “Communication on Progress” (CoP) addressing actions they have taken to integrate the Compact’s ten principles. The CoP “must be shared publicly with stakeholders—through annual financial, sustainability or other prominent public reports, in print or on the participant’s website.” Use of the GRI Guidelines is recommended.⁶⁹
- A large and growing number of organizations worldwide now report using the GRI Guidelines (see below), or use the AccountAbility assurance framework. Some firms use both these instruments.
- Special guidance on reporting for small- and medium-sized enterprises is now available from GRI and other sources.⁷⁰
- The International Auditing and Assurance Standards Board (IAASB) has developed the ISAE 3000 standard. The latest version establishes basic principles and procedures for all assurance engagements regarding environmental, social and sustainability reports.

An emerging international reporting standard

The GRI is a UN-recognized non-profit organization established to provide guidance for organizations on corporate disclosure and reporting activities. The multi-stakeholder developed GRI Sustainability Reporting Guidelines provide reporting organizations and stakeholders with a universally-applicable, comparable framework in which to understand disclosed information. The GRI is designed to help organizations answer questions such as “why should I report,” “who are my stakeholders?,” “what should I consider reporting on?,” and “how should I go about reporting.” Companies, public agencies and non-profits around the world formally acknowledge using the GRI in preparing their CSR reports. A network-based organization, the GRI encourages participation in developing its sustainability indicators and governance structure. The latest version of the GRI Guidelines was launched at a high-level event in Amsterdam in October 2006.

For information on the G3 Guidelines, see <http://www.globalreporting.org/ReportingFramework/AboutG3>.

68 The London-based think-tank/consultancy SustainAbility has produced a number of reports which offer an overview of reporting trends. The most recent, “*Tomorrow’s Value*,” released in 2006 jointly with UNEP and Standard and Poor’s, explores how companies are linking the sustainability agenda with wider market opportunities.

69 The joint Global Compact/GRI publication “*Making the Connection*,” explains in practical terms how to use the GRI’s latest Guidelines to report.

70 See footnote 32, above.

“The launch of the G3 Reporting Guidelines is a significant step towards the creation of a standard framework for sustainability reporting, similar to the existing frameworks for financial reporting.”

Hugh Scott-Barrett, CFO, ABN AMRO Bank, October 2006

Why does CSR verification and reporting matter?

There is an old saying, “What gets measured gets managed.”⁷¹ In the CSR field, proof of CSR progress is crucial to a firm’s success. It can provide the basis for informed decision making by interested parties who may wish to purchase the firm’s products, invest in the firm or support the firm’s activities in their community. The firm can also use it as the basis for further improvements, risk assessment and support for new directions and opportunities.

Verification and reporting can also be important for obtaining and maintaining a firm’s licence to operate, improving internal operations and building relationships. Communities, customers, investors, employees and their representatives, regulators and non-governmental organizations wishing to know about a firm and its activities are likely to consult the firm’s CSR verification reports. However, verification activities and reporting not done in a rigorous, professional manner, and not seen as credible, could undermine a firm’s credibility and reputation, thereby shutting doors to opportunities and diminishing value.

How to do verification and reporting

Verification and reporting are more complicated than they seem: each firm is unique, so there is no single approach to carrying out these activities. Firms that agree to adhere to third-party-assured initiatives have information to report drawn from the conformity assessments undertaken as part of such initiatives.

Understanding what others do

There is a variety of private initiatives and consultants that offer help with the reporting process. Some of these, such as GRI and CorporateRegister, enable access to others’ CSR reports.

- *Corporate Register:* CorporateRegister.com claims to be the world’s most comprehensive directory of corporate non-financial (environment/social/ sustainability/CSR) reports. Established as a free service by Next Step Consulting (<http://www.nextstep.co.uk/>) in 1998, the site aims to provide access to all current reports, as well as developing an archive of all reports published since 1990. For more information, see <http://www.corporateregister.com/about.html>.
- *OneReport:* This is a web-based application designed to help make the CSR reporting process as effective as possible. It offers a single system to store, manage and distribute CSR data. Firms can use OneReport to self-publish online sustainability reports. For more information, see <http://www.one-report.com>.

⁷¹ Variants of this adage include: “what gets measured gets done,” and “you can’t manage what you don’t measure.”

- The Government of Canada's online *Sustainability Reporting Toolkit* draws on elements of emerging standards such as the GRI to present a manageable approach for new and early reporters. It is also relevant to experienced sustainability reporters by highlighting a number of best practices. Built in collaboration with Stratos Inc. and experts in the field of reporting, it outlines 10 steps to preparing a report. For more information, go to <http://www.sustainabilityreporting.ca>.

The future of reporting

"Reporting is a process that helps to drive CSR performance improvement, facilitate dialogue and helps to gain credibility in the marketplace, especially for developing countries that have weaker institutional environments."

Dante Pesce, Executive Director, Vincular, Chile

Finally, there is an ongoing discussion in professional accounting, business and academic circles about how financial and "non-financial" reporting might evolve in the future.⁷² A few key themes are worth noting in this context:

- *Information technology*: Rapid developments in information technology have made it easier to digitally "tag," collect and organize all kinds of business data, financial and non-financial. The existence of powerful business reporting software has prompted calls—including by the leading global accounting firms—for "real time" (i.e., continuous) financial reporting and proprietary products to facilitate both financial and non-financial reporting.
- *Non-financial reporting*: Also known as "extra-financial reporting" or "intangibles" reporting, this covers the growing interest in reporting on aspects of a firm's operations not required by regulation. Financial markets and other stakeholders have shown a growing appetite for data on corporate governance, sustainability and CSR management as ways of complementing and better assessing a firm's real market value.
- *Merged Reporting?* Some commentators have predicted that financial and non-financial reporting will inevitably merge, as both firms and stakeholders look to increase the utility of reporting, while lowering transaction costs. Many firms already use their annual reports to integrate financial and non-financial data.

⁷² See also "Carrots and Sticks for Starters: Current trends and approaches in voluntary and mandatory standards for sustainability reporting," KPMG and UN Environment Programme, 2006.



Essential

Tailor all reports to the target audience. A large glossy report will not be effective for all audiences. For example, an online snapshot of your performance may provide the information most stakeholders require. Those who want further details can download a more in-depth version.



Quick tips

- Review reports of others for ideas. There are now many hundreds of organizations that report on their social and environmental performance annually. A number of web sites host these reports and allow online viewing;
- Be open about strengths and weaknesses. Reports that talk about just the good news are less credible and open to criticism. Full transparency means also talking about areas that need improvement;
- A “one-size-fits-all approach” generally does not work. Indicators need to be relevant to the company and its business, stakeholders and culture; and
- A helpful tool for report verification is the AA1000 standard (see Appendix 4), designed specifically for assurance of sustainability reporting. This standard works well with the GRI Guidelines (also Appendix 4).



Reality check

“There is a lot of talk about reporting but I haven’t seen any proof that it adds value to a company. Given the commitment and cost involved, I am hard-pressed to allocate resources to reporting on our CSR activities.”

There are many reasons why companies would track, measure and report their CSR performance. Some see reporting as an effective communication and reputation management tool, building employee engagement and loyalty with customers, investors and suppliers around important values and issues. Others may choose to use it as a risk man-

agement tool. Not knowing the firm's weaknesses and being unable to anticipate when it might come under fire can be very costly. CSR reporting could also bring market advantage by putting firms in a better position to be included in the Dow Jones Sustainability Index or FTSE4good Index Series. It could also lead to being included in ethical investment funds and portfolios. In any case, CSR reporting is a big step for any company to take, and mapping a realistic plan is very important. A firm may want to begin with a self-assessment, moving into reporting against well-accepted global guidelines, such as those of the GRI. With the proper steps, this process can evolve into an independently verified report with stakeholder engagement.



CSR and small businesses

"We definitely do not have the resources to hire a professional CSR auditor to evaluate our practices or to create fancy publications. How do we check our progress and share information about our CSR efforts despite these limitations?"

In the environmental area, new approaches to checking progress for smaller firms are being developed, drawing on the services of financial auditors. (See, for example, the EnviroReady process associated with the ISO 14000 environmental management standards; for more information, go to <http://www.14000registry.com>). At this point, there is no parallel approach for checking progress on social aspects. Designation of a senior employee for this function may suffice at the present time.

The easiest route for reporting is to post information on the company Web site. This is an inexpensive way to give an update on current CSR initiatives, including both successes and areas for improvement. A small organization can report to its business partners and staff at regularly scheduled meetings. By adding a few sections to basic company literature (brochures, pamphlets), small business owners can communicate CSR activities to their suppliers, customers and community.

“We all have an opportunity to be more sustainable. But even more, we have a responsibility. We need to be sustainable companies and countries made up of people who live sustainable lives. If we do that, if we do it throughout the coming decades, I believe we will make sustainability...sustainable. And this generation will leave a healthier humanity and a healthier planet to future generations.”

Lee Scott, CEO Wal-Mart

Task 6

Evaluate and improve

What is an evaluation?

An evaluation tracks the overall progress of a firm’s CSR approach and forms the basis for improvement and modification. With the information derived from verification and reporting, a firm is in a good position to rethink its current approaches and make adjustments.

Evaluation is all about learning. Learning organizations are those whose existence is based on continuous receipt and review of new information and adaptation for sustainable advantage. They do not simply attempt to achieve objectives; they are constantly on the alert to adapt to changing circumstances or to find ways for improving their approaches. An evaluation should involve stakeholder engagement, including comments and suggestions from management, CSR coordinators, managers and committees, employees and outside stakeholders.

Why evaluate?

The art of business has analogies to sailing. It is about setting a course, steering to make best use of the prevailing winds, and constantly checking to see if the sails need to be adjusted. In similar fashion, an evaluation allows a firm to see whether it is on course, and what it needs to do to be more effective. It enables the firm to:

- determine what is working well, why and how to ensure that it continues to do so;
- investigate what is not working well and why not, to explore the barriers to success and what can be changed to overcome the barriers;
- assess what competitors and others in the sector are doing and have achieved; and
- revisit original goals and make new ones as necessary.

This base of information should allow the firm to determine whether the current CSR approach is achieving its objectives and whether the implementation approach and overall strategy are correct. An evaluation not only helps identify valuable information about

process and performance, it also helps identify internal partners, and can help develop more “joined-up” management.

How to do an evaluation

Drawing on the CSR objectives and indicators, and the information obtained through the verification and reporting process, firms should consider and respond to the following questions:

- What worked well? In what areas did the firm meet or exceed targets?
- Why did it work well? Were there factors within or outside the firm that helped it meet its targets?
- What did not work well? In what areas did the firm not meet its targets?
- Why were these areas problematic? Were there factors within or outside the firm that made the process more difficult or created obstacles?
- What did the firm learn from this experience? What should continue and what should be done differently?
- Drawing on this knowledge, and information concerning new trends, what are the CSR priorities for the firm in the coming year? and
- Are there new CSR objectives?

Finally, it is important that firms celebrate their successes. When goals are met and progress is achieved all parties concerned need to give each other a pat on the back for a job well done!



Essential

Create a spreadsheet to track the evaluations from year to year. The spreadsheet can assist in identifying patterns or trends.



Quick tips

- Ask employees what they think worked well and what didn't. They may have a different perspective on how things could be improved; and
- During the evaluation is a good time to celebrate success and reward the team.

 **Reality check**

“I don’t get it. What will an evaluation tell us that our \$60 000 CSR report doesn’t?”

The evaluation stage is critical. It is really about sitting down and looking at what the CSR report is telling you. What goals did you set but did not actually achieve? Why? Are your reporting indicators the right ones? Are they aligned with your mission? Are you engaging the right stakeholders? Have you got the right people working on advancing CSR inside the company? This is the stage when you reflect on what needs to stay the same and what needs to change. It is critical to the continuous improvement of your CSR performance.

CSR and small businesses

“How is this different from the self-evaluation that we did a year ago? This seems like an extra piece of work.”

Repeating evaluations at periodic intervals ensures that the firm has an opportunity to identify and act upon new challenges and opportunities that have arisen. Without regular evaluations, there is a danger that the firm will repeat problematic practices and fail to act upon changes in products or processes that could open up new markets. The results of regular evaluations should reveal the firm’s progress. When the evaluation results have improved then the firm is probably on the right track. When the results have stayed the same or even decreased then the CSR strategy may need to be revised. If data and meetings are well-structured, evaluations need not be hugely time-consuming.



Part 3

The importance of stakeholder engagement

“Today, the term “stakeholder engagement” is emerging as a means of describing a broader, more inclusive and continuous process that encompasses a range of activities and approaches, and spans the entire life of a project.”

“Stakeholder Engagement: A Good Practice Manual for Doing Business in Emerging Markets,” IFC, 2007⁷³

What is stakeholder engagement?

At its most basic, CSR is about seeing business as an integral part of society, the global community and the environment that supports it. A business does not exist in isolation. It relies on a multitude of relationships with customers, employees, suppliers, communities, investors and others—in other words, stakeholders. Stakeholder engagement comprises the formal and informal ways of staying connected to the parties who have an actual or potential interest in or effect on the business. Engagement implies understanding their views and taking them into consideration, being accountable to them when accountability is called for, and using the information gleaned from them to drive innovation.

Stakeholder engagement spans a continuum of interaction that reflects the degree of influence stakeholders have in decision making. At one end, businesses might simply inform stakeholders of their plans. At the other, stakeholders can be deeply involved from early in the decision making process. In between are varying degrees of consultation and participation. In this guide, stakeholder engagement includes, at a minimum, a genuine effort to understand stakeholder views, and assess how the firm should hear their perspectives, and respond.

Why does stakeholder engagement matter?

One way to understand the importance of stakeholder engagement is to look at what can happen when it is not done. Customers might see the firm as unresponsive to their needs; employees can feel unappreciated; suppliers could have less trust in the firm; local communities might be less cooperative; and investors could get nervous. In short, the firm might miss important messages about its profile and performance. Four key reasons for stakeholder engagement are building social capital; reducing risk; driving innovation; and integrating these elements in corporate strategy.

⁷³ See footnote 40, above. See also “*From Words to Action: The Stakeholder Engagement Manual*,” a joint publication by AccountAbility, Stakeholder Research Associates and the UN Environment Programme (UNEP), 2005.

Building social capital. Firms rely on several types of capital. Economic capital is obtained from banks and investors. Natural capital (or raw materials) is purchased in the market place. But where does one go to get—and build—“social capital?” Social capital refers to the firm’s relationship with society, how it is perceived and regarded. In today’s business environment, where reputation is key, social capital can be at least as important as access to other forms of capital.⁷⁴

Social capital is the foundation on which a firm renews its “licence to operate.” It is the basis for employees’ willingness to give their best. It is essential to brand value. Social capital means strong, trusting relationships. It is forged slowly over time through positive interactions with stakeholders, but may be quickly lost when trust is broken. Benefits of building social capital include improved access to information, enhanced influence, increased adherence to group norms, and being given the benefit of the doubt should an unexpected problem arise.

In *Stakeholder Relationships, Social Capital and Business Value Creation* (2003), the Chartered Accountants of Canada noted that the extent to which social capital creates value depends on the context, the perspective of the stakeholder and the nature of the corporation’s strategic goals. While it is not possible to measure the value of a corporation’s social capital, it is possible to assess the quality of a firm’s stakeholder relationships and the potential contribution of social capital to the creation of business value.

Reducing risk. In an environment of instant, global communication, stakeholder engagement can provide an early warning of: the service or product concerns of customers; safety; the human rights and environmental concerns of communities; and the governance concerns of shareholders, among other issues. With a stakeholder engagement process in place, a firm will have a way to detect and respond to stakeholders’ concerns promptly, before they become much bigger problems. In this respect, CSR engagement can provide an “early warning” radar.

Driving innovation. Stakeholder engagement can improve information flow, identify business opportunities and generate ideas. As noted above, some firms use the engagement process to identify ideas for new products and markets. Some researchers have suggested that businesses that cultivate a culture of learning and transparency in relation to stakeholders will have an edge in the increasingly knowledge-driven world. Another way to understand the importance of stakeholder engagement is to consider the role that customers, shareholders, employees, suppliers, communities and others can play in the “plan, do, check and improve” aspects of a CSR implementation framework.

- **Planning.** During the planning phase, stakeholders can assist in identifying a firm’s environmental, social and economic impacts, and help develop a firm’s CSR strategy;
- **Doing.** Shifting from planning to doing, stakeholders play an important role in developing a firm’s CSR commitments, as well as implementing those commitments;
- **Checking.** At the checking stage, stakeholders are integral to verification and progress;
- **Improving.** Finally, the input of stakeholders can be crucial to a firm’s evaluation and improvement activities; and

⁷⁴ See, for example, “*Measuring The Business value of Stakeholder Relationships*,” Svendsen, Boutilier et al., Center for Innovation in Management.

Integrating management. Finally, as part of the overall approach to CSR, the engagement process should encourage further alignment and coherence of the firm's strategic, financial, R&D, product development, supply chain, marketing and communication departments.

In all phases, approaches to engagement should be practical and transparent, tailored to the abilities and needs of the firm and the stakeholders.

How to approach stakeholder engagement

A five-step stakeholder engagement process is set out below:

1. Identify stakeholders;
2. Understand the reasons for stakeholder engagement;
3. Plan the engagement process;
4. Start the dialogue; and
5. Maintain the dialogue and deliver on commitments.

Note that the order and steps suggested here simply represent one way of approaching stakeholder engagement.

Depending on the issue or issues involved, the size of the firm and other factors, firms may choose less elaborate approaches than what is outlined above.



CSR and small businesses

Stakeholder engagement for small firms

Stakeholder engagement is a great way to check whether a firm's CSR approach resonates with stakeholders. Still, small business owners and managers might think, "Stakeholders? I wouldn't know where to begin finding them let alone engaging them in our decision making. Do we really need to open this can of worms?"

The object is not to do more than is realistically possible. Begin simply by determining main stakeholder groups—most often employees, customers and the local community. Engaging them can be accomplished easily by placing CSR information on the firm's Web site, sending out email updates or creating a flyer outlining CSR initiatives. It is also possible to set up a CSR-focussed email account, so anyone can send queries and forward comments about products or practices.

“It’s easy for companies like us to say that our people are our greatest asset and key to achieving our strategy. We are focussed on putting rhetoric into practice by building an open and inclusive environment where doing the right thing is recognised and rewarded.”⁷⁵

Westpac 2004 Stakeholder Impact Report. (Westpac, an Australian bank commissioned an independent review of stakeholder views.)

Task 1: Identify stakeholders

Companies have a limited ability to choose their stakeholders. The stakeholder community will define itself by such variables as where the firm operates, what it does, how it does it, and how it communicates with employees and wider society. The best any firm can do is to first *identify* their stakeholders. The location, scale and nature of operations will often determine who sees themselves as stakeholders. Stakeholders will expect to be recognized when the firm’s effect on them, for better or worse, is direct or immediate—employees or their representatives, for example. Even people who seem to have no direct connection to the business may consider themselves stakeholders, such as the families of the employees and those who live in the communities where the business is located.

A useful technique at this stage is stakeholder mapping. This is a way of visually representing the variety of stakeholder relationships the firm has and their relative proximity or strength. Some businesses use grid diagrams while others use circles. *Whatever approach is used, it is important to include all the relationships in which the firm materially affects people or that materially affect the firm.* In supply chain contexts, it may be desirable to seek local partners or organizations that can help “translate” the firm’s interests, and the expectations of local stakeholders.

Thinking broadly about stakeholders often results in a list that is much too long to be of any practical use. To avoid “engagement burn-out,” (i.e., engaging with too many stakeholders), consider setting priorities. The following criteria can be used as a start:

- the significance of the effect of the firm in the view of the stakeholder (e.g., layoffs at the only plant in town will be very significant to workers, their families and other residents);
- the importance of the stakeholder group to operations (e.g., customers and key suppliers);
- the risk of gathering incomplete information by excluding a group (e.g., when a foreign subsidiary’s only contacts are with government officials, it will be difficult to learn the concerns of local workers or residents);
- the opportunity to access new ideas (e.g., engaging a group that is likely to challenge current practices may provide fresh insight into a difficult problem—but the firm had better be prepared to actually change its approach);

75 http://www.accsr.com.au/pdf/Westpac_SIR_2004_Employee_section.pdf.

- the requirements of regulators or permit-issuing bodies (e.g., to get an operating licence in certain countries, a firm may be required to engage indigenous peoples);
- some operations (e.g., emissions to land or water) may have extra-territorial impacts or implications that give legal or other grounds for special-issue groups to intervene; and
- the opportunity to share costs in addressing a specific challenge (e.g., by partnering with another firm or NGO working on the issue).

Task 2: Understand the reason for stakeholder engagement

The firm may be contemplating stakeholder engagement to better understand its impacts, to help articulate its values, mission, strategy, commitments and implementation, to facilitate a regulatory approvals process, to participate in measurement and reporting, to avert or solve a crisis, or to proactively improve relationships. *The reason for engaging stakeholders will determine the style of engagement and stakeholders' expectations, all of which could change over time.*

It is important to be clear about where each engagement fits into the big picture. Will the role of stakeholders be advisory or participatory? Is the firm prepared to change its plans significantly based on what it learns? The demands on some stakeholder groups (e.g., NGOs) to participate in consultation processes have become so great that some are not willing to contribute much energy to processes in which they have little influence.

Without committing any resources, becoming aware of stakeholders and their significance will benefit future business planning. *Increasingly, many firms are using stakeholder engagement as part of a strategic process: as "radar" for identifying emerging issues, risks and opportunities; for expanding networks; for testing communications approaches; and for building brand and trust.*

Task 3 : Plan the engagement process

Determine the engagement objectives and boundaries. What does the firm want or need to get from the engagement? What do stakeholders want or need? How does the company relate to and what are the opportunities for working with the supply chain?

The engagement plan should describe each stakeholder group and any corresponding subgroups, to help ensure that the individual participants are appropriately representative of the full stakeholder group. It should also describe existing engagement processes, since many of these can be used as a foundation to develop a more systemic approach. For example, engagement might already exist under the auspices of the current management approach (e.g., ISO 9000, ISO 14000 and the ISO 26000 Social Responsibility standard, under development). When engagement is planned in the context of a regulatory process or a crisis, it is crucial to ensure that the participants have the legal and/or moral authority to speak for their group. For engagement related to performance measurement or organizational learning, having representative participants, including employee representatives, can be important to ensure reliable results.

The engagement plan should note the capacity of the group to engage with the firm on specific issues. *Communities, indigenous peoples and other stakeholders may need resources to participate, including credible information, compensation or childcare (so indi-*

viduals can participate in meetings or engagement activities). Whenever possible, use the language of the stakeholder group. At a minimum, provide interpreters. Separate engagement processes for diverse cultural groups should be considered. Ensure that vulnerable or disadvantaged groups, such as employees and their representatives in some situations, can speak openly, without fear of reprisal. This may require holding engagement processes off-site. Be sensitive to gender and faith issues. Providing a facilitator of the same gender or faith as the participants may make the group more comfortable about sharing information.

Select the appropriate engagement approach. This may be focus groups, individual or small group interviews, surveys, formal referrals, key-person meetings, advisory councils or some other engagement approach. *The approach chosen should reflect the engagement objectives, stakeholder capacity, cost and time constraints, and whether qualitative or quantitative information is required.*

Consider getting outside help. A professional facilitator or consultant can help with the details of the engagement plan.

Expertise in stakeholder engagement

There are many private firms that provide specialist advice and assistance on stakeholder engagement. A short Internet search using keywords such as “CSR + stakeholder engagement + (name of relevant country)” should quickly turn up several options. Business associations are a good place to discuss informally with peers which firms or individuals have provided good service.

Task 4: Start the dialogue

Entering into engagement in a spirit of equality, respect and openness will increase the opportunities for mutual benefit. When inviting stakeholders to participate, be clear about the degree of influence they will have and commit to it. Nothing is more likely to destroy trust and discourage future engagement than revealing part way into an engagement process that the key decisions have already been made. Also, it is important that clear ground rules or protocols are set with the understanding support of all stakeholders. These should cover confidentiality issues such as whether information obtained at meetings can be used publicly, and if so, how extensively.

Remember that dialogue means two parties conversing. Cultivate the capacity for listening and being seen to be listening. Recording or recapitulating the main points to arise after each meeting is one way of demonstrating that messages are being heard. Dialogue can be enhanced through the use of interviews, surveys and focus groups. Wherever possible, this should build on existing contacts and research.

Task 5: Maintain the dialogue and deliver on commitments

As noted earlier, there can be a wide range of engagement approaches. There is no “one size fits all.” After the dialogue and engagement process have commenced and there is agreement by both the firm and the stakeholders on the approach and deliverables, it is important for the participating parties to deliver on their engagement commitments. The

dialogue should be maintained in accordance with the process that has been endorsed.⁷⁶

Stakeholder engagement resources and examples

Engagement for performance measurement and accountability

An important development in stakeholder engagement since the early 1990s has been the rapid growth of reporting to stakeholders, first on environmental performance, then on social performance, and now on sustainability performance. The value of stakeholder engagement to reporting is also recognized under the principle of exclusivity in the GRI Sustainability Reporting Guidelines (see Appendix 4). The AA1000 series of standards developed by AccountAbility (see Appendix 4) builds the benefits of stakeholder engagement into the measurement, reporting and assurance process. Under the AA1000 framework, stakeholder engagement ensures that sustainability reporting is complete and relevant. Stakeholders may be engaged in identifying issues, selecting performance indicators and providing feedback on finished reports. The GRI and AccountAbility approaches are compatible and used jointly by many firms.

A firm's CSR or sustainability report can provide an excellent basis for sustaining dialogue, generating more targeted feedback, and building long-term partnerships.

Engagement for social capital creation

As noted above, some companies use a CSR approach to build what they see as "social capital." Over the last five years, Placer Dome International has used the "Stakeholder 360," a management tool developed by the Centre for Sustainable Community Development at Simon Fraser University, Canada, to monitor and increase levels of social capital in communities and improve the relationship between the company and its stakeholders. More information about the social capital approach can be found at <http://www.cim.sfu.ca/folders/research/6-stakeholder-360.pdf>.

Engagement with indigenous groups

Building mutually supportive relationships with diverse cultures, including indigenous groups, requires genuine respect for their perspective and position. A common problem area is traditional imagery. There have been occasions when companies have used graphics or images that may be considered sacred to promote or market their company or product, sometimes without the consent of the communities concerned. Out of respect for the traditional owners of this intellectual property, companies need to consult with and obtain the permission from the owners of these images prior to using them. The consultation could include elders, women and other leaders within these communities. Note that such consultation could take a long time, because often there is little consensus in a community about how such images should be used.

⁷⁶ See footnotes 52, 53 and 74 above on stakeholder engagement guidance.

Engagement with non-governmental organizations (NGOs)

A series of global public opinion polls over the last decade suggests that NGOs enjoy a higher level of public trust than the business sector and governments. In short, their views are treated with respect for their independence and accuracy. In addition, NGOs frequently work on issues that are directly or indirectly related to the business community. While many NGOs choose to remain at arm's length from the business sector, some have established a reputation for effective engagement while maintaining their independent viewpoint. At the international level, these include Oxfam,⁷⁷ the World Conservation Union (IUCN),⁷⁸ the World Wide Fund for Nature (WWF),⁷⁹ and the World Resources Institute (WRI).⁸⁰ Organizations like Greenpeace sometimes also work with the business sector on specific campaign issues (e.g., renewable energy).⁸¹ Beyond the larger and better known NGOs, there are literally thousands of smaller NGOs that work at the local level, but which are often well networked globally.

Engagement with NGOs needs care. All NGOs have resource constraints (time, funding, etc.) and will be very selective on whether and how they engage.

Engagement with International Multi-stakeholder Processes (IMPs)

As noted in Part 2 above, stakeholder engagement is increasingly being managed through international multi-stakeholder processes (IMPs). One of the principle advantages of IMPs is their ability to draw upon a wide and diverse range of stakeholder interests. Becoming involved in one or another IMP can significantly reduce costs and enhance the efficiency of a corporate stakeholder engagement process related to specific issues and/or supply chains. Nevertheless, navigating effective participation in an IMP requires considerable care due to the potential for political and cultural differences. When becoming involved in an IMP, firms should take care to ensure that the governance of the process is balanced, effective and inclusive. Efforts to control an initiative or other evidence of bias within such an initiative have the potential to generate a negative backlash diminishing the positive impacts of other well-intentioned efforts towards cooperation.

Engagement for innovation

The AccountAbility organization has produced a number of documents that explore how CSR can promote innovation and “responsible competitiveness.”⁸² These include:

- Responsible Competitiveness: Reshaping Global Markets Through Responsible Business Practices (December 2005);
- Corporate Social Responsibility Policies Promoting Innovation and Competitiveness (November 2006); and
- Responsible Competitiveness in Europe (December 2006).

77 <http://www.oxfam.org>.

78 <http://www.iucn.org>.

79 <http://www.panda.org>. See also WWF's “One Planet Leader” program, which offers training in CSR and sustainability, and “One Planet Business: Creating Value Within Planetary Limits,” 2007 (WWF, with SustainAbility).

80 <http://www.wri.org>.

81 <http://www.greenpeace.org/international>.

82 <http://www.accountability21.net>.

These publications provide interesting and diverse examples of the ways in which businesses are exploring how to make best use of the CSR approach.

Indigenous engagement and sustainability case studies: CSR leadership practices

Some companies have developed special programs and targets for addressing indigenous communities. The Australian mining firm BHP Billiton's "Investment in Aboriginal Relationships" program is a long-term initiative that recognizes Aboriginal communities as key stakeholders. The program focuses on education, training and employment.⁸³ The Canadian Business for Social Responsibility publication *Building Sustainable Relationships: 15 case studies from the Aboriginal engagement and sustainability conference* provides a compendium of recent case studies addressing leadership practices and partnerships between natural resource companies and Aboriginal communities in Canada, New Zealand and Australia.⁸⁴

"I think we're entering into the most interesting phase right now, which is about value creation. Companies are increasingly seeking to create value by coming up with products that don't have a sustainable layer on top of an unsustainable product, but in fact a product that is all about sustainability—that delivers profits for the company and also helps improve the social and economic and environmental conditions that companies influence in so many parts of the world."

Aron Cramer, CEO of Business for Social Responsibility



Quick tips

- Prioritize which stakeholders to engage with in terms of their ability to impact positively or negatively on the firm;
- Make sure you know in advance why it is you are engaging with your stakeholders and how you are going to engage with them;
- Find local support or partners to help translate your approach into terms that will be understood; and
- Consider using professional facilitators or consultants to assist in constructing an effective engagement process.

83 <http://www.bhpbilliton.com/bb/sustainableDevelopment/community/programs/aboriginalEmploymentInitiatives.jsp>.

84 <http://www.cbsr.ca>.



Essential

Done properly, stakeholder engagement is an excellent way for a business to tell its story and explain its goals and plans, while also affording the firm an opportunity to learn about stakeholders' views and incorporate these into business planning. Remember, however, there is no single perfect approach.



Realitycheck

"We've tried engaging stakeholders and all we do is listen to a torrent of criticism, often from people who don't understand our business at all or, worse yet, just want to shut us down. I don't know why we would do this, given that our competition doesn't bother and their share price isn't doing any worse than ours in the market today."

Listening to the sometimes critical views of stakeholders may not be very pleasant, but it does provide firms with an opportunity to learn more about perceived problems, and can be the basis for constructive dialogue and action. There are many examples of companies who have done this, and gained a competitive advantage over other firms as a result. This section of the guide reviews how to identify stakeholders, and firms need to think about whom to invite to the table. It is often the loudest ones that are invited. It is also important to think about who can add value to the way the firm thinks about and conducts its business. Formal stakeholder engagement sessions are good, as are one-on-one conversations with people who understand the points of intersection the company has with society and ecosystems. These stakeholders may not always agree with the firm's view and may offer information that is hard to act on. Knowing this early on can save the firm from being caught by surprise later. The more open and transparent a company is, the more intelligent and stable it is.

Appendix 1

External Multi-Stakeholder CSR Expert Advisory Group

The process of preparing this guide benefited from the input of an extensive multi-stakeholder CSR expert group (see below, listed in alphabetical order by given name). It should be emphasized, however, that the guide does not represent a consensus of this group, nor does it necessarily represent the views of the group members, nor the organizations to which they belong.

Name	Position	Organization
Alan Knight	Head of Standards	AccountAbility, London
Anthony Miller	Economic Affairs Officer Corporate Transparency Section	United Nations Conference on Trade and Development, Geneva
Bart Slob	Senior Researcher	Foundation for Research on Multinational Enterprises (SOMO), Amsterdam
Christophe Margot	Consultant	Chair of the Swiss Mirror Committee on ISO 26000
Daisy Vakarathiwe	Projects Coordinator and Researcher	African Institute of Corporate Kambalame Citizenship, Malawi.
Dante Pesce	Executive Director	VINCULAR, Valparaíso-Chile
Emily Sims	Senior Specialist, Multinational Enterprises Programme	International Labour Organization, Geneva, Switzerland
Ernst Ligteringen	Chief Executive	Global Reporting Initiative, Amsterdam, Netherlands
Hernán Blanco	Executive Director	RIDES, Chile
Jacqueline Cote	Senior Advisor Advocacy & Partnerships	World Business Council for Sustainable Development, Switzerland
Jason Potts	Coordinator, Sustainable Commodity Initiative	International Institute for Sustainable Development, Montreal, Canada
Joanne Petrini	Director, Social Responsibility	Gartner Lee, Vancouver, Canada
Jonas Wendel	Partnership for Global Responsibility	Ministry of Foreign Affairs, Sweden

Name	Position	Organization
Marie-France Houde	Senior Economist, OECD Investment Division	OECD Secretariat, Paris, France
Piotr Mazurkiewicz	Policy Officer, Environment and Social Development Department	International Finance Corporation (IFC), Washington, USA
Priya Bala-Miller	Senior Policy Officer	Consumers International, London, U.K.
Roel Nieuwenkamp	Director, Trade Policy	Dutch Ministry of Economic Affairs, The Hague, Netherlands

Appendix 2

Corporate social responsibility organizations

This Appendix lists some of the better known non-profit CSR institutions and resources that have been established by business and/or civil society organizations.

AccountAbility

The London-based AccountAbility's mission is to promote accountability for sustainable development. As a leading international professional institute, AccountAbility provides assurance and accountability management tools and standards through its AA1000 Series, offers professional development and certification, and undertakes research and related public policy advocacy. AccountAbility is based on a multi-stakeholder governance model, involving participation by business, civil society organizations, and the public sector from different countries across the world. <http://www.accountability21.net>

African Institute of Corporate Citizenship (AICC)

The African Institute of Corporate Citizenship is a non-governmental organization committed to promoting responsible growth and competitiveness in Africa by changing the way companies do business in Africa. Its mission is to promote responsible growth and competitiveness throughout Africa and make corporate citizenship an integral part of how companies do business in Africa. It emphasizes the importance of transparency and of non-financial reporting. Its Africa Corporate Sustainability Forum (ACSF) is an international multi-stakeholder platform which facilitates learning and exchange of best practices. <http://www.aiccafrica.org>

Business and Human Rights Resource Centre

The Business and Human Rights Resource Centre is an independent, international, non-profit organization that strives to promote greater awareness and informed discussion of important issues related to business and human rights. Its online library covers more than 3,000 companies, and their operations around the world. It also includes a large section on the work of Professor John Ruggie, the UN Special Representative on business and human rights, as well as on the Draft Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights. <http://www.business-humanrights.org/Home>.

Business Social Compliance Initiative (BSCI)

The BSCI is a non-profit organization, based in Brussels. Its mission is to provide a common platform for European and non-European retailers, industry and importing companies for monitoring and improving social standards in all supplier countries and for all consumer goods. BSCI is not a certification system and does not issue a certificate. It does however provide a specific process based on the SA 8000 management standard with uniform management instruments for members, suppliers, auditors and qualifiers. This approach ensures uniform audit procedures and evaluation, and thereby the comparability of results. <http://www.bsci-eu.org/content.php>

Business for Social Responsibility (BSR)

Business for Social Responsibility is a U.S.-based organization that helps member companies achieve success in ways that respect ethical values, people, communities and the environment. BSR provides information, tools, training and advisory services to make CSR an integral part of business operations and strategies. A non-profit organization, BSR promotes cross-sector collaboration and contributes to global efforts to advance the field of corporate social responsibility. BSR conferences are usually well-attended events and useful for networking and hearing different perspectives and experiences. <http://www.bsr.org/>

Business in the Community (BiTC)

Business in the Community is a unique movement in the U.K. of 700 member companies. It operates through a network of local business-led partnerships, and has a range of global partners. Its mission is to inspire, challenge, engage and support business to continually improve its positive impact on society. Business in the Community is the largest and one of the oldest organizations of its kind—an independent, business-led charity with more than 20 years of experience. Its Web site provides updates on recent developments in the CSR field in the U.K. and a range of tools and advisory services. <http://www.bitc.org.uk/>

Coalition for Environmentally Responsible Economies (CERES)

The Coalition for Environmentally Responsible Economies is a U.S.-based NGO consisting of a network of investment funds, environmental organizations and other public interest groups working to advance environmental stewardship on the part of business. CERES has played a historic role in launching various initiatives, including the Global Reporting Initiative (1997–2002), and the Sustainable Governance Project to raise global climate change and the other sustainability issues as significant risks to be addressed by corporate brands and investment fiduciaries (2002). <http://www.ceres.org/>

The Conference Board

The Conference Board is one of the world's leading business membership and research organizations. Best known for the Consumer Confidence Index and the Leading Economic Indicators, The Conference Board has been assisting many of the world's leading corporations for almost 90 years with practical knowledge through issues-oriented research and senior executive peer-to-peer meetings. A non-profit organization, The Conference Board has national or regional branches in North America, Europe and Asia. It undertakes research, publishes occasional papers on corporate social responsibility, holds conferences and issues an annual corporate social responsibility report. <http://www.conference-board.org/>

Ethos Institute

Brazil-based Ethos Institute is globally recognized as a leading CSR organization. Its members comprise companies of different segments and sizes which account for annual revenues of approximately 30 per cent of Brazil's GDP and employ roughly 1.2 million people. Its mission is to mobilize, encourage and help companies manage their business in a socially responsible way, making them partners in building a sustainable and fair society. It conducts research, encourages learning, and has developed the "Ethos

Indicators on Corporate Social Responsibility,” a self-assessment tool for firms of all sizes. <http://www.ethos.org.br>

Ethical Trading Initiative (ETI)

The Ethical Trading Initiative is a non-profit, U.K.-based alliance of companies, non-governmental organizations and trade unions. It exists to promote and improve the implementation of corporate codes of practice that cover supply-chain working conditions. Its ultimate goal is to ensure that the working conditions of employees producing goods for the U.K. market meet or exceed international labour standards. <http://www.ethicaltrade.org/>

European Academy of Business in Society (EABIS)

The European Academy of Business in Society is an alliance of companies, business schools and academic institutions that is, with the support of the European Commission, committed to integrating business-in-society issues into the heart of business theory and practice in Europe. It seeks to help shape and enhance the quality of debate on the role of business in society in Europe, and to increase the capacity of business leaders to put business-in-society at the heart of the way companies are run. <http://www.eabis.org>.

Extractive Industries Transparency Initiative (EITI)

The Extractive Industries Transparency Initiative is a non-profit multi-stakeholder organization which aims to ensure that the revenues from extractive industries contribute to sustainable development and poverty reduction. At the core of the initiative is a set of Principles and Criteria that establish how EITI should be implemented. These Principles and Criteria were developed and agreed by EITI's partners from governments, international organizations, companies, NGOs, investors, and business and industrial organizations. Some twenty countries have either endorsed, or are now actively implementing EITI across the world—from Peru, to Trinidad and Tobago, Azerbaijan, Nigeria, and East Timor. <http://www.eitransparency.org/>

Fair Labor Association (FLA)

The Fair Labor Association is a U.S.-based non-profit organization combining the efforts of industry, non-governmental organizations, colleges and universities to promote adherence to international labour standards and to improve working conditions worldwide. The FLA was established as an independent monitoring body that holds participating companies accountable for the conditions under which their products are produced. To advance fair, decent and humane working conditions, the FLA enforces the Workplace Code of Conduct, which is based on the core labour standards of the International Labour Organization. <http://www.fairlabor.org/>

Fundacion Entorno

The Spanish Fundacion Entorno is a business-led organization that encourages research and exchange of best practices on CSR and sustainable development. Associated with the World Business Council on Sustainable Development, its mission is to support business leadership on sustainable development issues and improve the business licence to operate, innovate and grow in a world increasingly shaped by sustainable development issues. <http://www.fundacionentorno.org>.

The International Business Leaders Forum (IBLF)

The Prince of Wales International Business Leaders Forum is an international educational charity set up in 1990 to promote responsible business practices that benefit business and society, and which help to achieve social, economic and environmentally sustainable development, particularly in new and emerging market economies. The Forum: encourages continuous improvement in responsible business practices in all aspects of company operations; develops geographic or issue-based partnerships to take effective action on social, economic and environmental issues; and helps to create an “enabling environment” to provide the conditions for these practices and partnerships to flourish. <http://www.iblf.org/>

Social Accountability International (SAI)

Social Accountability International is a U.S.-based, non-profit organization dedicated to developing, implementing and overseeing voluntary and verifiable social accountability standards. SAI works to improve workplaces through the expansion and further development of its workplace standard, SA8000, and its associated verification system. SAI is committed to ensuring that standards and the systems for verifying compliance with such standards are highly reputable and publicly accessible. To accomplish this, SAI: convenes key stakeholders to develop consensus-based voluntary standards; accredits qualified organizations to verify compliance; and promotes understanding and encourages implementation of such standards worldwide. SAI's social accountability system is based on transparency, credibility and verification. <http://www.sa-intl.org/>

World Business Council for Sustainable Development (WBCSD)

The World Business Council for Sustainable Development is a coalition of 180 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. The Council's members are drawn from more than 30 countries and 20 major industrial sectors. The organization also benefits from a global network of 50 plus national and regional business councils and partner organizations. WBCSD conducts research, publishes CSR papers and convenes meetings, including those with stakeholder groups. The Council's activities reflect its belief that the pursuit of sustainable development is good for business and that business is good for sustainable development. <http://www.wbcd.org/>

Vincular

Vincular is a Chilean organization whose goal is to promote CSR and sustainable development in Chile and throughout Latin America. An initiative of the Catholic University of Valparaiso (Chile), Vincular sees a strong link between superior CSR performance and competitiveness. With the support of local business associations, some Chilean Government agencies and the InterAmerican Development Bank, it provides a forum for research, dialogue and awareness-raising. It is also active in a wide range of international CSR initiatives. <http://www.vincular.org>

World Council for Corporate Governance

The World Council for Corporate Governance was established in 2001 as an independent, non-for-profit international network aimed to galvanize good governance practices worldwide. Its vision is to become a leading provider of knowledge about best practices

in corporate governance to company boards, policy-makers, investors, fund managers, financial advisors, researchers, academics and other interested parties by creating active partnerships and fostering cooperative relationships between organizations committed to improving the quality of corporate governance worldwide. As part of its work, it conducts research into CSR and since 2006 has commenced holding annual conferences on CSR. <http://www.wcfcg.net/>

Appendix 3

Key international CSR instruments

This appendix lists a number of the leading CSR instruments that have been developed or endorsed by governments at the international level, or by intergovernmental bodies. Some involve important multi-stakeholder participation and contributions.

- United Nations Global Compact

The Global Compact's 10 principles (www.unglobalcompact.org) in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived mainly from the following sources:

- Universal Declaration of Human Rights;
- International Labour Organization Declaration on Fundamental Principles and Rights at Work;
- 1992 Rio Declaration on Environment and Development; and
- United Nations Convention against Corruption.

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.

Human Rights

Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2 Make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4 The elimination of all forms of forced and compulsory labour;

Principle 5 The effective abolition of child labour; and

Principle 6 The elimination of discrimination in respect of employment and occupation.

Environment

Principle 7 Businesses should support a precautionary approach to environmental challenges;

Principle 8 Undertake initiatives to promote greater environmental responsibility; and

Principle 9 Encourage the development and diffusion of environmentally-friendly technologies.

Anti-corruption

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

- **The Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises (2000 revision)**

The OECD Guidelines for Multinational Enterprises (www.oecd.org/daf/investment/guidelines) are a set of voluntary recommendations to multinational enterprises in all the major areas of business conduct and constitute a central element of the Declaration on International Investment and Multinational Enterprises. The 30 OECD and 9 non-OECD (Argentina, Brazil; Chile, Estonia, Israel, Latvia, Lithuania, Romania and Slovenia) adhering governments have committed to promote them among multinational enterprises operating in or from their territories. The Guidelines also have a unique government-backed implementation procedure, the National Contact Points (NCP), which are in charge of promoting observance of the Guidelines and maintaining a mediation facility (called “specific instances”). The OECD Investment Committee has an oversight responsibility.

In 2006, the OECD adopted two complementary tools. There are:

- the Policy Framework for Investment (<http://www.oecd.org/dataoecd/1/31/36671400.pdf>), whose Chapter 7 is designed to help governments promote responsible business conduct; and
- the OECD’s Risk Awareness Tool (<http://www.oecd.org/dataoecd/26/21/36885821.pdf>) which is designed to help multinational enterprises handle risks and ethical dilemmas in weak governance zones.

Extract from Part 1, Section II, General Policies of the Guidelines

Enterprises should take fully into account established policies in the countries in which they operate, and consider the views of other stakeholders. In this regard, enterprises should:

1. Contribute to economic, social and environmental progress with a view to achieving sustainable development;
2. Respect the human rights of those affected by their activities consistent with the host government’s international obligations and commitments;
3. Encourage local capacity building through close co-operation with the local community, including business interests, as well as developing the enterprise’s activities in domestic and foreign markets, consistent with the need for sound commercial practice;

4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees;
5. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to environmental, health, safety, labour, taxation, financial incentives, or other issues;
6. Support and uphold good corporate governance principles and develop and apply good corporate governance practices;
7. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate;
8. Promote employee awareness of, and compliance with, company policies through appropriate dissemination of these policies, including through training programmes;
9. Refrain from discriminatory or disciplinary action against employees who make *bona fide* reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the Guidelines or the enterprise's policies;
10. Encourage, where practicable, business partners, including suppliers and subcontractors, to apply principles of corporate conduct compatible with the *Guidelines*; and
11. Abstain from any improper involvement in local political activities.

Sections III to X of Part 1 cover disclosure, employment and industrial relations, the environment, combating bribery, consumer interests, science and technology, competition and taxation.

- **International Labour Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy**

This declaration, first adopted in 1977 by the ILO's governing body, was revised in 2000. It offers guidance to multinational enterprises, governments, and employer and worker organizations in areas such as employment, training, conditions of work and life, and industrial relations. As a Declaration, it is not an international treaty or convention, but rather a part of international "soft law." One of the most significant aspects of the declaration is its understanding that although ILO conventions and recommendations address the behaviour of governments and are intended to be ratified by governments, the underlying principles of many of these instruments can be applied to other parts of society, including business. For further information and a guide to using the principles, go to <http://www.ilo.org/multi>.

- **Millennium Development Goals (MDGs)**

Heads of government and state agreed to the following Millennium Development Goals at the UN Millennium Summit in September 2000:

- eradicate extreme poverty and hunger;
- achieve universal primary education;

- promote gender equality and empower women;
- reduce child mortality;
- improve maternal health;
- combat HIV/AIDS, malaria and other diseases;
- ensure environmental sustainability; and
- develop a global partnership for development.

For further information, go to <http://www.developmentgoals.org>.

(For a framework of action on how firms can help achieve these goals, see United Nations Development Programme and The Prince of Wales International Business Leaders Forum, *Business and the Millennium Development Goals: A Framework for Action*, 2003 - http://europeandcis.undp.org/?menu=p_cms/show&content_id=EAB43C00-F203-1EE9-B6945B73B400C40F).

Voluntary Principles on Security and Human Rights

In 2000, a group of resource extraction companies, working with non-governmental organizations, a trade union and CSR organizations, agreed to a set of principles for the provision of security consistent with human rights guidelines. This initiative was instigated by the American and British governments and is supported by the Dutch and Norwegian governments. The principles cover providing security by public sector bodies and private actors, and conducting risk assessments concerning security and human rights. For more information, go to <http://www.state.gov/g/drl/rls/2931.htm>.

Equator Principles

The Equator Principles are a voluntary set of environmental and social screening criteria and guidelines that provide a framework for banks to manage environmental and social issues in project financing. The principles are based on the shared environmental and social standards of the International Finance Corporation and the World Bank, and apply globally to development projects in all industry sectors with a capital cost of US\$50 million or more. Some 45 banks worldwide have adopted the principles. For more information, go to <http://www.equator-principles.com>.

Draft Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights

Written in consultation with businesses, non-governmental organizations and unions, the draft norms were adopted by the United Nations Sub-Commission on the Promotion and Protection of Human Rights in August 2003. Although the draft norms do not have legal standing, and were not adopted by the former Commission on Human Rights, they provide an indication of the possible human rights responsibilities of companies. On April 20, 2005, the United Nations Commission on Human Rights approved a resolution that would for the first time appoint a special representative with a mandate to identify standards of corporate responsibility with regard to human rights. The draft norms can be downloaded from <http://www1.umn.edu/humanrts/links/NormsApril2003.html>.

Principles for Responsible Investment

In a process coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact, the Principles for Responsible Investment were developed by a group of investment professionals representing 20 large institutional investors from 12 countries who came together at the invitation of the then UN Secretary-General, Kofi Annan. The Principles aim to help integrate consideration of environmental, social and governance (ESG) issues by institutional investors into investment decision making and ownership practices, and thereby improve long-term returns to beneficiaries. The Principles apply across the whole investment business and are not designed to be relevant only to SRI products. <http://www.unpri.org>.

International Standards of Accounting and Reporting (ISAR)

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), has addressed the issue of non-financial reporting with guidance for enterprises in the area of environmental accounting and reporting, corporate governance disclosure, and corporate responsibility reporting. ISAR, hosted by the United Nations Conference on Trade and Development (UNCTAD), meets annually in Geneva where its sessions regularly involve more than 200 representatives from more than 80 UN member states. Representatives at ISAR sessions include policy-makers, regulators, experts on corporate governance, corporate responsibility, accounting and auditing and various national, regional and international accountancy organizations. UNCTAD designs its materials with a special focus on the needs of enterprises from developing countries and economies in transition. <http://www.unctad.org/isar>.

Appendix 4

Non-governmental CSR-related codes and standards initiatives

This appendix includes some of the most widely recognized and used international CSR instruments and initiatives, as well as some of the innovative national level approaches that have emerged.

- **AA1000**

AccountAbility standards—the AA1000 Series—are principles based standards intended to provide the basis for improving the sustainability performance of organizations. They are applicable to organizations in any sector, including the public sector and civil society, of any size and in any region. The AA1000 Series comprises:

- the AA1000 Framework;
- the AA1000 Assurance Standard; and
- the AA1000 Stakeholder Engagement Standard.

The 1999 AA1000 Framework was published as a stand-alone document. It included sections on purpose and principles, framework for integration, and assurance and stakeholder engagement. In 2003 the AA1000 Assurance Standard was published. This was followed, in 2005 by the AA1000 Stakeholder Engagement Standard. These standards replace the information in the original 1999 Framework Standard on these topics.

The AA1000 assurance standard (AA1000AS—<http://www.accountability21.net>) is a standard for assessing, attesting to and strengthening the credibility and quality of organizations' sustainability reporting and their underlying processes, systems and competences. It is designed to improve accountability.

Launched in 1999, the AA1000 framework, including standards, guidelines and professional development, provides a systematic stakeholder-based approach to organizational accountability. The AA1000 standard, (<http://www.accountability.org.uk>), is a standard for assessing, attesting to and strengthening the credibility and quality of organizations' sustainability reporting and their underlying processes, systems and competences. It is designed to improve accountability and performance by promoting learning through stakeholder engagement. It was developed to address the need for organizations to integrate their stakeholder engagement processes into daily activities. This standard works well with the GRI guidelines, discussed below.

- **Australian standard on compliance programs**

Compliance with laws and other requirements is essential to any firm's social responsibility program. Compliance programs help firms prevent, detect and correct breaches of legal obligations. Standards Australia developed AS 3806–1998 to help firms ensure they have effective compliance programs in place. The standard includes structural, operational and maintenance elements. Structural elements focus on commitments, compliance policies, management responsibility, resources and continuous improvement.

Operational elements include identification of compliance issues, operating procedures for compliance, implementation, complaints handling, record keeping, identification and rectification of systematic and recurring problems, reporting and management supervision. Maintenance elements include education and training, visibility and communication, monitoring and assessment, review, liaison and accountability. <http://www.saiglobal.com/shop/script/Details.asp?docn=AS073377296XAT>

- **British Standard on Sustainability Management, BS 8900**

The BS 8900 Guidance for managing sustainable development was published in May 2006. It is designed to help organizations develop an approach to sustainable development that will continue to evolve and adapt to meet new and continuing challenges and demands. It offers practical advice with which to make a meaningful contribution to sustainable development. The standard guides organizations towards effective management of their impact on society and the environment, along the route to enhanced organizational performance and success. The British Standard is designed to: provide a framework so organizations can take a structured approach to sustainable development by considering the social, environmental and economic impacts of their organization's activities; be applicable to all organizations in terms of size, type, etc., including civil societies and trade unions; make it easier for organizations to adjust to changing social expectations; help organizations connect existing technical, social and environmental standards, both formal (e.g., ISO 14000 series of standards) and private standards (e.g., the GRI and the AA1000 standards); offer a maturity pathway for the development of the management of sustainable development issues and impacts; provide organizations' stakeholders with a useful tool to assess and engage in improving organizational performance; and contribute to international-level dialogue in the international standard on social responsibility, currently under development. <http://www.bsi-global.com/en/Standards-and-Publications/Industry-Sectors/Services/Services-Products/BS-89002006/>

- **Global Reporting Initiative (GRI) Sustainability Reporting Guidelines**

The Global Reporting Initiative develops and disseminates globally applicable sustainability reporting guidelines. These guidelines are for the voluntary use. Organizations report on the economic, environmental and social dimensions of their activities, products and services. Sector-specific guidelines are developed as interest is expressed. GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organizations from around the world. Started in 1997, GRI was recognized by the world's governments at the 2002 Johannesburg Summit, is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in close cooperation with the Global Compact. The latest version of the GRI Guidelines was released in October 2006. <http://www.globalreporting.org/Home>

- **ISO 14001**

ISO 14001 is a standard that provides a structure (an environmental management system or EMS) to help organizations manage and minimize their environmental impacts and achieve continual improvement. An organization may also use an EMS to add to an existing management system, for example, one based on quality. Within the EMS, an organization:

- formulates a policy;

- identifies environmental impacts, areas of risk, relevant laws and other requirements;
- sets objectives and targets;
- establishes a structure and programs to implement the policy and achieve objectives and targets;
- facilitates planning, control, monitoring, measurement, corrective action, auditing and review activities to ensure that the directives set in the policy and the EMS are met, and that the EMS maintains its relevance, currency and utility;
- develops procedures for training and communications, and operational control and monitoring, taking into account information about significant environmental impacts that it controls or can have an influence on; and
- continuously improves its processes.

In developing and adopting an EMS, an organization is not expected to control every single impact it has on the environment. Nor does it mean that an organization that adopts ISO 14001 will never experience another environmental challenge, such as a spill or emission. It does mean that the organization has a procedure in place to manage things that have significant impacts on the environment. <http://www.iso14000-iso14001-environmental-management.com/>

- **ISO 9001**

ISO 9001 is a standard that provides a structure (a quality management system) to help organizations develop products and services that consistently ensure customer satisfaction and continuously improve their products, services and process. The standard uses the “plan, do, check and improve” approach. <http://www.iso.org/iso/en/iso9000-14000/index.html>

- **OHSAS 18001: Occupational Health and Safety**

OHSAS 18001 is a standard that provides a structure to help organizations manage their occupational health and safety programs to ensure employee safety and well-being and achieve continuous improvement. It is based on the British Standards Institution standard BS 8800, and was developed by 13 national standards organizations and international certification bodies. It is said to be compatible with ISO 9001 and ISO 14001. <http://www.ohsas-18001-occupational-health-and-safety.com/>

- **ISO 26000**

In March 2005, negotiations began within the ISO framework on a new International Standard on Social Responsibility. To be known as ISO 26000, the Standard will be a guidance document, and not intended for certification. It is expected to provide a definition on what is understood by the term “social responsibility” and how organizations of all kinds might go about responding to social responsibility issues and opportunities. Negotiations on the new Standard are ongoing, and a final product is expected to be available in 2009. <http://www.iso.org/iso/en/commcentre/pressreleases/archives/2005/Ref972.html>

- **International labour framework agreements**

Transnational corporations and international federations of trade unions have together developed framework agreements. These agreements establish a relationship between workers and companies that can help resolve problems and avoid conflicts. The agreements set out principles for harmonious relations between business and workers and address issues such as worker rights and supplier relations. Corporations may find these principles attractive, since workers are likely to be intimately familiar with daily operations, and the reporting system is straightforward and familiar. Compliance with such agreements may also reduce criticisms from third parties. For more information, go to the Global Unions Web site at <http://www.global-unions.org/>.

- **Progressive Aboriginal Relations**

The Progressive Aboriginal Relations program sets out a framework under which companies establish performance benchmarks to develop mutually beneficial relations with Aboriginal people, businesses and communities, and to assess their own progress over time. Developed by the Canadian Council for Aboriginal Business and embracing ISO and Baldrige-type quality principles, the program is built on the premise of companies setting their own goals and then self-assessing the results against those goals. <http://www.ccab.com/par/>

- **SA8000**

Social Accountability International is a U.S.-based non-profit organization dedicated to developing, implementing and overseeing voluntary and verifiable social accountability standards. Social Accountability International developed a standard for workplace conditions and a system for independently verifying compliance. The standard, SA8000, and its verification system draw from established business strategies for ensuring quality (such as those used for ISO 9000) and include several elements that international human rights experts have identified as essential to social auditing. SA8000 is based on the principles of international human rights norms as delineated in International Labour Organization conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. (See also Appendix 2). <http://www.sa-intl.org/>

- **Transparency International Business Principles for Countering Bribery**

In December 2002, Transparency International, in a joint initiative with Social Accountability International, published Business Principles for Countering Bribery. The principles are intended to be a comprehensive reference for companies on good practices to counter bribery. The principles can be downloaded from <http://www.transparency.org>.⁸⁵

⁸⁵ As part of the FTSE4Good Index Series, the FTSE Group launched in February 2006 a set of criteria to counter bribery. These were developed in conjunction with Transparency International, and based on a public consultation exercise. <http://www.transparency.org/content/download>.

Appendix 5

National CSR guidance

A number of countries have developed CSR policies or guidance documents that outline their approach to CSR. This list offers a sample of examples.

Belgium

- Reference Framework: Corporate social responsibility in Belgium (2006).

Britain

- Corporate Social Responsibility: A government update (2004);
- Corporate Social Responsibility: International strategic framework (2005); and
- U.K. National Contact Point Information Booklet.

Canada

- Corporate Social Responsibility: An implementation guide for Canadian business (2005).

Finland

- Ministry of Trade and Industry's Guidelines on Promotion of Corporate Responsibility (2004).

Germany

- Corporate Social Responsibility: An Introduction from the Environmental Perspective (2006).

Netherlands

- CSR Toolkits for developing countries (2006)

Poland

- CSR Implementation Guide: Non-legislative options for the Polish government (IFC,2006).

Sweden

- Guidelines for Sida's Support to Corporate Social Responsibility: Position paper (2005).

Further reading

Publications

All You Need to Know About Ethics and Finance: Finding a moral compass in business today, Avinash Persaud and John Plender, 2007.

Business and Society: Making a positive and responsible contribution, International Chamber of Commerce.

Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries, United Nations Industrial Development Organization, 2002, <http://www.unido.org/userfiles/BethkeK/csr.pdf> (pdf file size 1.13mb).

Corporate Social Responsibility Practice: Strengthening implementation of corporate social responsibility in global supply chains, World Bank Group, October 2003.

Disclosure of the Impact of Corporations on Society: Current Trends and Issues, United Nations Conference on Trade and Development, 2004 (also available in Arabic, Chinese, French, Spanish and Russian), <http://www.unctad.org/Templates/webflyer.asp?docid=5909&intltemID=3914&lang=1&mode=downloads>.

Fighting Corruption: A corporate practices manual, International Chamber of Commerce, 2003.

Green to Gold: How smart companies use environmental strategy to innovate, create value, and build competitive advantage, Daniel Esty and Andrew Winston, 2006.

Making the Connection: Using the GRI's G3 Reporting Guidelines for the UN Global Compact's communication on progress, <http://www.globalreporting.org/ReportingFramework/CRAAlliance/GRI/GlobalCompact>.

OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones, 2006, http://www.oecd.org/document/26/0,2340,en_2649_34863_36899994_1_1_1_1,00.html.

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Stakeholder Dialogues: The WBCSD's approach to engagement, World Business Council on Social Development (WBCSD), 2001, <http://www.wbcSD.org/includes/getTarget.asp?type=d&id=OTgyNw>, (pdf file size 223kb).

The UN Global Compact and the OECD Guidelines for Multinational Enterprises: Complementarities and distinctive contributions, 26 April 2005, <http://www.oecd.org/dataoecd/23/2/34873731.pdf>.

Who Cares Wins: Connecting financial markets to a changing world, Global Compact, 2004, http://www.unglobalcompact.org/docs/news_events/8.1/WhoCaresWins.pdf.

