The Desirability and Feasibility
of ISO Corporate Social Responsibility Standards

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Final Report, May 2002

**Prepared by the "Consumer Protection in the Global Market" Working Group
of the ISO Consumer Policy Committee (COPOLCO)**

**Report to be considered by ISO COPOLCO
at its June, 2002 Meeting in Port-of-Spain, Trinidad and Tobago.
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Executive Summary

i. This report was prepared by the "Consumer Protection in the Global Market" Working Group of COPOLCO, the Consumer Policy Committee of ISO (the International Organization for Standardization). ISO Council had requested that ISO COPOLCO consider the viability of International Standards on this subject at its April 30 - May 1, 2001 meeting, and ISO COPOLCO subsequently charged the Working Group with the responsibility of preparing the report. The report is to be considered by ISO COPOLCO at its June, 2002 meeting in Trinidad and Tobago.

ii. Although the report has been developed by the "Consumer Protection in the Global Market" Working Group of the Consumer Policy Committee of ISO, and is therefore written from a decidedly consumer perspective, the Working Group has acknowledged from the outset the need to consider the perspectives of others both inside and outside the consumer community and the ISO standards community, in order to ensure so far as is possible that the observations made are accurate and to assist in anticipating and responding to the positions of non-consumer standards representatives. It is for this reason that the online ISO Corporate Social Responsibility (CSR) Standards Forum was established – to create an online venue for discussion of the CSR issues by a wide range of parties (the online ISO CSR Standards Forum has more than 400 members from around the world, representing a wide variety of perspectives, and has generated many useful comments). This was also the reason why a draft version of the report was made available for comments to anyone who wished to respond (more than 100 copies of the draft report were distributed to interested parties who requested it). The Working Group has benefited considerably from the input of many organizations and individuals who are members of the Forum and from the comments made on the draft paper (more than 30 written submissions were received, from a wide range of parties) The comments received via the ISO Standards Forum and specifically on the draft report have been extremely helpful in enhancing the Working Group's understanding of other stakeholders' viewpoints, and in clarifying issues surrounding the desirability and feasibility of ISO corporate social responsibility standards.

iii. To the extent possible given limited time and resources, and given the consumer perspective of the working group, an attempt has been made to reflect comments made on the draft report in this final report. But the Working Group wishes to stress that the consultation process undertaken as part of the preparation of this report should not be taken as anything other than the initial efforts of one working group of one policy committee of ISO (with a particular, consumer perspective) to address the issue of the desirability and feasibility of ISO CSR standards. Particularly for those unfamiliar with ISO decision-making processes, it is perhaps useful to reiterate that, as a policy development committee reporting to ISO Council, COPOLCO can only make recommendations to ISO Council on a particular issue of importance to consumers. The decision to proceed with new work lies with ISO Council, which, after appropriate deliberation, typically refers such matters to the ISO Technical Management Board (TMB) for disposition.

The TMB may consult with the ISO member bodies to ascertain support for a given standards initiative. Given the significance of this potential new work item, it is expected and recommended that, in the coming months, other bodies and committees within ISO, and other ISO-related fora and processes will variously engage and offer opportunities for input on the shape and structure of any ISO instruments which might be developed pertaining to corporate social responsibility. A recommendation is provided below that ISO create a special strategic advisory group on corporate responsibility to further explore the issues set out in this report.

iv. While the Working Group's mandate was initially framed in terms of ISO standards for social accountability, and the Working Group frequently used the terms corporate social responsibility and corporate responsibility as approximately equivalent, the group ultimately decided to adopt "corporate responsibility" as the most inclusive concept for reflecting the focus on a firm's triple bottom line (economic, social and environmental performance) as well as a firm's social engagement and interaction with stakeholders in society for economic, social and environmental purposes. The "social" aspects of corporate responsibility (commitments to and relations with internal stakeholders such as workers, and commitments to and relations with external stakeholders such as consumers and communities) remains a central focus of the working group and its recommendations, reflecting the fact that the economic and environmental "bottom lines" have already received considerable attention which has lead to many useful initiatives (such as ISO 9000 quality management and ISO 14000 environmental management standards).

v. The report was developed in light of increasing worldwide consumer and public interest in this issue. In particular, polls show the increasing importance consumers are putting on the social responsibility leadership of companies. The surveys suggest that consumers expect firms to meet high health and safety, worker, human rights, consumer protection, and environmental standards no matter where their operations may be. Investors and shareholders are also increasingly pressuring firms to demonstrate their corporate responsibility programs and activities. Firms are also increasingly asking that their suppliers show that they have corporate responsibility programs in place. These market actions are buttressed by laws in several jurisdictions which require that, for example, pension fund managers review the corporate social responsibility practices of companies with which they invest. However, in the absence of credible, verifiable information concerning the CR activities of firms -- the type of information which can be obtained through use of practical, globally accepted management systems standards – it is difficult for all of these parties to make meaningful assessments and decisions about a firm's corporate responsibility practices.

vi. The report identifies a wide number of corporate responsibility (CR) initiatives currently in place or about to become operational, emanating from inter-governmental bodies, individual governments, investment-driven entities, recognized standards bodies, and from various other industry, non-governmental, faith-based, and multi-stakeholder organizations. Analysis suggests that the existing initiatives are evidence of a considerable degree of engagement from all sectors

of society on corporate responsibility issues, and that considerable progress has been made toward devising workable approaches. However, there is a tremendous range in quality, content, comprehensiveness and operability among them. As a result, even good-faith efforts to be socially and environmentally responsible may suffer in the confusing sea of variable quality initiatives. This can discourage businesses from engaging in CR activities, and consumers and others from trying to reward good behaviour.

vii. Emerging from the analysis, the report suggests that there are five fundamental elements to effective CR approaches:

> (1) identification and selection by a firm of relevant substantive CR norms and principles;
> (2) techniques for engaging the full range of stakeholders impacted by a firm's activities in firm-level CR development and implementation approaches;
> (3) processes and systems to ensure effective operationalization of CR commitments and objectives, and measurable, verifiable results;
> (4) techniques for verification of progress toward CR commitments and objectives;
> (5) techniques for stakeholder and public reporting and communication.

An effective approach to CR will necessarily involve all five elements, operating in an integrated fashion, and will also be flexible and practical so that it is usable by a wide range of firms operating in widely divergent environments.

viii. The position taken in this report is that, based on its work to date and its credibility, ISO as an organization is well positioned to take leadership with respect to the development of voluntary ISO Corporate Responsibility Management Systems Standards (CR MSSs), although it will be necessary to ensure that ISO develops such CR MSSs in close cooperation with other bodies which are leading on efforts to devise effective CR approaches. The Working Group concludes that, from a consumer perspective, ISO CR MSSs are both desirable and feasible. Based on its research and analysis, the Working Group also takes the position that ISO CR MSSs are desirable and feasible from a business, worker, citizen, community, and governmental perspective, but acknowledges that a more direct canvassing by ISO affiliated bodies or through ISO-affiliated processes of these non-consumer perspectives is desirable. ISO CR MSSs would constitute an internationally agreed-upon framework for operationalization of corporate responsibility commitments, capable of producing verifiable, measurable outputs. The ISO CR MSSs would build on the intellectual and practical infrastructure of ISO 9000 quality MSSs and ISO 14000 MSSs, and the momentum associated with close to one-half million firms certified as compliant with these standards. As with ISO 9000 and ISO 14001, firms could self-declare compliance with the proposed ISO CR MSSs or could seek certificates from authorized third parties. It should be emphasized, however, that ISO CR MSSs would be insufficient by themselves to assure that a firm has developed and implemented an effective CR approach. Thus, ISO CR MSSs would be one piece – albeit a fundamental building block – of effective CR approaches. Key elements of ISO CR MSSs include commitment to the concept of continual

improvement (as with ISO 9000 and ISO 14000 MSSs), commitment to the concept of stakeholder engagement, and commitment to transparent, accountable reporting on CR initiatives to a firm's stakeholders and the greater public. .

ix. At this point, it is undoubtedly premature to do anything more than sketch out the bare bones of what the ISO CR MSSs might look like. Clearly, the general approach of ISO quality and environmental MSSs (i.e., policy, planning, implementation and operation, performance assessment, improvement, and management review) should act as a useful template, as a point of departure. The BSI-led SIGMA Project, and Standards Institution of Israel draft corporate social responsibility standard offer the best evidence of what a standards-based approach to CR MSSs might look like. Key components are likely to include management requirements or guidance pertaining to:

- compliance with all rules and regulations of the jurisdiction in question and relevant international norms pertaining to environmental, consumer, fair labour standards, human rights, and health and safety protection, as agreed upon through a meaningful stakeholder engagement process;
- processes for effective stakeholder engagement;
- development, implementation, and communication of CR and corporate ethics policies, including pertaining to anti-bribery and corruption;
- training of workforce, including executives and management;
- relations with communities, philanthropy, outreach and involvement;
- measurement and regular reporting to the full range of stakeholders and the general public.

x. The working group is of the opinion that the ISO CR management system documents should take the form of ISO International Standards. In this regard, ISO CR MSSs would have the same status, profile, and operational objectives as ISO quality and environmental MSSs. When a draft version of this report was circulated for comment, several of those who responded suggested that the option of ISO CR MS *guidance documents* or other ISO instruments (e.g., technical specifications, workshop agreements, technical reports) might be preferable at this time to ISO CR management systems *standards*, and that these options should be explored in greater depth in the report. At the outset, it is important to note the implicit support evident in these comments for *some* form of ISO CR management systems instrument (i.e., these commentators were acknowledging the value of some form ISO CR management systems document, but not necessarily standards). The Working Group wishes to emphasize that its mandate for work in this area was specifically and explicitly focussed on the desirability and feasibility for ISO corporate social responsibility *standards*. Moreover, the Working Group has a preference for the ISO CR MSSs because it views the ISO CR MSS approach as being a fully compatible addition to the ISO 9000 and 14000 management systems standards approach, with the same status, profile, and operational objectives as ISO 9000 and 14000 MSSs. The Working Group views ISO CR MSSs as the "third generation" of ISO management systems standards, following the first generation

quality MS standards and the second generation environmental MS standards. All this having been said, the Working Group agrees that a more thorough exploration of other ISO instruments is appropriate. It is possible, for example, that ISO MS *guidelines* could be developed through ISO processes more quickly than ISO standards (and later can be converted to standards). At least in the short term, this speed-of-development characteristic of ISO guidelines would be a significant advantage over ISO standards. Therefore, the Working Group would support such an exploration of other ISO instruments, on the understanding that, on the basis of available information and analysis, the Working Group has concluded that the ISO CR MSS approach is the best approach, and that those ISO instruments which could be converted into standards at some later time, and could be developed more quickly than standards, should be given particular attention. Time and resources of the Working Group have not permitted such an exploration from being undertaken as part of this report.

xi. On the basis of this review, it is also recommended that as part of a new ISO work item on CR documents there should be an examination of the appropriate marketing and communications regime for firms complying with the ISO CR MSSs, to ensure that inaccurate representations are not made by firms which would have the effect of misleading consumers, workers, communities, investors, shareholders, governments and other members of the public. This is based on the perception of working group members that at the present time some consumers do not understand what it means when firms claim to be, e.g., compliant with ISO 9000 or ISO 14001 standards, and so therefore there is the risk that claims pertaining to ISO CR MSSs could also be misleading if not appropriately structured as part of an overall marketing and communications regime.

xii. Corporate responsibility has a special relevance in developing countries, where in some instances government infrastructure for the development and implementation of environmental and social regulation, and for the delivery of health, security and education services may be limited. Corporations cannot and should not be expected to assume the role of governments in protecting the public interest. But through their CR practices, corporations can assist in creating communities which are fair and safe for all. The large membership of developing countries in ISO will need to play a key role in devising ISO CR standards which are relevant and practical in their jurisdictions.

xiii. In undertaking the development of CR management systems standards, it is clear that ISO would be entering a new era in standardization activity, moving away from the technical-oriented standards which were its initial focus of attention, toward "softer," more variable and less precise notions of responsibility. If ISO CR MSSs were developed, firms would have the option of putting in place quality management, environmental management, and/or corporate responsibility management systems pursuant to ISO specifications. Because of the integrated nature of ISO management systems standards, those firms which are already compliant with ISO 9000 and/or 14001 MSSs would likely have in place much of the architecture and operational culture needed for implementation of ISO CR MSSs. Each firm would need to make its own decisions as to the

appropriate management systems standards for its activities (ISO 9000, 14001 and/or ISO CR MSS) depending on its distinctive operating environment, competitive and risk management context.

xiv. For those firms adopting a CR management system compliant with ISO specifications, each firm's CR approach would be based on the input received from its stakeholders, and the appropriate selection of ISO CR management systems standards, working against a backdrop of domestic and international normative instruments. A firm's decisions concerning the precise substantive CR obligations it would agree to (the ISO CR MSSs would not stipulate any substantive CR requirements), and the appropriate verification process it would use (e.g., self-declaration or third party), is thus a highly tailored and distinctive process, unique to each firm, its stakeholders, the competitive environment in which it operates, its risk management assessment, and its perceived credibility needs. The ISO CR management systems standards would be a necessary but not a sufficient condition of success, since an effective CR approach would require that the management system work in conjunction with a range of other stakeholders and instruments.

xv. The Working Group recommends that ISO establish a strategic advisory group on corporate responsibility, to guide its decisions concerning the development of ISO CR instruments. The ISO 14000 management systems series of standards emerged following the United Nation's-sponsored Rio Earth Summit held in 1992. After the 1992 Rio Summit, ISO formed the Strategic Advisory Group on the Environment (SAGE) to consider whether ISO environmental management systems standards could serve to promote a common global approach to environmental management similar to quality management, to enhance an organization's ability to attain and measure improvements in environmental performance, and to facilitate trade and remove trade barriers. It is recommended that ISO adopt a similar approach with respect to ISO corporate responsibility management system standards, guides, and/or other instruments, to build on this Working Group's recommendations for work in this area. Thus, an ISO Strategic Advisory Group on Corporate Responsibility could be created to explore how ISO corporate responsibility management systems standards or other instruments could serve to promote a common global approach to corporate responsibility management similar to quality and environmental management, to enhance an organization's ability to attain and measure improvements in CR performance, and to facilitate trade and remove trade barriers. The timing is right for creation of such a strategic advisory group. In late August and early September, 2002, the tenth anniversary of the Rio Summit will be held in Johannesburg, known as the World Summit on Sustainable Development. Just as ISO 14000 built on the momentum of the 1992 Rio Summit, so too could ISO Corporate Responsibility standards build on the momentum of the 2002 World Summit on Sustainable Development. Regardless of whether such a strategic advisory group is established, it is recommended that ISO work closely in its CR work with the United Nations, the Organization for Economic Cooperation and Development, the International Labour Organization, the World Business Council on Sustainable Development, Business Action

for Sustainable Development, and other relevant inter-governmental, non-governmental and private sector bodies.

The Desirability and Feasibility
of ISO Corporate Social Responsibility Standards

"The Millennium Poll demonstrates clearly that public expectations of more responsible business practices are now firmly rooted around the world in the emerging markets as well as developed. Successful businesses in the 21st century will increasingly need to respond by actions to demonstrate corporate citizenship in practice and consistent standards in all its markets." -- Robert Davies, Prince of Wales Business Leaders Forum[1]

"It has been estimated that over $1 trillion is currently invested in funds that are subject to some form of social screening. As social investing becomes increasingly widespread, investment fund managers, consumers, and others are looking for criteria to use to evaluate companies for social investing and other purposes." -- U.S.-based Ethics Officers' Association, as part of its submission to ANSI for proposed ISO Business Conduct Management System Standards[2]

"The kitchen can become particularly hot for multinationals. While it might seem corporations have an advantage in countries where the regulatory rulebook is thin, the opposite is true. Companies must define their own codes of conduct, with the knowledge that mistakes or misjudgements may spark negative publicity, social unrest, or worse. 'We have to speak much more clearly and listen much more carefully than we would in our home markets.'" -- Louis Schweitzer, Chairman and CEO of Renault, France [3]

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[1] Per Environics International Press Release, "Consumers Worldwide Expect Businesses to Achieve Social as Well as Economic Goals New Study Pinpoints What Consumers Want From Corporations," New York, September 30, 1999.

[2] Ethics Officers' Association ISO Guide 72 Justification Study for the ANSI ISO/TS/P on Business Conduct Management Systems Standard. Downloaded January, 2002 from **www.eoa.org**

[3] From World Economic Forum, Press Release, 4 February 2002, New York, "Corporate Leaders Discuss Social Role," downloadable at:
www.weforum.org/site/homepublic.nsf/Content/Corporate+Leaders+Discuss+Social+Role

"Corporate responsibility may provide an opportunity to address what some have termed as the backlash against globalization. Companies can work to strengthen ties with local communities through sustainable development programs and corporate codes of conduct. By conveying clear values and principles, and accepting responsibility for workplaces and workplace conduct, companies can not only build trust and mutual understanding with stakeholders, they can also support the role of governments." – Lorne W. Craner, U.S. Assistant Secretary of State for the Bureau of Democracy, Human Rights, and Labor[4]

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[4] Lorne W. Craner, "Privatizing Human Rights: the Roles of Government, Civil Society and Corporations," *Remarks to the Business for Social Responsibility Conference* (Seattle, Washington: November 8, 2001), available at: http://www.state.gov/g/drl/rls/rm/2001/index.cfm?docid=6684

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"I believe that it is essential for ISO to be meaningful to the business world. This area [corporate social responsibility] is an innovative task as the global market needs common criteria for the best performing organizations. The holistic approach to quality and management involves all aspects of life – which means that focussing on the customer is focussing on society's needs and is good for business as well. Customers do not like 'greenwashing' or 'slavery' in their countries or other countries either. The draft that we prepared elaborates an approach involving all aspects of corporate behaviour from environmental issues to codes of ethics, from safety of employees to transparency in social reporting. Although I know there is a long way to go, I believe this is an opportunity for ISO to lead an approach to counter the dark side of globalization.....an initiative on corporate social responsibility could bring new vitality to ISO in the context of the global market." – Ziva Patir, Director General of the Standards Institution of Israel[5]

Part I: Overview of Issues

I.1 Genesis of Project

I.1.1 *COPOLCO Resolution concerning Corporate Social Responsibility Standards*

1. At its April 30 - May 1, 2001 meeting, ISO Council passed a resolution underlining the importance of emerging issues in relation to social accountability and asked its Consumer Policy Committee (COPOLCO) to consider the viability of International Standards in this area, taking into account the draft Israel Standard (SII) 1000, *Social Responsibility and Community Involvement* (discussed in greater detail below).

2. COPOLCO, at its May 15 - 16, 2001 meeting in Oslo, Norway, acknowledged the Council resolution and agreed to explore the feasibility and desirability of developing ISO standards to benchmark corporate social responsibility, accountability and governance practices. COPOLCO's working group on "Consumer Protection in the Global Market" was charged with the responsibility of studying the matter and delivering its recommendations at the June, 2002 COPOLCO plenary meeting, to be held in Trinidad and Tobago.

I.1.2 *ISO COPOLCO's Consumer Protection in the Global Market Working Group (GM WG)*

3. In recognition of the increasingly global nature of many consumer protection problems, and the potential role of international standards to address those problems, the GM WG was created in 1998. It has studied and proposed standards pertaining to complaints handling, voluntary codes, consumer protection in electronic commerce, and external dispute resolution. An ISO standard pertaining to complaints handling is currently being developed, and ISO Council has

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[5] "ISO looks into possibility of developing standards for corporate social responsibility," *ISO Management Systems* (October 2001), p. 11.

approved work on an ISO dispute resolution standard. Definitive ISO Council decisions are still pending on ISO COPOLCO recommendations pertaining to voluntary codes and consumer protection in e-commerce.

4. In support of its work pertaining to corporate social responsibility (CSR), the GM WG has established an online Forum, which takes the form of an e-mail list-serve.[6] The purpose of the list-serve is to increase awareness of the variety of CSR initiatives currently in place or proposed, both within the standards system and outside of it. There are currently more than 400 members in the Forum around the world. The Forum has proved to be very successful in exposing a broad-cross section of persons to issues associated with CSR and the possible role ISO standards in this area might play. As of February, 2002, an archive of existing ISO CSR postings has been made publicly accessible.[7] In order to ensure that the GM WG's work in the area is as accurate and comprehensive as possible, a draft of the report on feasibility and desirability of an ISO standard pertaining to corporate social responsibility was made available for comments on the Forum, prior to its finalization and tabling at the next COPOLCO meeting. A similar approach was adopted by the GM WP in preparation of the *Feasibility and Desirability of ISO E-Commerce Standards* report which was tabled at the May, 2001 COPOLCO meeting in Oslo.

5. This document is a report on the feasibility and desirability of ISO CSR standards prepared by the GM WG which was circulated for comments using the CSR Forum and other means of communication.

I.2 Corporate Social Responsibility Defined

6. There is no single authoritative definition of corporate social responsibility or social accountability (hereafter, CSR). Other similar terms include "corporate citizenship," "sustainable development," "corporate integrity," and the "triple bottom line." It is submitted that all of these concepts encompass the same or similar basic components. Below, several definitions of CSR are explored, and key elements identified.

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[6] To join the listserve, contact Dr. Kernaghan Webb at: webb.kernaghan@ic.gc.ca

[7] To access the archive of past ISO CSR Forum postings, go to: **www.iso.org/iso/en/ISOOnline.frontpage** then go to the heading called "Communities and Markets," click on "Industry Forums," and then click on "Corporate Social Responsibility."

7. The World Business Council on Sustainable Development (WBCSD) defines CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life." According to the WBCSD, CSR is the third pillar of sustainable development, along with economic growth and ecological balance.[8]

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[8] See **www.wbcsd.org/projects/pr_csr.htm**

8. Business for Social Responsibility (BSR) states that, "[w]hile there is no single, commonly accepted definition of ....CSR, it generally refers to business decision-making linked to ethical values, compliance with legal instruments, and respect for people, communities and the environment."[9] More specifically, BSR defines CSR as:

> ....operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. CSR is seen by leadership companies as more than a collection of discrete practices or occasional gestures, or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programs that are integrated throughout business operations, and decision-making processes that are supported and rewarded by top management.[10]

9. An official in the Canadian Centre for Philanthropy states that CSR "...or Corporate Citizenship can most simply be defined as a set of management practices that ensure the company minimizes the negative impacts of its operations on society while maximizing its positive impacts."[11] The Corporate Social Responsibility Newswire defines CSR as "the integration of business operations and values whereby the interests of all stakeholders including customers, employees, investors, and the environment are reflected in the company's policies and actions."[12]

10. All definitions seem to revolve around the concept of the "triple-bottom line" (TBL), which is a framework for measuring and reporting corporate performance against economic, social and

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[9] See **www.bsr.org/resourcecenter/**

[10] Ibid.

[11] See **www.ccp.ca/imagine/Team%20China%20-%202001.htm**

[12] See **www.csrwire.com/page.cgi/about.html**

environmental parameters.[13] Both CSR and the TBL recognize that business decision-making is linked to ethical values, compliance with both the spirit and the letter of the law, and respect for people, communities and the environment. Several key points emerge:

> (1) the process of production and the delivery of services is as important as the products and services themselves;

> (2) substantive obligations are owed to all of a firm's affected societal stakeholders throughout the supply chain, from customers, workers and their families, to suppliers, the greater community, the environment, investors, shareholders and governments;

> (3) although compliance with the letter and the spirit of the law is essential, CSR/TBL may also call on firms to address issues not stipulated in the law;

> (4) transparency, accountability, public disclosure, meaningful stakeholder involvement and reporting are key features; and

> (5) an integrated, coherent, consistent and comprehensive approach to process and performance is essential.

I.3 Substantive and Process/Management Elements

11. It is clear that CSR/TBL has both substantive and process/ management systems components. That is, CSR/TBL pertains to substantive issues such as what constitutes a wage that meets basic needs for a worker, and what level of consumer and environmental protection objectives should be allowed, as well as process/management systems issues such as how to operationalize and measure the impacts of an organization's activities on consumers, workers, the community, the environment, and others, and to engage in stakeholder dialogue to ensure that those impacts are taken into account in business decision-making. Increasingly, firms are involving the full range of stakeholders in the development and implementation of CSR approaches.

I.4 Scope of ISO Work

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[13] See **www.sustainability.com/philosophy/triple-bottom/tbl-intro.asp**

12. The working group has concluded that, similar to ISO 9000 and ISO 14000 standards, ISO CSR work should address process/management systems aspects, not substantive issues. The ISO CSR process management systems standards would operate in conjunction with substantive obligation-oriented principles and laws, international conventions and declarations, codes of conduct, principles, and other instruments to provide a comprehensive response to CSR for a particular firm. The reasons for the working group making this determination, and its implications are discussed in greater detail below.

I.5 Appropriate Name for ISO Work

13. While the Working Group's mandate was initially framed in terms of ISO standards for social accountability, and the Working Group in its initial deliberations frequently used the terms corporate social responsibility and corporate responsibility as approximately equivalent, the group ultimately decided to adopt "corporate responsibility" as the most inclusive concept for reflecting the focus on a firm's triple bottom line (economic, social and environmental performance) as well as a firm's social engagement and interaction with stakeholders in society for economic, social and environmental purposes. The "social" aspects of corporate responsibility (commitments to and relations with internal stakeholders such as workers, and commitments to and relations with external stakeholders such as consumers and communities) remain a central focus of the working group and its recommendations, reflecting the fact that the economic and environmental "bottom lines" have already received considerable attention which has lead to many useful initiatives (such as ISO 9000 quality management and ISO 14000 environmental management standards). Throughout the remainder of this document, reference will be made to ISO Corporate Responsibility or ISO CR Standards.

I.6 Application of Work to Non-Commercial Entities

14. While the focus of attention here is on business decision-making, it is clear that much of the ISO CR approach and solutions may be applicable to non-commercial organizations.

I.7 Drivers of Corporate Responsibility

I.7.1 *Consumers*

15. Consumers are a major driver of corporate social responsibility. In late 1999, Environics International conducted a poll of 25,000 consumers in 23 countries which indicated the increasing importance consumers are putting on the social responsibility leadership of companies. 67% of consumers in North America and Oceania had "punished" (or considered doing same) a company seen as not socially responsible in the year 1998-1999, or rewarded a company which had behaved in a socially responsible manner. For the purpose of this survey, punishment was defined as consumers avoiding a product or speaking out about the company.

This compared with 53% of consumers in Northern Europe, 40% of those from the Mediterranean region, 37% of Africans, and 31% of Latin Americans and Eastern Europeans.[14] A U.K. poll conducted in late September, 2001 found that 92% of the British public believe that "multinational companies should meet the highest human health, animal welfare and environmental standards wherever they are operating."[15]

16. In a Business Week/Harris poll conducted in August, 2000, 1000 Americans were asked which statement they agreed in more strongly:

> (1) U.S. corporations should have only one purpose -- to make the most profit for their shareholders -- and their pursuit of that goal will be best for America in the long run.

> (2) U.S. corporations should have more than one purpose. They also owe something to their workers and the communities in which they operate, and they should sometimes sacrifice some profit for the sake of making things better for their workers and communities.

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[14] Per K. Webb, "Consumers Driving Business Ethics? *Online Voluntary Codes Research Forum* posting, 10/3/99. See also Environics International New Release, "Consumers Worldwide Expect Business to Achieve Social as Well as Economic Goals," (September 30, 1999).

[15] Market and Opinion Research International (MORI) poll conducted between September 20 - 25, 2001: see **www.mori.com/polls/2001/globalisation.shtml** The same poll also found that between 87% and 92% of people think governments should protect the environment, employment conditions and health, even when it conflicts with the interests of multinationals.

Ninety-five percent chose the second statement.[16]

17. "Consumers play a key role in the [sustainable development] process, rewarding leading companies with their business, with those not complying with improved practice being gradually shunned." This comment was made by Sir Mark Moody-Stuart, former Chairman of Shell and current Chairman of Business Action for Sustainable Development (an initiative of the International Chamber of Commerce and the World Business Council for Sustainable Development).[17] Although surveys suggest that corporate responsibility and sustainable development are issues of considerable consumer and public importance, there is considerable potential for confusion and ultimately disengagement if credible, effective and systematic approaches to CR operationalization are not adopted which make it possible for companies engaging in good-faith CR activities to make accurate, verifiable, and measurable representations concerning their practices. A robust practical system for operationalizing CR can also act as a form of risk management, making it less likely that firms which have implemented the CR system will experience a scandal in relation to their social or environmental practices, and thereby less likely to be the subject of consumer boycotts and negative press.

I.7.2 *Employees*

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[16] See **www.businessweek.com/2000/00_37/b3698004.htm**

[17] BASD, "Business sees key consumer role at Jo'burg Summit," (Press Release, Paris, 9 October, 2001), downloadable at: **http://www.basd-action.net/docs/releases/9oct2001.shtml**

18. Good relations with employees are essential to the proper functioning of a firm and an essential component of any CR approach.[18] It is perhaps self-evident that employees whose rights are respected and needs addressed, and who have opportunities for regular dialogues with their employers, are far more likely to stay in their positions or advance upward within the organization (thus sparing firms of recruitment and training costs), to recruit others, to come forward with new ideas, and to not engage in activities which can hamper productivity. A proper CR management system would facilitate the operationalization of an effective approach to worker-oriented CR initiatives within the firm. The actual substantive obligations concerning workers would be established by each firm, on the basis of its distinctive situation, against a backdrop of legal and international norms.

I.7.3 *Communities*

Increasingly, it is common to hear of the need for firms to obtain a "social licence" to operate in communities.[19] The idea that firms have responsibilities to their communities is now commonplace.[20] Those firms which have developed strong relations with the communities in

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[18] In the absence of such good relations, workers may take their grievances to the media. See discussion of incidents of this nature with respect to supplier factories to the clothing retailer Gap Inc., as discussed in G. Rhone, J. Strud and K. Webb, "Gap's Code of Conduct for Treatment of Overseas Workers," in K. Webb, ed., *Voluntary Codes: Private Governance, the Public Interest and Innovation* (Ottawa: Carleton University Research Unit for Innovation, Sicnece and the Environment, 2002), Chapter 7.

[19] See, e.g, A. Warhurst, "Corporate Citizenship and Corporate Social Investment," *Journal of Corporate Citizenship* 1 (2001), downloadable at: **http://www.greenleaf-publishing.com/pdfs/warh.pdf**

[20] See, e.g., Business Action for Sustainable Development, "Companies have a responsibility to the communities in which they operate," (April 19, 2002), downloadable at: **http://www.basd-action.net/news/articles.shtml**

which they operate have their "ear to the ground" about the communities needs and concerns, and may be in a position to address at least some of those CR concerns and needs, often in partnership with others. A proper CR management system would facilitate the operationalization of an effective approach to community-oriented CR initiatives within the firm. The actual substantive obligations concerning a particular community would be established by each firm, on the basis of its distinctive situation, against a backdrop of legal and international norms.

I.7.4 *Investors/Shareholders*

19. It is worth pointing out at the outset that investors and shareholders are a particular type of consumer. Investors and shareholders are increasingly scrutinizing the environmental and social performances of businesses, in addition to their traditional concern with economic performance, and are being aided in this regard by the development of instruments such as the Dow Jones Sustainability and FTSE4Good Indexes, which measure the performance of companies across the "triple bottom line" of environmental, social and economic factors (discussed in greater detail below). Perhaps not surprisingly, companies which score well on environmental and social evaluations tend also to do well economically.[21] From an investor's standpoint, triple-bottom line-driven companies create long term shareholder value by gearing their strategies and management to harness the market's potential for environmentally and socially sustainable products while at the same time avoiding or reducing environmental and social costs and risks.[22]

20. A number of ethical or "green" investment funds are also now available, which perform positive and negative "screens" on companies.[23] Of course, none of these investment-oriented

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[21] "Companies with leading-edge environmental practices tend to be companies with leading-edge social and management practices that produce higher profits," says Rob Macintosh, of the Pembina Institute for Appropriate Development, as reported in D. Hryciuk, "Cleaning up with green investments: Putting funds in environmentally conscious companies can in some cases reap double," *National Post*, December 29, 1999, p. D4.

[22] See **www.sustainability-index.com/faq.html**

[23] See, e.g., the Social Investment Organization in Canada, and its counterparts in the U.S., the U.K. and

screens or indexes is perfect. There is considerable debate about whether particular companies should be included in ethical or green indexes and funds, and about the criteria used to assess them.[24]

Australia. Links to all of these organizations found at: **www.socialinvestment.ca**

[24] See, e.g., discussion in Hryciuk, above.

21. Institutional investors such as pension fund managers are also increasingly turning their attention to the socially responsible aspects of corporate activities. It is perhaps not surprising that pension funds created out of the contributions of workers would take a particular interest in worker-oriented activities of the companies which are the subject of investment. A 1997 national opinion poll conducted in Britain found that 73% of 700 adults surveyed wanted ethically-screened pensions; 44% stated that their pension plan should include an ethical policy if that could be done without any reduction in financial return; and a further 29% felt that their pension plan should adopt ethical policies even if this led to reduced returns.[25] In Canada, trusteed pension funds, now valued at more than $600 billion, are the country's second largest pool of equity capital. One study by the British-based research firm Ethical Investment Research Service indicated that, following introduction in 2000 of new British legislation requiring that pension plans disclose its investment policies on CR issues, 59% of pension funds had already incorporated socially responsible investment criteria. In a number of jurisdictions, legislation is being introduced which requires pension plans to disclose in their investment policies the extent to which they consider social, environmental or ethical criteria in making investment decisions (see discussion of investor disclosure laws below). Legislation is also in place in Canada and the United States which allows beneficial shareholders to file shareholder proposals and removes exclusionary grounds for refusing to circulate CR proposals.[26]

22. In the absence of credible, verifiable information (i.e., the type which can be obtained form use of internationally agreed-upon and practical management systems standards), it is difficult for shareholders, investors, and pension fund managers to make meaningful assessments and decisions about the CR practices.[27] In particular, the ability for individuals to compare firms is

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[25] All the following information derived from the Shareholder Association for Research and Education's website at **www.share.ca**

[26] In Canada, amendments to the *Canada Business Corporations Act* (S-11) were passed in 2001. As discussed in **www.share.ca/research/corp_social_resp.htm** American law and discussion of CR shareholder actions below.

[27] It is important to emphasize that by themselves, the ISO CR MSSs set no substantive CR obligations for

significantly compromised in the absence of credible, verifiable information such as that which can be obtained from use of internationally agreed-upon and practical management systems standards.

I.7.5 *Purchasers/Suppliers*

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firms, but rather create a framework for operationalization of whatever CR substantive obligations a firm wishes to commit to, thereby enhancing the prospect of meaningful, verifiable and measurable claims by firms about progress toward CR objectives they commit to.

23. Just as commercial purchasers and suppliers are now insisting that their business partners comply with ISO 9000 and/or ISO 14000 management systems standards, a similar supply chain ripple effect can be expected in the area of CR. To indicate the potential, in the United States, 175 colleges and universities have joined the Fair Labor Association (discussed below) as a result of the demands from their students and alumni that products bearing their institution's logo be made under fair labor standards.[28] These colleges and universities require their licensees to be participants in the FLA independent monitoring process. Pursuant to the same program, major apparel and footwear companies are now requiring their contract suppliers to meet worker protection codes. Participating companies are to report their plans and findings to the Fair Labor Association. Additionally, a portion of their facilities will be subject to external verification that FLA standards are being met. Where less than the entire production of a company has been submitted the company has made a commitment, in accordance with the FLA Charter, to progress other product lines or brands in their plans in a timely manner. Participating retailers have sales totalling $30 billion produced in more than 4000 factories in 75 countries.[29]

24. As the FLA experience demonstrates, credible and practical management systems capable of producing verifiable results will play a key role in providing the assurances purchasers and suppliers need that firms have put CR obligations into effect.[30]

I.7.6 *Insurance*

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[28] All of the following information derived from the Fair Labor Association's website at: **www.fairlabor.org**

[29] See **www.fairlabor.org/html/affiliates/corporate.html**

[30] It is important to emphasize that by themselves, the ISO CR MSSs set no substantive CR obligations for firms, but rather create a framework for operationalization of whatever CR substantive obligations a firm wishes to commit to, thereby enhancing the prospect of meaningful, verifiable and measurable claims by firms about progress toward CR objectives they commit to.

25. As with companies registered to ISO 9000 and ISO 14000, companies which have in place good CSR systems are less likely to attract problems and liability. Commentators have stated that organizations with a sound and effective environmental management system such as ISO 14000 can show that they pose less risk for insurance companies.[31] It is reasonable to expect that, once widely accepted management systems for CR are in place, insurers will be in a position to offer lower premiums for those companies which agree to comply with them.

I.7.7 *Law*

26. There are an increasing number of domestic and international laws bearing on the issue of corporate responsibility:

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[31] W. Rosenbaum, *ISO 14001 and the Law* (California: AQA Press, 1998), p. 21.

Pension Fund Disclosure Laws. As discussed elsewhere in this report, U.K. pension fund managers are required to review the corporate social responsibility practices of companies with which they invest. Other jurisdictions (e.g., Germany, France, Australia, Belgium, and Sweden) have adopted similar laws.[32] However, there are no widely agreed upon management systems standards to operationalize CR obligations, which diminish the ability of pension fund managers to discern which companies have effectively implemented their CR commitments.

Sentencing Guidelines, and "Due Diligence" of Directors. In 1991, the United States Sentencing Commission promulgated guidelines to be used in the sentencing of organizations in federal courts.[33] These guidelines, which describe elements of an effective compliance program, have become the model for internal business conduct programs in the U.S. but business interests have indicated a desire to find new and better tools to measure the effectiveness of such programs and to have standards against which to benchmark.[34] In other jurisdictions (e.g., Canada), compliance with management systems standards pertaining to social and environmental issues could decrease the likelihood of incidents of non-compliance with social and environmental regulatory laws taking place, and where such non-compliance did occur, good faith implementation of CR

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[32] Information from SHARE (Shareholder Association for Research and Education), **www.share.ca**. See also, "Britain and Germany Take the Lead on Pension Investment Disclosure," p. 6, in *Prospectus*, Edition 1 (Spring/Summer 2001), available at: www.share.ca/assets/docs/prospectus1.pdf

[33] J. Kaplan, "The Sentencing Guidelines: The First Ten Years," *Ethikos* (November-December 2001), available at: **www.eoa.org**

[34] See discussion below concerning Ethics Officers Association's proposal to the American National Standards Institute for new ISO Business Conduct Management Systems Standards.

management systems standards could become parts of "due diligence" defences;[35]

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[35] See, e.g., discussion of use of environmental management systems standards as part of due diligence defences in K. Webb, "Voluntary Initiatives and the Law," in R. Gibson, ed., *Voluntary Initiatives: The New Politics of Corporate Greening* (Peterborough, Ontario: Broadview Press), pp. 32 - 50, at pp. 33 - 34.

Securities Regulation. With slight differences in emphasis, securities regulators around the world require prompt disclosure of material facts to the public.[36] In the United States, the Supreme Court has supplied a definition of material information as that for which "there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision." Materiality has been interpreted very narrowly to date. The U.S. Securities and Exchange Commission (SEC), for instance, makes the assumption that the reasonable investor would generally focus on a company's profitability and financial outlook. This may change for two reasons. First, with the rise of socially responsible investment, the definition of a reasonable investor may broaden. Much more likely, securities regulators will increasingly recognize that environmental and social issues have the capacity to materially affect the financial outlook of individual firms and therefore information on these issues may have to be disclosed. In a recent internal memo, an SEC staff lawyer noted that the prospect of boycotts or divestment campaigns or litigation arising from environmental or human rights issues might be material and hence might fall under mandatory disclosure rules already "on the books."[37] ISO CR Management Systems Standards could help companies identify the likelihood and magnitude of the financial impact of social and environmental issues, manage these issues more effectively, and hence may be rewarded with a premium in the capital markets.

Corporate Laws Concerning Shareholder Resolutions. Several jurisdictions have in place corporate legislation which allows shareholders to bring forward resolutions, including those pertaining to CR issues.[38] The existence of a credible international CR management systems standard would allow businesses to respond in a practical manner to such shareholder actions.

Inter-Jurisdictional Private Tort Law: Increasingly, workers and communities in one jurisdiction (e.g., South Africa, Burma, Nigeria) are bringing lawsuits against multinational corporations in another jurisdiction where the multinational operates (e.g., the United States, the United Kingdom) over issues of alleged environmental or health

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[36] The following discussion draws on documents found at:
http://www.osc.gov.on.ca/en/Regulation/Rulemaking/Notices/conceptpro/51-901_pc.html and
www.centerforsecuritypolicy.org/documents/LSEC-Wolf.pdf

[37] *Ibid*.

[38] See discussion of Canadian and American laws in "New Act Improves Shareholder Rights in Canada," in *Prospectus*, Edition 1, Spring/Summer 2001, p. 1, available at: **www.share.ca/assets/docs/prospectus1.pdf** For examples of CR shareholder action, see, eg., Walden Asset Management's Shareholder Advocacy Program for 2002, available at: **www.waldenassetmgmt.com**

and safety malfeasance.[39] Underlying these legal actions is recognition by the courts in the United States and the United Kingdom that the mere fact that a corporation with ties to the U.S. or the U.K. committed wrongdoing in a developing country should not decrease its liability for harm. There is no reason to think that courts in other jurisdictions will not reach similar conclusions. Arguably, those companies which have in place a credible CR management system would be less likely to cause harm, and where harm does occur, evidence of compliance with such CR standards may lessen their liability. Hence, a strong motivation for developing robust and universal CR standards is to reduce susceptibility to liability.

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[39] See R. Steinhardt, "Litigating Corporate Responsibility," **www.globaldimensions.net/articles/cr/steinhardt.html** Summer, 2001; R. Meeran, "Victims of Multinational Corporations -- What Avenues are Available?" Mealey's Litigation Report: Asbestos, Vol. 16, #4, March 23, 2001.

Public international law: There are a wide variety of public international law obligations (making up the lion's share of what could be called the "normative framework" of international declarations and treaties[40]) of relevance to corporate responsibility. In general, public international law treaties and conventions establish human rights, worker and environmental obligations which, when ratified by the agreed upon number of member countries, are binding on those member countries. Either directly or through domestic legislation, public international law creates legal obligations on private citizens and corporations. In addition to those obligations established in environmental conventions such as the U.N. Framework Convention on Climate Change, the Convention on Biodiversity, and the Montreal Protocol for the Protection of the Ozone Layer, there are also a host of human rights and worker protection obligations contained in international conventions. These are discussed in greater detail below.

Taken together, law is becoming an increasingly strong driver for CR standards.

I.8 Globalization

27. Advances in communications technologies, market liberalization, and other factors have helped to create an environment in which conventional legal-geographic boundaries between countries are increasingly invisible to firms and to civil society. There are rising levels of exchange in goods, information, services and capital and a growing sense of inter-dependence which taken together are part of the phenomenon of globalization.[41] Accompanying this globalization process is growing recognition that corporations need to meet high standards of care wherever they operate:[42] firms are negotiating "social licences" with affected stakeholders,

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[40] So described by the OECD at p. 62 in *OECD Guidelines for Multinational Enterprises 2001 – Focus: Global Instruments for Corporate Responsibility*, downloadable at:
http://www.oecd.org/pdf/M00022000/M00022658.pdf

[41] The topic of globalization, its champions and critics, is beyond the scope of this report. For more comprehensive discussions, see, e.g., A. Prakash and J. Hart, eds., *Globalization and Governance* (London: Routledge, 1999).

[42] See survey data discussed earlier.

in addition to complying with legal requirements. It is increasingly seen to be unacceptable for firms to behave well in their home jurisdiction while violating basic norms of consumer, worker, environmental and community protection abroad. At the same time however, socio-economic and environmental climates differ considerably from one jurisdiction to another, particularly between developed and developing countries. Credible CR approaches need to be flexible enough to allow firms to set the right balance between globally accepted norms and widely varying operating conditions.

I.9 Business Case for Firms Engaging In CR Activities

28. There are many reasons why CR can be good for business. The U.K. SIGMA Project,[43] for example, notes the following points:

1.   Growing acceptance that profits and principles can go hand in hand. The World Business Council for Sustainable Development has said "A coherent corporate social responsibility strategy based on integrity, sound values and a long-term approach, offers clear business benefits to companies and a positive contribution to the well being of society."
2.   Doing good can be good for business. Studies show a positive relation between sustainability and long-term business performance. Note that these studies do not prove that doing good is the only way of doing business, or even that it will necessarily ensure organizational survival.
3.   Operational cost savings – these particularly flow from improved efficiencies which may be identified through adopting a systematic approach to management which includes continuous improvement.
4.   Enhanced reputation – good organization performance in relation to CR issues can build reputation while poor performance, when exposed, can damage brand value. This is particularly important for organizations with high-value retail brands, which are often the focus for media, activist and consumer pressure.
5.   Sharper anticipation and management of risk. Managing risk in an increasingly complex

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[43] The SIGMA Project is discussed in greater detail below. This summary of the business case for CR can be found at: **www.projectsigma.com** The SIGMA website notes several other sources of information concerning the business case, including Weiser and Zadek, *Conversations with Disbelievers* (Ford Foundation funded report), which looks at the business case in terms of stock price and financial performance, reputation, risk management, government regulation, human resources, workforce diversity , marketing and sales, innovation and learning, diversity in purchasing, expanding the market. See also Simon Zadek's work for the Conference Board, *Doing Good and Doing Well: Making the Business Case for Corporate Citizenship* (available at: **www.conference-board.org**). See also the World Business Council for Sustainable Development publication *The Business Case for Sustainable Development* (available at: **www.wbcsd.org/projects/wssd/business-case.pdf**) See also R. L. Martin, "The Virtue Matrix: Calculating the Return on Corporate Responsibility," March 2002 *Harvard Business Review* 5 - 11). Note as well that implementation of CR approaches may assist firms in identifying new market opportunities, such as through ongoing stakeholder engagement.

market environment, with greater oversight and stakeholder scrutiny of corporate activities is key to the success of companies. Listening to the concerns and perceptions of stakeholders is of crucial importance.

6.   Increased ability to recruit, develop and retain staff. These can be direct effects of, for example, introducing "family friendly" policies or using volunteering programs to develop skills, or may be an indirect effect, such as improved morale and loyalty towards an organization of which employees feel proud to be a part.

7.   Better relations with government and civil society.

I.10 Impact of Good CR Practices on Developing Countries

29. Developing countries may be at a particular disadvantage in terms of government infrastructure for the development and implementation of environmental and social regulations, and for the delivery of health, security and education services. This disadvantage may arise for a variety of reasons, including difficulties associated with historical legacies, dependence of economies on single industries of a cyclical nature, and financial problems associated with loan conditions set by international financial institutions. Widespread poverty in many developing countries exacerbates the difficulties faced by developing country governments in attempting to devise appropriate solutions which protect the interests of all.

30. Corporations cannot and should not be expected to assume the role of governments in protecting the public interest, providing the legal framework and ensuring the health, education, and security of citizens. But through their CR practices, corporations -- particularly those which operate in many jurisdictions and can therefore exercise leadership based upon their broader experience base -- can assist in creating communities and societies which are fair and safe for all. This point is enshrined in the operating principles of the Caux Round Table, a network of leading businesses from developed and developing countries, which has developed its business principles as a foundation for dialogue and action by business and leaders worldwide.[44] One of the principles developed by the Caux Round Table states the following:

> Businesses established in foreign countries...should also contribute to the social advancement of those countries by creating productive employment and helping to raise the purchasing power of their citizens. Businesses also should contribute to human rights, education, welfare, and vitalization of the countries of the countries in which they operate. Businesses should contribute to economic and social development not only in the countries in which they operate, but also in the world community at large, through effective and prudent use of resources, free and fair competition, and emphasis upon

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[44] Information from **www.cauxroundtable.org/** The Caux Round Table is discussed in greater detail below.

innovation in technology, production methods, marketing and communications.[45]

31. Examples of the positive effect of good CR practices in developing countries includes:

1. Improved worker productivity through adherence to labour standards, creation of a more cooperative worker environment.
2. Enhanced access to global markets and foreign direct investment.
3. Better relations with all stakeholders.
4. Enhanced environmental stability.
5. Potential for empowerment of non-traditional stakeholders to participate in some way in firm decisions affecting them, contributing to greater social stability.
6. Enhanced economic certainty and predictability.

Part II: Existing Corporate Responsibility Initiatives and Analysis

II.1 Inter-Governmental CR Initiatives (selected)

II.1.1 *OECD Multinational Enterprise Guidelines*

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[45] Section 2, Principle 2, "The Economic and Social Impact of Business."

32. In June, 2000, the Organization for Economic Co-operation and Development (OECD) – the organization for the governments of 30 leading developed countries – passed its revised *Guidelines for Multinational Enterprises*.[46] The *Guidelines* are recommendations from government to multinational enterprises, designed to provide voluntary principles and standards for responsible business conduct consistent with applicable laws. The *Guidelines* aim to ensure that the operations of these enterprises are in harmony with government policies, to strengthen the basis of mutual confidence between enterprises and the societies in which they operate, to help improve the foreign investment climate and to enhance the contribution to sustainable development made by multinational enterprises. Provisions in the *Guidelines* pertain to such issues as disclosure, employment and industrial relations, human rights, environment, anti-bribery, and consumer interests. The *Guidelines* are intended to act as a reference point for private sector voluntary initiatives, and reinforce such efforts. Many enterprises have responded to these public concerns by developing internal programmes, guidance and management systems that underpin their commitment to good corporate citizenship, good practices and good business and employee conduct.[47] Some of them have called upon consulting, auditing and certification services, contributing to the accumulation of expertise in these areas. These efforts have also promoted social dialogue on what constitutes good business conduct. The Guidelines clarify the shared expectations for business conduct of the governments adhering to them and provide a point of reference for enterprises. Thus, the Guidelines both complement and reinforce private

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[46] The revised OECD Multinational Guidelines are downloadable at: **http://www.oecd.org/daf/investment/guidelines/mnetext.htm**

[47] See discussion of this in *OECD Guidelines for Multinational Enterprises 2001 – Focus: Global Instruments for Corporate Responsibility*, downloadable at: **http://www.oecd.org/pdf/M00022000/M00022658.pdf**

efforts to define and implement responsible business conduct.[48]

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[48] Per OECD website.

33. Governments adhering to the *Guidelines* are to promote them and encourage their use. They are to establish National Contact Points that promote the *Guidelines* and act as a forum for discussion of all matters relating to the *Guidelines*. The adhering Governments are also to participate in appropriate review and consultation procedures to address issues concerning interpretation of the *Guidelines* in a changing world. Already, there are instances arising of allegations of non-compliance with the *Guidelines*, which have lead to reviews by National Contact Points.[49] At a June 2001 meeting of the OECD to review progress in implementing the Guidelines, a wide range of NGOs expressed interest in becoming more involved in the OECD Committee and National Contact Point annual meeting process.[50] According to a statement of the NGOs, the interest in testing the potential of the Guidelines is "growing considerably."[51] NGOs which signed the NGO Statement included Friends of the Earth chapters in several European jurisdictions, the Clean Clothes Campaign, Oxfam (U.K) and World Wildlife Fund (International).[52] As part of an OECD review of the Guidelines conducted in 2001, the organization Business for Social Responsibility (BSR) prepared a comparative table of CR issues covered by the Guidelines and six other instruments.[53] BSR did not approach the comparison with a pre-established list of topics. Rather, the list of CR issues included for comparison was

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[49] See discussion in *OECD Guidelines for Multinational Enterprises 2001 – Focus: Global Instruments for Corporate Responsibility*.

[50] Ibid., at pp. 45 - 48.

[51] Ibid., at p. 45.

[52] Ibid., at p. 48.

[53] Ibid., at pp. 71 - 75. The six other instruments were: the Caux Round Table Principles for Business, the Global Reporting Initiative, the Global Sullivan Principles, the Principles for Global Corporate Responsibility: Bench Marks, Social Accountability 8000, and the U.N. Global Compact. Each of these initiatives is discussed below.

developed in an iterative fashion, stemming from both the commonalities and differences in issues referenced by the selected instruments. Thus, the list represents a composite of all of the CR issues covered by the seven instruments, but no one instrument addresses all of the issues. Because the BSR comparative table is of value not only for reviewing what the OECD Guidelines address, but also for what a comprehensive list of CR issues might look like, it is set out below. An asterisk marks those issues *not* covered by the OECD Guidelines. Note that the BSR review makes no comparison of the content of each of the issues covered, merely that these issues were addressed. The general headings covered are: accountability, business conduct, community involvement, corporate governance, environment, human rights, marketplace/consumers, workplace/employers.

BSR List of CR Issues Covered by Seven Instruments
(Asterisk denotes issues not addressed in OECD Guidelines)

Accountability
> Transparency
> Stakeholder engagement
> Reporting
>> Performance re: instrument
>> Environmental performance
>> Human rights issues*
> Monitoring/Verification
>> Performance related to instrument*
>> Environmental performance
>> Human rights issues*
> Application to Company
> Application to Business Partners

Business Conduct
> General CSR
> Compliance with the law
> Competitive Conduct (e.g., price fixing)
> Corruption and bribery
> Political Activities
> Proprietary Info/Intellectual Property Rights
> Whistleblowers
> Conflicts of Interests*

Community Involvement
> Broad/General reference*
> Community economic involvement
> Employment of local and/or under-utilized workers
> Philanthropy*

Corporate Governance
> Broad/General Reference
> Rights of shareholders*

Environment
> Broad/General Reference
> Precautionary principle
> Product life cycle
> Stakeholder engagement on environmental issues
> App'tment of designated person/employee training
> Establish env'tal mgt systems/codes
> Public policy on environmental issues

Human Rights
> Broad/General reference
> Health and safety
> Child labour
> Forced labour
> Freedom of association
> Wages and benefits (including "living wage")*
> Indigenous peoples' rights*
> Appoint designated person for human rights*
> Discipline*
> Use of security forces*
> Working hours/overtime*

Marketplace/Consumers
> Broad/General reference
> Marketing/Advertising
> Product quality and/or safety
> Consumer privacy
> Recalls

Workplace/Employees
> Broad/General Reference
> Non-discrimination
> Training
> Downsizing/Layoffs
> Harassment/Abuse*
> Child/Elder case*
> Maternity/Paternity leave*

An internationally agreed-upon CR management systems standard would assist firms in operationalizing commitments across this range of issues, as appropriate.

II.1.2 *United Nations Global Compact*

34. The United Nations ***Global Compact*** was developed over the period 1999-2000, and calls on the private sector to embrace, support and enact a core set of values pertaining to human rights, labour, environment through nine basic principles.[54] The ***Compact*** promotes good corporate practices but does not endorse individual companies. Participating companies are to post concrete steps on the Global Compact website, and thereby assist in creating a dialogue as to what constitutes good practices. By 2002, the goal of the ***Compact*** is to recruit 100 major multinationals and 1000 other companies which are committed to implementing the ***Compact***'s principles, establish a "learning bank", conduct issue dialogues, and generate partnership projects. A July 10, 2001 ***Global Compact*** newsletter[55] lists ***Compact*** projects involving more than 30 major multinational enterprises, and a wide variety of other country-specific and small and medium-sized enterprise initiatives. The Compact provides a normative basis for firms wishing to operationalize CR approaches.

II.1.3 *United Nations Human Rights Instruments*

35. The United Nations has developed a number of important human rights instruments which potentially apply to multinational corporations. Most notable of these are the ***International Bill of Human Rights***, and the ***Universal Declaration of Human Rights***.[56] These instruments address issues such as the right to be treated with respect and in accordance with due process, freedom of thought, expression, religion, and association, the right to a clean environment, and

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[54] Information derived from: **www.unglobalcompact.org/gc/unweb.nsf/content/whatitis.htm**

[55] Downloadable at: **www.unglobalcompact.org/un/gc/unweb.nsf/content/newsletter.htm**

[56] For a good discussion of the possible application of U.N. human rights instruments to corporations, see International Council on Human Rights Policy, Beyond Voluntarism: Human Rights and the Developing International Legal Obligations of Companies (Switzerland: ICHRP, 2002), downloadable at: **http://www2.ichrp.org/cgi-bin/show?what=project&id=107**

non-discrimination. Through these instruments, nation-states have obligations to prevent abuses by private actors, including companies. Indirectly, these instruments impose obligations on companies to abide by human rights norms. The Human Rights Commission has also developed a *Proposed Draft Human Rights Code of Conduct for Companies*. While in theory these documents are not legally binding, they are part of the growing "soft law" applying to corporate activity, and could become the basis for international legal instruments.

II.1.4 *The United Nations Summit on Sustainable Development*[57]

In late August and early September, 2002, the U.N. sponsored World Summit on Sustainable Development (WSSD) will be held in Johannesburg. The WSSD is the follow-up conference to the U.N. Rio Earth Summit, held in 1992. The WSSD will provide an opportunity for stakeholders to review progress made on the agenda items which were agreed to at the 1992 Rio Summit and to develop new initiatives. Sustainable development is development which meets the needs of the present generation without compromising those of future generations. Sustainable development includes economic, social and environmental components. Increasingly, the focus of attention in sustainable development has shifted from environmental to social aspects. As discussed elsewhere in this document, the 1992 Rio Earth Summit has been characterized as a key catalyst for development of the ISO 14000 environmental management system of standards. A new organization, Business Action for Sustainable Development or BASD (a joint initiative of the International Chamber of Commerce and the World Business Council on Sustainable Development), has been established to provide business input into the WSSD.[58] The Chair of BASD, Sir Mark Moody-Stuart, has indicated that business, working in partnership with others, has key responsibilities for sustainable development, and that consumers are a key driver.[59]

II.1.5 *International Labour Organization Instruments*

36. The International Labour Organization (ILO) is an intergovernmental organization which is made up of governments, employers' and workers' organizations. Drafting of conventions is done in a tripartite system of governments, employers and workers' organizations. Its main goal is the

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[57] Information from: **http://www.johannesburgsummit.org/**

[58] Information from: **http://www.basd-action.net/**

[59] As discussed elsewhere in this report.

realization of decent work for men and women around the world. In doing so it focuses its activities around four strategic objectives: Fundamental Principles and Standards, Employment Creation, Social Dialogue and Social Protection. It is funded through regular contributions by governments and extra budgetary resources are obtained from governments and foundations.

37. The ILO has adopted numerous instruments with regard to labour rights. Once ratified, its conventions create binding obligations. The ILO Conventions establish norms covering all aspects of working conditions and industrial relations, such as freedom of association, the right to organize and to collective bargaining, minimum age, freedom from discrimination in employment and occupation, and freedom from forced labour.[60] The ILO *Declaration on Fundamental Principles and Rights at Work* is based on the core labour standards outlined in the ILO Conventions. The Declaration is not binding but applies to all ILO states by virtue of their membership in the ILO. It contains a mechanism for annual review of the efforts made by member states that have not yet ratified the core labour standards Conventions.[61] The ILO has given special attention to multinational enterprises by adopting the 1977 *Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy*. This Declaration is a global instrument designed to provide guidelines to governments, employers and workers in areas of employment, training, conditions of work, and industrial relations. All core labour standards are covered in the Declaration. Although it is non-binding, within the ILO a supervisory mechanism exists which obliges the states to periodically submit reports on their efforts with respect to the principles and objectives of the ratified Conventions. In addition,

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[60] See ILO Conventions 87 (freedom of association), 98 (right to organize), 138 (minimum age), 111 (non-discrimination), and 29 and 105 (no forced labour).

[61] Per OECD *2001 Review*, at p. 62.

general complaint procedures are in place concerning the supervision of compliance with ratified conventions. A Committee of Experts gives opinions on the application of the ratified Conventions and other obligations.[62]

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[62] See generally Amnesty International and Pax Christi International (Dutch branches), "Multinational Enterprises and Human Rights" (Utrecht, November, 1998), downloadable at: **www.paxchristi.nl**

38. During the early 1990s, after the successful introduction of the "systems" approach to management by the International Organization for Standardization (ISO) through its ISO 9000 Quality Management series and its ISO 14000 Environmental Management series of standards (which are both discussed in detail later in this document), there was a view that the same approach could be used for managing occupational safety and health at the organization level.[63] The possible initiation of work to develop an ISO standard on OSH Management Systems was discussed at an ISO International Workshop on OSH-MS Standardization in 1996. The workshop formed the view that the ISO should discontinue its respective efforts and that the International Labour Organization, because of its tripartite structure, would be a more appropriate body to elaborate international guidance documents for the establishment and implementation of effective occupational safety and health management systems. This lead to draft guidelines being developed by the Occupational Safety and Health Branch (now SafeWork) of the ILO, in co-operation with the International Occupational Hygiene Association (IOHA). At the end of 1999, the British Standards Institution (BSI), an ISO member body, launched an official proposal for the establishment of a new field of ISO technical activity on occupational health and safety management, with a view to developing an ISO standard. According to ILO documents, "[t]his competing initiative by the ISO to on-going ILO work encountered strong international opposition and a campaign to stop the ISO work. This resulted in the failure of the BSI proposal in favor of the ILO."[64] The final draft document was submitted for comments to ILO constituents in January 2001. The ILO *Guidelines on Occupational Safety and Health Management Systems* (ILO-OSH 2001), were adopted at a tripartite Meeting of experts in April 2001. The ILO Governing Body approved the publication of the Guidelines in June 2001. The Guidelines were published in December 2001.

II.1.6 *European Union*

39. At a regional level, the European Union has shown considerable interest in taking a leadership role in the area of corporate social responsibility. On January 15, 1999, the European Parliament passed a resolution calling for a Code of Ethical Conduct for European companies operating overseas.[65] In August, 2001, the European Commission released a Green Paper entitled "Promoting a European Framework for Corporate Social Responsibility."[66] The paper is

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[63] The following is derived directly from: ILO SafeWork (Occupational Safety and Health Branch), *Guidelines on Occupational Safety and Health Management Systems* (ILO-OSH 2001), downloadable at: www.ilo.org/public/english/protection/safework/managmnt/download/promo.pdf

[64] *Ibid.*

[65] Per K. Webb, online Voluntary Codes Research Forum posting, "EU Code of Conduct for Multinationals," January 25, 1999.

[66] The paper can be downloaded at:

intended to stimulate public debate, and contains a useful discussion of the concept and its component parts. It also puts forward a holistic approach to corporate responsibility, consisting of integrated management, reporting and auditing, quality in work, social and eco-labels, and socially responsible investment. The role of voluntary approaches figures prominently although the report notes that voluntary approaches are not a replacement for laws.

40. A major thread throughout the paper is that companies often have an interest in going beyond minimum legal prescriptions in their relations with their stakeholders. Peer respect and a good name as employer and firm are highly marketable assets. According to the Green Paper, corporate social responsibility is also about the relationships companies choose to have beyond their premises - locally, nationally, European and world-wide. Good relations with their local setting are important for companies: they recruit most of their staff from the local labour markets and for most companies the local market is also their main market. Companies profit from an ability to accumulate social capital, which means to develop networks around them and to create links to other businesses. Large companies increasingly use these relations to support the integration of their affiliates into the various markets in which they operate. For example, they can promote this integration by coaching start-ups and small and medium-sized enterprises, or by taking minority stakes in such companies, so-called "corporate venturing". In particular, at local level there is a strong tradition of social responsibility by small and medium-sized enterprises.

41. According to the report, where consumers are concerned, companies are expected to provide products efficiently and ethically. Those which focus on building lasting relationships with customers and seek to provide products or services of superior quality can expect to be more profitable. Corporate social responsibility also has a strong international dimension. One reason why is that companies' supply chains are increasingly global. A growing number of firms are adopting codes of conduct covering working conditions, human rights and environmental aspects, especially in their dealings with subcontractors and suppliers. They do so not only to assume their corporate social responsibility but also to improve their corporate image and reduce the risk of adverse consumer reaction. The paper mentions ethical labelling as another all-round development whose effectiveness needs to be exploited. As a response to rising consumer demand for corporate social responsibility, a growing number of these labels have originated from either individual manufacturers or industries, non-governmental organizations and governments, with guarantees relating to, say, sourcing or labour standards. In order to extend their use beyond niche products, it is necessary to make them more effective, the paper says, with mechanisms introduced to verify their ethical claims. Likewise, socially responsible investing

http://europa.eu.int/comm/employment_social/soc-dial/csr/greenpaper.htm

(SRI), in which funds are directed to firms which comply with specific social criteria and away from others which do not, has seen a strong surge in popularity and is potentially a powerful tool for promoting Corporate Social Responsibility. If it is to prove more useful, however, investors would need to have a clearer picture which more standardised social reporting could bring. The paper also calls for greater harmonisation of evaluation tools for SRI.

42. While the EU has so far resisted the call by some NGOs for a legislated approach to corporate responsibility,[67] in the 1990s, an EU-wide legislated (but voluntary) approach to environmental management (the Eco-Management and Audit Scheme, or EMAS) was adopted. EMAS differed in a number of respects from the environmental management system standard developed and applied in the rest of the world through ISO (the ISO 14000 series of environmental management standards is discussed in greater detail below).[68] Only recently have the ISO and European versions of environmental management systems been formally reconciled (the European Commission has revised EMAS to incorporate ISO 14001 as its environmental management system component).[69]

II.2 Governmental CR-Related Legislative Initiatives (selected)

II.2.1 *Environmental, Health, Safety, Consumer Protection, Human Rights Laws*

43. In developed countries, there are in place a wide range of regulatory laws pertaining to environmental, health, safety, human rights, and consumer protection and an associated regulatory and judicial infrastructure in place to ensure that they are enforced. These in effect create a baseline package of CR obligations which corporations must meet, which can be coupled with use of stakeholder engagement approaches to devise comprehensive approaches to corporate responsibility. In developed countries, management systems standards such as ISO 14001 then provide corporations with an operational framework to ensure that legal and extra-legal CR obligations are addressed in a systematic, effective and efficient way. Studies suggest that corporations in developed countries which adopt ISO 14000 management standards have

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[67] In March, 2002, European Parliament's Industry Committee rejected a proposal for mandatory reporting of EU firms on their social and environmental performance in favour of a voluntary approach, in spite of criticisms from environmental non-governmental organizations such as Friends of the Earth-UK. See Friends of the Earth-UK, Press Release, "MEPs Cave In to Big Business," (March 27, 2002), at www.foe.co.uk/pubsinfo/infoteam/pressrel/2002/20020327164300.html

[68] EMAS goes beyond ISO 14001 by requiring organizations to undertake an initial environmental review, to actively involve employees in implementing EMAS, and to make available relevant information to the public and other parties. See http://europa.eu.int/comm/environment/emas/refdoc/factsheet/factsheet_iso_en.pdf

[69] See http://europa.eu.int/comm/environment/emas/refdoc/factsheet/factsheet_iso_en.pdf

improved efficiencies, identify opportunities for improvements, enhance relations with communities, decrease risks, and also decrease likelihood of regulatory liability.[70]

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[70] Richard Florida and Derek Davison, Carnegie Mellon University, "Why Do Firms Adopt Advanced Environmental Practices (And Do They make A Difference)?" (2001) at **www.heinz.cmu.edu/~florida/**

44. In developing countries, there may be neither the comprehensive package of regulatory laws pertaining to environmental, health, safety, human rights, and consumer protection, nor may there be the associated regulatory and judicial infrastructure to ensure that these laws are properly enforced.[71] At a New York CR conference in February, 2002, Louis Schweitzer, the Chairman and CEO of Renault, France has recently indicated that, while it might seem corporations have an advantage in countries where the regulatory rulebook is thin, the opposite is true.[72] Companies must define their own codes of conduct, with the knowledge that mistakes or misjudgements may spark negative publicity, social unrest, or worse. "We have to speak much more clearly and listen much more carefully than we would in our home markets."

45. At that same conference, Taizo Nishimuro, Chairman of the Board, of Japan's Toshiba Corporation said that, in developing countries, companies will have to do more than meet local standards in order to be judged model citizens. He noted that Toshiba requires its manufacturing operations around the world to adhere to the strictest environmental standards in effect anywhere – even though regulations in most countries are far less burdensome. "We are moving towards global standards and we have to be responsible as we help governments establish those standards."[73] Other companies have behaved in a similar manner. For example, as part of its apparel workers code, Nike has committed that all Nike supplier-factories would meet certain U.S. Occupational Safety and Health Administration indoor air quality standards.[74] Critics of Nike, while admitting that improvement has been made, are still not satisfied. According to the author of a recent study, "Health and safety is one area where some improvement has occurred. But even here the company is not willing to put in place a transparent monitoring system involving unannounced factory visits."[75]

46. Thus, in developing countries, there would appear to be two roles for corporate responsibility standards: first, to articulate baseline substantive obligations across the full range

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[71] This is, of course, a sweeping and simplistic generalization. There is a wide variation of legal frameworks in developing countries, and not all fit the profile described. Many developing countries have strong laws and regulations that are well enforced. Others have passed appropriate laws but they are not well enforced. Yet others lack the laws themselves.

[72] From World Economic Forum, Press Release, 4 February 2002, New York, "Corporate Leaders Discuss Social Role," downloadable at: www.weforum.org/site/homepublic.nsf/Content/Corporate+Leaders+Discuss+Social+Role

[73] Ibid.

[74] Per **www.nikebiz.com/labor/code.html**

[75] See T. Connor, *Still Waiting for Nike to Do It* (San Francisco: Global Exchange, 2001), p. 5, available at **www.globalexchange.org**

of environmental, health, safety, human rights, and consumer protection which in developed countries tend to be adequately addressed and enforced by the State.[76] And second, to put in place management system structures that would ensure that they are implemented in a manner compatible with the local context.

II.2.2 *Investor Disclosure and Shareholder Resolution Laws*

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[76] It is important to emphasize that by themselves, the ISO CR MSSs set no substantive CR obligations for firms, but rather create a framework for operationalization of whatever CR substantive obligations a firm wishes to commit to, thereby enhancing the prospect of meaningful, verifiable and measurable claims by firms about progress toward CR objectives they commit to.

47. As mentioned earlier, the United Kingdom passed pension investment disclosure laws in 2000 requiring all pension plans to disclose in their investment policies the extent to which they consider social, environmental or ethical criteria in making investment decisions, and any policy relating to the exercise of rights attached to investments.[77] In France, a new law which updates France's antiquated company law framework requires that annual reports of enterprises quoted on the stock exchange should contain information regarding the manner in which the enterprise takes into account the social and environmental consequences of its activity.[78] Germany has passed pension fund disclosure legislation in May 2001.[79] In Canada, revisions to the ***Canada Business Corporations Act***, Bill S-11, passed June 11, 2001, allow beneficial shareholders to file shareholder proposals, and remove the exclusionary grounds companies have for refusing to circulate CR-type proposals.[80] The United States already has such provisions.[81] In Belgium, a

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[77] As discussed in "Britain and Germany Take the Lead on Pension Investment Disclosure," in *Prospectus*, Edition 1, Spring/Summer 2001, p. 6, available at: **www.share.ca/assets/docs/prospectus1.pdf**

[78] See discussion of the new law at: **www.socialfunds.com/news/article.cgi?sfArticleId=798** The law (passed in May, 2001) requires all French firms listed on the "premier marché" (with the largest market capitalizations) to report on the social and environmental impacts of their activities. All such listed companies will be required to report against a template of social and environmental indicators (i.e., for the 2002 financial year). The decree fleshing out the requirements for corporations, published in February 2002, specifies a set of social indicators, which encompass three main stakeholder criteria or issues: human resources, community and labour standards.

[79] As discussed in "Britain and Germany Take the Lead on Pension Investment Disclosure," above.

[80] See discussion of Canadian and American laws in "New Act Improves Shareholder Rights in Canada," in *Prospectus*, Edition 1, Spring/Summer 2001, p. 1, available at: **www.share.ca/assets/docs/prospectus1.pdf**

draft law makes provision for promoting social responsible prosecution of Belgian or foreign enterprises which commercialise products on the Belgian market, or importation products, via a social label. The latter would be based on a voluntary approach.[82]

II.2.3 *Legislated Codes of Conduct*

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[81] Ibid.

[82] Per AFNOR Report on "Corporate Social Responsibility", (2001) COP N 229 cor

48. In September, 1999, an Australian "Corporate Code of Conduct Bill 2000" was introduced as a private member's bill by Senator Vicki Bourne. The Bill proposes that standards of conduct be imposed on Australian corporations undertaking business activities and employing more than 100 persons in a foreign country. It also provides for reporting requirements, enforcement provisions and a regulation making power.[83]

49. The Bill sets out obligations concerning the overseas activities of the affected Australian corporations as they pertain to environmental, employment, consumer, health and safety and human rights matters. Thus, for example, an overseas corporation "must take all reasonable measures to prevent any material adverse effect on the environment," must collect and evaluate information concerning the environmental impacts of its activities at least once in every 12 month period, must establish objectives for the measurement of environmental performance, monitor and assess its compliance with those objectives, provide timely information to its employees and members of the public, have appropriate policies on matters of environmental safety, undertake environmental impacts assessments of all new developments, and have regard to the precautionary principle. Overseas corporations which fail to comply with the obligations contained in the Bill are liable to civil penalties.

50. The Bill has been reviewed by a multi-party committee, with the majority recommending that it not go forward for reasons which focussed largely on questions of practicality and enforceability. While at this time such proposed legislation would appear to have little chance of being successfully passed, the Bill does provide a good indication of possible future legislative action.

II.3 Investor-Driven CR Initiatives (selected)

II.3.1 *The Global Reporting Initiative*

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[83] The following is a summary of K. Webb, online Voluntary Codes Research Forum, "Law for Codes? Australian Update," September 12, 2001. The Australian Bill is downloadable at: http://search.aph.gov.au/search/ParlInfo.ASP?action=browse&Path=Legislation/

51. In 1989, motivated by the massive environmental damage resulting from the oil spill from the tanker Valdez off the coast of Alaska, a group of investors, environmental activists, labour unions and religious groups formed the Coalition for Environmentally Responsible Economics (CERES).[84] The group envisaged an ambitious system of corporate disclosure of "consistent and comparable" environmental information, in much the same way that corporations are required to disclose financial data in accordance with generally accepted accounting principles. Unfortunately from their perspective, fewer than twenty relatively small corporations originally endorsed the principles. However, through an intensive and somewhat lengthy process of negotiation and compromise (which among other things resulted in such concessions as a name change from the antagonistic original "Valdez Principles" program name to the less inflammatory "CERES Principles", and substantive changes to the obligations and operation of the program), the initiative has now attracted some much more prominent endorsers, including American Airlines, Bank of America Corporation, Bethlehem Steel Corporation, Body Shop International PLC, Coca Cola USA, Ford Motor Company, General Motors, Polaroid Corporation, and Sunoco Inc..

52. CERES started a related program in 1997, in partnership with the Untied Nations Environment Program, called the Global Reporting Initiative (GRI).[85] In essence, GRI seeks to establish some uniformity in sustainable development reporting by companies of "performance and progress toward the environmental, social, and economic aspects of sustainable development." The GRI's *Sustainability Reporting Guidelines* were released in draft form in March, 1999 and were released in revised form in June, 2000. By 2002, the GRI is to have established a permanent, independent, international body with a multi-stakeholder governance structure. Its core mission will be maintenance, enhancement, and dissemination of the Guidelines through a process of ongoing consultation and stakeholder engagement. The reporting guidelines address a wide number of factors under the economic, environmental and social elements of sustainability. The GRI does not assess conformity of firms with the reporting guidelines. Nor does it establish a CR management systems standard, but 21 major multinationals participated in a pilot test of the Guidelines in 2000.[86] According to the GRI website, "the ISO 14000 standards and the GRI Sustainability Reporting Guidelines are complementary. Certain of the ISO 14000 series of standards (14001, 14004, 14031) refer generally to external reporting by companies on their environmental performance, while the GRI provides specific guidance on the form and content of such reporting. However, companies can apply the GRI *Guidelines* and ISO 14000 standards independently. ISO Technical Committee

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[84] The following information is derived from: **www.ceres.org**

[85] This description paraphrased from: **www.ceres.org/reporting/globalreporting.html**

[86] Per p. 67 of *OECD Guidelines for Multinational Enterprises 2001 – Focus: Global Instruments for Corporate Responsibility*, downloadable at: **http://www.oecd.org/pdf/M00022000/M00022658.pdf**

207 is currently considering whether additional guidance on environmental reporting should be provided through the creation of a new standard in the 14000 series. GRI has been consulted by ISO on this subject."[87]

II.3.2 *Dow Jones Sustainability Indexes*

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[87] Per Global Reporting Initiative website, "Global Reporting Initiative & ISO 14000", downloadable at: **http://www.globalreporting.org/AboutGRI/ISO14001.pdf**

53. In addition to longstanding social responsibility indices (SRIs) such as the Domini 400,[88] a range of new SRIs are now available. The Dow Jones Sustainability Group Indexes (DSJI) were launched on September 8, 1999, and involve consideration of a company's:

> - innovative technology (creation, production and delivery of products/services based on innovative technology/organization that uses financial, natural and social resources in an efficient, effective and economic manner over the long term),
>
> - corporate governance (management responsibility, organizational capability, corporate culture and stakeholder relations),
>
> - shareholder relations (shareholder demands are to be met by sound financial returns, long-term economic growth, long term productivity increases, sharpened global competitiveness and contributions to intellectual capital),
>
> - industrial leadership (sustainability companies should lead their industry's shift towards sustainability by demonstrating their commitment and publicizing their superior performance); and
>
> - social well being (sustainable corporations should encourage lasting social well being by their appropriate and timely responses to rapid social change, evolving demographics, migratory flows, shifting cultural patterns and the need for life-long learning and continuing education).[89]

54. The corporate sustainability performance of the eligible companies is assessed and scored on the basis of an industry-specific questionnaire, the analysis of company policies and reports as

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[88] For more information, go to:
http://www.domini.com/Social-Screening/creation_maintenance.doc_cvt.htm

[89] Information in this section derived from **http://www.sustainability-index.com/**

well as stakeholder relations. According to Dow Jones, compared to other indexes not screened for environmentally or socially forward looking companies, the Dow Jones Sustainability companies have outperformed other companies by 89% to 126% over the past five years.

II.3.3 *FTSE4Good U.K. CR Investment Index Series* – Launched in July 2001, the FTSE4Good index series is a new tool aimed at those interested in socially responsible investment (SRI).[90] Companies are regularly added to the indices - which cover the UK, European, US and global markets. They are reviewed every six months by an independent committee. To be eligible, businesses must meet specified corporate social responsibility criteria. Those that subsequently underperform are deleted from the index. The indexes have been developed in association with the Ethical Investment Research Service and the United Nations Children's Fund (Unicef). Firms whose core business are tobacco and arms are excluded from the index. Firms are judged on their environmental and human rights records, community involvement and the promotion of social issues.

II.4 CR-Related Standards Initiatives from Recognized Standards Bodies (selected)

II.4.1 *ISO 9000/14000 management system standards*[91]

55. While not directly addressing the full range of CR issues, both ISO 9000 quality management systems standards and ISO 14000 environmental management systems standards provide an architecture for firms which could be expanded to address operationalization of CR commitments and objectives. Because the ISO management system standards model plays a key role in the ultimate recommendations made in this paper concerning ISO's possible role in addressing CR issues, the ISO 9000 and 14000 standards are discussed here in some depth. Both ISO 9000 and ISO 14000 are known as *generic management system standards*. *Generic* means that the same standards can be applied to any organization, large or small, whatever its product – including whether its "product" is actually a service – in any sector of activity, and whether it is a business enterprise, a public administration, or a government department. *Management system* refers to what the organization does to manage its processes, or activities. In a very small organization, there is probably no "system", as such, just "our way of doing things", and "our way" is probably not written down, but all in the manager's or owner's head. The larger the

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[90] The following from: http://money.guardian.co.uk/ethicalmoney/factsheet/0,1456,607742,00.html

[91] The following information extracted directly from "ISO 9000/14000," available at: www.iso.org/iso/en/ISOOnline.frontpage

organization, and the more people involved, the more the likelihood that there are some written procedures, instructions, forms or records. These help ensure that everyone is not just "doing his or her thing", and that there is a minimum of order in the way the organization goes about its business, so that time, money and other resources are utilized efficiently.

56. To enhance efficiency and effectiveness, an organization can systematize its approach to management, thereby ensuring that nothing important is left out and that everyone is clear about who is responsible for doing what, when, how, why and where. Management system standards provide the organization with a model to follow in setting up and operating the management system. This model incorporates the features which experts in the field have agreed upon as representing the state of the art. A management system which follows the model – or "conforms to the standard" – is built on a firm foundation of state-of-the-art practices. Large organizations, or ones with complicated processes, could not function well without management systems – although they may have been called by some other name. Companies in such fields as aerospace, automobiles, defence, or health products have been operating management systems for years.

57. ISO's management system standards now make these successful practices available for all organizations. Both "ISO 9000" and "ISO 14000" are actually families of standards which are referred to under these generic titles for convenience. Both families consist of standards and guidelines relating to management systems, and related supporting standards on terminology and specific tools, such as auditing (the process of checking that the management system conforms to the standard).

58. ISO 9000 is primarily concerned with quality management. Like beauty, everyone may have his or her idea of what quality is. In plain language, the standardized definition of quality in ISO 9000 refers to all those features of a product (or service) which are required by the customer. "Quality management" means what the organization does to ensure that its products conform to the customer's requirements. ISO 14000 is primarily concerned with "environmental management". In plain language, this means what the organization does to minimize harmful effects on the environment caused by its activities (more on ISO 14000 below). Both management systems are founded on the notion of continuous improvement, meaning that targets and objectives are constantly reviewed and updated to reflect progress and changes in operating conditions.

59. Both ISO 9000 and ISO 14000 concern the way an organization goes about its work, and not directly the result of this work. In other words, they both concern processes, and not products – at least, not directly. Nevertheless, the way in which the organization manages its processes is obviously going to affect its final product. In the case of ISO 9000, it is going to affect whether or not everything has been done to ensure that the product meets the customer's requirements. In the case of ISO 14000, it is going to affect whether or not everything has been done to ensure a product will have the least harmful impact on the environment, either during production or

disposal, either by pollution or by depleting natural resources. The ISO 14000 series emerged primarily as a result of the Uruguay round of the General Agreement on Tariffs and Trade (GATT) negotiations and the Rio Summit on the Environment held in 1992.[92] While GATT and the World Trade Organization concentrate on the need to reduce non-tariff barriers to trade, the Rio Summit generated a commitment to protection of the environment across the world. After the rapid acceptance of ISO 9000, and the increase of environmental standards around the world, ISO assessed the need for international environmental management standards. ISO formed the Strategic Advisory Group on the Environment (SAGE) in 1991, to consider whether such standards could serve to:

- promote a common approach to environmental management similar to quality management;
- enhance organizations' ability to attain and measure improvements in environmental performance; and
- facilitate trade and remove trade barriers.

In 1992, SAGE's recommendations led to the creation of a new ISO technical committee, TC 207, for international management systems standards. The committee, and its sub-committees include representatives from industry, standards organizations, government and environmental organizations from many countries.

60. However, neither ISO 9000 nor ISO 14000 are product standards. The management system standards in these two series state requirements for what the organization must do to manage processes influencing quality (ISO 9000) or the processes influencing the impact of the organization's activities on the environment (ISO 14000). In both cases, the philosophy is that these requirements are generic. No matter what the organization is or does, if it wants to establish a quality management system or an environmental management system, then such a system has a number of essential features which are spelled out in ISO 9000 or ISO 14000.

61. In the year 2000, ISO 9000 underwent a revisions process (ISO 9000/2000) to reduce complexity and improve effectiveness.[93] The revised standards are based on eight quality management principles that can be used by top management as a framework to guide their organization towards improved performance:

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[92] The following discussion of the origins of ISO 14000 derived from: "ISO 14000 – Introduction," downloadable at: **www.quality.co.uk/iso14000.htm**

[93] The following is derived from: http://www.scc.ca/standards/iso9000/2000/intro_e.html

1. Customer Focus: Organizations depend on their customers and therefore should understand current and future customer needs, should meet customer requirements and should strive to exceed customer expectations.
2. Leadership: Leaders establish unity of purpose and the direction of the organization. They should create and maintain an internal environment in which people can become fully involved in achieving the organization's objectives.
3. Involvement of People: People at all levels are the essence of an organization, and their full involvement enables their abilities to be used for the organization's benefit.
4. Process Approach: A desired result is achieved more efficiently when activities and related resources are managed as a process.
5. Systems Approach to Management: Identifying, understanding and managing interrelated processes as a system contributes to the organization's effectiveness and efficiency in achieving its objectives.
6. Continual Improvement: Continual improvement of the organization's overall performance should be a permanent objective of the organization.
7. Factual Approach to Decision-making: Effective decisions are based on the analysis of data and information.
8. Mutually Beneficial Supplier Relationship: An organization and its suppliers are interdependent and a mutually beneficial relationship enhances the ability of both to create value.

62. It is possible for firms to implement and self-declare compliance with ISO 9000 or ISO 14001 quality or environmental management system standards. Indeed, a key feature of the plan-do-check-act method of systematization is its ability to allow a firm to measure and verify progress in relation to pre-set targets, but this does not mean that any particular firm must necessarily undergo external measurement and verification. However, many firms choose to undergo the process of third party assessment leading to ISO 9000 or 14001 certification. An increasing number of firms require that their suppliers be registered to ISO 9000 or ISO 14001. The assessment of a quality system against the requirements of one of the ISO 9000 standards and the subsequent issuing of a certificate to confirm that it is in conformance with the standard's requirements is variously referred to in different countries as certification or registration.

63. Accreditation is a term which, in the ISO 9000 or ISO 14000 context, is sometimes used – wrongly – as a synonym for "certification" or "registration". "Accreditation" is the procedure by which an authoritative body gives formal recognition that a body or person is competent to carry out specific tasks. In the ISO 9000 or ISO 14000 context, it relates to the work of national accreditation bodies which have been set up in a number of countries to provide some measure of control over the activities of quality system or environmental management system certification bodies. An accreditation body will accredit – or, in simpler language, approve – a certification body as competent to carry out ISO 9000 certification of quality management systems, or ISO

14000 certification of environmental management systems, in specified business sectors.

64. In the case of the ISO 14000 family, there is only one standard of which the intended use is as a model for environmental management system certification – ISO 14001. An organization which seeks certification of an environmental management system which it operates as conforming to the standard will therefore be issued with an ISO 14001 certificate. ISO itself does not carry out assessments to check that its standards are being implemented in conformity with the requirements of the standards. Conformity assessment – as this process is known – is a matter for suppliers and their clients in the private sector, and of regulatory bodies when ISO standards have been incorporated into public legislation. In some countries, ISO members carry out conformity assessment, either on behalf of their respective governments, or as a business operation. ISO itself has no authority to control these activities. However, in partnership with the IEC (International Electrotechnical Commission), ISO has developed ISO/IEC Guides covering various aspects of conformity assessment activities and the organizations that perform them. The voluntary criteria contained in these Guides represent an international consensus on what constitutes acceptable practice. Their use contributes to the consistency and coherence of conformity assessment worldwide and so facilitates trade across borders. A point which logically follows on from the above remarks is that it is false to describe a company as "ISO-certified", "ISO-registered", or to use phrases such as "ISO certification", "ISO certificates" and "ISO registration". ISO operates no system for assessing the conformance of organizations' management systems with standards in the ISO 9000 family, or the ISO 14000 family. ISO itself carries out neither ISO 9000 nor ISO 14000 audits and awards no certificates attesting to conformity with the standard. There is no such thing as "ISO certification", or "ISO registration", whether in relation to ISO 9000, ISO 14000, or any other ISO standard. Both ISO 9000 and ISO 14000 auditing and certification are carried out independently of ISO by certification bodies under their own responsibility.

65. ISO has released a draft version of ISO 19011, *Guideline for quality and/or environmental management systems auditing*, a new auditing standard for use with both ISO 9000 and ISO 14000 management systems.[94] The new standard is intended to make it easier for organizations to implement and register both quality and environmental management systems. Benefiting from the considerable body of experience that has built up on the auditing of ISO management systems, the standard will replace six existing ones in the ISO 9000 and ISO 14000 families. It will help user organizations to optimize their management systems, facilitate the integration of

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[94] Information from: http://www.iso.ch/iso/en/commcentre/pressreleases/2001/Ref794.html

quality and environmental management, and, in allowing single audits of both systems, will save money and decrease disruption of work units being audited. A finalized version of the standard is expected to be completed and published in 2002.

Key Points About ISO 14000 Environmental Management Systems

- ISO 14000 provides a framework tool to understand, track, and build better environmental performance, greater efficiency, and a competitive image. With serious commitment and effort from the organization, implementing a system such as ISO 14001 can yield solid financial and regulatory benefits. Nevertheless, it should be kept in mind that ISO 14001 is a means, not an end in itself.

- while an EMS is an internal management tool, it is becoming more and more a matter of interest to people outside the management of the firm – to workers, customers, regulators, local residents, commercial partners, bankers and insurers, and the general public. As such it becomes a mechanism for communicating the firm's performance to outside parties, and some level of standardization and common understanding is required. The European Eco-management and Audit Scheme (EMAS) includes requirements for communication with the public which are not part of ISO 14001.

- the crucial feature of the ISO 14001 standard is that it identifies the elements of a system which can be independently audited and certified. The presentation in these standards is clear and concise and provides a framework that can be used as the starting point for a simple system for a small firm or a highly detailed one for a multinational firm. Management and worker commitment to improving performance is essential.

- compliance with ISO 14001 does not by itself automatically ensure that a firm will actually achieve improved environmental performance. The standard requires that there be an environmental policy that "includes a commitment to continual improvement and pollution prevention"and "a commitment to comply with relevant environmental legislation and regulations." It also requires that a firm establish procedures for taking corrective and preventive action in cases of nonconformance. A firm make a commitment to specific environment performance improvements within a defined period and then uses ISO 14000 as the mechanism for demonstrating that it is complying with that commitment.

- the direct benefits to a firm of implementing an EMS usually come from savings through cleaner production and waste minimization approaches (it has been estimated that about 50% of the pollution generated in a typical "uncontrolled" plant can be prevented, with minimal investment, by adopting simple and cheap process improvements). The major impact of the introduction of an EMS can be the identification of waste minimization and cleaner production possibilities.

- the ISO 14001 standard allows for self-certification, a declaration by a firm that it conforms to ISO 1400. Many firms can reap significant benefits from introducing quality management concepts, even where they are not aiming at formal certification. The costs of establishing an EMS depend on the starting point in terms of both management systems and environmental performance. The eco-efficiency savings can, in some cases, pay for the costs of establishing the EMS, particularly if most of the planning and organizational work is carried out in-house. However, a poor performer will very likely have to invest in production upgrading or pollution control in order to meet environmental requirements, and these costs can be significant. Obtaining certification can entail significant costs, and there are issues relating to the international acceptance of national certification that may make it particularly difficult for companies in some countries to achieve credible certification at a reasonable cost.

- a full EMS can be complex and can require an appreciable commitment of operational resources. However, the final system can be reached reasonably through a series of discrete steps, starting from a basic simple procedure and becoming more comprehensive and sophisticated as capabilities and resources allow. In this way even a small enterprise can begin to put in place the basic elements of an ISO 140001 system and can develop them at an appropriate pace.

*Distilled from pp. 129 - 135, World Bank Group, *Pollution Prevention and Abatement Handbook* (Washington, D.C.: World Bank, 1998), downloadable at:
http://wbln0018.worldbank.org/essd/essd.nsf/GlobalView/PPAH/$File/23_iso.pdf

66. The ISO 9000 and 14000 management systems standards are designed for use by all sizes of firms. ISO has published a handbook, *ISO 9000 for Small Businesses*. Aimed at managers, it explains the quality system standards in plain language, with the intention of putting improvements in performance, quality, customer satisfaction and market access within reach of any manufacturing or service organization regardless of size, through implementation of an ISO 9000 quality system. In their practical advice and guidance on how to get started, the authors point out that quality systems should not be a source of bureaucracy, excessive paperwork or lack of flexibility. "Remember," they say, "all businesses already have a management structure and this should be the basis on which the quality system is built."

67. According to a December 2000 ISO survey , more than 408,000 ISO 9000 certificates have been issued, and 22,000 ISO 14000 certificates have been issued worldwide.[95] Extrapolating on the basis of growth rates in recent years, there will be an estimated one-half million ISO 9000 and ISO 14000 certificates issued by December, 2002. In addition, many more firms have self-declared to be in compliance with ISO 9000 and ISO 14001 management systems standards (it is difficult to accurately quantify and confirm the numbers of firms self-declaring compliance with ISO management systems standards).

68. Several points emerge from this description of ISO 9000 and ISO 14000 standards which are relevant to this feasibility and desirability report:

> (1) ISO 9000 and ISO 14000 management systems standards are process standards, not substantive performance standards. On the one hand, the fact that they are process standards increases their ability to be adapted to different working environments. On the other, it does not provide any automatic assurances that any particular company will meet any particular behaviours, unless the particular firm decides that it should meet those objectives (e.g., only hiring workers over 19). Typically, management systems standards are used in conjunction with other substantive codes or laws, so that in effect the

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[95] Per 10th survey, which is available from the ISO website.

management system standards provide the operational framework within which a particular set of activities takes place.[96]
(2) a key underlying concept underlying both ISO 9000 and ISO 14000 is the notion of continuous improvement, meaning that a firm's targets and objectives are constantly reviewed and updated to reflect progress and changes in operating conditions.

(3) the ISO 9000 and 14000 standards are designed to be used by any size of firm, operating anywhere in the world;

(4) the ISO 14000 series of standards emerged from primarily as a result of international trade negotiations (with the desire to reduce non-tariff barriers to trade) and the Rio Summit on the Environment (with its commitment to protection of the environment around the world). The ISO 14000 standards were designed to promote a common approach to environmental management, to enhance organizations' ability to attain and

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[96] For example, the Global Reporting Initiative Guidelines (discussed below) and ISO 14000 standards are mutually supportive. According to the GRI website, "the ISO 14000 standards and the GRI Sustainability Reporting Guidelines are complementary. Certain of the ISO 14000 series of standards (14001, 14004, 14031) refer generally to external reporting by companies on their environmental performance, while the GRI provides specific guidance on the form and content of such reporting. However, companies can apply the GRI *Guidelines* and ISO 14000 standards independently. ISO Technical Committee 207 is currently considering whether additional guidance on environmental reporting should be provided through the creation of a new standard in the 14000 series. GRI has been consulted by ISO on this subject." Per Global Reporting Initiative website, "Global Reporting Initiative & ISO 14000", downloadable at: **http://www.globalreporting.org/AboutGRI/ISO14001.pdf**

measure improvements in environmental performance, and to facilitate trade and remove trade barriers.

(5) as a result of the ISO 9000 and ISO 14000 standards development and implementation experience, there exists within ISO, its committees and affiliated standards bodies a considerable knowledge base concerning management systems standards.

(6) at a practical level, on the basis of the fact that there will be close to .5 million ISO 9000 and ISO 14000 certificates issued by the end of 2002, there is a considerable base of users who already have in place ISO management systems standards.

(7) implementation of the plan-do-check-act approach to quality or environmental management which underlies ISO 9000 and ISO 14001 management systems standards allows a firm to measure and verify progress in relation to targets set by the firm, but this does not mean that any particular firm must necessarily undergo external measurement and verification. However, if a firm wishes to have its operations certified to ISO 9000 or ISO 14001 systems standards, an international infrastructure has been put in place to ensure conformity assessment with ISO management systems standards. This allows companies which wish to have third party assessment to obtain certificates indicating that they are in compliance, which can then be used in their relations with the full range of that organization's stakeholders.

II.4.2 *Occupational Health and Safety Assessment Series (OHSAS 18001:1999)*

69. In 1996, the British Standards Institution (BSI) issued BS 8800, an occupational health and safety management guidance document. As a guidance document, BS 8800 was not intended to be used as the basis for certifications.[97] A number of certification bodies developed their own occupational health and safety standards based on BS 8800 against which organisations could be certified. The problem with these standards was that although these standards were based on BS 8800 there was a high degree of variation in content from one to the other. Also, because different bodies in different jurisdictions had their own certification schemes, mutual recognition of these schemes became a problem.

70. To address this problem, OHSAS 18001 was jointly developed by 13 national standards organisations and international certification bodies.[98] OHSAS documents were prepared to

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[97] The following information from: http://qualtec.ie/OHSAS%2018001.htm?tm

[98] As described at:
http://www.sgs.com/sgs/psc/psc_serv.nsf/pages/OHSAS+18001+-+Occupational+Health+&+Safety+Management+System+Certification

provide interim specifications and related guidance for occupational health and safety management systems until such time as formal international standards are published.[99] OHSAS is said to be compatible with ISO 9001:1994 and ISO 14001: 1996.[100] The specification takes a structured approach to occupational health and safety management. The emphasis is placed on practices being pro-active and preventive by the identification of hazards and the evaluation and control of work related risks. OHSAS 18001 can be used by any size of organization regardless of the nature of its activities or location. Third party certification is now available. OHSAS 18001 includes the following elements: an OH&S policy, planning, implementation and operation, checking and corrective action, management review, and continual improvement.

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[99] As stated at: http://www.techstandards.co.uk/system/index.html

[100] The following information from: http://www.nsaiinc.com/ohas.html

71. On two occasions, ISO has decided not to launch the development of a management system standard for occupational health and safety. As Ziva Patir, Director General of the Standards Institution of Israel has stated, "[t]he resistance [of ISO] to OH&S didn't stop occupational health and safety management – it just moved it away from ISO."[101] In fact, as was discussed earlier, in 2001, the ILO published its *Guidelines on Occupational Safety and Health Management Systems* (ILO-OSH 2001).[102]

**II.4.3 *Standards Institution of Israel (SII) -- Social Responsibility and Community Involvement (SII 10000) (draft, 2001)* **[103]

72. The Standards Institution of Israel is in the process of preparing a draft standard on social responsibility and community involvement. According to the introduction to the draft standard, in recent years, social contribution and community involvement constitute a tool in the hands of management interested in enhancing their competitive advantage. Organizations are measured not only by their economic performance but also by social and environmental indices and the spotlight is now turning from "what is being manufactured" to "how is it manufactured". Organizations in Israel and in the world are exposed to the relationship between their social involvement and their influence on the changing of the society and the business benefits emanating from it.

73. Many organizations in Israel are aware of the community needs and even take the initiative and contribute monies to the society and community. However, giving contributions is not sufficient. There is a need for continuous activity within the community and for it, and for the introduction of social and ethical considerations to the principal activities of the organization and through its management system.

74. This standard sketches the criteria for the implementation of social responsibility and community involvement policies including senior management and employee commitment and involvement, allocation of resources for social purposes, quality of working environment, environmental influences of the organization, combining ethical aspects in the business activity, transparency and reporting and assimilation of control, prevention, training and documentation mechanisms.

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[101] "ISO looks into possibility of developing standards for corporate social responsibility," *ISO Management Systems* (October 2001), p. 11.

[102] Downloadable at:
http://www.ilo.org/public/english/protection/safework/managmnt/download/promo.pdf

[103] The following information derived from the aforesaid draft standard.

75. A management approach of social responsibility and accountability lies at the basis of the method and is expressed in the business activity itself and in the dialogue with those affecting it and that are affected by it. This approach fits in well with the holistic management approach that integrates the various aspects that may affect the existence of the organization, as part of its business strategy.

76. As part of the standard, organizations are required to:
- comply with all rules and regulations of the Israeli government related to the employment of workers as well as those pertaining to health and safety;
- comply with the safe working environment standard promulgated by SII;
- fulfill all the requirements of the Standard for Social Accountability SA 80000 (discussed below);
- put in place an environmental management system following the terms of ISO 14001;
- have in place an ethics code or have one in preparation;
- publish a social report and it is recommended that the report be in accordance with the Global Reporting Initiative and the principles of AA1000 (discussed below).

In recognition of the fact that there are many elements to the Standard, a graduated system of compliance is provided.

II.4.4 *Bureau de normalisation du Québec (BNQ) – Corporate Social Responsibility – Human Resources, Donations and Sponsorship – Certification Protocol (NQ 9700-950)*[104]

77. The purpose of this document is to establish a certification protocol of practices related to corporate social responsibility in the sectors of human resources development, donations and sponsorship based on requirements set forth in the Corporate Citizen Canada reference document of the same name. The Corporate Citizen Canada reference document was developed in 1999 after the results obtained from an analysis of the CSR situation in Canada performed in 1997 followed by a pilot project conducted in 1998 in collaboration with five Canadian corporations on the identification and evaluation of their corporate social responsibility related policies and practices. Applicants are to submit a form for recognition of conformity to BNQ with the site's corporate plan in social responsibility, and a duly completed checklist. The checklist pertains to such matters as establishing a management framework for social responsibility, employee and community profiles, participation role of employees, an organizational statement of the business's role in social responsibility (including benefits to shareholders, employees and its community), core human resource practices, outreach practices including donations and sponsorships, and external influence of the organization. The BNQ initiative is based on seven principles related to human resources and community development. An applicant can choose to

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[104] The following information derived from the aforesaid standards.

conform to any of five levels of achievement corresponding to the desired level of commitment and capability of the firm. The program provides a framework that allows the applicant to shape the way it applies the principles. The firm is asked to define what it considers to be the community that best corresponds to its activities and reach. The program promotes the organization and management of corporate social responsibility-related practices and policies already in place.

78. The BNQ standard does not actually require specific performances, but rather sets out an approach to ensure that the management system of the organization would address the human resources and community outreach aspects of the organization in a manner compatible with principles of corporate social responsibility. Accordingly, the standard could properly be characterized as a management standard.

III.4.5 *British Standards Institution (and partners) SIGMA (Sustainability -- Integrated Guidelines for Management) Project*[105]

79. Formed in June 1999, the SIGMA Project is a partnership between BSI, Forum for the Future (a sustainability charity and think-tank organization), and AccountAbility (the Institute of Social and Ethical Accountability, a professional body supporting organizational accountability and ethical performance), and is primarily funded by the UK Department of Trade and Industry (DTI). The SIGMA Project is developing a systematic framework to enable organizations to become more sustainable. At the heart of the SIGMA Project is the development of a set of Guidelines, based on a series of inter-linking and supporting components:

- a set of principles that help an organisation to understand and navigate the parameters of sustainability.
- a management framework that integrates sustainability issues into core processes and mainstream decision-making.
- a series of tools and approaches which organizations can use to implement effective strategies, initiate culture change, promote learning, set objectives, and then achieve goals.

80. To this end, the SIGMA Guidelines aim to help organizations to address the challenges of sustainable development by:

- integrating social, environmental and economic issues into strategic decision-making and operations;
- creating competitive advantage by projecting a defined stance on social, environmental and economic issues;

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[105] The following information derived from: **www.projectsigma.com**

- identifying and learning about the impacts and risks of their activities;
preventing, removing, minimising or managing these risks and impacts;
- identifying opportunities for continuously improving performance in relation to these impacts;
- engaging stakeholders in decision-making processes;
- using appropriate, practical and robust indicators.

81. The SIGMA Project has been working closely with other existing sustainability initiatives, most notably the Global Reporting Initiative (GRI) and more recently the World Business Council for Sustainable Development (WBCSD). The SIGMA Guidelines encapsulates the GRI approach to performance measurement and reporting while providing a management framework that facilitates organizational action on sustainability issues and supports the GRI's objectives. SIGMA has also drawn on the AA1000 standard and its revision (discussed below) and a range of standards produced by ISO. SIGMA has completed a Phase I component consisting of start-up, global research and gap-analysis, recruitment of a consortium of 20 Organizational Partners to pilot the SIGMA Guidelines, initial consultations on SIGMA Guidelines, and a conference to discuss progress and next steps. Since May 2001, SIGMA has been in Phase 2, which consists of research and development, further tools for inclusion in the Guidelines and to refine the principles and management framework, live piloting, enhanced stakeholder dialogue, liaising with others, and developing collaborative partners overseas.

II.4.6 *Ethics Officers Association -- Proposed ISO Business Conduct Management Systems Standard*

82. The U.S.-based Ethics Officer Association (EOA) is an American National Standards Institute (ANSI) organizational member. Founded in 1992 by a dozen ethics officers, today the EOA has over 780 members including ethics officers from more than half of the Fortune 100.

83. EOA initiated a process through ANSI for a new field of technical activity for the development of ISO Corporate Business Ethics Management System Standards.[106] The proposed scope of this potential ISO activity was stated as follows:

> Standardization in the field of business conduct management, including standardization of the business conduct management process, which typically includes, but is not limited

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[106] Information here derived from: **www.eoa.org/BCMS/bcms.html**

to, policies, planning, implementation and operation, performance assessment and management review, and continual improvement."

84. The EOA has noted that components of what are commonly thought of as corporate social responsibility issues are likely to be included in any business conduct management system standard (MSS) developed through the ISO process, or at a minimum, the management system standard would have the flexibility to allow any organization to include such issues as it deems appropriate within the overarching MSS framework. According to EOA, the standard would allow for self-declaration, and the EOA "will take every possible step to ensure BCMS is not intended for third party certification."

85. The significance of the EOA BCMS effort is two-fold. First, as a proposal to ANSI from the EOA Board, and pending a decision by ANSI on the matter, it is preliminary evidence of corporate interest from an influential U.S. industry association in the idea of ISO ethical business conduct management standards which would encompass components of corporate responsibility, or at least, have the flexibility to encompass such matters. Second, as part of their proposal to ANSI, the EOA has provided a detailed business case for their initiative following the ISO Guide 72 structure. In terms of benefits,[107] EOA members believe that implementation of an effective business conduct management system can assist in protecting and enhancing a firm's reputation, minimizing its liability, and maintaining its long-term viability. Having such a management system in place can help an organization (1) provide confidence to its interested parties that a management commitment exists to meet the provisions of its policy, objectives, and targets; (2) demonstrate that emphasis is placed on prevention rather than corrective action; (3) show evidence of reasonable care and regulatory compliance; and (4) incorporate the process of continual evaluation and improvement into the process.

86. Identified economic and social advantages that would result from the adoption of an ISO business conduct MSS include:

· 	It will be a recognized means to enable organizations to demonstrate commitment to ethical business practices in the most cost effective manner.
· 	It will enable organizations to protect their brand equity and defend their reputation.
· 	It can be a consistent measurement tool to demonstrate effectiveness of programs.
· 	It will create a standard that is based on a model that is already adopted by many organizations.
· 	It can result in reconciliation of global principles and harmonization of national and cultural standards within an international framework, thus helping companies address the

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[107] The following is from L. Essrig, "An International Management System Standard for Business Conduct," *Ethikos*, November/December 2001, downloadable at: http://singerpubs.com/ethikos/Essrig.htm

high cost of responding to a proliferation of standards.
·   It can be a standard for joint venture and other business partners to meet, which can facilitate global business.
·   It can be used by consumers, investment fund managers, and others in evaluating companies for social investing and other purposes.
·   It can help organizations defend against a violation as an anomalous event.
·   It is consistent with regulatory models in the U.S. and can serve as a catalyst and model for regulatory frameworks that promote ethical business practices around the world.

87. The EOA's proposal to ANSI for an ISO Business Conduct Management System Standard was scheduled for consideration by ANSI's International Committee (IC) on January 30, 2002.[108] The committee was to have voted on whether to recommend the proposal to ISO as a new field of technical activity. However, prior to the meeting the EOA asked the IC to postpone taking any action on the proposal at that time. A number of comments concerning the proposal were submitted to ANSI during a public review period late last year. After reviewing the comments and some discussion with members, the EOA decided to seek a postponement of the vote by the IC. The EOA wanted more time to obtain further views and guidance on how best to proceed with the project. Some of the comments to ANSI raised issues and expressed differences of opinion on the proposal. EOA has concluded that it would be desirable to further discuss and address some of these issues with the individual commenters as well as with EOA members and others before the IC votes on the proposal. The EOA continues to believe that a management system standard in the area of business conduct should be developed, and will further efforts to work with the EOA membership, the standards community, and others to consider options and determine the best course forward.

II.4.7 *Spanish Standards Organization (AENOR) -- draft standards on Ethical Financial Instruments PNE 165001 and a Management System on Ethics PNE 165010* [109]

88. Through two working groups, the Spanish Technical Committee AEN/CTN 165 "Ethics" is preparing two draft pre-standards:

(1) PNE 165001 EX "Ethics. Requirements for ethical and socially responsible financial instruments."

The standard is intended to provide general guidelines to organizations that try to create

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[108] The following is from: "Business Conduct Management System Standard Project Update," at **www.eoa.org**

[109] Information provided by AENOR officials.

or commercialize ethical and socially responsible financial instruments and to guarantee the maximum transparency and publicity of these ethical criteria to the stakeholders. The draft specifies the requirements that the different instruments must fulfil. The text of the draft has reached consensus within the Technical Committee and is expected to reach public information stage at the end of April, 2002.

(2) PNE 165010 EX "Ethics. Corporate ethical management systems. Performance requirements for enterprises ethical and social responsibility."
> The standard is intended to establish the requirements for the best exercise of the ethical, social and environmental responsibility in firms allowing them to develop, maintain and fulfil a code of conduct necessary to manage these aspects suitably, and to demonstrate to stakeholders that tis code conforms to the principles and requirements of the standard. It is expected that the Technical Committee will publish the standard this year.

II.4.8 -- *AFNOR's CR-Related Developments (French Association for Standardization)*[110]

89. AFNOR has been working on projects pertaining to corporate social responsibility, sustainability and fair trading.

1. Corporate Social Responsibility

In 2001, AFNOR conducted a study about "social ethics" at the request of the consumer committee of AFNOR. The report lists various existing initiatives on the topic and sums up the expectations of the major French partners. There is clearly an interest in what could provide international standardization in this field, as a tool. Some kind of European consensus is perceived as a condition of success. Another condition of success is the ability to provide a place for social partners, NGOs and developing countries in the standardization process. A mutual preliminary understanding between the International Labour Organization and standardization organizations is also necessary. Four areas of potential standardization have been identified:

> - means of informative labelling on products about conditions of production for the consumers;
> - reporting of firms to their stakeholders on social matters;
> - management tools for social commitments; and
> - conducting of social audits.

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[110] Information provided by AFNOR officials.

AFNOR is continuing investigations on these topics.

2. Sustainability

Sustainable development is a rallying concept and the importance of the role of firms in achieving the objectives of sustainability is universally recognized. Sustainability and corporate social responsibility are closely linked, and production and consumption models have evolved, in particular on environmental aspects. In 2001, the environmental strategic orientation committee of AFNOR created a study group which "Firms and sustainable development," which put forward several recommendations. Afterwards it was decided in 2002 to develop a guide (guidelines and recommendations) about the implementation of a management system addressing sustainable development objectives. This guide will be released in June 2002 for an extensive multi-stakeholder consultation. The aim of this guide is to increase the continuous improvement of the overall performance of firms (economic, environmental, and social) in their sustainable development activities.

3. Fair trading

In March 2002, at the request of public authorities (pertaining to solidarity and economy), AFNOR created a working group to develop a standard on fair trading. The group will focus its attention on the definition, the characteristics through the entire supply chain from producers in the south to the consumer, in association with all the actors.

II.5 Multi-Jurisdictional CR-Related Initiatives from non-Recognized Standards Bodies (selected)

II.5.1 *Consumers International Consumer Charter for Global Business (1997)* [111]

90. This Charter was prepared by Consumers International (CI), the international federation of consumer organizations, with over 260 member consumer organizations in 120 countries. CI is an independent, non-profit organization founded in 1960 and funded by contributions by members, as well as grants from foundations, governments and multilateral agencies. The Charter is based on the eight consumer rights: the right to basic needs, safety, information, choice, a fair hearing, redress, consumer education and a healthy environment. The Charter sets out best business practice in areas of interest to consumers such as ethical standards, competition,

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[111] Information from: **www.consumersinternational.org/campaigns/trade/charter_en.html**

product standards, marketing, labelling, disclosure of information and consumer redress.

II.5.2 *Social Accountability International (SAI) -- Social Accountability 8000* [112]

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[112] Information from: **www.cepaa.org**

91. SAI is a charitable human rights organization dedicated to improving workplaces and communities by developing and implementing socially responsible standards. In response to inconsistencies among workplace codes of conduct, SAI developed a standard for workplace conditions and a system for independently verifying factories' compliance. The standard, Social Accountability 8000 (SA8000), and its verification system draw from established business strategies for ensuring quality (such as those used for ISO 9000) and add several elements that international human rights experts have identified as essential to social auditing. Based on the principles of international human rights norms as delineated in ILO Conventions, the UN Convention on the Rights of the Child, and the Universal Declaration of Human Rights, SA8000 has nine core areas: child labour; forced labour; health and safety; compensation; working hours; discrimination; discipline; free association and collective bargaining; management systems. To date, less than 100 companies have been certified for SA 8000. Commentators have suggested that SA8000 has not reached the position of de facto global code due to the fact that it is not an open membership organization so that stakeholders in social auditing have found it difficult to influence the process in an open democratic fashion, and moreover that it treats accredited certifiers in the same way, thereby preventing small local NGOs from performing inspections.[113]

II.5.3 *Institute of Social and Ethical AccountAbility (AccountAbility) -- AccountAbility 1000 (AA1000)* [114]

92. AccountAbility is an international professional body located in the U.K. which supports organizational accountability and sustainable performance. Stakeholder engagement remains at the core of the accountability process. Accountability is about "organizational responsiveness," or the extent to which an organization takes action on the basis of stakeholder engagement. Responsiveness requires the organizational capacities to learn and innovate effectively on the basis of stakeholder engagement. Organizational accountability is directly addressed by the "inclusivity" of the social and ethical accounting, auditing and reporting process. Inclusivity concerns the reflection at all stages of the views and needs of all stakeholder groups. Stakeholder views are obtained through an engagement process that allows them to be expressed without fear or restriction. Inclusivity requires the consideration of "voiceless" stakeholders including future generations and the environment. A revised version of AA1000 is in the process of finalization. There are four modules: measuring and communicating the quality of stakeholder engagement,

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[113] Per Jem Bendell and Rupesh Shah, "No stop to sweatshops," (February 28, 2001), *Lifeworth 2001 Review of Corporate Responsiblity*, downloadable at www.new-academy.ac.uk/2001review/nostop.html

[114] Information from **www.accountability.org.uk**

with the aim of improving such engagement and increasing the associated benefits; integration of accountability processes with existing management and metrics systems, particularly planning tools; quality assurance and external verification; governance and risk management.

II.5.4 *Caux Round Table (CRT) Principles for Business* [115]

93. Founded in 1986, the Caux Round Table is a network of senior business leaders from both industrialized and developing nations who recognize that business must take a leadership role in developing a more fair, free and transparent society, leading to greater world prosperity and sustainability of resources. The CRT seeks to motivate and mobilize business leaders to be a force for positive change based upon the Caux Round Table Principles for Business. In 1994, the CRT published its Principles for Business, which seek to express a worldwide standard for ethical and responsible corporate behaviour and is offered as a foundation for dialogue and action by business and leaders worldwide.

94. Section 1 of the principles consists of a preamble which notes that businesses are increasingly global, that law and market forces are necessary but insufficient guides for conduct, and that responsibility for the policies and actions of business and respect for the dignity and interests of its stakeholders are fundamental. "For these reasons, and because business can be a powerful agent of positive social change" the principles are offered as a foundation for dialogue and action by business leaders in search of business responsibility.

95. Section 2 articulates seven general principles, which are then elaborated upon in subsequent text. The seven principles are:
      (1) The Responsibilities of Businesses: Beyond Shareholders toward Stakeholders
      (2) The Economic and Social Impact of Business: Toward Innovation, Justice and World Community
      (3) Business Behaviour: Beyond the Letter of Law Toward a Spirit of Trust
      (4) Respect for Rules
      (5) Support for Multilateral Trade
      (6) Respect for the Environment
      (7) Avoidance of Illicit Operations
Section 3 sets out stakeholder principles concerning the responsibility of business to customers, employees, owners/investors, suppliers, competitors, and communities.

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[115] Information from **www.cauxroundtable.org/**

96. According to the CRT website, the CRT has "increasingly focussed its attention on issues of global corporate responsibility in the context of the fundamental social, political, economic and technological changes taking place in the world. Excessive imbalances of trade, economic disparities between developed and developing nations, extremes between rich and poor, and differences in priorities and expectations between current and future generations, pose threats to peace and stability, and hence to the prospects for success of business. In a framework of sound international practices, based on universally applied principles for business conduct, consistent values and standards, and responsible operation of business activity, has become imperative." To assist firms in implementing programs compatible with the CRT Principles, the CRT is developing a self-assessment process for corporate improvement in CR practices (called the Self-Assessment and Improvement Process, or SAIP) , which draws on approaches to quality articulated in the Malcolm Baldrige National Quality Program.[116] The self-assessment tool is now undergoing betatesting. The SAIP's application of principles of quality to the CR issue is evidence of the inherent synergy between quality management systems standards such as ISO 9000 and those pertaining to CR.

II.5.5 *Interfaith Center for Corporate Responsibility (ICCR) Bench Marks for Measuring Business Performance ("Benchmarks")*[117]

97. ICCR's Bench Marks is a joint project of a non-denominational alliance of religious groups based in the United States, Canada and the United Kingdom. Bench Marks is a comprehensive set of social and environmental criteria and business performance indicators drawn from a body of internationally recognized human rights, labour and environmental standards and principles. Many of these are reproduced among the 23 appendices found in the document.

98. Bench Marks expects that responsible corporations will formulate values and express their

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[116] Information from Stephen Young, Global Executive Director, Caux Round Table, and Dean Maines, Project Director of the Caux Round Table Self Assessment and Improvement Process.

[117] Information from: **www.web.net/~tccr/benchmarks/**

commitments to society and in respect of the environment as a matter of public record. By adopting and publishing comprehensive codes of conduct with specific corporate commitments to human rights standards and environmental protection, and creating a mechanism for independent monitoring and reporting on compliance with these standards, corporations take a giant step in the direction of public accountability and social responsibility.

99. Responsible investors and civil society organizations alike not only expect a greater expression of corporate commitment to socially responsible performance, they also press for increased transparency and participation in corporate structures. As society increasingly demands that companies act responsibly across a full range of social and environmental considerations, Bench Marks sets out social and environmental expectations for responsible corporate conduct against which business performance can be measured and reported. Bench Marks is used to examine how companies behave in relation to: ecosystems; international, local and indigenous communities in which they operate; workplace conditions and employee issues related to women, minority groups, people with disabilities, child labour and forced labour; suppliers, shareholders, joint ventures/ partnerships/ subsidiaries, customers and consumers; and financial and ethical integrity.

100. Each section of Bench Marks contains Principles, Criteria, and Bench Marks that relate to all categories of corporate citizenship – ecosystems, communities, labour, women, children and minorities, suppliers, finances, and shareholders. For the purposes of the Bench Marks, principles are statements a business makes, outlining philosophies meant to ensure its company actions will be responsible. Criteria relate to a company's policies and practices, which allow a comparison to be made to its Principles for conformity. Bench Marks then become meaningful reference points upon which to measure a company's performance in relation to the Criteria. In 2000, one of the three founding members of the Bench Marks, the Task Force of Churches for Corporate Responsibility (TCCR) conducted a review of eight Canadian corporations to see whether they measure up to the Bench Marks. According to the review, none of the examined companies, in practice, has attained an acceptable level of corporate social and environmental responsibility as outlined in the Bench Marks framework.

101. All companies appear, however, to have taken some measures to become socially and environmentally responsible. The voluntary adoption of social and environmental responsibility practices varies so widely among the corporations studied that the effectiveness of voluntary codes of company conduct, as a mechanism which leads to higher levels of corporate responsibility, is put in question. As a form of voluntary or non-regulatory initiatives, self-regulated codes of conduct, while perhaps necessary, are inadequate if left as the only accountability instrument for social and environmental considerations. Their effectiveness as an alternative to state regulation needs to be better demonstrated.

102. The TCCR study concluded that if the state of corporate responsibility in Canada is to

improve, additional concrete steps need to be taken by corporations:

- · improvements in the comprehensiveness of issues considered in a code;
- · better code implementation strategies across the full network of company operations;
- · systems for internal monitoring, non-compliance reporting, and "whistleblower" protection among others need to be introduced;
- · external verification or independent monitoring of company performance; and
- · the issuance of public, periodic reports to the full range of stakeholder bodies.

While some important changes have occurred and some companies have demonstrated leadership, corporations in Canada still have a long way to go in achieving commitment, implementation, and transparency in key areas of corporate social and environmental responsibility.

II.5.6 *The Global Sullivan Principles* [118]

103. The Global Sullivan Principles were developed by the Reverend Leon Sullivan, the late U.S. anti-apartheid activist. The objectives of the Global Sullivan Principles are to support economic, social and political justice by companies where they do business; to support human rights and to encourage equal opportunity at all levels of employment, including racial and gender diversity on decision making committees and boards; to train and advance disadvantaged workers for technical, supervisory and management opportunities; and to assist with greater tolerance and understanding among peoples; thereby, helping to improve the quality of life for communities, workers and children with dignity and equality. A large number of organizations have endorsed the principles.

104. Each endorser of the Global Sullivan Principles makes a commitment to work towards the aspiration that all of the Principles represent, including the implementation of internal policies, procedures, training and reporting structures. Endorsing companies and organizations are asked to take part in an annual reporting process to document and share their experiences in bringing social responsibility to life. The reporting format has been designed to be flexible, transparent and easy to complete. All reports submitted will be made available on the Global Sullivan Principles website.

II.5.7 *Ethics Compliance Standard 2000 -- Business Ethics and Compliance Research Center*

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[118] Information derived from: **www.globalsullivanprinciples.org**

at Reitaku University (Japan)[119]

105. Although the need for effective systems of business ethics and compliance is widespread at present, corporations are plagued by the problem of not knowing what sort of system they should employ and develop. Many corporations have developed a code of ethics upon being told that they are necessary, while yet others have introduced external directors to their boards, again at the insistence of third parties. However, such unrelated and often unilateral actions such as these, taken in the absence of a unifying, overall plan have largely proved ineffective. Corporations which, in the absence of an overall plan for the realization of a system of ethical compliance, introduce and enforce ethical plans and legal compliance manuals unilaterally upon their employees, are unlikely to realize a change in their organizational cultures, and may even promote opposition from the organization's members. It is because of this that it is essential to clarify the appropriate direction and form of the ethical-legal compliance management system. The ECS 2000 was developed as an international standard following extensive consultations with experts at various universities, corporations, public accountants, lawyers, auditors, consultants, and accreditation bodies.

106. The ECS2000 is based upon the following two features: first, that organizations should act proactively to prevent unfair business practices and illegal behaviour before they can occur, rather than by relying on whistle-blowing and the subsequent regulatory actions of external authorities; and second, that external feedback and input structures should be developed so that the opinions and ideas of the organization's members can be collected and reflected back into the ongoing process of formulating and realizing ever more progressive ethical goals.

107. The standard is intended as a guide in the creation of an ethical-legal compliance management system; as a check-list in order to test the validity of the organization's ethical-legal compliance management system where one is already in place; and as a means for the organization's self-assessment of the quality of its ethical-legal compliance management standards and as a means for making public these measures and achievements.

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[119] Information derived from: **http://ECS2000.reitaku-u.ac.jp/**

II.5.8 *International Chamber of Commerce (ICC)'s Business Charter for Sustainable Development* [120]

108. To assist businesses around the world in improving their environmental performance, the ICC created this Business Charter, comprising sixteen Principles for environmental management. Sustainable development for the purposes of this document involves meeting the needs of the present without compromising the ability of future generations to meet their own needs. The principles include making environmental management a corporate priority, integrating EM into management, putting in place processes of continual improvement, training employees, engaging in prior assessments before starting activity, developing products and services which do not cause undue environmental impact and are safe, providing customer information re: use and disposal; designing sustainable facilities, engaging in research, using the precautionary approach, promoting the adoption of good practices with contractors and suppliers, being prepared for emergencies, contributing to the common effort, being open, and engaging in environmental compliance and reporting.

II.5.9 *Fairtrade Labelling Organization (FLO)*[121]

109. Fairtrade labelled products such as coffee, chocolate and bananas have been produced and harvested in a manner which maximizes the benefits to the workers in developing countries. In order to generate greater sales on Fairtrade terms for the benefit of many more disadvantaged and marginalized producers it was important to get commercial manufacturers involved, and to get Fairtrade into the supermarket where most people do their shopping. As long as manufacturers agreed to buy from registered suppliers according to Fairtrade criteria their products could carry a Fairtrade seal of approval. In 1988, the Netherlands became the first country to launch the Fairtrade consumer guarantee. Today there are labelling initiatives in 17 countries, mainly in Europe, but also North America and Japan, and the products range now includes coffee, drinking chocolate, chocolate bars, orange juice, tea, honey, sugar and bananas. On sale in most major European supermarket chains, Fairtrade is now available to a much wider public with some

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[120] Information derived from: **http://www.iccwbo.org/home/environment/charter.asp**

[121] Information derived from: **www.fairtrade.net**

Fairtrade products achieving 10% of national market share. In order to co-ordinate the work of the national initiatives and more efficiently run the monitoring programs, an umbrella organization, FLO was set up in April 1997. A central responsibility for FLO is to collect data and ensure the audit of all Fairtrade labelled products from the producer to the supermarket shelf. One of its aims is to see the introduction of a single international Fairtrade label. The national initiatives retain responsibility for marketing and promoting Fairtrade in their respective countries.

110. The Fairtrade criteria differ depending on the product concerned. The Fairtrade label guarantees fair trading relations, and fair production conditions. Fair trading relations include a price that covers the cost of production; social premium for development purposes; partial payment in advance to avoid small producer organizations falling into debt; contracts that allow long term production planning; long term trade relations that allow proper planning and sustainable production practices. For plantations, and factories workers, fair production conditions include decent wages (at least the legal minimum), good housing, where appropriate; minimum health and safety standards; the right to join trade unions; no child or forced labour; minimum environmental requirements. The FLO monitoring program ensures that all the trading partners continue to comply with Fairtrade criteria and the individual producers really do benefit.

II.5.10 *Forest Stewardship Council's Sustainable Forestry Program* [122]

111. The Forest Stewardship Council (FSC) is an international, independent, non-profit, non-governmental organization. The FSC promotes responsible forest management globally by certifying forest products that meet the FSC standards. The FSC standards encourage environmentally appropriate, socially beneficial and economically viable management of the world's forests. FSC's Principles and Criteria are the basis for defining responsible forestry and for evaluating and accrediting certifiers. Consumers purchasing products bearing the FSC label can be assured that their wood product comes from a forest that has been responsibly managed to FSC standards. The organization brings industry, environmentalists, and community groups together to promote practical solutions that meet its diverse stakeholders' needs. The organization was founded in 1993 by environmental groups (Greenpeace International and various branches of the World Wide Fund for Nature), the timber industry, foresters, indigenous peoples and community groups from 25 countries. FSC has endorsed national contact persons

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[122] Information from: **www.fscoax.org** and
http://fscus.org/html/about_fsc/who_we_are/history_of_fsc.html

and national working groups in 40 countries creating a global FSC network. These individuals and working groups are responsible for coordinating national FSC initiatives and developing regional forest management standards. FSC is a membership organization with nearly 300 members from over 40 countries. Membership is open to a wide range of organizations and individuals representing social, economic and environmental interests. Membership voting is structured to provide equal balance between environmental, social and economic interests. The membership elects the FSC Board of Directors - nine individuals representing a balance of social, environmental and economic interests.

112. FSC's scheme is described on its website as based on specified performance standards that need to be met by the forest operation before a certificate is issued. "The environmental management system standard from ISO (ISO 14000-series) is a process standard. It specifies how a company's management system must be organized to address environmental aspects and impacts of its operations. ISO certification does not result in a product label. FSC and ISO are fully compatible and can be complementary. ISO standards can provide the framework and control mechanisms for the management system, within which the FSC standards serve as the target performance level. The FSC accreditation system is based upon the relevant ISO-guides." Over 24 million hectares of forests have been certified to FSC standards around the world.

II.6 Domestic Voluntary CR Initiatives (selected)

II.6.1 *U.S. Apparel Industry Partnership/Fair Labor Association*[123]

113. The Fair Labor Association (FLA) is a nonprofit organization established to protect the rights of workers in the United States and around the world. The FLA Charter Agreement creates a first-of-a-kind industry-wide code of conduct and monitoring system. The agreement lays the foundation for the creation of an independent monitoring system that holds companies publicly accountable for their labour practices, as well as those of their principal contractors and suppliers around the world. The FLA accredits the independent monitors, certifies that companies are in compliance with the Code of Conduct, and serves as a source of information for the public.

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[123] Information derived from: **www.fairlabor.org**

114. In Central America in particular, major US brand-name apparel companies, such as Gap and Liz Claiborne, have begun to recognize the added credibility that can be gained by involving southern non-governmental organizations in external monitoring of selected supply factories.[124] In March 2001, the Guatemalan Commission for the Monitoring of Codes of Conduct (COVERCO) became the first southern NGO to be accredited to carry out external monitoring in Guatemala for companies affiliated with the FLA. COVERCO has participated in a monitoring pilot project at one factory for Liz Claiborne, and is carrying out monitoring at Gap factories. COVERCO was also contracted by Starbucks to carry out an investigation of working conditions in coffee plantations producing coffee for that company. Although the FLA has been criticized for the lack of transparency in its external monitoring program, COVERCO has been successful in setting conditions for its participation, establishing its co-ownership of information from monitoring and its right to publish pertinent information from monitoring reports. Since becoming FLA accredited, COVERCO has been in discussions with other FLA member companies about carrying out external monitoring in their Guatemalan supply factory.

115. The involvement of communities and NGOs in the monitoring of compliance with CR-oriented codes represents an innovative approach to compliance verification which may simultaneously serve to increase ties with local communities, empower local organizations, and potentially represent an alternative or supplement to conventional commercial third party audits.[125] It may be of particular value in developing countries.[126]

II.6.2 *U.K. Ethical Trading Initiative (ETI)*[127]

116. The ETI is an alliance of U.K. companies, non-governmental organisations (NGOs), and trade union organisations committed to working together to identify and promote ethical trade - good practice in the implementation of a code of conduct for good labour standards (labour standards), including the monitoring and independent verification of the observance of ethics code provisions, as standards for ethical sourcing.

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[124] The following is derived from the Maqulia Solidarity Network's November, 2001 Code of Conduct memorandum at: http://www.maquilasolidarity.org/resources/codes/memo9.htm

[125] The involvement of NGOs and communities in compliance verification has also been used in environmental contexts in developed countries, e.g., the Canadian Chemical Producers' Association's Responsible Care program: see J. Moffet, F. Bregha, and M. Middelkoop in "Responsible Care: A Case Study of a Voluntary Environmental Initiative," in K. Webb, ed., *Voluntary Codes: Private Governance, the Public Interest and Innovation* (Ottawa: Carleton University Research Unit for Innovation, Science and the Environment, 2002), Chapter 6.

[126] See, e.g., J. Bendell, *Towards Participatory Workplace Appraisal: Report from a Focus Group of Women Banana Workers* (London: New Academy of Business Occasional Paper, September, 2001). This report is available at: **http://www.new-academy.ac.uk/bananas/tpwa.pdf**

[127] Information derived from: **www.ethicaltrade.org/**

117. Members, including multinational companies (multinational corporations) or transnational companies (transnational corporations) are committed to business ethics and corporate responsibility, promotion of worker rights and human rights in general. In employment, ethical business includes working towards the ending of child labour, forced labour, and sweatshops, looking at health and safety, labour conditions and labour rights.

II.6.3 *International Code of Ethics for Canadian Businesses*[128]

118. The International Code of Ethics for Canadian Businesses was established in 1997, drafted by a coalition of Canadian companies and endorsed by the Minister of Foreign Affairs. The federal government sponsored the discussions among the business and human rights groups leading up to the Code. Code provisions pertain to promotion of human rights in areas where companies have influence, anti-bribery and corruption, protection of worker health and safety, anti-child labour, involvement of local communities in company activities, and protection of the environment. The Code was spearheaded by a Canadian resource company, Canadian Occidental Petroleum, and was also supported by Alcan Aluminium and Shell Canada, as well as several major industry associations. The signatories are committed to implementing the code's vision through the development of operational codes and practices that are consistent with the vision, beliefs, values and principles contained in the document.

II.6.4 *The Corporate Social Responsibility Benchmarking Project*[129]

119. The Conference Board of Canada's Canadian Centre for Business in the Community and the Canadian Centre for Philanthropy's Imagine initiative are jointly developing a CSR Benchmarking Project to help promote measurement of a company's performance in CSR. The Project consists of measures in five areas of corporate social and environmental responsibility:

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[128] Information derived from: J. Sallot, "Ottawa takes middle road on ethics," Toronto *Globe and Mail* 09/01/1997. Code can be found at: http://www.cdp-hrc.uottawa.ca/globalization/busethics/codeint.html

[129] Information derived from: "The Corporate Social Responsibility Benchmarking Project," Project Outline (June 2001), downloadable from **www.conferenceboard.ca**

(1) corporate governance and management practices (including ethics);

(2) community involvement;

(3) human resource management practices;

(4) environment, health and safety; and

(5) human rights.

120. The project has three stages. In the first stage (completed in 2001), the CSR benchmarks identified in the Conference Board's report Corporate Social Responsibility: Turning Words into Action are to be reviewed and expanded to include benchmarks in environmental stewardship and human rights. Other major voluntary code initiatives and benchmarks developed by the United Nations and the Organization for Economic Cooperation and Development have been considered. A Business Advisory Group of senior representatives from leading Canadian companies is guiding the project and is participating in testing the CSR measures in their own organizations with the assistance of on-site counselling support. A national multi-stakeholder consultative process has provided input on the benchmark model. In the second stage (to be completed in 2002), the new CSR Benchmarks will be launched and training programs will be developed. In the third stage (to be completed by the end of 2003), the project will move on to focus on evaluation and ongoing development of the benchmarks.

II.7 Analysis of Existing CR Initiatives

121. As the above discussion suggests, there are a wide variety of initiatives currently in place or proposed which pertain to some aspect of corporate responsibility. On the positive side, what seems to emerge is the following:

(1) there is an identifiable set of public law normative international obligations in place pertaining to environment protection, human rights, and worker protection, which forms the basis of substantive CR obligations. At first instance, these obligations apply directly to those member-states which have ratified the conventions and treaties in question, and then indirectly to firms.

(2) there are a growing number of inter-governmental voluntary CR initiatives in place, including the U.N. Global Compact and the OECD Guidelines for Multinational Enterprises. These initiatives can be seen as a "soft law" component of the international normative CR framework. Increasing attention is being placed on implementation and compliance verification activities associated with these initiatives.

(3) across a number of jurisdictions, there are an increasing number of domestic legal initiatives pertaining to corporate responsibility, many of them with an investment-disclosure or shareholder rights focus, which are and have been used to obtain better transparency concerning the CR aspects of firm operations.

(4) in a number of jurisdictions, governments are supporting voluntary domestic CR initiatives which are attracting considerable attention and support from industry and NGOs.

(5) the investment community is developing indexes and funds specifically pertaining to ethical, environmental, and socially positive behaviour of firms, and preliminary evidence suggests that firms which score well in terms of these indices are often performing well financially. An increasing number of pension funds appear to be developing CR filters and engaging in shareholder activism.

(6) there are a number of CR-oriented initiatives which have a particular consumer focus, demonstrating how consumer demand can be a market driver for firms to adopt CR practices. Several are using NGO or community verification in addition to or in lieu of third-party professional verification.

(7) standards bodies in a number of jurisdictions have developed or are developing CR-oriented initiatives, pertaining to such issues as investment, management, corporate philanthropy, as well as environmental and worker protection.

(8) many of the CR initiatives examined have significant developing country dimensions and impacts, acting as supplements to governmental initiatives. In some cases, developing country NGOs are playing roles in compliance verification.

(9) the development of CR charters, principles, and other instruments by multi-industry bodies, and endorsements of these by a large number of firms provides more evidence that the private sector is engaged and attempting to respond to pressures for accountable and transparent CR practices, both at the international and domestic levels.

(10) methods of ensuring meaningful stakeholder engagement have been developed and are gaining recognition as essential aspects of effective corporate responsibility responses.

122. But while these points all speak to a positive, harmonious momentum developing behind corporate responsibility, a review of the initiatives in place suggests that there is a tremendous range in quality, content, comprehensiveness, and operability among them. More particularly, the initiatives have:

- variable scope (e.g., some just pertain to workers, some just pertain to communities, some pertain to the environment, some pertain to consumers);

- variable levels of inclusivity and engagement of stakeholders, and variable levels of transparency in code and standards development, affecting the quality of the codes and standards themselves;

- variable content (e.g., the obligations on the same subject may differ from one to the other);

- variable ability to measure and ensure compliance from one to the other;

- variable flexibility in addressing differing operating contexts (from country to country and industry to industry);

- variable compliance verification approaches;

- variable infrastructure to ensure consistent treatment from one jurisdiction to another;

- variable quality of implementation and reporting;

- variable emphasis on systems to operationalize substantive CR obligations;

- variable quality and credibility of CR initiatives, and associated CR claims.

123. As a result, even good efforts to be socially and environmentally responsible may suffer in the confusing sea of variable quality initiatives. The proliferation of initiatives has been characterized by some in the business community as "a counter-productive distraction that should be ignored,"[130] because the initiatives "are too numerous, onerous, inefficient, and generate a welter of confusing standards that are difficult to manage; were drafted with little or no input from the business community; do not approach the issues from a process or management system point of view..."[131] If the existing initiatives are too numerous, onerous, inefficient, confusing, not drafted with input from the business community, and do not approach the issues from a process or management system community, consumers and other demand-side interests are then put in the position of not possessing credible tools for distinguishing good corporate citizens from their counterparts. The overall effect is to discourage businesses from engaging in CR activities, and consumers and others from trying to reward good behaviour.

124. In many ways, the current situation can be likened to a "first generation" phase of CR, where there has been a rich but largely ad hoc proliferation of approaches put forward, some effective and practical, some less so. A strong argument can be made that an evolution to a second stage of realization of CR objectives is now underway, which is more sophisticated, systematic and sustainable. The U.K. SIGMA Project is perhaps the best example of an integrated "second generation" approach to CR, although it has only a single country focus. Emerging from the foregoing analysis, it would appear that effective approaches to CR involve five fundamental elements:

(1) identification and selection by a firm of relevant substantive CR norms and principles;

(2) techniques for engaging the full range of stakeholders impacted by a firm's activities in firm-level CR development and implementation approaches;

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[130] This is an articulation of the case against "citizenship codes and guidelines" provided in the U.S. Conference Board publication , "Business Conduct Codes: Why Corporations Hesitate," January 2002 (Executive Action No. 13), at p. 3.

[131] Ibid. The publication goes on to note that these "citizenship codes and guidelines" also "may lead to third-party certification that is costly without added value." This point is discussed below.

(3) processes and systems to ensure effective operationalization of CR commitments and objectives, and measurable, verifiable results;

(4) techniques for verification of progress toward CR commitments and objectives;

(5) techniques for stakeholder and public reporting and communication.

An effective approach to CR will necessarily involve all five elements, and will also be flexible and practical so that it is usable by a wide range of firms operating in widely divergent environments. It is probably self-evident that there is a certain amount of overlap between each of these elements. Thus, for example, identification and selection of relevant substantive CR norms and principles by any particular firm is an exercise that is likely to be conducted with the close involvement of the full range of the firm's affected stakeholders, in order to ensure that the commitments and objectives are relevant and appropriate to the circumstances of the firm. Similarly, if the system for operationalization is designed from the outset with stakeholder input to produce verifiable results, this may affect decisions concerning verification of progress, and techniques for reporting and communication.

Part III – The Possible Contribution of ISO to Effective Global CR Practices

III.1 ISO CR Management Systems Standards (MSSs): One Piece of the Puzzle

125. Analysis in Part II suggests that more systematic approaches to CR are now beginning to emerge, which draw on the wide range of initiatives and institutions which are available, yet respect the need for flexible, practical approaches which have global acceptance and credibility. As an institution, it is perhaps self-evident that ISO is not as well suited to address the issue of articulation of global substantive CR norms as other bodies, such as the United Nations and its agencies, through its human rights, environmental protection and Global Compact initiatives, the Organization for Economic Cooperation and Development through its Guidelines for Multinational Enterprises, and the International Labour Organization through its Conventions and Declarations. Needless to say, any work ISO might do in the area of CR should draw on and encourage the application of global substantive CR norms set by the UN, the OECD, the ILO and other respected international norm-making bodies, and ISO would need to work closely with these bodies.

126. While ISO may not be well positioned to take a leadership role in articulation of global substantive CR norms, it is very well placed to provide more process oriented management system standards[132] pertaining to CR, drawing on the experience, infrastructure, and widespread

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[132] When a draft version of this report was circulated for comment, several of those who responded suggested that the option of ISO CR MS *guidance documents* or other ISO instruments (e.g., technical specifications, workshop agreements, technical reports) might be preferable to ISO CR management systems *standards*, and that these options should be explored in greater depth in the report. At the outset, it is important to note the implicit support evident in these comments for *some* form of ISO CR management systems instrument. The Working Group wishes to emphasize that its mandate for work in this area was specifically and explicitly focussed on the desirability and feasibility for ISO corporate social responsibility *standards*. Moreover, the Working Group has a preference for the ISO CR MSSs because it views the ISO CR MSS approach as being a fully compatible

usage of ISO 9000 (quality) and ISO 14000 (environmental) management standards. Given the fact that more than 130 countries are members of ISO, including a wide range of developing countries, ISO is the logical global forum for the development of CR management system standards.

127. As discussed earlier, ISO quality and environmental management system standards do not set prescriptive, substantive obligations, but provide practical frameworks for operationalizing quality and environmental requirements, ensuring that such operationalization takes place in a transparent, systematic, coherent, credible manner, thereby facilitating communication of quality and environmental results, with the option of third part compliance verification where necessary. ISO management system standards pertaining to CR would not be a complete solution, but would be an important building block for firms wishing to implement a package of corporate responsibility initiatives, when aligned with international substantive norms, principles, laws and

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addition to the ISO 9000 and 14000 management systems standards approach, with the same status, profile, and operational objectives as ISO 9000 and 14000 MSSs. The Working Group views ISO CR MSSs as the "third generation" of ISO management systems standards, following the first generation quality MS standards and the second generation environmental MS standards. All this having been said, the Working Group agrees that a more thorough exploration of other ISO instruments is appropriate. It is possible, for example, that ISO MS guidelines could be developed more quickly than standards (and later converted to standards), and this would be a significant advantage. Therefore, the Working Group would support such an exploration of other ISO instruments, on the understanding that the Working Group prefers the ISO CR MSS approach, and that those ISO instruments which could be converted into standards at some later time should be given particular attention. Time and resources have not permitted such an exploration from being undertaken as part of this report.

codes, reporting systems. The existing ISO 9000 quality and ISO 14000 environmental management systems standards lay out the intellectual groundwork for ISO CR management system standards, could be fully integrated with such CR standards, and are backed up by a credible and known international infrastructure for rule development coupled with a global infrastructure to ensure professional third party compliance verification, where appropriate.

128. The close to ½ million ISO 9000 and ISO 14001 certificates currently issued to operations around the world provide an immediate base of potential clientele that would be in a position to adopt ISO CR management system standards to their existing ISO 9000 and ISO 14000 operations. ISO CR management system standards could be used in conjunction with a normative framework of codes, standards, principles, laws and other instruments which could provide the substantive content to meet the needs of a particular company in a particular operating circumstance.

129. The ISO management system approach provides considerable flexibility, so that each firm could tailor its CR approach and operations to its specific and unique situation. Thus, for example, the substantive obligations and associated CR management system for an apparel factory operating in a Latin American country would likely be quite different from that of a resource extraction company operating in the Middle East, which in turn is likely to be markedly different from the CR approach of a toy factory in an Asian country, a pharmaceutical company operating in Europe, or an automobile manufacturer in North America.

130. ISO CR management systems standards (MSSs) would necessarily "build on" the foundation of ISO 9000 and 14000 standards, and be fully integrated with them, and in this regard both ISO as a rule-making organization with experience in management systems standards, and individual firms which have already implemented ISO 9000 and ISO 14000 MSSs, have considerable momentum going in their favour (and potential cost-savings). All this having been said, however, it is worth emphasizing several significant unique features of ISO CR MSSs which distinguish them from ISO 9000 and ISO 14000 MSSs -- unique features which would need to be included in development of ISO CR MSSs for them to be effective and credible:

> (1) at the ISO level, the "outwards," societal-orientation of CR (as opposed to the internal focus of conventional MSSs), and the considerable impact of CR activities on developing countries are distinctive elements necessitating that CR standards development at the Technical Committee (and below) level involve full and meaningful input from a range of civil society actors and NGOs in developed and developing countries if the ISO CR MSSs are to be credible. Current efforts to more fully involve environmental NGOs in the development of ISO EMSs are a start, but considerably enhanced and diversified civil society participation would be necessary for CR standards development;

> (2) at the firm level, once the ISO CR management systems standards are published, each firm will need to articulate and implement a range of "outward looking" substantive public policy oriented obligations, drawing on a range of international and domestic

compacts, declarations, principles, codes and other instruments which may or may not be enshrined in law. This outward focus and need to draw on international norms is considerably different from conventional quality and environmental MSSs;

(3) at the firm level, the meaningful involvement of a firm's full range of stakeholders in both articulation of a firm's substantive CR commitments, and in implementation (including monitoring and verification) is essential to the success of a firm's CR approach. Again, this need for involvement of a diverse range of external stakeholders who do not necessarily have a commercial relation to the firm is quite different from conventional quality and environmental MSSs;

(4) at the firm level, regular, ongoing communication with and input from the full range of a firm's stakeholders and the general public is essential to the ongoing success of a firm's CR approach. This sort of ongoing involvement, communication and dialogue with external stakeholders and the public is not common with conventional quality and environmental MSSs;

(5) at the firm level, there may need to be involvement of a firm's stakeholders in compliance verification activities (e.g., workers, NGOs, community members). This stands in contrast with reliance on professional third party certification and auditing associated with conventional quality and environmental ISO MSS compliance verification activities.

Thus, while ISO as an institution may have a head start in terms of its existing quality and environmental management systems standards activity, and firms which have put in place ISO 9000 and ISO 14000-compliant MSSs may also have momentum, it should be clear that both development of CR MSSs by ISO, and implementation by individual firms, represent new and unchartered waters for ISO and for ISO 9000 and ISO 14000-compliant firms.

131. As is apparent from the above discussion, at a firm level, two fundamental and distinctive precepts concerning stakeholder engagement underlie successful development and implementation of an ISO CR MSS approach:

(1) early, meaningful and ongoing *stakeholder engagement* with the full range of parties involved in and affected by a firm's activities; and

(2) *transparent, accountable reporting* to and ongoing dialogue with affected parties and the greater community.

These two aspects of the ISO CR MSS approach are pre-requisites for the creation of an environment of trust, openness and genuine commitment for CR activities among a firm's stakeholders and the greater public.

132. Where a firm follows ISO CR MSS prescriptions so as to create verifiable, measurable results, fully involves its affected stakeholders in articulation and implementation of its CR approach, and communicates both this involvement and the firm's performance in meeting its CR objectives to its stakeholders and the broader community, its communications on CR matters

should carry considerable weight. If these conditions are met, self-declarations by firms about compliance with ISO CR MSSs are likely to be credible. Self declaration enables firms to implement CR at a lower initial cost than third-party professional accreditation and auditing, thus increasing the attractiveness of such standards to the full range of firms operating in developed and developing countries. Because the ISO CR MSS approach is specifically predicated on the notion of measurable verifiability, firms which did not initially use the services of third party verifiers would have the option of engaging in such verifications at some later point, if the firms could justify such third party verifications in light of cost, competitiveness, risk, credibility and other factors.

133. The ISO CR MSS approach gives firms, whether small, medium or large, the flexibility to devise the appropriate CR management system to their operations, and have some assurance that the approach adopted would be tested, effective, credible, and verifiable. The ISO CR management system standards offer the advantage of operational flexibility which flows from their non-substantive base, balanced with the credibility flowing from use of measurable, verifiable standards and meaningful stakeholder engagement.

134. As part of the exploration of the feasibility and desirability of ISO CR MSSs, below is discussion of the value of international CR standards, the value of ISO as the body to develop those standards, the business benefits of ISO CR MSSs, a developing country perspective on ISO and CR MSSs, consumer benefits of ISO CR MSSs, non-consumer civil society benefits, regulatory benefits, and investor/shareholder benefits of ISO CR MSSs. This is followed by discussion of arguments against ISO CR MSSs, responses to those arguments, a look at some outstanding issues, and then a brief description of what ISO CR MSSs might look like.

III.2 Why Have International CR MSSs?

135. International CR MSSs developed through formal, "rules-based" processes, such as those used by ISO, have a number of notable features:

— international standards provide globally accepted benchmarks and criteria for businesses and their stakeholders, enhancing clarity and certainty about acceptable management systems practices, regardless of location;

— in a global market, consumers and other stakeholders may have increased confidence that their interests will be protected when businesses adhere to the requirements of international standards;

— in the context of corporate responsibility, international standards facilitate the development of common management systems approaches across jurisdictions where currently divergent approaches may exist between countries;

— in keeping with WTO commitments which stipulate that national/regional standards are to be based on international standards, international standards help to promote equal opportunities in cross-border trade;

— while directed primarily at global, cross-jurisdictional corporate activity, international CR

standards are also of value within countries as an adjunct to regulatory approaches, especially where protection is less than comprehensive;

— international standards bodies such as ISO are built on an infrastructure encompassing both national standards systems and international components, facilitating the evolution of the development of national standards into international standards, and the adoption and implementation of international standards as national standards. This is particularly relevant in the case of CR standards, since there already exist certain domestic standards pertaining to aspects of CR which can be drawn on in the development of international standards.

In all these respects, international CR MSSs are well positioned to promote growth, consumer confidence and competitiveness in the global marketplace.

III.3 Why *ISO* CR MSSs?

136. ISO is an appropriate international institution for the development of international CR MSSs because:

— ISO has a proven track record at producing market-based and market-accepted standards, including the 9000 (quality) and 14000 (environmental) series;

— ISO standards provide voluntary, baseline rules, which can be adopted by governments, businesses, and others, but which do not prevent governments, businesses, or others, from putting in place more rigorous protections as they see fit;

— the ISO standards development process is a rules-based (i.e., non-arbitrary) system, in which participants (representing consumer, business, and other interests, from developed and developing countries) reach decisions on the basis of the principle of consensus, and through which the draft standards are subject to consultation. Meaningful and balanced participation of all stakeholders is essential to the standards being perceived as credible in the marketplace;

— WTO has recognized the important role of international standards in contributing to equal opportunities in cross-border trade.[133] Several jurisdictions have incorporated ISO 14001 standards requirements into their environmental protection regulatory system.[134] This of course, is their sovereign right. Because ISO 14000 standards were developed in an open, transparent manner, with opportunities for all 130 member countries to participate in their articulation, the use of such standards in regulations is less likely to

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[133] See generally discussion in K. Webb and A. Morrison, "The Law and Voluntary Codes: Examining the 'Tangled Web'" in K. Webb, ed., ***Voluntary Codes: Private Governance, the Public Interest and Innovation*** (Ottawa: Carleton University Research Unit for Innovation, Science and the Environment, 2002) Chapter 5, esp. pp. 147 - 156.

[134] Ibid., at pp. 132 - 133.

prevent firms from participating in any particular market than would be the case if each country were to devise its own specialized requirements for management systems;[135]

—   ISO is one of the only truly international, non-governmental, rule-making organizations which offers participation to a range of stakeholders. ISO is at the apex of an infrastructure for norm development and implementation which extends around the world;

—   ISO has a high profile in the market, facilitating acceptance of its standards by national governments as a basis of or supplement to their regulations, to industry participants and to consumer organizations. This having been said, ISO has a higher profile among business than consumers. Work to explore its consumer profile would be well advised;[136]

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[135] If jurisdictions were to require by regulations that firms be certified as compliant to *any* particular standard, be it a management system standard or not, be it an ISO standard or not, this might make it more difficult for firms which have not received such certifications to participate in that particular market. This may be frustrating and expensive for the firm, but at least if the requirement is to certified as compliant with an ISO standard, there is an assurance that the standard itself was developed in an open and transparent way and is globally acceptable, and that certification is done to globally accepted and specified standards and carried out by certifiers who meet certain professional qualifications.

[136] It is acknowledged that for some firms, adherence to management systems standards such as ISO 14001 provides a useful internal motivation and management approach which has brought little external differentiation in the market and from the demand side. Compliance with such standards may act as a "qualifier" when first obtained and in their early development stages, but may become a "disqualifier" (in the sense that the firm may be viewed negatively if it does not have it, but not "better" if it does) as more companies comply with the standard. Thus, for some firms, a new ISO CR standard may be more useful as a motivator and management tool internally to business than from a consumer perspective. All this having been said, the external, outwards orientation of many aspects of CR may be a source of distinction from the ISO 9000 and ISO 14000 management series. For this reason, work to

explore the consumer profile of ISO management systems standards would be useful.

— ISO offers a cost-effective mechanism for the development of standards, especially where the cost of producing standards by small and/or less developed countries is prohibitive; and

— ISO standards can be adopted as national standards. This is particularly useful for smaller and developing countries.

III.4 Business Benefits of ISO CR MSSs

137. First and foremost, ISO represents a business-friendly forum for the development of standards, with a long reputation for developing practical standards needed by the private sector. If business does not develop CR MSSs in ISO, they will have them developed for them, elsewhere. The potential benefits for business of ISO global CR MSSs are that they would:

---- assist in identifying new market opportunities (through, e.g,. regular engagement with the full range of a firm's stakeholders)

— reduce compliance costs associated with the need to adhere to a range of divergent national initiatives;

— enhance ability for a company to make appropriate risk management decisions concerning CR issues and thereby better compete in the global marketplace;

— promote growth of international trade through enhanced consumer confidence in global market mechanisms;

— provide companies operating in the global market with objective, measurable standards which have had demand and supply side and government input;

— provide companies operating in a competitive environment with the means to internalize CR, thus providing a market advantage;

— assist industry participants to become or remain responsible corporate citizens by providing them with a means of determining whether they conform to accepted norms of good behaviour;

— provide some assurance to industry participants who adopt these standards that they will have a base of consumer support; and

— provide an effective corporate compliance measurement approach.

III.5 ISO CR MSSs and Developing Countries[137]

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[137] The following information from: World Trade Organization Committee no Technical Barriers to Trade document "Developments within the International Organization for Standardization (ISO) that are Related to the Second Triennial Review of the TBT Agreement," (Communication from the ISO) G/TBT/W/158 18 May 2001 (01-

138. Developing countries have a significant voice in ISO, whether this be for matters pertaining to corporate responsibility, or other standards issues. ISO has put in place a number of different programs designed to facilitate developing country participation in the standards development process. Many of the members of ISO are national standards bodies from developing countries, including 30 countries of Africa, more than 20 in the Americas and Caribbean region, over 30 in Asia, and many in Eastern Europe. All member bodies have the right to participate actively in the work of each of the some 200 technical committees and their ~ 600 subcommittees preparing standards in specific technical fields. They are invited to select the committees of interest to their economy, in which they wish to participate and at what level. In choosing to participate actively, member bodies take the commitment to contribute to the technical work, either by attending meetings or by correspondence. However, member bodies also have the option of observer membership under which they receive committee documents, have the right to submit comments and attend meetings without taking a commitment. A member body may choose to neither participate actively nor to observe a given committee in which case it does not have the above-mentioned rights and obligations with regard to the work of that committee. Nevertheless, all member bodies, irrespective of their status within a technical committee, have the right to vote on enquiry drafts and on Final Draft International Standards in the consensus verification phase. Member bodies can decide, at any time, to change their level of participation.

139. The ISO Committee on Developing Countries (ISO/DEVCO) was established in 1961. It is open to all ISO member bodies as actively participating or observer members, and to all ISO correspondent members as observer members. Its objectives are:

> **- to identify the needs and requirements of developing countries in the field of standardization and related areas and to assist them in defining their needs and requirements;**

> **- to recommend measures to assist developing countries in meeting their needs and requirements;**

> **- to provide a forum for the exchange of experience among all ISO members (the last workshop "Facilitating recognition of conformity assessment activities in the 21st century" was held in September 2000 in partnership with ISO/CASCO in Milan);**

> **- to publish and regularly update development manuals (10 manuals published).**

2555).

At the beginning of 2001, 101 ISO members - from both developed and developing countries - participated in the work of ISO/DEVCO (71 as active participants and 30 as observers). ISO/DEVCO services are directed towards the developing country members of ISO (100 Members).

140. To provide the needed services identified by ISO/DEVCO, the ISO Central Secretariat partially supports a Program for Developing Countries that is approved by ISO/DEVCO and endorsed by the ISO Council. The triennial program for 2001-2003, endorsed by the ISO Council in December 2000, includes the following items:

- identification of standardization needs in developing countries;

- preparation and publication of development manuals on topics related to standardization in developing countries;

- training through seminars held in developing and industrialized countries, fellowships and assistance in establishing training arrangements under bilateral and multilateral arrangements;

- training of technical officers for ISO technical committee secretariats;

- sponsorship of participation in ISO standards committee meetings;

- assistance in developing international standards needed by developing countries;

- assistance in documentation and information systems including the use of information and communication technology (ICT) in standardization;

- assistance in the promotion of standards.

In 2000, 24 regional training seminars were organized, two of them in direct cooperation with WTO on Technical Barriers to Trade issues with special emphasis on conformity assessment and its role in world trade. Other topics covered were generic quality and environmental management standards, capacity building for standardization and conformity assessment and upgrading of analytical laboratories. Many "train the trainers" seminars are organized in the various regions and have proven efficient in reaching a broad audience in developing countries. Special priority is allocated to the least developed countries for their attendance at training seminars.

141. While participation of developing countries in the governance of ISO and in the policy development committees can be considered satisfactory, participation of developing countries in the technical work is not. Several initiatives have therefore been taken to improve this situation.

(a)The Forum on Standards Actions in the Global Market (SGM Forum)

The SGM Forum was created in 1999 at the initiative of the ISO President to establish a partnership intended to enhance the cooperation between a group of international organizations representing three broad groups: entrepreneurial organizations (i.e. the private sector), a selected group of UN agencies representing the public sector and the major international standards organizations. The Forum brings together five UN agencies: WIPO, UNIDO, ITC, UNCTAD and UN/ECE, three entrepreneurial organizations: the International Chamber of Commerce (ICC), the Industry Cooperation on Standards & Conformity Assessment (ICSCA), the International Federation for the Application of Standards (IFAN) and the three apex organizations for international standardization (ISO, IEC and ITU). The WTO Secretariat is invited to observe SGM Forum meetings. ISO has called for attractive proposals from its members that could be financed and implemented with the help of the SGM Forum partners. Liaison has been established with the World Bank and the Inter-American Bank. Concrete programs are being developed for developing countries in the Mediterranean and in the Horn of Africa (see next paragraph). An important initiative of the Forum is a web-site containing an electronic database of technical assistance projects in the area of standardization and related matters to enhance coordination of programs. The initiative has been well received and 32 agencies, including some national standards bodies, are involved.

(b)DEVPRO/UNCTAD project to link members from developing countries to Internet

The multi-agency MED 2000 project, implemented by the ISO Program for Developing Countries (DEVPRO) under the auspices of UNCTAD and in collaboration with ILO, ITC and WIPO, is part of a program to stimulate growth and competitiveness of small and medium enterprises of developing countries from the Mediterranean Basin and Horn of Africa. ISO's contribution is to provide assistance to upgrade the standards information services of the national standards bodies, to ensure their communication capacity and to enable online participation in the international standardization process, as well as to provide improved services to the national business sector. Pilot projects are ongoing to promote the use of information technologies. In synergy with the set of participating agencies, there will be a complete range of services for SMEs.

(c)Participation of developing countries in ISO technical committees preparing international standards

The need for an increased participation of developing countries in ISO standards development has been recognized by the ISO Technical Management Board (TMB), the ISO governance body in charge of the coordination, strategic planning and programming of the technical work carried out by the 750 technical committees or

subcommittees. It is recognized that preconditions for increased participation are capacity building and provision of funds for physical participation in committee meetings. At its September 2000 meeting, the TMB decided to investigate the possibilities of more immediate involvement of developing countries in the ISO technical work and established a task force, constituted of TMB and DEVCO members, to address this issue under the convenorship of ICONTEC, Colombia. The task force is invited to prepare recommendations to the TMB to facilitate the participation of developing countries in ISO technical work by, for example, proposing mechanisms that would:

> - increase representation of developing countries in ISO technical bodies;
>
> - increase the number of chairmen and secretaries, from developing countries, of ISO technical committees and subcommittees as well as convenors of working groups; and
>
> - allow twinning arrangements between ISO member bodies in developed and developing countries.

In short, as a forum for international rule making, ISO continues to make considerable efforts to ensure that developing country participation is meaningful, that ISO standards activity respects the unique circumstances, interests and perspectives of developing countries and is relevant to them.

142. The specific benefits to developing countries of ISO CR MSSs include:

— a real opportunity for developing countries to participate in the development of the standards and to thereby ensure that the perspectives of developing countries are considered;

— a real opportunity for developing countries to participate in the implementation of the standards in their jurisdiction, as members of the greater ISO-national standards body infrastructure;

— assurance that those firms operating in developing countries which have put in place ISO CR MSSs are complying with an internationally accepted standard on CR management systems;

— the likelihood that firms complying with ISO CR MSSs will contribute to the economic, environmental and social well-being of the communities in which they operate; and

— the likelihood that firms complying with ISO CR MSSs will implement CR approaches which reflect the specific circumstances of the communities in which they operate.

III.6 Consumer Benefits of ISO CR MSSs

143. First, the ISO process offers real opportunities for the meaningful input of consumer perspectives, through the ISO Consumer Policy Committee and also through participation on Technical Committees, sub-committees and working groups. The potential benefits for consumers flowing from widespread adoption of ISO CR MSSs include:

> ---- use of a practical, internationally standardized approach to CR implementation, offering the prospect of meaningful, verifiable, and measurable claims by firms about progress toward CR objectives;[138]
>
> — increased access to and choice of goods and services produced by firms which practice CR;
>
> — increased level of customer satisfaction with firms which adhere to CR principles in the global market, thus enhancing the consumer-business relationship;
>
> — increased confidence of the consumer that he or she is dealing with a reputable merchant whose system is ISO compliant.
>
> — the prospect of more accurate, verifiable claims, and the potential for broader communication to consumers and others on the CR issue.

III.7 Non-Consumer Civil Society Benefits of ISO CR MSSs

144. First, at the standards development and implementation stage, the ISO process is open and transparent, allowing members of civil society (in both developed and developing countries) the opportunity to participate in shaping its terms and in its operation. The fact that many have so far not done so doesn't take away from the reality that there are no institutional barriers preventing effective civil society participation. One option available under current ISO rules for

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[138] It is important to emphasize that by themselves, the ISO CR MSSs set no substantive CR obligations for firms, but rather create a framework for operationalization of whatever CR substantive obligations a firm wishes to commit to, thereby enhancing the prospect of meaningful, verifiable and measurable claims by firms about progress toward CR objectives they commit to.

participation by civil society organizations in ISO CR standards development which is worthy of further exploration is as a "liaison organization," which would allow organizations to contribute to the work of ISO technical committees or subcommittees.[139] Once ISO CR MSSs are in place, from a civil society perspective, the benefits flowing from firms using ISO CR MSSs include:

— use of a practical, internationally standardized approach to CR implementation, offering the prospect of meaningful, verifiable, and measurable claims by firms about progress toward CR objectives;[140]

— at the firm level, the opportunity for meaningful civil society participation in setting CR commitments and in ensuring that those commitments are met;

— increased level of civil society stakeholder satisfaction with firms which adhere to CR principles in the global market, thus enhancing the civil society-business relationship;

— increased confidence of civil society stakeholders that the are dealing with a reputable merchant whose system is ISO compliant.

— the prospect of more accurate, verifiable claims, and the potential for broader communication to civil society stakeholders on the CR issue.

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[139] See ISO/IEC Directives, Part 1, *Procedures for the technical work* (Fourth edition, 2001), para. 1.17 "Liaison with other organizations."

[140] It is important to emphasize that by themselves, the ISO CR MSSs set no substantive CR obligations for firms, but rather create a framework for operationalization of whatever CR substantive obligations a firm wishes to commit to, thereby enhancing the prospect of meaningful, verifiable and measurable claims by firms about progress toward CR objectives they commit to.

III.8 Regulatory Benefits of ISO CR MSSs

145. First, at a standards development level, governments have the opportunity for meaningful participation in the ISO CR MSS development process. Once in place, the potential benefits to regulatory authorities of private sector use of ISO CR MSSs include the fact that they:

— may act as a useful supplement to regulatory approaches, in that they provide a practical, internationally standardized approach to CR implementation, offering the prospect of meaningful, verifiable and measurable claims by firms about progress toward CR objectives.[141] Thus, for example, ISO CR MSSs would work well with mandatory CR reporting regimes. At the same time, ISO CR MSSs would work well with voluntary CR reporting initiatives;
— regulatory authorities can choose to supplement ISO CR MSS requirements with additional elements as they see fit;
— may assist government in addressing CR issues arising in a cross-border context which are difficult to resolve through conventional legal approaches;
— may enhance the ability of business and consumers to resolve problems by themselves, without the need for early regulatory intervention;
— may facilitate adherence of firms to regulations, thereby assisting regulatory authorities in accomplishing their objectives.

III.9 Investor/Shareholder Benefits of ISO CR MSSs

146. First, at a standards development level, investor and shareholder organizations have an opportunity for meaningful participation in the development of ISO CR MSSs. Once the ISO CR

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[141] It is important to emphasize that by themselves, the ISO CR MSSs set no substantive CR obligations for firms, but rather create a framework for operationalization of whatever CR substantive obligations a firm wishes to commit to, thereby enhancing the prospect of meaningful, verifiable and measurable claims by firms about progress toward CR objectives they commit to.

MSSs are in place, the potential benefits to investors and shareholders flowing from firms using ISO CR MSSs include:

— use of a practical, internationally standardized approach to CR implementation, offering the prospect of meaningful, verifiable, and measurable claims by firms about progress toward CR objectives; [142]

— increased confidence of investors and shareholders that they are investing in reputable firms whose systems are ISO compliant.

— the prospect of more accurate, verifiable claims, and the potential for broader communication to others on the CR issue.

III.10 Arguments Against ISO CR MSSs

147. Drawing on comments made on the ISO CSR Forum, identified below are possible arguments against development of ISO CR MSSs (responses to these arguments follow).

➢ ISO is business-led, and there is little opportunity for civil society to participate effectively in ISO deliberations. As a result, there is little credibility for ISO CR MSSs in the greater community, and therefore there will be little "buy-in" from civil society for proposed new ISO CR MSSs.
➢ Because they are process standards, ISO management standards do not provide any guarantees that particular levels of behaviour will be met.
➢ Because they are designed to be used by firms of all shapes and sizes around the world, global ISO CR MSSs may either be meaningless or too complex to administer.

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[142] It is important to emphasize that by themselves, the ISO CR MSSs set no substantive CR obligations for firms, but rather create a framework for operationalization of whatever CR substantive obligations a firm wishes to commit to, thereby enhancing the prospect of meaningful, verifiable and measurable claims by firms about progress toward CR objectives they commit to.

➤ Because they are designed to operate no matter where a firm operates, global ISO CR MSSs may infringe on national sovereignty.

➤ Global ISO CR standards may put developing countries at a competitive disadvantage.

➤ Self-declaration may diminish the acceptability of the ISO CR MSSs option because of the decreased control over what representations are made, and hence it will decrease the credibility of the ISO CR MSSs approach.

➤ Once ISO CR MSSs are in place, firms that do not seek third-party certification will be at a competitive disadvantage.

➤ ISO CR MSSs will provide a false assurance of CR to a firm's stakeholders, since there are no substantive CR obligations included in the proposed ISO CR MSSs.

➤ The substantial costs of development, certification and implementation of ISO CR MSSs will far outweigh any added value to a firm.

➤ Many companies are already operating as good corporate citizens, pursuant to programs that include performance obligations, and with existing structures in place to manage their corporate responsibilities. An ISO CR MSS will simply be another initiative among many existing ones.

➤ Better results could be achieved through a transparent CR reporting and monitoring mechanism.

➤ Generic global ISO CR MSSs may risk reducing clarity through their effort to apply to all types of firms.

➤ Before any new management systems standards are developed they must meet the requirements of ISO Guide 72 (which essentially requires that a strong business case be made before a new technical activity is undertaken). ISO CR MSSs are unlikely to be successful in meeting the requirements of ISO Guide 72.

III.11 Responses to Arguments Against ISO CR MSSs

148. Below are responses to the arguments against ISO CR MSSs:

➤ *ISO is business-led, and has little credibility outside the business community.* The fact that ISO is business-led can be viewed as an advantage or a disadvantage. It is an advantage in the sense that, when an ISO standard has been developed, there is a strong likelihood that it will be considered acceptable to the business community and therefore be used by the business community. After all, there would be little value in developing a set of standards which looked great on paper but were not used. Some of the existing CR programs can be characterized in this way, with less than 100 firms using the program. The fact that close to half a million operations have received ISO 9000 or ISO 14001 certificates is a significant potential base of businesses who would be in a good position to adopt ISO CR management standards. All this having been said, it is clear that the ISO standards development process must be fully open and accessible to the range of non-business civil society actors in developing and developed countries in order to ensure that their viewpoints are factored into

development of the standards, and to ensure that the resultant standards are perceived as credible. This is new territory for ISO -- territory which was first encountered in a limited way through the ISO 14000 standards development process. ISO has shown a willingness to learn from the ISO 14000 experience, and if it continues to show a willingness to adjust its processes to embrace and foster the input of non-business civil society (from developed and developing country) interests, the resultant standards should be both more effective and more credible. Civil society organizations must also take the initiative to become involved at both a national and international level to ensure that the standards are as effective as possible. While not perfect, the ISO standards development process attempts to be open, transparent, accessible, and accountable, thus giving civil societies the opportunity to participate if they want to. One option available under current ISO rules for participation by civil society organizations in ISO CR standards development which is worthy of exploration is as a "liaison organization", which would allow organizations to contribute to the work of ISO technical committees or subcommittees.

➢ *Because they are process standards, ISO management standards may not provide any guarantees that particular levels of behaviour will be met.* It is absolutely correct that, by themselves, there is no assurance that process standards will guarantee any particular CR result. That is why ISO CR standards should be viewed as part of the CR solution, as a building block for such a solution, but not as a complete answer. It will be necessary for firms using the ISO CR management approach to work closely with the full range of stakeholders affecting their operations to devise the appropriate substantive obligations, and to draw on the appropriate existing codes and other instruments in tailoring their ISO CR approach to their operations. Public disclosure of a firm's CR objectives, the process for achieving those objectives, and progress towards meeting those objectives at both the local community and the general public levels, will be essential to the proper functioning of the ISO CR standards.

➢ *Because they are designed to be used by firms of all shapes and sizes around the world, global ISO CR standards may either be meaningless or too complex to administer.* While neither ISO 9000 nor ISO 14000 series of management standards are perfect, they do provide solid evidence that it is possible to devise global management standards that are neither meaningless nor too complex. ISO CR management standards would draw on this experience.

➢ *Because they are designed to operate no matter where a firm operates, global ISO CR MSSs may infringe on national sovereignty.* In fact, as demonstrated by the experience with ISO 9000 and ISO 14000 standards, ISO CR standards would be designed to operate in a manner compatible with local operating conditions, including local laws and customs. This does not mean that firms would not put in place requirements which may exceed those found in local

laws and customs. They would do so when this was found to be appropriate to the firm's range of stakeholders, and as such full respect would be given for national sovereignty.

➢ *Global ISO CR MSSs may put developing countries at a competitive disadvantage.* An important motivation for firms to put in place an ISO CR MSSs approach is to gain a competitive advantage. ISO CR MSSs give firms the tools to operationalize CR within a firm's operations and to demonstrate CR to a firm's stakeholders. Because the ISO CR MSSs approach is voluntary, and tailors a firms operations to its operating conditions, it is difficult to see how it could put a firm at a competitive disadvantage. It will be necessary to ensure that developing countries participate fully in the ISO standards development process so that their perspective is fully reflected in the terms of the standard, and that developing country firms are not faced with prohibitive costs associated with implementation.

➢ *Self-declaration may diminish the acceptability of the ISO CR option because of the decreased control over what representations are made, and hence it will decrease the credibility of the ISO CR approach.* The process of stakeholder engagement and the requirement of transparency and accountability associated with the ISO CR management system approach is designed to create an environment of trust, openness and genuine commitment which may diminish the need for third party verifications. Due to its expense, a requirement that all firms must from the outset undergo some form of third party verification is likely to discourage many firms from putting in place a good CR system, particularly small and medium sized firms. Giving firms the option of third party verification allows them to use such approaches as demand and finances allows. In the meantime, firms which self-declare to the ISO CR approach have verifi*able* systems, and as such could draw on the services of third party auditors if challenged or if stimulated to do so to gain market advantages (e.g., to gain contracts as suppliers).

➢ *Once ISO CR MSSs are in place, firms that do not seek third-party certification will be at a competitive disadvantage.* This is a little bit like the drinking-milk-leads-to-coffee-leads-to-alcohol-leads-to-heroin argument. It is true that drinking milk can lead eventually to the use of heroin. It is equally true that firms that simply self declare may at some point be at a disadvantage compared with their competitors which have third party certification. The decision to go to third party certification will be one each firm makes, on the basis of the financial and other benefits and drawbacks associated with third party certification. For many firms, the decision to move to third party certification may be prompted by the prospect of access to large contracts where the contractor requires third party certification. At that point, it may be competitively advantageous to engage in third party certification. Firms which are already compliant with the ISO CR MSS will be able to move to third party certification much more quickly than those starting from nothing. They will have a competitive advantage over their competitors that have not put in place a management system consistent with ISO CR MSSs specifications.

➢ *ISO CR MSSs will provide a false assurance of CR to a firm's stakeholders, since there are no substantive CR obligations included in the proposed ISO CR MSSs.*

It is true that by and of itself, ISO CR MSSs offer no assurance of any particular level of CR performance. For this reason, the ISO CR MSSs should be looked upon as a necessary building block of a firm's CR approach, but not sufficient in and of itself. As noted earlier, it is essential for a firm adopting ISO CR MSSs to work with its stakeholders to articulate its substantive CR commitments, drawing on the norms and principles set out by bodies such as the UN, OECD and ILO, as well as those set out in domestic legislation. Firms will also need to work with their stakeholders to ensure effective implementation of their CR commitments and targets, and will need to communicate progress in meeting commitments to their stakeholders and the greater community. From the experience with ISO 9000 and 14000 standards, it is reasonable to expect that firms which adhere to ISO CR management systems standards will likely wish to make public representations concerning their adherence to ISO CR MSSs. But it is also clear that ISO CR MSSs by and of themselves are no guarantee that a firm will actually behave in a responsible fashion. Whether a firm actually behaves responsibly is a product of many factors in addition to the management system, such as the quality of stakeholder engagement, and the specific substantive CR commitments. ISO, national standards bodies and governments will need to make special and concerted efforts to curtail misleading and deceptive representations concerning application of ISO CR management standards.

➢ *The substantial costs of development, certification and implementation of ISO CR MSSs will far outweigh any added value to a firm.* Whether or not this is the case will very much depend on the particular firm, its practices prior to adopting an ISO CR MSS compliant operation, its commitment to substantive CR objectives, and the quality of its stakeholder engagement. As has been noted above, MSSs can be viewed as a form of risk management. As such MSSs decrease the likelihood of problems arising, and assist in identifying areas for improvement in a firm's operations. In both of these regards, adherence to ISO CR MSSs can be viewed as a long-term investment. One need only look at the headlines of newspapers every week to see examples of firms, large and small, which did not put in place CR MSSs and are now experiencing significant financial and other difficulties.

➢ *Many companies are already operating as good corporate citizens, pursuant to programs that include performance obligations, and with existing structures in place to manage their corporate responsibilities. An ISO CR MSS will simply be another initiative among many existing ones.* Companies already operating as good corporate citizens pursuant to existing programs do not have the advantage of building on the global momentum of ISO MSSs and the associated infrastructure, which can assist them in gaining access to markets around the

world.[143] The current situation with respect to existing CR programs can be likened to the world prior to standardization of electricity systems, or rail systems. Each system may have worked well on its own, but there was little opportunity for inter-operationalization and there was no single, globally recognized program and infrastructure. Are we destined to repeat this same pattern with respect to CR, or can we recognize the value of building CR MSSs on the single global standards platform and infrastructure which is accepted by businesses around the world? Now is the time to invest in this infrastructure, before divergent, limited-focus and limited-application regimes become more entrenched.

➢ *Better results could be achieved through a transparent CR reporting and monitoring mechanism.* As earlier discussion suggests, transparent CR reporting and monitoring are important elements of effective CR approaches, and certainly the UN-supported Global Reporting Initiative (GRI) shows considerable promise. Regardless of the reporting and monitoring mechanism, there still needs to be effective operationalization of CR commitments within firms, with verifiable, measurable results. This is what ISO CR MSSs offer, operating in conjunction with reporting and monitoring initiatives. The Global Reporting Initiative has stated that the GRI Guidelines and ISO 14000 standards are complementary.[144] The GRI Guidelines and ISO CR MSSs would be even more

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[143] See discussion earlier in the report of the supply chain ripple effect which has been evident as commercial purchasers and suppliers insist that their business partners comply with ISO 9000 and/or ISO 14000, and similar effects where apparel retailers insist that their suppliers meet CR-oriented programs.

[144] According to the GRI website, "the ISO 14000 standards and the GRI Sustainability Reporting Guidelines are complementary. Certain of the ISO 14000 series of standards (14001, 14004, 14031) refer generally to external reporting by companies on their environmental performance, while the GRI provides specific guidance on the form and content of such reporting. However, companies can apply the GRI *Guidelines* and ISO 14000 standards independently. ISO Technical Committee 207 is currently considering whether additional guidance on environmental reporting should be provided through the creation of a new standard in the 14000 series. GRI has been consulted by ISO on this subject." Per Global Reporting Initiative website, "Global Reporting Initiative & ISO 14000", downloadable at: **http://www.globalreporting.org/AboutGRI/ISO14001.pdf**

complementary, given their scope encompassing the full range of corporate responsibility issues which are addressed by the GRI Guidelines.

➢ *Generic global ISO CR MSSs may risk reducing clarity in an effort to ensure that a standard useful to all is developed.* As the widespread take-up and experience with ISO 9000 and ISO 14000 standards demonstrates, it is possible to devise management systems standards which are both practicable and have the clarity need for firms to operate in a wide variety of circumstances around the world.

➢ *Before any new management systems standards are developed they must meet the requirements of ISO Guide 72 (which essentially requires that a strong business case be made before a new technical activity is undertaken). ISO CR MSSs are unlikely to be successful in meeting the requirements of ISO Guide 72.* According to ISO *Guide 72*, a management system standard should be initiated, developed and maintained only when all of the following principles are observed: market relevance (meeting the needs of and adding value for the primary users and other parties); compatibility (between various MSSs); ease of use (so that the user can easily implement one or more MSS); topic coverage (an MSS should have sufficient application coverage to eliminate/minimize the need for sector specific variances); flexibility (applicable to organizations in all relevant sectors and cultures and of every size); technically sound basis (based on proven management practices); easily understood (unambiguous, free from cultural bias, applicable for businesses in general); and free trade (should permit free trade of goods in line with principles included in the WTO Agreement on Technical Barriers to Trade). It is submitted that, on the basis of the research undertaken for this report, ISO CR MSSs would observe all of these principles. That is, ISO CR MSSs are market relevant and meet the needs of business for an authoritative operationalization of CR; compatible with ISO 9000 and 14000 MSSs; easy to use so that a firm using ISO 9000 or ISO 14000 would already have much of the architecture and operational culture needed for implementation of ISO CR MSSs; have sufficient application coverage to minimize the need for sector specific variances; are flexible to apply to all sectors and cultures and sizes of firms; are technically sound; are easily understood; and facilitate free trade.

III.12 **Outstanding Issues**

ISO Standards, or some other ISO Instruments?

149. In addition to ISO standards, it is also possible to develop CR approaches through a number of other ISO instruments such as ISO/IEC Guides, ISO Technical Specifications, ISO Publicly Available Specifications, Industry Technical Agreement, (now known as International Workshop Agreements). As discussed earlier, several of the individuals and organizations which commented on the draft report urged consideration of and preference for these alternative

instruments. Some of these instruments have the advantage of potentially being quicker to develop, yet can evolve into full-fledged standards as need arises. While further exploration should be undertaken concerning the value of developing a document which could be more in the nature of guidance or guideline in the short-term, as opposed to a full-fledged standard, at this point there is much to commend development of ISO CR MSSs given their status, and given the existing precedent of ISO quality and environmental MSSs. Nevertheless, as discussed earlier, the Working Group recognizes the value of there being a more full exploration of these alternate ISO instruments.

What does ISO need to do to make international CR MSSs work?

150. A key challenge will be to ensure that civil society organizations are fully and meaningfully involved in the process of standards development and in subsequent implementation activities. Related to this is the challenge of communicating to the public the role that ISO CR MSSs can play. Given their impact on consumers and communities, considerable effort will need to be expended on a communications strategy to clarify the profile and public recognition value of ISO CR MSSs and to ensure that accurate representations are made.

III.13 What Might ISO CR MSSs Look Like?

151. At this point, it is undoubtedly premature to do anything more than sketch out the bare bones of what the ISO CR MSSs might look like. As a point of departure, the general approach of ISO quality and environmental MSSs (i.e., policy, planning, implementation and operation, performance assessment, improvement, and management review) should act as a useful template. The BSI-led SIGMA Project, and Standards Institution of Israel initiatives offer the best evidence of what a standards-based approach to CR MSSs might look like. Key components are likely to include management requirements or guidance pertaining to:
  - compliance with all rules and regulations of the jurisdiction in question and relevant international norms pertaining to environmental, consumer, fair labour standards, human rights, and health and safety protection, as agreed upon through a meaningful stakeholder engagement process;
  - processes for meaningful stakeholder engagement;
  - development, implementation, and communication of CR and corporate ethics policies, including pertaining to anti-bribery and corruption;
  - training;
  - relations with communities, philanthropy, outreach and involvement;
  - measurement and regular reporting to the full range of stakeholders and the general public.

Recommendations

Report to ISO COPOLCO on Desirability and Feasibility of ISO CSR Standards

1. The position taken in this report is that, based on its work to date and its credibility, ISO as an organization is well positioned to take leadership with respect to the development of voluntary ISO Corporate Responsibility Management Systems Standards (CR MSSs), although it will be necessary to ensure that ISO develops such CR MSSs in close cooperation with other bodies which are leading on efforts to devise effective CR approaches. The Working Group concludes that, from a consumer perspective, ISO CR MSSs are both desirable and feasible. Based on its research and analysis, the Working Group also takes the position that ISO CR MSSs are desirable and feasible from a business, worker, citizen, community, and governmental perspective, but acknowledges that a more direct canvassing by ISO affiliated bodies or through ISO-affiliated processes of these non-consumer perspectives is desirable. ISO CR MSSs would constitute an internationally agreed-upon framework for operationalization of corporate responsibility commitments, capable of producing verifiable, measurable outputs. The ISO CR MSSs would build on the intellectual and practical infrastructure of ISO 9000 quality MSSs and ISO 14000 MSSs, and the momentum associated with close to one-half million firms certified as compliant with these standards. As with ISO 9000 and ISO 14001, firms could self-declare compliance with the proposed ISO CR MSSs or could seek certificates from authorized third parties. It should be emphasized, however, that ISO CR MSSs would be insufficient by themselves to assure that a firm has developed and implemented an effective CR approach. Thus, ISO CR MSSs would be one piece – albeit a fundamental building block – of effective CR approaches. Key elements of ISO CR MSSs include commitment to the concept of continual improvement (as with ISO 9000 and ISO 14000 MSSs), commitment to the concept of stakeholder engagement, and commitment to transparent, accountable reporting on CR initiatives to a firm's stakeholders and the greater public.

➢ The working group is of the opinion that the ISO CR management system documents should take the form of ISO International Standards. In this regard, ISO CR MSSs would have the same status, profile, and operational objectives as ISO quality and environmental MSSs. The Working Group views ISO CR MSSs as the "third generation" of ISO management systems standards, following the first generation quality MS standards and the second generation environmental MS standards. All this having been said, the Working Group acknowledges that a more thorough exploration of other ISO instruments is appropriate. It is possible, for example, that ISO MS *guidelines* could be developed through ISO processes more quickly than ISO standards (and later can be converted to standards). At least in the short term, this speed-of-development characteristic of ISO guidelines would be a significant advantage over ISO standards. Therefore, the Working Group would support such an exploration of other ISO instruments, on the understanding that, on the basis of available information and analysis, the Working Group has concluded that the ISO CR MSS approach is the best approach, and that those ISO instruments which could be converted into standards at some later time, and could be developed more quickly than standards, should be given

particular attention. Time and resources of the Working Group have not permitted such an exploration from being undertaken as part of this report.

2. On the basis of this review, it is also recommended that as part of a new ISO work item on CR documents there should be an examination of the appropriate marketing and communications regime for firms complying with the ISO CR MSSs, to ensure that inaccurate representations are not made by firms which would have the effect of misleading consumers, workers, communities, investors, shareholders, governments and other members of the public. This is based on the perception of working group members that at the present time some consumers do not understand what it means when firms claim to be, e.g., compliant with ISO 9000 or ISO 14001 standards, and so therefore there is the risk that claims pertaining to ISO CR MSSs could also be misleading if not appropriately structured as part of an overall marketing and communications regime.

3. Corporate responsibility has a special relevance in developing countries, where in some instances government infrastructure for the development and implementation of environmental and social regulation, and for the delivery of health, security and education services may be wanting. Corporations cannot and should not be expected to assume the role of governments in protecting the public interest. But through their CR practices, corporations can assist in creating communities which are fair and safe for all. The large membership of developing countries in ISO will need to play a key role in devising ISO CR standards which are relevant and practical in their jurisdictions.

➤ In the ISO CR standards development process, meaningful and balanced representation of all stakeholders is essential for the standards to be perceived as credible in the marketplace. The working group further recommends that the ISO CR standards draw on existing standards work, and coordinate and align with other ISO initiatives and requirements, as appropriate. As with ISO 9000 and 14000 MSSs, the ISO CR MSSs should be capable of operation on the basis of self-declaration or through third party certification.

4. In undertaking the development of CR management systems standards, it is clear that ISO would be entering a new era in standardization activity, moving away from the technical-oriented standards which were its initial focus of attention, toward "softer," more variable and less precise notions of responsibility. If ISO CR MSSs were developed, firms would have the option of putting in place quality management, environmental management, and/or corporate responsibility management systems pursuant to ISO specifications. Because of the integrated nature of ISO management systems standards, those firms which are already compliant with ISO 9000 and/or 14001 MSSs would likely have in place much of the architecture and operational culture needed for implementation of ISO CR MSSs. Each firm would need to make its own decisions as to the appropriate management systems standards

for its activities (ISO 9000, 14001 and/or ISO CR MSS) depending on its distinctive operating environment, as well as its competitive and risk management context.

5. For those firms adopting a CR management system compliant with ISO specifications, each firm's CR approach would be based on the input received from its stakeholders, and the appropriate selection of ISO CR management systems standards, working against a backdrop of domestic and international normative instruments. A firm's decisions concerning the precise substantive CR obligations it would agree to (the ISO CR MSSs would not stipulate any substantive CR requirements), and the appropriate verification process it would use (e.g., self-declaration or third party), is thus a highly tailored and distinctive process, unique to each firm, its stakeholders, the competitive environment in which it operates, its risk management assessment, and its perceived credibility needs. The ISO CR management systems standards would be a necessary but not a sufficient condition of success, since an effective CR approach would require that the management system work in conjunction with a range of other stakeholders and instruments.

6. The Working Group recommends that ISO establish a strategic advisory group on corporate responsibility, to guide its decisions concerning the development of ISO CR instruments. This would be similar to the Strategic Advisory Group on the Environment which was formed following the United Nation's-sponsored Rio Earth Summit held in 1992, which lead to the development of the ISO 14000 environmental management series of standards. An ISO Strategic Advisory Group on Corporate Responsibility (with consumer representation) would explore how ISO corporate responsibility management systems standards or other instruments could serve to promote a common global approach to corporate responsibility management similar to quality and environmental management, to enhance an organization's ability to attain and measure improvements in CR performance, and to facilitate trade and remove trade barriers. Regardless of whether such a strategic advisory group is established, it is recommended that ISO work closely in its CR work with the United Nations, the Organization for Economic Cooperation and Development, the International Labour Organization, the World Business Council on Sustainable Development, Business Action for Sustainable Development, and other relevant inter-governmental, non-governmental and private sector bodies.

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Corrigendum

Based on information supplied to the COPOLCO Working Group after distribution of the Final Report in May, 2002, paragraph 91 of this Report should be replaced with the following:

91. SAI is a charitable human rights organization dedicated to improving workplaces and communities by developing and implementing socially responsible standards. In response to inconsistencies among workplace codes of conduct, SAI developed a standard for workplace conditions and a system for independently verifying factories' compliance. The standard, Social Accountability 8000 (SA8000), and its verification system draw from established business strategies for ensuring quality (such as those used for ISO 9000) and add several elements that international human rights experts have identified as essential to social auditing. Based on the principles of international human rights norms as delineated in ILO Conventions, the UN Convention on the Rights of the Child, and the Universal Declaration of Human Rights, SA8000 has nine core areas: child labour; forced labour; health and safety; compensation; working hours; discrimination; discipline; free association and collective bargaining; management systems. As of April, 2002, 127 facilities on 5 continents in 25 countries had SAI certificates in good standing.[145] Proposed changes to the standards and guidance, along with schedules and procedures for their regular reviews, are posted on the SAI website, and solicitations for input are widely circulated to various stakeholder groups. SAI is a multi-stakeholder organization, works through use of a consensus process so that no one group has undue influence. With respect to certification, SAI adheres to ISO Guide 61, which attempts to prohibit discrimination, protect against conflicts of interest, assure objective and serious regular accreditation audits, and provide an open complaint and appeals system.

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[145] This information and below information supplied by Alice Tepper Marlin, President, SAI, May 17, 2002.