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CORPORATE ENVIRONMENTAL RESPONSIBILITY:[1]
Is a common CSR framework possible?

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[1] This paper is not intended to serve as an exhaustive, comprehensive treatment of CRS. Rather, it is part of a broader discussion on corporate social responsibility, in the context of environmental protection. This paper is not a publication of the World Bank. It is circulated to encourage discussion.. The views expressed are solely those of the author and his views and this paper should not be attributed to the World Bank.

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I. ABSTRACT

Traditionally, environmental protection has been considered to be “in the public interest” and external to private life. Governments have assumed principal responsibility for assuring environmental management, and have focused on creating and preserving a safe environment. They have directed the private sector to adopt environmentally sound behavior through regulations, sanctions and occasionally, incentives. When environmental problems have arisen, the public sector has generally born the responsibility for mitigation of environmental damage. . In this approach, some have contended that unrestricted private sector behavior has been considered as presenting the “environmental problem”.

However, the roles of sectors have been changing, with the private sector becoming an active partner in environmental protection. Many governments and businesses are now realizing that environmental protection and economic growth are not always in conflict.

Since the Brundtland Report was published in 1987 as a result of World Commission on Environment work, business and management scholars have been grappling with the question of how and why corporations should incorporate environmental concerns into their own strategies. Today many companies have accepted their responsibility to do no harm to the environment. An earlier emphasis on strict governmental regulations has ceded ground to corporate self-regulation and voluntary initiatives.

As a result the environmental aspect of CSR is defined as the duty to cover the environmental implications of the company’s operations, products and facilities; eliminate waste and emissions; maximize the efficiency and productivity of its resources; and minimize practices that might adversely affect the enjoyment of the country’s resources by future generations. In the emerging global economy, where the Internet, the news media and the information revolution shine light on business practices around the world, companies are more frequently judged on the basis of their environmental stewardship. Partners in business and consumers want to know what is inside a company. This transparency of business practices means that for many companies, CSR , is no longer a luxury but a requirement.

Although there are a significant number of good practices around the world, for many critics CSR has achieved quite illusive effects so far. As CSR activities are basically based on a voluntary approach, environmental externalities are observable to stakeholders, but often not verifiable. Generally, the concern about CSR is that, instead of big number of initiatives, there is no comprehensive frame that would cover at the same time issues such as: government standards, management systems, codes of conduct, performance standards, performance reporting, and assurance standards. Companies, usually, implement separate components, or join selected initiatives, often forgetting for example about transparent monitoring mechanisms.

The goal of this paper is to present, to some extend, current practices, and approaches to environmental aspects of CSR, and propose concrete steps that could allow on creating a global commonly accepted CSR framework.

II. BASIC CONCEPTS

Although the concept has been developing since the early 1970s, there is no single, commonly accepted definition of "Corporate Social Responsibility" (CSR). There are different perceptions of the concept among the private sector, governments and civil society organizations. Depending on the perspective, CSR may cover:

a) a company running its business responsibly in relation to internal stakeholders (shareholders, employees, customers and suppliers);
b) the role of business in relationship to the state, locally and nationally, as well as to inter-state institutions or standards; and
c) business performance as a responsible member of the society in which it operates and the global community.

The first perspective includes ensuring good corporate governance, product responsibility, employment conditions, workers rights, training and education. The second includes corporate compliance with relevant legislation, and the company's responsibility as a taxpayer, ensuring that the state can function effectively. The third perspective is multi-layered and may involve the company's relations with the people and environment in the communities in which it operates, and those to which it exports. Too often, attaining CSR is understood from the perspective of business generosity to community projects and charitable donations, but this fails to capture the most valuable contributions that a company has to make. (Reyes 2002).

Various associations have developed their own definitions of CSR. For example, Business for Social Responsibility (BSR)[2] 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*

[2] Business for Social Responsibility is a global non-profit organization that helps member companies achieve commercial success in ways that respect ethical values, people, communities and the environment. BSR member companies have nearly $2 trillion in combined annual revenues and employ more than six million workers around the world.

integrated throughout business operations, and decision-making processes that are supported and rewarded by top management…"[3].

The World Business Council for Sustainable Development stresses, *"CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well as of the local community and society at large...".*[4]

Finally, the European Union defines CSR as "… *the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large…*"[5].

Such definition are open to a number of interpretations, depending on the culture in which they are to apply. In order to meet these definitional expectations most governments incorporate minimum standards into their legal codes. The private sector generally prefers the flexibility of self-designed voluntary standards. (UNCTAD 1999). However Porter (Porter 2000) noted that in many cases properly designed legal environmental standards could still trigger innovations that lower the total cost of a product or improve its value. Such innovations allow companies to use a range of inputs more productively, from raw materials to energy to labor, thus offsetting the cost of diminishing environmental impact and ending the stalemate. Therefore, to create regulations that will satisfy all stakeholders would require interactive communications and consultations among them.

Since the 1980s, there has been a considerable shift in thinking with regard to how to improve the social and environmental performance of companies (UNRISD 2002). An earlier emphasis on strict governmental regulations has ceded ground to corporate self-regulation and voluntary initiatives.

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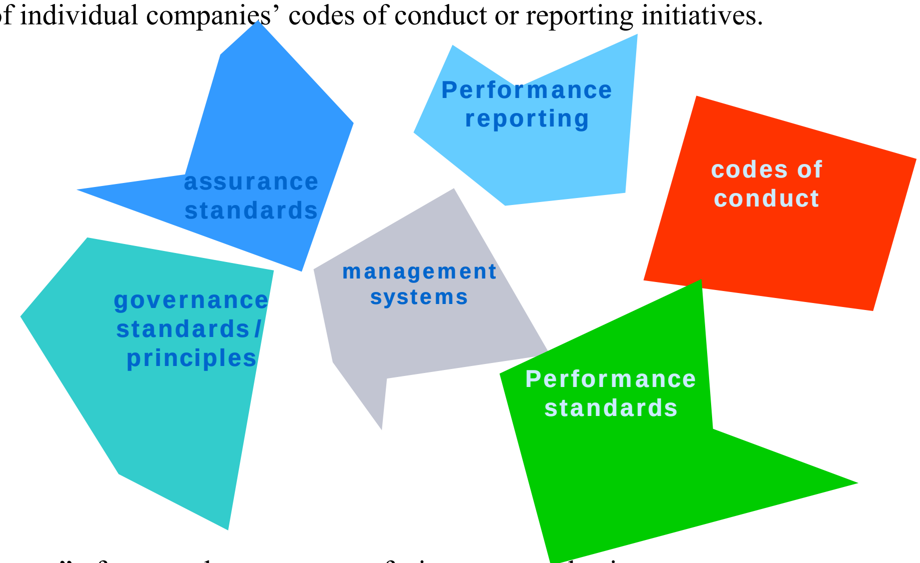
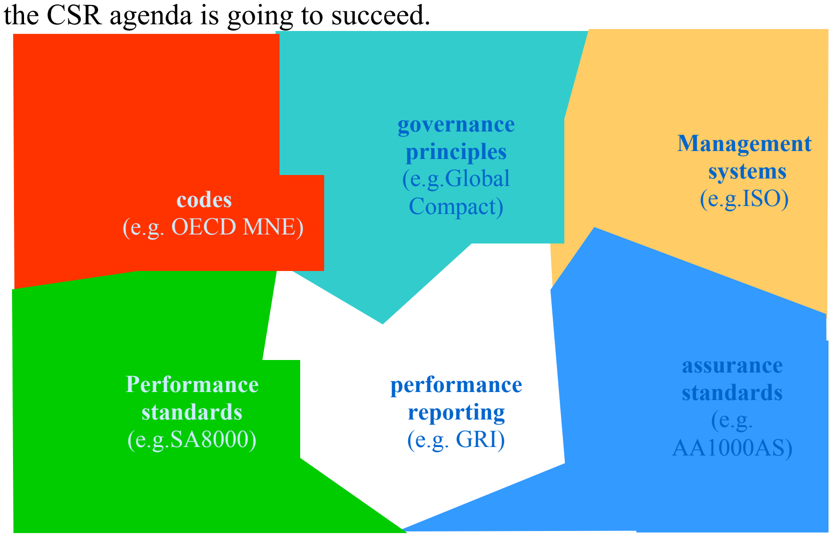
[3] See www.bsr.org
[4] This definition was developed in 1998 for the first WBCSD CSR dialogue in The Netherlands. For more see www.wbcsd.org
[5] See the EU Green Paper: Promoting a European Framework for Corporate Social Responsibility (18/07/2001) http://europa.eu.int/comm/employment_social/soc-dial/csr/greenpaper_en.pdf

So far there have been over 300 CSR codes, principles, performance standards, management standards developed by governments, business associations, or academia, not mentioning a huge number of individual companies' codes of conduct or reporting initiatives.



This "richness" of approaches creates confusions, among businesses, governments or consumers . However, a closer collaboration of initiatives, addressing specific aspects of the implementation of the CSR agenda: what has to be done (codes, standards, governance principles), how to be done (management and assurance standards), and how to measure progress (reporting) on a global scale could lead to emergence of the global commonly accepted CSR framework.[6] This seems to be inevitable if the CSR agenda is going to succeed.



[6] Based on Global Reporting Initiative's (GRI) development update presented to the World Bank Environmental Board on January 15, 2004

III. CSR DRIVERS

Since the World Commission on Environment and Development Report of 1997 (Brundtland Report) was published, corporate managers and management scholars have been grappling with the question of how and why corporations should incorporate environmental concerns into their own strategic decision making. And they have been assuming a positive role in furthering the cause of environmental protection, as opposed to being seen as an environmental problem. Today many companies have accepted their responsibility to do no harm to the environment (Hart 2000). The Environment Strategy of the World Bank indicates, too, that the private sector is becoming a decisive factor in influencing environmental performance and long-term environmental sustainability (WB 2002).

Many citizens, environmental organizations and leadership companies define corporate environmental responsibility as the duty to cover the environmental implications of the company's operations, products and facilities; eliminate waste and emissions; maximize the efficiency and productivity of its resources; and minimize practices that might adversely affect the enjoyment of the country's resources by future generations. In the emerging global economy, where the Internet, the news media and the information revolution shine light on business practices around the world, companies are more and more frequently judged on the basis of their environmental stewardship. Partners in business and consumers want to know what is inside a company. They want to do business with companies in which they can trust and believe. This transparency of business practices means that for many companies, corporate social responsibility, CSR, is no longer a luxury but a requirement. However, the challenge is to create a commonly respected CSR framework, that would allow on detailed assessment of business practices.

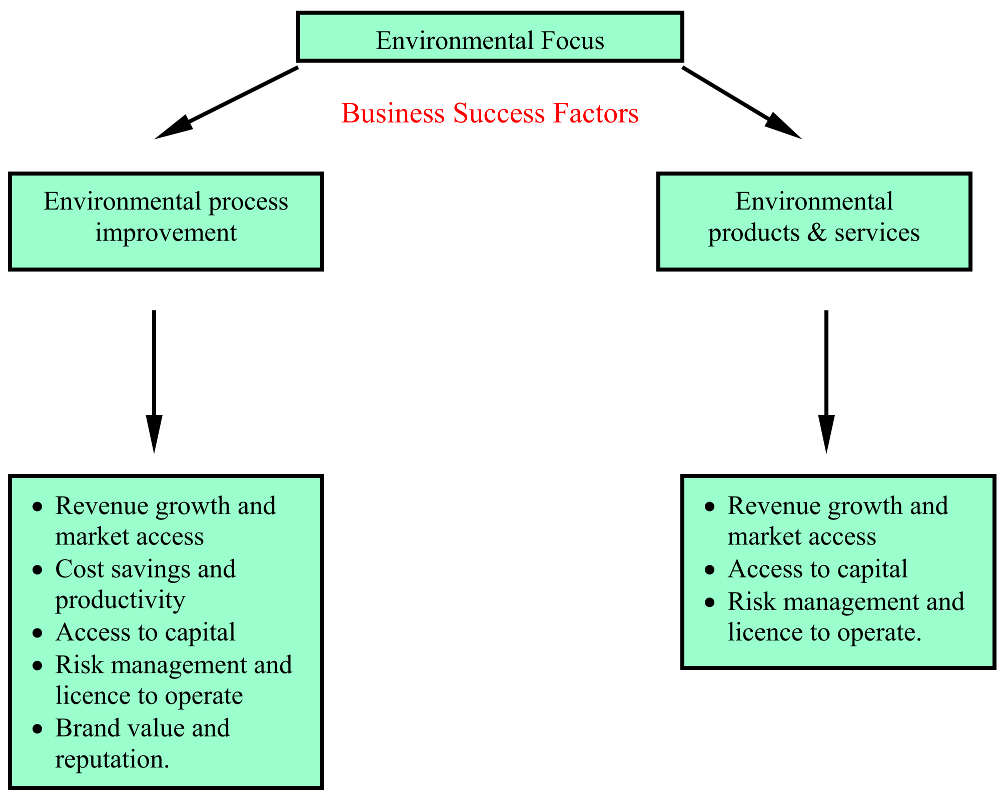
Basically, the drivers of CSR are the mix of incentives and risks directed at companies to improve standards. These drivers are market-based, usually beginning when a firm anticipates or responds to a risk associated with the social, labor or environmental impact of a specific business practice.

Economic drivers	*Social drivers*	*Political drivers*
- company image/reputation - improved risk management - competitive advantage - pressure from business partners - pressure from costumers - pressure from investors - competitiveness	- pressure from NGO/CSOs - licence to operate -pressure from local communities - research	- improved standing with government - legal, regulatory drivers - political pressure - licence to operate

A growing number of companies in a wide range of sectors and geographic regions have discovered concrete value and competitive advantages from taking environmental initiatives, for example, in areas such as pollution prevention, energy efficiency, environmentally oriented design, supply-chain management and industrial ecology. For instance, cement production, requires intensive use of natural raw materials and energy. It also results in emissions to the atmosphere, the most significant being carbon dioxide (CO2). That is why eco-efficiency is at the core of St. Lawrence Cement business - producing more cement while using fewer resources and producing less waste and pollution per tone. An example from other sector is KPMG. Since 1996, KPMG has been actively involved in a range of environmental programs and are currently preparing for the ISO14001. They have integrated all their environmental programs into mainstream operations to provide sustainability. There are 5 key areas where they, as a firm, are making an environmental impact: Water, Waste, Paper, Energy and Transport. Savings made by the environmental management program currently stand at £250,000 per year. By switching to greener energy suppliers, energy reduction targets of 30% over three years have been built into all maintenance contracts and can account for a further £600,000 of savings.

Simply, many companies have found that CSR has often had a positive impact on corporate profits. Of all the topics related to corporate social responsibility, it is environmental initiatives that have produced, so far, the greatest amount of quantifiable data linking proactive companies with positive financial results. Business for Social Responsibility (BSR), for example, emphasizes that investment in CSR has promoted product differentiation at the product and firm levels. Some firms now produce goods and services with attributes or characteristics that signal to the consumer that this particular company is concerned about certain social and environmental issues. The International Financial Corporation, in its report "Developing Value" (IFC 2002), reaches the conclusion, based on the experiences of over 170 companies, that many businesses in emerging markets have been involved in areas such as social development or environmental improvements, and have achieved cost savings, revenue growth and other business benefits. A summary of their findings is given in Chart 1. In doing so they have established a socially responsible corporate image and have facilitated market penetration. Firms have also found savings in input costs, waste disposal costs, labor costs through reduced absenteeism and increased loyalty, reduced costs of compliance with regulations, and other real but more intangible benefits such as attracting quality investors. Firms also benefit from realizing greater cooperation from their communities, and from building political capital that has been useful when community decisions may affect the enterprise.

Chart 1. Evidence of business case



Based on: IFC 2002

Reducing the use of energy and raw materials and limit emissions and waste from production processes are key contributions that business can make to tackle the environmental challenges facing the world. The good practices of leading companies build a base for the behavioral change of others. Moreover, many multinationals are adopting environmental policies that extend through their supply chains in the form of requirements for suppliers to adhere to sustainability certifications such as ISO 14001, SA 8000 or FSC, etc. (IFC 2002).

IV. VEHICLES FOR INTRODUCING CSR

4.1 Governments

Governments have a strong interest in promoting CSR initiatives as a complement to their ongoing environmental and social programs to serve long term national interests (Mazurkiewicz, 2004). Often with the support of international institutions, and/or international/local NGOs, governments are beginning to play a significant role in building framework for CSR, through managed, goal-driven approach. For example, the authorities often prefer voluntary approach because they involve both lower transaction and abatement cost. Moreover, governments may see their interest in achieving improved environmental management in a less conflictive manner, at less cost and with more impact on job creation, while improving the national image, competitive positions in respect to trade, and ultimately making economic and social gains.

Assistance from governments can be planned and programmed as a component in a national environmental program. Usually, governments would plan a three-part approach to the problem: (i) inform, sensitize and engage business in dialogue and negotiations concerning voluntary initiatives, and institutionalize this process; (ii) offer incentives for and assistance to firms seeking to adopt more environmentally responsible business models; and (iii) re-enforce monitoring of environmental conditions and enforce sanctions. More precisely they can stimulate the private sector by providing funding for research, or by leading campaigns, collecting and disseminating information, training, and raising awareness (Mazurkiewicz 2003). Public bodies can develop or support appropriate management tools and mechanisms, including environmental agreements, voluntary product labeling schemes, benchmarks, and guidelines for company management and reporting systems. They can also create incentives and by apply their public procurement and investment leverage. The other crucial role the public sector can play is partnering in environmental initiatives (WB 2002).

Chart 2. Corporate Social Responsibility Development/Operational Outline ***(prototype framework)***

Narrative	**Indicators**	**Monitoring Regime**	**Critical Assumptions and Risks**
I. National Goals			
1. Poverty Reduction (equity)	Poverty mappings		
2. Income Growth	GDP Indicators		
3.Environmental Sustainability	Natural resource surveys		
II. Development Objectives			
Business investment made respecting the norms for environmental compatibility	Percentage of foreign and domestic productive investment decisions respecting environmentally sound parameters		Companion environmental regulations respected Macroeconomic regime favorable to investment Adequate companion social and poverty reduction policies applied
III. Outputs of Components			
1. Social Legitimacy of CSR			
2. Effective Incentive Framework			
3. Effective Sanctions Framework			
IV. Inputs/Budgets			
1. Legal and Regulatory Framework Adaptation	Covering diagnosis, study, regulatory and legislative development		
2. Initial Sector Cases	Covering 2 or 3 test enterprises		
3. CSR Communications Program	Covering diagnosis, public consultations and negotiations		
4. Management Institutions Development	Covering regulatory management and		

	enforcement		
5. Project/program management	Covering management of the development program prior to mainstreaming		

4.2 Corporate Level

The implementation of CSR initiatives usually differs for each company, or even sector, depending on a number of factors, such as size and culture. Manufacturing-based companies are confronted by a wide range of environmental challenges, while retail or service-sector companies face these to a lesser extent. Although some companies address environmental issues one facility or department at a time, companies are increasingly integrating the environment into all parts of their operations. Whatever the nature of the commitment, most companies follow a similar series of steps when addressing their impact on the environment:

1. Corporate Environmental Policy: Companies committed to reducing their environmental impact usually create a set of environmental principles and standards, often including formal goals. At minimum, most such statements express a company's intentions to respect the environment in the design, production and distribution of its products and services; to commit the company to be in full compliance with all laws and go beyond compliance whenever possible; and establish an open-book policy whereby employees, community members and others can be informed of any potentially adverse effects the company might have on the environment.

2. Environmental Audit: Before a company attempts to reduce its impact on the environment, it is essential that it first gains a full understanding of it. For most companies, this usually involves some kind of environmental audit. The goal of audits is to understand the type and amount of resources used by a company, product line or facility, and the types of waste and emissions generated. Some companies also try to quantify this data in monetary terms to understand the bottom-line impact. This also helps to set priorities as to how a company can get the greatest return on its efforts.

3. Employee Involvement: Leadership companies recognize that to be effective, an environmental policy needs to be embraced by employees throughout the organization, not just those whose work is related to the environment. To do that, companies engage in a variety of activities, especially education, to help employees understand the environmental impact of their jobs and to support their efforts to make positive changes. Some companies go further, helping employees become more environmentally responsible throughout their daily lives, helping them build a true environmental ethic. Besides education, many companies create incentives, rewards and recognition programs for employees who demonstrate their environmental commitment.

4. Green Procurement: To help ensure that their products and processes are environmentally responsible, many companies seek to buy greener products and materials from their suppliers. Some companies participate in buyers' groups in which they leverage their collective buying clout to push suppliers to consider alternative products or processes.

5. Green Products: Products themselves may be made more environmentally friendly, with regard to, for example, the control of emissions, noise, reduced health and safety risks, and reduced energy requirements.

Additionally, as more and more companies and their stakeholders are attracted to CSR initiatives, but are often uncertain as to what steps may create an adequate environment for putting the concept into operation. Three such steps could assist in facilitating the process: (i) promote dialogue among stakeholders; (ii) create the actual partnerships necessary for bringing voluntary initiatives to fruition; and (iii) agree on a systematic and monitorable program for establishing and financing voluntary initiative.

V. CSR AND DEVELOPMENT

The proponents of CSR generally consider the concept as a pragmatic and innovative way of enhancing the contribution of the private sector to development. Many, as mentioned in the section on CSR drivers, also see CSR initiatives as an alternative to government regulation. Others consider them as complement to regulations.. The main reason they are a complement to regulations is because the public sector relies on regulation, and law-based sanction for implementation, while CSR relies on a set of market-based drivers.

Utting (2003) emphasized that apart from assessing the scale, scope and implementation of specific CSR policies and institutional arrangements, it is important to consider the wider developmental implications of CSR. There is a fairly generalized perception, shared by many individuals and organizations promoting CSR, that both CSR and partnerships, in any shape or form, must be good for development. He proposes to look carefully at this assumption given the following characteristics and potential negative impacts of CSR in developing countries:

- the CSR agenda tends to be "northern driven" and focuses on a fairly narrow set of issues, sectors and companies;
- "Indigenous" approaches to CSR, which exist in all societies, don't receive much attention from the mainstream CSR community, which tends to focus on a fairly standardized set of approaches and instruments.
- Small and medium-sized firms in developing countries that form part of multinational company supply chains are often expected to pay the costs of CSR. Multinationals or northern consumers may do little, if anything, to share these costs. Moreover, Multinationals and large northern retailers continue to impose onerous conditions on suppliers in terms of price and delivery schedules, which limits their ability to improve conditions.
- CSR may reinforce trends involving the concentration of corporate power by squeezing small firms from supply chains and concentrating production in larger firms with greater capacity to implement CSR initiatives.
- CSR may have protectionist implications by restricting access of southern firms to northern markets, although such implications are sometimes overstated.
- CSR and partnerships may enhance the competitive advantage of multinationals at the expense of firms in developing countries.
- Many developing country governments, constrained by international pressures associated with debt servicing, structural adjustment and "down-sizing", are unable to develop the type of regulatory and incentive structures that would encourage CSR.

If CSR is to make a more significant contribution to development, its proponents face two major challenges. First, there needs to be a better integration of voluntary approaches and law or government regulation, rather than the present situation where voluntary initiatives are often seen as an alternative to legal instruments. Second, the CSR agenda needs to become more "south-centered".

The Implementation Plan, issued after the 2002 World Summit on Sustainable Development moves beyond a reliance on voluntary approaches. It commits signatory governments to actively promote corporate responsibility and accountability, including through the full development and effective implementation of intergovernmental agreements and measures, international initiatives and public-private partnerships, and appropriate national regulations (WSSD 2002).

There are some companies that will only take social responsibility on board if they have to. On the other hand, while there are many question marks regarding the future of CSR, in particular about its voluntary nature, engaged companies claim notable achievements. CSR has led to developments in company reporting, and in the elaboration of good principles and good practice in company behavior (Christian Aid 2004).

More and more often one can observe a trend in discussion on CSR, that voluntary measures can help improve private-sector behavior, but voluntary activity is no substitute for regulation and there is evidence that companies that espouse voluntary approaches to meet environmental standards are frequently involved in resisting external regulations. This concerns mainly developing countries, where national legislation framework is weak. Even if necessary laws do exist , many governments including in developed countries do not have political will or effective instruments to enforce them.

In contrast, the regulation in developed world tends to be more strong. The companies are bound by laws protecting the environment, human rights, etc. But these only extend to the activities of companies based or operating in those countries, and not to the overseas activities.

One may argue that once there is no need for new extended governmental regulations in developed economies, definitely there is such a need in developing and in transition countries. On one hand Governments in the latter ones, with support of international institutions, might establish a regulatory framework – "a minimum requested by law", and on the other international community may consider building an international commonly accepted legal framework to regulate the global activities of multi-national enterprises. Such an approach would help in overcoming low enforcement capacity of developing countries.

In fact, various elements of such an international framework already exist. There is no need for campaigning for new regulations, it's rather a need to merge existing mechanism in one comprehensive framework to be adopted by countries. This framework could be based on "plan, do, monitor, report, evaluate" model (see page 6).

The OECD convention of 1997 aimed at outlawing the bribery by business people of foreign public officials constitute a good example providing directions on the way to go. To push ahead work on the comprehensive CSR framework a collective action would be needed. Developed countries' governments would need to change their law so that companies from those countries are held accountable for their environmental impact worldwide. The next essential step would be strengthening existing OECD and EU guidelines so that they become binding regulation rather than just a voluntary code of conduct. The most difficult aspects would be to agree on and adopt concrete standards in fields such as management systems, assurance standards, performance standards, and performance reporting that jointly with national regulations, international law would constitute a holistic CSR framework.

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BSR, Business for Social Responsibility; www.bsr.org

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