In the eye of the beholder - applying sustainable development and corporate social responsibility in the corporate context.

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"In the eye of the beholder?" - applying sustainable development and corporate social responsibility in the corporate context.

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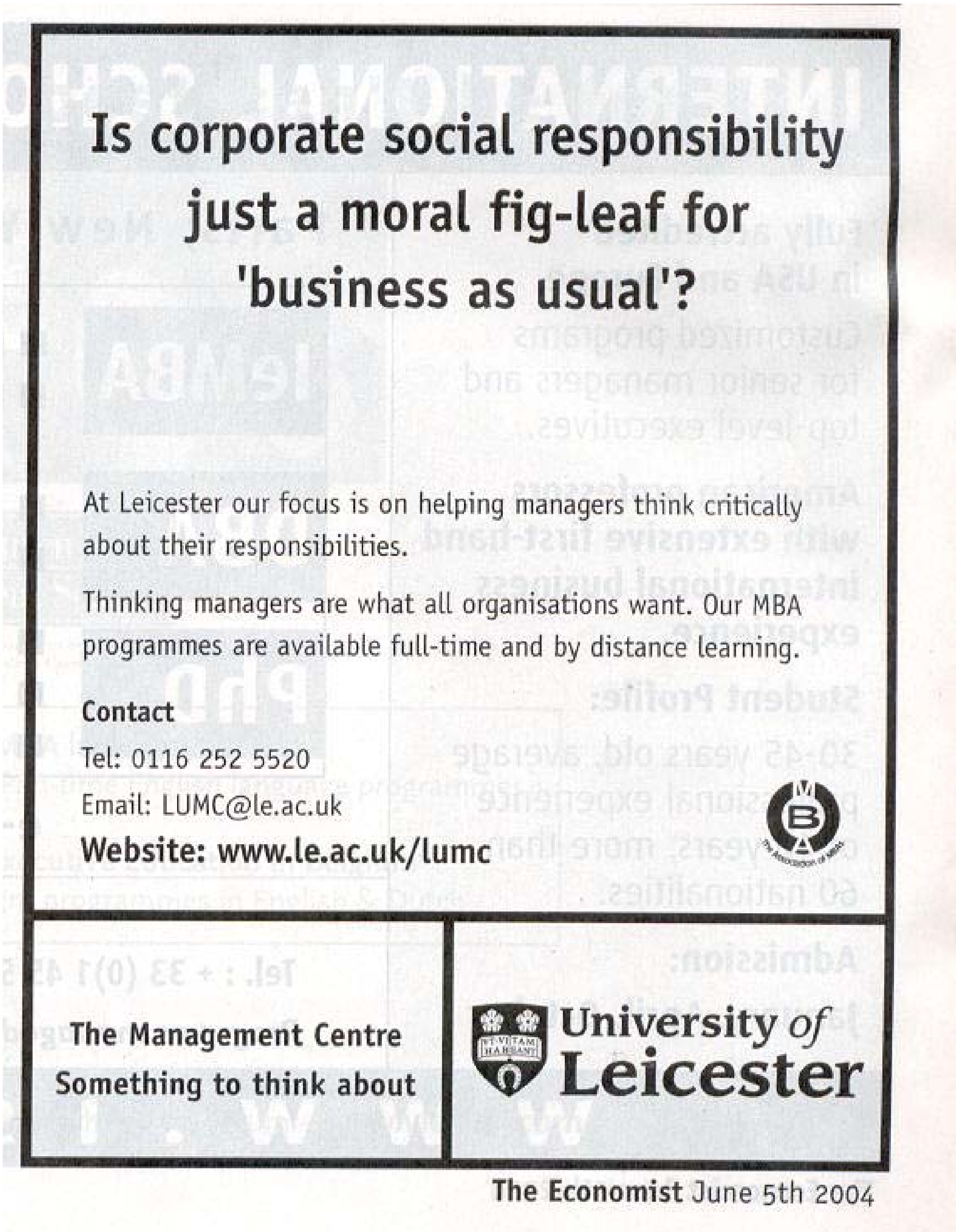
Introduction

The following advertisement sums up the unease prevalent in regard to corporate social responsibility.



The concepts of corporate social responsibility and sustainable development, together with triple bottom line are often used interchangeably to describe a new framework for business. Triple bottom line is meant to encapsulate the economic, social and environmental dimensions of business.

Global business appears to have accepted the need to accommodate sustainability. A recent survey of almost 1000 Chief Executive Officers from 43 countries found that three quarters said that they would sacrifice short-term profitability in exchange for long-term shareholder value when implementing a sustainability program. As expected, the main factor driving sustainability for these executives was concern about reputation and brand.[1] The majority of leading companies have stated their commitment to the concepts and a substantial number of companies are reporting their achievements in terms of sustainable development and corporate social responsibility.

Yet a substantial number of the non-government organisations that originally advocated these concepts now see implementation as "shallow and fragmented", despite the widespread rhetoric and take-up.[2] Within corporations there is also a sense that a great deal of effort has been expended without tangible benefit emerging. It is not easily demonstrated that executive commitment to sustainable development, corporate social responsibility and triple bottom line has had a real impact on day to day management practices.

Particular difficulties arise when a company which has committed itself to achieving outstanding performance is seen to break those commitments. The example of BP's Baku-Tblisi-Ceyhan pipeline project has been cited by Amnesty International as having "serious implications for the human rights of the thousands of people living in the area"[3] Yet BP has been praised for its environmental record and is acknowledged to have high standards.

Why are frustrations emerging in regard to these exciting concepts? Why is there a sense that the promise of a new approach in the corporate sector has proven rather elusive? There appear to be fundamental problems which go to the credibility and accountability of these new corporate aspirations.

[1] 6th Annual Global CEO Survey, Leadership, Responsibility and Growth in Uncertain Times' Price WaterHouse Coopers in conjunction with the World Economic Forum 2004

[2] Behind the Mask: the real face of corporate responsibility, Christian Aid Report 2004

[3] http://www.amnesty.org.uk

Initial optimism

Enormous changes have occurred in the past fifteen years with regard to corporate participation in the sustainability debate. In the early nineties most large companies began to acknowledge that there had been a shift in community expectations. It was recognised that "most managers today are not comfortable with the views espoused by Milton Friedman that managers are engaging in theft if they apply the funds of the corporation to anything other than maximising profits"[4].

If companies were to stay relevant and retain their social licences to operate, then they needed to be aware of and strive to meet these changing expectations. It has now been largely accepted that for a company to discharge its responsibilities to shareholders then broader groups of "stakeholders" need to be engaged.

The concept of sustainable development provided a shared language for this new dialogue between business and the various constituencies. Leading up to the Rio Earth Summit in 1992, the language of the Brundtland Commission provided a new way of expressing the interdependence of a sound economy, a just society and a healthy environment. The Brundtland definition of sustainable development has been broadly accepted:

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

However, it is not always realised that a substantial portion of the Commission's findings were directed to the alleviation of global poverty and that their finding incorporated fundamental notions of inter and intra generational equity.

There has been extensive activity and institutional change at the national and international level. In 1992 Australia led the world in establishing the Ecologically Sustainable Development (ESD) process. This process involved section industry and community stakeholders and produced innovative approaches to contentious problems. Key industry associations including the Business Council of Australia and the Australian Mining Industry Council took an active role in the international debate and nominated participants to government delegations. In 1992 the Business Council produced 'Principles of Environmental Management' in order to assist companies improve their environmental performance[5].

These Principles represented a breakthrough for corporate Australia. They attracted positive comment from government, the NGO community and even the UN. Internationally, after the Rio Summit in 1992, the World Business Council on Sustainable Development was established and began to promote the concepts of sustainability and corporate social responsibility.

There was a real sense that sustainable development and corporate social responsibility would provide the new framework, which would redefine the role of corporations. A flurry of corporate reporting followed, initially concentrating on environmental management but more recently focused on sustainability, tending to include corporate social responsibility and the triple bottom line.

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[4] C. Burnup "A corporate response to environmental ethics" in *Business Ethics and the Law* ed CAJ Coady, CJG Sampford (Federation Press NSW 1993) 172

[5] Principles of Environmental Management Business Council of Australia Melbourne 1992

What do the words mean?

There are serious issues with the definitions being used to describe sustainable development and corporate social responsibility. The lack of consensus often leads to misunderstanding.

The Brundtland definition of sustainable development is very broad and applies on a level of *societal impact.* The definition of Ecologically Sustainable Development (ESD) adopted by the Commonwealth Government in 1990 is equally broad: *"Using, conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, now and in the future, can be increased".*[6]

By contrast, the definition of corporate *sustainability* used by the Dow Jones Sustainability Index states:

"Corporate sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments."

These definitions are very different, and rightly so. The definition of corporate sustainability applies to corporations and it really comes down to a highly sophisticated form of risk management. Additional stakeholders may benefit peripherally from the approach but the prime beneficiaries are shareholders.

This definition of corporate sustainability is a form of enlightened self-interest in respect of the corporation. It does not imply that the corporation has taken on a broader societal role. The shareholders could recognise that the corporation might contribute to the achievement of sustainable development by the broader society, but this would be an additional step. It is this definition of "corporate sustainability" which allows the various indexes to pursue the "best of field" approach.

Corporate social responsibility is even harder to define, for example:

"*CSR is the continuing commitment by business to behave ethically and contribute in economic development while improving the quality of life of the workforce and their families as well as the local community and society at large."*[7]
Or

"CSR recognises that the private sector's widest commercial interests require it to manage its impact on society and the environment in the widest sense."[8]

Triple bottom line is often used interchangeably to mean sustainable development or corporate social responsibility. The same problems of definition apply and it has been

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[6]" National Strategy for Ecologically Sustainable Development" Australian Government Publishing December 1992

[7] "Corporate Social responsibility: meeting changing expectations" World Business Council for Sustainable Development 2000

[8] "Developing Corporate Social Responsibility in the UK" Department of Trade and Industry UK 2000

argued that it is flawed to confuse "financial "with "economic"[9]. Economic accountability requires much more than comprehensive financial reports – which cannot take externalities into account. Similarly "social" and "economic" cannot be treated separately because all economic activity takes place in a social context.

These varying definitions are problematic because they mean inevitable disappointment for one group of stakeholders or another. For example, a community group which has adopted a Brundtland style understanding of sustainability might expect a "sustainable" corporation to be active in addressing inequity. The corporation however, may well view its commitment primarily as a strategy to enhance business viability.[10]

Finally, significant decision-makers in the corporation may see the concepts as tied up with "reputation" or brand whereas the community may view the commitment to sustainability in terms of specific performance. CEOs[11] in particular are extremely sensitive to reputational risk and this may lead them to embrace sustainable development and corporate social responsibility as ways of enhancing the corporation's reputation. Many executives see a direct link between their company's market capitalisation and brand/reputation[12] and so the business case for sustainability is indirectly linked to market capitalisation.

Translating the concepts into action

Much of the debate over the last 15 years has remained at the definitional level and it has proven difficult to translate the broad concepts into action. Within the corporate sector, the real question is "what do you do differently as a result of commitment to these broad concepts?"

The difficulties have not arisen because of lack of effort. The World Business Council for Sustainable Development has co-ordinated major international initiatives in regard to global sustainability. The Global Mining Initiative was funded by major companies and coordinated actions across the mining and minerals sector, including the Mining and Minerals Sustainable Development study (MMSD). This multi-stakeholder research project produced the global report Breaking New Ground in 2002, as well as regional reports including the Australian report – Facing the Future.

The reports, and the participative processes which produced them, made a significant contribution to the discussions around sectoral sustainability. The project agenda was broad and dealt with the Brundtland principles in a comprehensive fashion. The reports also attempted to deal with some of the thorny issues within the sector including tailings disposal and abandoned sites. Recommendations were been produced across the full range of social, environmental and economic aspects.[13]

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[9] Ian Mcauley "Triple Bottom Line – fad or substance" in *The Corporate Citizen* Vol 3 Issue 3 2003
[10] "Easy being green" in *Corporate Risk* May 2004
[11] " Board Risk Management Survey Report" Australian Institute of Company Directors 2004
[12] "World Economic Forum 2004 Annual Meeting Survey", Fleishman-Hilard Knowledge Solutions 2004
[13] "Breaking New ground – Mining, Minerals and Sustainable Development" IIED and WBCSD, Earthscan UK 2002

The project process involved an enormous cross section of participants and this multilevel engagement was a major achievement in its own right. The project has stimulated higher expectations amongst NGOs and within the broader community. The MMSD recommendations are far-reaching and most require substantial action at the local and national level. It is not surprising that the sector is finding implementation a challenge.

In 1996 the Minerals Council of Australia (MCA) responded to stakeholder pressure and produced an Environmental Code which has served as an international model. The Code is now being superseded in favour of an Operational Framework for Sustainable Development Implementation. The aim of the Framework is to "provide a framework of guidance for corporates that can be implemented at the site level. The MCA sees the benefit in this approach in that it is based on continuous improvement rather than standards and that it is voluntary not mandatory.[14]

Industry associations can provide a guidance framework but delivery depends upon action taken by the company at the business unit level.

Application at the corporate level

Companies who have stated their commitment to the new concepts have been anxious to demonstrate the importance of transparency and accountability. These companies have taken the lead in voluntary reporting, generally following the Global Reporting Initiative's Sustainability Reporting Guidelines issued in 2002. The credibility of voluntary reporting is clearly strengthened by independent verification and this is encouraged by some industry associations. For example, the Energy Supply Association of Australia reviews reports annually and credits those companies which have undergone external verification. Amongst the NGOs, the WWF has regularly assessed mining company reports in its "Ore or Overburden" summary and weights external verification significantly.

However, reporting is not performance, and there are moves to mandate sustainability reporting in the same way as financial reporting. In 2002, the Johannesburg Stock Exchange recommended that "publicly listed companies report to the standards developed by the Global Reporting Initiative".[15] Credibility can be driven by the financial sector and this has led to the adoption of the Equator Principles. By adopting the Principles, a number of banks have signalled their intention to be more vigilant in their assessment of environmental and social impacts. There are also initiatives to verify actual performance by means of third party certification. Major mining companies are currently working with the World Wide Fund for Nature to assess such an approach in the Mining Certification Evaluation Project.

Translating the concepts at the business unit level requires a rigorous approach to management. It involves setting targets across a host of social, environmental and economic criteria, monitoring performance against those targets and then providing

[14] "Australian Minerals Industry Operational Framework for Sustainable Development Implementation" Minerals Council of Australia 2004 pg 2
[15] 2003 Lifeworth Annual Review of Corporate Responsibility January 2004 pg 15 www.lifeworth.com

assurance that real performance is being reported. The core concepts need to be adopted at the Board level and commitment needs to be long term to be successful. Rio Tinto provides an example of a company developing from a statement of business practice “The way we work”[16] in 1997 through to a series of worldwide quantitative targets on safety, occupational health, environment and land access. Qualitative commitments have also been made on political involvement, human rights, and communities. The Rio process is subject to a variety of assurance and verification instruments.

This is a long way forward from the initial discussions on sustainable development and corporate social responsibility. However, it is no panacea. The recent case of Shell has demonstrated that it is certainly possible for a company to adopt high level principles and expend enormous effort over a period of years and yet miss a fundamental issue. In this case, the company failed to disclose reduced oil reserves.[17]

Conclusion

Disappointment and cynicism have arisen when companies which have adopted the new framework continue to perform below community expectations. Some of this disappointment results from misplaced expectations, particularly when corporations are expected to remedy inequities which really belong in a wider societal agenda.

Implementing the new concepts has proven difficult and expensive, with inordinate time devoted to definitional debates. Sometimes the “new” management approach looks simply like a more rigorous approach to “old” continuous improvement. Where change is occurring it is often evolutionary rather than revolutionary.

Yet taking a longer term perspective, it is clear that the concepts of sustainable development and corporate social responsibility continue to alter expectations inside and outside corporations. The concepts have moved the debate to the point where significant companies acknowledge that they must take account of stakeholder requirements. Voluntary guidelines, peer pressure and in some cases, mandatory requirements, are all driving better corporate performance and increased transparency.

The pace may not be fast enough for some, yet major changes take time. The new concepts do provide a constructive framework for new approaches to management, including much broader community and staff participation. The frustrations of implementation have stimulated the development of new tools to improve performance and measure progress. Corporate social responsibility and sustainable development are more than corporate window dressing. They are not just “in the eye of the beholder”.

[16] “The way we work – our statement of business practice” Rio Tinto April 2003
[17] Beth Gardiner “Shell Report exposes lies on oil reserves” Associated Press April 19, 2004

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