

CHAPTER FOUR

CSR CODES AND GUIDELINES

4.1 INTRODUCTION

The formulation of a CSR strategy requires an understanding of an organisation's current social performance, which in turn requires development of appropriate metrics for measuring social performance (SEEP, 2009:17). For instance, the basic principles of fair trade involve fair prices, fair labour conditions, direct trade, and environmental sustainability. In order to know if these and other principles are being followed, it is imperative to determine the extent of a particular corporation's **social responsibility performance**. Therefore, there is a need for a framework to assess the phenomenon of CSR as it relates to any organisation or corporation (Kanji & Chopra, 2010:123). Currently, there are numerous generic and well-established codes, principles or other types of CSR initiatives that can be adopted by companies worldwide during the development of their unique CSR strategies. Although there is no standardised blueprint of CSR strategy, the general consensus is that a firm's CSR strategy should be unique, reflecting not only its industry characteristics but also the firm's mission, values, core business activities, and strategic direction (SEEP, 2009:17). In a sense, CSR can be viewed as a journey, whereupon CSR initiatives such codes and standards can serve as a 'map' to guide companies towards greater transparency and accountability.

According to the European Commission (2003:5), CSR initiatives fulfil a vital need in providing robust process guidance and indicators of both historic and future environmental, social and financial performance. CSR-related instruments have the potential to enhance performance of whole companies, significantly advancing the realisation of CSR across sectors, industries and whole economic regions. Leipziger (2003) explains that CSR initiatives can be used as innovative instruments for the promotion of fundamental human, labour and environmental rights and ending anti-corruption practices, especially in countries where public authorities fail to enforce minimum standards (*also see* Beschorner & Müller, 2007:11). Companies also adopt these instruments (into their codes of conduct) as internal management tools to state the values and ethical standards their business subscribes to, to

influence the practices of their global business partners and as a way to inform consumers about the principles they follow in the production of goods and services they manufacture or sell (European Commission, 2004). It is important to keep in mind that such tools are not an end in themselves, but a beginning. The creation of a code of conduct without its implementation is a dangerous pursuit, as it might raise expectations among company stakeholders, such as consumers, investors, employees and local communities (Leipziger, 2003). Self-monitoring of adherence to a corporation's stated principles and self-adopted standards are therefore becoming more common, and some companies have even voluntarily adopted monitoring of their practices, policies and plants by independent auditors (De George, 2005). Instruments by which organisations can be measured are especially important in order to compare and contrast levels of performance. Initially, the function of instruments is to establish minimum levels of performance. They also help organisations to manage the quality of their processes or systems designed to manage impacts and processes. Over the course of time, the use of instruments encourages, facilitates and mandates best practice (European Commission, 2003:5).

Against this background and in accordance with the third research objective, the purpose of this chapter is to investigate some of the most significant **CSR initiatives** that are currently applied by corporations worldwide.

The existing CSR initiatives may be **classified** (OECD, 2009:238-239) as follows:

- **Corporate Codes of Conduct:** are companies' own directive statements or rules which provide guidance and prohibit certain kinds of behaviour. Codes of conduct are mostly used for guiding a company's own environmental and social impacts, but can also serve for regulating the impacts of their suppliers. Codes directed at suppliers may contain provisions for monitoring compliance. Corporate codes of conduct are some of the most fundamental expressions of a company's CSR strategy.
- **Multi-stakeholder Initiatives:** involve cooperation between many social partners, including companies, worker and employer organisations, NGOs, governments, or some combination thereof (see 4.3). Such an initiative may address a specific issue (*i.e.* labour, environment, bribery, etc.) or encompass the whole range of CSR issues. Some multi stakeholder initiatives may be region or sector specific. These initiatives

can vary in terms of objectives, such as: awareness building towards specific issues; others have a code of conduct to which their members must comply and may be required to undergo monitoring and certification carried out by either a “social auditing” firm or an NGO; and others, such as the GRI (see 4.10), focus on creating a uniform approach to a particular aspect of the CSR process.

- **Certification and Labelling:** are initiatives that aim to provide consumers and other stakeholders with reliable information to make purchasing or other business decisions. These initiatives may focus on single issues such as child labour, fair trade or forest conservation, but may also address a range of issues (see 4.5 & 4.6). Certification is subject to social auditing, which is carried out by accredited audit companies. Remediation steps are often undertaken on issues where non-compliance has been detected. Certified companies are subject to continuous monitoring.
- **Model Codes:** are codes of conduct set forth by a multi-stakeholder initiative, NGO, trade union or other actor, which companies can build on in developing their own codes. Model codes aim to establish a minimum list of standards that all codes of conduct covering certain issues ought to address. They are often used as a benchmark (see 4.11) for evaluating unilaterally adopted codes of practice.
- **Sector or Industry wide initiatives:** aim to address widespread challenges in a specific sector (within a country, regionally or internationally) and provide a common approach in direct operations or in dealing with supply chain management. These initiatives may be led by business or may be multi stakeholder in nature. Some focus on raising awareness, but most involve an industry wide code of conduct to which businesses commit.
- **International Framework Agreements (IFAs):** are negotiated jointly by national trade unions and global union federations with multinational companies. They aim at ensuring that the company concerned respects the same labour standards in all the countries where it operates as well as throughout its supply chain (4.2 & 4.9). These agreements are designed to be used in conjunction with national labour policies and serve as a basis for further negotiation at the national level.

- **Socially Responsible Investment (SRI) Initiatives:** are being developed in the financial sector. Historically, these initiatives have focused on financial institutions' own operations, but increasingly, initiatives are focusing on social responsibility concerning investment decisions (*see section 2.3*).

Subsequently, some of the **most prominent CSR related principles and codes** will be explored:

4.2 OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

Currently, the *OECD (Organisation for Economic Co-operation and Development) Guidelines for Multinational Enterprises* document, is the only corporate responsibility instrument formally adopted by state governments. They are the most prominent interstate principles concerning various aspects of corporate responsibility and the role of international investment. Endorsing governments have non-binding obligations to promote that corporations comply with the Guidelines, with clear directions laid out by the OECD (Černič, 2008:78). The main purpose of the OECD Guidelines is to facilitate the resolution of disputes at the enterprise level through mediation and conciliation (Baccaro & Mele, 2011:454). The Guidelines were first drafted in 1976 and were most recently revised in June 2000. They are recommendations addressed to MNCs (multinational corporations) that aim to ensure that the MNC operations are in harmony with government policies (Baines, 2009:228; Černič, 2008:77).

The OECD Guidelines for Multinational Enterprises constitute a set of voluntary recommendations to MNCs in all the major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Adhering governments have committed to promote them among multinational corporations operating in or from their territories. The distinctive implementation mechanisms include National Contact Points (NCP), which are government offices charged with promoting the Guidelines and handling enquiries in the national context. In addition, the Guidelines are

complemented by commentaries which provide information and explanations of the Guidelines text and implementation procedures (Baccaro & Mele, 2011:455; OECD, 2008).

Obeying national laws is the first obligation for enterprises. The Guidelines are therefore not a substitute for, nor do they override, national law. They represent standards of behaviour **supplemental to national laws** and, as such, do not create conflicting requirements. The Guidelines were developed by 30 member governments. They are part of the OECD Declaration on International Investment and Multinational Enterprises. While the Guidelines themselves are a non-binding recommendation to businesses, governments have a responsibility - through use of the NCPs - to promote the Guidelines, encourage their use, handle enquiries and help to respond to any issues that may arise (MED, 2008). In order to better understand the objectives of the Guidelines (Leipziger, 2003), it is necessary to review the role of the Organisation for Economic Co-operation and Development (OECD). The OECD promotes policies that contribute to economic growth and development. Founded in 1961, the OECD is a membership organisation for governments from 30 countries. The OECD has made a **significant contribution to CSR** by developing several CSR-related principles, including the OECD Principles of Corporate Governance and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

The **objectives** of the Guidelines are:

- 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
- To enhance the contribution to sustainable development made by multinational enterprises

Over years of striving to achieve these objectives, the OECD Guidelines have developed

into one of the most comprehensive CSR tools, addressing a range of issues unparalleled by most CSR instruments. For instance, the Guidelines address *science, technology and taxation-issues* that are not common denominators among CSR tools (*the Bench Marks also address these themes – see 4.11*). Given their comprehensive nature, the Guidelines are useful in **setting a context on CSR** for companies. The member countries to the OECD are, in alphabetical order: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Republic of Ireland, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the USA. The European Commission also takes part in the work of the OECD. In addition, Argentina, Brazil, Chile, Estonia, Israel, Latvia, Lithuania, Romania, and Slovenia have declared their commitment to the Guidelines but are not OECD members (OECD, 2008; MED, 2008).

Although the OECD Guidelines are a useful starting point and checklist for all companies, especially for multinational corporations, it is best to use them in conjunction with process standards as they do not contain guidelines on management systems (Leipziger, 2003).

4.3 GLOBAL SULLIVAN PRINCIPLES OF SOCIAL RESPONSIBILITY

Ghebremariam and Tolhurst (2007) describe the *Global Sullivan Principles of Social Responsibility (GSP)* as a voluntary code of conduct which was instigated and drafted by the late Reverend Leon H. Sullivan. The overarching objective of the Global Sullivan Principles is to encourage companies and organisations of all sizes, in widely disparate industries and cultures, to work toward the common goals of economic, social and political justice including respect for human rights and equal work opportunities for all peoples. The principles are inclusive in that they embrace businesses' existing codes of conduct and work in conjunction with them. The original GSP were launched in 1977 and were designed to assist US companies operating in South Africa in an effort to address apartheid policies. The Sullivan Principles called on US companies with investments in South Africa to treat their Black African employees the same as they would their American employees. These same principles were then re-launched in November 1999 as the Global Sullivan Principles

for Corporate Social Responsibility (Baker, 2011a; Ghebremariam & Tolhurst, 2007, Cavanagh, 2004:633).

A company wishing to be associated with the Principles is expected to provide information which publicly demonstrates its commitment to them. The Principles aim to be applicable to companies of any size, operating in any part of the world. They have been endorsed and implemented by a number of business councils, campaigning non-governmental organisations, local authorities, companies and representative organisations. To date, around 100 companies have signed up to them (Baker, 2011a).

The distinguishing feature of the GSP is their aspirational element, which provides vision and leadership. Where some codes of conduct are thought to be too managerial-centred, the GSP provide a vision of companies as a force for social justice. The GSP are aspirational in nature and do not include any kind of verification. Accountability is promoted through reporting. The GSP provide a framework with which companies can align their own codes of conduct and initiatives. The GSP apply to all workers, in all industries and in all countries. Companies are advised to use them in conjunction with process standards, such as AA1000 and GRI, as well as standards that include some element of external verification, such as SA8000 (Leipziger, 2003).

4.4 THE UN GLOBAL COMPACT

The proposal that business and the UN jointly initiate a “global compact of shared values and principles, to give a human face to the global market” was introduced by former UN Secretary-General, Kofi Annan, in a speech to a gathering of chief executives in 1999. It was with a fair amount of surprise that, from one speech, a movement on such a global scale was borne. The following year, a small Global Compact initiative – comprised of just 40 companies, as well as influential civil society, labour and employer organisations – set out on a mission to introduce universal principles to business everywhere (UNCGO, 2010a:9; Cavanagh, 2004:634). Officially launched in July 2000, the UN Global Compact (UNGC) is a leadership platform for the development, implementation and disclosure of responsible and sustainable corporate policies and practices. It is endorsed by chief

executives and seeks to align business operations and strategies everywhere with **ten universally accepted principles** in the areas of human rights, labour, environment and anticorruption (UNGC, 2011). The UNGC represents a call to action to the business community to join forces with the United Nations and other stakeholders to create a more sustainable and inclusive global marketplace (Kell, 2007:2). By doing so, business, as a primary agent driving globalisation, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere (UNGC, 2008). The UNGC brings business leaders together with other institutions to hold conferences, discuss best practices, and finds ways to promote responsible corporate citizenship. As a side benefit, affiliation also establishes positive reputational benefits for multinational corporations (MNCs) joining the UNGC (Janney *et al.*, 2009:408). With more than 8,500 signatories in over 135 countries, the UN Global Compact is the **world's largest voluntary corporate sustainability initiative** (UNGC, 2011). The UN Global Compact has two objectives:

- Mainstream the ten principles in business activities around the world
- Catalyse actions in support of broader UN goals, including the Millennium Development Goals (MDGs)

With these two complementary objectives in mind, the UN Global Compact has shaped an initiative that provides collaborative solutions to the most fundamental challenges facing both business and society. In summary, the UN Global Compact exists to assist the private sector in the management of increasingly complex risks and opportunities in the environmental, social and governance realms. By partnering with companies in this way, and leveraging the expertise and capacities of a range of other stakeholders, the UN Global Compact seeks to embed markets and societies with universal principles and values for the benefit of all (UNGC, 2008).

A company joining the initiative is expected to make the following commitments (UNGC 2010b:9):

- make the UN Global Compact and its principles an integral part of business strategy, day-to-day operations, and organisational culture

- incorporate the UN Global Compact and its principles in the decision-making processes of the highest-level governance body (e.g. the Board)
- take actions in support of UN goals and issues, including the Millennium Development Goals
- communicate annually with its stakeholders on progress made to implement the principles, ideally integrated into the annual report or similar public document (known as the Communication on Progress – COP – policy)
- advance the UN Global Compact and the case for responsible business practices through advocacy and active outreach to peers, partners, clients, consumers, and the public at large

The Global Compact's **ten principles** in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the following areas (UNGC 2010b:40; UNGC, 2008):

Human Rights

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

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

Labour Standards

- Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4:* the elimination of all forms of forced and compulsory labour;
- Principle 5:* the effective abolition of child labour; and
- Principle 6:* the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7:* Businesses should support a precautionary approach to environmental challenges;
- Principle 8:* undertake initiatives to promote greater environmental responsibility; and
- Principle 9:* encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10:* Businesses should work against corruption in all its forms, including extortion and bribery.

The Global Compact differs from nearly all other corporate responsibility (CSR) initiatives in that it seeks to promote development through good corporate citizenship. No other CSR initiative has the moral authority and convening power of the UN - secretary-General. With these assets, the Global Compact has succeeded in promoting CSR broadly through networks around the world (Leipziger, 2003).

4.5 ISO 14000 SERIES OF STANDARDS AND ENVIRONMENTAL MANAGEMENT

Standardisation could be generically defined as that activity aimed at putting order into repetitive applications that arise in the field of industry, technology, science and the economy (Dale, 2002 as cited in Marimon *et al.*, 2009:1). In its beginnings at the start of the 20th century, standardisation arose to limit the anti-economic diversity of components,

parts and supplies so as to favour their interchange-ability, facilitating serial production and the repair and maintenance of products and services. In a global economy without standardisation and the fruits of it – regulations, standards and technical specifications – exchanges will be made exceedingly difficult. Consequently, standardisation **fosters international trade** thanks to the elimination of obstacles owing to different national practices (Marimon *et al.*, 2009:1). **Certification** is a procedure where an independent and competent third party gives written assurance, by means of a certificate, that a product, service, system, process or material conforms to specific requirements. Certificates of **conformity to specific standards** are issued by certification bodies such as the International Organization for Standardization (ISO), which are independent of the organisations they certify (Owen, 2007). As alluded to earlier (*see 4.1*), certification initiatives provide consumers and other stakeholders with reliable information to make purchasing or other business decisions. Subsequently, certification is a critical control mechanism used to ensure firm's compliance with the requirements of various standards – including certifiable ISO standards. Certification should also ensure consistency of the implementation in organisations across the globe hence maintaining the credibility of the standard (Castka & Balzarova, 2008b:238). However, academic studies as well as the experience of many practitioners suggest that there is not a clear linkage between certification and organisational performance (Castka & Balzarova, 2008b:240).

ISO 14000 refers to the series of **environmental management systems standards** (introduced in 1996). A *'management system standard'* is a set of requirements that a management system must meet to receive certification of compliance, usually from a third-party auditor. An ISO 14000 certification thus indicates that a firm has a well-documented, consistent environmental management system, but does not necessarily in itself say anything about a firm's environmental impacts. Audits are performed by independent firms, which in turn are accredited by various independent agencies worldwide. Firms must be re-audited every three years to keep their certification current (Bronnenberg & Corbett, 2007:452). ISO 14001 is the only standard intended for registration by third parties. All the others are for guidance. ISO 14001 is a management standard, it is not a performance or product standard. The underlying purpose of ISO 14001 is that companies will improve their environmental performance by implementing ISO 14001, but there are no standards for performance or the level of improvement. It is a process for managing company

activities that impact the environment (ISO 14001 Management Zone, 2007).

The ISO 14000 series of standards reflect different aspects of environmental management. The following list outlines the broad coverage of each (Moller, 2007):

- Environmental Management Systems: 14001, 14002, 14004
- Environmental Auditing: 14011
- Environmental Labelling: 14020, 14021, 14022, 14023, 14024, 14025
- Life Cycle Assessment: 14040, 14041, 14042, 14043
- Evaluation of Environmental Performance: 14031

According to Leipziger (2003), the management systems of ISO 14001 provide a useful framework for organisations to address environmental issues. Companies in compliance with ISO 14001 must develop the following: an environmental policy; an assessment of environmental aspects; an assessment of legal and voluntary obligations; a management system; and a series of periodic internal audits and reports to top management. Through training, employees gain an understanding of how to prevent environmental problems. However, one of the most serious shortcomings of ISO 14001 is that it has **no performance criteria**. Hence, an organisation can implement excellent management systems to address environmental issues yet still cause serious environmental problems. ISO 14001 also does not focus on sustainability. The advantage for companies of such a well-known and well-accepted certification standard is that companies can opt to work only with certified facilities. ISO 14001 is well suited to large companies with well-developed management systems. The management systems of ISO have the potential to provide useful analogues for the field of CSR (Leipziger, 2003). As such, it is an important mechanism for monitoring certain CSR behaviour.

4.6 ISO 26000 STANDARD ON CORPORATE SOCIAL RESPONSIBILITY

In 2004, ISO announced a new work item: ISO 26000-guidance standard for social responsibility. ISO 26000 is an ISO International Standard giving guidance on Social Responsibility. It evolved from quality and environmental standards (ISO 9000 and ISO 14000). It is intended for use by organisations of all types, in both public and private sectors, in developed and developing countries, as well as in economies in transition (ISO, 2011). The pre-standardisation preparatory work suggested that the impact of ISO 9000 and ISO 14000 on the standardisation of social responsibility is likely to be substantial (Castka & Balzarova, 2008a:75).

ISO 26000 provides guidance for all types of organisations, regardless of their size or location, on (ISO, 2010):

1. Concepts, terms and definitions related to social responsibility
2. Background, trends and characteristics of social responsibility
3. Principles and practices relating to social responsibility
4. Core subjects and issues of social responsibility
5. Integrating, implementing and promoting socially responsible behaviour throughout the organisation and, through its policies and practices, within its sphere of influence
6. Identifying and engaging with stakeholders
7. Communicating commitments, performance and other information related to social responsibility.

ISO 26000 is intended to assist organisations in contributing to sustainable development. It is intended to encourage them to go beyond legal compliance, recognising that compliance with law is a fundamental duty of any organisation and an essential part of their social responsibility. It is intended to promote common understanding in the field of social responsibility and to complement other instruments and initiatives for social responsibility, not to replace them (ISO, 2011; ISO, 2010). The focus of ISO 26000 is not only to

operationalize social responsibility in organisations but also to reconceptualise 'social responsibility'. Therefore, it is less organisation-centric than ISO 14001, which emphasises the creation of environmental management systems in organisations (Castka & Balzarova, 2008b:236).

Core subjects and issues (ISO, 2011; ISO, 2010; Castka & Balzarova, 2008b:235-236) of social responsibility addressed in ISO 26000 are:

- **Organisational governance**
- **Human rights:** Due diligence; Human rights risk situations; Avoidance of complicity; Resolving grievances; Discrimination and vulnerable groups; Civil and political rights; Economic, social and cultural rights; Fundamental principles and rights at work
- **Labour practices:** Employment and employment relationships; Conditions of work and social protection; Social dialogue; Health and safety at work; Human development and training in the workplace
- **The environment:** Prevention of pollution; Sustainable resource use; Climate change mitigation and adaptation; Protection of the environment, biodiversity and restoration of natural habitats
- **Fair operating practices:** Anti-corruption; Responsible political involvement; Fair competition; Promoting social responsibility in the value chain; Respect for property rights
- **Consumer issues:** Fair marketing, factual and unbiased information and fair contractual practices; Protecting consumers' health and safety; Sustainable consumption; Consumer service, support, and complaint and dispute resolution; Consumer data protection and privacy; Access to essential services; Education and awareness
- **Community involvement and development:** Community involvement; Education and culture; Employment creation and skills development; Technology development and access; Wealth and income creation; Health; Social investment

Unlike ISO 14000, the ISO 26000 standard is **not intended for third-party certification**, because it is not a management system standard and therefore does not conflict with existing documents, treaties, conventions and other ISO standards (Reis Cajazeira, 2007).

An huge and unfortunate difference between the ISO 26000 (as well as the ISO 14000) standard and the other CSR guidelines mentioned above, is that the ISO standards are **not freely available** and companies which intend to use them, must purchase them from the ISO. Because it does not involve any certification, it is not clear how companies (especially smaller companies with minimal revenue) would be motivated to purchase such a standard, especially since most other CSR guidelines and instruments are free for use by almost anyone.

4.7 ACCOUNTABILITY 1000 FRAMEWORK

Accountability 1000 (AA1000) is the work of ISEA - the Institute for Social and Ethical Accountability. ISEA (also known as AccountAbility) is an international membership organisation, based in the UK. It exists to encourage **ethical behaviour** in business and non-profit organisations. AA1000 is promoted as a standard for the measuring and reporting of ethical behaviour in business. It provides a framework that organisations can use to understand and improve their ethical performance and a means for others to judge the validity of claims to be ethical (Baker, 2011b). AccountAbility's AA1000 series are principles-based standards to help organisations become more accountable, responsible and sustainable. They address issues affecting governance, business models and organisational strategy, as well as providing operational guidance on sustainability assurance and stakeholder engagement. The AA1000 standards are designed for the integrated thinking required by the low carbon and green economy, and support integrated reporting and assurance (AccountAbility, 2011).

The AA1000 Series of Standards comprise the following:

- The *AA1000 AccountAbility Principles Standard* (AA1000APS) provides a framework for an organisation to identify, prioritise and respond to its sustainability challenges.

- The *AA1000 Assurance Standard* (AA1000AS) provides a methodology for assurance practitioners to evaluate the nature and extent to which an organisation adheres to the AccountAbility Principles.
- The *AA1000 Stakeholder Engagement Standard* (AA1000SES) provides a framework to help organisations ensure stakeholder engagement processes are purpose driven, robust and deliver results.

The Assurance Standard and the Stakeholder Engagement Standard – are **based on the APS principles** and support their achievement.

The main goal of AA 1000 is what is called ‘stakeholder engagement’ (see 2.4). This involvement of stakeholders enables AA 1000 to establish confidence building and legitimacy as prerequisites for a good reputation. To this end, there are **five goals** (Beschorner & Müller, 2007:15):

1. Aligning the organisation’s systems and activities with its values
2. Learning about the impacts of its systems and activities, including stakeholder perceptions of such impacts.
3. Serving as part of a framework for internal control that allows the organisation to identify, evaluate, and better manage the risks arising from its impacts on, and relationships with, its stakeholders
4. Meeting the stakeholders’ legitimate interest in having information about the social and ethical impact of the organisation’s activities and its decision-making processes
5. Building competitive advantage through the projection of a defined stance on social and ethical issues

AA1000 specifies the process an organisation should follow to account for its performance, rather than performance levels an organisation should achieve. Under AA1000, corporations define and declare their governing values and ethical principles. The process standards contained within AA1000 link these values and principles to the development of

performance targets and to the assessment and communication of organisational performance. An organisation gradually enhances its performance by capitalising on experience from previous improvement cycles. The **implementation** of AA1000 standard proceeds through five stages (Caux Round Table, 2003):

- 1) **Planning:** The organisation commits to the process, and defines and reviews its values and social/ethical objectives and targets.
- 2) **Accounting:** The scope of the process is defined, information is collated and analysed, and performance targets and improvement plans are developed.
- 3) **Auditing and Reporting:** A report on the organisation's systems and performance is prepared, the overall process is externally audited, reports are made accessible to stakeholders, and stakeholder feedback is obtained.
- 4) **Embedding:** Structures and systems are developed to strengthen the process and integrate it within the organisation's activities.
- 5) **Stakeholder Engagement:** Stakeholder participation is sought and engaged in stages (1) through (4).

AA 1000, is not an accountability standard in the classic sense since its framework does not specify any particular field of application (social, environmental, or economic), nor does it provide any verification mechanism. Rather, the standard represents a general reference point to underpin the quality of specialised accountability guidelines and standards (Rasche & Esser, 2006:262).

4.8 KING REPORTS ON CORPORATE GOVERNANCE

Corporate governance in South Africa was institutionalised by the publication of the King Report on Corporate Governance ("King Report 1994") in November 1994. The King Committee on Corporate Governance was formed in 1992, under the auspices of the Institute of Directors, to consider corporate governance of increasing interest around the world, in the context of South Africa. The committee was chaired by Judge Mervyn King,

past president of the Commonwealth Association of Corporate Governance and director of numerous companies (King, 2002:7). The purpose of the King Report 1994 was and remains to promote the highest standards of corporate governance in South Africa. Unlike its counterparts in other countries at the time, the King Report 1994 **went beyond the financial and regulatory aspects** of corporate governance in advocating an integrated approach to good governance which serves the interests of a wide range of stakeholders and fundamental principles of good financial, social, ethical and environmental practice. In adopting a participative corporate governance system of enterprise with integrity, the King Report 1994 successfully formalised the need for companies to recognise that they no longer act independently from the societies in which they operate (King, 2002:7).

The 2002 report by the King Committee on Corporate Governance (or “King II”), which replaces the 1994 King Report, commences by outlining certain fundamentals relating to corporate governance. The 2002 report recognises that governance in any context reflects the value system of the society in which it operates (Payne, 2002). King II represents a formal review of South African corporate governance arrangements, similar to the Combined Code in the UK. The report comprises main sections that focus on the board and directors, risk management, internal audit, integrated sustainability reporting (non-financial reporting) (including a section on organisational integrity), accounting and auditing, relations with share owners and communication (Malan, 2007). From a CSR perspective, the section on **integrated sustainability reporting** (non-financial reporting) is of particular importance. This section states that “...every company should report at least annually on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies and practices.” Specific matters that require particular consideration (Malan, 2007) are:

- Health and safety practices (including HIV / AIDS);
- Environmental governance, including use of Best Practice Environmental Option Standard;
- Social investment and black economic empowerment;
- Human capital development and equal opportunity; and

- The development and implementation of a company code of ethics, and disclosure of adherence to that code. Whereas King I only required companies to have a code of ethics, King II **requires companies to demonstrate** a commitment to organisational integrity.

CSR has therefore been placed at the centre of attention by the King II report with its emphasis on the economic, social and environmental added value of organisations – the ‘triple bottom line’ (see 2.5.3). King II’s importance, however, is more than raising the profile of CSR: it is one of the first attempts by an African nation to define responsibility for itself (Van den Ende, 2004:90). On an international level, it is definitely at the forefront of guidelines on Corporate Governance issues that also promote companies’ policies and practices regarding CSR.

The revised Code of and Report on Governance Principles for South Africa (King III) were released on 1 September 2009, with an effective date of 1 March 2010. King III replaces the previous King Reports (King I and King II) and intends to place South Africa at the forefront of governance internationally. The revision was necessitated by the Companies Act, 2008, which has incorporated many of the principles contained in King II (SAICA, 2011). As with King I and King II, King III follows a voluntary basis for governance compliance. In other words there is a code of principles and practices on a non-legislated basis. Despite being voluntary by nature, the King III adopts an **‘apply or explain’ approach** which means that the board of directors, in its collective decision making, could conclude that to follow a recommendation would not, in the particular circumstances, be in the best interests of the company. The board could decide to apply the recommendation differently or apply another practice and still achieve the objective of overarching corporate governance principles of fairness, accountability, responsibility and transparency (Du Plessis, 2011; KPMG 2009:1; PWC, 2009:2; Steyn, 2009; Ernst & Young, 2009).

The current approach has evolved from the *‘comply or explain’* approach adopted in King II. The reason for the change is simply that the King Committee believes that the language more appropriately conveys the intent of the King Code from inception. The *‘comply or explain’* approach could denote a mindless response to the Code and its recommendations, whereas the *‘apply or explain’* regime shows an appreciation for the fact that it is often not a

case of whether to comply or not, but rather to consider how the principles and recommendations can be applied (Du Plessis, 2011; Steyn, 2009; KPMG 2009:1). King III applies to all entities regardless of the manner and form of incorporation or establishment and whether in the public, private sectors or non-profit sectors (PWC, 2009:2; Ernst & Young, 2009).

King III has broadened the scope of corporate governance in South Africa with its core philosophy revolving around leadership, sustainability and corporate citizenship. These key **principles** (PWC, 2011, Ernst & Young, 2009) are given prominence:

- Good governance is essentially about **effective leadership**. Leaders need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviour with regard to sustainability performance. Leadership should be effective and based on an ethical foundation.
- **Sustainability** is now the primary moral and economic imperative and it is one of the most important sources of both opportunities and risks for businesses. Nature, society, and business are interconnected in complex ways that need to be understood by decision makers. Incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves. Innovation, fairness, and collaboration are key aspects of any transition to sustainability. Innovation provides new ways of doing things, including profitable responses to sustainability. Fairness is vital because social injustice is unsustainable and collaboration is often a prerequisite for large-scale change.
- The board should ensure that the company is and is seen to be a **responsible corporate citizen** (see 5.4) through the development and implementation of strategies and policies in relation to economic, social and environmental impacts.

According to Steve (2007), the King Report(s) on Corporate Governance is probably the most effective summary of the best international practices in corporate governance.

4.9 OECD PRINCIPLES OF CORPORATE GOVERNANCE

OECD Principles of Corporate Governance (*must not be confused with the OECD Guidelines for Multinational Enterprises - see 4.2*) represent the first initiative by an intergovernmental organisation to develop guiding principles in the field of **corporate governance (CG)** (*see 2.2*). Subsequently, these principles have the same focus of the South African born *King Codes* (on Corporate Governance) described above (*see 4.8*). The OECD Principles are directed at a wide audience, including governments, companies, investors, business groups and others (Leipziger, 2003). The OECD Principles are one of the Twelve Key Standards for Sound Financial Systems adopted by the Financial Stability Forum (FSF). Most standard setters have developed an associated methodology that, together with the standards, forms the basis for the voluntary assessments undertaken by the IMF/World Bank either in the form of a Review of Observance of Standards and Codes (ROSC) or as part of the Financial Sector Assessment Programme (FSAP) (OECD, 2007:8). The OECD Principles of Corporate Governance provide specific guidance for policymakers, regulators and market participants in improving the legal, institutional and regulatory framework that underpins corporate governance, with a focus on publicly traded companies (Jesover & Kirkpatrick, 2005:127).

The OECD Principles of Corporate Governance were endorsed by OECD Ministers in 1999 and revised in 2004. They aim to advance the corporate governance agenda and to provide specific guidance for legislative and regulatory initiatives in both OECD and non-OECD countries. The Principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries; and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. The Principles focus mainly on publicly traded companies, both financial and non-financial. However, to the extent they are deemed applicable, they might also be a useful tool to improve corporate governance in non-traded companies, for example, privately held and state-owned enterprises (Malan, 2007; OECD, 2004:11). The Principles represent a common basis that OECD member countries consider essential for the development of good governance practices. They are intended to be concise, understandable and accessible to the international community. They are not

intended to be a substitute for government, semi-government or private sector initiatives to develop more detailed 'best practice' in corporate governance (OECD, 2004:11). There are **six principles** (Malan, 2007; Jesover & Kirkpatrick, 2005:128-129) which describe that an effective corporate governance framework should:

- Promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities;
- Protect and facilitate the exercise of shareholders' rights;
- Ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights;
- Recognise the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises;
- Ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company; and
- Ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

The overarching principle states that the corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities (OECD, 2007:27). The Principles were drafted in the form of aspirational principles and avoid prescription. They are therefore applicable in countries with widely varying institutions, legal systems and corporate governance traditions. The Principles were agreed following extensive consultation among key stakeholders so that they enjoy widespread support (Leipziger, 2003).

4.10 THE GLOBAL REPORTING INITIATIVE (GRI)

Sustainability reporting is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g., triple bottom line, corporate responsibility reporting, etc.). A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organisation – including both positive and negative contributions (GRI, 2011:3).

In 1997, the Coalition for Environmentally Responsible Economies (CERES), in collaboration with the Tellus Institute, convened the GRI. The UN Environment Programme (UNEP) has also played an important role in the formation of the GRI. The Guidelines are the product of an intensive, multi-stakeholder, consultation process, involving thousands of non-governmental organisations (NGOs), companies, business groups, trade unions and accountancy organisations (Leipziger, 2003). The Global Reporting Initiative's (GRI) vision is that reporting on economic, environmental, and social performance by all organisations becomes as routine and comparable as financial reporting. The GRI network accomplishes this vision by developing, continuously improving and building capacity around the use of a *Sustainability Reporting Framework*, the core of which are the Sustainability Reporting Guidelines (GRI, 2008-2009:4; Bennett & James, 1999). **The GRI Reporting Framework** is intended to serve as a generally accepted framework for reporting on an organisation's economic, environmental, and social performance. It is designed for use by organisations of any size, sector, or location. It takes into account the practical considerations faced by a diverse range of organisations – from small enterprises to those with extensive and geographically dispersed operations. The GRI Reporting Framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organisation's sustainability performance (GRI, 2011:3).

In June 2000, GRI launched the **Sustainability Reporting Guidelines**, and a fully revised and updated version was released in September 2002 during the World Summit on Sustainable Development. There are 313 companies in 31 countries that issue GRI reports, earning them the title "GRI Reporters". The majority of the reporters are in Europe, but the Guidelines are becoming well known throughout the world. Although the GRI Guidelines

are not a code of conduct, a management system or a standard, they are extremely useful to companies working on code implementation. The Guidelines promote the communication of (Leipziger, 2003):

- Actions taken to improve economic, environmental and social performance
- The outcomes of such actions
- Future strategies for improvement

The Guidelines are the foundation of the Framework and are now in their third generation (G3). They feature Performance Indicators and Management Disclosures which organisations can adopt voluntarily, flexibly and incrementally, enabling them to be transparent about their performance in key sustainability areas. The *G3.1 Guidelines* are the latest and most complete version of GRI's G3 Sustainability Reporting Guidelines (GRI Portal, 2011).

Other components in the Reporting Framework are: **Sector Supplements** - for automotive, financial services, logistics and transportation, mining and metals, public agency, tour operators, telecommunication; and **Protocols** - the 'recipe' behind each indicator in the Guidelines, including definitions for key terms in the indicator, compilation methodologies, intended scope of the indicator, and other technical references. There are also topic-specific resource documents on reporting on HIV / AIDS, climate change, biodiversity, supply chain and small enterprises. To ensure the highest degree of technical quality, credibility, and relevance, the GRI Reporting Framework is developed and continuously improved through intensive multi-stakeholder engagement that involves reporting organisations and information seekers, who together develop and review content for the Reporting Framework (GRI, 2008-2009:4; Bennett & James, 1999).

4.11 THE BENCH MARKS

At the 1992 Earth Summit, the UN Centre on Transnational Corporations sought to institute an international code of conduct for companies that it had been developing since 1974.

This initiative was blocked by influential governments in favour of voluntary measures proposed by a group of multinational companies. In response, ECCR (The Ecumenical Council for Corporate Responsibility), the Interfaith Center on Corporate Responsibility (ICCR, USA) and the Taskforce on the Churches and Corporate Responsibility (TCCR, now part of Kairos, Canada) formed a partnership to produce an analytical framework to examine how multinational companies should behave across a full range of corporate responsibility expectations. The first edition of the resulting document, *Principles for Global Corporate Responsibility: Bench Marks for Measuring Business Performance (the “Bench Marks”)*, was published in 1995. Over a two-year period, the framework was tested by church groups, private industry, labour organisations, women's groups and NGOs, then revised and republished. In 1998 a second edition was published by the three partners in Canada, the UK and the USA (ECCR, 2006).

The *Bench Marks* framework formed the agenda for an international conference held at Hengrave Hall, Bury St Edmunds, UK, in April 1999. ECCR, ICCR and TCCR hosted 53 delegates from advocacy organisations in 21 countries in Africa, the Americas, Asia, Australasia and Europe. Delegates included representation of indigenous peoples. Countries represented were: Australia, Bolivia, Brazil, Bulgaria, Cameroon, Canada, Colombia, El Salvador, Germany, China (Hong Kong), India, Kenya, Korea, New Zealand, Nigeria, Peru, South Africa, the Philippines, the UK, the USA and Zimbabwe. With equal representation between South and North, conference participants shared their experiences in holding companies accountable for social and environmental impacts. The delegates instituted a steering group, drawn from members in six continents, who worked together to produce the **third edition of the Bench Marks** (*on which this study is based*), which was published in 2003.

The *Bench Marks* **promotes positive CSR** consistent with the responsibility to sustain the human community and all creation. The Bench Marks calls for:

- A new relationship between corporations, communities and ecosystems;
- Support for a sustainable system of production and a more equitable system for the distribution of the economic benefits of production and environmental services;

- Participation of stakeholders and those most affected by the activities of corporations in the decision-making processes of companies;
- Preservation and protection of the environment for present and future generations.
- Respect for the dignity of every person, for workers' right to organize a union and bargain collectively and for all core labour rights as defined by the ILO;
- Strong codes of conduct for corporations and suppliers independently monitored by local non-governmental and community organisations;
- Affirmation of indigenous peoples' right to full participation in the business decisions which pertain to their ancestral lands and their way of life;
- Human rights policies based on the Universal Declaration of Human Rights;
- Commitment to the principle of workers' right of access to health care, accessible and affordable medicines, including antiretroviral drugs for the treatment of AIDS.
- Corporate governance policies that balance the sometimes competing interests of managers, employees, shareholders and communities; and that are based on ethical values, including inclusivity, integrity, honesty, justice and transparency.

The *Bench Marks* is designed to measure the extent to which a company is operating in a way that can be considered, from a faith perspective, to be responsible. Consequently, the *Bench Marks* is not intended as a code of conduct but as a **tool for measuring**. In some instances the *Bench Marks* draws on existing codes such as those produced by the International Labour Organization and the United Nations; in others they define new measures. Each section of the *Bench Marks* identifies different stakeholders (people or groups) or issues that might be affected by corporate activity and then considers the various ways in which a company has responsibilities concerning these. The approach used is to start with general principles that faith communities believe are fundamental if a business is to act in a responsible way. More detailed policies and indicators are then developed which enable the user to identify the extent to which those principles are being upheld. Three different levels of analysis are used to do this:

- **Principles:** These are statements of business philosophy fundamental to a responsible company's actions.
- **Criteria:** These are particular company policies and/or practices that can be compared for consistency with the Principles.
- **Bench Marks:** These are specific reference points of measurement to be used in assessing the company's performance in relation to the Criteria.

A number of **common themes and principles** underlie the *Bench Marks* document and are relevant to many of the stakeholders and issues considered in the text. These include the following:

- Corporations have a responsibility to ensure that all aspects of their production cycle cause minimum harm to people and the environment.
- Responsible corporations properly consult stakeholders before making final decisions about activities that affect them.
- Responsible companies employ comparable standards across all of their operations. They do not use lower legal requirements in host countries to avoid applying those that would be required at home.
- Effective corporate codes of conduct are drafted with input from those who will be affected by them and have to implement them.
- Clear lines of responsibility and accountability are necessary for companies to properly implement corporate responsibility policies and practices.
- Responsible companies have clear systems for monitoring their environmental and social impacts and enable communities and civil society to contribute to this.
- Responsible companies provide publicly available and externally verified reports, giving comparable information about the social and environmental impacts of each of their operations.

The specific themes and stakeholders considered by the *Bench Marks* are divided into two categories, each of which forms one part of the *Bench Marks* document. Part 1 deals with the **Wider Community**. This includes stakeholders and issues external to the company including neighbouring communities, the environment and the wider society in which the company operates. Part 2 deals with the **Corporate Business Community**, which refers to stakeholders and issues connected to the company's internal structures. This part of the *Bench Marks* considers employees, suppliers, the company's customers and its business partners. It also considers how a company arranges its financial affairs and develops an ethical internal culture (ECCR, 2006). The *Bench Marks* document is offered to groups working on corporate social responsibility, to workers and to companies seeking to respond to the challenges of doing business in the global economy in a socially responsible manner. The long-range goal is to transform the way corporations relate to people, communities and the environment. People of all faiths and beliefs are invited to engage in and contribute to the promotion of the principles articulated in the Bench Marks. It is believed that the broad involvement of a variety of individuals and institutions will deepen the values of corporate responsibility and accountability that will restore human dignity and the integrity of creation (Bench Marks Foundation, 2003).

Of all the CSR initiatives mentioned in this chapter, the *Bench Marks* framework is **definitely the most comprehensive, freely available instrument** (in terms of CSR guiding principles as well as measurement), as it includes a much broader and more detailed scope of CSR themes and indicators than the other investigated guidelines/codes. This makes the *Bench Marks* the **most suitable 'CSR Standard'** (in terms of this study) for further development into a workable, generic *Corporate Citizenship* measuring instrument.

4.12 CONCLUSION

This chapter sought to highlight certain CSR initiatives and 'tools' (in the form of prominent codes and principles) that corporations can utilise on their journeys toward becoming good corporate citizens. The increasing presence and the sophistication of these instruments supports the argument of Beschorner and Müller (2007:11) that social standards are not political or scientific discoveries; they emerge from very concrete problems faced by

businesses within a society that has grown increasingly critical of corporate business practices, both locally and internationally. These codes and principles have therefore been created in order to assist and guide companies in their policies and practices in order to achieve a greater balance between the different dimensions of their CSR endeavours.

All of the instruments mentioned in this chapter are useful and valuable to the advancement of CSR in theory and in practice. However, there is one clear missing link in all of these instruments – **none of them** are structured in order to provide guidelines/principles for the advancement of the **Economic Dimension of CSR**. When considering the huge toll on society from the mass job losses and out of control debt levels as a result of the recent global economic recession (especially since 2008), the importance of organisations' financial stability cannot be mistaken. It is therefore imperative that all CSR codes/guidelines should make room for the inclusion of *Economic CSR items* (see 3.6.1) which will help companies and their employees achieve a sense of direction towards financial prosperity in responsible ways.

In particular, this chapter provided a detailed overview of the *Bench Marks* - which have been found to be one of the best suited and comprehensive CSR instruments available for companies of all types and sizes. This was done in order to present the reader with a better understanding of its current use and application purposes, as well as its potential to be developed into an appropriate and effective measuring instrument for corporate citizenship.

Consequently, the following chapter seeks to present an extensive explanation of the concept *Corporate Personality* by placing it within the context of *Corporate Citizenship*.