Management systems and sustainable development

The moving goal posts

from environment to corporate responsibility

Across all countries and sectors, companies are assessing their approach to non-financial business issues. And the goalposts keep moving. At first, the issues were mainly environmental. Then the term "sustainable development" came to the fore. Now corporate social responsibility and corporate governance are setting the agenda. This article looks at issues and trends over the past decade.

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The wave of environmentalism

It was following a series of high-profile pollution disasters during the 1980's that newspaper headlines, the growth of campaigning groups and increased environmental legislation led to the realization that companies which polluted needlessly would be called to account.

In the USA, in particular, the increasing concern at corporate environmental pollution led to the " right to know " Toxic Release Inventory legislation, which placed comprehensive information on toxic releases

in the public domain. The pressure on businesses perceived to be heavy polluters – especially those in the petro-chemical industry, with a growing track record of spills, fires and tanker collisions – induced a number to tell " their side of the story " in environmental reports.

At the same time, the realization that prevention was better than cure led to a parallel increase in environmental auditing and the growth of environmental management systems (EMS).

In contrast with the new phenomenon of environmental reporting, by the late 1980's many companies already had documented environmental policies and performance controls in place, in some cases for years, even decades – usually in proportion to the amount of " command and control " legislation in operation in a particular sector and country. But the upsurge in EMS at this time reflected the pressures on business, together with the realization that the presence of a functioning EMS might be a mitigating factor should a company find itself in court for environmental breaches.

Both the reporting and EMS developments remained voluntary, with increased momentum in the early 1990's, especially in Europe. The early reporters in the USA found their reports well received and they encouraged their overseas subsidiaries to follow suit.

Environmental reporting was especially successful in Europe, which continues to lead the world in both the quantity and quality of reports. Companies with an environmental management system discovered the " low-hanging fruit " of identifiable reductions in waste management, energy and water costs – and the word was passed on. In an era of self-regulation, governments encouraged the voluntary aspect of these activities, seeing the prospect for progress without the need for confrontation.

To be fair, at this stage some companies embarked on programmes of reporting and EMS out of a conviction of " doing the right thing ", under the banner of corporate citizenship. More often, however, risk minimization was the primary driver – whether risks from actual and anticipated legislation, or those to corporate and brand reputations.

Then in the early 1990's, both reporting and EMS received added impetus. A flurry of articles, magazines and books announced the " green wave " of corporate environmentalism. Yes, business had substantial impacts on the environment – but also the flexibility, ingenuity, resources and, perhaps, the will to address them.

The most influential of publications, following on the challenges and dilemmas outlined in the World Commission on Environment and Development's Our Common Future in 1987, was Stephan Schmidheiny's

Changing Course, which set out an analysis of voluntary responsibility on the part of industry.

Everywhere, the message was the same: business has the responsibility to change the direction of world development – to make development sustainable. In 1991, The International Chamber of Commerce formulated its Business Charter for Sustainable Development, a set of 16 principles, which companies must implement within their management procedures. Within a year, 600 companies had signed up to them.

Addressing sustainable development

The media event of 1992 was undoubtedly the United Nations Conference for Environment and Development, better known as the "Earth Summit". Convened by the UN in Rio de Janeiro, Brazil, 20 years after the UN Conference on the Human Environment in Stockholm, it changed mind-sets around the world, with reports from over 7 000 accredited journalists covering the debates and deliberations of over 100 heads of state and thousands of representatives from all sectors of civil society.

The Earth Summit changed outlooks in several ways. Firstly, it became received wisdom that sustainable development should address not only environmental issues, but should seek equilibrium between the aspects of environment, social activity and the economy.

Secondly, it became clear that command and control regulation could not address the many interconnecting balances and decisions needed on the path towards sustainability – and responsible companies, especially multinationals, could no longer use compliance as a universal shield against the expectations of civil society.

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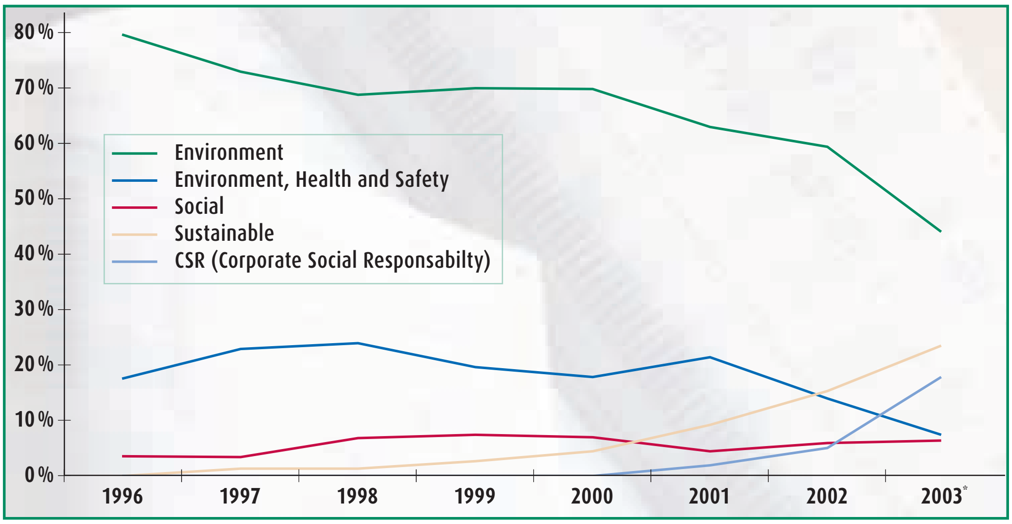
And thirdly, it became clear that developing countries could not be expected to attain the living standards they desired, while implementing the checks and balances needed to prevent impending environmental and social disaster, by pulling on their own boot-straps.

These changes in outlook have profoundly changed the way companies



Evolution in the types of corporate non-financial reports published over the period 1996-2003 – based on 3 879 reports, received to 30 June 2003.

(Source: CorporateRegister.com, July 2003.)

address their responsibilities – and indeed, how they define them. In turn, their public reports have shown a marked change from the purely environmental to the current wave of sustainable development and corporate responsibility reporting. The change of emphasis has happened gradually, and the pendulum is still swinging – hardly surprising when it takes so much longer to address new issues than it does to recognize and define them.

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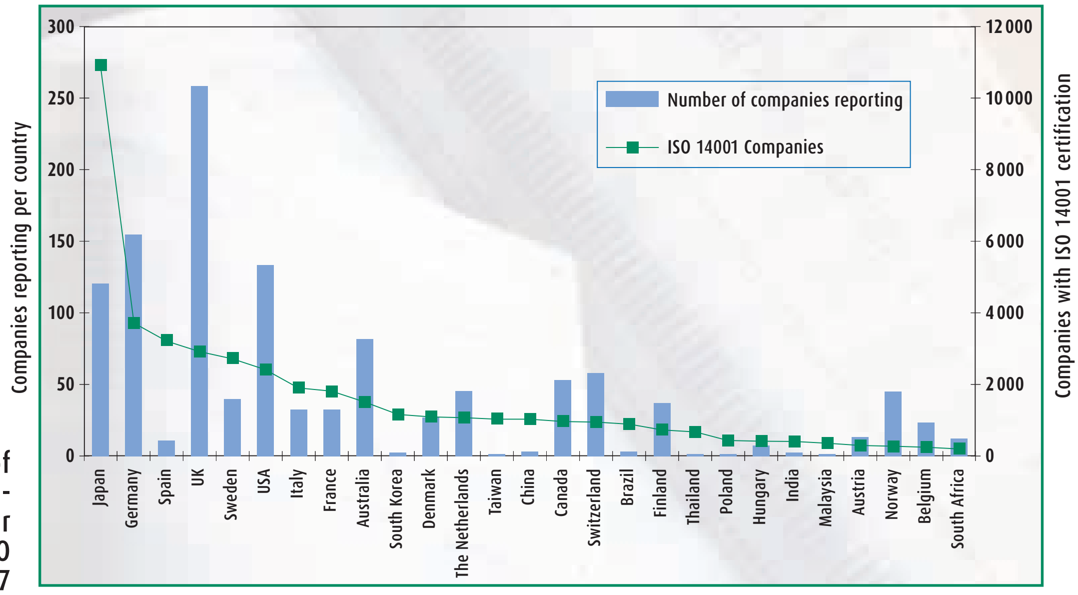
Many see them as interchangeable terms, while the more cynical dub CSR " sustainable development lite ". A key differentiator is the approach to essential business issues. Whereas a thorough sustainable development approach might question the sustainability of a company's practices, even its core business, CSR tends to focus less on the company itself and more on its activities – its community and social engagement, its charitable donations, as well as the environmental aspects. It is therefore less inward and more outward looking. Indeed, if CSR is to become a widely accepted, if less threatening alternative to corporate sustainability, it will need to drop the " S " and become simply " corporate responsibility ".



Comparison of number of companies publishing non-financial reports with number of companies holding ISO 14001 certification in 27 countries.

(Source : CorporateRegister.com, July 2003.)

The best reports now outline such issues as product stewardship (the life cycle of products from cradle to grave), corporate contribution to local communities and society in general, ethics, globalization and supply chains, of which more later.

The latest trend – corporate social responsibility (CSR)

Whereas the concept of sustainable development developed over a number of years and seemed firmly established, the new " CSR " buzzword has emerged from the business community over the past three years. In what way do the concepts differ ?

Measuring management

So far, we have not witnessed the same transition in management systems. The British Standards Institution's BS 7750, introduced in 1992, was a leader in its day and opened the way to the publication of the International Standard, ISO 14001, on 6 September 1996. But BS 7750 looked only at environmental aspects, specifying "requirements for the development, implementation and maintenance of environmental management systems aimed at ensuring compliance with stated environmental policy and objectives". The same is true of ISO 14001. While it has helped thousands of companies measure and document their conformity with environmental aspects of corporate policies, it does not address the wider aspects of sustainable development.

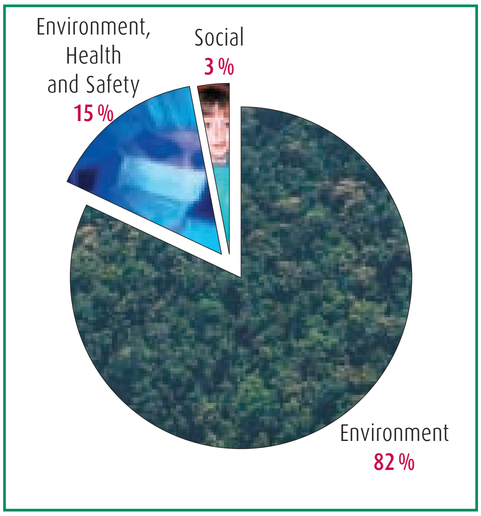
However, there are important interactions between ISO 14001 and corporate reporting. Firstly, a company with a well-developed management system, such as one certified to ISO 14001, is far better placed to report on its environmental aspects. This should be self-evident. Secondly, attaining ISO 14001 certification is an indication of commitment.

This partly explains the commendable degree of take-up of ISO 14001 by companies in Germany and Japan – companies achieving certification are demonstrating that they are prepared to put resources – often, significant resources – into this area of operations, and to integrate management of environmental aspects into their overall management operations.

Thirdly and possibly most interestingly, companies can use certification to ISO 14001 as a benchmark by which to measure the commitment of the links in their supply chain. For companies such as Kingfisher (see following article) this is an important criterion, allowing thousands of potential suppliers to be evaluated within an overall supply management system.

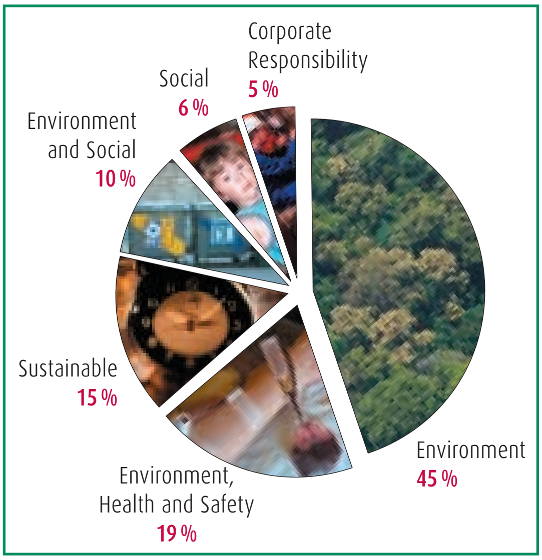
For many companies whose major environmental aspects lie not within their own operations, but within the remit of their business partners – such as producers around the world in the case of a retailer, or clients and investors in the case of financial services – having a single criterion applying across all countries and sectors is proving invaluable.

There is a parallel here with reporting. The first wave of reports was published by companies in sectors which were under direct pressure to justify their performance, such as chemicals, utilities, metal industries and mining. In such sectors, inputs and outputs are directly quantifiable and are reported as a measure of progress.



Types of corporate non-financial reports published in 1995 – based on 159 reports.

(Source: CorporateRegister.com, July 2003.)



Types of corporate non-financial reports published in 2002 – based on 549 reports.

(Source: CorporateRegister.com, July 2003.)

As reporting has progressed, so new sectors have reported, from forestry to food producers. Companies are now reporting which themselves have relatively insignificant direct environmental and social impacts, but much larger indirect ones. An example is the financial service sector. Here, the indirect impacts arising from core financial transactions – lending and investments – are incomparably greater than the direct, office-based impacts.

In this case, screening a potential investment in, say, a pulp mill in

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Indonesia, to check it is not using virgin rainforest as its input – and quantifying, documenting and reporting the results – is similar to a retailer checking that its Indonesian timber products supplier is certified to ISO 14001. As reporting and systems management become more sophisticated, so they become more interconnected.

Communicating performance

The Global Reporting Initiative (GRI), a multi-stakeholder organization now based in Amsterdam, Holland, is taking the lead in establishing a set of reporting guidelines against which companies might be expected to report their sustainability performance. However, very few companies have chosen to produce reports in full compliance with its complete set of guidelines, choosing instead to follow their general direction.

Public reports have shown a marked change from the purely environmental to the current wave of sustainable development and corporate responsibility reporting

In view of the vastly different issues facing different business sectors, the GRI is producing specific sectoral supplements, starting with financial services, tour operators, automotive and telecommunications.

The ISO community is also addressing the communication aspect of environmental management in the form of a new standard, ISO 14063, being developed by ISO technical committee ISO/TC 207, which is responsible for the ISO 14000 family. In the light of the rapid adoption around the world of ISO 14001, this is to be welcomed because a standard setting out broad principles, which is not too prescriptive, and which can be adopted with equal success across all sectors and countries, would be invaluable.

However, reporting has moved on from the purely environmental, and this needs to be reflected both in management systems and in standards for the communication of performance. Easier said than done, or it would already have been achieved! Different sectors and countries have differing priorities, and a flexible approach will be needed to balance the risks of patronizing some sectors and countries against setting insurmountable hurdles for others.

Rather than providing a template, as has the GRI, an approach based on principles, which may be adopted to a greater or lesser extent according to circumstances, looks a safer bet for global success.

Free access to world of global reports

Having a corporate responsibility or sustainability report is becoming an identifying feature of a responsible company, if such a company is one that addresses its environmental and social impacts, engages with its stakeholders, and publishes its progress and performance.

Analysts in investment houses and ratings agencies increasingly turn to these reports as a first port of call in assessing a company's risks, opportunities, commitment and performance in the area of corporate responsibility and good governance.

Ten years ago, only a few dozen companies produced such reports and it was relatively easy to maintain an overview of the reporting field. With thousands of companies now producing stand-alone non-financial reports in a variety of formats, it is now a challenge to track who is doing what. Which is why www.CorporateRegister.com is growing in popularity.

The world's largest online directory of corporate non-financial reports, this free resource covers thousands of companies across 45 countries. Together with sophisticated search functions, lists of recent and forthcoming reports, and thousands of PDF's to view and download, its extensive links section provides a useful gateway into the field of corporate responsibility.