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

Executive Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9000 and/or 14001 MSSs would likely have in place much of the architecture and operational culture needed for implementation of ISO CR MSSs. Each firm would need to make its own decisions as to the appropriate management systems standards for its activities (ISO 9000, 14001 and/or ISO CR MSS) depending on its distinctive operating environment, competitive and risk management context.

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

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

United Nations, the Organization for Economic Cooperation and Development, the International Labour Organization, the World Business Council on Sustainable Development, Business Action for Sustainable Development, and other relevant inter-governmental, non-governmental and private sector bodies.