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'Linchpins of CSR performance' or 'Weapons of Mass Description'? An argument for orthogonality in reporting standards.

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Abstract

With three big elephants in the CSR room (GRI, ISO26000 and IIRC) are we in danger of asking too much of companies and institutions? Will the demand for bigger and bigger standards lead to increased reluctance to incorporate CSR? There is a danger and we argue here for more limited accountability so that we may encourage more to become socially responsible without increasing baggage.

Introduction

This article argues that there is an important argument for the pursuance of orthogonal indicators as linchpins of CSR performance, particularly for smaller organizations such as Small and Medium Enterprises (SMEs).

In the pursuit of the highest (A+) rating from the Global Reporting Initiative (GRI), Nestle have recently produced an impressive web-based 300 page report of indicators and data[2]. Nestle can surely afford the expense involved and one doesn't blame them in any way from doing so. But in the greater scheme of things, is this the start of a worrying trend when it comes to judging CSR performance on the ground?

As well as GRI (which also links to communications on progress for the United Nations Global Compact) there are two other big elephants in the CSR (Sustainability, Shared Value etc) room – ISO 26000 and the forthcoming guidance by the International Integrated Reporting Council (IIRC). The IIRC will include 'the sustainability reporting process of GRI to the preparation of an integrated report and is currently being tested by 70 companies'.

Will slavish advocacy of these three complementary, voluntary standards, mean that those companies who simply can't afford to generate and deliver such a comprehensive report, give up trying to measure and communicate on their CSR performance? Even worse, might they

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1 www.mhcinternational.com

2 http://www.nestle.com/csv/Nestle/ourperformance/GRIContentIndex/Pages/GRIContentIndex.aspx, accessed Aug 2 2012

take this as a signal to disinvest in their CSR programmes if they can't gain compete on, one might say the Olympic stage, of reporting on social performance.

There is no doubt that trying to satisfy GRI at level A+ can lead to enormous volumes of indicators as Nestle bravely showed for GRI3.1. The new G4 guidelines, which represent the GRI's latest reporting guidance, extend to over 300 pages[3] .

Furthermore, the management complexity of trying to implement the seven aspects of ISO 26000 could lead many companies into despair if they don't have the resources to do so, particularly when it comes to SMEs. But it doesn't follow that by not being able to do so, such companies are necessarily being irresponsible in the way in which they conduct their business operations.

Both documents mentioned above have been created by committees of well-intentioned and dedicated people drawn from across the spectrum. But, as anyone knows, committees tend to try to satisfy everybody and sometimes end up satisfying nobody. Clearly we need to promote CSR (and its offshoots sustainability, shared value etc.) and monitoring and evaluation is crucial to inform the public on where our corporate institutions are leading us. However, too much complexity in monitoring and auditing means the metaphorical tail could wag the dog too hard with unintended consequences in the sectors (e.g. SMEs) in which by number, most businesses exist.

The argument expressed here is to understand what is meant by orthogonality and to end up by having much simpler reporting guidance codes that, whilst not diluting from the perceived wisdom of more detailed standards might help smaller companies embrace CSR and a sustainability agenda[4].

Conceptual basis

Crucial for any choice of performance indicator is a clear and consistent conceptual framework. Many exist and most are not too clear[5]. Are, at least, the three main agenda-driving institutions talking the same language? In other words do they use the same or similar conceptual frameworks? Full details of the various definitions can be found on our own website[6] along

[3] https://www.globalreporting.org/resourcelibrary/G4/G4-Exposure-Draft.pdf, accessed Aug 1 2012

[4] In fact an attempt has been made by GRI although we have not managed to find the document on line since the one given to us was 'Le cycle GRI du reporting developpement durable – Un manuel pour les petities et moins petites organisations', GRI, 2008. A reduced set of indicators were suggested bu not the notion of orthogonality suggested here.

[5] One of us (MH) has an interest here in having advocated the Donna Wood conceptual framework for a decade and a half (see: ….) but clearly no match for widespread stakeholder consultation such as we have seen with GRI.

[6] http://mhcinternational.com/articles/definition-of-csr, accessed Aug 1 2012

with our own preferred definition. We shall not go into much detail here but the essence of measurement and reporting is to have a solid conceptual basis from which to start.

Happily (although maybe a bit too heavy for some) all the institutions mentioned have taken great care to define their terms. This, in itself, is a great advance since so many organizations (including private corporations) bandy business and society terms around so much that sometimes one does not know what they are talking about. Without a clear, or reasonably clear, conceptual framework i.e. a decent definition, it is so much more difficult to create monitoring instruments and their main tool, social and economic indicators.

ISO 26000 concerns 'social responsibility' and, as Adrian Henriques has written in his succinct guide on ISO 26000 with IIED[7] the term 'social responsibility' suggests that the scope of the standard extends only to social issues. "*That is not true*" Henriques states "*the standard is concerned with social, environmental and economic issues and so, in general, with sustainability issues.*"

It is worth noting that the term 'CSR' was neither used for ISO 26000 nor GRI nor IIRC. Henriques, who was on the group that created the ISO definition, noted that[8] *"because ISO 26000 is applicable to all organizations, 'CSR' was thought to be less suitable."* Whilst not detracting from this conclusion, one might question it, as MHCi for one has regarded for over a decade 'corporate' to refer to all institutional bodies be they public or private.[9] On the other hand, it's true to say that there is little consistency in the use of terms such as CSR. In practice, organizations of all types (including companies, NGOs and those in the public sector) typically refer to their approach to sustainability and sustainable development as 'CSR'.

The ISO 26000 standard defines social responsibility as the:

'responsibility of an organization for the impacts of its decisions and activities on society and the environment , through transparent and ethical behaviour' that:

• contributes to sustainable development, including health and the welfare of society

• takes into account the expectations of stakeholders

• is in compliance with applicable law and consistent with international norms of behaviour, and

• is integrated throughout the organization and practised in its relationships.

[7] Henriques, A. (2012) *Standards for change: ISO 26000 and sustainable development.* International Institute for Environment and Development. London.
[8] Ibid, 2012
[9] Front page in our website www.mhcinternational.com accessed Aug 3 2012

(ISO, 2010c: clause 2.18)

The standard also defines a number of ‘core subjects’ which (with the exception of organizational governance) define in turn a number of ‘issues’, of which there are 36 in total.

For each issue a number of expected actions for organizations, that comprise social responsibility, are identified. These issues, actions and expectations comprise nearly half the length of the standard.

The core subjects are:

- organizational governance
- human rights
- labour practices
- the environment
- fair operating practices
- consumer issues
- community involvement and development.

For GRI (CSR or SR hardly mentioned): Sustainability reporting using the GRI Guidelines is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development, based on the GRI Reporting Principles. https://www.globalreporting.org/resourcelibrary/G4/G4-Exposure-Draft.pdf accessed Aug 1st 2012

It, like IIRC, focuses upon materiality such that according to GRI the report should cover topics and Indicators that:

• reflect the organization’s significant economic, environmental, and social impacts or that
• Substantively influence the assessments and decisions of stakeholders.

Thus both approaches are similar and there has been an attempt[10], at the behest of GRI, to help ‘confused organizations navigate ISO 26000 and GRI.’ And that report notes that ‘Although ISO 26000 does not offer guidance on SR performance reporting, the ISO 26000 content does cover a very similar range of topics to that in the GRI Reporting Guidelines. The ISO guidance provides a structure for companies to organize their activities, which can then be measured and presented in the company’s report.

[10] In a report for GRI published in 2011 by Paul Hohen and William Blackburn (2011) GRI and ISO 26000 (GRI, Amsterdam)

Finally, Integrated Reporting is heralded[11] as a 'new approach to corporate reporting that demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing'.

Comments

All three approaches take at their heart the notion of stakeholders, both internal and external, which are in line with the literature definition on which the MHCi definition is based, which in its short form is:

CSR is about a corporate body treating its stakeholders responsibly[12]

At this point a digression on 'sustainable' or 'sustainability' is useful given the wide use of the term in the CSR literature. Many use the adjective or the noun, as substitutes for CSR or CR. Are they right? If the word 'sustainable' is seemingly everywhere, it was made possible by the World Commission on Environment and Development report Our Common Future published in April 1987 by a team led by Gro Harlem Brundtland. The report was a landmark document that brought environmental concerns and their link to social and economic development to the forefront of understanding of global problems. Our Common Future launched the notion of 'Sustainable development', defining it as "development which meets the needs of the present without compromising the ability of future generations to meet their own needs[13]". GRI reproduce that line in its own definition.

Indeed, corporate sustainability is increasingly being taking taken up by corporations leading one to wonder what is the relation between corporate social responsibility and corporate sustainability? As noted above, the term sustainability first came to widespread acceptance in 1987 and at that time the concept and study of sustainable development had hardly left the domain of environmentalists and ecologists. More recently, the term 'sustainability' has grown to encompass social and economic components as well as its historical work on the environment. Thus the sustainability school has split, rather confusingly into two. The first being the conservationist school described above (which could be denoted as 'Sustainability 1') and the second that has moved out into the social and economic field (which could be denoted

[11] http://www.theiirc.org/ accessed 2 aug 2012

[12] www.mhcinternational.com accessed 3 Aug 2012 where the longer definition can also be accessed.

[13] There is a potential problem with the definition simply because it implies that needs of today are similar to those of tomorrow and ignores the probability that future generations (with even a small increase in per capita GDP) will be richer, on average, than today's generation. Thus, too much concentration on the future implies a re-distribution of income from the poorer generation of today to the richer generation of tomorrow.

as ‘Sustainability 2’). A key driver of ‘Sustainability 2’ has doubtless been indices like the Dow Jones Sustainability Index (DJSI).

The confusion with what is meant by ‘sustainability' leads one to focus upon the term CSR with its arguably more lofty goals since it talks not only about issues that will sustain a corporation but also those for which a corporation is responsible. Whether there are additional elements in the CSR toolbox that will, ultimately, provide for longer-term sustainability than those in the Sustainability toolbox is a point worthy of further discussion. A useful working approach to CSR and Sustainability is to use CSR as the ‘*process’* through which ‘*sustainable development’* as defined by Gro Brundtland is the goal. Especially as many businesses confuse Sustainability 1 (mainly environmental concerns) with Sustainability 2 (the aim of CSR as defined here). One further comment is that companies, if they accept sustainability as a goal, they are moving toward wider society aims of sustainable development. You will find, of course, that companies use terms inter-changeably and quite like the term ‘corporate sustainability’ as interpreted by *sustaining* their company. One therefore has to be careful, when working on these concepts, to adopt the full CSR stakeholder model and not assume that a profitable company is aiming at ‘sustainable development’. What is important is *how profits are made* in a socially responsible manner rather than *making profits at any cost*.

An argument for orthogonality in reporting standards

When two performance indicators vary independently of each other, then they are considered to be orthogonal. For instance carbon emissions of a plant are likely to be orthogonal to the colour of the managing director’s wife’s dress. More particularly, a manufacturing company that has low per capita carbon emissions compared with similar industries is also likely to use lead-free paint in its products. This means that selecting and reporting on only one orthogonal indicator per performance issue is likely to mean a global space of fewer indicators than full reporting would entail. The fundamental point at issue here is to encourage all companies and organizations, irrespective of their size, to report on their social responsibilities for each key stakeholder group and to judge their directional movement toward supporting sustainable development. Use of orthogonal indicators would reduce the need for lengthy reports and reporting and encourage the production of a succinct set of indicators. For this purpose, possibly as few as 20 indicators would be enough to monitor most aspects of social, economic, environmental and sustainability reporting for, as an example, SMEs. One runs the risk of course that that this scenario might encourage the ‘cherry picking’ of unrepresentative data and information. But one would hope that sufficient checks and balances, plus the attendant risks to organizational reputation if this was to be proven, would negate this possibility.

Concluding remarks

We are not disputing the value of recently published and soon to be published reporting standards. But we are trying to draw attention to the risk of thereby creating a ’two-tier’ reporting capability with potentially undesirable knock-on effects on overall organizational CSR performance within and between sectors. Clearly we have avoided the hard job of suggesting what 20 indicators could be the best orthogonal set of an alternative framework for reporting for smaller organizations. This would require further work, perhaps even taking the set of indicators in GRI’s G4 and thinking about which would be the best orthogonal indicator in each case. The main point however, is that we quickly need a set of standards that are readily accepted in terms of being credible, robust, and durable as linchpins of CSR. One would not certainly not want such an initiative to lead to the promulgation of ‘Weapons of Mass Deception’ as an alternative to what might currently be seen as ‘Weapons of Mass Description’ that, for the reasons explained above, may indeed prove to be the preserve of the few rather than the many.