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INTRODUCTION

"We cannot talk about good governance without talking about social responsibility and accountability. And we cannot talk about social responsibility without talking about sustainability. At the heart of social responsibility and sustainability lies good governance."

John Capel, Bench Marks Foundation

A series of ethics, governance, and accounting scandals in 2002 (for example Enron) rocked the corporate world, damaged stock markets, and caused investors, regulators and others to question the assumption that most companies do the right thing most of the time. These scandals destroyed major companies and led to fines and prison terms for executives, providing a stark reminder of the importance of ethical business practices.

Companies, investors and organisations are increasingly encouraged and pressured to work in a socially responsible way. The Bench Marks Foundation, in support of the *Principles for Global Corporate Responsibility: Bench Marks for Measuring Business Performance* (the 'Bench Marks'), promotes positive corporate social responsibility consistent with the responsibility to sustain the human community and all creation. The Bench Marks principles offer an ethical standard of measurement on which to base decisions about global corporate social responsibility as, for example, when policies about investment and the management of investments are being developed.

The aim of this booklet is to provide an overview of some of the terms associated with Corporate Social Responsibility (CSR) and information on the standards, codes, principles and external agencies available for assisting companies, investors or organisations to operate in a socially responsible manner.

TERMINOLOGY

Accountability – is a concept in *ethics* that generally means answerability, responsibility, blameworthiness and liability. For example, a company is held accountable for its actions. Accountability is central to discussions related to good governance. Promoting accountability both internally and externally is fundamental to ensuring that a corporation's policies equal its practice.

Board of Directors – (also called **board of trustees**) is a group of people who oversee the affairs of a corporation or company or organisation. Board members in most legal jurisdictions have specific *fiduciary* duties whereby they must act for the benefit of the corporation or organisation.

Business Ethics – Business ethics defines how a company integrates core values such as honesty, trust, respect, and fairness into its policies, practices, and decision making. The scope of business ethics has expanded to encompass a company's actions with regard not only to how it treats its employees and obeys the law, but also to the nature and quality of the relationships it wishes to have with *stakeholders*. Among the most important business ethics issues faced by companies are: conflicts of interest, financial and accounting integrity, corruption and bribery, consumer and employee privacy, ethical advertising and bioethics.

Corporate Governance – The term corporate governance has come to mean many things. It may describe: the processes by which companies are directed and controlled; encouragement of companies' compliance with codes (as in corporate governance guidelines); investment technique based on active ownership (as in corporate governance funds); companies' relationships with stakeholders; and a field in economics, which studies the many issues arising from the separation of ownership and control. Good corporate governance is about fairness and demonstrates transparency, accountability and reduces risk. Issues of fiduciary duty are often discussed within the framework of good corporate governance.

Corporate Social Investment (CSI) – CSI is an aspect of *Corporate Social Responsibility* and refers to a wide range of actions companies can take to have a positive impact on communities. Typically, corporate CSI has included philanthropic cash and product donations to nonprofit organisations and employee volunteer programs. However, some argue that CSI should be more than a public relations exercise and be integrated in an integral way in how business is conducted. Examples of strong community investment programs show an alignment between corporate core competencies and community priorities. By donating executive time to nonprofit organisations, sourcing from local businesses, hiring and training people from local

communities, playing a positive role in public policy debates, investing in local banks and other financial vehicles that impact on communities, or citing facilities in ways that contribute to local economic development, companies can bring a range of resources to bear on community, economic and social development. (See also *Socially Responsible Investment*.)

Corporate Social Responsibility (CSR) – also known as Corporate Citizenship. CSR recognises that companies do not operate in isolation and are therefore responsible to conduct their business in an ethical manner. CSR means that corporations respect the integrity of creation, people and the environment, and conduct business in a way that incorporates the broader needs of society. It is an expression used to describe what some see as a company's obligation to be sensitive to the needs of all of the stakeholders in its business operations. The King Report defines CSR as "the commitment of business to sustainable development and the improvement of quality of life by working with employees, their families, the local community and society at large". CSR is the decision-making and implementation process that guides all company activities in the protection and promotion of international human rights, labour and environmental standards and compliance with legal requirements within its operations and in its relations to the societies and communities where it operates.

Economic sustainability – refers to an organisation's direct and indirect impact on the economic circumstances of its stakeholders. This includes levels of employment or job losses, pollutants released into the atmosphere, etc. Economic sustainability goes beyond traditional accounting measures dealing only with monetary profitability and includes social and economic impacts, for example, where carbon dioxide emmisions affect communities' health and welbeing, those responsible must pick up the cost. A company's externalisation of costs (passing onto others some of the costs of doing business) generally does not contribute to any economic sustainability.

Ethics – Ethics (from the Greek word meaning 'custom') is the branch of philosophy, which attempts to understand the nature of morality to distinguish that which is right from that which is wrong. It is also the process of determining how one should balance the interests of various stakeholders, taking into account moral values or principles.

Ethical trade – Broadly means business practices that promote more socially and/or environmentally responsible trade. It is the assumption of responsibility by a company for the labour and human rights practices within its supply chain. One of the most common means for companies to meet these responsibilities is by adopting a code of practice setting out minimum labour standards that they expect their suppliers to comply with.

Fiduciary duty – a term often used in relation to corporate governance. It discribes an individual, corporation or association holding assets and being responsible for another party, often with the legal authority and duty to make decisions regarding financial matters on behalf of the other party. The fiduciary relationship is highlighted by good faith, loyalty and trust, and the word itself originally comes from the Latin *fides*, meaning faith. For example, a company has a fiduciary duty to accounting standards and practices.

Globalisation – The process by which a company, etc., expands to operate internationally. Companies are able to move their business operations from one part in the world to another relatively easily. The term also refers to the growing interdependence of countries world-wide through the increasing volume and variety of cross-border transactions in goods and services, and also through the more rapid and widespread diffusion of technology. It also means the mobility of labour and information.

Sustainable Development – The principles of sustainable development proposes that enterprises should be obliged to make decisions based not only on financial or economic factors but also on the social and environmental consequences of their activities. It is also a process of developing (land, cities, business, communities, etc.) that "meets the needs of the present without compromising the ability of future generations to meet their own needs" according to a 1987 report from the United Nations.

Socially Responsible Investment (SRI) – also known as *Ethical Investment*. The starting point for this movement is the sermon preached by John Wesley in 1760 on The Use of Money, in which he rejects an indifferent attitude towards money and calls for "a use of money without hurting our neighbours in his substance, nor by hurting our neighbours in his body, nor be hurting his neighbours in his soul". At the end of the 19th century and beginning of the 20th century, religious groups such as the Quakers began looking at how they invested their money in line with what they believed and how they led their own lives. In the 1950's the American Civil rights movement called on investors not to invest in companies with discriminatory practices towards black people and later on in South Africa the anti-apartheid movement called on investors to withdraw investment from companies that benefited from apartheid.
SRI is an umbrella terms for a philosophy of investing by using financial and social criteria. Social investing began in the 1920s with churches, who divested of the so-called 'sin stocks' – alcohol, tobacco and gambling. SRI investors seek to align their personal values and financial goals by choosing to invest in companies and organisastions displaying values comparable to their own. SRI is the strategy of making investment decisions to achieve a social, environmental as well as financial

return. Socially responsible investment identifies companies that are deemed to be financially sound, and then considers labour, environmental, social and ethical issues in the assessment opportunity and risk. There are three basic strategies used by socially responsible investors: (1) screening companies based on a range of social and environmental criteria; (2) shareholder activism to change company policy through filing shareholder resolutions and meeting with company management and (3) community investing which provides low interest loans to support development in low-income communities.

Sustainable Business – Enormous economic and population growth worldwide in the second half of the twentieth century drove the impacts that threaten the health of the world: ozone depletion, climate change, depletion and fouling of natural resources, and extensive loss of biodiversity and habitat. Sustainable business include initiatives to improve business practices with the use of renewable resources and reporting on adherence to the principles of corporate social responsibility including the environmental and human rights impact of the business.

Social Sustainablity – A concept dealing with the social sustainablity of society, meaning that society in itself should not be harmed by business practices but that business practices should promote quality of life and be in harmony with the needs of society, especially local communities that are impacted upon.

Wages and sustainability – According to the Bench Marks document there are two obligations for business in relation to vulnerable groups. First, businesses should make sure that their activities do not hurt these vulnerable groups. Second, human rights law allows temporary positive discrimination in favour of these groups, in order to right a historical wrong. As an example of human rights guarantees for vulnerable groups there are the following protections for indigenous peoples in relation to wage levels:

> *Marginal Survival Wage*: Wage does not provide for adequate nutritional needs. Starvation is prevented.
> *Basic Survival Wage*: Wage allows for meeting immediate survival needs including basic food, used clothing, minimal shelter, and fuel for cooking.
> *Short-Term Planning Wage*: Wage meets basic survival needs. Possibility of small amount of discretionary income allows for minimal planning beyond living from pay-cheque to pay-cheque. It allows for occasional purchase of needed item(s) as small amounts can be set aside from meeting basic survival needs.
> *Sustainable Living Wage*: Wage level meets basic needs including food, clothing, housing, energy, transportation, health care, and education. Ability to participate in culturally required activities (including births and related celebrations, weddings, funerals and related activities). Also allows

for the setting aside of small amounts of money (savings) to allow planning for the future purchase of items and the meeting of needs.
Sustainable Community Wage: In addition to meeting basic needs and allowing the worker to set aside money for future purchases, allows for the availability of enough discretionary income to allow the worker to support the development of small businesses in a local community including the support of cultural and civic needs of the community. Wage allows for long range planning and participation.

Stakeholder – The word 'stakeholder' generally means a person, community or organization that has a legitimate interest in a project or entity. In discussing the decision-making process for large business corporations, government agencies and non-profit organisations, the concept has been broadened to include everyone with an interest (or 'stake') in what the entity does. This includes direct and indirect stakeholders. Direct stakeholder includes not only its vendors, employees, and customers, but even members of a community where its offices or factory may affect the local economy or environment. Direct stakeholders also include shareholders, customers, business partners, suppliers, the community, while indirect stakeholders include the environment, indigenous peoples, and even future generations and other interest groups.

Sustainability Reporting – Reporting to share- and stakeholders via annual and/or sustainability reports forms the core of company communication. Sustainability reporting aims to reassure stakeholders that non-financial risks are being responsibly managed by demonstrating a company's progress in addressing key principles. Sustainability reporting addresses the three facets of sustainable development: economic, environmental and social performance (or the *triple bottom line*).

Transparency – Transparency is about openness, honesty and integrity where corporations or any organisation has in place a system of values that go to the heart of how business does business allowing for access to information and how decisions are made.

Triple bottom line – The triple bottom line generally refers to three areas: economic, environmental and social. Triple bottom line reporting captures an expanded spectrum of values and criteria for measuring organisational (and societal) success in those three areas. Commitment to Corporate Social Responsibility generally brings with it a need to institute triple bottom line reporting or accounting which means expanding the traditional company reporting framework to take into account not just financial outcomes but also environmental and social performance.

INSTRUMENTS OF CORPORATE SOCIAL RESPONSIBILITY

The following codes, principles and standards external agencies and environmental standards and guidelines address a broad spectrum of corporate social responsibility and sustainable development areas.

CODES, PPRINCIPLES AND STANDARDS

Universal Declaration of Human Rights – The United Nations adopted the Universal Declaration of Human Rights in 1948. The Declaration has since served as the starting point for many emerging international human rights standards as well as standards adopted by both private and public sector entities with transnational operations. For more information visit: ***www.un.org***

The Global Sullivan Principles of Social Responsibility – The Global Sullivan Principles, promulgated in 1999, encourage companies to support economic, social, and political justice wherever they do business. The Principles consist of eight single-sentence value statements that address a range of human rights-related issues such as: equal employment at all levels, training to help disadvantaged workers move into technical and management positions, greater tolerance among peoples, and quality of life for communities, workers, and children. The original Sullivan Principles were developed in the 1970s by the Rev Leon Sullivan as a voluntary code of conduct for companies doing business in South Africa. Available at ***www.thesullivanfoundation.org***
Principles for Global Corporate Responsibility – The *Bench Marks for Measuring Business Performance* was drafted by three interfaith organisations from Canada, the United Kingdom, and the U.S. in 1992 in response to the globalisation of the economy and the growth of transnational corporations. The Bench Marks Foundation along with faith-based communities from 23 countries endorsed the Principles in 1999. Known also as the 'Bench Marks' document it is based upon societal expectations drawn form universally held principles and provides an analytical framework, which can be applied to organisations across the full range of socially responsible expectations. The Bench Marks promotes positive corporate social responsibility consistent with the responsibility to sustain the human community and all creation. Today the Bench Marks is a document of what the churches believe constitutes responsible business conduct that offers an ethical standard of measurement on which to base decisions about global corporate social responsibility as, for example, when policies about investment and the management of investments are being developed. For more information, visit: ***www.bench-marks.org***

UN Human Rights Norms for Businesses – also known as the UN Norms for Business or UN Norms. The UN Norms restate existing internationally recognised standards of human rights. They set out in a comprehensive way the key human rights responsibilities of companies. In doing so, they create a powerful tool for advocacy and at the same time provide a useful checklist for those companies keen to improve their human rights record. UN Human Rights Norms for Business as offering an authoritative and comprehensive statement of the responsibilities of companies in relation to human rights. The UN Norms provide clarity and credibility amidst many competing voluntary codes that too often lack international legitimacy, and provide far less detail on human rights issues. For more information visit: ***www.amnesty.org***

Global Compact – The Global Compact is a United Nations initiative that promotes corporate responsibility by advancing universal values in business operations around the world. In essence, the Global Compact's mission is to expand economic progress, foster corporate responsibility, global citizenship, and institutional learning in addressing some of the globe's more intractable problems. The UN Global Compact advances ten universal principles in business operations around the world in the areas of human rights, labor, environment and anti-corruption. With over 2500 participating companies from more than 90 countries, it is the world's largest voluntary corporate citizenship initiative. The United Nations launched the 'Global Compact' in 2000 as a network for communication between stakeholders consisting of companies, international labour organisations and civil society. The Global Compact principles derive from the Universal Declaration of Human Rights, The International Labour Organisation's (ILO) Fundamental Principles of Rights at Work, and the Rio Principles on Environment and Development. For more information, please visit ***www.unglobalcompact.org***

Global Reporting Initiative (GRI) – The Global Reporting Initiative was established in late 1997 with the mission of developing globally applicable guidelines for reporting on the economic, environmental, and social performance, initially for corporations and eventually for any business, governmental, or non-governmental organization. The GRI originated as a project of the U.S.-based Coalition for Environmentally Responsible Economies (CERES) and the United Nations' Environment Program (UNEP) and has grown into an independent Amsterdam-based institution with a mission to make sustainability reporting as routine as financial reporting. The GRI's Sustainability Reporting Guidelines provide a reporting standard, which enable companies to gradually enhance the quality of their reports. The Guidelines are available at ***www.globalreporting.org***

Principles for Responsible Investment (PRI) – This initiative of the United Nations was implemented by the UNEP Finance Initiative and the UN Global Compact and

launched in April 2006. The PRI is a set of global best-practice principles for responsible investment. These Principles grew out of the understanding that while finance fuels the global economy, investment decision-making does not sufficiently reflect environmental, social and corporate governance considerations – or put another way, the tenets of sustainable development. The Principles provide a framework for achieving better long-term investment returns and more sustainable markets. The six voluntary principles are underpinned by a set of 35 possible actions that institutional investors can take to integrate environmental, social and corporate governance considerations into their investment activities. For more information: ***www.unpri.org***

Organisation for Economic Co-operation and Development (OECD) – The OECD plays a prominent role in fostering good governance in the public service and in corporate activity. It helps governments to ensure the responsiveness of key economic areas with sectoral monitoring. By deciphering emerging issues and identifying policies that work, it helps policy-makers adopt strategic orientations. It is well known for its individual country surveys and reviews. The OECD Guidelines for Multinational Enterprises was first conceived in 1961 to encourage responsible business practices, strengthen relationships between governments and multinational enterprises, and enhance the contribution of multinational enterprises to sustainable development. Governments adhering to the guidelines encourage the companies operating within their borders to observe the guidelines wherever they operate. The guidelines contain recommendations on core labor and environmental standards, human rights, competition, taxation, science and technology, combating corruption, and safeguarding consumer rights. ***www.oecd.org***

King Report on Corporate Governance for South Africa – In 1994 the King Report on Corporate Governance (King I) was published incorporating a Code of Corporate Practices and Conduct. It was the first of its kind in the country and aimed at promoting the highest standards of corporate governance in South Africa. It was updated in 2002 resulting in the King II Report. King II acknowledges that there is a move away from the single bottom line (that is, profit for shareholders) to a triple bottom line, which embraces the economic, environmental and social aspects of a company's activities. The Second King Report on Corporate Governance urges companies to embrace the triple bottom line as a method of doing business. The King Commission states that social, ethical and environmental issues can no longer be regarded as secondary to conventional business imperatives, and proposes that companies be obliged to report annually on these non-financial issues.

EXTERNAL AGENCIES

International Labour Organisation (ILO) – the ILO is the UN specialized agency which seeks the promotion of social justice and internationally recognized human and labour rights. It formulates international labour standards in the form of Conventions and Recommendations setting minimum standards of basic labour rights. It was founded in 1919 and is the only surviving major creation of the Treaty of Versailles, which brought the League of Nations into being, and it became the first specialised agency of the UN in 1946. ***www.ilo.org***

International Organisation for Standardisation (ISO) – is an international standard-setting body composed of representatives from national standards bodies. Founded in 1947, the organisation produces worldwide standards for all three dimensions of sustainable development – economic, environmental and social, the so-called ISO standards. The organisation is usually referred to simply as ISO (pronounced *eye-so*). It is a common misconception that ISO stands for "International Standards Organisation". ISO is not an acronym; it comes from the Greek word *isos*, meaning 'equal'. ISO International Standards are not in any way binding on either governments or industry merely by virtue of being International Standards. The ISO 9000 and ISO 14000 families of management system standards have spearheaded a widening of ISO's scope to include managerial and organisational practice and ISO is developing guidelines on social responsibility. Growth areas also include the environment – with standards for meeting new requirements such as greenhouse gas verification and for other aspects of sustainable development as well as global trade and regulatory requirements. ***www.iso.org***

JSE Socially Responsible Investment (SRI) **Index** – The SRI Index, launched in 2004 by the Johannesburg Securities Exchange (JSE), the largest stock exchange in Africa and one of the ten largest in the world, is designed to create a benchmark index in response to the growing interest in socially responsible investment around the world. The SRI Index is based on developed criteria to measure the triple bottom line performance of those companies in the FTSE/JSE All Share Index who choose to participate, with the aim of compiling an Index comprising those companies that pass the Criteria requirements. The Criteria for the JSE SRI Index are available from the website ***www.jse.co.za***

ENVIRONMENTAL STANDARDS AND GUIDELINES

The United Nations Framework Convention on Climate Change (UNFCCC) – sets an overall framework for global efforts to tackle the challenge posed by climate change. It recognises that the climate system is a shared resource whose stability can be affected by industrial and other emissions of carbon dioxide and other greenhouse gases. The Convention enjoys near universal membership, with 189 countries having ratified it.

Kyoto Protocol – The Kyoto Protocol shares the UNFCCC's objective, principles and institutions, and significantly strengthens the Convention by committing parties to individual, legally-binding targets to limit or reduce their greenhouse gas emissions. The Protocol's major feature is that it has mandatory targets on greenhouse-gas emissions for the world's leading economies most of who have accepted it.

The Earth Summit – Sustainable development lies at the heart of the Earth Summit process organized by the United Nations. The first Earth Summit was held in Rio de Janeiro in 1992 where the international community adopted Agenda 21 (a broad, 40-chapter statement of goals and potential programs related to sustainable development). Ten years later the World Summit on Sustainable Development was held in Johannesburg in 2002. The aim of the summit was to build on the 1992 Summit and to reconcile development and economic growth with environmental sustainability.