

# CSR Governance and Organizational Culture

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Research has found that corporate social responsibility (“CSR”) initiatives are most effective when CSR principles have been integrated into the company’s governance and management processes and organizational culture. CSR governance begins at the top of the organization with the board of directors, which has been charged by emerging corporate governance guidelines and stakeholder expectations with responsibility for oversight of the environmental and social impacts of the company’s operations. The directors and members of the senior executive team must proactively respond to the serious challenges confronting business, and society in general, from neglect of important environmental and social issues. Governance policies and procedures must explicitly address the concerns of all of the company’s stakeholders, not just shareholders but also employees, the environment, customers, supply chain partners, community members and business partners. Ideas regarding organizational design need to be re-visited in order to coordinate CSR activities. Finally, continuous efforts need to be made in order to establish and maintain an organizational culture in which all of the members share the same views and values regarding the importance of balancing economic, environmental and social responsibility in order to achieve the level of collaboration necessary to pursue sustainability initiatives.

## Governance and Management

CSR is like any other important management initiative and requires proactive leadership from the top of the organization. In fact, it is clear that the “tone at the top” is an important factor in the success or failure of any CSR initiative and the directors and officers of the corporation are uniquely positioned to act as internal champions of CSR and proactively communicate with everyone in the organization on a daily basis about the impact of new environmental and social products and services. The directors and officers must also commit to investing the time and effort necessary to explain the corporation’s CSR initiatives to customers and other stakeholders and develop and implement metrics for tracking and reporting progress. While social responsibility certainly extends “beyond the law”, directors and officers must be mindful of their fiduciary duties and understand how laws, regulations and standard contract provisions are rapidly evolving to incorporate environmental and social responsibility standards. Among the issues and activities that will need to be considered in establishing and maintaining effective governance and management processes for CSR implementation are the following:

- Understanding the drivers of enhanced board oversight of sustainability including investors’ expectations as to the role and responsibilities of directors and changing societal beliefs regarding the political and social roles of corporations

- Understanding how CSR is changing the traditional fiduciary duties of directors and officers including the ascendance of the stakeholder-focused model and the introduction of alternative legal architectures for sustainability-oriented businesses
- Working with the board of directors to integrate environmental and social responsibility into the governance structure and the traditional roles and responsibilities of directors
- Assisting the board of directors on the design and implementation of an effective framework for board oversight of CSR and corporate sustainability
- Counseling the board of directors and senior management on the development and implementation of CSR commitments and instruments
- Incorporating reports on CSR initiatives into board meetings and understanding how to create effective environmental and social responsibility committees and integrate sustainability into the activities of other board committees
- Developing job responsibilities for the senior social responsibility officer and designing effective internal organizational structures and systems for managing CSR initiatives and programs and supporting CSR commitments and expectations such as preparation and distribution of sustainability reports and stakeholder engagement
- Implementing formal management systems relating to sustainability-related issues and topics based appropriate standards issued by the International Organization for Standardization (e.g., ISO 14001 (environment); ISO 26000 (social responsibility) and ISO 28000 (supply chain security))
- Reviewing and modifying job responsibilities and compensation arrangements of executive team members, particularly the chief executive officer, to incorporate CSR commitments and attainment of CSR-related performance goals
- Providing education and training to directors and executive team members on sustainability issues including the creation and management of stakeholder advisor groups and teams of external experts
- Assisting directors, executive team members and managers and employees within the internal sustainability group with key CSR-related activities such as transparency and disclosure and stakeholder engagement
- Identifying and counseling directors and officers on ethical issues that will arise as they discharge their duties and responsibilities with respect to CSR

### ***Board Oversight of Sustainability***

While each of the issues and activities listed above are important, governance processes relating to CSR cannot be effective unless and until the directors are brought on board. Researchers on corporate sustainability from the MIT Sloan Management Review and The Boston Consulting Group (“BCG”) reported that while 86% of companies agreed that boards should play a strong role in their company’s sustainability efforts, only 48% said their CEOs are engaged, and even fewer (30%) agreed that their sustainability efforts had strong board-level oversight.<sup>1</sup> The report also mentioned a 2014 United Nations

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<sup>1</sup> D. Kiron, G. Unruh, N. Kruschwitz, M. Reeves, H. Rubel, and A.M. zum Felde, “Corporate Sustainability at a Crossroads: Progress Toward Our Common Future in Uncertain Times,” MIT Sloan Management Review (May 2017), 15.

Environment Programme Finance Initiative study of 60,000 businesses that found that only 2% of companies that reported on environmental, social and governance (“ESG”) information had a director with responsibility for sustainability and that only 374 companies had a sustainability committee that reported directly to the board (and none of those committees included board members). Results of a research study published in the Harvard Business Review in 2014 showed that no more than 10% of US public company boards had a committee dedicated solely to corporate responsibility.<sup>2</sup>

The researchers cautioned that a company’s top executives and board members needed to be mindful of the interests and expectations of investors and noted that corporate leaders must recognize that an increasing number of shareholders are (literally) invested in whether a company’s ESG activities connect with its financial success.<sup>3</sup> Noting that improving board engagement on sustainability issues faced several hurdles (e.g., the unclear financial impact of developing sustainable business practices, competing priorities, a lack of sustainability expertise among board members and short-termism), the researchers recommended that steps to be taken to improve directors’ expertise with respect to sustainability through training, new appointments to the board and accessing external expertise through external/independent advisory boards.

The researchers also noted that it was essential to integrate ESG considerations into directors’ responsibilities and activities, something that might be accomplished by forming new committees dedicated to sustainability or by instilling ESG duties within existing committees, and to include sustainability on the agenda of top management.<sup>4</sup> Slowly but surely companies are beginning to formally recognize ESG strategies and activities in their organizational structures at the board level by forming a committee of the board to focus on ESG and CSR or, at a minimum, tasking one of the directors to assume responsibility for oversight of ESG and CSR if a full committee on the subjects has not been created. ESG and CSR committee members should not be the only directors worrying about those issues; they should also be placed on the agendas of committees and individual directors working in other functional areas. For example, the portfolio of the audit and reporting committees should be expanded to include sustainability reporting and develop of the internal data collection procedures necessary to adequately complete sustainability reports in line with the expectations of stakeholders.

As for addressing short-termism, the researchers noted that directors needed to reconsider and set aside their traditional assumptions that their primary fiduciary duties are to maximize shareholder value and that shareholders care most about short-term profits. In fact, scholars and judges have been steadily chipping away at the notion of shareholder primacy and recognizing a duty of directors to take into account stakeholders beyond the owners of the corporation including employees, customers, communities, the

<sup>2</sup> L. Paine, “Sustainability in the Boardroom: Lessons from Nike’s Playbook”, Harvard Business Review, 92(7-8) (July-August 2014), 87.

<sup>3</sup> D. Kiron, G. Unruh, N. Kruschwitz, M. Reeves, H. Rubel, and A.M. zum Felde, “Corporate Sustainability at a Crossroads: Progress Toward Our Common Future in Uncertain Times,” MIT Sloan Management Review (May 2017), 15.

<sup>4</sup> Id. at 16.

“environment” and “society as a whole”. At the same time, the concept of “value creation” has been revisited and refocused to include long-term value for all stakeholders, a target that is best achieved by integrating sustainability into the business. A related trend is the public acknowledgement by many companies that their compliance obligations extend beyond laws and regulations to include voluntary standards relating to ethics and environmental and social responsibility such as the UN Global Compact and the OECD’s Guidelines for Multinational Enterprises.<sup>5</sup>

### ***Responsible Management***

Until the late 1980s, companies measured their performance almost strictly in financial terms with the focus being on whether management had made the correct strategic and operational decisions to enhance shareholder value. Since then, however, as globalization has advanced and criticism of business, particularly large multinational companies, has increased, there has been a decided shift toward an emphasis on the responsibilities that business has to the environment and to the society in which they operate. This shift has been aligned with the drive toward sustainable development, a concept which includes financial, environmental and social sustainability. In order for the world to make progress toward sustainable development, businesses need to abandon the traditional concept of shareholder value as being too narrow and instead pursue strategies that deliver value for a wider range of constituencies referred to as “stakeholders”. Shareholders are but one of many stakeholder groups and others include employees, customers, value chain partners, regulators, nongovernmental organizations, the communities in which a company is operating, the environment and society in general. Businesses have a responsibility to the environment and society, as well as to their shareholders and investors, and management must act “responsibly”. While proponents of shareholder value have been critical of responsible management and its emphasis on issues other than the financial “bottom line”, the weight of evidence is that responsible management can and does deliver increased shareholder value.

Finnish Textile & Fashion, the central organization for textile, clothing and fashion companies in Finland (“FTF”), also suggested a simplified model for responsible management that began with identifying company values, pledges and commitments with respect to corporate responsibility and establishing the strategy and management principles that are intended to steer corporate responsibility; creating annual action plans for various sub-areas of corporate responsibility (e.g. financial, governance, environmental, human resources and societal responsibility as well as value chain management, particularly human rights issues); measurement of the realization of pledges, commitments and actions against indicators of performance; the use of performance indicators to present and report results to internal and external stakeholders; and the use of the results of the measurement process to set new commitments and goals, update strategies and action plans and start the cycle over again.<sup>6</sup>

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<sup>5</sup> Id.

<sup>6</sup> Id.

FTF acknowledged that when companies are launching their corporate responsibility initiatives they are likely to treat it as a separate project, which is reasonable given the need to do so many things that may be relatively new to the company and its way of operating and conducting business: adoption of corporate responsibility principles and commitments, selecting actions to be taken and creating corresponding action plans, identifying performance indicators and ensuring that measurements against those indicators can be carried out efficiently and accurately and setting up reporting procedures to communicate beyond directors and shareholders to include a broader group of internal and external stakeholders. However, FTF reminded that the skills and processes that are required to do all of this are not that different from normal management activities and that once leadership and management techniques have been applied to corporate responsibility the company should move to integrate them into the existing planning, monitoring and reporting activities that apply to all aspects of the company's operations.

Integration, including ensuring that corporate responsibility is placed squarely at the top of the work agenda of everyone in the company, should be assigned to a member of the company's leadership team who works with a steering group composed of senior representatives from all business units and functional groups (e.g., finance, production, purchasing, marketing, human resources etc.) to ensure that all perspectives on corporate responsibility and the associated commitments and actions are taken into account and that decisions are broadly communicated.<sup>7</sup> As necessary, the company should tap into expertise from external sources on activities that are somewhat unique to corporate responsibility, such as stakeholder engagement and sustainability reporting. Guidance on the integration process is available from various sources including ISO 26000, which is the standard developed by the International Organization for Standardization that goes through the key matters related to social responsibility including concepts, terms and definitions related to social responsibility; the background, trends and characteristics of social responsibility; principles and practices relating to social responsibility; the core subjects and issues of social responsibility (e.g., governance, workplace conditions, human rights, the environment, fair operating matters, consumer matters etc.); integrating, implementing and promoting socially responsible behavior throughout the organization and, through its policies and practices, within its sphere of influence; identifying and engaging with stakeholders; and communicating commitments, performance and other information related to social responsibility.<sup>8</sup>

### Code of Conduct

The first place that companies lay out the principles necessary for them to operate as responsible companies is in their code of conduct, which should include, at a high level, the company's corporate responsibility policies and operating guidelines related to stakeholder relations and otherwise acting as a responsible business.<sup>9</sup> The code of

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<sup>7</sup> Id. at 17.

<sup>8</sup> Id. at 17.

<sup>9</sup> Id. at 18.



conduct is an opportunity for a company to lay out the rules that it has elected to establish for itself in order to embed their environmental and social principles and values systematically into the operations and culture of the company.<sup>10</sup> Companies may recite certain core principals and commitments regarding their operations such as eliminating all forms of forced and compulsory labor; condemning work by children under the age of 15, except for training; eliminating all unlawful discrimination with respect to hiring and job performance; promoting individual success; ensuring a favorable working environment at all company sites; promoting local employment and respect local laws; taking initiatives in favor of more responsible environmental practices; fighting corruption in all forms; guaranteeing the security of the company's assets and those of its clients and customers; and ensuring the confidentiality of client and customer information and respecting data privacy laws.<sup>11</sup> In many cases, the code will incorporate by reference applicable principles from external standards and instruments such as the International Labour Organization's core labor standards, the principles of the United Nations Global Compact and/or the Universal Declaration of Human Rights.

There is no "standard" for the contents of a code of conduct and related principles of corporate responsibility, and variations are likely due to size of operations and factors unique to the sectors in which the company operates; however, the code and principles generally should address, at a minimum, legal compliance, financial responsibility, fair competition, prohibitions on bribery and corruption, conflicts of interest, customer relationships, supply chain relationships, workplace conditions and employee wellbeing, environmental responsibility and community relations; environmental policies; human resources policies and principles of responsible purchasing.<sup>12</sup>

The general principles laid out in the code of conduct and principles of corporate responsibility will almost always be supplemented by more detailed policies, guidelines and procedures covering each of the major dimensions of corporate responsibility including the environment, human resources and value chain partners from which the company procures goods and services. The code and principles should include a specific statement of the shared values upon which the company operates and the company's commitment to long-term development and principles of sustainable development and financial, environmental and social responsibility. The contents of the code and principles should be reviewed and approved by the board of directors in a formal and deliberative manner and should be widely disseminated through the company's website and other communications channels. Companies that have truly built their business models around sustainability will emphasize how their chosen principles of corporate responsibility are reflected in how they conduct their relationships with all stakeholders.

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### **Principles of Corporate Responsibility and Responsible Business**

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<sup>10</sup> Handbook on Corporate Social Responsibility (CSR) for Employers' Organizations (European Union CSR for All Project, April 2014), 29.

<sup>11</sup> Adapted from Ethics Charter of Cegedim as in effect as of March 2011.

<sup>12</sup> Handbook on Corporate Social Responsibility (CSR) for Employers' Organizations (European Union CSR for All Project, April 2014), 29.

*The following illustration of principles of corporate responsibility and responsible business is adapted from an example distributed by Finnish Textile & Fashion, the central organization for textile, clothing and fashion companies in Finland:*

The directors, executives, managers and employees of [name of company] ("Company") are committed to developing the Company's business over the long term and in accordance with the principles of sustainable development and financial, environmental and social responsibility. We will have the greatest success when we do our work responsibly and take into account the expectations that our shareholders, employees, customers, community members and other stakeholders have of us.

Our operations are based on our shared values, which are [description of shared values], as well as our management principles. Our practical actions must correspond to our values and principles. These principles of corporate responsibility and responsible business actions determine the way in which everybody working at our company acts. We will supplement these general operating guidelines with more detailed principles and instructions as required. Our principles are shown on our website at [website address].

- **Legal Compliance:** We always comply with applicable legislation and agreements by which we are bound in each of the jurisdictions in which we operate. Each of us must be familiar with the laws, regulations and instructions applying to our work and we must undertake to comply with them. Supervisors are responsible for any training and monitoring required.
- **Financial Responsibility:** We take care to ensure that our finances are handled accurately and in accordance with regulations. We take care of the company's property and we do not use it for unauthorized purposes.
- **Promoting Competition:** We are working to improve general operating conditions and practices among the organizations in our industry in collaboration with other operators. We comply with applicable competition legislation and we do not accept restrictions to competition.
- **Conflicts of Interest:** Our personal interests must not conflict with the interests of the company. We do not participate in business activities that compete with our company or are in a business relationship with our company, nor do we seek personal benefit from business relationships. We do not pay or accept bribes or other illegal payments. We do not offer or accept hospitality, gifts or benefits that could affect decision-making in our business relationships or that could be considered as exceeding the limits of normal hospitality.
- **Philanthropy and Stakeholder Collaborations:** Our donations and other collaboration with stakeholders must be in line with our business principles and support the achievement of our objectives.
- **Customer Relationships:** Our success is based on satisfied customers. For this reason, our actions must always correspond to the pledges we have made. We monitor our customers' opinions of our activities and our products with the help of customer surveys, research and customer feedback systems and we use the information we obtain from this to improve our activities.
- **Relationships with Partners:** We need a range of different partners in our work. Our work will be productive when communication is open, we trust each other and we do what is agreed. We require our partners to comply with laws, regulations and international agreements. Our partners' operating methods, reliability, quality, prices and deliveries must also correspond to our requirements. Personal factors must not be allowed to affect how we select our partners. We present our own principles to our partners and promote the application of the principles in our collaboration.
- **Creating and Maintaining a Good Working Community:** We want to guarantee our employees a good, safe working environment. Our supervisors must promote a management culture in accordance with our values and these principles. We aim for high quality in our work – this will ensure that our customers are satisfied. We encourage our personnel to participate in developing our working community and operating methods through means such as initiatives and responding to surveys.
- **Occupational Well-Being and Safety:** To develop our working community, we invest in occupational well-being and safety. We treat personnel working in our company and those seeking employment

with us equally in our actions related to work and recruitment. We require our personnel to commit to equal treatment and we do not accept discrimination, harassment or bullying of any kind. We respect our employees' freedom of association and right to collective bargaining.

- **Environmental Responsibility:** We take environmental perspectives into consideration in our decisions and our practical work, and we use our environmental expertise as a source of competitive advantage whenever possible. We develop our environmental practices and indicators on the principle of continuous improvement. Our personnel receive all necessary training and guidance in environmental matters. We communicate our targets, operating practices and results openly and we expect our partners to support the achievement of our targets with their own actions.
- **Corporate Responsibility Principles:** It is the duty of our supervisors to train our new and existing employees on our corporate responsibility principles. Our board of directors and senior management will monitor the realization of our principles. Personnel must contact their supervisors or senior managers whenever there are doubts about compliance with the principles.
- **Reporting and Remediating Violations of Our Principles:** Personnel must report violations of the principles to their own supervisors. The immediate supervisors of the reporting personnel and, if necessary, our senior managers, are responsible for investigating any reports of violations and taking any follow-up actions. There will be no negative consequences for personnel who report violations. Procedures that violate the principles must be rectified without delay. In the event of serious violations, we will resort to our disciplinary procedures, which may involve terminating the employment relationship.

**Updates:** The Board of Directors of the Company approved these corporate responsibility principles on [date]. The principles are reviewed regularly to ensure that they correspond to applicable legislation and the Company's objectives.

**Source:** Finnish Textile & Fashion Corporate Responsibility Manual (Helsinki: Finnish Textile & Fashion, 2016) (Appendix 1).

## Environmental Policy

A responsible company's pledges related to environmental protection are made in an environmental policy that describes the company's most significant environmental impacts and the measures that the company has taken (and commits to take in the future) with the intention of reducing these impacts, along with how the company will monitor and report on results. Specific commitments in an environmental policy should address reporting on the main environmental impacts of the company's business activities (e.g., consumption of materials, chemicals and energy, emissions, waste), addressing environmental issues as business opportunities and investing in innovative solutions to those issues and training employees, customers and supply chain partners on steps that they can take to support the company's environmental goals and objectives. FTF emphasized that environmental policies should only include matters that can be monitored or verified, realizing that while precise quantitative measurement is not always possible the pledges relating to the environment should always be subject to review by reference to quantitative indicators.<sup>13</sup>

<sup>13</sup> Id.



## Environmental Policy

*The following illustration of an environmental policy is adapted from an example distributed by Finnish Textile & Fashion, the central organization for textile, clothing and fashion companies in Finland:*

We monitor our main environmental impacts, take environmental perspectives into consideration in our decisions and our practical work, and use our environmental expertise as a source of competitive advantage whenever possible. Our environmental goals and objectives are as follows:

- We report the main environmental impacts of our business activities (e.g., consumption of materials, chemicals and energy, emissions, waste), we report on the results of our environmental work and we set new targets for it every year.
- We seek innovative solutions to promote the use of materials and chemicals that are less harmful to the environment and to boost the efficiency of energy and water use throughout product life cycles. We also promote the recycling of materials used in our products.
- We train our personnel so they are familiar with our environmental impact and can reduce it in their own work.
- We train our contracting partners and subcontractors to support our environmental goals and objectives and monitor their activities as they relate to such goals and objectives.
- We provide information to consumers via our retailers about using and maintaining our products with the aim of boosting the efficiency of energy and water use.

These actions demonstrate that we are aware of our environmental impact and we are making efforts to reduce it systematically over the long term.

This environmental policy was approved by the Company's Board of Directors on [date] and this policy is reviewed regularly to ensure that it corresponds to applicable legislation and the Company's objectives.

**Source:** Finnish Textile & Fashion Corporate Responsibility Manual (Helsinki: Finnish Textile & Fashion, 2016) (Appendix 2).

## Human Resources Policy

A responsible company's human resources policy should set out the key principles and objectives of human resources management and describe how the company will discharge its ethical obligations to act responsibly in its personnel relationships. A company that treats its employees with respect and with attention to their personal wellbeing can expect to enjoy greater productivity, higher morale and reduced turnover, all of which contribute to better financial performance. The human resources policy should address compliance with applicable legal and regulatory requirements and then expand outward to include occupational wellbeing and job satisfaction, workplace safety and health, discrimination and harassment in the workplace, performance assessment, compensation and benefits and training and development.<sup>14</sup> Responsibility for administration of the human rights policy will generally be vested in a group of human resources professionals led by a senior official who should be part of the company's executive team. Responsible businesses are obviously committed to compliance with applicable employment-related laws and regulations; however, they also need to embrace international labor standards as promulgated by the United Nations and the International

<sup>14</sup> Id.

Labor Organization. In addition, responsible businesses understand and willingly accept the obligation to enhance the skills of their workers and look out for their long-term wellbeing. When setting the terms of employment, responsible businesses are mindful of the contribution they can make to universal sustainability issues such as income inequality, vocational training, health and education.

### Human Rights Policy

*The following illustration of an environmental policy is adapted from an example distributed by Finnish Textile & Fashion, the central organization for textile, clothing and fashion companies in Finland:*

Our human resources management is based on our company's values and principles of corporate responsibility. Our success depends on the occupational well-being, job satisfaction, motivation and professional skill of our employees. We invest in our management to continually develop these success factors. We measure the results of our management and set new targets for it every year.

Fostering a good working community is the duty of everyone working in our company. Our human resources principles and objectives are as follows:

- We comply with all laws and agreements related to our human resources activities without exception. Our personnel have freedom of association.
- Our working community is characterized by equality and we do not accept discrimination, harassment or bullying of any kind.
- We invest in occupational safety, well-being and job satisfaction.
- We monitor job satisfaction and well-being using annual surveys.
- We arrange annual appraisals for all personnel.
- We encourage our employees to participate in developing our operating methods and working community.
- We offer our employees opportunities to receive training and progress in their careers within our company.

These actions will help us to ensure that our working community and customer satisfaction develop positively and will safeguard our company's future and jobs.

These human resources principles were approved by the Company's Board of Directors on [date] and this policy is reviewed regularly to ensure that it corresponds to applicable legislation and the Company's objectives.

**Source:** Finnish Textile & Fashion Corporate Responsibility Manual (Helsinki: Finnish Textile & Fashion, 2016) (Appendix 2).

### Risk Management Principles

The shift toward responsible management requires companies to expand their definition and assessment of risks beyond failure to comply with applicable laws and regulations and uncertainties that had traditionally impact the price of the company's stock (i.e., shareholder value) to include a wide array of potential events that are grounded in the environmental and social dimensions of business activities. Responsible companies revisit and update their risk management principles, and internal risk management and

compliance procedures, from the perspective of corporate responsibility to cover financial malpractice, environmental damage and accidents, questions related to occupational safety and product safety, environmental protection by partner companies, and negligence and breach of human rights and norms in working life. Risk management principles and policies are intended to address operational risks; however, adherence to those principles and policies also provides protection against reputational risks that can damage the company's credibility and image and have an immediate and adverse impact on both the financial performance of company (e.g., concerned consumers will stop buying the company's products and services) and the company's ability to raise capital and attract and retain the best talent.<sup>15</sup>

### Principles of Responsible Purchasing

Corporate responsibility includes not only the internal operations and activities of companies but also extends to the actions taken by key members of the company's value chain including suppliers. In fact, supply chain management has become a highly visible, and often controversial, topic with respect to corporate responsibility, forcing companies to attempt to overcome issues of lack of leverage and transparency to engage with supply chain partners on how they produce the products that companies purchase to use in their own operations and/or incorporate into their products. This approach has also been driven by the intensified interest of consumers for more information on the background and sources of each of the elements of the products and services they are being invited to purchase and use. FTF recommended that responsible supply chain management should begin with the definition of principles of responsible purchasing that would be applied when products or phases of production are commissioned from external partners or subcontractors, or if the company purchases materials from external partners.

When drafting principles of responsible purchasing, reference should be made to national employment legislation in the countries in which suppliers are located, agreements and standards developed and endorsed by the International Labor Organization and the United Nations and guidelines and standards developed through collaborations of companies and other groups in various sectors, with preference given to the rules that are most favorable to the employees and contractors of those suppliers. For example, companies may refer to operating principles in sectorial codes of conduct to impose operational obligations on supply chain members relating to rights of association and collective bargaining, ban on discrimination, fair compensation, reasonable working hours, occupational health and safety, ban on child labor, special protection for young employees, prohibition of unstable employment relationships, ban on forced labor, environmental protection and responsible commercial practices. Simply put, principles of responsible purchasing call on suppliers and their subcontractors to commit to the same principles of responsible management that apply to the company and to be prepared to submit to inspections and audits in order to confirm compliance with those commitments and retain their members in the supply chain.<sup>16</sup> Principles of responsible

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<sup>15</sup> Id. at 19.

<sup>16</sup> Id.

purchasing are no longer a purely voluntary matter for companies given that a growing number of jurisdictions around the world are requiring companies of a certain size to report on their efforts to monitor the environmental and socially related activities of their supply chain members.

### Additional Aspects of Responsible Management

While the areas mentioned above are generally considered to be the most important when getting started with CSR, sustainability and responsible management, the list clearly does not cover everything that should be a concern to businesses. For example, responsible management means that companies take steps to identify and avoid the risks created by actions that amount to bribery and other forms of corrupt behavior. Policies relating to corruption and bribery should be adopted and widely disseminated and executives, managers and employees should be trained on compliance with applicable laws and regulations and the array of voluntary international anti-corruption standards. Such compliance should also be covered in the company's sustainability reporting. Another indicator of responsible management is community engagement including continuous and meaningful contact with key stakeholders in the communities in which the company operates in order to understand their concerns and enhance the company's reputation and build a foundation for the company's social license to operate. The specific activities of a particular company will also influence the issues that are relevant to responsible management (e.g., textile and clothing companies must be able to demonstrate that animal-based fibers and materials in their products have been manufactured and purchased responsibly with deference to animal rights and welfare).<sup>17</sup>

### *Designation of Senior CSR Leadership Position*

While the board of directors sets the direction for CSR initiatives and activities and the CEO is expected to place CSR at the top of his or her personal and business agenda, the actual implementation of the company's CSR strategy needs to be carefully coordinated by a senior executive or manager who is given clear responsibility and authority with respect to CSR. In this context, seniority means a position within the organizational hierarchy this is empowered to make decisions and take actions in a timely manner without have to consult more than one other source, which generally means a position that reports directly to the board of directors (or a CSR committee of the board of the directors) or the CEO. While it is not strictly necessary that CSR be the sole job function for the position, the expectation should be that the person holding the position will spend most of his or her time on CSR-related matters and that he or she will have primary responsibility within the company for CSR-related strategy, reporting and measurement and coordinating CSR programs and activities horizontally and vertically within the company's organizational structure.<sup>18</sup>

<sup>17</sup> Finnish Textile & Fashion Corporate Responsibility Manual (Helsinki: Finnish Textile & Fashion, 2016), 52.

<sup>18</sup> CSR Self-Assessment Handbook for Companies (Vilnius, Lithuania: UAB "Baltijos kopija" (Financed by the European Union and United Nations Development Programme), 2010), 15-16.

Designation of a senior CSR leadership position serves several important purposes. First of all, it provides the organization with a person who is responsible for developing and maintaining a broad understanding of the business and its strategy and the most effective ways to implement and integrate the CSR strategy. For example, the CSR leader can legitimately look beyond the financial aspects of a particular activity to assess and measure social and environmental impacts. In addition, the position provides employees and other stakeholders with a point of reference for questions and information regarding the company's CSR strategy and activities, a role that is valuable for ensuring effective and continuous stakeholder engagement and communications. The CSR leader should not be passive in engaging with stakeholders and should be selected, at least in part, based on his or her skills and motivation to work closely with stakeholders on CSR matters. However, in order for stakeholder engagement to be effective and trusted by stakeholders, the CSR leader must be given the authority to speak on behalf of the leadership team of the company.

The senior CSR position should be placed at the executive or management level and clearly recognized as a management level position, as opposed to being part of another function such as finance, risk management, marketing or communications. This ensures that CSR will be treated as an important element of the company's strategy. However, creating a single senior position does not mean that other members of the executive team can ignore CSR in carry out their specific function-related roles and responsibilities. As part of developing the CSR strategy, the job descriptions of each of the senior executives and top management of the company should be updated to include appropriate CSR responsibilities and incorporate those responsibilities into performance assessments for such persons. As this is being done, careful attention should be paid to allocating authority to make decisions relating to CSR-related activities and the level of consultation that may be required with the holder of the senior CSR position. Arrangements should also be made for formal communications and reporting by the senior CSR leader to the board member(s) tasked with oversight of CSR and involvement with CSR decisions. Finally, the senior CSR leader should be responsible for working with employees, customers, community members and other stakeholders to develop a full organizational structure for the company's CSR initiatives and activities that integrates CSR roles and responsibilities into job descriptions and clearly explains reporting responsibilities and the scope of authority of each position with respect to CSR.

### ***Linking CSR Issues to Performance Reviews and Appraisals***

Linking activities relating to CSR issues to performance reviews and appraisals throughout the organization, beginning with the senior executive team, is a powerful way to integrate CSR into organizational culture and operations. It is not unreasonable to assume that if someone knows that his or her compensation and opportunities for advancement are tied to fulfilling the CSR-related duties and responsibilities in his or her job description, they will pay more attention to CSR and proactively participate in a positive manner in the company's CSR initiatives and programs. At the same time, however, it should not be forgotten that CSR is not the only goal for employees and that

they are also expected to contribute to other non-CSR business objectives. As such, the company must train managers to support the people that they supervise in reconciling business and CSR goals and their related incentives. In addition, since CSR-related goals may be relatively new to many employees and require specific knowledge and skills, the company must be prepared to invest in training employees so that they are able to perform the activities as to which they will be measured and evaluated.<sup>19</sup>

Linking CSR issues to performance appraisals begins with the formulation of key performance indicators (“KPIs”) that are clearly and reasonably related to a person’s CSR-related duties included within his or her specific job functions and which take into account potential conflicts between CSR and traditional business goals. Given the challenges associated with many CSR goals, the number of CSR-related KPIs should be kept at a manageable level; however, it should be made clear to employees that they will be given significant weight in the overall appraisal process. In order to evaluate the clarity and ease of use a particular CSR-related KPI, companies should start by using it with a limited group of personnel who are working almost exclusively on CSR-related activities (e.g., environmental, human resources and communications managers) and then expand its use to all employees once it is determined that it has the desired impact on organizational behavior.

Individual CSR-related KPIs are obviously related to, yet different from, KPIs for the same CSR-related issue or topic adopted for the entire organization. For example, one of the most important and high profile environmental responsibility goals for many companies is making a meaningful contribution to address climate change through management of energy consumption and reduction of CO<sub>2</sub> emissions. KPIs for the organization on this issue will focus on broad measures that will be carefully tracked on a quarterly or monthly basis and regularly reviewed and, as necessary, adjusted. The contribution of any one employee in these areas is necessarily limited, although senior managers with authority to make sweeping decisions regarding operational tactics can have a significant impact, but the company will not be able to achieve its overall goals without support from everyone. As such, each employee should be tasked with reducing energy consumption as he or she goes about fulfilling the duties and responsibilities of his or her job function and a KPI should be developed to track his or her performance. When developing and communicating the individual-level KPI, he or she should be told how it fits into the overall efforts of the company to achieve specific organizational-level KPIs and the performance review and appraisal process should be used as an opportunity to communicate CSR progress to employees and increase their understanding of the company’s goals and strategies relating to CSR. Input from individuals regarding their CSR-related KPIs should also be encouraged and solicited, since they are in the best place to provide advice on how progress toward a particular CSR goal or objective might be achieved as somebody goes about their specific job function.

### ***Communicating Key CSR Priorities throughout the Organization***

<sup>19</sup> CSR Self-Assessment Handbook for Companies (Vilnius, Lithuania: UAB “Baltijos kopija” (Financed by the European Union and United Nations Development Programme), 2010), 17-18.



While a good deal of the advice and commentary relating to CSR governance and management focuses on developing a strategic direction for CSR initiatives and programs, an area which is the primary responsibility of those at the top of the organization, the company will not be successful with respect to CSR unless and until everyone in the organization, not just executives and senior managers, understands the company's key CSR priorities and their specific roles in achieving them. Opinions and information from all parts of the organization should be solicited as the company formulates its key CSR priorities and assuming this advice has been followed there should be some foundation in place for educating employees about the company's CSR strategies. Once the CSR strategies and specific commitments and targets have been agreed upon by the board of directors and members of the executive team, several important steps need to be taken with respect to organizational communications<sup>20</sup>:

- The company's key CSR priorities should be clearly stated in a written document that includes appropriate business context and which is widely disseminated throughout the company.
- In order to ensure that everyone has received and reviewed the key CSR priorities and that they are understood, all employees should be required to attend meetings and training sessions at which the priorities are explained and are related to the day-to-day duties and responsibilities of each group and department and each person working within them.
- The person selected for the senior CSR leadership position can create various CSR-related committees and teams throughout the organization to bring managers and employees from different areas together to discuss CSR and provide a forum for distributing additional information that can be used by committee members in their interactions with their regular groups and departments.
- Building on the information provided in larger meetings and training sessions, each employee should meet with his or her supervisor to go over exactly how CSR fits into their specific roles and job functions and discuss how CSR-related KPIs will be included in their performance reviews and appraisals (as discussed above).
- A program should be established for internal communications on CSR (e.g., intranet and internal newsletters) that focus on those issues that are of greatest importance for the company and CSR informational materials should be created and made readily available to everyone in the organization (the person assigned senior leadership responsibility for CSR, as described above, should be responsible for communications, information portals, postings etc.).

Companies can use entertaining and innovative methods for communicating CSR-related information internally. For example, a company that has set organizational goals with respect to reducing energy consumption can use technology to develop tools for collecting information from across the organization and presenting that information in a dashboard format that can be accessed by all employees. The quantitative data can be

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<sup>20</sup> Id. at 19-20.

supplemented by qualitative analysis that addresses the environmental impact of the company's energy use reduction programs and employees can and should be invited to provide comments and suggestions regarding ways that energy reduction programs can be improved.

Once again, robust and continuous communications within the organization are essential to ensuring that everyone understands their CSR-related role and the criteria that they should apply when making decisions and taking actions on matters that are related to the company's CSR strategies. When employees have this information, it reduces the oversight burdens on senior managers and makes it easier for employees from different parts of the organization to collaborate on operational activities and programs that are essential to achieving CSR-related goals. Access to information also increases the likelihood that employees will enthusiastically embrace the company's CSR programs. Actions taken with respect to internal communications relating to CSR should also complement and support communications and reporting to external stakeholders.

### ***Organizational Design and Sustainability***

Rasche et al. set out to examine how CSR is organized and why certain organizational forms are used frequently to coordinate CSR activities, while other forms are less widespread.<sup>21</sup> In particular, they were interested in how and why companies might choose among popular CSR initiatives such as cross-sector partnerships, internal codes of conduct or signing on to multi-stakeholder or industry-wide standards when deciding how best to pursue a CSR-related goal such as combatting human rights abuses. They argued that companies and other CSR "organizers" (e.g., non-governmental organizations ("NGOs"), governments and standard-setters) generally choose between two distinct types of "organizing" when it comes to CSR. The first type is a "complete" organization, which is feasible when the organizers have access to all of the elements needed to achieve organized orders (i.e., membership, hierarchy, rules, monitoring and sanctioning). The second type is a "partial" organization, which is used in instances when the organizers do not have access to all of the organization elements. Illustrations of partial organizations include cross-sector partnerships between companies and NGOs and CSR standards evolving from multi-stakeholder consultations.

### **Opportunities from Engaging with NGOs**

Governments and multi-lateral organizations such as the United Nations have struggled to respond to the enormous environmental and social challenges that have developed around the world and more pressure has been exerted on businesses, particularly multinational corporations, to play a larger role. The drumbeat for corporate responsibility has been fueled by social media and the reality that many of the larger global companies have substantial financial resources under their control. While businesses are generally willing to provide support for environmental and social responsibility initiatives, they want their resources to be deployed in ways that are consistent with their values and their strategies and in a manner that is efficient

<sup>21</sup> A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", *Journal of Business Ethics*, 115 (July 2013), 651.

and objectively impactful. In many cases, this requires extensive development experience, which is something many companies do not have and cannot easily acquire.

The solution, according to a September 2017 article in *The Economist*, may be engaging with NGOs to create and execute sustainability initiatives. According to the article, NGOs can assist businesses in developing more cost-effective and impactful corporate sustainability programs by contributing their deep knowledge of issues like environmental conservation, human rights, and economic development and their technical expertise in practical solutions such as project planning and implementation, monitoring and evaluation, and social marketing. NGOs can also help companies with reconceiving their goods and services to meet the needs of those at the “base of the economic pyramid”, not only improving the lives of millions of poor people but also gaining access to a market estimated to be worth \$5 trillion. Similarly, NGOs can provide experience and contacts for companies interested in entering new markets, particularly frontier markets, and developing communities. Finally, NGOs with experience working on difficult issues such as climate change adaptation programs and peace and conflict resolution can help businesses strengthen their supply chains and their relationships in local communities.

**Source:** J. Cramer-Montes, “Sustainability: A New Path to Corporate and NGO Collaborations”, *The Economist* (March 24, 2017), <http://www.economist.com/node/10491124>

The arguments made by Rasche et al. were grounded in the work of Ahrne and Brunsson, who believed that an organization could be understood as a type of decided social order in which one or more of the following five elements existed: membership, hierarchy, rules, monitoring and sanctions.<sup>22</sup> Rasche et al. noted that much of the research on organizational design and structure had traditionally focused on what happens inside the boundaries of formal organizations<sup>23</sup>, such as corporations, and that these formal organizations possessed all five of the above-mentioned elements and thus could be characterized as “complete” organizations<sup>24</sup>:

- Formal organizations make formal decisions about who can or cannot become members of the organization, such as decisions about which persons to hire as employees.
- Formal organizations generally establish a hierarchy based on explicit assignments of authority to certain individuals or groups of individuals to make decisions on certain matters related to the operation of the organization.
- Formal organizations coordinate their activities through the issuance of rules and procedures that members are expected to follow in carry out their day-to-day activities on behalf of the organization.
- Formal organizations supplement their rules and procedures by establishing formal and/or informal monitoring mechanisms to ensure that members are complying with the rules.

<sup>22</sup> G. Ahrne and N. Brunsson, “Organization outside organizations: The significance of partial organization”, *Organization*, 18(1) (2011), 83.

<sup>23</sup> Well-known works of formal organizations include J. March and H. Simon, *Organizations* (New York: Wiley, 1958); H. Mintzberg, *The structuring of organizations*, (Englewood Cliffs: Prentice Hall, 1979); and K. Weick, *The social psychology of organizing* (Reading: Addison-Wesley, 1979).

<sup>24</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 652-653.

- Formal organizations seek to motivate members to comply with the rules and procedures through the implementation of positive and negative sanctioning mechanisms.

Rasche et al. emphasized that while complete organizations were characterized as such because they had the ability to draw upon on all five elements as they designed their formal organization, in practice there were differences among them with respect to the extent to which each of the elements were deployed and/or the overall balance of the elements in the organizational design chosen to address a particular organizational task.

While formal organizations are obviously important, not all types of organization that can be identified occur within the boundaries of formal organizations, nor is it necessary for all of the five elements mentioned above to be available to organizers in order to launch and maintain an organization. The concept of “partial” organization includes organizations that only use selected elements (i.e., one or several of the five elements of formal organizations are missing) and which are forged outside and among formal organizations.<sup>25</sup> One example provided by Rasche et al. was organizations, such as associations, organized by formal organizations. In those instances, organization occurs through membership and members will be expected to adhere to certain rules; however, many associations dispense with monitoring of members’ behavior and sanctioning members for failure to comply with the rules of the association.<sup>26</sup> Another example of a partial organization is the rankings of schools that have become so popular. These rankings are based on efforts to monitor and measure schools’ behavior based on explicit rules and a drop in performance against any of the metrics results in sanctions to a school in the form of a drop in its ranking; however, the schools included in a ranking scheme are not organized and connected through formal membership or hierarchical controls.<sup>27</sup> Rasche et al. noted that while it is arguably difficult to distinguish partial organizations from networks and institutions, both of which also develop and flourish outside the boundaries of formal organizations, the difference is that networks and institutions are “emergent social orders” while partial organizations, like complete organizations, come into being as a result of deliberate decisions by their organizers (i.e., individuals and/or other organizations).

While CSR has become more “corporate-oriented”, companies continue to deploy the strategies and methods of complete organization to CSR, not surprising since companies remain ultimately responsible for their actions relating to CSR. For example, more and more companies are explicitly integrating CSR principles and goals into their missions and strategies, and investment in internal CSR capacity (i.e., personnel and technologies)

<sup>25</sup> Id. at 653.

<sup>26</sup> W. Coleman, “Associational governance in a globalizing world: Weathering the storm”, in J. R. Hollingsworth and R. Boyer ((Eds.), *Contemporary capitalism: The embeddedness of institutions* (Cambridge: Cambridge University Press. 1997), 127.

<sup>27</sup> M. Sauder and W. Espeland, “The discipline of rankings: Tight coupling and organizational change”, *American Sociological Review*, 74(1) (2009), 63.

has increased.<sup>28</sup> However, organizational practices must now take into account the interests and concerns of external actors who bring with their own ideas and expectations regarding norms and standards and the role of companies in pursuing their business objectives in a way that incorporates community benefit alongside traditional economic goals. As such, the details of complete organization for CSR in companies are often based on external standards, including an increasing volume of laws and regulations and popular global standards for CSR reporting, and companies have also recognized that they are no longer the sole actor with respect to CSR and must rely on partial organization to gain access to complementary resources that have been developed by and/or with others, such as knowledge and legitimacy (e.g., publicly adopting the GRI standards and participating in GRI working groups on sustainability and reporting).<sup>29</sup> All this means that companies must become more adept at understanding and balancing both “complete” and “partial” organizational techniques when developing and implementing their CSR initiatives.

Researchers on CSR and corporate sustainability from the MIT Sloan Management Review and The Boston Consulting Group (“BCG”) urged companies to embed sustainability organizationally through cross-functional teams, clear targets and key performance indicators, and reported that building CSR and sustainability into business units doubled an organization’s chance of profiting from its sustainability activities.<sup>30</sup> The report provided insights into how BASF SE, the large German chemicals company, organized its “accelerator” approach to sustainability.<sup>31</sup> An important element was “top-down” engagement that began with creation of a sustainability board that was chaired by a member of the board of directors and included leaders from each of the company’s business lines. The board then pushed all of the company’s business units from a “middle-out” perspective to rigorously assess all of their products against strict sustainability criteria. Products that did not meet the requirements for “accelerator” status fell into one of three other categories: “performer” products that met basic market standards, “transitioners” products that were actively addressing sustainability issues and “challenged” products that carried significant sustainability risks. Product teams for products in any of these categories were charged with developing plans to improve their standing on the scale; however, care was taken to ensure that leaders of each of the business units were informed about the goals and purposes of the sustainability board to

<sup>28</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 654 (citing J. Moon, “The institutionalisation of business social responsibility: Evidence from Australia and the UK”, *The Anahuac Journal (Mexico)*, 5(1) (2004), 40; K. Bondy, J. Moon and D. Matten, “An institution of corporate social responsibility (CSR) in multi-national corporations (MNCs): form and implications”, *Journal of Business Ethics*, 111(2) (2012), 281; and R. Strand, *In praise of Corporate Social Responsibility bureaucracy* (Copenhagen: Copenhagen Business School PhD Series (26.2012))).

<sup>29</sup> For further discussion of the role of CSR in gaining legitimacy for organizations, see also T. Emtairah and O. Mont, “Gaining legitimacy in contemporary world: environmental and social activities of organisations”, *International Journal of Sustainable Society*, 1(2) (2008), 134.

<sup>30</sup> D. Kiron, G. Unruh, N. Kruschwitz, M. Reeves, H. Rubel, and A.M. zum Felde, “Corporate Sustainability at a Crossroads: Progress Toward Our Common Future in Uncertain Times,” *MIT Sloan Management Review* (May 2017), 11.

<sup>31</sup> *Id.*



secure their buy-in to what would almost certainly be a significant disruption to pre-existing business practices at the company. Once the sustainability board had collected information from each of the business units it returned to the entire board to present its findings and secure a mandate from the directors to implement the accelerators program as a comprehensive sustainability solutions approach to reimagining each of the company's product lines. The drafters of the report argued that identifying business and sustainability risks within business units allowed BASF to create market solutions that would not have happened otherwise.<sup>32</sup>

## CSR Standards

Rasche et al. began by explaining that “standards, in their most general sense, reflect rules for common and voluntary use, decided by one or several people or organizations”.<sup>33</sup> One of the strongest trends in the CSR field has been the emergence of a plethora of standards ranging from broadly defined principles such as the United Nations Global Compact to narrowly defined certification standards and guidelines such as Social Accountability 8000, the Global Reporting Initiative and ISO 26000 (an effort by the International Organization for Standardization to guide organizations on how they can operate in a socially responsible manner). Rasche and Esser observed that while one can identify differences among the CSR standards and such standards are intended for a variety of purposes, the consistent thread among them is that they are “voluntary predefined rules for assessing, measuring, and communicating social and environmental performance”.<sup>34</sup>

As to the first element of formal organization, “membership”, it is important to note that few of the popular CSR standards impose substantial restrictions on which organizations are allowed to adopt their rules, although some sector specific initiatives are practically limited to organizations operating in a particular industry and/or to “listed companies”. There are differences, however, in the processes that standards use to sign up new members. Many standards require that organizations go through a formal sign up or application process if they are interested in receiving the specific benefits associated with being related to the standards. This type of “closed” membership strategy affords reputational advantages to the members that are admitted, advantages that are often protected by allowing members to exclude others whose performance may not adhere to the standard's requirements. Other important standards, such as ISO 26000 or the Global Reporting Initiative, do not have application requirements (although organizations can register their reports with the GRI). The FTSE4Good Index considers all listed

<sup>32</sup> The accelerators program also included essential stakeholder communications such as providing members of the sales team with product cards that described each product's sustainable characteristics in order to ensure that the message of each product's sustainability benefits reached customers. Id.

<sup>33</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 656 (citing N. Brunsson, A. Rasche and D. Seidl, “The dynamics of standardization: Three perspectives on standards in organization studies”, *Organization Studies*, 33 (2012), 613, 616).

<sup>34</sup> A. Rasche and D. Esser, “From stakeholder management to stakeholder accountability”, *Journal of Business Ethics*, 65(3) (2006), 251.



companies; however, inclusion in the Index (i.e., “membership”) is based on monitoring of performance by the organizers of the Index. Rasche et al. pointed out that dispensing with membership as an essential organizational element can be advantageous to organizers of the standards because it lowers barriers to entry and thus promotes acceleration of adoption.<sup>35</sup>

The second element of formal organization, “hierarchy”, is conspicuously missing from CSR standards that are essentially voluntary and thus have no mechanism for forcing any organization to adopt and comply with the standards. When an organization does decide to adopt a standard the responsibility for compliance lies primarily with organization itself and not with the organizers of the standard. Abbott et al. pointed out that delegation of implementation authority to the followers of the standard, as opposed to those who set the standard, is a characteristic of “soft law”, a phrase that has become famous among advocates of CSR.<sup>36</sup> The lack of hierarchy has advantages and disadvantages for CSR standards. Ahrne and Brunsson pointed out that it does afford adopters with more flexibility to customize and fit the rules of the standard into their specific organizational context; however, Behnam and MacLean argued that misuse of this flexibility is a real danger and that the results of customization may be that organizations are not actually “walking their talk”.<sup>37</sup>

In contrast to contextually specific rules that are generally found in formal organizational approaches to organizing CSR, the rules found in CSR standards are less precise because they are generally intended to serve as “universal” guidelines applicable across national borders and in different geographical and socio-cultural areas. In fact, many standards are based, at least in part, on international treaties such as widely recognized and respected conventions promulgated under the watch of the International Labor Organization. Universal rules are a great opportunity to raise the bar of accountability and responsibility across the globe and encourage a leveling of the playing field among organizations operating in and competing from different parts of the world; however, by definition, universal rules do not fit every situation and organizations adopting standards will also need to invest time and effort in finding the best ways to apply and interpret those standards in the specific circumstance.<sup>38</sup>

Rasche et al. pointed out that many CSR standards do not include “monitoring” or “sanctioning” mechanisms or requirements (e.g., ISO made it clear that its ISO 26000

<sup>35</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 656.

<sup>36</sup> K. Abbott, R. Keohane, A. Moravcsik, A.-M. Slaughter and D. Snidal, “The concept of legalization”. *International Organization*, 54(3) (2000), 401–419.

<sup>37</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 656 (citing G. Ahrne and N. Brunsson, “Organization outside organizations: The significance of partial organization”, *Organization*, 18(1) (2011); and M. Behnam and T.L. MacLean, “Where is the accountability in international accountability standards? A decoupling perspective”, *Business Ethics Quarterly*, 21(1) (2011), 45–72).

<sup>38</sup> Id. at 656–657 (citing G. Ortmann, “On drifting rules and standards”, *Scandinavian Journal of Management*, 26(2) (2010), 204).

standards are not certifiable and do not contain monitoring or sanctioning mechanisms).<sup>39</sup> The use of monitoring and sanctioning is often a highly political decision and organizers of CSR standard need to weigh the additional burdens on members against the potential benefits, a difficult question to answer given that auditing practices are often sloppy and may not render results that guarantee higher levels of compliance.<sup>40</sup> Some standards setters rely on and permit professional certification bodies to conduct audits, understandable from the perspective of the standards organizers but a further complicating factor for organizations seeking alignment with the standards given the cost and time required to deal with the certification body.<sup>41</sup> In the limited situations where the standard setters have themselves achieved a high level of legitimacy the pressures on members increase to the point where they are driven to comply since public disclosure of violations of the standard is seen as risky from a reputational perspective. Rasche et al. described this as “implicit sanctions through reputation mechanisms”. As noted above, the FTSE4Good Index relies on monitoring as its gateway to membership as opposed to application processes.<sup>42</sup> Finally, standards setters may provide for some form of monitoring but not get actively involved with imposing sanctions for failure to comply with the standards.

### Cross-Sector Partnerships

Rasche et al. described “partnerships” in a CSR context as “collaborative arrangements in which actors from two or more spheres of society (state, market, and civil society) are involved in a non-hierarchical process, and through which these actors strive for a sustainability goal”.<sup>43</sup> Cross-sector partnerships share the common feature of collaboration from actors across business government and civil society; however, they appear in many different forms and seek to achieve a wide range of purposes including agenda setting, policy development and implementation, market creation and dissemination of knowledge.

As for membership in cross-sector partnerships, Rasche et al. noted that while at least two partners are required, not every organization can become a partner and not every

<sup>39</sup> Id. at 657.

<sup>40</sup> D. O’Rourke, “Monitoring the monitors: A critique of corporate third-party labor monitoring” in R. Jenkins, R. Pearson and G. Seyfang (Eds.), *Corporate responsibility and ethical trade: Codes of conduct in the global economy* (London: Earthscan, 2002), 196. See also A. Rasche, “The limits of corporate responsibility standards”, *Business Ethics: A European Review*, 19(3) (2010), 280; and A. Rasche, “A necessary supplement’: What the United Nations Global Compact is and is not”, *Business & Society*, 48(4) (2009), 511.

<sup>41</sup> D. Gilbert and A. Rasche, “Discourse ethics and social accountability: The ethics of SA 8000”, *Business Ethics Quarterly*, 17(2) (2007), 187.

<sup>42</sup> R. Slager, J.-P. Gond and J. Moon, “Standardization as institutional work: The regulative power of a responsible investment standard”, *Organization Studies*, 33(5–6) (2012), 763.

<sup>43</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 657 (citing M. van Huijstee, M. Francken and P. Leroy, “Partnerships for sustainable development: A review of current literature”, *Environmental Sciences*, 4(2) (2007), 75, 77).

collaboration results in a partnership.<sup>44</sup> As organizations consider partnership opportunities they are generally looking for partners who can forge mutually beneficial relationships that include clear goals, senior level commitment, frequent communication, involvement of professionals, a shared commitment of resources and an evaluation of progress.<sup>45</sup> Creation and development of cross-sector partnerships plays out over several stages beginning with selection and then moving through design and institutionalization.<sup>46</sup> While many CSR partnerships are enduring, some have changed their form of partial organization over time and become something different, such as the partnership between WWF and Unilever that eventually became a standard for assessing and certifying sustainable fisheries overseen by the Marine Stewardship Council.<sup>47</sup>

Cross-sector partnerships are, almost by definition, largely non-hierarchical organizational forms and rely largely on achieving consensus among participants in arriving at decisions.<sup>48</sup> However, while formal hierarchies are rare among cross-sector partnerships, there are often significant power differences among the partners in terms of their access to information and/or their influence during the negotiation process leading up to decisions. Rasche et al. provided the following observation from Nikoloyuk et al.: “[t]he successful development of supply chain partnerships for sustainability tends to involve [...] a high concentration of powerful agents and the marginalization of smaller and less powerful agents.”<sup>49</sup>

Cross-sector partnerships generally have some formal internal rules; however, studies have shown that there are often no clear guidelines on how to operate inside these partnerships or how to assess the overall performance of the partnership.<sup>50</sup> While this situation provides the partners with flexibility to design their partnership to suit their specific needs, it also creates a risk of inefficiency and lack of productivity that will cause participants to abandon the partnership.<sup>51</sup> External rules sometimes come out of negotiations with NGOs on self-regulation; however, the process requires a lack of

<sup>44</sup> Id.

<sup>45</sup> B. Googins and S. Rochlin, “Creating the partnership society: Understanding the rhetoric and reality of cross-sectoral partnerships”, *Business and Society Review*, 105(1) (2000), 127.

<sup>46</sup> J. Selsky and B. Parker, “Cross-sector partnerships to address social issues: Challenges to theory and practice”, *Journal of Management*, 31(6) (2005), 849.

<sup>47</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 660.

<sup>48</sup> M. van Huijstee, M. Francken and P. Leroy, “Partnerships for sustainable development: A review of current literature”, *Environmental Sciences*, 4(2) (2007), 75.

<sup>49</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 657 (citing J. Nikoloyuk, T. Burns and R. De Man, “The promise and limitations of partnered governance: The case of sustainable palm oil”, *Corporate Governance*, 10(1) (2010), 59, 70).

<sup>50</sup> Id. (citing K. Babiak and L. Thibault, “Challenges in multiple cross-sector partnerships”, *Nonprofit and Voluntary Sector Quarterly*, 38(1) (2008), 117).

<sup>51</sup> N. Egels-Zandén and E. Wahlqvist, “Post-partnership strategies for defining corporate responsibility: The business social compliance initiative”, *Journal of Business Ethics*, 70(2) (2006), 175, 176.

hierarchy among the partners in order to have a level playing field for participating in the development process.<sup>52</sup>

Many cross-sector partnerships are formed without explicit attention to monitoring and sanctioning. In those cases, the members of the partnership develop their own methods for assessing whether or not the other members are performing and the “sanction” for non-performance will likely be reduction of cooperation with a partner that is not complying with the rules set for the partnership.<sup>53</sup> One of the challenges for monitoring cross-sector partnerships is how to determine the “value creating ability” of the partnership and then using that metric as a way to gauge the effectiveness of the partnership. Since each partner has their own ideas about the value and purpose of the partnership, each of them may be applying a different measure of performance.<sup>54</sup> Ba’ckstrand noted that partners also closely monitor the results of other partners to determine whether they are fulfilling the expectations associated with the partnership and argued that accountability, measurable targets and timetables, and reporting and monitoring mechanisms are important elements for successfully organizing partnerships.<sup>55</sup> The flexible character of monitoring, and the general way in which cross-sector partnerships are constructed, complicates the element of sanctioning within those partnerships, and studies have shown that sanctions for non-compliance are often restricted to expulsion from the partnership.<sup>56</sup> While expulsion may seem like a relatively weak sanction and may difficult to apply, it nonetheless can have serious consequences for the impacted partner from the perspective of reputation and credibility.<sup>57</sup>

### Comparing the Organization of CSR in Large and Small Firms

Baumann-Pauly et al. noted that debate and research regarding CSR had focused primarily on large multinational corporations (“MNCs”).<sup>58</sup> They explained that this emphasis could be attributed to a number of factors. First, MNCs are often implicitly considered capable of assuming responsibility for implementing CSR-related

<sup>52</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 657 (citing J. Nikoloyuk, T. Burns and R. De Man, “The promise and limitations of partnered governance: The case of sustainable palm oil”, *Corporate Governance*, 10(1) (2010), 59, 70).

<sup>53</sup> Id. (citing G. Ahrne and N. Brunsson, “Organization outside organizations: The significance of partial organization”, *Organization*, 18(1) (2011), 83, 94).

<sup>54</sup> B. Googins and S. Rochlin, “Creating the partnership society: Understanding the rhetoric and reality of cross-sectoral partnerships”, *Business and Society Review*, 105(1) (2000), 127.

<sup>55</sup> K. Ba’ckstrand, “Multi-stakeholder partnerships for sustainable development: rethinking legitimacy, accountability and effectiveness”, *European Environment*, 16(5) (2006), 290.

<sup>56</sup> A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 657 (citing P. Glasbergen, “Understanding partnerships for sustainable development analytically: The ladder of partnership activity as a methodological tool”, *Environmental Policy and Governance*, 21(1) (2011), 1, 7).

<sup>57</sup> Id.

<sup>58</sup> D. Baumann-Pauly, C. Wickert, L. Spence and A. Scherer, *Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters* (University of Zurich: Chair of Foundations of Business Administration and Theories of the Firm Working Paper Series No. 204, December 2011), 2-3.

organizational practices and structures that will enable them to interact with civil society and, in fact, the evidence shows that MNCs have played a leading role in developing codes of conduct and corporate policies addressing important global issues such as human rights and labor standards in their supply chains and climate change. Second, practical CSR initiatives coming out of multi-stakeholder initiatives such as the UN Global Compact, the Global Reporting Initiative and industry-focused associations working on sustainability issues are typically designed primarily for large firms with the human and financial resources necessary to implement the required procedures in the business operations. Finally, MNCs have become prolific reporters of their CSR activities and their interactions with selected stakeholders and civil society.

Baumann-Pauly et al. argued that it was important to have a better understanding about CSR in small and medium sized enterprises (“SMEs”) due to the significant role that SMEs play in both the developed and developing world in terms of employment and overall contributions to the economy.<sup>59</sup> CSR activities in SMEs are also directly related to the actions of MNCs due to the large number of SMEs that are embedded in the global supply chains maintained by MNCs. Baumann-Pauly et al. noted that the little research that had been done had resulted in a general impression that MNCs were more advanced at implementing CSR when compared to SMEs<sup>60</sup>; however, they felt that it was necessary to challenge those impressions by critically analyzing public perceptions of CSR in both MNCs and SMEs through an assessment of the actual implementation of CSR practices at the organizational level.

Baumann-Pauly et al. conducted an empirical study of five MNCs and seven SMEs from Switzerland, all of which were selected based on their likelihood to present data-rich cases on CSR implementation.<sup>61</sup> All of the MNCs (ABB, Credit Suisse, Nestle, Novartis and UBS) had announced that they had joined the UN Global Compact at the time that it was launched in 2000, putting them among the first MNCs worldwide to make a formal and public commitment to implementing the CSR principles set out in the UN Global Compact, an initiative that had received strong support from the Swiss government and some Swiss MNCs. All of the SMEs in the study (CPT, Mammot Sports Wear, Remei, Stuco, Sherpa Outdoor, Switcher and Vestergaard Frandsen) had less than 25 employees and were from the textile industry, which the researchers noted had a long CSR history and was considered to be a model for consideration and implementation of CSR initiatives. By selecting companies from a single country the researchers hoped to eliminate any issues with regard to inter-case compatibility that might arise because of differences in regulatory, political and cultural context. The study was conducted over a three year period between 2007 and 2010.

<sup>59</sup> D. Baumann-Pauly, C. Wickert, L. Spence and A. Scherer, *Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters* (University of Zurich: Chair of Foundations of Business Administration and Theories of the Firm Working Paper Series No. 204, December 2011), 3.

<sup>60</sup> Id. (citing J. Campbell, “Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility”, *Academy of Management Review*, 32(3) (2007), 946; and A. McWilliams and D. Siegel, “Corporate Social Responsibility: A Theory of the Firm Perspective”, *Academy of Management Review*, 26 (2001), 117).

<sup>61</sup> Id. at 8-9.



One of the most interesting and useful tools coming out of the work of Baumann et al. was the framework they suggested for assessing CSR among MNCs and SMEs. They were especially interested in assessing the organizational embeddedness of CSR in daily business practices to determine whether firms actually “walked the talk” with regard to CSR, an important question given that some researchers had argued that while many MNCs had heavily promoted their CSR commitments the reality was that they were not to be found in day-to-day practices (a phenomenon described as “building up a CSR façade”).<sup>62</sup> Focusing on daily business routines was also a good way to see whether researchers were correct in their assumptions that SMEs would have difficulty implementing CSR due to their relative lack of financial and human resources and assumed inexperience with the formal management systems thought to be necessary in order for CSR initiatives to succeed.<sup>63</sup>

Baumann et al. explained that their assessment framework was developed from an organizational learning model that Zadek created based on his empirical work with Nike that identified five stages that businesses typically go through before they fully implement CSR: “denial”, “compliance”, “managerial”, “strategic” and “civil”.<sup>64</sup> Each stage, beginning with “denial” and progressing through “civil”, represents a progressively higher degree of embeddedness of CSR (i.e., organizational integration of CSR principles into daily business routines). Baumann et al. assessed implementation along three dimensions: commitment to CSR, internal organizational integration of CSR and the external engagement and interaction with actors of civil society, and took care to adapt the indicators for each of these dimensions to the specific, and quite different, organizational characteristics of MNCs and SMEs (e.g., for “commitment” the MNC indicator was “commitment” and the SME indicator was “awareness”; for internal organizational integration of CSR the MNC indicator was “structural and procedural” and the SME indicator was “internal skills and capabilities”; and for external engagement and interaction the MNC indicator was “interactive” and the SME indicator was “external collaborations”).<sup>65</sup>

Overall, Baumann-Pauly found that the implementation of CSR among the MNCs that they survey varied considerably. Some of those companies had just begun implementation of CSR while others were already quite advanced. While all of the MNCs demonstrated a strong commitment to CSR, this commitment had not yet

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<sup>62</sup> Id. at 5 (citing S. Banerjee, *Corporate Social Responsibility: The Good, the Bad, and the Ugly*, (Cheltenham: Edward Elgar, 2007); R. Sims and J. Brinkmann, “Enron Ethics (Or: Culture Matters More than Codes)”, *Journal of Business Ethics*, 45 (2003), 243; and G. Weaver, L. Treviño and P. Cochran, “Integrated and decoupled corporate social performance: Management commitments, external pressures, and corporate ethics practices”, *Academy of Management Journal*, 42 (1999), 539).

<sup>63</sup> Id. (citing H. Jenkins, “A Critique of Conventional CSR Theory: An SME Perspective”, *Journal of General Management*, 29 (2004), 55; and A. McWilliams and D. Siegel, “Corporate Social Responsibility: A Theory of the Firm Perspective”, *Academy of Management Review*, 26 (2001), 117).

<sup>64</sup> Id. at 6 (citing S. Zadek, “The Path to Corporate Social Responsibility”, *Harvard Business Review*, 82 (2004), 125).

<sup>65</sup> Id. at 7-8.



translated into systematic integration of CSR principles into all area of the organization. Reporting functions were strongly developed among all of the MNCs; however, several of the MNCs lagged behind with respect to conducting impact assessments of their CSR activities and installing internal grievance procedures. In addition, as noted above, the MNCs generally had done little to establish interactive ties with external stakeholders. In contrast, the SMEs in the survey generally demonstrated strong internal implementation of CSR-related practices and had aligned their corporate functions with CSR through informal or implicit principles. The level of engagement between SMEs and their external stakeholders was also highly developed and the SMEs consistently tapped into the expertise of external stakeholders in making crucial decisions.<sup>66</sup>

Comparing the MNCs to the SMEs, Baumann-Pauly observed that the relative strength of MNCs appeared to be in developing and publicly disseminating extensive CSR commitments and creating and publishing CSR reports while SMEs were stronger in implementing CSR-related practices in organizational processes.<sup>67</sup> They argued that these differences in approaches could be explained by focusing on the relative organizational costs (i.e., the relative share in total firm costs) for implementing and communicating CSR in MNCs and SMEs. They explained that the size and scope of operations of the MNCs made it expensive in terms of time and resources to embed CSR in all of their operational functions and that being a global enterprise created challenges for MNCs with respect to developing stable stakeholder relationships. Given these implementation costs, MNCs opted to invest in externally communicating CSR—the “CSR-façade” mentioned above—by establishing a central CSR department that was responsible for public relations and collecting and publishing the data expected of companies that engage in formal CSR reporting practices. In contrast, extensive formal reporting was relatively costly for SMEs; however, it was generally easier and less expensive, in relation to MNCs, for SMEs to integrate organizational CSR practices given their small number of employees and their flatter organizational structures. This did not mean that SMEs were not reporting on the CSR activities to external stakeholders. In fact, reporting did occur on an informal basis in the context of discussions with stakeholders that were often crucial for SMEs in terms of providing them with access to expertise regarding CSR that was not available internally.

### *Measuring CSR*

For all the good intentions and motives associated with acting in a socially responsible manner, businesses and their stakeholders need to have ways to measure and evaluate the effectiveness and impact of CSR initiatives. Measurement is essential for tracking progress against CSR goals and objectives; however, how to go about doing that is by no means easy and ideas in this area are rapidly evolving. Initial efforts recognized the concept of a “double bottom line” which involves looking at both financial indicators,

<sup>66</sup> D. Baumann-Pauly, C. Wickert, L. Spence and A. Scherer, *Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters* (University of Zurich: Chair of Foundations of Business Administration and Theories of the Firm Working Paper Series No. 204, December 2011), 14-15.

<sup>67</sup> *Id.* at 4-5 and 18-21.

like earnings, and social responsibility indicators, such as community involvement. Companies have relied on so-called “balanced scorecard” methods that recognize four perspectives for measuring performance: people and knowledge, internal business, customers and financial.<sup>68</sup>

Companies have also been doing “social audits”, which are systematic evaluations and reports of how well a firm is meeting its ethics and social responsibility objectives.<sup>69</sup> A social audit report typically summarizes corporate activities under headings such as charitable contributions, support of local community groups and activities, employment of protected groups, political contributions, pollution control and cleanup, health and safety measures and efforts to improve the quality of work life for employees.<sup>70</sup>

In addition to formal assessment and reporting, feedback on CSR initiatives comes from other groups who watch and monitor industry activities and the behaviors of individual companies. Shareholders have become much more aggressive in questioning the activities of management and companies can also expect to be scrutinized by labor unions, consumer activists, environmentalists and other community groups. The possibility of government regulation has often motivated industries to “self-regulate” by adopting standards and codes of conduct to be followed by industry members.

One place to look for ideas about measuring CSR is in the financial community where various indexes and other measures of corporate performance on various CSR criteria (e.g., governance, human resource management, health and safety, environmental protection and community development) have been developed to assist public and private investors, including mutual fund managers and venture capitalists, in making investment decisions. Interest in measurement has exploded as more investment capital is being set aside for “socially responsible investment”.

It is important to understand how a particular index defines CSR and sustainability. Many earlier indexes focused on screening out companies that operated in undesirable or risky industries; however, as time went by the metrics became broader and more sophisticated and included positive factors such as leadership approaches, planning processes and management practices in areas such as governance, social impact and the environment. Notable examples of sustainability indexes include the Dow Jones Sustainability indices and the MSCI ESG indexes. An extensive library of reports and self-reported climate change, water and forest-risk data is available through the CDP ([www.cdp.net](http://www.cdp.net)), which works with companies, investors and governments on issues and projects relating to

<sup>68</sup> The traditional approach to the “balanced scorecard” is generally attributed to Kaplan and Norton. See R. Kaplan and D. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Cambridge MA: Harvard Business School Press, 1996). For further discussion of the “balanced scorecard”, see “Management: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project ([www.seproject.org](http://www.seproject.org)).

<sup>69</sup> M. Kelly, J. McGowen and C. Williams, *BUSN* (Independence, KY: South-Western Publishing Company, 2014), 66.

<sup>70</sup> Notes on “Chapter 9: Management Ethics and Social Responsibility”, <http://www2.ivcc.edu/aleksy/Fall14/Fall14Mgmt/Plunkett10Ch09.pdf>

environmental risks.<sup>71</sup> Indices of CSR have been supplemented by efforts to list and rank the most socially responsible companies. For example, Corporate Knights releases an annual list of the “Top 100 Most Sustainable Corporations in the World”

Montiel found substantial similarities in how CSR and corporate sustainability researchers operationalized their constructs to measure social and environmental performance, noting that both groups of scholars use similar variables to measure CSR and corporate sustainability that included economic, environmental and social dimensions. The most common variables included ethics policy, philanthropic contributions, stakeholder interests and relationships (i.e., investors, shareholders, customers, suppliers, employees, and the community), governmental relationships, urban development, minority support programs, health and safety initiatives, community involvement and development, conserving natural resources, employee eco-initiatives, voluntary environmental restoration, eco-design practices and systematically reducing waste and emissions from operations.<sup>72</sup>

### Examples of Performance Measures for CSR, CSP and Corporate Sustainability

Montiel reported the results of his extensive survey of the evolution of management literature in both general management and specialized journals with respect to CSR, corporate social performance (“CSP”) and corporate sustainability (“CS”). The article quantified the research work and summarized the different CSR-and CS-related definitions to identify the definitional differences between CSR and CS. This Table, adapted from the article, lists examples of measurement instruments used by scholars to operationalize CSR, CSP and CS in the general management articles reviewed and full citations for the references can be found in the “References” section of the article. For further information, see I. Montiel, “Corporate Social Responsibility and Corporate Sustainability: Separate Pasts, Common Futures”, *Organization and Environment*, 21(3) (September 2008), 245, 261-262.

#### Corporate Social Responsibility

*Fortune’s* Corporate Reputation Survey (rates firms on financial soundness, long-term investment value, use of corporate assets, quality of management, innovativeness, quality of products and services, use of corporate talent, community and environmental responsibility) [Holmes (1977); Abbott & Monsen (1979); McGuire et al. (1988); Fryxell & Wang (1994)]

11 survey items (pollution, quality of products and services, decay of cities, inflation, monopoly, quality of education, support of charities, corporate profits, human resources, minority employment, unemployment) [Grunig (1979)]

Moskowitz Reputation Index (pollution control, equal employment opportunity, minority and female representation on board of directors, support of minority enterprise, responsible and irresponsible advertising, charitable contributions, community relations, product quality, plant safety, illegal politicking, disclosure of information, employee benefits, respect for privacy, support for cultural programs, responsiveness to consumer complaints, fair dealing with customers) [Cochran & Wood (1984)]

<sup>71</sup> P. Hohnen (Author) and J. Potts (Editor), *Corporate Social Responsibility: An Implementation Guide for Business* (Winnipeg CAN: International Institute for Sustainable Development, 2007), 10.

<sup>72</sup> I. Montiel, “Corporate Social Responsibility and Corporate Sustainability: Separate Pasts, Common Futures”, *Organization and Environment*, 21(3) (September 2008), 245, 260.

Motivating principles (value, stakeholder, and performance driven), processes (programs and activities aimed at implementing CSR principles and/or addressing specific stakeholder issues, which include philanthropic, sponsorships, volunteer, code of ethics, quality, health and safety, and management of environmental impacts) and stakeholder issues (community, customer, employee, shareholder, supplier) [Maignan & Ragston (2002)]

### **Corporate Social Performance**

Kinder, Lydenberg, Domini social rating service dimensions (community relations, employee relations, environmental issues, military issues, product issues, South Africa issues, nuclear power, women or minority issues) [Graves & Waddock (1994); Turban & Greening (1996); Waddock & Graves (1997); Ruf et al. (1998); Weaver et al. (1999); Agle et al. (1999)]

### **Corporate Sustainability and Sustainable Development**

Pollution control, eco-efficiency, recirculation, eco-design, ecosystem stewardship, and business redefinition [Sharma & Henriques (2005)]

10 environmental integrity items (reduced products' environmental harmful impact, reduced environmentally damaging inputs, used inputs from renewable sources, reduce environmental impacts of processes, reduced operations in environmentally sensitive locations, reduced likelihood of environmental accidents, reduced waste, reused waste, disposed waste responsibly, handled toxic waste responsibly); 6 economic prosperity items (established government relations, reduced costs of inputs, reduced cost for waste management for same level of outputs, used waste for revenue, differentiated product on environmental performance, created spin-off technologies); and 6 social equity items (considered stakeholder interests, communicated environmental risk, improved health and safety issues, protected local communities' rights, improved facility's visual aspect, funded local community projects) [Bansal (2005); Chan (2005)]

Wolk et al. argued that performance measurement provides vital information for advancing social innovation, which they defined as the process of developing, testing, and honing new and potentially transformative approaches to existing social issues.<sup>73</sup> They believed that having the right performance metrics, data, and analysis in hand allowed social innovators (i.e., nonprofit organizations, government agencies, and businesses that offer innovative, results-driven solutions to social problems) to make well-informed management decisions to drive continuous improvement and long-term social impact and answer the following fundamental questions<sup>74</sup>:

- How do we know how well our organization is progressing against our mission and goals?
- What should we measure in order to have critical information without becoming overwhelmed with data?
- How should we report and discuss our performance internally among staff and board members to maximize learning?
- Where should we focus our organization's limited resources in order to increase our effectiveness today and achieve sustainability over the longer term?

<sup>73</sup> A. Wolk, A. Dholakia and K. Kreitz, *Building a Performance Measurement System: Using Data to Accelerate Social Impact* (Cambridge, MA: Root Cause, 2009), iii.

<sup>74</sup> Id. at 3-4.

- How can we most effectively measure and communicate our performance and impact to external stakeholders?

Wolk et al. advocated for the adoption of a performance measurement system as a means for organizations to efficiently collect and make use of data about their activities (i.e., programs, services and initiatives run by the organization) and operations (i.e., human resources management, technology, financial management, governance etc.). From their perspective, a performance measurement system constituted a cycle that included four major phases of activity<sup>75</sup>:

- **Measure:** Organizations operating performance measurement systems use indicators, metrics that are tracked regularly, to assess their activities and supporting operations.
- **Report:** Organizations can use several types of reporting tools to compile performance measurement data into a format that is easy to analyze including a dashboard, which includes a focused selection of indicators to provide periodic snapshots of the organization's overall progress in relation to past results and future goals, and/or a report card, which contains highlights from an organization's internal dashboards and facilitates sharing data externally with social impact investors and other stakeholders.
- **Learn:** Using the selected reporting tools, an organization's leadership and other key staff members review and interpret performance data in order to make well-informed decisions and identify opportunities for improvement and necessary course corrections.
- **Improve:** The organization implements its decisions to improve its activities and operations and the performance measurement cycle begins again.

Wolk et al. counseled organizations that they could and should follow a five-step process to build or refine their performance management systems: planning to measure; choosing what to measure; determining how to measure; preparing to use the data; and implementing the performance measurement system. However, before embarking on the process organizations need to commit to employing the knowledge drawn from their data to drive decision-making, particularly among members of the senior leadership team; devoting staff time to build the performance measurement system (i.e., designing the system, developing measurement tools and implementing processes) and oversee performance measurement once the planning process has ended; and reach agreement on the organization's mission and vision of success so that the organization can identify exactly what needs to be measured and reported.<sup>76</sup>

### Creating a CSR-Supportive Organizational Culture

Eccles et al. observed that even though there was empirical support for the view that adoption of sustainability-related strategies was necessary in order for companies to be competitive and that "high sustainability" companies significantly outperformed

<sup>75</sup> Id. at 6.

<sup>76</sup> Id. at 7-9.

counterparts that had not adopted environmental and social policies, relatively few companies exhibited a broad-based commitment to sustainability on the basis of their original corporate DNA.<sup>77</sup> Because of this Eccles et al. argued that most companies needed to make a conscious and continuing effort to formulate and execute a sustainable strategy and embed sustainability into their strategy and operations. In order to counsel companies on how to accomplish this transformation, Eccles et al. studied the organizational models of companies they referred to as “sustainable” by comparing them with companies they called “traditional” and focused on two key questions: (1) how did sustainable companies create the conditions that embedded sustainability in the company’s strategy and operations and (2) what were the specific elements of sustainable companies’ cultures that differentiated them from those of traditional companies? Based on this work, they concluded that companies needed to be prepared to embark on large-scale change in two stages: the first stage involves reframing the company’s identity through leadership commitment and external engagement, and the second stage involves codifying the new identity through employee engagement and mechanisms. Eccles et al. pointed out that the transformation would be extremely challenging and companies with an established organizational culture that included strong capabilities for change, a commitment to innovation and high levels of trust would have a significant advantage.<sup>78</sup>

### ***Stage One: Reframing the Company’s Identity***

According to Eccles et al. the first stage in becoming a sustainability company involves reframing the company’s identity, a process that requires both leadership commitment and external engagement. Transformation of the company’s organizational culture requires the strong and focused guidance of the leadership team and the organizational leaders are the people who are best situated to drive the necessary engagement relating to sustainability between the company and the diverse range of external stakeholders including investors, community members, regulators, activists and members and representatives of civil society. The goal at this stage is to strengthen the commitment to sustainability at the top of the organization and redefine the company’s identity to the world as being an organization that has embraced the principles of sustainability and embedded them in its organizational culture, strategy, operational processes and relations with stakeholders. As the organizational leaders begin to reach out to external stakeholders they gather the information necessary to formulate and execute the company’s sustainability strategy. As the engagement process expands to include employees their interaction with external stakeholders creates opportunities for learning that can be used to make the company more innovative and committed to creating value for itself and society in general.

### **Leadership Commitment**

<sup>77</sup> R. Eccles, K. Perkins and G. Serafeim, “How to Become a Sustainable Company”, MIT Sloan Management Review 53(4) (Summer 2012), 43, 44.

<sup>78</sup> Id. at 44. See “About the Research” on page 45 in the article for an extended discussion of the methodology used by the researchers and the scope of the companies surveyed.



Eccles et al. joined many others in noting that in order to create and maintain a sustainability company there must be a personal resolution and commitment from the CEO that is supported by an enterprise-wide sustainability vision and a willingness of the CEO to exercise his or her authority to see that the vision is realized. Eccles et al. identified the following differences between leaders of sustainable and traditional companies, each of which can be used by aspiring sustainability leaders as guides for transforming the leadership styles<sup>79</sup>:

- The top-level leaders of sustainable companies were perceived as taking a long-term view when making decisions and more willing than leaders of traditional companies to take measured risks in pursuit of sustainability.
- Sustainable companies were more likely to be knowledgeable of the issues pertaining to sustainability and have a clearer business case for pursuing sustainable goals, thus making it easier to incorporate sustainability into core business activities and basic decisions about operating budgets and capital investments.
- Leaders of sustainable companies demonstrated personal commitment to sustainability that inspired others throughout the organization, especially employees who were far more likely to view sustainable strategies as being essential to the company's success when they worked at sustainable companies as opposed to traditional firms.

As for the CEO's sustainability vision mentioned above, Eccles et al. actually found that the leaders of traditional companies were more likely to be seen as having clear visions for sustainability than the leaders of sustainable companies; however, the researchers suggested that the reason for this might be that CEOs of sustainable companies generally focus on transformational changes based on aspirational goals with unknowable starting and ending points, thus making them more difficult for others to completely understand, while the sustainability goals of CEOs of traditional companies, to the extent there are any, are based on smaller-scale transitional changes that are more within their comfort zone and easier to describe and lay out with specific beginning and ending states (e.g., moving from an energy system based on fossil fuel to a system based on a renewable source of energy or implementing a redesigned process that will reduce waste).<sup>80</sup> Eccles et al. pointed out that the CEOs of sustainable companies did realize that transitional changes would be needed and the learning from all of this is that the CEO must have both a transformational vision and a portfolio of clear and attainable transitional changes upon which a foundation of success and progress can be built.

### External Engagement

Eccles et al. argued that sustainable companies "learn from the outside" through engagement with a variety of external stakeholders, a process that allows the company to learn about the concerns and expectations of those stakeholders regarding the company and opens the eyes of company leaders to potential opportunities to create value for

<sup>79</sup> Id. at 45.

<sup>80</sup> Id.

shareholders and stakeholders.<sup>81</sup> Their research found that sustainable companies were much more likely to encourage their employees to assimilate knowledge from sources external to their company than were traditional companies, a process that companies found useful for building the culture of innovation and learning necessary for sustainability. Sustainable companies were also much more likely to collaborate with other companies, including competitors, and organizations to advance their goals. Collaboration was particularly keen up and down the supply chain and the researchers noted that one of the strongest differences between the sustainable and traditional companies was that sustainable companies encouraged their supply chains to adopt sustainable strategies and were likely to work closely with suppliers to support those efforts. Eccles et al. pointed out that sustainable companies did a much better job than their traditional counterparts with respect to transparency, clear and consistent messaging to stakeholders and honest and widely disseminated reporting on their sustainability targets and the progress that was being made toward achieving them (including some of the problems that the company had encountered that had caused it to fail to meet its sustainability commitments). Among other things, the reporting provided by the sustainable companies was a good way for their stakeholders to see how their interests and views were being integrated into the strategy and management of the company.<sup>82</sup>

### *Stage Two: Codifying the New Identity*

Eccles et al. explained that the second stage of the process of creating a sustainable company involves building internal support for the new identity developed during the first stage through employee engagement and creating and codifying mechanisms for execution. Taken together, these elements serve to create and maintain the requisite organizational culture that is supportive of sustainability. The priorities of the first stage—leadership commitment and external engagement—continue during the second stage as parallel drivers of the company’s new identity.<sup>83</sup>

#### Employee Engagement

Eccles et al. defined employee engagement as the actions that the company takes in order to secure the interest and attention of its employees in the company’s sustainability efforts and the roles that employees are asked to play. In most cases the transition to become a sustainable company will require that employees change their behaviors and behavioral change will not occur unless the employees believe that it will be worth it. Employees will also need to understand and accept the reasons for the company’s decision to make changes and have a clear picture of the specific individual role that they are expected to play and how their performance will be measured. The process of employee engagement will not be easy; however, Eccles et al. pointed out that engaged employees are emotionally connected to their work and to their workplace and thus tend

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<sup>81</sup> Id. at 47.

<sup>82</sup> Id. at 46-47.

<sup>83</sup> Id. at 47.

to be more productive and more willing to engage in discretionary efforts to achieve company goals.<sup>84</sup>

Eccles et al. found that sustainable companies were much more likely than traditional ones to have a clear strategy for engaging employees supported by a clear business case for sustainability and that these strategies were implemented by communicating the impact that the employees' contributions will have on the company, articulating the connection between each employee's work and the sustainability goals and enabling cross-functional communication and idea exchange.<sup>85</sup> For example, everyone in the organization from senior leadership to line management should have sustainability-related goals incorporated into their individual goals in order for them to feel personally invested in the company's progress toward sustainability. In addition, a concerted effort should be made to facilitate sharing of experiences and best practices with respect to sustainability-related activities throughout the organization to accelerate learning and assure employees that they are not "going it alone" and that others are taking on similar sustainability challenges and creating sharable solutions.

### Mechanisms for Execution

Eccles et al. found significant differences between sustainable and traditional companies with respect to the presence of organization-wide mechanisms supporting sustainability-related changes and the way in which those mechanisms were used. For example, sustainable companies were far more likely to have enterprise-wide management systems (i.e., structured frameworks of practices and procedures) for executing sustainable strategies. Notable features of these management systems included processes that connected sustainability to corporate strategy, with direct ties to performance evaluation and compensation; incorporation of sustainability metrics into the capital budgeting process; development of valuation processes that take externalities into account; setting clear targets for sustainability objectives; and establishing targeted programs linking the objectives to business results. Eccles et al. noted that all companies were struggling to find appropriate metrics and tools for measuring sustainability and that collecting consistent, complete and precise data from across the value chain was challenging; however, they felt that one of the hallmarks of sustainable companies was their willingness to take on these measurement challenges proactively and aggressively.

### *Building and Maintaining a Supportive Corporate Culture*

Eccles et al. argued that actions taken during the two stages described above to reframe and codify the company's identity would reinforce, or even establish, a supportive corporate culture based on change capabilities, trust and innovation. They explained that leadership commitment and external engagement would provide the foundation for transformational change, employee engagement would foster trust and innovation and mechanisms for execution would ensure that change happens as innovations diffuse

<sup>84</sup> Id.

<sup>85</sup> Id.

throughout the organization. At the same time, as the corporate culture becomes more supportive of sustainability it will increase the effectiveness of leadership commitment, external and employee engagement and the mechanisms for execution.<sup>86</sup>

Eccles et al. found strong differences between sustainable and traditional companies with regard to the level of change readiness in the corporate culture, noting that almost all of the sustainable companies had a strong track record of implementing large-scale changes successfully. This is important because transformational change can take years, if not decades, to accomplish and the company must be comfortable with setting its direction, calibrating the risk and then pushing forward even without a precise plan. As it turns out the long path to sustainability actually involves a continuous series of incremental changes which also must be navigated carefully and effectively and sustainable companies were also stronger than traditional companies when it came to implementing incremental changes, which meant that they were able to build a chain of successes and internal confidence.<sup>87</sup> Without strong cultural capabilities for embracing and executing both transformational and incremental changes a company's push for sustainability may stall out and ultimately collapse as employees become disenchanted and external stakeholders lose patience with the perceived poor leadership of the organization.

Innovation was found to be another core cultural capability for becoming a sustainable company and the sustainable companies surveyed by Eccles et al. were able to identify and focus on the innovations in processes, products and business models that were necessary to improve financial performance along relevant environmental, social and governance dimensions. Companies with existing capabilities for innovation are obviously in a strong position; however, all companies can benefit from the new ideas that are generated during robust engagement with employees and external stakeholders. Eccles et al. noted that sustainable companies did a good job of promoting and facilitating learning, broad thinking and creativity, all of which are drivers of innovation. For example, sustainable companies provide for lateral communications so that employees can learn easily and efficiently from others in the organization and have access to different frames of reference and points of view as ideas are shared.<sup>88</sup>

The third key element of the organizational culture for a sustainable company is trust on the part of every employee, which means that employees believe that organizational leaders and everyone else in the organization can be taken at their word and will do their best to deliver on commitments and processes. Without trust employees will be reluctant, if not completely unwilling, to take the risks associated with the level of innovation required in order to achieve the transformational changes associated with sustainability. Eccles et al. argued that companies can foster the requisite level of trust for sustainability initiatives by demonstrating that they value the contributions of employees, consciously aligning their actions with their values, honoring their commitments and basing decisions on what is good for shareholders and for the broader concerns of the organization and

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<sup>86</sup> Id. at 48.

<sup>87</sup> Id. at 49.

<sup>88</sup> Id.

society. According to Eccles et al. leaders of sustainable companies understood the value that results when people within the company know that they can count on the integrity, competency, intentions and reliability of their leaders and coworkers. Trust builds the foundation for collaboration and teamwork since employees know that their efforts will be recognized and rewarded and working together for the “greater good” strengthens employee engagement and improves overall business performance.<sup>89</sup>

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<sup>89</sup> Id. at 49-50.



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### About the Author

This Work was written by Alan S. Gutterman, whose prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is an online-only product available and featured on Thomson Reuters' Westlaw, the world's largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 100 books on sustainable entrepreneurship, leadership and management, business law and transactions, international law and business and technology management for a number of publishers including Thomson Reuters, Practical Law, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, Business Expert Press, Harvard Business Publishing, CCH and BNA. Alan has extensive experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Berkeley Law, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on corporate finance, venture capital, corporate governance, Japanese business law and law and economic development. He has also launched and oversees projects relating to [promoting the civil and human rights of older persons](#) and a [human rights-based approach to entrepreneurship](#). He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan and his activities, please contact him directly at [alangutterman@gmail.com](mailto:alangutterman@gmail.com), follow him on [LinkedIn](#), subscribe to his newsletters ([Older Persons' Rights Project](#) and [Entrepreneurship | Human Rights](#)) and visit his website at [alangutterman.com](http://alangutterman.com). Many of Alan's research papers and other publications are also available through [SSRN](#) and [Google Scholar](#).

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