The ISO and Corporate Social Responsibility

Issue Briefing Note:

The three briefing papers below were produced by a partnership of six sustainable development-oriented organizations, as part of a collaborative project that seeks to build understanding on key issues in relation to moves by the International Organisation on Standardization (ISO) to enter into the CSR agenda.

The papers present a general overview of three issues that deserve particular attention in discussions on the development by the International Organization for Standardization of international Social Responsibility standards (ISO).

They address issues related to small and medium-sided enterprises (SMEs); stakeholder capacity to engage in CSR; and national differences in CSR definitions and priorities. While written with an international focus, the papers are drawn particularly on insights from Chile, India and South Africa.

May 2004

iisd International Institut Institute for international du Sustainable développement Development durable

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Issue Briefing Note:

Stakeholder Engagement, ISO and Corporate Social Responsibility

May 2004

This is one of three Issue Briefing Notes produced by a partnership of six sustainable development-oriented non-governmental organizations, including three international organizations and three organizations based in developing countries.

The partners are the International Institute for Sustainable Development, the International Institute for Environment and Development, IUCN – The World Conservation Union, the African Institute of Corporate Citizenship, Development Alternatives and Recursos e Investigación para el Desarrollo Sustentable.

The Issue Briefing Notes present a general overview of three issues that deserve particular attention in discussions on the possible development by the International Organization for Standardization (ISO) for international Social Responsibility standards. They address issues related to small and medium-sided enterprises (SMEs); stakeholder capacity to engage in corporate social responsibility (CSR); and national differences in CSR definitions and priorities. While written with an international focus, the papers are drawn particularly on insights from Chile, India and South Africa. For more information, please visit http://www.iisd.org/standards/csr.asp

Summary of key points

- ISO's approach to stakeholder engagement should be informed by an understanding of the current constraints to stakeholder engagement in the CSR agenda as a whole.
- ISO itself must accept some responsibility for tackling financial and human capacity challenges that work against multi-stakeholder engagement in the CSR agenda by playing a more proactive role in advocating broad-based multi-stakeholder participation and influence in the CSR agenda.
- ISO needs to go beyond providing opportunities for stakeholders to participate in the development of any CSR-related standard to creating the circumstances in which those opportunities are likely to be realized.
- ISO's efforts to address the lack of developing country stakeholder participation in standardization need to be stepped up including through enhanced availability of financial resources for engagement, non-technical guides and technical assistance.
- ISO should develop a guide for national standards bodies on stakeholder engagement in CSR-related standards-setting. This should provide guidance on proactive steps to encourage broad-based stakeholder engagement, and tailored guidance on the application of key ISO rules of procedure—including ISO's specific definition of "consensus."
- In the event of a decision to proceed with a CSR-related standard, ISO should at the earliest possible stage develop a guide for potential participants, incorporating an overview of the relevant ISO rules of procedure; guidance on different entry points to the process; and an outline of the sources of financial resources, assistance and additional advice on how to engage.
- Any ISO CSR-related outputs will need to be capable of providing non-prescriptive meaningful guidance to businesses on issues of stakeholder engagement. They should draw on, or make links to, existing guidance—for example the AA1000 family of standards and the outputs of the Business Partners for Development process.

Introduction

This paper outlines links between the theme of multi-stakeholder engagement within the corporate social responsibility (CSR) agenda and the development of any ISO output on social responsibility.[1] It addresses the links in two ways. First by looking to the theme of multi-stakeholder engagement to inform development of an appropriate process for CSR-related work within ISO and its member bodies. Second (though in less detail in this paper) to help orient future discussions on how the content of any ISO output might itself address multi-stakeholder engagement. The two are closely related: at a minimum, ISO's own processes for developing CSR-related outputs should stand up to scrutiny against the stakeholder engagement provisions of those outputs.

Our basic starting point for understanding the notion of a "stakeholder" encompasses the full range of individuals and organizations who are affected, influenced or impacted by businesses or any particular business and those with potential themselves to influence, impact or affect business.[2] This broad definition throws up a number of challenges. ISO and its processes will need to be equipped to deal with delicate balancing acts and judgments around central questions including: "which stakeholders" (given the broad range of potential stakeholders), "whose interests?," "on the basis of what threshold trigger?," and "to what extent, and by what means should the interests of unrepresented stakeholders, be addressed—and by whom?"

The notion of "engagement" potentially spans passive and active modes of engagement. They include disclosure and transparency by businesses to their stakeholders, and direct involvement, consultation or partnership with stakeholders. This paper is relevant to all of these forms of engagement, but it focuses in particular on efforts by businesses directly to engage with external stakeholders in two-way or multi-directional exchanges of information, ideas, skills and resources.

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[1] "Social responsibility" is the term used in the advisory group on social responsibility. However, this paper focuses only on the social responsibility of businesses and, therefore, we use the term "corporate social responsibility" (CSR) or "CSR-related" throughout.

[2] Other definitions from within the wider standards community are equally broad. The first of ISO's member organizations to publish a draft social responsibility-related standard, Standards Israel, defined stakeholders as: "All the parties affected by the activity of the organization or affecting it, such as employees, customers, suppliers, business partners, retailers, the community, social and environmental organizations, public authorities and stockholders." In the AA1000 framework standard, which was designed to improve organizational accountability and performance by learning through stakeholder engagement, stakeholders are defined as "those groups who affect and/or are affected by the organization and its activities."

In standards development, ISO will need to provide "opportunities" for stakeholders to participate in the development of any ISO CSR-related output. But it will also need to go further, helping to create the circumstances in which those opportunities are likely to be realized. Standards-related processes need to anticipate and respond to capacity limitations. They need to incorporate (or at the very least be associated with) proactive capacity-building measures to ensure equitable participation. A serious commitment from ISO to address these challenges could help to build trust with those skeptical of the added value of ISO engagement in CSR.

ISO's processes will also need to deliver outputs that are capable of providing or at least pointing to meaningful guidance to businesses on how to manage stakeholder engagement. Many businesses are likely to judge the utility of any ISO CSR-related outputs in terms of their ability to provide substantive guidance on these issues.

Overall capacity constraints to multi-stakeholder engagement in CSR

For multi-stakeholder engagement to be equitable among different stakeholder interests—whether in the development or implementation of any ISO CSR-related standard—the sources of negotiating power among stakeholders should not be so unevenly distributed that "weaker" interests are inevitably trumped by more powerful or dominant voices. Consensus cannot result.

Capacity-building efforts can help stakeholders to recognize and realize existing sources of negotiating power. Assessment of existing capacity constraints to engagement and potential capacity-building investments is therefore an important part of any serious effort to approach multi-stakeholder engagement. This has implications both for ISO's own processes, and for the substantive content of any CSR-related output. At both levels, the ISO family of organizations will need to get beyond the "usual suspects" to engage with stakeholders whose interests and views have so far been under-represented not only in ISO but also in the mainstream CSR agenda including community-based organizations, local groups, public sector agencies from middle and low income countries, and SMEs.

As a first step, it will be important for ISO and its member bodies to have an understanding of the overall constraints to stakeholder engagement in the CSR agenda as a whole. These, in part, result from the overall "enabling environment" for public participation and access to information at the national or local level; the cultural dynamics for public participation in national or local CSR agendas; and the effectiveness of the press and media. The degree of stakeholder participation in organizations and the willingness of stakeholders to engage are dynamic processes, subject to incentives and obstacles posed by the social environment and local cultural characteristics.

By way of example, and taking consideration of differing national contexts: in India, the need to enhance the capacity of local people to make responsible and informed demands on public and private systems for improving transparency, accountability and responsiveness has been identified as a key issue of administrative reform. In Chile, though there is already much public discussion around CSR, yet there is as yet very little experience with national CSR standards-setting processes. In South Africa, historical circumstances and a variety of legislative and partnership-based initiatives have helped to shape an overall public policy environment that is highly supportive of public participation and access to information. Yet with few exceptions, South African companies still tend generally to engage with non-economic stakeholders on a rather reactive basis.

Even when businesses are committed to stakeholder engagement, their efforts to do so will be frustrated if the capacity of other stakeholders to engage is limited. The overall economic climate may adversely affect the willingness of some stakeholder groups—for example consumers—to engage with the CSR agenda. Lack of interest and awareness of CSR is a general constraining factor. NGOs who are skeptical about businesses may also lack a detailed understanding of business operations. Even local NGOs with a strong environmental or social background, employing people with skills to engage corporations on CSR issues may not have the financial resources to engage effectively.

Both standards-setters and businesses implementing social responsibility standards need to appreciate that many stakeholders without funding are unable to participate. That in turn points to a significant need for additional sources of arms-length funding that respects the independence and differing perspectives of a variety of stakeholder groups if the promise of stakeholder engagement is to be met. While there is a common perception that this issue is limited to NGOs based in developed countries, the constraints of financial resource considerations are common to many NGOs around the world. Particular attention needs to be paid to the issues faced by community-based organizations who represent local community interests in both poor and wealthy communities.

> Where wealthier communities have representation by people with greater skills and … financial capacity to engage legal representation, corporate responsibility is played out more effectively. – *African Institute of Corporate Citizenship*
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> Often it is the poorest who are most vulnerable to environmental and social stress which can be caused by big investment projects. – *RIDES*

The public policy implications of CSR-related standards—particularly those developed through the mainstream standards community[3]—mean that ISO itself must accept some responsibility for tackling financial and human capacity challenges that work against multi-stakeholder engagement in the CSR agenda. ISO should prioritize its efforts in relation to the standards-setting process itself. But any CSR-related standard should also guide businesses on practical ways to overcome capacity constraints to engagement. And ISO and its members themselves could play a more proactive role in advocating broad-based multi-stakeholder participation and influence in the CSR agenda as a whole. Doing this is entirely complementary of the core values of inclusion that inform the formal principles of decision-making across the mainstream standards community as a whole.

Multi-stakeholder engagement in ISO CSR-related processes

As we have hinted already, ISO's work on CSR deliverables will be judged not only on the usefulness of its final products, but also on the basis of its willingness to engage actively with a broad range of stakeholders, and the effectiveness of the procedures and structures that it puts in place to facilitate this engagement process. At a time when the content of any CSR-related outputs is unclear, the guiding principle should be to identify and integrate "best practice" processes of multi-stakeholder engagement.

If CSR-related standardization is not based on adequate multi-stakeholder engagement, there are likely to be two consequences. First, any resulting CSR-related standard will likely lack credibility among some stakeholder groups—a significant weakness in an agenda that is largely shaped by social expectations of businesses. Second, it is less likely to contain good advice on stakeholder engagement, which will almost certainly make it less useful to those organizations that it addresses, and so weaken its take-up.

The call for enhanced "stakeholder engagement" in standards-setting is already familiar. Early on in ISO's CSR-related process, a report to ISO COPOLCO on the desirability and feasibility of ISO CSR standards[4] underscored the importance of

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[3] For example, under provisions of the World Trade Organization's Agreement on Technical Barriers to Trade, or in terms of the potential impact of an ISO CSR standard on pursuit and implementation of public policy goals around the world—particularly if it were to provide the basis for CSR-related requirements in the supply chain.

[4] *The Desirability and Feasibility of ISO Corporate Social Responsibility Standards*, prepared by the Consumer Protection in the Global Market working group of the ISO Consumer Policy Committee, May 2002. Available online via http://europa.eu.int/comm/employment_social/ soc-dial/csr/isoreport.pdf

multi-stakeholder engagement—both in standards development processes and in any substantive standard. The Advisory Group on Social Responsibility has more recently recommended[5] that ISO review its processes and, where necessary, make adjustments to ensure meaningful participation by a fuller range of "interested parties."

The current reality is that levels of non-business and developing country engagement in ISO remain low and funding to enhance participation by stakeholders from developing countries is scarce. While ISO's procedures are technically open to all interested parties, the reality is that the vast majority of representatives involved in existing ISO standardization activities come from the business community and from OECD countries in particular. This is due to a variety of historical reasons, including the fact that until recently most ISO standards were primarily of interest to the private sector, and also because companies would fund their own participation in the development of standards in which they had a financial interest. Notwithstanding the "business case" for CSR, there is less of a direct cost-benefit relationship with standards that address public goods.

> At times, priorities of developing countries are different to the developed ones. Since international agreements are initiated by the latter, the former has no clue as to how to respond and what interests to protect. They prefer to remain passive and wait for the rules to come out. Also there is lack of adequate database to put up argument in international bodies. The respective bodies are unable to analyze the implications of standards while voting for them. – *Development Alternatives, India*

To our knowledge there has so far been extremely limited participation by civil society-based groups in the national standards body processes of middle and low-income countries. For example taking the example of Chile, international level participation in meetings of TC207 has been limited to the national standardization body, INN, together with private sector representatives—particularly from the forestry and mining sectors. In India, a system for stakeholder engagement is in place, including through publication of draft standards and direct engagement of selected industry associations and stakeholder groups. But in practice the approach is a top down one, with low levels of penetration to affected stakeholders and low levels of stakeholder awareness of the implications of standardization. Lack of capacity on the part of key non-governmental organizations, industry associations and the Bureau of Indian Standards itself to proactively collect and assimilate stakeholder views more widely is a further barrier.

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[5] ISO/TMB AG CSR N32; available at: http://www.iso.org/iso/en/info/Conferences/ SRConference/report.htm

The lack of participation by developing countries in standards-related processes to date is a major concern for any possible CSR-related standardization. ISO has undertaken a number of initiatives to try to address this issue, including through a Committee on Developing Countries (DEVCO)[6]—but these have so far been insufficiently supported by ISO members and the donor community. Indeed, the task is huge, and much more needs to be done to try to increase engagement of both the business and non-business community in developing countries. In particular, we suggest that the ISO secretariat should as a matter of urgency begin discussions with bilateral development agencies and other funding agencies working on standardization and corporate social responsibility to make the "ISO business case" for investing in building the capacity of stakeholders based in developing countries to engage with any social responsibility process, both in terms of standard-setting and the implementation of any resulting standard.

We agree with the suggestions outlined in an informal note of the Advisory Group on Social Responsibility outlining areas where improvements could be made to the ISO process. These include "more effective involvement of NGOs and workers" organizations, inclusion of all interested and affected parties, accommodation of developing countries" capacity to participate, accommodation for participants whose native language is not English, consideration of processes that work for small and medium enterprises, enhanced transparency and timeliness in developing deliverables."[7]

Efforts to review ISO processes for the purposes of any CSR-related standards processes must also be linked to a fresh approach to applying the principle that lies at the heart of ISO decision-making; namely the principle of consensus. ISO's rules of procedure define consensus as:

> "General agreement, characterized by the absence of sustained opposition to substantial issues by any important part of the concerned interests and by a process that involves seeking to take into account the views of all parties concerned and to reconcile any conflicting arguments. NOTE Consensus need not imply unanimity."

Ensuring full and effective stakeholder participation in all stages of the standards development process is essential if the consensus principle is to have real life. Yet the ISO definition allows for "consensus" to be achieved in the face of sustained

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[6] See http://www.iso.org/devco
[7] ISO/TMB AG CSR N6 Rev

opposition by "unimportant" parts of the concerned interests; in the face of sustained opposition to issues deemed "insubstantial" (the definition is silent as to whose notion of "substantial" should prevail); and, potentially, in the face of any opposition from "concerned interests" who are not present in the negotiating room. In practice, there have been many instances of ISO working groups and subcommittees putting decisions to a vote; in some cases, those votes are open only to those members who are in attendance at a particular meeting.[8]

Even if the ISO definition of consensus itself is not revisited, there is clearly scope for the application of the ISO version of the "consensus" principle to undermine principles of "equitable" stakeholder engagement. It is beyond the scope of this paper to provide detailed guidance on how the definition should be applied in "threshold" cases (e.g., in relation to unrepresented stakeholders). What is clear is that the notion of multi-stakeholder engagement in the CSR agenda clearly calls for ISO to achieve a better balance across the following areas of activity:

- Wider advocacy and support of efforts to build the capacities of stakeholders to engage with the CSR agenda more widely
- Support for capacity-building investments to build an informed body of stakeholders equipped with the information and skills to effectively engage in ISO CSR-related processes. More widely, the results of the Regional and International Networking Group (RING) project on "standards for sustainable trade"[9] have generated widely applicable suggestions for practical ways in which to strengthen the participation of developing country stakeholders in standards design at both national and international levels. Efforts to build capacities for engagement in CSR-related standards processes should be linked to these much-needed wider capacity-building investments. Box 1 below highlights specific transferable recommendations based in the experience of a number of Latin American countries.
- Proactive efforts at the level of national standards bodies and the ISO Secretariat to secure the engagement and effective influence of the fullest range of stakeholders in CSR-related standardization.
- A recognition that the notion of a "substantial" issue must be defined by the stakeholders themselves
- Revisiting the use of voting in standards-related processes based on consensus. Voting should not be used unless there is a very high degree of confidence that earlier efforts have resulted in the widest possible participation of "concerned interests" and that there are means of allowing some space for consideration of unrepresented interests.

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8 Source: Process requirements for ISO CSR standardization, ISO/TMB AG CSR N15
9 See generally http://www.iisd.org/standards/project_outputs.asp

The ISO Directives provide for Category A liaison organizations to play a direct role in the development of international standards. Under Clause 1.17.5, technical committees should: "seek the full and, if possible, formal backing of the organizations having A-liaison status for each International Standard in which the latter are interested." We suggest that expectations for how this will be applied any CSR-related standards process should be clarified at the earliest possible stage.

Box 1: Capacity building for participation in standards design

Participation at the National Level

Public relations effort of national standardization bodies in order to better disseminate their role and better integrate with other relevant actors.	Standardization, metrology and conformity assessment organizations, as well as technical regulations bodies are not broadly known by other actors in the majority of the countries. This situation limits the ability of the standardization bodies to interact and assemble the different actors.
Promote/develop coordination instances between regional and/or national environmental and trade agencies. One effective way to go about this would be through the implementation of national mirror committees (e.g., TBT, SPS, ISO Committee 207, etc.).	The poor communication and coordination between trade, environmental and standardization agencies was evident through the research work, particularly in the cases of Paraguay and Chile. Few countries have these committees implemented and operating in a permanent basis.
Training to standardization organizations on public participation and conflict management.	Standardization organizations need formal training in order to substantially improve the way they carry out participation programs.

Participation at the International Level

Nationals strategies for standardization—to be developed—should determine a strategy for participation at the international level (e.g., in ISO, IEC, ITU, WTO-TBT, etc.). This could be a more explicit endeavor of the regional standardization bodies through, for instance, actively involving negotiators in their meetings. Participation at the international level should also include provisions for securing the participation of standardization professionals in trade agreement negotiations.	According to the interviews carried out and the participants in the regional meeting, an opportunity exists for more efficient international participation, and for a more coordinated effort among South American countries.

Participation at the International Level	
Review and enhance the electronic infrastructure and capabilities of standardization organizations (internet access, broadband connectivity, website capabilities, etc.).	Important disparities between countries do exist and may become impediments to an effective performance.
Enhance negotiating capacities of standards-related negotiators.	Negotiators need to be fluent in English and should have formal training on negotiation.

Experience of NGO engagement in TC207 has pointed to a number of important obstacles to effective NGO engagement, which could usefully be considered more widely. In particular, the organization of ISO along national boundaries, not stakeholder groups, when coupled with the application of the consensus principle, can mean that "the views of minority stakeholders in many countries get obscured at the international level, both in terms of how minority concerns can be lost when national positions are communicated at the TC level, how formal votes are taken, as well as in the selection of national delegates and what they can say at meetings."[10]

While national standards bodies have considerable flexibility to determine their own rules of procedure and find ways of including non-governmental organizations and other non-business stakeholders in their deliberations, in practice there can be many obstacles in the way of wider participation. These include a lack of proactive efforts to seek out interested parties, the often highly technical nature of standards-related processes and the jargon associated with them, and internal bureaucratic obstacles to doing what is unusual. This is not to suggest that, given a willing NGO with capacity to engage, the obstacles are insurmountable. The Chilean national standards body, INN, has been pleased to welcome the engagement of the sustainable development NGO RIDES in the ISO CSR initiative—and to receive information, via RIDES, on CSR discussions within ISO. Nonetheless, experience has shown that it is not enough to assume that the *possibility* of including a wide range of stakeholders in standards-related processes will ensure the achievement of this goal. More proactive steps are needed.

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[10] ISO/TC 207/ N590; "Increasing the Effectiveness of NGO Participation in ISO TC207," available at: http://www.ecologia.org/ems/iso14000/ngoinvolve/taskgroup/N590%20030319.pdf.

There is a role for ISO centrally in providing guidance to its member bodies on issues of stakeholder engagement; and to stakeholders more widely on involvement in standards-related processes. A helpful guide has already been prepared for NGO participation in ISO/TC 207.[11]

A broad equivalent should be developed at an early stage for potential participants in any future CSR-related processes within ISO. This should incorporate an overview of the relevant ISO rules of procedure; guidance on different entry points to the process, and an outline of the sources of financial resources, assistance and additional advice on how to engage.

We concur with the recommendation of a paper prepared by the NGOs involved in ISO TC207 on structural and procedural obstacles to stakeholder engagement in TC207 that each national standard body should: "have a process in place for identifying stakeholders, seeking their active involvement, communicating with them, eliciting their comments on drafts, developing consensus positions, and composing the national delegations to international meetings."[12]

The theme of multi-stakeholder engagement is already reflected within the wider community of CSR-related standards. ISO and its members will need to draw on this existing body of standards and experiences of multi-stakeholder engagement within the wider CSR community:

- Pointers to best practice in standards development can be found in the practice of the International Social and Environmental Accreditation and Labelling Alliance (ISEAL), a membership based grouping of certification and standards bodies outside the formal standards community. ISEAL has recently adopted a Code of Good Practice for Setting Social and Environmental Standards. The Code calls for standard-setting organizations to ensure that in the absence of consensus "no group of interested parties can dominate nor be dominated in the decision-making process."[13] It goes further, calling for standards-setters to be proactive in identifying and involving "disadvantaged groups."[14]

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[11] ISO/TC 207/NGO-TG N20; "A Guide for NGO Participation in ISO/TC 207"; Available at: http://www.ecologia.org/ems/iso14000/ngoinvolve/taskgroup/NGOGuideTC207.pdf
[12] ISO/TC 207/ N590; "Increasing the Effectiveness of NGO Participation in ISO TC207," available at: http://www.ecologia.org/ems/iso14000/ngoinvolve/taskgroup/N590%20030319.pdf, at paragraph 4.2.2
[13] http://www.isealalliance.org/documents/pdf/P005_PD3.pdf, paragraph 5.6
[14] http://www.isealalliance.org/documents/pdf/P005_PD3.pdf, paragraph 7.4

- The AA1000 family of standards, developed by the U.K.-based Institute for Social and Ethical AccountAbility, are a further source of inspiration—both in terms of standard-setting and the substantive stakeholder engagement-related content of any ISO CSR-related output.[15]
- The inclusive processes through which the Global Reporting Initiative (GRI) has developed its reporting guidelines also deserve special consideration.
- There may be ways to increase the effective influence of some marginalized stakeholders through the adoption of innovative governance structures. Here ISO could usefully look to the governance structures of some existing standards-related processes outside the formal standards community, for example those of the Forest Stewardship Council.

Multi-stakeholder engagement in the substance of an ISO output

Multi-stakeholder engagement is a central theme of the corporate social responsibility agenda. CSR calls for businesses to be responsive, answerable and accountable, not only to their shareholders, investors and lenders and regulators, but also to their "stakeholders"—employees, consumers, community members and policy-makers, among others. But why should businesses—or some businesses—choose to engage in this way with their stakeholders? Consequently, what is the likelihood that an ISO output that addresses issues of stakeholder engagement will be attractive to businesses? The answers to these questions lie with the "business case" and the wider "societal" case for engagement.

A business case for stakeholder engagement can be made on a number of grounds, which include reputation management, strengthening of internal management systems through development of appropriate feedback loops and internal information flows; reduced staff turnover and ability to attract the best possible employees; enhanced levels of trust including at community, shareholder and regulator level—with potential benefits in terms of access to capital; peacebuilding by helping to support stable social relations at local level; and strengthening the so-called "social licence to operate."

There is also a broader "societal" case for multi-stakeholder engagement. This includes the notion that the functioning both of markets and of democratic societies is strengthened by a free flow of information among different parties and by rights of public participation, organization and access to information.

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[15] See http://www.accountability.org.uk/aa1000/default.asp?pageid=122 for an overview of the ways in which the AA1000 group of standards have been applied.

Many of the complex societal problems that face humanity in an era of economic globalization are most appropriately addressed when different stakeholder groups work together for the common good. Governments, businesses and civil society groups alone cannot solve the global problems of HIV and AIDS—but by maximizing their distinct contribution, and acting in collaboration with others, the capacities of all sectors of society can be harnessed for the common good. The result is a huge rise in partnership-based approaches to pursuing CSR and sustainable development.[16] These partnerships both arise out of stakeholder engagement and depend upon it for their success.

These "business" and "societal" cases for multi-stakeholder engagement provide the basis of an "ISO business case" for multi-stakeholder engagement in the development of a social responsibility standard.

Our initial view is that efforts to integrate stakeholder engagement into the *substance* of any CSR-related ISO output should not be prescriptive. Instead, they should seek to offer best practice guidance, set out general principles or objectives, or point to sources of detailed guidance which may have been developed outside the ISO family of organizations.

Going "too far too fast" on stakeholder engagement in the substance of any CSR-related output could significantly reduce its take-up given that the business case for engagement is far from uniform. There are risks in basing a CSR-related standard on a foundation of stakeholder engagement in circumstances where, for a variety of reasons beyond the control or influence of an individual business, stakeholders are unable or unwilling to play the role planned for them. Any CSR-related process will need to arrive at a balance between stakeholder engagement as a principal tool for defining business approaches to CSR and the distinct value of defining minimum standards of business behaviour that are appropriately defined globally while implemented locally—for example in relation to human rights or core labour standards. If an ISO standard is not flexible enough to enable local stakeholders to get their issues addressed, they will have very little interest in being involved in either the development process or in engagement with companies that are implementing it. On the other hand, if local stakeholders do not have the capacity to engage effectively, they will not be able to provide input and guidance to organizations on the scope of their SR programmes. This underscores both the importance and the complexity of understanding the capacity constraints facing stakeholders.

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[16] See generally the outputs of the Business Partners for Development Natural Resources Cluster, available online at http://www.bpd-naturalresources.org

Conclusions

The theme of multi-stakeholder engagement is centrally important to the CSR agenda as a whole. Existing shortcomings in ISO and national standards body processes for engaging with non-business stakeholders have also been a significant source of criticism in the past. The goal for any ISO CSR-related process should be "best practice" multi-stakeholder engagement.

This short report has highlighted a number of important constraints to effective stakeholder engagement in any ISO CSR-related process. ISO and its member bodies cannot be expected to tackle all of the constraints, but it is important that they develop a well-rounded understanding of them so that they are able to maximize their positive contribution to tackling the constraints at the level of the wider CSR agenda as a whole; at the level of stakeholder engagement in standardization generally; at the specific level of multi-stakeholder engagement in CSR-related standardization; and at the level of substantive provisions to address stakeholder engagement in the content of any standard.

The ISO and Corporate Social Responsibility

Issue Briefing Note:

Small and Medium-Sized Enterprises

May 2004

This is one of three Issue Briefing Notes produced by a partnership of six sustainable development-oriented non-governmental organizations, including three international organizations and three organizations based in developing countries.

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Summary of key points

- Although their significance is difficult to measure, it is clear that small and medium-sized enterprises (SMEs) are the mainstay of most economies, particularly in terms of employment and overall development impacts.
- Although their individual social and environmental impacts are small, the cumulative impacts of SMEs are highly significant, offering the potential for significant progress towards sustainable development if the SR agenda can be made more relevant and applicable for SMEs.
- Currently, the greatest driver for SMEs to engage with SR is within the supply chain of larger companies. The "linkages" theme, in which support for SME development is an element of the social responsibility of large companies, is gaining prominence within the SR agenda.
- But otherwise, the existing SR debate, both in terms of the business case and the tools, is often not conducive to the engagement of SMEs. And even supply chain-based SR initiatives can act against the interests of SMEs.
- While a future SR standard offers the opportunity to engage SMEs, it also runs the risk of acting as a barrier to their market entry, hence undermining livelihoods and broad-based development.
- An international SR standard needs to consider SMEs in relation to both the content of a standard, and the incentives for SMEs to implement it.

Introduction: social responsibility and small enterprises

The existing social responsibility (SR) debate almost entirely focuses on large enterprises. The drivers of the debate, including NGOs, investors and regulatory authorities, naturally tend to focus on large, high profile companies. Where the debate does touch on small and medium-sized enterprises (SMEs), this is usually in a reactive sense, either as suppliers to larger companies, or as beneficiaries of SR initiatives. Small enterprises are less likely to have formal policies on SR issues—for example, over 90 per cent of large South African companies have implemented an HIV/AIDS policy, as opposed to 13 per cent of small companies.[1]

There are some exceptions, where the SR debate relates specifically to SMEs. For example, a Chilean policy that promotes a national approach to cleaner

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[1] BER 2003 *The Economic Impact of HIV/AIDS on Business in South Africa*, commissioned by SABCOHA.

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production places particular emphasis on SMEs, providing training, information and financial support through a Centre for Clean Production, and there are examples of export-oriented initiatives that target SMEs (Box 1). But SR in Chile nevertheless remains an issue that has been tackled basically by large enterprises, whether state-owned, transnational or national. In most cases, this is a response to international supply chain requirements. This pattern is replicated around the world. The development of an SR standard provides an opportunity to address this imbalance, in doing so supporting the potential for organizations of all sizes to improve their social and environmental performance.

Box 1: CSR in SMEs in Chile

The Inter-American Development Bank has provided US$1.25 million for the project "Adoption of CSR by SMEs in Chile." The project is carried out by the "Vincular" centre,[2] part of the Catholic University of Valparaíso. The objective is to enhance Chilean SMEs competitiveness through the implementation of CSR initiatives, increasingly demanded by international markets. The project lasts four years and is expected to involve around 150 SMEs from key economic sectors, starting in 2004 with fruits, wine and manufactures.

Classification and terminology

Although the term "SME" is frequently used, it is seldom defined—yet this is essential to understand the significance of the sector, and the implications and limitations of the SR agenda in relation to it. What constitutes a small, medium or large company is by no means clear or uniform, even within individual countries. In Chile, companies are generally classified according to annual turnover; in South Africa, by turnover, gross asset value and the number of employees (see Box 2). In India, any industrial undertaking with fixed assets less than 10 million Rupees[3] is classed as small-scale. In many cases, these classifications are enshrined in legislation, e.g., in South Africa by the National Small Business Act (1996) and related Amendment Bill (2003).

The SME and micro-enterprise (ME) sector encompasses a very broad range of firms, from established traditional family businesses employing over a hundred people to "survivalist" self-employed people working in informal micro enterprises. While the upper end of the range is comparable across developed

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[2] http://www.vincular.org
[3] As at April 2004, US$1 is worth 44.68 Rupees, making this equivalent to roughly US$224,000.

Box 2: Classification of enterprises in Chile and South Africa[4]

Category	Chile	South Africa[5]		
	Annual sales in UF currency (US$ equivalent)	Employees	Turnover: R million (US$ equivalent)	Gross asset value: R million (US$ equivalent)
Micro	0 – 2,400 (0 – 70,000)	Up to 5	0 – 0.2 (0 – 30,000)	0 – 0.1 (0 – 15,000)
Very small	N/A	Up to 20	Up to 6 (Up to 0.9m)	Up to 2 (Up to 0.3m)
Small	2,400 – 25,000 (70,000 – 700,000)	Up to 50	Up to 32 (Up to 4.5m)	Up to 6 (Up to 0.9m)
Medium	25,000 – 100,000 (700,000 – 2.8m)	Up to 200	5 – 64 (Up to 9m)	5 – 23 (Up to 3.3m)
Large	100,000 + (2.8m +)	200 +	64 + (9m +)	23 + (3.3m +)

and developing countries, SMEs in the latter are concentrated at the lowest end. For example, in South Africa, the vast majority are black, survivalist firms.[6]

The picture is blurred further by the distinction between the formal and informal sectors. The term SME usually refers only to firms operating within the formal (legally registered) economy, and attempts to relate the SR agenda to SMEs are likely to be restricted to these enterprises. Micro enterprises may be in either the formal or informal sector. However, it is not unusual for statistics to group these enterprises together, where data are available. The informal sector is significant in many developing countries. For example, it is estimated that 38 per cent of total employment in Chile is in the informal sector.[7] In South Africa, it is estimated that at least two-thirds of small, medium and micro enterprises are informal. It is, therefore, important to avoid the risk of overestimating the

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[4] The US$ equivalents in this table are approximate, as at April 2004. The UF (Unidad de Fomento) is a way to account for devaluations of the Chilean Peso. In April 2004, one UF corresponded to about US$28, and US$1 was equivalent to about 6.9 South African Rand.

[5] According to the National Small Business Act (1996) and the National Small Business Amendment Bill (2003), SMEs are classified on a sectoral basis, across 11 sectors. The figures in this table do not attempt to reflect the sectoral variations; some sectors have lower thresholds than presented here.

[6] Berry, A. *et al*. 2003 "The Economic Rationale for SMME Promotion in SA," *Trade and Industry Monitor*, September: p.6.

[7] OIT (Organización Internacional del Trabajo): *Panorama Laboral 2003. América Latina y el Caribe*, *2003*.

influence and applicability of SR standards, where data on SMEs refer both to the formal and informal sectors.

The significance of SMEs

However they are classified, and despite the difficulty of obtaining reliable data, it is clear that the SME sector is highly significant in most economies. For example, in Chile, SMEs account for about 100,000 out of a total of nearly 650,000 production units. Together with MEs, they account for 99 per cent of Chilean enterprises. MEs and SMEs account for about 50 per cent of Chilean employment, but less than four per cent of exports, which means that SMEs are less likely than larger companies to be influenced by the requirements of export markets—including SR-related requirements where they exist. In India, the small scale industrial sector accounts for 95 per cent of all industrial units, 49 per cent of manufacturing output, 34 per cent of exports, 50 per cent of GDP, and 65 per cent of employment. In South Africa, it is estimated that about 80 per cent of the formal business sector and 95 per cent of the total business sector (including informal) can be considered to be SMEs or MEs, accounting for about 46 per cent of total economic activity, 84 per cent of private employment[8] and 97.5 per cent of all newly registered businesses.

Although their individual social and environmental impacts are small, the cumulative impacts of SMEs are highly significant. SMEs are often over-represented in industrial sectors with high environmental impacts—in Chile, over two-thirds of SMEs are in the manufacturing and metallurgy, food, drinks and tobacco, and textile and leather sectors. In South Africa, small-scale activity in various sectors—including mining—is associated with numerous negative social and environmental impacts. In the U.K., 60 per cent of commercial waste is generated by SMEs.[9] This offers the potential for significant progress towards sustainable development if SR can be made relevant and applicable for SMEs. This applies at two levels—creating the incentives for SMEs to adopt SR practices, and building the capacity to implement SR.

Although it seems logical that changing the practices of relatively simple, small organizations is less of a challenge than those of complex, bureaucratic, large

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[8] Viviers, W. and W. Soontiens 1998 *South Africa SMEs: Obstacles to Export to Southern African Development Community (SADC)*.
[9] Grayson, D (2003) Presentation to EU Multi-Stakeholder Forum CSR: Roundtable on SMEs, 30 June 2003, available at http://www.europa.eu.int/comm/enterprise/csr/roundtables2_30062003.htm

companies, the disparate nature of the SME sector remains a barrier. For example, in principle, environmental and social regulations are of universal application, and do not absolve SMEs from a responsibility to comply. But public authorities naturally tend to focus their enforcement activities on large companies, where the marginal impact of each is greater. The other pressures that often contribute to a business case for SR practices, including the attention of civil society organizations, and "ethical" consumers and investors, follow similar patterns. Nevertheless, the standardization of SR provides an opportunity to ensure that SMEs don't represent a "blind spot" in which exploitative and environmentally-destructive practices flourish, if it can help to create sufficient incentives for SR that are applicable to SMEs.[10]

SMEs and SR-related standards

Any attempt to engage SMEs in the SR agenda must take into account the harsh business context in which many operate. In Chile, the diagnosis shows a critical situation in which SMEs have not been able to carry out initiatives beyond fulfilling their immediate survival needs. The challenges of efficiency and financial stability override all other objectives. Likewise, in India, the majority of SMEs operate at marginal profitability, initiating reform only when there is a direct bearing on profitability, quality or market benefits. Because the government sets the interest rate for SMEs lower than prevailing market rates, lenders are reluctant to provide loans, so access to credit is an issue. In South Africa, barriers to the adoption of SR among SMEs include a lack of mentorship and skills transfer; communication gaps and lack of awareness of support networks; the cost of red tape and bureaucracy in complying with existing regulations; a lack of information, especially regarding tendering procedures; crime; poor infrastructure; low savings rates and poor access to financial services; and the quality and availability of staff. Many of the investments that SR requires will simply not be undertaken by a business that is not confident that it will still exist in the near future. Bringing the SR agenda to SMEs must, therefore, inevitably be combined with other support and measures to ensure that SMEs have a stable business environment (Box 3). Alongside all these barriers is a lack of direct financial benefits—SMEs simply don't have many of the incentives for SR that apply to larger, more high-profile companies.

Given these barriers and the lack of incentives, SR discourse has frequently identified the challenge of making the SR agenda more relevant for SMEs. For example, one of four themes within the EU Multi-Stakeholder Forum on CSR is "fostering CSR

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[10] See Raynard, Peter and Maya Forstater 2002 *Corporate Social Responsibility: Implications for Small and Medium Enterprises in Development Countries*, UNIDO, Vienna, a seminal report on CSR and SMEs in developing countries, which discusses this issue among others http://www.unido.org/en/doc/5162

Box 3: Measures to support SMEs

The significance of SMEs for employment and income generation has led to various government attempts to support their development. For example, a 2000 law in Colombia obliges the public sector to favour procurement of goods and services from SMEs. In India, there are various schemes, including exclusive procurement of certain products and a price preference for others when procured from SMEs, streamlined registration procedures, and extension and support services. In South Africa a framework for government policy is provided by the National Strategy for the Development and Promotion of Small Business in South Africa, and the subsequent Small Business Enabling Act (1996). This allows for several supportive structures and investment incentives. But there remains scope for building support for SMEs into other related policy areas. For example, aspects of the South African policies on black economic empowerment (BEE), which set targets that seek to increase procurement from black-owned businesses, do not give special consideration to SMEs, so the targets can be met by helping a few major suppliers to transform their ownership structure, rather than undertaking the more complex but higher-impact process of increasing sourcing from black-owned SMEs.[11] SMEs have also attracted private support. For example, in Chile, the industrial association SOFOFA has created a "Corporate for the Promotion of Small Enterprises," which provides credit to micro enterprises to create employment, train workers and instil good management practices. The South African financial sector has developed a BEE charter, which includes a measurable focus on supporting black SMEs.

amongst SMEs."[12] In Chile, the UNDP has called for greater emphasis on filling the gap between large, medium and small enterprises in relation to SR.[13] Teixidó *et al*. (2002)[14] note three ways that SMEs can engage with the SR debate—as providers of employment, providers of goods and services to large companies, and in their relations with the public. Of these, SMEs are most likely to encounter the existing SR agenda through supply chain requirements, particularly where they are involved directly or indirectly in international supply chains.

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[11] The African Institute of Corporate Citizenship note that "it is increasingly accepted that targeted support for SMMEs (small, medium and micro enterprises) needs to be a core component of not only state policy, but also larger companies' CSR policies and practices" (Ralph Hamann, pers. comm.).

[12] http://forum.europa.eu.int/irc/empl/csr_eu_multi_stakeholder_forum/info/data/en/csr%20ems%20forum.htm

[13] PNUD and Fundación Prohumana (2002) *Los Chilenos Opinan: Responsabilidad Social de las Empresas; análisis de la encuesta MORI sobre "Responsabilidad Social Corporativa,"* Serie Políticas Públicas: Informe de Encuesta: Santiago, Chile.

[14] Teixidó S., Chavarri R., Castro A. *Casos Empresariales en Chile. Responsabilidad Social*, Fundación PROhumana, Santiago, 2002.

A recent study revealed that 69 per cent of Chilean SMEs that are exporting have made investments in their environmental performance.[15] In South Africa, SMEs that incorporate standards such as ISO 9000 or ISO 14001 almost invariably do so due to pressure from their customers further up the supply chain. Surveys suggest that the most likely reason for SMEs to introduce an environmental management system is "when it becomes essential to secure and retain business," either with local or international clients.[16] In this sense, the notion of such standards as "voluntary" can be misleading. It may be more appropriate to consider them as "market entry requirements" or "economic imperatives."[17]

For SMEs that face such supply chain pressures, either from local or international buyers, there are a number of challenges:

1. The standards may themselves be inappropriate or particularly challenging for SMEs. For example, pollution prevention measures stipulated by environmental standards may require investment in technology that is not viable for SMEs. Particularly in developing countries, SMEs often find it difficult to access the new technology, environmentally friendly materials, credit, information and training that would help them to meet SR standards.
2. The process of demonstrating compliance with the standards may be a barrier. SMEs are less likely to have formal systems for measuring, recording and managing their impacts, and they may not have the capacity to deal with demanding paper trails.
3. The cost of audits and certification can be prohibitive. This is often the same however large the company, so large companies are able to spread the cost across their entire operations. Standards therefore often have a significant scale effect, which works against SMEs. In many developing countries, the high cost of certification is also in part due to a lack of local certifiers. In South Africa, the ISO 9000 and ISO 14000 standards are mostly viewed as a burden on an already struggling sector because of the prohibitive costs associated with not only the implementation process, but also the ongoing maintenance of such standards. Certification often acts as an "entry ticket" to markets,

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[15] Nuñez, G. 2003 *La responsabilidad social corporativa en un marco de desarrollo sostenible*, Serie Medio Ambiente y Desarrollo No. 72, CEPAL, December 2003.
[16] Flourie, F. 1996 *A Survey of the Implementation of ISO 14001 and use of ISO 14004 by SMEs in South Africa*, South African Bureau of Standards. Of 11 possible answers, securing business with local clients was the most-cited reason, and securing international business in fourth place. Of course, it is possible that the local clients were themselves contractors to international businesses.
[17] There is some evidence to suggest that the effectiveness of management systems is related to the attitude of the implementer—a sense of coercion may mean that the standard is less likely to have the desired effect. This suggests that it may be useful to consider alternative mechanisms for engaging SMEs in SR.

rather than a source of a premium, and even where there is a premium, this is unlikely to cover the cost of certification for SMEs due to low volumes.

4. As buyers adopt an SR approach, they may prefer to rationalise their supply base, sourcing from a smaller number of larger suppliers in an effort to reduce the risk of social or environmental problems being uncovered within their supply chains, and the transaction costs of audits and inspections across more disparate supply bases.

5. Approaches to allow access to standards have generally focused on group certification, which relies on institutional structures that allow internal coordination and control systems. Where cooperatives and other structures already exist, this can make the certification process viable. But bringing SMEs together in this way and building their capacity often requires huge investments, and can be politically challenging. More broadly, there is often a lack of coordination and representation among SMEs that could act as conduits for encouraging SR among SMEs (Box 4).

Box 4: Coordination and representation of SMEs in Chile, India and South Africa

A National Small Business Council was set up in 1996 to represent and promote the interests of small business in South Africa. However, it collapsed in 1998 due to management and financial difficulties, and the SME sector has had no official representative body since then. The StreetNet International alliance of street vendors was launched in 2002 to represent street, market and mobile vendors, who together make up a significant element of the informal sector. In India, there are numerous regional and national associations that represent SMEs, but few are effective. It is argued that those with a regional and sectoral focus are often the most effective. By contrast, in Chile, there are several well-organized SME associations, many at sectoral level. But they focus on lobbying to resist strict environmental and social controls for SMEs, so they are reluctant to engage in SR initiatives that they would regard as adding to the burdens already faced by small companies. Any SR initiative would need to actively engage these organizations.

The number of SMEs that have achieved certification to SR standards therefore remains low. For example, of the 80 enterprises in Chile that have achieved ISO 14001, very few are SMEs, and these have benefited from external support. Much of the work in relation to SR and SMEs has, therefore, been directed at increasing their access to voluntary standards.[18]

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[18] See for example the work of the ISEAL Social Accountability in Sustainable Agriculture (SASA) project at http://www.isealalliance.org/sasa/, which has examined mechanisms for enhancing access to social and environmental certification for smallholders; and the Ethical Trading Initiative's working group on smallholders at http://www.eti.org.uk/Z/actvts/exproj/smlhldr/index.shtml

Where large enterprises make demands of SMEs within their supply chain, e.g., on worker safety, environmental protection and employee benefits, there is scope to encourage those large companies to provide incentives and help for SMEs to meet the requirements. The "linkages" theme, in which support for SME development is an element of the social responsibility of large companies, is gaining prominence within the SR agenda, and could be strengthened through SR standardization. In Chile, there are interesting experiences of such support in relation to internal, ad hoc standards, and international standards such as ISO 14001 (Box 5).

Box 5: Supporting the certification of SME suppliers, Chile[19]

After achieving ISO 14001 certification for its own facilities in 1999, the mining company Escondida developed an initiative to supporting the ISO 14001 implementation of a selected group of supplier companies, including SMEs. With additional support from the government agency CORFO, Escondida supported the SME's preparatory work and eventual certification process. As expressed by a manager: "We challenged the governing paradigm in the Chilean public sector of ISO 14001 being only appropriate for large companies."

As well as from buyers, support for SMEs in relation to standards can come from public authorities. For example, some state-level governments in India help SMEs by subsidizing the use of testing facilities, and paying premiums for certified products. Also, national standards bodies are increasingly aware of the need to ensure that their standards are appropriate for SMEs. For example, although the Chilean national standardization body INN admits that the participation of SMEs in the design and implementation of new standards is quite limited, it is collaborating with the Ministry of Economy and the Chilean economic development agency CORFO to design a standard for the integrated management of SMEs. This includes environmental aspects, and has a marginal component on social issues. In South Africa, the lack of representative structures for SMEs means that they are not represented in ongoing standardization processes. However, representatives are occasionally involved in Technical Committee meetings on an ad hoc basis, regarding standards of particular importance to SMEs. Standards South Africa (SABS) has an SMME (small, medium and micro enterprises) Development Department, which provides training, subsidies and specialized services (Box 6).

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[19] Blanco, Hernán 2003 *How can large companies contribute to environmental improvements in SME suppliers and contractors? The case of ISO 14001 certification of five suppliers to Escondida Mining Company in Chile*, Case Study for the UN Global Compact presented in the Learning Forum, Belo Horizonte, Brazil, December 2003.

Box 6: Standards South Africa SMME Development Department

This department represents a pro-active effort to reach out to the SME and ME sector in South Africa, running among other services the Missing Link Program. This program includes training, subsidies and the provision of specialized services for SMMEs in order to ensure that SMMEs use standards to gain entry into the market place and to exploit their niche markets. The department facilitates access to the following services through a 50 per cent subsidy to qualifying SMMEs:

- Product certification (mark scheme)
- System certification (ISO 9000/14000)
- Capability assessment
- Product testing
- Sign-posting/referrals
- Missing Link Programme (e.g., welding, clothing, timber, and other industries)
- Interpretation of Specifications
- Consignment of Inspections

For an entity to qualify for support, it must have been in existence for more than a year, and have an annual turnover of between R100 000 and R30m.

Conclusion: towards "best practice" principles for an ISO SR standard

Supply chain standards and other tools of the current SR agenda are shaped to suit the interests and capacities of large enterprises, with little recognition of the barriers to implementation that SMEs face. Even where these barriers can be overcome, there is often little direct financial incentive for SMEs to comply, as many of the drivers that make up the conventional business case for SR (including pressure for higher standards from regulators, NGOs, trade unions and international buyers) are more likely to apply to larger enterprises.

But for real progress towards sustainable development, the SR agenda needs to be more relevant to SMEs. SMEs are the mainstay of most economies, particularly in terms of employment and development impacts. In many sectors, their cumulative social and environmental impacts are greater than those of large enterprises. SR standards run the risk of acting as a barrier to market entry for SMEs, undermining livelihoods and development. Furthermore, there are concerns that ISO's entry into the SR agenda could mean the "crowding out" of other social or environmental standards that are more appropriate and achievable for SMEs.[20] To maximize the potential contribution to sustainable development, any future SR standard should therefore be:

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20 An example is the OekoTex label for eco-friendly textiles.

- appropriate for a wide range of organizations, irrespective of their size and sector;
- sensitive to the barriers faced by SMEs, particularly in terms of capacity, access to finance and information, and timeframes for achieving compliance—where appropriate, allowing phased implementation;
- economically viable for SMEs, where necessary through mechanisms such as group certification and simplified conformity assessment procedures, and through the development of local certification and advisory capacity; and
- linked with support for SMEs to meet the standard, particularly by exploring opportunities to encourage larger companies to assist SME suppliers in adopting supply chain standards.

Clearly, this is not an agenda that ISO can tackle alone. Some of these activities will inevitably require the collaboration of other actors, particularly in relation to capacity building. But in developing an international SR standard, ISO should ensure that at a minimum, it does not work against the interests of SMEs, and it should actively seek to work with others to provide the opportunities and incentives for SMEs to adopt SR practices.

The ISO and Corporate Social Responsibility

Issue Briefing Note:

Perceptions and Definitions of Social Responsibility

May 2004

This is one of three Issue Briefing Notes produced by a partnership of six sustainable development-oriented non-governmental organizations, including three international organizations and three organizations based in developing countries.

The partners are the International Institute for Sustainable Development, the International Institute for Environment and Development, IUCN – The World Conservation Union, the African Institute of Corporate Citizenship, Development Alternatives and Recursos e Investigación para el Desarrollo Sustentable.

The Issue Briefing Notes present a general overview of three issues that deserve particular attention in discussions on the possible development by the International Organization for Standardization (ISO) for international Social Responsibility standards. They address issues related to small and medium-sided enterprises (SMEs); stakeholder capacity to engage in corporate social responsibility (CSR); and national differences in CSR definitions and priorities. While written with an international focus, the papers are drawn particularly on insights from Chile, India and South Africa. For more information, please visit http://www.iisd.org/standards/csr.asp

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Summary of key points

- This paper does not seek to describe in detail what "social responsibility" (SR) means in different countries. Instead, it demonstrates that conceptions of what constitutes a "responsible" organization or enterprise inevitably differ between and within countries, and outlines the fundamental reasons for this.
- Conceptions of SR differ according to national social and economic priorities—which are themselves influenced by historical and cultural factors—and according to the different types of social actors that are demanding action on these priorities.
- The terminology used to refer to social responsibility is important, having particular connotations in different locations and constituencies.
- Awareness of and interest in SR vary widely between and within countries, and the drivers for engagement with the agenda apply more in some locations and sectors and to some types of organizations than others.
- There is a risk that an international standard on SR is seen as a tool for a narrow subset of business organizations, and as a market entry requirement for their suppliers. It will be rejected by other stakeholders unless it leads to real social and environmental improvements within an organization's local context.
- Significant progress is hampered by some key unresolved issues, such as the philanthropy-core activities divide; the voluntary-regulatory divide; the integration of social, environmental and economic issues; and the question of harmonization of specific national SR agendas.
- The development of an international standard on SR must take into account the need for flexibility, which allows space for different national priorities and themes; ensures wide applicability, particularly for organizations of varying size and influence; and allows for evolution over time. Flexibility will be necessary in terms of content as well as implementation.

Introduction: the terminology of social responsibility

What constitutes the "social responsibility" (SR) of enterprises and other organizations is difficult to define. The ISO Strategic Advisory Group on Social Responsibility (SAG) recognizes that there is no single authoritative definition of the term "corporate/organizational social responsibility," and does not seek to provide one. However, it notes that most definitions emphasize the inter-relationship between economic, environmental and social aspects and impacts of an organization's activities, and that SR "*is taken to mean a balanced approach for*

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organizations to address economic, social and environmental issues in a way that aims to benefit people, communities and society." The SAG goes further to suggest some characteristics and underlying principles of social responsibility, and issues pertaining to it.[1] It should be noted that this definition does not go as far as the advocates of the "corporate accountability" agenda would like, as there is no direct reference to organizations *taking responsibility* for their impacts.

The language used to refer to SR is important—some terms are more commonly used than others, and some have particular connotations, depending on the location and constituency. For example, the most common way of referring to SR in Chile is the Spanish expression "Responsabilidad Social Empresarial," which might be translated into English as "Entrepreneurial Social Responsibility." Other expressions, such as "corporate citizenship" and "corporate sustainability" are seen as expressing similar objectives but are less well used. Various terms are used in relation to SR in South Africa, including corporate social responsibility (CSR), sustainable development, corporate citizenship, corporate social investment, and sustainability. In the U.K., the term "CSR" is most commonly used, but some people are increasingly adopting the shorter "corporate responsibility" instead. In India, and to some extent in South Africa, the term CSR has suffered criticism on the grounds that it exaggerates the business sector's "responsibility" for society's problems.[2] "Corporate citizenship"—and "socially sensitive corporate" in India— appear to be less problematic, though less widely used.

There is general support for ISO's notion of "organizational social responsibility," extending its applicability to organizations other than businesses, as long as the term is adequately explained. The inclusive and broad definition proposed by the SAG appears to be suitable for most contexts, provided that there is flexibility to include locally-specific themes. However, the term OSR—or even SR—is not currently used outside the ISO process. There is, therefore, a risk that using this term will generate confusion and some resentment among those who are familiar with existing terms such as CSR.

Awareness of and engagement with the SR agenda

A further definitional and operational challenge is that issues within the SR agenda are not always identified as such. For example, the South African notion of black economic empowerment can be seen as an objective that overlaps

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[1] See http://www.iisd.org/pdf/2003/standards_definition.pdf
[2] In South Africa, this is associated with allegations that business was in part responsible for the injustices of apartheid.

significantly with the national SR agenda, but is also a political concept that exists in isolation from it. Indeed, many individuals and organizations are not aware of the SR agenda as an integrated approach at all, even where they are working on aspects of it. This reflects the tendency for the agenda to be divided into separate themes, e.g., "business and human rights," "environmental management" or "community relations." If an SR standard is developed, it will need to find a way to introduce the concept as a whole in an unthreatening and accessible way, taking account of existing practices that are not currently associated with SR.

The drivers for engagement with the SR agenda are similar in different locations (Box 1), although they differ according to issue and sector. In India, surveys suggest that most companies actively involved in SR are either large domestic or public sector companies, or multinational enterprises, a pattern reflected in Chile and South Africa. Many of the conventional drivers for SR—government regulation, brand equity, investors, consumer demand, supply chain requirements, workers' organizations, civil society and media pressure—are far from uniform, and will inevitably apply to some organizations more than others. For example, the mining sector has been one of the major forces behind SR in both Chile and South Africa, and sectors such as petroleum, forestry and IT are also particularly active in Chile. Even within these sectors, some companies are clear leaders, demonstrating that the drivers for adoption of SR practices—or the response to them—are stronger for some organizations than others, even in the same location and sector.

In the developing country context, the high incidence of poverty, weak civil society and governance failures mean that there are often fewer conventional drivers for SR. The priority for most individuals, whether as customers or employees, is securing a livelihood, and demands for improvements in labour conditions or for socially-responsible products are often of secondary concern. Hence, surveys in India suggest that most companies do not see a direct relationship between adopting SR practices and financial success and, therefore, view the SR agenda as a low priority or even irrelevant. Any SR standardization process needs to consider how it can address this, particularly in relation to small enterprises[3] and companies that serve domestic, rather than international, markets.

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[3] See the accompanying paper in this series on SR and small and medium-sized enterprises for further discussion of this issue.

Box 1: Drivers for engagement with the SR agenda

Chile	India	South Africa
• tradition of philanthropic and charitable practices • presence of transnational corporations • requirements of international markets and international investors • consumer demand (currently relatively insignificant, but there are signs that this is changing)	• tradition of philanthropic and charitable practices • state regulation (particularly in relation to pollution and other environmental issues) • cost savings (e.g., in relation to energy use) • supply chain requirements (particularly where these become *de facto* entry requirements for export markets) • desire to be seen as a responsible company (particularly for large companies or in sectors with high social or environmental impacts)	• tradition of philanthropic and charitable practices • listing requirements on international stock exchanges • corporate governance developments in the Johannesburg stock exchange • national legislation (particularly in relation to occupational health and safety, environmental issues and black economic empowerment) • culture and institutions dedicated to interest-based negotiation • pursuit of long-term business viability (e.g., responses to HIV/AIDS in the workforce) • Market expansion, through a "bottom of the pyramid" approach (e.g., extending access to financial services for the poor)

The national standards bodies of the three countries covered by this paper do not yet appear to have developed their own specific views on SR. Chile's Instituto Nacional de Normalización (INN) argues for definitions and concepts of SR that are simple and easily understandable by all.

Different conceptions of social responsibility

It is appropriate that the SAG has not attempted to develop a narrow definition of SR. From an initial look at just three countries, it is clear that there are many different conceptions of SR (Box 2). Importantly, there is often little consensus even within each national context, and there may be explicit tensions between the different approaches. And there is by no means consensus that SR is a useful or desirable concept at all—some people argue that the only social responsibility of the enterprise is to create wealth and employment, with all other social objectives dealt with by the state or other mechanisms.

Box 2: Multiple conceptions of SR in Chile, India and South Africa

Chile	India	South Africa
Philanthropic SR, proactive with broad societal objectives	*Business perspective*, recognizing the importance of reputation capital for capturing and sustaining markets	*Corporate social investment,*[4] or philanthropic initiatives
"Instrumental" SR, proactive with the aim of making the organization more competitive and prosperous	*Eco-social perspective*, recognizing that social and environmental stability and sustainability are important prerequisites for the sustainability of the market in the long-run, thus emphasizing accountability to stakeholders	Broad understanding of CSR as the *net impact of business operations on society*, referred to as *corporate citizenship or business and sustainable development*
Receptive SR, reactive with the aim of satisfying the expectations society has on the firm	*Rights-based perspective*, that stresses accountability, transparency, and social and environmental investment	*Black economic empowerment*, a state-led drive to broaden the participation of black South Africans in the formal economy

To a large degree, national SR agendas are the result of historical and cultural factors, and they continue to mature according to current economic and political priorities. For example, the SR agenda in India has its roots in philanthropy, but is now increasingly influenced by market liberalization and increased exposure to international competition. Likewise, in South Africa, it was common for businesses to make charitable donations and to seek patronage from traditional chiefs during the apartheid era. But in the run-up to and following the 1994 elections, the business community started to develop a more holistic SR strategy, and this was reinforced by a legislative drive. The agenda is now strongly shaped by the need to respond to the legacy of apartheid, which means that certain issues (among them affirmative action and skills development) are given priority.

In developing countries in particular, SR initiatives are often identified with long-term national development priorities, and defined by current capacity gaps. In

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[4] This is distinct from the more widely used term "socially responsible investment," which refers to that section of the investment community that seeks to provide finance to socially responsible companies or projects and/or avoid investments in sectors deemed "unethical" such as tobacco, arms, etc.

this context, it is usual for a national SR agenda to include a focus on solutions for social problems that in developed countries would be the clear responsibility of government. For example, in South Africa, there is a strong sense that SR should include targeted support for the state to enable it to fulfil its development planning role. More generally, large companies operating in remote parts of the world or where host country government capacity is lacking, often find that they are expected to provide public goods such as healthcare, education or infrastructure. Future SR standardization must allow for these different needs and expectations, as reflected in national or local SR agendas. Attempting to use an international standard on SR to define the boundaries between the responsibilities of government and the private sector at a generalized level would, therefore, be misguided.

But as Box 2 shows, even within a single national context, there are often very different and sometimes conflicting conceptions of SR. Inevitably, there are different conceptions of SR within the business community, according to the company's size, location, sector, brand visibility, legal constitution and corporate culture, and its distance from and contact with the contemporary SR debate.

Beyond the private sector, perceptions of SR differ even further. There is an emerging critique of SR practice from civil society organizations in many countries. For example, in Chile and South Africa, there is a widespread view (outside the private sector) that there is a large gap between the discourse and practice of SR, due to a response from enterprises that is often superficial and reactionary rather than strategic. Likewise, surveys in India indicate that senior managers commonly lead SR initiatives, without necessarily translating and internalizing them across their organizations. In the U.K., some NGOs and commentators appear to be on the verge of withdrawing from the SR debate, arguing that it is being used as a fig leaf while companies continue "business as usual."[5] Unless an SR standard leads to real social and environmental improvements within the organization's local context, many civil society stakeholders will reject it as ineffectual. ISO must, therefore, resist the temptation to develop SR standards or other deliverables that simply meet the needs of certain sections of the business community, without taking into account the interests and concerns of other stakeholders.

Indeed, the different conceptions of SR mean that it is essential to consider who should be involved in defining an organization's social responsibilities. An

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[5] See for example Christian Aid's report *Behind the Mask*, at http://www.christian-aid.org.uk/ indepth/0401csr/

integral element of the SR agenda is the notion of responsibilities to a wide set of stakeholders, and hence engagement with those stakeholders. Even when two organizations are essentially carrying out the same activity (e.g., mining), if this is in different locations they are likely to face different sets of stakeholders, with quite different expectations and priorities. These may diverge from apparently "universal" norms derived from international Conventions or other widely recognized standards. An SR standard must strike a balance between rigid definitions and a stakeholder-led approach to defining social responsibility in particular contexts. At the very least, guidance on approaches to stakeholder engagement will be necessary.

Key outstanding issues in the SR agenda

Central to the different conceptions of SR are a number of unresolved issues, which any standardization process needs to take account of.

- **SR as philanthropy or core business**

  In many countries, there are attempts to distance SR from philanthropy. In Chile, it is common for industry leaders to talk of switching from traditional, paternalistic and philanthropic activities to more "instrumental" SR, which focuses on tools to make companies more competitive. In South Africa, corporate social investment is criticized for its "add-on" nature, with little relation to companies' core business. This was especially problematic during apartheid, when philanthropic activities co-existed with obvious human rights violations. But in India, there is a strong view that SR activities can include not only a direct responsibility for core activities and impacts (e.g., use of natural resources, pollution, social impacts of products), but also an engagement in social and/or community issues, including philanthropic activities. The latter is viewed as a means to improve the acceptability and image of the organization, and to make employees better managers by exposing them to the realities of society. In general, there is a need to allow space within the SR agenda for such non-core business activities as well as a more strategic approach. Otherwise, there is a danger that these activities are devalued and discouraged, despite the significant social and environmental benefits that they can bring.

- *SR as voluntary or regulatory*

  It is often assumed that SR relates to voluntary commitments that go beyond compliance with legal obligations, adopted in response to a variety of market-based drivers. For example, in Chile, the divide between

voluntary and obligatory SR is very clear and most, if not all, actors prefer it to be voluntary. This is sometimes contrasted with calls to strengthen "corporate accountability" through mandatory regulations. But this dividing line is unhelpful. Voluntary and regulatory approaches have too often been treated as exclusive to each other, rather than as options within a balanced approach to eradicating bad (socially irresponsible) behaviour while encouraging responsible activities. For example, in South Africa, although there is a common assumption that SR is primarily about voluntary initiatives, new laws in relation to black economic empowerment (BEE) and other social issues have been crucial in shaping the national SR agenda. In part, this is due to the gap between state policy and its implementation, which makes compliance a voluntary issue in some cases.[6] BEE entails a prominent role for the state in defining and enforcing SR among companies. In India, ISO 14001 is applied not only to meet buyers' (voluntary) requirements, but also to demonstrate compliance with the Central Pollution Control Board's (regulatory) standards. At the implementation level, it is of little matter to the organization whether the demands on it are regulatory or purely market-driven—in either case, it means integrating a host of social, environmental and economic issues into the management of the organization.

- ***Integration between social, environmental and economic aspects***

  As the SAG has noted, most conceptions of SR refer to both social and environmental issues, in some cases integrating these also with economic aspects. However, there appears to be a greater emphasis on social issues within current SR discourse. In Chile, most firms involved in SR focus on their relationships with workers and communities. This may be due to a general observation that environmental responsibility has progressed further than social responsibility, particularly due to environmental legislation and regulation in the 1990s, and the requirements of international markets. The importance of environmental management systems such as ISO14001 for access to international markets is frequently noted in certain sectors, whereas this is not yet so pronounced for social standards such as SA8000. The situation is similar in both India and South Africa, although there are fears that the current emphasis within the SR agendas of both countries on social challenges may exacerbate an implementation gap in terms of environmental legislation.

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[6] This suggests that it would be worthwhile considering whether "compliance with local legislation" should form one element of any future standard.

There are clear differences of opinion concerning the value of integrating social, environmental and economic issues into a single standard. In Chile, for example, some commentators welcome this prospect, as it could help Chilean companies develop a more strategic approach to SR, supporting their participation in the global economy. But others, including the national standards office INN, are more cautious, warning of the potential hurdles that this may cause small firms and the danger of discouraging their existing SR practices. Clearly, any steps towards integration of standards must avoid a situation in which organizations are able to claim that they are socially responsible while only addressing part of the agenda.

- ***Harmonization of distinctive national SR agendas***

   The SAG has suggested a list of Social Responsibility issues, noting that this is not exhaustive or in any order of priority.[7] None of the organizations contributing to this paper has noted significant problems with the inclusion of any of these issues with respect to their national SR contexts. However, it is clear that some are currently more relevant than others. For example, worker conditions, environmental aspects, community issues and social development are more firmly established in the Chilean SR discourse than human rights, bribery, corruption and anti-competitive practices. Furthermore, each national SR agenda is likely to have certain themes specific to it, such as the South African focus on black economic empowerment and affirmative action, and the Indian concern for disaster-affected communities.

   Clearly, developing an SR standard will require a certain degree of definitional and perceptual clarification regarding each of these subject areas. But standardization should not stifle the development of distinctive national SR agendas, and it should allow for specific local and national priorities. One way to ensure this flexibility is to intentionally develop an international standard with the expectation that it will be refined before being adopted at the national level. The international standard would in effect be a consistent framework on which countries can develop their own, consistent and comparable, national standards. To do so, it would be necessary for each country to run its own, multi-stakeholder consultation process to adapt the international standard to its own specific domestic context before adoption. Given the overriding importance of context in the SR agenda, it is crucial that such a process is taken seriously, where necessary involving capacity building to ensure meaningful stakeholder engagement.

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[7] The list includes human rights; workplace and employee aspects (including occupational health and safety); unfair business practices including bribery, corruption and anti-competitive practices; organizational governance; environmental aspects; marketplace and consumer aspects; community aspects; and social development aspects.

Conclusion: implications for the development of an SR standard

Given the range of perceptions and sheer number of subject areas in the SR debate, it is understandable that many stakeholders are calling for the clarification of terms and concepts. And given the undoubted procedural and temporal constraints in developing an SR standard, some degree of prioritization will no doubt be necessary. But an SR standard will only be welcomed if it can deal both with global demands and local realities, and if it leads to real social and environmental improvements. Standards should maintain consistency across different categories of organizations and in different countries, but need to be flexible enough to take into account the interests and capacity of those different organizations, irrespective of their size, sector or location, as potential users, *demandeurs* and stakeholders. Any SR standardization process needs to consider how it can address the lack of interest among many organizations in the existing SR agenda, particularly in relation to small enterprises and companies that serve domestic, rather than international, markets.

Where possible, it should allow space for different national priorities and themes, and for their evolution over time. There should also be flexibility at the implementation level, given varying attitudes, norms and capacities regarding processes of stakeholder engagement, compliance with regulation, disclosure, transparency and other procedural issues. This will mean developing meaningful and well-resourced processes for defining the content of the standard at the national level, and finding a balance between top-down definitions and stakeholder-focused approaches.

The terminology of SR is important. Although the broad definition of SR suggested by the SAG appears suitable in most contexts, ISO should be aware of the risk that using this term will generate confusion and some resentment among those who are familiar with existing terms such as CSR. If an SR standard is developed, it will need to find a way to introduce the concept as a whole in an unthreatening and accessible way, taking account of existing practices that are not currently associated with SR. It should seek to accommodate different conceptions of SR, and address some of the problematic dividing lines in the contemporary debate.