

The Future of CSR Codes and Standards

By Wayne Visser

Yesterday, we had an excellent webinar with Deborah Leipziger, author of "The Corporate Responsibility Code Book" and "SA 8000". It got me thinking about the future of CSR codes and standards, and if indeed they have a future. In this piece, I look at the lessons we have learned so far (both positive and negative) and what part CSR codes and standards play in an emerging New Governance model.

Positive Lessons

Let me start with what I think we've learned about CSR codes and standards over the past 30 years or so.

1. **Codes can be a useful activist tool** - One of the first CSR codes was the Sullivan Principles, launched by Reverend Leon Sullivan in 1977 to give companies operating in apartheid South Africa a code of ethics. Another example is the CERES Principles, launched in 1989 as the Valdez Principles after the Exxon Valdez oil spill. Both these CSR codes can claim their fair share of success in shifting awareness and behaviour.
2. **Codes can help to generate consensus** - The benefit of CSR codes and standards like the ICC Business Charter for Sustainable Development (1992), the UN Global Compact (2000) and arguably the forthcoming ISO 26000 (2010) is that they create a common language and set of principles that broad constituents of companies feel comfortable with and can commit to voluntarily. Their effectiveness at changing behaviour is questionable.
3. **Codes can embed incremental improvement** - What CSR codes and standards like EMAS (1993), ISO 14001 (1996) and OHSAS 18001 (1999) have shown is that process-standards are extremely effective in bringing about continuous improvement in organisations and bringing CSR issues like environment, health and safety closer to the operational management of companies. Often change is slow and patchy however.
4. **Codes can change industry sectors** - Some of the most effective CSR codes and standards have been industry- or sector-based, such as the Forest Stewardship Council (1993), the Kimberly Process (2003) and the Equator Principles (2003). Their strength lies in changing the rules of the game for an entire sector, which eliminates first-mover disadvantage. They also enjoy a common language and high relevance.

Negative Lessons

There are also downsides to CSR codes and standards, which we have come to realise.

1. **Codes create auditing and reporting fatigue** - Speak to anyone in business and they will complain about how much time and expense CSR audits and reports are costing them. They have a point, since the proliferation of CSR codes and standards (there are over 100 in "The A to Z of CSR" book that I co-edited) usually each have their own certification and disclosure requirements, despite considerable overlap.
2. **Codes create confusion in the market** - The excess number of CSR codes and standards creates noise in the mind of the customer and the financial analyst. If a company has ISO 14001 but is not a signatory to the CERES principles, is that good or bad? What is the difference between FSC and Rainforest Alliance certification? Confusion in turn creates distrust, which is ironically what CSR codes and standards are trying to build.

3. **Codes can be a mask for irresponsibility** - When we look at the collapse of Enron and Worldcom, the current banking crisis, or the reluctance of oil companies to go renewable, it is absolutely clear that CSR codes and standards (which all these companies had or have) can often mask a deeper unsustainable business model or irresponsible corporate culture. Despite genuine efforts by CSR departments, their activity remains marginal.
4. **Codes are no substitute for regulation** - The voluntary nature of CSR codes and standards means that they will inevitably only apply to the progressive few, and even those may choose to dilute their commitments during financial hard times, or hide behind the "lack of teeth" (i.e. sanction) in most CSR codes. Voluntary action is hardly ever effective in properly internalising externality impacts or creating widespread change.

Future Prospects

With the usual caveats that the future is unpredictable, it does seem to me that there are several trends in CSR codes and standards that indicate the direction of their evolution.

- **Principle-based codes will consolidate** - The great victory of the past 20 years has been the increasing consensus on what CSR principles should underscore business activities. We can expect a few of the principle-based CSR codes (like the UN Global Compact and the Global Reporting Initiative) to win through and the rest to wither away, or become marginal actors for big business.
- **Process-based codes will struggle** - The markets for process-based standards like ISO 14001 will continue to grow in developing countries, but quickly reach saturation point, as they have done in the developed world. The reason is that incremental improvement can only get you so far and then you need systemic change, which requires changes in the market structure or the policy framework.
- **Performance-based codes will strengthen** - Companies will come under increasing pressure to demonstrate their CSR performance in absolute, measurable terms (since process-based codes have essentially failed to solve our global problems). Hence, CSR codes like SA 8000 and emerging standards around carbon emissions will be in higher demand and more trusted.
- **Sector-, product-, issue- and geography-based codes will expand** - We can expect to continue to build on the progress and relative success of specific CSR codes and standards (as opposed to generic principles), whether they be for a specific sector (e.g. pharmaceuticals), product (e.g. palm oil), issue (e.g. water) or geography (e.g. China). They will be an elaboration of the generic codes, applied to a specific, actionable context.

A New Governance

My fundamental belief is that CSR codes and standards will not disappear, because they form part of an emerging new form of governance, based on a multi-stakeholder approach. They will not be a substitute for legislation (as many from business hoped over the past 20 years), but rather a complimentary mechanism for delivering change. Nor will they be the panacea for the world's problems, but rather an important piece in the jigsaw of solutions.

Behind this question of governance is the crisis in institutional confidence, i.e. the lack of trust by the public in the major institutions of society, including both government and business. Even NGOs are under increasing scrutiny and will see great pressure to demonstrate accountability. CSR codes and standards, if designed and implemented well, can help to bridge the trust-gap. If done poorly, they will only widen and deepen the chasm.

The secret, I believe, is not in the "what" but the "how" of CSR codes and standards, i.e. less about the content (what the code says) and more about the participative process through which they are created; less about the signatories and more about the ways the codes are implemented among the workforces and communities in which companies operate. In a nutshell, CSR codes and standards of the future will be less about words and more about actions.

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