Implementing Effective Corporate Social Responsibility and Corporate Governance
A Framework
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A Framework

Dr Pavel Castka, Dr Chris Bamber and Professor John M Sharp
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Foreword
By Dr Pavel Castka

In this publication we provide a framework to organizations for establishing, maintaining, improving and documenting their Corporate Social Responsibility/Corporate Governance (CSR/CG) management system. It has been privately generated and is not a formal standard, or been subject to the normal process for creating international and national standards. It is, however, the result of extensive research, and provides the authors’ views, supported by those of a number of leading management system practitioners, of the way in which effective CSR and CG can best be delivered in the ‘real life’ situations all organizations face. Many of the concepts that it contains, however, have been formally scrutinized and voted on within the creation of formal international standards and it therefore builds on these foundations.

In this Framework we propose that:

• both CSR and CG are concepts that allow organizations to operate profitably yet in a socially and environmentally responsible manner to achieve business sustainability and stakeholder satisfaction.

CSR is concerned with the impacts that the activities of an organization have on the social, environmental and economic environment in which it operates. CG is concerned with the manner in which the senior management or Board of Directors direct, manage and control the organization and relate to shareholders. The concepts cannot be mutually exclusive but merge together, each offering a different yet complementary perspective on the activities of an organization, to form a robust strategic business management tool.

The aim of the CSR and CG management system is to define, understand and improve the balance between entrepreneurship and ethical practice. Organizations must demonstrate this core organizational competence, not only to investors but also to other stakeholders, to comply with requirements of the escalating CSR and CG agendas. In other words, directors and managers of organizations must run their businesses profitably yet also be accountable for the impact of the actions of their organizations. Therefore, the key challenge for organizations is to find sustainable solutions that address their ‘Triple Bottom Line (TBL)’, i.e. economic, environmental, and social aspects of their performance based on dialogue with their stakeholders. The development of this CSR and CG management system provides the roadmap to meet this CSR and CG sustainability challenge. It takes a practical ‘real world’ approach to both subjects. What is certain is that CSR and CG requirements have evolved and will evolve over time – hence the need for a flexible management system to manage, measure and improve the effectiveness and compliance of CSR and CG.
The CSR and CG management system is built on two fundamental principles: systems thinking and process management. These two principles are the crucial factors in building and maintaining a system in line with the CSR and CG agendas and reflecting best practice in current management thinking. To translate and embed the CSR and CG agendas into day-to-day running, the organization needs to develop a **process-based management system** and show the linkage between the:

- creation of corporate objectives and targets in line with the TBL approach;
- delivery of corporate objectives and targets through appropriate processes;
- measurement of corporate objectives, their comparison to targets and the review of the effectiveness and efficiency of processes as well as compliance to specific requirements;
- improvement in TBL as a result of measurement and review and its demonstration through corporate reporting.

The only way successfully to address the complete spectrum of CSR and CG requirements is to consider the **whole organization** and the way in which it performs its activities. Everyone involved with the organization needs to take an active part. What this means in reality is:

- **the Board and/or management need to ‘set the agenda’.** They must create an appropriate strategic direction that incorporates the objectives of the organization, its operational structures and the business processes necessary to meet their CSR and CG obligations;
- the organization needs to be **managed to focus on delivery** of these objectives, which will be achieved by implementing, measuring and improving these processes based upon performance and results;
- everyone involved in delivering the objectives needs to **know their part** in achieving them, focusing their activity accordingly;
- the stakeholders will need evidence of how well the organization is delivering its CSR and CG objectives and will **hold the Board accountable** for achieving the balance appropriate for the business environment in which they operate.

A growing number of worldwide organizations are being managed by process either as a strategic decision to improve business effectiveness and performance or by good-practice implementation of a standard such as ISO 9001:2000. Assuming process management good practice has been adopted, a particular feature of the CSR and CG management system is that it builds upon this existing work, helping process-based organizations to extend their current management system to include CSR and CG issues. With this approach the CSR and CG management system can be established and organizations can be operated in a sustainable manner. So, the critical building block on which to develop an effective management system will be the adoption and use of process management good practice.

Finally, we need to point out that the term ‘corporate’ can be misleading. It is often implied that the CSR and CG agendas are related to multinational corporations and human rights issues. On the contrary, the term ‘corporate’ should be understood in a broader sense. Both CSR and CG concepts are generic in nature and are applicable to organizations regardless of their type and size – from public to private, small-to-medium enterprises (SMEs) to multinational enterprises (MNEs), manufacturing to service organizations, public service and not-for-profit organizations. All of these organizations have the same dynamic of balancing stakeholders’ needs.
Acknowledgements

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Section A:
An introduction to
Corporate Social Responsibility (CSR)

Changes to society and the business environment at the beginning of the 21st century brings Corporate Social Responsibility (CSR) and Corporate Governance (CG) under the spotlight with ever-increasing levels of shareholder, public and governmental scrutiny. CSR and CG are quickly becoming watchwords for every boardroom, major investor and all other organizational stakeholders. The emerging need is to demonstrate that the organization is directed, managed and internally controlled with thorough consideration of stakeholders’ expectations and of the impact of the organization on stakeholders – economically, environmentally and socially.


Similarly, the approaches of different countries to CSR vary and there is still a debate on how these issues should be addressed. Nevertheless, one aspect is clear: the CSR agenda is being focused on by the European Commission [3] and the British Government [4]. The British Government, for instance, states that:

The Government has an ambitious vision for corporate social responsibility: to see private, voluntary and public sector organizations in the UK take account of their economic, social and environmental impacts, and take complementary actions to address key challenges based on their core competencies – locally, regionally, nationally, and internationally.

These pressures force organizations to re-examine their CSR, CG, internal control and ethical practices. At the same time, there is a growing consensus that managing organizations in a sustainable way is beneficial in the longer term, and hence CSR and CG have benefits for the competitive edge of organizations. This publication provides organizations with a management system, which, if embedded in organizational settings, demonstrates that stakeholders’ needs are truly considered in organizational direction, management, and performance.
A.1 Background influences

This publication has drawn from many materials, in particular:

- **AA 1000 [5]**: a standard produced by the Institute of Social and Ethical Accountability to improve the accountability and overall performance of organizations in order to favour a sustainable development path;

- **SA 8000 [6]**: a social accountability standard, produced by Social Accountability International, concerning workers’ rights and conditions, and child labour;

- **Corporate Governance frameworks**: the guidance for effective CG is provided by numerous codes and best practice guides – for instance by the Combined Code [7], the guidelines of the Organisation for Economic Co-operation and Development (OECD) - Principles on Corporate Governance [8], and the Higgs Report [9];

- **PD 6668:2000 [10]**: a guide published by BSI explaining how organizations can establish and manage their strategic risks;

- **Australian CSR draft standard DR 03028 [11]**: prepared by the Standards Australia Committee MB-004, Business Governance: this standard provides essential elements for establishing, implementing and managing an effective CSR programme within an organization;

- **GRI [12]**: Sustainability Reporting Guidelines produced by the Global Reporting Initiative. These guidelines deal with a uniform method for organizations to report on the economic, environmental and social dimensions of their activities, products, and services;


All these publications have contributed significantly to the development of the CSR/CG management system. Where it is particularly relevant, the notes throughout this publication refer to these sources. These publications can help organizations effectively to apply individual elements of the CSR/CG management system.

A.2 Process approach

The process approach is well-advocated in developing, implementing and improving organizational performance [14, 15]. A process is typically considered as an activity (or activities) that transforms inputs into outputs or CSR/CG results. Hence a process approach means that the organization identifies and manages its processes and the interrelationships between them.

The CSR/CG management system has been developed as a process-based management framework. Therefore, organizations that have already adopted such an approach will find adaptation of the CSR/CG management system much easier because it respects the quality culture that is in place when a process-based management system is implemented effectively.

The content of the CSR/CG management system is expressed by the process-based management system (Figure 1) that describes the linkages of key elements of the CSR/CG management system formulated. The key is the transformation of stakeholders’ expectations into a set of CSR/CG objectives, targets and indicators, which are then cascaded throughout the organization, embedded into organizational processes and continuously monitored. This part of the system
provides feedback on whether the organization has satisfied its stakeholders. The model in Figure 1 does not show detailed processes or sub-processes. The key elements of the CSR/CG management system are discussed in more detail in Sections B to H.

![Diagram of Managing processes for an effective CSR/CG management system](image)

**Figure 1 – Managing processes for an effective CSR/CG management system**

### A.3 Compatibility of CSR/CG management system with other management systems

The CSR/CG management system is compatible with other management system standards. The correspondence between the clauses of the two main management system standards (ISO 9001:2000 and ISO 14001:1996) and this publication is outlined in Annexes A and B. Organizations are encouraged to extend their quality or environmental systems to include CG, CSR and other relevant systems into one business system.

The CSR/CG management system is generic in nature and its requirements are intended to be applicable to all organizations regardless of type and size.

The CSR/CG management system specifies requirements for organizations that need to implement a CSR/CG system and demonstrate that the organization is managed and directed by thorough considerations of its stakeholders’ expectations and the impacts that the organization has on its stakeholders.

In general, this publication uses terminology from the CSR/CG agenda and quality management systems terminology. The former corresponds to terminology in general use ([8],[9],[12]). The latter, quality terminology, is in line with ISO 9000:2000.

The key term is ‘stakeholder’, which is a complementary term to ‘interested party’. ISO 9000:2000 defines ‘interested party’ as ‘a person or group having interest in the performance or success of an organization’ (ISO 9000:2000, clause 3.3.7 [13]).
Stakeholders are typically distinguished as primary or secondary stakeholders [17]. Primary stakeholders are stakeholders ‘without whose continuing participation the corporation cannot survive as a going concern’. This group includes shareholders and investors, employees, customers and suppliers, government, communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and obligations may be due. Secondary stakeholders are defined as ‘those who influence or affect, or are influenced or affected by the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival’.

Having outlined what CSR is (and by inference, what it is not), Sections B to H cover the key elements of this approach.
Section B:
Corporate Social Responsibility/
Corporate Governance management system

B.1 General requirements

The organization shall establish, document, implement and maintain a CSR/CG management system and continually improve its effectiveness in accordance with the requirements of this publication. The organization shall:

- identify the processes needed for a CSR/CG management system and their application throughout the organization;
- determine the sequence and interaction of these processes;
- determine criteria and methods needed to ensure that both the operation and control of these processes are effective;
- ensure the availability of resources and information necessary to support the operation and monitoring of these processes;
- monitor, measure and analyse these processes;
- implement the actions necessary to achieve planned results and continual improvement of these processes.

These processes shall be managed by the organization in accordance with the requirements of this publication.

NOTE 1 Processes needed for the CSR/CG management system referred to above should include processes for management and Board responsibilities; identification of stakeholders’ expectations; strategic planning; managing resources, processes and systems; measurement and analysis; and managing change and continual improvement.

NOTE 2 General requirements for a CSR/CG management system are in line with ISO 9001:2000 general requirements [14].
B.2 Corporate Governance principles

The organization shall ensure that the CSR/CG management system incorporates the principles of sound corporate governance. The organization shall demonstrate that:

- it is supervised by an effective Board that balances executive and non-executive directors including independent non-executives or provide adequate evidence showing why it has chosen not to;
- the effectiveness of the Board performance is measured;
- no individual or small group can dominate the Board's decision;
- there is an established formal and transparent procedure for appointment and re-election of the Board;
- a remuneration policy for directors is in place;
- levels of remuneration are sufficient to attract and retain directors yet structured to link individual and corporate performance;
- the Board maintains a sound level of internal control;
- the organization's annual report contains a statement of remuneration policy and details of the remuneration of each director;
- the organization treats its shareholders equitably and protects their rights;
- the organization complies with regulatory requirements in countries where it is registered and within which it operates.
- it meets the Corporate Governance requirements and relevant codes of conduct appropriate to the countries in which it operates or has an impact.

B.3 Documentation requirements

The organization shall maintain appropriate records to demonstrate conformance to the requirements of this publication.
Section C:
Management and Board responsibility

C.1 Corporate Social Responsibility/Corporate Governance policy
The Board/management shall define the CSR/CG policy of the organization and ensure that it:

- is appropriate to the nature, scale and business impacts of its activities, products or services;
- specifies organizational ethics policies pertaining to bribery and corruption;
- includes a commitment to comply with relevant national and other laws that are applicable, and with other requirements to which the organization subscribes;
- includes a commitment to conform to all requirements of this publication;
- includes a commitment to continual improvement and prevention of social and environmental impacts of the organization;
- is effectively documented, implemented, maintained, communicated and accessible in an appropriate way to all stakeholders and the general public.

C.2 Structure and responsibility

C.2.1 Responsibility and authority
The Board/management shall ensure that roles, responsibilities and authorities are defined, documented and communicated within the organization to facilitate an effective CSR/CG management system.

C.2.2 CSR/CG representative
The Board/management shall appoint a member or members of the Board/management who, irrespective of other responsibilities, shall:

- ensure that the requirements of this publication are met;
- ensure that processes needed for the CSR/CG management system are established, implemented and maintained in accordance with this publication;
• report to the management/Board on the performance of the CSR/CG management system for review and any need for improvement;

• ensure the promotion of awareness of stakeholder expectations throughout the organization.

The CSR/CG representative(s) shall have adequate influence or status to implement the CSR/CG management system across the organization.

NOTE The responsibility of a CSR/CG representative can include liaison with external parties on matters relating to the CSR/CG management system. This responsibility may be that of an individual, a team or an audit committee, depending upon the nature, scale and size of the organization.

C.2.3 Non-management personnel

The organization shall allow non-management personnel to choose a representative from their own group to facilitate effective communication with the management/Board on matters related to the CSR/CG management system.

C.2.4 Legal compliance

The organization shall establish and maintain compliance with legal and other regulatory requirements relevant to its activities, products or services.

C.3 Communication

C.3.1 Communication processes

The Board/management shall ensure that appropriate communication processes are established with all of the organization’s stakeholders and that:

• communication takes place between the various employee levels and functions of the organization regarding the effectiveness of the CSR/CG management system;

• receiving, documenting and responding to relevant communication from external interested parties is ensured;

• the organization considers processes for external communication on its significant economic, social and environmental impacts and records its decision;

• the organization establishes and maintains procedures to communicate regularly to all interested parties data and other information regarding performance against the requirements of this publication, including, but not limited to, the results of Board/management reviews and monitoring activities.

C.3.2 Disclosure

The organization shall ensure that timely and accurate disclosure is made on all matters relevant to stakeholders. This should include, but is not limited to:

• the financial and operating results of the organization;

• organization objectives;

• major share ownership and voting rights;

• members of the Board and key executives, and their remuneration;
• material foreseeable risk factors;
• material issues regarding employees and other stakeholders;
• governance structures and policies;
• the status of legal and regulatory compliance relevant to operations.

NOTE Disclosure requirements should be in line with the Organisation for Economic Co-operation and Development (OECD) Guidelines [8].

C.3.3 Reporting
The organization shall prepare a social and ethical report at determined intervals. The information disclosed shall be prepared in accordance with high quality reporting procedures or as agreed with stakeholders receiving this information. The report shall:

• clearly explain how the performance of the organization relates to its CSR/CG objectives, targets and indicators;
• provide a comparison of these over time and across organizations;
• credibly address issues of concern to stakeholders;
• include information about the performance of the organization measured against its CSR/CG objectives, targets and indicators (Section G.2);
• describe responsibilities and activities of an audit committee (Section G.3);
• present a balanced and reasonable contribution of the organization to sustainable development.

NOTE Sustainability Reporting Guidelines [12] provides a uniform method for organizations to report on the economic, environmental and social dimensions of their activities, products and services.

C.4 Board/management review
The Board/management shall review the CSR/CG management system at intervals that it determines, to ensure its adequacy, suitability, and continuing effectiveness.

The Board/management review process shall ensure that:

• the necessary information is collected to allow the Board/management to carry out this evaluation. The input shall include:
  – results of audits and results from an audit committee;
  – feedback from stakeholders;
  – performance of the CSR/CG management system;
  – status of preventive and corrective actions;
  – follow-up from previous Board/management reviews;
  – recommendations for improvement.
• the records from Board/management reviews are maintained;
• the possible need for changes to policy, objectives and other elements of the CSR/CG
management system is addressed.

**NOTE** The Board/management review for the CSR/CG management system can be incorporated into other reviews such as Board meetings, quality management reviews or similar reviews.

### C.5 Training and competence

The organization shall identify training needs of all personnel who are involved in managing, auditing, improving and controlling elements of the CSR/CG management system, and shall ensure that they receive appropriate training and continually develop their competence.

### C.6 Legal compliance

The organization shall identify and ensure compliance with all rules and regulations of the jurisdiction in question and with relevant international norms pertaining to CG, CSR, environmental and consumer law, fair labour standards, human rights, health and safety protection and similar, as required by law or agreed upon through effective stakeholder engagement.
Section D: Identification of stakeholders’ expectations

D.1 Inclusion process
The organization shall ensure that there is a process to ensure meaningful inclusion of its stakeholders.

NOTE See Section A for guidance on stakeholder identification.

D.2 Identification of stakeholders
The organization shall identify its stakeholders and describe its relationship with each individual group.

D.3 Engagement of stakeholders
The organization shall demonstrate inclusive engagement of stakeholders on issues of significant concern to them.

The organization shall demonstrate that an appropriate approach has been used to enable stakeholders to express their views and opinions.
Section E: Strategic planning

E.1 Evaluation of stakeholders’ expectations
The organization shall evaluate the expectations of its stakeholders. The evaluation shall cover the aspects of the ‘Triple Bottom Line’ – economic, environmental and social. Records of the evaluation of stakeholders’ expectations shall be maintained.

E.2 Evaluation of the impacts of the organization
The organization shall evaluate social and environmental impacts of its activities, products and services that the organization can control and influence. Records of that evaluation shall be maintained and shall include, but not necessarily be restricted to, the following areas:

• financial health;
• corporate governance and business ethics;
• workplace health and safety;
• human rights issues;
• individual supply chains and the overall supply web;
• business partners;
• communications.

The organization shall ensure that this evaluation is considered in the setting of its CSR/CG objectives, targets and indicators.

E.3 Managing risk
The organization shall identify the business risks to the organization, including regulatory risks, risks identified through stakeholder involvement, damage to the reputation of the organization, risks that can affect the market position of the organization and product/service failure. The organization shall:
• assess the likelihood and consequences of the identified risks;
• transform these risks into CSR/CG objectives, targets and indicators (Section E.4);
• establish control mechanisms to control these risks;
• maintain records of their risk management policy.

NOTE Guidance for Managing Risk is provided in PD 6668:2000 [10].

E.4 Corporate Social Responsibility/Corporate Governance objectives, targets and indicators

The organization shall establish and maintain objectives, targets and indicators of CSR/CG based on engagement and evaluation of its stakeholders (Section E.1), evaluation of organizational impacts (Section E.2), and risk identification, assessment and control (Section E.3). These shall:

• be documented;
• consider compliance with the legal obligations of the organization (Section C.6);
• be reviewed at determined intervals;
• be consistent with CSR/CG policy (Section C.1).

E.5 Board supervision

The organization shall demonstrate that its strategic planning is performed or effectively monitored by the Board. The approval of strategic plans that include objectives, targets and indicators of CSR/CG, shall be the responsibility of the Board.
Section F: 
Managing the system, processes and resources

F.1 Managing the system
The organization shall demonstrate that the CSR/CG system includes all requirements and activities of the entire organization together with all appropriate frameworks, standards, and models that are being used. The effectiveness of the CSR/CG system as well as the effectiveness of the elements from which it is built shall be monitored and continually improved (Section G).

F.2 Managing processes
The organization shall manage and improve the processes of their CSR/CG system as outlined in Section C of this publication in order to run the business profitably and ethically in line with the requirements of this publication.

F.3 Managing resources
The organization shall determine, provide and optimize resources to manage and continually improve:
- the CSR/CG system;
- the relationship of the organization with the stakeholders;
- the infrastructure, work environment and staff relations of the organization;
- the supply web and partnerships of the organization.
Section G: Measurement and analysis

G.1 General
The organization shall plan, monitor, measure, analyse and continually improve their CSR/CG management system.

G.2 Monitoring and measurement of processes
The organization shall apply suitable methods for monitoring and, where applicable, measurement of the CSR/CG management system processes. These methods shall allow the organization to demonstrate that the key characteristics of its operations and activities have achieved planned results. The records shall be kept in order to provide evidence of the performance of the CSR/CG management system.

The organization shall, in addition to other measurements it needs to operate effectively, establish methods for measurement of:

- stakeholder satisfaction and development;
- financial health;
- access to capital;
- operational efficiency;
- environmental performance;
- intellectual capital;
- brand value and reputation;
- potential for innovation;
- risk profile;
- performance of the Board;
- improvement of organizational systems;
- compliance with legal and regulatory requirements of the organization.
These measures shall be continually monitored. If any of these measurements are not applicable to the organization's circumstances, the rationale for this decision shall be provided.

G.3 Internal audit and audit committee

G.3.1 Audit committee

The organization shall establish an audit committee and shall determine arrangements and criteria for audit committee membership that are best suited for the relevant circumstances of the organization (taking into account size, sector, risk profile, etc.). The members of the committee shall be independent non-executive directors, or the rationale as to why this is not the case shall be described.

The audit committee shall have adequate resources, authority and experience to monitor the performance of the CSR/CG management system and the integrity of the internal audit function. The role of the audit committee is to:

- act independently from executive directors to monitor the CSR/CG management system;
- monitor and review the effectiveness of the internal audit function and fulfilment of the audit plan and make recommendations to the Board/management in order to improve its performance;
- propose an external audit body/auditor and monitor and review the independence, objectivity and effectiveness of external audits.

NOTE Requirements for membership and duties of the audit committee differ in various countries, and organizations should comply with national requirements for its audit committee that are applicable for their circumstances.

G.3.2 Audit function

The organization shall establish and maintain the audit plan, audit criteria and frequency, and methods of audit. The organization shall conduct internal audits at planned intervals to determine whether the CSR/CG management system conforms to the requirements of this publication and to the CSR/CG management system established by the organization and assess whether the requirements have been properly implemented and maintained.

G.4 Independent audit

The organization shall strive to improve the credibility of the CSR/CG management system by third-party verification or external audit including verification of the organization's annual reports. The extent to which independent audit is carried out shall be determined by the Board and monitored by the audit committee and shall be based on the result of identification of stakeholder expectations (Section D), risk assessment (Section E.3) and the monitoring of objectives, targets and indicators of CSR/CG performance (Section E.4).
Section H:
Managing change and ensuring continual improvement

H.1 General
The organization shall investigate, address and respond to the concerns of their stakeholders in addition to any nonconformances in the CSR/CG management system.

H.2 Managing change
The organization shall establish effective ways to continually improve its CSR/CG management system and shall develop an organizational culture that is responsive to continual change and the ‘corporately responsible behaviour’ described in its CSR/CG policy (Section C.1).

H.3 Continual improvement
The organization shall continually improve their CSR/CG management system through the effective use of:

- the CSR/CG policy, objectives, targets and indicators;
- dialogue with its stakeholders;
- audit results and audit committee activities;
- independent audit results;
- monitoring and measurement of performance;
- corrective and preventive actions;
- Board/management review.
H.4 Corrective and preventive actions

The organization shall take actions to eliminate the causes of nonconformance of the CSR/CG management system and/or prevent their re-occurrence. Adequate resources shall be allocated. Records of significant corrective and preventive actions shall be kept.
Annex A:
Extending a process-based management system based on a best practice implementation of ISO 9001:2000 to include CSR/CG

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Annex B:
Extending a process-based management system based on a best practice implementation of ISO 14001:1996 to include CSR/CG

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