

Environmental Tools:

Corporate Social Responsibility

What is corporate social responsibility?

Corporate social responsibility (CSR) is a tool used by business and industry to align operations with social and environmental values. Although there remains no definitive definition of CSR, it is generally viewed as: the voluntary commitment and action undertaken by a corporation, over and above compliance to existing legal requirements, to behave in an ethical manner to address both its own competitive interests and the wider interests of society. CSR focuses on benchmarking the success of a company's performance on social, environmental and financial indicators, known as the triple-bottom-line. CSR's overall goal is to positively impact society and the natural environment while achieving business success.

Specifically, CSR incorporates the principles of sustainable development into business management and operational policies and practices. The practice of CSR is often accompanied by voluntary corporate reporting which discloses not only a firm's financial results, but also the social and environmental performance of the business. The transparent reporting of a firm's CSR performance places a greater level of accountability upon the firm, and triggers a variety of market incentives and disincentives to ensure they act in a socially desirable fashion.

Where is CSR used?

Corporate Social Responsibility is increasingly being used as a strategy to manage business operations as they relate to environmental and social impacts. As of 2006, 114 Canadian companies in 13 sectors voluntarily reported their efforts incorporating CSR into business management practices and reporting on environmental performance, corporate social activities and other non-traditional information.

Usually, firms undertake CSR initiatives voluntarily, however governments are establishing frameworks to standardize reporting processes. The value in standardizing CSR reporting lies in the increased transparency, accountability, consistency and contributions made by the business community to further a government's sustainable development goals. Ambitious approaches taken by governments to encourage and manage the practice of CSR can be found in the United Kingdom, Australia, Denmark and France.

Tool Performance:

Pros

- The transparent reporting of environmental and social performance can mitigate the effects of the "race to the bottom."
- Promotes the integration of other environmental tools into business plans, including product life-cycle assessment and costing, environmental management systems, and eco-labelling.

- Firms can manage social and environmental risks to earn/maintain social and legal licenses to operate.
- Provides an avenue to enhance corporate reputation and brand image.
- Encourages the appropriate use of natural and environmental resources.
- Improves relations with shareholders and stakeholders.
- Improves access to new markets and customers.
- Increases employee morale, productivity and retention.
- Enhances relationships between firms, communities and regulators.
- Can reduce the resources and burdens of government needed to enforce environmental regulations.

Cons

- Often seen as a form of corporate “greenwashing.”
- Corporations may only undertake CSR if they see a commercial benefit in raising their reputation with the public and government.
- With tensions between a corporation’s financial, social and environmental objectives, there is no guarantee that environmental objectives will prevail, especially given that publically traded firms have legal obligations to their shareholders financial bottom line.
- May not provide the most appropriate incentives and disincentives to ensure a corporation acts in a socially and environmentally responsible manner.
- Fails to standardize environmental performance.

Special Considerations

Effective CSR strategies must be supported by the executive level and throughout the entire organization. Having strong support from the executive level encourages greater buy-in and participation by employees in the development and implementation of a CSR strategy. Executive support further encourages the development of an internal organizational culture that supports the ideologies and practices of CSR to improve an organization’s environmental and social performance.

More progressive CSR policies usually focus on the development of new sustainable business opportunities as a way to respond to interrelated economic, societal and environmental demands in the marketplace. Many firms believe this focus provides a clear competitive advantage, stimulates corporate innovation and better social and environmental performance.