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**Ask the Experts**

by Steve Rice &amp; Richard MacLean

February 2004

**The State of CSR Governance**

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**What's the state of corporate social responsibility governance, especially in Europe, Asia, and North America?**

**Steve:** While there are some exceptions, it appears as if it's 'more of the same'. This state exists despite the recent deluge of reports, articles and presentations proclaiming both the need for improved governance and the person's or group's formula for success. A similar conclusion was reached in [a recent report on CSR articles in the broader international media](#).

All in all, I don't see this recent effort having had much, if any, substantive impact. Over the past year or so, about all we've seen are:

- A multitude of new books, experts, advocacy groups, reports, Web sites and conferences (often interrelated) that give the appearance of trend surfers seeking to cash in on the issue
- Several companies putting the label of corporate 'governance' or 'citizenship' on efforts having absolutely nothing to do with the issue
- An increasing number of publicly-owned U.S. companies going private to escape increased requirements for financial transparency

In fact, the January 26, 2004 issue of [Business Week](#) reports on those who even doubt the effectiveness of the Business Roundtable's upcoming CEO Ethics Institute.

If there has been any progress, it has been that a) more people may now be willing to live ethically, reporting what they know to others and b) more companies have people with the designated responsibility (or at least title) for leading their corporate social responsibility and citizenship efforts.

Despite the proliferation of nonprofit groups and pundits championing change, it seems that the most effective tools for creating change, at least in the U.S., are the New York State's Attorney General's office and individuals willing to live their values and reveal hidden secrets.

I believe that the current state will change only when:

1. More of the individuals responsible for misdeeds are sentenced, preferably to hard social labor
2. More industry trade groups and professional organizations become increasingly vocal and develop self-imposed, auditable requirements for ethical behavior as a condition of membership
3. More companies develop serious, no-nonsense policies and cultures to deal with the

issue, audit those policies and take prompt, substantive action to deal with individuals having the line responsibility and authority for proper behavior

4. More large institutional investors, like public employee pension funds and commercial mutual funds, introduce and support CSR shareholder resolutions
5. More individuals choose to work for, and purchase goods from, only those companies with high ethical values, and in turn, companies only hire and retain, individuals with high ethical values

While few people currently agree with Nobel laureate Milton Friedman's 1970 statement that "corporations have but one purpose: to increase profits as much as humanly possible," the public must be careful to manage its expectations. While it's fair for us to expect corporations to act like responsible corporate "citizens," we should not expect them to look out for society's best interests -- that's why we have governments.

**Richard adds:** In many respects it is like warfare over the hearts and minds of shareholders, the media, and the public. Success in warfare is determined by the balance between offensive weapons and defensive tactics -- if your defensive moves are stronger than the attacking forces, you remain in business. Companies have done an excellent job cranking up the public relations on their social responsibility activities. Although the real substance may be very thin, the effort seems to be warding off the real invasion ("more of the same," as Steve states). Governments have the ultimate weapons at their disposal, but they are reluctant to use them to advance a social responsibility agenda on any issue other than financial governance. And even then it is only with the intervention of renegade (attorney) generals like Eliot Spitzer acting on intelligence he gets from spies behind the lines.

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#### **Is Office Depot's [announcement](#) that they have issued the first office supply catalog consisting solely of environmentally preferable products that big of a deal?**

**Richard:** I hate to sound like the two-handed lawyer, but on one hand it is and on the other it is not.

From a purely environmental impact standpoint, it is insignificant. I do not think that highlighting environmentally preferable products in a catalog printed on 100% post-consumer recycled content paper will have a measurable shift in the planet's well-being. Cynically, one might think that Office Depot has used an environmental message to do nothing more than market their products. Even though small regional "eco-friendly" office products suppliers have published similar catalogues for several years, Office Depot is the first major supplier in their industry to market in this manner, so they get the bragging rights and a little leverage.

That said, the planet is suffering "death from a thousand cuts." Maybe it can be helped by a thousand Band-Aids. If every company in the world promoted a positive environmental marketing strategy and offered eco-friendly products, the environment would undoubtedly be much better off. Not only would environment-friendly practices be promoted, but these messages would also serve as another form of public education.

Although Office Depot's effort may have a tiny positive environmental impact, similar efforts have had significant impacts, literally changing the way companies do business around the globe. Indeed, Office Depot's move may have been influenced by The Home Depot. In 1999, The Home Depot issued a wood purchasing policy that gave preferential treatment to suppliers who offered certified wood products. They were the first major home improvement retailer to pioneer the US market for wood products certified under the principles of the [Forest Stewardship Council](#) (FSC).

There are other examples. McDonalds worked with Environmental Defense and changed their food packaging techniques, affecting fast food packaging throughout the world. Chiquita teamed up with the [Rainforest Alliance](#) in an environmental certification program called the [Better Banana Project](#). Many of these efforts started as less-than-friendly discussions between environmental organizations and industry. Nonetheless, they have resulted in positive changes that, in total, have had a major environmental impact.

Maybe, as one of the largest office products suppliers Office Depot effort will spawn other actions that, as a whole, will have a real impact.

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#### **How is the Responsible Care Management System different than other environmental management systems?**

**Steve:** As noted last month, the Responsible Care Management System (RCMS) is not an environmental management system -- it is an environmental, health, safety, and security management system. As such, it is much more comprehensive than even OHSAS18001.

Other significant differences include:

- Conformance with the base RCMS standards is required as a condition of membership. Certainly some chemical companies are not members of either the American Chemistry Council or the Synthetic Organic Chemical Association
- Members have the option of choosing conformance with the additional requirements of RC14001
- Conformance certification is contingent upon standards of performance relating to each company's designated commercial partners (transporters, repackagers, distributors, etc.)
- A company's headquarters site and all operating facilities must demonstrate conformance
- Certifying auditors must achieve accreditation with Responsible Care and pass the appropriate RC14001 or RCMS examination
- The standards of conformance were developed by its members -- not third-parties with little or no stake (or a substantial commercial marketplace stake) in its successful outcome

While some auditors will be "grandfathered" to conduct certification audits in the initial stages of the effort, eventually they will also be required to pass a Responsible Care auditor examination.

The area is still developing and not without risk. Implementation target dates continue to slip. Service providers are hesitant to invest the time, effort and expense in preparing for a program that can be retracted, or at least significantly altered or delayed, on any given Friday afternoon. In addition, only a few chemical companies appear to be proceeding with their systems' development, verification and certification efforts; many have barely or not yet begun. This will create a training, consulting, and auditing market that has a very long, slow ramp-up period, followed by a sharp rise in demand for critical services the six months prior to each major deadline. Finally, it is not clear what the consequences will be for companies not achieving RCMS conformance by the designated deadlines.

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### **How do I select the right environmental, health, and safety metrics for my company?**

**Richard:** A well-developed metric set is the result of a six-step process:

1. The first, and most critical, step is to interview the business executives to determine their concerns, priorities and the type of information they would like to review. This may be an iterative process; they may not know what the key issues are and some management education may be necessary.
2. After conducting a thorough EHS risk assessment, prioritize the most significant issues and develop key performance indicators (KPIs) around these issues. In ISO 14001 jargon, this is called an "aspect and impact" analysis. This step includes a forced ranking based, in part, on interviews with top executives and the company's policies and standards. Progress on the KPIs determines if your programs are really working and getting results on the most important issues.
3. Benchmark within your industry sector and determine what metrics other companies are tracking and reporting. Management does not want to be at the bottom on the heap -- it looks bad in the media. The "usual suspects" get identified in this effort (compliance, wastes, injuries, spills and emissions).
4. Next, utilize a *forward-looking* perspective and determine what metrics might be indicators of where the company stands relative to emerging issues. These may be the metrics that other companies do not track or are not even aware of. This takes some research, such as asking thought leaders, knowledge experts such as scientists what issues are on the cutting edge for your industry. The December 2003 column provided insights into the development and use of such 'leading' performance indicators.
5. Examine your overall management goals. How quickly do you want the environmental management system (EMS) fully implemented across the company? Include metrics for how well the programs are set in place. This step could also include opinion surveys of customers or employees on how well the company is doing. These metrics are typically leading indicators of performance and, in some respects, the most important ones. If you do well on these, the lagging indicators, such as accidents and spills, improve with time *and stay improved*.
6. At this stage, the metric set is developed and you will need to finalize the administrative issues. Hopefully, you can convince management to set specific targets and link at-risk-pay to a few of these. Certain metrics should be tied to operational areas to show top management what business units are "with the program." A

universal problem is getting cooperation from the businesses "feeding the system" -- often one of the greatest challenges and another reason why it is so important to get management support and involvement from the very beginning.

You will need to carefully select what gets reported up the chain and how frequently. In total, management might need/want to see only half a dozen or so parameters. Many companies report KPIs up to the executives using a one page monthly summary with highlights, targets and trends so they can instantly see if things are off-track.

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### Is there a sustainable element of the fashion industry?

**Steve:** I don't know of anything beyond the few articles in [In Business](#) magazine profiling small/home businesses making clothing from organic fibers and accessories from recycled license plates, computer boards and other materials -- certainly not the mainstream fashion industry by most peoples' standards. The magazine's May/June 2003 issue featured three companies: a T-shirt maker, a textile dye producer and a company that relies on a women's sewing cooperative. Other fashion-oriented articles, examples and ads are published in just about every edition of [E - The Environmental Magazine](#).

Searches on both those magazines' Web sites, as well as [GreenBiz.com](#) (of course!) [SustainableBusiness.com](#) provide other articles and news items on the subject.

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**Postscripts: Are the Tough Enough Awards tough enough?** Last month we announced our annual Tough Enough awards, which generated quite a few comments, opinions and questions. In their respective order, we offer the following responses:

- Several commented that we should have given an award to any number of the responders' organizations or personal efforts. Sorry, but if the organizations or efforts didn't come to the attention of, and sufficiently impress, the expert panel they weren't eligible for the award.
- Others expressed the opinion that the honorable mentions of [the companies implementing projects in association with WRI's Green Power Market Development Group](#) and the [signatories to the UN Global Compact](#) should have received awards, too. We felt that while these efforts are certainly admirable, they lacked the boldness and to a less extent definitive action, that the awards were meant to recognize. We'll keep them in the "renominate for 2004" file.
- A fair number of people questioned how we could give any kind of positive award to the chemical industry. As stated in the objective for the awards, we give credit wherever authentic, bold actions are being taken -- whether they be by a government, a nonprofit group, a university or a company. We don't automatically exclude any organization or industry.

We thank all who took the time to comment and respond.

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## Got A Question?

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We can't guarantee that we'll answer every question, but we'll try.

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