

A framework for analysing corporate social performance

Beyond the Wood model

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A framework for analysing corporate social performance; Beyond the Wood model
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Many business organisations put a lot of effort in raising their performance levels in the three dimensions of sustainability - i.e., people, planet, and profit. It is therefore important to measure and weight the effects of their efforts. In this report a framework is presented that is helpful in analysing the social, environmental, and economic activities of a business firm or chain. This framework is based on Wood's (1991) model of corporate social performance. However, it is enriched by incorporating contributions by other significant scientific studies in the fields of corporate social performance and business ethics. Furthermore, based on a review of the scientific literature, suggestions for operationalising the framework are offered.

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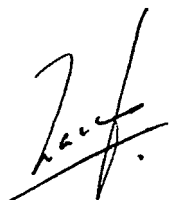
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Preface

At the Social Sciences Group (SSG) of Wageningen University and Research Centre (WUR) one of our ambitions is to provide an understanding of the dynamic relationships between the triple bottom line, people, planet, and profit, and to measure and weight the effects of efforts to raise performance levels in all three of these domains. The first part of this ambition was the subject of a research project by Slingerland et al. (2003). The present project, financed by the Agricultural Economics Research Institute (LEI) from its budget for the development of strategic expertise, contributes to the second part of the ambition.

During the realisation of the project, members of the research team already got questions from colleagues on when the project would be finished and whether it was possible to get concepts (of parts) of the final report. This shows that the knowledge developed in this project is relevant to our daily practice. This relevance is also illustrated by the fact that the second edition of the tool for evaluating projects for the co-innovation programme *Sustainable Agri Food Chains* by AKK, the Dutch sister organisation of the Agri Chains Competence centre (ACC), draws extensively on the knowledge developed here (see Ten Pierick and Meeusen, 2004).

Although this report is written by a core group of researchers, the research team would like to thank Koen Boone, Paul Diederren, and Jan Willem van der Schans for sharing their ideas. They contributed significantly to the final result of this project.



Prof.Dr. L.C. Zachariasse
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Summary

Research objective

The objective of this project is the development of a theoretically underpinned framework for analysing the social, environmental, and economic activities of a business firm or chain. Based on this framework, a measurement system may be developed in future research. To realise this objective, Wood's (1991) model of corporate social performance (CSP) is adopted and extended. The extensions are primarily based on a review of the academic literature in two fields:

- business and society;
- business ethics.

Wood's model of CSP

Wood (1991:693) defined CSP as:

'A business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships.'

Following her definition as a guide, Wood (1991) constructed the CSP model as outlined in figure 1.



Figure 1 Wood's model of CSP
Source: Wood (1991:694).

Corporate social responsibility

The concept of corporate social responsibility (CSR₁) refers to questions such as:

- what are the societal expectations towards firms;
- what are the obligations of firms towards society;
- what are the responsibilities as perceived by the business society (in general);
- what are the responsibilities as perceived by a (single) firm?

Considering the objective of this project the last question is most relevant. So for the purpose of this study the concept of CSR₁ refers to the responsibilities towards society as perceived by a firm or chain. These responsibilities act as principles or basic values that motivate and guide the activities of the firm or chain.

The literature on CSR₁ provides two typologies that are helpful in analysing business activities. First, there is Carroll's (1979) in which the responsibilities of the firm are divided into four categories: economic, legal, ethical, and discretionary responsibilities. Second, there is Wood's (1991) that describes three principles of CSR₁: the principles of legitimacy, public responsibility, and managerial discretion. In fact, Carroll's and Wood's typology may be combined into a single one in which Carroll's categories specify Wood's principle of public responsibility.

However, as indicated in the literature on business ethics, it is noted that an analysis in which this typology is used may be characterised as too abstract; it may be more fruitful to adopt a more contextual approach (e.g., with the help of Mephram's (1996) ethical matrix). On the other hand, also this approach has its pitfalls: the risks of:

- ignoring otherwise important ethical issues;
- contributing to one-sided perspectives.

Corporate social responsiveness

The literature offers various interpretations of the concept of corporate social responsiveness (CSR₂). Some (e.g., Carroll, 1979; Frederick, 1978; cf., virtue ethics) argue that the concept refers to the capacity of a firm to respond to its environment. However, as it may be hard to determine a firm's latent or potential capacity to respond, they actually focus on the literal acts of responding. Others (e.g., Wood, 1991; cf., pragmatist ethics) point out that the concept of CSR₂ should be understood as a process or a set of processes. Although these interpretations are different, and may ultimately be irreconcilable, they share a focus on the way a firm approaches its environment. Therefore, for the purpose of this study, the general question in relation to the concept of CSR₂ is: How does the firm approach its environment? Or, formulated slightly different, what is the firm's attitude towards its environment?

Nevertheless, as part of a thorough analysis of the social, environmental, and economic activities of a firm or chain, it is useful to return to the two different points of view and treat them as complementary. The first (capacity) perspective offers two interesting conceptual ideas that may be combined into an instructive scheme: Carroll's (1979) continuum and Wilson's (1975) categories of CSR₂. According to Carroll's continuum, a firm's approach to its environment may vary from 'do nothing' to 'do much'. Wilson's categories

specify approaches that can be positioned between these ends of Carroll's continuum: from reactive (close to 'do nothing') via defensive and accommodative to proactive (close to 'do much').

Regarding the second (process) perspective, Wood and pragmatist ethics provide some valuable insights. Wood conceptualised CSR₂ as consisting of three processes that are theoretically and pragmatically interlocked: environmental assessment, stakeholder management, and issues management. In addition, pragmatist ethics argues that a firm's responsiveness should not be considered as fixed, i.e., it varies over time. Extending this argument, it should be acknowledged that a firm's responsiveness might also vary for different issues. Finally, pragmatist ethics introduces the technique of value clarification. The essence of this technique is that it uses emotions, concerns, worries, hopes, aspirations, and the like as indicators of values to be clarified in processes of (structured, joint) reflection. Hence, it clearly fits the process perspective and it might even be considered as a fourth process of CSR₂.

Corporate social performance

For our purposes it is necessary to distinguish two notions of CSP: CSP_{broad} and CSP_{narrow}. CSP_{broad} refers to the notion of CSP as encompassing CSR₁, CSR₂, and CSP_{narrow}. CSP_{narrow} refers to the outcomes of corporate social behaviour. It concerns the questions: What does the firm actually do? And where does all that lead?

The academic literature provides two interesting typologies regarding the concept of CSP_{narrow}. First, there is Wood's (1991) typology that divides the outcomes of CSP_{narrow} into policies, programmes, and impacts. Second, Steg et al.'s (2003) typology further specifies the impacts as the firm's economic, social, and environmental performances. Although instructive, these typologies do not provide a solution to the intriguing theoretical as well as practical dilemmas of:

- objectivity versus subjectivity;
- who ultimately decides on 'good' and 'bad'?

Another, yet related, issue is raised in the reflection from a consequentialist ethical perspective: the inevitability of making choices. It may or may not be possible to develop theories or operationalisations of the concept of CSP_{narrow} that virtually incorporate all relevant issues; however, the risk is that this leads to a theory or instrument that may simply be too complex to increase our understanding of the phenomenon.

Interrelationships between CSR₁, CSR₂ and CSP_{narrow}

Unlike some others (e.g., Clarkson, 1995), Wood (1991) recommends that an analysis of CSP_{broad} involves an examination of all elements of her model. Moreover, she recommends these elements to be examined in conjunction with each other. Analyses in which these recommendations are neglected will probably not reveal situations such as good outcomes from bad motives, bad outcomes from good motives, good motives but poor translation via processes, good process use but bad motives, and so on. Thereby, those analyses most probably result in a limited and biased evaluation of CSP_{broad}.

Pluralist ethics underlines the importance of considering all elements of Wood's model. Each element of the model is associated with one (or two) ethical perspective(s): CSR_1 with deontologist ethics, CSR_2 with virtue and pragmatist ethics, and CSP_{narrow} with consequentialist ethics. Hence, each perspective, and thereby each element, focuses on some aspects of reality while neglecting others. Inevitably, adopting just one of those perspectives leads to limited and biased judgments of CSP_{broad} . Therefore, pluralist ethics recommends the combination of the perspectives, and implicitly the elements of Wood's model, to address all relevant aspects of reality.

A framework for analysing the social, environmental, and economic activities of a firm or chain

In sum, analysing the social, environmental, and economic activities of a firm or chain in the light of CSP_{broad} can be visualised as in figure 2. The blue, green, and red colours illustrate that each perspective provides just a coloured (biased) view of reality. Together these colours (perspectives) represent the whole spectrum of colours (perspectives). The metaphor of a puzzle illustrates that the analyses should be combined and connected to get the full picture.

Towards a measurement model of CSP_{broad}

The most important, in the sense of state of development and usefulness for the purposes of this project, operationalisation of CSR_1 is Aupperle's (1990) CSR_1 instrument. His instrument has been tested empirically and seems suitable for assessing the weight a firm or chain assigns to its economic, legal, ethical, and discretionary responsibilities respectively. If though more specific responsibilities, e.g., the legal responsibilities regarding 'planet', or the ethical responsibilities regarding 'people', need to be identified, the instrument needs to be revised.

Although operationalisations of the concept of CSR_2 are sparse, Clarkson's (1991, 1995) RDAP scale offers a useful starting point. This scale defines Wilson's four categories of CSR_2 in terms of a firm's posture and stakeholder strategy. Furthermore, it defines four levels of performance corresponding to Wilson's categories. However, to be useful as an instrument for measuring or assessing a firm's responsiveness, it requires a rating scheme and, if desirable, a way to aggregate scores. Moreover, it needs to be validated.

Unlike the literatures on CSR_1 and CSR_2 , the literature on CSP_{narrow} is rich in operationalisations. Evidently, the large quantity does not necessarily imply the existence of quality operationalisations. Nevertheless, there are some notable efforts. First, Steg et al. (2003) developed a model with several attractive features:

- its hierarchical structure enables one to get a quick overview but also provides the opportunity to identify areas for improvement;
- it is theory-driven instead of (only) based on stakeholder views and perceptions;
- it facilitates comparisons (over time) of firms and chains. Unfortunately, the operationalisation is still in process, but it certainly seems promising.

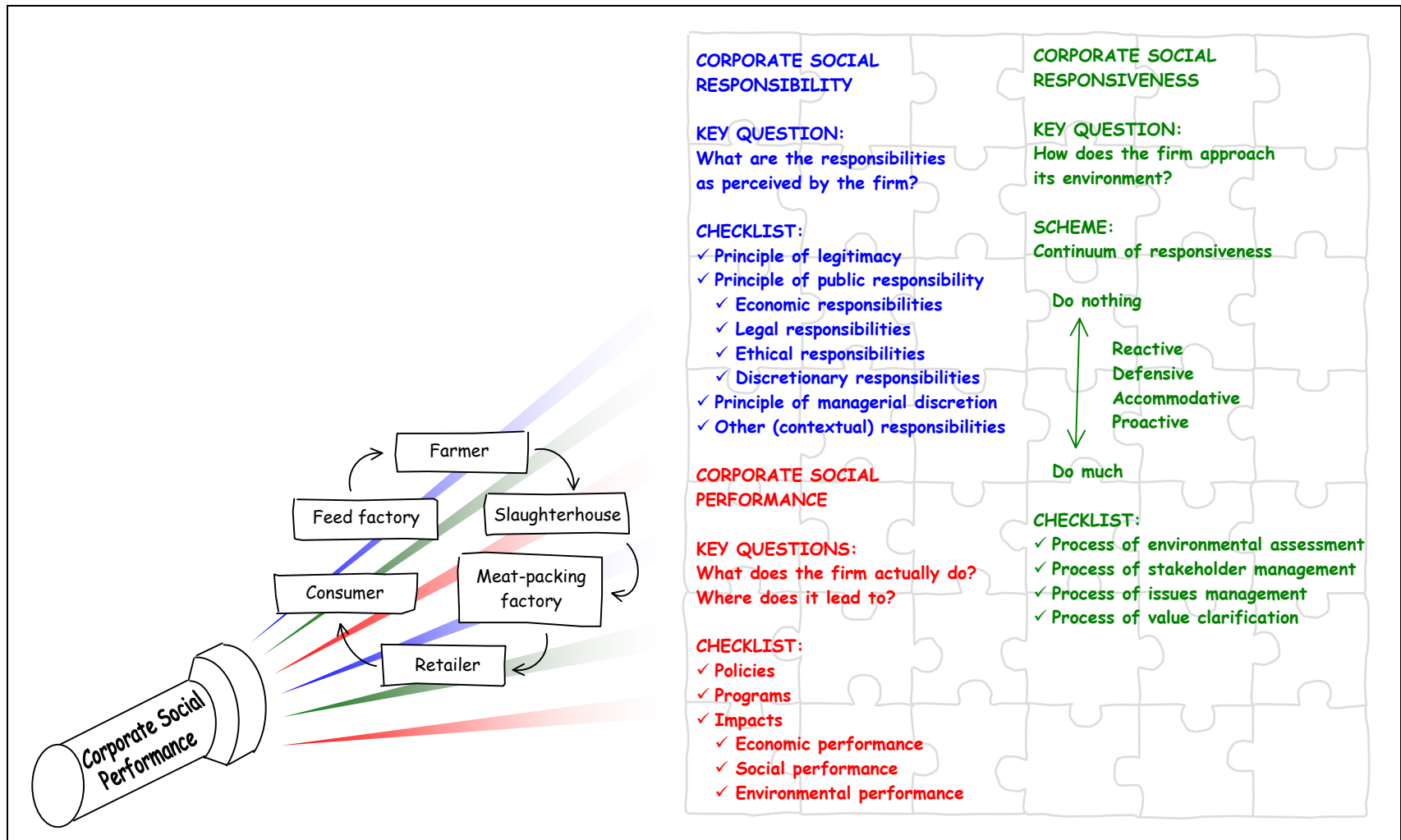


Figure 2 Framework for analysing the social, environmental, and economic activities of a firm or chain

Second, GRI (2002b) is responsible for the development of the sustainability reporting guidelines containing an impressive list of performance indicators. However, a disadvantage of their approach is that it is intended to be universally applicable and therefore less specific to the conditions of the individual firm or chain.

Wood's model and the analytical framework presented here list the aspects that should be considered in evaluating CSP_{broad} . They also recommend these aspects to be evaluated in relation to each other. Unfortunately, they are not very instructive in suggesting how to actually relate those aspects. In order to develop a measurement model, though, this is a crucial issue, i.e., if the model aims not only at measuring the various aspects but also at arriving at an overall evaluation of the social performance of a firm or chain. For that purpose, it is necessary to weight or balance the various aspects.

The stepwise approach for determining the Stakeholder Satisfaction Index, introduced in section 5.4, suggests that stakeholders should be asked to rate the relative importance of the various aspects. However, despite the usefulness of this suggestion, to develop a measurement instrument, additional research is required to explore the issue of connecting, weighting, and balancing the elements of Wood's model in more detail.

Finally, a comment is made regarding the necessity of linking the elements of Wood's model. This may be desirable in analysing, measuring, and evaluating CSP_{broad} ; however, in stimulating the adoption and implementation, i.e., the realisation, of best practices regarding CSP_{broad} , the processes of CSR_2 require more attention than the other elements. Or, to put it in similar words as Kaptein and Wempe's (1998): Performance characterised as socially responsible is nothing; performing in a socially responsible way is everything.

Conclusions

Regarding the analytical framework, the main conclusions of this project are:

- although Wood's model was originally introduced as a coherent framework 'for the field of business and society by integrating the conceptual advances that have been made and by allowing scholars to 'locate' works within a broad model of business-society relationships' (Wood, 1991:691), it also proves to be useful as a basis for the development and design of a framework for analysing the social, environmental, and economic activities of a firm or chain;
- the elements of Wood's model reflect the main ethical perspectives in the history of philosophy. Moreover, since these perspectives are all considered to be valuable components of a single model, Wood's model can be characterised as a pluralist theory of business ethics. As consequence, not only the field of business and society, but also the field of business ethics confirms the significance of Wood's model;
- despite the theoretical reasons to consider the elements of the framework as interrelated, there are valid reasons to more or less focus on one of the elements, i.e., one of the ethical perspectives. For instance, when the objective is not to measure, analyse, or evaluate CSP_{broad} but instead to stimulate or realise improvement of CSP_{broad} , it may be useful to focus on process aspects. And even if the objective is to measure, analyse, or evaluate CSP_{broad} , pragmatic reasons may justify a focus on, for instance,

social programmes. In those situations, though, it is important to realise that a partial approach is adopted;¹

- finally, in the literature, the elements of Wood's model are described in general terms and may not be related to an individual firm or chain. For the purposes of analysing the social, environmental, and economic activities of an individual firm or chain it may therefore be useful to specify the elements for that individual firm or chain. For example, Wood considers the principle of legitimacy as a principle that applies to business in general. However, this principle also applies to an individual firm or chain: also the individual firm or chain needs to consider the legitimacy of its existence. Therefore, in our framework, questions are formulated that apply to an individual firm or chain. It may be useful to answer those sorts of questions and use the typologies from the literature as checklists.

With respect to the development of a measurement model, our conclusions are:

- to the best of our knowledge, there is no (adequate) operationalisation of CSP_{broad} in the academic literature. Hopkins' (1997) operationalisation of Wood's model seems to be one. However, closer examination shows that it does not adequately address the principles of CSR₁ and the processes of CSR₂;
- there do exist operationalisations of the *elements* of CSP_{broad}: for example, Aupperle's CSR₁ instrument, Clarkson's RDAP scale, Steg et al.'s measurement model, and GRI's sustainability reporting guidelines;²
- CSR₁ and CSR₂ cannot be measured directly. That is, principles and processes can not be observed but only interfered from observations of actual behaviour;
- operationalisations involve many choices on:
 - what issues to take into consideration;
 - how to measure them. Unfortunately, most of the operationalisations are not very explicit about those choices;
- most operationalisations are not balanced in the way they treat policies, programmes, and impacts. Ideally, a performance measurement instrument should pay attention to all these aspects of CSP_{narrow} and check for the consistency between them, i.e., are the programmes in line with the policies and do they lead to the desired impacts? In practice, however, we observe that some issues are measured as policies and others as programmes or impacts. Moreover, it seems that convenience is a primary reason for the selection of certain indicators.

Recommendations

Based on our study, we formulated the following recommendations:

- we suggest that the framework developed here is applied, in a future project, to evaluate third parties' assessments of CSP_{broad}. It is our impression that the literature on measuring CSP_{broad} is dominated by a consequentialist perspective. It is helpful to

¹ We recommend that in publications in which such a partial approach is adopted, it is explained why this is done and what the implications may be.

² Remarkably, the literature contains much theory and few operationalisations of CSR₁ and CSR₂, while for CSP_{narrow} the situation is the other way around: little theory, many operationalisations.

address the limitations of those measurements and to identify opportunities for improving them;

- there is little conceptual as well as methodological knowledge on the interrelationships between the elements of CSP_{broad}. Since these interrelationships are considered to be of crucial importance in developing an adequate understanding of the phenomenon of CSP_{broad}, it is necessary to explore this issue in more depth;
- researchers tend to feel comfortable with a single ethical perspective and to be less skilful regarding the others. Furthermore, people have a natural tendency to work with people adopting the same perspective. Unfortunately, this results in biased results and conclusions. Therefore, we recommend, especially in the case of analysing, measuring, and evaluating CSP_{broad}, to compose research teams of mutually respecting researchers with different ethical perspectives;
- the operationalisation of CSP_{broad} many choices. In practice, these choices are usually not explained; it is not even clear what choices are made. Therefore, we recommend that future research should systematically identify and discuss the choices that are made in the development of a measurement model of CSP_{broad};¹
- there are also some other issues that need further exploration. First, Steg et al. (2003) mentioned organisational learning as one of their evaluation criteria. This seems to be an interesting and innovative point. However, it is not clear how this point can be integrated in a measurement model. Second, the field of business and society is still struggling with the question on who decides: Who decides with regard to what aspects the firm is evaluated? Who determines the standards to which the firm's performance is compared? Who weights the various (sub)scores? Who ultimately assigns the designation 'good' or 'bad'? Will this be a matter of dominance by one party, or a matter of democratic decision-making? Related to this issue, there is also the issue of objectivism versus subjectivism. Some argue that reality can be known and natural limits can be specified; others argue that reality is socially constructed. Reconciling these paradigms is probably impossible (cf., Kuhn, 1962) but it is instructive to know the implications of adopting one of these perspectives. We recommend that future research addresses these issues.

¹ At the time of publication of this report, a follow-up project is carried out that addresses this recommendation.

1. Introduction

1.1 Background

Despite their economic worries, many captains of industry and political leaders express a strong commitment to strengthen the social and environmental performances of business organisations and to enhance the sustainability of our society. For instance, Wout Dekker (2003), chief executive officer (CEO) at Nutreco, stressed that '[f]ood quality and sustainability, two essential issues for every responsible food producer, remain high on our strategic priorities list'. Similarly, Franck Riboud, CEO at Danone, stated: 'We need to go beyond the rhetoric of sustainability and turn our attention to practice, taking a realistic, straightforward approach' (Danone, 2003). As a final example, we refer to United Nations Secretary-General Kofi Annan's concluding remarks (2002) at the closing press conference at the World Summit on Sustainable Development: 'This Summit makes sustainability a reality [...] Governments have agreed here on an impressive range of concrete commitments and action that will make a real difference for people in all regions of the world.'

The Social Sciences Group (SSG) of Wageningen University and Research Centre (WUR) shares this commitment. More specifically, one of its ambitions is to provide an understanding of the dynamic relationships between the triple bottom line, people, planet, and profit and to measure and weight the effects of efforts to raise performance levels in all three of these domains (SSG, 2003). The first part of this ambition was the subject of a research project by Slingerland et al. (2003). The present project aims at contributing to the second part of the ambition.

The actual idea for this project originates in a previous project (Meeusen and Ten Pierick, 2002). In that project the objective was to develop a tool for evaluating project proposals for the co-innovation programme *Sustainable Agri Food Chains* by AKK, the Dutch sister organisation of the Agri Chains Competence centre (ACC), with respect to their contribution to developing a sustainable society. In an attempt to learn from prior initiatives, Meeusen and Ten Pierick found that most, if not all, tools for assessing the social or sustainable performance of business organisations are either not well-documented or not publicly available. Moreover, they found that in the academic literature the debate on this topic started already in the mid-1950s and was recently rejuvenated by publications by, among (many) others, Wood (1991) and Clarkson (1995). Unfortunately, for pragmatic reasons, it was not possible in the AKK-project to develop a tool based on the most recent theoretical insights. For this purpose, a new (this) project was defined.¹

¹ At the time of publication of this report, a second edition of the tool has been developed (Ten Pierick and Meeusen, 2004). This edition incorporates many of the ideas presented here.

1.2 Research objective

As mentioned before, one of the ambitions of the SSG is to measure and weight the effects of efforts to raise performance levels in the three domains of people, planet, and profit. Hence, the ultimate objective would be a measurement model that would accomplish all this. However, it would not be an ambition if this could be realised easily. Therefore, we defined a more modest objective for this project: the development of a theoretically underpinned framework for analysing the social, environmental, and economic activities of a business firm or chain. In addition, our objective is to formulate instructions or recommendations for its use. Based on the framework and the recommendations, a measurement system may be developed in future research.

The objective of this project reflects several choices that may need some clarification. First, the business firm or chain, i.e., a network of firms that coordinate their activities in order to deliver a collective product to the market, is selected as the level of analysis. Unlike a sector or a region, other levels of analysis common in research by the SSG, the business firm or chain is directly involved in activities concerning sustainability. Understanding these activities and their impacts is therefore crucial in pursuing a sustainable society.

Second, the objective is to analyse not just economic (profit) but also social (people) and environmental (planet) activities. Implicitly, the objective is to analyse these activities in relation to each other, or, put differently, to obtain an integral picture of all activities influencing sustainability. Focussing on one category of activities would inevitably result in an unbalanced and, most probably, less productive analysis.

Third, the objective is to analyse, not to measure. On the one hand, analysis goes beyond measurement and involves the interpretation of measurement results. On the other hand, knowing how measurement results will be interpreted is instructive in developing measurement instruments, e.g., for selecting the appropriate units of measurement. For this reason and the reason stated above, we start by developing an analytic framework and leave the challenge of developing a measurement tool to future research.

Finally, the framework should reflect the current state-of-the-art in the academic literature on the subject. As indicated above, in prior research, it was found that publicly available tools are generally not well-documented; they seem to lack a solid theoretical foundation. As a result, the logic behind their structure and elements is unclear and may seem arbitrary. In this project, we tried to avoid this pitfall and attempted to build our framework on solid, theoretical grounds.

1.3 Methods

In a previous project (Goddijn, 2002), several interesting publications on the topic of this project were identified. Especially, Wood's (1991) model of corporate social performance (CSP) seemed to be a useful starting point for developing our framework. This model provides a coherent framework 'for the field of business and society by integrating the conceptual advances that have been made and by allowing scholars to 'locate' works within a broad model of business-society relationships' (Wood, 1991:691). As a first step in this

project, we scanned the literature to identify more recent frameworks than Wood's. However, advancements over Wood's integrative framework were not found. Furthermore, citation analysis showed that Wood's article was still frequently cited, and scanning publications in which Wood's article was cited, revealed that her framework was still state-of-the-art. This does not imply that there have not been any theoretical developments from 1991 onward (see, for example, Clarkson (1995)); it simply suggests that these developments can be 'located' in Wood's framework.

After adopting Wood's model as a starting point, the literature on CSP was reviewed in more depth to search for advancements of elements of her model. Particularly, we sought for publications that described, operationalised, or reflected on certain elements of the model. In addition, a pluralist ethical perspective was adopted for a more profound reflection on the model's elements and their interrelationships. Eventually, the most interesting findings were combined into a comprehensive framework and a set of prescriptions for analysing the social, environmental, and economic activities of a business firm or chain.

1.4 Structure of the report

This introductory chapter is followed by a chapter in which the theoretical perspectives used in this project are described briefly. It contains a description of the basic structure of Wood's model of CSP. In addition, it introduces the pluralist ethical perspective and the more traditional ethical perspectives that it unites.

Subsequently, in chapters 3 through 5, the main parts of Wood's model are discussed. Each of these chapters is devoted to one part of the model and describes, illustrates, operationalises, and reflects on that part. The descriptions are primarily based on the literature on CSP. To illustrate the various concepts, we draw from previous studies of the Dutch pig sector. Like the descriptions, the operationalisations are based on the literature on CSP. To reflect on the different parts, the most appropriate ethical perspective is adopted (see section 2.4 for a more detailed explanation).

The sixth chapter provides a discussion that is not limited to one of the parts of Wood's model, but instead focuses on the interrelationships between these parts. It first describes Wood's opinion on these interrelationships. Next, we return to the pluralist ethical perspective for additional reflections.

Chapter 7, finally, presents our conclusions and recommendations. These conclusions and recommendations are divided into two groups: those concerning the analytical framework and the development of a measurement model (in future research) respectively. As one of its conclusions, this chapter also includes our framework for analysing the social, environmental, and economic activities of a firm or chain.

2. Introduction to the theoretical perspectives

2.1 Introduction

This chapter introduces the theoretical perspectives central to this report. In section 2.2, Wood's (1991) model of corporate social performance (CSP) is introduced. It is argued that this concept refers to a business organisation's configuration of:

- principles of social responsibility;
- processes of social responsiveness;
- policies, programmes, and observable outcomes as they relate to the firm's societal relationships.

The three elements of this definition also represent the three main parts of Wood's model.

Subsequently, in section 2.3, it is argued that Wood's model can be characterised as a pluralist theory of business ethics. Pluralist ethics incorporates the main ethical perspectives from the history of philosophy. These perspectives are introduced briefly.

Finally, in section 2.4, the role of Wood's model and the ethical perspectives are discussed. It is explained that Wood's model functions as the foundation and starting point of the framework presented in this report. In addition, it is described that the ethical perspectives are used to critique or reflect on the elements of the model and the model as a whole.

2.2 Wood's model of corporate social performance

The evolution of our understanding of the relationship between business and society

Although the concept of CSP has been in use for several decades, it has long been ill-defined. It has been used as a synonym for corporate social responsibility, corporate social responsiveness, or any other interaction between business and society. A closer examination, however, shows that each of these concepts has a unique denotation.¹ In addition, they represent different stages in the evolution of our understanding of the relationship between the firm and its environment.

As early as the 1950s and early-1960s, management and organisation theorists (e.g., Bowen, 1953; Davis, 1960; Friedman, 1962; and McGuire, 1963) started a discussion on the responsibilities of businessmen. The question dealt with was: Does the firm have any responsibilities beyond its economic ones, i.e., generating as much money as possible (for its shareholders)? Gradually, it was accepted that the firm indeed has other responsibilities; those responsibilities were generally referred to as its (corporate) social responsibilities.

¹ This section deals with the concepts only briefly; in chapters 3 through 5 they will receive due attention.

In the mid-1970s, some scientists (e.g., Ackerman and Bauer, 1976; Frederick, 1978; and Sethi, 1979) argued that it may be interesting to philosophise on the firm's social responsibilities but it is even more important to focus on the firm's responsiveness. Responsiveness was considered to be a more tangible, achievable objective.

At about the same time, Preston (1978) started a series of publications containing the term corporate social performance in its title. At first, as indicated in the opening lines, this concept was not defined precisely. Carroll's (1979) model of CSP suggested that it is an umbrella concept that encompasses the responsibilities as well as the responsiveness of the firm. His interpretation was advanced by Wartick and Cochran (1985). In their model, CSP 'reflects an underlying interaction among the principles of social responsibility, the process of social responsiveness, and the policies developed to address social issues' (Wartick and Cochran, 1985:758).

Wood's definition of the concept of CSP

Although Wood (1991) acknowledged that Wartick and Cochran's definition of CSP represented a conceptual advance in researchers' thinking about business and society, she also stressed that some problems were left unaddressed (Wood, 1991:692-693):

'First, the term *performance* speaks of action and outcomes, not of interaction or integration. Thus, the definition of the CSP *model*, which integrates these various concepts, could not define CSP *itself* unless an action component was added. Second, there is a problem [...] with addressing social responsiveness as a single process rather than a set of processes. Third, the final component of the CSP model is too restrictive. 'Policies [...] to address social issues' (Wartick & Cochran, 1985:758) are only one possible outcome by which a company's social performance can be judged; if a policy does not exist, it cannot be inferred that no social performance exists. Further, formal policies may not be reflected in behaviors or programs that are governed by informal, unwritten policies. In contrast, behavior and programs that would rate high in social performance may exist and even be institutionalized, without any formal policy backing. Relying on 'policies,' then, to reflect the outcomes of social performance is risky business. Fourth, although the blame for these unaddressed problems cannot be placed on Wartick and Cochran's (1985) research, the entire CSP concept has taken on subtle 'good' and binary connotations, as though corporate social performance is something that responsible companies do, but irresponsible companies do not do. Even though such connotations are common in the literature, they are misrepresentations of CSP. Every firm can be evaluated on its social performance, and a firm's social performance can be negatively or positively evaluated.'

Addressing these problems, Wood (1991:693) defined CSP as:

[Corporate Social Performance is] a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships.'

In addition to tackling the problems listed above, this definition has several (other) advantages (Wood, 1991). First, it is not time-locked; it permits CSP to be viewed as a

static snapshot or as a dynamic (meta)construct which exact content may vary over time. Second, it can accommodate a wide variety of motives, behaviours, and outcomes actually found in practice. Third, it does not isolate CSP as something completely distinct from business performance. Finally, it permits CSP to be seen as a construct for evaluating business outputs that must be in line with explicit values about appropriate business-society relationships.

Wood's model of CSP

Following her definition as a guide, Wood (1991) constructed the CSP model as outlined in figure 2.1. As indicated in section 1.3, this model provides a coherent framework for the field of business and society by integrating the conceptual advances that have been made so far. Consequently, it incorporates all the stages in the evolution of our understanding of the relationship between business and society.



Figure 2.1 Wood's model of CSP
Source: Wood (1991:694).

Although distinguishing three main elements may lead to the unintended impression that these elements can be considered separately, the contrary is true: as explicitly indicated by Wartick and Cochran's definition and forcefully advised by Wood, these elements should actually be evaluated in conjunction with each other.¹

¹ Therefore, the connection between the elements of Wood's model is addressed explicitly (in chapter 6).

2.3 Four ethical perspectives

Wood's model of CSP as a pluralist theory of business ethics

Wood's model of CSP might be understood as a pluralist theory of business ethics. Beauchamp and Childress (1994) have established the basic structure for pluralistic ethical theories with the model of principlism in biomedical ethics. Likewise, Wood's theory of business ethics presents a model in which the three or four main ethical perspectives from the history of philosophy seem to be easily recognisable. The first part of corporate social responsibility refers to the interpretation of CSP as being accountable for one's business activities. This part focuses on the formulation of principles and might be expected to mirror the emphasis on principles in deontologist ethics. The second part of corporate social responsiveness refers to the interpretation of CSP as acting in accordance with societal demands. This part focuses on actual behaviour in doing business and might be expected to resonate the emphasis on practices in both virtue and pragmatist ethics. The third part of corporate social behaviour refers to the interpretation of CSP as acting without adverse consequences for the natural and social environment. This stage focuses on the consequences of doing business and might be expected to mirror the emphasis on non-maliciousness and beneficence in consequentialist ethics.

After these preliminary remarks about the apparent relations between Wood's model of corporate social performance and the main ethical perspectives from the history of philosophy, the remainder of this section will be present short introductions to these four ethical perspectives.

Deontologist ethics

Deontologist ethics (after the Greek 'to déon', the obligation or commandment) is the ethical tradition according a central position to rights and duties. Its founding father is the German philosopher Kant (1788) in the 18th century. Kant accorded the principle of autonomy a central position in ethical theory. He argued that ethical behaviour is characterised by placing oneself under a moral law and by obeying this law. Kantian ethics is an ethics of duties based on a so-called 'categorical imperative' as a basic principle for all moral acts. Kant formulated this categorical imperative in two different versions:

- you should act in accordance with a rule that you could wish to be applied as a general law for all behaviour;
- you should treat people as ends and never merely as means.

Many other proposals for basic principles in ethics have been presented after Kant, typically in the form of duties and/or rights. Rawls (1971), author of *A Theory of Justice*, is a famous contemporary deontologist. The central principles within the tradition of deontologist ethics are:

- autonomy;
- justice.

These principles refer to inherently valuable aspects of life, which do not merely serve as means towards the optimisation of happiness (as consequentialist ethics would argue).

Virtue ethics

Virtues are characteristics of people rather than of acts. They might be circumscribed as people's inclinations or dispositions to act in a certain way. Justice, for instance, could also be understood as a virtue, if interpreted as a thread in a person's identity. The founding father of virtue ethics is the ancient Greek philosopher Aristotle. According to him, happiness may be achieved by excelling in what makes people well-functioning persons. Virtue ethics thus needs a clear anthropological understanding of what determines whether people are well-functioning. The tradition of virtue ethics tends to be less universal than deontologist and consequentialist ethics because virtues are highly contextual. What counts as a virtue is ultimately dependent on the specific context of certain practices and cultural traditions. This contextuality of virtue ethics refers to the truism that people's well-functioning is relative to the demands of a specific environment.

Aristotelian virtue ethics regained attention after the publication of MacIntyre's (1981) *After Virtue*. This book also introduced an elaboration of the standing tradition of virtue ethics with a little help from the notion of practices. Nowadays, virtue ethics is an important perspective in the ethics of care and in communitarian ethics with its emphasis on traditions and communities. However, the current popularity of virtue ethics also entails the risk that virtues become a catchall concept for anybody finding deontologist and consequentialist ethics to narrow-minded.

Pragmatist ethics

Pragmatist ethics builds on ideas as presented by Dewey (1939) in his *Theory of Valuation*. This ethical tradition is less than the other perspectives interested in the formulation of substantial statements about central ethical values. It rather focuses on processes of formulating such ethical judgements. Pragmatist ethics holds that the role of ethical experts is primarily about facilitating learning processes to improve ethical opinion-formation and decision-making. It also argues that ethical problems are always situated in specific spatial-temporal contexts and thus call for a certain amount of tact, flexibility and sensitivity for these contexts. Pragmatist ethics focuses on processes and not on products. It does not present solutions for emergent ethical problems but rather facilitates public opinion-formation and decision-making about them.

The focus on processes in pragmatist ethics has two sides: a more formal and a more substantial side. Formally, it is all about the development of procedures that guarantee equal opportunities for all stakeholders to participate in ethical discussions and to effectively influence their course. This formal side of pragmatist ethics directly reflects the fact that ethical problems are always also conflicts of interest or power. The more substantial side of pragmatist ethics might be summarised as:

- studying translations of ethical problems;
- designing scenarios for future courses of events;
- developing new ethical vocabularies.

Consequentialist ethics

Consequentialist ethics argues that the question of whether certain acts are ethically good or bad should only be answered on the basis of the consequences of these acts and not on some intrinsic characteristics. Mill (1863) and Bentham (1789) are the founding fathers of utilitarian ethics. This is an English version of consequentialist ethics in the 19th century. They saw 'the greatest happiness for the greatest number' as the only ethical criterion for judging people's behaviour. This idea was partly developed in response to the English system of common law that penalised certain acts that did not harm anyone (like consensual sex between adults), whereas acts that did do harm (like cruel treatment of animals) were not penalised at all.

Consequentialist ethics counts all kinds of 'goods' (e.g. health, tasty food) that improve people's happiness as morally relevant. The ethical imperative is to improve people's happiness through the provision of such goods. Consequentialist ethics thus entails the need to balance positive and negative consequences of acts. Therefore, consequentialist ethics is also coined as an 'ethics of calculations'. Justice, for instance, will have an instrumental value in consequentialist ethics, if just societies happen to result in more happiness than in-just societies. The central values of consequentialist ethics may be summarised as avoiding negative consequences and achieving positive consequences in one's behavioural choices. It is, of course, possible to engage in endless discussions about the proper criteria to measure happiness.

2.4 Conclusion: Role of Wood's model and the ethical perspectives

As discussed in section 1.2, the objective here is to present a theoretically underpinned framework for analysing the social, environmental, and economic activities of a business firm or chain. This framework is to a large extent based on Wood's (1991) model. First, her model is used to structure our framework. That is, the three main elements of her model represent the overall structure of the framework. Thereby, the framework reflects, at least in its structure, the theoretical developments in the field of business and society.

Second, Wood's description of her model also functions as the starting point to fill the framework's structure. However, as her model was developed for different purposes, we adapted it to suit our own. Furthermore, the work by several other scholars in the field was used to extend or operationalise the model, i.e., to add some (sub)elements to it, or to make existing ones more concrete.

Although the adoption of the ethical perspectives introduced in the previous section also turned out to contribute to extending and operationalising Wood's model, their primary function is critical reflection. First, each of the perspectives is used for the formulation of an *internal* critique on one of the elements in Wood's model:

- deontologist ethics is used to reflect on corporate social responsibility (section 3.5);
- virtue and pragmatist ethics are used to reflect on corporate social responsiveness (section 4.5);
- consequentialist ethics is used to reflect on corporate social behaviour (section 5.5).¹

Second, the driving forces behind the construction of pluralistic theories in contemporary ethics are used for the formulation of an *external* critique of Wood's model as a whole (section 6.3). Furthermore, it is argued that focussing on one of the elements of Wood's model implies that a particular ethical perspective is adopted and that thereby other perspectives are neglected.

¹ As discussed in the first part of section 2.3, the ethical perspectives seem to be recognisable in the elements of Wood's model. Therefore, a critique from a perspective on the corresponding element of the model is labelled 'internal critique'. The critique from the driving forces behind pluralist ethics is of a different kind. It is like critique from an outsider. Therefore, this critique is labelled 'external critique'.

3. Corporate social responsibility

3.1 Introduction

This chapter focuses on the first part of Wood's model: the concept of corporate social responsibility (CSR). In section 3.2, the literature is reviewed to describe this concept. It is argued that business and society are interwoven: society has certain expectations regarding business and therefore the firm has responsibilities towards society. Furthermore, to specify the firm's responsibilities, two typologies of CSR are presented.

In section 3.3, the concept of CSR is illustrated by an analysis of the situation of the Dutch pig sector at the end of the 1990s. Subsequently, in section 3.4, the literature is reviewed to operationalise the concept. Although these operationalisations are sparse, a notable contribution to this challenge is identified and discussed.

In the next section, a deontologist ethical perspective is adopted to reflect on the concept of CSR. A critical note is that universal specifications of corporate responsibilities may be too abstract to be useful in a particular business context and it may therefore be desirable to define these responsibilities contextually. Finally, in section 3.6, the chapter is concluded by summarising the elements that are especially useful in the light of the purposes of this project.

3.2 Description of the concept of corporate social responsibility

A brief history

Social Responsibilities of the Businessman by Howard R. Bowen (1953; in Carroll, 1979:497) is acknowledged to be the first book on CSR. At that time, the mid-1950s, CSR received a lot of attention. Peter Drucker (1954; in Carroll, 1979:497) even remarked: 'You might wonder, if you were a conscientious newspaper reader, when the managers of American business had any time for business.' This expression already reflects some scepticism; however, the real debate got underway when Milton Friedman (1962:133; in Carroll, 1979:497) asserted that '[f]ew trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible'. In the early-1970s he popularised his position through his well-known statement: 'The social responsibility of business is to increase its profits' (Friedman, 1970:122; in Wartick and Cochran, 1985:768). At present, though not rejecting its economic responsibilities, the idea that the firm has certain (social) responsibilities towards society is generally accepted. But what are these (extra) responsibilities? To answer this question, some descriptions of CSR are reviewed.

The concept of CSR

'The fundamental idea of 'corporate social responsibility' is that business corporations have an obligation to work for social betterment' (Frederick, 1986:4; in Jones, 1999:164). More recent is Wood's description (1991, 695): 'The basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes.' Although these descriptions aim at stating the core of the matter, they are still little concrete. In this respect, the less recent description by Davis (1973:312-313) is more instructive:

'It is the firm's obligation to evaluate in its decision-making process the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks [...] It means that social responsibility begins where the law ends [...] Social responsibility goes one step further. It is a firm's acceptance of a social obligation beyond the requirements of the law.'

Thus CSR refers to more than economic responsibilities and legal obligations.¹ But, once more, what are these (extra) responsibilities?

Carroll's categories of CSR

In his stipulative definition, Carroll (1979:500) comprehensively specifies the firm's responsibilities: 'The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.' So the 'extras' consist of responsibilities that arise from:

- the society's ethical expectations regarding the firm;
- the voluntary issues that the firm, based on its own judgment, commits itself to.²

Regarding his (four) categories of responsibility, Carroll (1979) has several observations. First, each responsibility is just one part of the total social responsibility of business. Second, business activities may involve any combination of economic, legal, ethical, and/or discretionary responsibilities. Third, the four categories are neither cumulative nor additive. Finally, it should be recognised that, in the course of time, a responsibility might move from one category to another.

Wood's principles of CSR

Complementary to Carroll's categories of responsibility, Wood (1991) defined a set of principles of CSR. According to Wood (1991:695), Carroll's categories of responsibility 'can be viewed as domains within which principles of responsibility are enacted [...] For example, within the economic domain, a business organization might act on a principle of

¹ Also Friedman acknowledged that the law specifies the conditions under which profits should be maximised.

² Once the firm commits itself to an issue, it is no longer free of obligations concerning that issue.

self-interest, trying to maximize profits, or on a principle of mutual interest, trying to balance the firm's interests with those of stakeholders, or even on a principle of societal interest, seeking to maximize jobs, production, or some other state-determined goal'. In her perspective, a principle refers to 'something fundamental that people believe is true, or it is a basic value that motivates people to act' (Wood, 1991:695).

As mentioned before, Wood (1991) argued that business and society are interwoven and that, therefore, society has certain expectations with regard to business. These expectations can be divided into three groups with corresponding principles (see figure 3.1). The first group concerns expectations that are placed on all businesses because of their role as economic institutions. The principle that applies to this (institutional) level of analysis is that of legitimacy. This principle is based on the premise that

'society gave business its charter to exist, and that charter could be amended or revoked at any time that business fails to live up to society's expectations [...] This has been stated as the Iron Law of Responsibility, which is that 'in the long run, those who do not use power in a manner society considers responsible will tend to lose it' (Davis & Blomstrom, 1971)' (Davis, 1973:314).

This Law, by Wood labelled as the principle of legitimacy, equally applies to all firms, irrespective of their particular circumstances.

The second group of expectations involves expectations placed on individual firms. It is to this (organisational) level of analysis that the principle of public responsibility applies. According to this principle,

'[b]usinesses are not responsible for solving all social problems. They are, however, responsible for solving problems that they have caused [i.e., their area of primary involvement], and they are responsible for helping to solve problems and social issues related to their business operations and interests [i.e., their area of secondary involvement]' (Wood, 1991:697).

Finally, the third group of expectations relates to the manager as a moral agent (individual level of analysis).

'[M]anagers exist in an organizational and societal environment that is full of choices, [...] (their) actions are not totally prescribed by corporate procedures, formal job definitions, resource availabilities, or technologies [...] [and they] are moral actors on the job as well as in other domains of their lives' (Wood, 1991:699).

Hence, there always remain choices that are left to the manager himself. It is to this kind of situations that is referred to by the principle of managerial discretion.

Limitations of Wood's principles of CSR

In her article, Wood (1991) has mentioned a number of limitations with respect to her formulation of the principles of CSR. The first limitation she acknowledged is that terms such

as *legitimate functions, obligations, and social well-being* are neither universal nor absolute in their meaning; they are time- and culture-bound. This implies that a firm may have different responsibilities in different countries and at different points in time. A second limitation is that, even within a specific time and culture, concepts such as those just mentioned are defined variously by relevant stakeholder groups, i.e., according to their own values. As a consequence, a firm may face conflicting expectations. A third limitation is that organisational and individual-level concepts, such as *options, opportunities, constraints, and choices* are bound by different conditions and perceptions among organisations and people. Due to these limitations, the principles of CSR

'should not be thought of absolute standards, but as analytical forms to be filled with the content of explicit value preferences that exist within a given cultural or organisational context and that are operationalised through the political and symbolic processes of that context' (Wood, 1991:700).

Principle of legitimacy:	
Society grants legitimacy and power to business. In the long run, those who do not use power in a manner which society considers responsible will tend to lose it.	
Level of application:	Institutional, based on a firm's generic obligations as a business organisation.
Focus:	Obligations and sanctions.
Value:	Defines the institutional relationship between business and society and specifies what is expected of any business.
Origin:	Davis (1973).
Principle of public responsibility:	
Businesses are responsible for outcomes related to their primary and secondary areas of involvement with society.	
Level of application:	Organisational, based on a firm's specific circumstances and the relationship to the environment.
Focus:	Behavioural parameters for organisations.
Value:	Confines a business's responsibility to those problems related to the firm's activities and interests, without specifying a too-narrow domain of possible action.
Origin:	Preston and Post (1975).
Principle of managerial discretion:	
Managers are moral actors. Within every domain of corporate social responsibility, they are obliged to exercise such discretion as is available to them, toward socially responsible outcomes.	
Level of application:	Individual, based on people as actors within organisations.
Focus:	Choice, opportunity, personal responsibility.
Value:	Defines managers' responsibility to be moral actors and to perceive and exercise choice in the service of social responsibility.
Origin:	Carroll (1979), Wood (1990).

Figure 3.1 Wood's principles of CSR

Source: Wood (1991:696).

Finally, as a fourth limitation, it should be acknowledged that the set of principles is not exhaustive. There are also other principles motivating managerial behaviour. For instance, managerial behaviour may be guided by principles concerning what is possible (e.g., cause-effect and time-sequence principles), how human relationships should be managed (principles of justice, equity, rights), and in whose interests the manager is to act (self, other, collective interests). Hence, Wood's principles of CSR are nothing more, but also nothing less than a useful starting point for defining the responsibilities of a firm.

Premises of CSR

To conclude the description of the concept of CSR, it is argued that it rests on two fundamental premises that are described by Wartick and Cochran (1985:759):

'First, business exists at the pleasure of society; its behavior and methods of operation must fall within the guidelines set by society. Like government, business has a social contract, an implied set of rights and obligations. The specifics of the contract may change as societal conditions change, but the contract in general always remains as the source of business legitimacy [...] The second premise underlying social responsibility is that business acts as a moral agent within society [...] Like states and churches, corporations reflect and reinforce values. As Donaldson argues, corporations have: (a) 'the capacity to use moral rules in decision making' and (b) 'the capacity to control not only overt corporate acts, but also the structure of politics and rules' (1982, pp. 30). Corporations therefore meet the conditions of moral agency and must behave in a manner consistent with society's values.'

Although these premises have been mentioned (more or less) implicitly above, it may be instructive to explicitly link them to the categories and principles of CSR. The first premise, concerning the social contract between business and society, forms the foundation for the economic, legal, and (at least some of the) ethical responsibilities of the firm. In the case of the legal responsibilities this contract is formalised. In the other two cases, the contract is less explicit. In all cases, though, society provides business with a 'licence to produce' that can be withdrawn. The second premise, concerning moral agency, is clearly reflected in the discretionary (and, possibly, some of the ethical) responsibilities.

Regarding the principles of CSR, the principles of legitimacy and public responsibility rest on the social contract premise. The former refers to a general contract between business and society as institutions. The latter, on the other hand, refers to a specific, yet usually implicit, contract between a firm and its (local) environment. Finally, the principle of managerial discretion is evidently based on the moral agency premise (though the units of analysis are different).

3.3 Illustration of the concept of corporate social responsibility

Introduction

At the end of the 1990s, the question arose whether there would be a future for the pig sector in the Netherlands. To answer this question, Mr. Kalden, at the time, Director General at the Ministry of Agriculture, Nature Management, and Fisheries, asked Wageningen University and Research Centre (WUR) to form a 'think tank'. This think tank including experts from various disciplines, e.g., zoo technical, economic, and sociological specialists, concluded that the answer was 'yes, provided that the sector can obtain a licence to produce (again)' (Agricultural Economics Research Institute (LEI), 2000: 14). Part of their analysis is described below and is subsequently used to illustrate the concept of CSR.

The situation of the Dutch pig sector at the end of the 1990s

The situation of the Dutch pig sector at the end of the 1990s is described in figure 3.2.

A licence to produce

The question arises whether there is even a future for the pig sector in the Netherlands. The answer is yes, provided that the sector can obtain a *licence to produce* (again). This *licence to produce* is the trust that the rest of the society has in the sector. All publicity, either positive or negative, influences this. Along with all bad publicity surrounding the sector, there is distrust, viewed as a debt to society. The *licence to produce* is a sufficiently large trust with the society, in the form of social and political basis.

The lack with a *licence to produce* is expressed in problems concerning manure and ammonia; local problems with odour nuisance and unattractive buildings; ethical objections against the way in which animals are kept, including the particularly economic rationality animal welfare is approached; the vulnerable structure of the sector that leads to great risks as to animal health; and the lack of organisation in the sector, by which new market challenges can be approached insufficiently offensively.

An important part of these problems can be explained by the fact that pig farming was such a lucrative business for a long time that a limited short-term orientation was profitable. In the sector-wide process of (rapid) expansion and rationalisation many individual farmers turned a blind eye to developments in the social environment, and neither policy-makers and sector representatives nor the market tried to correct this behaviour. On the contrary, farmers were stimulated to proceed without the parties concerned bothering about a social basis for those developments. Also large chain stores were hardly concerned with production circumstances on farms, which is, however, an essential factor in a time in which the safeguarding of consumer's demands is mainly based on trust in the supermarket. Moreover, the pig sector is not consequently paid for quality. Also due to the fierce (international) competition among slaughterhouses - whereby 'slaughter hook occupation' is often a dominant financial consideration - it is not always obvious for the individual pig farmer that the best quality yields the highest price. Due to the eagerness of the slaughterhouses and the relative homogeneity of the product, farmers are inclined not to make fixed agreements: they rather seek the highest bidder of the day. This 'business instinct' impedes the change from a production-oriented to a real consumer-oriented approach.

The government hardly asked for an explanation from the pig farmers either. In the first decades after [World War II], the function of pig farming was crystal-clear: providing more prosperity in the southern and eastern sandy areas. By increasing scale and specialisation, pork as a bulk product was produced for the European market at a profitable cost price. Sows were kept inside throughout the year: sows in individual cubicles and growing-fattening pigs on bare grids. This was, no doubt, profitable in terms of hygiene

Figure 3.2 Situation of the Dutch pig sector at the end of the 1990s

Source: LEI (2000:14-16).

and avoiding animal disease, but the society's changing views on animal welfare and 'industrialisation' of production did insufficiently reach the individual pig farmer. This was partly due to the defensive attitude of farmers' organisations and the supplying and processing industry that benefited from the on-going development. The government nor Wageningen researchers showed the critical distance needed to direct towards a different avenue. The interrelationship with farmers' organisations of the sector was obviously too close to play such an independent role.

New situation

In the Think tank's view a number of developments have taken place in the past decade, which have gained momentum particularly in the past year. Developments that lead to a clearer articulation of social demands from the pig sector:

- The manure and ammonia problem can no longer be given respite. As to nitrate the government feels the [European Union's] breathing down the neck, and locally as well as regionally the necessity to get rid of the ammonia problem is felt more than ever. The way in which the farmers' organisations of the sector have given the impression to shelve the problem and to make no efforts whatsoever to work out serious alternatives for challenged (parts of) regulations has had an adverse effect on policy-makers.
- Odour nuisance and built-up areas - the local aura of the sector - are increasingly paid attention to. Times in which the agrarian collegiality predominated are over. The urban-oriented public (and farmers!) are full participants in social rural life and demand quality of the environment in favour of living, tourism and recreation, safeguarding drinking water collection and nature.
- The ethical objections as to animal welfare are increasing. Whether this is a symptom of prosperity or civilisation, it is clear that norms shift towards more respect for the (integrity of) animals.
- The vulnerable organisation of the pig sector is reflected in, for example, the fact that hardly any progress is made towards fixed agreements among farmers, meat-processors and retailers. Common interests are inadequately organised and not one organisation has the authority that is needed for a real leading role. Illustrative is the discussion on these *free-riders* that, despite much criticism, still can find work in the sector. Other examples are the difficult way in which slaughterhouses came to the much-needed reorganisation and the weak and slow way in which farmers' organisations have put forward policy proposals, even after the classical swine fever outbreak.

The above issues encumber the *licence to produce* for the pig sector, but actually it should be added that it is such a lingering question. The fact that no solutions come up and the apparent reluctance to work out solutions have rapidly reduced social acceptance. Candidly speaking, social and political basis for the sector has reached an all-time low. The society is not only starting to get involved in pig farming more and more, but also does so with an extremely reserved attitude. Many people think that the pig sector is something we can miss.

This is not only proven by the strong resistance municipalities show to the 'pink invasion', but also by the determined attitude of Parliament and Cabinet not to be as generous as in the recent outbreak of classical swine fever to pay for the losses in a next outbreak. Even on the market the public are interfering: demands to the pig sector are no longer 'imagination' of the government, but are more and more being enforced by large chain stores.

Thus, the Reconstruction and Restructure Acts are no accidental responses to the classical swine fever crisis, but rather an expression of a much wider social view that pig farming should really change. The crucial difference with the past decades is that government, public and market are now inclined to demand satisfaction from the pig sector for its social malfunctioning. The sector is getting the society's breathing down its neck.

The Think tank presumes that all the above developments are such that also within the pig sector one is prepared for new ideas that used to be out of order. Just because obtaining a *licence to produce* has become a necessity to survive.

Figure 3.2 Continued
Source: LEI (2000:14-16).

Illustration of Wood's principles and Carroll's categories of CSR

The discussion on the Dutch pig sector's licence to produce clearly illustrates Wood's *principle of legitimacy*. The growing discrepancy between modern societal expectations and common business practice almost led to the effectuation of the Iron Law of Responsibility. It is now up to the sector to demonstrate its legitimacy.

The developments in the Dutch pig sector in the second half of the 20th century also illustrate the *principle of public responsibility*. This principle states that the firm is responsible for outcomes related to its primary and secondary area of involvement. In this case, pig farmers are held accountable for (among other things) the manure surplus, odour nuisance, and animal welfare. Consequently, these issues are in the sphere of their public responsibilities.

A more detailed examination of the developments in the pig sector also provides examples regarding Carroll's categories of responsibility. In the period after World War II, society's expectations were clear: pig farming should provide more prosperity in the south-eastern part of the Netherlands. In Carroll's terminology, the social responsibilities of the pig farmer were primarily economic in nature. In line with these *economic responsibilities*, the sector adopted a financial-economic rationale. This led to a sector that can be characterised as industrialised, i.e., a high level of specialisation and a large scale of operation.

Meanwhile, society's expectations changed. The increasing level of welfare allowed for the development of different societal needs. This also resulted in social disapproval of (some of) the consequences of the ongoing dominance of the financial-economic rationale in the pig sector. For instance, social norms shifted towards more respect for the animal; they were expected to be free of (among other things) pain, stress, hunger, and thirst. Put differently, the *ethical responsibilities* of the pig farmer became more important.

Unfortunately, the pig sector (in general) did not acknowledge this development. Therefore, the Dutch government responded by introducing the 'Varkensbesluit', a set of rules on pig welfare, and 'Minas', a mineral accounting system. Hence, the sector's ignorance or reluctance to accept their ethical responsibilities resulted in additional *legal responsibilities*.

Fortunately, there are some pig farmers that go beyond their legal - and perhaps even ethical, obligations (see section 4.2). For instance, organic pig farmers do not use any artificial fertilisers and they allow their animals to behave according to their natural habits. In this way, these farmers shape their *discretionary responsibilities*.

The same example also illustrates Wood's *principle of managerial discretion*. That is, organic farming is a free choice of the farmer concerned. However, there is a twist. Pig farming is usually a family business; there are no hierarchical or procedural controls. Managerial discretion therefore resembles entrepreneurial discretion. It concerns the degrees of freedom that are not filled out by any economical, legal, or ethical obligations.

3.4 Operationalisation of the concept of corporate social responsibility

Introduction

First and foremost, the objective of this project is the development of a theoretically underpinned framework for analysing the social, environmental, and economic activities of a business firm or chain. However, as indicated in the general introduction (chapter 1), an additional objective is to gather insight into the possibilities of developing assessment or measurement instruments. For the latter purpose, two operationalisations regarding the concept of CSR are described here. First, attention is paid to Hopkins' (1997) attempt to develop indicators for Wood's principles of CSR. Second, Aupperle's (1990) measure for Carroll's categories of CSR is presented.

Hopkins' operationalisation of Wood's principles of CSR

Based on the KLD/DSI measure for corporate social performance (see section 5.3 for a discussion of this measure) and prior research in the field of social issues in management, Hopkins (1997) developed a set of indicators that is organised according to Wood's model. A subset refers to the principles of CSR (see figure 3.3).

Principle of CSR	Indicator	Measure	Rating
Legitimacy	Code of ethics	Published?	Yes/No
		Distributed to employees?	Yes/No
Public responsibility	Litigation involving corporate lawbreaking	Amount?	Number of suits
		Size?	Size of suits
	Fines resulting from illegal activities	Amount?	Size of fines
	Contribution to innovation	R&D expenditure?	Size of expenditure
Managerial discretion	Job creation	Number of net jobs created?	Number of jobs
		Code of ethics	Managers and employees trained?
	Managers convicted of illegal activities	Number trained as percentage of total?	Percentage of employees trained
		Number?	Number of managers convicted
		Amount?	Size of fines

Figure 3.3 Hopkins' indicators with respect to Wood's principles of CSR
Adapted from: Hopkins (1997:599).

Since there are not many attempts to operationalise Wood's principles of CSR, Hopkins' attempt, which may be the only one, is noteworthy. However, closer inspection learns that all indicators actually refer to another part of Wood's model: the outcomes of corporate social behaviour.

Aupperle's operationalisation of Carroll's categories of CSR

As described above, Carroll (1979) comprehensively described CSR as encompassing four categories of responsibility. In a subsequent article, these categories are defined as follows (Aupperle et al., 1985:455):

- economic responsibilities of business reflect the belief that business has an obligation to be productive and profitable and meet the consumer needs of society;
- legal responsibilities of business indicate a concern that economic responsibilities are approached within the confines of written law;
- ethical responsibilities of business reflect the unwritten codes, norms, and values implicitly derived from society; ethical responsibilities go beyond mere legal frameworks and can be both strenuously undertaken and nebulously and ambiguously stated;
- discretionary responsibilities of business are volitional or philanthropic in nature, and, as such, also difficult to ascertain and evaluate.'

Based on the definitions of the four categories of responsibility, Aupperle et al. (1983) developed an instrument to measure the relative importance of each of the categories (see Aupperle et al. (1983) and Aupperle (1990) for more details on the development of this instrument; Aupperle et al. (1983) also discuss extensively the problem of social desirability and the content validity, discriminant validity, and reliability of their instrument). This instrument contains 15 sets of four forced-choice statements. Figure 3.4 shows one of these sets (see Appendix 1 for the complete instrument). It also shows that each statement corresponds to a single CSR category.

Set of statements	CSR category
15. It is important that:	
A. philanthropic and voluntary efforts continue to be expanded consistently over time.	Discretionary
B. contract and safety violations are not ignored in order to complete or expedite a project.	Legal
C. profit margins remain strong relative to major competitors.	Economic
D. 'whistle blowing' not be discouraged at any corporate level.	Ethical

Figure 3.4 Sample from Aupperle's CSR instrument
Adapted from: Aupperle (1990:260-263).

In the instrument, the sets of statements are accompanied by a procedure that permits respondents to allocate up to 10 points to each set of four statements. Figure 3.5 contains an example. Based on the data collected, the relative weight of the categories of responsibility can be computed.

Aupperle et al. (1985) sent their instrument to a sample of chief executive officers. This implies that they did not gather data on society's expectations but on business' expectations instead. So where Carroll defines CSR as the expectations from the society towards business firms, Aupperle et al. measured the corporate social responsibilities as felt or accepted by the business society.¹ Extending this idea, the instrument could be used to compose a profile concerning a single firm's felt or accepted responsibilities (see figure 3.6).^{2,3}

A = 4		A = 1		A = 0	
B = 3		B = 2		B = 4	
C = 2	Or	C = 0	Or	C = 3	
D = 1		D = 7		D = 0	
<hr/>		<hr/>		<hr/>	
Total = 10		Total = 10		Total = 7	

Figure 3.5 Example of the measurement procedure in Aupperle's CSR instrument
Source: Aupperle (1990:260).

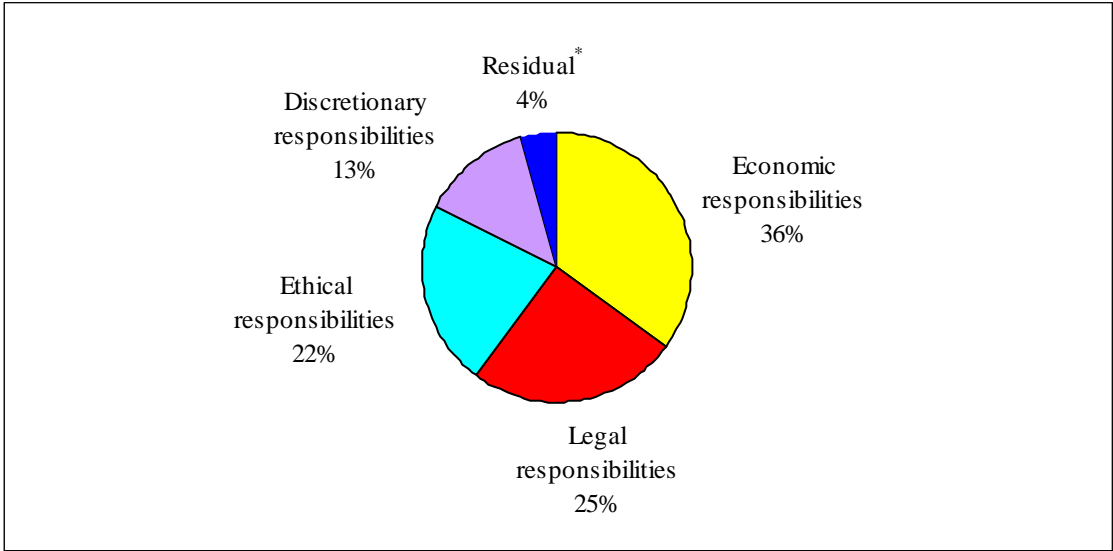


Figure 3.6 Example of a firm's CSR-profile
* A residual exists because it is not required to allocate all ten points to the four statement sets.

¹ In the context of analysing the social, environmental, and economic activities of a business firm both perspectives may be instructive.
² This perspective may be instructive for the ultimate objective of developing a measurement system.
³ Note that this perspective is consistent with Wood's interpretation of principles as basic values that motivate people to act.

3.5 Reflections on the concept of corporate social responsibility (from a deontologist ethical perspective)

Introduction

The first part of Wood's model addresses the responsibilities of the firm. It goes beyond economic and legal requirements; it focuses on the inherently valuable principles guiding corporate social behaviour. CSR shares this emphasis with deontologist ethics. It may thus be worthwhile to reflect, from this ethical perspective, on the specification of principles.

A critique on Wood's principles of CSR

Since principles play a crucial role in deontologist ethics, their selection and definition is a matter of utmost importance. Unfortunately, Wood's principles of legitimacy, public responsibility and managerial discretion look rather arbitrary; they merely summarise prior research in the field. Further development of this part of the model would thus benefit from critical reflection on the question of why these and not other principles are the right principles in a theory of business ethics. Wood's omission, however, is not unique in theorising about CSR, e.g., Kaptein and Wempe (1998) almost exclusively focus on the principle of integrity without providing an explanation why they find this principle particularly fruitful in developing a theory of business ethics.

Beauchamp and Childress' principles

It may also be useful to look at biomedical ethics for inspiration. Beauchamp and Childress (1994), for instance, defined four principles: autonomy, justice, non-maleficence and beneficence. However, since these principles are defined for the purpose of addressing ethical issues in health care, they may not be easily translated towards the more general domain of CSR. Furthermore, it should be acknowledged that their principles are not all rooted in deontologist ethics, e.g., non-maleficence and beneficence stem from consequentialist ethics and will also be used to reflect on corporate social behaviour (see section 5.5). Finally, the principles of Beauchamp and Childress are highly abstract; it is desirable to formulate more concrete principles guiding corporate social behaviour.

Contextual principles and Mepham's ethical matrix

But what actually is the purpose of formulating principles? Do we aim for universal principles that are applicable to any kind of firm, or do we rather focus on a single firm's pursuit of defining its social responsibilities? The latter objective is probably more effective in evading the main risk of a principled approach to business ethics: the formulation of principles that in all their abstractness lose any contact with corporate realities and thus degenerate towards merely paying lip-service. It leads to the definition of contextual principles that are far more specific and attuned to the firm involved. However, this plea for the formulation of principles that are directly tied to specific corporate contexts has its price.

Evidently, the resulting principles cannot claim universal applicability. In addition, it risks ignoring otherwise important ethical issues and contributing to one-sided perspectives.

To overcome these risks, Mepham's (1996) ethical matrix may be helpful. This matrix shows the interpretation of Beauchamp and Childress' principles in the context of the food industry and relates them to specific stakeholder groups (see figure 3.7).¹ Hence, it can be used to translate universal principles to more contextual ones, such as taking care of the availability of safe food. If desirable, it could also be used more liberally to specify additional 'universal' principles as well (i.e., extend or replace Beauchamp and Childress' principles by other ones). Anyway, completion of such a matrix offers a clear overview of the corporate social intentions that go beyond mere economic and legal obligations.

	Respect for well-being	Autonomy	Justice
Treated organism	Animal welfare	Behavioural freedom	Respect for <i>telos</i>
Producers (e.g., farmers)	Adequate income and working conditions	Freedom to adopt or not to adopt	Fair treatment in trade and law
Consumers	Availability of safe food, acceptability	Respect for consumer choice (labelling)	Universal affordability of food
Biota	Conservation of the biota	Maintenance of biodiversity	Sustainability of biotic populations

Figure 3.7 Example of Mepham's ethical matrix
Adapted from: Mepham (1996:106).

3.6 Conclusion

Towards an analytical framework

In the literature, the concept of CSR refers to questions such as:

- what are the societal expectations towards firms;
- what are the obligations of firms towards society;
- what are the responsibilities as perceived by the business society (in general);
- what are the responsibilities as perceived by a (single) firm?

Considering the objective of this project, developing a framework for analysing social, environmental, and economic activities at the firm or chain level, the last question is most relevant. So for the purpose of this study the concept of CSR refers to the responsibilities towards society as perceived by a firm or chain. These responsibilities act as principles or basic values that motivate and guide the activities of the firm or chain.

The literature on CSR provides two typologies that may be helpful in analysing business activities. First, there is Carroll's in which the responsibilities of the firm are divided

¹ Because the principles of non-maleficence and beneficence are related, Mepham combined them into a single principle of 'respect for well-being'.

into four categories: economic, legal, ethical, and discretionary responsibilities. Second, there is Wood's that describes three principles of CSR: the principles of legitimacy, public responsibility, and managerial discretion. In fact, Carroll's and Wood's typology may be combined into a single one in which Carroll's categories specify Wood's principle of public responsibility.

However, as indicated in the literature on business ethics, it should be noted that an analysis in which this typology is used might be characterised as too abstract. As suggested, it may be more fruitful to adopt a more contextual approach (e.g., with the help of Mepham's ethical matrix). On the other hand, also this approach has its pitfalls: the risks of:

- ignoring otherwise important ethical issues;
- contributing to one-sided perspectives.

In sum, analysing the social, environmental, and economic activities of a firm or chain in the light of CSR can be visualised as in figure 3.8.

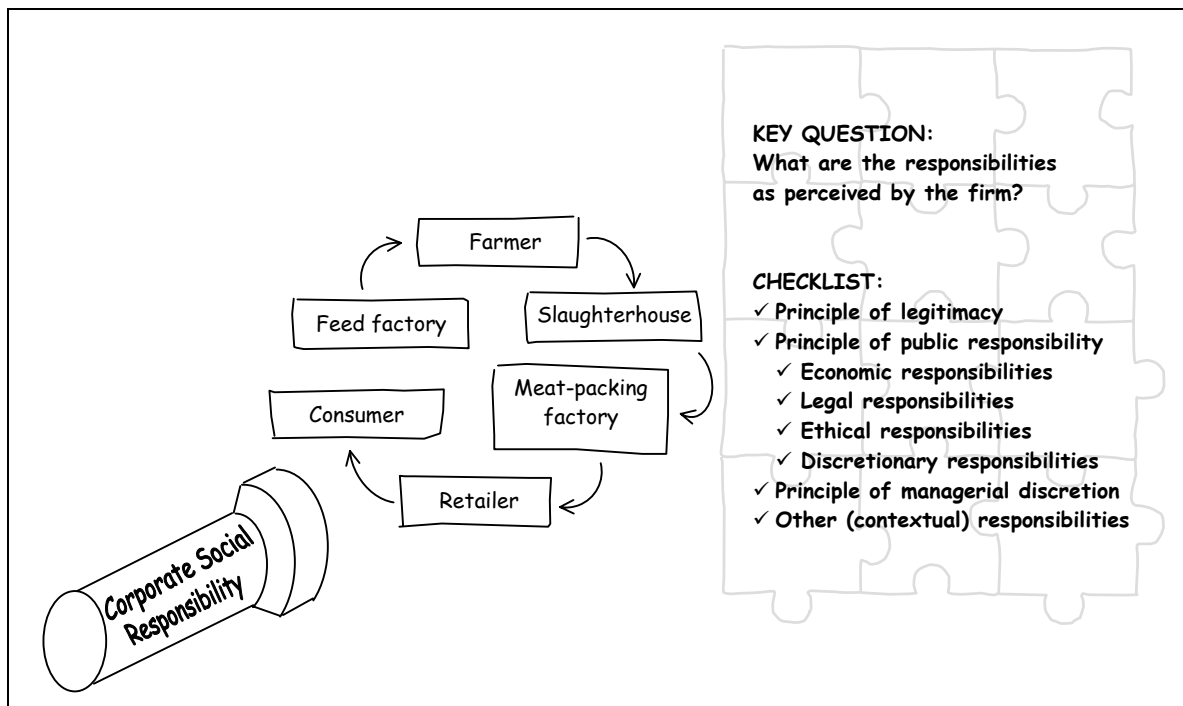


Figure 3.8 Analysing the social, environmental, and economic activities of a firm or chain in the light of CSR

Towards a measurement model

The most important, in the sense of state of development and usefulness for the purposes of this project, operationalisation of CSR is Aupperle's CSR instrument. His instrument has been tested empirically and seems suitable for assessing the weight a firm or chain assigns

to its economic, legal, ethical, and discretionary responsibilities respectively. If though more specific responsibilities, e.g., the legal responsibilities regarding 'planet', or the ethical responsibilities regarding 'people', need to be identified, the instrument needs to be revised.

4. Corporate social responsiveness

4.1 Introduction

This chapter focuses on the second part of Wood's model: the concept of corporate social responsiveness. Section 4.2 reviews the literature on CSR₂ (Frederick (1978; in Carroll, 1979) introduced the abbreviations CSR₁ and CSR₂ referring to corporate social *responsibility* and corporate social *responsiveness* respectively). It is argued that CSR₂ is the action counterpart of the principles reflection of CSR₁. In addition, categories and processes of CSR₂ are distinguished to increase our understanding of this concept.

The third section returns to the case of the pig sector of developing to illustrate the concept of CSR₂. More specifically, for this purpose, we use a description of the process by which a number of pig farmers developed business plans to realise a socially acceptable and economically profitable pig sector.

In section 4.4, the focus is on the operationalisation of CSR₂. As in the case of CSR₁, operationalisations are sparse. Nevertheless, a useful starting point for developing an instrument to assess or measure the social, environmental, and economic activities of a firm or chain is identified. This contribution is presented in this section.

Next, section 4.5 reflects on the concept of CSR₂ from a virtue ethics and a pragmatist ethics perspective respectively. It is stated that there are two approaches regarding CSR₂: a capacity and a process approach. The first approach deals with responsiveness as a property of the firm and presents several ways of characterising this property. The second approach rejects this idea and argues that it is not useful to apply predefined conceptualisations. Instead, it advocates the analysis of and reflection on differences in values and thereby gathers insight into the essence of a firm's attitude towards its environment.

Finally, section 4.6 concludes this chapter by providing a summary of the elements of the literature that are most interesting for the purposes of this project.

4.2 Description of the concept of corporate social responsiveness

CSR₁ versus CSR₂

CSR₂ has been described as a replacement of, a refinement of, or a complement to CSR₁. Sethi (1979), among others, placed CSR₂ in a position beyond CSR₁ in an evolutionary pattern of corporate social involvement. Others argued that, as a replacement for CSR₁, CSR₂ takes on more of a means or an action orientation.

'In all, the advocates of social responsiveness see it as a more tangible, achievable objective than social responsibility, and they see it as 'a genuine replacement of the idea of 'responsibility' and [...] not simply one of those fashionable changes in phraseol-

ogy that occasionally takes the scholarly community by storm' (Frederick, 1978, pp. 6)' (Wartick and Cochran, 1985:762).

One might wonder, though, what is lost and what is gained if CSR₂ replaces CSR₁? Wartick and Cochran (1985:763) made an effort to answer this question:

'First, it can be argued that to replace social responsibility with social responsiveness eliminates or at least dramatically de-emphasizes considerations of business ethics and social *irresponsibility*. [...] As most critics of social responsibility point out, ethical analysis does not always provide strong, empirically testable, pragmatic results. But that does not necessarily diminish the value of the concept. [...] [W]hether social responsiveness by itself maintains an adequate level of ethical inquiry is doubtful. Second, social responsiveness does not require continual evaluation of the relations between corporate objectives and societal objectives. Without some sense of social responsibilities to guide activities, the corporation is left with a potpourri of demands all of which are impossible to meet. As a result, social responsiveness by itself is likely to lead to reaction rather than the proaction that many advocates of responsiveness call for. Third, social responsiveness seems to ignore what Davis (1973) called the Iron Law of Responsibility [...] Being responsive does not necessarily mean the same thing as being responsible. [...] Over the long term, the socially responsive firm's existence may be threatened by the Iron Law of Responsibility.'

Hence, 'companies can be very responsive to environmental conditions or social pressures, but they may in the process act irresponsibly or unethically' (Wood, 1991:703). Furthermore, Wood (1990; in Wood, 1991:703) pointed out that a concept (CSR₂) that permits action without reflection or responsibility is not a refinement over a concept (CSR₁) that merely encourages responsibility. Therefore, Wood (1991:703) incorporated CSR₂ as a complement to, rather than a replacement of, CSR₁ in her model: 'As the second facet of the CSP model, responsiveness provides an action counterpart to the principled reflection of social responsibility.'

Frederick's definition and Carroll's continuum of CSR₂

The action-oriented ness of CSR₂ is reflected in Frederick's (1978:6; in Carroll, 1979:501) definition: '[CSR₂] refers to the capacity of a corporation to respond to social pressures. The literal act of responding, or of achieving a generally responsive posture, to society is the focus.' As it may be hard to determine a firm's (potential or latent) capacity to respond, it may be more realistic to focus on the firm's (literal) acts of responding. In this sense, '[s]ocial responsiveness can range on a continuum from no response (do nothing) to a proactive response (do much)' (Carroll, 1979:501). Carroll used this continuum to summarise three prior categorisations of responsiveness (see figure 4.1).

	Do nothing ←————→ Do much				
Davis and Blomstrom (1966)	Withdrawal	Public relations approach	Legal approach	Bargaining	Problem solving
McAdam (1973)	Fight all the way	Do only what is required	Be progressive		Lead the industry
Wilson (1975)	Reaction	Defence	Accommodation		Proaction

Figure 4.1 Carroll's continuum of CSR₂
 Adapted from: Carroll (1979:502).

Wood's processes of CSR₂

More specifically, a responsive firm, as suggested by Ackerman (1975; in Wood, 1991), is active in three domains: '(a) it monitors and assesses environmental conditions, (b) it attends to the many stakeholder demands placed on it, and (c) it designs plans and policies to respond to changing conditions' (Wood, 1991:703). Put differently, CSR₂ involves three processes: (1) environmental assessment, (2) stakeholder management, and (3) issues management (Wood, 1991; see figure 4.2).

Environmental assessment

If the premise is accepted that firms must know about their environment in order to respond to it, the first step for the responsive firm is to scan its relevant environment for important developments. In the strategic management literature (e.g., Johnson and Scholes, 1999), it is common practice to assess the political, economic, socio-cultural, and technological developments (cf., Wilson, 1977; in Wood, 1991). Subsequently, the information collected may be used to formulate strategies to adapt to the environment or, conversely, change it, these strategies are referred to as 'strategy as fit' and 'strategy as stretch' respectively (Hamel and Prahalad, 1994; in Johnson and Scholes, 1999).

Stakeholder management

The second perspective to gather information on the environment and to deal with it is the stakeholder perspective. Freeman's (1984) *Strategic management: A stakeholder approach* is undoubtedly the most influential book in this perspective. He defined a stakeholder in an organisation as 'any group or individual who can affect or is affected by the achievement of the organisation's objectives' (Freeman, 1984:46). As indicated by the following excerpt from Clarkson's (1995:98) discussion of his extensive experiences in researching corporate

social performance, practitioners may not formerly use the term, but many of them are actually involved in managing stakeholders:

Process of environmental assessment:	
The responsive firm needs to scan its relevant environment for important developments.	
Level of application:	Macro- and meso-environment.
Focus:	Political, economic, socio-cultural, and technological developments.
Value:	Identifies the most important developments. The firm may formulate strategies to either adapt to or try to alter these developments.
Origin:	Steiner (1979), Wilson (1977).
Process of stakeholder management:	
The responsive firm needs to manage its relationships with its stakeholders.	
Level of application:	External and internal environment.
Focus:	Any group or individual who can affect or is affected by the achievement of the firm's objectives.
Value:	Minimises surprises due to neglecting the interests of other individuals, groups, or organisations in society. The firm may develop strategies to deal with these interests carefully.
Origin:	Freeman (1984).
Process of issues management:	
The responsive firm needs to manage issues that are important to society.	
Level of application:	Macro- and meso-environment.
Focus:	Any issue that is sensitive to public opinion.
Value:	Minimises surprises emanating from the turbulent business environment. The firm may prompt systematic and interactive responses to environmental change.
Origin:	Ackerman (1973), Ansoff (1975, 1980), Chase (1977), Sethi (1979).

Figure 4.2 Wood's processes of CSR₂

'[C]orporations actually manage their relationships with employees, customers, shareholders, suppliers, governments, and the communities in which they operate. Although, the term *stakeholder management* was not necessarily in use, it became clear that all the corporations being studied had relationships with various groups or constituencies, which could be defined as stakeholder groups, and that these relationships were either being managed, or not being managed, for better or worse.'

This excerpt also illustrates the types of stakeholders that may be distinguished. Although this list is far from complete, in fact, it may be argued that preparing an exhaustive list is practically impossible, it contains those stakeholders that are relevant to (almost) any firm.

In general, stakeholder management roughly involves the following steps. First, the stakeholders, an organisation, group, or individual, are identified. Second, the relative importance, as perceived by the firm concerned, of each stakeholder is determined. Then, the interests of each stakeholder are analysed. Finally, strategies are developed to deal with the interests of each stakeholder.

Issues management

The third perspective (process) mentioned by Wood (1991) concerns issues management.

'The purposes of issues management are to minimize 'surprises' emanating from the turbulent business environment and to prompt systematic and interactive responses to environmental change [...] The process of issues management varies somewhat from organization to organization, but in general it consists of three stages: (a) issues identification, (b) issues analysis, and (c) response development' (Wartick and Cochran, 1985:766).

Regarding the identification of issues, a similar point may be made as with respect to listing stakeholders: it is practically impossible to prepare a full list of issues. 'The issues, and especially the degree of organizational interest in the issues, are always in a state of flux' (Carroll, 1979:501). Or in more general, they are context (e.g., time, culture, and industry) specific.

Problems associated with Wood's processes of CSR₂

A problematic aspect regarding Wood's processes of CSR₂ is that they are theoretically and pragmatically interlocked: 'Stakeholders are involved in issues; issues involve stakeholders and their interests; and information about the environment is necessary for responses to be made' (Wood, 1991:706). Distinguishing these processes in the analysis of a firm's or a chain's social, environmental, and economic activities may therefore be practically impossible. For that purpose, it is probably more useful to consider the process labels as different angles along which an inquiry could start. Although the inquiries may overlap substantially, they may also provide unique insights. Obviously, one should study the overlapping areas only once and focus on the unique.

A second problem is associated with Wood's process of stakeholder management. It concerns the representation of stakeholders. The problematic nature of representation is twofold. First, how should the firm deal with stakeholders that disagree with their representatives such as individual employees that disagree with their labour union? Should the firm pay attention to both the representatives and the stakeholders themselves? Similar questions may be raised regarding the analysis of the firm's activities. Should the focus be on the representatives of stakeholders, the stakeholders themselves, or both? Second, how are the interests of future generations, the environment, and other stakeholders that are unable to represent themselves taken care of? Of course, many individuals and organisations are currently involved in representing these stakeholders. Nevertheless, this does not dissolve the fundamentally problematic nature of defending their interests. For instance, can we know the interests of our children's children? Do we understand the interests of nature?

And if so, in trade-off situations, are we able to make the right judgments? Evidently, these issues cannot be resolved here; they are merely made explicit.

The last problem discussed here involves an inconsistency in the above description of CSR₂. In the second paragraph of this section, it was argued that this concept refers to the literal act of responding. However, the description of environmental assessment was hardly on the act of responding; it is more about the collection of information. To some extent, this is also true for the descriptions of stakeholder management and issues management. Fortunately, the latter descriptions also indicate different foci in responding to the environment (i.e., stakeholder interests or social issues). Nevertheless, with respect to describing the literal act of responding, we are still left with Carroll's continuum ranging from do nothing to do much.

Assumption regarding CSR₂

Finally, to conclude this section, reference is made to an assumption implicit in the description of CSR₂: the acceptance of the idea that business does have a social responsibility. The prime focus is not on business or management accepting obligations toward society but on the degree and kind of corporate or managerial action (Carroll, 1979). From the previous chapter, however, it may be concluded that the acceptance of corporate social responsibilities is not unproblematic (see, e.g., Friedman's (1962) opinion). Therefore, it is important to realise that this assumption is made and that, if one rejects this assumption, the usefulness of describing and operationalising CSR₂ is questionable.

4.3 Illustration of the concept of corporate social responsiveness

Introduction

As mentioned in the previous chapter, a think tank (group of experts) analysed the situation of the Dutch pig sector at the end of the 1990s (see figure 3.2). Sharing this analysis, a considerable list of parties signed the Wageningen Declaration: 22 pig farmers, the Foundation for Nature and Environment (Stichting Natuur en Milieu), the Dutch Society for the Prevention of Cruelty to Animals (Nederlandse Vereniging tot Bescherming van Dieren), Rabobank Netherlands, the province of North Brabant, the Farmers' Union South Netherlands (Zuidelijke Land- en Tuinbouworganisatie; ZLTO), Wageningen University and Research Centre (WUR), and the Ministry of Agriculture, Nature Management, and Fisheries (LNV). By this, these parties committed themselves to take action to contribute to an economically profitable and socially acceptable pig sector. As part of this commitment, the 22 pig farmers developed business plans reporting the state of affairs on their farm and expressing their plans to attain a socially acceptable way of pig farming. These farmers were leading in their willingness to start a dialogue with society. The process of developing these business plans and the way in which they are supposed to contribute to a dialogue are described below. Subsequently, the concept of CSR₂ is illustrated by drawing on this description as well as on the description in section 3.3.

The process in which 22 pig farmers developed business plans as a starting point for a dialogue

Figure 4.3 describes the process in which 22 pig farmers developed business plans as a starting point for a dialogue.

The pig farmers have formulated their business plans on the basis of a general idea by Wageningen researchers and DLV farm advisers. The plans have been discussed in regional meetings, to which also the Foundation for Nature and Environment and the Society for the Prevention of Cruelty to Animals were invited. At first, some farmers thought the presence of social organisations threatening, but soon there was more certainty, which led to the building of mutual trust. Pig farmers found out what in the social organisation's view was important and what were matters of less importance. Social organisations in turn could form a picture of the efforts and intentions of the pig farmers. Demands of social organisations were made clear; expectations were re-adjusted in good time. The pig farmers were sometimes inclined to choose a 'socially desirable' formulation. The presence of social organisations, however, prevented business plans becoming a *public relations* story. The pig farmers discovered that representatives of social organisations are not easy to be deceived, but that at the same time they have a realistic picture of intensive pig farming and are willing to really think about the dilemmas of the farmers. Contrary to controlling administrators, representatives of social organisations are in the position of being able to show sympathy for an entrepreneur who has chosen for a solution which is actually serving the socially acceptable purpose, but is against statutory regulations.

To be able to have a dialogue, the social organisations were asked to draw up a list of points of interest [...] On the basis of these lists a checklist of answers was made for the farmers together with ZLTO Consultancy and DLV (see business plan [of pig farmer Daandels in figure 5.3]). As many matters as possible that could be answered easily by the pig farmers were asked. The way of reporting forced the farmers to make their position clear in relation to the legal standard, or to the average of the sector. The checklist was not meant as a yardstick or a scoring system, but as a common starting point for the discussion. The entrepreneurs were invited to explain why they scored well or less well at a particular point. The underlying argumentation is certainly as important as the eventual score.

Then the entrepreneur was invited to go into the future. What plans does he or she have to attain a way of production that meets social demands and that at the same time is economically feasible? Realistic future prospects were asked for, with a fine balance between social demands and economic feasibility given the current market conditions and those to be expected. The entrepreneur will never be able to meet all social demands at the same time. He has to make choices and will face dilemmas. The business plan is aimed at making the consideration process clear to himself and others and at giving account of which choices have eventually been made. Choices are partly determined by regulations, financing and/or market structure. The entrepreneur, therefore, was also asked for the most important bottlenecks that hamper him to give shape to his ideal farm. These bottlenecks have been added to the business plans in order to place the choices made in a realistic perspective.

The description of the current situation and the account of the choices made are in the chapters on welfare, environment, food and market of the business plans. The scores on the checklist have been summarised in a figure, which generally indicates the place of the entrepreneur with regard to social interests. This graphic figure is not a judgement on the farm, but rather a general indication. The different points of interests have not been weighted, nor have been taken into account whether the entrepreneur has given arguments for meeting or not meeting certain objectives. The graphic figure does not take into account either whether and to what extent the entrepreneur is willing to allow for social demands in his future plans. All these matters are not dealt with in the checklist, but are in the business plan, the latter being the most appropriate source to form a judgement. The fact that the social organisations involved [...] subscribe to the idea of a social account by business plans does not mean that they agree to all parts of each of the business plans developed. The business plans are a means for the dialogue; the entrepreneur concerned is and will remain responsible for the contents in the business plan.

Figure 4.3 The process in which 22 pig farmers developed business plans as a starting point for dialogue
Source: Backus and Van der Schans (2000b:21-23).

The part [WUR] has played was to support this process. [WUR] does not give any judgement on the business plans. This should be done by the social organisations and the public at large. The description of the desirable situation and the steps that have to be taken to reach such a situation (including time schedule) are in the chapter on future plans of the business plans. The bottlenecks and dilemmas the entrepreneur encounters in realising his plans are described in the chapter on dilemmas. The business plan is concluded with a signature by the entrepreneur. He, together with his partners, is author, has the final responsibility and is the most important executor of his own business plan.

Figure 4.3 Continued

Source: Backus and Van der Schans (2000b:21-23).

Illustration of Carroll's continuum and Wood's processes of CSR₂

As described in section 3.3, after World War II, the Dutch society expected the pig sector primarily to provide prosperity in the south-eastern part of the Netherlands. In line with these expectations, an efficient pork producing industry was developed. Meanwhile, the expectations changed. The society demanded more attention to issues such as animal welfare, manure surpluses, and odour nuisance. Unfortunately, up to the end of the 1990s, the approach of the pig sector (in general) was to neglect or fight these demands. Translated in the terminology of Carroll's continuum of CSR₂, the sector's approach can be characterised as going from the continuum's 'do much' end to its 'do nothing' end. That is, in the period just after World War II, the approach was *accommodative* or perhaps even *proactive*; later, the attitude was more *reactive* or *defensive* in nature.¹ Recently, as shown in figure 4.3, a number of farmers acknowledged that society's demands could no longer be neglected or fought. Their business plans and their willingness to participate in a dialogue with society illustrate a more accommodative or proactive approach.

Returning to the situation at the end of the 1990s, it may be argued that the sector's problems were the result of paying too little attention to at least one of the processes of CSR₂: the *process of environmental assessment*. A proper scan of the environment would have revealed several important developments. There were *economic developments* such as the increasing level of welfare that, in combination with production surpluses, led from a market dominated by supply to a market dominated by demand. There were *socio-cultural developments* such as the growing opposition of non-governmental organisations committed to defend animal rights. There were *political developments* such as the government that changed its policy from defending the sector's interests to taking measures to defend environmental and societal interests. And there were *technological developments* such as the large-scale introduction of vegetarian products and other substitutes for meat products. Of course, there probably were individual farmers who did acknowledge (some of) these developments. Nevertheless, the majority did not; or at least did not take appropriate action.

Fortunately, things are changing. The Wageningen Declaration shows a broadly based consensus that the pig sector should try to regain its licence to produce. Also the process by which the farmers developed their business plans illustrates these changes. More specifically, it illustrates that more weight is attached to the *processes of stakeholder*

¹ In figure 3.2, the term defensive was used to describe the attitude of farmers' organisations.

and issues management. That is, two stakeholders, the Foundation for Nature and Environment and the Society for the Prevention of Cruelty to Animals, were asked to list and prioritise their interests. Subsequently, in a dialogue, the farmers discussed these issues with the social organisations. This discussion led to an understanding of each other's interests. The farmers got a better understanding of the issues that are important to society; the social organisations were informed about practical implications. Ultimately, this was translated by the farmers into strategies that were described in their business plans.^{1,2}

4.4 Operationalisation of the concept of corporate social responsiveness

Introduction

Since one of the objectives of this project is to explore the possibilities of developing assessment or measurement instruments with respect to the social, environmental, and economic activities of a business firm or chain, two operationalisations related to the concept of CSR₂ are discussed here. As indicated in section 3.4, Hopkins (1997) developed a set of indicators for each part of Wood's model. In this section, the subset referring to the concept of CSR₂ is presented. The other operationalisation concerns Clarkson's (1991) effort to develop a scale to measure the position on Carroll's continuum of CSR₂ is discussed.

Hopkins' operationalisation of Wood's processes of CSR₂

Figure 4.4 contains Hopkins' (1997) set of indicators with respect to Wood's processes of CSR₂.

Process CSR ₂	Indicator	Measure	Rating
Environmental scanning	Mechanism to review social issues relevant to firm	Exists?	Yes/No
Stakeholder management	Analytical body for social issues as integral part of policy making	Exists?	Yes/No
	Social audit	Exists?	Yes/No
	Ethical accounting statement	Exists?	Yes/No
Issues management	Policies made on basis of analysis of social issues	Firm's regulations and policies?	Yes/No

Figure 4.4 Hopkins' indicators with respect to Wood's processes of CSR₂
Adapted from: Hopkins (1997:599).

¹ These business plans are the result as well as the start of a dialogue. That is, they are intended to be the basis for a broader dialogue among farmers and society.

² The description above illustrates one of the problems associated with Wood's processes of CSR₂: they are theoretically and pragmatically interlocked (especially the latter two).

A comment on Hopkins' indicators of the principles of CSR₁ was that they actually refer to the third part of Wood's model (outcomes). The same comment applies here. Also the indicators of the processes of CSR₂ refer to that part of the model. Another comment is that Hopkins' list of indicators does not cover all aspects in the description of the processes (e.g., there are no indicators for the identification of stakeholders and social issues, the development of strategies for dealing with stakeholders, et cetera). Finally, it is mentioned that Hopkins' indicators are merely hints at how the processes of responsiveness could be operationalised: one could also think of other indicators.¹

Clarkson's operationalisation of Carroll's continuum of CSR₂

Carroll (1979) introduced the continuum of CSR₂ as described in section 4.2 and illustrated in figure 4.1. This continuum summarises three prior categorisations of responsiveness.

		Categories of responsiveness			
		Reactive	Defensive	Accommodative	Proactive
Rating		1	2	3	4
Posture		Deny responsibility	Admit responsibility but fight it	Accept responsibility	Anticipate responsibility
Performance		Doing less than required	Doing the least that is required	Doing all that is required	Doing more than is required
Stakeholder strategy	Government and community	It's not our problem	Yes, but ...	We'll go along	We have a responsibility
	Environment	Rules cost us \$	Rules are OK, but ...	Obeys the rules	Environment comes first
	Employees	You can work elsewhere	Your suggestions are OK, but ...	We'll treat you fairly	Let's work together
	Health and safety	Look after yourself	Keep us out of trouble	Obeys the rules	H&S come first
	Customers	They can buy elsewhere	Your complaints are OK, but ...	We'll meet your needs	Let's both receive values
	Shareholders	They can withdraw support	Your concerns are OK, but ...	We'll protect your investment	Let's lead the industry / market
	Suppliers	They can sell elsewhere	Your terms are OK, but ...	We'll give you information	Let's form an alliance
	Others	They can do ... to us	Your ... are OK, but ...	We'll do ... for you	Let's do ... together

Figure 4.5 *Clarkson's RDAP scale*
Adapted from: Clarkson (1991:342; 1995:109).

¹ Comments similar to the latter ones could also so be made with respect to the other parts of Hopkins' operationalisation.

One of these categorisations, by Wilson (1975), has been refined in subsequent studies by Starik et al. (1989) and Clarkson (1991, 1995) and is used here to operationalise Carroll's continuum.

In Clarkson (1991, 1995), extending the work by Starik et al. (1989), Wilson's categories of responsiveness were converted into the RDAP scale (see figure 4.5). To be able to characterise a company's posture or strategy toward the management of stakeholder issues, several stakeholder groups and strategies were defined and added to the earlier scale. A second extension consists of the definition of four levels of performance that correspond to the four categories of responsiveness.

Although Clarkson's RDAP scale was intended to measure stakeholder satisfaction (i.e., corporate social performance), it can also be applied to determine a firm's level of responsiveness. In that way, it provides a useful starting point for developing instruments to assess the responsiveness of firms. It primarily requires a rating scheme and, if desirable, a way to aggregate scores. Furthermore, the scale needs to be validated.¹

4.5 Reflections on the concept of corporate social responsiveness (from a virtue and pragmatist ethical perspective)

Introduction

The concept of CSR₂, the second part of Wood's model, has been described as 'the capacity to respond to social pressure' and also as the 'action counterpart' to a principled approach that is shaped in social processes. It is worthwhile to reflect further on these different ways to approach responsiveness, since some tension may exist between them, as we will demonstrate.

CSR₂ as a capacity (virtue ethics)

When responsiveness is approached as a capacity, it is a property of a firm and it has much in common with a virtue as a property of a person. Virtues refer to the capacity and tendency to act in certain ways, e.g., courage or generosity. Such properties invite further specification. Just as one may distinguish and specify different degrees and types of courage, different degrees or types of responsiveness may be distinguished. This can be done in different ways, as the preceding sections in this chapter illustrated nicely. Carroll's approach is to distinguish degrees of responsiveness along the continuum from 'do nothing' to 'do much'. As figure 4.1 shows, this continuum is divided into discrete categories in different but similar ways by various authors.

In addition, it may also be possible to identify different elements of responsiveness, e.g., posture, performance, and stakeholder strategy as described by Clarkson. These elements can be combined with the categories just mentioned. The resulting typology can be visualised as a matrix (cf., figure 4.5).

¹ Clarkson's RDAP scale refers to responsiveness as a capacity; it does not reflect the processes as identified by Wood.

Wood's processes of environmental assessment, stakeholder management and issues management may be considered as another distinction of elements of responsiveness. However, as Hopkins' operationalisation of these elements or processes shows, this may be in conflict with a true process approach. Or is it better to say that Hopkins' indicators are not yet very effective in turning these elements of responsiveness into processes?

CSR₂ as a process (pragmatist ethics)

This brings us to the second approach to responsiveness: to see it as a process. The term responsiveness comes from response. In the corporate context, this invites associations of some kind of turmoil in the environment to which a firm responds in specific ways. So, the basic image is that something happens and that the firm responds. This image has a natural way to expand. The environment in its turn responds to the firm's response, and then it is the firm's turn again. The image becomes a movie in which the firm and its environment are co-evolving in constant interaction, adjustment, and adaptation. Because of this dynamic, relational, and evolutionary character, Wood (1991:704) rightly stated that '[r]esponsiveness is an ecological concept'.

A pragmatist approach to responsiveness focuses on process aspects and looks for ways to highlight and strengthen them. The background of this emphasis is that a pragmatist approach (to whatever issue) is always looking for ways to improve situations, solve problems, and make the world a better place. It urges one to use whatever may be useful, and not to choose tools *a priori* or on theoretical grounds. In other words, a pragmatist approach is deeply anti-foundational, rejecting absolute belief in distinctions and categories.

A pragmatist approach looks for seeds of amelioration, for opportunities to learn, grow, and improve. It will not see a firm's responsiveness as fixed. While a firm may respond to complaints from the environment in alarmed and defensive ways at first, it may reflect on this behaviour, learn from the events, and, after a while, come up with more open and proactive responses. From this perspective, Wood's remarks on the variability of response modes within a firm are important (see Wood (1991:707)). Differences of opinion are a fruitful basis for reflection and debate. The acknowledgement of variability within a firm may generate a search for ways to stimulate such reflection.

Value clarification (pragmatist ethics)

The search for tools and techniques to facilitate social processes is a typical element of a pragmatist approach. Value clarification is one such technique. Value clarification uses emotions, concerns, worries, hopes, aspirations, and the like as indicators of values to be clarified in processes of (structured, joint) reflection. Value clarification has been developed in an educational context, in order to stimulate school children to become more consciously aware of their values and the motivating and guiding importance of those values. The usefulness of the approach is not restricted to schools but can also be helpful to adults, or more specifically: employees in business organisations. Like children, adults (employees) have values; but, characteristically (and also like children), they are only partly aware of them.

The technique of value clarification could be an element of what Swanson (1999) called value attunement. She contrasts this ideal-type attitude with its opposite attitude: value neglect. A value neglecting corporate culture fails to acknowledge the omnipresence of values in all decision processes, while a value attuning corporate culture looks for ways to clarify values, expand, connect, and act upon them. Methods to clarify values, reflect upon dilemmas, learn from mistakes, and find ways to stimulate improved responsiveness are all possible elements of a process approach to responsiveness.

CSR₂ as a capacity versus CSR₂ as a process (virtue ethics versus pragmatist ethics)

The difference between approaching responsiveness as a capacity (a virtue approach) and approaching it as a process (a pragmatist approach) can now be summarised. A capacity approach tends to specify and categorise responsiveness, dividing it into types, degrees or elements. A process approach tends to emphasise methods to stimulate change and improvement. Inherent in this difference is a certain tension, because, in itself, a categorising approach is static rather than dynamic. While categorising is not inconsistent with an emphasis on process, it is not the most easy or inviting way to facilitate processes. Wood noticed this when she observed that Wilson's four types of responsiveness, intended to elucidate processes, are not themselves processes (see Wood (1991:703)). The preceding sections of this chapter notice it too, when the comment is made that Hopkins' approach is not yet very successful in operationalising processes.

4.6 Conclusion

Towards an analytical framework

The literature offers various interpretations of the concept of CSR₂. Some (e.g., Carroll, 1979; Frederick, 1978; cf., virtue ethics) argue that the concept refers to the capacity of a firm to respond to its environment. However, as it may be hard to determine a firm's latent or potential capacity to respond, they actually focus on the literal acts of responding. Others (e.g., Wood, 1991; cf., pragmatist ethics) point out that the concept of CSR₂ should be understood as a process or a set of processes. Although these interpretations are different, and may ultimately be irreconcilable, they share a focus on the way a firm approaches its environment. Therefore, for the purpose of this study, the general question in relation to the concept of CSR₂ is: How does the firm approach its environment? Or, formulated slightly different, what is the firm's attitude towards its environment?

Nevertheless, to answer the general question, and more important: as part of a thorough analysis of the social, environmental, and economic activities of a firm or chain, it is useful to return to the two different points of view and treat them as complementary. The first (capacity) perspective offers two interesting conceptual ideas that may be combined into an instructive scheme: Carroll's continuum and Wilson's categories of CSR₂. According to Carroll's continuum, a firm's approach to its environment may vary from 'do nothing' to 'do much'. Wilson's categories specify approaches that can be positioned between these

ends of Carroll's continuum: from reactive (close to 'do nothing') via defensive and accommodative to proactive (close to 'do much').

Regarding the second (process) perspective, Wood and pragmatist ethics provide some valuable insights. Wood conceptualised CSR₂ as consisting of three processes that are theoretically and pragmatically interlocked: environmental assessment, stakeholder management, and issues management. In addition, pragmatist ethics argues that a firm's responsiveness should not be considered as fixed, i.e., it varies over time. Extending this argument, it should be acknowledged that a firm's responsiveness might also vary for different issues (cf., Clarkson's RDAP scale in figure 4.5). Finally, pragmatist ethics introduces the technique of value clarification. The essence of this technique is that it uses emotions, concerns, worries, hopes, aspirations, and the like as indicators of values to be clarified in processes of (structured, joint) reflection. Hence, it clearly fits the process perspective and it might even be considered as a fourth process of CSR₂.

In sum, analysing the social, environmental, and economic activities of a firm or chain in the light of CSR₂ can be visualised as in figure 4.6.

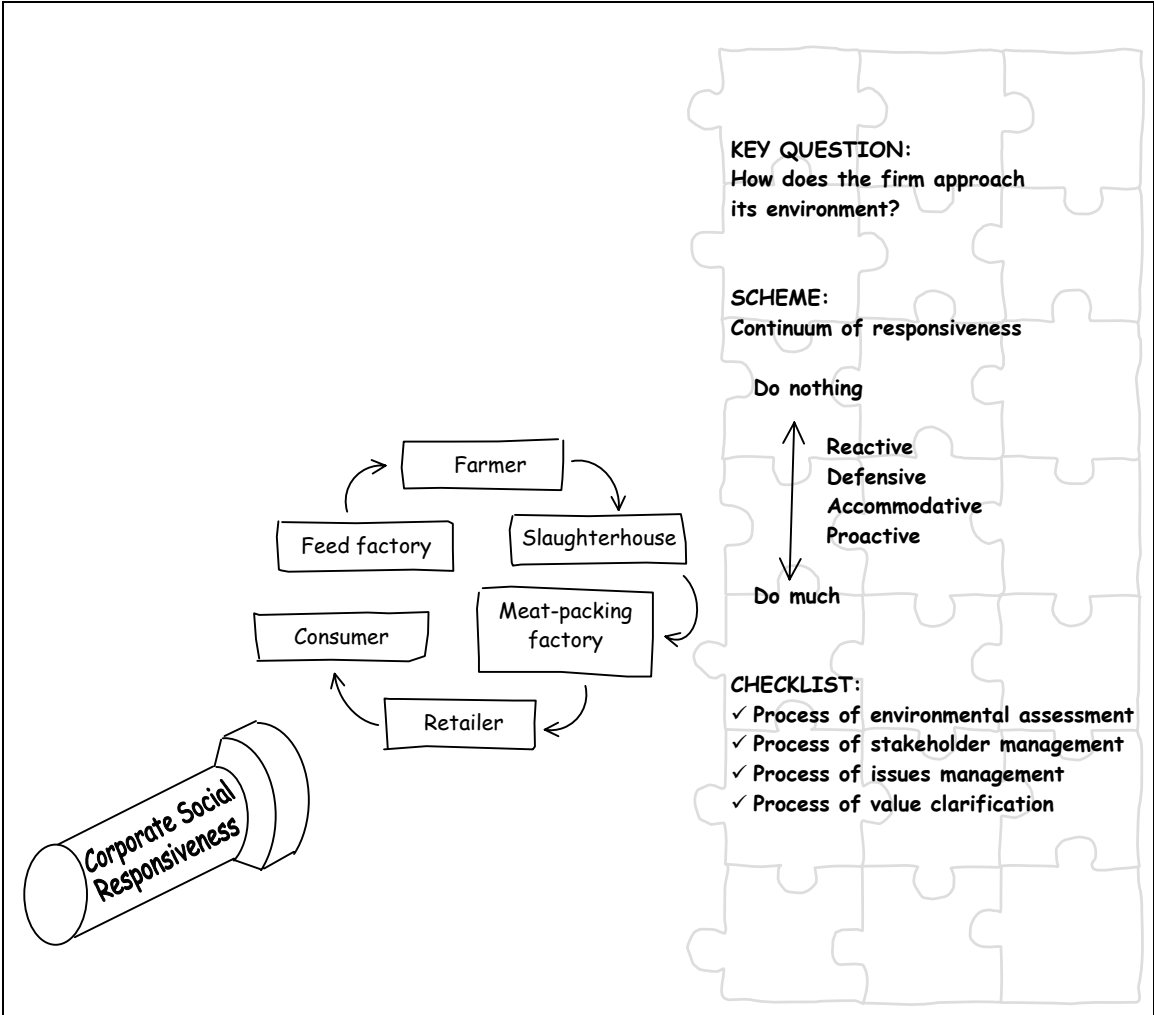


Figure 4.6 Analysing the social, environmental, and economic activities of a firm or chain in the light of CSR₂

Towards a measurement model

Although operationalisations of the concept of CSR₂ are sparse, Clarkson's RDAP scale offers a useful starting point. This scale defines Wilson's four categories of CSR₂ in terms of a firm's posture and stakeholder strategy. Furthermore, it defines four levels of performance corresponding to Wilson's categories. However, to be useful as an instrument for measuring or assessing a firm's responsiveness, it requires a rating scheme and, if desirable, a way to aggregate scores. Moreover, it needs to be validated.

5. Corporate social performance

5.1 Introduction

This chapter focuses on the third part of Wood's model: the concept of corporate social performance (CSP). Based on a review of the literature, section 5.2 describes this concept. First, it is argued that while all parts of Wood's model are supposed to shed a light on the social performance of the firm (CSP_{broad}), this is the only part that is really about performance (CSP_{narrow}). To further develop our understanding of the concept, two typologies are presented.

Section 5.3 illustrates the concept of CSP_{narrow} . For this purpose, once more the case of the pig sector is used; more in particular, the business plan as formulated by one of the farmers that signed the Wageningen Declaration. Subsequently, the fourth section introduces a number of operationalisations of the concept of CSP_{narrow} . It is explained that there have been many efforts to operationalise this concept. However, it is also explained that an optimal solution to this challenge does not yet exist.

In section 5.5, the consequentialist ethical perspective is adopted to reflect on the concept of CSP_{narrow} . An important point made is that choice is inevitable: attempts to be at once be comprehensive, objective, and universal most probably lead to the development of instruments that by their sheer overwhelmingness appear to miss the point. Finally, section 5.6 summarises the elements of the literature that are particularly important considering the objectives of this project.

5.2 Description of the concept of corporate social performance

CSP_{broad} versus CSP_{narrow}

In chapter 2, the concept of CSP_{broad} has been defined broadly as a business organisation's configuration of:

- principles of social responsibility;
- processes of social responsiveness;
- policies, programmes, and observable outcomes as they relate to the firm's societal relationships.

Wood (1991) argued that the third part is the only part that is actually observable and open to assessment (motivations can not be observed, and processes are observable only by interference). 'Arguably, this [part] is the only place in the model where any *real performance* exists' (Wood, 1991:711; emphasis added). Hence, more narrowly defined, CSP_{narrow} concerns a business organisation's observable outcomes as they relate to its societal relationships. This definition also reflects its intended meaning as stated by Preston (1988:xii;

in Clarkson, 1995:102): '[CSP] was intended to suggest a broad concern with the impact of business behavior on society. The concern is with ultimate outcomes or results, not simply with policies or intentions.'

Wood's outcomes of CSP_{narrow}

'Having acknowledged that everything a firm does has some impact on society and may thus be relevant to [CSP_{narrow}], a conceptual move can be made to the outcomes of actions the firm undertakes explicitly to manage its social impacts' (Wood, 1991:708-709). These outcomes can be divided into three types:

- the policies developed by the firm to handle social issues and stakeholder interests;
- the programmes it uses to implement responsibility and/or responsiveness;
- the impacts of its behaviour, regardless of the motivation for such behaviour or the process by which it occurs (Wood, 1991; see figure 5.1).

Policies:	
A statement on the way in which the firm has decided to deal with a situation concerning the firm in general or a certain issue in particular.	
Level of application:	Firm itself or specific issue.
Focus:	Any strategic decision taken by the firm.
Value:	Specify (a) a direction in which the firm wants to develop itself or (b) its point of view regarding a specific issue.
Programmes:	
The measures a firm takes to deal with a specific issue.	
Level of application:	Specific issue.
Focus:	Projects, tasks, assignments.
Value:	Specify efforts by the firm to realise a particular objective.
Impacts:	
The actual results of the firm's activities.	
Level of application:	External and internal environment.
Focus:	Social, environmental, and economic performance.
Value:	Specify the firm's effects on society (intended as well as unintended; positive as well as negative).

Figure 5.1 *Wood's outcomes of CSP_{narrow}*

Corporate social policies emerge to guide decision making in:

- areas where problems recur, effort should not be wasted on reflection and analysis in routine matters or unfortunate incidents;
- areas of great interest or importance to the firm, to effectively deal with threats and opportunities. As observed by Wood (1991:709):

'Speaking ideally, a comprehensive corporate social policy, fully institutionalized and operational, would be the logical final outcome of corporate behavior motivated by principles of responsibility and occurring through socially responsive processes. Speaking practically, corporate social policy has to do with the incorporation of social issues and impacts anywhere within the body of company policy, formal or informal, whether or not institutionalized or operational.'

Corporate social programmes are usually adopted by firms that seek to meet particular needs or ends through the investment of resources in some course of action perceived by the firm as socially desirable. Those programmes may be one-shot ventures (e.g., sponsoring the celebration of the 50th anniversary of a hockey club), longer term but still time-specific projects (e.g., organising a campaign to stimulate the consumption of fruit instead of candy), or institutionalised features of corporate structure and culture (e.g., an apprenticeship programme).

Finally, corporate social impacts, as suggested by Preston (see the quote above), concern the ultimate results of the firm's activities. These results may involve the social as well as the natural environment. For instance, the income the firm provides to its employees and the wastewater it dumps in the local river respectively. Furthermore, as also illustrated by these examples, the results may be positive as well as negative. Or more accurately, the results may be more or less positive or negative.

Steg et al.'s model of CSP_{narrow}

Recently, Steg et al. (2003) developed a model of CSP_{narrow}.¹ This model contains three dimensions:

- economic;
- social;
- environmental corporate performance (see figure 5.2).

Economic performance refers to profitability and growth in market value. Based on a review of several streams in the economic literature (i.e., neo-classical economics, management accounting, industrial organisation, the resource-based view, institutional economics, and macro-economics), four categories of principles that drive economic performance were identified:

- drivers of economic value added;
- drivers of economic performance;
- value chain performance;
- economic externalities.²

The social dimension focuses on sustainable relationships with stakeholders. Acknowledging that stakeholders may differ for different firms, Steg et al. argued that most firms are confronted with five (groups of) stakeholders:

¹ They prefer the term sustainable corporate performance because it also reflects the current trend of sustainable development; their model does however fit our notion of CSP_{narrow}.

² The connotation of the term principle here does not correspond to its meaning in chapter 3.

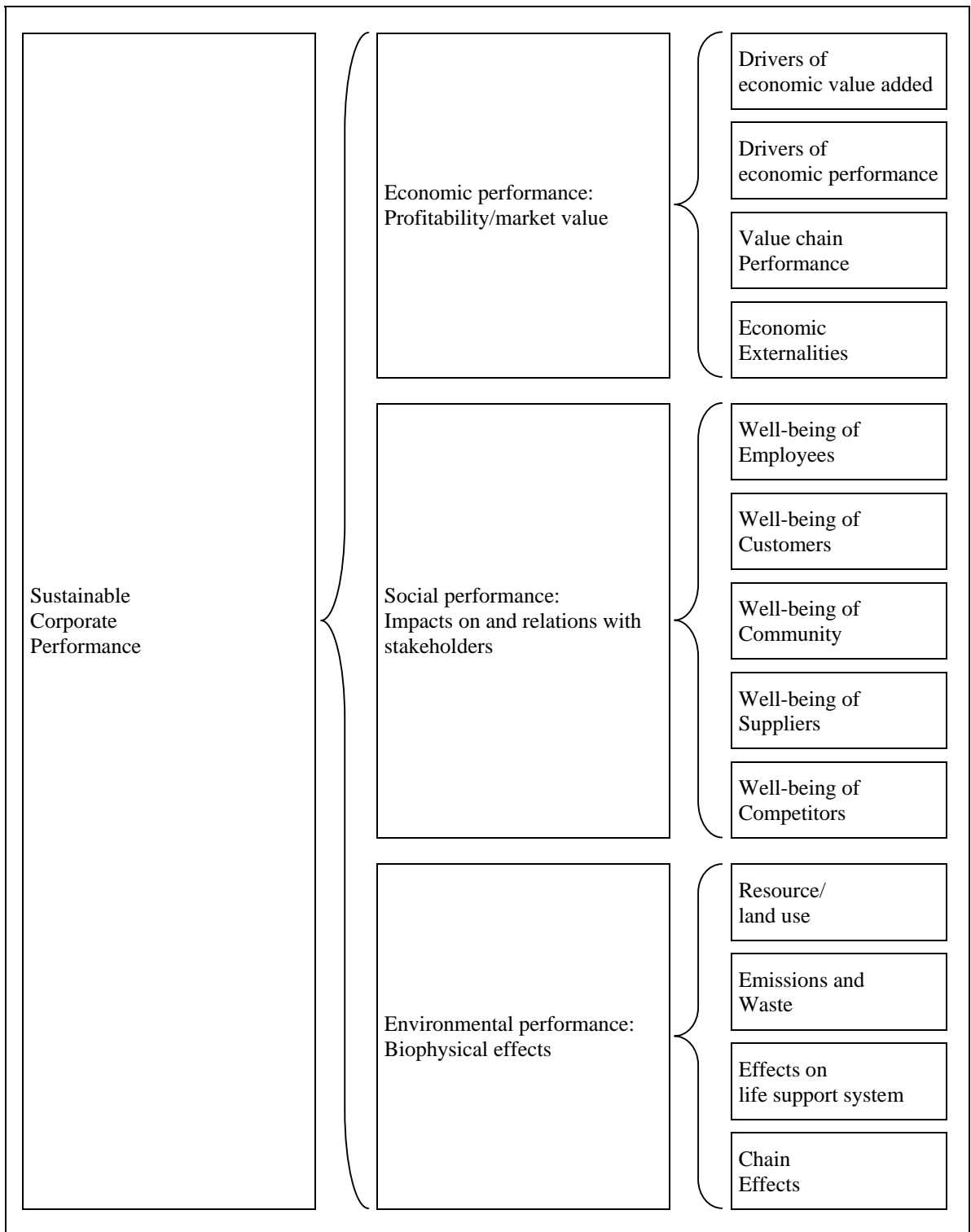


Figure 5.2 Steg et al.'s model of CSP_{narrow}
 Adapted from: Steg et al., (2003:26).

- employees;
- customers;
- the community in which the firm is located;
- suppliers;
- competitors.

In addition, based on relational signalling theory, they identified four principles that positively influence the sustainability of relationships (Steg et al., 2003:10-11):

'Direct relational signals convey the commitment to the relationship: (a) [communicate] open, honest, and respectful [...] ; (b) keep to agreed rules and promises; (c) show commitment to standards of fairness; [and] (d) encourage dialogue. Granted rights signal a stable commitment to aspects of the relationship that should not be negotiable [...] There are some general rights for all stakeholders, such as the right to observance of general and local norms of decency, the right of non-discrimination, and the right to issue a complaint and be heard. [...] Care refers to signals towards a dependent stakeholder. [...] On the short run, care is not necessary, but without it, longer-term cooperative relationships between unequal stakeholders cannot be sustained. [...] Finally, chain effects carry a large burden of sustainability. They require a firm to ask of its stakeholder's commitment to principles that allow sustainable cooperative relationships.'

The environmental dimension concerns the quantitative and qualitative effects of a firm's activities on the present and future environmental capital stocks and services. Environmental or natural capital is defined by Steg et al., (2003:11) as 'the stock of environmental assets (such as soil, water, wetlands, atmosphere, flora, and fauna) that provide a useful flow of renewable and non-renewable goods and services'. The activities of the firm may affect the three functions of natural capital:

- the source function that refers to the delivery of natural resources such as energy and materials to the economy;
- the sink function that refers to the possibility of disposing gaseous, fluid, and solid emissions and wastes in the environment;
- the life support function that refers to the variety of functions of the soil, the hydrosphere, and the atmosphere, essential for all forms of life. Moreover, if a firm seriously aims at a sustainable use of natural capital, it should not allow its partners (i.e., suppliers and customers) to affect it negatively.

The firm should consider the full environmental impacts of its products and services. This implies that not only direct effects of the firm's activities should be assessed but also the (indirect) effects in the whole chain of production and consumption related to its activities.

Problems associated with the conceptualisation of CSP_{narrow}

According to its definition, the concept of CSP_{narrow} refers to outcomes. More specifically, in our quote of Preston, CSP_{narrow} refers to ultimate outcomes. Unfortunately, though, the notion of outcome, and especially ultimate outcome, is problematic. How about increasing the emission of CO₂? What is the outcome? The increase of the emission of CO₂ by 15%? The increase of the global temperature (i.e., greenhouse effect)? Or, perhaps, the situation that people feel more comfortable due to the increased temperature? Probably, the specification of (ultimate) outcomes requires the articulation of an objective or perspective. In the light of a particular objective or perspective (e.g., reducing the greenhouse effect), the results that refer to that objective or perspective may be labelled outcomes (e.g., the increase of the global temperature); intermediate results (e.g., the emission of CO₂ by 15%) may be referred to as outputs (see, among others, Kerssens-Van Drongelen (1999) on the distinction between outputs and outcomes); and effects further down the causal chain (e.g., the perception of people regarding the climate change) may be considered irrelevant.

The example above also illustrates a second problem, or more neutral: issue. That is, is it possible to assess a firm's social performance objectively, or does it always involve human judgement (i.e., subjective elements)? In an attempt to answer this question, we first review three interpretations of the Dutch concept of 'Maatschappelijk Verantwoord Ondernemen' (MVO), a concept similar to CSP_{broad}. One interpretation, MVO type I, refers to *giving account* of one's entrepreneurial activities vis-à-vis society. Early empirical studies on CSP_{broad} (and its relationship with financial performance) applied a similar interpretation; they used disclosure as a proxy (e.g., Abbott and Monsen, 1979). More relevant however are the other two. Both refer to dealing carefully with the social and natural environments. The difference is that one interpretation, MVO type II, argues that the firm should operate within the boundaries as determined by nature (i.e., the carrying capacity of our planet is limited), while the other, MVO type III, argues that those boundaries are determined by human stakeholders (i.e., the firm can go on as long as it is socially acceptable). An assumption with the former interpretation is that reality can be known and natural limits can be objectively specified; it fits a positivist paradigm. An assumption with the latter interpretation is that reality cannot be known; everything is socially constructed. This fits a social constructivist paradigm. As argued by Kuhn (1962), it is not a matter of choice but a matter of belief or conviction which paradigm is adopted. As a consequence, in principle, questions such as the ones raised at the start of this paragraph cannot be answered. Adopting a more pragmatic perspective, though, it may be argued that there may be some relatively objective measures to assess and evaluate a firm's social performance; at the same time however there will almost inevitably remain issues that involve human judgement.

Accepting the pragmatic perspective and thereby accepting the involvement of human judgement in assessing and evaluating performance implies a third problematic issue: the issue of who takes the decisions. Who decides with regard to what aspects the firm is evaluated? Who determines the standards to which the firm's performance is compared? Who weights the various (sub)scores? Who ultimately assigns the designation 'good' or 'bad'? Will this be a matter of dominance by one party, or a matter of democratic decision-making? Of course, these issues are not solved conclusively here; they are merely raised.

5.3 Illustration of the concept of corporate social performance

Introduction

As indicated in the previous chapter, a number of pig farmers developed business plans as a starting point for a dialogue with society. In this way, they were contributing to regaining a license to produce for their companies and the sector in general. In this section, first, some elements of the business plan by pig farmer Daandels are presented (see Appendix 2 for the complete plan). In second part, the business plan is used to illustrate the concept of CSP_{narrow}.

Business plan by pig farmer Daandels

Figure 5.3 presents some elements of the business plan by pig farmer Daandels.

Illustration of Wood's outcomes and Steg et al.'s dimensions of CSP_{narrow}

Pig farmer Daandels' business plan is the outcome of the process as described in section 4.3. As such, it is an example of what Wood would call *policies*. It is a policy at the firm level. However, particular elements of the business plan may also be labelled policies. For instance: the future plans are policies (at the firm level); and the statement that animal welfare will be assured and incorporated in all business processes is also a policy (at the issue level). These plans and statements specify the choices made by pig farmer Daandels.

The part on participation in environmental and quality programmes clearly illustrates Wood's outcome category of *programmes*. Daandels participates in Dumeco's Good Farming *programme*. The objective of this *programme* is the production of meat that meets a set of additional requirements on animal diseases, residuals, research obligations, production conditions, and packaging. One of the specific measures taken to realise this objective is the introduction of a logbook in which, for instance, medicine purchases, independent checks, and visitors are registered.

The business plan also illustrates various *impacts*. First, the employment of four individuals is part of the *economic performance* or impact of Daandels' farm. Second, the planned relocation of one of the porker locations will reduce the travelling times for the employees, increase animal welfare levels, and solve the expansion problems of a village. These impacts all influence the *social performance* of the firm. Finally, the checklist shows that the phosphate production per sow is 1.6 kilogram below the standard. It also shows that there is a nitrogen surplus of 35,000 kilograms. These outcomes are part of the firm's *environmental performance*.

The business plan cannot only be used to clarify the outcomes and dimensions of CSP_{narrow}; it can also be used to exemplify some of the problems associated with the conceptualisation of CSP_{narrow}. One of the problems mentioned in the previous section concerns the difference between outputs and outcomes. It was stated that this difference depends upon the objective formulated. If the objective of the relocation is to comply with the Pig Act (Varkensbesluit), split widths of 20 millimetres or less may be called an out-

Farm

Family - My name is Eric Daandels. I was born in Veghel in 1966. I grew up as a twin in a family of five children in Heeswijk-Dinther. Heeswijk-Dinther is a village in a forested environment at about 15 kilometres southeast of 's Hertogenbosch in the province of North Brabant. Heeswijk-Dinther has about 8,000 inhabitants and is - together with the villages of Heesch, Loosbroek, Nistelrode, and Vorstenbosch - part of the large green rural municipality of Bernheze.

In 1986, after spending my youth at my parent's farm, I took up the challenge of running a specialised sow and porker farm in a partnership with my parents. Some years later, my only brother, Erwin, joined the partnership. At present, the farm includes 980 sows and 8,000 places for porkers. The sows are housed at two locations in Heeswijk-Dinther. At one of these locations also porkers are housed. The other porkers are housed at locations in Rosmalen, Maren-Kessel, Vinkel, and Mariaheide. In addition, the farm has 30 hectares in property. The farm also owns a separate transport company for all feed and animal transportation.

Labour - Except for my father, my brother, and myself, there are four full-time employees at our company. In addition to normal working meetings, there is an extensive meeting to discuss technical results monthly. There are clear agreements on responsibilities. Open communication motivates the employees and stimulates a collective effort to raising the company's performance. We also acknowledge the importance of a good work climate and a sector orientation beyond our company.

Welfare

Housing - The sows and piglets are housed at two locations. Half of the number of sows is still housed individually but meets the Pig Act (Varkensbesluit) until 2008. The other sows live in groups (as required by law starting in 2008). They are housed in little stable groups of 14 sows. At one location, 1,500 weaning piglets are housed in groups of 10 piglets per 0.3-squared meter. At the other location, piglets (after weaning) live at synthetic grids in large stable groups of 100 to 120 pieces. At both locations, there is sufficient distraction; there is also sufficient light and water.

The porkers are located at sustainable synthetic pig house systems that can be cleaned easily. These systems have rounded under floor heating and 'toilet' facilities at the back. In addition, there is sewerage to rapidly flush manure from under the section.

Feed

Welfare aspects - We feed using the vario-mix: this is a system in which it is possible to unlimitedly provide sows with dry feed. The system is characterised by the adjustable timing of little portions. The sows have ear responders. The dry feed is welfare friendly with a minimum of 14 percent rough cell materials. In addition, to reduce stereotypical behaviour, roughage is provided in the form of corncob maize. There is sufficient light: natural as well as strip light. The animals have fresh water the whole day.

Market

Participation in environmental and quality programs - The company is supplier of bacon to the English market. Quality is assured by a controlled production process - under the Good Farming label of slaughterhouse Dumeco. The way in which we assure quality and safety is documented in a manual *Conditions Good Farming*. Checks are carried out by an independent control agency. The company receives a report on every check. This is noted in the logbook.

The company fully operates as part of a chain organisation. All activities concerning the company are documented extensively. Each part of the chain is checked regularly. The production conditions are adapted to the market and by means of described processes assured and incorporated in the chain organisation. Dumeco organises regular meetings with national and international retail organisations. Based on argumentation, this leads to mutual understanding and support. As a consequence, market changes and consumer needs can be incorporated in the chain organisation as soon as possible. In addition, we are participating in manure processing initiatives.

Figure 5.3 *Business plan by pig farmer Daandels*
Translated from: Backus and Van der Schans (2000a).

Future plans

Time path - In the future, the company is characterised by a sustainable and economically viable mode of operation. The business processes are fully described, assured, and traceable. The company focuses exclusively on a niche market such as bacon production and thereby complies with the societal demands of producing responsible and sustainable. Animal welfare is assured and incorporated in all business processes. The company is open-minded with change provided that it is economically feasible. Furthermore, the company fits well in its surroundings. Therefore, the following issues are important:

- to achieve the above mentioned, the further realisation of animal welfare remains part of our investment plans;
- to achieve a sector-wide understanding, realisation of permanent consultation structures with (among other things) social organisations is a prerequisite;
- to cut costs, the coordination of business processes needs to be improved further;
- with regard to energy saving measures and the mineral issue, additional investments are required.

The first step towards 'the company of the future' is the realisation of a new building for 2,500 animals with one squared meter per animal. This building is built sustainable and has cool deck and concrete grids. One of the porker locations will be moved to another location. We already have the permits. The advantages are:

- one location less;
- 2,500 porkers comply with the welfare requirements of 2008;
- less transportation, reduced chance of spreading animal diseases, and reduced travelling times for the employees;
- solution for the problem involving the expansion of the village.

Checklist

	Positive	Value	Negative
ENVIRONMENT			
MANURE phosphate production per sow, Miar basis (standard 14.2 kg P ₂ O ₅)	Lower	12.6 kg	
Phosphate per porker, Miar basis (standard 5.2 kg P ₂ O ₅)		5.4 kg	Higher
Percentage sustainable disposal in 1999, own land, contracts 1 year minimum	Yes	100 %	
Based on Minas: What is phosphate surplus/shortage at your company		25,000 kg	Surplus
Nitrogen production per sow, Miar basis (standard 34.8 kg N)	Lower	30.9 kg	
Nitrogen production per porker, Miar basis (standard 13.5 kg N)		14.0 kg	Higher
Based on Minas: What is nitrogen surplus/shortage at your company		35,000 kg	Surplus
Percentage of manure that is treated and/or processed		0 %	No
Does this include de-nitrification		n.a.	
NH ₃ green label systems	Yes		
Valid environmental permit	Yes		
Feed waste (by-)products from industry	Yes		

Eric Daandels,
October 1999

Figure 5.3 Continued

Translated from: Backus and Van der Schans (2000a).

come. If, however, the objective is to increase the level of animal welfare, split widths of 20 millimetres or less is an output and the reduced frequency of injuries may be referred to as an outcome.¹

The example of animal welfare also illustrates the discussion on objectivism versus subjectivism. An objective approach to animal welfare would try to measure (technically) whether a pig is experiencing pain, stress, hunger, et cetera. Possibly, this leads to a specification of conditions under which pigs ought to be kept. A subjective approach may also lead to a specification of conditions. However, these conditions will be based on what people think that pigs perceive as comfortable. For instance, once more take the issue of split width: injuries due to broad splits may be considered a cause of pain and thereby decrease the level of animal welfare, while in fact the pigs may hardly feel these pains and therefore perceive no impact on their welfare.² In this situation, the subjective approach would lead to a specification of a maximum split width, while the objective approach would not.³

5.4 Operationalisation of the concept of corporate social performance

Introduction

In the cases of the concepts of CSR₁ and CSR₂, there is relatively much theory and just a few operationalisations. Regarding the concept of CSP_{narrow}, things are the other way around: little theory, many operationalisations. In this section, a limited number of these operationalisations are discussed. First, Hopkins' (1997) indicators with respect to the third part of Wood's model are listed. Second, the intermediate results of the operationalisation of Steg et al.'s (2003) model are presented. Subsequently, some other operationalisations are described: Clarkson's (1991, 1995) stakeholder framework, the Stakeholder Satisfaction Index (SSI), Kinder, Lydenberg, Domini, & Co.'s (KLD's; 2003) Socrates database, and the sustainability reporting guidelines by the Global Reporting Initiative (GRI; 2002b) respectively.

Hopkins' operationalisation of Wood's outcomes of CSP_{narrow}

As mentioned before, Hopkins (1997) developed a set of indicators for each part of Wood's model. Figure 5.4 shows a sample of the (sub)set of indicators for the third part: the outcomes of CSP_{narrow} (see Appendix 3 for the full list of indicators).

¹ The next paragraph shows that even after specifying the objective, qualifying something as output or outcome may be problematic.

² It is not argued here that broad splits do cause injuries, nor is it argued that injuries do not hurt.

³ It is not intended here to argue that the standards on split widths as specified in the Pig Act are subjective; it is only argued that a subjective approach may lead to the specification of certain condition while the objective approach would not, and vice versa.

Stakeholder group		Indicator	Measure
Internal stakeholders	Owners	Profitability/value	Share value? Return on investment?
		Corporate irresponsibility of illegal activity	Fines? Number of product recalls? Pollution performance measured against some industry standard?
External stakeholders	Customers/ Consumers	Product recalls	Evidence of application to products or services?
		Litigation	Absolute number? Seriousness demonstrated by litigation or fines? Percentage of total production?
	Natural Environment	Toxic waste	Performance against index? Litigation? Fines?

Figure 5.4 Sample of Hopkins' indicators with respect to Wood's outcomes of CSP_{narrow}
Adapted from: Hopkins (1997:600-601).

This sample clearly illustrates that Hopkins did not use Wood's distinction of policies, programmes, and impacts. Instead, he used a number of stakeholder groups to organise his list of indicators (see sections 3.4 and 4.4 for other observations regarding Hopkins' operationalisation of Wood's model).

Steg et al.'s operationalisation of their model of CSP_{narrow}

Steg et al. (2003) took some steps towards operationalising their model. To identify performance variables, they reviewed the professional literature on sustainable development in the economic, management, social, and environmental sciences. Then they interviewed about 40 representatives of relevant stakeholder groups and finally they discussed their modelling approach among some 50 scientists at an international working conference. Figure 5.5 displays a sample of the results of these steps (Appendix 4 contains the full results).

Economic performance: Profitability and growth in market value	Social performance: Impacts on and relations with stakeholders	Environmental performance: Global environmental effects
<ul style="list-style-type: none"> - Economic market value - Economic value added drivers <ul style="list-style-type: none"> - Value - Value growth - Sales (growth) - Operational margin - Net tax advantages - Working capital - Investment in fixed assets - Costs of capital - Economic performance drivers <ul style="list-style-type: none"> - External positioning <ul style="list-style-type: none"> - Market forces - Competitive forces - Environmental forces - Value chain performance <ul style="list-style-type: none"> - Net cost reductions - Net market access - Net access to technological expertise - Net reduction in business risks - Economic externalities <ul style="list-style-type: none"> - Negative externalities <ul style="list-style-type: none"> - Economic instability - Unemployment - Economic decline - Income deterioration - Divestments 	<ul style="list-style-type: none"> - Employee satisfaction <ul style="list-style-type: none"> - Good relations <ul style="list-style-type: none"> - Open communication - Keeping to agreed rules and promises - Commitment to standards of fairness - Encouraging employee participation - Customer satisfaction <ul style="list-style-type: none"> - Care for well-being of customers <ul style="list-style-type: none"> - Ensuring health and safety - Community satisfaction <ul style="list-style-type: none"> - Commitment to basic rights <ul style="list-style-type: none"> - Observance of norms of decency - Observance of norms against bribery and corruption - Supplier satisfaction <ul style="list-style-type: none"> - Commitment to chain effects <ul style="list-style-type: none"> - Expecting own principles on relations, rights, and cares also from suppliers - Competitors satisfaction <ul style="list-style-type: none"> - Good relations <ul style="list-style-type: none"> - Commitment to standards of fairness 	<ul style="list-style-type: none"> - Sustainable use of scarce resources <ul style="list-style-type: none"> - Increase share of renewable resources <ul style="list-style-type: none"> - Increase share of renewable energy - Increase share of renewable substances and materials - Increase share of renewable water (rain water) - Reduce generation of emissions and waste <ul style="list-style-type: none"> - Reduce generation of final waste - Reduce negative effects on life support system <ul style="list-style-type: none"> - Decrease use of toxic and persistent substances - Commitment to chain effects <ul style="list-style-type: none"> - Informing customers about (ways to reduce) environmental impacts of products and services - Informing customers about environmental impacts of products and services - Advising customers on ways to use products and services in an environmentally friendly way

Figure 5.5 Sample of Steg et al.'s operationalisation of their model of CSP_{narrow}
Adapted from: Steg et al. (2003:23-25).

As illustrated by figure 5.5, Steg et al.'s modelling approach can be characterised as hierarchical modelling. They argued that (Steg et al., 2003:12):

'For an orderly picture of the many issues and variables involved, a hierarchical multi-attribute modelling and assessment of [CSP_{narrow}] is necessary. This implies that via theoretically-based relative importance-weightings, specific and concrete performance indicators are summarised into a limited set of rather broad and abstract variables [...] Using an hierarchical [CSP_{narrow}] model, one may, on the one hand, fo-

cus on a limited set of key summary measures. On the other hand, considering the deeper and more specific set of performance indicators enables one to specify in which respect a given summary is 'good' or 'bad' and how performance might be improved. Abstraction may be parsimonious (offering 'a quick glance'), but vague ('what exactly does this mean?'). In contrast, specification may irritate for its proliferation ('where does this end?'), but it may be applauded for the precision it offers. How far one goes forward or retreats along the abstraction-specification dimension should depend on one's preferred functional use of the model.'

Another interesting feature of Steg et al.'s approach concerns their way of weighting and aggregating. To calculate a firm's performance on aggregate higher-level aspects, they compute a weighted mean score of the relevant underlying (more specific) aspects that are being measured. Weights are allocated to each underlying performance aspect as well as to a number of evaluation criteria:

- principles commitments;
- policy integration;
- organisational learning.

These criteria refer to the following questions respectively: Does the firm stand for principles that maximise sustainability in social, environmental, and economic performance? Are those principles systematically translated into and integrated with practices, which in turn yield monitored outcomes? Are established procedures available that systematically improve principles and policy integration on the basis of monitored outcomes, i.e., does the firm monitor effectiveness, learn, and adapt? So, the entire process hinges on being committed to the right principles.

Now we know to which aspects and criteria the weights are allocated, we turn to the assignment of weights. In Steg et al.'s approach, the weights are assigned by experts. These experts base their opinion on:

- theory-driven notions on what a firm should do to ensure longer-term survival;
- data from stakeholder interviews.

An alternative would be to have various groups in society assign their own weights, driven by their specific interests. However, Steg et al., argued that although this may reveal important insight to the firm, the resulting weights do not necessarily overlap with long-term business interests.

Clarkson's stakeholder framework for evaluating CSP_{narrow}

Where Steg et al. limit the influence of stakeholders in the assessment and evaluation of CSP_{narrow}, Clarkson (1991, 1995) does the exact opposite. Based on a 10-year research programme, he proposed that, from a management perspective, '[CSP_{narrow}] can be analyzed and evaluated more effectively by using a framework based on the management of a corporation's relationships with its stakeholders than by using models and methodologies based on concepts concerning corporate social responsibilities and responsiveness' (Clarkson, 1995:92). He found that managers do understand the meaning of obligations and responsi-

bilities, but only, or primarily, in the context of their relationships with employees, customers, shareholders, and other important constituencies. They recognise that they are accountable for the results of their decisions regarding issues that are of concern to groups of stakeholders. Put differently, unlike concepts and models of social responsibilities and responsiveness, managers do not find it difficult to understand the concepts and models of stakeholder management. Proceeding from this conclusion, Clarkson developed an inventory of representative stakeholder issues from the data contained in his field studies. A sample of this inventory is shown in figure 5.6 (see Appendix 5 for a list of all issues).

Stakeholders	Stakeholder issues
1 Company	1.1 Company history
	1.6 Mission or purpose
	1.7 Corporate codes
	1.8 Stakeholder and social issues management systems
2 Employees	2.1 General policy
	2.6 Employee assistance programme
	2.7 Health promotion
	2.8 Absenteeism and turnover
	2.14 Employment equity and discrimination
	2.16 Day care and family accommodation
3 Shareholders	3.1 General policy
	3.2 Shareholder communications and complaints
	3.3 Shareholder advocacy
	3.5 Other shareholder issues
4 Customers	4.1 General policy
	4.2 Customer communications
	4.3 Product safety
5 Suppliers	5.1 General policy
	5.2 Relative power
	5.3 Other supplier issues
6 Public stakeholders	6.1 Public health, safety, and protection
	6.2 Conservation of energy and materials
	6.5 Public policy involvement
	6.7 Social investment and donations

Figure 5.6 Sample of Clarkson's inventory of representative stakeholder issues
Adapted from: Clarkson (1995:101-102).

An advantage of this inventory is that it is based on extensive empirical research. Furthermore, to facilitate data collection and comparisons, Clarkson (1991, 1995) developed an entry and coding scheme. This scheme is illustrated in figure 5.7 (Appendix 5 contains the full scheme). Unfortunately, the collection and analysis of data using this scheme seems to be an enormous effort.

Stakeholders	Stakeholder issues	Description and performance data
1. Company	1.7 Corporate codes	1.7.1 Description Codes of ethics, conduct, or practice; statement of values, principles, and ground rules. Programmes or processes for communicating both inside and outside the company. Provision for discussion of ethical issues, codes, and values in the employee introduction and training process. Systems of compliance. Linkages with planning, operations, performance assessment, and compensation.
		1.7.2 Performance data Evidence of compliance. Evidence of linkages with planning, operations, performance, assessment, and compensation (e.g., data on incidents, frequency of training, numbers of employees seeking guidance on ethical issues). Consistency of operational decisions with the stated corporate values, policies, and codes.
2. Employees	2.16 Day-care and family accommodation	2.16.1 Description Provision for day-care and other responses to accommodate family needs.
		2.16.2 Performance data Utilisation rates, data from employee satisfaction surveys, commitment to funding programmes.
6. Public stakeholders	6.2 Conservation of energy and materials	6.2.1 Description Policies, objectives, and programmes including employee training and assessment. Auditing process. Adoption of reject-reduce-reuse-recycle hierarchy for energy and material use and waste management, and commitment to treatment before disposal for hazardous wastes. Extension of policies to suppliers, distributors, and customers.
		6.2.2 Performance data Data on quantity of materials saved, changes in consumption, reduction in wastes produced, etc. Comparison with performance of competitors. Related R&D expenditures.

Figure 5.7 Sample of stakeholder issues from Clarkson's entry and coding scheme
Adapted from: Clarkson (1991:353-358).

Another comment on Clarkson's approach is that it remains unclear how the *performance* of the firm is scored. He suggested using the RDAP scale for this purpose. However, as argued in the previous chapter, the RDAP scale actually refers to the firm's *responsiveness*. Moreover, Clarkson (1995:111) suggested that "stakeholder satisfaction" be used as a common measure [of CSP_{narrow}]¹. In the next paragraph, such a measure is introduced.

The Stakeholder Satisfaction Index

Clarkson (1995) argued that managers are primarily interested in results and performance. In relation to CSP, they are specifically interested in their performance in managing their

relationships with the firm's stakeholders. An effective way of evaluating this performance is a measure of stakeholder satisfaction. For this purpose, the SSI was developed.¹

The SSI is based on a number of assumptions. First, the interests most relevant to the firm are those of stakeholders, not those of society. This assumption is grounded in Clarkson's (1995) assertion that stakeholder issues are more relevant to the firm than social issues.² Second, firms need to deal carefully with stakeholder interests; if they do not, those stakeholders will turn against them. This assumption is based on Davis' (1973) Iron Law of Responsibility (see section 3.2 for a discussion of this Law). Third, to some extent stakeholders are willing to accept negative impacts of a firm. That is, they will not immediately turn against the firm when they are confronted with annoyances caused by it. Although this assumption is not tested empirically, it seems to be a fair one. Finally, certain negative impacts of a firm are accepted by stakeholders when there are also certain positive impacts, and vice versa. That is, positive impacts compensate for negative ones (and vice versa). Like the third assumption, this assumption is not tested empirically; yet, it seems to be realistic.

Based on these assumptions, the steps described in figure 5.8 lead to a score representing the stakeholders' satisfaction with the corporate social behaviour of the firm. An advantage of this approach is that changes over time in the importance of certain issues can be dealt with within the approach (i.e., the same stepwise approach can be used and the differences will be identified and accounted for more or less automatically). Moreover, scores of different firms in different industries can be compared. For instance, if consumers of apples and consumers of pears both rate the extent to which they are satisfied with their fruit of choice, the ratings for apples and pears may be compared and based on those rating, it may be argued that apples are preferred over pears (or more successful in fulfilling consumer's needs) or vice versa. Likewise, firms within or among different industries may be compared regarding their (narrow) corporate social performance.

A disadvantage of the SSI and the stepwise approach for determining it is that they, like Clarkson's approach, probably require extensive data collection. Another disadvantage is that they have not been empirically tested. This disadvantage does certainly not apply to KLD's Socrates database.

¹ This index is developed within the context of this study; however, the development of the index was inspired by ideas of Clarkson (1995).

² It is beyond our scope here to explain this point in much detail; see Clarkson (1995) for an explanation.

Step	Description
1 Identification of stakeholders	The firm's relevant (groups of) stakeholders are determined.
2 Identification of interests of various stakeholders	The (groups of) stakeholders are asked to indicate their interests regarding the firm. To identify these interests, Maslow's (1954) hierarchy of needs, Carroll's (1979) categories of responsibility, and/or Elkington's (1997) triple bottom line may be helpful.
<i>Note: The result of the first two steps should be (a) a list of stakeholder groups that are homogeneous regarding their interests and (b) a list of each group's interests.</i>	
3 Assessment of extent of satisfaction per stakeholder/interest-combination	Per stakeholder/interest-combination, the (groups of) stakeholders are asked to rate the extent to which they are satisfied with the firm's policies, programmes, and outcomes regarding the interest concerned.
4 Assessment of relative weight per stakeholder/interest-combination	The (groups of) stakeholders are asked to rate the relative importance of their interests. To determine these ratings, several techniques may be helpful such as pair-wise comparisons, conjoint analysis, and indifference curves.
<i>Note: Steps 3 and 4 may be taken in reverse order.</i>	
5 Calculation of total score per stakeholder (group)	The total score for each stakeholder (group) can be calculated using the following formula: $TS_i = \sum (S_{ij} * W_{ij})$ with: - TS_i : total score for stakeholder (group) i (from 1 to n); - S_{ij} : score for interest j (from 1 to m_i) of stakeholder (group) i; - W_{ij} : weight of interest j (from 1 to m_i) of stakeholder (group) i.
6 Calculation of the Stakeholder Satisfaction Index	The Stakeholder Satisfaction Index can be calculated using the following formula: $SSI = \sum TS_i / n$ with: - SSI: Stakeholder Satisfaction Index; - TS_i : total score for stakeholder (group) i (from 1 to n).
<i>Note: If desirable, weights may be assigned to the different (groups of) stakeholders.</i>	

Figure 5.8 A stepwise approach for determining the SSI

KLD's Socrates database

The core purpose of KLD (2004) is:

- to analyse data and distribute information on publicly traded companies;
- to influence corporate behaviour toward a more just and sustainable world.

One of KLD's activities concerns the development and maintenance of the Socrates database. For over 650 American firms, including every company on the Standard & Poor's 500 and the Domini 400 Social Index, this database contains information on attributes of CSP such as community, diversity, employee relations, and environment. Based on information from questionnaires, annual reports, newspapers, et cetera, KLD's staff reports on

Attributes	Strengths	Concerns
Community	+ Generous giving	- Investment controversies
	+ Innovative giving	- Indigenous peoples relations
Corporate govern- ance	+ Limited compensation	- High compensation
	+ Ownership strength	- Tax disputes
Diversity	+ CEO	- Controversies
	+ Promotion	- Non-representation
Employee relations	+ Union relations	- Union relations
	+ Cash profit sharing	- Safety controversies
Environment	+ Beneficial products	- Hazardous waste
	+ Pollution prevention	- Regulatory problems
Human rights	+ Indigenous peoples relations strength	- Burma concern
	+ Labour rights strength	- Labour rights concern
Product	+ Quality	- Product safety
	+ R&D/innovation	- Marketing/contracting contro- versy
Abortion		- Manufacturers - Ownership and operation of acute care facilities
Adult entertain- ment		- Producers - Ownership and operators
Alcohol		- Manufacturers - Retailers
Contraceptives		- Manufacturers - Ownership of a contraceptive company
Firearms		- Manufacturers
Gambling		- Owners and operators
Military		- Manufacturers of weapons and weapon systems
Nuclear power		- Ownership of nuclear power plants
Tobacco		- Manufacturers

Figure 5.9 Data structure of KLD's Socrates database (note that this figure does not include all strengths and concerns)

Adapted from: KLD (2003).

the firm's strengths and weaknesses regarding each of the attributes (see figure 5.9 for the structure of the Socrates database and Appendix 6 for a description of all strengths and concerns). In addition, each attribute is evaluated as 'major strength', 'strength', 'neutral', 'concern', or 'major concern'.

Recently, this database has been used in several scientific studies (e.g., Waddock and Graves, 1997; Berman et al., 1999; Hillman and Keim, 2001) to measure a firm's CSP_{narrow}. Usually, for this purpose, KLD's evaluations in terms of strengths and concerns are converted into scores from +2 to -2. Subsequently, whether or not using weights, a total score is calculated.

GRI's sustainability reporting guidelines

GRI is a relatively new independent, international institution that is affiliated with the United Nations through its status as a Collaborating Centre of the United Nations Environment Programme. Its mission is to develop, promote, and disseminate globally applicable sustainability reporting guidelines (GRI, 2002a). These Guidelines recommend that five sections appear in a sustainability report (GRI, 2002a:7):

1. **Vision and Strategy:** A statement from the Chief Executive Officer and discussion of the reporting organisation's sustainability strategy;
2. **Profile:** An overview of the reporter's organisation, operations, stakeholders, and the scope of the report;
3. **Governance Structure and Management Systems:** A description of the reporter's organisational structure, policies, management systems, and stakeholder engagement efforts;
4. **GRI Content Index:** A cross-referenced table that identifies the location of specified information to allow users to clearly understand the degree to which the reporting organisation has covered the content in the *GRI Guidelines*;
5. **Performance Indicators:** Measures of performance of the reporting organisation divided into economic, environmental, and social performance indicators.

The fifth section is considered to be the core of a sustainability report. In this section, the performance indicators are grouped under three (sub)sections covering the social, environmental, and economic dimensions of CSP_{narrow} (see figure 5.10 for a sample; Appendix 7 contains a full list of indicators as well as a more detailed description of the other parts of a sustainability report as suggested by GRI). In each area, GRI distinguishes core from additional indicators. The additional indicators can, at the discretion of the reporter, be used to enrich a report.

An interesting feature of the GRI Guidelines concerns the process in which in they are prepared. Numerous parties, business and non-business; Western and non-Western, were involved in preparing a first draft version. This draft was published on the Internet and everyone was invited to comment on them. Eventually, in 2000, the first version of the Guidelines was presented. Using the 2000 Guidelines as a base, a similar procedure was followed to prepare the 2002 Guidelines. Again, all kinds of organisations over the whole world were involved.

In the Dutch food sector, Nutreco (2003) used the Guidelines to prepare their 2002 annual report. Worldwide, they are applied by over 400 organisations (GRI, 2004), primarily business but also non-business organisations. This number is increasing rapidly. Hence, the GRI Guidelines have proven their value in practice.

Category	Aspect	Core indicator	Additional indicator
Direct economic impacts	Suppliers	EC3. Cost of all goods, materials, and services purchased (monetary flow indicator).	EC11. Supplier breakdown by organisation and country. List all suppliers from which purchases in the reporting period represent 10% or more of total purchases in that period. Also identify all countries where total purchasing represents 5% or more of GDP.
Indirect economic impacts			EC13. The organisation's indirect economic impacts. Identify major externalities associated with the reporting organisation's products and services.
Environmental impacts	Emissions, effluents, and waste	EN13. Significant spills of chemicals, oils, and fuels in terms of total number and total volume. Significance is defined in terms of both the size of the spill and impact on the surrounding environment.	
Labour practices and decent work	Employment	LA2. Net employment creation and average turnover segmented by region/country.	
Human rights	Disciplinary practices		HR9. Description of appeal practices, including, but not limited to, human rights issues. Describe the representation and appeals process.
Society	Political contributions	SO3. Description of policy, procedures/management systems, and compliance mechanisms for managing political lobbying and contributions.	SO5. Amount of money paid to political parties and institutions whose prime function is to fund political parties or their candidates.
Product Responsibility	Advertising		PR10. Number and types of breaches of advertising and marketing regulations.

Figure 5.10 Sample of GRI's sustainability reporting guidelines
Adapted from: GRI (2002b: 47-55).

Conclusion

From the three parts of Wood's model, the last, CSP_{narrow}, is probably the one that received most attention in empirical studies. However, although there seems to be consensus that the stakeholder perspective provides a useful starting point for the operationalisation of CSP_{narrow}, there is still no universal measure. Recently, KLD's Socrates database has been used in several studies. However, the availability of data may be a more important reason for using it than the superiority of the operationalisation. For the purposes of this study, each of the operationalisations discussed shares the disadvantage that a lot of time and energy needs to be invested to collect relevant data. Therefore, the challenge for future research is primarily to develop more efficient, with respect to data collection, measures of CSP_{narrow}. A fruitful way of dealing with this challenge may be to combine some of the measures discussed. For instance, if Clarkson's lists of stakeholders and stakeholder issues are used, the first two steps of determining the Stakeholder Satisfaction Index may be eliminated. Furthermore, using available (more objective) information on some of the issues (interests) may reduce the data collection effort. This may imply, however, that the Index is less on performance as evaluated by stakeholders (i.e., MVO type III), and more on performance regarding a set of objective criteria (i.e., MVO type II). Whether this is desirable or not could (also) be the subject of future research.

5.5 Reflections on the concept of corporate social performance (from a consequentialist ethical perspective)

Introduction

The third part of Wood's model concerns outcomes. For evaluators of CSP_{narrow}, this approach proves to be very attractive. It is the only part that is actually observable and open to assessment, as Wood (1991) herself noticed. Clarkson (1995:105) especially is very outspoken in his preference for outcomes: 'Performance is what counts. Performance can be measured and evaluated.'

This third part fits with a consequentialist ethical perspective, which evaluates the moral value of choices and behaviour in view of their consequences. According to a consequentialist approach, a course of action is morally right when the overall beneficial consequences outweigh the negative ones.

Happiness as ultimate criterion

In the original utilitarian version of consequentialism the ultimate goal was summarised as 'the greatest happiness for the greatest number'. While this has proven to be too blunt and one-sided, taken literally, it would justify murder in order to achieve sufficient quantities of happiness for a sufficient amount of others, it is still a good indication of the line of thought in consequentialist ethics.

In many respects this is a very practical and sensible approach, reminding us that motives and good intentions in themselves do not change the world. However, it is not a

mechanical device and not a panacea. In the first place, it does not require much thought to realise that consequences, since they are elements of the future, can never be known in advance. Therefore, some element of uncertainty will always be part of any decision.

In addition, any immediate consequence of an action will have further effects itself, and the question quickly arises where to draw the line. For example, Wood (1991) noticed that the existence of a social programme, which in itself is good as a social performance, does not guarantee that its downstream effects will all be socially desirable.

Further, what exactly counts as beneficial and what as harmful is open to very basic difficulties and differences of opinion. For example, do we include environmental consequences of corporate behaviour, and if so, how? Do only consequences for humans count or should animal happiness equally be a moral goal? And are some kinds of happiness higher or better than others?

Inevitability of choice

Clearly, when it comes to the question of which outcomes are the most relevant ones to be measured and compared, it soon becomes apparent that the possibilities are boundless and that choice is unavoidable. Since not all criteria can be satisfied at the same time, the search for the one and only objectively best set of criteria seems to be doomed in advance. For example, in making inventories of relevant outcomes, completeness and practicality are inherently in tension.

One possibility is to go for completeness and measure just anything that meets the eye. The long inventories of possible outcomes that are shown in the previous section seem to be inspired by this strategy. It is important to notice that even these long and heterogeneous lists do contain choices, namely to focus on stakeholders, however widely defined. Nevertheless, the lists are so long that they make one feel lost. They have the advantage of making a start, but as no indication of hierarchy or priority is provided, it seems impossible to see or decide what is more and less important in these lists.

This chapter also describes several interesting ways to make choices that create more structure. First, a comparative approach such as KLD's Socrates database creates structure in a bottom-up way. The comparison of strengths and weaknesses inevitably generates patterns of relevance. A further specification of the stakeholder approach is another way to tackle the problem and create priorities. The stepwise approach associated with the Stakeholder Satisfaction Index is another interesting way to generate structure in this way, during the course of its six steps. The approach makes very clear choices to let stakeholders decide about relevance and priorities. Interviewing stakeholders results in a stakeholder satisfaction index through a number of steps.

Focusing on outcomes is a choice. Focusing on stakeholders is a further choice, and the precise way of doing this requires more choices: Who count as stakeholders? Should animals or the environment be represented? And how exactly is their view measured and evaluated? Because of unavoidable choices, each instrument has its limitations, which is not a problem as long as these limitations are acknowledged. A sensible way to at once accept and overcome the limitations of any individual measure of performance is to apply several different performance measures and compare the results.

What is potentially problematic is the tendency to forget about these unavoidable limitations and to see universal and objective validity of measuring instruments as the ideal to be reached. Somehow, the focus on outcomes often seems to be accompanied by this illusive ideal of total objectivity or universality. It may lead to a misplaced overemphasis on the development of precisely those complete instruments that by their sheer overwhelmingness appear to miss the point.

5.6 Conclusion

Towards an analytical framework

The first point made in this chapter is that it is necessary to distinguish two notions of CSP: CSP_{broad} and CSP_{narrow}. CSP_{broad} refers to the notion of CSP as encompassing CSR₁, CSR₂, and CSP_{narrow}. CSP_{narrow} refers to outcomes of corporate social behaviour. It concerns the questions: What does the firm actually do? And where does all that lead to?

Subsequently, two interesting typologies regarding the concept of CSP_{narrow} are introduced. First, there is Wood's that divides the outcomes of CSP_{narrow} into policies, programmes, and impacts. Second, Steg et al.'s typology further specifies the impacts as the firm's economic, social, and environmental performances. Although instructive, these typologies do not provide a solution to the intriguing theoretical as well as practical dilemmas of:

- objectivity versus subjectivity;
- who ultimately decides on 'good' and 'bad'?

Another, yet related issue is raised in the reflection from a consequentialist ethical perspective: the inevitability of making choices. It may, or may not, be possible to develop theories or operationalisations of the concept of CSP_{narrow} that virtually incorporate all relevant issues; however, the risk is that this leads to a theory or instrument that may simply be too complex to increase our understanding of the phenomenon.

In sum, analysing the social, environmental, and economic activities of a firm or chain in the light of CSP_{narrow} can be visualised as in figure 5.11.

Towards a measurement model

Unlike the literatures on CSR₁ and CSR₂, the literature on CSP_{narrow} is rich in operationalisations. Evidently, the large quantity does not necessarily imply the existence of quality operationalisations. Nevertheless, there are some notable efforts. First, Steg et al. developed a model with several attractive features:

- its hierarchical structure enables one to get a quick overview but also provides the opportunity to identify areas for improvement;
- it is theory-driven instead of (only) based on stakeholder views and perceptions;
- it facilitates comparisons (over time) of firms and chains. Unfortunately, the operationalisation is still in process, but it certainly seems promising.

Second, GRI is responsible for the development of the sustainability reporting guidelines containing an impressive list of performance indicators. However, a disadvantage of their approach is that it is intended to be universally applicable and therefore less specific to the conditions of the individual firm or chain.

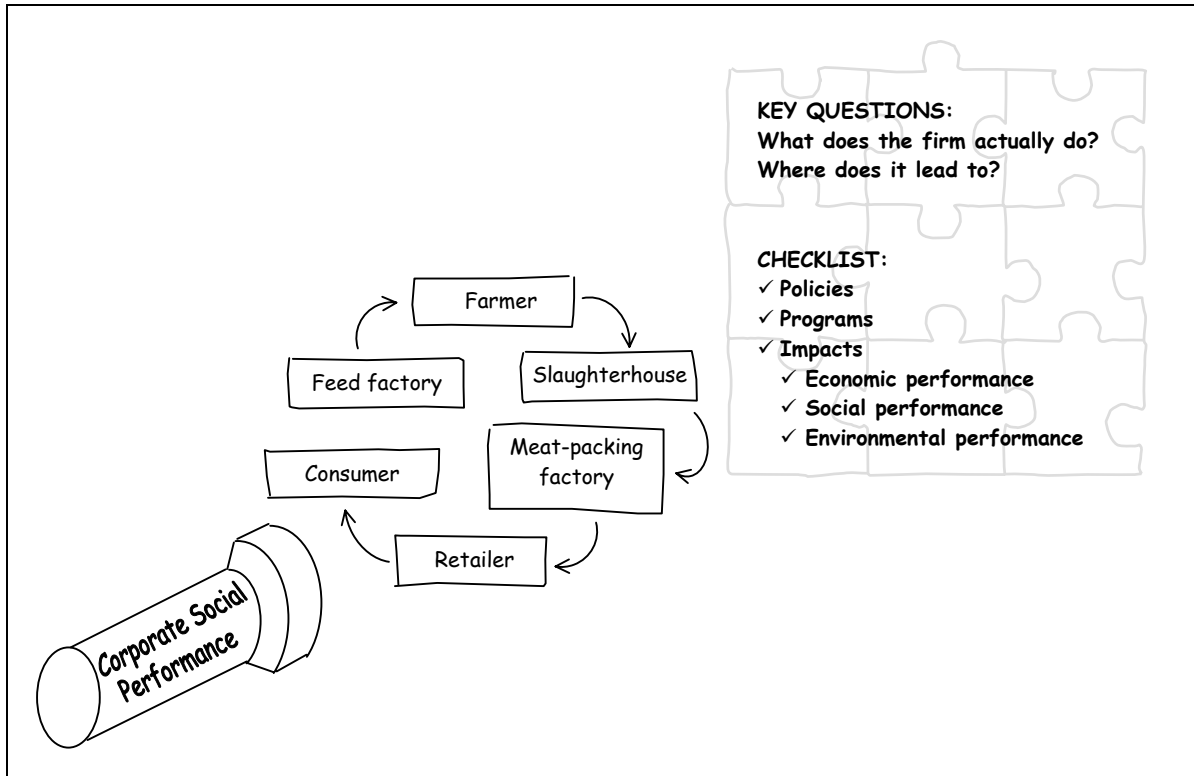


Figure 5.11 Analysing the social, environmental, and economic activities of a firm or chain in the light of *CSP_{narrow}*

Third, the SSI and the stepwise approach associated with it should be mentioned. One of the advantages of this approach is that it is universal and comprehensive as well as specific and simple. A downside, though, concerns the amount of time and energy to be invested to collect all relevant information (note that this point applies to all instruments identified in this chapter). Potentially this amount may be reduced by combining the approach with Clarkson's lists of stakeholders and stakeholder issues.

Finally, the warning from the consequentialist ethical reflection is repeated: What is potentially problematic is the tendency to forget about these unavoidable limitations and to see universal and objective validity of measuring instruments as the ideal to be reached. Somehow, the focus on outcomes often seems to be accompanied by the ideal of total objectivity or universality. Unfortunately, this leads to the development of instruments that are too overwhelming to see the point.

6. Discussion

6.1 Introduction

In chapters 3 through 5, the different parts of Wood's model of corporate social performance (CSP_{broad}), corporate social responsibility (CSR_1), corporate social responsiveness (CSR_2), and corporate social performance (CSP_{narrow}), were described separately. In this chapter, the focus is on the interrelationships between these parts. First, in section 6.2, Wood's view on these interrelationships is discussed. The argument is that the different parts should be considered as connected. Focus on one or two elements inevitably results in a limited and biased perception of reality.

Subsequently, in section 6.3, a pluralist ethical perspective is adopted to comment on Wood's model. It is stressed that the process component of CSP_{broad} is important. It is in this process that intrinsic motivations originate. Therefore: performance characterised as socially responsible is nothing; performing in a socially responsible way is everything.

Section 6.4 concludes this chapter by highlighting its most important elements.

6.2 Wood's view on the interrelationship between the different elements of her model

Clarkson's point of view

As may be deduced from the following words of Clarkson (1995:105), in his opinion the only relevant part of Wood's model is the part on CSP_{narrow} :

'Performance is what counts. Performance can be measured and evaluated. Whether a corporation and its management are motivated by enlightened self-interest, common sense, or high standards of ethical behavior can not be determined by the empirical methodologies available today. These are not questions that can be answered by economists, sociologists, psychologists, or any other kind of social scientist. They are interesting questions, but they are not relevant when it comes to evaluating a company's performance in managing its relationships with stakeholder groups.'

Wood's point of view

This is in sharp contrast to Wood's (1991) opinion. She argued that (Wood, 1991:693):

'[T]o assess a company's social performance, the researcher would examine the degree to which principles of social responsibility motivate actions taken on behalf of the company, the degree to which the firm makes use of socially responsive proc-

esses, the existence and nature of policies and programs designed to manage the firm's societal relationships, and the social impacts (i.e., observable outcomes) of the firm's actions, programs, and policies. In addition, the researcher would examine all these elements, principles, processes, and outcomes, in conjunction with each other to permit identification of analytically crucial but politically difficult results such as good outcomes from bad motives, bad outcomes from good motives, good motives but poor translation via processes, good process use but bad motives, and so on (the terms *good* and *bad* are used loosely in this case).'

Clearly, Wood considers the parts of her model to be interrelated. For example, when linked to the principles of CSR₁, corporate social policy, i.e., one of the outcomes of CSP_{narrow}, has three objectives:

'(a) institutional, to uphold the legitimacy of business in society, (b) organisational, to improve the firm's adaptability and fit with its environment, and (c) moral/ethical, to create a culture of ethical choice, which will support and encourage individual actors to exercise the options available to them in the fulfilment of corporate social responsibilities' (Wood, 1991:709).

	Legitimacy (Institutional)	Public responsibility (Organisational)	Managerial discretion (Individual)
Economic	Produce goods and services, provide jobs, create wealth for shareholders	Price goods and services to reflect true production costs by incorporating all externalities	Produce ecologically sound products, use low-polluting technologies, cut costs with recycling
Legal	Obey laws and regulations. Do not lobby for or expect privileged positions in public policy	Work for public policies representing enlightened self-interest	Take advantage of regulatory requirements to innovate products or technologies
Ethical	Follow fundamental ethical principles (e.g., honesty in product labelling)	Provide full and accurate product use information, to enhance user safety beyond legal requirements	Target product use information to specific markets (e.g., children, foreign speakers) and promote as a product advantage
Discretionary	Act as a good citizen in all matters beyond law and ethical rules. Return a portion of revenues to the community	Invest the firm's charitable resources in social problems related to the firm's primary and secondary involvements with society	Choose charitable investments that actually pay off in social problem solving (i.e., apply an effectiveness criterion)

Figure 6.1 Possible outcomes of linking corporate social policy, i.e., one of the outcomes of CSP_{narrow}, with the principles and categories of CSR₁

Source: Wood (1991:710).

Assuming that the principles of CSR₁ are hierarchical, possible outcomes of these links between responsibility and policy are shown in figure 6.1.¹ Ideally, corporate social policy and programmes would result in meeting all three objectives across all domains of the firm's activities.

More practical, however, is the situation of incomplete adherence to the principles of CSR₁ and sketchy outputs of social policy and programmes (Wood, 1991:709-711):

'First, retaining the assumption that the principles are hierarchical, company management may truly believe itself to be acting responsibly by fulfilling only those duties noted in the economic/institutional cell, but such a company would be judged by stakeholders as irresponsible, because of lack of attention to non-economic domains and to firm-level and individual-level considerations. Or, as another example, a firm might fulfill the criteria for business legitimacy and its own public responsibilities in all domains, but it could fail to provide a culture that supports individual ethical reflection and decision making, thus leaving it open to crises that might be prevented or mitigated by such reflection.

Next, abandoning the assumption that the principles are hierarchical gives us a different theoretical picture of relationships between CSR_[1] principles and social policies and programs. For example, a company that is supportive of managerial discretion and economic legitimacy but is not supportive of public responsibility or the remaining domains of legitimacy might well be a deviant or criminal organization, as in 'our heroin operations supplies jobs, creates wealth, and keeps the customers happy, and our managers are devoted to maintaining a productive sales force'. As another example, consider an organizational culture that is supportive of managerial discretion but has no motivation to meet broad legitimacy or public responsibility dimensions. Such a company might permit the emergence of 'ethical demagogues', managers who rule their work areas according to their own rules of ethics (perhaps based on racism, sexism, religious bigotry, or xenophobia) as long as they meet headquarters' objectives. Alternatively, an organization that emphasizes managerial discretion might permit a manager to quietly build programs and policies that, over time, could move the entire firm closer to conformity with all three CSR principles. This would be an example of a bottom-up or sideways-out change in a firm's approach to its social performance.'

These examples illustrate that evaluating the social, environmental, and economic activities of a firm or chain require an integral perspective. Neglecting any part of Wood's model may result in a limited, biased, and/or inaccurate evaluation of CSP_{broad}.

¹ Carroll's (1979) categories of responsibility are treated by Wood as domains of responsibility. Using them in this way, Carroll's categories are no longer a specification of the principle of public responsibility.

6.3 Pluralist ethical comments on Wood's model

Introduction

First, it is clarified why a pluralistic theory of business ethics would do a better job in conceptualising CSP_{broad} than some monistic theory. Subsequently, the question is answered whether Wood's model counts as a good pluralistic theory in this respect. Finally, the issue of balancing the different parts of Wood's model is addressed.

The added value of a pluralistic theory of business ethics

It is important to remember that pluralistic theories have gained widespread support in applied fields of ethics. The reason is that it is increasingly realised that (for instance) deontologist and consequentialist ethics only present a partial perspective on emergent ethical problems. Furthermore, it is acknowledged nowadays that a combination of available ethical perspectives is needed to address all relevant aspects of emergent ethical issues in contemporary pluralistic societies. Value pluralism in contemporary liberal-democratic societies is thus at the roots of the call for pluralistic ethical theories.

Moreover, public debates about practical ethical issues tended to be dominated by a consequentialist and, to a certain degree, deontologist ethical discourse, whereas other, virtue and pragmatist, perspectives were by-and-large ignored. Since 'hardcore' consequentialists and deontologists are not likely to accept the idea that their own perspective is only capable of partially addressing emergent ethical issues, a preference for pluralistic ethical theories necessarily entails at least a 'thin' pragmatist stance.

Wood's model as a pluralistic theory of business ethics

Wood's model operates as a three-stage process of judging motives, attitudes, behaviours, and outcomes of CSP_{broad} . The sections 3.5, 4.5 and 5.5 already illustrated that the four main perspectives in the history of ethics or moral philosophy are each able to contribute reflection on one of the three parts of Wood's model. Deontologist ethics is instrumental to the further operationalisation of the principles of CSR_1 , virtue and pragmatist ethics is helpful to the operationalisation of upright CSR_2 , and consequentialist ethics is instructive in the operationalisation of CSP_{narrow} .

Obviously, Wood's model is able to include all four main perspectives from the history of moral philosophy in a pluralistic theory of business ethics. It thus presents a most welcome ramification to the dominant consequentialist perspective in the prevailing discourse on CSP_{broad} . The basic idea that, apart from outcomes, principles and practices should also count in any judgement of CSP_{broad} is indeed a significant innovation.

Balancing the parts of Wood's model

The question now is how to balance the three different parts of Wood's pluralistic model. In this respect, it might be suggested that the pragmatist emphasis on the process of organising CSP_{broad} is probably more important than the formulation of an abstract set of

principles of CSR₁ in something like a code of conduct. The implication of this suggestion is that if the practices of CSR₂ are not prioritised in the further development of CSP_{broad}, Wood's models risks an unfortunate retreat to the exclusive focus on measuring the outcomes of corporate social behaviour that characterises much of the prevailing discourse.

Put differently, just as it is important to keep in mind that various interesting ways exist to measure outcomes, it is also important to keep in mind that various interesting ways exist to approach CSP_{broad}. A focus on outcomes has proven to be attractive, precisely because of the measurability. But it is also one-sided, and it is therefore important to follow Wood in emphasising the importance of other approaches to CSP_{broad} as well. Some scholars may be frightened to embrace principles and processes as an essential part of CSP_{broad}, because they fear to end up in vague discussions. However, this need not be the case; various tools like value clarification or Van Luijk's (2000) step-by-step plan for business ethics are available to facilitate structured discussions in this field. This plan identifies the following seven steps in addressing business ethical dilemmas:

- what is the moral core problem?;
- who are the stakeholders?;
- who is/are responsible or accountable?;
- which information is needed?;
- what are the arguments?;
- what is the conclusion?;
- how does the conclusion feel?

Moreover, social processes within firms, such as the process of making a moral code, or debates on alternative ways to be responsive to external challenges, are often regarded as more interesting outcomes than their results. This is also expressed by a slogan, introduced by Kaptein and Wempe (1998), which has gained wide acceptance in The Netherlands: 'A code is nothing, coding is everything'. In order to fully appreciate this claim, it might be helpful to distinguish between external and internal motivations for CSP_{broad}. If CSP_{broad} is primarily motivated by outside pressure, the need to present measurable data about outcomes of corporate social behaviour will almost inevitably attract most attention. However, if on the other hand CSP_{broad} is strongly supported by intrinsic motivations within the firm, accountability will become subordinated to the development of the firm's own normative account of responsibility. At the end of the day, it may well be that such internal or intrinsic motivation for CSP_{broad} is crucial for the sustainability of good outcomes as well. The cases of Van Melle, a candy manufacturer with a strong identity as a family firm, and Gulpener, a beer brewery with a strong regional identity, may count as good illustrations of how intrinsic motivations contribute to excellent CSP_{broad}.¹

¹ Since 2001 Van Melle has been part of Perfetti Van Melle.

6.4 Conclusion

Towards an analytical framework

Unlike some others (e.g., Clarkson, 1995), Wood (1991) recommends that an analysis of CSP_{broad} involves an examination of all elements of her model. Moreover, she recommends these elements to be examined in conjunction with each other. Analyses in which these recommendations are neglected will probably not reveal situations such as good outcomes from bad motives, bad outcomes from good motives, good motives but poor translation via processes, good process use but bad motives, and so on. Thereby, those analyses most probably result in a limited and biased evaluation of CSP_{broad} .

Pluralist ethics underlines the importance of considering all elements of Wood's model. As described in previous chapters, each element of the model is associated with one (or two) ethical perspective(s). Each perspective, and thereby each element, focuses on some aspects of reality while neglecting others. Inevitably, adopting just one of those perspectives leads to limited and biased judgments of CSP_{broad} . Therefore, pluralist ethics recommends the combination of the perspectives, and implicitly the elements of Wood's model, to address all relevant aspects of reality.

In sum, analysing the social, environmental, and economic activities of a firm or chain in the light of CSP_{broad} can be visualised as in figure 6.2. In this figure, the figures from previous chapters representing the analyses in the lights of CSR_1 , CSR_2 , and CSP_{narrow} respectively are combined. The blue, green, and red colours illustrate that each perspective provides just a coloured (biased) view of reality. Together these colours (perspectives) represent the whole spectrum of colours (perspectives). The metaphor of a puzzle illustrates that the analyses should be combined and connected to get the full picture.

Towards a measurement model

Wood's model and the analytical framework developed here list the aspects that should be considered in evaluating CSP_{broad} . They also recommend these aspects to be evaluated in relation to each other. Unfortunately, they are not very instructive in suggesting how to actually relate those aspects. In order to develop a measurement model, though, this is a crucial issue, i.e., if the model aims not only at measuring the various aspects but also at arriving at an overall evaluation of the social performance of a firm or chain. For that purpose, it is necessary to weight or balance the various aspects.

The stepwise approach for determining the Stakeholder Satisfaction Index, described in section 5.4 and illustrated in figure 5.8, suggests that stakeholders should be asked to rate the relative importance of the various aspects. However, despite the usefulness of this suggestion, to develop a measurement instrument, additional research is required to explore the issue of connecting, weighting, and balancing the elements of Wood's model in more detail.

Finally, based on the discussion on balancing the elements of Wood's model in the previous section, a comment is made regarding the necessity of linking the elements of

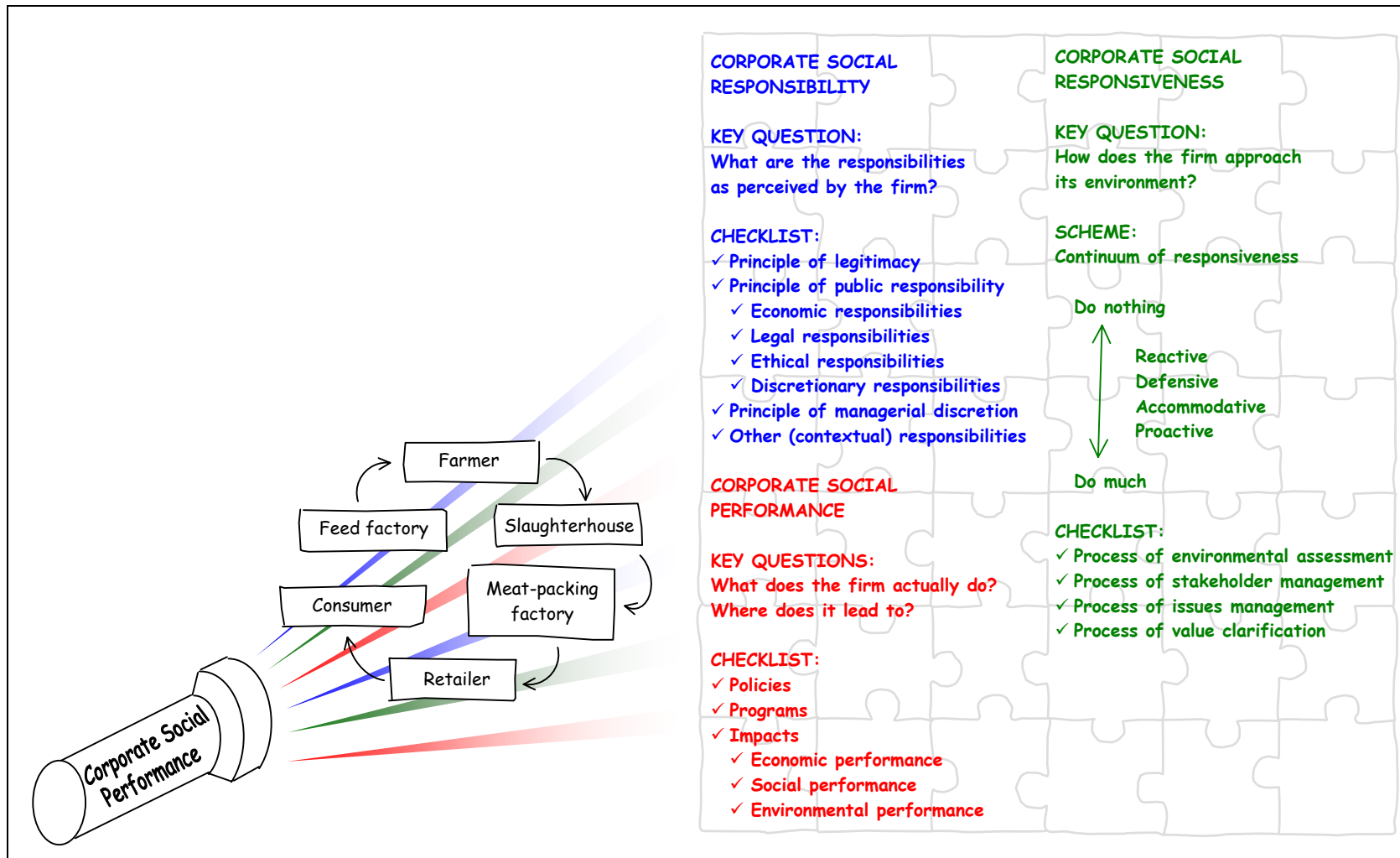


Figure 6.2 Framework for analysing the social, environmental, and economic activities of a firm or chain

Wood's model. This may be desirable in analysing, measuring, and evaluating CSP_{broad}; however, in stimulating the adoption and implementation, i.e., the realisation, of best practices regarding CSP_{broad}, the processes of CSR₂ require more attention than the other elements. Or, to put it in similar words as Kaptein and Wempe's (1998): Performance characterised as socially responsible is nothing; performing in a socially responsible way is everything.

7. Conclusion

7.1 The analytical framework: Conclusions and recommendations

Conclusions

A general conclusion regarding this research project concerns the usefulness of Wood's (1991) model of corporate social performance. Originally, this model was introduced as a coherent framework 'for the field of business and society by integrating the conceptual advances that have been made and by allowing scholars to 'locate' works within a broad model of business-society relationships' (Wood, 1991:691). However, as shown in the previous chapters, the Wood model is also useful as a basis for the development and design of a framework for analysing the social, environmental, and economic activities of a firm or chain.

The second conclusion refers to the elements of corporate social performance and the relationships between these elements. In the Wood model, the concept of corporate social performance (CSP_{broad}) is divided into three elements:

- the principles of corporate social responsibility (CSR_1);
- the processes of corporate social responsiveness (CSR_2);
- the outcomes of corporate social behaviour (corporate social performance in a narrow sense; CSP_{narrow}).

CSP_{narrow} , on its turn, is divided into:

- social policies;
- social programmes;
- social impacts.¹

Similarly, in the framework developed in this study, it is recommended that in the analysis of the social, environmental, and economic activities of a firm or chain attention is paid not only to the actual outcomes (CSP_{narrow}) but also to the principles (CSR_1) and processes (CSR_2) on which these outcomes are based. Furthermore, in line with Wood's argument that these elements are interrelated, in our framework it is visualised (see figure 6.2) that these elements are all parts of the same puzzle: to get the whole picture, all pieces have to be considered in relation to each other. Neglecting their relationships results in a set of scattered pieces.

The third conclusion concerns the interpretation of the Wood model as a pluralist theory of business ethics. The elements of Wood's model reflect the main ethical perspec-

¹ A common mistake is to equal CSR_1 with social policies (i.e., mission statements, social strategies, et cetera), CSR_2 with social programmes (i.e., inputs, resources, et cetera), and CSP_{narrow} with social impacts (i.e., outputs, results, et cetera).

tives in the history of philosophy. The focus on principles in CSR_1 reflects the emphasis on principles in deontologist ethics; the focus on processes in CSR_2 reflects the emphasis on actual practices in virtue and pragmatist ethics; and the focus on outcomes in CSP_{narrow} reflects the emphasis on consequences in consequentialist ethics. Moreover, since these perspectives are all considered to be valuable components of a single model, Wood's model can be characterised as a pluralist theory of business ethics. As consequence, not only the field of business and society, but also the field of business ethics confirms the significance of Wood's model.

The different ethical perspectives and the usefulness of combining them are also visualised in our framework. For this purpose, the colours blue, green, and red are used. These colours show that adopting one perspective leads to a coloured, biased view of reality. In addition, since blue, green, and red represent the whole spectrum of colours, they illustrate that the perspectives together provide a colourful picture.

Above, it is argued that there are theoretical reasons, from the literature on business and society as well as from the literature on business ethics, to consider the elements of the framework as interrelated; it is only in that way that an integrated picture results. However, the fourth conclusion is that there may be valid reasons to more or less focus on one of the elements, i.e., one of the ethical perspectives. For instance, when the objective is not to measure, analyse, or evaluate CSP_{broad} but instead to stimulate or realise improvement of CSP_{broad} , it may be useful to focus on process aspects (see section 6.3). And even if the objective is to measure, analyse, or evaluate CSP_{broad} , pragmatic reasons may justify a focus on, for instance, social programmes. In those situations, though, it is important to realise that a partial approach is adopted.¹

The final conclusion mentioned here is that, in the literature, the elements of Wood's model are described in general terms and may not be related to an individual firm or chain. For the purposes of analysing the social, environmental, and economic activities of an individual firm or chain it may therefore be useful to specify the elements for that individual firm or chain. For example, Wood considers the principle of legitimacy as a principle that applies to business in general. However, this principle also applies to an individual firm or chain: also the individual firm or chain needs to consider the legitimacy of its existence. For this reason, in our framework, questions are formulated that apply to an individual firm or chain. It may be useful to answer those sorts of questions and use the typologies from the literature as checklists.

Recommendations

Our first recommendation involves the application of our framework for analysing the social, environmental, and economic activities of a firm or chain. We suggest that this framework is applied, in a future project, to evaluate third parties' assessments of CSP_{broad} . It is our impression that the literature on measuring CSP_{broad} is dominated by a consequentialist perspective. It is helpful to address the limitations of those measurements and to identify opportunities for improving them.

¹ We recommend that in publications in which such a partial approach is adopted, it is explained why this is done and what the implications may be.

The second recommendation relates to the lack of knowledge concerning the relationships between the elements of CSP_{broad}. As discussed above, there is little conceptual as well as methodological knowledge on these interrelationships. Since these interrelationships are considered to be of crucial importance in developing an adequate understanding of the phenomenon of CSP_{broad} it is necessary to explore this issue in more depth.

Our final recommendation refers to the composition of research teams. Researchers tend to feel comfortable with a single ethical perspective and to be less skilful regarding the others. Furthermore, people have a natural tendency to work with people adopting the same perspective. Unfortunately, this results in biased results and conclusions. Therefore, we recommend, especially in the case of analysing, measuring, and evaluating CSP_{broad}, to compose research teams of mutually respecting researchers with different ethical perspectives.

7.2 Towards a measurement model: Conclusions and recommendations

Conclusions

Although it is not the primary objective of this project, we also pay some attention to the development of a measurement model. In that respect, our first conclusion is that, to the best of our knowledge, there is no (adequate) operationalisation of CSP_{broad} in the academic literature. Hopkins' (1997) operationalisation of Wood's model seems to be one. However, closer examination shows that it does not adequately address the principles of CSR₁ and the processes of CSR₂.

The second conclusion is that there do exist operationalisations of the *elements* of CSP_{broad}. Especially interesting are Aupperle's (1990) instrument for measuring the relative importance of each of Carroll's categories of CSR₁ and Clarkson's (1991, 1995) RDAP scale to operationalise Carroll's continuum of CSR₂. Regarding CSP_{narrow} there are even many interesting operationalisations: for instance, Steg et al.'s (2003) measurement model, Clarkson's (1991) entry and coding scheme, the Stakeholder Satisfaction Index, the data structure of KLD's (2003) Socrates database, and GRI's (2002b) sustainability reporting guidelines.¹

The third conclusion is that CSR₁ and CSR₂ cannot be measured directly. That is, principles and processes cannot be observed but only interfered from observations of actual behaviour. This may to some extent contradict the second conclusion. However, if we look at Aupperle's instrument and Clarkson's RDAP scale more closely, we see that, although there operationalisations of CSR₁ and CSR₂ are valuable and appropriate, they actually use (statements on) policies, programmes, and impacts to assess motivations and attitudes.

The fourth conclusion concerns the operationalisations of CSP_{narrow}. As mentioned before, there are many operationalisations. Each of these operationalisations involves many choices on:

- what issues to take into consideration;
- how to measure them.

¹ Remarkably, the literature contains much theory and few operationalisations of CSR₁ and CSR₂, while for CSP_{narrow} the situation is the other way around: little theory, many operationalisations.

Unfortunately, most of them are not very explicit about those choices. For instance, how did Steg et al. (2003) arrive at the focus on biophysical effects as operationalisation of environmental performance? Why does KLD's (2003) Socrates database include information on nuclear power considered to be a concern only? Is it not possible for an organisation to pay a positive contribution to this issue? For instance, by trying to find a solution to the nuclear waste problem? And why are stakeholders asked to assess the weights of the stakeholder/interest-combinations in the Stakeholder Satisfaction Index? Alternatively, this task could also be assigned to the firm concerned. Choices such as these should actually be mentioned and explained.

Our final conclusion is that most operationalisations are not balanced in the way they treat policies, programmes, and impacts. Ideally, a performance measurement instrument should pay attention to all these aspects of CSP_{narrow} and check for the consistency between them, i.e., are the programmes in line with the policies and do they lead to the desired impacts? In practice, however, we observe that some issues are measured as policies and others as programmes or impacts. Moreover, it seems that convenience is a primary reason for the selection of certain indicators. For example, since it is considered to be hard to measure the impacts of activities in the people domain, GRI (2003) primarily selects policy and programme indicators.

Recommendations

In our fourth conclusion, we mentioned that the operationalisation of CSP_{narrow} involves many choices. As CSP_{broad} also includes CSR₁ and CSR₂, it is evident that developing a measurement model of CSP_{broad} involves even more choices. We also mentioned that usually those choices are not explained; it is not even clear what choices are made. Therefore, we recommend that future research should systematically identify and discuss the choices that are made in the development of a measurement model of CSP_{broad}.¹

There are also some other issues that need further exploration. First, Steg et al. (2003) mentioned organisational learning as one of their evaluation criteria. This seems to be an interesting and innovative point. However, it is not clear how this point can be integrated in a measurement model.

Second, the field of business and society is still struggling with the question on who decides: Who decides with regard to what aspects the firm is evaluated? Who determines the standards to which the firm's performance is compared? Who weights the various (sub)scores? Who ultimately assigns the designation 'good' or 'bad'? Will this be a matter of dominance by one party, or a matter of democratic decision-making?

Related to this issue, there is also the issue of objectivism versus subjectivism. Some argue that reality can be known and natural limits can be specified; others argue that reality is socially constructed. Reconciling these paradigms is probably impossible (cf., Kuhn, 1962) but it is instructive to know the implications of adopting one of these perspectives. We recommend future research to shed some light on these issues.

¹ At the time of publication of this report, a follow-up project is carried out that addresses this recommendation.

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Appendix 1 Aupperle's (revised) instrument for measuring corporate social responsibility

Figure A1.1 contains Aupperle's (revised) instrument for measuring corporate social responsibility (CSR).

Statement
1. It is important to perform in a manner consistent with: A. Expectations of maximising earnings per share; B. Expectations of government and the law; C. The philanthropic and charitable expectations of society; D. Expectations of social morals and ethical norms.
2. It is important to be committed to: A. Being as profitable as possible; B. Voluntary and charitable activities; C. Abiding by laws and regulations; D. Moral and ethical behaviour.
3. It is important to: A. Recognise that the ends do not always justify the means; B. Comply with various federal regulations; C. Assist the fine and performing arts; D. Maintain a strong competitive position.
4. It is important that: A. Legal responsibilities be seriously fulfilled; B. Long-term return on investment is maximised; C. Managers and employees participate in voluntary and charitable activities within their local communities; D. When securing new business, promises are not made which are not intended to be fulfilled.
5. It is important to: A. Allocate resources on their ability to improve long-term profitability; B. Comply promptly with new laws and court rulings; C. Examine regularly new opportunities and programs which can improve urban and community life; D. Recognise and respect new of evolving ethical/moral norms adopted by society.
6. It is important to: A. Provide assistance to private and public educational institutions; B. Ensure a high level of operating efficiency is maintained; C. Be a law-abiding corporate citizen; D. Advertise goods and services in an ethically fair and responsible manner.

Figure A1.1 Aupperle's (revised) instrument for measuring CSR
Adapted from: Aupperle (1990:260-263).

Statement

7. It is important to:
 - A. Pursue those opportunities which enhance earnings per share;
 - B. Avoid discriminating against women and minorities;
 - C. Support, assist, and work with minority-owned businesses;
 - D. Prevent social norms from being compromised in order to achieve corporate goals.
 8. It is important that a successful firm be defined as one which:
 - A. Is consistently profitable;
 - B. Fulfils its legal obligations;
 - C. Fulfils its ethical and moral responsibilities;
 - D. Fulfils its philanthropic and charitable responsibilities.
 9. It is important to monitor new opportunities which can enhance the organisation's:
 - A. Moral and ethical image in society;
 - B. Compliance with local, state, and federal statutes;
 - C. Financial health;
 - D. Ability to help solve social problems.
 10. It is important that good corporate citizenship be defined as:
 - A. Doing what the law expects;
 - B. Providing voluntary assistance to charities and community organisations;
 - C. Doing what is expected morally and ethically;
 - D. Being as profitable as possible.
 11. It is important to view:
 - A. Philanthropic behaviour as a useful measure of corporate performance;
 - B. Consistent profitability as a useful measure of corporate performance;
 - C. Compliance with the law as a useful measure of corporate performance;
 - D. Compliance with the norms, morals, and unwritten laws of society as useful measures of corporate performance.
 12. It is important to:
 - A. Recognise that corporate integrity and ethical behaviour go beyond mere compliance with laws and regulations;
 - B. Fulfil all corporate tax obligations;
 - C. Maintain a high level of operating efficiency;
 - D. Maintain a policy of increasing charitable and voluntary efforts over time.
 13. It is important to:
 - A. Assist voluntary those projects which enhance a community's 'quality of life';
 - B. Provide goods and services which at least meet minimal legal requirements;
 - C. Avoid compromising societal norms and ethics in order to achieve goals;
 - D. Allocate organisational resources as efficiently as possible.
 14. It is important to:
 - A. Pursue only those opportunities which provide the best rate of return;
 - B. Provide employment opportunities to the hard-core unemployed;
 - C. Comply fully and honestly with enacted laws, regulations, and court rulings;
 - D. Recognise that society's unwritten laws and codes can often be as important as the written.
-

Figure A1.1 Continued

Adapted from: Aupperle (1990:260-263).

Statement

15. It is important that:
- A. Philanthropic and voluntary efforts continue to be expanded consistently over time;
 - B. Contract and safety violations are not ignored in order to complete or expedite a project;
 - C. Profit margins remain strong relative to major competitors;
 - D. 'Whistle blowing' not be discouraged at any corporate level.
-

Figure A1.1 Continued

Adapted from: Aupperle (1990:260-263).

Appendix 2 Business plan by pig farmer Daandels

Figure A2.1 contains the business plan by pig farmer Daandels.

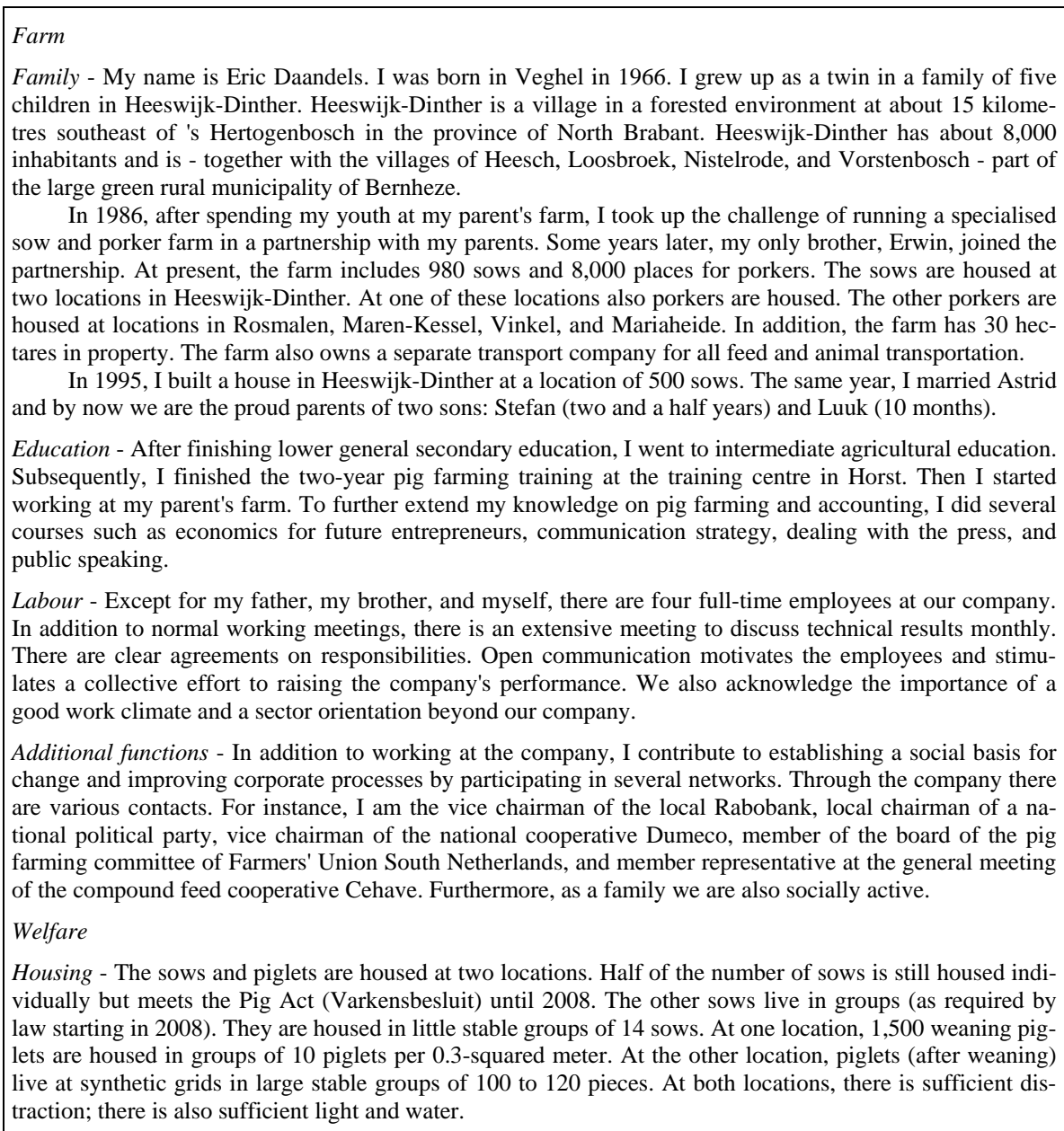


Figure A2.1 Business plan by pig farmer Daandels

Translated from: Backus and Van der Schans (2000a).

The porkers are located at sustainable synthetic pig house systems that can be cleaned easily. These systems have rounded under floor heating and 'toilet' facilities at the back. In addition, there is sewerage to rapidly flush manure from under the section.

Treatment of animals - Due to the little groups of sows, we have a clear overview. There are daily checks at which each individual animal is approached. The standard treatments (e.g., iron injection and vaccination) are performed in accordance with the Good Farming instructions: clean and sharp needles, medicine registration, product name, reason for treatment, dose, waiting period, mode of administration, et cetera. The tails of the piglets are cut; the dents are not.

Animal health - The storage of feed is designed to prevent deterioration and formation of toxins. Because of dragging, feed is transported with a vehicle exclusively for feed. All feed - including by-products - is delivered by suppliers that comply with the Good Manufacturing Practice (GMP-J) code. Only veterinary services are used from a veterinarian that demonstrably works according to the Good Veterinary Practice (GVP) code, in accordance with Integral Chain Management (Integraal Keten Beheer (IKB)). The monthly check also involves a written GVP recognition and a checklist of findings and recommendations. Only drugs are used that are registered by law and at the most recent 'positive list' by IKB. Drugs are exclusively bought on the basis of a recipe provided by the veterinarian. The recipes and delivery receipts are kept in a logbook. The prescribed or advised waiting periods of the drugs administered are complied with in accordance with the most recent 'positive list'. All treatments using drugs are registered and marked for trace ability.

Hygiene - At our company different measures are taken to close the door for uninvited guests and germs of diseases. At every location, there is a hygiene sluice. After each production cycle the pig house or section is cleaned and disinfected. Cleaners and disinfectants are stored in a lockable closet. In front of the entrance of the location, shoes and wheels of vehicles are disinfected. To enter the farmyard industrial clothing is required. Visitors are only allowed if necessary. A logbook is kept of visitors. These are all measures taken to prevent dragging of diseases. Pest control takes place in accordance with the procedure determined.

Environment

Manure, soil - Mestac - a cooperative - takes responsible care of all excessive manure. For reduction and concentration the Haflo system has been used on a trial basis for several years. The cooperative now considers the introduction of little manure processing installations. Our company is actively involved in this.

By means of overflow systems in closed drains the first step towards reduction takes place. The advantage for the environment is the quantitative reduction of the manure that has to be disposed of. Also composting using Strodek is tested on a trial basis.

Ammonia - The sows are still housed in traditional sties. For the porkers, a green label system is applied: by applying air washers a significant reduction in ammonia emission is realised. Furthermore, in the short term, a porker house will be replaced by a new one applying another green label system: the cool deck systems at grids of concrete. In case of any growth or scale-up, exceeding ammonia emission is not possible. Therefore, investments are made in realising low emission systems and/or acquisition of ammonia rights. An environmental license maximises the number of animals and thereby the ammonia emission level.

Energy - The pigs are housed in well-isolated buildings that can be heated locally. High-efficiency heating systems and computer controlled ventilation systems are used.

Waste (waste and wastewater) - All wastewater is connected to the sewerage system for treatment. Compliance with the law is guaranteed by draining requirement that are approved and included in the environmental license. There is no drainage of wastewater to the surface water.

Figure A2.1 Continued

Translated from: Backus and Van der Schans (2000a).

Use of materials - All buildings are constructed of brickwork. In the design of the interiors for the sows that are housed in groups, the piglets, and the porkers, synthetic materials and stainless steel are used as much as possible. The sows that are housed individually lie in galvanised boxes. Two-thirds of the roofs of the buildings are made of corrugated iron containing asbestos. The buildings that are built later all have roofs of corrugated iron free of asbestos. In the buildings for the porkers and the in-pig gilts concrete grids are used. The weaning piglets and the sows in the farrowing pens lie on synthetic grids. The isolation of the corrugated iron consists of Dupanell. There are also two buildings for porkers, two buildings for weaning piglets, and one farrowing house in which sheet piling ceiling ventilation is used.

Use of water - To reduce the use of water as much as possible, we use anti spill drinking troughs for the weaning piglets. The porkers are fed by means of trough for slop feed. So no water is spilled there either. The sows and gilts get water by a computer that controls the quantity. In this way, the manure production is reduced.

Fit in surroundings - The planting in the yard fit the surroundings. The farming land is cultivated according to the environmentally friendly methods: corn without Mesurool, no manure in the wet seasons, and environmentally friendly roadside control.

Feed

Welfare aspects - We feed using the vario-mix: this is a system in which it is possible to unlimitedly provide sows with dry feed. The system is characterised by the adjustable timing of little portions. The sows have ear responders. The dry feed is welfare friendly with a minimum of 14 percent rough cell materials. In addition, to reduce stereotypical behaviour, roughage is provided in the form of corncob maize. There is sufficient light: natural as well as strip light. The animals have fresh water the whole day.

Environmental aspects - Mineral reduction takes place by providing low-phosphate feed. Furthermore, the porkers get by-products from the food industry such as the skin of potatoes, wheat starch (from the production of pasta), and brewer's grains (from the production of beer). In this way, the pig sector contributes to processing human by-products.

Public health aspects - To guarantee public as well as animal health, the storage of feed is designed to prevent deterioration and formation of toxins. Because of dragging, feed is transported with a vehicle exclusively for feed. All feed - including by-products - is delivered by suppliers that comply with the GMP-J code.

Market

Participation in environmental and quality programs - The company is supplier of bacon to the English market. Quality is assured by a controlled production process - under the Good Farming label of slaughterhouse Dumeco. The way in which we assure quality and safety is documented in a manual *Conditions Good Farming*. Checks are carried out by an independent control agency. The company receives a report on every check. This is noted in the logbook.

The company fully operates as part of a chain organisation. All activities concerning the company are documented extensively. Each part of the chain is checked regularly. The production conditions are adapted to the market and by means of described processes assured and incorporated in the chain organisation. Dumeco organises regular meetings with Dumeco and national and international retail organisations. Based on argumentation, this leads to mutual understanding and support. As a consequence, market changes and consumer needs can be incorporated in the chain organisation as soon as possible. In addition, we are participating in manure processing initiatives.

Consideration of organic or free-range pig farming - For our company, organic or free-range pig farming are no options. Considering the scale of operation in relation to the available farmland, it would require significant changes. In addition, in my opinion, our current farming situation is better suited for the task of reducing the environmental problems.

Figure A2.1 Continued

Translated from: Backus and Van der Schans (2000a).

Registration - In addition to the registration related to Good Farming, the following issues are registered in the logbook: an agreement with Dumeco, the GVP declaration, a GMP-J declaration for feed, the Identification & Registration (I&R) forms, the feed delivery receipts, the documents concerning delivery of animals to and from the company, the purchase of drugs, the visitors chart, and the drugs registration charts.

Future plans

Time path - In the future, the company is characterised by a sustainable and economically viable mode of operation. The business processes are fully described, assured, and traceable. The company focuses exclusively on a niche market such as bacon production and thereby complies with the societal demands of producing responsible and sustainable. Animal welfare is assured and incorporated in all business processes. The company is open-minded with change provided that it is economically feasible. Furthermore, the company fits well in its surroundings. Therefore, the following issues are important:

- To achieve the above mentioned, the further realisation of animal welfare remains part of our investment plans;
- To achieve a sector-wide understanding, realisation of permanent consultation structures with (among other things) social organisations is a prerequisite;
- To cut costs, the coordination of business processes needs to be improved further;
- With regard to energy saving measures and the mineral issue, additional investments are required.

The first step towards 'the company of the future' is the realisation of a new building for 2,500 animals with one squared meter per animal. This building is built sustainable and has cool deck and concrete grids. One of the porker locations will be moved to another location. We already have the licenses. The advantages are:

- One location less;
- 2,500 porkers comply with the welfare requirements of 2008;
- Less transportation, reduced chance of spreading animal diseases, and reduced travelling times for the employees;
- Solution for the problem involving the expansion of the village.

Investment plan - The extra investment in our company is about 800.000 Dutch guilders. Part of this amount has already been invested. Furthermore, materials from the old building will be used.

Dilemmas

Bottlenecks (regulations, policy, financing) - Considering current prices, the crisis in pig farming, and their impact on our company, the investment mentioned above are delayed by a year. Nevertheless, the plans have to be realised within the time period specified by the building permit.

Dilemmas regarding plan for the future - Due to the current low prices in pig farming, it is not economically feasible to adapt the company immediately.

Checklist

	Positive	Value	Negative
ENVIRONMENT			
MANURE phosphate production per sow, Miar basis (standard 14.2 kg P ₂ O ₅)	Lower	12.6 kg	
Phosphate per porker, Miar basis (standard 5.2 kg P ₂ O ₅)		5.4 kg	Higher
Percentage sustainable disposal in 1999, own land, contracts 1 year minimum	Yes	100 %	
Based on Minas: What is phosphate surplus/shortage at your company		25,000 kg	Surplus

Figure A2.1 Continued

Translated from: Backus and Van der Schans (2000a).

Checklist (continued)

	Positive	Value	Negative
Nitrogen production per sow, Miar basis (standard 34.8 kg N)	Lower	30.9 kg	
Nitrogen production per porker, Miar basis (standard 13.5 kg N)		14.0 kg	Higher
Based on Minas: What is nitrogen surplus/shortage at your company		35,000 kg	Surplus
Percentage of manure that is treated and/or processed		0 %	No
Does this include de-nitrification		n.a.	
NH ₃ green label systems	Yes		
Valid environmental permit	Yes		
Feed waste (by-)products from industry	Yes		
NATURE planting plan available	Yes		
Plan as such executed	Yes		
ENERGY total fuel costs company (your standard fl. 111,700)		fl. 36,260	
Is this below or above average	Below		
Total electricity costs company (your standard fl. 47,040)		fl. 47,040	
Is this below or above average	Below		
Sustainable sources of energy (solar, wind, et cetera)			No
Heat recovery equipment			No
Green electricity			No
Percentage green electricity		0 %	
Waste reduction manure production/animal	Yes		
Separated and separate disposal	Yes		
MARKET quality programs	Yes		
Environmental programs			No
Towards organic farming in the future			No
WELFARE all pregnant and non-pregnant sows have/are:			
Box length 2.0 m minimum, surface area box 1.3 m ² minimum	Yes		
Surface area floor without splits 0.4 m ² /sow minimum	Yes		
Split width of grids 20 mm maximum	Yes		
Not chained	Yes		
Group housing 2.25 m ² surface area floor without splits 1.3 m ²		Partially	No

Figure A2.1 Continued

Translated from: Backus and Van der Schans (2000a).

Checklist (continued)

	Positive	Value	Negative
Straw available in boxes			No
Roughage available daily	Yes		
All sows in the farrowing pens have/are:			
Box surface area floor without splits 0.6 minimum with litter	Yes		
Split width 12 mm maximum	Yes		
Piglets: age at weaning 3 weeks minimum	Yes		
Age of castration 4 weeks maximum	Yes		
No regular cutting of tails and dents			No
All weaning piglets surface area box 0.3 m ² /piglet:	Yes		
Surface area box 0.4 m ² /piglet available			No
Split width 15 mm maximum	Yes		
Housed in stable groups			No
Material for distraction available in boxes	Yes		
All porkers, gilts, and boars have: surface area box 0.7 m ²	Yes		
Surface area box 1.0 m ² /porker available		Partially	No
Surface area floor without splits 0.3 m ² /porker	Yes		
Surface area floor without splits 0.6 m ² /porker		Partially	No
Split width 20 mm maximum	Yes		
Housed in stable groups	Yes		
Material for distraction available in boxes	Yes		
Trough length 30 cm minimum system pigs eat at the same time	Yes		
Boars > 18 months box surface area 6 m ² (serving area 7 m ²)	Yes		
Two-thirds of surface area floor without splits covered with litter	Yes		
Sufficient space to turn in their box	Yes		
Noise, odour, and eye contact with other pigs	Yes		
GENERAL: alarm system works in case of power failure	Yes		
Ventilation systems based on temporary measures in case of power failure	Yes		
Intensity of light at animal level 12 lux minimum for all animals	Yes		
In case of less than 8 hours of daylight per day light switched on	Yes		

Figure A2.1 Continued

Translated from: Backus and Van der Schans (2000a).

Checklist (continued)

	Positive	Value	Negative
Sick and wounded animals separated in separate section with straw	Yes		
Number of animals with defects as a result of tail bites < 1 %	Yes		
Percentage of pigs with defects at legs/claws < average at slaughterhouse	Yes		
Percentage of pigs with defects at skin < average at slaughterhouse	Yes		
Percentage of pigs with defects at lungs/liver < average at slaughterhouse	Yes		
Check on well-being of all animals at least twice a day	Yes		
Percentage fall out farrowing pen box less than average (1998:11.6 %)	Yes		
Percentage fall out after weaning less than average (1998:1.9 %)			No
Percentage fall out porkers less than average (1998:2.2 %)	Yes		
Did you pass the yearly hygiene check	Yes		
Consequential pest control (rat, fly)	Yes		
Do you behave quietly with animals; use of baits instead of means of coercion	Yes		
Did you only use feed free of antibiotics last year	Yes		
Did you preventively use medicine last year	No		
ADDITIONAL FUNCTIONS			
Within agriculture	Yes		
Outside agriculture	Yes		
Chairmanship	Yes		

Eric Daandels,
October 1999

Figure A2.1 Continued

Translated from: Backus and Van der Schans (2000a).

Appendix 3 Hopkins' operationalisation of the third part of Wood's model

Figure A3.1 contains Hopkins' operationalisation of the third part of Wood's model.

Stakeholder group		Indicator	Measure
Internal stakeholders	Owners	Profitability/value	Share value? Return on investment?
		Corporate irresponsibility of illegal activity	Fines? Number of product recalls? Pollution performance measured against some industry standard?
		Community welfare	Amount of giving? Programs as percentage of earnings?
		Corporate philanthropy	Amount of pre-tax giving as percentage of earnings?
		Code of ethics	Published? Distributed? Trained?
	Managers	Code of ethics	Trained in code of ethics? Apply in demonstrable ways? Apply in measurable ways?
	Employees	Union/staff relations	Evidence of controversy? Good relations?
		Safety issues	Litigation? Fines?
		Pay, pensions, and benefits	Relative ranking to similar firms (measuring percentage spent on employee benefits, programs, etc.)?
		Layoffs	Percentage? Frequency? Individuals chosen?
Employee ownership		Amount by per cent?	
Internal stakeholders (continued)	Employees (continued)	Women and minority policies	Existence? Rank with similar firms? Litigation? Fines?

Figure A3.1 Hopkins' operationalisation of the third part of Wood's model
Adapted from: Hopkins (1997:600-601).

Stakeholder group		Indicator	Measure
External stakeholders	Customers/ consumers	Product recalls	Evidence of application to products or services?
		Litigation	Absolute number? Seriousness demonstrated by litigation or fines? Percentage of total production?
		Public product or service controversy	Seriousness? Frequency?
		False advertising	Litigation? Fines?
	Natural environment	Toxic waste	Performance against index? Litigation? Fines?
		Recycling and use of recycled products	Performance against index? Percentages? Litigation? Fines?
		Use of eco-label on products	Yes/No?
	Community	Corporate giving to community programs	Amount? Percentage?
		Direct involvement in community programs	Number? Outcomes? Costs? Benefits?
		Community controversy or litigation	Number? Seriousness? Outcomes?
	Suppliers	Firm's code of ethics	Applied to all suppliers?
		Supplier's code of ethics	Applied?
		Litigation/fines	Number? Amount? Outcomes?
		Public controversy	Amount? Outcome?
	Business as a social institution	Code of ethics	Published? Applied?

Figure A3.1 Continued
Adapted from: Hopkins (1997:600-601).

Stakeholder group		Indicator	Measure
External stakeholders (continued)	Business as a social institution (continued)	Generic litigation	Amount? Number? Outcomes?
		Class action suits	Amount? Types? Number? Outcomes?
		Public policy and legislation by corporate irresponsibility	Amount? Types? Number? Outcomes?

Figure A3.1 Continued

Adapted from: Hopkins (1997:600-601).

Appendix 4 Steg et al.'s operationalisation of corporate social performance

Figure A4.1 shows Steg et al.'s operationalisation of corporate social performance.

Economic performance: Profitability and growth in market value	Social performance: Impacts on and relations with stakeholders	Environmental performance: Global environmental effects
<ol style="list-style-type: none"> 1. Economic market value <ol style="list-style-type: none"> a. Economic value added drivers <ul style="list-style-type: none"> - Value - Value growth - Sales (growth) - Operational margin - Net tax advantages - Working capital - Investment in fixed assets - Costs of capital b. Bookkeeping measures <ul style="list-style-type: none"> - Costs - Revenues - Assets (current and long term) - Liabilities (current and long term) - Equity c. Financial ratios Liquidity <ul style="list-style-type: none"> - Working capital - Current ratio - Quick ratio Profitability <ul style="list-style-type: none"> - Profit margin - Asset turnover - Return on assets Solvency <ul style="list-style-type: none"> - Debt to equity - Return on equity - Interest coverage d. Shareholder indicators <ul style="list-style-type: none"> - Share price volatility - Total share value - Dividend payments 	<ol style="list-style-type: none"> 1. Employee satisfaction <ol style="list-style-type: none"> a. Good relations <ul style="list-style-type: none"> - Open communication - Keeping to agreed rules and promises - Commitment to standards of fairness - Encouraging employee participation b. Commitment to basic rights <ul style="list-style-type: none"> - Observance of norms of decency - Non-discrimination - No forced and child labour - Right to appeal, voice complaints, and organise c. Care for well-being of employees <ul style="list-style-type: none"> - Ensure health and safety - Provide safety-net and retirement schemes - Opportunities for development 2. Customer satisfaction <ol style="list-style-type: none"> a. Good relations <ul style="list-style-type: none"> - Open communication - Keep to agreements and relational contracting - Commitment to standards of fairness - Encouraging customer participation 	<ol style="list-style-type: none"> 1. Sustainable use of scarce resources <ol style="list-style-type: none"> a. Decrease use of non-renewable resources <ul style="list-style-type: none"> - Decrease use of (fossil and nuclear) energy - Decrease use of substances and materials - Decrease use of (natural) land - Decrease use of water (ground water, irrigation) b. Increase share of renewable resources <ul style="list-style-type: none"> - Increase share of renewable energy - Increase share of renewable substances and materials - Increase share of renewable water (rain water) 2. Reduce generation of emissions and waste <ol style="list-style-type: none"> a. Reduce generation of final waste b. Reduce emissions of <ul style="list-style-type: none"> - Polluted waste water - Non-CO₂ greenhouse gases - Acidifying gases - Ozone depleting gases

Figure A4.1 Steg et al.'s operationalisation of corporate social performance
Adapted from: Steg et al. (2003:23-25).

Economic performance: Profitability and growth in market value	Social performance: Impacts on and relations with stakeholders	Environmental performance: Global environmental effects
<p>2. Economic performance drivers</p> <p>a. External positioning</p> <ul style="list-style-type: none"> - Market forces - Competitive forces - Environmental forces <p>b. Internal resources</p> <p>Primary resources</p> <ul style="list-style-type: none"> - Logistics - Operations <p>Secondary resources</p> <ul style="list-style-type: none"> - Leadership resources - Financial resources - Human resources - Innovative resources - Procurement resources <p>3. Value chain performance</p> <ul style="list-style-type: none"> - Net cost reductions - Net market access - Net access to technological expertise - Net reduction in business risks <p>4. Economic externalities</p> <p>a. Positive externalities</p> <ul style="list-style-type: none"> - Economic stability - Employment - Economic growth - Income improvement - Investments <p>b. Negative externalities</p> <ul style="list-style-type: none"> - Economic instability - Unemployment - Economic decline - Income deterioration - Divestments 	<p>2. Customer satisfaction (continued)</p> <p>b. Commitment to basic rights</p> <ul style="list-style-type: none"> - Observance of norms of decency - Non-discrimination - Observance of rights of privacy - Right to appeal and voice complaints <p>c. Care for well-being of customers</p> <ul style="list-style-type: none"> - Ensuring health and safety <p>d. Commitment to chain effects</p> <ul style="list-style-type: none"> - Expecting own principles on relations, rights, and care also from customers <p>3. Community satisfaction</p> <p>a. Good relations</p> <ul style="list-style-type: none"> - Open communication - Keeping to agreements and relational contracting - Commitment to standards of fairness - Encouraging community participation <p>b. Commitment to basic rights</p> <ul style="list-style-type: none"> - Observance of norms of decency - Observance of norms against bribery and corruption <p>c. Care for well-being of community</p> <ul style="list-style-type: none"> - Ensuring public health and safety - Local job creation and use of local suppliers and services - Commitment to equal opportunity and diversity 	<p>3. Reduce negative effects on life support system</p> <p>a. Decrease use of toxic and persistent substances</p> <p>b. Reduce impacts on animal welfare</p> <p>c. Reduce impacts in biodiversity and natural reserves</p> <ul style="list-style-type: none"> - Reduce effects on water systems and nature - Reduce land use in sensitive areas <p>4. Commitment to chain effects</p> <p>a. Environmental impacts from lifecycle of products and services</p> <ul style="list-style-type: none"> - Lifecycle monitoring and evaluation - Lifecycle management to reduce the environmental impacts of products and services <p>b. Optimising use of resources and waste flows on local and regional levels</p> <ul style="list-style-type: none"> - Waste delivered for recycling and further use - Waste acquired for recycling and further use <p>c. Informing customers about (ways to reduce) environmental impacts of products and services</p> <ul style="list-style-type: none"> - Informing customers about environmental impacts of products and services - Advising customers on ways to use products and services in an environmentally friendly way

Figure A4.1 Continued
Adapted from: Steg et al. (2003:23-25).

Economic performance: Profitability and growth in market value	Social performance: Impacts on and relations with stakeholders	Environmental performance: Global environmental effects
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- 4. Supplier satisfaction
 - a. Good relations
 - Open communication
 - Keeping to agreements and relational contracting
 - Commitment to standards of fairness
 - Encouraging supplier dialogue
 - b. Commitment to basic rights
 - Observance of norms of decency
 - Non-discrimination
 - c. Commitment to chain effects
 - Expecting own principles on relations, rights, and cares also from suppliers
 - 5. Competitors satisfaction
 - a. Good relations
 - Commitment to standards of fairness
 - b. Commitment to basic rights
 - Observance of norms of decency
-

Figure A4.1 Continued
Adapted from: Steg et al. (2003:23-25).

Appendix 5 Clarkson's entry and coding scheme

Figure A5.1 contains Clarkson's entry and coding scheme.

Stakeholder	Stakeholder issue	Description	Performance data
1. Company	1.1 Company history	A brief summary of the company's history including details of the company's principal products or services, total sales and assets, number of employees, and ownership or control. Foreign business operations, if applicable. Analysis of the current stage of company growth.	Significant events of recent years, such as acquisitions and divestitures.
	1.2 Industry background	Significant characteristics of the industry (industries) in which the company participates.	
	1.3 Organisation structure	The basic structure of the organisation and its relationship to the management of social and ethical issues. The role of the Board of Directors; its composition (insiders; outsiders).	If the structure is new, how successful has the implementation been? Have the stated goals of the restructuring been met?
	1.4 Economic performance	Measures of performance appropriate to the industry. Economic performance objectives set for the company.	Performance based on industry appropriate measures for the preceding five years compared with the performance of competitors and with the company's stated economic objectives.
	1.5 Competitive environment	A description of the state of competitive evolution in the industry (i.e., introduction, growth, shakeout, maturity). Identification of key competitors, and the company's relative size and strength. Degree of exposure.	Changes in size or strength relative to the competition.

Figure A5.1 Clarkson's entry and coding scheme
Adapted from: Clarkson (1991:353-358).

Stakeholder	Stakeholder issue	Description	Performance data	
1. Company (continued)	1.6	Mission or purpose	A statement of corporate mission or purpose and description of its linkages to planning, operations, and performance. Reference to social and ethical concerns. Processes for communicating mission or purpose statement inside and outside the company.	Evidence of linkages and communication.
	1.7	Corporate codes	Codes of ethics, conduct, or practice; statement of values, principles, and ground rules. Programs or processes for communicating both inside and outside the company. Provision for discussion of ethical issues, codes, and values in the employee introduction and training process. Systems of compliance. Linkages with planning, operations, performance assessment, and compensation.	Evidence of compliance. Evidence of linkages with planning, operations, performance, assessment, and compensation (e.g., data on incidents, frequency of training, numbers of employees seeking guidance on ethical issues). Consistency of operational decisions with the stated corporate values, policies, and codes.
	1.8	Stakeholder management and social issues management systems	Processes and systems for scanning, analysing and managing emerging stakeholder and social issues at the corporate level (including the role of the Board) and at the divisional, regional, and functional levels. These processes include the integration of such issues into strategic planning and policies, and into operations, including objective setting and performance appraisal and assessment.	Effectiveness of response to emerging issues, including perception in press and industry of leadership level. Evidence of integration.
2. Employees	2.1	General policy	General philosophy, objectives, code of practice, policies, and performance assessment process.	Data about employee attitudes, satisfaction, etc. Results of employee satisfaction surveys.
	2.2	Benefits	Employee benefits program.	Scope and scale relative to industry.

Figure A5.1 Continued
Adapted from: Clarkson (1991:353-358).

Stakeholder	Stakeholder issue	Description	Performance data	
2. Employees (continued)	2.3	Compensation and rewards	Objectives of compensation/reward system; linkage to employee performance on social and stakeholder issues.	Level of compensation relative to industry group. Ethical neutrality of compensation/reward system. Evidence of linkage to performance on social and stakeholder issues.
	2.4	Training and development	Employee training and development, including job retraining, literacy.	Dollars spent per annum, numbers of employees involved/annum, time spent/employee/annum.
	2.5	Career planning	Career planning programs and policies including lateral transfers and internal promotion.	Utilisation of programs. Percentage of transfers and promotions that are internal.
	2.6	Employee assistance program	Services available.	Utilisation rate, data on job-related cases.
	2.7	Health promotion	General policy, including commitment of senior management to a balanced lifestyle for employees, and programs offered.	Budget allocated, utilisation rate.
	2.8	Absenteeism and turnover	Performance objectives, programs and policies. External and internal factors affecting absenteeism and turnover.	Absenteeism and turnover data, relative to industry group(s).
	2.9	Leaves of absence	Policies on leaves of absence (e.g., childbirth, adoption, sabbatical, political office).	Utilisation rates, comparison of policy to industry practice.
	2.10	Relationships with unions	Specific policies regarding unions, historical experience and traditional stance.	Comparisons with industry practice. Record of complaints, frequency of job actions, legal proceedings, etc.
	2.11	Dismissal and appeal	Policies and processes for dismissal and dismissal appeal.	Utilisation rate for appeal process. Record of suits for wrongful dismissal.
	2.12	Termination, layoff and redundancy	Policy and practice regarding terminations, layoffs, and plant closures, job security, retraining, job restructuring, early retirement, advance notice of closures.	Number of employees per annum terminated or laid off over the last five years. Lay-off frequency. Industry comparisons.

Figure A5.1 Continued

Adapted from: Clarkson (1991:353-358).

Stakeholder	Stakeholder issue	Description	Performance data	
2. Employees (continued)	2.13	Retirement and termination counselling	Retirement and termination counselling programs.	Utilisation rates, budgets, and staffing allocated.
	2.14	Employment equity and discrimination	Policies and programs in hiring and promotion. Policies regarding on-the-job discrimination including sexual harassment.	Numbers of complaints, legal actions, citations for excellence, data from employee surveys.
	2.15	Women in management and on the Board	Stated policies and objectives regarding women in management and on the board.	Recent data on numbers of women in management and on the board, including length of service and proportion by level and functional area.
	2.16	Day-care and family accommodation	Provision for day-care and other responses to accommodate family needs.	Utilisation rates, data from employee satisfaction surveys, commitment to funding programs.
	2.17	Employee communication	Communication processes both to and from employees. Examples of communication from employees are: 'open door' to management; employee suggestion process, including incentives; confidential reporting process (e.g., an 'ombudsman'); policy and process to encourage employees to raise ethical concerns, including 'whistle blowing' protection.	Utilisation rates and pattern. Results of employee satisfaction surveys.
	2.18	Occupational health and safety	General philosophy, code of practice, policy and program, including employee training and performance appraisal, emergency response and monitoring or auditing procedures. Level to which assessment data are reported. Key issues and specific policies and programs of particular importance.	Details of awards; legal or others disciplinary actions against company, accidents and lost days data, workers compensation industrial disease and injury data. Evidence that data are reported to levels specified. Rating by the International Safety Rating System, if applicable.
	2.19	Part-time, temporary, or contract employees	Policy. Access to programs and benefits.	Evidence of access.

Figure A5.1 Continued

Adapted from: Clarkson (1991:353-358).

Stakeholder	Stakeholder issue	Description	Performance data
2. Employees (continued)	2.20	Other employee or human resource issues	
3. Shareholders	3.1	General policy	Philosophy, code of practice, policies, and performance assessment process.
	3.2	Shareholder communications and complaints	Policy and programs.
	3.3	Shareholder advocacy	Policy regarding advocacy issues raised by shareholders.
	3.4	Shareholder rights	Policy and program.
	3.5	Other shareholder issues	
4. Customers	4.1	General policy	Philosophy, code of practice, policies, and performance assessment process. Depending upon the nature of the business, 'customer' may include consumers, secondary manufacturers, or distributors. Changes in customer base, type, or mix.
	4.2	Customer communications	Process for communicating policies and programs to customers. Policy on customer's 'need or right to know.' Policy on advertising and marketing.
	4.3	Product safety	Product safety policy, research and development program, and customer education.
			Significant changes in the nature of shareholding (e.g., individual, institutional, nationality) and ownership. Record of share prices, market activity.
			Record of utilisation/complaints and resolution. Legal proceedings.
			Record of issues raised, response compared with policy, nature of resolution.
			Issues and their resolution. Regulatory proceedings.
			Use of the process, record of customer perception of the process. Complaints and regulatory proceedings related to advertising and marketing activities.
			Spending levels of safety programs and data on problems with products, including legal proceedings. Description of company response to problems.

Figure A5.1 Continued

Adapted from: Clarkson (1991:353-358).

Stakeholder	Stakeholder issue	Description	Performance data	
4. Customers (continued)	4.4	Customer complaints	Policies and processes including utilisation and satisfaction measures. Level in the organisation at which complaints are handled and reported.	Pertinent episodes in recent past. Utilisation and satisfaction rates. Evidence that complaints are handled at and reported to the designated of the organisation. Legal proceedings.
	4.5	Special customer services	Special services for disabled persons, elderly, youth, etc. Attention to issues of access (e.g., visual, hearing, physical).	Levels of spending. Utilisation rates. Record of consumer complaints or pressure.
	4.6	Other customer issues		
5. Suppliers	5.1	General policy	General philosophy, policies, programs, and performance assessment process. Influence of social issues on choice of relationship with suppliers. ('Suppliers' is intended to include third party contractors, and financiers.)	Record of consistency between practice and policy. Complaints from suppliers. Legal proceedings.
	5.2	Relative power	Given the industry and the business system, a characterisation of the power balance between the company and its suppliers.	Effect of relative power of social performance of both the company and the suppliers.
	5.3	Other supplier issues		
6. Public stakeholders	6.1	Public health, safety, and protection	Policies, code of practice, objectives, and programs including employee training and performance assessment. Extension of policies to suppliers, distributors, and customers, domestically and internationally. Description of emergency response plan, monitoring and auditing procedures for environmental protection. Level to which data are reported. Policy on disclosure of incidents and audits.	Evidence that data are reported to designated level. History of complaints and offences. Legal proceedings. Effectiveness of follow-through on planned responses to emergencies. Degree of government pressure required prior to policy change. Timing of decisions relative to public relations crises. Comparison with performance of competitors.

Figure A5.1 Continued

Adapted from: Clarkson (1991:353-358).

Stakeholder	Stakeholder issue	Description	Performance data	
6. Public stakeholders (continued)	6.2	The conservation of energy and materials	Policies, objectives, and programs including employee training and assessment. Auditing process. Adoption of reject-reduce-reuse-recycle hierarchy for energy and material use and waste management, and commitment to treatment before disposal for hazardous wastes. Extension of policies to suppliers, distributors, and customers.	Data on quantity of materials saved, changes in consumption, reduction in wastes produced, etc. Comparison with performance of competitors. Related R&D expenditures.
	6.3	Environmental assessment of capital projects	Process for incorporating environmental principles into capital project assessment (construction, operations, and closure). Performance assessment of the process.	History of success or complaints on capital projects. Congruence of accepted projects with stated values with respect to the environment.
	6.4	Other environmental issues	Programs such as 'green' products or services. Innovations in control methodologies and policy on dissemination of these developments.	
	6.5	Public policy involvement	Direct or through industry associations. Policy and processes that give the company a role in the formation of public policy. The role of the Board of Directors.	Specific policy involvement and record of participation. Comparison with other companies in the industry.
	6.6	Community relations	Community liaison and communications programs and policies, including stakeholder consultation on decisions which effect the community. Performance assessment process. Specific benefits and consideration of the local community (i.e., local hiring, business opportunities, emergency response programs, plant closings).	Record of stakeholder consultation. Value of benefits to community.

Figure A5.1 Continued

Adapted from: Clarkson (1991:353-358).

Stakeholder	Stakeholder issue	Description	Performance data
6. Public stakeholders (continued)	6.7 Social investment and donations	Specific social investment policies and programs, including corporate donations (financial, 'in-kind' and use of facilities) and the allocation formula for same; employee involvement in community service and expectations of same in job descriptions and performance appraisal; corporate sponsorship. Performance assessment process.	Awards, \$/s/annum and percentage of earnings allocated for donations and corporate sponsorship, time/employee/annum spent in community service. Performance relative to industry group(s).
7. Competitors	7.1 General policy	General philosophy, policies, programs and performance assessment process. Given the industry and the business system, a characteristic of the power balance between the company and its competitors.	Record of consistency between practice and policy. Complaints or legal action by competitors. Effect of relative power on social performance of both the company and the industry.

Figure A5.1 Continued

Adapted from: Clarkson (1991:353-358).

Appendix 6 Data structure of KLD's Socrates database

Figure A6.1 contains a description of the data structure of KLD's Socrates database.

Attribute	Strength	Concern
Community	<p>Generous giving</p> <p>The company has consistently given over 1.5% of trailing three-year net earnings before taxes (NEBT) to charity, or has otherwise been notably generous in its giving.</p> <p>Innovative giving</p> <p>The company has a notably innovative giving program that supports non-profit organisations, particularly those promoting self-sufficiency among the economically disadvantaged. Companies that permit non-traditional federated charitable giving drives in the workplace are often noted in this section as well.</p> <p>Non-US charitable giving</p> <p>The company has made a substantial effort to make charitable contributions abroad, as well as in the U.S. To qualify, a company must make at least 20% of its giving, or have taken notably innovative initiatives in its giving program, outside the U.S.</p> <p>Support for housing</p> <p>The company is a prominent participant in public/private partnerships that support housing initiatives for the economically disadvantaged, e.g., the National Equity Fund or the Enterprise Foundation.</p> <p>Support for education</p> <p>The company has either been notably innovative in its support for primary or secondary school education, particularly for those programs that benefit the economically disadvantaged, or the company has prominently supported job-training programs for youth.</p> <p>Other strength</p> <p>The company has either an exceptionally strong volunteer program, in-kind giving program, or engages in other notably positive community activities.</p>	<p>Investment controversies</p> <p>The company is a financial institution whose lending or investment practices have led to controversies, particularly ones related to the Community Reinvestment Act.</p> <p>Negative economic impact</p> <p>The company's actions have resulted in major controversies concerning its economic impact on the community. These controversies can include issues related to environmental contamination, water rights disputes, plant closings, 'put-or-pay' contracts with trash incinerators, or other company actions that adversely affect the quality of life, tax base, or property values in the community.</p> <p>Other concern</p> <p>The company is involved with a controversy that has mobilised community opposition, or is engaged in other noteworthy community controversies.</p>

Figure A6.1 Data structure of KLD's Socrates database
Adapted from: KLD (2003).

Attribute	Strength	Concern
Corporate governance	<p>Limited compensation</p> <p>The company has recently awarded notably low levels of compensation to its top management or its board members. The limit for a rating is total compensation of less than \$500,000 per year for a CEO or \$30,000 per year for outside directors.</p> <p>Ownership strength</p> <p>The company owns between 20% and 50% of another company KLD has cited as having an area of social strength, or is more than 20% owned by a firm that KLD has rated as having social strengths. When a company owns more than 50% of another firm, it has a controlling interest, and KLD treats the second firm as if it is a division of the first.</p> <p>Other strength</p> <p>The company has an innovative compensation plan for its board or executives, a unique and positive corporate culture, or some other initiative not covered by other KLD ratings.</p>	<p>High compensation</p> <p>The company has recently awarded notably high levels of compensation to its top management or its board members. The limit for a rating is total compensation of more than \$10 million per year for a CEO or \$100,000 per year for outside directors.</p> <p>Tax disputes</p> <p>The company has recently been involved in major tax disputes involving more than \$100 million with the Federal, state, or local authorities.</p> <p>Ownership concern</p> <p>The company owns between 20% and 50% of a company KLD has cited as having an area of social concern, or is more than 20% owned by a firm KLD has rated as having areas of concern. When a company owns more than 50% of another firm, it has a controlling interest, and KLD treats the second firm as if it is a division of the first.</p> <p>Other concern</p> <p>The company restated its earnings over an accounting controversy, has other accounting problems, or is involved with some other controversy not covered by other KLD ratings.</p>
Diversity	<p>CEO</p> <p>The company's chief executive officer is a woman or a member of a minority group.</p> <p>Promotion</p> <p>The company has made notable progress in the promotion of women and minorities, particularly to line positions with profit-and-loss responsibilities in the corporation.</p> <p>Board of directors</p> <p>Women, minorities, and/or the disabled hold four seats or more (with no double counting) on the board of directors, or one-third or more of the board seats if the board numbers less than 12.</p> <p>Work/life benefits</p> <p>The company has outstanding employee benefits or other programs addressing work/life concerns, e.g., childcare, elder care, or flex time.</p> <p>Women and minority contracting</p> <p>The company does at least 5% of its subcontracting, or otherwise has a demonstrably strong record on purchasing or contracting, with women- and/or minority-owned businesses.</p>	<p>Controversies</p> <p>The company has either paid substantial fines or civil penalties as a result of affirmative action controversies, or has otherwise been involved in major controversies related to affirmative action issues.</p> <p>Non-representation</p> <p>The company has no women on its board of directors or among its senior line managers.</p> <p>Other concern</p> <p>The company is involved in diversity controversies not covered by other KLD ratings.</p>

Figure A6.1 *Continued*
Adapted from: KLD (2003).

Attribute	Strength	Concern
Diversity (continued)	<p>Employment of the disabled</p> <p>The company has implemented innovative hiring programs, other innovative human resource programs for the disabled, or otherwise has a superior reputation as an employer of the disabled.</p>	
	<p>Gay and lesbian policies</p> <p>The company has implemented notably progressive policies toward its gay and lesbian employees. In particular, it provides benefits to the domestic partners of its employees.</p>	
	<p>Other strength</p> <p>The company has made a notable commitment to diversity that is not covered by other KLD ratings.</p>	
Employee relations	<p>Union relations</p> <p>The company has a history of notably strong union relations.</p>	<p>Union relations</p> <p>The company has a history of notably poor union relations.</p>
	<p>Cash profit sharing</p> <p>The company has a cash profit-sharing program through which it has recently made distributions to a majority of its workforce.</p>	<p>Safety controversies</p> <p>The company recently has either paid substantial fines or civil penalties for wilful violations of employee health and safety standards, or has been otherwise involved in major health and safety controversies.</p>
	<p>Employee involvement</p> <p>The company strongly encourages worker involvement and/or ownership through stock options available to a majority of its employees, gain sharing, stock ownership, sharing of financial information, or participation in management decision-making.</p>	<p>Workforce reductions</p> <p>The company has reduced its workforce by 15% in the most recent year or by 25% during the past two years, or it has announced plans for such reductions.</p>
	<p>Retirement benefits</p> <p>The company has a notably strong retirement benefits program.</p>	<p>Retirement benefits concern</p> <p>The company has either a substantially under-funded defined benefit pension plan, or an inadequate retirement benefits program.</p>
	<p>Other strength</p> <p>The company is noted by the US Occupational Health and Safety Administration for its safety programs, or has other strong employee relations initiatives not covered by other KLD ratings.</p>	<p>Other concern</p> <p>The company is involved in an employee relations controversy that is not covered by other KLD ratings.</p>
Environment	<p>Beneficial products and services</p> <p>The company derives substantial revenues from innovative remediation products, environmental services, or products that promote the efficient use of energy, or it has developed innovative products with environmental benefits. (The term 'environmental service' does not include services with questionable environmental effects, such as landfills, incinerators, waste-to-energy plants, and deep injection wells.)</p>	<p>Hazardous waste</p> <p>The company's liabilities for hazardous waste sites exceed \$50 million, or the company has recently paid substantial fines or civil penalties for waste management violations.</p>

Figure A6.1 Continued
Adapted from: KLD (2003).

Attribute	Strength	Concern
Environment (continued)	<p>Pollution prevention</p> <p>The company has notably strong pollution prevention programs including both emissions reductions and toxic-use reduction programs.</p> <p>Recycling</p> <p>The company either is a substantial user of recycled materials as raw materials in its manufacturing processes, or a major factor in the recycling industry.</p> <p>Alternative fuels</p> <p>The company derives substantial revenues from alternative fuels. The term 'alternative fuels' includes natural gas, wind power, and solar energy. The company has demonstrated an exceptional commitment to energy efficiency programs or the promotion of energy efficiency.</p> <p>Communications</p> <p>The company is a signatory to the CERES Principles, publishes a notably substantive environmental report, or has notably effective internal communications systems in place for environmental best practices.</p> <p>Other strength</p> <p>The company has demonstrated a superior commitment to management systems, voluntary programs, or other environmentally proactive activities.</p>	<p>Regulatory problems</p> <p>The company has recently paid substantial fines or civil penalties for violations of air, water, or other environmental regulations, or it has a pattern of regulatory controversies under the Clean Air Act, Clean Water Act or other major environmental regulations.</p> <p>Ozone depleting chemicals</p> <p>The company is among the top manufacturers of ozone depleting chemicals such as HCFCs, methyl chloroform, methylene chloride, or bromines.</p> <p>Substantial emissions</p> <p>The company's legal emissions of toxic chemicals (as defined by and reported to the EPA) from individual plants into the air and water are among the highest of the companies followed by KLD.</p> <p>Agricultural chemicals</p> <p>The company is a substantial producer of agricultural chemicals, i.e., pesticides or chemical fertilisers.</p> <p>Climate change</p> <p>The company derives substantial revenues from the sale of coal or oil and its derivative fuel products, or the company derives substantial revenues indirectly from the combustion of coal or oil and its derivative fuel products. Such companies include electric utilities, transportation companies with fleets of vehicles, auto and truck manufacturers, and other transportation equipment companies.</p> <p>Other concern</p> <p>The company has been involved in an environmental controversy that is not covered by other KLD ratings.</p>
Human rights	<p>Indigenous peoples relations strength</p> <p>The company has established relations with indigenous peoples near its proposed or current operations (either in or outside the U.S.) that respect the sovereignty, land, culture, human rights, and intellectual property of the indigenous peoples.</p> <p>Labour rights strength</p> <p>The company has outstanding transparency on overseas sourcing disclosure and monitoring, or has particularly good union relations outside the U.S.</p> <p>Other strength</p> <p>The company has undertaken exceptional human rights initiatives, including outstanding transparency or disclosure on human rights issues, or has otherwise shown industry leadership on human rights issues not covered by other KLD human rights ratings.</p>	<p>Burma concern</p> <p>The company has operations or investment in, or sourcing from, Burma.</p> <p>Labour rights concern</p> <p>The company's operations outside the U.S. have had major recent controversies related to employee relations and labour standards or its U.S. operations have had major recent controversies involving sweatshop conditions or child labour.</p> <p>Indigenous peoples relations concern</p> <p>The company has been involved in serious controversies with indigenous peoples (either in or outside the U.S.) that indicate the company has not respected the sovereignty, land, culture, human rights, and intellectual property of indigenous peoples.</p>

Figure A6.1 Continued
Adapted from: KLD (2003).

Attribute	Strength	Concern
Human rights (continued)		<p>Other concern</p> <p>The company's operations outside the U.S. have been the subject of major recent human rights controversies not covered by other KLD ratings.</p>
Product	<p>Quality</p> <p>The company has a long-term, well-developed, company-wide quality program, or it has a quality program recognised as exceptional in U.S. industry.</p> <p>R&D/innovation</p> <p>The company is a leader in its industry for research and development (R&D), particularly by bringing notably innovative products to market.</p> <p>Benefits to economically disadvantaged.</p> <p>The company has as part of its basic mission the provision of products or services for the economically disadvantaged.</p> <p>Other strength</p> <p>The company's products have notable social benefits that are highly unusual or unique for its industry.</p>	<p>Product safety</p> <p>The company has recently paid substantial fines or civil penalties, or is involved in major recent controversies or regulatory actions, relating to the safety of its products and services.</p> <p>Marketing/contracting controversy</p> <p>The company has recently been involved in major marketing or contracting controversies, or has paid substantial fines or civil penalties relating to advertising practices, consumer fraud, or government contracting.</p> <p>Antitrust</p> <p>The company has recently paid substantial fines or civil penalties for antitrust violations such as price fixing, collusion, or predatory pricing, or is involved in recent major controversies or regulatory actions relating to antitrust allegations.</p> <p>Other concern</p> <p>The company has major controversies with its franchises, is an electric utility with nuclear safety problems, defective product issues, or is involved in other product-related controversies not covered by other KLD ratings.</p>
Abortion		<p>Manufacturers</p> <p>Companies that are engaged in the development or manufacture of abortifacients, including methotrexate, misoprostol, and RU 486.</p> <p>Ownership and operation of acute care facilities</p> <p>Companies that own or operate one or more acute care hospitals or surgical centres that provide general medical services, including abortions and contraceptive surgical procedures.</p> <p>Ownership of an abortion company</p> <p>The company owns more than 20% of another company with abortion involvement. (When a company owns more than 50% of company with abortion involvement, KLD treats the abortion company as a consolidated subsidiary.)</p> <p>Ownership by an abortion company</p> <p>The company is more than 50% owned by a company with abortion involvement.</p>

Figure A6.1 Continued
Adapted from: KLD (2003).

Attribute	Strength	Concern	
Adult entertainment		<p>Producers</p> <p>The report includes publicly traded U.S. companies that produce adult media products including movies, magazines, books, calendars, and websites.</p>	
		<p>Owners and operators</p> <p>The report includes publicly traded U.S. companies that own and/or operate adult entertainment establishment.</p>	
		<p>Distributors</p> <p>The report includes publicly traded U.S. companies that derive 15% or more of total revenues from the rental, sale, or distribution (wholesale or retail) of adult entertainment media products.</p>	
		<p>Providers</p> <p>The report includes publicly traded U.S. companies that offer pay-per-view adult entertainment.</p>	
		<p>Ownership of an adult entertainment company</p> <p>The company owns more than 20% of another company with adult entertainment involvement. (When a company owns more than 50% of company with adult entertainment involvement, KLD treats the adult entertainment company as a consolidated subsidiary.)</p>	
		<p>Ownership by an adult entertainment company</p> <p>The company is more than 50% owned by a company with adult entertainment involvement.</p>	
	Alcohol		<p>Manufacturers</p> <p>Companies that are involved in the manufacture alcoholic beverages including beer, distilled spirits, or wine.</p>
			<p>Retailers</p> <p>Companies that derive 15% or more of total revenues from the distribution (wholesale or retail) of alcoholic beverages.</p>
			<p>Manufacturers of products necessary for production of alcoholic beverages</p> <p>Companies that derive 15% or more of total revenues from the supply of raw materials and other products necessary for the production of alcoholic beverages.</p>

Figure A6.1 Continued
Adapted from: KLD (2003).

Attribute	Strength	Concern
Alcohol (continued)		<p>Ownership of an alcohol company</p> <p>The company owns more than 20% of another company with alcohol involvement. (When a company owns more than 50% of company with alcohol involvement, KLD treats the alcohol company as a consolidated subsidiary.)</p> <p>Ownership by an alcohol company</p> <p>The company is more than 50% owned by a company with alcohol involvement.</p>
Contraceptives		<p>Manufacturers</p> <p>Companies that derive identifiable revenues from the development or manufacture of contraceptives, including cervical caps; condoms; contraceptive implants; contraceptive patches; contraceptive vaccines; diaphragms; intrauterine devices (IUDs); oral contraceptives; and spermicides.</p> <p>Ownership of a contraceptive company</p> <p>The company owns more than 20% of another company with contraceptive involvement. (When a company owns more than 50% of company with contraceptive involvement, KLD treats the contraceptive company as a consolidated subsidiary.)</p> <p>Ownership by a contraceptive company</p> <p>The company is more than 50% owned by a company with contraceptive involvement.</p>
Firearms		<p>Manufacturers</p> <p>The company is engaged in the production of small arms ammunition or firearms, including, pistols, revolvers, rifles, shotguns, or sub-machine guns.</p> <p>Ownership of a firearms company</p> <p>The company owns more than 20% of another company with firearms involvement. (When a company owns more than 50% of company with firearms involvement, KLD treats the firearms company as a consolidated subsidiary.)</p> <p>Ownership by a firearms company</p> <p>The company is more than 50% owned by a company with firearms involvement.</p>
Gambling		<p>Owners and operators</p> <p>Companies that own and/or operate casinos, race-tracks, bingo parlours, or other betting establishments, including casinos; horse, dog, or other race tracks that permit wagering; lottery operations; on-line gambling; pari-mutuel wagering facilities; bingo; Jai-alai; and other sporting events that permit wagering.</p>

Figure A6.1 Continued
Adapted from: KLD (2003).

Attribute	Strength	Concern
Gambling (continued)		<p>Manufacturers</p> <p>Companies that produce goods used exclusively for gambling, such as slot machines, roulette wheels, or lottery terminals.</p>
		<p>Supporting products or services</p> <p>Companies that provide services in casinos that are fundamental to gambling operations, such as credit lines, consulting services, or gambling technology and technology support.</p>
		<p>Ownership of a gambling company</p> <p>The company owns more than 20% of another company with gambling involvement. (When a company owns more than 50% of company with gambling involvement, KLD treats the gambling company as a consolidated subsidiary.)</p>
		<p>Ownership by a gambling company</p> <p>The company is more than 50% owned by a company with gambling involvement.</p>
Military		<p>Manufacturers of weapons or weapons systems</p> <p>Companies that derive more than 2% of revenues from the sale of conventional weapons or weapons systems, or earned \$50 million or more from the sale of conventional weapons or weapons systems, or earned \$10 million or more from the sale of nuclear weapons or weapons systems</p>
		<p>Manufacturers of components for weapons or weapons systems</p> <p>Companies that derive more than 2% of revenues from the sale of customised components for conventional weapons or weapons systems, or earned \$50 million or more from the sale of customised components for conventional weapons or weapons systems, or earned \$10 million or more from the sale of customised components for nuclear weapons or weapons systems.</p>
		<p>Ownership of a military company</p> <p>The company owns more than 20% of another company with military involvement. (When a company owns more than 50% of company with military involvement, KLD treats the military company as a consolidated subsidiary.)</p>
		<p>Ownership by a military company</p> <p>The company is more than 50% owned by a company with military involvement.</p>
Nuclear power		<p>Ownership of nuclear power plants</p> <p>Companies that own nuclear power plants.</p>

Figure A6.1 Continued
Adapted from: KLD (2003).

Attribute	Strength	Concern
Nuclear power (continued)		<p>Ownership of a nuclear power company</p> <p>The company owns more than 20% of another company with nuclear power involvement. (When a company owns more than 50% of company with nuclear power involvement, KLD treats the nuclear power company as a consolidated subsidiary.)</p>
		<p>Ownership by a nuclear power company</p> <p>The company is more than 50% owned by a company with nuclear power involvement.</p>
Tobacco		<p>Manufacturers</p> <p>The company produces tobacco products, including cigarettes, cigars, pipe tobacco, and smokeless tobacco products.</p>
		<p>Retailers</p> <p>The company derives 15% or more of total revenues from the distribution (wholesale or retail) of tobacco products.</p>
		<p>Manufacturers of products necessary for production of tobacco products</p> <p>The company derives 15% or more of total revenues from the production and supply of raw materials and other products necessary for the production of tobacco products.</p>
		<p>Ownership of a tobacco company</p> <p>The company owns more than 20% of another company with tobacco involvement. (When a company owns more than 50% of company with tobacco involvement, KLD treats the tobacco company as a consolidated subsidiary.)</p>
		<p>Ownership by a tobacco company</p> <p>The company is more than 50% owned by a company with tobacco involvement.</p>

Figure A6.1 Continued
Adapted from: KLD (2003).

Appendix 7 GRI's sustainability reporting guidelines

The sustainability reporting guidelines by GRI (2002b) consist of five sections. In this Appendix each of these five sections are described (note that the text corresponds to the text by GRI).

A7.1 Vision and strategy

This section encompasses a statement of the reporting organisation's sustainability vision and strategy as well as a statement from the Chief Executive Officer (CEO; see figure A7.1).

Reporting element	
1.1	<p>Statement of the organisation's vision and strategy regarding its contribution to sustainable development.</p> <p>Present overall vision of the reporting organisation for its future, particularly with regard to managing the challenges associated with economic, environmental, and social performance. This should answer, at a minimum, the following questions:</p> <ul style="list-style-type: none">- What are the main issues for the organisation related to the major themes of sustainable development?- How are stakeholders included in identifying these issues?- For each issue, which stakeholders are most affected by the organisation?- How are these issues reflected in the organisation's values and integrated into its business strategies?- What are the organisation's objectives and actions on these issues? <p>Reporting organisations should use maximum flexibility and creativity in preparing this section. The reporting organisation's major direct and indirect economic, environmental, and social issues and impacts (both positive and negative) should inform the discussion. Reporting organisations are encouraged to draw directly from indicators and information presented elsewhere in the report. They should include in their discussion any major opportunities, challenges, or obstacles to moving toward improved economic, environmental, and social performance. International organisations are also encouraged to explicitly discuss how their economic, environmental, and social concerns relate to and are impacted by their strategies for emerging markets.</p>
1.2	<p>Statement from the CEO (or equivalent senior manager) describing key elements of the report.</p> <p>A statement from the reporting organisation's CEO (or equivalent senior manager if other title is used) sets the tone of the report and establishes credibility with internal and external users. GRI does not specify the content of the CEO statement; however, it believes such statements are most valuable when they explicitly refer to the organisation's commitment to sustainability and to key elements of the report. Recommended elements of a CEO statement include the following:</p> <ul style="list-style-type: none">- Highlights of report content and commitment to targets;- Description of the commitment to economic, environmental, and social goals by the organisation's leadership;- Statement of successes and failures;- Performance against benchmarks such as the previous year's performance and targets and industry sector norms;- The organisation's approach to stakeholder engagement; and- Major challenges for the organisation and its business sector in integrating responsibilities for financial performance with those for economic, environmental, and social performance, including the implications for future business strategy. <p>The CEO statement may be combined with the statement of vision and strategy.</p>

Figure A7.1 Vision and strategy
Source: GRI (2002b:38-39).

A7.2 Profile

This section provides an overview of the reporting organisation and describes the scope of the report (see figure A7.2). Thus, it provides readers with a context for understanding and evaluating information in the rest of the report. The section also includes organisational contact information.

Reporting element		
Organisational profile	2.1	Name of reporting organisation.
	2.2	Major products and/or services, including brands if appropriate. The reporting organisation should also indicate the nature of its role in providing these products and services, and the degree to which the organisation relies on outsourcing.
	2.3	Operational structure of the organisation.
	2.4	Description of major divisions, operating companies, subsidiaries, and joint ventures.
	2.5	Countries in which the organisation's operations are located.
	2.6	Nature of ownership; legal form.
	2.7	Nature of markets served.
	2.8	Scale of the reporting organisation: <ul style="list-style-type: none"> - Number of employees; - Products produced/services offered (quantity or volume); - Net sales; and - Total capitalisation broken down in terms of debt and equity. <p>In addition to the above, reporting organisations are encouraged to provide additional information, such as:</p> <ul style="list-style-type: none"> - Value added; - Total assets; and - Breakdowns of any or all of the following: <ul style="list-style-type: none"> - Sales/revenues by countries/regions that make up 5 percent or more of total revenues; - Major products and/or identified services; - Costs by country/region; and - Employees by country/region. <p>In preparing the profile information, organisations should consider the need to provide information beyond that on direct employees and financial data. For example, some organizations with few direct employees will have many indirect employees. This could include the employees of subcontractors, franchisees, joint ventures, and companies entirely dependent on or answerable to the reporting organisation. The extent of these relationships may interest stakeholders as much or more than information on direct employees. The reporting organisation should consider adding such information to its profile where relevant.</p> <p>Reporting organisations should choose the set of measures best suited to the nature of their operations and stakeholders' needs. Measures should include those that can be used specifically to create ratios using the absolute figures provided in other sections of the report [...] All information should cover that portion of the organisation that is covered by the report.</p>

Figure A7.2 Profile
Source: GRI (2002b:40-41).

Reporting element	
Organisational profile (continued)	<p>2.9 List of stakeholders, key attributes of each, and relationship to the reporting organisation.</p> <p>Stakeholders typically include the following groups (examples of attributes are shown in parentheses):</p> <ul style="list-style-type: none"> - Communities (locations, nature of interest); - Customers (retail, wholesale, businesses, governments); - Shareholders and providers of capital (stock exchange listings); - Suppliers (products/services provided, local/national/international operations); - Trade unions (relation to workforce and reporting organisation); - Workforce, direct and indirect (size, diversity, relationship to the reporting organisation); and - Other stakeholders (business partners, local authorities, non-governmental organisations (NGOs)).
Report scope	<p>2.10 Contact person(s) for the report, including e-mail and web addresses.</p> <p>2.11 Reporting period (e.g., fiscal/calendar year) for information provided.</p> <p>2.12 Date of most recent previous report (if any).</p> <p>2.13 Boundaries of report (countries/regions, products/services, divisions/facilities/joint ventures/subsidiaries) and any specific limitations on the scope.</p> <p>If reporting boundaries do not match the full range of economic, environmental, and social impacts of the organisation, state the strategy and projected timeline for providing complete coverage.</p> <p>2.14 Significant changes in size, structure, ownership, or products/services that have occurred since the previous report.</p> <p>2.15 Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations that can significantly affect comparability from period to period and/or between reporting organisations.</p> <p>2.16 Explanation of the nature and effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).</p>
Report profile	<p>2.17 Decisions not to apply GRI principles or protocols in the preparation of the report.</p> <p>2.18 Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits.</p> <p>2.19 Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information.</p> <p>2.20 Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the sustainability report.</p> <p>This includes internal management systems, processes, and audits that management relies on to ensure that reported data are reliable and complete with regard to the scope of the report.</p> <p>2.21 Policy and current practice with regard to providing independent assurance for the full report.</p> <p>2.22 Means by which report users can obtain additional information and reports about economic, environmental, and social aspects of the organisation's activities, including facility-specific information (if available).</p>

Figure A7.2 Continued
Source: GRI (2002b:39-41).

A7.3 Governance structure and management systems

This section provides an overview of the governance structure, overarching policies, and management systems in place to implement the reporting organisation's vision for sustain-

Reporting element			
Structure and governance	3.1	<p>Governance structure of the organisation, including major committees under the board of directors that are responsible for setting strategy and for oversight of the organisation.</p> <p>Describe the scope of responsibility of any major committees and indicate any direct responsibility for economic, social, and environmental performance.</p>	
	3.2	<p>Percentage of the board of directors that are independent, non-executive directors.</p> <p>State how the board determines 'independence'.</p>	
	3.3	<p>Process for determining the expertise board members need to guide the strategic direction of the organisation, including issues related to environmental and social risks and opportunities.</p>	
	3.4	<p>Board-level processes for overseeing the organisation's identification and management of economic, environmental, and social risks and opportunities.</p>	
	3.5	<p>Linkage between executive compensation and achievement of the organisation's financial and non-financial goals (e.g., environmental performance, labour practices).</p>	
	3.6	<p>Organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies.</p> <p>Include identification of the highest level of management below the board level directly responsible for setting and implementing environmental and social policies, as well as general organisational structure below the board level.</p>	
	3.7	<p>Mission and values statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental, and social performance and the status of implementation.</p> <p>Describe the status of implementation in terms of degree to which the code is applied across the organisation in different regions and departments/units. 'Policies' refers to those that apply to the organisation as a whole, but may not necessarily provide substantial detail on the specific aspects listed under the performance indicators in section A7.5 of the <i>Guidelines</i>.</p>	
	3.8	<p>Mechanisms for shareholders to provide recommendations or direction to the board of directors.</p> <p>Include reference to any policies or processes regarding the use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to management.</p>	
	Stakeholder engagement	3.9	<p>Basis for identification and selection of major stakeholders.</p> <p>This includes the processes for defining an organisation's stakeholders and for determining which groups to engage.</p>
		3.10	<p>Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group.</p> <p>This could include surveys, focus groups, community panels, corporate advisory panels, written communication, management/union structures, and other vehicles.</p>

Figure A7.3 Governance structure and management systems
Source: GRI (2002b:41-43).

Reporting element	
Overarching policies and management systems	<p>3.11 Type of information generated by stakeholder consultations.</p> <p>Include a list of key issues and concerns raised by stakeholders and identify any indicators specifically developed as a result of stakeholder consultation.</p>
	<p>3.12 Use of information resulting from stakeholder engagements.</p> <p>For example, this could include selecting performance benchmarks or influencing specific decisions on policy or operations.</p>
	<p>3.13 Explanation of whether and how the precautionary approach or principle is addressed by the organisation.</p> <p>This could include an example that illustrates the organisation's approach to risk management in the operational planning or the development and introduction of new products. For reference, see the glossary for text of Article 15 of the Rio Principles on the precautionary approach.</p>
	<p>3.14 Externally developed, voluntary economic, environmental, and social charters, sets of principles, or other initiatives to which the organisation subscribes or which it endorses.</p> <p>Include date of adoption and countries/operations where applied.</p>
	<p>3.15 Principal memberships in industry and business associations, and/or national/international advocacy organisations.</p>
	<p>3.16 Policies and/or systems for managing upstream and downstream impacts, including:</p> <ul style="list-style-type: none"> - Supply chain management as it pertains to outsourcing and supplier environmental and social performance; and - Product and service stewardship initiatives. <p>Stewardship initiatives include efforts to improve product design to minimise negative impacts associated with manufacturing, use, and final disposal.</p>
	<p>3.17 Reporting organisation's approach to managing indirect economic, environmental, and social impacts resulting from its activities.</p> <p>See below (under economic performance indicators) for a discussion of indirect economic impacts.</p>
	<p>3.18 Major decisions during the reporting period regarding the location of, or changes in, operations.</p> <p>Explain major decisions such as facility or plant openings, closings, expansions, and contractions.</p>
	<p>3.19 Programs and procedures pertaining to economic, environmental, and social performance. Include discussion of:</p> <ul style="list-style-type: none"> - Priority and target setting; - Major programs to improve performance; - Internal communication and training; - Performance monitoring; - Internal and external auditing; and - Senior management review.
	<p>3.20 Status of certification pertaining to economic, environmental, and social management systems.</p> <p>Include adherence to environmental management standards, labour, or social accountability management systems, or other management systems for which formal certification is available.</p>

Figure A7.3 Continued
Source: GRI (2002b:41-43).

able development and to manage its performance (see figure A7.3). In contrast, section A7.5 addresses the results and breadth of the organisation's activities. Discussion of stakeholder engagement forms a key part of any description of governance structures and management systems.

GRI has included policy indicators in both section A7.3 and section A7.5, using the general principle of grouping information items closest to the most relevant aspect. The broader, overarching policies are most directly related to the governance structure and management systems section of the report. The most detailed level of policy (e.g., policies on child labour) may be captured in the performance indicator section of the report. Where the reporting organisation perceives an overlap in the GRI framework, it should choose the most appropriate location in its report for the information.

A7.4 GRI content index

See Figure A7.4 for the GRI content index.

Reporting element
<p>4.1 A table identifying location of each element of the GRI Report Content, by section and indicator.</p> <p>The purpose of this section is to enable report users to quickly assess the degree to which the reporting organisation has included the information and indicators contained in the GRI <i>Guidelines</i>. Specifically, the reporter should identify the location of the following GRI elements:</p> <ul style="list-style-type: none"> - Vision and strategy: 1.1 and 1.2; - Profile: 2.1 to 2.22; - Governance structure and management systems: 3.1 to 3.20; - Performance indicators: All core performance indicators and identification of the location of explanations for any omissions; and - Any of the additional indicators from section A7.5 that the reporter chooses to include in the report.

Figure A7.4 GRI content index
Source: GRI (2002b:44).

A7.5 Performance indicators

This section lists the core and additional performance indicators for GRI-based reports. The performance indicators are grouped under three sections covering the economic, environmental, and social dimensions of sustainability. This grouping is based on the conventional model of sustainable development and is intended to aid users of the *Guidelines*. However, limiting performance indicators to these three categories may not fully capture the performance of an organisation for a number of reasons. For example: (1) changes in one aspect of economic, environmental, or social performance often result in changes to other aspects of sustainability; (2) sustainability strategies often use one area of

sustainability as a reference point when defining goals for another area; and (3) advancing sustainable development requires coordinated movement across a set of performance measurements, rather than random improvement within the full range of measurements. Therefore, in addition to the economic, environmental, and social dimensions, a fourth dimension of information is necessary: integrated performance.

Integrated indicators are considered first in this section. Following this are the core and additional indicators related to economic, environmental, and social performance.

Integrated indicators

Given the unique relationship of each organisation to the economic, environmental, and social systems within which it operates, GRI has not identified a standardised set of integrated performance indicators. However, GRI encourages reporting organisations to consult with stakeholders and develop an appropriate shortlist of integrated performance indicators to include in their reports. Integrated measures are generally of two types:

- systemic;
- cross-cutting indicators.

Systemic indicators relate the activity of an organisation to the larger economic, environmental, and social systems of which it is a part. For example, an organisation could describe its performance relative to an overall system or a benchmark, such as a percentage of the total workplace accidents found in the sector within a given country. Similarly, an organisation could present its net job creation as a proportion of the total number of jobs created in a region. Absolute systemic indicators describe an organisation's performance in relation to the limit or capacity of the system of which it is a part. An example would be the amount of air pollutants of a given type released as a proportion of the total amount allowable in a region as defined by a public authority. In general, systemic indicators provide an understanding of the degree to which the organisation's performance may influence the performance of a larger system. These types of measures are most useful for organisations that operate within a relatively narrowly defined geographic area.

Crosscutting indicators directly relate two or more dimensions of economic, environmental, and social performance as a ratio. Eco-efficiency measures (e.g., the amount of emissions per unit of output or per monetary unit of turnover) are the best-known examples. Many organisations have proposed standardised sets of environmental efficiency indicators that measure various types of resource use or pollution emissions against an economic or productivity measure. Crosscutting indicators effectively demonstrate the size of the positive or negative impact for each incremental change in another value. In developing and reporting cross-cutting indicators, care should be taken to:

- draw, where possible, on information already reported under these *Guidelines*;
- ensure that the indicators use ratios derived from normalised measures and, when possible, from internationally accepted metrics;
- supplement, not replace, non-ratio indicators.

Economic performance indicators

The economic dimension of sustainability concerns an organisation's impacts on the economic circumstances of its stakeholders and on economic systems at the local, national and global levels. Economic impacts can be divided into: direct and indirect impacts.

These impacts can be positive or negative. Broadly speaking, economic performance encompasses all aspects of the organisation's economic interactions, including the traditional measures used in financial accounting, as well as intangible assets that do not systematically appear in financial statements. However, economic indicators as articulated in the *Guidelines* have a scope and purpose that extends beyond that of traditional financial indicators. Financial indicators focus primarily on the profitability of an organisation for the purpose of informing its management and shareholders. By contrast, economic indicators in the sustainability reporting context focus more on the manner in which an organisation affects the stakeholders with whom it has direct and indirect economic interactions. Therefore, the focus of economic performance measurement is on how the economic status of the stakeholder changes as a consequence of the organisation's activities, rather than on changes in the financial condition of the organisation itself. In some cases, existing financial indicators can directly inform these assessments. However, in other cases, different measures may be necessary, including the re-casting of traditional financial information to emphasise the impact on the stakeholder. In this context, shareholders are considered one among several stakeholder groups.

While financial performance indicators are well-developed, indicators of organisation-level economic performance as described in the previous paragraph are still evolving. The indicators in this section are the result of a consultation process that began after the release of the June 2000 *Guidelines* and represent a new approach to reporting on economic impacts. This framework will continue to evolve in future versions of the GRI *Guidelines* as application and learning continue. Such evolution will include an understanding of how economic impacts are linked to the intangible assets of the organisation.

Direct Impacts

The economic indicators on direct impacts are designed to:

- measure the monetary flows between the organisation and its key stakeholders;
- indicate how the organisation affects the economic circumstances of those stakeholders.

The aspects for this section are organised around stakeholder groups (see figure A7.5). Each aspect includes a monetary flow indicator, which provides an indication of the scale of the relationship between reporting organisation and stakeholder. Most monetary flow indicators are paired with one or more other indicators that provide insight into the nature of the performance and impact on the stakeholder's economic capacity. For example, under suppliers, the monetary flow indicator associated with 'cost of all goods, materials, and services purchased' provides information on the scale of flows between the reporting organisation and its suppliers. The performance indicator describes one facet of the economic relationship between the suppliers and the reporting organisation.

	Core indicator	Additional indicator
Customers	EC1. Net sales (monetary flow indicator). As listed in the profile section under 2.8.	
	EC2. Geographic breakdown of markets. For each product or product range, disclose national market share by country where this is 25% or more. Disclose market share and sales for each country where national sales represent 5% or more of Gross Domestic Product (GDP).	
Suppliers	EC3. Cost of all goods, materials, and services purchased (monetary flow indicator).	EC11. Supplier breakdown by organisation and country. List all suppliers from which purchases in the reporting period represent 10% or more of total purchases in that period. Also identify all countries where total purchasing represents 5% or more of GDP.
	EC4. Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements. Terms may include conditions such as scheduling of payments, form of payment, or other conditions. This indicator is the percent of contracts that were paid according to terms, regardless of the details of the terms.	
Employees	EC5. Total payroll and benefits (including wages, pension, other benefits, and redundancy payments) broken down by country or region (monetary flow indicator). This remuneration should refer to current payments and not include future commitments. (Note: Indicator LA9 on training also offers information on one aspect of the organisation's investment in human capital.)	
Providers of capital	EC6. Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed (monetary flow indicator). This includes all forms of debt and borrowings, not only long-term debt.	

Figure A7.5 Direct economic impacts (continued)
Source: GRI (2002b:47-48).

	Core indicator	Additional indicator
Providers of capital (continued)	<p>EC7. Increase/decrease in retained earnings at end of period.</p> <p>(Note: The information contained in the profile section (2.1-2.8) enables calculation of several measures, including ROACE (Return On Average Capital Employed).)</p>	
Public sector	<p>EC8. Total sum of taxes of all types paid broken down by country (monetary flow indicators).</p>	<p>EC12. Total spent on non-core business infrastructure development.</p> <p>This is infrastructure built outside the main business activities of the reporting entity such as a school, or hospital for employees and their families.</p>
	<p>EC9. Subsidies received broken down by country or region.</p> <p>This refers to grants, tax relief, and other types of financial benefits that do not represent a transaction of goods and services. Explain definitions used for types of groups.</p>	
	<p>EC10. Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type of group.</p>	

Figure A7.5 Continued
Source: GRI (2002b:47-48).

Indirect impacts

The total economic impact of an organisation includes indirect impacts stemming from externalities that create impacts on communities, broadly defined. Externalities are those costs or benefits arising from a transaction that are not fully reflected in the monetary amount of the transaction. A community can be considered as anything from a neighbourhood, to a country, or even a community of interest such as a minority group within a society. Although often complex, indirect impacts are measurable. However, given the diversity of situations facing reporting organisations, GRI has not at this point identified a single, generic set of such indicators. Thus, each organisation should select performance indicators based on its own analysis of the issues (see figure A7.6). Information on the reporting organisation's overall approach to identifying and managing indirect impacts is covered under item 3.17 in the Governance structure and management systems section. Examples of externalities might include:

- innovation measured through patents and partnerships;
- economic effects (positive or negative) of changes in location or operations;
- the contribution of a sector to Gross Domestic Product or national competitiveness.

Examples of community impacts might include:

- community dependency on the organisation's activities;
- ability of the organisation to attract further investment into an area;
- the location of suppliers.

Core indicator	Additional indicator
	<p>EC13. The organisation's indirect economic impacts.</p> <p>Identify major externalities associated with the reporting organisation's products and services.</p>

Figure A7.6 Indirect economic impacts

Source: GRI (2002b:48).

Environmental performance indicators

The environmental dimension of sustainability concerns an organisation's impacts on living and non-living natural systems, including ecosystems, land, air and water. The environmental dimension of sustainability has achieved the highest level of consensus among the three dimensions of sustainability reporting (see figure A7.7).

It is particularly important to provide environmental performance information in terms of both absolute figures and normalised measures (e.g., resource use per unit of output). Both measures reflect important, but distinct, aspects of sustainability. Absolute figures provide a sense of scale or magnitude of the use or impact, which allows the user to consider performance in the context of larger systems. Normalised figures illustrate the organisation's efficiency and support comparison between organisations of different sizes. In general, stakeholders should be able to calculate normalised figures using data from the report profile (e.g., net sales) and absolute figures reported in the environmental performance section. However, GRI asks the reporting organisation to provide both normalised and absolute figures.

In reporting on environmental indicators, reporting organisations are also encouraged to keep in mind the principle of sustainability context. With respect to the environmental measures in the report, organisations are encouraged to relate their individual performance to the broader ecological systems within which they operate. For example, organisations could seek to report their pollution output in terms of the ability of the environment (local, regional, or global) to absorb the pollutants.

	Core indicator	Additional indicator
Materials	EN1. Total materials use other than water, by type. Provide definitions used for types of materials. Report in tons, kilograms, or volume.	
	EN2. Percentage of materials used that are wastes (processed or unprocessed) from sources external to the reporting organisation. Refers to both post-consumer recycled material and waste from industrial sources. Report in tons, kilograms, or volume.	
Energy	EN3. Direct energy use segmented by primary source. Report on all energy sources used by the reporting organisation for its own operations as well as for the production and delivery of energy products (e.g., electricity or heat) to other organisations. Report in joules.	EN17. Initiatives to use renewable energy sources and to increase energy efficiency.
	EN4. Indirect energy use. Report on all energy used to produce and deliver energy products purchased by the reporting organisation (e.g., electricity or heat). Report in joules.	EN18. Energy consumption footprint (i.e., annualised lifetime energy requirements) of major products. Report in joules. EN19. Other indirect (upstream/downstream) energy use and implications, such as organisational travel, product lifecycle management, and use of energy-intensive materials.
Water	EN5. Total water use.	EN20. Water sources and related ecosystems/habitats significantly affected by use of water. Include Ramsar-listed wetlands and the overall contribution to resulting environmental trends.
Water (continued)		EN21. Annual withdrawals of ground and surface water as a percent of annual renewable quantity of water available from the sources. Breakdown by region.
		EN22. Total recycling and reuse of water. Include wastewater and other used water (e.g., cooling water).

Figure A7.7 Environmental impacts
Source: GRI (2002b:49-51).

	Core indicator	Additional indicator
Biodiversity	EN6. Location and size of land owned, leased, or managed in biodiversity-rich habitats. Further guidance on biodiversity-rich habitats may be found at www.globalreporting.org (forthcoming).	EN23. Total amount of land owned, leased, or managed for production activities or extractive use.
	EN7. Description of the major impacts on biodiversity associated with activities and/or products and services in terrestrial, freshwater, and marine environments.	EN24. Amount of impermeable surface as a percentage of land purchased or leased. EN25. Impacts of activities and operations on protected and sensitive areas. (For example, IUCN protected area categories 1-4, world heritage sites, and biosphere reserves.) EN26. Changes to natural habitats resulting from activities and operations and percentage of habitat protected or restored. Identify type of habitat affected and its status. EN27. Objectives, programs, and targets for protecting and restoring native ecosystems and species in degraded areas. EN28. Number of IUCN Red List species with habitats in areas affected by operations. EN29. Business units currently operating or planning operations in or around protected or sensitive areas.
Biodiversity (continued)		EN30. Other relevant indirect greenhouse gas emissions. (CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ .) Refers to emissions that are a consequence of the activities of the reporting entity, but occur from sources owned or controlled by another entity. Report in tons of gas and tons of CO ₂ equivalent. See WRI-WBCSD Greenhouse Gas Protocol.
Emissions, effluents, and waste	EN8. Greenhouse gas emissions. (CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ .) Report separate subtotals for each gas in tons and in tons of CO ₂ equivalent for the following: - Direct emissions from sources owned or controlled by the reporting entity; and - Indirect emissions from imported electricity heat or steam. See WRI-WBCSD Greenhouse Gas Protocol.	

Figure A7.7 Continued
Source: GRI (2002b:49-51).

	Core indicator	Additional indicator
	<p>EN9. Use and emissions of ozone-depleting substances.</p> <p>Report each figure separately in accordance with Montreal Protocol Annexes A, B, C, and E in tons of CFC-11 equivalents (ozone-depleting potential).</p>	<p>EN31. All production, transport, import, or export of any waste deemed 'hazardous' under the terms of the Basel Convention Annex I, II, III, and VIII.</p>
	<p>EN10. NO_x, SO_x, and other significant air emissions by type.</p> <p>Include emissions of substances regulated under:</p> <ul style="list-style-type: none"> - Local laws and regulations; - Stockholm POPs Convention (Annex A, B, and C) - persistent organic pollutants; - Rotterdam Convention on Prior Informed Consent (PIC); and - Helsinki, Sofia, and Geneva Protocols to the Convention on Long-Range Trans-boundary Air Pollution. 	<p>EN32. Water sources and related ecosystems/habitats significantly affected by discharges of water and runoff.</p> <p>Include Ramsar-listed wetlands and the overall contribution to resulting environmental trends. See GRI Water Protocol.</p>
	<p>EN12. Significant discharges to water by type.</p> <p>See GRI Water Protocol.</p>	
	<p>EN13. Significant spills of chemicals, oils, and fuels in terms of total number and total volume.</p> <p>Significance is defined in terms of both the size of the spill and impact on the surrounding environment.</p>	
Suppliers		<p>EN33. Performance of suppliers relative to environmental components of programs and procedures described in response to Governance structure and management systems section (item 3.16).</p>
Products and services	<p>EN14. Significant environmental impacts of principal products and services.</p> <p>Describe and quantify where relevant.</p>	
	<p>EN15. Percentage of the weight of products sold that is reclaimable at the end of the products' useful life and percentage that is actually reclaimed.</p> <p>'Reclaimable' refers to either the recycling or reuse of the product materials or components.</p>	

Figure A7.7 Continued
Source: GRI (2002b:49-51).

	Core indicator	Additional indicator
Compliance	EN16. Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, subnational, regional, and local regulations associated with environmental issues. Explain in terms of countries of operation.	
Transport		EN34. Significant environmental impacts of transportation used for logistical purposes.
Overall		EN35. Total environmental expenditures by type. Explain definitions used for types of expenditures.

Figure A7.7 Continued
Source: GRI (2002b:49-51).

Social Performance Indicators

The social dimension of sustainability concerns an organisation's impacts on the social systems within which it operates (see figure A7.8). Social performance can be gauged through an analysis of the organisation's impacts on stakeholders at the local, national, and global levels. In some cases, social indicators influence the organisation's intangible assets, such as its human capital and reputation.

Social performance measurement enjoys less of a consensus than environmental performance measurement. Through its consultative process, GRI has selected indicators by identifying key performance aspects surrounding labour practices, human rights, and broader issues affecting consumers, community, and other stakeholders in society. The specific aspects for labour practices and human rights performance are based mainly on internationally recognised standards such as the Conventions of the International Labour Organisation (ILO) and international instruments such as the United Nations Universal Declaration of Human Rights. In particular, the labour practices and human rights indicators have drawn heavily on the ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy, and the Organisation for Economic Cooperation and Development (OECD) *Guidelines for Multinational Enterprises*, which were deemed most relevant to the responsibilities of business during the GRI consultative process.

The aspects of labour practices that relate to human rights have been incorporated into the latter category. This decision was made to avoid treating 'labour rights' as something different from, or less important than, 'human rights'. The decision reflects the strong sentiment that an organisation's contribution in the area of labour practices should not be

simply to protect and respect basic rights; it should also be to enhance the quality of the working environment and value of the relationship to the worker. While the aspects under labour practices and human rights are closely related (e.g., collective bargaining and industrial relations), there remains a fundamental difference in the purpose of the indicators, and they have therefore been kept separate. The aspects and indicators under human rights help assess how a reporting organisation helps maintain and respect the basic rights of a human being. The aspects and indicators under labour practices measure ways in which an organisation's contributions go beyond these baseline expectations.

Several of the social performance indicators differ considerably in nature from other economic and environmental performance indicators in the *Guidelines*. Many of the social issues that are the subject of performance measurement are not easily quantifiable, so a number of social indicators are qualitative measures of the organisation's systems and operations, including policies, procedures, and management practices. These indicators relate not to general, overarching policies (as listed in section A7.3) but to specific, narrowly defined social aspects such as forced or compulsory labour, or freedom of association. Future protocols will help further articulate the specific details associated with these indicators of practice and policy.

While GRI has sought to capture issues of key concern to most stakeholders, the *Guidelines* do not, at present, address the questions of all potential stakeholders. Given the diversity of social situations and issues that confront them, organisations should use stakeholder consultation to ensure that the social impacts on which they report are as complete as possible. Three areas that will require further attention in the future are employee remuneration, working time, and broadening the coverage of community. It is currently felt that these issues are best addressed on a sector-specific basis in GRI's future sector supplements. However, consideration will be given to incorporating appropriate indicators into the core *Guidelines* in future revision cycles.

The social performance indicators that appear in this document represent a significant step forward from the previous version of the *Guidelines* in identifying core issues that are applicable to most organisations. However, GRI social indicators will be continually enhanced over time as the field of performance measurement progresses and GRI receives further feedback on the *Guidelines*.

Category	Aspect	Core indicator	Additional indicator	
Labour practices and decent work	Employment	LA1.	Breakdown of workforce, where possible, by region/country, status (employee/non-employee), employment type (full time/part time), and by employment contract (indefinite or permanent/fixed term or temporary). Also identify workforce retained in conjunction with other employers (temporary agency workers or workers in co-employment relationships), segmented by region/country.	LA12. Employee benefits beyond those legally mandated. (For example, contributions to health care, disability, maternity, education, and retirement).
		LA2.	Net employment creation and average turnover segmented by region/country.	
	Labour/management relations	LA3.	Percentage of employees represented by independent trade union organisations or other bona fide employee representatives broken down geographically, or percentage of employees covered by collective bargaining agreements broken down by region/country.	LA13. Provision for formal worker representation in decision-making or management, including corporate governance.
		LA4.	Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operations (e.g., restructuring).	
	Health and safety	LA5.	Practices on recording and notification of occupational accidents and diseases, and how they relate to the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases.	LA14. Evidence of substantial compliance with the ILO Guidelines for Occupational Health Management Systems.

Figure A7.8 Social impacts
Source: GRI (2002b:52-55).

Category	Aspect	Core indicator	Additional indicator
Labour practices and decent work (continued)	Health and safety (continued)	LA6. Description of formal joint health and safety committees comprising management and worker representatives and proportion of workforce covered by any such committees.	LA15. Description of formal agreements with trade unions or other bona fide employee representatives covering health and safety at work and proportion of the workforce covered by any such agreements.
		LA7. Standard injury, lost day, and absentee rates and number of work-related fatalities (including subcontracted workers).	
		LA8. Description of policies or programs (for the workplace and beyond) on HIV/AIDS.	
	Training and education	LA9. Average hours of training per year per employee by category of employee. (For example, senior management, middle management, professional, technical, administrative, production, and maintenance).	LA16. Description of programs to support the continued employability of employees and to manage career endings.
			LA17. Specific policies and programs for skills management or for lifelong learning.
	Diversity and opportunity	LA10. Description of equal opportunity policies or programs, as well as monitoring systems to ensure compliance and results of monitoring. Equal opportunity policies may address workplace harassment and affirmative action relative to historical patterns of discrimination.	
		LA11. Composition of senior management and corporate governance bodies (including the board of directors), including female/male ratio and other indicators of diversity as culturally appropriate.	

Figure A7.8 Continued
Source: GRI (2002b:52-55).

Category	Aspect	Core indicator	Additional indicator
Human rights	Strategy and management	HR1. Description of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results. State how policies relate to existing international standards such as the Universal Declaration and the Fundamental Human Rights Conventions of the ILO.	HR8. Employee training on policies and practices concerning all aspects of human rights relevant to operations. Include type of training, number of employees trained, and average training duration.
		HR2. Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors.	
		HR3. Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring. 'Human rights performance' refers to the aspects of human rights identified as reporting aspects in the GRI performance indicators.	
	Non-discrimination	HR4. Description of global policy and procedures/programs preventing all forms of discrimination in operations, including monitoring systems and results of monitoring.	
	Freedom of association and collective bargaining	HR5. Description of freedom of association policy and extent to which this policy is universally applied independent of local laws, as well as description of procedures/programs to address this issue.	

Figure A7.8 *Continued*
Source: GRI (2002b:52-55).

Category	Aspect	Core indicator	Additional indicator
Human rights (continued)	Child labour	HR6. Description of policy excluding child labour as defined by the ILO Convention 138 and extent to which this policy is visibly stated and applied, as well as description of procedures/programs to address this issue, including monitoring systems and results of monitoring.	
	Forced and compulsory labour	HR7. Description of policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied as well as description of procedures/programs to address this issue, including monitoring systems and results of monitoring. See ILO Convention No. 29, Article 2.	
	Disciplinary practices		HR9. Description of appeal practices, including, but not limited to, human rights issues. Describe the representation and appeals process.
	Security practices		HR10. Description of non-retaliation policy and effective, confidential employee grievance system (including, but not limited to, its impact on human rights). HR11. Human rights training for security personnel. Include type of training, number of persons trained, and average training duration.

Figure A7.8 *Continued*
Source: GRI (2002b:52-55).

Category	Aspect	Core indicator	Additional indicator
Human rights (continued)	Indigenous rights		HR12. Description of policies, guidelines, and procedures to address the needs of indigenous people. This includes indigenous people in the workforce and in communities where the organisation currently operates or intends to operate.
			HR13. Description of jointly managed community grievance mechanisms/authority.
			HR14. Share of operating revenues from the area of operations that are redistributed to local communities.
Society	Community	SO1. Description of policies to manage impacts on communities in areas affected by activities, as well as description of procedures/programs to address this issue, including monitoring systems and results of monitoring. Include explanation of procedures for identifying and engaging in dialogue with community stakeholders.	SO4. Awards received relevant to social, ethical, and environmental performance.
	Bribery and corruption	SO2. Description of the policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption. Include a description of how the organisation meets the requirements of the OECD Convention on Combating Bribery.	
	Political contributions	SO3. Description of policy, procedures/management systems, and compliance mechanisms for managing political lobbying and contributions.	SO5. Amount of money paid to political parties and institutions whose prime function is to fund political parties or their candidates.

Figure A7.8 Continued
Source: GRI (2002b:52-55).

Category	Aspect	Core indicator	Additional indicator
Society (continued)	Competition and pricing		SO6. Court decisions regarding cases pertaining to anti-trust and monopoly regulations.
			SO7. Description of policy, procedures/management systems, and compliance mechanisms for preventing anti-competitive behaviour.
Product responsibility	Customer health and safety	PR1. Description of policy for preserving customer health and safety during use of products and services, and extent to which this policy is visibly stated and applied, as well as description of procedures/programs to address this issue, including monitoring systems and results of monitoring. Explain rationale for any use of multiple standards in marketing and sales of products.	PR4. Number and type of instances of non-compliance with regulations concerning customer health and safety, including the penalties and fines assessed for these breaches.
			PR5. Number of complaints upheld by regulatory or similar official bodies to oversee or regulate the health and safety of products and services.
			PR6. Voluntary code compliance, product labels or awards with respect to social and/or environmental responsibility that the reporter is qualified to use or has received. Include explanation of the process and criteria involved.
	Products and services	PR2. Description of policy, procedures/management systems, and compliance mechanisms related to product information and labelling.	PR7. Number and type of instances of non-compliance with regulations concerning product information and labelling, including any penalties or fines assessed for these breaches.

Figure A7.8 Continued
Source: GRI (2002b:52-55).

Category	Aspect	Core indicator	Additional indicator
Product responsibility (continued)	Products and services (continued)		<p>PR8. Description of policy, procedures/management systems, and compliance mechanisms related to customer satisfaction, including results of surveys measuring customer satisfaction.</p> <p>Identify geographic areas covered by policy.</p>
	Advertising		<p>PR9. Description of policies, procedures/management systems, and compliance mechanisms for adherence to standards and voluntary codes related to advertising.</p> <p>Identify geographic areas covered by policy.</p>
	Respect for privacy	<p>PR3. Description of policy, procedures/management systems, and compliance mechanisms for consumer privacy.</p> <p>Identify geographic areas covered by policy.</p>	<p>PR11. Number of substantiated complaints regarding breaches of consumer privacy.</p>

Figure A7.8 Continued
Source: GRI (2002b:55).