The Ethics of Corporate Social Responsibility:

Management Trend of the New Millennium?

"The new commitment to corporate social responsibility is a sham, behind which the search for profit carries on as before, leaving capitalism in good shape after all." Economist. November 17, 2001

"*Corporate social responsibility is just the way of the world. It is about a change in world-wide consciousness. The train is moving – in some countries slowly maybe and in some countries faster – but it is moving. And businesses can either get on board or get off*." Joseph Blumberg, Vice-President, Grupo M.

By the late 1990s, many multi-national corporations (MNCs) were redefining their role in society and their responsibility to human rights and the environment. This phenomenon, termed corporate social responsibility (CSR), has since received considerable attention from supporters and critics alike. Supporters claim that CSR provides corporations with an opportunity to do well while doing good. Critics counter that CSR, as a voluntary initiative, is little more than a public relations strategy to increase market share and boost corporate profits.

As the corporate social responsibility movement grew, many companies pledged to improve their social and environmental performance based on the principles of CSR. Some companies made a business case for CSR, arguing that it can enhance profitability by reducing the risk of negative publicity, consumer boycotts, and shareholder activism. Other companies made an ethical case for CSR, arguing that corporations have a moral obligation to people and the planet which supersede the singular pursuit of profit.

Could it be that these views are merely different paths towards the same lofty goals? Would the principles of CSR be compromised if a company was motivated more by financial self-interest than by moral benevolence? If a company's commitment to CSR weakened during an economic downturn would it mean that the commitment was never sincere?

These questions raise some significant ethical issues that I believe are worthy of reflection. In this paper, I explore these issues by examining the current discourse on corporate social responsibility. I look at the forces driving CSR and the attempts to measure, monitor, and standardize it. I examine the controversial issue of whether CSR should be regulated and, if so, by whom. I present the findings of a case study I conducted on the acceptance of corporate social responsibility in Alberta's oil and gas sector. And, after exposing some of its most tragic flaws, I consider whether the CSR movement holds any promise for making business more accountable for the social and environmental impact of its activities.

What is the Business of Business?

It used to be that as long as a corporation paid its taxes, provided reasonable wages, and met basic health and safety regulations, it would be deemed a good corporate citizen. Share price was the holy grail guiding corporate decisions and setting corporate agendas. Such was the era of Milton Friedman, Nobel prize-winning economist who insisted that the 'business of business of business' and that corporations have an exclusive obligation, called fiduciary duty, to create wealth for their shareholders. Society, for the most part, accepted this role for the private sector and expected the state to serve as the protector of the public good.

By the late 1980s, however, public trust in big business had fallen due in large part to the burgeoning environmental movement and revelations of unethical corporate practices. Disgruntled citizens organized consumer and shareholder campaigns to expose corporations who were complicit in human rights and environmental violations. Such actions targetted Nestlé for its unethical marketing of breast-milk substitutes in Africa, Union Carbide for its complicity in a fatal explosion at its factory in Bhopal, and General Motors for selling vehicles with military application to the apartheid government in South Africa.

By the end of the 20th century, three events, all related to the oil and gas industry, triggered an unprecedented public backlash against multi-national corporations. The events were the 1989 spill of the Exxon Valdez, the February 1995 planned sinking of Shell's Brent Spar oil platform, and the November 1995 execution of nine Ogoni activists by the Nigerian military in a perceived *quid-pro-quo* arrangement with Shell. Exxon and Shell tried desperately to distance themselves from these incidents, a strategy which only proved to fuel public outrage. Shell, more than Exxon, has since attempted to reconcile with the allegations of human rights and environmental violations. In a 1998 report entitled *Profits and Principles*, Shell admitted "we had looked in the mirror and we neither recognized nor liked what we saw."[1]

The incidents attributed to Exxon and Shell linked the unethical business practices of some MNCs to human rights abuses and environmental damage. Reports that sweatshop labour was used to produce merchandise for the likes of Nike, Kathie Lee Gifford, and Disney only served to intensify the public's demands for corporate accountability at home and abroad. MNCs watched as their corporate compatriots were punished in shopping malls, courtrooms, and stock markets. Although they had long mocked such social activists-*cum*-CEOs as Anita Roddick of the Body Shop and Ben and Jerry of new-age ice cream fame, shrewd MNCs understood that a fundamental shift was looming. In the court of public opinion at least, the ruthless pursuit of profit was out and compassionate capitalism was in.

By 2000, most major corporations had pledged allegiance to the principles of corporate social responsibility. Within the confines of the boardroom, executives may still have paid homage to Friedman's doctrine of profit maximization. But in public, companies vowed to integrate social and environmental concerns into their business decisions. Many doubted the sincerity of these ethical epiphanies because they saw corporate social responsibility as a management strategy not unlike total quality management (TQM) or re-engineering. As CEOs celebrated CSR's ability to create shareholder value by enhancing brand image, critics became even more concerned that CSR was less about people and the planet than it was about public relations and profits.

Can Corporate Social Responsibility be Defined?

The debate over the merits and flaws of corporate social responsibility would be simplified if supporters and critics alike agreed to use a common definition for CSR. To date, such consensus has not been reached. Thus, this analysis of corporate social responsibility will begin with an attempt to identify the common themes in three well-known CSR definitions.

The commission on Canadian Democracy & Corporate Accountability, co-chaired by the Honorable Ed Broadbent, noted in its discussion paper that the "precise definition of CSR varies enormously."[2] The Commission supports the 'sphere of influence' model which states that "there are zones in which social issues and stakeholders are more or less proximate to companies. Other matters are more distant from the company's control and the company's relationship with these issues is more remote."[3] Similarly, the Conference Board of Canada endorses the 'stakeholder' model which implies that "CSR is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, suppliers, owners/investors, and competitors."[4]

The World Business Council on Sustainable Development's definition of CSR, endorsed by many corporations, refers to stakeholders but focuses on their economic relationship to the corporation. The WBCSD defines CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life."[5]

A common theme among these definitions is the notion that corporations must now be accountable to a broad network of stakeholders that includes but is not limited to shareholders. Yet the current definitions are not able to clearly articulate the essence of corporate social responsibility and this inability has complicated the debate over CSR. Indeed, some often find it easier to understand CSR by defining its alter ego – corporate social **ir**responsibility.

What is Driving Corporate Social Responsibility?

The corporate social responsibility movement was incited by the catalytic forces of the

Valdez, Brent Spar, and Ken Saro-Wiwa. Yet the forces which are driving the interest in CSR today are propelled by profound shifts in the interaction of the state, the individual, and the market. The core drivers of CSR are the growth in stakeholder expectations, the shrinking role of the state, responsibility for the supply chain, and increasing pressure from shareholders.

Studies have shown that the public now expects more from business and is forming stakeholder groups – consumers, employees, activists, community members, and shareholders – to ensure that their voices reach corporate decision-makers. Increasingly, people are speaking out on behalf of themselves, the planet, the common good, ancestors, and future generations. They may still be the gadfly in the corporate side but their voices are rising from the fringe into the mainstream and corporations are faced with little choice but to listen.

The cornerstone data for this phenomenon was provided by Environics' Millennium Poll on Corporate Social Responsibility which polled over 25,000 citizens in 23 countries. It found that 20 percent of consumers reported having either rewarded or punished companies based on their perceived social performance. Further, the majority of respondents said that they wanted companies to place greater emphasis on social and environmental goals.[6] Environics' 2001 CSR Monitor, reported that corporate reputation is now based more on social responsibility than brand image, particularly in wealthy countries. The majority of respondents ranked environmental impacts, labour practices, business ethics, and social contributions as the most important factors for forming an impression of a company.[7]

A study done for the Canadian Democracy and Corporate Accountability Commission provides Canadian views on CSR. Seventy-two percent of respondents "accepted the legitimacy of corporations and their right to make profits but also want companies to accept a broader sense of accountability that extends beyond profit maximization."[8] Twenty percent said that corporations should have "only one responsibility, to operate competitively and make profits."[9]

The growth in stakeholder expectations is linked to another CSR driver, the shrinking role of the state. Governments have adopted a *laissez-faire* approach to regulating business due, in part, to the globalization of markets and the liberalization of trade. Political theorist, Jeffrey Ayres, comments: "globalization, by weakening the powers and capacities of the state to intervene in traditional areas of social, political, economic, and cultural concern, has in turn reduced the attractiveness of the state as the locus for dissent."[10]

Governments today, under the banner of efficiency and innovation, routinely enter into partnerships with industry. Yet such arrangements often come at a price including the loss of public sector autonomy and the lowering of standards. For example, Alberta's Energy and Utilities Board was originally funded in equal part by government and industry. Over time, industry has increased its

contribution and, one would assume, its influence over the Board's operations. According to a report by the Pembina Institute, the EUB's operating budget was cut by 23 percent while oil and gas activity increased by 500 percent. The report states that "the public's already limited faith in the government to protect their interests has evaporated."[11]

The shrinking role of the state is exacerbating two mutually reinforcing trends. First, as Ayres points out, many who want to voice dissent are bypassing traditional government channels and going after corporations directly. Second, companies are consulting government less, choosing instead to develop their own policies on environmental performance, working conditions, and ethical marketing. While it would be wrong to imply that the state has become an irrelevant player in the global order, the rise in corporate power and the growth in non-state expression of dissent has clearly begun to weaken the state's autonomy.

Another force driving the CSR movement is the demand for corporate accountability along all links of the supply chain. No longer are corporations detached from the actions of its contracted suppliers. Nike, notorious for claiming amnesty from the conditions in its suppliers' sweatshops, faced extreme public pressure and eventually acquiesced. It developed a corporate code of conduct to protect workers' rights and sent its celebrity endorsers on well-publicized tours of the factories. Yet a recent poll of workers in Nike contract factories revealed that "Nearly a third of workers interviewed said they had experienced verbal abuse, sexual harassment, and physical abuse."[12] Nike replied that it "while the results were difficult to hear, we remain fully committed to getting at issues of greatest concern to workers."[13]

More recently, the focus of the supply chain debate has shifted from manufacturing to energy and mining. Critics have exposed the undemocratic nature of many governments that Western companies are doing business with. Too frequently, such governments are engaged in civil war and use the royalties from oil and mineral extraction to fund conflict. It has become difficult to accept that corporate presence in conflict zones does not make them at least partially culpable for the abuses against the people and the environment. The public outcry against the presence of Talisman in Sudan and of Unocal in Burma are examples of this growing frustration.

Ethical infractions along the supply chain can cause serious damage to a company's reputation and are often the fuel for consumer boycotts and shareholder divestment campaigns. Consumer activists have been sued for punishing supply chain irresponsibility by way of a business-to-business boycott. A group of Canadian activists boycotted customers of Daishowa, a forestry company who was logging on long-disputed aboriginal land. The tactic, called secondary boycotting, was intended to punish Daishowa by deterring companies from purchasing its products. According to Craig Forcese, author of *Putting Conscience into Commerce*, "about 26 customers discontinued

supply services and Daishowa lost a significant portion of its business."[14]

Growing investor pressure is another driver of corporate social responsibility. In many European countries, legislation now allows for mutual fund investors to screen stocks according to ethical concerns. In France, for example, government regulation encourages investment managers to consider social, environmental or ethical factors in the processes by which they buy and sell securities. According to Michael Jantzi, creator of Canada's Jantzi Social Index, European support for CSR is impacting North American companies who want to be listed on European stock exchanges.[15]

The U.S. Securities Exchange Commission considered delisting companies operating in such 'rogue' states as Iran, North Korea, Yemen, and Sudan. Similarly, Congress recently passed the *Sudan Peace Act* which would restrict U.S. capital from flowing to any company operating in Sudan. The bill was withdrawn before it reached the Senate in what appeared to be a post-September 11th compromise to gain the support of Sudan in the war on terrorism. But, had the bill passed, Talisman would have had to choose between its listing on the New York Stock Exchange and its operations in Sudan.

Over the last decade, socially responsible investments grew 550 percent faster than mainstream investments. Peter Chapman, Executive Director of Shareholders Association for Research and Education (SHARE), reported that shareholders, particularly institutional investors representing unions or pension funds, are carrying more influence over corporate activity through divestment campaigns, proxy fights, and shareholder activism.[16]

The drivers of CSR identified here – stakeholder expectations, shrinking role of the state, supply chain responsibility, and shareholder pressures – will likely be joined by other drivers as the movement continues to unfold. Indeed, in order for CSR to mature and evolve, it will be important for corporations to face new pressures and respond with solutions that strengthen the CSR framework.

Can Corporate Conduct be Codified?

Corporate social responsibility is to a code of conduct what democracy is to a constitution, albeit with one critical distinction – constitutions are enforceable whereas codes of conduct are not. The voluntary nature of corporate codes of conduct, or codes of ethics as they are also called, incites much derision from CSR's critics. They doubt whether corporations can be trusted to voluntarily self-regulate their compliance to the lofty ideals set out in most codes of conduct.

Although codes of conduct have been used by business for several decades, they have traditionally focused more on legalistic relationships between employer and employee than between the corporation and its external environment. It is just recently that codes have been written to promote

corporate social responsibility. The catalogue of corporate codes of conduct is too vast to summarize so I will highlight four well-known codes namely the Global Sullivan Principles of Corporate Social Responsibility, the United Nations Global Compact, the International Code of Ethics for Canadian Business, and the chemical industry's Responsible Care program.

In 1977, Reverend Leon Sullivan wrote a code of conduct for companies operating in apartheid South Africa. Two decades later, he developed the Global Sullivan Principles of Corporate Social Responsibility which have since been endorsed by 150 corporations, local governments, and NGOs. Sullivan established principles of universal human rights, equal opportunity, freedom of association, fair wages, bribery, sustainable development, governmental relations, and responsibility for suppliers.

One flaw of the Sullivan process is that it does not screen organizations seeking to endorse the Principles. As such, the list of signatories includes companies with questionable ethics including Unocal Corporation (building an oil pipeline in Burma) and Pfizer (opposed generic AIDS drugs for Africa). Signatories are asked only to post progress reports to the Sullivan website although a recent visit to the website uncovered no such reports. One final criticism of the Sullivan Principles is that they do not embody the international legal framework on human rights, the environment, and labour rights.

Kofi Annan, Secretary-General of the United Nations, challenged business leaders at the 1999 World Economic Forum to adopt a set of nine principles on labour, human rights, and the environment called the UN Global Compact. Membership in the Compact is purely voluntary and requires only that the CEO submit a written pledge to Annan. Although there is no obligation to submit compliance reports, signatories are encouraged to make public submission on their progress to the UN Learning Forum.

Due, no doubt, to the high profile of the sponsoring organization, the Global Compact has faced intense criticism. At an ideological level, many fear that a deepening of relations with the private sector will compromise the neutrality of the United Nations. In an open letter to Kofi Annan, representatives of several international NGOs conveyed their concerns:

> *We believe the Compact as currently designed has serious flaws that threaten the integrity and mission of the United Nations. In particular, we believe that the Compact allows companies to improve their reputation through association with the UN without committing to concrete changes in corporate behaviour. It allows these corporations, and the private sector as a whole, to block substantial measures for sustainability and accountability – even to oppose agreements under the framework of the United Nations itself – while offering only token changes when convenient.*[17]

As to their question of why the list of signatories is kept private, the UN replied that it does not

want to reward companies who merely register their intent to uphold the Compact.[18] It recently rewarded the forty-four signatories who present at the UN's Learning Forum by placing their corporate logos on the Global Compact website.

The most prominent Canadian code of conduct, the International Code of Ethics for Canadian Business was developed in 1997 by a group of executives and academics, with the support of the former Foreign Affairs Minister, Lloyd Axworthy. The Code was initially endorsed by ten companies, most of whom were from energy and mining sectors. Since there is no public registry of signatories to the Code, it is not known how many Canadian companies follow its principles. However, it is known that Talisman Energy signed onto the code in late 1999 just as Minister Axworthy deployed the Harker Mission to examine the impact of Talisman's operations in Sudan.

The International Code of Ethics for Canadian Business lacks the clarity and direction of other codes of conduct. It is lengthy and, in places, vague which would make the monitoring and auditing of signatories a cumbersome process. The Code supports the protection of human rights, labour rights, and the environment but wants such pursuits to occur within a free and stable market economy.

The Responsible Care program is a voluntary initiative of the Chemical Manufacturing Association to encourage more ethical behaviour of its members. It was introduced in 1989 in response to declining public opinion about the chemical industry linked, no doubt, to the tragic explosion at Union Carbide's plant in Bhopal, India. One of the most interesting features of the program is that participating members are peer reviewed by their industry competitors.

Although Responsible Care is heralded as an example of successful self-regulation, doubts remain as to its actual effectiveness. In the *Academy of Management Journal*, Andrew King and Michael Lenox report that 'dirtier' companies participated in the program and were less likely to improve their performance than companies who chose not to participate.[19] The findings of Brian Wastle of the Canadian Chemical Producers' Association offers a different perspective. He asserts that the Responsible Care program in Canada has reduced emissions to water by 99.6 percent since 1992.[20] Despite the debate over its effectiveness, the Responsible Care program presents an opportunity to test the merits of industry-driven codes of conduct.

Corporations do not suffer from lack of choice when it comes to corporate codes of conduct. There are hundreds of codes in circulation, each being touted by their sponsors as superior and unique. Yet, many would argue that it is pointless to focus on the subtle differences among the codes while they are all voluntary and self-regulated.

How Credible is Voluntary Reporting?

People often assume that companies are bound to any code of conduct that they sign onto. Too frequently, companies do not clarify this misunderstanding and, as such, benefit from the goodwill generated by their affiliation with a specific code without necessarily having to honor its principles. The weaknesses of corporate social responsibility – its ambiguity and voluntary nature – are thus exacerbated by the ability of corporations to endorse codes that are not regulated.

As voluntary codes of conduct proliferate, so too do voluntary mechanisms for monitoring, auditing, standardizing, and reporting compliance. Of the many initiatives in these areas, the major ones are the Global Reporting Initiative (GRI), the AA1000 standard, and the SA8000 certification.

The GRI is an international, multi-stakeholder effort to create a common framework for environmental and social reporting. It seeks to elevate sustainability reporting practices to a level equivalent to those of financial reporting. Launched in 1997, the GRI offers a framework and guidelines but does not require companies to disclose verification of their reporting. One credible feature of the GRI is that it does not accept funding from corporations. Several Canadian companies, including Suncor, TransAlta, BC Hydro, and VanCity Savings have publicly endorsed the GRI.

The Institute of Social and Ethical AccountAbility developed the AA1000 standard in 1999 in an effort to improve the quality of social accounting, auditing, and reporting. Although the AA1000 describes a set of processes that an organization can follow in order to measure, manage, and communicate performance, it does not specify what that performance should be. Neither does it publicize the names of companies that follow the AA1000 standard.

Social Accountability International (SAI) developed the SA8000 in 1997 as a tool for organizations wanting to certify the working conditions in their facilities and in those of their suppliers. The SA8000 covers all rights contained in the ILO Conventions, the International Declaration of Human Rights, and the UN Convention on the Rights of the Child. The process of independent certification is modelled on the ISO standards for quality control. The SAI oversees the accreditation of certification bodies, currently seven organizations are qualified to carry out the SA8000 verification process.

As of February 2002, 85 facilities have received SA8000 certification. The facilities are listed on the SAI website by corporate title, address, and sector but there is no information on the companies that these facilities supply to. So while the verification process may help companies in selecting verifiable suppliers, it does not assist consumers in linking certified factories with brand name merchandisers. Perhaps more than the GRI and the AA1000, the SA8000 framework promotes the financial advantages of corporate social responsibility, calling it a ‘competitive asset’ that complements financial risk management.[21]

Those with little faith in voluntary corporate codes of conduct will find even less comfort in the

parallel network of voluntary methods to monitor, audit, and report compliance. One of the major concerns is the growth in for-profit business activity related to CSR, particularly the lucrative contracts for social audits. The big accounting firms have established specialized CSR departments, leaving skeptics to wonder whether such firms could objectively conduct financial and social audits for the same corporate clients.

The field of social auditing is not without landmines. There are fears that the mounting for-profit infrastructure will overshadow the important work being done by independent institutes and that social audits will become as credible as mail-order university degrees. Again, it appears that the lack of regulation through public policy instruments is limiting the credibility of CSR.

Corporate social responsibility can be examined, as it has up to this point, in terms of an academic analysis of its catalysts, concepts, and processes. Learning about the various definitions of CSR and different ways it is being promoted and monitored in the business environment is not without merit. There is, however, much to be gained by applying this theoretical framework to a practical analysis of the workings of CSR in the business environment.

The Oil and Gas Sector: A CSR Case Study

Despite attempts at diversification, Alberta is highly dependent on the economic contributions of its oil and gas industry. According to the Petroleum Communication Foundation, the industry employs almost 235,000 Albertans and utilizes a pipeline network extending 263,000 km. Crude oil and natural gas make up almost 51 percent of Alberta's exports which is not surprising given that Alberta currently meets 12 percent of the United States' natural gas needs.[22]

Yet there are growing concerns that the industry's aggressive drilling and flaring of wells is negatively effecting human, animal, and ecological health. Farmers and ranchers across the province are becoming frustrated with the encroachment of oil and gas companies in their communities and on their land. Perhaps the most extreme expression of this frustration can be attributed to Wiebo Ludwig who sought to eliminate drilling activity from his land in Northern Alberta. He was convicted of five counts of property damage and possession of explosives and spent several months in prison.

As concerns over the industry's domestic operations grew, so too did interest in the industry's international activities. The fall of 1999 brought two Canadian oil and gas companies into the spotlight over the risks and responsibilities associated with international operations. In September, eight Albertans working in Ecuador for a supplier to Alberta Energy Company were kidnapped and held for ransom. Although they were eventually released, the incident exposed the increasing risks that companies face when they enter regions of civil strife and socio-economic injustice.

Around the same time, concerns surrounding Talisman Energy's operations in Sudan were mounting and pressures were put on the Canadian government to impose sanctions. Critics alleged, as they do to this day, that Talisman is fuelling Sudan's civil war by supporting the Khartoum regime with oil royalties and access to airstrips.

I closely followed the developments surrounding the kidnapping of the oil workers and the on-going presence of Talisman in Sudan and contemplated both events in the context of corporate social responsibility. Would the outcomes have been different if the companies were devout followers of the corporate social responsibility movement? Would AEC have earned the trust of the local communities such that the kidnapping plot would have been averted? Would Talisman have decided not to wade into a vicious and prolonged civil war? I was not sure but I wanted to learn more about the receptivity of the industry to corporate social responsibility.

Over a period of four months, I interviewed several individuals involved in corporate social responsibility and the oil and gas sector. Admittedly, few individuals were as interested in corporate social responsibility as they were in the oil patch and, even fewer, cared as much for energy issues as they did for CSR. However, after more than thirty interviews with academics, industry representatives, consumer advocates, landowners, non-governmental organizations, governmental officials, private consultants, market analysts, and journalists, I believe that I attained a balanced perspective on the challenges and opportunities for the CSR movement within Canada's oil and gas sector.

Where possible, I have presented my findings in a quantitative format although I believe that the true essence of the issues is revealed through the stories and insights that people shared with me. As promised, the people I interviewed are not quoted by either name or affiliation. Instead, a list of organizations who participated in this study is provided at the end of this paper.

"How does your Company Define Corporate Social Responsibility?'

As a starting point, I wanted to know how the companies I interviews defined CSR, if at all. I found that four companies endorsed the definition of the World Business Council on Sustainable Development which states that "CSR is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life." Six companies had neither chosen an existing definition for CSR nor crafted one internally. One company had developed its own definition for CSR which reads: "CSR means conducting activities in an economically, socially, and environmentally responsible manner. It includes working together with stakeholder groups to identify constructive solutions to shared problems."

Some people said they were uneasy with the term corporate social responsibility. One representative, whose company uses the WBCSD's definition, said that the term incorrectly implies that companies "have to be forced to embrace responsible business practices". Another representative, whose company has not endorsed a definition of CSR, says that his colleagues rarely use the term CSR and instead focus on the values and principles of "doing things right."

I asked the representatives what determined whether or not CSR would be accepted within an organization and they all replied that it came down to whether top management was supportive. Some praised the leadership shown by management within their companies, while others admitted that their executives were less than enthusiastic about CSR.

Individuals were then asked to provide an example of their companies' commitment to the principles of CSR (regardless of whether they had endorsed a definition or not). Since many offered examples of projects that fit better in the charitable realm, I asked them to differentiate corporate social responsibility from charitable giving. Although one individual described it as the difference between "a hand-up and a hand-out", several found the distinction hard to make. The perception that corporate social responsibility and charitable giving are virtually interchangeable raises some concerns. First, whereas charitable giving typically fluctuates with a company's revenues, corporate social responsibility requires a fairly constant investment especially while a company is working to establish credibility with its stakeholders. Second, CSR-issues arise more often in developing countries and deserve commensurate financial investment although MNCs are more likely to allocate charitable spending in their home markets than abroad.

"Has your Company Endorsed a Corporate Code of Conduct?"

Of eleven companies, only two have endorsed an external code of conduct and both chose the International Code of Ethics for Canadian Business. Six companies follow a code that was written specifically for their organization primarily to protect the firm from wrongful acts committed by its employees including bribery, corruption, and intellectual property violations. Two of the companies would allow me to see a copy of their code, while the other four explained that their code was exclusively for internal use.

Two of the remaining three companies said that they were working on developing a code of conduct and, in the meantime, relied upon such company documents as their mission and values statement. The last company reported having neither a code of conduct nor working to develop one. The representative I spoke to predicted that CSR would only become a priority if an unethical business practice "it effected the company's cost structure or increased its operating risk."

“Has your Company Undergone an External Social Audit”

Only two of the eleven companies have subjected their social and environmental programs to an external audit although in neither case it was comprehensive. In the first case, the audit was limited to one region of the company’s international operations. It was carried out by the accounting firm Pricewaterhouse Coopers according to the *International Code of Ethics for Canadian Business*. The auditors admitted that they “first had to translate the Code into clear and definable actions that could be implemented” in the country of operation.

In the second case, the audit, also done by Pricewaterhouse Coopers, followed the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI). The auditors assessed the reliability of select statements in the company’s *Report on Sustainability* while acknowledging that:

> *There are currently no statutory requirements or generally accepted standards for the preparation and attestation of sustainable development reports…We therefore planned and performed our work in order to obtain reasonable, rather than absolute, assurance with respect to the statements and data tested.*

The lack of solid, reliable metrics for corporate social responsibility is considered a hindrance to the CSR movement. Many in the industry believe that not only does CSR have to be measurable, it must demonstrate that CSR adds to the financial bottom line. Most agreed that it would be extremely difficult to reach consensus on what should be measured, let alone how it should be measured. Indeed, they felt that corporate social **ir**responsibility is more easy to measure than corporate social responsibility. Whereas accountants can usually quantify the costs associated with a pipeline sabotage or an oil spill, they are less able to project the savings from incidents that were avoided because of corporate social responsibility.

“Has your Company been the Target of a Divestment Campaign or Consumer Boycott?”

Only one of the eleven companies has been the target of a shareholder divestment campaign. Three other companies admitted to having been under public and/or shareholder criticism but with no punitive action taken against them. I asked all representatives whether consumer or shareholder actions would motivate their companies to make changes to their operations. Most felt that such change would not come quickly to an industry characterized by low mobility and high fixed costs. One respondent summarized this sentiment by commenting that, in the highly competitive market of oil exploration, firms “need to go where the oil is and then do the best they can for the community and the environment once they get there.”

"Is your Company on the Jantzi Social Index or the Dow Jones Sustainability Index?"

The Jantzi Social Index (JSI) includes 60 Canadian companies in a variety of sectors ranging from chemicals to department stores, mining to banking. There are seven companies listed on the JSI that relate to this project – two in integrated oil, one in utilities, two in pipelines, and two in oil and gas – and I interviewed six of them. The Dow Jones Sustainability Index (DJSI) selects companies that rank the best in their sector according to economic, social, and environmental benchmarks. Six Canadian energy companies are included in the DJSI – one in pipelines, two in oil and coal, one in electric utilities, and two in gas utilities – and I interviewed four of them. As to be expected, some companies are listed on both the JSI and the DJSI. Of the eleven companies that I interviewed, three are listed on both the JSI and the DJSI, three on the JSI only, and one on the DJSI only.

I asked those representatives whose companies have been included in a social index how it is viewed by management and shareholders. Respondents typically agreed that the listing was a source of pride within the company but they did not believe it was translating into higher returns. While many doubted that the average shareholder monitored social indices, they acknowledged that institutional investors, particularly from Europe, are monitoring them and rewarding listed companies.

"Does your Company Consider Social and Political Risks in International Operations?"

Of the eleven companies in the study, eight have international operations in such countries as Algeria, Angola, Argentina, Azerbaijan, China, Columbia, Congo, Côte D'Ivoire, Ecuador, Indonesia, Libya, Mexico, Nigeria, Sudan, Trinidad, Tunisia, and Yemen. Several of these countries are governed by corrupt and abusive regimes and are engaged in civil conflicts. Is it a coincidence that the majority of the earth's energy reserves are located in countries with unstable and undemocratic regimes? If we believe this, as many people I spoke to do, then perhaps Canadian companies are merely making the best out of an unpleasant meeting of geopolitics and geophysics.

The question then remains whether the presence of Canadian corporations improves or exacerbates a country's internal problems. Advocates of constructive engagement believe the former – that boosting a country's economy will eventually improve the social and political conditions of the people. Others argue that constructive engagement is a fallacy especially in the extractive industries where royalties, contracts, and jobs are usually reserved for the elites. Too often, the cost of foreign investment is borne by local communities, indigenous populations, and the environment.

As energy companies are well-known for their sophisticated technical analysis of potential drilling sites, I wondered if they conducted a concurrent analysis of social and political conditions in the region. Most companies admitted that such risks were not being considered although they may

become part of the pre-entry evaluation in the future. I asked whether a company would reject a technically-promising opportunity if it carried significant socio-political risk. One respondent, a CEO, stated in strong terms that his company would not engage in such an operation. Other respondents varied in the degree to which they felt socio-political risks would impede technically-promising explorations. More than one admitted that their companies would enter and then do their best to improve the conditions once inside the country.

"Will the Current Economic Downturn Influence your Company's Commitment to CSR?"

The current economic downturn offers a good opportunity to test whether the commitment to CSR expressed during an economic boom holds during a period of economic malaise. If there was a business case to be made for CSR, then surely supporters would not just abandon the principles as soon as commodity prices began to drop. I asked the company representatives to predict the fate of CSR as the market transformed from a bull to a bear. Most companies felt that the uncertain economic times would weaken their commitment to CSR, at least in the amount of funds that would be made available. Conversely, two people said that their companies' dedication to CSR would likely hold during the economic downturn because management saw it as a competitive advantage which could pay dividends once the economy rebounds.

How Representative was the Case Study Sample?

Admittedly, a sample of eleven companies is not sufficient to draw broad conclusions on the state of the entire oil and gas industry and its views on corporate social responsibility. Yet, for every one company that agreed to participate in this study, at least one more was asked and refused. It appeared that companies self-selected into the study based upon the perception that they were CSR leaders. Indeed, the high proportion of companies who participated in this study and who appear on either the Jantzi or the Dow Jones social index would support this theory. Therefore, the findings should not be seen as representative of the entire industry but as a commentary on those companies who appear to be or consider themselves to be champions of CSR.

Corporate Social Responsibility's Staying Power

A Sufi philosopher once said "the more you study it, the less you understand it." Such is the enigma of corporate social responsibility. At times, CSR presents itself as a credible tool for balancing the pursuit of profit with respect for people and the planet. At other times, CSR appears to be the latest corporate strategy designed to convince the public that capitalism can be compassionate.

I believe that the current economic downturn will offer a new perspective from which to

examine corporate social responsibility. Some companies may resist the temptation to view CSR programs as non-essential, promotional exercises that can only be indulged in during times of high profitability. Others will not. But the fate of CSR cannot rest entirely on corporations. Consumers and shareholders must be vigilant in their support for companies who are committed to corporate social responsibility.

Self-Regulation or Government Regulation?

This analysis began without questioning whether corporate social responsibility was indeed the best response to the demands for greater corporate accountability that emerged during the mid-1990s. Many believe that governments missed the opportunity, by choice or by circumstance, to contribute to the development of a corporate accountability framework because they were preoccupied with trade liberalization, privatization, and deficit elimination. So the CSR framework was developed without the adequate participation of the public sector and it is important to understand what the implications of its absence have been.

Corporate social responsibility, designed almost exclusively by corporations, is rooted in the principles of voluntary compliance and self-regulation. Despite repeated calls for greater public sector involvement, corporations insist that governmental regulation of CSR would stifle progress, quash innovation, and siphon funds from social and environmental programs. Polarizing the options of self-regulation and government regulation denies the discovery of other models that may better meet the collective goals of business, public agencies, and NGOs. Until such a compromise is reached, it appears that we are left with the flawed CSR patchwork of non-regulatory codes of conduct, voluntary standards, and social audits.

Conclusion

Corporate social responsibility should be viewed as a process and not as a destination. It emerged in response to public disillusionment with the traditional role of business and continues to be driven by a combination of forces involving consumers, shareholders, and citizens. Over the last five years, efforts have been made to strengthen the CSR movement through rigorous processes of standardizing, reporting, and auditing social and environmental performance. Yet, progress is limited by the reality that CSR remains a purely voluntary, self-regulated movement.

The challenges facing CSR in the global economy are reflected in its limited acceptance by the oil and gas sector. For the most part, energy companies are looking for opportunities to engage corporate social responsibility that remain within the parameters of the traditional business model. There remains, overall, an uncertainty over corporate social responsibility and its related infrastruc-

ture.

It is trite but it is true that CSR requires time and experience to prove whether it is more than a transitory management strategy. If public pressure continues to mount against corporations who act with impunity and if governments are granted a role in the monitoring and regulation of corporate activity, CSR could become a progressive and sustainable movement. If the status quo continues, however, corporate social responsibility will likely be dismissed as a management strategy that secures work for public relations consultants and social auditors but not much more.

List of Interviews Conducted

Industry

Alberta Energy Company

Canadian Hunter Exploration Ltd.

Canadian Natural Resources Ltd.*

Husky Energy

Nexen Inc.*

Petro-Canada

Suncor Energy

Talisman Energy Inc.

TransAlta Corporation

TransCanada Pipelines

West Coast Energy

Business Associations

Canadian Association of Petroleum Producers

Conference Board of Canada

Private Consultants

Two, based in Calgary

Academia

University of Alberta, Faculty of Arts

University of Calgary, Faculty of Law

University of Calgary, Faculty of Arts

University of Ottawa, Faculty of Law

Market Actors

Michael Jantzi Research Associates*

Civil Society

Amnesty International

Author and Journalist

Former Chief of the Ogoni People

Pembina Institute

Shareholder Association for Research and Education (SHARE)

Government Agencies

Export Development Corporation

NB: All interviews were conducted during the period of September to December 2001 except for Talisman Energy which was conducted in March of 2001. All information gathered from Talisman at that time was verified for this report.

**Indicates that more than one representative from the organization was interviewed*

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