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# Linking the Environmental and Social Dimensions of Corporate Social Responsibility



Andrew Williams



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# **Linking the Environmental and Social Dimensions of Corporate Social Responsibility**

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## ***Abstract***

This paper seeks to offer some insight into how the environmental and social dimensions of Corporate Social Responsibility (CSR) can be reconciled at a practical macro and micro-economic level. In particular, an investigation is carried out of how instruments and approaches adopted in two distinct areas of the environmental dimension of CSR, namely Integrated Product Policy (IPP) and Environmental Supply Chain Management (ESCM), can inform the social dimension. An effort is also made to conceptualise some of the potential or actual linkages at a theoretical level. It is suggested that both IPP and ESCM approaches should be understood, at least in part, as being informed by the ideas enshrined in the stakeholder theory of the corporation and ecological modernisation theory. A critique of these theoretical approaches is carried out, in the context of how applicable they might be to underpinning an integrated approach to CSR that addresses both its social and environmental dimensions.

## Introduction

This paper seeks to offer some insight into how the environmental and social dimensions of Corporate Social Responsibility (CSR) can be reconciled at a practical macro- and micro-economic level. In particular, an investigation is conducted of how instruments and approaches adopted in two distinct areas of the environmental dimension of CSR, namely Integrated Product Policy (IPP) and Environmental Supply Chain Management (ESCM), can inform the social dimension. An effort is also made to conceptualise some of the actual or potential linkages at a theoretical level.

CSR has increasingly come to be viewed as both a concept and a pragmatic tool that can be usefully employed in addressing some of the pressing environmental and social concerns of today's society. Although in existence earlier, it is generally accepted that the concept of CSR first emerged during the 1950's. From this period until the late 1970s and beyond, the work of many commentators on the subject was largely characterised by a search for appropriate definitions (Carroll, 1999). Although there have been several attempts to establish what CSR means, the model suggested by Carroll (1991) could be seen as the culmination of decades of debate. In this model, the responsibilities of business are placed within one of four categories, economic, legal, ethical or philanthropic, to wit:

*"The CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen" (ibid. p.43)*

In practice, the issues identified as falling within the 'remit' of CSR are many and varied. They range from primarily 'social' concerns such as how a business relates to the community in which it operates, through 'environmental' concerns, for instance the use of natural resources by organisations, to 'ethical' dimensions such as trade between the developed and developing world. CSR is now understood more in terms of being a process rather than as a set of outcomes

(Jones, 1980). It is partly due to this recognition that, from the 1990's onwards, work to operationalise the principles of CSR and further develop the theory has increasingly superseded further attempts at definition. In essence, this period could be understood in terms of a move to reconcile theory with practice. In Europe, an effort to do just that has resulted in the publication of the European Commissions' Green Paper on CSR (CEC, 2001a), which represents an attempt to bring together the disparate elements of CSR to establish a coherent framework within which business and its stakeholders can operate. As well as offering an overview of the main principles and aims of CSR it identifies some of the strategies that could usefully be employed by business and its stakeholders in addressing key objectives. Table 1 presents an overview of the issues addressed by CSR as outlined in the document.

<b>Table 1 - Issues Addressed by Corporate Social Responsibility</b>	
<i>Internal Dimension</i>	<ul style="list-style-type: none"> <li>• Human resources management</li> <li>• Health and safety at work</li> <li>• Adaptation to change</li> <li>• Management of environmental impacts and natural resources</li> </ul>
<i>External Dimension</i>	<ul style="list-style-type: none"> <li>• Local communities</li> <li>• Business partners, suppliers and consumers</li> <li>• Human rights</li> <li>• Global environmental concerns</li> </ul>

(CEC, 2001a)

In order to simplify the analysis of actual or potential linkages between the environmental and social dimensions of CSR and avoid complication by trying to address each of its many and varied definitions, the issues identified in Table 1 will be used as the basis of further investigation. The section below discusses the potential for the Integrated Product Policy (IPP)

approach, currently being developed by the EU, to be applied to these identified CSR issues. There are indications that such a product-oriented approach might be of use in developing the social side of CSR.

Following this section, an analysis is made of how the social and ethical elements of CSR can be integrated into the Environmental Supply Chain Management (ESCM) activities carried out by many companies. ESCM is a mode of business behaviour that seeks to address the environmental impacts of company activities through engagement between suppliers and customers, often at a transnational level. In these respects, and several others, it will be shown that ESCM is relevant to the discussion on linking the environmental and social dimensions of CSR. The next section of the paper attempts to place the actual or potential linkages between ESCM, IPP and CSR in a theoretical context. It is suggested that both IPP and ESCM are to some extent underpinned by the theoretical constructs of stakeholder and ecological modernisation theory. An investigation of these theories is carried out in order to highlight some of their potential limitations or uses, particularly when they are used to inform policy initiatives or operational business activities such as IPP and ESCM. The concluding part of the paper revisits the earlier sections in an effort to highlight some general and specific points of interest that might be relevant to the attempt to reconcile the environmental and social dimensions of CSR.

## **Lessons Learned from the Environmental Approach 1 – Integrated Product Policy**

Integrated Product Policy (IPP) is a European Union (EU) initiative which aims to provide a strategy for the reduction of the environmental impact of products and services throughout their entire life-cycle (CEC, 2001b). It outlines a framework or ‘toolbox’ of policy instruments that can be applied to both the ‘supply side’ (producers) and the ‘demand-side’ (consumers) in

meeting this overall objective (Charter et al, 2001a). Table 2 provides an overview of the policy instruments adopted within the IPP framework.

**Table 2 – IPP Policy Instruments**

<b>Instrument</b>	<b>Proposed Action</b>
Economic Instruments	<ul style="list-style-type: none"> <li>• Identify price elements which prevent a more ready take up of greener products in the market</li> <li>• Investigate options for differentiated taxation</li> </ul>
Producer responsibility	<ul style="list-style-type: none"> <li>• Extend the concept to further areas of community legislation</li> <li>• Encourage Member State initiatives</li> </ul>
Eco-labels	<ul style="list-style-type: none"> <li>• Extend to more products</li> <li>• More public funding for marketing and fees</li> <li>• Review the Community eco-labelling strategy</li> <li>• Use eco-label criteria for other applications (e.g. procurement, benchmarking, eco-funds, indicators, essential requirements)</li> </ul>
Environmental declarations	<ul style="list-style-type: none"> <li>• Prepare monitoring of the use of environmental self-declared claims</li> <li>• Set up framework to support declarations in line with ISO type III</li> </ul>
Public procurement	<ul style="list-style-type: none"> <li>• Adopt an interpretative Communication on Public Procurement and the Environment</li> <li>• Draw up a handbook on Green Public Procurement</li> <li>• Co-ordinate and facilitate and information exchange on GPP</li> <li>• Green the Commissions' own public procurement</li> </ul>
Product information	<ul style="list-style-type: none"> <li>• Link existing information on the life-cycle impacts of products</li> <li>• Support the development and dissemination of easily applicable tools to evaluate life cycle impact of products (in particular for SMEs) and to improve the information flow along the product chain</li> <li>• Host workshops on the most efficient way to achieve these goals</li> <li>• Investigate the potential for schemes to oblige/encourage producers to provide key information on environmental product characteristics</li> </ul>
Eco-design guidelines	<ul style="list-style-type: none"> <li>• Encourage the elaboration, dissemination and application of such guidelines</li> </ul>
Standards	<ul style="list-style-type: none"> <li>• Support the development of standards on the environmental design of products</li> <li>• Find ways and means in co-operation with all stakeholders to achieve that 'environmental soundness' that will be systematically associated with all European standards</li> </ul>
New approach	<ul style="list-style-type: none"> <li>• Review the potential of New Approach legislation to encourage greener product design</li> <li>• Ensure an optimal use of the New Approach in legislation such as the planned Directive on Electrical and Electronic Equipment</li> </ul>
Product panels	<ul style="list-style-type: none"> <li>• Develop the framework for product panels</li> </ul>

	<ul style="list-style-type: none"> <li>• Launch one or two pilot projects in 2001</li> </ul>
Supportive instruments	<ul style="list-style-type: none"> <li>• Make the link with EMAS</li> <li>• Ensure that green product innovation is a key part of Community Research and Development programmes (FP5, Growth Programme; FP6)</li> <li>• Put a focus in the LIFE programme on the greening of products</li> <li>• Investigate the potential of environmental reporting</li> </ul>

(CEC, 2001b)

It has been recognised that the specifically product-based orientation of IPP, as opposed to the more prescriptive policy approaches traditionally applied, might represent an opportunity to introduce a social perspective.

*“...a product focus can provide an opportunity for considering the social ‘leg’ of the sustainable development triad. Products are tied to behaviours and social and organisational values. They play a crucial role in providing the entitlement of different households or social groups to given lifestyles or livelihoods. Inequalities of entitlement to environmental resources underlie many of the social and political inequalities that persist in societies, nationally and internationally. A creative product-oriented environmental policy would find new ways of linking to social concerns, in a way that environmental standards-based approaches have found difficult.”* (CEC/Ernst & Young, 2000).

In addition, some commentators have suggested that IPP represents a strong existing framework for the promotion of CSR, in particular that any new framework for CSR should:

- Respect the progress that has already been made around the environmental agenda. Work on these issues should not be recommenced under a CSR guise. Further work should focus on the gaps to plug, rather than re-inventing well-developed policies;
- Recognise that the social dimension of CSR can learn a lot from the more developed environmental side (ACCPE, 2001).

The suggestion that work undertaken within the environmental dimension of CSR is of relevance to the social sphere is also supported by policy-makers. For example, the EU Commission has suggested that IPP, through its life-cycle orientation and inclusion of

stakeholders in the dialogue process, represents a strong existing framework for the promotion of CSR (CEC, 2001a). The growing acceptance of the relevance of IPP to CSR, means that an investigation of practical ways in which the IPP approach could be adapted to the social and ethical context might be beneficial.

IPP is based on several key principles (CEC/Ernst & Young, 2000, p10-11, Charter et al, 2001, p103):

- Stakeholder involvement
- Market-based approach
- Life-cycle perspective

The remainder of this section discusses each of these principles in turn, with the aim of identifying how they can inform the social aspect of CSR, either directly, or through one or more of the various policy instruments identified in Table 2. Due to space limitations, the intention is to simply highlight some specific areas of potential integration rather than to explore each in detail.

### **Stakeholder Involvement**

Until now, the majority of the regulatory approaches designed to improve the environmental performance of business have tended to be mandatory and prescriptive in focus (Gouldson & Murphy, 1998, p39). As such, they have concentrated on setting strict standards that must be met by companies to avoid remedial action. At the policy formulation stage there has been only limited scope for the involvement of stakeholders other than those likely to be directly affected by the subsequent legislation. In practice, this neo-corporatist approach has often led to the

exclusion of many stakeholder groups from the policy process. IPP aims to adopt a different approach:

*“In order to be able to deal with the very broad scope of potential measures to support the greening of products, the strategy relies on the **strong involvement of all stakeholders on all potential levels of action.**”* (CEC, 2001b, p7, words emboldened in original document).

In theory, the adoption of life-cycle principles and methodologies in product related activities (see below) should foster more constructive engagement between individual companies, their suppliers and their customers. However, IPP also aims to go further than encouraging collaboration and involvement of actors specifically engaged in production activities. Through the creation of *product panels*, the intention is that an open dialogue between *all* stakeholders with an interest in a particular product group can be fostered.

Various stakeholders associated with a particular product or product group often have different, sometimes conflicting interests. In recognition of this fact, IPP will establish stakeholder groups to identify how environmental objectives can be achieved or barriers overcome in relation to particular product groups (CEC, 2001b, p22). The principle mechanism used to employ this strategy will be through the establishment of product panels. Although not a new concept, the establishment of stakeholder groups as a central strategic mechanism in the formulation of supra-national product-oriented policy is relatively unprecedented. Initiatives to date have largely occurred at the level of the nation state, for example in Denmark, the Netherlands, Germany, the UK, Norway, Sweden and Finland (CEC, 2001c). In particular, Danish product panels have been lauded as potential exemplars for establishment at the EU level (*ibid.*, p22). In this respect, they merit more in depth analysis.

To date, Danish product panels have been established in four product (and service) group areas: electronics, goods transportation, building and construction, and textiles. They represent one of

the strategies implemented as part of a national product-oriented environmental initiative aimed at formalising an improved dialogue process between key players in the development and sale of cleaner products (Danish Ministry of the Environment, 2001). Here, 'key players' include all those who materially affect the manufacture, sale, consumption and disposal of the identified product throughout its entire life-cycle:

- Suppliers of raw materials;
- Manufacturers;
- Distributors;
- Employee organisations;
- Purchasers;
- Dealers;
- Consumer organisations;
- Retail organisations;
- Waste management industry representatives;
- Environmental NGOs;
- Authorities

In addition, universities, research centres or other 'knowledge centres' might also participate or give advice if deemed necessary. The Danish Environmental Protection Agency (EPA) also has a role in assisting co-operation between the various actors and in ensuring that any relevant regulatory conditions are met. However, the intention is that these pilot product panels should, if successful, inform the establishment of further panels in other product groups in Denmark, with or without the involvement of the EPA. It is anticipated, and indeed encouraged that the complexion of the panel members will be flexible in order to better represent the interests within a particular product group.

The Danish panels have established a generic set of objectives as outlined below:

- Create a dialogue forum for the important players within a product area for the purpose of introducing and coordinating measures that can contribute to the development and sale of cleaner products;
- Provide and maintain a consistent overview of important activities in the product area in question for the purpose of meeting the overall objectives of product initiatives;
- Draw up an action plan for the area in question and organise and implement concrete activities outlined in this plan; and,
- Evaluate initiatives on an ongoing basis and help communicate results to the players of the product area in question.

An independent evaluation of the Danish product panels has concluded that in general they represent a positive development and are an effective means of engaging market players and other stakeholders in product-oriented environmental strategies (Oxford Research, 2001). In addition, it made several recommendations relating to, amongst other things, possible changes in the function, composition and organisation of panels (*ibid.*, p13). Although not certain, it seems relatively safe to assume that the Danish model of product panels will be used, in whole or in part, as the basis of the proposed Europe-wide versions mooted in the IPP Green Paper. With this probability in mind, it is now useful to explore potential ways in which the social/ethical elements of CSR could be addressed using the product panel approach, in its current form.

Perhaps the most evident manner in which the product panel approach of IPP could inform the social dimensions of CSR would be if either i) social and ethical issues were introduced into the specific action plan for the product group and addressed in parallel with environmental objectives; or ii) a separate product panel was established, charged with the sole responsibility of addressing social and ethical issues related to particular product groups.

The first alternative would possibly entail a broadening of the organisations represented on the product panel. In practice this could mean the inclusion of NGOs engaged in social and ethical issues, and an enhanced role for employee organisations and local community groups. This could be seen, *prima facie* as a positive step in that elements of the sustainable development agenda, other than the purely environmental, are added to the equation. However, an increase in the number of issues to be addressed in the action plan related to a particular product group might lead to a detrimental effect on the clarity of objectives identified and the likelihood of them being realised.

This possible trade-off between focus and inclusivity might also emerge in the case of the second alternative. Here, the establishment of a separate, distinct product panel, looking at the same product group as the first, but instead addressing purely social and ethical issues, might result in a more focused approach, resulting in clearer objectives that are more likely to be achieved. On the other hand, many of the organisations and representatives that would need to form such a panel are likely to be the same as those that form the environmental panel. It is unlikely that this duplication of effort would be either well received or workable and may even be detrimental to the *integrative* aspect of CSR.

A possible third alternative might prove more feasible. Here, the existing structure of the product panel would remain but would be flexible enough to accommodate actors concerned with social or ethical issues associated with the product group. These could fulfil an advisory role, much like that suggested for universities and research centres. In this way, the principal actors involved in the environmental aspects of a product throughout its life-cycle would still be responsible for devising the action plan, but with the capacity for an increased awareness of other elements of sustainability when doing so. There is no reason why a formal process could

not be adopted to ensure that relevant advice or data concerning the social or ethical issues of the particular product group is accounted for in the creation, implementation, monitoring and evaluation of the action plan. An interesting development, related to this point, is the recommendation made during the independent evaluation process that product panels should consider organising work groups for technical and detailed discussions concerning well-defined subjects/projects (Oxford Research, p13). Perhaps a work group could be established, charged with addressing certain clearly articulated social and ethical concerns. However, comments made in the same report regarding changes to the typical composition of panels should also be borne in mind. The recommendation is that in future more emphasis should be placed on the inclusion of 'front runner' enterprises and other key market players and more focus placed on the decision-making competence of panel members. It remains to be seen whether these recommendations will be adopted when product panels are adopted at the EU level. However, if they are, there may be serious implications for the inclusion of social actors in the decision-making process at any meaningful level.

It is also worthwhile pointing out that some product groups might be more associated with social and ethical impacts than environmental ones. It will be interesting to observe how relevant the product panel approach will be in these circumstances, as well as how adaptable it will prove in view of any potential requirement to change its emphasis.

A final point is that product panels, through the facilitation of stakeholder engagement activities within a formalised structure, closely linked to policy formulation, represent a contribution towards the social aspects of CSR within themselves, especially since communication with business partners, suppliers and consumers is a major element of the external dimension of CSR (see Table 1).

## **Market-based Approach**

The IPP approach seeks to interact with market mechanisms through the use of several specific instruments. These include the use of economic instruments such as indirect taxation, measures to encourage green public procurement and a focus on providing product information for consumers. All three of these instruments rely to some extent on the availability of information on the environmental impacts of products throughout their entire life-cycle. Therefore, any analysis of how these measures can also inform the social and ethical dimensions of CSR needs to investigate the use of tools to identify specific impacts throughout the product life-cycle.

### *Economic Instruments and Differentiated Taxation*

It remains to be seen how effective the use of differentiated taxation is in promoting the consumption of more environmentally benign products or services. For the purposes of this paper, the important point is to analyse how effectively the social and ethical impacts of products can be incorporated, along with environmental considerations, in the design and implementation of fiscal instruments. In this respect, a discussion of developments in the field of *externality valuation* is as important as an understanding of the life-cycle issues explored below. Externality valuation is the name given to a process whereby a monetary value is placed on those costs that have historically been externalised by the producers of goods and services. Within the EU, work in this field has to date largely been limited to the valuation of environmental externalities. However, it has been recognised that other aspects of the sustainable development agenda, including social issues such as equity, should be addressed in future work (CEC, 2001d, p3-4). In the area of environmental externalities, there is a certain degree of uncertainty over how methods to attach monetary values to impacts should be weighted. It is likely that this uncertainty will also apply to social externalities. In these respects, further research in this area would be beneficial.

Another major strand of the market-orientation of the IPP approach is the use of differentiated VAT rates in relation to eco-labelled products. The suggestion is that products with an eco-label might be allocated a lower rate of indirect taxation. Issues concerning the integration of a social and/or ethical aspect in this respect are linked to the life-cycle approach to the development of eco-labels and are discussed further below.

In relation to each of the above elements of market-orientation, there is a recognised need for effective communication of the objectives of these types of economic instruments, particularly to consumers. Indeed, it has been suggested that more comprehensive engagement with consumers in this respect, might be a more effective means of realising desired changes in consumption patterns than the use of economic instruments alone (*ibid.* p4). The need for improved communication with consumers is also especially relevant, given past experience of the variable efficacy of eco-labels in affecting purchasing behaviour.

### *Green Public Procurement*

Within the framework of IPP, the promotion of environmentally conscious purchasing policies by public authorities is seen as an effective way of creating and sustaining markets for 'greener' goods. At the EU level, an interpretative communication has been published detailing how green public procurement can be undertaken by Local Authorities without compromising existing internal market legislation and policy concerning, amongst other factors, fair competition and trade (CEC, 2001e). The intention is that this communication will be followed by a practical handbook on green public procurement. Local Authorities themselves have also been active at the European level in promoting green public procurement and have adopted a variety of approaches to meet this objective (ICLEI, 2000). Neither the EU approach, nor any of the approaches adopted by European Local Authorities address the social and ethical dimensions of public purchasing other than where they are inter-related with environmental considerations.

Other research, however, has focused on these elements of purchasing activity, although not specifically in relation to public purchasing. In particular, in the UK the *Ethical Trade Initiative* has developed a *Base Code*, largely based on existing international standards, that outlines several principles that should be adhered to in the worthwhile pursuit of ethical purchasing strategies. These are:

- Employment is freely chosen;
- Freedom of association and the right to collective bargaining is respected;
- Working conditions are safe and hygienic;
- Child labour shall not be used;
- Living wages are paid;
- Working hours are not excessive;
- No discrimination is practiced;
- Regular employment is provided; and,
- No harsh or inhumane treatment is allowed.

The ETI Base Code also outlines several principles of implementation that participating organisations should follow when seeking to effect these sorts of changes to their purchasing strategies; these include:

- Commitment;
- Monitoring, independent verification and reporting;
- Awareness raising and training;
- Corrective actions; and,
- Management procedures, pricing and incentives.

A review of the experiences of companies associated with the ETI in relation to the effect on supply chain relationships (IDS/PriceWaterhouseCoopers, 1999, p7) highlighted several issues, including:

- The participants desire to promote compliance with the base code throughout their entire supply chain;
- A possible negative effect of certain aspects of monitoring and verification on the companies' ability to maintain and build long-term relationships with suppliers;
- The cost of external verification;
- The accountability of external verifiers;
- Confidentiality;
- The skills and qualifications of NGO staff to act as external verifiers; and,
- Capacity in the professional verification market.

In addition, it was found that ethical sourcing strategies should be understood within the context of risk management by purchasers. For example, the motivation for many companies in establishing a code of conduct is the desire to guard against negative perceptions of the organisation that could arise if suppliers were found to be operating unethically. It is in this context that the perceived benefits in terms of the image of the company need to be balanced against the costs of implementation.

In spite of the potential limitations encountered, it is apparent from the rest of the report (*ibid.*) that the ETI code of conduct is a useful tool for addressing social and ethical issues in purchasing operations. Although the code of conduct has only been used thus far in the private sector, it is likely that the underlying principles could be relatively easily applied to public sector procurement. However, since, as mentioned above, public procurement is governed by an established framework of legislation, it is likely that a document such as the EU interpretative communication mentioned above would need to be written, this time in relation to reconciling

the application of social and ethical dimensions of purchasing activities with public procurement law. It is also likely that the forthcoming practical handbook for Local Authorities on green procurement would need to be supplemented with a consideration of these dimensions.

### **Life-cycle Perspective**

Within the framework of IPP, a life-cycle approach allows businesses and policy-makers to identify where in the product chain the most significant environmental impacts occur. In theory, this allows policy-makers to target initiatives in those areas where they are likely to be most beneficial in terms of achieving environmental improvement. The life-cycle perspective of IPP underpins many of the instruments and proposed actions, including eco-labels, environmental declarations, public procurement, product information, eco-design and standards.

Traditional methods of identifying impacts throughout the product chain, particularly *Life Cycle Assessment* (LCA), concentrate specifically on *environmental* impacts (ISO, 1997; ISO, 2000). However, although a relatively underdeveloped area of research, there are indications that, given a slight change in emphasis, it might be possible for the life-cycle approach to be used in the identification of social as well as environmental impacts occurring throughout product chains (Doom et al, 2001). In addition to analysis of the material-flow aspects of product development through LCA, the introduction of an *organisational* component may foster the gradual integration of social factors. The list below provides an overview of some of the *Social Impact Categories* that could potentially inform an integrated approach to product life-cycle activities:

- Freedom of association and protection of the right to organise;
- Forced labour;
- Discrimination;
- Equal remuneration;

- Child labour;
- Wages;
- Working hours;
- Health and safety;
- Social security and contracts.

*(Source, Doom et al, 2001)*

The move away from a policy focus on environmental process management in businesses towards a more product-oriented life-cycle approach, as exhibited in IPP, could be seen as a motivational factor in the need to reassess the efficacy of standard Life Cycle Assessment (LCA) approaches. From 1998-2001, the *SETAC Europe Working Group on Life Cycle Management* explored the concept and approaches of *Life-Cycle Management (LCM)* as a more effective tool for assisting product-oriented initiatives through the supply chain (SETAC, 1998).

As a result of this work, the following definition of LCM was offered:

*“Life Cycle Management is a flexible, integrated framework of concepts, techniques and procedures to address environmental, economic, technological and **social** aspects of products and organizations to achieve continuous environmental improvement from a life-cycle perspective.”* (word emboldened by author).

If the life-cycle element of IPP is informed by a more holistic approach through the identification of social as well as environmental impacts of product development, it might be better placed to inform a broader range of CSR strategies. Admittedly, however, it is likely that this transformation would entail sometimes complex alterations in prevailing methodological approaches. In this context, efforts to further understand the issues involved, and potential strategies that might be adopted, to incorporate environmental, social and ethical impacts in product life-cycle assessments would be beneficial.

In summary, the principles underlying the IPP approach, as well as the policy instruments likely to be adopted, all have some relevance to the social and ethical dimensions of CSR. Rather than exploring in-depth, specific ways in which each of these instruments can be used to introduce considerations beyond the purely environmental, the intention has been to highlight, in a broader sense, possible areas where a social dimension could be effectively incorporated.

It is this notion of effectiveness that should also be recognised as a critical factor in the process of developing an integrated approach to addressing environmental and social concerns. In this respect, it is useful to discuss means in which effectiveness can be measured. An important distinction here, is the relative merit of adopting either quantitative or qualitative measures of success. Monitoring and evaluation of the *environmental* performance of a company might, on the surface at least, appear to be relatively simply undertaken. This is primarily because many of the areas in which a company has an impact on its surrounding environment can be quantitatively measured, for example, tonnes of hazardous waste produced or the amount of CO<sup>2</sup> emitted to atmosphere. In recent years, a range of methodologies have been established to measure the environmental impact of firms in key areas. Of particular relevance to the IPP approach has been the development of sophisticated LCA approaches to measure impacts throughout the entire life-cycles of products and even account for sometimes diffuse impacts inter-linked with contributory factors external to the firm. Even though criticisms have been levelled at elements of the LCA methodology, such as the relative *weighting* applied to individual impact categories, it remains an effective and practical tool that can aid businesses and policy-makers in identifying impacts throughout the life-cycles of products and prioritising those areas in which remedial action can be best applied.

Techniques to measure the social and ethical performance of businesses are relatively less well developed and are certainly less well integrated into everyday business functions. This area

relates less to the idea of CSR than to that of *Corporate Social Performance* (CSP) although the two terms are often used interchangeably. In a different way to environmental impacts, the social impacts of company behaviour are more commonly understood in qualitative terms. For example, the nature of a companies' relationship with its local community is less tangible, and therefore less easy to measure than the amount of energy it uses each year. Efforts have been made, however, to develop standards of the social performance of businesses, and an attempt has been made to reconcile these with existing environmental standards (e.g. Henriques and Raynard, 2001). This is explored in greater detail in the next section. Other attempts to measure the social performance of business have focused on the notion of the 'triple bottom line'. Here, companies are assessed not just on their financial, but also social and environmental record. Many studies in this field have sought to equate sound financial performance with improved social performance. For example, are firms profitable because they are socially aware or *vice versa*? The results of research to date have been inconsequential and it remains to be seen how useful the triple bottom line concept will prove in the effective monitoring and evaluation of CSP.

The intention here has been to highlight some of the many issues associated with the area of measuring CSP. It is beyond the remit of this paper to explore these issues in depth but it is important to stress that further research on the means of measuring effectiveness is of central importance to discussion of the linkages between the social and environmental side of CSR.

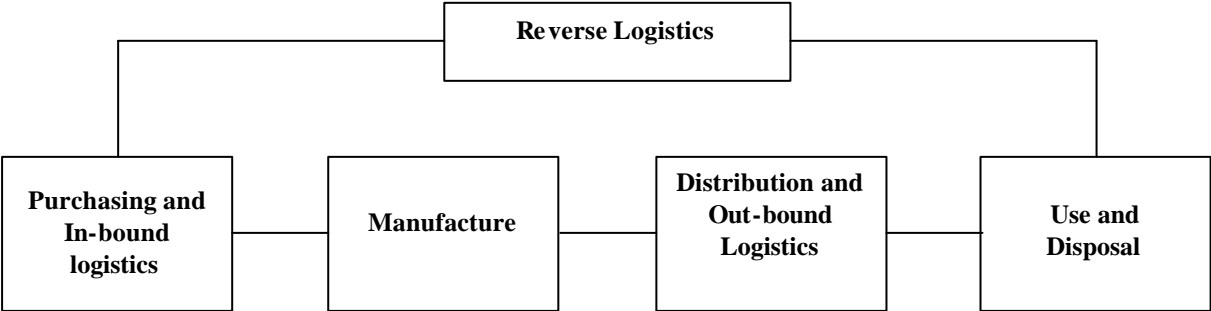
### **Lessons Learned from the Environmental Approach 2 – Environmental Supply Chain Management (ESCM)**

As a managerial principle, the concept of supply chain management is relatively recent. Various sources have contributed to the evolving concept of the topic, including purchasing, marketing, logistics and operations management. Supply Chain Management (SCM) could be described as the strategic management process unifying into a single responsibility the systematic planning and control of all materials, based upon identification of the need by the ultimate customer, from

raw materials to final assembly, distribution and delivery to the customer. It embraces planning, purchasing and supply, production and inventory control, storage, handling, distribution, logistics and quality. A ‘standard’ view of the objectives of supply chain management would be that it seeks to optimise performance in meeting agreed customer service requirements, minimising costs and making the best use of resources throughout the supply chain. In recent years, a variety of factors, including consumer, legislative, investor and customer pressure, have led to an increased awareness of environmental issues throughout the supply chain. In particular, current and emerging producer responsibility legislation at the EU level (For example, the Directives on *End of Life Vehicles* and *Waste Electrical and Electronic Equipment*) have meant that adequate company responses to these pressures increasingly need to be realised through the adoption of initiatives that address environmental impacts throughout the entire life-cycle of products or services. These factors combined, have led to the adoption by businesses of Environmental Supply Chain Management (ESCM) strategies.

Diagram 1 provides a schematic overview of the principal functions of a typical product supply chain. These interact with one another in forming the *cyclical* system that is the whole supply chain process (Sarkis, 1999).

*Diagram 1 – Principal Functions of a Product Supply Chain*



Within each of these functions, or stages, of the typical supply chain, a variety of activities have been undertaken by a range of organisations in the promotion of environmental improvements. This section continues by exploring ways in which some of the social and ethical dimensions of CSR might be addressed through integration with some of these activities. To begin with, some of the conceptual models that have been developed in an effort to understand how this integration might occur throughout supply chain approaches are investigated. Following this, a more in-depth exploration is made of how the introduction of social and ethical concerns might be practically achieved through activities carried out in the environmental area at one particular stage of the supply chain, namely within the purchasing function.

### **Introducing Social and Ethical Issues to ESCM – The Concept of Sustainable Supply Chain Management**

It has been recognised that companies increasingly need to address not just the environmental, but also the social and ethical aspects of their supply chain operations. Work conducted within the *Sigma Project* in the UK (Charter et al, 2001b) has suggested that this more holistic approach to inter-firm collaboration should be referred to as *Sustainable Supply Chain Management* (SSCM). Rather than invalidating the issues identified, and the work previously carried out by businesses, under the heading of ESCM, the SSCM model instead incorporates this environmental dimension and expands upon it by also identifying a number of social and ethical issues. This expanded range of issues is presented in Table 3.

Table 3 – Sustainability Issues in Supply Chains

<p><b>Environmental Issues</b></p>	<ul style="list-style-type: none"> <li>• Natural resource use;</li> <li>• Emissions;</li> <li>• Waste;</li> <li>• Hazardous substances;</li> <li>• Energy use;</li> <li>• Loss of biodiversity and deforestation;</li> <li>• Nuclear radiation;</li> <li>• Ozone depletion;</li> <li>• Global warming.</li> </ul>
<p><b>Social Issues</b></p>	<ul style="list-style-type: none"> <li>• The role of the company to the local community;</li> <li>• Direct and indirect employment in developing countries;</li> <li>• Investment in education/training.</li> </ul>
<p><b>Ethical Issues</b></p>	<ul style="list-style-type: none"> <li>• Labour practices (e.g. child labour, discrimination by race, gender and religion, wage issues, unions, working hours and employee privacy);</li> <li>• Irresponsible marketing (e.g. marketing to children and misrepresentation);</li> <li>• Supporting oppressive regimes;</li> <li>• Honesty, trust, respect and fairness in corporate or organisational relations;</li> <li>• Bribery and corruption.</li> </ul>

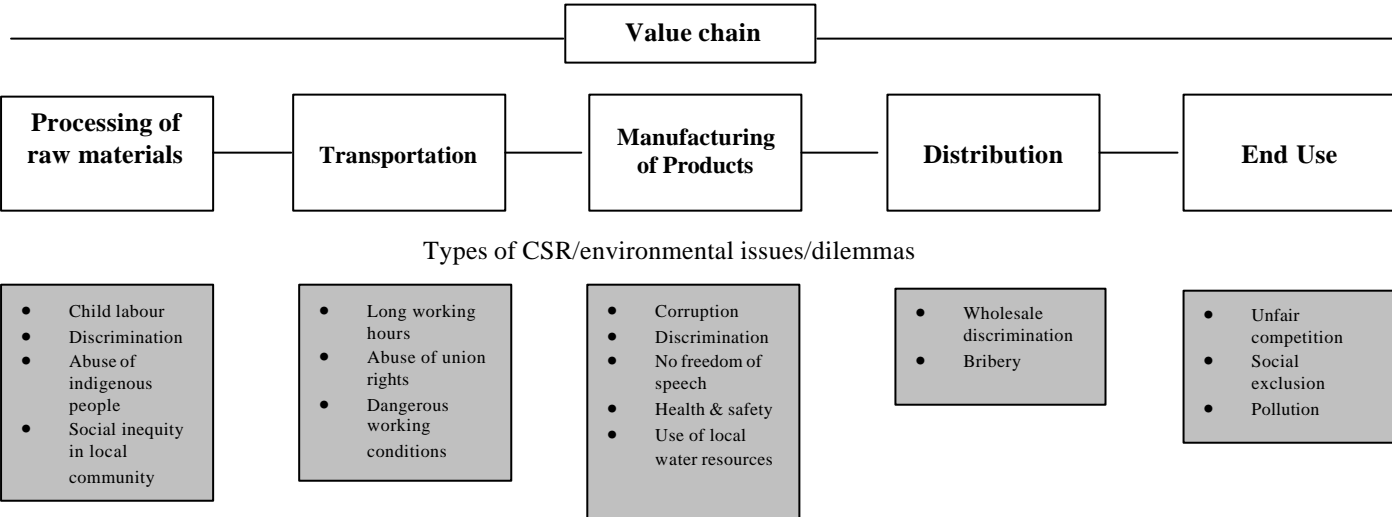
(Source, Charter et al, 2001b)

However, this work also recognised that, in the main, companies implementing SSCM activities still tended to focus more on the environmental side than on the social and ethical issues. This may be because, as mentioned above, these concerns are often less tangible (*ibid.*). In addition, the range and degree of pressures on companies to implement environmental improvements is often much more evident than those to implement social improvements. An identified exception

is the retail sector, where companies deal with domestic rather than industrial customers and social and ethical factors connected with products are more clearly perceived.

Another model that places broader sustainability issues within the context of the supply chain has been developed by the *World Business Council for Sustainable Development* (WBCSD, 2002). Here, an attempt is made to not only identify environmental, social and ethical issues, but also to suggest at which stage in the typical supply chain they might occur.

Table 4 – Mapping Sustainability Issues Through the Supply Chain



(Source, WBCSD, 2002)

This approach has merits, in that it fosters more understanding about where in supply chains particular sustainability issues might occur, and where remedial activities might be most effectively employed. A potential weakness might lie in the fact that, in reality it is unlikely that many of the identified issues will occur solely within clearly defined stages of a typical supply chain. For example, issues such as long working hours or corruption are just as liable to exhibit themselves during the transportation or distribution of products as at the manufacturing stage. However, this is a criticism of the overly simplistic way in which issues have been identified as

occurring solely in identified supply chain stages, rather than of the approach *per se*. On the contrary, this model might represent the foundation of a coherent approach to identifying and addressing sustainability issues through supply chains and as such should be recognised as a profitable area for future research.

Having identified and discussed some of the attempts to integrate environmental, social and ethical supply chain issues at a conceptual level, it is now helpful to explore, at a practical level, how this integration might be achieved through the adaptation of existing ESCM activities. As mentioned above, initiatives to improve the environmental performance of companies can occur at any of the stages of supply chain activity identified in Diagram 1. However, due to space limitations, the analysis here will concentrate on potential environmental/social linkages that might be fostered through activities within the purchasing function.

### **Introducing Social and Ethical Concerns to the Purchasing Function of ESCM**

The purchasing function involves the acquisition of materials from suppliers to meet the needs of producing the organisational product or service. It includes duties such as vendor selection, material selection, outsourcing, negotiation, buying, delivery scheduling, inventory and materials management and, to some extent, involvement in design (Sarkis, 1999). The list below, based on the work of Lamming *et al* (1999) and Lloyd (1994) presents a number of initiatives that may be incorporated into an environmental 'green' purchasing function:

- Supplier environmental questionnaires;
- Supplier environmental audits and assessments;
- Environmental criteria on approved supplier list;
- Require suppliers to undertake independent environmental certification;
- Jointly develop cleaner technologies/processes with supplier(s);

- Engage suppliers in Design for Environment [DFE] product/process innovation;
- Reduce packaging waste at the customer-supplier interface;
- Reuse/recycling of materials requiring co-operation with supplier;
- Re-use initiatives (including buy-backs and leasing);
- Conduct Life Cycle analysis/Assessment with co-operation from suppliers;
- Create supply 'club' to collaborate on environmental issues;
- Co-ordinate minimisation of environmental impact over full supply chain;
- Build environmental criteria into supplier contract conditions;
- Audit supplier environmental performance.

Several of these initiatives afford opportunities to introduce an ethical and/or social dimension to the purchasing function in a typical supply chain. In particular, the process of supplier (vendor) selection and/or assessment through the application of initiatives such as the use of environmental questionnaires and external certification systems, presents a possibility of developing a more holistic assessment of a current or prospective suppliers sustainability performance.

#### *Supplier Environmental Questionnaires/Assessments*

Assessment of the environmental impact of a company's demand for material inputs may be effectively carried out using questionnaires for all potential suppliers (Lloyd, 1994). In addition, suppliers to many larger, high profile companies are now regularly visited by auditors from the customer company to conduct on-site audits. For example, in 1995, the DIY chain B&Q launched an environmental action and assessment programme for all its stores and principle suppliers (QUEST). The author has also been involved in the process of on-site supplier assessment. In general, the areas of concern in supplier environmental assessments typically include questions related to:

- Regulatory compliance;
- Environmental effects and performance measures;
- Existing environmental management procedures;
- Commitment to managerial and process improvement, regardless of what is supplied (Lloyd, 1994, Lamming and Hampson, 1996).

In a similar way to the development of purchasing practices in the public sector (see above), several larger companies now place emphasis on the social and ethical dimensions of purchasing decisions as well as the environmental (for example, B&Q, Dell, Ben & Jerry's and Co-operative Bank). A relatively straightforward way in which to introduce a social component to supplier assessment activities is through investigation of the health and safety performance of suppliers. The results of empirical work conducted by the author through the supply chains of companies in South Wales (UK) has shown that the incorporation of a health and safety aspect to on-site supplier environmental assessments is not difficult to achieve. However, investigation of the health and safety (H&S) record of a company is likely to be more easily carried out than some other aspects of social or ethical performance due to several factors:

- It is an area of company activity that is subject to a comprehensive regulatory framework;
- It is often the responsibility of a dedicated individual (in smaller companies) or department (in larger ones);
- In the majority of cases, all employees of a company are trained to be aware of their responsibilities;
- In many businesses, the H&S and environmental function is closely integrated, meaning that the dedicated manager or department has expertise in both areas; and,

- It is often subject to an internal management system, sometimes implemented to a certifiable standard.

In practice, any one, or a combination of these factors means that the inclusion of a health and safety dimension in the environmental assessment of suppliers is perhaps more likely to succeed than other areas of social performance, where these factors might be less evident. In addition, the subsequent selection of suppliers by purchasing organisations in this manner is more likely to be based on a clearly defined, objective set of criteria.

In a similar way to the assessment of health and safety, some of the ethical and social aspects of human resources management activities of a supplier can be relatively easily incorporated into existing supplier environmental assessment procedures. For example, questions regarding issues such as a company's equal opportunities policy and the provision of workplace training or crèche facilities can be added to an existing environmental questionnaire, or be included as another distinct set of issues to be addressed during on-site assessment.

The vendor assessment aspect of ESCM can also assist, in a more limited sense, in the identification of a suppliers' ability to adapt to change in an ethical or socially responsible manner. In many companies, internal channels of communication are established, whereby suggestions can be made by employees concerning environmental improvements. It might be possible for a supplier assessment to identify generic aspects of this internal communication process that are equally applicable in a social or ethical context. For example, if a supplier company holds quarterly meetings, between management and employee representatives, to discuss staff suggestions for improvements in the environmental performance of company activity, there might be a possibility to discuss the social and ethical dimensions of performance at the same time.

Supplier assessment is less likely to identify ways in which suppliers could adapt to change in a socially responsible manner in collaboration with those external stakeholders not directly associated with product or service provision (for example, local authorities or community groups). However, it is possible that the response of the supplier to the whole assessment/selection process could provide valuable insight into how it is likely to conduct activities with other customers and/or suppliers in this or other supply chains.

On the whole, the supplier assessment element of ESCM activity, in its current incarnation, is less able to inform the 'external dimensions' of CSR than the 'internal' ones. As mentioned above, it is less useful in assessing a firm's relationship with local communities. In a similar manner, the scope for investigating a supplier's human rights record through questionnaire or on-site assessment is currently limited. However, this limitation might be more due to difficulty in the identification of clearly defined objective criteria upon which to base a selection decision than upon inadequacies in the supplier assessment procedure *per se*. For example, how can a customer objectively establish whether a given supplier's relationship with its local community is any better or worse than another's? In this respect, more research is needed into how aspects such as a company's records on human rights and relationships with local communities can be monitored throughout global and local supply chains.

#### *Independent Environmental Certification*

The use of Environmental Management Systems [EMS] such as EMAS and ISO14001 can provide assurance to customers that relatively high environmental standards are being maintained amongst their supply-base. In this manner, they are a useful tool for customers to use in carrying out supplier assessment activities based on environmental performance.

A recent development in this field is research into the development of integrated management systems, which seek to unify economic, environmental, social and/or quality aspects of business performance into a single *Integrated Management System* (IMS). In theory, an integrated approach should save businesses time and money, through the avoidance of unnecessary duplication when installing a variety of procedures. It could also allow customer companies to ensure that suppliers are maintaining high standards of social and ethical, as well as environmental performance. In the UK, the SIGMA project has carried out an extensive investigation of how existing management systems, standards and procedures in the fields of economic, environmental, social and ethical sustainability can be integrated through, amongst other things, the establishment of a single sustainability management system (Henriques and Raynard, 2001). In total, fourteen existing social sustainability ‘standards, guides, principles and approaches’ were assessed against criteria including:

- Dimensional cover;
- Stakeholder cover;
- Accountability;
- Social Management system;
- Substantive/process orientation.

A major finding was that few standards focus to any large degree on external stakeholder dialogue (tending to focus instead on employee relations). The current situation is not therefore encouraging for the integration of the ‘external’ dimension of social and ethical performance into management standards, and subsequently for its integration into this aspect of ESCM. However, the study suggests some ideas for tools that could helpfully be employed in addressing issues of stakeholder dialogue in a more structured way. These include:

- Stakeholder identification;
- Responsibility mapping;
- Quality of dialogue;
- The case for dialogue;
- Implementation planning; and,
- Standards analysis.

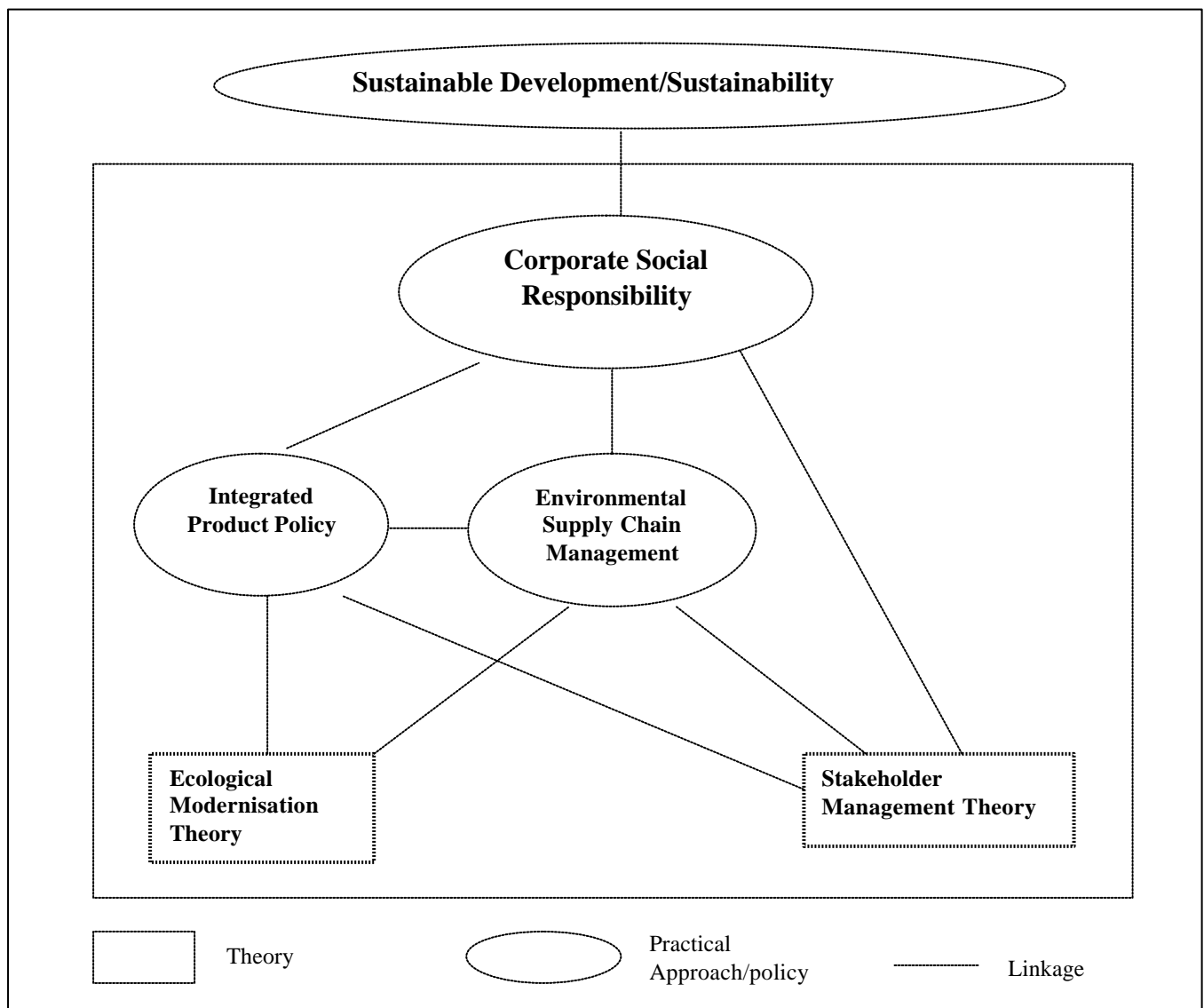
As mentioned above, if tools and approaches such as these become more integrated into management practices or even certified standards, customers might have a more objective basis upon which to monitor and evaluate these aspects of social and ethical performance during supplier assessment and selection activities.

However, optimism about the potential usefulness of IMS in introducing social and ethical dimensions into the supplier assessment function of ESCM might be tempered when considered in the light of previous limitations of EMS. For example, it has been suggested that accreditation may entail extensive documentation and bureaucracy, especially for the suppliers, and does not guarantee that organisations are compliant, let alone environmentally proactive. Another disadvantage of EMS certification might be due to limitations in conformity assessment methods, with too much emphasis placed on adherence to procedures rather than actual environmental performance (ENDS, 2002; ENDS, 2000). In addition, it has been suggested that many accreditation bodies recruit auditors from a quality management background that might not have the necessary environmental expertise (*ibid.*). This has implications for the introduction of social and ethical considerations into the certification process. If a large proportion of auditors continue to be recruited from a quality, or even in this case, environmental background, it is unlikely that expertise in social and ethical issues will be increased.

## Conceptualising the Environmental and Social Dimensions of CSR

In order to further understand the possible linkages between the environmental, social and ethical elements of CSR, it is useful to conceptualise the relationship between these dimensions at a theoretical level. It is necessary to introduce this level of analysis now, rather than earlier, because a discussion of IPP and ESCM approaches in their theoretical context might have made less sense if carried out before the approaches themselves had been explained in detail. Diagram 3 presents a simplified overview of how IPP, ESCM and CSR could be conceptualised at a theoretical level.

*Diagram 3, Model of Conceptual Links between CSR, IPP and ESCM*



The diagram shows that, as investigated earlier, elements of both IPP and ESCM are related to CSR as well as to each other. Until now, these actual or potential linkages have been investigated at a practical, operational level. However, this section aims to deepen the level of analysis by discussing the extent to which IPP, ESCM and CSR activities are informed by theoretical approaches. It is suggested that two theories, in particular, are relevant to this discussion, namely stakeholder theory and ecological modernisation theory. Stakeholder theory is relevant, amongst other reasons, through its focus on more consensual modes of business decision-making and conduct. Ecological Modernisation Theory, through its attention to technological innovation and institutional transformation can also be said to bear some relevance to the practical approaches outlined in earlier sections.

The analysis in this section is split into three parts. It begins by briefly discussing the identified theories and practical approaches as a whole, in terms of their relation to the notions of sustainability and sustainable development. Following this, an analysis is made of stakeholder theory, with a particular emphasis on how it relates to IPP, ESCM and CSR and on what conclusions might be drawn from this relation. Finally, an analysis of ecological modernisation theory is conducted, with the same aim of exploring relationships to practical approaches and drawing conclusions from the findings.

### **Sustainable Development and Sustainability**

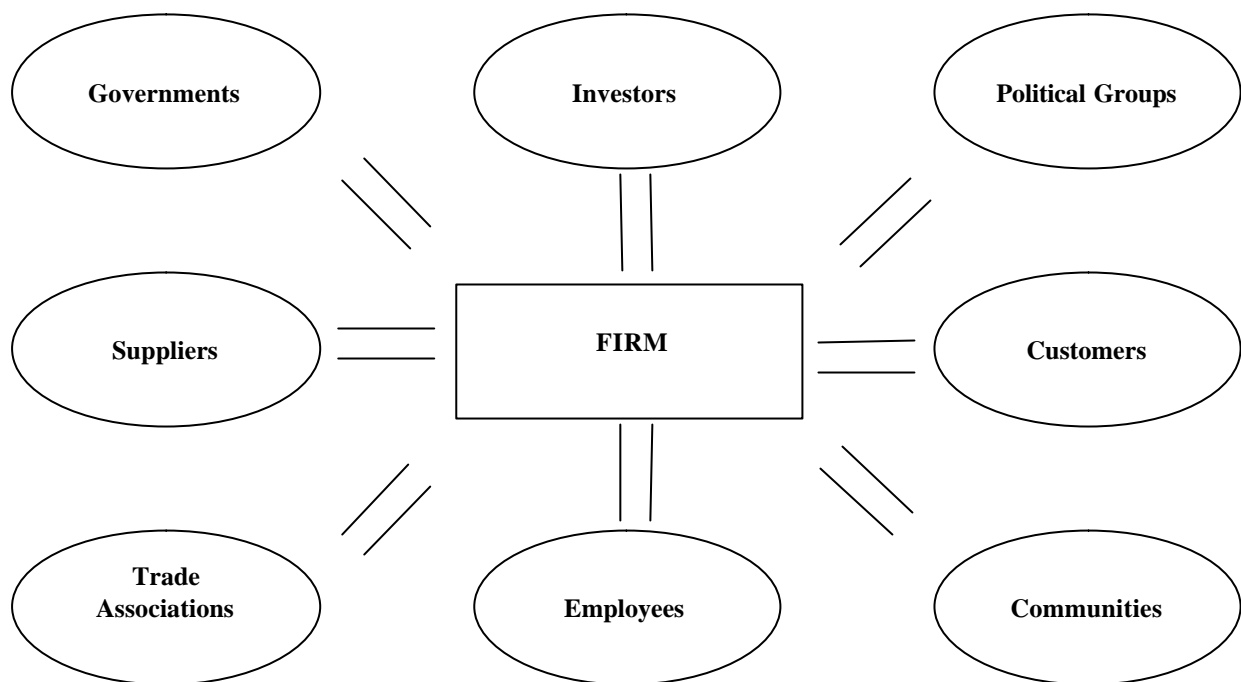
From the outset, it is important to stress that IPP, ESCM and CSR contribute towards sustainable development rather than *vice versa*. Put simply, the desired goal, as accepted by the majority of nation states, is a move towards sustainable development trajectories and ultimately, a position of global sustainability. Sustainable development, as defined by the report of the Brundtland Commission (WCED, 1987), is a concept predicated on the principle of inter-generational equity and focuses on social, economic, environmental and cultural dimensions in achieving this aim. Although the Brundtland report recognised the importance of business in the achievement of sustainable development objectives, it also acknowledged the necessary role of other elements of society including governments, NGOs and the general public. Sustainable development, therefore, can not be achieved through the activities of business alone. Therefore,

concepts and approaches such as ESCM, IPP and CSR, although critically important to the pursuit of sustainable development, especially through their engagement with other societal actors, might be collectively described as only one component part of broader strategies to achieve the objective of global sustainability.

### **Stakeholder Theory/Management**

Stakeholder theory has in part been developed in response to those theories of the firm that espouse the primacy of shareholder interests and the duty of managers to optimise their welfare through profit maximisation, e.g. Friedman (1970). In contrast to this view, stakeholder theory posits that corporations, as a result of a variety of legal and economic limitations have a responsibility not only to shareholders but also to *stakeholders*. Freeman (2001) accepts that a 'wide' definition of stakeholders could include 'any group or individual who can affect or is affected by the corporation.' However, for the purpose of more focused analysis, a 'narrow' definition of those groups who are 'vital to the survival and success of the corporation' was put forward, which includes owners, suppliers, customers, employees, the local community and management (*ibid.*). Other commentators have expanded on this model to include trade associations, governments and other political groups (see diagram 4).

Diagram 4, The Stakeholder Model.



(Source: Donaldson and Preston, 1995)

In principle, the adoption of a stakeholder approach to the management of businesses could provide several perceived advantages, including a reduced need for government intervention and regulation, the adoption of a less confrontational and more 'ethical' consensual style of managerial decision-making and an increased capacity for the formulation of innovative solutions to identified problems or challenges.

It is probably not misleading to conclude, through analysis of the underlying principles of the IPP approach, that it is to a certain extent informed by ideas enshrined in stakeholder theory. Its life-cycle orientation aims to ensure that all actors involved in the physical production, use or disposal of a product are included in relevant activities, the use of demand-side instruments means that consumer interests will be addressed and, in particular, the creation of product panels should introduce a far wider spectrum of stakeholder interests to product-related decision-making processes. In a similar way to IPP, ESCM activities, through their inclusion of actors

operating outside the individual firm context, could be said to be categorised as stakeholder oriented. Unlike IPP, however, the scope of ESCM is often limited to a smaller set of stakeholders, invariably operating within existing production networks. Nonetheless, an understanding of stakeholder theory is relevant to a conceptualisation of ESCM.

On the surface then, the fact that both IPP and ESCM can be understood, in part, as approaches based on the ideas of stakeholder theory, might be perceived as a positive factor in their potential ability to address social and ethical dimensions. As described above, the IPP approach, while primarily focused on product-related environmental issues, should, by its very nature also address the social dimension of CSR through greater inclusivity in decision-making. In addition, there are significant possibilities that many of the instruments proposed could, through an admittedly complex change of methodological emphasis, be equally as useful in tackling social and ethical issues as environmental ones. The same applies to current ESCM activities. However, more detailed analysis of stakeholder theory, if understood as a major building-block of IPP, might present us with a less optimistic assessment. A number of potential weaknesses are evident in the stakeholder theory approach; these include:

*Pluralism* – As mentioned earlier, there might be a possible trade-off between focus and inclusivity in the administration of stakeholder groups. Any expansion of the constituency involved in decision-making processes could lead to increased difficulty in identifying ‘common ground’. This could lead to problems in agreeing upon a sufficiently focused plan of action that could produce meaningful results. In addition, practical difficulties of this nature could be exacerbated if stakeholder involvement moved further towards the ‘wide’ definition.

*Power relationships* – Inadequate awareness is shown of the nature of relationships within and between various stakeholder groups. In reality, some stakeholders are far more likely to occupy

a position of power than others in a given stakeholder forum, and therefore more able to influence decisions. This could potentially lead to a breakdown in communications between parties and is against the spirit of a stakeholder approach.

*Normative basis* – stakeholder management is essentially based upon ideas of how firms *should* behave. Although there are many instances of stakeholder engagement in current business activities, they can only be analysed in a descriptive context. Any theoretical or conceptual conclusions that can be drawn from this analysis is necessarily concerned with how business *ought to* behave. By its very nature then, a normative theory is based on opinion and subjective reasoning and is open to different interpretations depending on the standpoint of different actors.

*Focus on Prevailing Economic and Social Context* – Stakeholder theory has, to date, only been understood in terms of its application to business relationships within the context of a capitalist economic system. It does not dispute the basic function of the firm as agent of capital formation and wealth creation. Therefore, it might only have limited, if any relevance to those contexts not governed by primarily Western neo-liberalist values. In addition, the presence, or indeed notion of a so called civil society, consisting of well-organised groups both willing and able to articulate their interests in the political and socio-economic sphere, is less well developed in some countries than in, for example, the so called ‘triad’ regions (North America, Europe and Pacific rim). This has important consequences if stakeholder theory is used to interpret the social and ethical performance of multi-national companies operating through transnational supply chains in both the developed and the developing world.

Even given these limitations, it is difficult to dispute the usefulness of a stakeholder approach in understanding and informing the environmental, social and ethical aspects of business relationships. Both IPP and ESCM represent important steps towards an improved level of

stakeholder engagement by firms. It is, however, important to stress that these approaches, in their current incarnation, might prove less useful when applied to other geographical locations, particularly those outside the triad regions.

### **Ecological Modernisation**

The theory of ecological modernisation contends that the environmental problems associated with industrialisation can be effectively addressed without hindering economic growth (Mol and Spaargaren, 1993; Mol, 1995; Hajer, 1996). Through the integration of environmental policies into other policy areas at the macro-economic level and the adoption of clean technologies at the micro-economic level this perspective envisages a decoupling of economic growth from environmental degradation, essentially producing a 'win-win' situation (Gouldson and Murphy, 1998, p3). There are several ways in which this institutional and technological transformation might be exhibited (Mol, 2001):

- The changing role of science and technology;
- The increased importance of economic agents and market dynamics and changed state-market relations;
- Changes in the traditional role of the nation-state;
- Changes in the role of NGOs;
- Ideological changes.

Both ESCM and IPP exhibit elements of an ecological modernisation approach, IPP especially so, since it focuses on change at both a macro and a micro-level in several ways:

- Through a focus on technological innovations throughout product life-cycles, especially the design stage;

- By emphasising the function of the market in effecting change, particularly through the internalisation of environmental costs;
- Through an enhanced role for economic agents (e.g. producers, consumers, suppliers and customers) in both the formulation and implementation of policy, especially through product panels;
- Through a focus on voluntary styles of regulation (in this case, through the *New Approach* type legislation);
- By facilitating an enhanced role for NGOs.

In these respects, it is evident that, at virtually every level, IPP is informed by the principles of ecological modernisation theory (EMT). ESCM too, through its enhanced role for companies in acting as agents for environmental change and its focus on upstream technological and process innovations through the supply chain could be said to be informed by EMT.

Having established the link between theory and practice in this respect, it might now be useful to further investigate views of the efficacy of ecological modernisation itself in achieving environmental, social and ethical objectives. It is beyond the remit of this paper to conduct an in-depth critique of EMT but some exploration of its relative advantages and disadvantages is relevant in this context.

*Lack of Social Dimension* – EMT is essentially an *environmental* theory and as such is less effective when applied to the social dimension of global concerns. Environmental problems often tend to be rooted in complex social and political problems that are beyond the capacity of the EMT approach to address in its current form. At a global level, this becomes a particular problem when it is suggested that EMT might be effectively used outside the European Union, especially in the developing world, where it might even undermine previous work to reconcile

environmental and social concerns in the context of uneven distribution of wealth and distribution (Murphy, 2001, p4).

*Incremental Approach* – Through its focus on largely technical matters such as product improvements and waste management, it has been suggested that EMT fails to address the ‘larger’ environmental problems such as climate change. In so doing it emphasises ‘relative’ change over ‘absolute’ change (Mol, 2001, p8).

*Limited Evidence of Institutional Transformation* – Although it is true to say that EMT approaches, especially at the EU level, have resulted in more emphasis on the environmental dimension in institutional decision-making, the fact remains that political and economic goals still largely take precedence, especially where decisions biased in favour of environmental improvements impact on the profits of vested interests or require lifestyle changes in Western consumers (Murphy, 2001, p5). This failure to adequately address power relationships is a limitation of EMT. In this respect, it is similar to stakeholder theory approaches (see above).

*Over-emphasis on Supply-Side Approach* - Through its tendency to focus on technological innovation, it is possible that EMT fails to pay sufficient attention to the implications of consumption patterns in the promotion of environmental improvement.

As with stakeholder theory, then, there might be several limitations in the use of EMT to inform the environmental, and particularly social and ethical dimensions of CSR. However, that is not to say that EMT (as well as policies and activities based on its principles) does not represent a very useful means of addressing many of the environmental problems facing the world today. In addition, as demonstrated above, there are distinct possibilities that practical approaches based on EMT (e.g. IPP and ESCM) could also be usefully employed to address the social and ethical

dimensions of CSR. They represent pragmatic tools, with proven relevance to the realities of business activities. In a situation where the issues to address are pressing and alternative courses of action are often undeveloped, their importance should not be lightly overlooked.

## **Conclusions**

This paper argues that lessons learned within the environmental dimension of CSR have important implications for the social and ethical dimensions. In particular, that strategies and approaches already successful employed in addressing environmental issues, or currently under development, namely IPP and ESCM, could potentially be adapted and applied within the social sphere. Throughout, an attempt has been made to identify and briefly discuss the range of issues and points of potential integration, rather than carry out an in-depth analysis of each. Having identified some of the potential areas of current activities carried out in the 'environmental sphere' that have the potential to incorporate a social and ethical dimension, and outlined some ways in which this could be practically achieved, it is appropriate to briefly discuss the likelihood of these various forms of integration being implemented. To inform this discussion, the passage below outlines some of the factors that might influence the chances of successful integration of environmental, social and ethical issues in this context.

*Sector* - The nature and extent of pressure to improve either environmental, social or ethical performance experienced by companies is likely to vary depending on the sector in which they are positioned. For example, a company operating in the retail sector, dealing directly with the final customer might be just as likely to be faced with concerns about social and ethical aspects of their behaviour as environmental ones. Conversely, a chemical sector company is more likely to experience pressure to improve environmental performance. It is probable that this sectoral variation in the types of issues perceived to be of greatest importance will affect the likelihood of environmental/social integration.

*Size* - In the main, larger companies are less likely to be faced with financial, temporal, technical or other constraints on their ability to carry out environmental, social or ethical initiatives than SMEs. In practice, the presence of these types of constraints is also likely to have a detrimental effect on the potential integration process. Conversely, however, the integration of environmental and social aspects, through the avoidance of unnecessary duplication of effort, could be beneficial in the long-run, especially to smaller companies.

*Supply Chain Position* - In a similar way to sectoral considerations, the relative position of a company in the supply chain/s in which it operates could affect the nature and extent of pressure exerted upon it. The strategic direction of lower tier suppliers is often heavily influenced by the demands of customers further down the supply chain, especially when, as is often the case, an SME relies on a customer company for a large percentage of its business. In this situation, customer pressure to integrate environmental, social and ethical considerations is likely to have more impact on suppliers. On the other hand, in supply chains where little if any pressure of this nature is exerted by customer companies, there is less likelihood that an increased awareness of social and ethical issues will filter through the supply chain.

*Cultural/Geographical Context* – As discussed earlier, the possibility of establishing initiatives such as stakeholder groups is likely to vary depending on the cultural or geographical context in which it is applied. For example, those countries with a less well developed ‘civil society’, consisting of well-organised groups both willing and able to articulate their interests in the political and socio-economic sphere, are less likely to be less able to accommodate initiatives of this kind in the policy-making process.

*Power Relationships* – As alluded to above, the nature and extent of power held by individual companies, organisations, or other actors, and their ability to exercise that power in affecting the actions of other stakeholder groups, or in influencing decision-making processes, is a critical factor in this context. In practice, the potential for initiatives such as stakeholder fora to be successful in achieving their objectives might be heavily influenced by the nature of the power relationships between the actors involved. It will be interesting to observe the development of IPP product panels in particular, to discover the extent to which the various stakeholder groups involved are able to participate in decision-making processes on an equal footing. Observations of this nature will be of direct relevance to further understanding the capacity of these initiatives to adapt to the introduction of a social and ethical dimension.

*Risk/Liability* – Integration of environmental and social factors, particularly through entire supply chains, is an effective way of ensuring that a broader array of the risks facing individual companies are effectively addressed. This might act as a powerful motivational force, especially for larger companies, to adopt an integrated approach, since it enhances a businesses' ability to safeguard reputation and ensure that liabilities are more effectively addressed.

*Legal Context* – Although it is true that one of the motivational factors of many of the initiatives investigated here is the response to regulatory pressure (particularly new and emerging life-cycle oriented, 'producer-responsibility' type legislation), many of them might be seen as essentially voluntary examples of self-regulation. In this context, there is undeniable merit in the adoption of a more flexible, less prescriptive regulatory approach. However, in some instances, it might be the case that mandatory regulations would be better suited to ensuring that core CSR objectives are realised.

*Conflicting Objectives* – In many cases, the pursuit of environmental objectives will not have a detrimental effect on the social and ethical elements of business practice. However, on occasion, a ‘win-win’ outcome will not be achievable, and efforts to realise environmental improvements will have a negative impact on social performance. For example, it is possible that an ‘environmentally friendly’ product could be produced using child labour. In essence, this is an argument for an integrated approach.

These are just some of the factors that might influence the likely success of efforts to integrate the environmental, social and ethical dimensions of company behaviour. The reality is that this is a new and relatively undeveloped area of research, policy and practice that is subject to a complex interplay of factors, not all of which have been addressed here. IPP and ESCM approaches, at least in the EU, are essentially practical and incremental efforts to achieve environmental objectives within the prevailing socio-economic and political arena. In the absence of any well-developed alternatives (Mol, 2001), approaches of this type remain amongst the most practical means of improving the environmental performance of business. In addition, it is suggested here, that intelligent adaptation of these approaches could also represent an important means of improving social and ethical performance. It remains to be seen how successful this strategy might prove in the pursuit of long-term sustainability objectives, but it could be argued that there is a compelling case to further explore the practicalities of such an approach as a means of moving the CSR agenda forward.

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