

Corporate Responsibility - The UNEP Experience

By Monique Barbut and Cornis van der Lugt¹

Since its creation in the 1970s, UNEP has been working with the private sector in various ways to advance greater environmental awareness and responsibility. In the early days more energy was invested in putting out fires, focussing on end-of-pipe solutions and policy approaches based on dilution and treatment downstream. Over the years we have been learning with business and industry, going upstream with a focus on cleaner production and - in more recent years - a focus on sustainable consumption and life cycle approaches. Following more holistic approaches also meant increasingly dealing with social challenges, based on the integration that sustainable development requires. This also implied taking on the growing debate on what some preferred to call “corporate social responsibility (CSR)”. The CSR debate was driven by new questions being asked about the societal role of big companies in the aftermath of the Cold War and unease about raising inequalities accompanying the process of globalisation.

Often, of course, we learn best by burning our fingers. Recent corporate scandals and the sight of corporate executives led to court brought home stark messages of the consequences of a lack of corporate responsibility. A publication on “corporate legal responsibility” therefore seems very timely. In this article we will focus more generally on corporate environmental responsibility and the related activities of UNEP. Yet a few words about legalistic approaches and the legal profession are also called for. In the CSR debate some critics have questioned the role of the legal profession and company lawyers for forcing company decision-makers to focus more on “liability” than “responsibility”, causing many companies to follow a minimalist approach that leaves little room for pro-active leadership. At UNEP’s 20th Annual Consultative Meeting with Industry Associations, held in Paris in October 2003, one participant from the USA referred to recent litigation in that country and argued « if you want real change go to the law schools, not the business schools ». ² One could of course argue that “liability” and “responsibility” are two sides of the same coin. Being liable for something implies not having acted responsible in a particular case. So let us start then by asking what “environmental responsibility” requires from a company, before going into a more general discussion of corporate environmental and social responsibility (CESR) as called for in the 2002 Johannesburg Plan of Implementation.

CORPORATE ENVIRONMENTAL RESPONSIBILITY

Sustainable production and consumption as foundation

The UN Global Compact challenges business to promote greater environmental responsibility. Chapter 30 of Agenda 21, agreed to by Governments at the 1992 UN Conference on Environment and Development (UNCED), described “environmental responsibility” as requiring from business the following: “...responsible and ethical management of products and processes from the point of view of health, safety and environmental aspects. Towards this end, business and industry should increase self-

¹ From Barbut, M. and Van der Lugt, C.T. “Corporate Responsibility: The UNEP Experience”, chpt 20 in Tully, S. (ed) *Research Handbook on Corporate Legal Responsibility*. Cheltenham: Edward Elgar (2005).

² See meeting report at http://www.uneptie.org/outreach/business/ind_meeting.htm.

regulation, guided by appropriate codes, charters and initiatives integrated into all elements of business planning and decision-making, and fostering openness and dialogue with employees and the public.”

What steps should the company take today if it wishes to display environmental responsibility? Within UNEP we believe those key steps should involve the following:

- *re-define company vision, policies and strategies to include the 'triple bottom line'³ of sustainable development -- economic prosperity, environmental quality and social equity,*
- *develop sustainability targets and indicators (economic, environmental, social),*
- *establish a Sustainable Production and Consumption programme with clear performance objectives to take the organisation beyond compliance in the long-term,*
- *work with suppliers to improve environmental performance, extending responsibility up the product chain and down the supply chain,*
- *adopt voluntary charters, codes of conduct, codes of practice in global and sectoral initiatives to confirm acceptable behaviour and performance,*
- *measure, track and communicate progress in incorporating sustainability principles into business practices, including reporting against global operating standards, and*
- *ensure transparency and unbiased dialogue with stakeholders.*

In doing the above, the existence of appropriate management systems is crucial in helping the company to meet the organisational challenge. Key tools for the company are:

a) assessment / audit tools:

- environmental impact assessment, environmental risk assessment
- technology assessment
- life-cycle assessment

b) management tools:

- environmental management systems⁴
- technology management
- ecodesign

c) reporting and communication tools:

- corporate environmental reporting (CER) and sustainability reporting
- stakeholder dialogue

A central action in the above is the formulation of a Sustainable Production and Consumption Programme. Let us start with production. When formulating its policy and strategy, a company can find key principles in a policy tool that UNEP launched in 1998. The International Declaration on Cleaner Production outlines a set of principles that can lead to increased awareness, understanding and ultimately, greater implementation of what came to

³ As defined by John Elkington (1997, 2004).

⁴ Companies have become more concerned about their corporate image. This, coupled with the emergence of stringent environmental legislation with liability implications in a number of countries over the last ten years, has reinforced the case for a certifiable environmental management systems. Since the publication of ISO14001 in 1996 as a mandatory compliance standard, the growth in ISO14001 certification has been significant.

be known in the 1990s as *Cleaner Production*, similar to the concept of eco-efficiency as advanced by WBCSD (2000). For companies in particular, the Declaration serves as a practical tool to facilitate the adoption of a Cleaner Production strategy.

Cleaner Production is a strategy for increasing the efficiency of natural resource use and minimising wastes. Pollution and risks to human health and safety are reduced at the source, rather than the end of the production process, i.e. the 'end-of-pipe' stage. The adoption of Cleaner Production by companies typically involves improving maintenance practices, upgrading or introducing new technology, or changing production process. It results in meeting consumers' needs with more environmentally compatible, quality products and services. As well as reducing pollution, this strategy also generates tangible economic savings for a business enterprise by improving the overall efficiency of production. The potential benefits of implementing the strategy with its principles are listed in Box 1.

Box 1:

The benefits of implementing Cleaner Production

Principle	Potential Benefits
Leadership	<ol style="list-style-type: none"> 1. Improved dialogue along the supply chain 2. Increased confidence from consumers, suppliers, users
Awareness, Education and Training	<ol style="list-style-type: none"> 1. Increased confidence from consumers, suppliers, users 2. Long-term culture change: greater industry motivation 3. Strengthen internal capacity
Integration	<ol style="list-style-type: none"> 1. Integration of a cost-effective environmental strategy 2. Linkages with international conventions
Research and Development	<ol style="list-style-type: none"> 1. Innovation spurred 2. Potential for new markets
Communication	<ol style="list-style-type: none"> 1. Improved public perception 2. Potential for new partnerships
Implementation	<ol style="list-style-type: none"> 1. Due diligence 2. Reduce risk and liability 3. Realize economic saving 4. Improve state of local, regional, global environment

See <http://www.unep.it/pc/cp/declaration/home.htm>

Of particular relevance in a discussion on corporate responsibility and liability is also the fact that Cleaner Production implies a precautionary approach as set out by the Rio Declaration of 1992. Precaution is included as one of the principles of the UN Global Compact. A key element of a precautionary approach is the idea of *prevention* rather than *cure*. Put differently, it is more cost-effective to take early action to ensure that irreversible environmental damage does not occur. Companies should consider the following:

- While it is true that preventing environmental damage entails both opportunity – and implementation – costs, remediation of environmental harm after it has occurred can cost much more.
- Investing in production methods that are not sustainable, i.e. that deplete resources and degrade the environment, has a lower, long-term return than investing in sustainable operations. In turn, improving environmental performance means less financial risk, an important consideration for insurers.
- Research and development related to more environmentally friendly technology and products could have significant long-term benefits.

What then do we mean by *Sustainable Consumption*? The concept refers to different and more efficient consumption, sharing more resources between rich and poor peoples while protecting the environment without threatening the future generations' basic needs. During the 1992 Rio Earth Summit (UNCED) the issue of "consumption patterns" was identified as a key factor in sustainable development and the future of our planet (Agenda 21, Chapter 4). A decade later, during the 2002 Johannesburg Summit (WSSD), governments highlighted need to develop awareness programmes dealing with the importance of both sustainable production and consumption patterns in all countries through education, public and consumers information campaigns, advertising and the media (Johannesburg Plan of Implementation).

After years of working on Cleaner Production and more recently Sustainable Consumption, WSSD in 2002 challenged us to revisit the debate by specifically looking at the interrelation of production and consumption. This new approach is encapsulated in the new heading "Sustainable Consumption and Production", for which a Ten-year Framework of Programmes is being developed with the close involvement of UNEP.⁵ Behind the new approach lies some important trends of the preceding ten years that became clear. First of all, it became evident that the gains made in productivity or eco-efficiency are overtaken by the overall increase in production. Secondly, whilst the environmental problems during the production process are better understood and controlled, problems during the use of the products are far from being addressed. Thirdly, newly emerging or fast developing sectors of "the new economy" are posing increasing threats that are yet to be effectively addressed. Increasing quality of life, globalisation and higher purchasing power have all led to unprecedented increase of new resource intensive economic activity areas such as tourism, aviation and computer technology. Fourthly, it is clear that we still fail at integration and that environmental concerns are often not integrated into programmes for economic and social progress and vice versa. The call for a new approach from the conception of a product to the end of its life following consumption is also a call for better integration across all pillars of sustainable development.

What does this require from business? Action is needed to re-orient social and economic development to remain within the carrying capacity of the earth by:

- (1) continuing improvements in production *processes*;
- (2) accelerating improvements in the *design* of goods and services;
- (3) re-orienting *consumer choices* - of individuals, industry and public institutions – towards more sustainable lifestyles and purchasing decisions.

In addition to continuing and expanding Cleaner Production programmes, Sustainable Consumption policies – focusing on the *role of the consumer* – need to be developed and integrated into mainstream decision-making. Consumption decisions – of private households, industry and institutions - have to be re-orientated. This poses new challenges for companies in communicating with their consumers and developing appropriate marketing and communications strategies. Faced with consumers who do not always behave consistently and expected costs resulting from the introduction of sustainability into their marketing mix, pioneer companies are managing to overcome the traditional barriers with a view to create or

⁵ On the series of regional and international consultations on this Framework organised by UNEP and the UN Department of Economic and Social Affairs (DESA), see <http://www.unep.org/pc/sustain/10year/home.htm>.

anticipate new business opportunities. This also requires changes in core management areas. If sustainability is to go mainstream, a revised definition of reputation risk needs to be at the heart of corporate policies and strategies. In a context where reputation and brand value are viewed as key “assets”, more and more companies are beginning to consider whether sustainable development may become the decisive “value” driver. Responding to consumer citizens and public opinion on the emerging CESR agenda, the question is how innovative companies can meet the challenge in the area of sustainable consumption.

As is clear from the above, the advancement of sustainable consumption and production lies at the core of displaying corporate environmental responsibility. The call for corporate environmental responsibility was addressed by Environment Ministers at UNEP’s first Global Ministerial Environment Forum (GMEF), held in Malmö in May 2000, when they discussed the private sector and the environment. The Malmö Declaration⁶ asked for a greater commitment by the private sector “to endanger a new culture of environmental accountability”. Questions raised in the Malmö Declaration echoed in debates at WSSD on corporate responsibility and accountability, with some NGOs campaigning for the creation of a new international convention on this topic. It was therefore no surprise that the Johannesburg Declaration called for private sector corporations “to enforce corporate accountability”. Addressing CESR, paragraph 18 of the Johannesburg Plan of Implementation called for actions to “(e)ncourage industry to improve social and environmental performance through voluntary initiatives, including environmental management systems, codes of conduct, certification and public reporting on environmental and social issues, taking into account such initiatives as the International Organisation for Standardisation (ISO) standards and Global Reporting Initiative guidelines on sustainability reporting...”.

Ongoing discussion on the societal role of business reflects a growing awareness that the distinction between what happens within and outside of the factory gate is no longer clear-cut. What is viewed as a social cause or external event today may easily turn out to be a business question related to internal operations tomorrow. This awareness of shifting boundaries in rights and responsibilities applies not only to business but to all societal actors, governmental and non-governmental, as we develop a better comprehension of the complexity of environmental and social problems that are systemic, transnational and occurring globally. The bottom line is that pro-activism is expected from all, governmental and non-governmental role-players. In this respect the role of business and industry as part of the solution is critical. We most likely will not engage the private sector by threats and doomsday theories. The way to attract the business mind and to spur innovation is to present these global problems as challenges. This was the approach followed in for example a state of the world publication by UNEP, WBCSD and WRI (2002) which was aimed at the business community and appeared under the title *Tomorrow's Markets: Global Trends and Their Implications for Business*. In the section "Innovation", its chapter on consumption for example reminded readers that "Rising consumption creates environmental risks and business opportunities for innovation". As regards the engagement of business in the developing world, there is a growing business case that highlights gains in emerging markets such as cost reductions and higher sales (as opposed to reputational gains and brand value that apply more typically in the developed world; SustainAbility, IFC, Ethos, 2002: 52).

⁶ See the full declaration at : http://www.unep.org/malmo/malmo_ministerial.htm

CORPORATE CITIZENSHIP AND THE UN GLOBAL COMPACT

The promotion of core values and principles in the global market is the driving force behind the UN Global Compact. The initiative serves as a reminder to companies that they, like citizens, have both rights and duties. The UN Secretary-General is reminding companies that while they benefit much from liberalisation in international trade, the increased freedom to operate globally brings with it an accompanying duty to meet some internationally agreed minimum standards. It is this awareness of the two elements “rights and duties” encapsulated in the concept “citizen” that has led the Global Compact to advance the concept of “corporate citizenship”. Some prefer to use the term ‘Corporate Social Responsibility’ (CSR), a term linked with ethical business responsibility and stakeholder theory claiming that a corporation has a responsibility to all those groups who are harmed by, or benefit from, the operations of a company (Matten et. al, 2003: 110). Important to note is that these responsibilities include environmental responsibility, which is often underplayed in “CSR” debates and which is why the WSSD texts used the term “CESR”. The company displaying corporate citizenship is aware of its rightful place in society, next to other ‘citizens’, with whom it forms a community. The term corporate citizenship underlines shared economic, social and environmental rights and duties, helping businesses to see itself as part of the public culture and ‘citizens’ of the states in which they operate.

The birth of the UN Global Compact dates back to a speech by UN Secretary-General (SG) Kofi Annan at the World Economic Forum in January 1999. Months before Seattle, he warned of a backlash against globalisation since (i) its benefits are distributed highly unequally, (ii) it is characterised by an imbalance in rule-making, and (iii) it enhances a global identity crisis (people want to know “who” is in control) (see Ruggie, 2001: 3/4). As global wealth is rising but the income gap grows wider, his warning remains as valid as ever. World business leaders have been challenged to enhance shared values for the global market and promote corporate citizenship globally. The Global Compact challenges companies to integrate into their operations a set of core values in the areas of human rights, labour standards, environment protection and anti-corruption. These values are embodied in ten principles that have been taken from existing intergovernmental agreements. After the first four years since the launch of the Global Compact in mid-2000 focussed on human rights, labour and environment, a tenth principle on corruption was added at the Global Compact Leaders Summit, hosted by SG Kofi Annan in New York on 24 June 2004. From an extensive consultation and survey among participants in the Global Compact, it was clear that a principle against corruption reinforces the other nine principles. Participants noted that corruption has the capacity to erode the gains from implementation of the other nine. Examples of this range from the site level – for example bribes offered to an environmental inspector – to the Board level – for example misrepresentation of facts in emissions trading.

The three environmental principles advanced under the Global Compact have been taken from the 1992 Rio Declaration. They require business to:

- support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility; and
- encourage the development and diffusion of environmentally friendly technologies.

Compared to other principles that are fundamental, the three environmental principles are more aspirational. They are fundamental in the sense that certain minimum requirements must be met, yet aspirational in the sense that there is always room for improvement. We all

know that a principle such as precaution is complex, which is why it is all the more valuable for participants in the Global Compact to share their experiences in its implementation. The application of these principles is at stake in all activities by UNEP in its work with companies and associations in different industry sectors.⁷ The role of four of the core UN agencies involved in the Global Compact is to act as guardians of the ten principles, making sure that their interpretation and implementation follows current consensus on what constitutes acceptable or best practice. These four core agencies are the Office of the High Commissioner for Human Rights (OHCHR), the International Labour Organisation (ILO), UNEP and the United Nations Office on Drugs and Crime (UNODC).⁸

Today the Global Compact has a solid participants base. It has become the world's largest voluntary corporate citizenship network, with over 1700 companies participating. More than half of GC participants are headquartered outside the OECD. There are 43 local Global Compact networks at the country and regional level. The participation of all companies starts with a letter from the chief executive to the UN Secretary-General, committing to work towards implementation of the ten principles and supporting the initiative. The requirement for company involvement to start with a letter from the chief executive was set mindful of the need to engage top management in bringing about change for sustainability within large companies. That commitment needs to be followed up upon, engaging middle management and employees. It is with this in mind that the Compact has offered opportunities for dialogue and learning, developing a data base with case studies of company good practices and developing – through the core UN agencies and with the involvement of business organisations – training materials and guides for companies. UNEP has been closely involved in the development of the Global Compact Resource Package (UN, 2003) and Performance Model (Fussler et. al., 2004) with its listing of management tools that companies can employ.

GLOBAL VOLUNTARY INITIATIVES BY INDUSTRY SECTOR

The Compact has built on existing experience of agencies such as UNEP who have been involved in setting up voluntary initiatives with different industry sectors since the early 1990s. Whilst the Global Compact presents the cross-sectoral umbrella, our sectoral voluntary initiatives look more specifically at the application of the environmental principles in individual sectors. Among the various activities UNEP undertakes with companies and associations in different industry sectors, those that are most established are five sectoral initiatives.⁹ They engage participant companies on an ongoing basis to develop environmentally sound practices along the lines of the Rio principles.

A Tour Operators Initiative for Sustainable Development has been developed in co-operation with the World Tourism Organisation (WTO) and the United Nations Educational, Scientific and Cultural Organization (UNESCO), in March 2000. It has been signed by 25 tour operators which together handle over 20 million tourists a year. Founding members have

⁷ UNEP advances work in the area of environmentally friendly technologies through its International Environmental Technology Centre (IETC) in Japan and web-based services such as MaESTro (<http://www.unep.or.jp/maestro2/>) and the Sustainable Alternatives Network (SANet, <http://www.sustainablealternatives.net>).

⁸ Through its involvement, the United Nations Development Programme (UNDP) is helping to support Global Compact outreach at the national level. UNIDO is focussing on the promotion of the Compact amongst small and medium sized enterprises (SMEs). Around a quarter of current company participants are SMEs.

⁹ See weblinks at http://www.unep.org/outreach/vi_home.htm.

agreed that, to ensure the profitable future of tourism, they have to work towards sustainability and maintain the quality of the environment, which is the raw material of tourism.

The *Global e-Sustainability Initiative (GeSI)* was created by representatives of major telecommunications operators and suppliers in conjunction with UNEP, the International Telecommunication Union (ITU) and the European Telecommunication Network Operators Association (ETNO) and launched in June 2001. GeSI currently has twelve members who are involved in working groups to address issues such as corporate responsibility in supply chain management and the role of information and communications technology in combating climate change through processes such as dematerialisation, efficient management of public buildings and computerised traffic regulation.

UNEP's *Advertising and Communication Forum* originated from the recommendation by governments at the Rio +5 Conference of 1997 that business, the media, advertising and marketing sectors need to be encouraged to help shape sustainable consumption patterns. As a result the Advertising and Communication Forum was set up in partnership with the European Association of Advertising Agencies (EAAA) in 1999. Current activities under this forum include follow up to the 2004 Global Compact Policy Dialogue on Sustainable Consumption: Marketing and Communications that was co-organised by UNEP. Issues addressed include responsible advertising and ways of communicating to consumers in a manner that enables them to make informed choices.

In 2002 UNEP in co-operation with various automotive manufacturers created the *Mobility Forum*. Involving all major car manufacturers, the Forum aims to towards protecting the environment while maintaining healthy and profitable business operating within the framework of sustainable development. Participants companies have, among others, worked with non-industry experts to develop a sector supplement to the GRI Guidelines for sustainability reporting by the automotive sector.

The *UNEP Finance Initiative (UNEP FI)* resulted from the merger of two initiatives started after the Rio 1992 Summit with banks and insurance companies who issued the UNEP Statement by Financial Institutions on the Environment and Sustainable Development and the UNEP Statement of Environmental Commitment by Insurance Industry. Involving over 270 companies today, UNEP FI runs its activities through working groups dealing with issues such as asset management, climate change, environmental management and reporting. UNEP FI is also responsible for follow up to reports issued in June 2004 by major brokerage firms at the Global Compact Leaders Summit on corporate responsibility and sustainability (more below).

An important consideration in these initiatives is the credibility of the UN agency in providing a multistakeholder platform with global reach (cf Nelson, 2002: Chpt IV on the related challenges). The role of UN agencies is supported by the fact that public institutions are key actors when externalities and harmonisation need to be addressed at the global level. These international voluntary initiatives complement intergovernmental processes, helping to implement international agreements and filling gaps in global governance. The same argument for engaging non-state actors in voluntarism applies at the national level. As John Ruggie, advisor to Kofi Annan, wrote in the *Financial Times* of 25 October 2002: "Society, therefore, has come to demand help from the corporate sector in coping with adversities that

stem from governance gaps and governance failures, ranging from securing investments in community development to preventing conflicts and diseases”.

Voluntary initiatives have been used increasingly by industry and governments since the 1992 Rio Summit as an approach to improve environmental performance. Recognising its responsibilities, business and industry has increasingly been involved in the development of voluntary initiatives at national and international level. These have taken various forms, including voluntary codes of conduct and standards adopted at the national or international level by industrial sector associations, or agreements on performance targets between a government and a company, a group of companies or a industry sector. Voluntary initiatives are non-legislatively required commitments or obligations agreed to by one or more organisations, or by companies making commitments to improve their environmental performance beyond legal requirements. These initiatives often take the form of negotiated agreements between industry and public authorities (see UNEP, 1998; OECD, 1999). Whilst voluntary, such initiatives may nevertheless be:

- **Legally-binding**, in the case of a signed, contractual agreement, and thus enforceable if broken;
- **Mandatory**, if it becomes a condition for membership in a industry association;
- **Compulsory**, if it becomes a de facto marketing requirement (e.g. ISO 14000), or when, as in countries with an established consensus-based approach, it has the same weight as traditional regulations;
- **Used to encourage compliance** with existing laws.

At the international level various industry associations have been involved in the creation of international voluntary codes and guidelines in the environmental field. These include the International Chamber of Commerce (ICC), International Council of Chemicals Associations (ICCA), World Coal Institute (WCI), International Federation of Consulting Engineers (FIDIC), International Iron and Steel Institute (IISI), International Council of Metals and Mining (ICMM), International Petroleum Industry Environmental Conservation Association (IPIECA) and World Travel and Tourism Council (WTTC).¹⁰ Some would refer to the growing prominence of international voluntary initiatives as the “partial privatisation” of global governance, as the institutional loci shifts away from state institutions and intra-institutional systems of self-regulation occupy positions of greater importance. This suggests a growing “public role for the private sector”, built on the expectation that private actors have superior information regarding production processes, are more flexible in responding to technological and market trends, and can best ensure that standards are actually implemented. The important point here is not to fall into the trap of thinking in “either/or” terms, but to advance the complementarity between regulatory and voluntary approaches in different policy mixes at the national and international level (see Gunningham and Grabosky, 1998).

MEASURING AND COMMUNICATING PROGRESS: SUSTAINABILITY REPORTING

After some months in existence, voluntary initiatives soon come across scepticism from outside based on the argument that they are full of idealistic goals yet weak on implementation and monitoring. To start with, much preparation and negotiation lies behind

¹⁰ See overview in UNEP 2002a and examples from a selected associations in UNEP 2002b.

the establishment of a voluntary initiative. The more stakeholders involved, the more complicated its birth becomes. Often its mere establishment is an accomplishment not to be underestimated. But praiseworthy statements and goals need to be followed up with praiseworthy action and transparent communication of results. This highlights the importance of reporting, not simply as a monitoring mechanism but also as a mechanism to maximise the learning value and to enable continual improvement.

After four years of campaigning and recruiting more participants in all regions, the Global Compact has been confronted with the same challenge. The value of sustainability reporting was recognised at an early stage in the development of the Compact, an approach underlined by UNEP as one of its core agencies. On 28 November 2001, the Global Compact Office and the Global Reporting Initiative (GRI) announced a “co-operative framework” according to which company sustainability reporting along the GRI Guidelines can be considered as submissions fulfilling the participation requirements of the Global Compact. At the inauguration of the GRI in New York on 4 April 2002, Secretary-General Annan referred to the GRI as an “important complement” to the GC. Aware of this complementary role of reporting, UNEP has been advancing the development of sector specific indicators for sustainability reporting and benchmarking through the sectoral voluntary initiatives that it has helped establish with business and industry.

Case studies are also valuable in communicating progress and displaying practically the dilemmas companies face in implementing environmental principles. In the initial two years of the Global Compact, companies were encouraged to submit annually examples or case studies that show how they are implementing some or all of the nine principles. Some key themes emerged from a review of the initial submissions. To start with, it was clear that implementation of the principles requires a substantial degree of organisational change. Important organisational and managerial factors appeared to be training, change management and leadership. The case study submissions also demonstrated that many businesses faced difficulties assessing the priority of corporate citizenship responsibilities relative to other profit-seeking business activities (see McIntosh and Thomas, 2004).

The initial idea with annual submissions of case studies and examples was that these would form the basis of a learning bank on the Compact website where, through transparent public commentary and analysis, best practices would be identified. This approach also showed its shortcomings, due to the absence of an analytical framework, lack of capacity, language barriers, and lack of resources on the part of participants to comment and analyse. As a result, the Global Compact Advisory Council agreed in January 2003 that companies would no longer be required to submit examples annually as a precondition for participation. Rather, companies will be asked to indicate in their annual financial and sustainability reports what steps they have taken to implement the ten principles. This new approach of “Communications on Progress”¹¹ encouraged companies to use indicators such as those included in the sustainability reporting guidelines of the GRI, whilst leaving the door open for other non-report forms of communications by smaller companies that may for example highlight their actions in company newsletters, brochures and websites. Very important here, mindful that the Compact follows a learning as opposed to a policing approach, is the idea of encouraging the measurement, tracking and communication of progress through reporting in some form.

¹¹ On Communications on Progress and a listing of core GRI indicators against the Compact principles, see www.unglobalcompact.org under "About the GC" and "How to participate".

The growth in corporate sustainability reports that cover environmental, economic and social performance of companies has been facilitated by the availability of an internationally recognised framework developed in an ambitious multistakeholder process under the Global Reporting Initiative (GRI).¹² The GRI process was launched in 1997 by UNEP and the Coalition of Environmentally Responsible Economies (CERES). The mission of the GRI is to develop and disseminate globally applicable sustainability reporting guidelines. The aim is to elevate the quality of reporting to a higher level of comparability, consistency and utility. The guidelines can be used by any organisation – corporate, governmental and non-governmental. They are under continuous revision and refinement in a multistakeholder process that involves participants from all parts of the world. Today the GRI is a permanent institution in the form of a UNEP Collaborating Centre, based in Amsterdam. It has a multistakeholder Board and 60 member Stakeholder Council with participants from diverse backgrounds involved in the development and improvement of guidelines for sustainability reporting. Using the Guidelines with its supplementary documents for industry sectors and on selected issues, close to 600 companies world-wide are today producing GRI-based sustainability reports.

In addition to realisation of the managerial value of reporting, the growth in reporting by companies over the last ten years has also been the result of increased pressure from investors, rating agencies, other companies, authorities, campaigners, customers, NGOs and the media. Reporting has been supported by the emergence of legislated corporate governance disclosure, with a number of countries extending disclosure requirements to embrace social and environmental risk management issues. Looking back at the 1990s, the Asian financial crisis was an early reminder of the importance of transparency in financial governance, helping to identify risks, improve efficiency and stabilise markets in uncertain times. This supports the case for disclosure through sustainability reporting.

The GRI process as a matter of principle is about sustainability (covering the triple bottom line), transparency, accountability and stakeholder engagement. Participants in the process have also agreed on eleven principles that are essential to producing a balanced and reasonable report on an organisation's economic, environmental and social performance. They relate to the framework of the report, what to report on, the quality and reliability of the report, and accessibility of the report. The eleven reporting principles are:

- transparency,
- inclusiveness,
- auditability,
- completeness,
- relevance,
- sustainability context,
- accuracy,
- neutrality,
- comparability,
- clarity, and
- timeliness.

The GRI Guidelines indicate that these principles define a compact between the reporting organisation and the report user, ensuring that both parties share a common

¹² See www.globalreporting.org.

understanding of the underpinnings of a GRI-based report (GRI, 2002: 22). They were designed with the long term in mind, with the conviction that new knowledge and learning will continue to advance performance measurement. Currently an international review process is underway to develop the third revised version of the GRI Guidelines for 2006.

THE BUSINESS CASE: FROM RISK AVOIDANCE TO LEADERSHIP

When the corporate sustainability manager says “responsibility”, the corporate lawyer responds by warning “liability”. Is it as simple as that? Why are more companies introducing “sustainability” and “CSR” to their strategic planning and join voluntary efforts in support of corporate citizenship and sustainable development? What we see is an ongoing trend that departs from the traditional reductionist approach of saying “the business of business is business”. Support for corporate citizenship is based on a new vision of the social contract and interaction between the company and the society within which it operates. Many companies become involved because of trigger events such as bad experiences of criticism of their practices. As I said at the beginning of this article, we often learn by burning our fingers. But increasingly companies are also becoming involved as a result of positive inducements, taking note of the growing business case for sustainable development. Many companies today view proactive corporate citizenship as good business, helping to advance their overall performance, profitability and corporate image (see SustainAbility / UNEP, 2001).¹³

Greater pressure from consumer-citizens moves more businesses to take moral or ethical positions and acknowledge social responsibilities. In addition to consumer pressure, questions from investors and shareholders also support the emerging business case for sustainable development. Global companies increasingly face questions from ethical or socially responsible investment funds. Indexes such as the Dow Jones Sustainability Group Index and the FTSE4Good Index motivate global companies to follow a more integrated sustainability approach. This is where social responsibility of business becomes a “near rational” economic choice, as noted in a UNSG Report on Business and Development (UNGA, A/56/442, 2001: 11). Corporate citizenship as advanced under the Global Compact and the sectoral voluntary initiatives with UNEP is therefore very different from traditional corporate philanthropy (cf UNCTAD, 1999: 3).

As the body of research on the business case grows, more critical questions are being asked today about efforts to standardise sustainability indicators, efforts to improve our ability to measure and meaningfully communicate progress, efforts to benchmark company performance across different sectors, and efforts to develop more elaborate sustainability reports of which the readership often appears to be a matter of speculation. If business and champions within companies want to answer these critical questions head on, they would have to meet three central challenges: (i) develop and disclose clear boundaries, (ii) make the link with financial accounting, and (iii) engage local development actors in building new business models.

¹³ The proactive and leadership role of individual businesses contrasts to the preference of laggards to hide behind lowest common denominators as defined collectively in their industry associations (see SustainAbility and GPC, 2001). UNEP hosts an annual consultative meeting in Paris with industry associations to focus on constructive contributions and challenges. Associations can be crucial allies in involving smaller companies, in particular those from the developing world (cf UNGA A/56/323, 2001: 38).

CLARIFY YOUR BOUNDARIES

Liability, for example in the form of accountability for environmental harm done to society, requires a sense of responsibility from companies. It forces them to consider the full consequences of their actions, asking themselves what the boundaries of their responsibilities are or - in the case of liability- what they can be held accountable for. Boundary issues are often complex and not clear. Some complain that concepts like “CSR” seem to be elastic: the more the company does the more is expected of it. Inevitably this raises the question faced by our sustainability manager and corporate lawyer in their debate. How much is expected from us, from corporate headquarters to local sites in the field? How far are we willing to go, can we afford to go? If we are expected to apply life cycle approaches, how far upstream and downstream should we go? Do we take responsibility for our 1st, 2nd and 3^d tier suppliers? Do we take responsibility for the way our consumers consume? Essentially, what are the parameters of our responsibilities?

Any effort to quantify the costs and benefits of following the triple bottom line approach needs to be based on clear parameters in terms of temporal scope (are we talking short or long term profits and losses?) and organisational scope (do we include the costs of pollution caused by our supplier, subsidiary, consumer?). The challenge of ‘setting boundaries’ is also reflected within sustainability reporting. One of the most difficult and immediate decisions for companies is to decide from which entities to gather data for its report. Presumably that which you include in your report is that for which you take accountability. In the early years of reporting, most organisations measured and reported on impacts based on the boundary criteria used in financial reporting, that is, legal ownership and direct control. While this approach was adequate in the early years of sustainability reporting, we have increasingly seen the need for clearer methodology since significant dimensions of an organisation’s economic, environmental, and social footprint may fall outside of traditional financial boundaries.

It is against this background that the GRI has tasked a Boundaries Working Group (BWG) to draft the Pilot Version of a GRI Boundaries Protocol that will enable companies to better reflect on the sustainability ‘footprint’ of their organisation and activities. The draft protocol developed by the multistakeholder working group was made available for public comment in late 2004. The group developed the graphic illustration (Figure 2) below that usefully sets out the considerations a company has to deal with when determining its reporting boundaries, helping it to define the building blocks upon which the business case can be quantified.

As is clear from the graphic, the boundary is determined using the intersection of two concepts – “significance” and “control/influence”. A sustainability report should cover the entities that generate significant risks or impacts over which the reporting organisation has control and/or significant influence. This graphic enables the reporting organisation to start determining which entities are within its reporting boundary. All entities falling in the top right (high risk/impact and high control) clearly belong within its reporting boundary. It involves a process of determining risks and impacts, assessing their significance, and assessing control and influence. It involves a balancing act between that over which the company has « control and influence », starting with the traditional financial accounting definitions of these concepts, and those areas where the company has « significant impact »

(positive or negative / risk). Conventional examples of where a company has significant control or influence would be a subsidiary where the reporting organisation owns, directly or indirectly, more than 50% of the voting power, or a contractual relationship where the reporting organisation has purchasing agreements accounting for a substantial portion of sales by the supplier. While the definition of “control and influence” may be a fairly technical exercise in terms of legal and financial accounting rules, the determination of “significant impact” may easily move beyond a technical scientific exercise into one where political considerations such as the perceptions of the public needs to be taken into account.

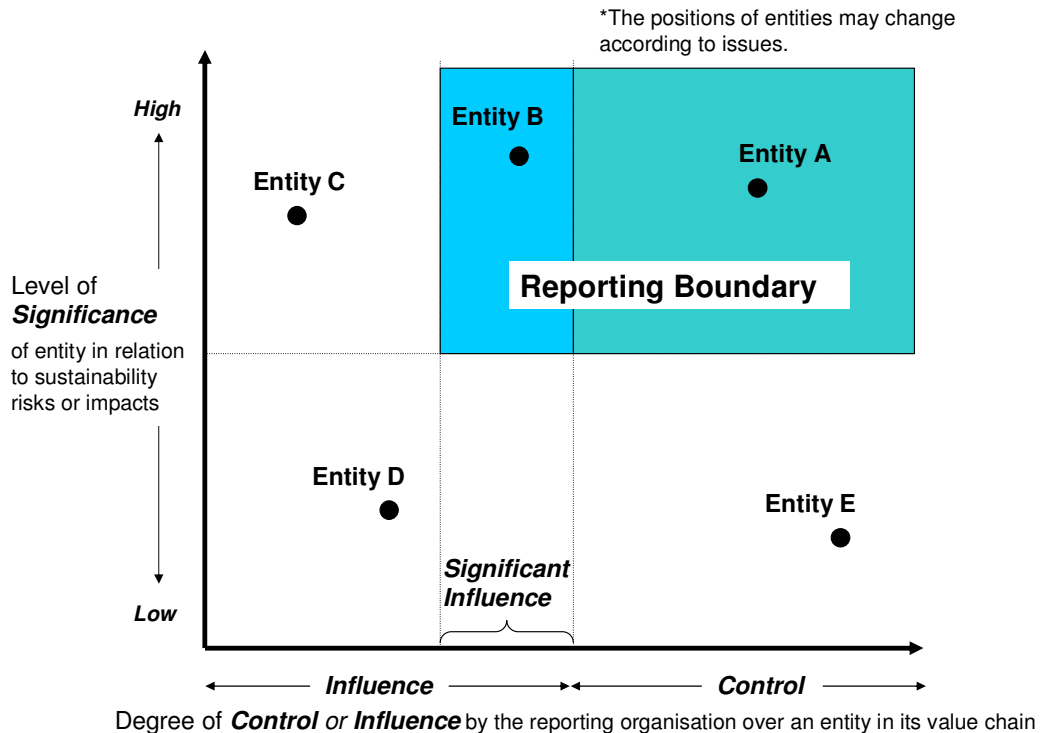


Figure 2: Visual Tool to Define a Reporting Boundary

Source: GRI Draft Boundaries Protocol, October 2004

CONNECT SUSTAINABILITY PERFORMANCE AND FINANCIAL PERFORMANCE

The challenge for the sustainability manager is to communicate integrated costs and benefits to senior management, shareholders and financial analysts. It is of course easier to quantify material resource efficiency. More progress has therefore been made in defining the business case as far as Cleaner Production processes are concerned. Savings due to Cleaner Production processes are often measurable and go directly to the financial bottom line. There is strong empirical evidence that superior environmental performance reduces costs over time (SustainAbility / UNEP, 2002: 19). Yet social issues are catching up fast in building the business case. To start with, a strong body of evidence exists as far as workplace conditions are concerned. Employee-friendly work practices strongly contribute to increased revenue, resulting from motivated employees that are more productive. Looking at more complex issues such as climate change, sustainable consumption and external stakeholder engagement,

the quantification of cause and effect in monetary terms becomes more complicated. Much of the frustration in defining “the elusive business case” has to do with different timeframes applied (short, medium or long term?), the framework conditions under which the companies operate (is there a level playing field, at what level?) and different approaches in and degrees of internalising “externalities” (where lies the boundary?). Companies who want to “make profit while doing good” are also desperate to get recognition from financial markets, which has been slow to materialise.

The financial service community has a central role in the unfolding business case. In one of 22 sector reports prepared for the 2002 Johannesburg Summit in a process facilitated by UNEP (2002a), the finance sector was frank in admitting that the financial community had been slow in taking up the link between financing and sustainability. Credit, insurance and investment portfolios incorporate environmental risks and opportunities only to a limited extent. Yet a more holistic and integrated approach to fiduciary responsibility has been emerging. Increasingly, financiers are paying close attention to the “upside” or revenue potential for firms that are proactively managing sustainability issues in a manner that not only minimises risk but also generates increased sales and market share. This new approach has reached a critical threshold with the position taken by mainstream investment brokers during the June 2004 Global Compact Leaders Summit. In *The Materiality Report* (UNEP FI, 2004), presented on the Leaders Summit, the UNEP Finance Initiative and a group of 12 fund managers called on investors, government and business leaders to embed environmental, social, and governance best practices at the heart of their markets. Speaking at the Summit UNEP Executive Director Klaus Töpfer said, “This new report is a crucial recognition from major financial institutions that the environmental and social components of sustainable development, as well as the economic considerations, should sit at the heart of investment and capital market considerations.”¹⁴ The financial analysts who undertook the research made clear they are convinced that sustainability issues impact long-term shareholder value. Its first key finding was that “environmental, social and corporate governance criteria affect shareholder value both in the short and long term”. Based on this, they argued that research to determine the financial materiality of these criteria should use longer time spans than is currently the norm for financial analysis. Clearly, the obsession with short-term profit has to be questioned. Also, the meaning of “risk” is taking on a new dimension. One of the brokerage house reports covered in *The Materiality Report* argued that “while the ‘holy grail’ of empirically linking CSR performance to financial or stock price performance is something we believe is most likely never to be found... we believe good CSR practices minimises business risks... understanding CSR risks gives a deeper understanding of the company and the business threats it faces” (UNEP FI, 2004: 14/5).

Related to the UNEP FI report, eighteen major investment companies developed and endorsed a report entitled *Who Cares Wins*, developed for the Global Compact Summit, in which they included bold recommendations on how the industry should address environmental, social and corporate governance issues (UN GC, 2004). These included the recommendation that analysts better integrate sustainability factors into their research, that financial institutions commit to integrating sustainability factors in a more systemic way in research and investment processes, and that stock exchanges include environmental, social and corporate governance criteria in listing particulars for companies. Looking at the investment rationale, the report noted “many studies confirm that the way a company manages environmental, social and corporate governance issues is often a good indicator of

¹⁴ See UNEP FI press release at <http://unepfi.net/stocks>.

overall risk levels and general management quality” (UN, 2004: 9). From both these reports it is evident that innovative techniques are being developed to perform financial analyses of environmental, social and corporate governance criteria in response to growing investor demand.

ENGAGE LOCAL DEVELOPMENT ACTORS IN BUILDING NEW BUSINESS MODELS

For the innovative company, building a strong business case based on long term vision will rely heavily on its ability to work with local communities and engage local entrepreneurs. Prahalad and Hart (2001) highlighted the commercial opportunities that lie in doing business with the world’s four billion poorest people as consumers, employees or entrepreneurs. Yet the company expecting to enter these emerging markets by management “at arms length”, driven by headquarters, is in for a surprise. Large companies will have to earn their “licence to operate” in a spirit of *co-entrepreneurship*. This implies following a business model that is flexible enough to build the licence to operate locally, looking carefully at company activities in the local community, people from the local community employed by the company, the extent to which the company is part of the local web of relationships, and the extent to which the company shows an ability to work with local social and business entrepreneurs. Without such a business model, ambitious commitments by large corporations to help alleviate poverty and meet Millennium Development Goals will have limited success.

High impact sectors such as oil and gas have seen over recent years how emerging corporate citizenship issues move beyond traditional hot topics such as oil spills and CO₂ emissions to bigger picture questions such as socio-economic impacts and revenue sharing (UN GC, 2004: 29, quoting a study by Arthur D. Little and Business in the Community). From the construction sector there is the example of transnational companies being drawn into local governance issues when construction to build new infrastructure stimulates economic development and population growth. From the mining sector there is the example of companies dealing with HIV/Aids, introducing high quality health care for employees and then running into new complications in its relationship with the rest of society and local authorities. At times the division of accountability between states and large companies is unclear, resulting in an accountability vacuum in which neither takes responsibility (see Ward, 2003). The pro-active company is one that tackles these societal issues in a partnership manner with local development actors. This can take the form of pro-active risk management, as can be seen in the community approach of the Awareness and Preparedness for Emergencies at the Local Level (APELL) programme of UNEP (see Box 2). It can also take the form of developing new business ventures with local entrepreneurs, jointly developing new innovations in for example micro-financing, energy and water services provision, or local manufacturing. Looking at ways of bridging the gap between the “corporate economy” and the “livelihoods economy”, a report by The RING Alliance (2003: 8) highlighted that “a business agenda for poverty reduction needs to reflect better understanding of the development significance of small and medium-sized enterprises, the informal sector, co-operatives, and other forms of business organisation operating at the level of the human economy”. One of its key recommendations to the UN Global Compact was “building understanding of the business relevance of civic entrepreneurship”.

A growing part of UNEP’s work is being done in the area of small and medium sized enterprises (SMEs) and supporting local entrepreneurs. UNEP is helping catalyse SME development and finance through its Rural Energy Enterprise Development programmes in

Brazil, China and five countries of Africa¹⁵. These programmes provide a combination of enterprise development support and seed capital for innovative new companies that offer cleaner energy products or services to customers currently without access to clean and secure energy supply. The key to success here is the ability to connect the local entrepreneur with NGOs, companies and financial institutions that can help the local business to start-up or scale-up. Having said this, one should have no illusions about large companies partnering overnight with local entrepreneurs in setting up new businesses and benefiting local communities. It takes long and hard work by committed individuals. Preparing the ground for the business case at the local level also requires sufficient investment in human capital through capacity building. In a contribution with partner organisations to this end, UNEP provides various types of training materials to SMEs. An example is *The Efficient Entrepreneur* calendar for SMEs, a month-by-month action programme that introduces the small company to environmental management and reporting. In addition, UNEP is supporting local entrepreneurs in partnership development through its involvement with the United Nations Development Programme (UNDP) and IUCN-The World Conservation Union in *The Seed Initiative*, launched simultaneously at the World Economic Forum and World Social Forum in January 2004.¹⁶

Box 2: Awareness and Preparedness for Emergencies at Local Level (APELL) Programme of UNEP

Think of recent industrial accident headlines: "Ammonium Nitrate Explosion in Toulouse – France, 21 September 2001"; "Prestige Tanker - Oil Spill Accident in Spain, 14 November 2002", "Gas Well Blowout in Gao Qiao, Chongqing, China, 23 December 2003, 243 people died, 9,000 injured, and 64,000 evacuated"; "Ammonium Nitrate Explosion in Ryongchon Train Station, North Korea, 22 April 2004, 161 people killed and 1,300 people injured". It is part of a long list, going back many years. In late 1986, following various chemical accidents, UNEP suggested a series of measures to help governments, particularly in developing countries, to reduce the occurrence and harmful effects of technological accidents and emergencies.

A key outcome of this has been the development of the APPEL Programme (Awareness and Preparedness for Emergencies at Local Level). This has been done with the International Council of Chemical Associations (ICCA) and other industry associations, governments and local communities. The aims has been to minimise the occurrence and harmful effects of technological accidents and emergencies by raising awareness of local communities and by improving the communication among parties. APELL provides a well-structured, detailed process for developing a co-ordinated, integrated and well-functioning emergency response plan for local communities. APPEL is a tool for bringing people together to allow effective communication about risks and emergency response. The process of dialogue, as recommended in the APELL procedure, should help to:

- reduce risk;
- improve effectiveness of response to accidents;
- allow people to react appropriate during emergencies.

It is clear under APPEL that industries have a responsibility both to minimise risks and to ensure effective planning for response, even though it is normally government agencies that have the statutory accountability for emergencies outside the boundaries of industrial facilities. The APELL concept has been successfully introduced in more than 30 countries and in over 80 industrialised communities world wide. APELL was also featured at the *World Conference on Disaster Reduction (WCDR)*, held in Kobe (Japan) in January 2005, where international priorities and mandates in disaster prevention for the following 10 years have been set. See <http://www.uneptie.org/pc/apell/home.html>.

¹⁵ See <http://www.ared.org>

¹⁶ See www.seedinit.org

In this article I've given an overview of how UNEP interprets « corporate environmental responsibility », a key principle it advances as UN agency under the UN Global Compact, and how companies can be engaged to take on that responsibility in a more pro-active manner through voluntary initiatives, partnerships and sustainability reporting, inspired by the emerging business case for sustainable development. I started by asking a question about the role of the legal profession. One analyst remarked: « Where the CSR agenda focuses on responsibility, legal risk management focuses on liability. Whereas the CSR agenda focuses on transparency, legal risk management focuses on confidentiality, and where the CSR agenda focuses on bridge-building and partnerships, the legal risk management approach is typically one of cautious defensiveness” (Ward, 2003: 27). The challenge for us is to build a body of evidence that moves company management to think of the sustainability agenda not in terms of a risk avoidance strategy but in terms of a window of opportunity. This puts the onus on all of us to move the business case argument beyond a collection of selected best practice case studies to the definition of a convincing business model, a model in which the word « liability » will rather be associated with « lack of taking action, failure to act ».

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