Social responsibility standards and global environmental accountability : a developing country perspective

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Social Responsibility Standards and Global Environmental Accountability

- A developing country perspective

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Abstract

This paper argues that accountability, responsibility and governance go hand in hand. Evolving standards is a part of governance. Unless such a global perspective is adopted "Social Responsibility and the implications for Developing Countries", which is the theme for this workshop, cannot be unraveled. The purpose of this paper is to highlight how Social Responsibility Standards and their relation to environmental sustainability cannot be addressed without relating it to Global Environmental Degradation, Global Environmental Accountability and Global Environmental Management. Also that there is a need to adopt the coercive connotation of accountability. It raises several issues in this context. The emphasis is on transorganizational development and the need for measurement. The limitations of evolving standards in this context are raised. It argues in favor of having differential standards. The main problem, for implementing differential standards is, however, that this would need a system of metrics that measures social dimensionalities and parameters. For this the new developments in environmental economics need to be incorporated into the framework of evolution of International Standards.

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1.0 Introduction

Accountability, responsibility and governance go hand in hand. Evolving standards is a part of governance. Till the recent past, environmental issues were often ignored by both corporations and individuals. Hazardous waste and other such items were considered a necessary cost of a growing economy. Times have changed, as people now realize the effects of waste products that potentially could damage the environment. Most people now recognize that preserving clean air, water, and land is more important than lower-cost products for consumers or higher profits for business firms. Many people are willing to pay more for a product that is environmentally friendly. Many companies are now interested in being "green," as many investors place a high value on environmental responsibility. Regulations have been developed to govern "waste management" and to ensure that corporations are environmentally conscious. Some corporations have had to pay to clean up their past environmentally "un-friendly" behavior. This speaks of a loose evolution of social responsibility but it needs to be related to a framework of global environmental sustainability. Unless such a global perspective is adopted “Social Responsibility and the implications for Developing Countries”, which is the theme for this workshop, cannot be unravelled. The purpose of this paper is to highlight how Social Responsibility Standards and their relation to environmental sustainability cannot be addressed without relating it to Global Environmental Degradation, Global Environmental Accountability and Global Environmental Management.

1.1 Review

We now examine some of the major documents, writings and principles that relate to 'Social Responsibility Standards and Global Environmental Accountability' and attempt to provide a conceptual and empirical framework through which the principal issues can be highlighted, in this context.

Some of the extant studies include: Castka et. al. (2004), Ullmann (1985), Christmann and Taylor (2001), Mc Adam and Leonard (2003) and Russo and Fouts (1997). While there are large number of studies relating to CRS there are only a few which relate CSR to standards and regulation. Castka et. al. (2004), alone relates to International Organization for Standardization (ISO) Committee on Consumer Policy (ISO/COPOLCO) that talks of the discussion about the feasibility of CSR management system standard. It however, does not directly relate to global environmental sustainability. Essentially, these studies are at the organizational level. The problem with studying 'Social Responsibility Standards and Global Environmental Accountability' is that most of the development is trans-organizational development.

Coming to global principles of CSR it can be said that they deal with the problem at a very general level. For instance, amongst the most important principles, namely, The Bellagion Principles, Caux Roundtable, Ceres Principles, The Global Sullivan Principles, The Minnesota Principles and The UN Global Compact, The Bellagion Principles have a 'Practical Focus' which states that:

> "Assessment of progress toward sustainable development should be based on:
>
> - an explicit set of categories or an organizing framework that links vision and goals to indicators and assessment criteria

- a limited number of key issues for analysis
- a limited number of indicators or indicator combinations to provide a clearer signal of progress
- standardizing measurement wherever possible to permit comparison
- comparing indicator values to targets, reference values, ranges, thresholds, or direction of trends, as appropriate."

In respect of documents we take up some of the important documents that deal with 'Social Responsibility Standards and Global Environmental Accountability'. The DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS, STATISTICS DIVISION UNITED NATIONS, in its paper has emphasized the 'Need for a Global initiative in Environmental Accounting':

"The clear policy advantages of environmental accounting have led to the adoption of environmental accounting in many developed countries. In Europe work in member countries has been partly supported by Eurostat and endorsed by major policy directives, such as the EU Water Policy Directive. But there has been little long-term support for implementation of green accounting in developing countries, arguably where green accounts are most needed – resource-dependent economies where faulty economic treatment of environmental changes is likely to be associated with large-scale misallocation of national resources."

Thus, there is a dominant feeling amongst the developed world and the world bodies that developing countries are irresponsible and are responsible for environmental degradation. Therefore, they feel that there must be environmental accounting in developing countries.

According to the United States Environment Protection Agency (US Environmental Protection Agency):

"The term environmental accounting is frequently used within the accounting and environmental management literatures. Environmental accounting is a broader term that relates to the provision

of environmental-performance-related information to stakeholders both within, and outside, an organization.

It states that “while environmental accounting can be 'corporate-focused', it should also be appreciated that environmental accounting can also be undertaken at a national or regional level.”

It is notable the US EPA stops at the regional level and does not include the global level.

There are certain problems with such an approach.

The word “accountable” and “answerable” are virtually synonymous. For, to be “accountable” is to be “answerable”. Accountability thus involves providing answers through reporting or other devices or giving an account. The above constitutes the “informative” approach to understanding accountability.

Apart from informative accountability, there is a ‘purely coercive’ variety of accountability which need not be accompanied by provision of information. This coercive variety can operate quiet independently of the informative variety pf accountability. As a matter of fact the former has a better claim to the title of accountability.

To apply coercive accountability, there are three conditions that are required to be fulfilled.

Firstly, the people who are held accountable are vulnerable to punishment by others for what is seen as their misconduct.

Secondly, people who enforce accountability should have the willingness and the ability to inflict punishment on those who are accountable.

Thirdly, another difference between the coercive variety of accountability and the informative variety is that the latter is generally the product of some kind of organizational framework within which accountability occurs.

Three problems with the EPA approach:

- Here environmental accounting performs an "information function".
- It does not place the blame or hold someone accountable.
- It is not global in nature.

2.0 The Issues

There are several major issues of evolving a framework for social responsibility standards in respect of environmental sustainability.

1. ***Size and standards****: Especially, in the case of discharging the social responsibility towards the environment there are indivisibilities and externalities. Hence, size matters, both in terms of the environmental impact as well as the remedial actions.*

Even a decade ago MNCs were giants. This phenomenon can be judged by the following table. Today multinationals are equivalent to Nation States. The table below gives the sales revenue of the top Multi-nationals alongside the GDP of countries, for the sake of comparison.

Comparing Selected Corporations and Countries: 1997
(GDP or Total Sales in $US Billions)

Country or Corporation	GDP or Total Sales	Country or Corporation	GDP or Total Sales
General Motors	164	Marubeni	124
Thailand	154	Greece	123
Norway	153	Sumitomo	119
Ford Motor	147	Exxon	117
Mitsui & Co.	145	Toyota Motor	109
Saudi Arabia	140	Wal Mart Stores	105

Mitsubishi	140	Malaysia	98
Poland	136	Israel	98
Itochu	136	Colombia	96
South Africa	129	Venezuela	87
Royal Dutch/Shell Group	128	Philippines	82

Hence, there are two problems. If standards are voluntary, admittedly, it is unethical to have uniform standards because the implicit social responsibility of such large corporations is much greater than small businesses. For instance, it is unjustifiable and regressive to expect that all companies, small or large, would spend, say, a uniform 5 per cent on social programs, which could possibly be one way of benchmarking standards. Moreover, since the impositions laid on the size of the State, by world policy bodies like the IMF, and the consequent shrinkage of the State, the responsibility of MNCs has become much greater, towards the social and environmental concerns. Therefore, it is necessary to have differential standards. But the main problem for implementing differential standards is that this would need a system of metrics that measures social dimensionalities and parameters.

At the same time if standards are regulatory, as opposed to voluntary, it iniquitous to have uniform standards because the basis of regulatory standards is the coercive part of 'accountability' whereby it is seen as a penalty. A penalty has to be commensurate to the failure of responsibility. There is little chance that this could ever be equal.

2. ***Ethical basis of standards****: The second problem relates to the ethical basis.*

For this we need to dwell upon certain basic definitions. There are two schools of moral reasoning – Consequentialism or the teleological approach, on the one hand, and deontological approach, on the other hand.

Definition of Consequentialism. The idea or concept that rightness or wrongness of action is determined by goodness or badness of its results.

The teleological approach is akin to consequentialism and derives from the Greek word 'telos' which means end or goal.

Definition of deontology. The concept or idea that actions are intrinsically right or wrong regardless of their consequences.

A voluntary basis of social responsibility can be compatible only with the deontological approach, to business ethics while involuntary standards necessarily imply consequentialism. The argument is that if social responsibility practices are pursued only because they are likely to have a consequence, only then is it possible to benchmark standards. One fallacy that is often implicit in our understanding is that it is believed that if ethical actions benefit us (the Company, for instance) then the approach is based on consequentialism and if they help others then it is based on deontology. This is a common fallacy and needs to be corrected. Here, it needs to be pointed out that both these perspectives emerge from consequentialism. Only the 'moral standards' or 'yardstick' or simply 'standards' for 'ethical judgment' are different. It is either a private 'standard' or a 'social' standard, as may be the case. In effect, standards imply measurement. The outcomes of behaviour and practices need to be measured for ensuring accountability.

3. ***Global nature and standards:*** *As pointed out the extant approaches to standards of social responsibility are not global.*

A truly global approach has three dimensions to it. It should be global in the sense of including all factors responsible for global environmental degradation (GED) and secondly, it must transcend space to include all countries of the world. Finally, it should also be truly global in the

sense of being concerned with the global interests in from the point of view of global environmental accountability and management and not just be based on certain sectional interest. In this context it means that any approach towards social responsibility and the environment should be based on the implications for developing countries.

For being global in all senses of the term, the first and foremost requirement is to be able to understand the global environmental issues and concerns, in the spirit in which it has been outlined above. For meeting this end an approach and certain methods need to be developed. This approach has been developed by us in our recent book[1].

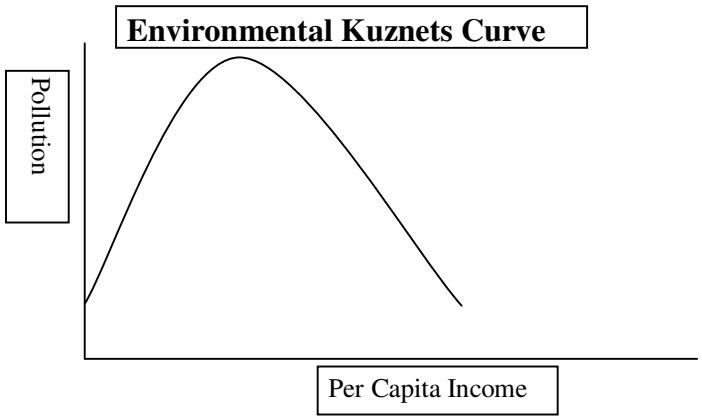
4. ***Transorganizational development and accountability:*** *The main criticism of the extant studies is that they are set within the context of an organization. For global environmental accountability we need a transorganizational approach.*

For reckoning with global environmental accountability two problems arise. Firstly, it has been pointed out that the coercive variety of accountability is generally the product of some kind of organizational framework within which accountability occurs. Once we are concerned with nations/ countries / economies, in relation to the global environment this organizational framework needs to be beyond the immediate organization, namely, the Company. It has to be a supra-national entity[2]. Secondly, when we go beyond the immediate organization we are in the realm of the economy. Therefore, the questions of accountability are vis-à-vis nations/ countries / economies. This is the realm of environmental economics. Here, there has been debate about environmental sustainability and accountability during the past three decades. The analytical tool used in the debate has been the Environmental Kuznets Curve (EKC). It is an instrument that had

[1] K.V. Bhanu Murthy and Raghbendra Jha: *Environmental Sustainability – A Consumption Approach*, Routledge, London, June 2006.

[2] Murthy and Jha (2003) b.

been used for measurement pollution in relation to economic development. The instrument essentially states that poor/developing countries are responsible for environmental degradation. It is purported that economic development initially raises pollution levels and subsequently they fall. It is the rich countries that, through their resources and technologies, bring down the pollution levels. This had been stressed in the literature though a global EKC had never been measured. Mostly, only single pollutants were taken as the basis of measurement. And more often than not only single countries were taken for the studies.



5. ***Global Environmental Accountability and Measurement****: Once the two premises are admitted, namely, the global nature of environmental sustainability and the need for measurement for enforcing the coercive nature of accountability, it points to a need for a new framework.*

Our approach[3] has been to provide such a framework. It has placed the whole debate in a global context. We have coined the terms Global Environmental Degradation (GED), Global Environmental Management (GEM) and have implicitly used the EKC as a tool of Global Environmental Accountability. We have for the first time measured the Global Environmental

[3] Murthy and Jha(2000)

Kuznets Curve (GEKC)[4] for 174 countries of the world. We have for the first time created a composite index of GED. Our conclusion clearly and empirically shows that it is the developed countries that are responsible for 80% of GED. This is an inescapable conclusion and unambiguously points to the true picture of Global Environmental Accountability.

A latter approach and the only one which is somewhat comparable to ours is the Environmental Sustainability Index[5]. It is not a complete approach and is faulty in its methodology[6].

6. ***Global Environmental Accountability and Consumption:*** *The hitherto experience of ISO has been in the area of manufacturing and services whereas GED is essentially caused by consumption.*

In our approach, we have a framework to measured global economic development, global consumption and GED[7]. It is apparent that global disparity is at the root of GED. The following table clarifies this.

Inequality in Consumption and Environmental Degradation across HDI Classes
(Human Development Report, 2000, UNDP)

DEVELOPMENTAL STATUS	LOW:MIDDLE:HIGH	ENVIRONMENTAL	LOW:MIDDLE:HIGH
GDP (per capita)	1 : 4 : 18	Consumption	1 : 3 : 14
Trade	1 : 10 : 200	Paper Consumption	1 : 21 : 240
Urbanization	1 : 2 : 3	CO2 (per capita)	1 : 6 : 23
		CO2 Share	1 : 30 : 60
		Water Consumption	1 : 5 :7
		Energy Consumption	1 : 15 : 77

[4] Murthy and Jha(2003)
[5] Created by Earth Science Centre, Columbia University, Centre for Law and Environment, Yale University and World Economic Forum. See for a critique of [5] Murthy and Jha (2003) a.
[6] See for a critique of the ESI Murthy and Jha (2003) a.

[7] Murthy and Jha (2004)

Globalization has meant growth on an unprecedented scale. The features of globalization are growth, trade and urbanization. The above table shows how the patterns of global development have caused wide differences amongst low, middle and high development countries, in respect of the main features of globalization. This means that globalization has brought about massive differences in development amongst these countries. More of trade implies, in addition, that countries consume much more that what they produce. Greater urbanization leads to consuming goods that are environmentally unfriendly. Most often these are global goods whose consumption is promoted globally. The differences in consumption are much starker. For instance, energy consumption is 77 times and paper consumption is 240 times!! These are the two most environmentally damaging. Most of the benefit of this development is going to Multi-national Corporations. They benefit from consumption as they benefit from production! Also they are the ones who consume scarce (non-renewable resources). Thus, they have a responsibility towards global environmental sustainability more than others. In this context, laying down standards of consumption is beyond the scope of the ISO guidelines framework.

3.0 Conclusion:

The moot question is as to whether International Social Responsibility Standards are meant to be corrective in nature or whether they are conciliatory in nature. If they are to be corrective then the coercive dimension of accountability needs to be invoked. Hence, it stands to reason to have differential standards. This needs a well developed conceptual and measurement framework set in the global context. For this the new developments in environmental economics enlisted above need to be incorporated into the framework of evolution of International Standards.

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