ISO STANDARDS FROM QUALITY TO ENVIRONMENT TO CORPORATE SOCIAL RESPONSIBILITY AND THEIR IMPLICATIONS FOR GLOBAL COMPANIES

Mahesh Chandra, D.Sc.*

I. INTRODUCTION

The International Organization for Standardization (ISO), a not-for-profit international body established in 1947, is a network of national standards institutes from 157 countries, with a secretariat based in Geneva.¹ The main objectives of ISO are to coordinate and unify the various industrial standards. Since 1947, ISO has published more than eighteen thousand international standards and has broadened its activities to include agriculture, construction, mechanical engineering, information technology, and so on.² Before ISO, there existed two independent standardization organizations, the International Federation of the National Standardizing Associations (ISA), established in 1926, and United Nations Standards Coordinating Committee (UNSCC), established in 1944. However, neither ISA nor UNSCC achieved worldwide acceptance. Whereas ISA was mainly a European organization, UNSCC had a limited number of worldwide members and was found to be ineffective in maintaining standards. ISO was organized to streamline the operations of ISA and UNSCC and provide a unified and stronger voice for the new independent association.³ When ISO was formed, many of the statutes, rules, and procedures were adopted from ISA.

The impetus for establishing ISO was the devastation and destruction caused by the Second World War and the terrible economic consequences it caused in many countries, including the dismantling of the industrial infrastructure of Europe. Before the Second World War, there were many standardization organizations, including the aforementioned ISA and UNSCC, as well as the International Electrotechnical Commission (IEC), among others. These various associations were fragmented and engaged in minimal coordination; standards developed by one organization were not considered part of the other organizations. Hence, all the organizations lacked credibility, and their codes and standards were difficult to enforce. ISO’s basic purpose is to develop international standards from those that already existed at the country level.⁴

The rest of this paper deals with the procedures for setting up standards, the introduction of quality standards, the development of the sustainability standards, and finally the introduction of the corporate social responsibility standards and their objectives. Currently, ISO is made up of the national standards bodies of ninety countries. It applies to small, medium, and large companies in both goods and services industries. At present, thousands of companies in more than one hundred countries have adopted ISO standards. In fact, the European Union requires companies exporting to its member countries to have ISO 9000 series certification. Moreover, consumers and business clients have come to expect ISO quality certifications.

* Associate Professor of Information Technology and Quantitative Methods at the Frank G. Zarb School of Business, Hofstra University.
II. PROCEDURES TO SET UP ISO STANDARDS

Any member country, industry group, or stakeholder can initiate the process to develop a particular standard. Once initiated, the requested standard is then passed on to the ISO technical committee responsible for that specific area. If a field of activity is new, if the field does not have a standard, or if a technical committee currently does not exist, then a new technical committee is set up to cover the specific field of activity.

Standards are not established unless and until they are thoroughly evaluated for their global relevance (in other words, is the standard necessary?), including benefits to the stakeholders. Members of the technical committee are drawn from all over the world and are experts in their fields. The technical committee might be joined by other relevant agencies that have a stake in the standards, including representatives of government agencies, testing laboratories, consumer organizations, nongovernmental organizations, and the like.

The submitted request for a standard goes through six stages, as follows:

Proposal stage: The new proposal is evaluated to make sure that a new standard is necessary. A new work-item proposal is submitted. It is accepted if it is approved by a majority of the technical committee members or in some instances a subcommittee formed specifically for the current requested standard.

Preparatory stage: The technical committee or subcommittee sets up a working group to prepare a draft of the proposal to ensure that it does address the required standard.

Committee stage: The draft is received and registered at the ISO Central Secretariat. At the committee stage, the draft undergoes more scrutiny until it is acceptable to a majority of the members.

Inquiry stage: The previously developed draft is now shared among all ISO member bodies by the ISO Central Secretariat. After a thorough review by all members, the draft is ready for its final version when voted on by a majority (75 percent) of the membership.

Approval stage: A final yes/no vote (75 percent) is taken on the final draft of a majority (67 percent) of ISO member bodies.

Publication stage: After some text editing, the final draft is ready for printing and will be made available through the ISO Central Secretariat.

III. ISO 9000 AND QUALITY STANDARDS

ISO 9000 is a series of standards for quality management systems. The standards are administered by accreditation and certification bodies. A company or organization that has been independently audited and certified to be in conformance with ISO 9001 may publicly state that it is “ISO 9001 certified” or “ISO 9001 registered.” Certification to an ISO 9001 standard does not guarantee any quality of end products and services. Rather, it certifies that formalized business processes are being applied. The three ISO 9000 quality standards include ISO 9000, ISO 9001, and 9004.

ISO 9000 Quality Management Systems were originally introduced in 1987. Their mission is to provide a system of international standards of quality. Since their inception, ISO quality standards have been revised and changes have been made to reflect the complex nature of maintaining standards. For example, ISO 9001 (introduced in 2008) deals with requirements for a quality management system. It stresses keeping adequate records, monitoring processes to ensure they are effective, focusing on customer satisfaction and so forth. The
ISO Standards

standard is meant to assist senior management in improving organizational effectiveness. The three recent revisions to ISO quality standards are as follows:

ISO 9001: QMS—Requirements (introduced in 2008)
ISO 9004: QMS—Guidelines to organizations to support the achievement of sustained success through continuous performance improvements (introduced in 2009)

IV. TRANSITION OF ISO FROM QUALITY TO OTHER STANDARDS

Based on its acceptance within a wide network of agencies, associations, and countries, ISO has ventured into other areas besides quality standards that affect day-to-day business decisions. Its entry into other business areas has paralleled the development of the industrial sector. During the Industrial Revolution and thereafter, production of goods and services were emphasized, and since demand outstripped supply, this business model succeeded. During the twentieth century, improved production techniques combined with a better-trained labor force allowed supply to catch up with and in fact exceed demand. Consumers had choices and items were not in short supply, and hence marketing and sales took on a more critical role in the marketplace. During the 1960s, cost cutting and improved product offerings became the catchphrases ushering in the era of innovation and efficiency. This was followed in the 1970s and 1980s by the introduction of quality principles that were popular because they helped businesses gain competitive advantage. The quality concept was easy for businesses to adopt, as it assured them of loyal customers, reduced waste, and helped them avoid harmful product-liability concerns. It was also at this time that the ISO 9000 series was introduced. In the 1990s, environmental issues were of major concerns for the public and policymakers; hence the impetus for ISO to introduce environmental and sustainability standards. These too were easily and quickly embraced by many businesses as they sought to reduce laws that might follow if the environmental concerns were not addressed. The twenty-first century brought social and stakeholder concerns (social responsibility) to the forefront of various interests groups, and, as in the past, ISO decided that it needed to streamline the various standards and governing agencies to formulate a cohesive and comprehensive standard that benefited all concerned. Compared to the quality and environmental standards, the corporate social responsibility (CSR) standards are not that easy to package as a boon to businesses. It is difficult to quantify the benefits of CSR in dollars and cents. There are definite costs associated with adopting CSR initiatives, but resulting returns are not clear.

V. ISO 14000 ENVIRONMENTAL MANAGEMENT AND SUSTAINABILITY

The ISO 14000 series, introduced in 1996 includes ISO 14001, which governs the standards for effective environmental management systems (EMS) for various organizations. ISO 14001 was followed by ISO 14004, and like the ISO 9000 series it provides the guidelines for a workable management system. In addition to promoting EMS, the ISO 14000 series provides some useful tools to help organizations to achieve cost-effectiveness and flexibility in pursuing EMS. The ISO 14000 series is based on a voluntary approach to environmental regulation. The major objectives of the ISO 14000 series are to assist organizations in meeting their environmental and economic goals and in reducing their environmental impact. As in the case of the ISO 9000 series, the ISO 14000 series is applicable to a wide variety of organizations, including for-profit companies and government agencies.
One of the key benefits of the ISO 14000 series is its potential to minimize the risk of regulatory and environmental liability fines and to improve an organization’s efficiency. As in the case of the ISO 9000 series the ISO 14000 series also requires certification. Certification involves evaluation of a company’s EMS system, including a comprehensive on-site audit, to determine whether it meets ISO 14001 requirements. If the company conforms to the ISO standard, it is issued with a certificate, which is generally valid for three years.

There are sixteen international standards in the ISO 14000 series. Following is a partial list of these standards.

ISO 14000: Environmental management systems—Requirements with guidance for use
ISO 14004: Environmental management systems—General guidelines on principles, systems, and support techniques
ISO 14015: Environmental assessment of sites and organizations
ISO 14020 series (14020 to 14025): Environmental labels and declarations
ISO 14031: Environmental performance evaluation—Guidelines
ISO 14040 series (14040 to 14049): Preproduction planning and environment goal setting

The other ISO standards include the following:
ISO 31000 (2009)—Risk management. This standard deals with natural disasters that cause risks to humans and disrupt the normal functioning of life, for example, the air traffic crisis that resulted from the volcanic eruption in Iceland.
ISO 26000 (2010)—Social responsibility. Projected to be introduced at the end of 2010, this standard attempts to address the issue of CSR. Called the “Guidelines on Social Responsibility,” ISO 26000 will provide guidelines for organizations around the world.

VI. CORPORATE SOCIAL RESPONSIBILITY

It is generally accepted that beyond their normal profit-maximization goals, businesses have a responsibility to society at large, referred to as corporate social responsibility. CSR is defined as follows: “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.” Called the three-domain model of CSR, it stresses that all three elements are equally important and that managers need to find a balance among the three in developing their strategies. The definition implies that social responsibility requires companies not only to strive for economic gains, but also to address the moral issues they face.

For-profit organizations are concerned mostly with profits and other related economic gains to enhance value for their investors (U.S. model). Some argue, however, that managers’ duty is to balance shareholders’ financial interests with the interests of others, including employees, customers, and the local community, even if it reduces shareholders’ returns. In their opinion, employees, customers, and the general community (called the stakeholders) contribute either voluntarily or involuntarily to a company’s wealth, creating capacity and activity, and are therefore its potential beneficiaries and risk bearers. The principle of social responsibility means that companies need to be concerned as much about the wider group of stakeholders as about the typical company stockholders.
ISO Standards

VII. VARIOUS CSR STANDARDS

There is no single universal framework describing the activities that are part of CSR initiatives. The difficulty stems from the varied assumptions under which CSR principles and activities are developed. Moreover, CSR also appears to be geographically and culturally driven; that is, companies’ activities and society’s demands on companies vary from country to country. For example, in Europe the public demands that companies be more responsive to environmental concerns, whereas in the United States firms are driven by increasing shareholder value.

The concerns of stakeholders and corporate concerns about satisfying their interests are probably less than a hundred years old. The earliest recorded reference to stakeholders was made by E. Merrick Dodd, Jr., a Harvard law professor, who, based on information from General Electric executives, referred to shareholders, employees, customers, and the general public as part of the stakeholders of a company. The formal introduction of the stakeholders concept, though not the name, into the management literature is credited to William R. Dill, based on a 1958 Scandinavian field study. Other equally important figures in the evolution of the stakeholder concept and general stakeholder theory are Edward R. Freeman and James D. Thompson, who formalized the stakeholder principles and wrote extensively about them. Stakeholders are defined as “an individual or group, inside or outside the organization that has a stake in and can influence an organization’s performance.”

According to the stakeholder theory, every company should identify individuals or groups whose involvement is critical to a company’s success and should make every attempt to satisfy each of these individual’s or group’s needs and interests. Moreover, the company must be viewed through numerous interactions with its stakeholders. The theory implies that as it strives to create shareholder wealth, a company should also meet the expectations of its employees, customers, and suppliers; the community it operates in; and any other individual or group that it affects. The theory does not imply that any one stakeholder is more important than the others and hence assumes that a company and its managers should strive to satisfy the interests and concerns of all. From a practical standpoint, the level of satisfaction that needs to be delivered to the stakeholders is not defined, and herein lays the conundrum for executives, practitioners, academicians, and community representatives. Is it possible to fully satisfy the needs and interests of all concerned?

To govern the varying philosophies and theories that surround the CSR issues, various government agencies, international organizations, and industry associations have developed standards for businesses to follow. In addition, a few countries have developed regulations related to CSR, and the companies operating in these countries are expected to report CSR-related activities to the government as required by law. Many of the country-specific laws, standards, and guidelines that are developed by nongovernmental agencies are meant to encourage and promote good practices in the areas of human rights, labor, the environment, and anticorruption. One of the early proponents of having guidelines for corporate social responsibility is the quality guru Edward Deming, who in 1986 proposed a fourteen-point checklist for companies to follow that, alludes to CSR.

International organizations’ efforts in the area of CSR include the Global Reporting Initiative by the United Nations through the Global Compact unit, and the Organization for Economic Cooperation and Development guidelines for companies that have to file CSR activity reports to these agencies. Furthermore, a few assessment devices have been developed
to report CSR activities, such as the implementation of basic workplace rights developed by Social Accountability International (SA 8000) and procedures for environmental management developed by ISO (ISO 14000). Finally, industries such as mining and chemicals require voluntary compliance with industry-driven CSR initiatives.

Of all the various voluntary reporting that companies must do in regard to CSR activities, probably the Global Reporting Initiative is the most comprehensive. It includes elements of ISO 14000, SA 8000, and the OECD codes of conduct.22

VIII. CORPORATE SOCIAL RESPONSIBILITY AND ISO 26000

As discussed previously, there are already many CSR standards and monitoring agencies in existence. The introduction of the ISO standards is meant not to add to the confusion of the existing slew of standards, but to add value to the current standards and have an organization known for its systems and international scope introduce a set of standards that follows its successful previous generation of standards on quality and sustainability. It is hoped that ISO 26000 will provide guidance to all types of organizations around the world. This includes business organizations (both goods and services), not-for-profit organizations, governmental organizations, and nongovernmental organizations. Some of the beneficial uses of the ISO 26000 standards are:

- A harmonization tool for current standards
- A practical tool for small and medium-size enterprises
- A marketing tool for businesses
- A platform for stakeholder groups
- The basic principles of the ISO 26000 standards are as follows:23
  - Respect for and adherence to international norms of behavior
  - Compliance with the current laws
  - Recognition of stakeholders’ interests
  - Accountability
  - Transparency
  - Ethical conduct
  - Respect for fundamental rights

Because ISO’s international position is unique as a UN-recognized body, it is in the best position to integrate the current norms, indices, declarations, conventions, and codes. Moreover, ISO’s membership of 157 countries with 110 developing country members provides it with an opportunity to establish and integrate the current codes. The purposes of the ISO 26000 standards are as follows:

- To agree on a universally accepted system of standards on CSR
- To connect the various codes currently in existence to the ISO 26000 codes and to benefit executives in their daily management of organizations
- To build on the previously established codes, such as ISO 9000, ISO 14000, to assist various organizations in managing their operations
- The ISO 26000 series was created over a six-year period with more than four hundred experts from eighty countries participating in the development of the standards. In addition, 60 experts from 34 liaison organizations also took part in the development process. Equally important was the participation of international organizations such as the International
ISO Standards


IX. MAJOR ISSUES AND CONCERNS FOR ISO 26000

The efforts to set well-coordinated and systematic standards for CSR are definitely necessary. If ISO 26000 succeeds, as have previous ISO standards, great strides will have been made in the area of CSR. But, unlike previous ISO standards, which were easily embraced by businesses and consumers, the CSR issue is a bit more complex and holds contradictory benefits for the parties concerned. For example, are the concerns of the various stakeholders equal? In other words, should investors sacrifice their returns and invest in community projects that might benefit a few stakeholders? Another issue is the question of who will bear the financial cost of adopting CSR initiatives. At the present time, many businesses deem allocation of funds to assist communities (building schools and libraries, donating food and medicines) or earmarking funds for cleanup of the environment as fulfilling CSR. In many instances, these companies publish detailed reports on their CSR initiatives in their annual reports so as to report a line item in their income statements to reflect the cost associated with their CSR initiatives as part of their business operations. Unlike quality issues, the issues that govern CSR are more varied and have no single thread that runs through them; hence, it is much more difficult to standardize.

In spite of the above concerns there is a general consensus among all parties concerned that a streamlined and well-coordinated set of CSR standards will benefit a majority.

X. CONCLUSION

The ISO standards have definitely helped businesses, government agencies, and the world’s masses receive an acceptable quality of goods and services. Additionally, ISO has acted as a voice for concerned citizens in macro-areas such as sustainability and the environment. After a successful introduction and worldwide acceptance of the ISO 9000 quality standards, ISO was equally successful in introducing standards and certification for the ISO 14000 series, which governed the environment. Now ISO has ventured into the area of CSR, probably a more complex and definitely a more far-reaching aspect of business than the previous undertakings.

The ISO 26000 is a worthy and promising standard. It has been undertaken under the guidance of many other organizations, agencies, and stakeholders representing a wide group of interests. The process seems to be transparent and participative and has taken into consideration the issue that the topic concerns a variety of constituents. The ISO has definitely answered the legitimacy issue through its previous successes and in the objective way it has approached the issue. The ISO 26000 standard definitely adds value to the existing CSR standards. Also, to ensure participation and maintain standards, it is important that this series also require third-party certification.

REFERENCES


THE JOURNAL OF INTERNATIONAL BUSINESS & LAW


