



European Foundation for the Improvement of Living and Working Conditions

# Towards a sustainable corporate social responsibility



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# Foreword

The strategic goal adopted by the Lisbon Summit of March 2000 – to become by 2010 ‘the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion’– is one of the main challenges of the European Union. In line with this objective, the European Council made a special appeal to companies’ sense of social responsibility regarding best practice on lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development.

Because of its tripartite structure, the European Foundation for the Improvement of Living and Working Conditions can play a unique role through carrying out research and stimulating debate on corporate social responsibility (CSR) where environmental, social and economic issues overlap. In the past, the Foundation conducted numerous studies highlighting initiatives of companies towards society. However, CSR as a topic had not been examined.

Against this background, it was decided to launch two studies. The first, oriented towards the working conditions research area, explored corporate policies designed to instigate social responsibility in the field of working conditions and employment. A particular focus was given to the mechanisms for measuring and evaluating objectives and results set up by companies. Two specific issues highlighted in the study were restructuring and subcontracting.

The second study, related to the living conditions research area, aimed to develop two of the post-Lisbon priorities: corporate involvement in the local community and economic regeneration; and the promotion of environmentally acceptable practices. It set out to examine the concepts, reporting and measurement of corporate social responsibility, with a view to producing discussion papers and initiating a debate with the actors concerned, including social partners, public authorities and consumers.

These two reports were evaluated by the Foundation’s advisory committees for working conditions and living conditions respectively. The results were discussed on 15 and 16 October 2002 at a workshop organised by the Foundation in Dublin. Among the points highlighted during the workshop were: the need for a better understanding of CSR, the diversity of situations, the importance of fuelling the debate, the need for more active involvement of stakeholders, and the desirability of viewing CSR as a process rather than a product.

The present report presents a transversal look at the findings of these studies and the workshop. Approaching CSR in a holistic manner, it synthesises the arguments and provides access to the subject in a succinct and readable way.

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# Contents

<b>Foreword</b>	<b>v</b>
<b>Introduction</b>	<b>1</b>
<b>1 – Foundation research into CSR</b>	<b>3</b>
Objectives	3
CSR and working conditions	3
CSR and living conditions	4
Methodology	4
<b>2 – Defining and understanding CSR</b>	<b>7</b>
Development of the concept	7
Towards a common framework	7
Changing contexts	9
CSR and selected issues	9
<b>3 – CSR as an interactive process</b>	<b>13</b>
A diversity of stakeholders, motives and expectations	13
Promoting sustainability and credibility	17
A range of economic, regulatory and cultural contexts	20
The impact of company size and sector	21
A variety of approaches	21
<b>4 – Actions for the future</b>	<b>25</b>
<b>5 – Conclusions</b>	<b>29</b>
<b>References</b>	<b>31</b>
<b>Annex 1</b> Summary of research into CSR in the area of working conditions	<b>33</b>
<b>Annex 2</b> Summary of research into CSR in the area of living conditions	<b>37</b>



In common with other trends prevalent in the business world, corporate social responsibility (CSR) has, for a long time, enjoyed the status of a product that is marketed through high-level conferences and consultancy work. During the 1990s, CSR initiatives spread throughout Europe, giving a consistent approach to the social responsibility of the company. In recent times, however, economic downturns, failures and breakdowns in accountability, the bursting of the high-tech bubble and other corporate misdemeanours have all contributed to undermine trust in companies. As a consequence, the concept can provoke different reactions: interested, indifferent, hostile or cynical, as the case may be.

With the subject growing in importance at European level, the lack of clarity surrounding the concept and the underlying stakes in terms of economic and social progress, the Foundation decided to enter the debate. It commissioned two studies on CSR, one focusing on the process as applied to the area of working conditions, the other looking at CSR in relation to living conditions.

In its 2002 Communication concerning CSR, the European Commission stated that:

*'...the main function of an enterprise is to create value through producing goods and services that society demands, thereby generating profit for its owners and shareholders as well as welfare for society, particularly through an ongoing process of job creation. However, new social and market pressures are gradually leading to a change in the values and in the horizon.'*

The Commission went on to outline the role that companies could play:

*'There is today a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximising short-term profits, but instead through market-oriented yet responsible behaviour. Companies are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility, including consumer interests.'* (European Commission, 2002b)

While a considerable number of papers on the subject present concrete achievements, there has been relatively little in-depth work carried out on the mechanisms that lead to successful CSR. Based mainly on the two Foundation studies and the discussions that followed, the present report is seen as a tool to further the debate on CSR by increasing knowledge of the subject. It is a collaborative effort, the work of a team made up of the research managers who were responsible for the two studies. The joint report was drafted by Philippe Bronchain, with support from Henrik Litske, Jean-Michel Miller and Sabrina Tesoka.

The report on CSR in the area of working conditions, *Corporate social responsibility and working conditions* was drafted by Jean-Pierre Segal, André Sobczak, Claude-Emmanuel Triomphe of Université Européenne du Travail, France, with input from researchers in Belgium (CEDAC), France (ADUET), Germany (EIAB), Hungary (MTK), and the United Kingdom (Cardiff Business School). The report on CSR and living conditions, *Corporate responsibility towards society: a local perspective*, was drafted by Kim Møller and Trine Erdal of Oxford Research, Denmark, with input from researchers in France (Vigeo), Italy (CerFE) and the UK (AccountAbility).

The report is divided into five chapters. Chapter 1 presents the objectives and the methodology behind the two studies. Chapter 2 examines definitions, contexts and issues surrounding CSR, in the light of the European Commission's Green Paper. Chapter 3 is based on case studies and sets out to deconstruct CSR by identifying the conditions, the main influencing factors, the stakeholders and the modes of operation whose existence and combination contribute to the implementation of social responsibility both inside and outside the company. Chapter 4 puts forward a series of recommended actions for the future, while Chapter 5 rounds up the debate.

## Objectives

In launching two studies on CSR, the Foundation aimed to:

- clarify the concept;
- give a clear understanding of the subject by identifying the actors, approaches and conditions necessary for its growth;
- identify its added value in terms of economic and social progress;
- put forward recommendations for future actions.

## CSR and working conditions

The aims of the report carried out in the area of working conditions were twofold: to conduct fieldwork research on the subject (identify companies and collect information, and some case studies) and compile a limited literature review on pioneering or ground-breaking practices in companies which adopt a CSR policy in the field of working conditions and employment (CSR-WCE). The following aspects were covered:

- Establishing what motivates companies in the European Union and the accession countries, looking at the success factors and barriers.
- Identifying trends and priority areas among these companies and listing best practice examples.
- Describing positive examples of how profitability and good working conditions can go hand in hand.
- Identifying ways in which CSR-WCE has been strengthened through preventive policies by higher levels of occupational health and safety.
- Showing how the social partners are jointly responding to the greater emphasis on social responsibility, and their experiences in engaging in dialogue and common action on CSR-WCE, with a particular focus on employment creation.
- Identifying the relationship between large companies and SMEs, and showing how policies of large companies may have an impact on policies of smaller companies in the supply chain.
- Listing various monitoring instruments, reporting methods, independent verification, certification initiatives and social checklists used by companies.
- Describing common elements on which companies report and instruments for performance evaluation.
- Reporting on cost-effective evaluation efforts.
- Looking at the process from voluntary initiatives to social auditing.
- Presenting social reporting initiatives and comparability.
- Examining compliance with voluntary guidelines and transparency efforts – implementation and independent verification.

The report places particular emphasis on the following features:

- Annual reports on working conditions and employment.
- The quality of social dialogue, covering all aspects of working conditions and employment.
- The promotion of employability and lifelong learning of employees at all stages of life.
- How the workforce has been prepared and equipped for managing change.
- Policies to achieve equality and equal treatment.

### CSR and living conditions

The main objectives of this report were to provide a critical clarification of definitions and outline the development of the most relevant and operational concepts. Against this background and in relation to environmentally responsible practice and local community activities, experiences from the Member States had to be gathered on the following:

- Identifying the extent of environmentally responsible/local interest initiatives in the EU, showing whether it is a marginal or significant development and its importance in certain regions of the EU and in the candidate countries.
- Showing how these initiatives are related to EU policy.
- Describing high profile cases.
- Identifying different types of projects.
- Exploring the motives of the participating partners.
- Examining the role of the social partners and their experience in relation to their achievements (effects) and their procedural effects.
- Showing how the various actors can support SMEs in their attempts to develop their responsibility towards society.
- Identifying in terms of local/community development how companies support employment creation or how they specifically promote equal opportunities and diversity in relation to external social issues.
- Demonstrating the driving forces and instruments which lead companies to assume their responsibility towards society in the field of environmentally responsible practices and local community actions.

### Methodology

While the Foundation believes that CSR must be viewed in a holistic way, it was decided for methodological reasons to divide CSR into two dimensions: working conditions and living conditions. For each of these two dimensions, the research teams focused on two topics: restructuring and subcontracting for the working conditions area; and local community and environment for the living conditions area. However, during the research phase, there were regular joint exchanges of information and views and opportunities to debate the findings globally.

The Foundation took a threefold approach to the work:

- First, an inductive approach based on the collection of case studies. The studies conducted by the Foundation present socially responsible practices in the field of employment, working conditions, local community and environment. They are not necessarily success stories or model textbook cases.
- Second, a transnational approach. Examining a range of situations in different European countries, the objective was to take account of the contextual dimension of CSR, in terms of the legal requirements, values, social model and business traditions.
- Third, a sociologically oriented approach aiming to describe good practices and to analyse the role of the actors, their motives and how they interact.

The study on CSR and working conditions was based on 12 companies with subsidiaries in three Member States and one candidate country: France, Germany, Hungary and the UK. These companies represent a wide range of characteristics: large, small, former state owned, private companies, and cooperatives. After sending a questionnaire to all companies, interviews and discussions were held with the two sides and a national seminar was organised in the four countries. During this period, a project team involving all stakeholders met three times. The CSR definition given in the Commission's Green Paper was used as a starting point to interpret situations analysed in this field. The living conditions team at the Foundation was involved in the drafting of the research specifications.

The study on CSR and living conditions was based on 40 companies in nine Member States chosen from a list of more than 200 companies from all the Member States. The companies selected represented a wide variety of CSR initiatives based on size, sector and localisation. A research consortium was set up and regular meetings organised to discuss the evolution of the study and the findings. The information was gathered by means of a questionnaire.



# Defining and understanding CSR

# 2

Corporate social responsibility is now being defined and tackled at European level. The consensus that exists at present around the definition of CSR is the result of a long process that has been nurtured by a broad variety of experiences and debates. However, CSR is still in its infancy and is likely to continue evolving in the future.

## Development of the concept

The first question that arises when it comes to CSR is: what does corporate social responsibility mean? Arriving at a clear definition of the concept is crucial to a good understanding of it.

Social concerns are not a new area of interest for the business world. In the 19th century, several industrialists in Europe and the US were noted for their concern for society, housing, welfare, charity to workers and their families. With the advent of the 20th century and the general adoption of legislation and social welfare systems, the spirit of charity and philanthropy then prevailing gave way to more formal relations and institutional structures.

As the Foundation's study on CSR and working conditions records, the concept of CSR appears to have developed largely from a US debate on the social responsibility of firms, a subject of debate which dates back at least as far as the 1950s and 60s.

In contrast to the US, the notion of CSR appeared only recently on the European map. At European level, the first step seems to have been the appeal in 1993 by European Commission President Delors to European businesses to take part in the fight against social exclusion. However, the real catalyst was the shock announcement by French motor manufacturer Renault, on 28 February 1997, of the closure of its plant at Vilvoorde in Belgium. The Gyllenhammar Group, set up following the Luxembourg Jobs Summit in November 1997, recommended in its final report that 'Businesses with more than 1000 employees should publish a report on the management of change to give an account of the impact of their social activities' (European Commission, 1998).

At the European Council Summit in Lisbon in March 2000, a special appeal was made to companies' sense of social responsibility. This was part of the employment strategy which aimed to make the European Union 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'.

The Social Policy Agenda adopted by the Nice Council in December 2000 stressed the importance of CSR, essentially in terms of the employment and social consequences of European integration and the consequent adaptation of working conditions (European Commission, 2000).

## Towards a common framework

The Green Paper published by the Commission in July 2001 went a step further by launching a debate on the concept itself. The objective was to define a common framework that could be used at European level. The Green Paper stated that CSR is commonly defined as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis'.

The Green Paper went on to further elaborate and refine this definition:

*'Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing "more" into human capital, the environment and the relations with stakeholders. The experience with investment in environmentally responsible technologies and business practice suggests that going beyond legal compliance can contribute to a company's competitiveness. Going beyond legal obligations in the social area, for example, training, working conditions, management-employee relations, can also have a direct impact on productivity. It opens a way of managing change and of reconciling social development with improved competitiveness. Corporate social responsibility should nevertheless not be seen as a substitute to regulation or legislation concerning social rights or environmental standards, including the development of new appropriate legislation. In countries where such regulations do not exist, efforts should focus on putting the proper regulatory or legislative framework in place in order to define a level playing field on the basis of which socially responsible practices can be developed'* (European Commission, 2001).

In other words, a company is considered to be acting in a socially responsible manner if its initiatives meet the following criteria:

- they are carried out on a voluntary basis, i.e. going beyond common regulatory and conventional requirements;
- there is interaction with the stakeholders;
- social and environmental concerns are integrated into the business operations.

Research shows that while these criteria may look clear at first sight, they are in fact complex. The first condition, that actions are carried out on a voluntary basis implies that the company goes beyond legal requirements. However, as legal requirements vary from one country to another one, an easy comparison is difficult. Furthermore, the 'legal requirements' can be understood in a more or less restricted manner depending on whether this refers to the letter and/or the spirit of the law, collective bargaining and case law.

The second condition, referring to interaction with the stakeholders covers a large range of situations, from passive listening to a real interaction. Interaction signifies dialogue, respect, transparency and openness *vis à vis* all the stakeholders. However, interaction with the stakeholders also has limitations. In any case, it is not about putting financial considerations aside or entrusting the management of the company to the stakeholders.

Finally, the third condition is an obligation to think about the minimum integration requirement (lower limit) of CSR. While we may agree that CSR should be an integral part of business operations and not just an additional responsibility, the concrete interpretation of what constitutes CSR is still up for discussion. Some people argue that giving money to charity has nothing to do with business operations. However, those taking the opposite view maintain that philanthropy is part of the CSR concept, even if its implications for business are indirect or difficult to identify. They also argue that it can represent a first step that should be encouraged instead of denigrated. Finally, research shows that philanthropy remains alive at local level and that it meets certain needs.

In its Communication on CSR, the Commission acknowledged that 'despite a wide spectrum of approaches to CSR, a large consensus exists on its main features'.

## Changing contexts

The Foundation research shows that the definition of CSR depends on the regulatory, cultural and economic contexts and that meanings vary greatly from one actor to another.

Because these contexts are changing, we could assume that what is considered to be CSR will probably continue evolving. Four elements that could have a particular influence on this process deserve to be mentioned here: globalisation, which changes the way companies are doing business and could result in going beyond a European framework; governance, which refers to the decision-making process in companies as well as in society; sustainable development, which challenges companies to change the way they are producing goods and services; and enlargement to new countries, whose values and contexts could contribute to shaping CSR.

## CSR and selected issues

The research shows that the added value of CSR varies greatly from issue to issue. The two studies highlighted four of the many current issues that have an impact on the process and implementation of CSR: restructuring, subcontracting, the local community and the environment.

### Restructuring

Restructuring is a topic with a rich and longstanding history, and where a significant framework of legislation and agreements exist, at both European and national levels. Restructuring involves two areas, specifically investigated in the research.

The first is anticipation of changes to come (management of change) and strategic decision-making: these make it possible, through in-house training of personnel and other actions taken prior to a reduction in the workforce (e.g. information sharing, re-industrialisation, diversification), to adopt 'socially responsible' courses of action and hence minimise the social costs caused by adaptation to market realities.

The second area, an important topic in all the countries studied, is how to handle situations which arise when anticipation did not take place or was not of sufficient scope to prevent the need for emergency action regarding problems of re-industrialisation, training, and regrouping of the employees affected.

Restructuring has obviously an effect both inside and outside the company owing to its impact on employment and the strength of the local economy. The research shows that making a clear-cut distinction between corporate social responsibility within the company and outside the company is artificial.

The study conducted by the Foundation revealed that preventive and curative handling of the CSR aspects of the restructuring tends to be organised in an increasingly formalised manner.

The study also showed that CSR can enhance existing practices relating to the handling of restructuring situations by intensifying the dialogue between the various actors and extending the responsibility of the company over time and space.

### Subcontracting

While this issue is increasingly complex, due to the multiplicity of forms it currently takes in business relationships both within and between companies, it appeared essential in this era of globalisation to incorporate the new realities that result in very dynamic borders for companies. The study tried to take account of what CSR could mean in an economy of decentralised production and networking enterprises. It deliberately shied away from entering into current debates on issues concerning outsourcing, relocation, the dual labour market and the new international division of labour, as these would have led the research away from its original path.

The study focused on the commitments made and the actions taken by companies in connection with this new dynamic element in production activities. This issue was found to be of major importance in CSR, particularly in terms of the job quality and working conditions of employees of subcontracting companies.

In contrast with the body of regulatory measures for restructuring, there has been little legal regulation of subcontracting relationships. While the social partners learned long ago to work together in areas such as safety at work within the legal framework of the enterprise, their focus of attention is largely inside the company.

### Local community

By virtue of their business activities, companies undoubtedly have an impact on the communities in which they operate. This is basically in terms of the employment of people and production of goods and services, which might involve sourcing from local suppliers and selling to local customers. However, many companies also interact with their surrounding communities in a number of ways not directly related to the traditional operational aspects of running a business.

A broad variety of activities and relationships can be identified, such as sponsoring local sporting or cultural activities, giving spare equipment to community organisations, cooperating with local schools around educational activities (e.g. company visits, work experience placements, etc.), using employees' professional skills in voluntary work, participating in local business networks in order to exchange experiences or promote a common agenda, and so on. What characterises these types of relationships is that they represent a company's voluntary involvement or investment in the local community. The activities might be either short- or long-term, isolated company initiatives or part of a more holistic approach to CSR. Companies might either engage in arm's length relationships or become part of the local networks.

Some people view a company's local community involvement as something business has practised for years – simply a new label for traditional activities. This is certainly true of philanthropic activities, for example, which have been carried out for centuries by industrialists and have made a significant contribution to their local communities. While some people regard these activities as a marketing or image ploy, others look on them as representing a company's genuine commitment to and concern for their local communities.

A company's engagement in the local community is usually motivated by a combination of factors, often a combination of a desire to obtain business benefits, on the one hand, and value-based reasons, on the other.

Research has shown that most of a company's commitments in the local community can be categorised under three headlines:

- Community giving, which is based on the company's involvement in the local community through cash or 'in kind' contributions. It also includes advice and follow-up to contributions.
- Employee involvement, which is the active involvement of company employees in community activities;
- Entrepreneurship and employability, which constitute activities aimed at the integration or inclusion of often disadvantaged workers

However, the case research has revealed that behind each of these categories a mosaic of initiatives and methods of involvement is emerging.

### Environment

While responsibility in respect to the local community has a history dating back several decades, the corporate environmental agenda has a much more recent history. During the past two decades, we have witnessed an increasing awareness and concern about the environmental impact and consequences of economic growth and development. In 1987 the Brundtland report, *Our Common Future*, pointed to the urgency of linking economic progress to environmental responsibility in order to avoid the depletion of natural resources and the destruction of the environment<sup>1</sup>. Half a decade later, the Earth Summit in Rio in 1992 brought the sustainability agenda forward through international agreements on climate change, forests and biodiversity. The Earth Summit also fostered the Agenda 21 initiative – a blueprint for sustainability in the 21<sup>st</sup> century. Countries signed up to Agenda 21 have committed themselves to developing national strategies for sustainable development and to encouraging the promotion of sustainability at local and regional level within their countries. Agenda 21 is an all-encompassing strategy, which encourages governments, industry, non-governmental organisations (NGOs) and the general public to become involved in and promote sustainability.

Through their business operations, companies have an important impact on the natural environment. In recent times, the corporate sector has been put into the media spotlight for environmentally problematic activities. Exxon Valdez in 1989, Shell Brent Spar in 1995 and Prestige in 2002 are some of the well-known examples of controversial company activities that caught the attention of the whole world.

Although environmental accidents could occur again in the future, the risks they represent for companies have increasingly pushed companies into adopting responsible behaviour which aims to limit the risks and avoid negative consequences. However, if companies fail to act in a responsible way, public authorities could be forced to introduce tighter rules.

It is mainly large companies which face such expectations. However, research has highlighted the fact that SMEs are also under increasing pressure to adopt environmentally responsible practices.

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<sup>1</sup> In this report, sustainable development was defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'



CSR is generally presented in the form of concrete actions. However, the studies conducted by the Foundation show that CSR is essentially a process. This process aims to create value and is implemented by a diversity of stakeholders, who will interact and develop strategies to achieve their objectives.

## A diversity of stakeholders, motives and expectations

### Main stakeholders

CSR involves a large number of stakeholders. The number of stakeholders involved change according to the issue. The contracts may be formalised and the representativeness of the partners recognised. Inside the company a long tradition of dialogue and negotiation has been established over the years, while outside the company a search for continued partnership has developed.

The stakeholders can be defined as groups or individuals who either influence or are influenced by a company's activity – in a positive or negative sense. The number of stakeholders and their type of involvement will vary according to the nature of the issue and their legitimacy, desire or capacity to act. They can also change over time.

Although the stakeholders interact within a certain framework, the relationships that bind them together are never completely fixed. Their attitudes and strategies change as different dynamics are put in place.

To lend structure to the variety of groups and individuals, a distinction between different categories can be made: for example, those who are involved in the social dialogue and those who are not; those who have a direct stake in the enterprise (primary stakeholders) and those who are only indirectly involved (secondary stakeholders); those who can express themselves (social stakeholders) and those who cannot – eg the environment or the future generations (non-social stakeholders).

Naturally, there are advantages and disadvantages for each of these groups. What follows here is a presentation of the main stakeholders encountered in the two research studies: it does not constitute in any way a hierarchical or exhaustive list.

### **Management**

The Foundation research shows that CSR initiatives are primarily, but not necessarily exclusively, a matter for management: it maintains control over the decisions. Although CSR includes a dialogue with all stakeholders, the company strategy and the underlying decisions remain the responsibility of the management, which occupies a central place.

In the companies surveyed, it was found that the management will act either out of conviction or strategy. In the first case, we are dealing with a dedicated management. This involvement can date back to the creation of the company or can be initiated at some point in the company's history.

In the second case, management acts in anticipation of or in reaction to events. It includes, for example, the wish to share more information with employees or their representatives at an early

stage, to enable them both to prepare for future changes and to contribute to developing the relevant systems.

The studies also highlight the difficulty of involving middle-management, the influence this could have on management, the fact that the manager is also partly or fully the owner of the company and the nature and the intensity of the relation that links the management to the shareholders.

### ***Worker representatives***

The CSR studies demonstrate that worker representatives tend to go along with the initiative rather than leading it. They also found that worker representative involvement is weaker when it comes to local community and the environment.

There are four main reasons to explain this position:

- Generally, workers representatives lack the necessary information, skills and means to promote CSR initiatives;
- They tend to observe from the outside and with a certain degree of suspicion – sometimes they have never heard of such initiatives;
- They are not in control of the decisions: they tend mainly to influence them;
- They are bound by a mandate given by the employees: this mandate aims to defend in the first instance staff interests.

However, the research shows that involvement of worker representatives can make a substantial contribution to the quality of the end result.

### ***Workers***

Workers can be involved in the CSR process, either through decisions or incentives from management or their representatives, or through their own decisions.

The Foundation research demonstrated that workers tend to be involved in particular in the local community. This can take different forms, for example, volunteering. In this case, the worker will dedicate one part of his or her working time to a specific project and the employer will usually pay part or all of the time used.

The research also reveals the fact that this can put the worker in a paradoxical situation. He or she can alternatively be a representative, a consumer or member of the local community. This could potentially reinforce or reduce his or her power of influence. For example, how can pressure be brought to bear on the company managing an airport in order to reduce its levels of air and noise pollution if at the same time they are employed by the airport?

### ***Public authorities***

According to the research, public authorities, whatever their level, are concerned by CSR in three ways:

- As a promoter of CSR: public authorities can contribute, for example, to creating a common framework, providing incentives or fuelling the debate;

- As a stakeholder, public authorities can be affected by initiatives taken by companies. Depending on the situation, they can either opt for a passive attitude or an active role;
- As an employer, public authorities can learn lessons from CSR for themselves.

### **Local community**

The concept 'local community' is not well defined, nor is there a common understanding of the term. The word 'local' indicates a frame of reference. However, the local community cannot be viewed in isolation from the global community.

The term 'local community' can be seen from three different angles. From an administrative perspective, local community could refer to the administrative unit the company is working with. A multinational, for example, with its European head office in Brussels and branches in the Member States could consider the European institutions as part of the local community for the Brussels office and the national institutions the local community for its national branches. From a corporate perspective, the local community could also be understood and delineated as the community where the enterprise operates. Finally, local community can be seen from a 'cluster' perspective. Clusters are local networks of firms and the supporting infrastructure of institutions and organisations that interact.

The Foundation research shows that the company's adherence to one or other of these three definitions depends on the situation and there is no one single definition which prevails. The concept of local community must therefore embrace a wide definition. The most challenging questions for a company *vis à vis* the local community are identifying the stakeholders in the local community, defining their expectations and making room for them to act. This does not prevent the stakeholders in the local community from making themselves known on their own initiative.

### **Suppliers**

The importance of the suppliers is particularly highlighted through the issue of subcontracting. The relationship that links a company (especially a big one) and its suppliers frequently reflects a balance of power. In this context, the onus is on companies to check if and to what extent their suppliers are acting in a responsible manner. Their role in the process is crucial.

### **Consumers**

The influence of buyers of goods and services produced by companies is potentially high. It is regularly referred to as the power they can exercise on the companies. However, due to asymmetry in the information gathered and in levels of technical knowledge and their capacity, desire and traditional inclination to mobilise, the studies show that the influence of consumers can vary greatly from real to virtual situations.

### **Motives for promoting CSR**

The Foundation research into CSR aimed to identify the main reasons why management promotes CSR.

Where CSR is concerned, there is always a combination of motives at work. In some cases, these are clear and deliberate, whereas in other cases they are more nebulous. The studies identified the following main motives for acting in a socially responsible way:

- Developing new products and markets: four different cases have been specially identified. First, CSR can result in the launch of a new product or service. Second, CSR can lead to the improvement of an existing product or service. Third, CSR can contribute to the creation of a new market for goods or services. Fourth, CSR can be used by companies as a 'learning laboratory' for innovation. This can take the form of partnership between computer companies and public authorities for the development and testing of new services.
- Image: CSR can be used to enhance the image of the company (pro-active approach) or to prevent it from potential deterioration (reactive approach).
- Appearing as an attractive workplace: CSR can be used to attract and/or retain a workforce sensitive to the ethical dimension. The company's involvement is used to strengthen the company culture and the skills of the employees.
- Smooth running of the company.

While there are other motives, they are not so often the basis for action. Differences can also exist in terms of time, space or according to the issue.

### Expectations of the stakeholders

It is easy to invite the companies to enter into a dialogue with their stakeholders. However, the reality is more complex. Research demonstrates that companies are faced with three major questions:

- Who are the stakeholders?
- What is their legitimacy?
- What do they expect?

First, the identification of stakeholders necessitates setting up mechanisms which allow the company to determine who is concerned by its activities and to what extent. Some stakeholders appear obvious, others are not. Priority among the stakeholders can also be given or a commitment to identify stakeholders can be curbed. Stakeholders can also greatly vary from one issue to another.

Secondly, in addition to identification of the stakeholders, the issue of their legitimacy must be raised. Do they act on their own initiative or at the invitation of the company? Do they act for themselves or to defend the interests of something or someone else? Is their legitimacy recognised or not by the company and/or by other stakeholders?

Finally, once the stakeholders are defined, expectations must be measured. Against this background, tools should be developed in order to help measure expectations both quantitatively and qualitatively. Tools could also help to prioritise expectations and examine to what extent they converge or diverge.

## Promoting sustainability and credibility

Today, despite a growing number of topics included under the CSR umbrella and the efforts of an increasing number of committed actors, CSR in Europe is at a crossroads. Economic uncertainties, the recent failures and breakdowns in accountability, the bursting of the high-tech bubble and other corporate misdemeanours have all undermined trust in companies, not only among investors but also among the general public and employees.

Furthermore, the negative consequences for companies of the economic downturn and the temptation to look inwards could undermine companies' willingness to adopt or reinforce CSR initiatives. This naturally argues in favour of the development of a sustainable CSR model that is part of business and not just at the periphery of it. In this way, it can serve equally in good and bad times. This necessitates reinforcing the commitment, openness and skills of the stakeholders to promote a dialogue based on trust, accountability, standards, and appropriate institutional support.

## Commitment and openness

The two Foundation studies show that the commitment of management lies at the heart of CSR. Depending on the particular situation, the nature and intensity of this commitment can contribute to initiating, supporting or hindering CSR initiatives. It can also motivate management to try and identify all the stakeholders and take them into account, even if this is not at first sight obvious. However, as we have seen, the motives and intensity of the commitment can vary greatly, and can be influenced by the personality of the manager or the fact that he/she is partly or fully the owner of the company.

Research shows that worker representatives are more committed in the area of working conditions than that of living conditions. However, their commitment can make a substantial contribution to the final result.

Furthermore, what companies are facing today is not a fixed universe of topics and issues to 'tick off' in order to be seen to be responsible.

The range of topics and issues is changing and companies are expected to keep up with the pace. The growing number of topics and issues should be viewed from both a more permanent and a dynamic perspective. On the one hand, the development of numerous international tools has provided a common frame of reference for general topics and issues as well as procedural guidelines. On the other hand, despite the development of this common frame of reference, the universe of topics and issues is dynamic and changing: new topics crop up, develop, change and sometimes ebb away.

This will require from all stakeholders, and not simply from management, the ability to remain open and attentive. It also requires the capacity to recognise the others as participative parties and to allow them to influence the process. The research points to the fundamental importance of considering CSR as a process accessible to all the stakeholders and the necessity to avoid any unjustified disqualification of stakeholders by other stakeholders which could distort CSR.

### ***The importance of skills***

Interaction requires a broad variety of skills from the different actors. These range from know-how to attitudinal behaviour. However, research shows that actors are often prevented from playing their roles properly because of a lack of skills and competences. Reinforcing these skills can have a positive impact on CSR.

### **Trust, accountability and standards**

A real dialogue can only be developed if it relies on trust, transparency and accountability. This implies enabling the various stakeholders to monitor and check implementation of the commitments entered into by the company.

Today many companies, especially SMEs, are still in an early phase of CSR practice. Some of them are still struggling with considerations such as what issues to engage in and how to develop responsible policies and practices within different areas of CSR. Others simply do not have the human, time and financial resources to report on their practices.

The methodological development within the field has provided companies with useful guidelines and tools aimed at increasing confidence, transparency and accountability. However, the fragmented and rather chaotic availability of codes of conduct, guidelines, charters, etc has also complicated the picture and raises a number of concrete and operational questions, such as how to approach the field, and which products to pick. It also raises more essential questions, such as the target range of coverage and, what level of ambition to aim for. These are important questions, especially in relation to SMEs, which have limited time and resources.

Today, more and more tools are being developed. The trend is to transform them into standards that could be written down so that they are recognised and can be reproduced in order to improve the social performance of the organisations to which they applied. This includes both auditable standards as well as broad guidelines, codes of conduct, charters, investment screening mechanisms and benchmarks. Standards by which organisations can be measured make it possible to compare and contrast levels of performance. Initially, the function of standards is to establish minimum levels of performance. They also help organisations to manage the quality of their processes or systems designed to manage impacts and processes. Over the course of time, the use of standards encourages, facilitates and mandates best practice. Within the field of CSR, most standards are of a voluntary nature.

Included under the umbrella of CSR-related standards are:

- Simple statements of principles that an individual company might (whether or not in alliance with other companies) subscribe to.
- Industry-led initiatives in which groups of companies collectively implement agreed codes of practice.
- International Organisation for Standardisation (ISO) and ISO style standards which are voluntarily adopted by companies and regulated by a system of third-party accredited bodies.
- International Labour Organisation (ILO) conventions that establish minimum performance criteria in terms of labour.

- Process frameworks that give guidance on demonstrating responsibility and accountability.

The various standards can broadly be grouped into four key ways of working:

1. Aspiration-oriented principles and codes of practice: guidelines, which provide broadly-agreed methods of substantive performance for companies but which lack external audit mechanisms. Some may include a self-reporting element (for example companies which sign up to the UN Global Compact, the Ethical Trading Initiative and the Global Sullivan Principles), while others are subject to external oversight either informally (as with the public monitoring of the WHO/UNICEF code by NGOs) or formally (as with the system of national contact points which try to resolve cases where breaches of the OECD guidelines are brought to their attention).
2. Guidelines for management systems and certification schemes: auditable guidelines for implementing, reviewing and external certification compliance with the standard. Some standards of this type are organisation-based (such as EMAS), some are site-based (such as SA8000) and some are product-based (such as the FSC criteria). These standards enable business to enhance its internal processes for CSR-related activities as well as establishing credibility with consumers or other user groups through certification or verification.
3. Rating indices typically used by socially responsible investment agencies: these are sets of criteria used by ratings indices and social investment funds to identify companies considered acceptable for 'socially responsible investment'. Individual funds have their own screens, and individual investors are able to choose the fund whose screens cover their own concerns. However, a recent development has been the independent social investment indices developed by the FTSE and Dow Jones companies.
4. Accountability and reporting frameworks: process guidelines which cover reporting and accountability mechanisms (such as AA1000S and GRI). These standards do not specify substantive levels of performance which must be met, but provide a framework for communicating and responding to stakeholder concerns in relation to social, environmental and economic performance.

Research shows that, depending on the issue, its nature and implications, it is more appropriate to develop tools at national, European or global-level. In the last case, synergies with international institutions can be considered.

### **Appropriate institutional support**

The method of consulting with stakeholders has been used for decades. It has been undertaken, for example, by marketing departments to develop focus groups with customers or personnel departments carrying out staff surveys. The methodology practiced in this 'traditional' type of stakeholder engagement is in some respects similar to the methods recommended in the 'modern' concept, stakeholder dialogue. However, stakeholder dialogue differs from the traditional approach in a number of respects.

First, the number of stakeholders involved. Traditional surveys have usually been limited to one or two stakeholder groups, whereas the modern counterpart involves all stakeholders. Second, the

traditional approach often has a more concrete and specific focus. Customer surveys are, for example, often conducted with a view to specific products rather than the broader values and performance of the company. Finally, the approach differs in regard to the requirement for disclosure. Traditional surveys have seldom been disclosed, whereas disclosure is a central part and requirement of the stakeholder dialogue process.

Today's practice of stakeholder engagement has been informed by earlier practical experience. One of these was 'constituency accounting', developed by Grey in 1973 (Gonella, Pilling and Zadek, 1998). Grey noted that traditional financial accounting was insufficient to address areas of social and ethical accounting. Companies needed to report on behalf of the main stakeholders (constituencies), either within or outside the company. Although there is limited evidence that this was taken up, this has recently become a core element in approaches to stakeholder consultation and dialogue.

Research shows the importance of creating a place and processes that permit the multi-stakeholder dialogue to thrive, similar to the structure that already exists for social dialogue, but without weakening the latter.

### **A broad range of economic, regulatory and cultural contexts**

Companies do not evolve in a vacuum. CSR is conditioned by regulatory and cultural contexts. The Foundation examined the existence and the importance of a link between these contexts and the development and character of CSR. While the studies reveal that a link exists, this is not an area that is systematically explored. However, it gives some indication of the importance of CSR in the different countries and of the possibility to promote a common framework.

The studies of the Foundation do not clarify definitively the link between the regulatory and cultural contexts and CSR. It is clear that this subject deserves more research. However, our studies show that the relationships between them and the social responsibility of companies are both complex and sometimes paradoxical. It is, for example, commonly assumed that CSR is negatively linked to the level of state intervention. In other words, the more the state carries out missions, the less companies develop CSR initiatives. Our research shows that the reality is more complex and that while the link can be negative, it can also be positive.

The economic situation has also been identified as an important factor for the diffusion and character of CSR throughout Europe. As already mentioned, CSR generally requires financial and human resources. Due to the fact that companies in wealthy regions have generally more resources, they have more opportunities to invest in CSR. Moreover, companies tend to focus on different objectives in accordance with the economic situation. Due to different economic situations prevailing in two regions of the same country, the report shows that in the more economically favoured regions CSR is more focused on stakeholder dialogue and CSR in general, while in the other region, companies will concentrate on more basic issues.

## The influence of company size and sector

The research shows that the presence of CSR is not related to the size of company. CSR can be encountered in small, medium or large companies. However, company size has an impact in four particular ways:

- While the terms of reference of CSR are not well known, this is particularly true in small companies where employees, employers or worker representatives have often never heard of the concept.
- Large companies are increasingly developing tools for reporting on their practices; often smaller companies do not possess the human and financial resources required to develop these tools.
- SMEs tend to manage their relations with their stakeholders in a more intuitive and informal way.
- The size can increase the capability to act. However, it increases also the visibility and, in a certain sense, the vulnerability. The main temptation would be to focus on the most visible dimensions, for example environmental and the commitment to serving civil society and local communities.

The research also shows that companies working in certain sectors are more exposed to negative reactions resulting from their activities than others. We think immediately of sectors common to all countries like energy, transport, chemicals and nuclear. Research points also to specific sectors like the timber industry. This can have an influence on a company's decision to adopt CSR initiatives.

## A variety of approaches

The modes of operation hereafter described can be considered separately or not. CSR is generally composed of a combination of two or more of them. Identifying them permits a better understanding of how CSR is implemented in a concrete sense.

### Fragmented versus systematic approach

A first approach suggests that, based on the implication of its stakeholders and the degree of formalisation of its CSR commitment, a company can be considered as working in a fragmented or systematic manner. It can be ranked in one of these four categories:

- The first group is made up of companies characterised by a low level of interaction with the stakeholders and initiatives, which are relatively peripheral to the core business and/or the interests of the company.
- The second group comprises companies characterised by the fact that their activities are relatively peripheral in regard to the core business interests of the company. However, the companies demonstrate a high level of interaction with the stakeholders;
- The third group is made up of companies characterised by the fact that they work with all the stakeholders but only on certain issues;
- The fourth group is made up of companies where all the stakeholders are connected to all aspects of its activities. Some companies have activities, which are closely related to the core activities and interests, but which are conducted in a more passive way.

### **Voluntary versus regulatory approach**

Case studies also point to the limits of a definition of CSR as being necessarily defined by its voluntary dimension: in some cases, it was clearly demonstrated that there was a causal link between the development of CSR practices and particular regulatory, legal or cultural contexts.

### **Centre versus periphery**

If we consider that the company is the nexus of explicit and implicit contracts with the management at the centre and the other stakeholders around management, we understand immediately that management has a unique situation.

This particular position gives management the advantage of being the most informed stakeholder and an actor that can not be neglected. However, it also gives management particular responsibilities, like always looking for a fair trade-off.

Management also plays a fundamental role in the nature of the dialogue the company conducts. It can promote a multitude of dialogues that exist in parallel or create bridges between them or even merge them and create a multi-stakeholder dialogue.

### **Pro-active versus reactive approach**

Both approaches exist. However, while the pro-active approach appears to be the most desirable, CSR initiatives are generally taken in reaction to a problem.

The need to react can be amplified by pressure exerted inside the company (trade union, employees, owners) or from the outside (consumers, suppliers, NGOs, associations, local communities, activists, public authorities, press...).

### **From dialogue to multi-stakeholder dialogue**

All our case studies describe the importance of dialogue. Traditional dialogue suggests the interaction between two parties.

CSR imposes a rethink of this dialogue. Three scenarios exist. First, a multitude of dialogues separated from each other are conducted. Secondly, a multitude of dialogues are conducted but links exist between part or all of them. Third, dialogue include a large number of interacting stakeholders and issues and becomes a multi-stakeholder dialogue. Each of these scenarios presents strengths and weaknesses but also opportunities and threats.

Furthermore, while CSR is often viewed as being selective and elitist, involving only a carefully selected network of persons, research shows that active and open dialogue with the stakeholders is essential to make CSR a success.

### **Learning by doing**

CSR covers new practices but it also goes back to old practices that continue to exist. Examples of this are certain forms of sponsorship and social benefits that are only modernised versions of a traditional form of paternalism, particularly within the large web of SMEs in Europe. The same is true of a type of CSR which dates back to a form of generalised social guardianship in the countries

of Central and Eastern Europe. Some aspects of this were practised before the 1990s. Thus CSR did not come into being in a vacuum.

At the same time, recent history teaches us that the process representing this concern by companies to incorporate into their decisions consideration of the interests of the stakeholders within and outside the company is not irreversible. It can just as easily extend to new subjects or shrink away.

Considering CSR not as a product or a state (being or not being socially responsible) but rather as a process (gradually learning what is involved in sustainable orientation of a company's management towards CSR) enables us to take a more realistic view of the subject, incorporating the time factor into the analysis and guarding against the excesses of enthusiasm or pessimism, traces of which are still apparent in the current debate on CSR.

The history of social relations from the beginning of the industrial era to the present day reminds us how lengthy, contradictory and interspersed with episodes of violence in the majority of countries was the process of constitution and then recognition of trade unionism as a player. A look at the forms social dialogue takes today in the various countries of the world also shows us the progress made to date and what remains to be done.

The development of new players will raise similar questions of recognition and representativeness, not to mention the essential (but often so difficult) creation of cooperation and trust between the various stakeholders. Without this, CSR would be deprived of its substance and its capacity to impact on reality.

It will be in the interests of the criteria for evaluating CSR to take account of this 'process' dimension of CSR in at least two ways:

- On the one hand, it seems reasonable to take account of the contexts in which companies are evolving, whether it is the national context (for example, not measuring the progress of the commitment to CSR in the candidate countries against the same yardstick as in the Member States) or company size (not expecting the same from SMEs as from large companies).
- On the other hand, there is a need to devote particular attention to tools capable of monitoring over time the progress of the efforts made by the company in the area of CSR and to promote the dissemination of good practice already put in place by the companies most advanced in this area.



If CSR is to be the fruit of a strategic and sustainable corporate commitment and not a temporary fashion fad, the question arises as to how its contribution to social and economic progress can be promoted, despite its limitations and weaknesses.

While a large number of proposals for the promotion of CSR could be made, seven in particular deserve to be highlighted.

## 1. Promoting a 'CSR-friendly' social dialogue

In the field of employment and working conditions, Foundation research suggests that successful CSR can only exist in conjunction with a strong social dialogue. However, it has also been shown that it is not easy for the traditional players in social dialogue to practise CSR.

Incorporation of CSR into the agenda of in-house social dialogue is still minimal – many information/consultation or negotiating procedures ignore it, or deal with it only at a marginal level, while at the same time the company is developing a significant quantity of CSR activities at management level. How can access to information for all on CSR be promoted, so that the existing social dialogue can expand to include these new dimensions?

Furthermore, as a result of decentralised production networks, recurrent restructuring, mergers and acquisitions, it is increasingly difficult for company boundaries to coincide with the boundaries of social dialogue, whether the latter takes place at company or sector level.

Social dialogue appears to face different options: first, it remains based on a binary model with two actors and two different logics, and appears to exclude any other parties. Second, a dialogue with other stakeholders could be developed in parallel to the social dialogue and bridges built between these dialogues. Third, it could be opened up to multiple logics, but then runs the risk of reducing employees and their representatives to one stakeholder among many, while workers see themselves as the parties most directly involved. The promotion of an expanded dialogue without weakening the traditional social dialogue is one of the major challenges in the development of CSR.

## 2. Rethinking the governance

'Governance' can be best understood as the rules, processes and practices that affect how powers are exercised. In relation to CSR, governance can be applied either at company or at society level.

To take company level first: as we said, CSR recommends taking on board a diversity of stakeholders and therefore a multitude of expectations. Taking them into consideration and organising the necessary processes would mean management adapting the way it works and making trade-offs between the different expectations.

However, management receives primarily its mandate from the shareholders. The question is therefore whether executives receive a real 'social mandate' allowing them to commit the company towards other stakeholders and under what terms? Judging by the importance of the personal commitment of managers to CSR, questions might also be asked about the future of these commitments, given the regular replacement of executives, changes made to the frontiers of the company, the shareholders or the terms of the commitment unilaterally.

Looking at society level: because the influence of the companies is not limited to their borders, applying CSR may also affect the way governance is exercised in society by involving companies in the local community in order that companies and society could benefit from a mutual enrichment.

### **3. Enabling the actors to play their role**

Skills and tools are important to allow stakeholders to play their role properly. However, today the acquisition of these skills by most of the stakeholders and the development of these tools is not sufficient to allow them to act efficiently. Research shows, for example, that the civil society has difficulties in playing its role, either because the actors and their expectations are not clearly identified or because their members do not have the necessary skills and resources to act properly.

Initiatives already exist aimed at helping the actors both inside and outside the company to play their role, and these could be reinforced. Examples would be helping the stakeholders to be more structured, more professional and hence more efficient, or creating appropriate institutional frameworks which permit stakeholders to meet and discuss CSR matters.

### **4. Promoting the internal as well as external aspects of CSR**

While the external aspects of CSR are important and tend to get a lot of attention due to their visibility, it is essential not to forget the internal aspects. In an economy of decentralised production and networking companies, issues around job quality and health and safety provisions and working conditions of the employees of subcontracting companies play a major role in CSR policies. Active policies with regard to the work safety of on-site subcontractors, or declarations of the social rights concerning the use of the European works councils agreement are examples encountered in the research illustrating the promotion of the internal aspects of CSR.

### **5. Intensifying the dialogue**

Active dialogue with the stakeholders is crucial for the success of CSR.

Instead of focusing only on consumers, the research shows that companies generally have a real interest in enlarging the focus to other stakeholders. A new way of doing business based on the management and dialogue with the stakeholders could be promoted.

Trust, transparency, internal and external auditing can create and foster successful dialogue and a sustainable corporate governance. Local municipalities and national governments, for example, have an important role to play in facilitating partnerships.

### **6. Fostering CSR among SMEs**

As mentioned earlier, smaller companies have little knowledge of what CSR is. They often do not possess the human and financial resources required, in particular when it comes to developing tools for reporting on their CSR practices. For the most part, they regard this prospect as an additional bureaucratic expense.

Moreover, companies employing subcontractors can have a strong influence on their suppliers by compelling them to standardise and label their practices, for example in the field of quality, safety and the environment, which could result in increased dissemination.

### **7. Promoting CSR as a tool to anticipate change**

The case studies of the working conditions project show that a pro-active, preventive approach to restructuring can be beneficial to all the stakeholders. Practices positioned in advance of restructuring can anticipate the effects on employees and prepare them for the coming changes. In this process, relevant prior information and consultation with the parties involved are a prerequisite for socially successful restructuring. It raises the question of how far socially responsible companies should commit themselves to that approach and which priorities could be used in this approach.



Over the past few years, the European Union has devoted considerable attention to defining a framework for corporate social responsibility and promoting it as a tool which can contribute to achieving the objectives of the Lisbon summit: 'to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'.

Despite considerable progress in this area, the parties involved tend to be of the opinion that an effort is still needed to increase knowledge about the positive impact of CSR on business, people and societies, not only of its underlying conditions but also its limitations.

This joint report, based on two separate studies devoted to CSR and drawing on the Foundation's long research experience of the relationship that links companies to society and its stakeholders, seeks to meet this demand.

By deconstructing CSR piece by piece, it attempts to offer a clear understanding of the different elements that make up the process, while aiming to provide the actors with the know-how they need to reconstruct it.

As well as promoting a better knowledge of CSR, the joint report pushes the debate further by formulating answers to the following question: if CSR is to be the fruit of a strategic and sustainable corporate commitment and not a temporary fashion whim, how can this commitment be consolidated to protect it from exposure to the many perils liable to hinder its realisation in concrete form?

This joint report demonstrates that the CSR adventure is only just beginning. Despite the commitments it demands, the weaknesses it conceals and the disappointments it can generate, CSR nevertheless presents definite strengths and can contribute to creating new opportunities and added value. This paper is intended to help the actors draw the most from the process, now and in the future, in order to contribute to the strategic goals of Lisbon.



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# Annex 1

## Summary of research into CSR in the area of working conditions

Research into CSR in the area of working conditions was carried out a consortium led by Université Européenne du Travail (UET), France, and also involving researchers in Belgium (CEDAC), France (ADUET), Germany (EIAB), and Hungary (MTK). The report, *Corporate social responsibility and working conditions*, was drafted by Jean-Pierre Segal, André Sobczak and Claude-Emmanuel Triomphe of UET.

The aim of the research was to contribute to a better knowledge of the ‘good practices’ voluntarily implemented by European companies in relation to employment and working conditions. The report describes, analyses and compares 12 case studies involving 12 European companies. The feature they have in common is that they deal with exemplary voluntary achievements carried out by European companies in the field of employment and working conditions, arising from the companies’ sense of corporate social responsibility towards the various parties involved.

The objective is twofold:

- First, to analyse today’s situations in a range of European companies from the point of view of evaluation criteria established by the promoters of corporate social responsibility. Each company is recognised locally as being particularly advanced regarding the employment and working conditions of their employees.
- Second, to analyse and compare current levels of awareness of corporate social responsibility among local actors, thereby aiming to contribute to anchoring in practical situations the debate now well under way in Europe.

### Methodology

The definition of CSR is the one given in the Commission’s Green Paper, which underlines in particular the voluntary nature of the corresponding practices, the fact that the company must go ‘beyond’ its strictly legal obligations and that its achievements must be accompanied by a desire to ensure transparency and the provision of information to the parties concerned. This definition was not used rigidly in the research, but as a means of interpreting the situations analysed in the field.

The cases were selected on a pragmatic basis. A range of companies in each of the four countries noted for the advanced nature of their employment practices and working conditions were identified. The companies offering the best access to the data in question within the time frame were selected. Although the research did not claim to summarise the variety of European situations in different countries, special attention was paid to the diversity of sectors, the size of the company and the national contexts.

Research into employment practices and working conditions opened up a broad area for study. It seemed advisable to focus on two issues in the context of this analysis:

- the management, both preventive and curative, of employment in the context of restructuring operations, a situation now familiar to companies engaged in the permanent process of adaptation of their structures to market requirements;
- the monitoring of working conditions among subcontractors, with whom most enterprises of a certain size work nowadays on a structural basis.

The transnational research team produced a joint set of questions aimed in each case at: describing the good practices, understanding the initial motivation, analysing the role played by the various parties involved, examining the implementation and monitoring methods and evaluating the added value of these achievements compared with ordinary practices. Each researcher was then given considerable autonomy in gathering the data in his or her field, using their access to the companies (interviews, analysis of documents and *in situ* observation). Lastly, the principle of plurality of sources of information, in keeping with the current spirit of CSR, was adhered to through interviewing both management and trade unions. Interim conclusions were produced concerning the responses and comments by the various parties involved.

### Structure of the report

The report consists of two parts:

- the first part takes the form of a summary which contains the main lessons learnt from the case studies as well as more general conclusions from the research;
- the second part starts with a comparison of the legal frameworks regulating the domains studied, followed by case studies in each one of the four national reports. It is prefaced by a presentation of the CSR debate in each country studied.

### Results of the case studies

There are six main points that emerge from all the case studies:

1. Many good practices relating to employment and working conditions in different contexts are described in terms of sector of activity, company size and institutional context. However, the results of the case studies are unequal in terms of scope. Many examples of good practices in the area of preventive and curative handling of restructuring have emerged, encouraged by public institutional measures and based on lengthy experience acquired in this field in the last few decades. The situation is quite different as regards monitoring employment conditions in the subcontracting network, an area in which there is much less awareness, in which the legislative frameworks are less obvious (theoretically leaving a wide margin for voluntary practices by companies) and in which good practices are rarer, less well known and less likely to be widely accepted.
2. There is a striking contrast between the current intense level of debate among experts on the implementation of CSR (around issues such as the type of indicators and monitoring procedures) and the scant practices of this type that can be observed at the moment. Moreover, the circulation of good practices between the parent company and its European (and *a fortiori* non-European) subsidiaries is still in its infancy. This comment touches on the delicate but crucial challenge of disseminating CSR.

3. What is regarded as 'socially responsible' practice varies considerably from one country to another. This has to do with differences in legal and economic situations, as well as with customs and standards of behaviour inherited from specific traditions. The Hungarian case study, in which voluntary maintenance by a company of minimum social protection takes the place of CSR, is exemplary in this respect. In Germany, the now well-anchored tradition of co-determination means that information and consultation of trade union partners is regarded as established practice, while in the United Kingdom this approach, left by law to the discretion of the employer, is regarded as 'socially responsible' behaviour by management. The reference in the actual definition of CSR to 'going beyond the law' has more than a little to do with this.
4. We did, however, observe a number of features shared by all the case studies examined. A responsible commitment by management always plays a major role, without any general reference to the concept of CSR, which is largely unfamiliar in the field. Unlike the 'socially responsible' practices that correspond to actions geared to the outside world, which generally involve communication with parties outside the company, practices relating to employment and working conditions are still mainly an in-house affair. These 'good practices' are generally restricted to the company's immediate confines and result from dialogue between management and trade unions. Few practices of this kind can be observed beyond these confines, for instance in relation to the transfer of good practice to foreign subsidiaries or subcontractors. The situation is in fact very unequal today as regards the awareness and active approach of local players in relation to these issues.
5. Trade union organisations, recognised partners in the in-company social dialogue, nevertheless appear to be behind the times as regards CSR, even though this concept is quite in keeping with their history and identity. Faced already with the problems which existing bodies in traditional social dialogue have in adapting to the frequent changes in the boundaries and shareholders of the enterprise, trade unions do not always have the necessary resources (e.g., training, networks) for developing an active strategy in this field.
6. The 'voluntary' nature of good practices in the field of employment and working conditions refers, under the Green Paper definition, to the fact that these practices are not, strictly speaking, legal or judicial requirements. This must not be understood as an expression of freedom, free from all contingencies. These good practices also correspond to a need by the company to adapt to its economic and social environment. This applies to large companies when faced with social emergencies locally (radical restructuring or occupational accidents) and to SMEs which must comply with guidelines imposed by companies placing orders with them.

## Main conclusions

1. Future expectations regarding the development of CSR in the fields of working conditions and employment

Good social management of economic restructuring cannot but benefit from earlier and broader involvement of the various parties concerned, including those outside the enterprise. More thorough implementation would permit monitoring that could be extended to include all the parties concerned and the commitments initially made as regards re-industrialisation and reclassification. This aspect, leading to reasoning that is based more on ensuring the security of employees'

professional careers, is strategic in the current economic climate, which is marked by recurrent restructuring.

The question of the 'responsible monitoring' of subcontracting relates not only to the observance of international standards relating to employment and working conditions. It also refers to the type of partnership to be created between companies placing orders and subcontractors, so that the former do not limit themselves to transferring their responsibilities to subcontractors, but give an undertaking to help them improve their practices. Given the extent in structural terms of co-contracting and subcontracting in the manufacturing sector, this is a substantial challenge. It also raises the delicate question of how far a socially responsible company should commit itself to this approach and what priorities could legitimately be used to guide this approach.

## 2. CSR and company governance

Judging by the importance now of the personal commitment of managers to CSR actions in the field of employment and working conditions, questions naturally arise as regards the future of these commitments, given the regular replacement of executives and the frequent changes made to company confines and shareholders. The question is whether executives receive a real 'social mandate' from their shareholders or whether they act of their own accord. Questions might also be asked about the level of awareness at intermediate hierarchical levels: managers at this level are rarely trained in this area, and are also rarely viewed as essential partners in terms of receiving institutional messages aimed mainly at external parties.

## 3. CSR and trade unionism

Trade unions are now confronted with a strategic choice. Should they become actively involved in company initiatives aimed at other parties located outside the company? Or should they, on the contrary, defend their achievements and remain on the sidelines? Other questions that arise from the research are: What initiatives must they take as regards other parties in order to consolidate their position in the new configuration that might come into being with the strengthening of CSR? How can they develop a collective debate on an emerging issue when there are already so many other issues on the agenda and when their own representatives have for the moment only limited information on this matter? It is clear that national and European information and consultation bodies could play an increasingly important role in this domain in future.

## 4. Practices, procedures and implementation of CSR

A broad debate has started on the question of implementing CSR. Many parties agree on the importance of having a 'standardised' set of indicators and/or procedures to produce valid and comparable evaluations of the 'socially responsible' behaviour of companies. Opinions on other issues sometimes diverge, for instance on the question of an acceptable level of implementation in SMEs and the independence of social rating agencies. A glance at the situation in the field today shows, in particular, that players have a low level of information regarding CSR, and that the implementation of good practices is very limited, to say nothing of the lack of dissemination of these methods within the groups where they have started to emerge. This leads us to ask whether the experts' timetable is not somewhat in advance of that of the actors. CSR should be viewed as a long-term process, currently in the fragile chrysalis phase, and requiring both methods to develop it and actors trained to direct it; it represents also a proliferating mosaic of practices and procedures that need to be standardised.

# Annex 2

## Summary of research into CSR in the area of living conditions

Research into CSR in the area of living conditions was carried out a consortium led by Oxford Research A/S, Denmark, and also involving researchers in France (Arese), Italy (CerFE) and the UK (AccountAbility). The report, *Corporate responsibility towards society: a local perspective*, was drafted by Kim Møller and Trine Erdal of Oxford Research.

The report brings into focus the responsibility of companies regarding the local community and the environment. Forty case studies of both small, medium sized and large companies were carried out in nine European countries (Belgium, Denmark, France, Germany, Ireland, Italy, Spain, Sweden, and the UK) throwing light on the motives, policies, practices and experiences of CSR activities.

The topics 'environment' and 'local community' are interesting insofar as they are among the 'oldest' topics on the CSR agenda and as such have a history which makes them suitable for analysis. In the case of corporate environmental responsibility, the history dates back a couple of decades, and in the case of corporate responsibility towards the local community practices date back several centuries.

The topics are very different in nature. Development of the environmental agenda has been buttressed by legislative initiatives, guidelines, tools and standards, which have contributed to creating a framework and formalising the field. In contrast, responsibility towards the local community is relatively unregulated and the field embraces a wide variety of different types of activities. The case studies have revealed a diverse picture of companies' involvement in the local community. But what is the local community and how should it be delimited?

### The concepts in focus

#### Local community

The concept 'local community' is not well defined, nor is there a common understanding of the term. The concept runs across the traditional division of the field of CSR under the three main 'umbrellas' of social, environmental and economic responsibility.

Different perspectives can be used to understand and interpret the 'local community':

- *Administrative perspective*: this takes its point of departure in administrative units. Such a definition could be relevant, for example, in cases where enterprises enter into partnerships with municipalities around issues of common concern.
- *Corporate perspective*: this is understood as 'the communities where the enterprise operates'. Such a definition of local communities would follow the division of responsibility inherent in the organisational structure of the corporation.
- *Cluster perspective*: some of the fundamental concepts underpinning cluster theory (trust, information sharing and the ability to network) can be used to explain company initiatives arising in the local community.

The definition of local community used in the research makes room for all the above-mentioned perspectives. A dynamic, but essentially geographic, approach to the identification of cases has been used, i.e. the geographical location of the company's facilities has been used as point of departure. This methodological approach implies in some cases that the administrative perspective characterises and delimits local community activities, whereas in others, company activities are explained by using the corporate or cluster perspective.

### **Environmental responsibility**

This is by its very nature global due to the transboundary effect of environmental issues. However, corporate environmental responsibility takes its point of departure in the companies, i.e. in the locality, through the concrete policies and practices adopted and the environmentally-related activities carried out in the local community.

The topics – local community and environment - are united in the external stakeholder perspective: the perspective of the local community.

### **Local community activities**

By virtue of their business activities, companies have an impact on the communities in which they operate, basically through the employment of people and the production of goods and services, which might involve sourcing from local suppliers and selling to local customers. However, many companies interact with the communities in which they operate in a number of ways not directly related to the traditional operational aspects of running a business, notably in the areas of education and training, environment, sport and culture, health and welfare and deprived groups.

### **Motivation**

A combination of factors often motivates companies to engage in local community initiatives. Motives will often comprise a mixture of the wish to obtain business benefits, on the one hand, and non-commercial or value based reasons on the other. The latter motivation is often termed the ethical or normative rationale, which is basically founded on the fact that business managers are people with personal values and attitudes like everybody else, rather than 'profit-driven machines'.

The motives of companies are in some cases very clear and deliberate, whereas in others they are more nebulous. The case research has identified a variety of different rationales for involvement in local community activities. The different rationales are listed below:

- *Awareness of impact:* companies being aware of the responsibilities that stem from their impact as a relatively large company in a relatively small community.
- *Decency and visibility in the local community:* companies viewing their responsibility basically as a question of decency linked to the fact that the company is visible in the local community.
- *Compensating for 'scarcity' in local access to infrastructure and resources:* companies 'filling a gap' between the needs of the company, on the one hand, and scarcity in the local supply, on the other.

- *Building 'good will' in the local community:* companies needing or wishing to create good relationships with the local community in order to pave the way for the smooth running of business operations.
- *Enhancing image:* companies which are motivated by the wish to enhance the reputation and image of the company.
- *Strengthening company culture and employee skills:* companies using community involvement as a strategic means to strengthen the internal company culture and social skills of employees.
- *Appearing as an attractive workplace:* Companies wishing to appear as an attractive workplace in order to attract and maintain qualified and committed employees.
- *Developing new products and markets through involvement:* companies using their involvement in the local community to develop and test new products or markets (using the community as a 'learning laboratory' for corporate innovation).

### Approaches and activities

Different approaches to local community involvement have been identified among the companies surveyed.

1. *'Traditional' philanthropy:* Some companies donate money or equipment through community activities, which are relatively peripheral to the core business activities and interests of the company and which are conducted in a more arm's length way. These types of activities could be equated with philanthropy in the traditional sense.
2. *Peripheral involvement:* This approach is characterised by the fact that the activities carried out by the company are relatively peripheral to the core business interests of the company. However, the company demonstrates a high degree of involvement in the local community. This type of involvement includes active partnerships with local institutions linked around, for example, product and service donations, etc.
3. *Strategic sponsorships/donations:* Companies which engage in activities of central importance to their core business activities and interests will often be more involved. However, some companies have activities which are closely related to the core activities and interests but which are conducted in a more passive way. Strategic sponsorships are an illustrative example of this type of community-giving.
4. *Strategic involvement:* represents the most comprehensive and advanced form of community involvement. Companies adopting this strategy combine activities linked to core business operations with a high degree of company involvement in the activities being carried out.

Illustrative examples of companies' initiatives within the field of community-giving could be found under each of these four different approaches. Furthermore, company initiatives within the field of employee volunteering show activities of both a peripheral and strategic character. Employee volunteering has traditionally been most common in the United States but the approach is now spreading in many European countries. Where large companies may have led the way in employee volunteering programmes, smaller companies now also have activities within the field.

Employability has become a central issues on the European Union agenda. The adoption of the European Employment Guidelines (EEG) in 1997 aimed at encouraging Member States to take a common action towards employment-related issues. The participation of the corporate sector in working for these objectives is seen as crucial. The companies surveyed in this report have taken initiatives of both individual (e.g. the integration of refugees and employment of physically challenged people) and collective character within the field (e.g. the establishment of regional networks aimed at preventing exclusion from the labour market). Also, cases have been found illustrating company initiatives related to the fields of adaptability and equal opportunities.

### Effects, benefits and reporting

Measuring or demonstrating a relationship between ‘input and output’ or ‘cause and effect’ in standard business terms is difficult and seldom practiced. The business case perspective is not strongly represented in the 40 case studies. The report points to the fact that in order to build a business case for CSR, companies need first to view their involvement in the local community as an asset to be managed, and second to measure the effect of their activities. The case research points to the fact that the companies are often very aware of the fact that their activities bring a number of benefits of both an internal (increased employee motivation, development of skills, company culture, etc.) and external character (‘license to operate’, better employee recruitment, etc.). However, very few companies can actually prove the effects.

The field of reporting is generally characterised by a high degree of diversity in the communication methods of the company (e.g. web information, social or thematic reports, stakeholder consultation, etc.). Very few of the companies surveyed have officially reported on their engagement in the local community. Some of the larger companies have reported on their activities in their annual or sustainability reports. However, formal reporting seems to be limited to the largest companies surveyed. Few of the SMEs have made a written report of their activities. SMEs in particular, but also larger companies, have made use of alternative communication methods to inform about their community involvement, e.g. websites, stakeholder consultation, etc. There are standards available within the field, e.g. the model developed by the London Benchmarking Group, the ‘standards of excellence in community relations’ developed by the Boston College Centre for Corporate Community Relations and the ‘principles of corporate community investment’ developed by Business in the Community.

### Environmental activities

During the past two decades, we have witnessed an increasing awareness and concern about the environmental impact and consequences of economic growth and development. This increasing awareness, combined with the increasing global exposure of companies’ environmentally problematic activities in the media, bear witness to the fact that the environmental expectations *vis à vis* companies have changed. Companies are increasingly expected to be accountable for the environmental impact of their business activities and to demonstrate and communicate responsible behaviour.

### Motivation

The rationale behind companies’ involvement can be polarised into two approaches: a more reactive or defensive approach at the one end of the spectrum, and a more pro-active and strategic

approach at the other. Both types of motive can be found in the companies surveyed in this report. The rationales behind environmentally responsible initiatives identified among the cases surveyed are:

- Responding to regulatory initiatives;
- Responding to community concerns;
- A wish to be ahead of legislation;
- Dedicated owner/manager;
- Awareness of importance to and impact on the local community;
- Image and/or competitive advantage.

Some of the rationales identified are, by their nature, equivalent to the motives behind a company's involvement in local community issues. However, the regulatory framework surrounding the environmental field clears the field for rationales related to either the need to respond to, or the wish to be ahead of, regulatory initiatives. The personal conviction of the owner/manager is in some cases found to be the most important explanatory factor for involvement. Finally, some companies have been motivated by concerns in the local community over business operations. Regarding the latter, the involvement of the company can be linked to the need to facilitate ordinary business operations.

### **Approaches and activities**

What characterises many of the environmental cases surveyed is that whatever the point of departure, once 'the environmental road' has been chosen, companies develop and build their environmental responsibility step by step towards still more advanced levels. In contrast to the field of social responsibility, the environmental field is both far more regulated and also offers a number of more established and commonly recognised management tools such as the ISO 14000 and EMAS.

Some of the Scandinavian companies surveyed have climbed up the certification ladder from ISO 14000 to EMAS and in some cases further. Others are gradually building their environmental responsibility through what could be termed as the 'household model', defining and developing their own approach or management system. Regarding EMAS certification, the statistics point to a difference in the percentages of certified companies per 1000 inhabitants with relatively high percentages for Austria, Germany and the Scandinavian countries compared to relatively lower percentages for a number of central and southern European countries.

External engagement activities are found to be a central part of some companies' environmental responsibility. The case research showed examples of companies engaging in formal as well as informal stakeholder dialogue with the local community around the environmental aspects of business operations. Companies having activities that are perceived as environmentally problematic will often be engaged in or enter into dialogue with groups in the community with the aim of facilitating ordinary business operations.

Another type of environmental responsibility in the local community has been found in the case where companies are seeking to promote awareness about environmental responsibility in their local community. The methods adopted are often similar to the methods used in other types of local community involvement.

### **Effects, benefits and reporting**

The development of indicators and tools to measure the environmental impact of company activities makes the business case for environmental responsibility stronger. The adoption of environmental management systems implies a mapping of the environmental impact of production processes. This provides an overview on the basis of which current improvements can be made. Several companies thus report that they have obtained operational cost savings through environmental efficiency measures. However, companies have also reported a number of other benefits of a more intangible nature related to their environmental activities, such as the important role of employees, environmentally related innovations and more generally obtaining better relations to the local community.

Some, but far from all, the companies surveyed have formally communicated or reported on their environmental engagement to an external audience. Some companies use public communication as an operating tool instead of systematically releasing public reports. The main communication axis for these companies remains the contact with the local community. Most of the certified companies produce formal reports.

### **The context**

The case research carried out in this report has revealed a multifarious picture of company activities within the field. The many different initiatives adopted vary both in their rationale, the method used, the context in which they are carried out and in their degree of advancement. Regarding the latter, the initiatives of the companies surveyed can be viewed in a three-generation perspective illustrating the extent and degree of formalisation of companies' CSR activities.

First generation companies are characterised by the fact that their engagement in CSR is of a partial and relatively unsystematic character.

Second generation companies are characterised by the fact that they have adopted a partial approach, in the sense that they have worked systematically with some aspects of the CSR agenda such as their environmental responsibility. Other parts of the agenda might be approached in a more unsystematic and ad hoc way.

Third generation companies are characterised by the fact that they have a more strategic, systematic, formalised and 'all round' approach in their CSR activities. They view their CSR activities as a necessary investment in order to nurture their competitiveness in the long term. The systematic approach provides insight into and an overview of social and environmental aspects of their business operations. Third generation companies will deepen their relationship with stakeholders in order to respond to the social, ethical and environmental values of importance to their key stakeholder groups.

## From welfare state to welfare society?

Company initiatives do not evolve in a vacuum. Rather, a wide range of local, national and global characteristics, trends and developments impact on the development of a company's CSR activities. The report explored the connection between the development and character of CSR and the different welfare models in which they are being carried out. Notwithstanding the fact that some connections can be identified in the cases researched, the picture emerging from the individual case studies is fragmented and does not constitute a basis for making more general conclusions. Moreover, making causal relations between national CSR activities and welfare systems can be problematic.

The report points to the fact that the diffusion and character of CSR activities are dependent on far more than the structure of the national welfare states. Size and industry structures of the national business sectors, the role of governmental and CSR organisations, current economic development trends, the regulatory framework, local business traditions, role models, and exposed cases of corporate behaviour all have an important impact on the development of the agenda.

Rather than reflecting certain welfare state models, CSR could be said to exceed the aspirations of the classical welfare state. CSR could express the idea that social welfare is not solely the concern of the public sector, but also the responsibility of the business sector and civil society. Viewed in this way, CSR could represent the transformation from welfare state to a welfare society, in which societal players other than the state could contribute to the development of welfare.

### A European policy perspective

This perspective is reflected in the European Commission's appeal to businesses to voluntarily embrace the CSR agenda. The EU, for its part, is committed to fully integrating economic, social and environmental considerations, as well as fundamental rights including core labour standards and gender equality, into its policies and actions.

At the European level, the CSR concept became closely related to the new strategic plan for Europe 2010, launched at the Council Summit in Lisbon. CSR is seen as an important contribution to achieving the strategic goal of becoming 'the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater cohesion'. Business leaders in Europe subsequently took up this strategic plan in the form of a campaign that focuses on CSR: 'European Business Campaign for Sustainable Growth and Human Progress'. CSR has been on the European political agenda at the subsequent European Council meetings in respectively Nice, Stockholm and Gothenburg. A green paper, 'Promoting a European framework for CSR' was published in the summer 2001 and this was followed by a communication launched in July 2002.

The 2002 Communication is addressed to the European institutions, Member States, and social partners, as well as business and consumer associations, individual enterprises and other concerned parties (European Commission, 2002b). The Commission proposes to build its strategy to promote CSR on a number of principles as follows:

1. Recognition of the voluntary nature of CSR;

2. Need for credibility and transparency of CSR practices;
3. Focus on activities where Community involvement adds value;
4. Balanced and all-encompassing approach to CSR, including economic, social and environmental issues as well as consumer interests;
5. Attention to the needs and characteristics of SMEs;
6. Support and compatibility with existing international agreements and instruments (ILO core labour standards, OECD guidelines for multinational enterprises).

Components of the Action Framework will focus on seven key areas:

1. Increasing knowledge about the positive impact of CSR on businesses and societies in Europe and abroad, in particular in developing countries;
2. Developing the exchange of experience and good practice on CSR between enterprises;
3. Promoting the development of CSR management skills;
4. Fostering CSR among SMEs;
5. Facilitating convergence and transparency of CSR practices and tools;
5. Launching a Multi-Stakeholder Forum on CSR at EU level;
6. Integrating CSR into Community policies.

The case studies surveyed in this report feed into different aspects of this action framework, with regard to increasing knowledge about the impact of company activities, the exchange of experiences, the characteristics of SMEs, etc. The case studies provide the opportunity to explore the variety and specific characteristics of companies' activities in the local community. As such, the findings can contribute to enrich the knowledge about the current interpretation of a concept, which runs across the traditional division of CSR into three main 'umbrellas' of social, environmental and economic responsibility.

European Foundation for the Improvement of Living and Working Conditions

**Towards a sustainable corporate social responsibility**

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*Nowadays there is increasing discussion about a company's 'social responsibility'. What are the obligations and who drives the process? What is the link between corporate social responsibility (CSR) and competitiveness? To contribute to the current debate, the Foundation launched two studies. One highlights CSR initiatives in the area of working conditions, the other in the area of living conditions. This report presents a synthesis of these two studies. It first defines what is meant by CSR and shows how the process impacts on four different issues: restructuring, subcontracting, the local community and the environment. It pinpoints the various factors and approaches that influence the implementation of CSR policies and looks at the motives and expectations of the chief stakeholders. Despite limitations in the process to date, the report reveals the positive contribution CSR can make to creating new opportunities and concludes with proposals for future action in this field.*

The European Foundation for the Improvement of Living and Working Conditions is a tripartite EU body, whose role is to provide key actors in social policy making with findings, knowledge and advice drawn from comparative research. The Foundation was established in 1975 by Council Regulation EEC No 1365/75 of 26 May 1975.

