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Significance of the CSR debate for sustainability and the requirements for companies

Summary

Project partners:

future

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Objectives of the study

The EU started work on the development of a political concept to promote corporate social responsibility (CSR) in 2000. Neither this process nor the ongoing international research into CSR have attracted much attention in Germany so far, but this now seems likely to change, given the growing momentum of the EU process and the increasingly international orientation of many German companies. The research project "Significance of the international debate on CSR for sustainability and the resulting requirements for companies and, in particular, corporate reporting" was initiated to examine the issues related to CSR in the context of Germany. Key research questions included the nature of the relationship between CSR and sustainable management, how CSR, corporate citizenship (CC) and sustainable management can be distinguished, and whether the development of the CSR process entails any new obligations for companies.

The history of the CSR concept

The structure of the economy in the countries we now refer to as industrialized changed fundamentally around the end of the 19th century. Large enterprises representing a significant concentration of power began to emerge while smaller regional companies became less significant. It was the great significance and reach of these new companies in society that first put the issue of the corporate responsibility on the public agenda. Some of the more philanthropic entrepreneurs behind the emerging enterprises responded positively to the questions asked of them and began to improve the situation of their employees by building accommodation and enhancing working conditions.

The classical laissez-faire economic model remained dominant until around 1930, when it was replaced by a new system in which the state assumed a more active and critical role. This caused companies to engage in new activities intended to improve working and living conditions for employees, for example, or facilitate social progress. Anticipative strategies such as the well-known program that led to the foundation of a large number of libraries in the USA enabled companies to build up col-laborative relationships with the local authorities and thereby create a level of social stability that was all but unimaginable in Europe during this period [CARROLL 2003].
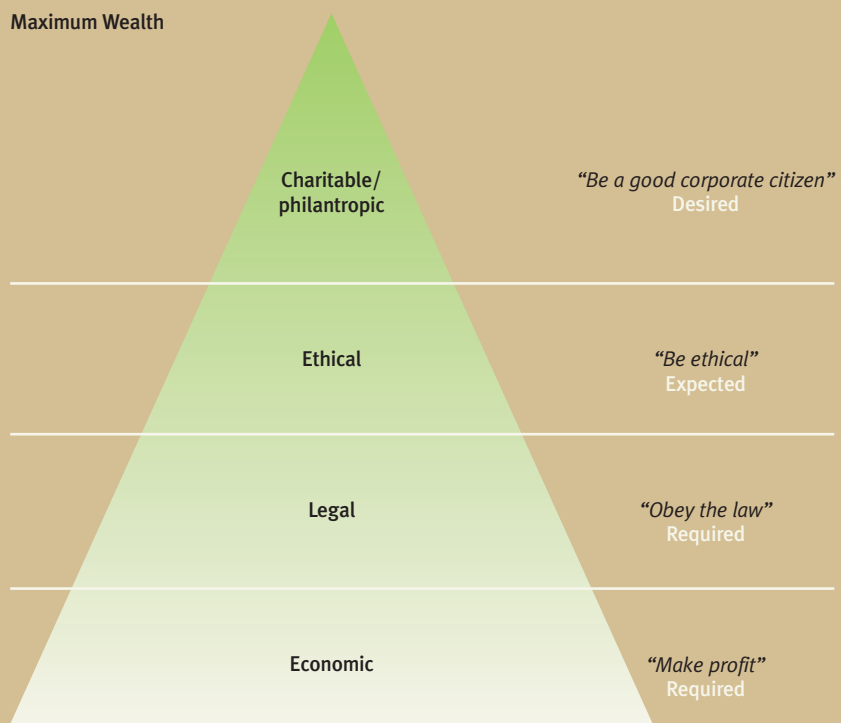
The intellectual CSR debate in the USA

The intellectual debate on social responsibility began in earnest in the USA in 1950 and the first major work on the subject, Bowen's *Social Responsibilities of the Businessman*, appeared in 1953. Starting with the observation that the economy influences the life of citizens in many areas, Bowen's investigation into the obligations of companies concluded that a company's social responsibilities have to reflect the expectations and values of society. Initially it was a company's owners who were expected to discharge its responsibilities, but over time the emphasis changed and the focus shifted to the consequences for society of the actions of the company as a whole.

Davis [1967] attached little importance to the individual interests of people or companies and suggested instead that the total benefit to society resulting from the use of the means of production was the most important factor.

The four theoretical CSR models

Four models (CSR_1 to CSR_4) constitute the milestones of the intellectual debate on CSR [WADDOCK 2003; FREDERICK 1992]. CSR_1, which remained prominent from 1960 until the late 1970s, views companies as an element of society with corresponding obligations and responsibilities and contends that since they make use of non-monetary social benefits, they should also show themselves to be responsible agents in society and heed the consequences of their actions on society for ethical reasons. This construct effectively established the CSR idea and is the foundation on which subsequent concepts are based.

FIGURE 1: LEVELS OF SOCIAL RESPONSIBILITY [SOURCE: CARROLL 2003]

Maximum Wealth

Charitable/
philantropic

"Be a good corporate citizen"
Desired

Ethical

"Be ethical"
Expected

Legal

"Obey the law"
Required

Economic

"Make profit"
Required

The next significant step came with the recognition of the fact that companies that accept and embrace these responsibilities are able actively to shape their relationship with society. This exerting of influence by companies on their social environment came to be known as corporate social responsiveness (CSR_2, first discussed in the mid-1970s). CSR_2 presupposed internal analyses, targets and planning processes, which shifted the focus in subsequent development activities onto the actual, demonstrable achievements of the company (its corporate social performance or CSP) and the issue of how to measure them. The CSR_3 and CSR_4 concepts did not appear until the 1980s and 1990s. CSR_3, corporate social rectitude, addresses the integration of ethical issues into central corporate decision making, while CSR_4, Cosmos, Science and Religion, attempts to put the significance of individual companies into perspective and stresses the importance of natural science and meaning for the development of society's institutions. Thus far, however, the ideas and concerns raised by CSR_3 and CSR_4 have failed to gain any significant foothold in either the intellectual debate or general corporate practice [WADDOCK 2003].

CSR and international standardization

In June 2004, a conference convened by the International Standardisation Organization in Stockholm discussed whether CSR should become the subject of an international standardization process [ISO 2004]. The majority of delegates spoke out in favour of the development of guidelines, culminating in an ISO resolution to commence work now [ISO 2004A]. Long before the conference, Germany's standardisation organisation Deutsches Institut für Normung (DIN) had expressed its opposition to standardization efforts in relation to CSR. Since then, the subject of CSR has been with DIN's "Security Commission". In light of current developments, DIN's position remains open (as at 30.6.04).

The European CSR process

The UK was for a long time the only European country to pick up the CSR approach. The European Union (EU) started to develop its own concept of CSR in 2000/2001 in line with the strategy adopted in Lisbon in 2000. Also known as the Lisbon objective, this strategy calls for the EU, "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" by 2010 [EUROPEAN COMMISSION 2001C:2]. The EU's strategy for sustainability is also tied in to the Lisbon objective. Published in 2001, the sustainability strategy identifies CSR as an important contribution to be made by business to a sustainable economy and it is this position that underlies the political drive to promote CSR [EUROPEAN COMMISSION 2001C].

EU Green Paper on CSR

The EU's first major publication concerning CSR, the Green Paper *Promoting a European Framework for Corporate Social Responsibility*, also appeared in 2001 (EUROPEAN COMMISSION 2001B). The official title of the German version of the document gives particular emphasis to the social aspect even though it is clear from the content of the Green Paper that the EU's definition of CSR places equal weight on societal and ecological activities. The European Commission did not intend to attach special emphasis to what might be termed the social pillar of sustainability in this context.

An initial phase of consultation followed the publication of the Green Paper and the results are summarized in the European Commission's 2002 *Communication Corporate Social Responsibility: A business contribution to Sustainable Development* (EUROPEAN COMMISSION 2002B).

Interpretation of CSR

Being socially responsible, in the eyes of the European Commission, "means going beyond compliance and investing more in human capital, the environment and relations with stakeholders" [EUROPEAN COMMISSION 2002B:3]. The Commission places particular emphasis on the importance of integrating CSR permanently into corporate governance and establishing corresponding principles and objectives. These principles and objectives, it stresses, must be carried over into strategy development, investment planning and general day-to-day activities. The Commission also stresses the significance of reporting, audits and labeling schemes in this context and discusses the role of environmentally and ethically sound investments (social responsible investment or SRI) as important drivers for CSR.

The European Commission believes that few existing standards and guidelines span the full breadth of CSR and recommends a global debate on reporting in order to evolve a global consensus on "the type of information to be disclosed, the reporting format to be used, and the reliability of the evaluation and audit procedure".

The European Multi-Stakeholder Forum

The Commission continued the consultation process in 2002, during which it set up the European Multi-Stakeholder Forum on CSR (EMS Forum) [EUROPEAN COMMISSION 2002B]. Charged with supporting information sharing on CSR between experts and interest groups and developing recommendations to promote CSR, the EMS Forum represents the first broad-based political process initiated to develop a common understanding of sustainable management matters within Europe. Industry associations, trade unions, environmental and social NGOs and

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consumer protection organizations are all represented in the Forum. Representatives of the EU and organizations active in the area of CSR (such as the OECD and ILO) have observer status. The EMS Forum was first convened in 2002 and will complete its work in summer 2004.

The participants in the EMS Forum work on two levels: High-level meetings are held to determine the organization's direction, procedures and agenda and compile interim results, but the actual sharing of information and experience takes place in four Round Table working groups (Table 1).

A working group comprising national representatives on CSR (the High-Level Group of National Social Representatives on CSR or CSR HLG) was set up alongside the EMS Forum in an attempt to ensure systematic knowledge sharing between the Member States and the Directorate-General (DG) for Employment and Social Affairs, which is responsible for CSR matters within the EU [EUROPEAN COMMISSION 2003G]. This body consists exclusively of staff delegated from the ministries responsible for CSR in the various Member States.

Assessment of the European CSR process

The European CSR process has led to an intensive debate concerning the potential contribution of business to sustainable development. The systematic exchange of views and knowledge between the interest groups at European level has revealed both, the common ground and where the differences lie. A common understanding as to which social and ecological sustainability problems can be influenced positively by companies and their operations is emerging.

Although the exchange of information was sucessful the EMS Forum's self-restriction on consensual issues calls the impact of the process into question. Critical issues like the development of an ISO-Standard to CSR or a mandatory reporting could not be discussed systematically.

Round Table	Topics
Improving knowledge about CSR and facilitating the exchange of experience and good practice	■ Overview of how definitions of CSR vary across different cultures, companies and industries ■ Presentation of three initiatives to integrate CSR into companies ■ Identification of CSR processes that can help companies in complicated situations
Fostering CSR among SMEs	■ Significance of CSR for SMEs ■ Presentation of three genuine examples from the SME sphere ■ Opportunities for promoting CSR in SMEs
Diversity, convergence and transparency of CSR practices and tools	■ Ensuring that CSR practice and instruments remain credible and transparent ■ Benefits, success factors and obstacles ■ Specific issues addressed: labeling, codes of conduct, environmentally and ethically sound investment (SRI), reporting
Development aspects of CSR	■ ILO standards ■ CSR and responsibility for suppliers ■ Combating corruption and graft ■ Fighting poverty ■ CSR management and economic, social and ecological consequences in developing countries

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The CSR debate in Germany

Germany lacks the long tradition of CSR familiar from the Anglo-Saxon economies. The emergence of the European CSR strategy and the increasingly international outlook of German companies, however, have raised the profile of the CSR concept and while the CSR debate in the country is still in its infancy, the associated issues are now being examined and incorporated into the relevant fields. There is still a pronounced tendency in Germany to look at CSR as the 'social pillar' of sustainability, which is a far narrower definition than that used by the EU and imposes inappropriate limits on the scope of the debate.
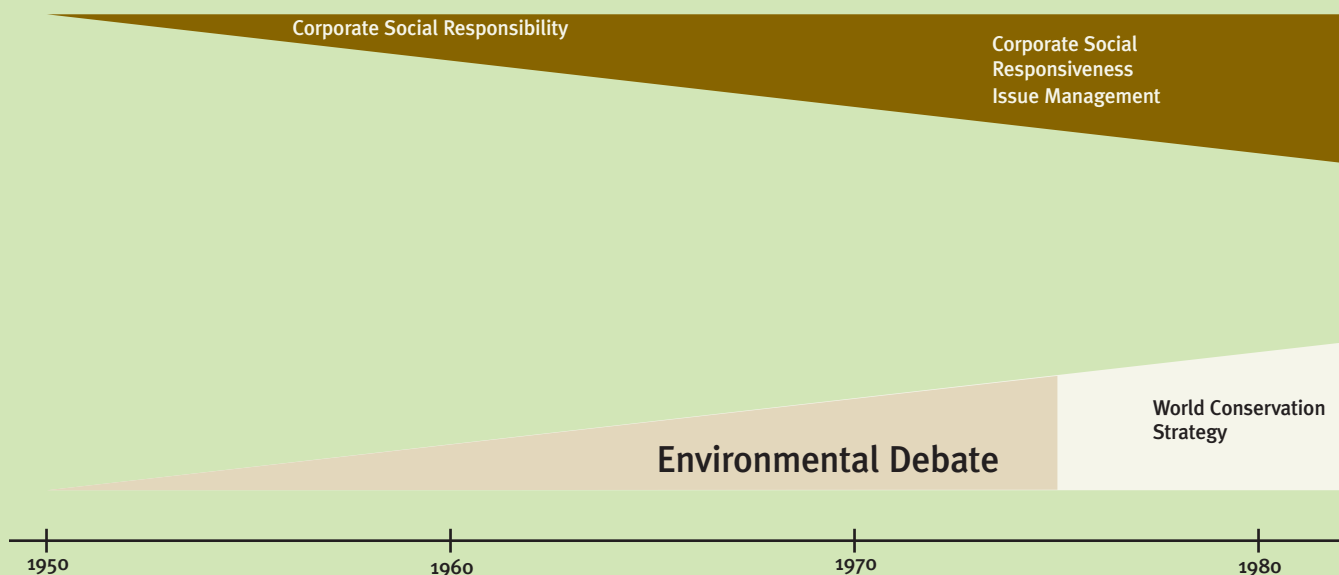
At the political level

The issue of CSR is coordinated at the political level in Germany by the Federal Ministry of Economics and Labour (BMWA), which states: "Corporate Social Responsibility is an important issue for the German federal government. It should, however, be noted when considering the social commitments of business above and beyond the obligations imposed by law that Germany already has a relatively large number of regulations in force (for example in respect of environmental standards) and that there is accordingly less scope for additional activities" [BADE 2003:9]. The BMWA report quoted here makes it clear that there are many established activities in Germany that support CSR; closer examination reveals that most if not all were originally initiated without any connection to CSR.

The activities cited by the German federal government include the promotion of codes of conduct in the areas of foreign direct investment and procurement. The German Federal Ministry for Economic Cooperation and Development (BMZ) initiated a round table on procurement as part of its *Aktionsprogramm 2015* (action plan) to reduce poverty worldwide and this has already achieved some success in the form of the Foreign Trade Association of German Retailers (AVE) sector model. Other activities mentioned by the German government include the involvement of all interest groups in the multi-stakeholder German Standardization Committee DIN-NAGUS, which mirrors the development of the ISO 14000 series as well as the working group on human rights and business (*Menschenrechte und Wirtschaft*) set up by the German Federal Foreign Office in 1999.

At the level of trade associations

The Federation of German Industries (BDI) refers to the numerous voluntary activities of German companies and is opposed to any further regulatory moves in this area. Citing the growing range of commitments at the European level, the BDI fears, "that additional standards and regulations are being developed" that will squeeze the existing CSR tools and the various CSR issues into a one-size-fits-all compromise solution and thereby make it difficult for

FIGURE 2: HISTORICAL DEVELOPMENT OF THE CSR AND SUSTAINABILITY DEBATE (SOURCE: AUTHORS' ORIGINAL)

Corporate Social Responsibility

Corporate Social
Responsiveness
Issue Management

World Conservation
Strategy

Environmental Debate

1950   1960   1970   1980

companies to realize innovative commitments voluntarily and develop efficient CSR strategies [SCHALL 2003].

The Confederation of German Employers' Associations (BDA) also recognizes CSR as an important topic, suggesting that, "the focus should be on voluntary CSR measures carefully tailored for each sector and company in order to achieve optimal efficiency" [BDA OFFICIAL JOURNAL]. The work of the BDA centers on strengthening the International Labour Organization (ILO), which has been working with the issue of corporate responsibilities to society for thirty years.

CSR and sustainable development

Figure 2 charts the historical development of the CSR and sustainable development concepts. CSR came first and was originally concerned, from the perspective of business at least, primarily with social matters. The idea of sustainable development emerged from the environmental protection debate and was established at the political level as a guiding principle for society as a whole at the UN Earth Summit in Rio de Janeiro in 1992. Work to derive a concept for business did not begin in earnest until the mid-1990s. Today the concepts of CSR and sustainable development overlap in many areas.

Stakeholder Theory

Corporate Social Performance

Implementation processes

CSR

■ Harmonisation
■ Union of social and environmental goals
■ Stakeholder oriented issue management

Rio Conference

Corporate Sustainability

Brundtland Report

Agenda 21

Johannesburg World Summit

Sustainable Development

1990   2000   2010

CSR and corporate citizenship

The term corporate citizenship has also come into widespread use in recent years in connection with the social commitments of companies. This term is getting popular in the German business community and is often inaccurately used as a synonym for CSR. There are in fact significant differences between the two ideas. Corporate citizenship relates to a company's commitment to addressing problems in society above and beyond its own business activities and is usually limited to the company's local environment. Typical examples of corporate citizenship include donation and sponsorship (corporate giving), the creation of benevolent company institutions (corporate foundations) and the direct involvement of company staff in social projects and undertakings (corporate volunteering) [Mutz 2003].

The CSR concept is far broader in its scope: it encompasses the fundamental responsibilities of the company and all of its contributions to sustainability irrespective of whether the activities concerned form part of or lie outside its ordinary business activities.

Recommended terminology system

A coherent and definitive system of terminology can be developed on the basis of the definitions already in general use. These fixed points of reference in the system of terminology include the sustainability principle in its original universal form and the interpretation of CSR provided by the European Commission, which seems bound to prevail given the broad-based nature of the associated political process. The terms sustainable management and corporate citizenship (CC) have as yet no generally accepted definitions. They have therefore to be interpreted based on the fixed points CSR and sustainable devolopment.

The principle of sustainable development as it is understood today is usually traced back to the definition offered by the Brundtland Commission: sustainable development is, "a form of development that meets the needs of the present without compromising the ability of future generations to meet their own needs" [Hauff 1987:46]. This principle relates to the whole of society and entails a clear political objective. Social, ecological and economic concerns, the Brundtland Commission concluded, must be given equal consideration if sustainable development is to become a reality. The sustainability principle additionally includes the ideas of both intragenerative and intergenerative justice.

Companies are challenged to help society as a whole to achieve a sustainable development. Sustainable management thus revolves around what the company does to advance sustainability and attempts to maximize its contribution in this respect. The minimum requirements for sustainability in society as a whole are reviewed systematically and efforts are made to ensure that they are always met. Like the principle of sustainability itself, sustainable management covers all three dimensions of sustainability (that is to say the ecological, economic and social aspects).

The European interpretation of CSR also looks at the company's contributions to sustainability, although CSR is generally restricted to ecological and social challenges and thus covers only two of the three pillars of sustainability. Corporate profitability remains a limiting factor and economic contributions to the sustainability of society as a whole are not considered. CSR thus constitutes an element of sustainable management.

The voluntary nature of CSR also remains important in the current political process and the focus is very much on voluntary measures above and beyond what is required by law [E.G. EUROPEAN COMMISSION 2001A]. The trade associations reject additional regulations in this area precisely because such a move would reduce or eliminate the voluntary aspect [BDA, BDI OFFICIAL JOURNAL]. There is no indication at present of a similar approach being taken to regulation in respect of sustainable management even though work on this issue also centers largely on instruments and measures intended to achieve objectives additional to those required by law.

The need to ensure compliance with statutory provisions is recognized as fundamental and elementary in both the CSR and sustainable management concepts. This raises the question of whether measures such as corresponding management systems (with or without external accreditation), for example, are not in fact a constituent of both concepts. Ultimately, only practical experience will reveal the answer.

The system of terminology described above is shown in graphic form in Figure 3 and detailed in full in Table 2.

FIGURE 3: THE RELATIONSHIP BETWEEN CSR, CC AND SUSTAINABLE CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT (SOURCE: AUTHORS' ORIGINAL)
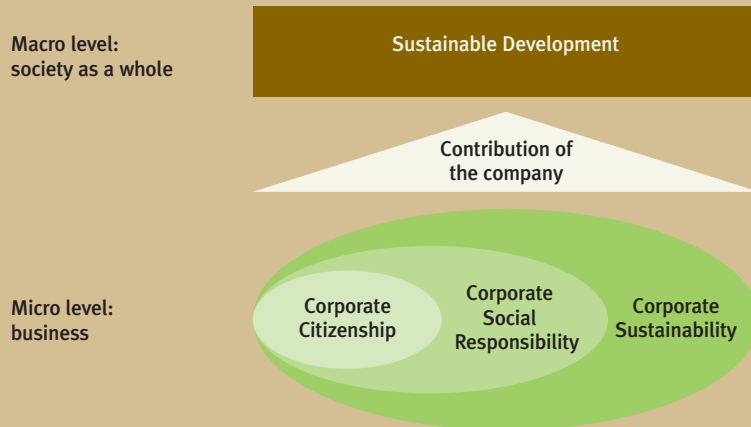
**Macro level:
society as a whole**

Sustainable Development

Contribution of
the company

**Micro level:
business**

Corporate
Citizenship

Corporate
Social
Responsibility

Corporate
Sustainability

Term	Definition	Level	Definition generally accepted?	Comments
Sustainable development	Sustainable development is, "a form of development that meets the needs of the present without compromising the ability of future generations to meet their own needs" [HAUFF 1987:46].	Society as a whole	yes	
Sustainable management	Sustainable corporate governance is a model of corporate governance designed systematically to optimize the company's efforts to achieve social, ecological and economic sustainability objectives. Measures necessary to further this aim are implemented on both the strategic and the operational levels.	Company	no	The authors have derived this definition from the sustainability principle.
Corporate Social Responsibility (CSR)	CSR is, "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". [EUROPEAN COMMISSION 2001A:5]	Company	Europe: yes international: no	The EU clarified its position further in its Communication of 2002: being socially responsible, "means going beyond compliance and investing more in human capital, the environment and relations with stakeholders" [EUROPEAN COMMISSION 2002B: 3]. Ensuring compliance with statutory provisions thus constitutes one of the necessary conditions for CSR.
Corporate Citizenship (CC)	Corporate citizenship relates to the company's commitment to solving social problems in its local environment and around its sites above and beyond its actual business activities. Corporate citizenship activities include donation and sponsorship (corporate giving), the creation of benevolent company institutions (corporate foundations) and the direct involvement of company staff in social projects and undertakings (corporate volunteering). Activities with no direct benefit to the company and activities that generate some form of economic return can both fall under the concept of corporate citizenship.	Company	no	Original definition formulated with reference to Westebbe and Logan [1995] and Mutz and Korfmacher [2003].

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Requirements for corporate reporting

Despite – or perhaps even because of – the large number of guidelines, standards and catalogs of criteria already in existence, there is considerable demand in the business and political spheres for an aggregate summary of the sustainability requirements faced by companies. One of the initial objectives of the present research project, moreover, was to determine whether the European CSR strategy entails any new requirements for companies. The comparative analysis of the development of CSR, corporate citizenship and sustainable management indicated no new requirements.

The catalog of requirements developed in respect of corporate sustainability reporting is based on a fusion and evaluation of the key guidelines and standards, primarily GRI [2002], SA 8000 [Social Accountability International 2001], SAM [2003], oekom research [2003], SustainAbility [2002], Global Compact [2001], future [2000], IÖW [2001], etc. and a thorough debate with a wide range of interest groups.

The last stage in the evolution of the catalog of requirements involved comparing the final draft with ten selected reports from companies listed on Germany's DAX-30 index. This exercise found that the reports did address most of the issues mentioned in the catalog of requirements. Most companies are quite advanced in their reporting of environmental matters, but devote less attention to the issues of countering corruption, taxes and subsidies, the contribution made to regulatory frameworks and biodiversity.

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A   Specific requirements

A.1 General information about the company	■ Sales revenue, employees, sites ■ Divisions, products/product groups ■ Ownership, company structure
A.2 Strategy and management	■ Vision and strategy ■ Management systems and tools ■ Description of ongoing and planned activities with external interest groups
A.3 Employee interests	■ Remuneration, incentive systems ■ Working time models ■ Training and personal development ■ Employee rights and payroll ■ Diversity and equal opportunities ■ Gender non-discrimination ■ Labor protection, health and safety at work
A.4 Social responsibility in the local area	■ Responsible conduct as an employer and customer ■ Donation, sponsorship and support for the local area ■ Taxes and subsidies ■ Activities to counter corruption ■ Human rights ■ Contribution to political life and regulatory frameworks
A.5 Ecological and social aspects of products and services	■ Discussion of key ecological and social issues throughout the product lifecycle ■ Description of key environmental issues in product development ■ Environmental protection and working conditions in the supply chain ■ Fair trade ■ Customer orientation and consumer protection
A.6 Ecological issues in production	■ Energy management and climate protection ■ Hazardous substance emissions to air ■ Raw materials and material consumption ■ Waste management ■ Water management ■ Logistics and transportation ■ Production and transport accidents, release of chemicals, fuels and oils ■ Nature conservation, biodiversity and use of land
A.7 Objectives and program	■ Targets achieved in the reporting period ■ Description of objectives and measures
A.8 Sources of more detailed information	■ Disclosure of contact details ■ Invitation to request further information

B   Universal requirements

B.1 Credibility	■ Statement of the board of management ■ Audits ■ Compliance ■ Disclosure of unresolved problems ■ Evaluation by external bodies
B.2 Comparability	■ Details of accounting principles (scope of application) ■ Details of how information is ascertained and interpreted ■ Significant developments during the period under review
B.3 Objectivity and clarity	■ Focus on key quantitative and qualitative aspects ■ Clarity and accessibility of the reporting structure and the selected data
B.4 Communicative quality	■ Layout ■ Text ■ Figures

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