

Advancing the CSR Agenda in the EU : National and local level approaches

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Throughout the European Union, Corporate Social Responsibility has become a significant issue. Ever since the Lisbon Summit of the European Union in March 2000 recognized the need for business to assist with the social agenda, governments, business, and civil society have been seeking ways to implement and audit social responsible behavior. Although it is generally agreed that CSR initiatives should be voluntary in nature, not all countries follow the same schemes, and the concepts that countries focus on differ according to national and local objectives.

In some EU countries, there is an emphasis on social labels on consumer products and to achieve accurate social audits in order to ensure the legitimacy of such labeling, while elsewhere a basic set of national guidelines is being established to introduce companies to social reporting. France became the first country to pass laws on sustainability reporting, making it an obligation for companies to publish triple bottom line reports, while other countries focus on social reporting for SMEs. Additionally, Central and Eastern Europe (CEE) are now dealing with issues of corporate responsibility to combat social and economic exclusion and to help overcome corruption.

While many of the EU countries are engaging in initiatives to foster CSR, this report will focus on the actions undertaken in France, the Netherlands, Belgium, Italy, and the CEE. The different approaches to CSR within the EU illustrate some of the challenges to achieve a comprehensive European CSR plan.

The French New Economic Regulations

In May 2002 the french government adopted a new law on corporate sustainability reporting. The New Economic Regulations (Nouvelles Regulations Economiques – NRE) is the first law passed on this issue in the world. Whereas financial matters like transparency and takeover bids are expected in annual reports, Article 116, paragraph 4 of the law makes it mandatory for all nationally listed companies to report on social and environmental issues in annual reports. It is a legal obligation to disclose information on the social and environmental impact of company activities and should not be confused with a reporting device.

This is a significant and innovative approach taken by the french government, as the NRE places sustain-

ability issues on the mainstream corporate agenda. To further demonstrate the government's commitment to sustainable development, France appointed its first Minister of Sustainable Development in June 2002.

The main stakeholder issues to be covered under this law include human resources, the community, labor standards, and the environment. The human resources section, which includes employment, salary, and training indicators are not new concepts, as French companies have reported before on these indicators in their "bilan social", or social report. The difference is that while the bilan social was internal to a company, through the NRE, the results will be made public. Community issues are reported including civil involvement, engagement with local stakeholder groups NGOs, consumer groups, and educational institutions. The labor standards encompass the International Labor Organisation's (ILO) Core Labor Conventions¹, and the environmental section requires health, safety and environmental (HSE) reporting, which is new to the french corporate reports.

The NRE is a notable development, as it goes beyond the concept of voluntary reporting on sustainability issues, yet several parts of the law remain ambiguous. For example, the legislation itself is not clear in stating how social and environmental indicators should be calculated, and it overlooks the life cycles of products (from raw material stage to recycling), thus leaving some gaps and questions on the environmental section. Given that not all industries face the same environmental challenges, the flexibility in that area may be positive, but it is not clearly outlined. In addition, the law does not clearly state whether or not the NRE applies to a company's international operations.

While there is a need to clarify several aspects of this law, at the very least, the NRE encourages french companies to develop standards for reporting on the triple bottom line. Furthermore, the NRE may incite other EU governments to act on sustainability issues through legislation.

1. The International Labor Organisation's Core Labor Conventions on human rights cover 8 main issues: (1) freedom of association, (2) the right to organize and collective bargaining, (3) the forced labor convention, (4) the abolition of forced labor, (5) equality against discrimination, (6) equal remuneration, (7) the minimum age convention, and (8) the elimination of the worst forms of child labor.

The Netherlands: a holistic approach

Whereas the NRE in France makes social reporting mandatory, in the Netherlands social reporting is considered in a company's annual reports on a voluntary basis. The reluctance of the Dutch to require mandatory reporting on these issues stems from the very fact that reporting tools for evaluating social and environmental performance remains underdeveloped.

In the place of legislation, the dutch government has taken a pro-active approach to the issue of CSR and is making great strides in putting forth initiatives to develop sustainability reporting tools, using incentives to influence business behavior. While the government considers CSR to be principally the private sector's responsibility, it also sees CSR as useful tool to achieve policy goals, and through public and private partnerships, it focuses on issues of employment, social cohesion, urban renewal, and crime prevention.

There is emphasis on local level initiatives in the Netherlands, demonstrated by government support of local partnerships between municipalities, social organizations and business. Local administrators are encouraged to direct and coordinate projects, and funding is made available if needed. As local entrepreneurs and government do not always share the same short-term goals, these partnerships require trust and compromise among the stakeholders involved in order to achieve objectives that are beneficial to business and government, as well as to the community at large.

With open government support to dutch companies (in the Netherlands and abroad), the government is sharing responsibility on the CSR issue with business and social responsible elements are incorporated into official programs and international cooperation. The OECD Guidelines for Multi-National Enterprises are used as a reference, as well as criteria for determining government support to a dutch company foreign operations. Companies seeking financial support from the government must acknowledge that they adhere to the OECD Guidelines. Manifestly, enforcement of these criteria is difficult, and not all companies are interested in receiving government assistance, but for those that are, this sort of incentive serves to raise standards in the private sector.

Additionally, the National Initiative for Sustainable Development (NIDO) was established to coordinate research being carried out on CSR issues by dutch

universities, and to assist companies in working within the framework of “people, planet, and profit”. NIDO promotes and disseminates information on CSR and fosters cooperation among business, NGOs, government (with emphasis on local government), and citizens, providing a platform for stakeholder dialogue. NIDO is currently working with 20 dutch companies to determine how companies can put social responsibility into practice on the local and international levels.

The active role taken by the dutch government has propelled the CSR issue into becoming a central theme for all stakeholders in the Netherlands. These initiatives can serve as an example to others in the EU community.

A Belgian Social Label

In Belgium, the Parliament and Senate passed a Social Label Law in February 2002, aimed at promoting CSR. The growing demand for ethically produced products and the desire of policymakers to promote responsible behavior in companies were the drivers of this law. Belgium is the first country to have such a law and the label is given by the belgian Ministry of Economic Affairs.

Products awarded the social label are deemed to have been produced with respect to the ILO's Core Labor Conventions on human rights. Companies that use the social label need to provide proof that the ILO Labor Norms have been respected throughout the production line, both in and out of Belgium. This is a voluntary initiative, thus companies can choose to apply for the social label or not, but clearly, with consumers becoming increasingly interested in consuming responsibly, the advantages provide incentive for companies to seek this label.

However, the process of accreditation is not clearly outlined. As stated previously, carrying out social audits remains a challenge, whereby it is difficult to monitor and verify conditions in developing countries, questions arise over accuracy. In order to facilitate the task, a special committee was established to determine certification requests by companies. This committee is composed of various stakeholders, including government ministers, business associations, social partners and NGOs. The committee evaluates requests for the

social label and certification is accorded by the Ministry of Economic Affairs and is valid for a maximum of three years. The state takes responsibility for the label.

Financing the social audit and procedures remains the responsibility of the company. Large companies with financial resources to spare therefore have an advantage over small producers seeking the social label. Article 5 of the law stipulates that some technical or financial assistance can be allocated to companies in developing countries that are part of the supply chain, which could increase the possibilities of ensuring responsible production. In addition, social clauses affecting public procurement and tenders are requiring that social and ethical performance is considered when placing orders. This raises the stakes for companies to prove their credibility in the belgian market.

Although this initiative is a positive step towards increasing socially responsible conduct, one of the challenges that may impede success comes from the EU itself. The EU has forbidden special promotion of the label due to reasons involving competition law. It will be difficult to influence the majority of consumers with the label if they are not informed of it through some sort of advertising campaign. At this stage, the Belgian label can be considered as an experiment, with the hope that it will eventually be incorporated with other labels in order to establish a universal european label.

The role of Italian SMEs in CSR initiatives

In Italy, responsible practices are intrinsic to the italian model of capitalism that is dominated by Small and Medium Sized Enterprises (SMEs). Approximately 5 million SMEs comprise the bulk of the labor force and italian SMEs have a strong tradition of maintaining close ties with the local communities and local stakeholders. They have become the drivers of CSR initiatives, but accessing and evaluating the real impact of behavior in these companies remains difficult.

In order to deal with CSR in a more formal manner, initiatives have been developed to assist SMEs in reporting social responsibility, and the italian government has taken an active role. In June 2002, the italian Ministry of Welfare launched a first step in cooperation with the Bocconi University. The initiative, Corporate

Social Responsibility-Social Commitment (CSR-SC), is aimed at fostering the social and environmental aspects in Italian companies, regardless of size or corporate structure. It is voluntary in nature and underlines the EU's stance that companies should integrate socially responsible practices into their business conduct on a voluntary basis.

Through the CSR-SC initiative, the government is working on adopting a set of indicators that can be used by both, SMEs and large companies. The Social Statement (SS) is a tool to assist companies in CSR reporting by standardizing methods of information collection and evaluation. It is flexible, allowing companies to operate within the realm of their activities. The indicators are divided into 8 categories: human resources, shareholders/partners, customers, suppliers and financial partners, government authorities and institutions, the community and the environment.

The CSR-CS is an ongoing process, and the government and the Bocconi University are evaluating which qualitative and quantitative measures can best control and demonstrate the performance of a company. By taking an active approach in promoting responsible behavior, the Italian government is reminding that social responsibility goes beyond any legal obligations and that companies are also expected to invest in sustainability issues as well.

The banking sector in Italy also plays an important role in supporting local communities. Federcasse is the National Federation of Cooperative Banks (BCC) – Rural and Handicrafts Bank (RHB) and regroups almost 500 small mutual banks that work closely with SMEs, NGOs, and the community as a whole. The close links at the local level facilitate easy dissemination of CSR issues. Federcasse provides financial services aimed at disadvantaged groups and distributes socially responsible investment products. To illustrate its commitment to social issues, Federcasse developed an 11-point value code and distributed a CD-Rom guide on social reporting to be used by small or medium-sized local mutual cooperative banks. The reporting guide serves to improve internal practices within the banks as well as activities with the local stakeholders.

Additionally, SODALITAS, the Association for the Development of Entrepreneurship in the Social Economy, founded in 1995 by Assolombarda, the largest employer federation in Italy, has taken a key role in

promoting CSR initiatives and reporting. With the mission of promoting sustainable development, corporate citizenship, social responsibility towards stakeholders, the association assisted in developing the Italian SME Key with CSR Europe in order to help SMEs report on their social responsibility.

While there is still a need to determine which best practices should be used to report in a coherent manner, the Italian model, with the engagement of the government, the financial sector and organizations is noteworthy: of the 40 European companies that are SA8000 certified², 25 of them are Italian.

Central and Eastern Europe: incorporating CSR in private sector development

The enlargement of the European Union, with newcomers from Central and Eastern European (CEE) countries presents new challenges to the EU's CSR agenda. Since 1989, the CEE countries have had to tackle the issues of building democratic institutions and free markets, as well as civil society. Whereas the benefits from globalization and the proximity of Western free markets have facilitated the process, it has also brought forth negative impacts such as unemployment, inflation, and social exclusion, as well as low standards of corporate transparency and accountability. Market-oriented institutions are fragile and in some cases non-existent, and corruption hampers reform efforts. A general mistrust of the private sector, in addition to the need for public sector reform, inadequate physical infrastructure and environmental problems compound the difficulties in the region. There is limited knowledge of the CSR concept and limited cross-sector partnerships that are useful in creating forums to share best practices.

Nevertheless, some countries have forged ahead and the promotion of the CSR concept came from foreign investors. This has been most notable in the "Big Three" of the CEE: Hungary, the Czech Republic and Poland. Investors seeking to improve conditions in these countries took a leadership role and took the opportunity to enhance their reputations. Large companies and multi-national enterprises have been

2. This certification guarantees that production is in accordance with international labor and human rights norms.

3. Surveys were conducted under the East West Management Institute's Partners for Financial Stability Program.

working with local stakeholders and training organizations in order to tackle social exclusion. Danone, Nestle, DHL, and Johnson & Johnson are among the large groups that have contributed to upgrade conditions in the region.

Surveys conducted by the East West Management Institute in 2003 and 2004 indicated that more and more CEE companies are starting to report on a range of CSR issues. The Big Three have a clear advanced regarding CSR practices. 89 % of hungarian listed companies disclose relevant CSR information, while 74 % of polish listed companies provide information on their board structure. 91 % of czech listed companies provide information on corporate government structure, while 39 % of the listed companies report on energy and water use.

While the progress made by the Big Three is impressive, other countries in the region have hurdles to overcome. In countries where foreign direct investment has been less vibrant (Romania and Bulgaria, for example), and where many of the educated youth leave to seek better opportunities in Western Europe, economic revitalization and the creation of an active civil society are crucial to secure the level of social cohesion.

Many companies are trying to adhere to international standards and conventions, but in regards to environmental standards, governance, and law enforcement, there remains a large gap and the CEE still lags behind EU norms. If the goal of the EU to become the world's most competitive and dynamic knowledge-driven economy by 2010 has to be achieved, cross-sector partnerships and investment will have to be promoted in order for CSR to become a key theme on the agenda of the CEE countries. The business community, the media and civil society will need to take an active role in building private sector development.

Tackling the Challenges

Comparing different approaches to CSR within the EU illustrates some of the challenges to achieve a comprehensive european CSR plan and to implement EU initiatives. CSR is not viewed in the same manner throughout the EU. There are major differences on environmental, labor and social issues among member states.

It doesn't make sense that CSR is placed under the responsibility of different Ministries in the member states. While the EU has placed the issue under the Direction of the Social Dialogue team of the Directorate General for Employment, it is under the responsibility of the Ministry of Economic Affairs in Belgium, the Ministry of Welfare-Ministry of Labor and Social Affairs in Italy and in the Netherlands, a number of government departments are engaged in the issue. This may account for the differences in approaches, but it is important to ensure that the policy measures set forth by the EU can fit into each of the different governmental domains. Thus, as long as there is coherence and coordination across the different national ministries, the "address" should not matter.

Lessons can be learned through initiatives taken in individual states and can be used towards developing a european guide for best practice. The EU states that CSR, by definition, must be voluntary, yet the french example may prove that legislation is necessary in order to get all companies to comply. This remains to be seen, and some may argue that a legislative approach would place a further burden on SMEs. The dutch example of using incentives could be applied to facilitate the procedures for smaller companies.

It is clear that before reporting tools and structures are further developed, a legal framework on the social side would not be a good idea at this point. Common reporting standards first need to be identified so that the EU can develop a structure around them. It is a great challenge to the EU, as for the moment it can only evaluate the range of practices currently being used for sustainability reporting.

In conclusion, the EU should continue to promote partnerships among all stakeholders, define minimum levels of performance, encourage awareness raising campaigns, particularly in CEE countries, and fervently encourage reporting. Cooperation among government, business and civil society is the best manner to progress with the CSR agenda. Some sort of framework linking country and company norms with existing EU policies is necessary in order to ensure coherence and credibility of the CSR issue. This will also help to implement a more efficient action plan for the new member states.

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