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Öko-Institut e.V.
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eco@work

Sustainable reading from the Öko-Institut

Corporations under scrutiny

What value is added by a corporate commitment to sustainability?

New initiative
The "Changemaker" project of the German internet platform Utopia

New understanding
Tom Dodd on the concept of Corporate Social Responsibility

Dear Reader,

You have in your hands the latest issue of eco@work, which takes as its theme the subject of responsibility. We explore the social obligations of enterprises in areas that extend beyond their everyday activities. Our researchers consider projects initiated by CSR officers "for the benefit of nature, humanity or the community" that they see as earning them moral credit points. But what do such projects really do for society or the environment? Our two articles in the "Knowledge" section and other items in this issue provide some answers.

Our work on Corporate Social Responsibility (CSR) focuses mainly on the activities of companies in Germany and the EU. As an example of our research work we describe the initial findings of the IMPACT project, which is designed to measure the impact of CSR activities at European level and enable them to be compared. In our article on the Utopia "Changemaker" initiative we examine a specific sustainability project that the Oeko-Institut is actively supporting through its work on the advisory council and by helping to develop criteria against which an enterprise can be measured.

In the case of both projects responsibility does not stop at national borders. Quite the reverse. For example, if we look at raw materials for consumer goods such as notebooks or new technologies such as electric cars, we must bear in mind issues such as working conditions, environmental impacts and attempts to mitigate climate change. That is why the European Commission is placing greater emphasis on the impact of corporate activities on society.

In his guest commentary Tom Dodd, a member of the CSR team in the European Commission's Directorate-General for Enterprise and Industry, describes what he thinks CSR should really focus on. He also explains why CSR should form part of corporate strategy and why it was important and right for the EU Commission to reframe its definition of CSR.

I hope you enjoy reading this issue and wish you a happy, healthy and successful New Year.

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Corporate Social Responsibility: an impact sport[1]

A guest commentary by Tom Dodd

It has become fashionable to write that corporate social responsibility is "dead", overtaken by other concepts such as corporate sustainability and shared value creation.

The European Commission has recently defined corporate social responsibility (CSR) as "the responsibility of companies for their impacts on society". The impacts of enterprises on society have never been more relevant than in the context of today's interconnected economic, social and environmental crises. Every company has impacts. Every company has a social responsibility. If CSR is about the impacts of companies, then it's very much alive.

By focusing on impacts, the new definition highlights what really counts. Needless to say, enterprises can have both positive and negative impacts – and they should aim to maximise the positive impacts and avoid negative impacts.

The language used by the Commission to talk about positive impacts is inspired by Michael Porter: maximising the creation of shared value for company owners/shareholders and for other stakeholders and society at large. It's a clear invitation to follow the example of companies who are building their business strategies around the innovation of products and services that help solve social and environmental problems.

And the language used by the Commission to talk about negative impacts is inspired by the OECD Guidelines and the UN Guiding Principles on Business and Human Rights put forward by John Ruggie: identifying, preventing and mitigating possible adverse impacts.

In 2009 Céline Louche and I wrote an article about the need to "reframe" CSR. We argued that CSR should be understood as a dynamic process by which the very purpose of business is redefined as contributing to sustainable development. Perhaps more than we realised at the time, we were implicitly arguing for a stronger focus on the impacts of enterprises.

We proposed that enterprises should have a better understanding of themselves as part of a complex system, and that they should develop "a capacity to analyse how the various aspects of an enterprise can and do influence, both positively and negatively, the different levers of sustainable development." The 2005 study by Oxfam and Unilever of the latter's impact on poverty reduction in Indonesia remains a shining example of this kind of analysis.

We also wrote about the need for CSR discourse to pay more attention to what a company makes: "Once the question is how do we maximise an enterprise's contribution to sustainable development, as opposed to just asking how we minimise its negative social and environmental impacts, then what a company makes becomes at least as important as how it makes it." That lead us to remark that enterprises should work to develop "goods and services that empower people to lead more sustainable and fulfilling lives". Companies that do so go a long way towards meeting their social responsibility.

What companies make, for whom and why: these questions are critical both to business strategy and to an enterprise's impacts on society. By defining CSR as the responsibility enterprises have for their impacts on society, the Commission is giving added impetus to the integration of corporate responsibility into business strategy.

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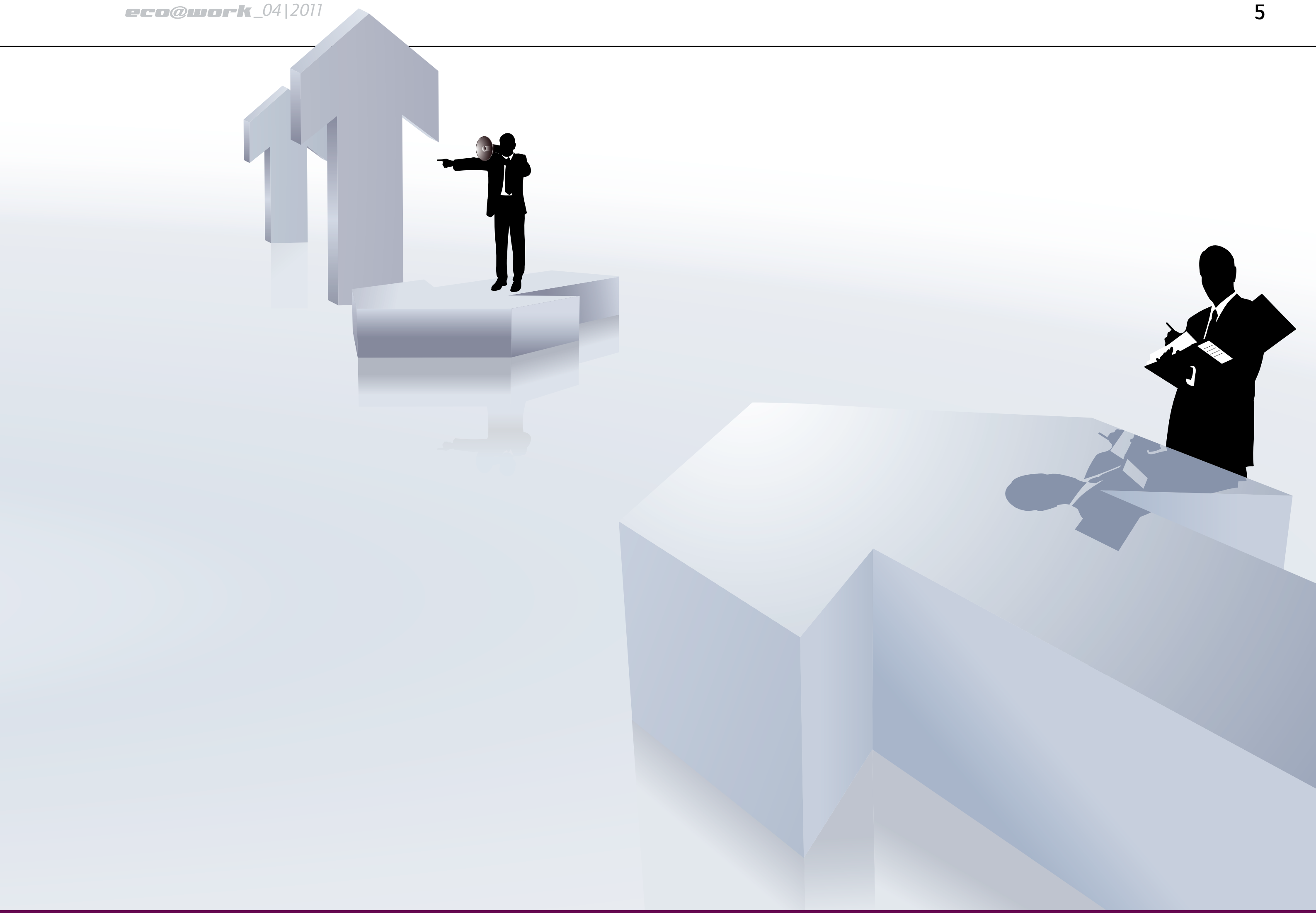
1 *This title was inspired by a blog post by Juan Villamayor www.juanvillamayor.com*
2 *"Reframing Corporate Social Responsibility" in Reflets et Perspectives de la Vie Economique, no.4, 2009, pp.59-68*

How sustainably do our

A new debate is needed

"These days almost no one disputes the need for enterprises to take responsibility for the environment and society as well as pursuing economic interests," says Katharina Schmitt of the Oeko-Institut. And indeed the number of companies voluntarily adopting the principles of Corporate Social Responsibility (CSR) has risen steadily since the issue first emerged in the late 1990s. A commitment to CSR is now demonstrated by enterprises of all types: large and multinational companies, SMEs, the consumer goods industry, service companies and classic manufacturing businesses.

But has it made the world a better place? Has the pace of climate change been slowed? Has resource use been reduced? Are employees and workers more appropriately paid? Have livings standards, health care and concern for the environment improved in developing and newly industrialising countries, which supply western businesses with the goods they need?



companies really operate?

Katharina Schmitt and her colleague Christoph Brunn are sceptical about these issues. But they don't have the facts at their fingertips – at least not yet. And in this the two CSR experts are not alone, because there has to date been little or no systematic examination and evaluation of corporate social responsibility and its impacts. One reason for this is that the sustainability targets that are put forward are too vaguely formulated or insufficiently well coordinated with each other and are hence by their very nature almost impossible to verify. A further difficulty is that the methodological repertoire is still very limited: many methods consider only the quality of the reporting and do not set out to assess the quality of the measures that are described.

"But anyone who takes CSR seriously must address these difficulties," states Katharina Schmitt firmly. "We need a new debate on the effectiveness of CSR," she urges. One reason for this is that – apart from the reporting obligations that now exist in some countries – the measures taken are voluntary. Political support for them is forthcoming, but they are not monitored and no sanctions are imposed if standards are not met. Furthermore, information about the effectiveness of CSR has other political implications, since it helps to indicate whether and in what areas additional regulation is required to make economic activities in the EU more sustainable.

How can the impact of CSR on the environment and society be measured in practice? This question is to be addressed by

17 European research institutions under the leadership of the Oeko-Institut. They are collaborating on the three-year project "Impact Measurement and Performance Analysis of CSR", known as IMPACT, which is being funded by the Seventh Framework Programme of the European Union. The researchers are hoping to find out how much CSR contributes to the policy objectives and competitiveness of the EU. The conceptual framework having been established, the empirical work is now under way.

The practical work includes an econometric analysis of existing databases of the sustainability performance of large companies and a general survey of CSR activities in 500,000 companies, which it is hoped will yield new data on the CSR practices of small and medium-sized enterprises. This is an area that has so far received little attention and in which IMPACT is breaking new ground. CSR activities will be analysed in significantly more detail in 19 case studies of companies that are regarded as leading the way in terms of CSR in their sector. The researchers will also analyse the influence of different types of networks on CSR. Finally, an expert survey in the form of a Delphi study is designed to shed light on current practices and future trends in evaluation of the impact of CSR measures.

New mix of methods

"The combination of these methods represents a new approach. If the mix works well, that will benefit the search for suitable instruments for measuring the impact of CSR," says Christoph Brunn. Such instruments are urgently needed. Katharina Schmitt mentions another point that has previously been ignored in the debate: "We are analysing not only whether but also how and where a CSR measure has an impact – because it is perfectly possible for a company to improve without society and the environment benefitting."

For example, if a manufacturer manages to reduce resource consumption per car produced, that is an improvement at company level. But if at the same time – with the help of this company – all manufacturers combined are selling more cars than previously, the environment has not benefitted. It is absolute emissions and absolute consumption that is crucial. "In our research project we are therefore making a systematic distinction between the impact of a CSR activity in relation to the company and in relation to society and the environment," explains Katharina Schmitt. Another first.

The researchers have defined special indicators to capture this difference. "Outcome indicators" reflect the effect of measures at company level. They are expressed in terms of a produced unit, such as the individual car in the example above. Absolute emissions and consumption levels, on the other hand, are depicted by the "impact indicators" which – as described above – portray the impact on society and the environment.

And another important point: "We have devised the indicators to be very detailed and sector-specific and are now testing them – in particular in the 19 case studies – in the retail trade, the automotive sector, the building industry, the textile sector and the IT and communication technology sector," says Christoph Brunn. For each of these sectors the experts first defined the social and environmental issues of greatest relevance in the areas of quality of work, climate change, resource conservation and environmental pollution. For example, in the automotive and ICT industry the use of rare resources is of particular importance. In the building trade, on the other hand, issues such as land use and CO_2 emissions in the manufacture of building materials are taken into account. In each sector the relevant issues are pinpointed.

A targeted approach achieves more

It is already clear that detailed and systematic surveys of this sort throw up major challenges for businesses. As the researchers explain: "So far our analysis of existing data and the initial findings of the case studies indicate that many companies collect only the data and pursue only the CSR targets that the sustainability reporting systems require. They don't give enough thought to what might be relevant issues or don't focus on improvements in the key areas." Yet the relevance of social and environmental issues varies widely in different sectors. If this is not taken into account, there is a risk that the wrong areas will be addressed.

The methodology of the research team and the interdisciplinary cooperation involved represent a new approach. "We want to shed light on the important question of how we can better evaluate the CSR activities of our enterprises. This is likely to present new challenges for the companies themselves," is the view of Christoph Brunn. At present, however, the researchers are still working on the task. The halfway point was reached in August 2011. And the empirical studies will need to be synthesised before the success of the selected methods can be assessed. "Of course we are hoping to be able to say whether companies' documented savings and CSR activities make any relevant contribution to the EU's sustainability targets," says Christoph Brunn. "And only then will it be possible to answer the question of what policy-makers can do to improve the impact orientation of CSR," adds Katharina Schmitt. The IMPACT team still has a lot of work to do before that can happen. *Katja Kukatz*

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The European view of CSR

In October 2011 the European Commission redefined Corporate Social Responsibility (CSR) as "the responsibility of enterprises for their impacts on society".

The Commission had previously regarded CSR 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" (2001).

The voluntary nature of CSR is thus no longer explicitly included in the new definition – more than ever before the new wording establishes the relevance of CSR to all aspects of a company's core business.

High standards in company and product assessment

The example of Deutsche Telekom AG

How sustainable are the products and services of Deutsche Telekom AG? What can be done to further reduce their adverse environmental and social impacts, and how can their benefits be enhanced? The company turned to the Oeko-Institut for help and the Institute's experts – in cooperation with the company's staff and with stakeholders such as consumer and environmental organisations – came up with a comprehensive system for answering these questions. The system can be used to assess the entire product portfolio and the company, including its product development and procurement processes. The criteria cover not only environmental and socioeconomic factors but also aspects of use such as functionality, accessibility and data protection. Suppliers are also considered. Information from these three strands is combined to arrive at an overall assessment for each ICT product that describes its sustainability performance. The criteria also indicate how the product can be further improved in future. This means that for the first time the company has at its disposal a comprehensive assessment system that can be used irrespective of the type of service or the material ICT product. It is a system that differs from other assessment methods in its depth of detail and its holistic approach. The criteria set was devised using the Oeko-Institut's sustainability analysis instrument PROSA.

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Ambitious, verifiable, effective

Joining in means making a commitment: Utopia "Changemaker" initiative urges enterprises to take sustainability seriously

Corporate Social Responsibility is a wide-ranging issue, and the ways in which it can be addressed are equally diverse – covering, for example, employee-oriented enterprise management, consideration of stakeholder interests and environmental and social production criteria. Such diversity is challenging – especially when it is a matter of evaluating the actual impact of CSR activities. With the support of the Oeko-Institut, the Utopia initiative "Changemaker" is setting out to meet this challenge. With its high-flying standards the project can promote a new understanding of how ambitious CSR activities actually are. And companies discover where they actually stand.

ISO 26000, the Global Reporting Initiative and the Global Compact of the United Nations are among the various initiatives that have for some time been available to help enterprises structure their sustainability activities and pursue them long-term. The latest newcomer is the German Council for Sustainable Development's German Sustainability Codex, which defines criteria and performance indicators that companies can use to report on the extent to which they meet the standards of the codex in the areas of the environment, social affairs and governance. "An important step forward," is the verdict of Dr. Rainer Griesshammer, CEO of the Oeko-Institut: "The Sustainability Codex refines and fleshes out the guidelines on sustainability reporting, thereby providing a comprehensive catalogue of criteria for the external evaluation of reporting."

Nevertheless, for Rainer Griesshammer that doesn't yet go far enough. "Companies must compare their commitments with those of their competitors and with other initiatives," he urges. "For example, it is not enough for management simply to declare that it wants to save energy. Instead the company must document how much energy is being used now – in other words, define the baseline – and then describe how much energy it intends to save over what period and by what amount it plans to exceed the normal average for the sector. For that we need substantive benchmarks. And businesses that are prepared to commit themselves."

That is just what companies must do if they want to become "Changemakers" with Utopia. "Changemaker is the first initiative to require companies to commit themselves from the outset to specific, ambitious targets and measures and to public scrutiny," explains Rainer Griesshammer. This is what impressed him.

The Changemaker initiative is not for companies that are just beginning to explore their commitment to sustainability. Applicants must already be familiar with the key corporate processes involved and be able to provide data on production-related emissions and resource consumption. They then start by specifying ambitious and measurable targets, distinguishing between "hard" targets such as specific emissions savings and "soft" targets such as employee motivation. Next, the baseline situation, the defined criteria and verifiable measures derived from the criteria are documented in the Changemaker manifesto, which is signed by the executive board or management committee.

The framework of the manifesto is provided by ten commitments in different areas of Corporate Social Responsibility. This means that issues such as actively involving the workforce are just as much a part of the commitments as avoiding waste and optimising material cycles. Companies then have three years to achieve the set targets and implement the relevant measures. Initial successes can be publicised in the interim report, which is due after eighteen months. At the end of the three years a final report must be produced. Companies participating in Changemaker receive support from industry specialists who assist with the implementation process by providing expert appraisals. Opportunities for public scrutiny are another important part of the scheme: each Changemaker manifesto and results report must be posted on the Utopia platform for discussion and public comment. This full publication of Changemaker commitments and the integration of substantive benchmarks are key differences between Changemaker and other initiatives.

Public involvement and substantive benchmarks

The Utopia project is supported by the Oeko-Institut. "As a member of the Utopia advisory council I assist the process," explains Rainer Griesshammer. "In addition the Oeko-Institut has drawn up a list of criteria to help companies decide in which areas they should set themselves targets – for example, climate change mitigation or their vehicle fleet." This is more difficult for the many different industrial processes: here the enterprise, supported and monitored by industry experts, should specify the averages and benchmarks for the sector.

Despite all the positive features of Changemaker, Rainer Griesshammer is also aware of aspects of the initiative's startup and pilot phases that did not run perfectly. "For example, ambitious targets were being formulated but it was difficult for external observers to verify whether they were being met. And the feasibility of the Web 2.0 community examining companies' self-commitments within a reasonable time and without industry knowledge was overestimated," he says. "Furthermore, for companies that make hundreds or thousands of products and trading companies that sell thousands of different items, setting externally verifiable targets for the product range is extremely difficult." But the expert from the Oeko-Institut knows how to set about solving these problems. "For example, in the sustainability assessment a company can concentrate on the revenue drivers," he says. "There are often surprisingly few of these." Another approach, according to Rainer Griesshammer, involves using across-the-board criteria. "These are criteria that apply to the company's entire production. For example, a trading company can decide that all its energy-consuming products must belong to the best efficiency class, or at least the second-best one."

Changemakers' activities can make them role models for others to follow. Ideally they meet their self-commitment and then set even more ambitious targets for a second period. The Utopia initiative, too, functions as a model: "Changemaker highlights for us companies for which sustainability is far more than a nice word to enhance their image," says Rainer Griesshammer. "They must be prepared to undergo a real paradigm shift. People who commit to this project are showing that they are really getting moving."

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The "Changemakers" of Utopia

A commitment to sustainable business management is at the heart of the "Changemaker" project. This initiative from Utopia, a platform for sustainable consumption, involves companies signing the "Changemaker manifesto" which details specific targets and verifiable measures derived from them. Companies participating in the initiative include Deutsche Telekom AG, Vitra AG, Otto GmbH, GLS Bank and the Krombacher Brewery.

www.utopia.de/changemaker