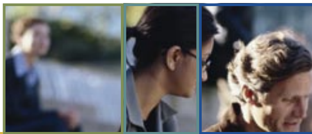
Rhetoric and Reality:
Corporate Social Responsibility in Europe

Research on the Impact of CSR on Sustainability



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The RARE Project

This brochure presents core findings and highlights of the research project “Rhetoric and Reality: Corporate Social Responsibility in Europe” (RARE). The project was funded by the EU’s 6th Framework Programme. Its overarching goal was to evaluate and explain impacts of Corporate Social Responsibility (CSR) on sustainability. We were specifically interested in the extent to which CSR impacts contribute to the achievement of sustainability goals set by the European Union. The focus was on CSR impacts created within Europe rather than in developing countries.

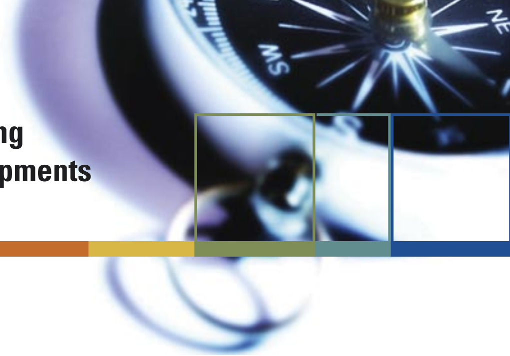
A comprehensive research enterprise

Seven leading European research institutions developed and applied a methodology to assess CSR impacts in four different CSR issue areas. These were: mitigation of climate change and chemical risk, resource management in marine fisheries, promoting gender equality and countering bribery. Empirical studies were conducted among European CSR leaders in the oil industry, the banking and fish processing sectors. SMEs in the automotive sectors of Austria and Hungary were researched as well. Another empirical study strove to understand the effects of EU accession on corporate responsibility (and vice versa) in Hungary.

Please see www.rare.eu.net for more details

Book publication

The complete results of the project including its methodological approach, empirical results and key conclusions will be presented in a book to be published in 2008 by Edward Elgar Publishing Ltd.



CSR impacts: A new research field addressing recent European policy developments

Why is it important to understand the impacts that Corporate Social Responsibility has on society and the environment? Two recent quotations of European decision-makers on CSR underpin the relevance of this issue:

"The EU Commission calls on the European business community to publicly demonstrate its commitment to sustainable development, economic growth, more and better jobs and to step up its commitment to CSR, including cooperation with other stakeholders."
(COM (2006) 136 final)

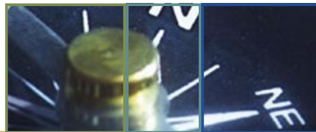
"The European Parliament ... believes that the EU debate on CSR has approached the point where emphasis should be shifted from 'processes' to 'outcomes', leading to a measurable and transparent contribution from business in combating social exclusion and environmental degradation in Europe and around the world."
(European Parliament Resolution, 13 March 2007)

The social commitment of companies is not a new phenomenon. However, non-financial reporting, international streamlining of CSR approaches and systematic assessments of such activities have emerged fairly recently.

Required research

Systematic assessment of CSR has emerged fairly recently

Whilst policy research has concentrated on public policy instruments to date, CSR research has mainly focused on CSR management in companies and the impacts of such commitment on intra-company organisation and strategies as well as on financial performance. Up to now, scant research has been carried out addressing the impacts of CSR on society and the environment.



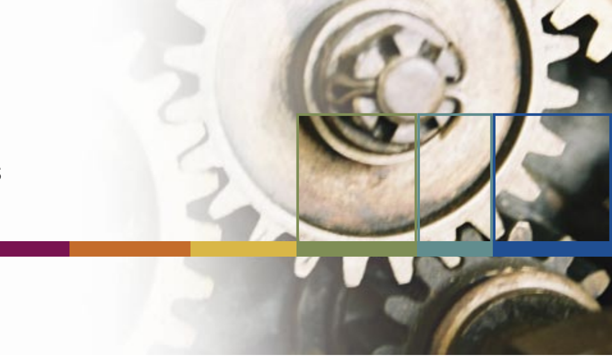
The RARE project aims to partly fill this gap. We chose not to analyse how corporate responsibility affects the business case or companies' reputation, as these important questions have been addressed elsewhere. Rather, the perspective of public policy was adopted to enquire into how the private sector can contribute to achieving politically set goals on sustainable development. Specifically, the RARE project worked as a looking glass through which companies' voluntary contributions can be examined.

Relevance of knowledge on CSR impact

So why is knowledge of CSR impact on society and the environment important?

- From the point of view of public policy-makers it is crucial to know more about the mechanisms, potentials and limits of CSR. These insights can help to create the most effective policy mixes for sustainable development.
- For societal stakeholders such as civil society organisations, it is important to learn about possible positive or negative effects of CSR in relation to their concerns and to appreciate how the creation of CSR impacts can potentially be influenced.
- For businesses, learning more about the effectiveness of their voluntary activities in terms of sustainability is decisive. Moreover, businesses can gain additional insights into how to really make a difference.

The functions of CSR in governance systems



CSR can fulfil three functions with regard to public policies

The EU Commission understands 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’. The RARE project argues that CSR can fulfil three functions in relation – and in addition – to public sustainability policies:

- With regard to command and control regulation, CSR activities can help to enhance compliance with mandatory policies. Although not in accordance with the Commission’s above definition, this function tallies with the view expressed by many companies in our surveys which use CSR also as a means to improve compliance, especially in issue areas for which realisation of compliance is complex (e. g. countering bribery). Hence CSR contributes to sustainability by improving implementation of social and environmental standards.
- When public policy uses incentives to govern corporate action, CSR can increase desired social or environmental steering effects. For instance, a response to an eco-tax would be to reduce energy consumption rather than maintain high energy consumption levels and take on full tax liability. In this vein, CSR often contributes to sustainability by technological or organisational innovation.
- CSR becomes a ‘beyond compliance’ strategy when it fulfils goals or measures not required by legislation, or when public policies provide procedural frameworks such as EMAS which can be adopted voluntarily. By going beyond compliance, an incentive arises to turn sustainability performance into a competitive tool. Ideally, learning effects within companies can lead to a ‘greening’ of product portfolios.

CSR as a ‘beyond compliance’ strategy is not only a voluntary instrument of corporate management, but also a tool for wider societal governance. This means that stakeholders can use their influence to support or put pressure on businesses to become more sustainable. Thus, CSR instruments not only comprise reporting tools, codes and management systems but also socially responsible investment and sustainable consumption tools such as product labels.

Limits of CSR

Although CSR can increase sustainability when there are incentives for companies and in cases of policy failure or weak enforcement, there are clear limits to its ability to increase sustainability. RARE project research shows that this is the case when:

- companies have a low level of control over sustainability impacts, e. g. when these occur in supply chains rather than in their own operations;
- companies do not perceive the tackling of a CSR issue as strategically important, due to a lack of risk or business opportunity;
- integration of social or environmental concerns requires a deeper transformation of companies' core businesses and products.

In such cases, binding social and environmental policies remain necessary and can help to create a level playing field among companies.

Figure 1: Functions of CSR with regard to public policies

Sustainability

	Type of governance	Function of CSR	Stimulation of sustainability through CSR
Voluntary	Procedural regulation & societal self-regulation (e. g. EMAS, labels, voluntary agreements)	CSR as a „beyond compliance strategy"	Competitive advantages, wider learning effects, including changes in product portfolio
+ Flexible Mandatory	Economic incentive instruments (e. g. taxes, tradable permits)	CSR as means of increasing the social or environmental steering effects of public policy	Technological or organisational innovation
+ Mandatory Minimum	Command and control regulation (e. g. emission limits, standards)	CSR as means to enhance compliance with public policy	Improvement of policy implementation, guaranteeing defined minimum standards

How can the impacts of CSR on sustainability be assessed?

Measuring the impact that voluntary corporate activities have on sustainability goals is a substantial methodological challenge. This is due to

- the multifaceted nature of CSR;
- substantial differences in approaches to CSR management;
- the challenge of defining CSR impact: as long as CSR is defined as a 'beyond compliance' strategy, voluntary company activities need to be distinguished from mandatory ones – yet this distinction is often blurred;
- the difficulty of quantifying CSR impact: sometimes there are issues which cannot be directly measured, for instance because the intended effect is primarily preventive (e. g. countering bribery);
- the problem of causally identifying CSR impact: factors other than CSR can contribute to sustainability impact;
- deficiencies of companies in measuring CSR impact, often resulting from the above difficulties.

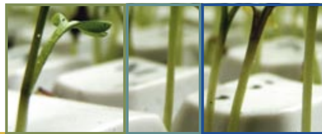
The methodological challenge of measuring CSR is manifold

A three-step approach to CSR impact assessment

In order to meet these challenges, we elaborated a qualitative approach consisting of three steps:

- Identifying CSR effects: Effects resulting from the adoption of CSR are identified, taking into account changes in commitment and strategy ('CSR output'), concrete practices ('CSR outcome') and the consequences for society and the environment ('CSR impact');
- Analysing relative improvement or goal attainment through CSR: An analysis is made as to whether adoption of CSR makes a difference compared to a hypothetical baseline of corporate performance without voluntary action, thus identifying any relative improvement through CSR. Relating achievements to absolute benchmarks such as EU policy goals is a complementary option;
- Establishing a causal relationship: Identified improvement between compliance-level behaviour and the observed company's practices is ideally related to the CSR commitment and resulting changes in practice.

In addition to assessing CSR impacts, the RARE project suggests a set of intra- and extra-company factors of influence that may help to explain these impacts.



It includes corporate strategy, organisation and culture as well as civil society pressure, the business environment and political-institutional setting.

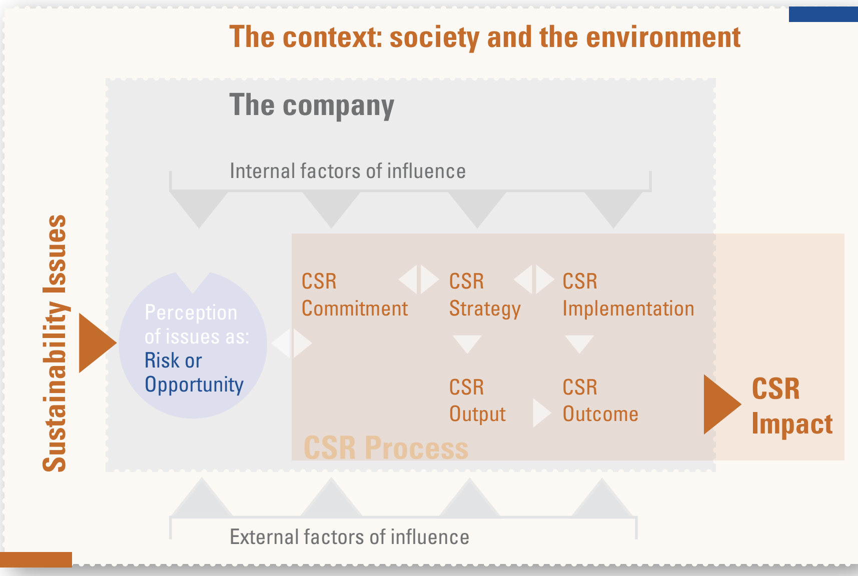
The RARE empirical research

The data for assessing and explaining CSR impacts was gained by means of

- a survey among enterprises committed to CSR: 49 respondents in the oil, banking, fish processing sectors and SMEs in the automotive supply chain; and
- in-depth case studies including company and stakeholder interviews for 10 (non-SME) companies.

CSR activities were related to EU policy goals for the mitigation of climate change, fisheries resource management, gender equality and countering bribery. The issue areas were chosen because they represent different aspects of sustainable development, while the industries represent different sector types (primary, secondary, tertiary) and different levels of CSR diffusion.

Figure 2: The CSR process and achievement of CSR impact in a company and societal context



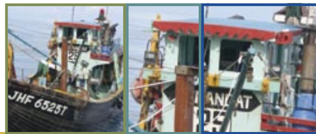
Is climate change changing the oil sector?

The oil sector has been subjected to intense societal demands for more corporate responsibility. Focus is increasingly being placed on the issue of climate change: in response to market demands for energy, the industry is partly responsible for one of the most pressing environmental concerns – the generation of high levels of CO_2 emissions. The Kyoto protocol as well as EU and national climate policies target the oil sector's climate impact to some extent. We have explored how four prevalent CSR instruments affect companies' ways of coping with climate change.

Standardised CSR instruments rendered limited impact for climate protection in the oil sector. Reasons: lack of internal adaptation and organisational integration

All of the European companies we surveyed ascribe a high strategic importance both to CSR in general and mitigation of climate change. As to the concrete instruments they use, firms assessed self-tailored and 'climate-specific' CSR tools and activities directed at reducing gas flaring, enhancing energy efficiency and developing low carbon products.

An in-depth study of Shell and of Hydro indicated that adoption of selected CSR instruments – the Global Compact, GRI, Carbon Disclosure Project and Global Gas Flaring Reduction initiative – did not always lead to an adaptation of the companies' internal practices to the instruments' requirements. Nonetheless, it was evident that the level of effects rendered by CSR instruments differed in the companies. Limited strategic control of corporate practices throughout these vast organisations emerged as a major obstacle to success. The instruments rendered limited effects even though the executives were committed and the cultures in some areas of the company favoured CSR implementation.



Existing emission reduction targets were not automatically considered when developing new projects. Also, the four instruments were kept separate from activities of the companies' climate networks, reflecting a lack of organisational integration. The lower level of effects induced by the CSR instruments in one company was caused by its executives' reluctant attitude and the discrepancy between instrument requirements and the company's tradition and culture. The crux of climate-related responsibility for the oil business is that high environmental impacts require restructuring of the very basis of business operations.

Looking at CSR in companies operating in new EU Member States, we found that Shell Hungary upheld Shell's global climate policy without translating it into concrete action on a national level, e. g. by promoting energy efficiency of its Hungarian operations. The Hungarian oil company MOL had initiated some climate-related projects (e. g. construction of a geothermal power plant in Hungary). It did not yet have a climate target, but regards it as a future challenge.

CSR in oil companies within new EU Member States

Generally, companies are active in a range of areas relevant to EU policy goals on climate change, e. g. development of renewable energy and improvement of energy efficiency. The magnitude of the work undertaken is, however, difficult to examine, partly due to possible hesitation of companies with regard to disclosing business information.

Fish processors in hunt for sustainable fisheries

The fish processing sector's approach to CSR was prompted in the mid 1990s when scarcity of wild capture seafood became a top priority on the business agenda. A decade on, we took a closer look at the effects that business initiatives have had on preserving fish stocks and marine ecosystems.

The eight fish processors active in CSR who answered our questionnaire assign high strategic importance to the issue of sustainable fisheries. The large majority of them have established respective policies and addresses the issue in their sourcing practices and supplier relations. The Marine Stewardship

Council (MSC) label is the most frequently used instrument and is also regarded as the most successful in achieving environmental benefits. Above all larger corporations use additional, tailor-made instruments to assess the sustainability of (not yet MSC-certified) fisheries from which to source their input.

An in-depth study (of Unilever PLC, Young's Bluecrest Ltd and Friedrichs KG) revealed strengths and limits of fish processors in creating positive 'on the water' impacts throughout their supply chain. A crucial precondition was the direct communication of sustainability requirements to seafood suppliers, based on long-standing supplier relations. We identified internal success factors for the companies' CSR impact as management alignment and organisational integration, including tight-knit interaction between chief executives, the sourcing, marketing and product development units. All of the analysed companies have particular traditions or identities which link up with the sustainable fisheries issue, suggesting that corporate culture may also positively affect the commitment's implementation. Finally, environmental organisations – by co-operating in instrument creation or product development and publicly communicating the issue – and in some countries the retail sector's interest facilitated effective CSR implementation, too. However, structural factors such as limited availability of fish from sustainable sources, the weaknesses of current fisheries management systems and a lack of familiarity with the MSC label turned out to be major constraints on the creation of impact.

'On the water' impacts by fish processors can only be achieved in co-operation with suppliers

Measurement of impacts is still a difficult endeavour. Rather than investigating direct, 'on the water' impact, fish processors use proxy indicators that account for behavioural

Structural factors pose major constraints on the achievement of impact for sustainable fisheries

changes in their supply chains. Regarding the contribution of fish processors to achieving EU policy goals as codified for example in the reformed Common Fisheries Policy or the Biodiversity Action Plan for Fisheries, most voluntary activities aim at the conservation and sustainable use of target stocks. Apart from the MSC, however, there are few verified measures for reducing the impact of fishing on non-target species and marine ecosystems. Therefore, contributions towards this policy goal are less obvious.

Promoting gender equality within banks

Gender equality is an ongoing challenge for European businesses, given the pay gaps between men and women and unequal representation in top positions. The banking sector is especially urged to promote equal opportunities due to its pre-eminent role in the tertiary sector and because it provides access to banking services for both male and female customers.

Most of the 17 banks we surveyed attribute high strategic relevance to the issue of gender equality, although this is less so in new EU Member States. An exceptional number of the banks had strategically developed the issue or integrated it into human resource management strategies. Studying two banks (Caja Madrid, Dexia) in more detail, we found that although equal opportunities were not originally regarded as a CSR issue, gender issues have become integrated into CSR management in due course.

Gender equality is treated as a highly relevant issue in the banking sector

Implementation of gender activities differed in the two banks. One bank preferred an implicit model and the other chose a more explicit model where gender equality is not only integrated in management systems, but is internally

and externally communicated, too. Despite the differences, both banks substantially fostered gender equality in their organisations. Important to the success of both models was that it 'fitted' with the companies' internal and external stakeholder demands and that gender equality was integrated in the corporate cultures. Strategically, the gender topic needed to be as evident as other diversity issues (elderly, disabled, young people etc).

Implementation does not follow a 'one-size fits all' approach but needs to tally with the companies' strategy, culture and stakeholder demands

In organisational terms, mid-level managers and functional officers, the presence of cross-sector functions for gender equality and ongoing internal communication proved to be important to successful implementation. Impact was promoted if gender issues were implemented in a long-term perspective. National gender equality award systems fostered this; their standardisation across the EU could benefit effective implementation in the future. Additionally, stakeholder dialogues and monitoring the needs of different social groups promoted gender impact.

In assessing performance and impact, the survey respondents considered their impacts to be medium on average. In analysing the contribution to EU policy goals the findings from both the survey and case studies indicate positive effects on the reconciliation of work and life – although the share of men working part time still tends to be rather low. While positive effects were also observable regarding equal opportunities in their career advancement, women were still underrepresented in the banks' top positions. It was not possible to fully close the gender pay gap. Finally, options to ensure gender equality in the access to and supply of banking services by developing programmes for credit services (e. g. loans to start-up businesses) in sectors dominated by female entrepreneurs have not been suficiently explored by the banks.

Countering bribery pays off for banks

Corruption, which includes bribery and money laundering, is perceived as one of the most serious issues worldwide since it damages human rights, undermines democracy and the rule of law. It lies behind many issues such as poverty, counterfeit drugs and environmental damage. Bribery presents risks not only for enterprises operating in high risk sectors and markets but also for others, through actions of rogue employees and extortion by third parties. Recent high profile scandals are reminders that bribery can take place in any country. The Member States of the European Union have identified the fight against financial crime as a top priority.

Countering bribery is highly regulated but voluntary action offers key support of companies' efforts to achieve compliance and create social impact

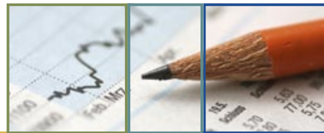
The RARE project examined countering bribery in the banking sector and considered anti-money laundering (AML) as an adjunct needed to transpose gains from bribery. Almost all the 17 banks surveyed rated countering bribery as of high or rather high importance; 12 implemented anti-bribery management systems and 14 introduced AML systems.

Case studies of two leading banks, Caja Madrid and Monte dei Paschi di Siena, revealed that whilst they recognise a special responsibility to AML, they had no specific commitments to counter bribery – though these could be assumed within wider integrity commitments. Both issues were managed mostly outside the CSR strategy, although voluntary activities were carried out. The issues are highly governed by national laws and the prime role for voluntary activity was helping to achieve compliance with laws and the

banks' norms. Also, both banks have developed their own instruments, but have not adopted anti-bribery voluntary codes or the Wolfsberg AML Principles. They went beyond compliance in communications, training and, additionally for AML, development of information technology tools. A key contributor to achieving CSR effects was the banks' traditions of community commitment and stakeholder governance, which have created internal cultures encouraging CSR effects. Further factors were the influence of banking associations as well as the specificity and obligations of laws for AML, which set procedures and targets and provide a CSR platform.

The banks' traditions of community commitment and stakeholder governance are drivers for CSR impact in countering bribery and AML

A particular difficulty in measuring impacts in this area is that activities are preventive and the issues clandestine. Proxy measures have to be used. The identified impacts were: contribution to the bank's high reputation for integrity; the quality and volume of reporting of suspicious financial transactions; and their leadership role in their sectors. The banks used CSR to achieve compliance with national laws, based on EU directives or international conventions endorsed by the EU. Perhaps the governing measure of CSR impact is that there has been no scandal – as far as is known – in relation to the banks in these complex areas of risk.



Outlook and recommendations

The RARE project can only provide first insights into the impact of CSR on society and the environment. At this stage, it is often impossible to achieve a better measurement of impacts solely attributable to CSR. This will remain so for the near future due to the nature of many CSR activities and the limits of available information. Once CSR has developed a longer tradition of systematic implementation in companies and more is done to integrate regular monitoring and follow-up, measurement will become easier.
The RARE project identified and assessed several mechanisms and ways in which CSR affects sustainability. On this basis and recognising the need for further research, we suggest some options on how to foster CSR impacts.

Possible ways to strengthen CSR impact by companies:

- Increasing depth of CSR impact: By 'depth of impact' we mean improving company standards and performance for specific CSR issues. Companies may use a bundle of different mechanisms for this, including reviewing the sustainability of their core products and services. In order to make continuous improvement possible, creation of key performance indicators is advisable. The credibility of CSR will increase when these are benchmarked against externally set targets (e. g. the EU's Sustainable Development Indicators).
  Depth of impact can also be increased by strengthening standardised CSR instruments, e. g. through competitive follow-up mechanisms such as benchmarking and strong organisational units (secretariats) that co-ordinate instrument development.

- Enlarging scope of CSR impact: By 'scope of impact' we mean widening the array of relevant CSR issues addressed by the company. Companies should take advantage of issues with high sustainability potentials in their sector and high strategic relevance to their business operations. Stakeholders can provide important inputs here.

- Promoting diffusion of CSR impact: By 'diffusion of impacts' we mean helping to spread high CSR standards and innovations outside the company, thus making the wider business context more sustainable. This can be achieved by, for example, providing a model for peer companies or engaging in sector initiatives.

Options for policy-makers to increase CSR impact:

- Orienting public CSR policies towards sustainability impact: Policy-makers have been active in providing frameworks and incentives for CSR in Europe. A gap analysis can help to assess the areas where integration of CSR in EU polices is still patchy but could contribute to sustainability. Public CSR policies – which might make use in future of a broader range of regulatory, incentive-based and procedural instruments, including public procurement – should be more strongly linked to the effective creation of sustainability impacts. As a basis for this, the Commission could produce a 'State of CSR impacts' report jointly with companies. It would present state-of-the-art methods for assessing sustainability impacts of CSR in different sectors, including issue-specific indicators.

Overcoming the lack of availability and transparency of CSR data is crucial to increasing impacts

- Promoting ambitious sustainability policies: According to our findings companies proved more active with regard to voluntary sustainability activities when ambitious policies provided clear points of orientation. The political promotion of CSR can thus be supported by ambitious social and environmental policies. These can stimulate early adaptation of corporate strategies towards the respective policy goals. In addition, such policies remain consistent when CSR fails.

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Rhetoric or realities?

The acid test of Corporate Social Responsibility (CSR) is: does it lead to genuine impacts on society and the environment or is it just rhetoric? This brochure tackles this cutting-edge challenge by presenting results of a three-year European research project.

The brochure shows

- why research on sustainability impacts achieved via CSR activities is crucial;
- that CSR has multiple functions within governance systems;
- how CSR impact can be systematically assessed;
- sustainability impacts and success factors identified by CSR research on three European industries (oil, banking and fish processing sectors) and four issue areas (climate change, sustainable fisheries, gender equality, countering bribery);
- future perspectives and options for companies and policy-makers to increase CSR impact.

The project 'Rhetoric and Realities: Analysing Corporate Social Responsibility in Europe' (RARE) was carried out between 2004 and 2007 by seven leading research institutions with funding from the EU's 6th Framework Programme.

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