

A Commitment to Sustainability

Corporate social responsibility and sustainable governance



Shareholder value, financial crisis, fair products, management compensation, turbocapitalism - terms that are on everyone's lips at the moment. Companies that neglect to fulfil their social responsibility towards workers, customers and society at large will not be successful in the long term. *Professor Lutz Michael Büchner* on corporate social responsibility (CSR) and the benefits of sustainable corporate governance.

20.03.2010/ Employees want 'good' employers, customers want 'fair' products, and society wants 'generous' and 'environmentally sound' companies. Businesses are no longer governed by shareholder value alone; increasingly, their decisions are influenced by their responsibility towards employees, customers, the environment and the society they operate in. For a rising number of businesses, whether large or small, ignoring these 'soft' factors is weakening their competitive edge.

In this context the buzzword on everyone's lips is corporate social responsibility, or CSR. Yet what is CSR? Who decides what CSR is supposed to achieve, and who measures the effects of responsible corporate governance? The driving force behind the rising significance of CSR is capital market expectations. Analysts and rating agencies no longer just look at revenue and profit, they are also starting to examine whether a company's profits were generated in a sustainable manner, that is: applying ecologically and socially sound principles. Employees, customers and the wider public are also starting to show an interest in how a company manages its business.

Definition of terms

The Anglo-Saxon concept of corporate social responsibility expresses the assumption that in the US business world, companies play a key role when it comes to social responsibility. That said, there is no generally accepted definition of CSR. Since only persons, rather than companies, can take on social responsibility, CSR presupposes a certain attitude on the part of a company's managers. In other words, CSR could also be described as a kind of value or management attitude that has sustainable business as its main objective and leads the company to engage in civic activities in its closer environment. Corporate social responsibility should not be confused with the following terms:

- **Corporate governance**, which is part of CSR yet focuses on reconciling the interests of all of the stakeholders of a company and on ensuring transparency of governance;
- **Corporate citizenship**, which primarily refers to companies' contributions to the society they operate in; and

- **(Corporate) sustainability**, which is defined as meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Unlike corporate social responsibility, sustainability refers not only to a company's responsibility towards its stakeholders, taking into account economic, ecological and social aspects, but also to its responsibility towards humanity as a whole, towards the environment and towards future generations. CSR is an integral element of sustainable corporate governance.

Aspects of social responsibility

More specifically, companies fulfil their responsibilities towards society if they...

- treat their employees fairly, support them and allow them to participate,
- preserve natural resources and use them efficiently,
- ensure that the production processes in their value chain are socially and ecologically sound,
- comply with core labor standards and respect human rights,
- contribute to the common good,
- invest strongly in education and training,
- promote cultural diversity and tolerance throughout the company,
- engage in fair competition,
- seek to prevent corruption,
- maintain transparency concerning their corporate governance, and
- respect consumers' rights and interests.

CSR - a European issue

The European Union's activities in the field of corporate social responsibility are based on the assumption that an economy can only be successful in the long term if in addition to economic aspects, it takes equal account of the social, ecological and welfare interests of all stakeholders. Based on the Lisbon Strategy, which the EU adopted in 2000 with the aim of becoming, by 2010, the most competitive and dynamic knowledge-based economy in the world without losing sight of the social aspects of growth, in its 2001 Green Paper the European Commission drew up a European definition of corporate social responsibility. Here, CSR is a 'concept whereby companies integrate social and environmental concerns' - beyond mere compliance - 'in their business operations and in their interaction with their stakeholders on a voluntary basis.' Corporate social responsibility, then, is based on three fundamental principles:

- It is a holistic concept of corporate governance (economic, ecological, social).
- It is voluntary.

- The 'best practice' approach prevails. In other words, it does not suffice just to fulfil legal expectations; a company must invest in human capital, the environment and its relations with stakeholders.

In addition to the Green Paper, in 2002 the Commission published a Communication 'concerning corporate social responsibility: a business contribution to sustainable development'. The European Multi-Stakeholder Forum on CSR, composed of representatives of companies and NGOs, was set up the same year. Finally, in 2006 the European Alliance for Corporate Social Responsibility, a joint initiative of the European Commission and the business community, was launched as an open partnership for enterprises to promote and encourage CSR.

Bringing corporate culture to life: a prerequisite

The basic idea behind corporate social responsibility is that of a partnership between the state, the private sector and civil society. CSR presupposes a positive corporate culture that is reflected in the way the company is managed and structured.

Sustainability management must take a holistic approach and has to be integrated into core corporate governance processes. These days, growing emphasis is given to the measurability of corporate activity. For this reason, CSR if used purely as a marketing tool will not satisfy the demands of the market. There are three types of corporate social responsibility:

- CSR that is motivated by intrinsic economic interests,
- CSR as an element of risk management,
- and the implementation of CSR concepts in order to follow a trend or fashion.

If treated as part of a long-term strategy, CSR can deliver benefits to the company, to its stakeholders (especially its employees, customers and the environment) and to society at large. A genuinely value-oriented and sustainable management approach leads to measurable positive economic results and in turn improves the competitive position of the company, be it small, large or medium-sized. Among the main benefits are an improved working environment, a more motivated workforce, and greater productivity. There is more interest from customers and investors, the company's position in the market is strengthened and its enterprise value is enhanced. For a company seeking to employ skilled workers **employer branding**, which determines a company's attractiveness as an employer, plays a major role, not just for potential applicants. Many companies are starting to focus on their CSR performance. The quality of their efforts is measured, evaluated and documented in CSR reports.

The principles of CSR

Corporate social responsibility as a management concept recognizes the fact that companies maintain diverse relationships with their environment. 'Environment' in this sense refers to both the actual envi-

environment and the companies' stakeholders - employees, customers, suppliers, NGOs, banks, local authorities, neighbors, investors, and shareholders. The dialog with these external groups contributes towards the company's success. Besides, a company's conduct towards its employees plays a major role. Employees are a company's key players, and they ensure the continued high quality of its products. They represent the company's face to the customer. In this context, exercising one's responsibility towards society goes beyond the existing legal framework. All companies, regardless of their size, offer enormous potential in this respect. For instance they can offer basic and advanced training, or introduce diversity management. The European interpretation of corporate social responsibility makes a distinction between the internal and the external dimension of CSR. The internal dimension covers

- occupational health and safety,
- working conditions,
- HR development, basic and advanced training, age management,
- work-life balance,
- internal communication and the quality of the social dialogue,
- corporate environmental protection, risk management,
- and corporate visions and values.

By contrast, the external dimension covers

- global environmental protection,
- respect for human rights,
- compliance with international guidelines,
- fair trade initiatives,
- and social commitment of the company.

The careful consideration of the ecological problems that result from production, transportation, packaging and waste disposal makes a sustainable contribution to society. The responsibility that large companies have for their global supply chains requires them to have special supply chain management strategies that ensure compliance with existing standards. In their role as suppliers and subcontractors, small and medium-sized enterprises are often part of the value chain. Also, procurement guidelines often contain a series of 'soft' factors that play a role in connection with tenders, and also when applying for credit. Finally, CSR also extends to include companies' civil society engagement in a wide variety of forms, such as sponsorship.

Outlook

The second part of this paper, which is scheduled for publication in one of the next issues of *der betriebsrat*, examines the international standards, guidelines and agreements with which companies are increasingly confronted. Attention will be given to corporate social responsibility as an area of activity for employee representatives in supervisory boards and works councils.

On page 18 of issue 12/2009 of der betriebrat Professor Lutz Michael Büchner explained the principles underlying corporate social responsibility and why companies cannot afford to ignore it. Here, the author discusses the international institutional framework for CSR, the role of the trade unions, and the relevance of CSR for employee representatives.

At the international level the Global Compact, the OECD and the International Labor Organization have created an institutional framework for CSR that has been instrumental in shaping the European approach.

The Global Compact

The United Nations Global Compact is a strategic policy initiative that dates back to 1999 and, by the time of writing, had grown to cover more than 4,000 businesses from 120 countries. It maintains a network that spans around 130 countries. Member businesses are expected to

- support and respect internationally proclaimed human rights,
- ensure they are not complicit in human rights abuses,
- uphold the freedom of association and the effective recognition of the right to collective bargaining,
- eliminate all forms of forced and compulsory labor,
- abolish child labor,
- eliminate discrimination in respect of employment and occupation,
- support a precautionary approach to environmental challenges,
- undertake initiatives to promote greater environmental responsibility,
- develop and propagate environmentally friendly technologies,
- and work against corruption in all its forms, including extortion and bribery.

Several governments, UN agencies and NGOs support the Global Compact. However, the initiative has attracted criticism in particular from NGOs, which claim that its membership criteria are not strict enough and that its standards are based on documents that represent a general consensus and so are covered by national legislation anyway. Members need not fear any sanctions or checks, they claim; also, Global Compact participation could be misused by hangers-on as a marketing tool, putting the reputation of this valuable global initiative into jeopardy.

OECD Guidelines for Multinational Enterprises

In contrast to the Global Compact, the OECD's Guidelines for Multinational Enterprises (MNEs) represent the only multilaterally recognized code to have been jointly adopted by governments. The Guide-

lines are recommendations addressed by governments to MNEs operating in or from OECD countries. Like the Global Compact, they make reference to business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, competition, consumer interests, science and technology, and taxation.

Compliance with the Guidelines is monitored jointly by governments, businesses, business associations, unions, other employee organizations and NGOs at the national and international level.

The Global Compact and the OECD Guidelines are complementary global instruments for promoting corporate responsibility. They should not be perceived as competing alternatives. Both are based on the principle of self-regulation. There are differences, however, in terms of their implementation and enforcement mechanisms. The OECD Guidelines appear more effective in that respect.

ILO Declaration of Principles

The International Labor Organization's tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy of 1977/2000 is another framework of reference for businesses. The Declaration was jointly negotiated and adopted by governments, employee and employer organizations and is hence based on broad consensus. Unlike the OECD Guidelines the Declaration restricts itself exclusively to sociopolitical issues, and is to be observed merely on a voluntary basis. Specifically, it recommends that

- multinational enterprises, particularly when operating in developing countries, should endeavor to increase employment opportunities,
- policies designed to promote equality of opportunity and treatment in employment should be pursued,
- multinationals should seek to provide stable employment,
- multinationals should ensure that training is provided for all of their employees in the host country,
- multinationals should provide the best possible wages, benefits and conditions of work, and
- workers should have freedom of association and the right to organize.

Global Reporting Initiative

The idea behind the Global Reporting Initiative (GRI) is that reports on businesses' economic and social achievements become just as commonplace as those on their financial performance. The GRI stipulates specific guidelines on sustainable reporting as well as recommendations for companies on how to communicate their CSR activities effectively. GRI is based on a set of Reporting Principles that aim to give stakeholders a clearer picture on the one hand, and enable a comparison of the various social and ecological approaches and measures on the other. These Reporting Principles are:

- transparency,

- stakeholder inclusiveness,
- reliability,
- completeness,
- materiality,
- sustainability context (performance in a wider ecological, economic and social context),
- accuracy,
- balance,
- comparability,
- clarity,
- and timeliness.

CSR Europe

Besides these international institutions and frameworks there are also several international CSR platforms. One of them is CSR Europe, a business network for corporations striving to integrate CSR into the way they do business. At the time of writing, the network had 75 multinational corporations and 25 national partner organizations as members.

Industry and corporate codes

Industry and corporate codes play an increasingly important role in connection with CSR.

Industry codes

Industry codes are regulations on social and ecological values that, generally speaking, the representatives of a given branch of industry negotiate with an industry union. These voluntary agreements are intended for all companies in the industry in question. Existing codes include

- the code of business practices for the toy industry (1995, 2001);
- the code of conduct for the textile and apparel industry (1997);
- the code of conduct for the sugar industry (2003),
- the Joint Declaration on CSR of UNI Telecom Global Union and ETNO (2007),
- the guidelines governing responsible action in the social market economy, adopted in 2008 by Germany's Mining, Chemical and Energy Industrial Union IG BCE and the German chemical employers' association BAVC.

There are also a number of International Framework Agreements, or IFAs, which serve as globally binding formal agreements between international industry unions and multinational corporations. Most IFAs focus on compliance with the ILO's core labor standards, payment of adequate wages, ensuring humane working conditions and occupational health and safety. They are frequently only valid for the

corporations themselves, but not - which would be preferable - for companies further down the supply chain.

Corporate codes

Corporate codes are sets of rules that businesses adopt in order to systematically integrate their ecological and social principles and values into the corporate culture. Many of these codes also cover the businesses' supply chains. In fact supply chains are increasingly coming into the public focus, notably in the toy and textile industries. The idea is that companies should do everything in their power to ensure that existing regulations (e.g. the Global Compact, OECD Guidelines) are observed by all stakeholders, including suppliers, wherever they are in the world. While corporate codes can take many different shapes, most follow the same basic principles:

- They are aligned with the ILO's core labor standards
- They correspond to the OECD Guidelines and the Global Compact
- They are linked to the Universal Declaration of Human Rights
- They contain environmental commitments
- They refer to general working hours and the payment of living wages
- They refer to industrial health and safety standards
- They call for socially responsible corporate action
- They contain a reference to the social dialogue.

Corporate codes serve to turn compliance with ecological and social standards into a systematic element of corporate policy. The institutional framework that has come to dominate the field of CSR demonstrates that there are a multitude of approaches that are putting companies under pressure to re-think their ecological and social attitudes. The opinions of the capital market are increasingly influenced by the degree to which companies are meeting these standards.

Relevance of CSR for employee representatives

CSR is a significant issue not just for employee representatives in supervisory boards, but also for members of smaller-scale works councils as well as of central and group works councils. The same is true for European Works Councils. While responsibility for sustainable action remains with the business itself, its owners or management boards, involving employee representation bodies in CSR activities can open up a whole range of opportunities:

- they participate in shaping the business's values,
- they are called upon to monitor full compliance with those values, and

- they exercise their actual duties in line with the principle of sustainability.

Since they are often also perceived as 'co-managers', they can come to play a kind of watchdog role.

Relevance of CSR for works councils

Looking at CSR in a corporate context it is clear that the subject, within the internal framework of the Works Constitution Act, offers the representation bodies a variety of opportunities for action. Most of these relate to human resources management (e.g. social standards, equal opportunities, health, equal treatment, work-life balance, OHS, reorganizations, and resource management) and can be exercised via existing negotiation and decision-making rights.

However, companies often fail to consult works councils when drawing up their social and environmental standards, guidelines and other internal codes of conduct - a deficit that needs to be addressed. The type and intensity of works council participation will depend on the company's corporate culture in general and the status inside the company of the social dialogue in particular. Liaising with NGOs can be very helpful in this respect. The representation bodies should seek to participate in these external fields of action, too.

European and Worldwide Works Councils

Where companies with European or worldwide operations are concerned, mention should be made of the special function of European Works Councils and, where applicable (e.g. Volkswagen), Worldwide Works Councils. Since European Works have information and consultation rights when it comes to transnational issues, they also have a role to play in connection with CSR. For one, EWCs can request management to provide them with information on relevant areas of the group's business; they can also monitor whether the subsidiaries implement and comply with corporate codes. In other words, they can demand that the principles underlying these codes be respected. These principles can relate to environmental and data protection, diversity management, and compliance with core labor standards and the OECD Guidelines, amongst other issues. In addition, EWCs are called upon to conclude binding agreements with management in order to improve labor, social and environmental standards at all sites where multinational corporations are present. This is another area where cooperation with NGOs plays a major role. Meanwhile a large number of transnational agreements have been concluded between EWCs and the management of multinational enterprises. The European Commission calls upon European Works Councils to help draw up constructive solutions to CSR issues, hence integrating CSR in the organized social dialogue. The approach helps all stakeholders to adapt to globalization-induced changes. Again, cooperation with NGOs is an important element of this process, too.

For instance, Electricité de France (EdF) has drawn up a global CSR agreement that was signed by the management and the unions of all subsidiaries in the group. The European Works Council played an instrumental role in this process. EdF also set up a working group with equal representation from both sides of industry that is charged with performing an annual analysis of progress made in this area, as well as of any problems the company encountered.

More opportunities than risks

All this having been said, it is important not to forget that the involvement of employee representatives in CSR does have its risks. In particular, there is a risk that the employer side may use voluntary self-commitments to argue against the necessity of works agreements. There is also a risk of being drawn into CSR projects that primarily function as good PR for the company. However, on balance there are more opportunities than risks. Since management and works councils approach CSR and sustainable management from different angles, it is important to ensure that the works councils and employee representatives exercise their influence in the supervisory bodies. They are in a position to exercise that influence, above and beyond their legal rights, in order to shape and monitor CSR processes, which ultimately benefits the company and in turn the company's job situation.

Summary

In summary, it is fair to claim that CSR is an instrument that helps to improve a company's competitive position - which not least leads to more job security - and to create new products and markets, not just in the name of short-term success, but also with the aim of assuming long-term responsibility towards society. Integrating elements of sustainability into corporate strategies and business processes delivers a multitude of benefits in three basic areas:

- Improved financial performance,
- improved risk and reputation management,
- and improved stakeholder relations.

Works councils, employee representatives in supervisory boards and the unions are all called upon to sit down and genuinely deal with corporate social responsibility and sustainable management; only then can they leverage all the influence they have. This is true for large companies and, in particular measure, for small and medium-sized enterprises. A holistic, sustainable management approach is always a competitive advantage. There is a willingness on the part of management to negotiate on CSR with the employee representatives and also draw up binding agreements with the European Works Councils, which is all the more a reason to be thoroughly prepared when the time comes. Works councils should carefully monitor their company's CSR activities. To this end, they need to

- be familiar with the CSR areas of action and understand the reasons and strategies behind CSR activities,
- be aware of the risks and opportunities of engaging in CSR,
- and identify ways to help shape CSR in practice.