



EU CSR POLICY: A BUSINESS VISION

EXECUTIVE SUMMARY

A good level of knowledge and experience on Corporate Social Responsibility has been built at EU level, based on the acknowledgement that CSR is the voluntary integration by companies of social and environmental concerns in their business operations. Future EU strategy on CSR should build on this approach.

The focus of CSR should be as a practical tool which can really reinforce the competitiveness of European companies. Any policy should avoid hampering the development of CSR by companies. Moreover, many companies already follow existing international frameworks, standards and guidelines on CSR. Future EU strategy should not interfere with these.

With different Commission Directorates-General legitimately involved in the issue of CSR, coordination and consistency is also highly important. The role of DG Enterprise and Industry in driving and coordinating the CSR agenda should be maintained.

The EU approach to CSR must be based on two key principles: 1) the fact that CSR is business-driven and 2) a clear focus on business performance. CSR has become a key element in company strategies. Future EU policy should allow companies to find the approach which best fits their specific situation, taking account of the natural diversity in CSR policies and practices.

The following issues, highlighted in more detail in the position paper, are important for the business community in the development of EU CSR policy:

- Linking CSR to competitiveness and innovation
- Engaging SMEs more in CSR
- Promoting voluntary company efforts on transparency and disclosure
- Ensuring EU trade policy benefits EU companies and developing economies
- Acknowledging the positive contribution of companies in respecting human rights
- Ensuring public procurement safeguards transparency and effective competition

In conclusion, the business community has set out a checklist to serve as a point of reference in assessing the effectiveness of the Commission's approach to CSR.



1. INTRODUCTION

The aim of any future EU strategy on CSR should be to renew and build on the current approach and policies.

The EU has built up a wealth of experience and knowledge in the area of Corporate Social Responsibility. There has been progress in the understanding of CSR, in the implications and the complexity of it, and what it means for companies, governments and civil society.

Back in 2001, the European Commission made an important acknowledgement that Corporate Social Responsibility is “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. This was cemented in the Commission’s 2006 Communication, which also established the Alliance for CSR. This approach has allowed the EU to put the focus on assisting companies in developing CSR strategies and actions, based on their individual needs and those of their stakeholders. This has been crucial in the growth of CSR strategies and policies within companies and organisations. The work of the Multistakeholder Forum also provides a relevant contribution.

In addition, the Commission’s Competitiveness Report of 2008 looked into the central issue of the link between competitiveness and CSR at company level, often referred to as the business case for CSR. This issue was revisited in the CSR Competitiveness Report - a study undertaken on behalf of the Commission in 2010.

Coordination should be ensured with other EU strategies, in particular the EU growth and jobs strategy, Europe 2020.

CSR can and should contribute to the three main elements of Europe 2020: smart growth, in terms of improving knowledge and innovation; sustainable growth by building a resource efficient, sustainable and competitive economy; and inclusive growth in terms of improving skills, active inclusion in the labour market and fighting poverty. CSR is a voluntary contribution of companies to dealing with current and future social, environmental and economic challenges.

Regarding the role of CSR in the debate on growth and jobs, it is important to underline that the focus of CSR should be as a practical and useful tool which can really reinforce European companies’ competitiveness. It would be highly counter-productive if any policy on CSR would entail unnecessary costs or hamper development of CSR at company level. To ensure the credibility and success of a renewed strategy, it is therefore crucial that it is based on a market-driven approach.

Future EU strategy on CSR should also take into account the many international frameworks, standards and guidelines which already exist in this area, which many companies follow.

It is important that any future EU strategy does not interfere with these. Therefore, whilst the EU can usefully promote and encourage the uptake of CSR through policy and practical initiatives, a specific EU framework for CSR would have no added value.



Consistency on the issue of CSR across the European Commission is crucial.

The involvement of different Commission Directorates-General in the renewal of the EU Strategy on CSR is legitimate and reflects the broad scope of issues at stake. This makes the coordination between different DGs highly important, to avoid overlapping and divergent initiatives.

The creation of a special group of Commissioners on CSR, led by DG Enterprise and Industry, could be useful in ensuring this consistency. DG Enterprise and Industry in particular has been deeply involved in driving the CSR agenda in the European Commission, in building up knowledge and experience on the key issues, and facilitating a multistakeholder approach. This role should be maintained.



2. KEY PRINCIPLES

Business-driven

The EU approach to CSR must be based on the fact that it is business-driven. European employers and entrepreneurs were engaged in corporate social responsibility and sustainability long before it became part of EU policy. Today, the broad ownership of CSR amongst European companies continues to flourish. CSR has become a key component in company strategies to address the different challenges they face and for many, it is part of their competitive edge.

In addition, the vast majority of companies consider their stakeholders seriously in defining and undertaking their business activities; this is simply a necessity. Many companies also work with stakeholders to contribute to dealing with major challenges, for example energy efficiency, supply chain management or human rights.

A business-driven approach to CSR is therefore a reflection of reality. In this respect, we hope that the Commission will continue to follow the principles and ideas developed in the framework of the European Alliance on CSR, promoting the fact that CSR is driven by companies.

Focused on business performance

For many companies, CSR is already a key consideration in terms of their short and long-term performance. Many are also engaged in assessing their CSR and sustainability performance, as part of a wider assessment of business achievements. This should be the priority for future development of CSR: how it can help to improve business performance. Other issues, such as disclosure or the way companies report on CSR could be considered relevant elements for reflection, but not the main goal of an EU CSR promotional policy.

Future EU policy should reflect this reality, by allowing companies to find the approach which fits their situation in terms of size, sector and the markets in which they operate, as well as their competitiveness needs. Flexibility is important in this respect, to take account of the natural diversity in CSR policies and practices, which are tailor-made by companies. This is also necessary in terms of disclosure on CSR.

Focusing on business performance is the best way to ensure companies continue to proactively respond to the needs of their stakeholders, to innovate in the area of CSR, and to encourage more companies to integrate CSR in their strategies and processes.



3. KEY ISSUES

Linking CSR to competitiveness and innovation

In order to increase the uptake of CSR by companies, it is important to link it to competitiveness and promote the business case of CSR. This is vital to show companies how enhancing the sustainability of their activities can contribute to their overall performance, their competitive position and ultimately their capacity to make a profit. Companies make individual choices and develop specific policies in order to remain competitive. Given that consumers, employees and investors increasingly value consideration of social and environmental issues in business activity, their considerations are also taken into account by many companies.

The environmental performance of companies is inextricably linked to their competitiveness. Business benefits can be drawn from rationalising use of resources, reducing production costs and increasing energy efficiency. Environmental elements are now an integral part of Corporate Social Responsibility, as companies understand the needs but also the benefits of conducting business in an environmentally sustainable way.

The business case for CSR has been strengthened since CSR strategies are not only a way to manage specific risks or to improve the image of the company. Rather, CSR in many cases is an integral part of a company's overarching strategy, thereby linked to its efforts to remain competitive. For example, CSR can bring business benefits in terms of giving a competitive edge on the market, helping to deal with societal demands and improving the capacity to anticipate and prevent reputational risks. Given this positive development towards a more strategic integration of CSR at company level, it is important to avoid EU policies which hinder companies in developing CSR strategies in an effective and innovative way.

Competitiveness of companies also depends on their ability to innovate. As part of business' role in society, this can include providing innovative solutions to major societal and environmental challenges, such as sustainable transport, eco-efficient products, promoting a healthy lifestyle or diversity at the workplace. At a company level, it may also include the adoption of innovative business models, for example creating sustainable business that directly benefits communities in developing and emerging countries (referred to by the concept "base of the pyramid").

Suggestions for action:

- ⇒ Promoting the business case of CSR to the business community, as well as to other stakeholders to ensure a better understanding of what drives companies to develop CSR strategies.
- ⇒ Looking at the different challenges for individual sectors and how companies address these through their CSR activities, e.g. by facilitating a stock-taking exercise and exchanges with stakeholders.
- ⇒ Ensuring that EU policies on CSR encourage companies to develop CSR strategies, allowing for innovation to continue in this area.



Engaging SMEs more in CSR

In the European Union, nine out of ten companies are small and medium-sized enterprises (SMEs). They provide two out of three jobs, are the driving force for growth and job creation and are an important source of innovation. The competitiveness of the EU depends to a large extent on their competitiveness. It is therefore important that their specific needs are taken into account in future EU strategy on CSR.

Engaging SMEs in the debate on CSR is a challenge. This is not due to a lack of willingness of SMEs to be involved in debates on responsible and sustainable behaviour, rather a lack of recognition that many of the actions they take are in fact core elements of corporate social responsibility.

For example, SMEs are often in a central position and provide real benefits to the local community. They often have close relations with their employees, harnessing high levels of motivation and engagement in the activities of the company. SMEs often have close relations with customers and business partners and many initiatives are already taken to run the business in a sustainable and efficient way. This approach brings benefits for SMEs and makes business sense: SMEs have a particularly acute need to retain staff with the necessary skills for the long-term success of the company. Keeping on good terms with their customer base is equally as important as for larger companies, as well as keeping a good profile with the local community. Running the business efficiently helps to secure a solid revenue source in the long term, particularly in view of often low profit margins.

CSR is therefore already a key consideration in terms of performance for many SMEs, even if the term itself is rarely used.

The key issue when understanding the needs of SMEs in the debate on CSR relates to the difficulties they may have in communicating on CSR practices. Many SMEs have less than 50 employees and the vast majority (90%) have less than 10 employees. This means that the owner – manager and staff often have multiple tasks. Allocating time and resources to effectively communicate on CSR or sustainability practices, means less time and resources are spent on the core business activities.

It is therefore important that CSR is not developed as an extra set of processes or requirements, in particular formalised disclosure processes.

Further efforts should be taken to engage SMEs more in CSR.

Suggestions for action:

- ⇒ Ensuring that EU policies on CSR take into account the specific needs of SMEs, in line with the ‘think small first’ principle of the Small Business Act.
- ⇒ Highlighting the business benefits of CSR to SMEs and providing practical advice on specific issues such as energy efficiency, e.g. through a business contact point on CSR as part of the Europe Enterprise Network.
- ⇒ Emphasising that many of the actions that SMEs take can be seen as CSR.
- ⇒ Continuing to support SMEs through EU level co-financing of specific projects.



Transparency and disclosure

An increasing number of companies are becoming more transparent about their business operations. Also a growing number of companies, not forced by any regulation or by public authorities, voluntarily disclose information on the impact of their business activities from an environmental and social point of view. Many of them intensively involve different stakeholders in defining and undertaking their business activities. This is due to a sincere understanding and belief that CSR transparency and stakeholder engagement have or could have a positive return in terms of business position in the market, image, coherence with company ethics, risk management, etc. This genuine belief should be preserved and not damaged by any measure imposed at EU level.

BUSINESSEUROPE sees this evolution of transparency and disclosure as a positive development and believes that companies should be acknowledged in respect of their efforts. The role of the European Commission should therefore be to effectively support and promote voluntary company efforts in this field.

For many large companies, disclosure is through reporting, although this is not a solution for all companies. It is just one way for companies to highlight their CSR practices and performance to stakeholders. Laying down obligations which prescribe the form, way and content of non-financial information that companies may disclose would jeopardise the added value of CSR. This is a decision which should be taken by the company itself, based on its own convictions and policies, also determined by its size, the specific nature of its business, and the challenges it faces.

The Single Market Act foresees legislation on transparency of the social and environmental information provided by companies. However, as stated in response to the Commission's consultation on disclosure of non-financial information by companies, the current EU legislative framework in this area remains valid. European companies do not see the need for further, more rigid requirements at EU level and question the justification for such action. In any case, if the intentions expressed by the Commission in the Single Market Act result in action to introduce further requirements in this field, this could only be based on general principles. Otherwise, this would damage the diversity and innovation allowed for by the current EU approach.

Suggestions for action:

- ⇒ Facilitating recognition and promotion of company efforts in terms of transparency and disclosure.
- ⇒ Facilitating provision of information on practices of non-financial reporting, as well as on their impact.
- ⇒ An in-depth analysis of the implications of changes to the current legislation on disclosure of social and environmental information by companies, before any further action is taken.
- ⇒ Giving companies an opportunity to voluntarily communicate and make more visible the different dimensions of their CSR activities at EU level, e.g. via an internet platform.



Trade

The objectives for EU trade policy are to create partnerships for growth and jobs and strengthen competitiveness. This benefits not only the EU, but also the developing economies in which European companies conduct trade activities. The vast majority of European companies conducting business in developing countries bring benefits to the economy and society, for example in terms of employment, providing goods and services, and supplying contracts to local businesses. Making trade agreements difficult to conclude and deterring European companies from trade activities would therefore be detrimental to the economic development of many developing countries and hamper the spread of prosperity for citizens and consumers in those countries.

It is important to remember that trade law and trade treaties lay down legally binding obligations on states, whereas they do not have direct effect on companies. Company obligations are restricted to compliance with the laws put in place by states. In this context, including CSR clauses that are legally binding on companies in Free Trade Agreements would raise a number of challenges:

- Significant risks for EU companies that wish to invest in emerging markets especially in countries with weak legal systems, or weak institutions which may be inefficient in implementing legislation;
- Deterring companies from engaging in trade activities and investing in developing economies;
- Making some trade agreements more difficult to conclude, if the country with which the EU is entering trade negotiations is not prepared to introduce social or environmental issues in the trade agreement.

Notwithstanding this, CSR can be an element of the dialogue with partner countries and regions with which the EU is conducting trade negotiations, but in a more general way. This is already the case in some instances, for example, the Free Trade Agreement with Korea includes a sustainability chapter which requires both sides to abide by certain social and environmental standards.

Also, EU trade agreements are each part of a specific Partnership and Cooperation Agreement which contain references to social, environmental and human rights issues and which enable each party to take action if these matters are not respected.

Suggestions for action:

- ⇒ Ensuring that EU trade policy continues to encourage European companies to enter into or continue trade activities.
- ⇒ Facilitating an assessment and understanding of the challenges and risks for companies operating in countries with weak legal systems or institutions.



Human rights

Multinational enterprises provide part of the solution to safeguarding human rights, making a particularly positive contribution in countries where governance is weak, by increasing prosperity and social standards, and improving education. The potential for more democracy and human rights is increased by companies' direct investments. Many companies have already committed to taking action, by adhering to international initiatives. Companies also take measures on a voluntary basis, for example developing codes of conduct for procurement of goods or combating child labour.

Since companies operate in a much more global context now, in business activities in emerging and developing countries they are more likely to come up against difficult and complex situations in which fundamental human rights legislation is not implemented and enforced. The reasons for this are manifold: the absence of democratic structures, insufficiency of well functioning state administration, wars or social unrest, political transformation processes, as well as extreme poverty and economic distress.

In this context, and in line with the John Ruggie Framework on human rights, distinction should be made between the state duty to protect and the corporate responsibility to respect. We also support the statement included in the Guiding Principles developed by John Ruggie that there is no intention to adopt further legislation in this field. Companies have neither the political nor societal mandate, nor the capacity and resources to substitute the actions of governments where human rights legislation is not adequately implemented or enforced. They do, however clearly have a responsibility to respect human rights in their business activities and many already do so in the framework of their CSR strategies.

Another important element in this debate is verifying and monitoring the supply chain. There are huge challenges for companies in this area. Large companies have thousands of suppliers/subcontractors, often in very complex supply chains. This means that the main contractor may not be in a position to ask suppliers or subcontractors to comply with their standards and in particular to monitor compliance. Despite these challenges, some companies already voluntarily place obligations on subcontractors and suppliers, for example including specific requirements in their contracts and asking them to take similar action with their own suppliers. However, it would go too far if measures were taken to make companies liable for the actions of their suppliers or subcontractors. Such a requirement would be hugely complex and costly and in many cases not possible for companies to comply with. Also, it is the role of public authorities or regulatory bodies to check application of laws by companies.

Suggestions for action:

- ⇒ Supporting existing initiatives to highlight the positive contribution of companies in respecting human rights, including dissemination of good practice examples.
- ⇒ Assessment of the challenges for companies conducting business activities in countries where human rights are not implemented and enforced.
- ⇒ Encouraging implementation of the UN Guiding Principles on Human Rights, developed by John Ruggie, e.g. by raising awareness of the clear distinction between the state duty to protect and the corporate responsibility to respect and by supporting the work of the Office of UN High Commissioner for Human Rights.



Public procurement

There is a growing trend to use public procurement as an instrument to address major societal challenges such as climate change or social exclusion. It is important to recall that the overall objective of public procurement is to safeguard a fair, transparent and efficient purchasing procedure. Especially when public finances are constrained, taxpayers' money should be used in the most cost-effective way, in particular by ensuring effective competition across the EU.

Consideration of social aspects in public procurement is already possible, through the use of the "economically most advantageous" award criterion in the EU 2004 directives on public procurement. This allows public purchasers to include social criteria provided that these are directly linked to the subject matter of the contract. The European Commission should continue helping in terms of raising awareness of this issue and explaining in practice how social criteria can be included in public procurement contracts.

The current review process of EU public procurement rules, through the launch of a Green Paper on 27 January 2011, should maintain the current rules regarding social criteria. These are sufficient to allow public authorities the freedom to consider broader, including social policy objectives. Importantly, the current rules provide for this possibility whilst ensuring a level playing field for European undertakings.

It is important that the selection criteria for public procurement contracts remain linked to the subject matter of the contract. The criterion of the most economically advantageous tender is still the best suited for pursuing broader, including social, policy objectives. The score attributed to social criteria should be left up to the contracting authorities. Softening or dropping the condition that requirements imposed by the contracting authorities must be linked to the subject matter of the contract would open up unlimited possibilities for arbitrary behaviour and steering contracts to certain suppliers. The fundamental principles of non-discrimination and transparency would be at risk if there was a change in this respect.

The European Commission should avoid imposing far-reaching requirements on contracting authorities such as mandatory social targets for products and services, as this would increase administrative burdens in the procurement process and lead to higher costs in public purchasing. It should also avoid using as social criteria general concepts such as decent work or fair and ethical trade. Introducing references in public procurement legislation to such immeasurable concepts would be counterproductive.

Suggestions for action:

- ⇒ Improving the understanding of the use of social criteria in public procurement through: Effective dissemination and continuing to provide guidance on how to take into account social considerations in public procurement, better training of public authorities, and exchange of best practices.
- ⇒ Maintaining the current rules regarding social criteria for EU public procurement.
- ⇒ Ensuring a cost-benefit analysis of inclusion of social criteria in public procurement contracts for both companies and tax payers.



4. CONCLUSION

A business driven approach to corporate social responsibility is essential, as this is simply a reflection of reality.

Companies were engaged in CSR long before it was part of the EU policy agenda, and CSR has become a key component in company strategies. Why?

- They are aware that CSR can have a positive impact on their performance
- Consequently many of them progressively integrate CSR as part of their competitive edge
- They recognise its added value to deal with their specific social, environmental and economic challenges
- They have a growing understanding, that a part of CSR is the useful involvement of stakeholders when defining and undertaking business activities.

Policy makers must ensure that any future EU strategy does not hamper the development of CSR at company level. To do so, we call on policy makers to pose the following questions to test the relevance of future CSR strategies and policies:

- ✓ Does this approach really promote and facilitate the efforts of companies in driving further developments in CSR?
- ✓ Does this approach provide enough flexibility for companies to devise CSR strategies and policies adapted to their specific needs and circumstances?
- ✓ Does this approach take into account the fact that many companies already follow international guidelines and standards on CSR?
- ✓ Does this approach not unnecessarily distort the well functioning of the single market?
- ✓ Does this policy ensure that CSR remains a real practical tool to reinforce competitiveness and not bring unnecessary costs for companies?
- ✓ Does this policy support and promote continued innovation in the area of CSR?
- ✓ Does this policy really support companies, which not forced by any regulation, voluntarily disclose information on the impact of their business activities?

The business community believes that this checklist will serve as a point of reference in assessing the appropriateness and effectiveness of the Commission's approach to CSR.