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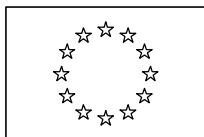
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to : Mr Javier SOLANA, Secretary-General/High Representative

Subject : **Communication from the Commission concerning Corporate Social
Responsibility
- A business contribution to Sustainable Development**

Delegations will find attached Commission document COM(2002) 347 final.

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COMMUNICATION FROM THE COMMISSION

concerning

**Corporate Social Responsibility:
A business contribution to Sustainable Development**

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1. INTRODUCTION

In July 2001, the Commission presented a Green Paper “*Promoting a European Framework for Corporate Social Responsibility*”¹. The aims of this document were, firstly, to launch a debate about the concept of corporate social responsibility (CSR) and, secondly, to identify how to build a partnership for the development of a European framework for the promotion of CSR.

The Green paper defined 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*” as they are increasingly aware that responsible behaviour leads to sustainable business success. CSR is also about managing change at company level in a socially responsible manner. This happens when a company seeks to set the trade-offs between the requirements and the needs of the various stakeholders into a balance, which is acceptable to all parties. If companies succeed in managing change in a socially responsible manner, this will have a positive impact at the macro-economic level.

CSR can therefore make a contribution to achieving the strategic goal of becoming, by 2010, “*the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion*” adopted by the Lisbon Summit of March 2000, and to the European Strategy for Sustainable Development.

The consultation process on the Green Paper has supported Community action in the field of CSR. In the present Communication, which constitutes a follow-up to last year’s Green paper, the Commission presents a EU strategy to promote CSR. It consists of six chapters. The first chapter briefly summarises the outcome of the consultation process. The second chapter develops the European strategy to promote CSR including a definition of the concept of CSR, its place in the sustainable development context and its impact on business and society. Chapters three to six describe related proposed actions.

The Communication is addressed to the European institutions, Member States, Social Partners as well as business and consumer associations, individual enterprises and other concerned parties, as the European strategy to promote CSR can only be further developed and implemented through their joint efforts. The Commission invites enterprises and their stakeholders as well as Social Partners in candidate countries to join this initiative.

2. SYNTHESIS OF CONSULTATION ON GREEN PAPER ON CSR

The Commission received more than 250 responses to the Green Paper, which are posted on the Europa website (http://europa.eu.int/comm/employment_social/social/csr/csr_responses.htm). About half of these responses came from employers' organisations, business associations and individual enterprises. Trade unions and civil society organisations accounted for another large portion of responses.

¹ COM (2001) 366

Furthermore, organisations at local, regional, national, European and international level as well as academics and other interested individuals have responded.

The European institutions, Council, Parliament, Economic and Social Committee, Committee of Regions equally adopted positions on the Green paper. Finally a number of Member States sent their comments to the Commission.

All respondents welcomed the Green paper and confirmed the usefulness of an open debate about the concept of CSR. Almost all parties - social partners and other respondents to the Green paper - supported Community action in this field.

However, there are also significant differences between the positions expressed:

- Enterprises stressed the voluntary nature of CSR, its integration in the sustainable development context and that its content should be developed at global level. Enterprises emphasised there would not be “one-size-fits-all” solutions. In the view of businesses, attempts to regulate CSR at EU level would be counterproductive, because this would stifle creativity and innovation among enterprises which drive the successful development of CSR, and could lead to conflicting priorities for enterprises operating in different geographical areas;
- Trade unions and civil society organisations emphasised that voluntary initiatives are not sufficient to protect workers and citizens rights. They advocated for a regulatory framework establishing minimum standards and ensuring a level playing field. They also insisted that in order to be credible, CSR practices could not be developed, implemented and evaluated unilaterally by businesses, but rather with the involvement of relevant stakeholders. They also asked for effective mechanisms to ensure a company's accountability for its social and environmental impact;
- Investors stressed the need to improve disclosure and transparency of companies' practices, rating agencies' methodology and investment management of SRI (socially responsible investment) funds and pension funds;
- Consumers' organisations underlined the importance of trustworthy and complete information about the ethical, social and environmental conditions in which goods and services are produced and traded to guide them in their purchase choices;
- The Council, in its Resolution of 3 December 2001, stressed that a European approach to CSR could complement existing measures at local and national level, imparting to them an added value, in order to contribute to the development of CSR. The Council mentioned that CSR can contribute not only to encouraging a high level of social cohesion, environmental protection and respect for fundamental rights, but also to improving competitiveness in all types of businesses, from SMEs to multinationals, and in all sectors of activity;
- The Economic and Social Committee highlighted that the principles of voluntary action and environmental, economic and social sustainability, together with guidance from international organisations' existing agreements are to be the frame of reference for further European initiatives in support of companies' efforts to act in a socially responsible way;
- The Committee of the Regions saw a role for the European level in providing a framework for raising awareness, promoting responsible principles and assisting businesses and public authorities in incorporating CSR in their activities;

- The European Parliament proposed to mainstream CSR in all areas of EU competence, in particular regional and social funding, and to create a EU multi-stakeholder CSR platform. It called for triple bottom line reporting by companies on their social and environmental performance, including the human rights dimension.

3. A EUROPEAN ACTION FRAMEWORK FOR CSR

Defining CSR

CSR 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.

The main function of an enterprise is to create value through producing goods and services that society demands, thereby generating profit for its owners and shareholders as well as welfare for society, particularly through an ongoing process of job creation. However, new social and market pressures are gradually leading to a change in the values and in the horizon of business activity.

There is today a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximising short-term profits, but instead through market-oriented yet responsible behaviour. Companies are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility, including consumer interests.

In this context, an increasing number of firms have embraced a culture of CSR. Despite the wide spectrum of approaches to CSR, there is large consensus on its main features:

- CSR is behaviour by businesses over and above legal requirements, voluntarily adopted because businesses deem it to be in their long-term interest;
- CSR is intrinsically linked to the concept of sustainable development: businesses need to integrate the economic, social and environmental impact in their operations;
- CSR is not an optional "add-on" to business core activities - but about the way in which businesses are managed.

Socially responsible initiatives by entrepreneurs have a long tradition in Europe. What distinguishes today's understanding of CSR from the initiatives of the past is the attempt to manage it strategically and to develop instruments for this. It means a business approach, which puts stakeholder expectations and the principle of continuous improvement and innovation at the heart of business strategies. What constitutes CSR depends on the particular situation of individual enterprises and on the specific context in which they operate, be it in Europe or elsewhere. In view of the EU enlargement it is however important to enhance common understanding both in Member States and candidate countries.

The growing recognition of CSR

CSR has found recognition among enterprises, policy-makers and other stakeholders, as an important element of new and emerging forms of governance, which can help them to respond to the following fundamental changes:

- Globalisation has created new opportunities for enterprises, but it also has increased their organisational complexity and the increasing extension of business activities abroad has led to new responsibilities on a global scale, particularly in developing countries.
- Considerations of image and reputation play an increasingly important role in the business competitive environment, as consumers and NGO's ask for more information about the conditions in which products and services are generated and the sustainability impact thereof, and tend to reward, with their behaviour, socially and environmentally responsible firms.
- Partly as a consequence of this, financial stakeholders ask for the disclosure of information going beyond traditional financial reporting so as to allow them to better identify the success and risk factors inherent in a company and its responsiveness to public opinion.
- As knowledge and innovation become increasingly important for competitiveness, enterprises have a higher interest in retaining highly skilled and competent personnel.

The global dimension of CSR

Responses to the Green Paper demonstrated the global nature of CSR issues and concerns, reflecting the fact that a growing number of enterprises, including SMEs, are developing their business world-wide, as they take advantage of market liberalisation and trade integration and are sourcing from subsidiaries and suppliers in developing countries.

Global governance, and the interrelation between trade, investment and sustainable development are key issues in the CSR debate. Indeed, awareness of CSR issues and concerns will contribute to promote more sustainable investments, more effective development co-operation and technology transfers.

Both processes of trade and financial markets liberalisation should be matched by appropriate progress towards an effective system of global governance including its social and environmental dimensions. Globalisation has also increasingly exposed enterprises to transboundary economic criminality, requiring an international response.

By abiding by internationally accepted standards, multinational enterprises can contribute to ensure that international trade markets function in a more sustainable way and it is therefore important that the promotion of CSR at international level takes as its basis international standards and agreed instruments.

Those agreed instruments are, at present, of two kinds. First, the OECD Guidelines for Multinational Enterprises are the most comprehensive, internationally endorsed set of rules governing the activities of multinationals. In promoting CSR in developing countries, EU businesses should demonstrate and publicise their world-

wide adherence to them. Second, beyond CSR, international agreements are in place and their implementation by governments should be promoted. In its communication on Promoting Core Labour Standards and Improving Social Governance in the context of Globalisation², the Commission stressed the need to ensure the respect for core labour standards in the context of globalisation. It stressed in particular the universality of core labour standards and the need for codes of conduct to integrate the ILO fundamental Conventions.

At the same time, identifying common frameworks for the global dimension of CSR is challenging due to the diversity in domestic policy frameworks, protection of workers and environmental regulation. A number of initiatives in which European companies participate, such as Investors for Africa, World Business Council for Sustainable Development, and the UN Global Compact have sought to identify basic principles and practices. The underlying approach should be that, at global level, just as at European, the implementation of CSR principles should also go over and above the legal requirements that businesses need to comply with, and approaches should involve consultation with local stakeholders.

Green paper responses also stressed the important role played by Governments, international organisations and the civil society in raising awareness and enforcing implementation of internationally agreed social and environmental standards. The added value of EU activity in this area, and in promoting the international dimension of CSR is developed in section 7.6.

Challenges for its further diffusion

The challenges to a further awareness, dissemination and adoption of CSR practices among enterprises stem from insufficient :

- knowledge about the relationship between CSR and business performance (the “business case”);
- consensus between the various parties involved on an adequate concept taking account of the global dimension of CSR, in particular the diversity in domestic policy frameworks in the world.
- teaching and training about the role of CSR, especially in commercial and management schools;
- awareness and resources among SMEs;
- transparency, which stems from the lack of generally accepted instruments to design, manage and communicate CSR policies;
- consumers’ and investors’ recognition and endorsement of CSR behaviours;
- coherence in public policies.

Towards a EU action framework for CSR

In principle, adopting CSR is clearly a matter for enterprises themselves, which is dynamically shaped in interaction between them and their stakeholders. Nevertheless, as there is evidence suggesting that CSR creates value for society by

² COM(2001)416

contributing to a more sustainable development, there is a role for public authorities in promoting socially and environmentally responsible practices by enterprises.

The need for public action to promote CSR results also from inadequate governance at the global and national levels. In its communication "*towards a global partnership for sustainable development*" (13.2.2002), the Commission has stressed that globalisation may result in negative effects if it goes uncontrolled. CSR public policies may help shape globalisation in a positive way by promoting good company practices that complement public efforts for sustainable development.

Community action in the field of CSR has to build on the core principles laid down in international agreements and should be developed in full respect of subsidiarity principles. Within this scope, there are at least two reasons pointing to the opportunity and the need for Community Action in the field of CSR. Firstly, CSR may be a useful instrument in furthering Community policies. Secondly, the proliferation of different CSR instruments (such as management standards, labelling and certification schemes, reporting, etc.) that are difficult to compare, is confusing for business, consumers, investors, other stakeholders and the public and this, in turn, could be a source of market distortion. Therefore, there is a role for Community action to facilitate convergence in the instruments used in the light of the need to ensure a proper functioning of the internal market and the preservation of a level playing field.

CSR practices and instruments will be more effective if they are part of a concerted effort by all those concerned towards shared objectives. They should be transparent and based on clear and verifiable criteria or benchmarks. Public policy can contribute to the development of an action framework with a view to promote transparency and thus credibility for CSR practices.

Principles for Community action

The Commission proposes to build its strategy to promote CSR on a number of principles. These are as follows:

- recognition of voluntary nature of CSR;
- need for credibility and transparency of CSR practices;
- focus on activities where Community involvement adds value;
- balanced and all-encompassing approach to CSR, including economic, social and environmental issues as well as consumer interests;
- attention to the needs and characteristics of SMEs;
- support and compatibility with existing international agreements and instruments (ILO core labour standards, OECD guidelines for multinational enterprises)

The Commission proposes to focus its strategy on the following areas:

- (1) Increasing knowledge about the positive impact of CSR on business and societies in Europe and abroad, in particular in developing countries;
- (2) Developing the exchange of experience and good practice on CSR between enterprises;
- (3) Promoting the development of CSR management skills;
- (4) Fostering CSR among SMEs;
- (5) Facilitating convergence and transparency of CSR practices and tools;
- (6) Launching a Multi-Stakeholder Forum on CSR at EU level;
- (7) Integrating CSR into Community policies.

The Commission is prepared to involve the candidate countries as much as possible in the implementation of this strategy. It will also promote CSR as an incentive to enhancing sustainable development and good governance in developing countries.

4. IMPROVE THE KNOWLEDGE ABOUT CSR AND FACILITATE THE EXCHANGE OF EXPERIENCE AND GOOD PRACTICE

4.1. Increasing knowledge about the impact of CSR on business and society

The responses to the Green paper reflect a broad consensus among businesses about the expectation that CSR will be of strategic importance to ensure the long-term business success.

The potential of CSR policies to strengthen the symbiotic relationship between enterprises and society has already been demonstrated in areas such as sustainable growth, education and social cohesion. CSR can support the creation of an atmosphere of trust within companies, which leads to a stronger commitment of employees and higher innovation performance. A similar atmosphere of trust in co-operation among other stakeholders (business partners, suppliers, and consumers) can increase the external innovation performance. Consumer confidence fostered through CSR can be a major contributor to economic growth. More specifically, through CSR practices, enterprises can play an important role in preventing and combating corruption and bribery, and in helping preventing the use of enterprises for money laundering and criminal activities financing.

CSR policies can also boost the societal benefit that enterprises create with regard to innovation. Innovative practices aiming at better jobs, safer and employee-friendly workplaces, gender mainstreaming and the innovation or technology transfer to local communities and developing countries, leading to a more equitable North-South economic and social development, are further examples of societal benefits created by innovative enterprises. Indeed, CSR may play a positive role in fostering development in third countries by helping to establish a dialogue between these countries, their public authorities, social partners and civil society and foreign companies.

The desire of enterprises to improve their risk management is a powerful factor behind CSR. Enterprises generally agree that CSR helps them in managing their risks, their intangible assets, their internal processes, and their relations with internal and external stakeholders. . It has also been argued that opportunities and advantages for enterprises stemming from complying with international social and environmental conventions, norms or "soft law " instruments can outweigh costs. Although most businesses support the assumption of a positive impact of CSR on competitiveness, particularly in the long term, they are however not able to quantify this effect.

Solid evidence that social and environmental responsibility supports competitiveness and sustainable development, in particular in SMEs, would be the best and most effective argument to encourage the uptake of CSR among enterprises, in particular through:

- strengthening research on how and under which circumstances enterprises adopting CSR can contribute to the objective of enhanced competitiveness and a more sustainable development: the establishment of a priority area on "citizens and governance in the*

knowledge-based society" in the Framework Programme 2002-2006 of the European Community for research, technological development and demonstration activities, will contribute to gaining this knowledge;

- supporting activities promoted by businesses, social partners, education and training institutions and other stakeholders, aiming at raising awareness and improving knowledge about CSR;*
- analysis and dissemination of information about CSR practices and their results for companies and for host countries.*

4.2. Developing the exchange of experience and good practices on CSR between businesses

In their responses to the Green paper, business organisations and individual enterprises stressed the importance of the exchange of experience and good practices about CSR between companies, as an important vehicle to develop the concept further. It can help businesses to acquaint themselves with the concept, to benchmark their position against competitors and to build up a consensus about its instruments, such as reporting standards or verification procedures. These exchanges could be particularly beneficial at sectoral level, where they can play an important role in identifying common challenges and options for co-operation between competitors. Such co-operation could reduce the costs of adopting CSR and help to create a level-playing field. It could also help to diffuse CSR in supply chains.

Co-operatives, mutuals and associations as membership-led organisations have a long tradition in combining economic viability with social responsibility. They ensure this through stakeholder dialogue and participative management and thus can provide an important reference to other organisations.

The effectiveness of existing fora for the exchange of good practice and experience at local, regional, national and EU level, could be reinforced through better networking and co-ordination of their activities.

The integration of CSR into the work of European business support networks would facilitate dialogue and co-operation between them.

4.3. Developing the exchange of experience and good practices on CSR between Member states

Several Member states have developed CSR policies, which differ because they reflect national traditions, situations and challenges. In order to facilitate the exchange of information about national policies and to support its work in the area of CSR, the Commission has gathered together a group of High-Level Social Representatives from the Member States that has met on a regular basis.

The Commission will continue to facilitate an exchange of information and dissemination of good practices about awareness raising strategies and activities, with a particular emphasis on SME, and initiatives aimed at exploring and establishing Total Quality Management Systems as well as other policies (CSR-related legislation and support). It will also propose a peer review of the CSR practices in Member States, assessing the performance and the value added of regulatory frameworks and monitoring schemes.

4.4. Developing CSR management skills

Most respondents to the Green Paper stressed the importance of education and training of managers, employees, and other actors to promote CSR. The education system, at all levels, has a crucial role to play in the fostering of social responsibility in citizens, including those who are working – or will work – in the world of business or outside it. It can fulfil this role by enabling citizens to understand and appreciate social, environmental and ethical values and equipping them to take informed decisions. Education and training in the field of business administration have particular relevance to CSR in this context, and the encouragement of an effective dialogue between the worlds of business and education on this subject can contribute to the promotion of CSR principles and practices.

The exchange of good practices in integrating CSR principles in general education as well as in business administration training could be further developed between education systems, companies, employee representatives and other stakeholders, including consumers.

The Structural Funds provide significant financial support for the economic and social conversion of areas in structural difficulties, and for adapting and modernising education, training and employment policies and systems, particularly in order to increase the adaptability and employability of workers. In this respect the European Social Fund could be used to promote CSR in management training and for other employees, as well as to develop teaching materials and courses in educational institutions, including those active in lifelong learning, in co-operation with enterprises.

4.5. Fostering CSR among SMEs

The CSR concept was developed mainly by and for large multinational enterprises. In line with the Commission's "Think Small First" strategy, the CSR concept, practices and instruments should be adapted to suit the specific situation of SMEs which make up the vast majority of European enterprises. Because of their lower complexity and the strong role of the owner, SMEs often manage their societal impact in a more intuitive and informal way than large companies. In fact, many SMEs are already implementing socially and environmentally responsible practices without being familiar with the CSR concept or communicating their activities. These practices are often defined and understood as responsible entrepreneurship by SMEs.

50% of recently surveyed³ European SMEs indicate that they already carry out socially and environmentally responsible activities for the benefit of their external stakeholders. Their community and social engagement could be characterised as being local in scope, occasional in nature, and unrelated to business strategy. The main driver would be the ethical consideration of the owner/manager, even though a significant number of SMEs also recognise business benefits such as improved relations with consumers and the local community. Furthermore, a positive correlation between SME's strategic focus and their socially responsible activities can be established: SMEs focussing on innovation, quality and growth also score

3 The 2001 ENSR survey of over 7,000 SMEs in: European SMEs and Social and Environmental Responsibility, report published in the 7th Observatory of European SMEs, 2002, European Commission, Enterprise DG
(http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm)

higher on current or future social engagement. Lack of awareness seems to be the most significant obstacle to social engagement, especially among the smallest SMEs, followed by resource constraints. Small business associations, support organisations and networks have an important role to play in raising awareness through the provision of information, user-friendly tools and the dissemination of good practices cases.

Since SMEs do not draw value from their engagement in the same way as a large company, it is important to assist SMEs in adopting a more strategic approach. Collecting evidence on the business case for different types of SMEs operating in diverse cultural backgrounds is key to a better understanding and increased SME participation. In the future, the most significant pressure on SMEs to adopt CSR practices is likely to come from their large business customers, which in return could help SMEs cope with these challenges through the provision of training, mentoring schemes and other initiatives.

To facilitate the wider adoption of responsible entrepreneurship practices by SMEs, there is a need to raise further awareness about their economic benefits and to promote them as a risk management tool, as well as to:

- work towards a better understanding of SMEs' current social and environmental engagement, including research into SME-specific aspects of CSR and the business case;*
- foster the exchange and dissemination of good practices cases identified with the help of Member State and candidate countries experts, SME representative organisations, business support organisations and consumer organisations (e.g. through publications, on-line collection of good practices etc.);*
- facilitate the development and dissemination of user-friendly, tailor-made tools for those SMEs that wish to engage in or further develop socially responsible actions on a voluntary basis (information material, SME-toolkit, etc.);*
- bring the attention of SME associations and business support organisations to CSR issues with a view to their integration into support provision for responsible entrepreneurship initiatives in SMEs;*
- facilitate co-operation between large companies and SMEs to manage their social and environmental responsibility (e.g. supply chain management, mentoring schemes etc.), in accordance with national and EU competition rules;*
- raise awareness among SMEs with regard to the impact of their activities on developing countries, and promote SMEs proactive policies, in particular in the fields of core labour standards, eradication of child-labour, gender equality, education, training, health-care assistance and insurance.*

5. PROMOTING CONVERGENCE AND TRANSPARENCY OF CSR PRACTICES AND TOOLS

CSR relates to a very wide range of company activities. This is particularly the case when an enterprise operates in several countries and has to adapt its activities to the specific situations in these countries. This diversity has helped to create an impressive richness of voluntary enterprise initiatives, which often include innovative elements, but also implies challenges, namely the lack of transparency and comparability.

Transparency is a key element of the CSR debate as it helps businesses to improve their practices and behaviour; transparency also enables businesses and third parties

to measure the results achieved⁴. CSR benchmarks against which the social and environmental performance of businesses can be measured and compared are useful to provide transparency and facilitate an effective and credible benchmarking. The interest in benchmarks has resulted in an increase of guidelines, principles and codes during the last decade. Not all of these tools are comparable in scope, intent, implementation or applicability to particular businesses, sectors or industries. They do not answer to the need for effective transparency about business social and environmental performance. As expectations for CSR become more defined, there is a need for a certain convergence of concepts, instruments, practices, which would increase transparency without stifling innovation, and would offer benefits to all parties. CSR benchmarks should build upon core values and take their starting point in international agreed instruments such as ILO core labour standards and OECD guidelines for multinational enterprises.

Several market-driven international multi-stakeholder initiatives are emerging, which work towards convergence and transparency in the area of CSR. Member states have taken various initiatives to promote them, in accordance with their respective approaches to CSR. The Commission wishes to do its part in facilitating convergence and transparency in the area of CSR, by facilitating the development, diffusion and acceptance of these international multi-stakeholder initiatives by enterprises and stakeholders.

Increased convergence and transparency would be desirable in the following fields:

- (1) Codes of Conduct,
- (2) Management standards
- (3) Accounting, auditing and reporting
- (4) Labels
- (5) Social responsible investment

5.1. Codes of conduct

The increasing public interest in the social and environmental impact and ethical standards of industry has moved many companies, in particular those of the consumer goods sector, to adopt codes of conduct relating to labour issues, human rights and the environment.

Codes of conduct are innovative and important instruments for the promotion of fundamental human, labour and environmental rights, and anti-corruption practices - especially in countries where public authorities fail to enforce minimum standards. However, it should be underlined that they are complementary to national, EU and international legislation and collective bargaining, and not a substitute to them.

The biggest challenge related to codes is to ensure that they are effectively implemented, monitored and verified. In this respect, the Commission promotes business widespread adherence to codes of conducts developed by international organisations. Special attention should be given to implementing codes in respect of workers in the informal sector and sub-contractors and in the free-trade zones.

⁴ Greater transparency also prevents companies from being used by organised crime, and terrorist groups to launder or generate money for their benefit.

The Commission believes that codes of conducts should:

- build on the ILO fundamental Conventions and the OECD guidelines for multinational enterprises as a common minimum standard of reference;
- include appropriate mechanisms for evaluation and verification of their implementation, as well as a system of compliance;
- involve the social partners and other relevant stakeholder which are affected by them, including those in developing countries, in their elaboration, implementation as well as monitoring;
- disseminate experience of good practices of European enterprises.

The Commission invites the CSR EMS Forum (see below) to consider the effectiveness and credibility of existing codes of conducts and how convergence can be promoted at European level.

5.2. Management standards

Faced with a widening range of complex issues in areas such as labour practices and supplier relations, with implications across their organisations, businesses, regardless of sector, size, structure or maturity, would benefit from the inclusion of social and environmental issues into their daily operations. In this context, CSR management systems - like Total Quality Management systems - could allow enterprises to have a clear picture of their social and environmental impacts, help them to target the significant ones and manage them well.

The Eco-Management and Audit Scheme (EMAS), for example, allows voluntary participation in an environmental management scheme. It is a scheme for companies and other organisations that are willing to commit themselves to evaluate, manage and improve their environmental and economic performance. In addition, active employee involvement is a driving force for EMAS and a contribution to the social management of organisations.

The Commission will promote the uptake of EMAS as a CSR instrument and explore the opportunity to apply the EMAS approach to address the social performance of companies and other organisations. It invites the CSR EMS Forum (see below) to examine this issue.

5.3. Measurement, reporting and assurance

In the last decade, more and more companies have started to publish information on their social and environmental performance. "Triple bottom line" reporting of economic, social and environmental indicators is emerging as good practice. At this early stage of experimentation, flexibility may ensure that reporting is appropriate to each individual business. However, a greater consensus on the type of information to be disclosed, the reporting format, the indicators used and the reliability of the evaluation and audit procedure would allow for a more meaningful benchmarking and communication of companies' performance within particular sectors and for businesses of similar size. The guidelines developed by the Global Reporting Initiative (GRI) are a good example of a set of guidelines for reporting which could be the base of such consensus.

The Gyllenhammar Report on “Managing Change” referred to the need for social reports to be drawn up in consultation with employees’ representatives and to contain structured information about practices and policies relating to employment and working conditions.

In its communication on the EU Strategy for Sustainable Development (15/5/2001), the Commission invited all publicly-quoted companies with at least 500 staff to publish a “triple bottom line” in their annual reports to shareholders that measures their performance against economic, environmental and social criteria.⁵

The Commission invites the CSR EMS Forum (see below) to develop commonly agreed guidelines and criteria for measurement, reporting and assurance by mid-2004.

5.4. Labels

The consumer right to information is founded in the EC Treaty. Information should be accurate and accessible to be useful to consumers. As Consumers express a growing preference for socially and environmentally responsible products and services, access to relevant information about the social and environmental conditions of production is crucial to help them to make informed choices. Such information is available in different forms and from different sources, including claims made by the producer, information from consumer organisations and 3rd party verified labels.

Adherence to commonly agreed criteria for making and assessing social and environmental claims of a self-declaratory character would contribute to improve the effectiveness and credibility of these claims. Monitoring of claims by Member States and stakeholders is essential. The Commission is finalising guidelines for making and assessing environmental self-declared claims by producers or distributors, based on the ISO 14021:1999 standard, with the objective of preventing misleading claims and encouraging good ones.

Consumers also receive information through recognition schemes, such as listing of awards, prizes, labels, etc., which identify good practices on specific subjects. The EU-Ecolabel⁶ as well as fair trade and ethical trade initiatives and labels are examples of 3rd party verified product labelling schemes. They are, however, only available for a limited range of product categories. For most consumer products, relevant social and environmental information is not easily accessible.

Both the ethical and fair-trade movements are now aligning themselves under common initiatives aiming at developing transparent and verifiable criteria for labelling and certification. The Commission welcomes these efforts as well as the

⁵ In the recent proposal for the modernisation of the Fourth (78/660/EEC) and Seventh Council Directives (83/349/EEC) adopted on 28 May 2002, COM(2002)259, the Commission has proposed amendments to those Directives to promote the inclusion, in the annual review, of non-financial information relevant to an understanding of the performance of the business and its position at the year end - i.e. the annual review should not be restricted to the financial aspects of performance or year end position.

⁶ The EU-Ecolabel (“the Flower”) is awarded to products of the highest environmental quality. The Flower is a transparent and credible label since the compliance with the criteria is certified, verified and monitored by an independent third party. The consumer can be confident that the product bearing the label is one of the best with respect to its environmental performance.

rationalisation of existing labels through initiatives such as the new common fair trade label launched by the Fair-trade Labelling Organisations (FLO) and will examine the need to adopt further measures to promote fair and ethical trade.

Participation in labelling schemes should be voluntary. Labels should be implemented in an objective, transparent, credible and non-discriminatory manner, respecting EU international obligations and applicable competition rules. The ILO core labour conventions should constitute a minimum baseline for such schemes. The EU supports the work of the ILO with regard to private voluntary initiatives.

By teaching the practice of making informed product choices, education could help develop a better understanding of the need for socially responsible products and services.

In its new consumer policy strategy for 2002 to 2006, the Commission committed to examining existing private labelling schemes, such as organic labelling, fair trade and CSR measures, to assess their effectiveness and the need for further measures in achieving the objectives of transparency and information for consumers with a view to promote sustainable development.

The Commission invites the CSR EMS Forum (see below) to seek to define commonly agreed guidelines for labelling schemes supporting ILO core conventions and environmental standards.

5.5. Socially Responsible Investment (SRI)

For Socially Responsible Investment (SRI) to contribute to the promotion of CSR, the development by rating organisations - independent consultants or SRI departments of investment banks - of criteria and indicators which identify the factors of competitive advantage and business success of socially responsible enterprises is essential.

With the aim of raising awareness about SRI issues, several Member States have already adopted legislation requiring pension funds to disclose whether and how they take account of social, environmental and ethical factors in their investment decisions. Although such legislation does not oblige pension funds trustees to adopt SRI policies, it increases their transparency on the issue. As pension funds start to require more information from the enterprises they invest in, these enterprises see an advantage in publicising information on their social and environmental performance.

Registration statements and prospectuses issued at the time of an IPO (initial public offering), can be another useful source of information on social and environmental risks allowing the prospective investor to assess the overall risks associated with a business.

The Commission invites occupational pension schemes and retail investment funds to disclose whether and how they take account of social, environmental and ethical factors in their investment decisions.

The Commission encourages initiatives aiming at monitoring and benchmarking practices of pension funds and investment funds with regard to and in support of CSR, and invites the CSR EMS Forum (see below) to consider whether a common EU approach can be established.

6. LAUNCHING A EU MULTI-STAKEHOLDER FORUM ON CSR

The previous chapter identified a number of areas (codes of conduct; management standards; accounting, auditing and reporting; labels; and socially responsible investment) where increased convergence and transparency is desirable in order to further promote the development of CSR practices at European level, based on European values, and to facilitate its contribution to the EU's strategic goal as adopted by the Lisbon Summit for 2010.

Common approaches and one-size-fits-all solutions may not be possible in all areas, since CSR is a fluid concept, and stakeholders also have different and sometimes conflicting interests. But a structured and partnership-based approach between businesses and their various stakeholders, as outlined in the Green Paper, can be used to draw on practical experience, build consensus where this is possible, and promote innovation.

The EU success in promoting CSR ultimately depends on widespread “ownership” of the principles of CSR by businesses, social partners, civil society, including consumer organisations, and public authorities, including from third countries, which should be based on comprehensive partnership with representatives of society at large. The involvement of all affected stakeholders is key to ensure acceptance and credibility of CSR and better compliance with its principles. In their responses to the Green Paper, a number of respondents invited the Commission to facilitate a dialogue between businesses and their stakeholders.

*The Commission therefore proposes **to set up a EU Multi-Stakeholder Forum on CSR (CSR EMS Forum)** with the aim of promoting transparency and convergence of CSR practices and instruments, through:*

- exchange of experience and good practice between actors at EU level;*
- bringing together existing initiatives within the EU, and seeking to establish common EU approach and guiding principles, including as a basis for dialogue in international fora and with third countries;*
- identifying and exploring areas where additional action is needed at European level.*

The proposed Forum, to be chaired by the Commission, will bring together some forty European representative organisations of employers, employees, consumers and civil society as well as professional associations and business networks. The Commission will aim to ensure a balanced representation of the stakeholders. The other EU institutions will be invited with observer status.

A two-level structure is envisaged:

- two plenary meetings of the Forum - at political level - each year, to agree broad guidelines, rules of procedures and a work programme, and assess progress;
- theme-based Round Tables, in a more restricted composition to be defined by the Forum itself, to implement the work programme. Depending on the specific issues addressed, participation to these Round Tables should include relevant stakeholders and experts, including through the use of the Internet to consult and seek input, where costs prohibit direct participation. Participation from developing countries will also be ensured.

A steering group including representatives from the Commission and from leading participating organisations will be responsible for the daily management of the Forum.

The agenda, documents tabled and results of the CSR Round Tables will be public and posted on Europa. The activities of the Forum will be supported from within the existing financial, human and administrative resources of the Commission.

The Commission invites the CSR EMS Forum to address and to agree by mid-2004 if possible on guiding principles on the following issues:

- the relationship between CSR and competitiveness (business case);
- the contribution of CSR to sustainable development, in particular in developing countries, and to gender mainstreaming;
- SME-specific aspects (tools, coaching/mentoring practices by large enterprises, supply chain aspects);
- effectiveness and credibility of codes of conducts, to be based on internationally agreed principles, in particular the OECD guidelines for multinational enterprises;
- development of commonly agreed guidelines and criteria for CSR measurement, reporting and assurance;
- definition of commonly agreed guidelines for labelling schemes, supporting the ILO core conventions and environmental standards;
- disclosure on pension and retail funds SRI policies.

The Forum may also identify other issues, which need to be considered.

The CSR EMS Forum is invited to present before summer 2004 a report about its work to the Commission, which should then make an evaluation of its results, decide on its future and consider if any other initiative, involving in particular enterprises and the other stakeholders, is appropriate to further promote CSR.

7. INTEGRATING CSR IN ALL EU POLICIES

In the context of the strategy for sustainable development adopted by the European Union at the Gothenburg Summit of June 2001, and of the Charter of Fundamental Rights of the European Union, proclaimed in Nice in December 2000, the European Union is committed to fully integrate economic, social and environmental considerations as well as fundamental rights including core labour standards and gender equality, into its policies and actions, with due respect to both their internal and external dimensions.

CSR practices can contribute to the objectives of EU policies, in particular sustainable development, by supplementing existing policy tools such as trade and development agreements.

To ensure the coherence of EU policies, the Commission is committed to:

- *further promote the integration of CSR principles into EU policies, where appropriate;*

- *publish a report on CSR in 2004, on the work of the CSR EMS Forum and the results reached by then, as well as on the integration of CSR in all EU policies;*
- *set up an interservice group on CSR within the Commission, in order to share information and achieve consistency between the actions of the Commission in the field of CSR.*

7.1. Employment and social affairs policy

Within a business CSR relates to quality employment, lifelong learning, information, consultation and participation of workers, equal opportunities, integration of people with disabilities anticipation of industrial change and restructuring. Social dialogue is seen as a powerful instrument to address employment-related issues.

Employment and social policy integrates the principles of CSR, in particular, through the European Employment Strategy, an initiative on socially responsible restructuring, the European Social Inclusion Strategy, initiatives to promote equality and diversity in the workplace, the EU Disability Strategy and the Health and Safety Strategy.

In its document "Anticipating and managing change: a dynamic approach to the social aspects of corporate restructuring", the Commission has stressed that properly taking into account and addressing the social impact of restructuring contributes to its acceptance and to enhance its positive potential. The Commission has called upon the social partners to give their opinion in relation to the usefulness of establishing at Community level a number of principles for action, which would support business good practice in restructuring situations.

In its communication "Adapting to change in work and society: a new Community strategy on health and safety at work 2002–2006"⁷, the Commission has expressed its intention to encourage instruments which promote innovative approaches, to encourage the various parties to "go a step further" and to associate all the interested parties in achieving the overall objectives of this strategy, more especially in new fields which do not lend themselves easily to a normative approach.

Deeply rooted societal changes such as increasing participation of women in the labour market should be reflected in CSR, adapting structural changes and changing the work environment in order to create more balanced conditions for both genders acknowledging the valuable contribution of women as strategies which will benefit the society as well as the enterprise itself.

The 2003 European Year of People with Disabilities provides an opportunity for enterprises to exchange experience of CSR practices and strategies and to undertake actions with a view to acting in a socially responsible manner towards people with disabilities in relation to promoting equal employment opportunities, developing designed-for-all products as well as improving accessibility to assistive technologies.

⁷

(COM(2002) 118 final)

7.2. Enterprise policy

Only competitive and profitable enterprises are able to make a long-term contribution to sustainable development by generating wealth and jobs without compromising the social and environmental needs of society. In fact, only profitable firms are sustainable and have better chances to adopt/develop responsible practices.

The role of enterprise policy is to help create a business environment, which supports the Lisbon objective of becoming the world's most dynamic knowledge-driven economy, supports entrepreneurship and a sustainable economic growth. Its objective is to ensure a balanced approach to sustainable development, which maximises synergies between its economic, social and environmental dimensions.

Another key element is to support businesses in enhancing their competitiveness and in meeting the challenges of the transition to the knowledge economy. A special focus of enterprise policy is on SMEs and responsible entrepreneurship, where projects with Member states are carried out to identify good practices in policy and support. Further action priorities focus, among others, on research on the impact of CSR and sustainable development on business performance, industry-sector specific aspects (ICTs, tourism, services, social economy), CSR and innovation and the management of the intangible assets of firms.

7.3. Environmental policy

Environmental requirements have developed, over the last 25 years, to become of horizontal nature, applying to all Community policies, as is demonstrated by Article 6 EC Treaty. At the same time CSR includes sound and progressive environmental principles. Experience shows that undertakings, which follow sound environmental standards, are, in medium and long term, more competitive on the international market, as environmental standards promote innovation and modernisation of processes and products and lead to cleaner technologies. Conversely it may also be that internationally competitive firms are better able to invest in newer, more efficient and cleaner technologies.

The role of business in fostering environmental sustainability is a central issue in the newly adopted 6th Environmental Action Programme, and builds on a number of community actions which have addressed the various dimensions of business responsibility in the environmental field.

- The already mentioned Eco-Management and Audit Scheme (EMAS) promotes continuous improvements in the environmental performance of industrial activities by committing firms to evaluate and improve their own environmental performance.
- The Commission also actively supports the European Eco-Efficiency Initiative (EEEI), an initiative of the World Business Council for Sustainable Development and the European Partners for the Environment, which aims to integrate eco-efficiency throughout European business, and in European Union (EU) industrial and economic policies.
- The Recommendation of the European Commission on the recognition, measurement and disclosure of environmental issues in the annual accounts and

annual reports of companies has set community standards in order to produce reliable, comparable and useful information on the firms' environmental performance.

- In its communication "Environmental Technology for Sustainable Development"⁸, the Commission has underlined the importance of environmental technologies, and their ability to contribute both to the profitability of individual firms and to the competitiveness of the economy. In particular, the use of cleaner 'integrated' technologies are often associated with improved process efficiency and can provide savings for the firm thanks to improved resource efficiency, reduced waste etc. This provides clear guidance for action by enterprises willing to improve their environmental performance. The Commission intends to address this issue in the context of its forthcoming Action Plan to promote green technologies.

As part of their CSR strategies, enterprises are invited to adopt the above mentioned principles and approaches. EMAS can be a key tool to implement them.

7.4. Consumer Policy

CSR has partly evolved in response to consumer demands and expectations. Consumers, in their purchasing behaviour, increasingly require information and reassurance that their wider interests, such as environmental and social concerns, are being taken into account. Enterprises are increasingly sensitive to these demands both to retain existing customers and to attract new customers.

Consumers and their representative organisations have therefore an important role to play in the evolution of CSR. If CSR is therefore to continue to serve its purpose, strong lines of communication between enterprises and consumers need to be created.

Concerning fair commercial practices, the Commission is in the process of consulting interested parties on the detail of a possible framework directive which would harmonise national rules on the fairness of commercial practices (advertising, aggressive marketing, after-sale customer assistance, etc.) between businesses and consumers⁹.

7.5. Public procurement policy

The EU public procurement rules are of an essentially economic nature but have also to be seen in the light of the sustainability requirement of Art. 2 of EC Treaty. The interpretative communications of the Commission on the Community law applicable to public procurement and the possibilities for integrating social¹⁰ and environmental¹¹ considerations into public procurement have clarified how Community law offers numerous possibilities to public purchasers who wish to integrate social and environmental considerations into public procurement

⁸ (COM(2002)122)

⁹ COM(2002) 289 final, COM(2001) 531 final

¹⁰ COM(2001) 566 final of 15.10.2001

¹¹ COM(2001) 274 final of 4.7.2001

procedures, whilst at the same time ensuring respect of the principle of value for money for taxpayers and equal access for all EU suppliers.¹²

When public procurement does not fall under the scope of the EU public procurement directives, public purchasers are generally freer to integrate social and environmental considerations into their procedures provided that they are compatible with the general rules and principles of the EC Treaty and Member States legislation. However public purchasers generally lack specific information as to what social and environmental characteristics they may seek for a given product. To address the environmental dimension of this issue Guidelines on greening public procurement by using the European Eco-label criteria have been issued by Commission's services in November 2001. Work is currently underway on a number of other initiatives in the field of public procurement and the environment. These include a practical handbook on green public procurement, and a database providing information on environmental aspects of key products and services for corporate and public purchasers."

Facilitating the exchange of experience about the possibilities to take into account social considerations in public procurement - as outlined in the Commission's communication - could be useful to raise awareness amongst public purchasers.

7.6. External relations policies, including development policy and trade

The European Union can make more effective the promotion of CSR at international level because it has a unique set of agreements with third countries and regional groupings, including the Cotonou Agreement with the African, Caribbean and Pacific countries. Since 1994, these have incorporated a clause defining human rights as a fundamental element of the agreement, which serves as the basis for dialogue with a third country government on human rights. This includes encouraging respect for core labour standards, since this forms a necessary underpinning for successful CSR activity by companies investing in developing countries.

The EU's approach in this area was set out in the Communications on The EU role in promoting human rights and democratisation in third countries¹³, and on Promoting Core Labour Standards and Improving Social Governance in the context of Globalisation¹⁴. It includes the use of bilateral dialogue with governments and development assistance to build capacity, and of additional trade incentives under the EU's Generalised System of Preferences (GSP) where countries comply and apply minimum social and environmental standards. GSP also provides for their temporary withdrawal where countries that commit serious and systematic violations of any of the core labour standards referred to in the ILO Declaration on Fundamental Principles and Rights at Work.

The EU also has a role in promoting dialogue between the EU and third country civil societies, including business, and can use this role to further the spread of CSR. Trade unions, consumer associations, human rights defenders and other "watchdog" mechanisms play an important role in promoting and ensuring respect for fundamental rights. By promoting exchange of experience and sharing of good

¹² In addition, non-compliance with relevant legislation i.e. in the social or environmental field may be taken into account by the purchaser in order to exclude a contractor from participating in a contract.

¹³ COM (2001) 252) final

¹⁴ COM(2001)416

practices between counterparts in the EU and developing countries, the EU can contribute to building capacity to monitor the on-the-ground application by investors, foreign and domestic, to CSR principles. Such debate can also promote convergence of approaches. EC assistance programmes can potentially be used to provide support to such dialogue and capacity building concerning CSR.

Promoting debate on CSR is particularly useful in developing countries where there is little understanding of the concept, or where it is regarded with suspicion as a form of protectionism or a brake on investment flows, rather than as a potential market opportunity (e.g. through social labelling schemes) and a means of attracting FDI. But it is also useful for the EU to encourage the inclusion of CSR as a topic for dialogue with developed country governments, business and civil society, particularly where these are major sources of FDI, so as to promote convergent and effective global approaches.

The EU can take the lead in promoting CSR in multilateral and global fora such as the OECD and the forthcoming Johannesburg World Summit on Sustainable Development in August 2002.

The EU can also engage directly with multinational enterprises and encourage them to play a part in promoting respect for human rights and labour standards, including gender equality, particularly where their operations have an influential role in countries with a poor record in this area.

Additionally, where public support is provided to enterprises, this implies co-responsibility of the government in those activities. These activities should therefore comply with the OECD guidelines for multinational enterprises, and, inter alia, not involve bribery, pollution of the environment or child or forced labour. Making access to subsidies for international trade promotion, investment and export credit insurance, as well as access to public procurement, conditional on adherence to and compliance with the OECD guidelines for multinational enterprises, while respecting EC international commitments, could be considered by EU Member States and by other States adherent to the OECD Declaration on International Investment.

Further to the adoption of the 1997 OECD Convention on bribery of foreign public officials in international business transactions, it is a punishable offence (including corporate liability) in all state parties' jurisdictions (including all EU Member States) to bribe a foreign public official of any jurisdiction world-wide. Awareness-raising within the entire private sector should be improved with a view to sensitising companies to the damaging consequences that corrupt practices might have on companies and their reputation, thus contributing to the prevention of corruption.

To promote CSR principles and practice at international level, and particularly in developing countries, the Commission:

- Will pursue the approach outlined in its Communication on Promoting Core Labour Standards and Improving Social Governance in the context of Globalisation. It reiterates its call to the Council adopts at the earliest opportunity a strategy to improve global social governance and promote core labour standards as a necessary foundation of the present initiative on CSR.*
- In line with this approach, provide support for capacity building and technical assistance to developing countries to promote compliance with agreed international environmental*

and labour standards, thereby helping to promote sustainable development and establishing a solid basis for the application of CSR principles by both foreign and domestic investors;

- Promote awareness and application of CSR abroad, including through its Delegations, by encouraging debate and exchange of good practice, between and among third country and European stakeholders;*
- Support and promote the commitment of the Community and EU Member States regarding the OECD Guidelines for multinational enterprises, through the inclusion in EU external relations agreements of the phrase: “The Parties (or the European Community and its Member States) remind their multinational enterprises of their recommendations to observe the OECD Guidelines for Multinational enterprises, wherever they operate.”*

7.7. Public administrations

Public administrations, including the Commission, need to practice CSR principles in their own management and with their own “stakeholders”.

The Commission has decided to take a more integrated and systematic approach to the management of social and environmental matters within its administration. It has decided to register under the EMAS scheme and encourages other public authorities also to follow this example.

The Commission intends to:

- integrate further social and environmental priorities within its management, including its own public procurement;
- assess its social and environmental performance by publishing a social and environmental report by 2004;
- launch an awareness raising campaign towards the Commission’s agents in 2003.

The Commission invites public administrations at national, regional and local level to also examine their practices with a view to integrating social and environmental considerations.