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Corporate Social Responsibility's Role In Sustainable
Development Of The European Union

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ABSTRACT

The purpose of this study is to evaluate the importance of corporate social responsibility (CSR) and its significance in sustainable development of the European Union.

CSR is becoming an important issue in the modern business world since the global economy is led by large corporations. There are some multinational companies have more turnovers than the GDP of many countries which explains the increase in their influence in the globalized world; Thus they have a large impact on the development and it's sustainability.

In 2000, European Union set a challenging goal to itself in Lisbon to make European Union the world's most dynamic and competitive economy, capable of sustainable economic growth. To achieve this, governments have to cooperate with corporations, encourage better corporate behavior and promote them to adopt corporate social responsibility policies. The right mix of public policies added by corporations' willingness to accept their responsibilities can ensure sustainable development.

In this study, building on existing literature, the European policies and their effects will be analysed especially in the fields of CSR and sustainable development. There are critics that CSR does not have convincing business grounds; principle duty of corporations is maximizing profits. This study will elaborate on these discussions and make the case of CSR for business and sustainability where CSR carries immense benefits for the future of the EU. A survey is conducted on CSR in Turkey and results are shared. The intention of this paper is not giving definitive answers but instead emphasizing the importance of the subject.

ÖZET

Bu çalışma, kurumsal sosyal sorumluluk kavramının Avrupa Birliği' nin sürdürülebilir kalkınmasındaki önemine ilişkin gerekçeleri sunmayı amaçlamaktadır.

Küresel ekonominin büyük şirketler tarafından yönlendirilmesiyle, kurumsal sosyal sorumluluk modern işdünyasında gittikçe daha büyük öneme kavuşmaktadır. Halihazırda cirosu bir çok ülkenin GSMH'sından fazla olan çok uluslu şirketler olduğundan, bu şirketlerin küresel ekonomiye ve bu yolla da kalkınmaya ve kalkınmanın sürdürülebilirliğine olan artan etkisini de açıklayabilmek mümkündür.

2000 yılında Lizbon'da Avrupa Birliği kendine iddalı bir hedef koyarak, on yıl içinde sürdürülebilir ekonomik kalkınma içinde olan dünyanın en dinamik ve rekabetçi ekonomisine sahip olma kararını almıştır. Bunu gerçekleştirmek için hükümetlerin şirketlerle işbirliği yapmaları, şirketleri daha sorumlu kurumsal davranış içinde bulunmaya ve kurumsal sosyal sorumluluk politikaları uygulamaya teşvik etmeleri gerekmektedir. Doğru kamu politikaları şirketlerin kendi istekleriyle sorumluluklarına sahip çıkmasıyla bir araya geldiği taktirde sürdürülebilir kalkınma gerçekleşecektir.

Bu çalışma, varolan literatür sayesinde Avrupa Birliği politikalarını ve bu politikaların sürdürülebilir kalkınma ve kurumsal sosyal sorumluluk alanlarına olan etkilerini incelemektedir. Kurumsal sosyal sorumluluk kavramının işletmeler yönünden ikna edici olmadığını içeren mevcut eleştiriler, bir şirketin öncelikli görevinin kar maksimizasyonu olduğunu söylemektedir. Bu çalışma, hem bu tartışmalara yer vermekte, hem de kurumsal sosyal sorumluluğun işletmeler yönünden faydasını anlatarak Avrupa Birliği'nin sürdürülebilir geleceğine etkisine ışık tutmaktadır. Çalışma kapsamında Türkiye'de kurumsal sosyal sorumluluk üzerine bir anket gerçekleştirilmiş ve sonuçları sunulmuştur. Çalışmada amaç kesin cevaplar vermekten çok konunun önemine dikkat çekmektir.

LIST OF ABBREVIATIONS

BSR	Business for Social Responsibility
CSR	Corporate Social Responsibility
CFP	Corporate Financial Policy
CSP	Corporate Social Policy
EC	European Commision
EU	European Union
EMS Forum	European Multi-Stakeholder Forum
GC	Global Compact
GRI	Global Reporting Initiative
ILO	International Labor Organization
ISO	International Standardization Organization
MNE	Multinational Enterprise
SDS	Sustainable Development Strategy
SRI	Socially Responsible Investing
SAI	Social Accountability International
UN	United Nations
UDHR	Universal Declaration of Human Rights
WBCSD	World Business Council for Sustainable Development

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INTRODUCTION

"Corporate," "social," "responsibility"... None of these words is new but what they represent together is a rising and relatively new concept.

In the century we are living today, the balance of power in the world is not only dominated by states but also large, strong businesses, which operate across borders. Power comes with "accountability" which requires that the power holders-in this case-the corporations to take responsibility for the actions taken in their names and their shareholders.

Of course, corporations function respecting the legal frameworks imposed by the States, but these are not sufficient to fulfill the societal demands especially because of the negative effects of globalization. CSR suggests corporations to go further; voluntarily show ethical behavior, be transparent and act beyond their traditional bottom-line and narrow shareholder concerns and identify the stakeholder groups and integrate their demands to their own strategic and business functioning.

Given the number of large multinational corporations, effective regulations seem often limited. The lack of effective regulations led a global civil society, NGOs to fill the gap today. Indeed the challenges for businesses from globalization largely driven by the increasing global nature of civil society rather than the globalization of business.

The first chapter of this paper defines CSR comprehensively, introducing the elements of CSR and the international work done, codes and conducts suggested. It is crucial to explore the concept before moving onto the practice of CSR.

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The purpose of this study is to identify the role of CSR in European Union's sustainable development. EU made an ambitious decision in Lisbon in 2000; "to make EU the world's most dynamic and competitive knowledge-based economy, capable of sustainable economic growth with more and better jobs and greater social cohesion." The second chapter explores the concrete measures that EU has been taking. Milestone steps are introduced to analyze the evolvement of the CSR term inside EU.

As the second chapter introduces the European framework, third chapter complements this framework by exploring European level of practice. Suggested and in some cases embedded in policies such as "Employment and Social Affairs", "Enterprise" , "External Trade", "Environment" and "Consumer Issues", the traces of CSR is analyzed. After presenting the European level practice, the national practices is presented starting with UK. German and French experiences are given and there are examples from the new member states.

The fourth chapter brings CSR into question: Is there really an economic explanation? The first chapter gives the definitions and elements while this chapter supports the term by discussing the counter arguments. Corporations are keen on finding an economic reasoning behind CSR; which is in fact the long-term goal and usually the case.

The fifth chapter adds more to the European dimension of CSR; discusses the latest steps, their implications, and possible effects on the sustainable development of the EU; on achieving the 2010 Lisbon strategy. EU is not what it was in 2000; evolving continuously and enlarging. This chapter comments on the future member states' ability in coping with the CSR dimension of the EU. Turkey as a candidate for EU membership is analyzed as well.

The intention of this paper is not giving definitive answers but instead emphasizing on importance of CSR and its contribution to sustainable

development in European Union's future. The conclusion sums the significant progress in the period that is explicated and predictions for the future.

CHAPTER I

WHAT DO WE UNDERSTAND BY CORPORATE SOCIAL RESPONSIBILITY?

Corporate Social Responsibility is not a panacea, or a magic wand, for anishing the problems of the world. Nevertheless, we see it as an important tool, which demonstrates that businesses and social partners, can and will do better; for themselves and for others. Demonstrating that, responsible corporate behavior is part of a new and better way of managing change. reconciling social progress with improved competitiveness. Reflecting the fact that economic, employment and social policies are inter-dependent and mutually reinforcing. Moreover, that CSR makes sense for the business community, as well as society. [1]

Today's globalized economy invites both challenges and opportunities. Opening of the markets, creation of the bonds between economies and cultures, brought new concerns and expectations from the citizens around the world. These demands and expectations on issues such as environmental protection and labor standards are not limited with the action of their governments but also from the private businesses.

There, the "Corporate Social Responsibility" (CSR) term appears; it is one of the buzzwords used quite often today in the business world. Although there is not a common definition of CSR, it basically can be described as the corporations voluntary fulfillment of their duties towards its stakeholders.

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[1] **Diamantopoulou, A. , Commissioner Responsible for Employment and Social Affairs European Commission, addressed to the UNI-Europa Finance Committee on "Corporate Social Responsibility The EU Approach" Athens, April, 2003**

CSR's acknowledgement in the world is supported by the international organizations' vast amount of work such as the standards set by the United Nations (UN), International Labor Organization (ILO) conventions, Organization for Economic Co-operation and Development (OECD) guidelines and European Union framework and support.

The comprehensive set of codes, policies, and enforcements came into agenda led by these organizations form the basis of CSR today.

This chapter will first present varied definitions of CSR from the literature followed by the reasons lying behind. CSR's relation to sustainable development will be explored and afterwards the types of CSR will be looked at.

1.1 DEFINING CSR

CSR has been a rising concept especially in the last three decades. Within its literature review, though there are many insightful books and articles on features of CSR and its evolution, there is no comprehensive history of CSR before 1970's.

According to Nobel Prize laurate economist M.Friedman(1970) states that, in a free society, "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." At the time this perspective would find much support than it does to today; where Friedman favours state tackling social problems. His argument was the primary responsibility of an executive is to the shareholders of the company, employess and clients. After meeting the terms of profit, "tax paying" would be a way to delivering the commitment for the society.

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Despite the fact that states mainly carry the responsibility to handle these issues, and many corporations find the argument suggested above appealing, corporations contributions are significantly important.

The definition often used today was raised by Archie B.Carroll in the late 1970's, discussed and developed until 1990's. "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time."

According to Archie B. Carroll (1979), modern era of CSR began with the publication of the book "Social Responsibilities of the Businessman" by Howard Bowen[2] in 1953 who argued that corporate managers had an ethical responsibility to consider the needs of society (Van Der Putten 2005).

By 1980 it was generally agreed that corporate managers did have this ethical responsibility, and the focus changed to what CSR looked like in practice. The arguments in favor of corporate managers having an ethical responsibility to society draw from four philosophical theories.

This four-part definition[3] explains that businesses should focus on four strategic areas: economic, legal, ethical and philanthropic. Economic responsibility means that a business must establish a strong bottom line before it has the ability to do any other socially responsible activities. A business that operates within the parameters of the law meets the legal responsibility requirement. To be ethically responsible, the business must do more than what the law dictates; they should do what is right and just. Finally, philanthropic activities provide the business a way to 'give back' to the society that supports them.

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[2] **Bowen book is out print and unreachable; it is cited in Van Der Putten, F. (2005).Research Agenda For International Corporate Social Responsibility. NRG Working Paper. 05: 9**

[3] *Ibid*

Figure 1.1 Four Part Definition of CSR

Carroll improved his Social Responsibility Categories model in 1991 when he proposed the Pyramid of CSR both the Social Responsibility Categories and the Pyramid of CSR emphasize that economic aims are indeed a major part of CSR. Firms should not pursue the 'philanthropic' element of CSR if the other three elements are not fulfilled. In other words, a holistic understanding of CSR will encourage firms to devise a strategy to enhance overall business performance, and then exert themselves to be "good corporate citizens".

Carroll carried forward his work with Schwartz (1991); they remodelled the CSR Pyramid composed into three areas – economic, ethical and legal. They argued that the best business strategy is to focus on the intersecting points of these areas and complying with the law.

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Business for Social Responsibility[4] (BSR) claims that CSR is used interchangingly with various other phrases including business ethics, corporate citizenship, corporate accountability and sustainability. To BSR, all these terms mean "achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment". According to BSR, responsible companies will address various CSR issues like business ethics, community investment, the environment, governance, and accountability, human rights, marketplace perception and reaction to business behaviour, and workplace policies and practices. BSR also emphasizes that companies will benifit from their socially responsible actions.

The International Business Leaders Forum[5](IBLF) defines CSR as "open and transparent business practices that are based on ethical values and respect for employees, communities and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders." IBLF acknowledges that CSR is a very broad, complex as well as challenging topic. For IBLF, human rights, labour and security, enterprise and economic development, business standards and corporate governance, health promotion, education and leadership development human disaster relief, and the environment issues are included in CSR. All these 'themes' need to be addressed with specific'management toolkit' in order to make sure that firms will bring in the benefits of being socially responsible.

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[4] BSR is a global business organization that helps its network of leadership companies advance their CSR performance. Their website offers good resources: http://www.bsr.org

[5] International Business Leaders Forum (IBLF) is located in London. It works with business, governments, international agencies and other stakeholders to create new partnerships that help both business and communities to flourish: http://www.iblf.org/contact_us.jsp
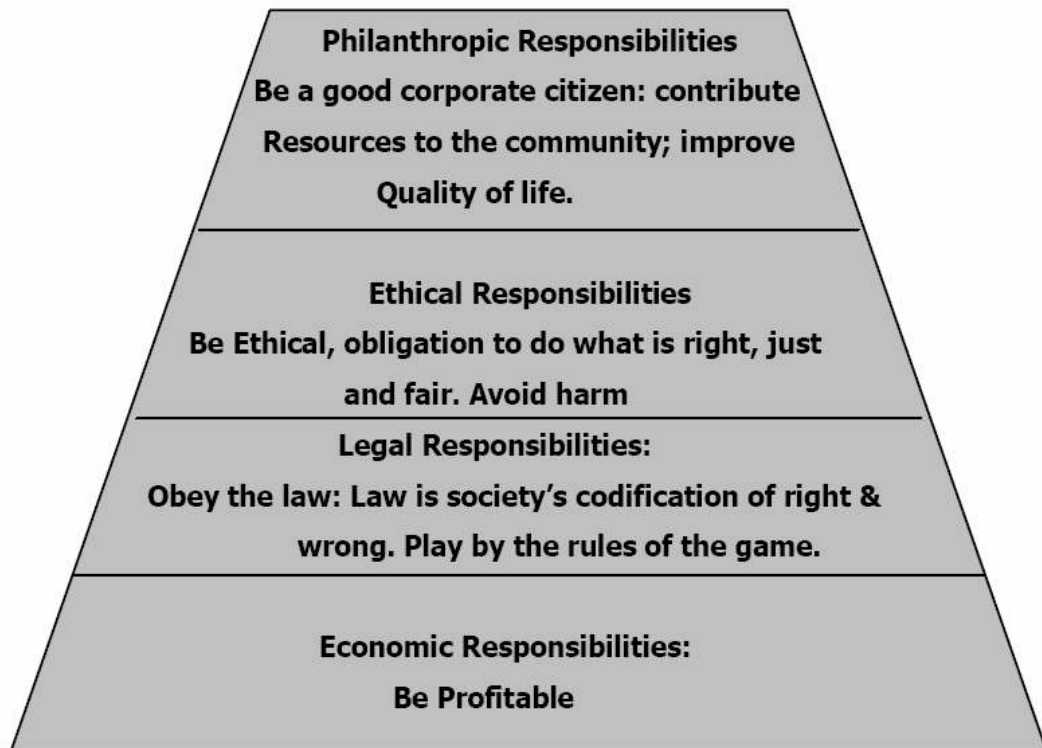
Figure 1.2 Pyramid of CSR (Carroll 1991)

It also does not reject the notion that CSR should be aimed at enhancing profitability since by serving the needs of the stakeholders, the firm surely stands more chance to gain more rewards (Wan 2005).

UN Global Compact[6], launched in 2000 as a truly global corporate citizenship initiative. Global Compact defines CSR as aligning business operations with fundamental and universal values: Human Rights, Labour Rights, Environmental Standards, Anti-corruption & Transparency. CSR is an internalization process and it is the fundamental transformation of operations, relationships, corporate culture and identity.

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[6] **Global Compact, brings companies together with UN agencies, labor and civil society to support universal environmental and social principles.**

Global Compact is committed to universally accepted 10 principles[7] derived from the Universal Declaration of Human Rights, ILO Declaration, Rio Declaration and UN Convention Against Corruption.

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.
Principle 2	Businesses should make sure that their own operations are not complicit in human rights abuses.
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right of collective bargaining.
Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labor.
Principle 5	Businesses should uphold the effective abolition of child labor.
Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.
Principle 7	Businesses should support a precautionary approach to environmental challenges.
Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility.
Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies.
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Figure 1.3 Global Compact- 10 Principles

CSR is of growing concern in a globalized economy, it being at the top of the board of directors agenda and also good for business. Besides the UN Global Compact, there are several other initiatives, aiming to create awareness in the business world. The World Business Council for Sustainable Development (WBCSD), is one of them: In its publication *"Making Good Business Sense"* (2002), it defines Corporate Social Responsibility as follows:

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

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[7] **To learn more: http://www.globalcompact.org/AboutTheGC/TheTenPrinciples**

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WBCSD definition prioritize human rights, employee rights, environmental protection, community involvement and supplier relations. WBCSD also believes that by developing and implementing a coherent CSR strategy, firms will gain bottom-line benefits.

WBCSD is increasing its members around the world. It brings together some 180 international companies in a shared commitment to sustainable development through economic growth, ecological balance, and social progress. They have a policy while accepting corporations as members; they require CEO involvement to be more committed. TBCSD in Turkey established in 2004, is a branch of WBCSD; has growing number members. As joining business leaders to work together for sustainable development through economic growth, ecological balance, and social progress, WBCSD members are obliged to promote the role of eco-efficiency, innovation, and CSR.

This world map on the follwing page explores CSR perceptions from different continents. As you can see from the study of WBCSD, showing views from the world signifies that there are different perceptions, which suggests the definition not only varies within the academia and business but also culturally as well.

Figure 1.4 Different CSR views from the world outlined by WBCSD(2006)

While companies themselves have started to realize the internal and external business value of CSR by these initiatives, academia begins receiving support and putting together study programs. Such as the Harvard University which has established a CSR Initiative. Kennedy School of Government (2006)[8] defines CSR to *"encompass not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance to address the manner in which companies manage their economic, social, and environmental impacts and their stakeholder relationships in all their key spheres of influence: the workplace, the marketplace, the supply chain, the community and the public policy realm."*

The main focus this research is CSR's role in European Union's (EU) sustainable development; which will be explored in Chapter II intensely. The

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[8] **Kennedy School of Government's CSR Initiative focuses on exploring the intersection between corporate responsibility, corporate governance and strategy, public policy, and the media.**

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value of the subject and its application into the EU policies will be given in detail in the following part but it is appropriate to phrase European Commision (2001) definition of CSR once here as well: *"A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."* [9]

The last definition in this section is the stakeholder definition, preference of one of the top experts in the field; Michael Hopkins. In his latest book, "A Planetary Bargain: CSR comes from Age" Hopkins (2006) claims that CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. 'Ethically or responsible' means treating key stakeholders in a manner deemed acceptable in civilized societies.

Social includes economic and environmental responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation.

Hopkins's definition provides a means of seeing how CSR can or should work in practise. It conforms to the argument that CSR should be an ethical stance of the firm without any expectation of getting rewards or payback as this definition does not put any emphasis on reaping benefits to the firm.

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[9] **Commission Green Paper "Promoting a European Framework for Corporate Social Responsibility," published in 2001 is a key document which shows the Commissions support on CSR. It is one of the milestones, which is explained more in detail in the second chapter.**

1.2 ELEMENTS OF CORPORATE SOCIAL RESPONSIBILITY

"In a more globalized, interconnected and competitive world, the way that environmental, social and corporate governance issues are managed is part of companies' overall management quality needed to compete successfully. Companies that perform better with regard to these issues can increase shareholder value by, for example, properly managing risks, anticipating regulatory action or accessing new markets while at the same time contributing to the sustainable development of the societies in which they operate. Moreover these issues can have a strong impact onreputation and brands, an increasingly important part of company value."

(Global Compact 2004)

Regardless of the variety of definitions, topics under CSR are broad and constantly growing. This growth emerged mostly because of globalization. The mounting consequences of globalization, the world increasingly shares problems and challenges in social, economic and environmental areas. CSR, the voluntary approach of companies addressing these concerns of their stakeholders, stands as a way of balance. Companies by and large, appreciate the returns on CSR which will be explained in the coming section.

Through the common ingredients of the definitions, we can say that CSR supports a range of principles, extending from corporate governance, business ethics, and sustainable development through to human rights and environmental concerns.

1.2.1 Business Ethics

Business ethics suggests that the actions of a company should be ethical; businesses weigh the moral results of their actions in every level. Ethical and moral standards go beyond the prohibitions of the law. Business decisions are

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neither simply efficient or inefficient, nor effective or ineffective; they are also 'good' and 'bad' in a moral sense. Many issues fall under the rubric of business ethics: human rights, environmental protection, worker health and safety, labour standards, marketing, accountability, and reporting. Business ethics is concerned with a compliance with internal regulations and government mandates. An ethical business will also look beyond its own ethical practices to the practices of its business partners and suppliers. A company cannot be responsible without being ethical (Institute of Business Ethics, 2006)[10]. Thus, CSR cannot be practiced without business ethics (Maximano, 2003).

1.2.2 Sustainable Development

Sustainable development is an integral part of CSR. Organization for Economic Cooperation and Development (OECD 2001) defines it as "A development path long which the maximization of human well-being for today's generations does not lead to declines in future well-being" Sustainable development is built on three pillars: economic growth, ecological balance, and social progress. .As an engine for social progress, CSR aims companies bring about their responsibilities and contribute sustainable development.

1.2.3 Corporate Governance

Corporate governance is the basis of accountability in companies, institutions and enterprises, balancing corporate economic and social goals on the one hand with community and individual aspirations on the other. Corporate

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[10] **The Institute of Business Ethics was founded in 1986 promotes the study and application of Christian moral principles in the conduct of business. Since its founding 20 years ago, the IBE has published over 20 books on business ethics topics.**

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governance refers to the broad range of policies and practices that stockholders, executive managers, to manage themselves and fulfill their responsibilities to investors and other stakeholders. Since the release of the Cadbury Report (1992), the importance of corporate governance standards and codes has become increasingly recognized. Multilateral initiatives to promote codes and standards of best practice are becoming more widespread.[11] The Financial Reporting Council published "The Combined Code of Corporate Governance" in July 2003. [12]

1.2.4 Environmental Consciousness

The environmental concerns of businesses can be divided into two categories; local and the global. Besides complying with the legislations, CSR suggests businesses to do this on voluntary basis. They must also face up to global environmental concerns, they know that their activities can have wide range repercussions on the environment. This is one of the core subjects in terms of sustainability and widely discussed in different platforms and levels whenever CSR is mentioned. Companies should interest employees in environment and educate the persons to have high environmental consciousness. To achieve these, companies should make efforts and activities voluntarily and continuously.

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[11] **World Bank Website offers more on this issue.**

[12] **In the report, an empirical study have been carried out to test the understanding of CSR and it's relationship between concepts. In each case the results showed a positive relationship between CSR and financial performance. However, the results were not statistically as robust as we would have liked. Results from other researchers show similar anxiety about the strength of results. Retrieved in May 2006, the report can be reached at: http://www.frc.org.uk/documents/pagemanager/frc/Web%20Optimised %20Combined%20Code%203rd%20proof.pdf**

1.2.5 Working with and for the communities

Working in the community is a part of CSR; companies' relationship with the local communities they operate around is essential. Socially responsible businesses are expected to show effort and support assisting local communities in a variety of ways such as supporting education programmes and health awareness initiatives. Local community is one of the most important stakeholders of the companies.

1.2.6 Better Work Conditions and Labor Relations

Socially Responsible companies know that balancing stakeholder needs is essential for long-term success. One of the main stakeholders are the employees and businesses need to provide equal opportunities.[13] The globalisation of economies, brands and financial markets, companies evolved on a global scale, relocated many activities to regions with 'cheap' labour. CSR framework provides social regulation of this issue exercised on voluntary bases.

1.2.7 Supplier Chain

While producing or providing their services, socially responsible businesses are not only responsible of their actions but also the actions of their suppliers. CSR companies review their suppliers' practices encouraging suppliers to meet the challenges of a socially responsible business if they want to continue trading with them.[14]

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[13] **Major international initiatives are focusing on the globalisation of social standards, public disclosure of information and the development of social reports, however it a complex subject of creating global standards applicable to every country.Internationally agreed standards, ILO fundamental conventions constitute by their universal nature the most appropriate basis for such.**

[14]**To examplify, BP is planing to pass a code strictly puts them selecting their suppliers attentively. Even if a carwash place where a BP company car is cleaned cannot utilize more water that suggested in terms of enviromental protection.**

1.2.8 Socially Responsible Investing (SRI)

Socially responsible investing (SRI) is a practice within CSR; which is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis.

The niche market of SRI is looking for a balance between return and the social and environmental impact of company operations and, further, is seeking to 'engage' with the company over areas of concern. The mainstream investment community is concerned with minimising social, ethical and environmental risks, including risks to reputation and operational risks.

1.2.9 Social and Eco-labels

Surveys have shown that consumers do not only want good and safe products, but they also want to know if they are produced in a socially responsible manner. European consumers are concerned about protecting the health and safety of workers, respecting human rights, safeguarding the environment, and reducing greenhouse gases. As a response a growing number of market-based social labels are to be found on a variety of products and services. These labels originate either from individual manufacturers or industrial sectors, NGOs and governments.

1.3 INSTRUMENTS OF CSR

Globalization is the key of business in this era, and there is a demand for greater transparency and accountability from corporations with respect to their business decisions that have a social and environmental impact.

Companies are no longer simply accountable under local law, but to international norms and standards, such as those imposed by the International Labor Organization (ILO), the Universal Declaration of Human Rights (UDHR) and more.

Today, firms not only carry the risk to deal with reputational damage from their corporate practices and monitoring mechanisms but they can also face protests, boycotts on corporate property, hostile shareholder resolutions, and the enactment of sanctions laws(Maquila Solidarity Network 2005).

In an effort to respond to the growing number concerns and to protect their reputations, companies have adopted programs that reflect support for international norms and promote sustainability; by elements of CSR. To take issues in hand more effectly they have started adopting a series of new tools like human rights and environmental risk assessments, monitoring systems, management standards, and the engagement of external stakeholders in dialogue and decision-making processes. The tools that have been most widespread, however, are the adoption by many firms of CSR codes of conduct, as well as the compliance and monitoring schemes used to implement and enforce those codes once they have been established (Abrahams 2004).

Codes of conduct stipulate the human rights, environmental, social and ethical requirements for suppliers. The World Bank estimates that there may now be an estimated 1,000 codes in existence today, developed by individual multinational firms on a voluntary basis, depending on firms' business needs. They play a complementary role to national legislation, helping firms implement standards beyond those that are typically enforced locally.

EU provided a report providing background information on the main instruments of CSR, as a guide on key features, trends and questions for debate, with the aim to develop a better understanding of these instruments. Besides the

international various CSR tools, EU has relevant codes and initiatives embedded in its policies. This issue will be discussed in the forthcoming chapters.

Malcolm McIntosh, Ruth Thomas, Deborah Leipziger and Gill Coleman in their book 'Living Corporate Citizenship' (2003) profiled 'Global Eight' initiatives as the testimony to the wealth of activity and energy being devoted to what the UN Secretary General has described as 'giving a human face to the global economy' by corporations, labor organizations, non-governmental organizations, governmental and international institutions. They exemplify innovative organizational responses to the current socio-political business environment(McIntosh 2003).

1.3.1 The Global Compact

The Global Compact (GC) is an initiative of UN Secretary General Kofi Annan launched in 1999. It includes nine basic principles on environment, labor, and human rights. GC is seen as a major milestone since for the first time a substantive global institution, and the only global political body, has articulated a position on corporate social responsibility. By contrast, most other initiatives are seen as industrial, having originated from think tanks or consortia of trade unions and NGOs. The GC has the potential to bring credibility and legitimacy to corporate citizenship, and perhaps eventually, to develop a global governance structure to manage CSR issues.

In order to participate in the GC, companies must send a letter from their CEO to the UN Secretary-General, commit to integrating the GC's nine principles into their mission statement and activities and inform their employees, shareholders, customers and suppliers about them. Companies adheringto the GC are asked to report progress on implementation of the nine principles in their annual reports.This public statement of support does not represent a binding commitment to specific performance criteria. As a learning forum, the GC seeks

to identify and promote good practices. The UN will not audit and assess theperformance of the participating companies. Early in 2002, the Compact had support from more than 1,000 companies. Six cities had also agreed to join.[15]

GC asks companies to advocate its nine principles in mission statements. companies are also asked to post on the GC website once a yea r the steps they have taken and what deserves to be labeled as good practice. GC has provided a convening platform for dialogue on shared values among business, government and NGO's. The criticized point of GC is its lack of accountability structure.

1.3.2 ILO Conventions

The International Labor Organization (ILO) is the oldest UN agency and unique in one respect from other international organizations in that it is decision making is tri-partite, with representation from governments, labor organizations, and employers' organizations. Its tri-partite nature enhances the credibility of the ILO and therefore its conventions, but makes decision-making a lengthy and at times difficult process. One of the weaknesses of the ILO conventions is lack of implementation and enforcement, even by governments that have formally ratified them as part of their national law.

In addition, there are wide ranges of ILO conventions covering health and safety, employment of disabled persons, child labor, and home working, which are also significant. The logic behind the core labor standards is that, if properly implemented, they will prevent a wide range of problems, such as child labor, health and safety.

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[15] **Companies from all over the world continue becoming a member; including Turkey. List of the companies can be found at Global Compact website.**

In 1998, the ILO issued the Declaration on Fundamental Principles and Rights at Work.[16] The Declaration seeks to address the challenges of globalization and promote the consideration of social side of business. The Declaration is not binding.

The nine principles of the GC are drawn from the Universal Declaration of Human Rights, the ILO's Fundamental Principles on Rights at Work and the Rio Principles on Environment and Development.

1.3.3 OECD Guidelines

The OECD Guidelines were established in 1976, 34 governments have signed up to the Guidelines, giving them a critical mass and notionally global application.

The Guidelines are very comprehensive; covering competition, financing, taxation and employment, as well as industrial relations and environment, science, and technology. Like the ILO Conventions, the OECD Guidelines are for governments to promote among the private sector. In 2000, the Guidelines were revised to focus on sustainable development. Like the GC, the OECD Guidelines seek to promote development by fostering local capacity, enhancing development through training and other forms of human capital expansion.

The guidelines are non-binding recommendations addressed by OECD Member States to multinational enterprises (MNEs) and providing voluntary principles for responsible business conduct in harmony with the policies and laws of the countries where they operate.

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[16] **The whole document of the declaration can be reached at the ILO website.**

1.3.4 ISO 14000

The International Standards Organization has developed an extensive range of standards. Among those that are directly related to corporate citizenship are those that refer to quality, health, safety, and the environment through the ISO 9000 and ISO 14000 series. These standards are used at several hundred thousand facilities around the world. ISO standards have attained the greatest dissemination and adoption by companies.

ISO 14000 series in the field of environmental management, which aims to enable an organisation to develop a structured approach to control the impact of its activities, products or services on the environment.

Latest auditing standard, ISO 19011[17] provides guidance on environmental management system auditing (e.g. principles of auditing, competence of auditors) -(www.iso.org/iso/en/iso9000-14000/iso14000/iso14000index.html).

1.3.5 AA(AccountAbility)1000

AccountAbility is an international, not-for-profit, professional institute dedicated to the promotion of social, ethical and overall organisational accountability and governed by an international multistakeholder council regrouping representatives from business, NGOs, consultancies and the research community. In 1999, it launched AA1000, a tool designed to improve accountability and performance of organisations through integrating stakeholder engagement into their decision-making processes and daily activities.

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[17] **Turkish Standardization Institute offers the document on 19011 as well.**

AA1000 standard is designed both for internal and external audit procedures and it is very inclusive. It does not prescribe what should be reported on but rather the 'how'. In this way it is designed to complement the GRI reporting guidelines.

The standard requires that social and ethical accounting, auditing and reporting should seek to be inclusive, complete, material and regular. Other key principles include quality assurance, accessibility, comparability, reliability, relevance and comprehensibility of information.

Among the strengths of AA1000 is that it can be used by any type of organization, in any country, in any sector. Its methodology translates across borders. Some companies and NGOs have criticized the standard for being too complex, an issue which has been addressed in the last revision.

1.3.6 Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is a multistakeholder initiative whose mission is to develop and disseminate a global framework of sustainability reporting guidelines for voluntary use by organisations and encompassing the economic, environmental and social dimensions of their activities, products and services. The GRI was started in 1997 by the Coalition for Environmentally Responsible Economies (CERES) and the United Socially responsible management – reporting Nations Environment Programme (UNEP).

The GRI framework for reporting includes reporting principles and specific content indicators to guide the preparation of organisation-level sustainability reports. The reporting guidelines designed to be flexible, with a range of options suitable for reporting organisations at any level of experience.

By providing a broadly agreed mechanism, reached through negotiation between the partners in the process, to measure environmental and social

performance, the GRI[18] aims to assist investors, governments, companies and the wider public to understand more clearly the progress being made towards sustainability. The use of a common framework is seen as a way to improve related analysis and decision-making.

The GRI has strong backing from companies and NGOs around the world and is convening a multi-stakeholder group to look into verification issues in general. GRI encourages companies to set targets and then to report on whether or not those targets were met. GRI also encourages organizations to engage with stakeholders and to select organization-specific performance indicators most relevant both to the reporting organization and to its key stakeholders. The questions that the GRI asks include those of how a company can communicateto its stakeholders and on what issues it should report.

In 2002, the GRI was adopted by the UN and the UN GC as well as being cited in the EU white paper on a European CSR Framework.

1.3.7 The Global Sullivan Principles

The Global Sullivan Principles are intended to promote corporate social responsibility. Companies (and cities) sign up to the principles and then report annually on their progress. The Reverend Sullivan described the objectives of the Global Sullivan Principles at their launch as being to "encourage companies to support economic, social and political justice wherever they do business."

At the launch, UN Secretary General Kofi Annan declared that *"Enlightened business leaders"* recognize that their reputations, and even their bottom lines, are intimately tied to good corporate citizenship".

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[18] **GRI is a well recived and increasingly utilized reporting initiative. To read more about it:**

The Global Sullivan Principles refer to the support for universal human rights, equal opportunities, respect for freedom of association, levels of employee compensation, training, health and safety, sustainable development, fair competition and working in partnership to improve quality of life.

1.3.8 Social Accountability 8000

SA8000 is a standard for companies seeking to make the workplace more human. Unlike many other codes, SA8000 is a global code that can be implemented in any country and in any sector. It is an international workplace standard and monitoring process launched in 1998 by Social Accountability International (SAI) with the aim of helping companies develop and manage social accountability systems in company-owned and suppliers' facilities.

The majority of the companies adopting SA8000 are in the retail sector or manufacture clothing, toys and shoes. Interest is greatest in the sectors where there are well-known brands, which need protecting. Interest in SA8000 is growing among the agricultural and electronics sectors. Companies adopting SA8000 have combined annual revenue of $106 billion. SA8000 certificates have been issued in 27 countries to over 120 companies.

The question that SA8000 asks is that of how a company and /or supply chain can ensure that workers' rights are being respected. One of the strengths of SA80000 is that it is auditable. It also has management systems to embed the standard into the company culture. As with ISO standards, it is easier for large companies to adopt SA8000 than small and medium-sized companies.

THE EUROPEAN UNION (EU) AND CSR

"The Union has today set itself a new strategic goal for the next decade: to become 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. Achieving this goal requires an overall strategy aimed at:

-Preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;

-Modernizing the European social model, investing in people, and combating social exclusion;

-Sustaining the healthy economic outlook and favorable growth prospects by applying an appropriate macro-economic policy mix."

(Lisbon European Council, Presidency Conclusions 2000)

In March 2000, EU heads of state and government agreed on an ambitious goal: making the EU "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." They called this "The Lisbon Strategy" and adopted for a ten-year period.

Economic, social, and environmental renewal and sustainability are the main fields of the strategy where the EU institutions have started issuing codes and conduct and assure these codes to be embedded into policies.

EU defines itself as states sharing a set of common values, which comes from their common culture. Lisbon Strategy aims EU to become most competitive economy in the world; while living up to these values in practice. These values,

which represent the continuation of prosperity in Europe which faces with challenges everyday.

EU needs to set up a balance between economic interests and respect for its fundamental values both in its internal and external dimension.

This chapter explores the EU dimension of the CSR. The milestone steps are outlined, key documents are introduced and decisions are discussed.

2.1 Milestones of CSR at EU Level

At EU level, the debate on CSR dates back to 1995, when a group of European companies and the President of the European Commission at the time Jacques Delors launched a "Manifesto of Enterprises against Social Exclusion." This led to the creation of a European Business Network promoting the business-to-business dialogue and exchange of best practices on CSR-related issues (CSR Europe).[19]

Over the years, CSR concept entered into the European agenda with summits and found a prominent place today. These important are provided on the next page.

2.1.1 Gyllenhammar report

At the Luxembourg Jobs Summit in November 1997, the High Level Group on the Economic and Social Consequences of Industrial Change, "The Gyllenhammar Group" suggested in its final report: "Businesses with more than 1000 employees should publish a report on the management of change" on an

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[19] **CSR Europe is a non-profit organization that promotes corporate social responsibility. Our mission is to help companies achieve profitability, sustainable growth and human progress by placing corporate social responsibility in the mainstream of business practice. To learn more please visit: http://www.csreurope.org**

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annual basis in order "to give an account of the impact of their social activities". This was the first official step taken on the European level.[20]

2.1.2 Lisbon European Summit

At the European Council Summit in Lisbon, March 2000, EU set itself a new strategic goal for the next decade: "to become 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." Underlining the important contribution of the private sector in achieving this goal, for the first time the European Council addressed businesses directly in "a special appeal to companies' corporate sense of social responsibility regarding best practices on lifelong learning, work organization, equal opportunities, social inclusion, and sustainable development." This led to the strategy for the next decade; Lisbon 2010.

2.1.3 Social Policy Agenda

Lisbon Goals were then articulated 36in the Commission's European Social Agenda adopted in June 2000, emphasized the role of CSR in addressing the employment and social consequences of economics and market integration and the adaptation of working conditions to the new economy.

2.1.4 Feira European Summit

The European Council in Feira, June 2000, functioned as a follow up; supported the Lisbon goals and welcomed the initiation of a process to establish a network for European dialogue encouraging companies' corporate sense of social responsibility. It also added the need of broadening of the European Agenda to

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[20] **The Gyllenhammar Report, can be found on the EU Employement and Social Affair website.**

"promote innovation and organizational learning in the context of negotiating consent for change".

2.1.5 Stockholm European Summit

The European Council met in Stockholm welcomed the initiatives taken by businesses to promote corporate social responsibility and made reference to this Green Paper to encourage a wide exchange of ideas with a view to promoting further initiatives in this area.[21]

2.1.6 CSR Across Europe

In 2002, under the EU Presidency of Denmark, conference on CSR gathered leading figures from more than 30 countries to discuss the way forward for CSR in Europe.[22]

2.1.7 Green Paper: "Promoting a European framework for CSR"

On 18th July 2001 the Commission adopted a Green Paper "Promoting a European framework for corporate social responsibility" Through this initiative a wide consultation process at national and European level on Corporate Social Responsibility and the ways for the European Union to promote international, was launched. The Green Paper drew on existing experience throughout Member States, listing a number of current initiatives, and sought innovative approaches to CSR. The aim of the Green Paper is to trigger debate on all aspects of CSR but has no legal value.

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[21] **More on this issue is underlined in the Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee, Social Policy Agenda communication.**

[22]**Copenhagen Centre discusses more on this subject.**

2.1.8 CSR on the EU Social Policy Agenda

In keeping with Lisbon Strategy 2010, to reconcile economic growth with social and environmental protection, the Belgian Presidency has identified the social dimension of the "triple bottom line" as one of its priorities. Belgian Presidency Conference CSR on the European Social Policy Agenda tackled the respective roles of companies, employees, consumers, and investors in the development of CSR.

2.1.9 Communication on CSR: " A business contribution to Sustainable Development"

In this Communication, a follow-up to the Green paper 2001, the Commission presents an EU strategy to promote CSR. The outcome of the consultation was summarized and the European strategy for promoting CSR was developed. It includes a definition of the concept of CSR, and an analysis on the importance of CSR in the context of sustainable development and its impact on business and society.

Communication underlines that the CSR public policies may help shape globalization in a positive way by promoting good company practices that complement public efforts for sustainable development. The key issues discussed in this communication were:[23]

Multi-stakeholder forum on CSR: The Commission set up a multi-stakeholder forum with the aim of promoting transparency and convergence of CSR

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[23] **The full document version of the Communication can be downloaded at: http://ec.europa.eu/employment_social/soc-dial/csr/csr2002_en.pdf)**

practices and instruments. It consisted of around 40 members, representing employers, employees, consumers, and civil society.

Integrating CSR: The EU should work on mainstreaming CSR issues into all policy areas. An inter service group within the Commission was set up to ensure consistency.

External relations: The EU should promote CSR principles and practice at international level, particularly in developing countries. International codes of conduct and principles, such as the International Labor Organization's (ILO) declaration on fundamental principles and rights at work, and OECD guidelines for multinational enterprises, will be supported and promoted.

2.1.10 European Multi-Stakeholder Forum on CSR

The European Multi-Stakeholder Forum on Corporate Social Responsibility CSR (EMS Forum), has been established in October 2002 and chaired by the Commission, brought together European representative organizations of employers, business networks trade unions and NGOs, to promote innovation, convergence, and transparency in existing CSR practices and tools.

In June 2004, the Forum came up with a list of top recommendations for the European Commission.[24] The recommendations were represented to the Commission.

2.1.11 Council Resolution on CSR

Council Resolution on CSR came out after the meeting of Employment, Social Policy, Health, and Consumer Affairs Councils. They have agreed that the

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[24]**The recommendations are detailed on the final report.**

Commission and the MSE Forum members to address several issues within the work of the Forum. These issues were:

-The relationship of their issues to corporate governance and accountability
-The gender dimension to CSR
-The enabling national and European governance framework
-The synergies between voluntary CSR and relevant law, market mechanisms and international agreements

2.1.12 European Parliament Report on CSR

Parliament welcomed the establishment of the EU Multi-Stakeholder Forum on CSR as an autonomous group run by its members, which aims to recognize the diversity of CSR approaches when considering how to facilitate convergence. As regards practical proposals, the Parliament recommended the Forum to address the needs of SMEs to be considered horizontally across the work of each of the Round Tables. One more important thing they suggested was the environmental, development, enterprise and social aspects of CSR be treated with equal emphasis.[25]

2.1.13 Italian EU Presidency Conference on CSR

As the Belgian and Danish Presidencies, the Italian Presidency hold a CSR to promote the concept and comparison of the various approaches in Europe, as well as to help the search for a common European structure to evaluate CSR initiatives. [26]

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[25] **European Parliament was critized of ineffectiveness on the issue.**

[26] **Italian Presidency and it's contributions can be reached from the website of the presidency.**

2.2 EMS Forum

As discussed on the previous under the milestones of CSR in EU, in 2002, EMS Forum on CSR was established by European Commission as an attempt for answering the questions on CSR and give recommendations to the Commission. The EMS Forum consisting of half business representatives, a quarter trade unionists and a quarter NGOs, as well as observers from the Commission and other relevant intergovernmental organizations, discussed CSR issues and shared experiences under four topics:

-Improving knowledge about CSR and facilitating the exchange of experience and good practice,

-Fostering CSR among SMEs,

-Diversity, convergence and transparency of CSR practices and tools,

-CSR Development aspects,

EMS Forum discussed these topics under Round Table meetings and came up with a final report in 2004 with recommendations for the European Commission. Although the process can be described hopeful; their outcome was not surprising; EMS Forum recommended what almost the two green papers that the European Commission issued. [27]

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[27] **Further information on the European Multi-Stakeholders Forum on CSR can be obtained from the European's Commission's website.**

2.3 European Alliance for CSR

Latest work on CSR at European level is the Commissions new proposal for an alliance on CSR. Launched by Commissioner Verheugen on 22 March 2006, The Commission suggests:

"A common European understanding of what CSR means has emerged on the basis of the Commission's definition of CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

"The Commission continues to attach importance to dialogue with all stakeholders, but also wishes to give recognition to enterprises as the primary actors in CSR. The main element of this new approach is therefore an innovative partnership with enterprises, which will take the form of a European Alliance for CSR."

According to the draft communication, the CSR alliance would be a political umbrella for new and existing CSR initiatives by companies at any size. The commission emphasizes the promotion of CSR in 8 main fields:

- Awareness-raising and best practice exchange

- Support to multi-stakeholder initiatives

- Cooperation with Member States

- Consumer information and transparency

- Research

- Education

- Small and medium-sized enterprises

- The international dimension of CSR

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Although this not a legal instrument, it might help to utilize the resources and capacities of European enterprises and their stakeholders to act with the interests of sustainable development, economic growth and job creation.[28]

Hugh Williamson (2006), in his article in Financial Times refers to the decision as "a defeat for trade unions and NGOs that have lobbied the Commission for years to introduce regulations and voluntary benchmarks on corporate accountability." Euractiv refers to these discussions as well. The protests coming from NGO's claim that the voluntary action is not enough and companies must be legally accountable to their stakeholders.

The Commission is aiming to bring together all interested parties for a review meeting on EU CSR policies so far.

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[28] **The full document of the new Communication gives more details.**

Chapter III

CSR PRACTICES IN THE EU

"..We have chosen corporate social responsibility as a part of our strategy towards improved competitiveness. It is part of the glue that binds together the re-launched Lisbon strategy for growth and jobs. Partnership is a central element of that strategy. underlying our partnership with you is the belief that European business can and wants to contribute to the goal of sustainable development... What can you expect from the European Commission? First, and foremost, a commitment to keep CSR voluntary, and an acknowledgement that without business commitment, there is no corporate social responsibility."

Gunter Verheugen[29]

The European Commission in its communication defines CSR, as "a concept whereby companies integrate *social* and *environmental* concerns in their business operations and in their interactions with stakeholders on a *voluntary* basis."

This definition highlights two important aspects on which quite different views exist: It positions CSR as triple bottom line management (De Doncker et all 1999), by stating that economic, social and environmental concerns should be integrated when making business decisions and developing business. The triple bottom line approach or framework looks at how corporations manage and balance all the corporate responsibilities for a sustainable business. The problem that most companies are facing is the lack of framework that would let them do this integration. Such situation poses a need for a comprehensive management framework that would address, check and balance these economic, environmental and social responsibilities of corporations. Although,

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[29] **Speech by Vice President Verheugen March 3-4 at CSR Europe's MarketPlace on CSR in Brussels. To reach the full text: http://www.csreurope.org/pressroom/speech/ SpeechVicePresident Verheugen/**

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there have been proliferation of management systems, accounting, auditing and reporting standards, they were all focus on either one or a combination of any two aspects of corporate responsibility. The need to integrate the three responsibilities, although realized by many, leave them a question of what framework is needed and how to really do and go about it.

On the other hand, there are different views on the fundementals such as what social and environmental concerns and which stakeholders have to be taken into account.

The European Commision definition also highlights that CSR should be developed voluntarily by the business world. Though it between corporations, it is much the same manner between the individual member states. They have their own specific priorities, reflecting the different national context and of course the culture.

There are many examples of public initiatives on CSR which have been launched in EU member states. The European Commision takes steps to support and promote these initiatives by embedding CSR into it's policies.

The key policy areas that reflect and encourage CSR are Enterprise and Industry, Employement, Social Affairs and Equal Opportunities, External Trade and Enviroment. These policy areas in general define the pillars of sustainable development.

This chapter puts together these reflections in the policies and national level of advancement in the area.

3.1 Implementation of CSR within the European Policies

In Europe, CSR activities and initiatives that gained momentum by 2000. A milestone in this respect was the European Council in March 2000; when the EU set a new strategic goal for 2010 through the Lisbon Strategy. The European

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Council made a special appeal to companies' corporate sense of social responsibility. Since the 2005 mid-term review of the Lisbon Strategy, the focus has mainly shifted to economic growth and creation of jobs but the consensus remains that in the long term economic growth, social cohesion and sustainable development go hand in hand. (Compedium Corporate Social Responsibility 2005)

The European Commision, the executive body of the EU runs the public policy and it's important components. Enterprise and Industry, Employement, Social Affairs and Equal Opportunities, External Trade and Enviroment are the imperative areas as CSR and sustainable development discussed.

3.1.1 Enterprise and Industry

"Voluntary business initiatives, in the form of corporate social responsibility practices, can play a key role in contributing to sustainable development while enhancing Europe's innovative potential and competitiveness."[30]

The European Commission prepared Green Paper of July 2001, 'Promoting a European Framework for Corporate Social Responsibility'. The aim of this document was to start up a debate about the concept of CSR and to identify how to build a partnership for the development of a European approach to CSR.

The Commission went on to outline the role that companies could play (European Commission 2001): *"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*

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[30] **European Commission, Working Together for Growth and Jobs – A New Start for the Lisbon Strategy, February 2005**

ensuring environmental protection and promoting social esponsibility, including consumer interests."

In the Communication of July 2002 there was a proposed strategy: Increasing knowledge about the positive impact of CSR on business and societies in Europe and abroad, in particular in developing countries. By this strategy developing the exchange of experience and good practice on CSR between enterprises; promoting the development of CSR management skills; fostering CSR among SMES; facilitating convergence and transparency of CSR practices and tools; launching EMS Forum on CSR at EU level and integrating CSR into Community policies were proposed.

Following the communication the EMS Forum was launched in October 2002.

The permanent members of the CSR EMS Forum included enterprises and other stakeholders, including trade unions, NGOs, investors and consumers. The Forum was chaired by the Commission. Other EU institutions and organisations active in CSR have observer status. When appropriate, representatives of developing countries was also invited to the meetings. The CSR EMS forum hosted two high-level meetings each year to agree on broad guidelines, procedural rules and a work programme.

The main objective of the Forum was to improve knowledge about the relationship between CSR and sustainable development by facilitating the exchange of experience and good practices, with special emphasis put on SME specific aspects. In addition, the Forum's goal was to explore best way of establishing common guiding principles for CSR practices and instruments, considering already existing EU initiatives and internationally agreed instruments.

The European Commission chaired the Forum, which had a membership of four theme-based Round Tables took place as part of the process, each one meeting 3 times:

- Improving knowledge about CSR and facilitating the exchange of experience and good practice;

- Fostering CSR among SMEs;

- Diversity, convergence and transparency of CSR practices and tools;

- Development aspects of CSR.

The Round Tables (2004) benefited from hearing about the practical experiences of a range of different companies, including social economy organisations, which have long established experience of placing CSR at the core of their business.

The EMS Forum literally brought the different parties together around the table to find a common ground for CSR development. Each discussion round also followed with an expert summary, facilitating and framing the process development. The stakeholders' evaluations on the EMS Forum indicate that (De Buck 2004) this process has indeed contributed to reducing the substantive uncertainty in CSR, or at least in some issues.

Figure 3.1 contains the single recommendations of the EU EMS Forum. In order to achieve an better overview, the recommendations are sorted by stakeholder-groups and targets.
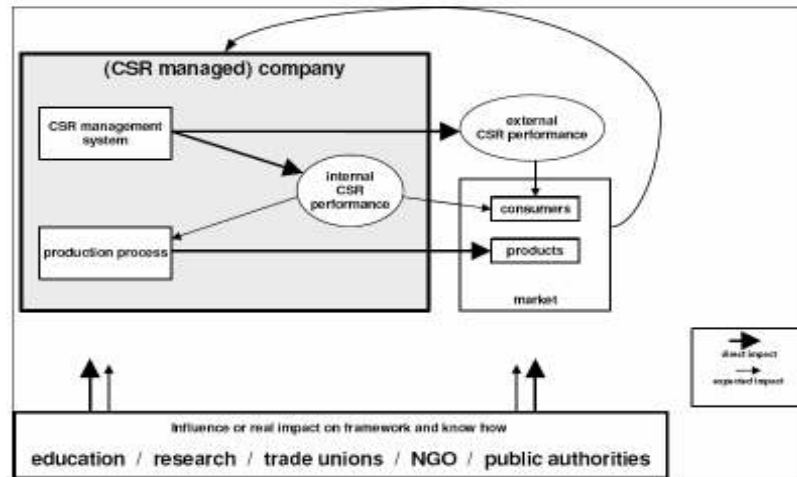
Figure 3.1 CSR and Stakeholders/ EMC Forum (Loew 2005)

After the final report of the EMS Forum and right before the mid-term review of he Lisbon agenda, with its refocus on growth and jobs, and just prior to the expected European Commission communication on CSR, CSR Europe launched its European Roadmap for Businesses in March 2005.

This roadmap actively supported by senior business leaders and serves as a set of goals and strategies to increase the integration of corporate responsibility in daily business practices. In addition, the roadmap included a business appeal to the European Institutions and major stakeholders towards building an entrepreneurial, competitive and inclusive Europe. The roadmap was designed and outlined to act as a 'guide' for businesses in seeking further growth as sustainable and competitive enterprises. This roadmap served as a driver for the European Alliance on CSR is CSR.

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Adidas / Salomon

The ADIDAS-SALOMON experience highlighted the impact of CSR practices in the textiles' sector and on the supply chains. Adidas–Salomon has established a *social and environmental team*. It publishes *guidelines on employment standards for suppliers*. Adidas also provides *training* in the supply chain and has set up a detailed *rating system*.

The *Fair Labor Association* (FLA) is conducting independent monitoring exercises inside the supply chain[5].

Adidas bases its action on principles of co-determination and on regular consultative regional meetings. There is a strong interaction with stakeholders, especially with workers' representatives. Understanding the local background is, according to the representatives of the companies, a key to the successfulness of CSR practices. The development of a supply-chain policy is resource intensive. Initial challenges were a lack of information on the working conditions in the suppliers' factories and a complex supply chain. The most important lessons to be learnt from these cases are:

- difficult to *control complex supply chain*;
- corporate *values* are important drivers;
- there are *different approaches* to deal with supply chains – no one-size-fits-all;
- *codes of conduct* can be a driving force in the improvement of working and social conditions in the supply chain;
- the growing impact of *business partnerships* through CSR practices and rise in *voluntary initiatives to fill the governance gap*;
- the role of *internal/external monitoring* combined with verification of action plans
- shift from monitoring to more support-based role, pure monitoring not effective – capacity building and training deemed important;
- important to develop *long-term vision* of self-governance of suppliers;
- *important role for national governments* in developing countries (e.g. minimum wage setting).

Figure 3.2 Best Practices- EMS Forum[31]

The European Alliance for CSR is a political umbrella organisation aimed at promoting the Commission's CSR initiatives but it's not a legal instrument to be signed by enterprises. The Alliance is proposed to work like a follow-up consultation with all the with all stakeholders in the European Multi-stakeholder Forum on CSR.

Acknowledging that important steps have already been made in the area of CSR, the Alliance represents a further move aimed at improving the uptake of CSR. This latest initiative aims to encourage enterprises to commit themselves

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[31] **During the EMS Forum, best practices were shared in the round table meetings. More examples from the EMS Forum can be reached at the following page: http://forum.europa.eu.int/irc/empl/ csr_eu_multi_stakeholder_forum/info/data/**

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voluntarily to CSR. Moreover, the Alliance highlights how the Commission conceives enterprises as being among the main actors of CSR. [32]

The Alliance (Whittall 2006) focuses on three core areas of activity: raising awareness and knowledge of CSR; mainstreaming and developing open coalitions and cooperation; and fostering an enabling environment for CSR.

3.1.2 Employement, Social Affairs and Equal Opportunities

The communication underlines the potential of CSR to contribute to sustainable development and to the European Growth and Jobs Strategy. The Commission suggests that CSR practices, while not a substitute for public policy, can nevertheless contribute to a number of public policy objectives, such as: skills development, more rational use of natural resources, better innovation performance, poverty reduction, and greater respect for human rights.

The communication also identified 8 areas to which the Commission will emphasise in further promoting CSR:

- Awareness-raising and best practice exchange
- Support to multi-stakeholder initiatives
- Coperation with Member States
- Consumer information and transparency
- Research
- Education
- Small and medium-sized enterprises

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[32] **The European Commision's recently published communication on CSR "Implementing the Partnership for Growth and Jobs: Making Europe a pole of excellence on CSR" announces backing for a European Alliance for CSR. More on the launch of the communication can be found at: http://www.europaworld.org/week261/launch24306.html**

- The international dimension of CSR

The communication and backing for the launch of the European Alliance mark an important new stage in the development of European policy on CSR.

Sustainable development has been a fundamental objective of the European Union since 1997. It was enshrined as article 2 of the Treaty.[33] As a complement to the broad EU strategy for socio-economic reforms, defined at the Lisbon Strategy of 2000, Gothenburg Summit of 2001 and added an external dimension to the Strategy in Barcelona in 2002.

In 2005, the Commission started a review of the Sustainable Development Strategy:

- In February 2005, it published an initial and critical assessment of progress made since 2001 and outlined a number of future orientations for the review. This stocktaking exercise highlighted several unsustainable trends that have worsened since 2001 (climate change, threats to public health, increasing poverty and social exclusion, depletion of natural resources and loss of biodiversity).

- In June 2005, EU heads of state and government adopted a declaration on "guiding principles for sustainable development", which states explicitly that the "renewed Lisbon agenda is an essential component of the over-arching objective of sustainable development".

- The Commission presented its proposal for the review "A Platform for Action" on 13 December 2005 after consultations with several institutions and

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[33] **What Article 2 of the Treaty on the European Union states about sustainability is: " The Union shall set itself the following objectives: to promote economic and social progress and a high level of employment and to achieve balanced and sustainable development, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and through the establishment of economic and monetary union, ultimately including a single currency in accordance with the provisions of this Treaty."**

stakeholders. The communication puts a stronger focus on six priorities (climate change, health, social exclusion, sustainable transport, natural resources and global poverty) and identifies key actions to be undertaken on these issues. It also presents ideas for more effective monitoring and follow-up such as a progress report to be issued by the Commission every two years.(Euractiv 2005) Next one will be published in the coming year.

By November 2006, the Commission started a three-month consultation on "Adapting labour law to ensure flexibility and security for all" as the latest step taken contributing CSR . The consultation will be followed by a Commission Communication on labour law reform in Europe.

3.1.3 External Trade

Companies are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth, increase competitiveness and ensuring at the same time environmental protection and promoting social rights.

CSR functions as a response to the imbalances resulting from the acceleration of the globalisation process. Imbalance between the advanced governance systems in industrialised countries and the lack of such governance in developing countries as well as at international level.

In this global context, voluntary social and environmental practices of business, going beyond companies' existing legal obligations, can play a major role in filling the governance gap in an innovative way.

The revised OECD Guidelines explicitly lay down the principles and standards that the governments of adhering countries expect their companies to apply and respect wherever they operate.

The review of the Guidelines has strengthened a number of provisions that have a development dimension. Among these are: the reference to sustainable development, the chapters on human rights, combating bribery, transparency, labour and social relations, as well as those on environment and transfer of science and technology.

The question of competitiveness of a firm trying to promote these values as compared to its competitors that may not be as committed to the same standards of behaviour is often seen as an obstacle hindering this proactive attitude. Multinational enterprises investing abroad may bring standards that can be seen as posing a problem for domestic firms' competitiveness. A tendency also exists to include CSR principles in the contractual relationships between foreign investors and local companies, such as sub-contractors or suppliers. Dialogue can promote a better integration of the foreign firm with domestic producers and increase the productivity and quality of operations of the companies.

They can to bring a valuable experience to third countries, as well as to the country where the company is based. How to share these, and the problems that can be encountered, in order to spread such innovative practices can in turn help for sustainable development. [34]

3.1.4 Environment

Environmental cooperation has come a long way in Europe, not least within the EU, but also in more inclusive forums. The EU seeks to be a forerunner in the

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[34] **Best business practices for corporate social responsibility: EU launches dialogue on best practice for multinationals: Workshop III Brussels, 11 May 2001 http://ec.europa.eu/trade/issues/ global/csr/wkshp3.htm**

efforts against global warming, and also plays an active role in the wider European efforts to control transboundary pollution.

EU approach in reducing the consumption of resources or reducing polluting emissions and waste can reduce environmental impact. It can also be good for the business by reducing energy and waste disposal bills and lowering input and de-pollution costs. Individual companies have found that less use can lead to increased profitability and competitiveness.

In the environmental field, these environmental investments are normally referred to as "win-win" opportunities - good for business and good for the environment. This principle has been established for a number of years, and was most recently recognised in the Commission's 6th Environment Action Programme[35]. It explains how the European Union and Member State governments can fulfil their role to help business to identify market opportunities and undertake "win-win" investments. It set out a number of other measures aimed at business: establishment of a compliance assistance programme to help business understand European Community environmental requirements; development of national, but harmonised, company environmental performance reward schemes that identify and reward good performers and encouraging voluntary commitments and agreements.

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[35] **The 6th EU environmental action programme recognizes that "the aims and objectives set out in the Programme shall be pursued", inter alia, by means of "improving collaboration and partnership with enterprises and their representative bodies and involving the social partners, consumers and their organisations, as appropriate, with a view to improving the environmental performance of enterprises and aiming at sustainable production patterns". This includes "establishing a compliance assistance programme, with specific help for small and medium enterprises". The Compliance assistance programme for SMEs, currently in preparation, aims at proposing measures and tools to help SMEs comply with environmental legislation and improve their environmental performance.**

A good example of an approach that allows public authorities to work with business is Integrated Product Policy (IPP). IPP is founded on the consideration of products' impacts throughout their life cycle, and involves business and other stakeholders in dialogue to find the most cost-effective approach. In the environmental field, it can therefore be seen as a strong existing framework for promotion of CSR.

Another approach that facilitates corporate social responsibility is the Community's Eco-Management and Audit Scheme (EMAS) ISO 19000. This encourages companies voluntarily to set up site or company-wide environmental management and audit systems that promote continuous environmental performance improvements. The environmental statement is public and is validated by accredited environmental verifiers.

Businesses are also aware of the opportunities associated with improved environmental performance, and is working to systematically take advantage of it: The European Eco-Efficiency Initiative (EEEI), an initiative of the WBCD and the European Partners for the Environment in partnership with the European Commission, aims to integrate eco-efficiency throughout European business, and in European Union (EU) industrial and economic policies(Green Paper 2001).

SMEs are important engines of economic growth and employment throughout the EU. At the same time, they are no different from large companies in exerting considerable pressures on the environment, not necessarily individually but through their combined total impact across sectors. It is therefore vital that the environmental policy of the EU should be further developed in order to promote sustainable development in SMEs - both in terms of the pollution caused by their plants and in terms of the goods and services that they produce.

The Eco-Management and Audit Scheme (EMAS) is the EU voluntary scheme for organisations willing to commit themselves to evaluate, improve and report

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on their environmental performances. The Commission has developed an EMAS SME toolkit to provide SMEs with an easy step-by-step explanation to reach registration with the EU Eco-Management and Audit Scheme. [36]

The EU Eco-label is a voluntary scheme designed to encourage businesses to market products and services that are more environmental friendly and for European consumers - including public and private purchasers - to easily identify them. It is also an instrument mainly designed for SMEs, and gives an opportunity to SMEs to market and distinguish their products on the basis of their environmental excellence.

The Commission's Environmental Technologies Action Plan (ETAP) promotes clean technologies to the benefit of SMEs indirectly; for example, innovative SMEs will have access to independent assessments of their technological innovations, as well as to training to develop skills in environmental technologies. [37]

3.2 National CSR Practices within the EU Member States

There is a broad consensus in Europe about the definition of CSR, although its precise nature and characteristics vary between different national and cultural contexts.

This compilation shows that public policies on this issue evolve rapidly, as CSR is an innovative and flexible means to address some of the current challenges facing European societies.

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[36] **More on EMAS: ec.europa.eu/environment/emas/index_en.htm**
37 A one-stop-shop to help small and medium-sized enterprises implement Integrated Product Policy has been created to provide information, tools and services in 5 languages for developing and marketing "green products". EcoSMEs.net is the main result of the eLCA project, a project financed by the European Commission in the framework of the eContent programme, that has involved 45 experts from the United Kingdom, Germany, Italy, Spain and Greece who have combined their knowledge of IPP, Information & Communication Technologies, Management & Marketing and Training.

Beyond the diversity, the objectives of these different policies are similar: promoting stakeholder dialogue and public private partnerships; enhancing transparency and credibility of CSR practices and instruments; raising awareness, increasing knowledge, disseminating and awarding best practices; and ensuring a more solid and consistent link between sustainable development objectives and public policies.

Within the EU member states, there are significant differences in the forms and intensity of implicit CSR; it is most intense in the Scandinavian form of welfare capitalism. While traditional regulation in the environmental and social sphere is reduced, at the same time new forms of regulated CSR emerge.

While early forms of mandatory reporting were introduced by several European countries in the 1990s with an environmental focus, a second wave of regulation included social and ethical aspects into the transparency obligations, thus applying a wider concept of CSR.

Governments increasingly aim to persuade companies to implement CSR by providing 'carrots'. This is relatively new and includes public facilitation of CSR activities, their endorsement or the public participation in CSR-related networking. Examples in the field of codes of conducts are the intergovernmental drafting of the OECD Guidelines for Multinational Enterprises and the co-authoring by the British government of the Ethical Trade Initiative (ETI) and the Voluntary Principles on Security and Human Rights for companies in the Extractive and Energy Sectors.

International Organization for Standardization (ISO) standards, governments have contributed to the establishment of the environmental management system ISO 14000, the quality management system ISO 9000, and are presently

contributing to the development of ISO guidelines on 'Social Responsibility'. At the national level, even though there are no state-initiated instruments in place yet that are both fully-fledged management systems and cover the width of the CSR concept, some initiatives are being taken. Labelling is a further field where EU countries provide legal frameworks for voluntary corporate use.

Financial incentives are a further way of facilitating CSR, or rather *Corporate Citizenship* activities. Instruments such as tax deductions for social foundations or for company donations to social and environmental projects are common in most EU States.

EU Commission's initiative to launch the European Multistakeholder Forum on CSR as response to the Commission's Green Paper, business representatives and stakeholder groups had called on the Commission to encourage constructive dialogue between all CSR actors.

Initiatives geared towards CSR such as Public Private Partnerships and Voluntary Agreements by businesses with governmental participation.

In its Communication adopted in March 2006, the Commission proposes actions to promote further take up of CSR practices. In this respect, it emphasizes cooperation with Member States and acceding countries. The Commission has convened a group of high level national representatives on CSR on a regular basis since 2000. The exchanges and analysis of national CSR policy developments and goods practices within this group have deepened. The value added of different approaches can be assessed through a mutual learning process.

The European Foundation (2005) for the Improvement of Living and Working Conditions has produced 12 case studies around enterprises in four European countries which set out to analyse the extent and practice of CSR. The project aims to reveal in what way European companies are developing models of best practice around the issue of working and employment conditions.

3.2.1 CSR in France

During the French presidency of the G8, the UN GC was vigorously promoted, as well as the OECD guidelines, and ILO 1998 Declaration on fundamental principles and rights at work. The President personally encouraged the setting up of a network of French companies joining the GC in 2003; from around 30 in January 2003, they are 205 in September 2003. [38]A National Contact Point has been set up. France contributed to the GC with a 100 000 Euro support contribution.

The Declaration "Fostering growth and promoting a responsible market economy" adopted by G8 in Evian encourages "companies to work with other parties to complement and foster the implementation of existing instruments "[39]. A High Level meeting on employment of the Eight in Paris in May 2003 allowed exchanges on age management and each stakeholder's role.

France had been active during the European debate on green book in 2001 and supports Commission initiatives.

France has adopted a national strategy for a sustainable development in June 2003, has created a *National Sustainable Development Council* including 90

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38 **Since its official launch on 26 July 2000, the initiative has now grown to nearly 3,000 participants, including over 2,500 businesses in 90 countries around the world. By the numbers in 2006, there are 402 participant companies from France. More information UN GC and it's participants: http://www.unglobalcompact.org/ Participants And Stakeholders /index.html**

39 **In reference to the OECD guidelines and ILO 1998 Declaration.**

members belonging to the main groups of the civil societyand high level group for sustainable development has been set to follow up the implementation of the strategy. Each ministerial Department has nominated a high civil servant in charge of sustainable development.

The national strategy promotes(European Commision 2004 p20) CSR along three objectives : Creation of a reference system at the national level; Analysis of practices; Development of SRI. This strategy includes financial means to encourage companies to start sustainable development practices. The social affairs, labor and solidarity ministry has created a transversal mission in order to follow the implementation of the strategy, to develop the practices observation, to encourage the complementarity and interaction of the different partners.

Two laws were voted in 2001 to promote the transparency of SRI and CSR that bound to complement each other.

In 2001 for the first time French companies had to give social and environmental information in their annual reports. The objective was to encourage companies in a strategic way to set the tools necessary to measure the social and environmental impact of their activities.

Again in 2001 law which creates a public pension reserve fund, states that the investment policy of the fund has to take into account social, environmental and ethical considerations was issued.

AFNOR, the French association for standardization, published a booklet on sustainable development and company social responsibility.[40] This guide, written by all the stakeholders, aims to help companies to take into account sustainable development in their strategy and management.

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[40] **AFNOR develops the reference systems required by economic players to promote their strategic and commercial development. As European and International standardisation represents more than 80% of its work, AFNOR is influential in representing French interests within these standardisation authorities. More on AFNOR: http://www.afnor.org/**

Another policy initiative supportive of CSR is that the department in charge of parity and professional equality's campaign of information in favoring women's access to responsibility and decision. Also, an independent administrative authority in charge of promoting equal treatment and fighting discrimination is about to be installed.

Labor Ministry organizes meetings with companies, social partners, scientists to examine the practices and new trends in the sectors of training, valorization of experience, abilities and competence, and the ages management in companies. A national agreement has been concluded between all the social partners in 2003 to institute an individual right to training, which can be increased and transferred.

Since March 2001, the French law on public procurement authorizes the inclusion of social and environmental considerations among the clauses of public procurement contracts.A new reform, which is being presently elaborated, will introduce sustainable development and high quality environment in public procurement criteria.

French national contact point, with a three tiered structured and an interministerial composition, actively promotes the OECD guidelines.

In the area of ethical trade , there are two new initiatives from the public sector. For example; a priority solidarity fund is devoted to development of the market shares of fair trade organizations and so to allow a growing number of producers and workers to improve their living standards. [41]

France has seen huge growth in investment in SRI funds, adding over €600 million in 2003 alone; the original impetus for SRI came from Arese, which created an index for screening in 1997.

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[41] Ethical Trade issue is explored om the EU Employement and Social Affairs website, within the CSR Matrix.

Public companies are required by a law enacted in 2001 to disclose environmental and financial performance. This benefits investors (White 2005), who have a fair way to compare investment choices, and highlights which firms are doing the best job of compliance, important for profitability, as they avoid fines and costly cleanup expenses.

3.2.2 CSR in Germany

CSR is an important issue for the German Government.However, in terms of social commitment by business which extends beyond statutory requirements, there is quite dense regulatory system in Germany and that this leaves little scope for further action.

In Germany, the social partners and many individual companies are very active in the field of CSR; this has a little something to do with the government providing numerous incentives for CSR activities.

Such as the "TeamArbeit" initiative, which was launched in 2003 to combine forces with companies and individuals from all groups in society to form the largest network against unemployment in Germany.[42] Professional media work is to support those companies and individuals who have participated in a diverse ways in the battle against unemployment and to make their examples known in advertisements, brochures and the internet. Also, a network of "senior experts"was established with the task of finding training places and internships for young people.

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[42] **There is a comprehensive website at www.teamarbeit-fuer-deutschland.de, which is designed to network the players together.**

Together with business and the social partners, the government has launched a Training Campaign 2003 where with a marketing campaign Education Minister paid visits to companies to raise public awareness of the situation and appeal business to accept its responsibility.

The Joint Federal Government/Länder Scheme (2006) "Improving the Regional Economic Structure" is the major instrument of regional economic support and also assists non-investment measures in the field of lifelong learning, such as advice and training, formation of human capital and applied research and development in structurally weak areas. It also promotes telework and part-time jobs and jobs for women in areas where female unemployment is high.

The umbrella associations of German industry have agreed to recommend to their members that they offer flexible working hours and forms of work, in order to ensure a better compatibility of family and work. The Federal Government and the umbrella associations have also concluded an agreement on promoting equal opportunities of men and women in the private sector[43]

In the context of the measures entitled "framework conditions for innovation" and "in-company instruments" German Government aims to boost the environmental responsibility of economic-policy makers and companies. Specific projects are supported like green finance or labelling.

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[43] Best practices, advice for companies, integration of equal opportunities/family friendliness in advice on training and corporate consulting was within this process

NAGUS[44] works in the the fields of environmental labelling, environmental management, environmental aspects in product development, and eco-audits. The members of NAGUS come from business, science, environmental associations, environmental agencies, consumer associations, trade unions, consulting and technical inspection.

In 2000, the government and business signed an agreement containing a voluntary commitment by industry for the Kyoto contractual period up to 2012, referring to all Kyoto gases, with in some cases even more challenging minimum emissions. The agreement is a good example of longterm cooperation between government and business which removes the need for bureaucratic rules.

Private individuals and SMEs can also receive grants and low-interest loans for investment in renewable energy facilities from the Federal Government's market incentive programme for renewable energy.

In the field of envirement and trade policies, the government has launched a programme to "promote social and ecological standards in developing countries" where the players in the developing countries are to be able to improve their lives by designing and participating in voluntary instruments in the field of environmental and social standards. More than 50 individual projects in the field of ecological and fair trade are being promoted by the German Government.[45]

CSR is also an aspect of the comprehensive sustainability strategy; describes the nature of sustainable political and social action, and is based on the co-ordinates of fairness between the generations, quality of life, social cohesion and international responsibility. The targets and indicators include energy

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[44] **Standards Committee on Principles of Environmental Protection in the German e for the standardisation of interdisciplinary principles of environmental protection at national, European and international level.**
[45] **There are 69 German companies who signed GC principles.**

productivity and raw materials productivity, emissions, the proportion of renewable energies, private and public spending on research, education and development, the proportion of organic farming, air pollution and all-day care facilities for children.

"Startsocial" is a competition to promote social ideas and projects initiated by several companies led by McKinsey,[46]. With professional assistance from experienced managers of large companies, the implementation of social projects is to be promoted and the networking of projects and companies intensified. Prizes: grants for advice from experienced coaches from business, monetary prizes and accompanying events on issues like fundraising or PR work.

Germany supports the GC.[47] The German Government, business and employee organisations, and NGOs have worked constructively on the revision of the "OECD guidelines for multinational enterprises" where the guidelines are voluntary.

The environment was the initial focus of social investors in Germany. Starting in 1991, the Renewable Energy Act motivated tax-advantaged closed-end investment funds used to create wind power farms. Although Germans have embraced other facets of SRI over the last decade, the practice is frequently synonymous with ecologically screened investments.

Recent reporting standards (White 2005) do encourage CSR activities, and suggest disseminating such information to shareholders.

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[47] **The German Governemnt provides start-up funding for the GC office in the UN Secretariat.**

3.2.3 CSR in United Kingdom

It is appropriate to say that UK has the most committed member to CSR. In March 2000, the UK government appointed a Minister for Corporate Social Responsibility.[48] Their strategy on CSR and strategy for sustainable development are interconnected; aiming for integration of social progress, effective protection of the environment and high and sustainable level of economic growth and employment.

In March 2001, the first CSR report was published, outlining the government work plan; including initiatives to develop the business case, engage a wider range of businesses, especially SMEs, encourage good practice, promote CSR internationally, and coordinate CSR policies across the government.

The active communities challenge initiative encourages companies to give employees the equivalent of a daypaid time to volunteer for work in the community.

The UK Department of Trade and Industry (DTI) gives financial support to the SIGMA project, a partnership between the British Standards Institution, Forum for the Future and Accountability which aims to develop a framework for management sustainability which includes management principles, systems and tools.[49]

The Department for International Development (DFID) helped to set up the ethical trading initiative in 1998, and has supported and worked closely with it since. The ethical trading initiative is a tri-sector alliance of companies, trade

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[48] **The government role in CSR is to raise awareness; provide guidance; promote consensus on UK and international codes of practice; and promote a framework for social and environmental reporting and labelling. Stephen Timms is the current Minister for CSR.**
[49] **More on project sigma: www.projectsigma.com**

unions and NGOs, working to improve labour conditions in the supply chain of its corporate members.

The ETI has developed a model code to which participating companies have to adhere and is testing multi-stakeholder methodologies to monitor and verify code compliance. ETI members visit their suppliers, identify conditions that do not meet the ETI base code, and then plan improvements in agreement with their suppliers.

In July 2002, the UK government issued a White Paper on modernising UK company law to seek views on core proposals for the reform of company law.

Amongst others, the White Paper refers to the need for more qualitative and forward-looking reporting where as listed companies with more than 500 employees or private companies with more than 5 000 employees and GBP 500 million of turnover should include relationships with employees, customers and suppliers, and the company's impact on the wider community and the environment.

In the field of environmental protection, in 2001, the UK government issued a set of guidelines on corporate environmental reporting following a call by the Prime Minister for all top firms to start issuing environmental reports.

The government has set up an interdepartmental group to examine how labelling schemes might be made more consistent and coherent.

July 2000 saw the enactment of the UK's pensions disclosure regulation. The regulation requires that trustees of occupational pension funds disclose in the statement of investment principles the extent to which social, environmental or ethical considerations are taken into account in their investment strategies and their policy in relation to the exercise of rights attached to investments.

A tax relief was designed to encourage greater private investment in enterprises that have historically struggled to secure finance and support. By this new approach, there is a premise to the entrepreneurs in poor communities to find ways to create and maintain wealth locally.

These entrepreneurs include those who run small enterprises generating income and employment. They can transform the boarded up shops and run-down environments prevalent in some communities.

Payroll giving is a tax-effective way for employees to donate to the charity of their choice from their gross pay before tax. The scheme has been available for over a decade but was improved in April 2000.

Providing a payroll giving scheme is becoming more widely recognised as an essential ingredient for socially responsible employers to demonstrate support for their staff and the community.

Trade and export policies of the UK government is actively promoting the OECD guidelines for multinational enterprises. The national contact point is located in the Department of Trade and Industry and is composed solely of DTI officials.

3.2.4 CSR in Czech Republic

"I was very keen to start this Forum as a response to the lifting of the Iron Curtain in Europe and the huge changes which were taking place at the time. And it seemed to me absolutely essential that business should acquire a human face and ensure that the social dimension was kept in mind.... It was to be a focus both for exchanging ideas on good practice in business social responsibility and good corporate citizenship, and also to act as a catalyst to try and get private and public sectors together with community organisations to address many of the pressing social, economic and environmental issues which the world was facing, and of course still does." [50]

As one of the latest members of the EU, efforts to develop CSR in Czech Republic started much before the accession. Since 1992 the endeavors on CSR continues. The Czech Business Leaders Forum has been pioneering CSR in the business world. The Health, Safety and Environment Award, has since 1993 annually awarded best improvement of the environment in the community, in a region and/or at the workplace. Environmental management workshops have been hosted by international companies to share experience with managers of Czech companies. There are activities supporting transparency. Workshops and conferences on CSR were hosted [51]

SME support programmes carry on and they mainly being implemented in areas of high unemployment, primarily in industry, sales, and services. These programmes offer counselling services, help in preparing business projects, and financial grants.

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[50] **HRH The Prince of Wales spoke on Business Leaders Forum, Czech Republic, 1999**

[51] **CSR Europe is the partner of the Czech Business Leaders Forum. More on their work can be reached at: http://www.blf.cz/en/aboutblf.php**

3.2.5 CSR in Poland

"The broad interest in CSR can certainly contribute to Poland's adoption of best practices in the European and Global business environment and further enhance Poland's attractiveness to investors and commercial partners"[52]

(Grawe 2002)

The Polish economy is often appreciated for its growing competitiveness, but not as much for its social vision or environmental consciousness. For this reason, World Bank in Warsaw, jointly with a local NGO called the Forum of Responsible Business, started forming a CSR Advisory Group in 2002 to promote the concept of corporate social responsibility among businesses operating in Poland. There are number of the private sector representatives, academics, government officials, think-tanks, NGOs, and the media.[53]

The Polish Agency for Enterprise Development organises an annual competition 'Polish Product of the Future', whose aim is to promote ethical economic activity. It also supports the development of enterprises and promotes reliable and honest businesses operating in accordance with the law and ethical principles.

The title of 'Leader of Polish Ecology' is a prestigious award granted annually by the Minister of Environment to entrepreneurs and communities for outstanding achievements in the domain of environment protection. The competition organized since 1996 is a venue for promoting innovation, high quality and ecological ethics in the activities for the benefit of the environment.[54]

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[52] **Roger Grawe is the World Bank's Country Director for Central Europe; he spoke at the Forum of Responsible Business in Warsaw, 2002**

[53] **More on the initatives: www.worldbank.org/wbi/corpgov/**

[54] **More on national policies: ec.europa.eu/employment_social/soc-dial/csr/national_csr_ policies_ en.pdf**

3.3 Conclusion

Since the European Commission defines CSR as what companies do beyond the law, the exact same activities can be classified as CSR in one country whereas it is simply in compliance with the law in another. Some people argue that the definition of the European Commission should include (Morsing & Thyssen 2003) both regulated and voluntary activities and that it should be based on the true characteristics of the activities instead.

But the downside of this is if regulated issues were included then everybody would be involved in CSR and the concept would loose its attraction.

The progressive movement in the EU regarding CSR was stalled a bit when the European Commission rejected a White Paper that would have put in place mandatory measures for member countries and their companies to adhere to specific CSR guidelines.

Although The European Commission has firmly rejected a regulatory approach to CSR suggested in the white paper on the subject.

The eagerly-awaited document, which emphasises the 'voluntary nature of CSR', makes it clear that the European Commision does not at present intend to impose responsible behaviour on companies by regulation or directive. It rejects mandatory social and environmental reporting, says the EC will not introduce compulsory social labelling of products, and does not propose a Europe-wide regulation requiring pension funds in member states to disclose any socially responsible investment policies they may have.

Sustainable competitiveness demands the simultaneous improvement of economic, environmental and social performance in the short and the long term.

This transforms the scope of corporate responsibility, accountability and performance.

Engaging with stakeholders becomes essential. This extension of business responsibility has a direct impact on strategy, organisation and management. It is therefore vital that new skills be developed. The process requires and generates innovation in every compartment of business activity. This innovation is key to competitiveness.

CHAPTER IV

CRITICS ON CSR

"*...For leading companies, helping to achieve the Millennium Development Goals is not only a matter of Corporate Social Responsibility, embedded in compliance, risk management and philanthropy, but also a matter of corporate social opportunity, embedded in innovation, value creation and competitiveness... Corporate Social Responsibility is a licence to operate as a business in the short term, a necessary condition for sustainability and competitiveness in the long term.*"

Kofi Annan[55]

Corporate scandals, stock market downturn, uncertain economy, threat of terrorism have diminished trust in the corporate sector and its leaders. Companies have to address this, individually by demonstrating their positive impact on society and collectively by developing comparative meaningful measures by which to report their progress against.

In *History of CSR*, Alice and John Tepper Marlin (2003) note that the term CSR was, although seldom abbreviated, already in common use in the early 1970s. It was first used in 1972 by Abt & Associates, which added an environmental report to its annual financial statements, "the concept of social responsibility was strictly related to air and water pollution, and it also rashly attempted to reduce everything to a dollar bottom line."

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[55] **The role of business to tackle these global challenges was highlighted by Kofi Annan at the World Summit on Sustainable Development in Johannesburg in September 2002.**

In the 1980s, the term "stakeholders" started to be used to refer to corporate owners beyond shareholders. Around this time The Body Shop dedicated itself to the pursuit of social and environmental change.[56]

By the 1990s, efforts of social accountability have become embedded in corporate life. In 1998, for example, oil industry giant Shell launched its "Profits and Principles" advertising campaign, which recognized the "interests of a much wider group of stakeholders in our business."

Much of the literature on the subject maintains the view of the advocates who see CSR as the mantra for business in this millennium. The arguments against business taking on social responsibility as a part of their corporate agenda is lesser publicized. Public interest, NGOs are active and vocal in their charges against "corporations taking over the world." Though lesser publicized, there are still many vocal arguments.

In 1991, the World Bank economist Herman Daly (1999) contributed the following definition for a sustainable society: "A sustainable society needs to meet three conditions: its rate of use of renewable resources should not exceed their rates of regeneration; its rate of use of non-renewable resources should not exceed the rate at which sustainable renewable substitutes are developed; and its rate of pollution emissions should not exceed the assimilative capacity of the environment."

CSR has a firm link with the principles of sustainable development which argue that enterprises should be obliged to make decisions based not only on economic factors but also on the social, environmental and other consequences of their activities.

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[56] **Body Shop, founded by Anita Roddick, is a British chain of cosmetics stores, now found all over the world. It's noted for selling its own line of products not tested on animals, and produced in an ecologically sustainable manner. More information in their socially responsible activities can be found at: www.thebodyshop.com/**

There are worldwide used principles of sustainable development. The Ceres Principles are widely referenced as guiding principles in many articles and are used by companies such as Interface. Hanover Principles were developed in 2000 and aimed at urban planners, designers and architects to consider in the choice of materials, functionality, and human experience in an ecological system. The Equator Principles are used by the international investment community sponsored by the World Bank. The principles are structured to screen projects for inclusivity of environmental, social and economic risks, generally within emerging economies. The Global Sullivan Principles are focused on economic, social, and political justice of companies wherever they operate. The Sullivan Principles are endorsed by over 200 companies internationally. There are many other generally referenced principles or programs being promoted such as The Natural Step for Communities They all tend to follow variations of each other. [57]

Independently these standards help companies to address their social responsibilities while providing a structured framework to ensure legislative compliance and opportunities for financial sustainability.

4.1 Main Critics of CSR

The critics vary from the lack of common definition, standardized efforts and perhaps right to say gap between the application of these principles in the globalized world.

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[57] **More on Ceres Principles:http://www.ceres.org**
Among the organizations which have adopted the Equator Principles are: Bank of America, CIBC, Credit Suisse Group, HSBC, ING Group, JPMorgan Chase.
More on Equator principles: http://www.equator-principles.com. Among their list of endorsers are British Airways, Chevron Texaco, Coca Cola, General Motors Corporation, HSBC, Procter & Gamble.
More on the principles: http://www.thesullivanfoundation.org

An important criticism to the concept of CSR was written by David Henderson. His views suggest that the idea of sustainable development is not well-defined and therefore should not be embraced by any corporation. According to Henderson(2001) society's expectations of business are strongly influenced by NGOs that do not understand the relationship between a market economy and need for profits. Henderson discusses that the adoption of CSR will lead to higher costs to be borne by the business or its customers. Those companies that adopt CSR standards will want the competitors in the market to compete using the same standards which may not be equitable. The standards could be driven by response to public pressure or governmental legislation. The imposition of well-intended standards could suppress the employment opportunities in poor countries due to circumstances beyond the control of the market such as political indifference by foreign leaders.

Milton Friedman(1974), referred to CSR as being a "fundamentally subversive doctrine." He saw it as the role of the market to distribute wealth as opposed to that of the socialist politicians. Friedman believed that companies are legal entities that only exist in the interests of their stockholders. Therefore, a corporation should only commit resources for purposes it regards as being socially responsible if it can connect this activity to the corporation's bottom line. He contended that it is not clear who is defining social responsibility. Where companies set up departments which manage social relations, these departments typically are adverse to the interests of the stockholders and are a waste of money.

Friedman states that the responsibilities of corporate managers are to obey the law, and follow the generally accepted ethical principles and maximize returns to shareholders. He assumes that the government has taken care of distributional issues and has defined property rights so that there are no external effects, no private–social cost differences. Within this context he argues (Heal 2005) that

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there is no role for CSR: Profit maximization, doing what is best for shareholders, is also best for society.

According to Middlemiss(2003) corporate responsibility has become a differentiator and a type of licence to operate, not only for industries with conventionally higher risk exposure; energy, utilities, heavy manufacturing—but for all sectors.

4.2 The Business Case of CSR

For a business to be successful in this increasingly competitive market, managers have to balance the idea of being socially responsible with that of being financially viable. Thus companies that embrace corporate responsibility recognise that their social and environmental impacts have to be managed in just the same way as their economic or commercial performance. But getting started, putting corporate responsibility principles into practice, can be difficult and many companies struggle to justify the management of social and environmental affairs in terms of concrere business advantage.

In recent years much has been written about the subject and the business imperatives of Corporate Responsibility. There are six commonly recognised benefits that can be gained from an effective business-led approach:

- Reputation management
- Risk management
- Employee satisfaction
- Innovation and learning
- Access to capital
- Financial performance

Stakeholder views, and their expectations of corporate behaviour, are shaped by what they see happening in the world around them. By the means of today's communication networks and globalization there is no end to reaching information.

But, CSR is not restricted to big business. Companies of all sizes can benefit, as responsible suppliers to corporate customers, by reducing risks, in attracting qualified workforce, through the exploitation of new markets for responsible products and services, in meeting responsibility criteria set by lenders and last but not least by reducing operating cost.

The importance of CSR related activity has also been enhanced by the increased use, and further development, of quality, health and safety and environmental standards such as ISO 9000:2000, OHSAS 18000 and ISO 14000. These standards, or their equivalent, are designed to provide a focal point of agreement or acceptance as to what is needed to fulfil a certain requirement(Utting 2003).

What is required for even greater effectiveness are clearer definitions of CSR elements, rigorous measurement of CSR activities, and a methodological approach to CSR auditing (Van de Ven 2006).

Corporate governance and the environmental and social performance of companies are emerging as some of the key issues of today for the investment industry.

Responsible investment capability is increasingly becoming a strategic competitive imperative for the Global and as well as European fund management industry as it seeks to win global institutional mandates. Factors fuelling this trend include the threat of increased legislation, the increased

emphasis on shareholder activism, and recognition by the fund management community of the importance of engagement in the management of risk.

This pattern is particularly apparent in Europe, where many in the investment community are looking at hÿÿ best to position themselves to address and capitalise on these issues.

The most 'active' activists in the fund management industry tend to have some SRI interests. However, the trend is moving from an SRI 'values' agenda towards one of opportunities and risks. Evidence of this can be found in the increasing number of research reports from global investment banks such as Goldman Sachs, Morgan Stanley, Citigroup and UBS regarding environmental, social and corporate governance issues, opportunities and risks. This change has been driven by one thing and one thing only - investor interest - as without this, investment banks would not invest in setting up and supporting responsible investment research teams.

The way investors go about becoming more 'informed' about a company's corporate responsibility and governance performance tends either to be by utilising one of the commercial data and rating agencies, such as EIRIS[58], and incorporating this information within their in-house research and engagement processes, or by simply outsourcing this whole activity to a third party.

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[58] **At the beginning of the 1900s, the Methodist Church began investing in the stockmarket, consciously avoiding companies involved in alcohol and gambling. During the twentieth century more churches, charities and individuals began to take account of ethical criteria when making investment decisions. Initially the US was more advanced in developing the ideology and in 1971 the Pax World Fund was set up which avoided investments associated with the Vietnam War. The apartheid regime in South Africa accelerated the promotion of ethical investment in the 1980s. In 1983 EIRIS was established as the UK's first independent research service for ethical investors. And then a year later the UK's first ethically screened unit trust was launched by Friends Provident - the Stewardship Fund. Over the last 20 years the growth in ethical investment has been immense. By 1999, it was estimated that the value of assets involved in some form of socially responsible investment in the US had risen by a more than third to over 2 trillion dollars. http://www.eiris.org/**

What is clear is that fund managers are continuing to develop their expertise and resource in this area in line with increasing client interest and the shadow of unwelcome legislative intervention.

4.3 Economics of CSR

'Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer'.

Adam Smith, Wealth of Nations (1776)

The economic viewpoint argues that no costly responsibility action should be undertaken voluntarily. Responsibility must be defined in minimalist public policy, to which one may reasonably add customary business ethics.

The debate between economic and ethical CSR then really concerns expanding ethical concerns and public policy.

Two centuries of experience strongly supports Smith's thesis that better economic performance occurs where capital allocation for production and distribution of wealth operates under conditions of relatively free and competitive markets within minimalist public policy (Andriof et all, 2002) .

Ethical CSR beyond legal compliance, is broadly speaking treated as discretionary altruism by management at investors' expense. Economic CSR narrows duty to strict fiduciary responsibility to investors' property rights except as constrained by law. Emphasize should be made on long-term or sustainable wealth creation rather than short-term profit maximization. Enlightened stakeholder management of considering productivity effects of not heeding employees' sentiments concerning other stakeholders' welfares (Windsor 2006).

"Can business meet new social, environmental, and financial expectations and still win?" Business Week posed this question in 1999, though scholarly investigations dating back to the early 1970s have been generating and examining empirical evidence on whether CSR pays or costs. Results of these studies in aggregate have been considered inconclusive, largely because the body of findings had yet to be analyzed in statistically rigorous ways until now.

"There are surveys providing strong evidence of what many people have suspected all along that CSR does indeed have a measurable impact on the financial bottom line; and these findings validate the core thinking of socially responsible investing (Burchell 2006 p121).

The study reports several other important findings. First, it finds that corporate social performance correlates more strongly with corporate financial performance when using accounting measures for analysis than market-based measures, such as stock price. Second, it finds that corporate environmental performance affects corporate financial performance to a lesser degree than the various other measures of corporate social performance, such as corporate reputations for minority hiring for example. Third, it finds a "virtuous cycle" between corporate social and financial performance: not only does strong CSP lead to strong CFP, but also strong CFP allows companies to afford spending on social responsibility measures, which can lead to increasing CSP--and so on(Baue 2004).

Finally, the study notes that its findings carry significant implications for Corporate managers:

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"First and foremost, market forces generally do not penalize companies that are high in corporate social performance; thus managers can afford to be socially responsible," the study states. "As findings about the positive relationships between [corporate social performance and corporate financial performance] become more widely known, managers may be more likely to pursue corporate social performance as part of their strategy for attaining high corporate financial performance."

First Sustainable (2006)

Solomon (1999) suggests that CSR can be controlled and shaped predominantly by the business community if it focuses on 4 themes. If CSR represents an economic tool to gain competitive advantage and social capital, if it is used as a method for global companies to develop strong links with the local communities in which they operate and used as a method for alleviating risk and the threat of damaging publicity. Lastly the stakeholder management has to goes beyond the traditional limits.

Within this context, CSR allows companies to become corporate citizens through greater interaction with civil society, more ethical business strategies and the provision of greater openness and access to information. Engaging with and shaping this knowledge, it is argued by Burchell (2006), CSR enables business to interact with the new social agenda from a position of strength and control.

4.4 CSR and Corporate Governance

The European Commission and its stakeholders have embedded the concept into a very wide notion of sustainability in the economic, natural and social environment. Although the regulatory framework in general rapidly changes and companies complain, living CSR principles might result in public authorities even to reduce some regulation in the longer run(Körner 2005). Governments,

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however, will have to resist the temptation to outsource their own responsibility. The legislative framework needs to remain adequate but flexible.

CSR is consequently about a change of the mindset of the economic actors and their stakeholders. There are arguments in the CSR debate that already fulfilling legal obligations is CSR, there are others that clearly ask to go beyond such legal requirements. There are also fears that CSR might lead to new legal requirements.

Long term sustainable interests of a company may not always coincide with the short term interests of shareholders or managers, in particular in the context of today's shortterm capital markets. Nevertheless without taking sustainability aspects into account even the medium term performance may be suffering.

4.5 Shareholder vs Stakeholder Approach

One of the main innovations stemming from the stakeholder theory literature consists of realizing that the company(Freeman 1984) does not deal with only one group of stakeholder; the shareholders, but also with other groups and each of them bearing a different interest with an intrinsic value that are able to infuence company objectives and decisions.

Stakeholder theory recognizes that there are other parties involved, including governmental bodies, political groups, trade associations, unions and communities. This view of the firm is used to define the specific stakeholders of a corporation(Donaldson et all,1995). The managerial implication of this circumstance for the company is that it should take into account all the equally relevant interests, in order to understand which type of infuence they could have on the organization's current and future performance. In this sense, the ''stakeholder management'' becomes crucial for company results .

A lot of the debate on CSR turns around stakeholder involvement. In some sense it takes up the old debate on stakeholders versus shareholders. It centers on how businesses can, through such an intensified dialogue, become more successful in the long run and better linked and integrated into their environment.

It is increasingly acknowledged that the shortterm focus of the investment community may curb the development opportunities of enterprises in the long term. The exclusive concentration on the bottom line has caused some businesses to disconnect from their environments. Rapid mergers and globalization have fuelled this trend and are now not always being considered a success for shareholders. CSR is to some degree a counter reaction or at least embedded in one. Thus the concepts of CSR; sustainability, environmental respect and corporate governance are the natural evolution of the basic assumptions of the stakeholder theory.

CSR might stand for a mindset of constantly seeking for solutions that take all stakeholders' perception into account leading to more sustainable solutions in an economic, environmental and societal sense. Such a shift would only be rather incremental and an enterprise will always seek economic viability. However such an incremental different perspective might have quite an overall impact on an aggregated scale on the sustainability of society(Körner 2005).

Globalization offers greater access to knowledge, which feeds their concerns about societal and environmental issues around the world. The impact of this? Organizations have to justify their practices in order to meet increasingly higher public expectations of them. Those that refuse to play the game risk the obvious consequences that a tarnished reputation can bring.

4.6 Sustainable Development and CSR

Sustainable development is an overarching objective of the EU set out in the Treaty, governing all the Union's policies and activities. It promotes a dynamic economy with full employment and a high level of education, health protection, social and territorial cohesion and environmental protection in a peaceful and secure world, respecting cultural diversity.

Adoption of the first EU Sustainable Development Strategy (SDS) was complemented by an external dimension in 2002 by the European Council in Barcelona in view of the World Summit on Sustainable Development in Johannesburg.

However, unsustainable trends brought about a sense of urgency, short term action is required, whilst maintaining a longer term perspective. After the review of the SDS in 2004 and on the basis of the Commission Communication "On the review of the Sustainable Development Strategy – A platform for action" from December 2005 as well as contributions from the Council, the European Parliament, the European Economic and Social Committee and others, the European Council has adopted an ambitious and comprehensive renewed SDS for an enlarged EU, building on the one adopted in 2001.

As a part of the SDS, involvement of business and social partners outlined as a principle in the policy guideline:

"Enhance the social dialogue, CSR and private-public partnerships to foster cooperation and common responsibilities to achieve sustainable consumption and production." [59]

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[59] **Renewed EU Sustainable Development Strategy as adopted by the European Council on 15/16 June 2006.**

Business leaders and other key stakeholders including unions and NGOs should engage in urgent reflection with political leaders on the medium and longterm policies needed for sustainable development and propose ambitious business responses which go beyond existing minimum legal requirements.

A proposal to foster this process will be made by the Commission in 2007. In accordance with the European Alliance for CSR, awareness and knowledge of corporate social and environmental responsibility and accountability should be increased.

Conclusion

Globalization was made possible by trade liberalization in general and rapid progress in technology. Even medium sized companies and in some industries small companies went global. An important result is that the global financial sector has been increasingly characterized by short-termism. This means that companies increase their focus on shortterm. This facilitated a predominant concentration on the shareholder perspective.

Companies have been merging at an increasing pace and intensity in many industries. Mergers were a result of corporate restructuring after the abolishing of state monopolies but also an answer to the increasing globalization of businesses. This pace, ongoing race of survival as specified above leading to shortterm approach and treatening sustainable development. And finally the world is becoming ever more diverse, complex and interlinked.Nevertheless the last decades have seen both more regulation but also more freedom to business. Rights come with responsibilities. For freedom to be sustainable it has to be matched by responsibility.

Most organizations have not accepted benefits from their competitors or activist groups, although theories of strategic management would surely grant these

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constituents some consideration because they can significantly influence the organization's success.

CSR and CSR related activities are becoming increasingly important for businesses, especially those with global remits and those wishing to trade on international stock markets.

As business organizations gain more power, they will be under increasing pressure to recognize and act upon their obligations and responsibilities. According to Phillips(2005) The recent actions of some executives and companies in the business world have intensified the need for greater emphasis on ethics, but the need is nevertheless present and should be met.

Today, nontraditional stakeholders hold an increasing share of market power. This power shift is a sign of a new era in risk management solutions, where issues can escalate very quickly and cannot be managed using quick fixes such as PR and advertising.

So the issue in a way is not whether the companies should be responsible or not; what they should be responsible for or the fact that they should manage their risks while demonstrating.

 The business case for CSR is strong, it is not only vital for the sustainable development of the countries, but also vital for companies to remain financially sustainable.

CHAPTER 5

THE FUTURE OF CSR

"At the nexus between corporations and the nonprofit sector lies a Faustian bargain: Corporations provide money without demanding that social problems be solved, and nonprofits honor corporations for their generosity, without interfering in their business. What if the rules of this game could be changed, so that corporations engaged their enormous capacity to lead social progress directly?"

Mark Kramer and John Kania (2006)

In 2000, by the Lisbon Strategy, European Council officially urged for European businesses to assume social responsibility is a significant milestones in this process. The green paper and the 2002 Communication set out the fundamentals of the EU strategy in the area of CSR. The Communication stressed the need for environmental and social aspects part in the decision making processes and operation of businesses. The EMS Forum was set up to promote a partnership approach between business and their stakeholders aiming at developing common answers to the challenges of CSR. After meeting for two years, the EMS Forum report in 2004 served as a basis for further EU strategy on CSR.

To make Europe a `pole of excellence`, the European Commission supported the launch of a European Alliance for CSR. Although the Alliance is not a legal instrument to be signed by businesses and it is open to all sizes are invited to voluntarily express their support. The Alliance will hopefully lead to new partnerships means promoting CSR.

5.1 Future of CSR in the EU

Nonetheless these steps are taken gradually in the last seven years, still the image of CSR has been viewed differently in the eyes of many companies.

There are companies that view CSR as a vulnerability; like a possible risk to be handled with the least possible investment rather than an opportunity for valuable social impact or competitive differentiation.

When the NGOs raise an issue, from child labor to global warming, the usual response of the affected industries is to find the fastest and least costly way to defuse media attention and public pressure. Companies often turn to lobbying, public relations or advertising rather than directly addressing the underlying problem.

Despite the examples of good practices given in the last two chapters, there are still many companies trying to build goodwill or preserve their license to operate, but they don't honestly expect that their contributions will solve major social problems like hunger or illiteracy.

When corporate and social interests are not aligned, commitment to CSR effectively declines. A good example to corporate - societal conflict is what we have been hearing in the last years relates to the wages paid by rich country companies in poor countries; the developing country sweatshop issue.

There are global efforts to over come these conflicts and projections suggested for a better world to leave behind for future generations. Overcoming conflicts, raising the bar in competitive market by differentiation in production and services (by the means of social responsibility) is the key for sustainability.

As explained earlier, when the EU came up with the Lisbon Strategy, it started measuring the progress to evaluate what is needed to reach the ambitious goal for 2010. By 2005 general consensus that Europe is far from achieving the Lisbon strategy. This consensus suggested setting out a mid stage report on the progress and renewal of policies to put the Lisbon Strategy back on track.[60]

The theme of the renewed Lisbon Strategy was delivering stronger, lasting growth and creating more and better jobs. But it has been criticized by NGOs strongly since the focus seemed narrowed onto competitiveness and growth to the detriment of social and sustainable development; suggesting the Strategy is imbalanced. While the main emphasis on the economic pillar of competitiveness focuses building an internal market withour barriers for business, it leaves out the forces of competition that need a social and ecological framework.[61]

While these dıscussions are carried on, in the meantime EU is enlarging. Enlargement was considered during the formation of the Lisbon Strategy in the EU perspective. The new members are caught in the challenge, since CSR brings another dimension to competition in the EU market.

In terms of growth and jobs the Lisbon Strategy has not been very successful so far, and the renewed strategy is an outcome of this conclusion.

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[60] **Brussels, 2.2.2005 COM(2005) 24 final Communication To The Spring European Council Working together for growth and jobs A new start for the Lisbon Strategy Communication from President Barroso in agreement with Vice-President Verheuge**

[61] **What criticized was this reneawal narrowed focus would not keep businesses away from cut-throat competition, social dumping, environmental degradation and the depletion of natural capital.More on the critics: The European Coalition for Corporate Justice (ECCJ) Advocacy briefing, November 2006, can be reached at: http://www.somo.nl/**

In the report "Last Exit to Lisbon", mainstream economists Jean Pisani-Ferry and André Sapir argues the effectiveness of the Strategy;where they define it considerably less ambitious with less objectives and benchmarks.The social quality of jobs and the ecological sustainability of growth are pushed to the background even more than before. [62]

For many Central and Eastern European members of EU like, Czech Republic, Hungary and lately Bulgaria, the process of transitioning from a command economy to free market has generated institutionalized corruption, rising income gap, massive unemployment a market phenomenon that never existed under communism and social marginalization. In 2002, for instance, unemployment level in the Czech Republic was 7.3%, while in Bulgaria the figure reached a staggering 18.6% for that same year.[63] Again, Poland is still in the early stages of adopting these approaches compared to other EU member countries.

In most of the new members CSR is still understood as corporate philanthropy. In collaboration with international organizations like the World Bank and the UNDP, local governments, various NGOs, a growing number of local and international companies are mobilizing their efforts to overcome this perception. For the companies free from this perception, there has been the fear that they would lose their competitive position if they acted alone.

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[62] **More on the critics: http://www.weltwirtschaft-undentwicklung.org/cms_en/ wearchiv/ 53168697880a0ec01.php**

[63] **More on Bulgaria and Hungary examples on CSR can be reached at: http://info.worldbank.org/tools/docs/library/139586/Enabling%20Environment%20in%20Bulgaria%20and%20Hungary%5FCSR%20Draft.doc**

5.2 CSR Practices and Turkey

On going candidacy process to become an EU member has been an influential factor of structural changes in Turkey. Having faced many economic crisis, struggling to adapt to the global and European economic system although challenged has paved Turkey the way to get to know the CSR in the business world.

According to Ararat (2003) another important factor is the need of foreign direct investment (FDI) and relation with IMF which forced Turkey to work on the issues of accountability and transparency; two issues that are the subject of CSR discussions.

CSR will be necessary if Turkey is to join the EU. Turkey is increasingly harmonising its legislation in preparation for EU accession. Part of this harmonisation entails the adoption of the *acquis communautaire*. Important parts of the *acquis* cover CSR issues such as consumer and environmental protection and the promotion of fair competition. Yet, according to Michael and Öhlund (2005) highly visible groups such as Greenpeace "in order to make sense of it and to make it credible to the public, the CSR process itself must go beyond the *Acquis Communautaire* and other existing national legislation in the EU.

As discussed in chapter three, it would be just to say Turkey is far from reaching where companies are in the UK or Germany. Going beyond the acquis communautaire seems utopic for the majority of the companies in Turkey. This figure puts together the examples on CSR in EU members:

Activity	Examples of Countries Engaging in Activity
Promoting CSR	
Awareness raising	Belgium organised a big European conference on CSR in 2001.
Research	The Danish Institute of Social Research monitors CSR developments until 2006 and will publish an annual yearbook with results from the study.
Public-private partnerships	The German Federal Citizenship Responsibility Network promotes co-operation between NGOs, companies and federal governments.
Business incentives	An annual award is given to enterprises promoting health and security at work from the Greek Institute of Hygiene and Security at Work.
Management tools	The Ministry of Labour and Social Affairs in Spain has a programme promoting equal opportunities as a good management strategy for companies, by constructing and implementing action plans.
Ensuring transparency	
Codes	Austrian ministries and enterprises have collaborated in developing a code of conduct for the protection of children from sexual exploitation in travel and tourism.
Reporting	More than 300 Dutch companies are required to submit reports on their environmental performance to the government and the general public.
Labels	NGOs, academics and public officials in the Italian region Emilia Romagna are developing a social quality label which includes responsible production criteria.
Socially responsible investment	The Swedish Public Pension Funds Act requires national pension funds to describe how environmental and ethical considerations are taken into account in their investment activities.
Advertising	Belgian law prohibits misleading advertising concerning effects on the environment.
Developing CSR-supporting policies	
Sustainable development	The German business community has voluntarily signed an agreement with the government promising to follow the Kyoto Protocol guidelines.
Social policies	The Training Place Developer programme aims at increasing opportunities for eastern German companies to provide training.
Environmental policies	Swedish government agencies must integrate environmental management systems and report annually on their progress.
Public procurement	The Belgian government has introduced a social clause for certain federal public procurements, favouring the inclusion of disadvantaged groups.
Fiscal policies	Spain gives tax benefits to NGOs and enterprises which contribute to public interest goals and activities.
Trade and export policies	Most EU countries, including Belgium, France, Germany, and the Netherlands, follow the OECD trade guidelines and inform the business sector about these guidelines.
Development policies	Dutch Ministry of Development Co-operation supports NGOs who aims at raising CSR awareness in developing countries.

Figure 5.1 CSR: National Public Policies in the European Union

In Turkey, as in many of the new members of the EU, CSR is perceived as philantropy and in some cases only community relations management. Shareholder management rather than the stakeholder management prevails. The wellknown CSR projects in Turkey are Turkcell's "Kardelenler, Çagdaş Türkiye'nin Çagdaş Kızları" where it provides scholarships for over 10 000 and media backed "Baba Beni Okula Gönder" which is again an education project by Milliyet.

It's not to deny the social aspect and how stimulating these two examples in the public and some of the competitors' eyes. Unfortunetely it causes misconception of CSR and blinds the stakeholder perspective it has to carry out. One of the reasons behind this is there is a huge amount of companies owned by an individual or members of the same family, there is a small number of professional managers. The structure of the companies are not transparent as result, even accounting records are not properly kept. Since they are family businesses they are not particularly interested in the information rights of stakeholders other than the partners.

There are large companies certainly aware of what has being discussed in this paper. GC has 66 member companies from Turkey who have signed the principles. Turkish Business Council of Sustainable Development is one of the important institutions working simultaneously with the WBCSD, to maintain social, economical, and environmental conditions, in the efficient usage of the resources in Turkey. Based in Turkey, having only 12 members, growing slowly but strongly shows a good example of the awareness and motivation.

While she needs more improvement, according to Michael and Riedman (2005), Turkey can pursue a number of activities in the CSR area. In the EU there are examples of goverment incentives for the CSR activities of the companies which suggests Turkish government playing a role in the legislation process to encourage CSR.

In the figure below, Bryane Michael put together a channels of activies for Turkish companies to get involve into CSR.

CSR Activities for Businesses	CSR Activities for Policy Makers	CSR Activities for Civil Society
Training – companies can learn how to incorporate CSR into strategy, finance, operations, marketing, and human resource management.	Introduce CSR to main political parties like AKP, CHP, DYP and HHP. Smaller parties – SP or ANAP – may try to use CSR to get votes!	Organise fora on CSR – help government by organising fora and making concrete proposals to parliamentarians and ministers.
Join a CSR membership organisation -- Company membership organisations like the Copenhagen Centre or the Business Social Responsibility allow business to "outsource" CSR to an organisation which is competent.	Vote for tax breaks for CSR activity – which tax breaks may go against important fiscal policy objectives to raise tax revenue and compliance, they internalise externalities.	Provide training to companies – academics and specialists removed from the grind of daily business can provide training and present examples from EU countries.
Adoption of certifications – certifications show potential consumers, investors and others that the company is serious about the communities in which they work. Some examples include the ISO 9000/14000 standards, the Global Reporting Initiative (GRI) guidelines, the Social Accountability 8000 (SA 8000) standard and the AcountAbility 1000 standard.	"Talk up CSR" – since Kemal Ataturk, the Turkish government has always been a progressive role in educating the public and preparing it for integration in the world economy. Parliamentarians can educate their constituencies directly and can mandate that the central government provides educational materials.	Collect data and case studies – in the EU, NGOs conduct surveys and watch business and government.
Triple Bottom Line Reporting – companies should report not only the financial, but also the social and environmental impacts of their work. In some EU countries, this is becoming a legal obligation.	Participate in multi-national fora – the EU as a multi-stakeholder forum for CSR and the UN, OECD, World Bank and other organisations are becoming increased involved in CSR.	
Stakeholder board committees – putting people such as suppliers, key customers, and evens prominent members of the local community of the Board of Directors can be a way to increase the flow of information to the company.	Establish a department in an existing ministry to work on CSR and/or mandate a CSR ministerial post.	
Socially responsible investment – these companies can refrain from investing in high polluting technologies or in companies which do not respect workers' rights.	Provide funds to the national governments for CSR grants and rewards to innovative companies.	
	Host a National CSR workshop inviting all stakeholders to contribute ideas toward a Turkish CSR law.	

Figure 5.2 How to implement CSR (Michael 2005)

As seen in the figure, there are many ways of fostering CSR in Turkey; only in the presence of motivation or obligation.

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In most of the cases multinational corporations are important actors stimulating CSR in the countries they operate in. Promotion of CSR in Turkey this is a valuable factor.

CSR is not only beneficial for the competitiveness of business in international markets or a better employee involvement in business or protection of environment or stakeholder dialogue between civil society and business but also an important factor to reach sustainable development and social success. With these objectives every individual and organisation should fulfill their responsibilities to their stakeholder groups. Although it is time consuming and requires total commitment, it should be perceived as a long term project; since sustainability in its core is a long term approach; like the ongoing EU commitment of Turkey.[64]

5.3 CSR Research in Turkey

As a part of this research a survey on Corporate Social Responsibility was conducted. Target group was corporate company employees over the age of 25. The respondents were randomly selected according to this parameter and companies defined as "corporate companies" were companies with more than 100 employees.

9 questions were prepared and 100 responds were collected.

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[64] **BP, Shell, Procter&Gamble are some of the corporations that push CSR in the countries they opeate in since global authorities eyes are locked on them.**

Figure 5.3.1 CSR Research in Turkey, Survey Results

The first question of the survey allowed respondents to give multiple responses and they were asked what they understand from CSR. According to 81% of the answers, respect showed by corporations to society and all stakeholders is mainly defines corporate social responsibility. This answer is followed by supporting society's educations and respect for enviroment. Less than 1/3 of the answers defined CSR as "the way of doing business".

Figure 5.3.2 CSR Research in Turkey, Survey Results

The second question asked if the respondents' corporation were implementing any reputation management policies. Despite the parameters gives a certain expection that these corporations give positive responses; 9% of the respondents replied as "never" and 28% as "rarely". Majority of the answers

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were "sometimes" by 32% . Only 4% of the answered as "always" and 27% said "often".

3. Sizce kurumsal sosyal sorumluluk karlılığı etkiler mi?		Response Percent	Response Total
Hiç etkilemez		4%	4
Pek etkilemez		0%	0
Biraz etkiler		37%	37
Oldukça etkiler		59%	59
Çok etkiler		0%	0
	Total Respondents		100
	(skipped this question)		0

Figure 5.3.3 CSR Research in Turkey, Survey Results

Third question asked if CSR effects profitability. 59% of the respondents answered as "it effects very much" and 37% said "it effects a little". 4% of the respondents believe that CSR does not ever effects profitability.

4. Sizce kurumsal sosyal sorumluluğun hissedarlar üzerinde etkisi var mıdır?		Response Percent	Response Total
Hiç yoktur		0%	0
Pek yoktur		9%	9
Biraz vardır		32%	32
Oldukça vardır		55%	55
Çok vardır		4%	4
	Total Respondents		100
	(skipped this question)		0

Figure 5.3.4 CSR Research in Turkey, Survey Results

In the fourth question respondents were asked if CSR has an effect on shareholders. Majority of the respondents (55%) believes that it has a lot of and 4% believes it has too much effect on the shareholders. 32% of the respondents replied as "a little" where 9%said "not much".

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5. Sizce kurumsal sosyal sorumluluk rekabeti etkiler mi?		Response Percent	Response Total
Hiç etkilemez		0%	0
Pek etkilemez		0%	0
Biraz etkiler		41%	41
Oldukça etkiler		**50%**	**50**
Çok etkiler		9%	9
	Total Respondents		100
	(skipped this question)		0

Figure 5.3.5 CSR Research in Turkey, Survey Results

The fifth question was asked the explore the relationship between competition and CSR in the eyes of the respondents. There is no one who believes that CSR does not effect competition. 41% said "it effects a little" , 50% said   "it effects very much" and 9% said "it effects a lot".

6. Sizce risk yönetimi açısından kurumsal sosyal sorumluluğun önemi var mıdır?		Response Percent	Response Total
Hiç önemi yoktur		5%	5
Pek önemi yoktur		29%	29
Biraz önemi vardır		**42%**	**42**
Oldukça önemi vardır		24%	24
Çok önemi vardır		0%	0
	Total Respondents		100
	(skipped this question)		0

Figure 5.3.6 CSR Research in Turkey, Survey Results

On the sixth question, CSR importance was asked to be analyzed in terms of risk management. 5% said it is not important and 29% it is very not important. Non of the respondents believes that it is very much important where majority

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finds (42%) it a little important and 24% finds CSR rather important in terms of risk management.

7. İşinizi seçerken çalışacağınız kurumun sosyal sorumluluk çalışması yürütüyor olmasının sizin için önemi var mı?		Response Percent	Response Total
Hiç önemi yok		0%	0
Pek önemi yok		23%	23
Biraz önemi var		36%	36
Oldukça önemi var		36%	36
Çok önemi var		5%	5
	Total Respondents		100
	(skipped this question)		0

Figure 5.3.7 CSR Research in Turkey, Survey Results

The seventh question directed respondents as working proffesionals. The question aimed to explore if the respondents cared that the company they work/plan to work carry CSR practices. Results show the majority of the respondents care though at different levels. 5% said it is very much important, 36% said it is rather important, again another 36% said that it is a little important. The 23% of the respondents replied as they do not care very much.

8. Satın alacağınız bir ürünün gelirinin bir bölümünün bir sosyal sorumluluk projesine gidecek olması sizi o markalı ürünü almaya teşvik ediyor mu?		Response Percent	Response Total
Hiçbir zaman		0%	0
Nadiren		28%	28
Bazen		13%	13
Sıkça		31%	31
Her zaman		27%	28
	Total Respondents		100
	(skipped this question)		0

Figure 5.3.8 CSR Research in Turkey, Survey Results

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Question eight directed respondents as consumers.It was asked when a part of product's revenue is donated for a social responsibility project, as consumers do they feel like choosing this particular brand over others. 28% answered as "rarely", 13% answered as "sometimes, 31% said "often" and 28% said "always".

9. Alacağınız ürünü fiyat olarak en avantajlı öneren marka, çevreyi kirleten bir şirkete aitse o ürünü satın alır mısınız?		Response Percent	Response Total
Evet		5%	5
Bilmiyorum		27%	27
Hayır		68%	68
	Total Respondents		100
	(skipped this question)		0

Figure 5.3.9 CSR Research in Turkey, Survey Results

The last question again was directed respondents as consumers. The question was "If you learn that the company that offers the product with the best price among similar products in the market pollutes the environment; would you buy it's product?. 68% of the respondents said "no" while 27% were undecided. Although it pollutes the environment, 5% of the respondents said that they would still buy it's products by replying as "yes";

There are still corporate companies that do not relate reputation management, risk management and CSR. As a fact, CSR projects and implementations bring about a huge leverage in terms of reputation and risk management; Turkish companies would need to see this immediately and try to cope up with it.

Despite the result on the question of reputation management; Turkish companies have come to a realising that CSR has importance in terms of competition. But still when compared with several survey results in Europe, Turkish companies lack behind in giving needed importance to CSR and it's components.

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According to Institutional Shareholder Services study based on a corporate governance quotient (2003):

Business Leaders	- 75% of European CEOs believe that CSR could enhance profitability and competitiveness (BITC) - 44% of European CEOs believe that CSR can contribute significantly to overall reputation (H&K) - 70% of CEOs believe that main stream investors will have an increased interest in corporate citizenship issues (WEF)
Employees	- 77% of employees agreed with the statement that "a company's commitment to social issues is important when I decide where to work" (Corporate Citizenship Study) - The external reputation of a company is important to 75% of students looking for jobs (NUS) - 20% of consumers are willing to boycott a company on the grounds of its social performance (MORI)
Consumers	- 38% of Consumers say that a Company's corporate reputation is a factor in their purchasing decisions (MORI)

Figure 5.3.10 Institutional Shareholder Services Study

As seen above and in the results of the survey conducted in Turkey, there are still important differences in understanding the importance of the subject.

5.4 Conclusion

As can be seen from need of renewing of the Lisbon Strategy, CSR today is vulnerable to external negative shocks, economic recessions and enviromental catastrophies.

In its nature CSR is on voluntary bases and the vulnerability described above can always cause the change in the business approach. The European Commission imposing further legal obligations -as a stakeholder on the issue,

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by discussing and reaching consensus- on European companies to improve their accountability for social, environmental and human rights affected by their operations is vital in this sense. Alliance for CSR is an important step since many business representatives, including those representing business at EU level argue in line with the Commission that CSR on a voluntary basis is the only way for business to contribute to sustainable development.

Coming to new members; they have to take gradual steps and compell their business as a longterm business strategy. CSR's role in contributing sustainable development also depends on them since they are a part now. Turkey should become a part of this as well.

CONCLUSION

"Promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States."

In it's 2002 Communication the EU adopted a strategy to foster CSR as "a business contribution to sustainable development" and to move towards achieving the 2010 Lisbon Summit goals.

While working towards this goal through different policy channels, unsustainable trends led the strategy to a renewal. In 2005, EU adopted a declaration explaining the "renewed Lisbon agenda is an essential component of the over-arching objective of sustainable development". But the focus shifted more on to job creation than the rest of the goals stated before.

Sustainable development requires simultaneous improvement of economic, environmental and social performance in the short and the long term. Renewal of the strategy perhaps led the end result more acquirable- which will be discussed by 2010. For EU to become the most competitive and technology based economy in the world, it needs the focus to be enlarged and sustainable development goals to be made clear to all effecting parties.

CSR has been discussed with it's different aspects through this study. Although unsettled on definition, the examples and several practices in the EU Member

States show that there is a common understanding on the importance of the subject.

By understood importance aside, there is an emerging acceptance that CSR may carry different meanings in different contexts, in different companies and different countries. Giving the concept a more solid meaning is crucial, that is why governments and NGOs working in this area should still push for this important agenda, forge discussions and at least require a minimum obligation to lead companies to pioneer into practicing and focusing on particular issues like human rights, enviromental protection and labour issues. By this companies will more clearly see where their obligations lie rather than seeing the subject as a fuzzy notion.

CSR needs to be practised at the operational, strategy and policy levels. The researches over European countries show that there is an increase in understanding that CSR could enhance profitablity and competitiveness. According to WEF research, 70% of CEOs in Europe believe that mainstream investors will have an increased interest in corporate citizenship issues. These can be shown as concrete examples why CSR should be practised at operational level and CSR has to be priority subject on the agendas of companies.

In the third chapter, examples of practices within several EU member countries and importance of CSR for different policies are given. Especially for the Enterprise and Industry policy, EMS Forum and European Alliance for CSR have been contributing immensely on the policies. Same for the Employement, Social Affairs and Equal Opportunities Policy; Discussions added remarkable effects in terms of labour relations. External Trade Policy recieved it's share from the discussions along the period, since contributing to sustainable development through responsible business practices necessitate application of this globally, in every country a company is operating, which eventually would

enhance economic growth, increase competitiveness and ensuring at the same time environmental protection and promote social rights.

The Enviromental Policy discussions led to EU and Member State governments to fulfil their role to help business to identify market opportunities and undertake "winwin" investments in terms of environment. Different associations like IPP and ecomanagement and audit scheme have been introduced to encourage companies voluntarily to set up company-wide environmental management and auditing systems.

While exploring the CSR practices, in the EU member countries, it's shown that UK has been the most committed country along the way. Since 2000, there has been a minister appointed for CSR in the UK; aiming for integration of social progress, effective protection of the environment and sustainable level of economic growth and employment. This appointment is a significant example of how serious this issue can be taken and stands as an important reference point.

By taking into account the merits and limits of the EU policies and approach to CSR and this extreme example, it can be suggested that other instruments and approaches need to be explored. An effective EU approach to CSR should include instruments and actions within different policy fields at European Union and international level. This implies making use of existing tools and improving them, as well as introducing new instruments to provide adequate means of promoting corporate responsibility.

This has to be practised in both conceptual and operational levels. Conceptual side is already being practised on different levels in different companies and countries but operationally it is not perceived as well as it has to be, so practice is not defined as "the way of doing business".

CSR to become the way of doing business has taken some steps as discussed in previous chapters. In the fifth chapter, results of a survey conducted in Turkey is given, which aimed to analyse the perception of CSR among employees of corporate companies; The perception within these companies and to explore the consumer attitude towards the subject. The survey directed respondents what they understand from CSR, according to 81% of the answers, respect shown by corporations to society and all stakeholders is what mainly defines corporate social responsibility in their eyes. Less than 1/3 of the answers defined CSR as "the way of doing business". Perhaps it is quite optimistic to expect this answer to get a higher rating nevertheless it might exceed our hopes in a decade or so.

CSR's relation to reputation management, profitability, an it's effect on shareholders was asked in the survey, the results are hopeful in terms of understanding the importance of the subject. When it comes to competitiveness; the survey result shows that every respondent believe that CSR has an effect on it, in different levels.The result on the consumer attitude over the issue verifies this, since majority of the respondents replied as they would feel like choosing and buying a product/brand which donates a part of it's revenue to a social responsibility cause.

When CSR projects are well planned and directed, they can draw consumers closer to brands, guard companies and brands from social risks, add on to employees loyalty and effect positively on potential investors' decision making. These all can turn into profit and at the end of the day, it would lead into a company's sustainability along with economic sustainability and growth, social and enviromental contribution.

For Turkish companies to successfully compete in EU markets, they have to go beyond philanthropic contributions, beyond legislation required by the EU's acquis communautaire and work voluntarily on the issue, since most of the companies are doing this in Europe. Very recently Su Iletisim brought

Accountability Rating system to Turkey which is developed by CSR Network and AccountAbility, a rating system that measures the extent to which the world's largest companies put responsible practices. They rate world's leading companies and now Turkey will be in the spotlight as well. The results will be shared at the end of the year and would be a important guideline to see where Turkish companies stand.

The intention of this study has been emphasizing on importance of CSR and it's contribution to sustainable development in European Union's future. Turkey is a part of European Union's future, for serving sustainable development, like in the Member States and in new member states, in Turkey companies need to show more effort.

Government should encourage but the majority of the effort has to be voluntary, application of social and environmental practices of business, going beyond companies' existing legal obligations, can play a major role in filling the governance gap in an innovative way.

Engaging with stakeholders becomes essential. This extension of business responsibility has a direct impact on strategy, organisation and management. It is therefore vital that new skills need to be developed. The process requires and generates innovation in every compartment of business activity. This innovation is key to competitiveness.

Since the European Commission defines CSR as what companies do beyond the law, the exact same activities can be classified as CSR in one country whereas it is simply in compliance with the law in another. But the downside of this is if regulated issues were included then everybody would be involved in CSR and the concept would loose its attraction.

The best and most effective argument to encourage the uptake of CSR among companies is solid evidence that social and environmental efforts, while

contributing to sustainable development in general, support competitiveness and improve the financial performance of the business.

Effective management of CSR is not about managing perceptions and tuning into the norms of stakeholders so that firms can tell stakeholders what they want to hear. Effective management of CSR is about proactively establishing and ethical code of practice that can be actively managed, assesed and demostrated (Acha 2005).

There has been much debate about the link between corporate financial performance and the integration of social and environmental concerns in business operations. Billions of dollars are spent every year on philanthropy and CSR initiatives, and billions more are spent on the defensive advertising, lobbying and PR with which companies attempt to sidestep the social concerns for which they are blamed. These resources, already committed, could be spent far more effectively without detracting from the company's overall purpose. The companies that choose this new path will reap disproportionate rewards by building sustainable reputations that far outdistance their competitors. Whether the goal is social progress or reputational benefit, playing to win will deliver more powerful results at a lower cost (Kramer&Kania 2006).

For the EU sustainable development strategy to be a success, European businesses' commitment is essential. There are multinational companies operating within EU have more financial clout than many large countries . Thus EU endeavors for motivating European businesses should continue increasing and growing. Their commitment will bring growth; if explained and applied wisely it would be based on innovation and excellence instead of cheap labour, social dumping and pollution of the environment.

The goals of the Lisbon process will not be easily achieved in the next five years. Full employment, competitiveness, social cohesion are permanent

challenges since the fragility of the external dependencies are a known fact. So even if the Lisbon Strategy does not reach where it aims to, it would still be EU's and world's gain, and it will be embedded in the larger sustainable development challenge.

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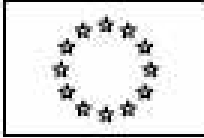
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Brussels, 2.2.2005
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COMMUNICATION TO THE SPRING EUROPEAN COUNCIL

Working together for growth and jobs

A new start for the Lisbon Strategy

Communication from President Barroso
in agreement with Vice-President Verheugen

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FOREWORD

Growth and jobs: A New Start for the Lisbon Strategy

Just think what Europe could be. Think of the innate strengths of our enlarged Union. Think of its untapped potential to create prosperity and offer opportunity and justice for all its citizens. Europe can be a beacon of economic, social and environmental progress to the rest of the world.

It is in this spirit of realistic optimism that the new European Commission has put together our policy recommendations for the Mid Term Review of the Lisbon Strategy – our ambitious agenda for reform launched by the European Council in March 2000.

Europeans have every reason to be positive about our economic potential. The successes of the second half of the 20th century have left a strong legacy. After half a century of peace we have one of the most developed economies in the world united together in a unique political Union of stable and democratic Member States. That Union has created a Single Market underpinned for participating members by a single currency that consolidates economic stability and deepens the potential of economic integration. We have consolidated a unique participative social model. Our standards of basic education are high and the science base is historically well developed. Europe is home to dynamic and innovative companies with extraordinary competitive strength. At their best, they are demonstrating a remarkable capacity for renewal. We have made more progress towards sustainable development than any other region of the world.

We have done this by acting in partnership – Europe's institutions, government and administrations at a national, regional and local level, our social partners, civil society – all moving together towards a common goal.

This legacy represents a substantial down-payment towards the vision that binds us together; a vision, confirmed in the Constitution, of ensuring "the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress and a high level of protection and improvement of the quality of the environment".

The past 50 years have seen extraordinary progress, but in a changing world Europe cannot stand still. This is why five years ago Heads of State and Government signed up to an ambitious programme of change. They committed themselves to making the European Union the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment.

Today, we see that progress has at best been mixed. While many of the fundamental conditions are in place for a European renaissance, there has simply not been enough delivery

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at European and national level. This is not just a question of difficult economic conditions since Lisbon was launched, it also results from a policy agenda which has become overloaded, failing co-ordination and sometimes conflicting priorities. For some this suggests that we should abandon the ambition of 5 years ago. The Commission does not agree. The challenges we face are even more urgent in the face of an ageing population and global competition. Unless we reinforce-our commitment to meeting them, with a renewed drive and focus, our model for European society, our pensions, our quality of life will rapidly be called into question.

The need for urgent action is confirmed by the report from the High Level Group chaired by Wim Kok last November. It identifies a daunting challenge. According to Kok, *"The Lisbon strategy is even more urgent today as the growth gap with North America and Asia has widened, while Europe must meet the combined challenges of low population growth and ageing. Time is running out and there can be no room for complacency. Better implementation is needed to make up for lost time"*. Faced with this challenge Europe needs to improve its productivity and employ more people

On current trends, the potential growth of the European economy will halve over the coming decades and reach just over 1% per year.

Europe's performance has diverged from that of our competitors in other parts of the world. Their productivity has grown faster and they have invested more in research and development. We have yet to put in place the structures needed to anticipate and manage better the changes in our economy and society. And we still need a vision for society which can integrate both the ageing and the young, particularly for the development of our workforce, where current dynamics cast a shadow over both long-term growth and social cohesion.

The Commission has risen to this challenge in presenting it proposals for the Union's Strategic Objectives, *'renewed growth is vital to prosperity, can bring back full employment and is the foundation of social justice and opportunity for all. It is also vital to Europe's position in the world and Europe's ability to mobilise the resources that tackle many global different challenges'*.

We need a dynamic economy to fuel our wider social and environmental ambitions. This is why the renewed Lisbon Strategy focuses on growth and jobs. In order to do this we must ensure that:

- **Europe is a more attractive place to invest and work**

- **Knowledge and innovation are the beating heart of European growth**

- **We shape the policies allowing our businesses to create more and better jobs**

Making growth and jobs the immediate target goes hand in hand with promoting social or environmental objectives. The Lisbon Strategy is an essential component of the overarching objective of sustainable development set out in the Treaty: improving welfare and living

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Sustainable Development Strategy contribute to ensuring this goal. Being mutually reinforcing, they target complementary actions, use different instruments and produce their results in different time frames.

The Commission is fully committed to sustainable development and to modernising and advancing Europe's social model. Without more growth and jobs this will not be possible. Our Sustainable Development Strategy and our Social Agenda have been under review and proposals, ahead of the Spring European Council, will be presented in the coming weeks. In addition, we have to continue working with our international partners to address global macro-economic unbalances, as boosting growth is as beneficial to our partners as to the Union.

"Lisbon" therefore requires immediate action and the case for acting together in Europe is strong.

The costs of not doing so are large and quantifiable. The 'costs of non-Europe' have been substantiated through a large volume of academic evidence. One can argue with the figures. But not achieving "Lisbon" does have a cost. The best evidence can be found in the widening gap of Europe's growth potential compared to other economic partners. However, the potential gains from wider and deeper economic integration in an enlarged Europe are massive.

This mid-term review sets out how we can help Europe to meet its growth and jobs challenge. It launches the idea of a Partnership for Growth and Jobs, supported by a Union Action Programme and National Action Programmes containing firm commitments. It builds on three central concepts:

– First, **Europe's actions need more focus**. We must concentrate all our efforts on delivering on the ground policies that will have greatest impact. This means keeping existing promises, building on the reforms already underway in every Member State and launching new action where it is needed to keep us on target. It requires a rigorous prioritisation on the part of the Commission and must be anchored in the firm support of the European Council and the European Parliament.

– Second, we have to **mobilise support for change**. Establishing broad and effective ownership of the Lisbon goals is the best way to ensure words are turned into results. Everyone with a stake in Lisbon's success and at every level must be involved in delivering these reforms. They must become part of national political debate.

– Third, we need to **simplify and streamline Lisbon**. This means clarifying who does what, simplify reporting and backing up delivery through Union and National Lisbon Action Programmes. There should be an integrated set of Lisbon "guidelines" to frame Member State action, backed up by only one report at EU level and only one report at national level presenting the progress made. This will significantly reduce the national reporting burden placed on Member States.

Sound macroeconomic conditions are essential to underpin a credible effort to increase potential growth and create jobs. The changes proposed to the European Union's stability and growth pact – the rules at EU level that govern national budgetary policies – should further stabilise our economy, while ensuring that Member States can play a full role in creating conditions for long-term growth.

At a European level, the debate on the future financial framework for the Union up to 2013 ("the Financial Perspectives") must draw the consequences of our Lisbon ambition, supporting Lisbon priorities within the future EU budget. We must provide the support and investment a modern, knowledge-economy needs, use our resources in ways which help us to adapt to changing economic and social conditions, and operate programmes which provide the right incentives for Member States to focus their own national public spending on Lisbon objectives. The Commission's proposals for the Financial Perspectives reflect these priorities.

If we can match ambition, resources and good ideas; if we can transform them by the end of the decade into lasting change on the ground; and if we can support Lisbon by closing the gap on investment in our economy and launching a new drive for stronger cohesion across our continent then we can bring our Lisbon goals back into sight.

This is the new start that Europe needs.

Executive Summary

Five years ago the European Union launched an ambitious agenda for reform. Over the last year the Commission has been reviewing the progress made. This has led to a vigorous debate at European and national level amongst all those with an interest in Lisbon's success. In addition, the Commission has benefited from the work of the High Level Group chaired by Wim Kok, which reported last November. Today, there is general consensus that Europe is far from achieving the potential for change that the Lisbon strategy offers. While both the diagnosis and the remedies are not contested, the reality is that not enough progress has been made.

This Report, at the mid-point stage of Lisbon, now sets out how we can work together for Europe's future and put the Lisbon agenda back on track.

The renewed Lisbon Strategy – what will change?

The Commission proposes a new start for the Lisbon Strategy, focusing our efforts around two principal tasks – **delivering stronger, lasting growth and creating more and better jobs**. Meeting the Europe's growth and jobs challenge is the key to unlocking the resources needed to meet our wider economic, social and environmental ambitions; meeting those wider goals will anchor the success of our reforms. For this to be possible, sound macroeconomic conditions are crucial, in particular the pursuit of stability-oriented macroeconomic policies and of sound budgetary policies.

I   Ensuring delivery

Delivery is the main issue for the Lisbon Strategy at both European and national level. The **implementation of the reform agenda requires a renewed Partnership for growth and jobs**.

As regards the EU level, the **Commission** will play its central role of initiating policy and ensuring implementation.

In parallel, **Member States** must deliver the agreed backlog of Lisbon reforms. This should be backed up by National Lisbon Programmes – setting out how they will do this (*see governance below*).

II   A renewed Lisbon Action Programme

This Report does not attempt to rewrite the Lisbon strategy, but it does identify new actions at European and national level which will help to see our Lisbon vision is achieved.

A more attractive place to invest and work

- Extend and deepen the internal market
- Improve European and national regulation
- Ensuring open and competitive markets inside and outside Europe
- Expand and improve European Infrastructure

✓ We must extend and deepen the internal market. Member States must improve **implementation of existing EU legislation** if businesses and consumers are to feel the full benefits. In a number of Member States, key markets like telecoms, energy and transport are open only on paper – long after the expiry of the deadlines to which those Member States have signed up.

✓ Key reforms are still needed to **complete the single market** and should be given specific attention: financial services markets, as well as services in general, the REACH proposal, a common consolidated corporate tax base as well as the Community Patent.

✓ The regulatory climate must improve. In March the Commission will launch a **new regulatory reform initiative**, and we will draw on outside expertise to advise us on the quality and methodology of how we carry out impact assessments.

✓ Competition rules must be applied proactively. This will help to boost consumer confidence. **Sectoral screenings of the barriers to competition** will be launched in sectors such as energy, telecoms and financial services.

✓ European businesses also need open global markets. The Union will press hard for **completion and implementation of the Doha Development Round**, as well as progress on other bilateral and regional economic relationships.

Knowledge and innovation for growth

- Increase and improve investment in Research and Development
- Faciliate innovation, the uptake of ICT and the sustainable use of resources
- Contribute to a strong European industrial base

✓ Public authorities at all levels in the Member States must work to support innovation, **making a reality of our vision of a knowledge society**. The Union's continued focus on areas such as the information society, biotechnology and eco-innovation should help them to do this.

✓ More investment by both the **public and private sector spending on research and development**. At EU level, we need the early adoption by the European Parliament and Council of the next Research Framework programme and of

a new programme for competitiveness and innovation. These will be presented in April.

✓ As part of a major **reform of State Aid policy** starting later this year, Member States, regional and other public actors will have more scope to support research and innovation, particularly by the EU's small and medium-sized businesses.

✓ Spreading knowledge through high quality education system is the best way of guaranteeing the long-term competitiveness of the Union. In particular, the Union must ensure that our universities can compete with the best in the World through the completion of the European Higher Education Area.

✓ The Commission will propose the creation of a "**European Institute of Technology**".

✓ The Commission will support and encourage **Innovation Poles** designed to help regional actors bring together the best scientific and business minds with the right resources to get ideas from the lab and into the workshop.

✓ The Commission and Member States must step up their **promotion of eco-innovation** which can bring substantial improvements to our quality of life as well to growth and jobs, for example in areas such as sustainable resource use, climate change and energy efficiency.

✓ Partnering with industry will also be fostered by **European Technology Initiatives**, which build on the experience of the Galileo satellite navigation system. The first of these should start to appear in 2007 once the next Research Framework Programme is up and running.

Creating more and better jobs

- Attract more people into employment and modernise social protection systems
- Improve the adaptability of workers and enterprises and the flexibility of labour markets
- Investing more in human capital through better education and skills

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✓ The Social Partners are invited to develop a joint Lisbon action programme ahead of the Spring 2005 European Council identifying their contribution to the Lisbon goals.

✓ Member States and the social partners must **increase efforts to boost the level of employment** particularly by pursuing active employment policies which help people in work and provide incentives for them to remain there, developing active ageing policies to discourage people from leaving the workforce too early, and by modernising social protection systems, so that they continue to offer the security needed to help people embrace change.

- ✓ The future of Europe and the future of the Lisbon Strategy is closely linked to **young people**. The Union and the Member States must ensure that the reforms proposed help to give them a first chance in life and equip them with the skills needed throughout their lives. The Union also needs to develop its priorities in responding to the demographic challenge that we face.

- ✓ Member States and the social partners must improve the **adaptability of the workforce and of businesses** as well as **the flexibility of labour markets** to help Europe adjust to restructuring and market changes.

- ✓ In the face of a shrinking labour force, we need a well-developed approach to **legal migration**. The Commission will present a plan before the end of 2005 on the basis of the on-going public consultation.

- ✓ Europe needs **more and better investments into education and training**. By focusing at European and national level on skills and life-long learning it will be easier for people to move to new jobs. This should be backed up by the adoption this year of the **Life Long Learning Programme** at EU level and in 2006 the presentation of national Life Long Learning strategies by the Member States.

- ✓ Europe also needs a **more mobile workforce**. Mobility within the Union will also be helped by the early adoption of the pending framework for **professional qualifications**. The Commission will make proposals during 2006 to simplify mutual **recognition of qualifications**. Member States should accelerate the removal all restrictions on the mobility of workers from the countries that have recently joined the Union.

- ✓ Regional and local authorities should be designing projects which take us closer to our Lisbon ambition. The **next generation of Structural Funds** (including those for rural development) are being reshaped with this in mind – focusing on how it can help to deliver growth and jobs at a local level.

III   Improving Lisbon governance

The governance of the Lisbon Strategy needs radical improvement to make it more effective and more easily understood. Responsibilities have been muddled between the Union and its Member States. There are too many overlapping and bureaucratic reporting procedures and not enough political ownership.

To clarify what needs to be done and who is responsible the Commission will bring forward a **Lisbon Action Programme**.

In addition, the Commission is proposing an integrated approach to streamline the existing Broad Economic Policy and Employment Guidelines, within a new economic and employment cycle. In future, an integrated set of Guidelines alongside the Lisbon Action Programme will be used to move the reform agenda forward. These will cover macro-economic policies, employment and structural reforms. In response, Member States are

expected to adopt National Action Programmes for growth and jobs, backed up by commitments and targets, after broad discussion at a national level.

To bring all this together Member States should appoint a "Mr" or "Ms Lisbon" at government level.

Reporting will also be simplified. There will be a single Lisbon report at EU and at national level on the progress made. This new reporting process will provide a mechanism through which the European Council and the European Parliament can focus on key policy issues without being encumbered by the multitude of sectoral reports which are currently part of the annual cycle.

This approach will make it easier for the European Council to give practical guidance each spring and for the Commission to play its role of monitoring progress towards the Lisbon goals, offering encouragement and proposing additional action to keep Lisbon on track.

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On this basis, the Commission recommends to the European Council to:

– Launch a new Partnership for Growth and Jobs

– Endorse the Community Action Programme and call for Member States to establish their own National Action Programmes

– Approve the new arrangements for governance of the Lisbon Strategy set out in this Report, in order to improve the effectiveness of policy delivery at Community and national level and to encourage a real debate and genuine political ownership of our Lisbon goals.