

Analysing the contribution of CSR to the achievement of EU policy goals

# CSR between Rhetoric and Reality

Bisher lag der Fokus von Forschungen zu Corporate Social Responsibility (CSR) vor allem auf der Ausgestaltung von CSR in Unternehmen und den Auswirkungen von CSR auf das Unternehmen selbst. Untersuchungen zu den Auswirkungen auf Gesellschaft und Umwelt fehlen fast völlig. Das RARE Projekt will diese Lücke schließen.

Von Regine Barth, Franziska Wolff und Katharina Schmitt

Societies are today facing severe challenges to adopt a more sustainable development approach. Contributions to meet these challenges are needed from across all sectors of society including business. And indeed, a growing number of companies are committed to Corporate Social Responsibility (CSR). They are taking into account social and environmental concerns into their business operations on a voluntary, beyond compliance basis in order to promote sustainable development.

Similarly, the European Union considers CSR as a relevant means for businesses to contribute to achieving public policy goals. In this vein, the European Parliament states that „[...] the EU debate on CSR has approached the point where emphasis should be shifted from ‘processes’ to ‘outcomes’, leading to a measurable and transparent contribution from business in combating social exclusion and environmental degradation [...].“ (European Parliament Resolution, 13 March 2007)

The quote also underscores the importance of understanding how effective CSR is in creating a positive impact on society and the environment. Recognising this, seven leading European research institutions developed and conducted the research project RARE on Rhetoric and Reality of Corporate Social Responsibility in Europe. Its overarching goal was to evaluate and explain the impact of Corporate Social Responsibility on sustainability. The researchers chose not to analyse how corporate responsibility affects the business case or companies’ reputation, as these important questions have been addressed elsewhere. Rather, we focussed on the societal benefits of CSR and adopted the perspective of policy-makers to find out how the private sector can contribute to achieving politically set sustainability goals. We were specifically interested in the extent to which CSR impact contributes to sustainable development goals of the European Union (EU). The focus was on the impact CSR creates within Europe rather than in developing countries. Within the project, sustainability goals were examined in four policy areas:

mitigation of climate change, promoting sustainable fisheries, enhancing gender equality, and countering bribery.

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

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

## A three-step approach to CSR impact assessment

In order to meet these challenges, we made use of a qualitative approach consisting of three steps. Firstly we identified effects resulting from CSR, taking into account changes in commitment and strategy (CSR output), in concrete practices (CSR outcome) and the consequences for society and the environment (CSR impact). The distinction between these three types of effects draws on an established typology in policy analysis.

Secondly, we were tackling the added value of CSR. Attempts were made to establish whether adoption of CSR had made a difference – either compared to a hypothetical baseline of corporate performance without voluntary action (relative improvement), or compared to absolute benchmarks such as corporate or EU policy goals (goal attainment).

Thirdly, we addressed causal relationships. Identified improvement between compliance-level behaviour and the observed company practices was ideally related to the CSR commitment and resulting changes in practice. Establishing causal relations is especially challenging as many factors other than those which can be attributed to CSR are at work, at company, domestic and EU levels.

In addition to assessing CSR impact, the RARE project aimed at explaining this impact. To do so, we drew on a set of intra- and extra-company factors of influence, inspired both by

management literature and by institutionalist approaches. The factors include corporate strategy and organisation, corporate culture, the business environment as well as civil society demand and the firms' political-institutional setting, as illustrated in Figure 1.

By corporate strategy and organisation we mean the roadmaps companies develop to attain their objectives and the formal structures, capacities and resources to support these. Corporate culture denotes the informal, normative rules and routines within companies. A company's business environment represents business opportunities and restrictions within the sector, including prevailing patterns of interpretation and legitimacy among peer companies, for example with regard to CSR and sustainability. Civil society demand describes the expectations, pressure or support of societal stakeholders. The political-institutional setting includes governmental expectations vis-à-vis CSR and wider regulations that impact on the social systems of production. This set of factors is based on the assumption that companies exist within open systems, that is that their action is co-determined by internal and external factors.

Empirical data was gained among others through four questionnaire-based surveys among European companies committed to CSR. The surveys tackled CSR outputs and outcomes in selected issue areas like climate change, sustainable fisheries, gender equality and countering bribery. The sample comprised 45 companies from the four sectors of oil, banking, fish processing and the automotive supply chain. Additionally, data was gained through four in-depth case studies of eight companies picked from the above sample. The case studies inquired into the sustainability impact of CSR in the above issue areas and its explanatory factors. They were carried out through company and stakeholder interviews.

## The CSR performance of companies

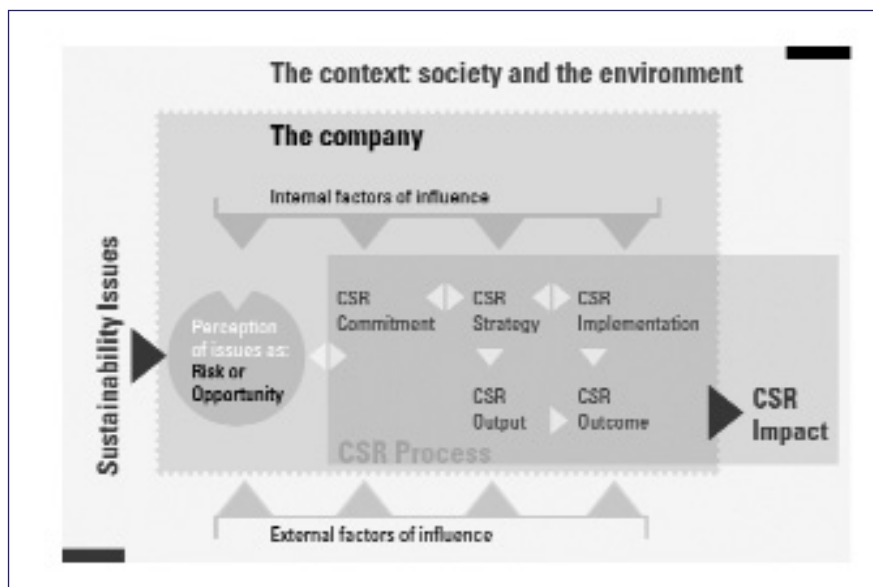
The empirical analysis of the CSR performance of companies was one of the core tasks conducted during the RARE project. It aimed at taking stock of and explaining the effects that result from CSR.

The following picture emerges when describing the CSR effects that were examined in 45 companies: The types of CSR effects achieved, that is output, outcome and impact, differ from sector to sector, and to some extent within the sectors. A large majority of the companies which had been selected because of their CSR commitment have turned this commitment in own visions that reflect the companies' perceived responsibility towards society and the environment. When asked how their understanding of

corporate responsibility related to legislation, a majority of the companies stressed the importance of compliance with mandatory social and environmental legislation as opposed to going beyond such legislation. This stands in marked contrast to the understanding of CSR as a voluntary 'beyond compliance' tool, as promoted by the European Commission. As could be expected, companies give different prominence to different CSR issues when translating their commitment into strategies. While countering bribery is the strategically most important issue in the oil and banking sector, followed by the mitigation of climate change in the oil sector and the promotion of gender equality in the banking sector, the fish processing sector attributes no strategic relevance to these issues and focuses primarily on sustainable fisheries issues. Issue importance hence seems tightly related to the companies' core business. The focus on core business is mirrored when analysing CSR implementation. As regards standardised CSR instruments, our respondents favoured management systems, above all ISO 9001 and ISO 14.000, followed by company-specific codes of conduct, forms of stakeholder engagement, and non-financial reporting. Many companies in addition have developed own tailor-made tools.

To complete the picture, we looked beyond instruments at concrete implementation activities and organisational set-up. Interestingly enough, we found in several instances that the level of activities by which the companies tackle a CSR issue is relatively low even though the issue had been declared to be of high strategic relevance. Concerning CSR performance, few companies systematically measure their own performance. As a consequence, sustainability assessment is hampered by a lack of key performance indicators, which ought to be monitored over a specific period of time. The impact we identified varied between different issue areas and sectors. In some instances, →

Figure 1: The CSR process and its societal context



Source: Öko-Institut et al. 2007

relatively high impact could be achieved; more often, findings suggest low to medium impact. Still, CSR made a valuable contribution and helped filling gaps, complementing existing instruments or addressing public policy failures in individual areas, for example with regard to fisheries. Impacts included among others the changes in product portfolios and business fields with consequences for the companies' greenhouse gas emissions and for the sustainability of fish stocks and marine ecosystems sourced from. Further impacts composed extensive training for employees in countering bribery and anti-money laundering or increased shares of women in top positions and better opportunities to reconcile work and life.

In a second empirical step, we analysed the causes of why the CSR policies in most, but not all, of the selected firms had resulted in changes in corporate practices and subsequently in benefits for society and the environment. For this examination we drew on the factors described above: strategy and organisation, corporate culture, business environment, civil society, and companies' political-institutional setting. Firstly, when accounting for changes in corporate behaviour triggered by CSR policies, we found in our cases that the factor strategic integration and hierarchical control had a high explanatory relevance. Civil society influence was also found to be relevant, though less so. Corporate culture often played an at least supporting role, though in some cases it also hampered changes in behaviour. With regard to the role of the business environment we could not find a clear pattern. The political-institutional setting to our surprise was often rather neutral. Secondly, with regard to the relation between CSR outcome and sustainability impact, our empirical findings indicate that the achievement of sustainability impact through CSR is fostered if corporate leaders link the CSR approach to the core strategies of the company; if CSR is rooted in a long-standing and well-developed identity of the organisation as being socially responsible; if the social and envi-

ronmental activities are perceived as a business opportunity; if civil society stakeholders exert pressure or provide support; and if public policies and wider regulations of social systems foster the effective implementation of CSR within companies, either by providing well-designed policy frameworks or by failing to regulate sustainability areas that are crucial to firms' interests and profitability, thus challenging private or civil self-regulation.

### The contribution of CSR to achieving EU policy goals

One of the basic questions underlying the RARE research was to assess the extent to which CSR may contribute to achieving the EU's goals on sustainable development. The analysis addressed two questions: which policy goals are at all addressed by the issue-specific CSR activities? Do CSR activities create impact on the respective sustainability goals, if not in a quantitative then at least in a qualitative way? In accordance with the RARE design, these questions were discussed for sustainability goals in the fields of mitigating climate change in the oil sector, sustainable fisheries in the fish processing sector, as well as gender and anti-bribery policy in the banking sector.

With regard to the policy field of mitigating climate change, companies are active in a range of areas relevant to EU policy goals, for example the reduction of greenhouse gas emissions, the development of renewable energy, and carbon capture and storage. To a large extent, the magnitude of the CSR work undertaken by companies is difficult to examine, partly due to hesitation of companies with regard to disclosing business information. Four prevalent CSR instruments were analysed as to their contribution to EU goals in the area of climate change. All four instruments aim to contribute to the public policy goals related to climate change mitigation. However, the extent differs to which they have induced actual changes in the practices of the companies analysed in the case study.

Regarding the contribution of fish processors to achieving EU policy goals as codified for example in the reformed Common Fisheries Policy or the Biodiversity Action Plan for Fisheries, most voluntary activities aim at the conservation and sustainable use of target stocks. Here, our empirical studies suggest that fish processors can positively impact on conserving fish stocks by implementing and enforcing own supplier standards or by adhering to the MSC labelling programme. When it comes to reducing the impact of fishing on non-target species and marine ecosystems and to illegal fishing, there are few verified measures that can be adopted by companies. Therefore, contributions by fish processors towards this policy goal are less obvious.

Figure 2: Functions of CSR with regard to public policy

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

Source: Öko-Institut et al. 2007

Analysing the contribution of CSR to EU policy goals for gender equality, the empirical findings indicate mixed effects. Firstly, the reconciliation of work and life was positively influenced by CSR activities, although the share of men working part time still tends to be rather low. While positive effects were also observable regarding equal opportunities in career advancement, women were still underrepresented in the companies' top positions and it was so far not possible to fully close the gender pay gap. Finally, options to ensure gender equality in the access to and supply of banking services by developing programmes for credit services in sectors dominated by female entrepreneurs have not been sufficiently explored.

The role of CSR in the policy field of anti-bribery and anti-money laundering is somewhat untypical. A particular difficulty in measuring impacts in this area evolves from the fact that activities are preventive and the issues clandestine. As a consequence, proxy measures have to be adopted in order to figure out any impact achieved in this area. The banks researched in-depth within the RARE project first of all use CSR to achieve compliance with national laws, based on EU directives or international conventions endorsed by the EU. Perhaps the governing measure of CSR impact is that there has been no scandal, as far as is known, in relation to the banks in these complex areas of risk. An impact that goes beyond what is already being legally required is not an appropriate measure in the area of bribery and anti-money laundering.

## Lessons learned and consequences for EU policy making

So what are the lessons from the above findings? Very briefly we may summarise that the CSR rhetoric is still stronger than its reality; that the reality on the other hand is strong enough to allow for some rhetoric; and that there still is a potential to improve reality. How can this be done, and what is the respective role of policy-makers? We will first discuss the different functions of CSR within the complex system of sustainability governance and will elaborate on the limits of CSR, before presenting some policy suggestions (1).

While the EU Commission understands CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis, we argue that CSR can fulfil altogether three functions in relation and in addition to public sustainability policies.

Firstly, with regard to command and control regulation, CSR activities can help to enhance compliance with mandatory policies. Although not in accordance with the Commission's above definition, this function tallies with the view expressed by many companies in our surveys which use CSR also as a means to improve compliance especially in issue areas for which realisation of compliance is complex. Hence CSR contributes to sustainability by improving implementation of social and environmental standards.

Secondly, when public policy uses incentives to govern corporate action, CSR can increase desired social or environmental steering effects. For instance, a response to an eco-tax would be to reduce energy consumption rather than maintain high energy consumption levels and take on full tax liability. In this vein, CSR often contributes to sustainability by technological or organisational innovation.

Thirdly, CSR becomes a 'beyond compliance' strategy when it fulfils goals or measures not required by legislation, or when public policies provide procedural frameworks such as the Eco-Management and Audit Scheme, which can be adopted voluntarily. By going beyond compliance, an incentive arises to turn sustainability performance into a competitive tool. Ideally, learning effects within companies can lead to a greening of product portfolios.

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

## Limits of CSR

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

- a CSR issue is hidden and immeasurable, like in the case of countering bribery;
- companies do not perceive the tackling of a CSR issue as strategically important, this is mostly due to a lack of risk or business opportunity. This applies for example when no business case can be perceived or the organisational capacity or threat potential of societal pressure groups are low in the issue area;
- integration of social or environmental concerns requires a deeper transformation of companies' core businesses and product;
- companies have a low level of control over sustainability impacts because these occur in supply chains rather than in their own operations. This lack of control also occurs when company impacts require changes in wider cultural norms, habits, or identities.

In such cases, binding social and environmental policies remain necessary and can help to create a level playing field among companies. Issue areas already densely regulated by social and environmental policies are a special case in the sense that they leave less room for CSR activities. Hence, the sustainability impact that can be achieved through CSR is more limited, but at the same time it is less needed. →



## Options for policy-makers to increase CSR impact

Having assessed the potential and limits of CSR to promote sustainability, we suggest some options on how policy-makers can foster effective CSR activities. First of all, governments need to be aware that not every issue lends itself to being tackled with success by voluntary initiatives. Having said this, public policies to stimulate CSR, which might make use of a broader range of regulatory, incentive-based and procedural instruments in future, should be more strongly linked to the effective creation of sustainability impact. As a basis for this, policy-makers could produce a State of CSR impacts report jointly with companies. It would present state-of-the-art methods for assessing the sustainability impact of CSR in different sectors. Sustainability impact should also be a focus of research policies relating to CSR, as the knowledge about CSR impacts is still limited.

While governments have been active in providing frameworks and incentives for CSR in Europe, a gap analysis can help to assess the areas where integration of CSR in EU policies is still patchy but could contribute to sustainability. If policy makers wish the private sector to contribute more to the sustainability goals they have set, they need to better communicate to companies these goals and the private sector's expected contribution. Where policy-makers ponder initiating new CSR initiatives, these should be issue- and sector-specific rather than follow a one-size-fits-all approach. In the same vein, diversification of CSR approaches should be encouraged.

With regard to existing CSR initiatives such as the Global Compact, policy-makers may challenge these to reinforce their claims over time and may contribute to strengthening their secretariats. They can also initiate rankings of companies in relation to central CSR claims. Generally, European policy-makers should take into account that the socio-cultural and market conditions for achieving sustainability impact through CSR differ

in the new EU Member States and that differentiated strategies are required. Finally, according to our findings companies proved more active with regard to voluntary sustainability activities when ambitious public policies provided clear points of orientation. The political promotion of CSR can thus be supported by ambitious social and environmental policies. These can stimulate early adaptation of corporate strategies towards the respective policy goals. In addition, such policies remain consistent when CSR fails.

### Annotations

(1) The complete results of the RARE project will be presented in a book to be published in 2008 by Edward Elgar Publishing Ltd.

### Literature

Öko-Institut et al. (Hrsg.): Rhetoric and Reality: Corporate Social Responsibility in Europe. Research on the impact of CSR on sustainability. Berlin 2007. Im Internet unter: [http://www.rare-eu.net/fileadmin/user\\_upload/documents/RARE\\_Brochure.pdf](http://www.rare-eu.net/fileadmin/user_upload/documents/RARE_Brochure.pdf)

### AUTORINNEN + KONTAKT

**Regine Barth** ist Koordinatorin des Bereichs Umweltrecht & Governance des Öko-Instituts,

**Franziska Wolff** und **Katharina Schmitt** sind wissenschaftliche Mitarbeiterinnen des Bereiches.

Öko-Institut e.V., Novalisstraße 10,  
10115 Berlin. Tel.: +49 30 280486-80,

E-Mail: [r.barth@oeko.de](mailto:r.barth@oeko.de),

[f.wolff@oeko.de](mailto:f.wolff@oeko.de),

[k.schmitt@oeko.de](mailto:k.schmitt@oeko.de),

Internet: <http://www.oeko.de>



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