

## **Corporate Social Responsibility: Perspectives and Further Development**

### **Corporate Social Responsibility in a Globalized World**

#### **Draft Dialogue for a**

5

#### **Recommendation put forward by the German Council for Sustainable Development to the German government and to trade and industry**

#### **Preamble:**

#### **10 Corporate social responsibility for sustainable development**

Good examples of corporate social responsibility can be found just as much as examples of a lack of responsibility. Corporate social responsibility (CSR) is a crucial, but, as yet, neglected element of the policy of sustainable development. Essentially, it concerns the duality of freedom and responsibility.

15 The regulatory framework of the economy and the nation state were congruent with one another for many a time. These days, it is increasingly different. In numerous economic and political references, the modern state organizes the rules and regulations for economic competition and negotiates social and ecological standards. These days, major corporations operate in a variety of nation states at the same time; their political influence is on the rise.

20 This therefore places general regulatory policy matters on the agenda, both at national and at global level. Globalization needs to be actively formulated culturally, politically and economically if we are to move away from the unsustainable trends relating to the consumption of resources, environmental assets as well as to social standards. One thing is certain: Every single one of us should seize “our” responsibility and keep our eyes on the  
25 overall picture. However, not everyone has responsibility for everything and not everyone can assume responsibility for everything.

Unacceptable corporate practices will continue to be prohibited and be corrected by virtue of administrative law. But where is the line drawn? How does a new responsibility-based culture organize itself? How can reliability be generated? How can self-confidence be generated in  
30 the assumption of personal responsibility?

So far, the discussion in Germany has been plodding. Yet corporate social responsibility presents far more opportunities than have been taken until now - and possibly even more than have been recognized until now.

35 Enterprises have never set great store by having a poor reputation. Having often been publicly  
arraigned in the 1970s on the grounds of oil spill accidents, environmental damage and unfair  
working conditions in developing countries, enterprises have stepped up the number of  
activities over the past 5 to 7 years with which they assume social responsibility. This is a part  
of their corporate policy of sustainable development. The abbreviation “CSR” stands for the  
public debate surrounding the changing roles and duties of the economy and society on  
40 sustainable development. This is new.

Yet great uncertainties and unresolved questions remain. The fact that the term  
‘sustainability’ has been turned into a meaningless phrase also contributes to this uncertainty.  
In the economy and politics, it is often used randomly and frequently with great recklessness  
without any content reference. At the same time, unresolved questions hinder the type of  
45 progress that enterprises and society need to make. And Germany especially is in need of such  
progress, where the global challenges of climate protection and competitiveness are  
superimposed by demographic change which raises new issues for us and, at the same time,  
creates new action options. Consideration of the social and ecological impact of products and  
production also present an evermore important standard for international trade. This is also an  
50 element of CSR.

For the German Council for Sustainable Development, the voluntary commitment of  
enterprises for the benefit of society as well as self-commitment are essential features  
of a policy of sustainable development. In addition to the state’s activating  
sustainability strategy, above all the players from society and the economy are of  
55 importance. The “Sustainable Goods Project” has underlined that consumers are not  
sufficiently informed and that perceived Corporate Social Responsibility is still not  
rewarded with higher demand.

During the “Snapshot Sustainability and Society” of the Council in 2004, several  
hundreds of experts, youngsters and executives from the economy and society  
60 discussed the potentials of players from society as well as enterprises. These results  
and the global efforts to achieve corporate sustainability as well as the discussion on  
CSR and the sustainability strategy initiated by the European Commission have led the  
Council to address this issue. The German Council for Sustainable Development  
presented its plan in an article published in the “Landmark Sustainability” of the  
65 German government of August 2005.

The German Council for Sustainable Development submits the draft recommendations on  
dialogue with interested parties before taking a final decision. The draft was compiled by a  
workgroup comprising the following Council members:

70	Prof. Edda Müller, Rainer Grohe, Hermann Graf Hatzfeldt, Prof. Stefan Homburg, Heinz Putzhammer,	Chair of the Federation of German Consumer Organizations Executive Director of the Galileo Joint Undertaking Chairman of the German Forest Stewardship Council Professor for Public Finances at the University of Hanover Board Member of the German Federation of Trade Unions (DGB)
75	Marlehn Thieme, Eggert Voscherau,	Member of the Council of Lutheran Churches in Germany Deputy Chairman of the Board of Directors at BASF AG (Chair of the workgroup) (until January 2006)

Table of Contents

80 **Preamble: Corporate social responsibility for sustainable development..... 1**

**1. Perspectives: A controversial discussion threatens to prevent progress..... 4**

*1.1. Reservations instead of trust ..... 4*

*1.2. A suitable term for a new role? ..... 5*

*1.3. A/No real contradiction: Voluntary will versus obligation? ..... 7*

85 *1.4. Is CSR of benefit to Germany as a location for trade and industry or is it a hindrance? ..... 10*

*1.5. Transparency and dialogue – while necessary, how can they be implemented?..... 11*

*1.6. A broad range or a predefined canon of issues?..... 13*

**2. What do we want to achieve? - Assumptions for recommendations ..... 15**

**3. Three recommendations for the German government ..... 17**

90 *3.1. Redefine the regulatory framework ..... 17*

*3.2. Build alliances..... 17*

*3.3. Embrace the challenges of social responsibility ..... 18*

**4. Three recommendations for the economy..... 18**

*4.1. Leadership projects should make competencies and networks more tangible ..... 18*

95 *4.2. Create a CSR cycle in the enterprise..... 19*

*4.3. More CSR through stronger link to SMEs..... 19*

**5. Note on terminology used ..... 20**

## 100 1. Perspectives: A controversial discussion threatens to prevent progress

### 1.1. Reservations instead of trust

Undeniably, there is an exceptionally high number of good examples of Corporate Social Responsibility. A high proportion of large, medium-sized and small enterprises has come up with impressive examples of Corporate Social Responsibility in terms of training,  
105 environmental protection and healthcare over the past ten years. They underpin a changing awareness of the allocation of roles between the state and enterprises. However, this is where diverging evaluations and controversies begin. One might be led to believe that the examples of rising social responsibility would meet with undivided approval. However, this is not the case. The scope of Corporate Social Responsibility and the contribution made towards adding  
110 value are moot points. Opinions are divided as to the benefit and regulatory standing of CSR. Controversy is not necessarily a bad thing as it can also form the basis for innovative and groundbreaking progress. However, it can also become a hindrance: If the debate surrounding CSR continues to be reduced to regulatory demands and mutual reservations, there is a danger that it will prevent further progress.

- 115 • Active enterprises emphasize positive examples where they assume responsibility of their own accord. Their refuting defence of the principle of voluntary will against binding regulations threatens to curtail the discussion and to fail to exhaust the opportunities for a new responsibility-based culture.
- 120 • Critics from civil society ask somewhat sceptically whether the actions are truly and honestly meant or whether they are nothing more than whitewashing and fleeting activities. To them, voluntary measures without any control and legal obligation cannot make any lasting contribution to solving the global issues of sustainability. They want to know why not every enterprise takes CSR measures if – as is often maintained – these really raise the economic benefits for enterprises. Ultimately, they  
125 argue, it all boils down to profit before principle.
- 130 • Reservations and criticism are also expressed by representatives of the economy. To their mind, the discussion surrounding the voluntary nature of CSR activities goes too far. For them, CSR is nothing more than a trend, with the economy as the victim, because it can no longer fulfil its primary task of generating profits as a result of the myriad of reports on sustainability. They fear that excessive CSR commitment would abrogate the market economy and competition or would denature them through an exhaustive, legally binding obligation towards Corporate Social Responsibility or by overburdening enterprises with technical formalities, as feared by *The Economist* (Issue 01/2005). It is also argued that CSR is ultimately merely a natural component of  
135 sound business management which renders any special treatment of the issue irrelevant.
- For the most part, the German government keeps out of the discussion and makes no effort to avert the looming blockade. It does not influence the intense discussion which has been ongoing in the European Commission in the past few years, and it does not

140 take on board the passionate discussion being held in the EU member states in its own considerations.

A blockade threatens to emerge if the discussion gets bogged down in the known standpoints. It is even more likely to occur if the notion that enterprises today must, in part, face up to fundamentally new challenges is negated. Long-term time horizons and highly complex independencies on investments necessitate redefining the self-interests of enterprises. 145 However, this is not yet customary. But, in fact, the value of a company is no longer adequately measured solely in balance sheets and the short-term perspective of shareholder value. Instead, the perspective needs to be further expanded: This applies, for example, to the effects that demographic change in Germany has on the labour market, the quality of 150 education for school leavers and on the forecast lack of skilled workers. It also applies to investments in developing future technology or for foreign investments in regions with failing state and governmental structures as well as fragile environmental conditions. Wars and civil wars, destructive forms of corruption in failing states, plus the destruction of livelihoods have long been hard criteria for investment decisions. However, the very extent of the problems 155 evokes a certain helplessness and, it seems, a certain aversion to melodious concepts which are put down as being nothing but “lyricism”, and that they ultimately fail to effect change in the concrete framework conditions.

However, as long as the CSR discussion is primarily reduced to the controversial issue of voluntary will versus regulation, it will impede itself and any further progress and will run the 160 risk of overlooking the fact that voluntary will without rules will soon run aground, as will rules without voluntary will. Moreover, the discussion in Germany does not sufficiently build on the discussion being held internationally. This is a shortcoming since the CSR discussion is essentially and above all dictated by the global and Anglo-Saxon language area. It was initiated there under political omens which, due to lower social and environmental standards, 165 cannot be immediately assigned to Germany in the same manner. For this reason, however, Corporate Social Responsibility approaches from Germany could well be highly innovative.

In order to reduce the reservations and build trust in one’s own power, it would appear most expedient to address the following core issues:

- A suitable term for a new role?
- 170 • A/No real contradiction: Voluntary will versus obligation?
- Is CSR of benefit to Germany as a location for trade and industry or is it a hindrance?
- Transparency and dialogue – while necessary, how can they be implemented?
- A broad range of issues or a predefined canon?

### **1.2. A suitable term for a new role?**

175 To pioneers among the enterprises, CSR is a strategic approach involving the principles of dialogue and transparency whereby the enterprises themselves select the focal points of their CSR activities – where possible, in keeping with their core business. The European Commission defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their 180 stakeholders on a voluntary basis.” Terms such as corporate sustainability, Corporate Social

185 Responsibility and corporate citizenship are closely intertwined. In Germany, CSR is largely  
congruent with corporate sustainability, in other words, an enterprise's sustainability  
management. Corporate citizenship is a partial aspect of CSR and describes the social  
commitment in the respective local environment. CSR does not mean patronage (social  
sponsoring). Patronage and voluntary commitment in society are good; and much would need  
to be undertaken for it to be placed on a broader platform and more and more people to be  
motivated to become actively involved. However, that is not the issue here.

190 CSR measures tap both business and social benefit. Business benefit also includes those that  
allow their effect to unfold in the mid- to long-term. In addition to the expectations of the  
general public and pressure from the capital market as well as competition, both corporate  
culture and the positive effects on the recruitment of personnel as well as the internal effect of  
corporate commitment are also vital forms of motivation and arguments supporting CSR  
activities. Hitherto, however, no concrete quantifications relating to these effects have been  
put forward. They can be more readily described in qualitative terms. Among others, the  
195 following utilization effects can be achieved for enterprises:

- Process optimization promotes a more efficient use of resources.
- Innovative education and training models create a high level of qualification among  
the workforce and stimulate the development of new technology.
- 200 • Family-friendly products and services nurture the social competence of the employees  
and their identification with the enterprise.
- Through running dialogue with the stakeholders, ecological and social risks can be  
recognized and reduced at an early stage.
- By undertaking CSR activities, the enterprise can make its mark with customers,  
potential employees as well as other stakeholders, and can consolidate its relations  
205 with them.

As a new field of action with many different facets, CSR is a field of experimentation and  
innovation. The foremost issue is that of how information on the CSR activities of an  
enterprise can be linked to product-specific consumer information with a view to facilitating  
informed consumer decisions. One such approach is to use product labels, e.g. for fish and  
210 wood, which have been generated with the broad participation of stakeholders. This success  
story raises the hope that it might emanate a similar effect on the eco-efficiency of products,  
for example. The first steps are underway to expand the comparative product tests to include  
company-related information. A further field of experimentation is that which concerns  
215 alliances between enterprises on the basis of production and consumption patterns. One such  
example can be found in the new alliances which have been forged with respect to the  
technical standards and consumer behaviour in and around the production, sale and various  
utilization forms of recycling paper. Ultimately, CSR is also playing an ever-increasing role  
among the manufacturers of products whose customers are not the end consumers but other  
enterprises. In the business-to-business fields, CSR is increasingly becoming an important  
220 issue in the value-added and supply chains.

CSR is also a political signal. The emergence of the term CSR marks a change in the  
perception of Corporate Social Responsibility. It considers the economy and capital to be a  
part of the *res publica*. Voluntary social commitment including dialogue and transparency as

225 well as the assumption of one's own (self-binding) responsibility is regarded as a part of the  
regulatory framework of a new competition culture and a contrast to the short-term  
maximization of share profits.

230 The state regulation concepts within the global policy on sustainable development are  
increasingly being extended by the search for solution approaches which are borne out of  
cooperation and partnerships. The UN Conference on Environment and Development held in  
Rio de Janeiro in 1992 was dominated by the action concepts under international law on the  
implementation of the UN Conventions. Whilst Corporate Social Responsibility was  
addressed through initiatives such as the World Business Council, new concepts for  
partnerships and the assumption of Corporate Social Responsibility only began to become  
235 more widespread at the UN Summit in Johannesburg held in 2002. In the course of  
globalization, Corporate Social Responsibility is increasing in significance today in terms of  
finding ways out of the misdirected consumption of resources and the economic and  
development policy blind alleys.

240 In the meantime, the first indications of competition to find sustainability solutions are  
emerging. CSR and sustainability commitment have become part of competition between  
enterprises in business fields that can only be developed in the long run if they are profitable  
and (!) both respect and help to generate the ecological, economic and social values in society.  
Pioneering enterprises in every sector of the economy and, for example, many branded  
companies have recognized the value of Corporate Social Responsibility for fostering brands  
and markets as a way of "differentiating between good and phat" (W. Lotter in brandeins,  
245 March 2004). In this context, certain specific peculiarities apply to Germany: Germany's  
economy is particularly globalized as a result of the country's high export quota. Germany's  
heavy integration with the global economy not only brings dependency but also benefits. The  
pressure brought to bear on the country to provide innovation and research and development  
can be used to positive effect in order to promote growth for the "increasingly better".

250 The European social and environmental model was long considered to be the best reference  
for those abroad. In order to maintain its vibrancy for nations abroad, it will need to be further  
developed in Germany. To do so, CSR activities in Germany can also play their part.

### **1.3. A/No real contradiction: Voluntary will versus obligation?**

255 Corporate Social Responsibility is the implementation of the concept of sustainable  
development at corporate level. Since CSR means more than mere corporate compliance with  
standards relating to environmental and social legislation, the voluntary nature of CSR  
commitment is regarded as "the" core principle. In contrast to this is a belief that is shared in  
parts of civil society. The maximum position seeks to create a legal framework that is valid  
and binding throughout the world and which comprises all of the international conventions on  
260 the protection of human rights and the environment as well as the international labour  
standards of the ILO and which regulates equal conditions of competition at an exacting level.

- From the point of view of the corporate self-image, the voluntary nature of CSR is essential as this is the only way to achieve innovative and competition-oriented action.

265 The growing political attention afforded to CSR and sustainability management is

raising corporate activities to a level that enterprises can utilize for the acquisition of a clear identity and for the growing demand for communication with the stakeholders. Voluntary will as a basic principle also generates control over both the issue itself and the nature and scope of the activities.

270

The principle of voluntary will differentiates from the idea of standardizing CSR and creating additional administrative law. Such regulations would lag behind the multitude of best-practice examples. For those companies already actively involved, it would represent a subsequent regulation which would be of no benefit. It would bring with it the risk of innovative examples and new partnerships keen to experiment ultimately being reduced to CSR and being lowered by focusing on minimum standards.

275

- From the point of view of (parts of) civil society, the voluntary commitment of enterprises results from the responsibility of shareholders and executives who continue the maxim of “Property entails obligations”.

280

Voluntary will is accepted as a high commodity. However, the objections raised against it relate to only a minority of enterprises committing to it. Not even the argument that CSR provides a competitive edge comes across as convincing here. If CSR is a part of competition and everyone on the market is in competition with everyone else, why is it that not all enterprises take CSR measures?

285

Those taking a sceptical view of the economy ask the question as to how voluntary will and personal responsibility for one’s actions can be implemented, made credible and, ultimately, controlled for the benefit of society. Only a binding regulation would provide the political world, civil society, consumers and the financial market with reliable information about the scope and nature of the activities.

290

These standpoints illustrate the differing basic understanding of how regulatory policy should govern corporate activity and personal responsibility and the guarantee function of the state. However, the outlined fundamental standpoints need to be called into question. They make absolute and engineer extremes which as such have little to no chance of survival.

295

The principle of voluntary will is misconstrued as being completely random. This is meanwhile no longer the case, or is only the case in a very few rare instances. A commitment to CSR often derives more or less mandatorily from the conditions to act within an enterprise’s environment. For example, an enterprise in regions with failing state order and structure, pandemics or a destroyed environment, if only out of pure self-interest, needs to do far more than only comply with the environmental and social standards – which, in certain nation states are, at times, few and far between anyway - and bide its time. It appears justified not to speak fundamentally of a “voluntary” commitment in such instances but to consider the framework conditions which suggest that it is necessary to assume responsibility (“enforced voluntary will”). If the life expectancy among the workforce falls dramatically as a result of epidemics and a lack of healthcare, an enterprise is often forced to commit to healthcare which goes beyond that available in the local communities and often far beyond the enterprise’s direct interests. Another example is the “sustainable” supply chain. Whereas the image effects for the branded companies had been to the fore in the consumer goods industry to date, an increasing number of other enterprises are now beginning to seek out their

300

305

310

315 suppliers on the basis of ecological and social standards. This makes global supply chains more reliable and securer, especially when parts of the value-added chain are outsourced. However, sustainability also makes supply chains more intelligent and more cost-efficient, for example with respect to returns, recalls, exchanges and recycling.

These examples show that the decision as to whether an enterprise becomes involved with CSR most usually depends on which time perspective defines its own interests. Embedding CSR in a long-term perspective conflicts with reducing one's own interests to short-term, maximum profit.

320 At the same time, the fundamental standpoint that relies on bindingness through state regulation needs to be called into question. The standpoint is built around the lessons learned from the time of a new departure in environmental policy and during the establishment of environmental law. It reflects the lessons learned from a variety of rule breaches, accidents and misconduct on the part of global enterprises which led to their being put on trial. The  
325 roots of Corporate Social Responsibility lie in the Anglo-Saxon criticism raised against corporations. Back in the 1970s, the chemical, mineral oil, defence and pharmaceutical industries were all pilloried. The slogan "Seveso is everywhere" is pars pro toto for this era. All around the Brent Spar oil platform it became clear that the globalized criticism of corporations can, under certain circumstances, challenge the business base of a major  
330 corporation.

The notion of comprehensive state regulation assumes that, when the intention is good factually good implementations result in the development of regulations. Most notably the examples of an often protracted and sluggish implementation of multi-national agreements do not support this optimism for such regulations.

335 The standpoint that relies on a regulatory obligation to perform CSR asserts that the strong position of the German economy on the global environmental technology market has only been made possible by Germany's strict national environmental obligations. These lessons cannot simply be transferred to the issue of CSR, however, as an entirely different constellation is in place here. In the case of CSR, it is not a question of punishing misconduct  
340 but of rewarding exemplary behaviour. However, the solution model cannot remain the same if the goals change. Given the state of the discussion at international level, it cannot be excluded that binding regulations will come into effect sooner or later.

The discussion threatens to overburden the issue of CSR with demands because, on the one hand, CSR has shifted closer towards being a synonym for general global improvement and,  
345 on the other, appears to be a guarantee for freedom. Making valuation standards of "voluntary will" and "global regime" absolute threatens to result in antagonism. If a clearly unattainable goal is propagated uncompromisingly, the attainable also threatens to become lost. A perfectly feasible departure towards new alliances and partnerships would be squandered. Disarmament is necessary. The dialogue needs to be reconsidered so as to facilitate the social  
350 learning of new forms of action for sustainability management.

#### **1.4. Is CSR of benefit to Germany as a location for trade and industry or is it a hindrance?**

355 There is heated debate on the issue of whether CSR brings benefits to Germany as a location for trade and industry or whether it is ultimately an unnecessary luxury which conflicts with Milton Friedman's idea: "The business of business is business". This was indeed a much quoted credo in the 1970s. But many new developments indicate that it has become a thing of the past and that social and ecological issues are key to the success of an enterprise. If tackled correctly, CSR can be of benefit to Germany as a location for trade and industry. But this will not occur of its own accord.

360 In Germany, Corporate Social Responsibility will be of benefit in the global competition for the most attractive industrial locations if/when CSR:

- Provides incentives for innovation,
- Leads to improved corporate risk management,
- 365 • Creates competition for qualitative corporate values in addition to pure price competition,
- Enhances the profile of German enterprises and raises the acceptance of enterprises,
- Offers business personalities a platform for decisions to be taken which are driven by values,
- Creates a family-friendly and attractive environment for the workforce,
- 370 • Supports the attractiveness of Germany on the international labour and investment markets.

375 These days, the economic framework conditions for enterprises are partly created by a variety of different stakeholders. Rating agencies and corporate indices add transparency and comparability to corporate policies and their performances, and also provide a means of evaluation in line with the stakeholders' own list of goals. Socio-ethical investment funds and certificates define the exclusion criteria which keep potential investors away from enterprises. They also reach positive decisions. Anyone using this and building an open dialogue culture with stakeholders will secure and successfully expand on their material assets, such as brand names and corporate image. The reputed antipodes of "Success generates profit and moral generates costs" then ceases to exist. This can be seen in the rising commitment of the capital market towards socio-ethical investment funds, sustainability funds and sustainable retirement provisions.

385 In comparison with the Anglo-Saxon economic culture, the notion of environmental protection has made positive inroads in Germany and Europe since 1970. Social standards have become a matter of fact in the European social model unlike in other models which are far from having achieved this. Whilst employees' rights abroad may well be the subject of CSR, this is not the case in Germany as they are specified under law and by virtue of collective bargaining policy. Environmental monitoring in and around a plant may be the subject of CSR abroad but this is not usually the case in Germany. In turn, however, CSR measures in Germany, such as those for motivating the workforce, promoting family friendliness in the facility, and with respect to the environmental requirements in (sub-)supplier contracts sooner or later will provide Germany with the edge over international

395 competitors. For the key procurement and sales markets of German enterprises, the aspects  
which are of relevance to CSR are those which are subject to legal regulations in Germany or  
for which higher standards are customary in this country.

400 Irrespective of this development in any shape or form, many medium-sized enterprises, above  
all, have perceived themselves in their umpteenth generation as socially responsible  
enterprises. For small and medium-sized enterprises especially, ethical action is a core  
component of lasting success. As a result, a somewhat peculiar semblance emerges that CSR  
405 is a term taken from the world of globalized corporations, whilst entrepreneur-led enterprises  
have long since practiced the same content but are no longer mentioned when the subject of  
CSR is raised. This is not encouraging. At the same time, however, encouragement is urgently  
required as the enterprises with an active CSR balance overall are still in the minority. Even  
405 the enterprises already actively practicing CSR have room for improvement. On the one hand,  
many small and medium-sized firms have so far focused on their own area of business and are  
not questioning the ecological and social commitment of their suppliers. Secondly, the  
approaches to responsible management are often “informal and homemade” – their anchoring  
in corporate guidelines, company control mechanisms and further education and training is  
lacking.

410 These days, enterprises are facing the challenge of having to cater to the differing and, in  
some cases, even contradictory interests of their customers, investors, employees, suppliers or  
non-governmental organizations, and of communicating their own compliance of eco-  
standards for fishing, for example, in such a way that they are rewarded by the consumer.  
415 International investors shift billions of euros in no time at all, including in cross-border  
transactions. This strengthens the trend towards short-term profit maximization and an ever-  
greater market anonymity. However, with informed consumers and a rising interest in  
“socially responsible investment” on the capital market, the need is growing to credibly  
accept and communicate the demands for sustainability.

### **1.5. Transparency and dialogue – while necessary, how can they be implemented?**

420 Whatever is initiated by an individual enterprise, it must have a perspective. Only processes  
which will function in the long run can safeguard benefits and effects. These must be a matter  
for a company’s top management. In cases of doubt, CSR has much in common with  
communications but little with PR.

425 Pioneering enterprises have recognized the value of Corporate Social Responsibility for  
fostering their reputation, brands and markets. Voluntary Corporate Social Responsibility  
standards are successful. Just some examples of these are seals of approval from the Forest  
Stewardship Council, the Marine Stewardship Council, or also Rugmark, which signals fair  
working conditions in the carpet industry. These standards have been negotiated with the  
430 active participation of a number of interested groups. They are based on self-organization and  
an agreed observance of rules. Their significance will increase even further in globalized  
supply chains. Here, professional communications and comprehensible transparency are both  
important features as any PR bubbles that are blown will all too easily be popped by today’s  
increasingly more informed general public. Other examples worthy of note include the  
435 commitment of the Foreign Trade Association of the German Retail Trade (AVE), the  
International Council of Toy Industries (ICTI) as well as the global Responsible Care®  
initiative organized by the chemical industry.

440 Investors and the capital market both focus their attention on enterprises that combine commercial success with social and ecological responsibility and therefore take the concept of sustainability into account. This is founded on the assumption that such enterprises invest far more resources in innovative processes and products and have a clear vision of where their future prospects and corporate risk management lie. Consumer organizations look out for any obvious misconduct on the part of an enterprise. Branded companies try to set themselves apart from their competitors by showing themselves to be particularly responsible suppliers and by recommending themselves to employees as being particularly good employers.

445 There is public dispute regarding the issue of how far the requirements placed on the communications and transparency of CSR measures should be turned into binding laws.

450 Both consumers and the general public want to be able to discern whether the statements made by enterprises relating to their CSR commitment are true and whether the information provided is complete. From this perspective, whilst an enterprise should be free to decide whether or not to practice CSR, it should nevertheless be subject to accountability so as to guarantee transparency and coherence with regard to information contained in prospectuses or capital market evaluations, for example. Credibility, so the argument goes, can only then be guaranteed if CSR is audited externally, whilst achieving this will require enterprises committing to greater transparency and disclosure of CSR measures as well as adopting measurability, reporting comparability, as well as the use of seals of approval.

460 The counter-argument put forward is that enterprises should be free to make their own decisions as to whether and how to practice CSR. The foremost reason used to back this up is corporate practice which has long since offered a broad spectrum of measures through which enterprises have their CSR activities verified externally and which ensure transparency. The diversity of CSR activities and the differentiation which must be allowed for depending on the size and type of the enterprise concerned, so the counter-argument goes, cannot be resolved by one generally binding regulation.

465 The discussion surrounding binding parameters for responsible corporate management is moving forward at international level. Since June 2004, the International Organization for Standardization (ISO) has been working on a Guidance Document for Social Responsibility. For the moment, an ISO report and not a standard is in the process of being drafted. It is customary practice for a report to be compiled as a precursor to a standard.

470 CSR seals of approval and competition have been in existence for a number of years. One such example is the Ethics in Business Initiative which includes the awarding of a German Prize for Business Ethics. Another example is the MIMONA project which is a German anagram for employee motivation for sustainability and is run by BAUM e.V.

475 Examples of international initiatives include the UN Global Compact and the OECD Guidelines for Multinational Enterprises and the World Business Council of Sustainable Development (WBCSD), the Global Reporting Initiative (GRI), the European Multi Stakeholder Forum, and the EU Eco-Management and Audit Scheme (EMAS). The key players are econsense – the Forum for Sustainable Development of

480

German Business, the research and consulting institutes imug, borderstep,  
4 sustainability, AccountAbility, the non-governmental organizations Germanwatch  
and Social Accountability International, the International Organisation for  
Standardisation (ISO), the Ethos Foundation, as well as rating agencies such as oekom  
research and Sustainable Asset Management (SAM). The European Multi Stakeholder  
Forum of the European Union (EMS) has set up a round table to promote corporate  
social responsibility among SMEs.

485

### **1.6. A broad range or a predefined canon of issues?**

490

The public discussion raises the question as to whether a broad or perhaps a narrower canon  
of issues is needed. Practice has shown that the present range of issues is already broad and  
will presumably become even more extensive in the future. Even today these issues range  
from sustainable energy use to the combating of corruption, to consumer protection and  
employee motivation. The ultimate specification of a canon of issues is not meaningful and  
does not do justice to the actual notion that each enterprise must attend to its own specific  
long-term perspective and must seek its own means of accessing CSR.

495

New issues are constantly being added, while others either gain in or lose significance. New  
approaches are being developed and tested. At present, the international minimum social  
standards are increasingly becoming the focus of attention in connection with the sustainable  
supply chain, the combating of corruption and the family friendliness of enterprises. In  
addition, numerous design possibilities also exist within individual thematic fields. On the  
issue of family friendliness alone, measures are being considered in a wide variety of areas.  
These range from flexible working time and organization patterns to care services for  
employees, to the development of new career paths. Up to now, key issues are on the agenda  
of corporate sustainability strategies:

500

- Social environment: Internationally recognized minimum social standards  
(compliance with fundamental human rights, freedom of association and the right to  
collective bargaining, elimination of forced/compulsory labour, abolition of child  
labour)
- Environment: Climate, emissions, accidents, energy, water, consumption of materials,  
waste and recycling, bio-diversity, maritime eco-systems, fragile eco-systems,  
deforestation, use of resources, nature and land use
- Consumers and society: Supply chain, consumer protection, combating of corruption,  
community support, transparency and accountability
- Workforce: Employee representation, diversity and equal opportunities, family  
friendliness, training and further education, remuneration, health, safety and  
environment, health promotion, employment promotion and job security.

505

510

515

Just which issues an enterprise should focus on when designing its CSR concept largely  
depends on the enterprise itself and its industry or branch. Sustainable energy use, for  
example, is automatically of far less significance to financial service providers due to the  
comparatively low share of energy costs than it is in the chemical industry. Environmental  
management systems are standard among many industrial firms. In social affairs, a  
professional process is also becoming an increasingly important criterion for evaluating CSR  
through sustainability funds and in rating processes on the capital market.

520

525 As a result, enterprises must select the issues pertinent to them and develop a customized  
procedure. Practice has shown that various approaches exist. Within an enterprise, the ideal  
approach is a four-tier process. In doing so, the sequence in which the individual steps are  
taken is of less importance than the cycle in which an enterprise further develops its CSR  
activities on an ongoing basis.

1. Identification of need for action:

530 The starting point is the enterprise's intention to create a win-win situation through its  
CSR activities. This involves identifying the need for action whilst not losing sight of  
the commercial and social benefits at the same time. An enterprise should be in a  
position to answer the following questions for itself:  
535 What goals should be achieved through CSR? How can CSR support the business  
activity of the enterprise? What activities are already underway in the enterprise? Who  
are the relevant stakeholders? What are their expectations or issues? What resources  
(organization, finances, etc.) are available for CSR within the enterprise? What CSR  
activities are the competitors undertaking?

It is important to recognize the expectations that stakeholders have. They can best be  
understood by holding direct dialogue.

540 2. Selecting CSR focal points:

In order to define its own fields of action, an enterprise should be in a position to  
answer the following questions for itself: How readily can an issue be reconciled with  
the CSR goals of the enterprise? How relevant is an issue in terms of the industry or  
branch, the different size categories or international positioning? How great is the  
545 legal and cultural leeway for the issue at the location of the enterprise? To what degree  
does the issue meet the expectations of the stakeholders? And to what extent can the  
enterprise reconcile these? What resources are really necessary for implementing the  
selected activities?  
550 In answering the above, it is crucial that the expectations of the stakeholders are  
carefully evaluated.

3. Anchoring in the enterprise:

555 It is usually necessary to clearly assign responsibilities for CSR activities. This must  
not be associated with lavish administrative posts which "lock CSR away in an  
organizational corner".  
A large number of industry-specific and, in part issue-specific, tools are already  
available to enterprises today. These range from industry-specific codes of conduct in  
dealings with suppliers to intricate environmental management systems, to voluntary  
audits and verifications. It is not meaningful to conduct an ultimate and restrictive  
predefinition of a certain set. For a small service company, it may suffice and be  
560 credible if the head of the company takes charge of CSR. In a major multinational  
enterprise, stakeholders expect visible spheres of responsibility with universal  
anchoring in the enterprise, through a compliance officer, for example, or an  
environmental management system.  
565 Having the head of the company take charge of CSR also adds credibility to the issue  
here and guarantees that CSR will be included in the long-term development of the  
business field.

4. Reporting and communication with stakeholders:

570 Enterprises soon profit from implementing CSR if they take great care to effectively anchor and use the relevant tools – for example, by utilizing their resources more efficiently by optimizing their processes. However, enterprises above all also benefit from the stakeholders honouring their commitment. In this context, credibility is key. Accordingly, communicating with internal and external stakeholders is an integral component of the CSR process.

575 When it comes to reporting, a variety of tried-and-tested tools can be used, such as the guidelines of the Global Reporting Initiative, seals and stamps, audits, certifications or active participation in initiatives and at round tables. The aim of this reporting standard, which is regularly revised by representatives of trade and industry as well as stakeholders, is to provide information which is appropriate, relevant, exact, detailed and, where possible, comparable.

580 **2. What do we want to achieve? - Assumptions for recommendations**

Chapter 1 lists the basic trends of the discussion surrounding CSR concepts which has already been running for many years, most notably the regulatory duality of freedom and responsibility. Experts have also addressed other elements such as indicators, monitoring, certification, reporting, guarantees and verification, some of which in great technical detail.

585 The recommendations of the German Council for Sustainable Development distance themselves from this form of argumentation because – as illustrated above – the discussion so far threatens to block the emergence of more Corporate Social Responsibility.

590 Quite clearly, however, the goal must be to strengthen and broaden the positive fundamental trend that is inherent in the issue of CSR. The policy of sustainable development which is largely geared to the “state” as the pro-active player is complemented with this signal and extended to the essential elements of the economy and civil society. This crossing of borders must be nurtured and strengthened as a learning and practical area, as competition and as a driving force behind innovation. It is under this assumption that the recommendations of the German Council for Sustainable Development seek to achieve the following:

595 “Pushing the momentum”

600 Corporate commitment should be extended. More enterprises should be encouraged to take CSR measures. The further development of CSR in Germany should be furthered by means of player-specific, positive impulses. The complexity and diversity of the approaches should support competition for good CSR practices. The extent of the commitment should be increased along supply chains as well as consumption and production patterns. Raise the persuasiveness of CSR and enhance internal workflows.

605 The positive impact of CSR decisions on the enterprise should be underlined more and made more measurable. Any imponderability in balancing cost and benefit should be reduced so as to enable the persuasiveness of CSR also to be shown directly in quantitative and qualitative (business management) terms and so that it will become integral to management. The level of awareness of CSR should be raised in

enterprises. Knowledge of suitable platforms and networks needs to be used to greater effect for enterprises.

610 Differentiate CSR according to recipients

615 The manner in which small and medium-sized enterprises implement CSR often varies from that of large enterprises. Many small and medium-sized enterprises which are, today, already shining examples of Corporate Social Responsibility do not speak of CSR. They should be provided with ideas and proposals of how to effectively communicate their commitment to the general public. It is also necessary to illustrate what ways and means exist of improving transparency and raising credibility.

Establish a connection to the international discussion

620 A lively discussion on CSR is taking place at European and international level, one in which too few German enterprises are involved. The German government is also not sufficiently involved in the discussions being held there. In its communication on the review of the European Sustainability Strategy, the European Commission only recently called upon trade and industry and other stakeholders to submit proposals for ambitious economic solutions that go beyond existing legal minimum standards.

625 At the same time, the European Commission announced further initiatives aimed at encouraging CSR activities. Germany should play a bigger part at this level.

Improve learning networks

630 CSR as a learning and experimental ground should be broadened. Opportunities should be provided for learning from best-practice examples and further developing practical experience through mutual reference.  
635 Corporate social and civil society responsibility should be strengthened in dialogue and the inclusion of stakeholders should be increased. Learning networks should integrate large and small enterprises, span industries and emerge along consumption and production patterns.

640 International and national CSR networks and platforms are essential forums for exchanging ideas and information on possible activities and innovative approaches. These include, for example, the UN Global Compact, the Global Reporting Initiative (GRI), CSR Europe, Econsense, CSR Germany of BDA and BDI, the "Freedom and Responsibility" initiative of the central associations of trade and industry and the magazine WirtschaftsWoche, (this needs to be reversed again) or "Business in Partnership with Youth" (UPJ).

### 3. Three recommendations for the German government

#### 645 3.1. Redefine the regulatory framework

The German Council for Sustainable Development recommends that the German government should redefine the regulatory framework for CSR. Underlying this recommendation is a “twin assumption”:

- 650 • The Council recommends that, by defining the procedural rules, the regulatory framework of the social market economy should be developed in such a way that enterprises voluntarily undertaking CSR activities reap the benefits in the face of competition.
- 655 • The Council disapproves of the notion that further substantive CSR standards should be added to existing environmental and social law standards from the standpoint of CSR.

The regulatory framework of the social market economy should be developed further with a view to improving the procedural competition climate and enabling consumers to obtain a reliable and comparable perception of what “CSR performance” any given enterprise provides. To achieve this, for example, the regulations contained in the fair trading law (the Unfair Competition Act) and prospectus liability should be revised with the aim of promoting 660 voluntary CSR activities. The social, human rights and ecological impact relating to the supply and sale of a product should be made apparent. This also applies to both the end-consumer market and to customer relations in trade and industry. Negotiations in the WTO should serve to strengthen CSR activities in the value-added chain, including in global 665 competition. Seals of approval and standards such as FSC, MSC (see above) developed on a voluntary basis or in dialogue with stakeholders should be promoted. The Council strongly advises against disqualifying these as non-tariff trade barriers.

#### 3.2. Build alliances

670 The German government has more means of supporting the CSR activities of trade and industry than it has realized up to now.

It is recommended that a high-ranking political CSR discussion group should be formed. The discussion group, which should be led by the German government, should improve the climate for CSR, create a political sounding board for best-practice examples and, at the same time, encourage, support and accompany new, cross-sectoral and ambitious CSR projects. To 675 do so, the group must incorporate both enterprises with varying initial conditions and stakeholders alike. This will help Germany to catch up with the developments in Europe.

The German Council for Sustainable Development offers to take on the role of ensuring widespread publication of the progress achieved on CSR in the discussion group/alliance.

680 The German government should raise the competitiveness of German enterprises on global markets by supporting the CSR profile of German enterprises abroad, highlighting the CSR

685 performance of German enterprises and, wherever possible, emphasizing the qualitative components of competitiveness. Efforts taken to reduce competitiveness merely to a price war should be countered. The export credit guarantee tool will need to be improved over and above the recent modernization that it recently underwent. The new guidelines for awarding export credit guarantees (2001) signal a move away from non-specific support of exports to more coherence between foreign trade, ecological, social and human rights goals. However, there is still room for improvement, above all with respect to transparency, monitoring compliance with human rights standards as well as other aspects of the CSR commitment of enterprises.

690 Competitive disadvantages for German enterprises will arise if Germany fails to join the CSR discussion ensuing at international level. It is recommended that the German government should seek a stronger presence in European and global efforts on CSR policy in order to allay the drawbacks for Germany. When implementing CSR, enterprises must, above all, be given support by means of a swift and effective knowledge transfer. In order to enable  
695 enterprises to design their CSR concepts, it is also essential for stakeholders to provide ideas and impetus, however. Enterprises and representatives from the field of politics should foster this dialogue.

### **3.3. Embrace the challenges of social responsibility**

700 It is recommended that the German government should recognize and further develop the standards of Corporate Social Responsibility through exemplary “social responsibility” in its own spheres. This would relate to public procurement as well as the support of socio-ethical investment funds through pensions and health policies. By the same token, education, cultural and family policies also offer valuable starting points.

705 Since successful management significantly depends on the exemplary impact of one’s own commitment and on the credibility of goals, indicators, reports and dialogues, it is recommended that the German government should also take into account the OECD Guidelines for Multinational Enterprises in public procurement as a criterion for awarding contracts.

## **4. Three recommendations for the economy**

710 Needless to say, these recommendations are directed at both enterprises in the private sector as well as non-profit and public enterprises.

### **4.1. Leadership projects should make competencies and networks more tangible**

715 The knowledge gained on the positive effect of the qualitative and quantitative effects of Corporate Social Responsibility must be made more publicly known and, where necessary, also ascertained through exemplary research activities.

It is recommended that 3 – 5 leadership projects should be selected from the many practical examples available. They should serve as the focus for the public CSR dialogue and, at the same time, indicate benchmarks for the further development of the issue.

720 Data bases containing best-practice examples should be created and/ or further expanded upon. CSR strategies take into consideration the sector-specific practical areas along with the individual activities, as branch-specific CSR issues are frequently of relevance to enterprises. In this respect, the trade associations should assume key functions. At the same time, the exchange on potential activities and innovative approaches in international and national CSR networks and platforms should be reinforced.

725 Research and development on the individual CSR issues should be furthered along the lines of the practical and learning areas taken from the Research for Sustainability Framework Programme of the Federal Ministry of Education and Research as well as the Research Centre for Family-friendly Personnel Policy of the University of Munster.

#### **4.2. Create a CSR cycle in the enterprise**

730 For CSR to make its contribution to the long-term success of an enterprise, enterprises must firmly establish it in their organization and in the management processes, with unequivocal accountability resting with the enterprises management, and specify CSR and self-interest in the long-term perspective of the enterprise's business activity. Information concerning the CSR activities of an enterprise should be readily accessible and transparent for the end-  
735 consumer as well as the capital market.

A corporate-specific CSR process should be established. Reference is made to the comments on the CSR process in Chapter 1.6.

#### **4.3. More CSR through stronger link to SMEs**

740 With regard to information concerning the new Basle Capital Accord II, qualitative aspects of the corporate culture and the CSR of small and medium-sized enterprises should be afforded a greater role than before. In this respect, financial services providers and the banking sector are afforded a key role here.

745 With regard to CSR reporting, small and medium-sized enterprises should be supported by further pursuing the adaptation of the guidelines of the Global Reporting Initiative ("High 5!"-Handbook) as well as practical guides such as the "Corporate Citizenship" of the German initiative "Business in Partnership with Youth" (UPJ) as well as environmental management. Through best practices, practical guides and a range of conferences and events, enterprises can receive valuable input and assistance on how to implement CSR. Furthermore, the communication of these guidelines must be stepped up so as to facilitate their broad-based  
750 application. The CSR competence of institutions which SMEs consider to be trustworthy, such as the chambers of trade and commerce, should be extended.

755 In order to foster knowledge transfer with respect to CSR, networking among SMEs should be advanced. This can be achieved, for example, through regional events, discussion rounds, further education and training or by establishing workgroups. Where possible, the existing SME networks should be utilized.

## **5. Note on terminology used**

Those who show great personal commitment and dedication for more Corporate Social Responsibility and sustainability often do so with an unsuitable turn of expression. Virtually no other “scene” uses so many terms that are exclusive to and understood only by insiders. This unnecessarily creates a language barrier.

If, however, the discussion surrounding Corporate Social Responsibility is to gain in importance, a language barrier is something that nobody can really afford. Instead a way must be found to reach the manager of a major global corporation, analysts at banks, the winegrower on the river Mosel and the medium-sized furniture company all at the same time.

In this paper, the German Council for Sustainable Development has attempted to move away from an exclusive use of insider terminology. This has succeeded in certain parts, but not in others, or at least not to the extent it was hoped. However, another terminology is just as important as political concepts and instruments for the credibility of the CSR issue.

It is up to all of us to make the best effort possible.