Promoting a European framework for corporate social responsibility

Green Paper

Industrial relations and industrial change

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EXECUTIVE SUMMARY

An increasing number of European companies are promoting their corporate social responsibility strategies as a response to a variety of social, environmental and economic pressures. They aim to send a signal to the various stakeholders with whom they interact: employees, shareholders, investors, consumers, public authorities and non-governmental organisations (NGOs). In doing so, companies are investing in their future and they expect that the voluntary commitment they adopt will help to increase their profitability.

As early as 1993, the appeal to European business of President Delors to take part in the fight against social exclusion resulted in a strong mobilisation and in the development of European business networks. More recently in March 2000, the European Council in Lisbon made a special appeal to companies' sense of social responsibility regarding best practices for lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development.

By stating their social responsibility and voluntarily taking on commitments which go beyond common regulatory and conventional requirements, which they would have to respect in any case, companies endeavour to raise the standards of social development, environmental protection and respect of fundamental rights and embrace an open governance, reconciling interests of various stakeholders in an overall approach of quality and sustainability. While recognising the importance of all these aspects, this paper focuses mainly on companies' responsibilities in the social field.

This action leads to the development of new partnerships and new spheres for existing relationships within the company regarding social dialogue, skills acquisition, equal opportunities, anticipation and management of change, at the local or national level with reference to the reinforcement of economic and social cohesion and health protection, and more generally on a global level, concerning environmental protection and respect of fundamental rights.

The corporate social responsibility concept is mainly driven by large companies, even though socially responsible practices exist in all types of enterprises, public and private, including small- and medium-sized enterprises (SMEs) and cooperatives.

The European Union is concerned with corporate social responsibility as it can be a positive contribution to the strategic goal decided in Lisbon: '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'.

This Green Paper aims to launch a wide debate on how the European Union could promote corporate social responsibility at both the European and international level, in particular on how to make the most of existing experiences, to encourage the development of innovative practices, to bring greater transparency and to increase the reliability of evaluation and validation. It suggests an approach based on the deepening of partnerships in which all actors have an active role to play.

1. INTRODUCTION

Corporate social responsibility is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. At a time when the European Union endeavours to identify its common values by adopting a Charter of Fundamental Rights, an increasing number of European companies recognise their social responsibility more and more clearly and consider it as part of their identity. This responsibility is expressed towards employees and more generally towards all the stakeholders affected by business and which in turn can influence its success.

These developments reflect the growing expectations that European citizens and stakeholders have of the evolving role of companies in the new and changing society of today. This is in line with the basic message of the Sustainable Development Strategy for Europe agreed at the Göteborg European Council of June 2001, that in the long-term, economic growth, social cohesion and environmental protection go hand in hand.

Many factors are driving this move towards corporate social responsibility:

- new concerns and expectations from citizens, consumers, public authorities and investors in the context of globalisation and large scale industrial change;
- social criteria are increasingly influencing the investment decisions of individuals and institutions both as consumers and as investors;
- increased concern about the damage caused by economic activity to the environment;
- transparency of business activities brought about by the media and modern information and communication technologies.

Business and CSR

As companies themselves face the challenges of a changing environment in the context of globalisation and in particular the Internal Market, they are increasingly aware that corporate social responsibility can be of direct economic value. Although the prime responsibility of a company is generating profits, companies can at the same time contribute to social and environmental objectives, through integrating corporate social responsibility as a strategic investment into their core business strategy, their management instruments and their operations.

Where corporate social responsibility is a process by which companies manage their relationships with a variety of stakeholders who can have a real influence on their licence to operate, the business case becomes apparent. Thus, it should be treated as an investment, not a cost, much like quality management. They can thereby have an inclusive financial, commercial and social approach, leading to a long-term strategy minimising risks linked to uncertainty. Companies should pursue social responsibility internationally as well as in Europe, including through their whole supply chain.

> In its position paper 'Releasing Europe's employment potential: Companies' views on European Social Policy beyond 2000' UNICE (Union of Industrial and Employers' Confederations of Europe) has stressed that European companies see themselves as an integral part of society, as they act in a socially responsible way; consider profits to be the main goal of the company but not its only 'raison d'être', and opt for long-term thinking on strategic decisions and investment.

The political context

At the European level, the challenge is about how corporate social responsibility can contribute to the Lisbon goal of building a dynamic, competitive and cohesive knowledge-based economy. The Lisbon European Council made a special appeal to companies' sense of social responsibility regarding best practices on lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development.

The Commission's European Social Agenda, subsequently supported by the European Council in Nice, emphasised the role of corporate social responsibility in addressing the employment and social consequences of economic and market integration and in adapting working conditions to the new economy. In addition, the European Summit in Nice invited the Commission to involve companies in a partnership with the social partners, NGOs, local authorities and bodies that manage social services, so as to strengthen their social responsibility. The European Council in Stockholm welcomed the initiatives taken by businesses to promote corporate social responsibility and made reference to this Green Paper as a means to encourage a wide exchange of ideas in order to promote further initiatives in this area.

The Commission's communication on sustainable development, supported at the Göteborg European Council, emphasised the importance of corporate social responsibility: 'Public policy also has a key role in encouraging a greater sense of corporate social responsibility and in establishing a framework to ensure that businesses integrate environmental and social considerations into their activities... Business should be encouraged to take a proactive approach to sustainable development in their operations both within the EU and elsewhere.'

This debate is also linked with the reflection of the Commission on the White Paper on governance in the European Union. As corporate social responsibility contributes significantly to a favourable climate towards entrepreneurship, it is also linked to the Commission's objective of creating an entrepreneurial, innovative and open Europe — 'Enterprise Europe'.

> Corporate social responsibility has important implications for all economic and social actors as well as for the public authorities, who should take them into account in determining their own actions. Several Member States have recognised its importance and have taken active steps to promote it. As they are all facing similar challenges, Member States could learn from each other's experience. Overall, the European Commission could promote corporate social responsibility through its programmes and activities. Furthermore, it is necessary to ensure that approaches to corporate social responsibility are coherent and compliant with Community policies and with international obligations. In Denmark, the Minister for Social Affairs launched the campaign 'Our common concern — the social responsibility of the corporate sector' in 1994 and set up the Copenhagen Centre in 1998.
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> In the United Kingdom, a Minister for corporate social responsibility was appointed in March 2000. An interdepartmental group has been established to improve coordination of activity to promote corporate social responsibility across the government.

At the international level, through policies such as trade and development cooperation, the European Union is directly involved in issues concerning market behaviour. A European approach to corporate social responsibility must thus reflect and be integrated in the broader context of various international initiatives, such as the UN Global Compact (2000), the International Labour

Organisation (ILO's) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1977/2000), the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises (2000). While these initiatives are not legally binding, in the case of the OECD guidelines they benefit from the commitment of adhering governments to promote their actual observance by business. The European Commission is committed to the active promotion of the OECD guidelines ([1]). Observance of the core ILO labour standards (freedom of association, abolition of forced labour, non-discrimination and elimination of child labour) is central to corporate social responsibility; their monitoring and compliance should be strengthened. ([2])

The main contribution of a European approach will be to complement and add value to existing activities by:

- providing an overall European framework, aiming at promoting quality and coherence of corporate social responsibility practices, through developing broad principles, approaches and tools, and promoting best practice and innovative ideas;
- supporting best practice approaches to cost-effective evaluation and independent verification of corporate social responsibility practices, thereby ensuring their effectiveness and credibility.

This Green Paper aims to launch a wide debate and seek views on corporate social responsibility at national, European and international level. The Commission hopes that the outcome of this initiative will be a new framework for the promotion of corporate social responsibility.

([1]) The OECD guidelines also encompass an implementation mechanism involving governments and social partners in national contact points. Furthermore, their content covers various areas of corporate social responsibility, namely child labour and forced labour, social relations, environmental protection, consumer protection, transparency and disclosure, fight against bribery, transfers of technology, competition and taxation.

([2]) The Commission will issue a communication regarding promoting of core labour standards and improving social governance in the context of globalisation.

2. WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

Most definitions of corporate social responsibility describe it 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.

Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment and the relations with stakeholders. The experience with investment in environmentally responsible technologies and business practice suggests that going beyond legal compliance can contribute to a company's competitiveness. Going beyond basic legal obligations in the social area, for example, training, working conditions, management-employee relations, can also have a direct impact on productivity. It opens a way of managing change and of reconciling social development with improved competitiveness.

Corporate social responsibility should nevertheless not be seen as a substitute to regulation or legislation concerning social rights or environmental standards, including the development of new appropriate legislation. In countries where such regulations do not exist, efforts should focus on putting the proper regulatory or legislative framework in place in order to define a level playing field on the basis of which socially responsible practices can be developed.

Whilst so far corporate social responsibility is mainly promoted by a number of large or multinational companies, it is relevant in all types of companies and in all sectors of activity, from SMEs to multinational enterprises (MNEs). Its wider application in SMEs including micro-businesses is of central importance, given that they are the greatest contributors to the economy and employment. Although many SMEs already take up their social responsibility, particularly through community involvement, further awareness-raising and support to disseminate good practice could help promote corporate social responsibility among them. Worker cooperatives and participation schemes, as well as other forms of cooperative, mutual and associative enterprises structurally integrate other stakeholder interests and take up spontaneous social and civil responsibilities.

A number of companies with good social and environmental records indicate that these activities can result in better performance and can generate more profits and growth. For many companies, this is a new activity and longer term evaluation remains to be done. The economic impact of corporate social responsibility can be broken down into direct and indirect effects. Positive direct results may, for example, derive from a better working environment, which leads to a more committed and productive workforce or from efficient use of natural resources. In addition, indirect effects result from the growing attention of consumers and investors, which will increase their opportunities on the markets. Inversely, there can sometimes be a negative impact on a company's reputation due to criticism of business practices. This can affect the core assets of a company, such as its brands and image.

Financial institutions are making increasing use of social and environmental checklists to evaluate the risks of loans to, and investments in companies. Similarly, being recognised as a socially responsible enterprise, for example, through listing in an ethical stock market index, can support the rating of a company and therefore entails concrete financial advantages.

> Stock market social indexes are useful benchmarks for demonstrating the positive impact of social screening on financial performance: the Domini 400 Social Index (DSI) has outperformed the S&P 500 by more than 1 % on an annualised total return basis and on a risk-adjusted basis since its inception in May 1990 while the Dow Jones Sustainable Index has grown by 180 % since 1993 compared to 125 % for the Dow Jones Global Index over the same period.
>
> Assessing precisely what determines financial return of a socially responsible company is difficult. Research (Industry Week, 15 January 2001) has shown that about one-half of the above-average performance of socially responsible companies can be attributed to their social responsibility while the other half is explained by the performance of their sector. Socially responsible companies are expected to deliver above-average financial returns, as a company's ability to deal successfully with environmental and social issues can be a credible measure of management quality.

There is a need for a better knowledge and further studies on the impact of corporate social responsibility on business performance. This could be a field for further research between companies, public authorities and academic institutions. These efforts could be supported by the framework programmes for research and technology development.

2.1. Corporate social responsibility: the internal dimension

Within the company, socially responsible practices primarily involve employees and relate to issues such as investing in human capital, health and safety, and managing change, while environmentally responsible practices relate mainly to the management of natural resources used in the production. They open a way of managing change and reconciling social development with improved competitiveness.

2.1.1. Human resources management

A major challenge for enterprises today is to attract and retain skilled workers. In this context, relevant measures could include lifelong learning, empowerment of employees, better information throughout the company, better balance between work, family, and leisure, greater work force diversity, equal pay and career prospects for women, profit-sharing and share ownership schemes, and concern for employability as well as job security. Active follow-up and management of employees who are off work due to disabilities or injuries have also been shown to result in cost-saving.

Responsible recruitment practices, involving in particular non-discriminatory practices, could facilitate the recruitment of people from ethnic minorities, older workers, women and the long-term unemployed and people at disadvantage. Such practices are essential in relation to achieving the European Employment Strategy objectives of reducing unemployment, raising the employment rate, and fighting against social exclusion.

In relation to lifelong learning, businesses have a key role to play at several levels: contributing to a better definition of training needs through close partnership with local actors who design education and training programmes; supporting the transition from school to work for young people, for example, by providing apprenticeship places; valuing learning, in particular in the accreditation of prior and experiential learning (APEL); and providing an environment which encourages lifelong learning by all employees, particularly by the less-educated, the less-skilled and older workers.

2.1.2. Health and safety at work

Health and safety at work has traditionally been approached mainly by means of legislation and enforcement measures. However, the trend of outsourcing work to contractors and suppliers makes companies more dependent on the safety and health performance of their contractors, especially those who are working within their own premises ([3]).

Companies, governments and sector organisations are increasingly looking at additional ways of promoting health and safety, by using them as a criteria in procuring products and services from other companies and as a marketing element for promoting their products or services. These voluntary schemes can be seen as complementary to legislation and control activities by public authorities as they likewise aim at promoting a preventive culture, that is, higher levels of occupational safety and health.

As the focus on occupational health and safety performance and qualities of products and services is increasing, there is also an increasing demand for measuring, documenting and communicating these qualities in the marketing material. Occupational safety and health criteria have been included to varying degrees into existing certification schemes and labelling schemes for products and equipment. Certification schemes of management systems and subcontractors focusing primarily on occupational safety and health have also been launched.

> The Swedish TCO Labelling Scheme for office equipment is a voluntary label that intends to stimulate the manufacturers to develop more occupational and environmentally safe office equipment; assist purchasers to choose office equipment less problematic for the users and the external environment; and to provide purchasers and the vendor with a clearly defined label, thereby saving time, work and costs in the purchasing process.

In addition, the tendency of companies and organisations to include occupational safety and health criteria into their procurement schemes has supported the development of generic procurement schemes based on uniform requirements for contractor occupational safety and health training or management systems, which allow for a third party to carry out the 'certification' or initial approval of the contractors as well as overseeing the continuous improvement of the scheme.

> The Dutch safety contractors checklist (SCC) aims at evaluating and certifying occupational safety and health management systems of contractor companies offering their services to the petrochemical and chemical industry.
>
> The Danish IKA procurement provides guidelines to define the requirements in tenders for cleaning agents.

([3]) For further details: European Agency for Safety and Health at Work (http://agency.osha.eu.int/publications/factsheets/facts11/)

2.1.3. Adaptation to change

The widespread restructuring taking place in Europe raises concerns for all of the employees and other stakeholders as the closure of a factory or a heavy cut in its workforce may involve a serious economic, social or political crisis in a community. Few companies escape the need to restructure, often through downsizing, with the year 2000 seeing more mergers and acquisitions than any other year in history. According to one study, fewer than one in four restructuring operations achieve their objectives of reducing costs, increasing productivity and improving quality and customer service as they often cause the motivation, loyalty, creativity and productivity of the employees to suffer.

Restructuring in a socially responsible manner means to balance and take into consideration the interests and concerns of all those who are affected by the changes and decisions. In practice, the process is often as important as the substance to the success of restructuring. In particular, this involves seeking the participation and involvement of those affected through open information and consultation. Furthermore, restructuring needs to be well prepared by identifying major risks, calculating all the costs, both direct and indirect, associated with alternative strategies and policies, and evaluating all of the alternatives which would reduce the need for redundancies.

Experience of the major restructuring operations carried out in Europe in the steel, coal and shipbuilding industries has shown that successful restructuring can be better achieved through joint efforts involving the public authorities, companies and employees' representatives. This process should seek to safeguard employees' rights and enable them to undergo vocational retraining where necessary, to modernise production tools and processes in order to develop on-site activities, to mobilise public and private financing and to establish procedures for information, dialogue, cooperation and partnership. Companies should take up their share of responsibility to ensure the employability of their staff.

By engaging in local development and active labour market strategies through involvement in local employment and/or social inclusion partnerships, companies can lessen the social and local impact of large scale restructuring.

> The Fundación Empresa y Sociedad (FES) within the framework of the Article 6 of ESF pilot on local social capital constitutes an interesting example of the involvement of private business in the promotion of social cohesion. It promotes the support to micro-projects, mostly micro-firms, in a run-down neighbourhood in Madrid. Apart from providing micro-grants, a system of tutoring is made available free by professionals from the private businesses. The FES has also mobilised additional support in the form of access to additional micro-credit funding and to private businesses' donations of IT equipment.

2.1.4. Management of environmental impacts and natural resources

In general, 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 sixth environment action programme. It explains how the European Union and Member State govern-

ments 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.

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 corporate social responsibility.

> 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.

Business is 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 World Business Council for Sustainable Development 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. (http://www.wbcsd.ch/eurint/eeei.htm)

2.2. Corporate social responsibility: the external dimension

Corporate social responsibility extends beyond the doors of the company into the local community and involves a wide range of stakeholders in addition to employees and shareholders: business partners and suppliers, customers, public authorities and NGOs representing local communities, as well as the environment. In a world of multinational investment and global supply chains, corporate social responsibility must also extend beyond the borders of Europe. Rapid globalisation has encouraged discussion of the role and development of global governance: the development of voluntary CSR practices can be seen as contributing to this.

2.2.1. Local communities

Corporate social responsibility is also about the integration of companies in their local setting, whether this be in Europe or worldwide. Companies contribute to their communities, especially to local communities, by providing jobs, wages and benefits, and tax revenues. On the other hand, companies depend on the health, stability, and prosperity of the communities in which they operate. For example, they recruit the majority of their employees from the local labour markets, and therefore have a direct interest in the local availability of the skills they need. Furthermore, SMEs often also find most of their clients in the surrounding area. The reputation of a company at its location, its image as an employer and producer, but also as an actor in the local scene, certainly influences its competitiveness.

Companies also interact with the local physical environment. Some rely on a clean environment for their production or offering of services — either clean air, clean water or uncongested roads. There can also be a relationship between the local physical environment and the ability of business to attract workers to the region they are located in. On the other hand, business can also be responsible for a number of polluting activities: noise, light, water pollution, air emissions, contamination of soil, and the environmental problems associated with transport and waste disposal. The most environmentally-aware companies are, therefore, often involved in two ways in environmental education of the community.

Many companies become involved in community causes, notably by means of provision of additional vocational training places, assisting environmental charities, recruitment of socially excluded people, provision of childcare facilities for employees, partnerships with communities, sponsoring of local sports and cultural events or donations to charitable activities.

The development of positive relations with the local community and thereby the accumulation of social capital is particularly relevant for non-local companies. Multinational companies increasingly use these relations to support the integration of their affiliates into various markets in which they are present. The familiarity of companies with the local actors, the local environment traditions and strengths is an asset from which they can capitalise.

> Financial institutions can play a particular role through community investing, which consists of direct investments in projects benefiting specific communities or constituencies, especially in economically disadvantaged areas. These investments usually take the form of loans for low-cost housing ventures or deposits in community development banks either at or below market rates.
>
> Similarly recognising that access to affordable prices for everyone to services of general economic interest is at the heart of the European model of society, some companies endeavour to ensure such access as part of their social responsibility where it is not guaranteed by legislation, for example, regarding basic banking services. Furthermore, ETUC (European Trade Union Confederation) and CEEP (European Centre of Enterprises with public participation and of enterprises of general economic interest) made a joint proposal for a Charter for Services of General Interest in June 2000.

2.2.2. Business partners, suppliers and consumers

By working closely with business partners, companies can reduce complexity and costs and increase quality. Selection of suppliers is not always exclusively through competitive bidding. Relationships with alliance and joint venture partners and with franchisees are equally important. In the long run, building relationships may result in fair prices, terms and expectations along with quality and reliable delivery. In adopting socially and environmentally responsible practices, all companies, however, have to respect the relevant rules of EU and national competition laws.

Large companies are at the same time business partners of the smaller ones, be it as their customers, suppliers, subcontractors or competitors. Companies should be aware that their social performance can be affected as a result of the practices of their partners and suppliers throughout the whole supply chain. The effect of corporate social responsibility activities will not remain limited to the company itself, but will also touch upon their economic partners. This is particularly the case for large companies, which have outsourced part of their production or services and, therefore, may have acquired additional corporate social responsibility with regard to these suppliers and their staff, bearing in mind that sometimes economic welfare of these suppliers depend primarily or entirely on one large company.

Some large companies demonstrate corporate social responsibility by promoting entrepreneurial initiatives in the region of their location. Examples for such practices include mentoring schemes offered by large companies to start-ups and local SMEs, or assistance to smaller firms on social reporting and communication of their corporate social responsibility activities.

Corporate venturing constitutes a further way for large companies to facilitate the development of new innovative enterprises. Corporate venturing means that the large enterprise takes a minority stake in a promising start-up and promotes its development. This offers various advantages to both partners, including a better grip on innovative developments for the large company and easier access to financial resources and to the market for the small company.

As part of their social responsibility, companies are expected to provide products and services which consumers need and want, in an efficient, ethical and environmentally-aware manner. Companies, which build lasting relationships with customers by focusing their whole organisation on understanding what the customers need and want and providing them with superior quality, safety, reliability and service are expected to be more profitable. Applying the principle of design for all (making products and services usable by as many people as possible including disabled consumers) is an important example of corporate social responsibility.

2.2.3. Human rights

Corporate social responsibility has a strong human rights dimension, particularly in relation to international operations and global supply chains. This is recognised in international instruments such as the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and the OECD Guidelines for Multinational Enterprises. Human rights are a very complex issue presenting political, legal and moral dilemmas. Companies face challenging questions, including how to identify where their areas of responsibility lie as distinct from those of governments, how to monitor whether their business partners are complying with their core values, and how to approach and operate in countries where human rights violations are widespread. The European Union itself has an obligation in the framework of its cooperation policy to ensure the respect of labour standards, environmental protection and human rights and is confronted with the challenge of ensuring a full coherence between its development policy, its trade policy and its strategy for the development of the private sector in the developing countries notably through the promotion of European investments.

A key innovation of the Cotonou Agreement is the recognition of the fight against corruption as a 'fundamental element' and an explicit reference to corruption as a major development problem to be addressed. Serious cases of corruption 'including of bribery leading to such corruption' could constitute grounds for suspension of cooperation. This inclusion of a corruption clause in the Agreement aims not only to give an unequivocal sign to aid recipients, but also to promote more transparent activities by European investors and other actors. The EU and the African, Caribbean and Pacific States party to the Lomé Convention (ACP) have agreed on a specific procedure to deal with such cases of corruption (Art 9).

Under increasing pressure from NGOs and consumer groups, companies and sectors are increasingly adopting codes of conduct covering working conditions, human rights and environmental aspects, in particular those of their subcontractors and suppliers. They do so for various reasons, notably to improve their corporate image and reduce the risk of negative consumer reaction. Codes of conduct, however, are not an alternative to national, European

Union and international laws and binding rules: binding rules ensure minimum standards applicable to all, while codes of conduct and other voluntary initiatives can only complement these and promote higher standards for those who subscribe to them.

> The Confederation of Danish Industries has launched a set of guidelines for industry on human rights, inviting companies to pursue the same level of social responsibility in their new host country as in their home country.
>
> An increasing number of multinationals have explicitly committed themselves to human rights in their codes of conduct while a growing number of retailers in Europe apply ethical standards of production to the goods they import. In 1998, Eurocommerce adopted a recommendation on social buying conditions covering child, forced and prison labour.
>
> There are also several examples of codes of conduct signed by the social partners at European level, particularly in the textile, clothing and commerce sectors, which the Commission welcomes.

It is also increasingly recognised that the impact of a company's activities on the human rights of its workers and local communities extends beyond issues of labour rights. This is the case, for example, in insecure situations where companies work with state security forces with a record of human rights abuses.

> The United Kingdom Government, in cooperation with the United States, convened a working group of leading corporations in the oil, gas and mining industries, together with human rights NGOs. The result was the December 2000 adoption of voluntary principles on security and human rights for companies in the extractive and energy sectors.

While voluntary codes of conduct can contribute to promote international labour standards, their effectiveness, however, depends on proper implementation and verification. Codes of conduct may for instance face subcontractors producing for a number of different multinational companies with the need to fulfil many different criteria regarding wages, working hours and other social conditions. Codes of conduct should therefore be based on the ILO fundamental Conventions, as identified in the 1998 ILO Declaration on Fundamental Principles and Rights at Work and the OECD guidelines for multinational enterprises, involving the social partners and those in developing countries covered by them.

Codes of conduct should be applied at every level of the organisation and production line. Full disclosure of information by companies is important, including to local communities, as part of an ongoing dialogue with them. Training for local management, workers and communities on implementation is equally important. Furthermore, the emphasis must be on a 'developmental approach' — one which stresses continuing gradual improvements to standards, and to the code itself. In the case of child labour, companies should not just respect the letter of the ILO conventions by dismissing contractors who use child labour, but should also, for example, help to tackle child poverty by assisting children into education.

With respect to human rights, there is a need for ongoing verification where the implementation and compliance with codes is concerned. The verification should be developed and performed following carefully defined standards and rules that should apply to the organisations and individuals undertaking the so-called 'social auditing'. Monitoring, which should involve stakeholders such as public authorities, trade unions and NGOs, is important to secure the credibility of codes of conduct. A balance between internal and external verification schemes could improve their cost-effectiveness, in particular for SMEs. As a result, there is a need to ensure greater transparency and improved reporting mechanisms in codes of conduct.

On 15 January 1999, the European Parliament adopted a Resolution on 'EU standards for European enterprises operating in developing countries: towards a European code of conduct' calling for a European code of conduct which would contribute to a greater standardisation of voluntary codes of conduct based on international standards and the establishment of a European monitoring platform, including provisions on complaint procedures and remedial action.

2.2.4. Global environmental concerns

Through the transboundary effect of many business-related environmental problems, and their consumption of resources from across the world, companies are also actors in the global environment. They can therefore pursue social responsibility internationally as well as in Europe. For example, they can encourage better environmental performance throughout their supply chain within the IPP approach and make larger use of European and international management and product-related tools. Investment and activities of the companies on the ground in third countries can have a direct impact on social and economic development in these countries.

The debate on the role of business in achieving sustainable development is gaining importance on the global stage. The UN Secretary General has launched a 'Global Compact' initiative which seeks to make business a partner in achieving social and environmental improvements globally. The OECD guidelines for multinational enterprises also promote sustainable development. The Commission communication 'Ten years after Rio — Preparing for the World Summit on Sustainable Development' (COM(2001) 53) contains further details on how business can contribute to global sustainable development.

3. A HOLISTIC APPROACH TOWARDS CORPORATE SOCIAL RESPONSIBILITY

While companies increasingly recognise their social responsibility, many of them have yet to adopt management practices that reflect it. Where they have to integrate it in their day-to-day management involving their whole supply chain, companies' employees and managers need training and retraining in order to acquire the necessary skills and competence. Pioneering companies can help to mainstream socially responsible practice by disseminating best practice.

While corporate social responsibility can only be taken on by the companies themselves, stakeholders, particularly employees, consumers and investors, can play a decisive role — in their own interest or on behalf of other stakeholders in areas such as working conditions, the environment or human rights — in prompting companies to adopt socially responsible practices. They require effective transparency about companies' social and environmental performance.

3.1. Social responsibility integrated management

Companies' approaches in dealing with their responsibilities and relationships with their stakeholders vary according to sectoral and cultural differences. At the start companies tend to adopt a mission statement, code of conduct, or credo where they state their purpose, core values, and responsibilities towards their stakeholders. These values then need to be translated into action across the organisation, from strategies to day-to-day decisions. This involves practices such as adding a socially or environmental dimension in plans and budgets and evaluating corporate performance in these areas, creating 'community advisory committees', carrying out social or environmental audits and setting up continuing education programmes.

As issues of corporate social responsibility become an integral part of corporate strategic planning and routine operational performance, managers and employees are required to make business decisions based on additional criteria to those they were traditionally trained to expect. Traditional models of organisation behaviour, strategic management and even business ethics do not always give sufficient preparation for managing companies in this new environment.

In response to the need to integrate corporate social responsibility into the training of existing managers and employees and to anticipate the skills that will be required of the managers and employees of the future, courses or modules in business ethics become quite a common element of business degrees. They tend, however, to cover only a limited part of what is meant by corporate social responsibility.

> CSR Europe and the Copenhagen Centre have launched a programme with the aim to bring the business and academic community together to identify and address the training needs of the business sector on corporate social responsibility so as to introduce and diversify courses on corporate social responsibility at all levels of study. (http://www.csreurope.org/csr_europe/Activities/programmes/Universities/universities.htm)

3.2. Social responsibility reporting and auditing

Many multinational companies are now issuing social responsibility reports. While environmental, health, and safety reports are common, reports tackling issues such as human rights and child labour are not. Moreover, companies' approaches to social reporting are as varied as their approaches to corporate social responsibility. In order for these reports to be useful, a global consensus needs to evolve on the type of information to be disclosed, the reporting format to be used, and the reliability of the evaluation and audit procedure.

Few of them provide much detail on their policies and performance on human resource management and on employment issues such as bargaining and recognition, staff consultation and training and board accountability. In 1998, the high level group on economic and social implications of industrial change set up at the invitation of the European Council, invited thus companies of more than 1000 employees to publish voluntarily a 'Managing change report', that is, an annual report on employment and working conditions. The group indicated that the report should be developed in consultation with employees and their representatives in accordance with national traditions. The group suggested a framework, which would deal with policies, practices and performance regarding employment and working conditions, particularly anticipation of structural change, communication, employee involvement and social dialogue, education and training, employee health and safety and equal opportunities.

Furthermore, as suggested by the high level group on change, the Commission proposed in its social policy agenda, the establishment of a monitoring centre on change as a means to develop a proactive approach to anticipating and managing change. The Dublin Foundation has now included this initiative in its four-year rolling programme, stressing its role in understanding and anticipating change so as to make better decisions, as well as assisting key actors in their understanding, anticipation and management of industrial change through the provision of reliable and objective information.

Increasingly, public initiatives are supporting the development of social and environmental reporting.

> The Commission's recommendation on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies, adopted on 30 May 2001, is expected to contribute significantly to the development of meaningful and comparable information with regard to environmental issues in the EU. (http://europa.eu.int/comm/internal_market/en/company/account/news/01-814.htm).
>
> In the context of trade negotiations, the Commission has launched a sustainability impact assessment of the proposed new round WTO negotiations, and committed itself to undertaking SIAs of other trade negotiations such as the ongoing EU-Chile/Mercosur negotiations.
>
> The Danish social index is a self-assessment tool developed by the Ministry of Social Affairs for measuring the degree to which a company lives up to its social responsibilities. Where the social index is shown as a number between 0 and 100 it makes it easy to communicate to the employees and external stakeholders just how socially responsible the company is.
>
> Article 64 of the French law concerning the new economic regulations requires companies to take into account the 'social and environmental consequences' of their activity in their annual report. This text will apply to listed companies on the first market for their 2001 report and to the other companies for their 2002 report. The contents of the reports will be defined in the application decree.

In addition, a variety of organisations are developing standards for social accounting, reporting and auditing. These standards pursue varied approaches from process to performance standards, from voluntary to mandatory standards, from single issue to multiple issues standards, and only a handful cover the full spectrum of corporate social responsibility issues.

Major international initiatives are focusing on the globalisation of social standards, public disclosure of information and the development of social reports, that is, the Social Accountability 8000 standard and the Global Reporting Initiative. The complexity of creating global standards applicable to any culture and country has, however, created a lot of controversy. Internationally agreed standards, such as the ILO fundamental conventions, as identified in the 1998 Declaration, constitute by their universal nature the most appropriate basis for such initiatives.

> In response to the diversity of codes of conduct, Social Accountability International (SAI) has developed a standard for labour conditions and a system for independently verifying factories' compliance. The standard, Social Accountability 8000 (SA8000) (http://www.cepaa.org/introduction.htm), and its verification system draw from established business strategies for ensuring quality (such as those used for ISO 9000) and add several elements that international human rights experts have identified as being essential to social auditing.
>
> On the environmental side, the global reporting initiative is currently seen as best practice. Its sustainability reporting guidelines are allowing for inter-company comparability. The global reporting initiative sustainability reporting guidelines also includes ambitious guidelines on social reporting. The Commission's communication on a sustainable development strategy stated that 'All publicly-quoted companies with at least 500 staff are invited to publish a "triple bottom line" in their annual reports to shareholders that measures their performance against economic, environmental and social criteria'.

Furthermore, there is a need to provide companies, and in particular SMEs, with guidance and tools that enable them to report on their corporate social responsibility policies, processes and performance in an effective manner. By sharing their expertise and offering capacity building skills, large pioneering companies can support SMEs in this area.

Verification by independent third parties of the information published in social responsibility reports is also needed to avoid criticism that the reports are public relations schemes without substance. Indeed such services are already beginning to be offered by a variety of companies, which would need to perform them following agreed standards. The involvement of stakeholders, including trade-unions and NGOs, could improve the quality of verification.

3.3. Quality in work

Employees are major stakeholders of companies. In addition, implementing corporate social responsibility needs commitment from the top management, but also innovative thinking and, thus, new skills and closer involvement of the employees and their representatives in a two-way dialogue that can structure permanent feed-back and adjustment. Social dialogue with workers' representatives, which is the main mechanism of definition of the relationship between a company and its workers, therefore plays a crucial part in the wider adoption of socially responsible practices.

Furthermore, as the issues related to corporate social responsibility are wide-ranging and affect practically all company activities, workers' representatives

need to be consulted extensively on policies, plans and measures, as proposed in the Commission's draft Directive establishing a general framework for informing and consulting employees in the European Community (COM(98) 612). In addition, social dialogue needs to be widened to cover issues and instruments for improving companies' social and environmental performance, for example, through awareness-raising among management and workers, training schemes, schemes aimed at guiding companies on their social and environmental performance, and strategic management systems integrating economic, social and environmental considerations.

Some companies are also recognising the link between environmental performance and better quality jobs. Increased environmental performance can come about through the adoption of clean technology. Clean technology is itself usually associated with more high-tech and rewarding jobs for employees. Thus, the adoption of clean technology can improve environmental performance and job satisfaction simultaneously, whilst increasing profitability.

At a time when skill shortages are becoming a problem in some sectors and when more candidates are asking about companies' employment policies, various instruments can help improve information and transparency about best practice in the area of human resources management. Some countries already contribute to promoting companies that are good workplaces by publishing lists of best employers.

> The '50 best companies to work for in the UK' survey, which is sponsored by both the Department of Trade and Industry (DTI) and Learndirect a unit of the University for Industry (UFI) shows that small family-run enterprises can be as socially responsible as hi-tech multinational companies.
>
> Possible initiative at EU level: the annual publication of a list of best European employers could be an effective instrument to reward companies, which through the attitudes and actions of the management, are seeking to become good workplaces.

At the invitation of the European Council in Lisbon, which stressed the importance of investing in people, the Commission is exploring ways to introduce a European award for particularly progressive companies, in order to give higher priority to lifelong learning as a basic component of the European social model. Similar prizes will recognise companies, which have developed good practice to promote gender equality or provide opportunities for people with disabilities.

3.4. Social and eco-labels

Surveys ([4]) 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. For a majority of European consumers a company's commitment to social responsibility is important when buying a product or service. This creates interesting market opportunities, as a significant number of consumers say they would be very willing to pay more for such products, although at present only a minority actually do so. The issues European consumers care about the most are protecting the health and safety of workers and respecting human rights throughout company operations and the chain of suppliers (for example, not using child labour), safeguarding the environment in general, and the reduction in emissions of greenhouse gases in particular.

([4]) *Source:* MORI (2000).

80. As a response to this trend, a growing number of social labels have originated from either individual manufacturers (self-declared labels or brands) or industrial sectors, NGOs and governments. These are a market-based (rather than regulatory) incentive, which can help to deliver positive social change among enterprises, retailers and consumers. Social and eco-labelling initiatives are, however, limited in scope and potential impact, as they are generally restricted to particular niches within the retail market and, with regard to social labels, usually limited to imported products and only accessible to affluent consumers. Consequently, their market share is growing, but remains relatively low, indicating a need to improve their effectiveness.

Social and eco-labels, implying a guarantee that the item was produced free of exploitation and abuse, tend to lack transparency and independent verification of their claims. Unlike product content or safety labels, such claims cannot be verified by testing the product itself. In order to be credible social and eco-labels would require permanent verification of the workplace performed following agreed standards.

> The European eco-label deals with the environmental performance of particular products. The number of companies with eco-labelled products is increasing rapidly. (http://europa.eu.int/comm/environment/ecolabel/)

In addition, the growing number of social labels schemes in Europe may be detrimental to their effectiveness as confusion may arise among consumers, from the conflicting diversity of criteria used and lack of clarity of meaning among various labels.

> Fair trade Labelling Organisations International is an umbrella organisation set up to coordinate national fair trade initiatives, run the monitoring programmes more efficiently, and introduce a single international fair trade label.

There is also increasingly a need for a debate regarding the value and desirability — in the context of the internal market and international obligations — of public actions aimed at making social and eco-labels more effective. Examples of such actions include support for education and awareness-raising around labour conditions issues, promotion of best practice through sponsorship of company awards, facilitation of the development of multi-stakeholder partnerships, development of standards in social labelling, and use of public procurement and fiscal incentives in promoting labelled products.

3.5. Socially responsible investment

In recent years, socially responsible investing (SRI) has experienced a strong surge in popularity among mainstream investors. Socially and environmentally responsible policies provide investors with a good indication of sound internal and external management. They contribute to minimising risks by anticipating and preventing crises that can affect reputation and cause dramatic drops in share prices. As the demand for SRI funds in Europe increases rapidly, mainstream investment houses are responding by bringing out more of them, but there is little information published on their number, size, and performance except in the United Kingdom where socially responsible investing accounts for 5 % of all funds invested.

SRI funds invest in companies complying with specific social and environmental criteria. Criteria can be negative, thus excluding tobacco, alcohol and armament industries. Criteria can also be positive, including socially and environmentally proactive companies. Another important option for investors is to engage in shareholder activism to induce company management to adopt

socially responsible practices. Shareholder activism is expected to increase together with the importance of corporate governance issues and the development of pension funds.

For SRI to grow further however, financial markets need to improve their awareness of its potential returns. Following the Social Investment Forum established in 1991 in the United Kingdom, social investment forums (SIF) have recently been set up in Germany, France, Italy and the Netherlands to provide information on corporate social responsibility policies and to promote and encourage the development of SRI. The planned European Social Investing Forum, a network of national SIF, is expected to support the further development of SRI.

> In May 2000, the European Commission organised the First European Conference on Triple Bottom Line Investing in Europe in Lisbon. (http://europa.eu.int/comm/employment_social/socdial/csr/csr_conf_lisbon.htm)
>
> In 2000 the UK Social Investment Task force was setup to identify obstacles to the expansion of socially responsible investing and identify solutions to eliminate them.
>
> Since July 2000, the UK 'Trustee Act' requires all pension fund trustees to disclose their policies on socially responsible investing.
>
> The French law on Employee Saving Plans requires mutual funds, which collect money from the Employee Saving Plans, the Inter-companies Saving Plans and the Voluntary Partnership Employee Saving Plans, to report on their policies on socially responsible investing.

SRI is an emerging market with many specialised screening agencies (non-financial analysts) using a number of different tools and metrics. As a consequence companies seem overloaded with excessive and divergent information requests. Thus a further expansion of SRI may encounter a growing aversion and non-cooperation from companies. A positive response to this can be found in preliminary standardisation efforts in social reporting, which are joined by major screening agencies. There is, however, a need for more convergence between indicators developed by companies and the criteria used by analysts to assess a company's social and environmental performance. Furthermore, the lack of transparency in evaluation methods used by screening agencies may also restrain large investors from making significant socially responsible investments. There is, therefore, a need for further standardisation, harmonisation and transparency in screening tools and metrics used by screening agencies.

> In August 2000, 11 investment research groups combined their competencies in the SIRI group to publish harmonised company profiles in comparable formats.
>
> In September 2000 the 'Global Partners for Corporate Responsibility Research' coalition announced 'Ten requirements for higher standards of disclosure in the 21st century', advocating a mix of voluntary, regulatory and market approaches in order to improve significantly the access to data on companies, as well as information integrity and completeness thereby allowing proper auditing and benchmarking.

The European Council in Stockholm recognised the need to create a dynamic and efficient European securities market by the end of 2003. In this context, European market indices identifying companies with the strongest social and environmental performance will become increasingly necessary as a basis for launching SRI funds and as a performance benchmark for SRI. To ensure the quality and objectivity of these indices, the assessment of the social and environmental performance of companies listed in them should be done on the

basis of the information submitted by the management but also by the stakeholders. Furthermore, external audit and internal quality assurance procedures should be used to monitor and maintain the accuracy of the input data, assessment procedures and results.

4. THE CONSULTATION PROCESS

The Green Paper invites public authorities at all levels, including international organisations, enterprises from SMEs to multinational enterprises (MNEs), social partners, NGOs, other stakeholders and all interested individuals to express their views on how to build a partnership for the development of a new framework for the promotion of corporate social responsibility, taking account of the interests of both business and stakeholders. Enterprises need to work together with public authorities to find innovative ways of developing corporate social responsibility. Such a partnership could make a significant contribution to achieving the objective of promoting a model of corporate social responsibility based on European values.

The word 'framework' should be given a broad interpretation. Proposals should build on the voluntary nature of corporate social responsibility and identify ways in which it can contribute to achieving sustainable development and a more effective way of governance. The level and content of such a framework should be clarified through discussions during the consultation period of the Green Paper.

The European institutions — the Parliament, the Council of Ministers, the Commission — as well as the Economic and Social Committee and the Committee of Regions can stimulate the debate, give political support and organise an exchange of information and knowledge about corporate social responsibility.

As stated in the introduction, the main aim of this Green Paper is to raise awareness and stimulate debate on new ways of promoting corporate social responsibility. At this stage the Commission does not wish to prejudge the outcome of that debate by making concrete proposals for action. The Green Paper is being given a wide circulation and it is hoped that it will be discussed at local and national level, as well as at European level.

Written comments should be sent by 31 December 2001 to

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The main questions are:

THE ROLE FOR THE EU

What could the European Union do to promote the development of corporate social responsibility at European and international level? In particular, should the EU add value and complement existing socially responsible activities by:

- Developing an overall European framework, in partnership with the main corporate social responsibility actors, aiming at promoting transparency, coherence and best practice in corporate social responsibility practices?
- Promoting consensus on, and supporting, best practice approaches to evaluation and verification of corporate social responsibility practices?
- and/or by which other means?

COMPANIES AND CSR

- What is the role of corporate social responsibility in corporate business strategies?
- What are the driving forces for companies to assume their social responsibility? What are the expectations behind such engagements? On which areas do these engagements focus? What is the benefit for companies?
- What are the most important best practice ways to implement and manage corporate social responsibility? What best practice exists for SMEs?
- How best can we take forward the invitation to business in the Commission's proposal for a sustainable development strategy to publish a 'triple bottom line' in their annual reports to shareholders that measures their performance against economic, environmental and social criteria?
- What are the best ways to build links between the social and environmental dimensions of corporate social responsibility?
- What are the best means to promote further knowledge about the business case for corporate social responsibility and its value-added?

MAIN ACTORS AND STAKEHOLDERS

- What are the best ways to establish and develop a process of structured dialogue between companies and their various stakeholders on corporate social responsibility?
- What should be the respective roles of the main actors, that is, companies, social partners, public authorities, NGOs in promoting corporate social responsibility?
- How can the European Union promote greater application of corporate social responsibility principles through its policies both in a European context and internationally, including its political dialogue and partnership agreements, as well as its programmes, and its presence in international forums?

EVALUATION AND EFFECTIVENESS

- What are the best means to develop, evaluate and ensure the effectiveness and reliability of corporate social responsibility instruments such as codes of conduct, social reporting and auditing, social and eco-labels, socially responsible investing?

ACTIONS TO SUPPORT CSR

- What actions are most appropriate to promote and support the development of corporate social responsibility? What levels (the firm, local, regional, sectoral, national, European and international) are most appropriate to implement such actions?

Such actions could include:

- support for training and retraining, to ensure managers have the skills and competences necessary to develop and promote corporate social responsibility;
- dissemination and exchange of information, in particular in relation to good corporate social responsibility practice, standard setting, benchmarking and monitoring, accounting, auditing and reporting;
- medium-term social policy analysis and research;
- analysis of the role of the legal framework.

ANNEX

Concepts

- **Cause-based or community investing:** Supporting a particular cause or activity by financing it through investment. Unlike making a donation, cause-based investors require that the original investment can be returned by either repayment (for loans) or trading (for shares).
- **Code of conduct:** a formal statement of the values and business practices of a company and sometimes its suppliers. A code is a statement of minimum standards together with a pledge by the company to observe them and to require its contractors, subcontractors, suppliers and licensees to observe them. It may be a sophisticated document, which requires compliance with articulated standards and have a complicated enforcement mechanism.
- **Corporate citizenship:** the management of the totality of relationships between a company and its host communities, locally, nationally and globally.
- **Corporate governance:** a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. (OECD Code — 1999).
- **Eco-efficiency:** the concept that improving the way in which it uses resources can reduce environmental damage and reduce costs.
- **Eco-audit:** the application of non-financial, environmental criteria to investment decision.
- **Environmental impact assessment:** analysis of the impact of a business project or operation on the environment.
- **Ethical audit:** The application of non-financial, ethical criteria to investment decision.
- **Ethical screening:** inclusion or exclusion of stocks and shares in investment portfolios on ethical, social or environmental grounds.
- **Ethical trade:** Aims to ensure that conditions within mainstream production chains meet basic minimum standards and to eradicate the most exploitative forms of labour such as child and forced labour and 'sweatshops'. Labelling criteria are generally based on core ILO conventions.
- **Fair trade:** Defines itself as an alternative approach to conventional international trade. It is a trading partnership that promotes a sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, awareness-raising and campaigning. The criteria for fair trade marked products differ between products but cover issues such as guaranteed prices, prepayment and direct payment to growers or their cooperatives.
- **Human rights:** Human rights are based on the recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family as the foundation of freedom, justice and peace in the world. They are defined in the Universal Declaration of Human Rights (1948). At the European level, Article 6 of the Treaty on European Union

reaffirms that the European Union 'is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law, principles which are common to the Member States'. In addition the European Convention of Human Rights adopted by the Council of Europe is legally binding in all Member States. Moreover, the European Charter of Fundamental Rights adopted in Nice in December 2000 is the instrument inspiring respect for fundamental rights by the European institutions and the Member States where they act under Union law.

- **Monitoring:** the process of regularly collecting information to check performance against certain criteria.
- **Responsible entrepreneurship:** a concept put forward by the United Nations which recognises the business role for the accomplishment of sustainable development and that companies can manage their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility.
- **Shareholder influence:** seeking to improve a company's ethical, social and/or environmental behaviour as a shareholder by means of dialogue, pressure, support for responsible management and voting at Annual General Meetings.
- **Social audit:** the systematic evaluation of an organisation's social impact in relation to standards and expectations.
- **Social capital:** the stock of shared meaning and trust in a given community. Social capital is a prerequisite for cooperation and organised human behaviour, including business. Social capital can be transformed, consumed or replenished, just as financial capital.
- **Social impact assessment:** systematic analysis of the impact of a business project or operation on the social and cultural situation of affected communities.
- **Social label:** words and symbols on products which seek to influence the purchasing decisions of consumers by providing an assurance about the social and ethical impact of a business process on other stakeholders.
- **Social report:** a document communicating the findings of a social impact assessment.
- **Stakeholder:** an individual, community or organisation that affects, or is affected by, the operations of a company. Stakeholders may be internal (for example, employees) or external (for example, customers, suppliers, shareholders, financiers, the local community).
- **Standard:** a widely agreed set of procedures, practices and specifications.
- **Triple bottom line:** the idea that the overall performance of a company should be measured based on its combined contribution to economic prosperity, environmental quality and social capital.
- **Verification:** certification by an external auditor, of the validity, meaningfulness and completeness of an organisation's records, reports or statements.

European Commission

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