

Advisory Report on Corporate Social Responsibility:

Summary of conclusions

Corporate social responsibility has many facets

Corporate social responsibility is a catch-all term. It takes many different forms in a wide range of areas of public life. This great variety not only makes it difficult to give a precise definition, but also shows that there is no straightforward answer to the question of what should be expected from 'corporate social responsibility' and what is the most appropriate division of roles and responsibilities for the various activities of companies and for the various policy areas of governments. Likewise, the descriptions, analyses and recommendations in this advisory report could only cover a portion of the multiplicity of social issues and actual and potential initiatives of companies.

The SER decided to adopt a general approach to the concept of corporate social responsibility and to highlight certain potential applications in a number of policy areas. The idea behind this was to reflect as closely as possible the forces – such as reputation – which drive individual companies in further developing their corporate social responsibility.

The field of corporate social responsibility is evolving rapidly. Many enterprises and their organisations are developing initiatives for putting corporate social responsibility into practice. In June 2000 the OECD updated the Guidelines for Multinational Enterprises. The SER warmly welcomes these developments and wants to support them with its recommendations – especially by encouraging and challenging companies to go further in meeting their own social responsibility.

Features of corporate social responsibility

To this end, this report first seeks to describe corporate social responsibility as fully as possible and place it in a contemporary context. It perceives the company as a profit-driven organisation and as a long-term form of co-operation between stakeholders. Companies differ from other organisations in their drive for profit. But the social and economic value of companies should not be equated with the financial returns to owners/capital providers. Companies create value by producing goods and providing services which contribute to society's prosperity by satisfying people's needs. The employment that is created in the process is an important instrument for earning income and for the social and personal development of individuals.

Consequently, the SER feels that corporate social responsibility also encompasses the core business of any company. This is not to say that all manifestations of corporate social responsibility should by definition be considered part of the core business of the company, but that concern for the social effects of the company's performance is part of it. In other words, the SER's view is that the 'social' activities of a firm are an inseparable element of corporate policy, so that the distinction between core business and non-core business is irrelevant.

The SER feels there are two key elements that dictate whether one can rightly refer to *socially responsible business* in this day and age:

- consciously targeting business activities at value creation in three dimensions – Profit, People, Planet – and hence at contributing to society's prosperity in the longer term;
- maintaining a relationship with the various stakeholders which is based on transparency and dialogue and which responds to legitimate demands from society.

These, mutually related, characteristics are further defined as follows.

Value creation

Companies create value by producing goods and providing services which satisfy human needs and form a source of income. This makes companies important pillars of social development.

At the same time, the production and consumption of goods and services can also damage or even destroy value (for instance by damaging the natural environment). For the purpose of a broad concept of social welfare, this 'damage' is deducted in determining the overall creation of social value. Moreover, the aspiration of sustainable development means that future generations must also be given sufficient opportunity to achieve prosperity.

Accordingly, corporate social responsibility is defined above as the conscious targeting of the company's activities at long-term creation of value in three dimensions: *Profit* (the economic return), *People* (the consequences for people, inside and outside the company), *Planet* (the effect on the natural environment). The triple P bottom line focuses attention on the need for cohesion and balance between the three dimensions of corporate social responsibility. It calls for a form of corporate citizenship from companies, whereby they consider the external and long-term effects of all processes in

the enterprise and then – individually, or at sector, local or regional level – limit the negative externalities of their own actions as far as possible and facilitate and reinforce the (potential) positive externalities.

Profit, People, Planet

Profit refers to the creation of value through the production of goods and services and the creation of employment and sources of income. Profit is an expression of public valuation of the company's products and of the effectiveness with which the factors of production are employed. The focus on profit (in the long term) has to provide the financial basis for the continuation of the company. Thus, profit forms the basis and is a precondition for the proper realisation of the other two dimensions of corporate social responsibility.

The concern for People is both internal (the company's own staff) and external (the community outside). The social dimension of corporate social responsibility starts with good labour relations and a stimulating social policy which, apart from allowing employees the scope to demonstrate personal responsibility and to combine work and care responsibilities, also promotes employability and draws ethnic minorities into the labour process. The social dimension encompasses not only the working conditions inside the company gates but also the quality of life outside, including respect for human rights and labour standards in other countries.

One can speak of socially responsible business if the social dimension is an integral aspect of business operations and accordingly leads to an active or pro-active approach from the company. Transparency in corporate action is another aspect of this.

Planet refers to concern for the natural environment as part of normal business operations. That too calls for an active or proactive approach by companies to environmental issues. Strategic corporate environmental management encompasses integrated chain management (or, in a slightly wider context, eco-efficiency: selling goods and services that meet human needs and contribute to the quality of life while at the same time using fewer raw materials and reducing the pressure on the ecological system). Important factors for successfully introducing improvements in eco-efficiency by companies are external pressure, their room to manoeuvre in making changes and the possibility of securing a competitive advantage. The SER feels that the actions of

enterprises must be transparent so that the stakeholders can see how a company is trying to minimise its environmental impact.

Dealing with different stakeholders

The SER sees the company as a co-operation of different *stakeholders*. One of the conditions for the proper functioning of such a partnership model is the ability to maintain a certain balance in the degree of control and influence exercised by the various stakeholders in the company. An imbalance in these relations can lead to poorer performance, and in the longer term damage the credibility and reputation of the company.

From this perspective, the role of the entrepreneur is that of a juggler constantly balancing what may at times be conflicting interests, subject to the requirement of profitability and within the constraints of existing laws, rules, covenants, codes and contracts. At the same time, the company has to deal with individuals (employees, consumers, the public) as well as with the organisations (trade unions, NGOs, government bodies) that represent them.

Employees and shareholders together represent the primary stakeholders in the company. There are structures for the dialogue with these stakeholders, some of which result in formal agreements. It is crucial to the company's operations that it is able to create an effective bond with these stakeholders as well as with customers, suppliers and creditors.

The other stakeholders include government bodies, non-governmental organisations (NGOs) and local residents. It is in the company's interest to invest in good relations with these stakeholders by consciously taking its environment into account.

In the current social climate, companies are expected to respond to legitimate demands from the community, to be open and to be prepared to engage in a dialogue with the various stakeholders. The media play an important role in this. This second feature of corporate social responsibility is emphasised by the adjective 'responsible'.

The evolution of corporate social responsibility

Corporate social responsibility is not new – although specific manifestations of it can come and go. The history of industrialisation in the Netherlands throws up a number of examples of corporate social responsibility, such as the creation of social funds and the provision of housing and education by companies for their own employees and their

families. There were various motives for this: fear of labour unrest and radicalism; the desire to keep out the unions; the entrepreneurs' sense of duty (dictated by political or religious convictions) and/or commercial considerations (such as attracting better workers from elsewhere). With the arrival of public social security, the focus of corporate social responsibility shifted in part to social problems beyond the factory gates, leading in time to the emergence of concern for the natural environment.

Emancipation and the public arena

Over time the subject matter and manifestations of corporate social responsibility have changed fairly regularly. The position of companies in society also changed. Like civil organisations, in the last few decades companies have clearly become more powerful – in potential, initiative and ambition. This shift is also apparent in standards and values, which were formerly passed down from 'above', from church and/or government. The process of emancipation has also removed this form of hierarchy. Standards, values, public expectations and objectives are now developed in interaction between different parties, including civil organisations, the unions and companies. The government often adopts a subordinate position in this public arena, although it – ultimately – does have the resources to impose particular standards.

In the public arena, individuals and organisations are feeling their way and testing each other. Interest groups increasingly hold companies directly accountable for their social responsibilities: "Companies will have to learn that everything that is possible is not always responsible. What is permitted in a formal legal sense is not always socially accepted. And thirdly: the domain of the market is not always identical to the domain in which citizens experience their identity in every possible manner. That is the domain of the civil society." ¹

The motivation of corporate social responsibility

The freedom of personal initiative – which is reflected, among other things, in enterprise – is a fundamental feature of a democratic society. This freedom is not absolute; it naturally does not exclude the right of society to impose by political decisions certain rules and conditions on the company or on business in general. In addition, the various stakeholders hold companies and entrepreneurs accountable for their sense of social responsibility.

The enterprise is therefore subject to a number of forces: what it *must* do (because of legislation and regulation and public expectations), what it *should* do (from personal conviction) and what it *finds profitable* to do (for example, serving its own interests by improving its reputation). It is up to the individual company to decide how precisely it wants to position itself with respect to these forces. How the company interprets its social role is an element of the chosenscope of the company. Companies make different choices in this respect: some opt for a broad interpretation of their role, others for a narrow one. It is a free choice, but one with strings attached since it is not without possible implications for the future position of the company.

The choice of a particular interpretation of its role may therefore be driven by the personal idealism and ethical views of the entrepreneur (especially in smaller companies). These may reflect a deeper need for meaning, for spirituality. A striking example of this is the view that enterprise includes a call for integration: between the employees themselves and with the management; between the products and processes of the company and various social needs and interests; and between the personal feelings as a citizen and the business transacted as an entrepreneur.

In addition, the decision to adopt corporate social responsibility may be dictated by enlightened self-interest, and so ultimately by the desire for the continuation of the company. This may be based on a number of considerations, including the need for quality and vitality in the neighbourhood, the importance of a good reputation and the motivation of employees. Public acceptance and a good reputation are important conditions for the continuation of many companies. The need for public acceptance is also expressed in terms of a 'licence to operate' which must be earned, and renewed from time to time.

Reciprocal public acceptance

Enlightened self-interest is an important driving force for a company. The challenge for society is to utilise the company's potential for increasing prosperity to the full.

Corporate social responsibility involves a change from external to internal control, so that there is less need to resort to the use of government regulation.

From this perspective, corporate social responsibility is a contemporary strategy designed to ensure that the market-driven nature and potential of the company corresponds with the expectations of its social environment. The company seeks affirmation from society for the performance of its core functions; society offers the

company the room to perform them and recognition – a licence to operate – when public expectations are satisfactorily met.

This licence to operate is conditional. A company's environment makes appeals to its sense of social responsibility and invites it to respond to demands from individuals, civil groups and consumers. The public dialogue is therefore an important interactive element of corporate social responsibility.

This dialogue must be reciprocal. Where society places demands on the operations of a company, companies that take these demands seriously are also entitled to expect the other parties in the dialogue to adopt a reasonable attitude. Among other things, this means that the other parties must also be willing to help find the solution to social problems and acknowledge the core functions of the company, and show understanding for the tensions and dilemmas that can arise from the concrete implementation of corporate social responsibility. While NGOs not infrequently focus their attention on a single issue, companies are constantly faced with the task of balancing various interests. A certain tension between public expectations and the possibility of actually meeting them is therefore inherent to the relationship between NGOs and companies.

Reciprocity is also important in relations with the government. This calls for a professional and coherent mindset from the various government bodies concerned.

More specifically, the reciprocity could take the form of allowing a trade-off between a commitment by companies to particular social goals (including provisions for transparency and verification) and government regulation. Internal control can take the place of external regulation.

The reputation mechanism

Companies compete with each other in markets. They compete for the favours of capital providers, employees and customers (including final consumers). Even where companies seek partnerships there is a form of competition behind it. In that competition between firms, quality and reliability play an important role. When quality and reliability must be demonstrated and can only partly be put down in contracts, trust gains importance. A good reputation has market value for a company. Companies that do little to nurture their reputation, act opportunistically and invest little in the quality of their products and production processes risk losing public acceptance. A bad name in one market can in turn hurt competitiveness in other markets (such as the labour market).

Companies have started paying closer attention to their reputation in the *labour* market due to the growing importance of the employee's knowledge and skills for the quality of production and service. With their efforts in this area, Dutch companies can earn the quality label 'Investors in People'. They can also increase the motivation of their own employees by supporting them in performing volunteer work. Also important are collective bargaining agreements and initiatives by companies and entrepreneurs to improve the position of disadvantaged groups in the labour market.

In the *sales* market, the customer is always right. In their purchasing behaviour customers also appear to take into account aspects such as the social and ecological conduct of companies. NGOs such as consumer and environmental organisations play an important role in influencing the purchasing behaviour of consumers in favour of companies that take their social responsibilities seriously.

In so far as the international *capital* market, under Anglo-Saxon influence, only looks at shareholder value, there is a tension with a balanced and coherent implementation of the three dimensions of corporate social responsibility. There are also counter-forces: in the US, of all places, there has been a sharp rise in investment funds which concentrate specifically on socially responsible (or: ethical) investing. In the Netherlands, the growth of specific 'green' investment products has been greatly stimulated by the Green Projects tax scheme (*Regeling groenprojecten*).

The financial services sector (lending, insurance) is also showing growing concern for insufficient sustainability - because of the associated risks.

Taking the performance of companies in the social and environmental areas into account when compiling an investment portfolio does not actually have to be at the expense of investment performance. Research has shown that so long as the selection is sufficiently diversified, an investor can secure roughly the same results as with similar conventional stocks.

The investment policy of pension funds

One particular area of interest is the investment policy of pension funds. Primary responsibility for arranging supplementary pensions in the Netherlands rests with the 'social partners', i.e. the employers and trade unions. The SER expects that the social partners, given their direct or indirect involvement in the policy of the pension funds, have ample opportunity to encourage pension funds to pursue a socially responsible investment policy – naturally within the framework of the Pension and Saving Funds

Act. This law provides that every pension fund must have a code of conduct including rules to prevent conflicts of interest for executives and employees. They must also draw up an actuarial and operational memorandum setting out the investment policy. This document can set out the pension fund's view of socially responsible investment. The SER welcomed the proposal from the social partners to discuss this issue in the Labour Foundation (*Stichting van de Arbeid*).

Trade unions

The trade unions are a non-governmental organisation, but differ from other NGOs in that, together with the employers and their representative organisations, they control their own domain, that of labour relations. The social partners therefore possess an important instrument of socio-economic policy, wage setting.

Trade unions have numerous opportunities to promote socially responsible business. They can do so through collective bargaining. In this way they can influence the social policy of the company for the employees and create room for specific target groups in the labour market. More generally, in consultation with the employers and employers' associations, trade unions can press for and enter into a dialogue on a specific policy on socially responsible business. The Dutch trade union movement has drawn up checklists for evaluating the degree to which businesses are socially responsible and is involved in the drafting of codes of conduct and quality certificates.

The trade union movement also participates in the management of pension funds and numerous jointly managed sector organisations, including the commodity and industrial boards (*product- en bedrijfschappen*). Through its international organisations and bilateral contacts, the trade union movement can also influence corporate social responsibility internationally (see for instance its efforts for fair trade).

NGOs

NGOs increasingly address companies directly about their responsibilities and seem increasingly prepared to co-operate with them. They see companies as important partners because of their expertise in project management, access to the latest technology, financial reserves and international networks.

For their part, NGOs often possess detailed expertise and are frequently part of international networks. For society as a whole, NGOs are important because they can contribute to the quality of public decision-making. They provide a voice for minorities

or for specific interests, which in theory allows for a better weighing of the general public interest. The participation of NGOs in national and international public forums means that NGOs will also have to win public acceptance and support based on a responsible and transparent policy.

Roles of governments

Governments are undoubtedly important counterparts for corporate social responsibility: by legislating and creating the right conditions, by providing public services and by facilitating and stimulating. Governments themselves can also be expected to be an 'ethical business' in their role as employer and as purchaser.

Government organisations must act in a socially responsible manner toward various groups of stakeholders.

In its role as *legislator* the central government has the duty to act if public interests are at stake. The legislator can intervene by prohibiting certain activities or by establishing specific minimum standards. The power of the government to fix such minimum standards is undisputed.

The question of whether legislation is capable of directing these social relations is difficult to answer. Corporate social responsibility should be seen as a form of work tailored to the time, place, problem and partners. Legislation is not an adequate instrument for this and can moreover be counter-productive because the responsibility and the initiative are taken away from the company.

The various levels of government can be expected to help create favourable conditions for the further development and potential of corporate social responsibility. Firstly, this refers to the governance of the socio-economic order, the laying down and enforcement of rules governing an orderly society and economic transactions. This function is partly exercised in the context of the European Union or the World Trade Organisation (WTO). The government acts as a kind of auctioneer who supervises competition, who helps in the development of institutions which increase transparency and can lower transaction costs, and who can act to correct shortcomings in the functioning of the market. A modern auctioneer operates interactively, responds to the needs of the market players and tries, together with market players and others in the public arena, to develop a common sense of good and bad, of right and wrong (see the OECD Guidelines for Multinational Enterprises).

Markets may fail as a co-ordination mechanism due to market power or to externalities (such as the impact on the natural environment that is not reflected in the price system and therefore not fully discounted in individual decisions). Internalisation by the decision-maker of the social costs associated with these external effects is called for to produce the optimum results for society. Companies which take on board the three dimensions of corporate social responsibility are, in doing so, internalising such social costs. But that process can be slowed by free rider behaviour by certain market players and by the appearance of prisoners' dilemmas. It is then up to the government – partly at international level, such as in the EU – to break the deadlock by laying down standards established in the public arena in enforceable rules which warrant that all market participants are confronted with the actual social costs of their preferences and decisions.

Secondly, it refers to the government as a supplier of various public services, such as education, care and physical infrastructure. People are rightly querying the extent to which the quality and efficiency of public services can be improved through input from the private sector and by making greater use of the market mechanism. This is reflected in the Netherlands' urban policy. Nevertheless, the government remains ultimately responsible and must therefore make sufficient investment in the quality of such services and infrastructure. The government must not leave gaps in the expectation that the private sector, for example, will fill them. This would place excessive demands on enterprises and the government would be reneging on its responsibility. The government must use its considerable resources effectively to perform its public tasks to the highest possible standard. This is the only way to provide a solid basis for a constructive public-private partnership and for initiatives by market players as regards corporate social responsibility.

Thirdly, the government can act as a stimulator and facilitator of corporate social responsibility. The government is often more successful in achieving public goals when it can tie in with the self-organising capacity of companies, sector organisations and NGOs. The government has various instruments it can use. It can act as a partner with companies and other stakeholders. Concrete projects can then be carried out in Public-Private Partnerships. The government can also facilitate corporate social responsibility, for instance through subsidies and tax relief (such as the allowance for company employee training programmes or the low-wage allowance).

The government can focus on strengthening the position of NGOs (especially in developing countries), so that they can increase their expertise and make a fruitful contribution to the development of a more pluralistic world order.

A prerequisite for any form of financial support from the government is the availability of verifiable information.

Chain responsibility

Companies also often depend on other companies in the production chain to meet their social responsibility. An irresponsible producer in the chain can damage the reputations of many other companies. Whenever a certain level of quality has to be guaranteed, co-ordination in the chain cannot be carried out solely via market links. Companies in the chain will therefore also have to collaborate to meet their chain responsibility.

Competition policy must allow for this. The contractual terms must also provide scope for producers and purchasers to meet the specified standards. Where possible, the process should be directed by the company at the end of the chain, which has direct contact with the consumer.

Sector, local and regional business associations

It is important for business associations to hold their members accountable for their social responsibility while providing them with concrete support. One way that that support can be provided is by generating public support and by co-ordinating activities that extend across companies, by drawing up codes and developing quality labels for the sector and in certain circumstances by negotiating with suppliers and government bodies on behalf of groups of companies. Regional and local business organisations often find it easier to set up projects than individual companies.

In the Netherlands, bipartite commodity and industrial boards can also make an important contribution to corporate social responsibility of fellow enterprises, for instance by providing information and through research, innovation and environmental management systems. The commodity boards are an ideal vehicle for promoting integrated chain management.

Responsibility of individual companies

Corporate social responsibility brings with it new responsibilities for many companies, which can force them to make changes, sometimes profound ones. The responsibility

and initiative for introducing corporate social responsibility rests entirely with the individual company. The concrete manifestation of corporate social responsibility is determined in part by the nature of the core business as well as by local needs and circumstances. Within those limits, it is a matter for entrepreneurs themselves to give shape to their corporate social responsibility.

The decision on how they position themselves has implications, as it raises expectations about the actual incorporation of the various values and areas of concern in corporate policy and the transparency of action and openness of communication with respect to its intentions and results.

Communication and transparency

Corporate social responsibility also involves open communication as the basis for a dialogue with the main stakeholders. It is important that corporate action is transparent. The company is therefore well advised to provide clarity about its own objectives and their realisation. One instrument for doing this is the company code, which expresses the company's basic responsibility (its mission) towards its environment and sets out the values, standards and rules the company wants to follow. Acceptance of these standards and rules is promoted by involving employees and other stakeholders in drawing them up and in their implementation. The internal and external effect of a company code is reinforced by taking effective measures for evaluation and updating, reporting, handling of complaints and external verification. A code can also be drawn up for an entire trade, with the sector organisation taking the lead; this also indicates a commitment on the part of the organisation to corporate social responsibility among its members.

OECD Guidelines and the NCP

The international community has set out public expectations and values in various sets of standards. Besides the Universal Declaration of Human Rights (1948) and the international treaties on Civil and Political Rights and on Economic, Social and Cultural Rights (both 1966), they include the ILO Conventions and the OECD Guidelines. Through a 'Global Compact for the New Century', companies, trade unions and NGOs are involved in the promotion of human rights, fundamental labour standards and ecological sustainability.

The SER sees the OECD Guidelines for Multinational Enterprises as a standard for appropriate conduct in international transactions and a useful frame of reference for companies in formulating their own codes. These Guidelines reflect the joint expectations of the governments of the OECD member countries with respect to the conduct of multinational corporations. In the area of employment and labour relations, the Guidelines contain not only the fundamental ILO standards but also recommendations with respect to safety and health in the workplace and the hiring of local personnel. Companies are not only asked to respect the human rights of their own employees but also to press to have the basic human rights of their business contacts respected in the countries where they are established.

National Contact Points (NCPs) were established for the implementation of the OECD Guidelines. The SER stresses the importance of a properly functioning NCP. It regards the Dutch NCP as an inter-ministerial body whose primary task is to provide information and advice about the OECD Guidelines. Because these guidelines are not entirely unambiguous, the NCP also has the task of explaining the correct interpretation. One aspect of this is to investigate complaints (whether or not they are formally submitted) about the behaviour of companies. The social partners will have to be actively involved in these activities of the NCP. The SER further feels it is important that the NCP maintain structured contacts with NGOs ('interested parties').

Information about other aspects of corporate social responsibility

Besides information about OECD Guidelines, there may be a need for information about corporate social responsibility in general. This information is available from many sources. It is to be expected that companies will first approach their representative organisation (central, regional, sectoral and/or local).

Other actors in society, including governments, NGOs and individual citizens, also need information about particular aspects of corporate social responsibility. It can prove difficult to find out quickly where this information is available. An information centre primarily devoted to explaining and referring people to existing sources of information could prove useful. After a few years such a centre should be evaluated to review its capacity to provide added value for the various groups of stakeholders.

In the communication between a company and society, a system of regular reports could be an important instrument, in addition to open days, dispute settlement committees and informative websites. Companies in the Netherlands already have a statutory duty to

account for certain dimensions of corporate social responsibility. The SER does not feel that this statutory reporting duty should be expanded at the moment. The point now is to create sufficient scope for the further development of good practices. There have been a large number of national and international initiatives in the area of actual measurement and registration of corporate social responsibility and of reporting on it.

The SER would prefer to request the Council for Annual Reporting – which includes representatives of employers organisations and trade unions – to make an inventory of these initiatives and then to review whether, in addition to the financial and economic guidelines for reporting, the Council can also develop methods to promote transparency of company policy in each of the three dimensions of socially responsible business.

Note

¹ L.A. Geelhoed, Duurzaam ondernemen, paradigma's veranderen [Sustainable enterprise, paradigms change], in: Vereniging NCW, *Duurzaam Ondernemen in een Wereldeconomie* [Sustainable enterprise in a World Economy], The Hague 2000, p. 25.