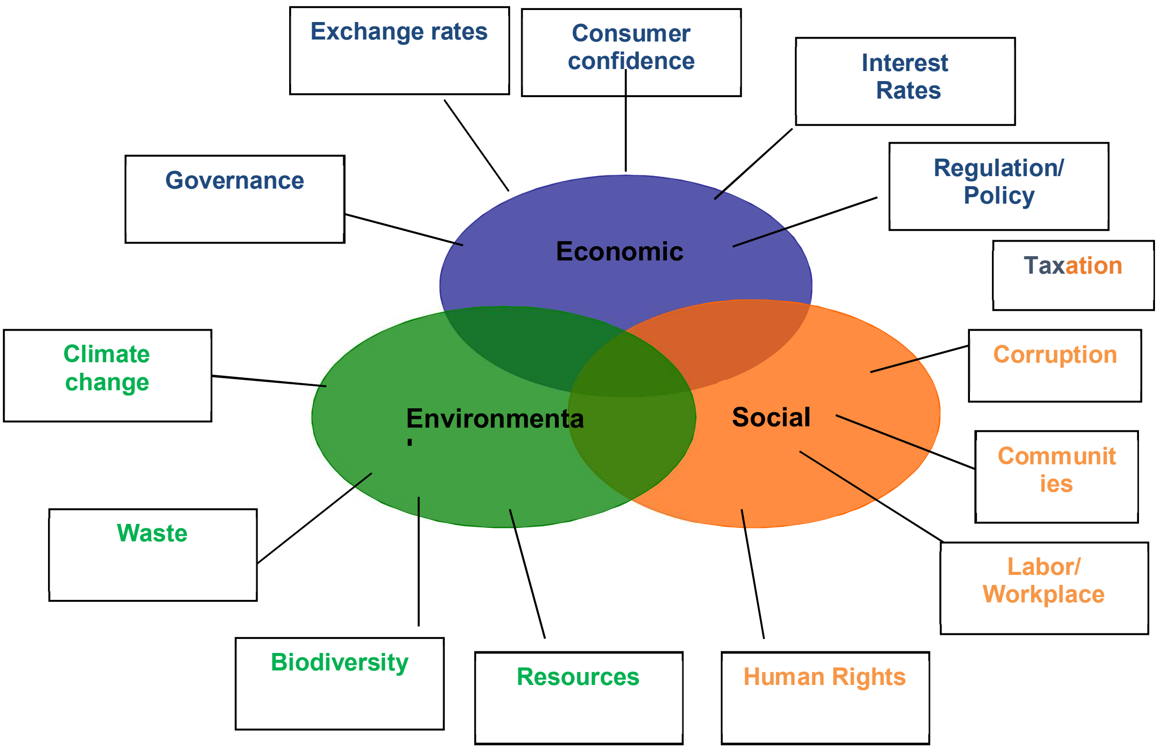
Corporate Social Responsibility (CSR)
Introduction - Basic Concepts

The responsibility of companies focuses on the consequences of their decisions, actions and policies from three perspectives: economic, social and environmental. The way in which each company voluntarily assumes these three responsibilities represents its social responsibility model. The lower limit of the level of corporate responsibility is marked by the law, while the upper limit must take into account competitiveness and profitability.

- ✓ **Economic responsibility**. The achievement of company objectives that consume the available resources efficiently in order to survive on the long term. Examples of economic responsibility are: the creation of value for the shareholders; the disclosure accurate financial and accounting information; profitability.
- ✓ **Social responsibility**. Companies operate and interact in a particular social environment. Their actions have consequences within the company and may also affect other people and organizations. Examples of social responsibility are: the implementation of schedule facilities for the staff; redesign of their products to increase consumer safety; collaboration with local NGOs.
- ✓ **Environmental responsibility**. This responsibility takes environmental concerns into account in business decisions, i.e. environmental friendliness. There are two possible attitudes: preventing environmental problems or solving/mitigating the damage caused. Examples of environmental responsibility are: incorporating the concept of eco-efficiency; being transparent in terms of issues concerning environmental impact; taking ecological criteria into account when making new investments.



Economic, environmental and social dimensions of CSR

In 2001, the European Union created a European framework for CSR: the European Commission Green Paper “Promoting a European Framework for Corporate Social Responsibility”. The aims of this document were, firstly, to launch a debate about the concept of CS and, secondly, to identify how to build a partnership for the development of a European framework to promote CSR. In 2002, the Commission issued the communication “Corporate Social Responsibility: A business contribution to Sustainable Development”, which presented a strategy to promote CSR across the Union. Following the recommendations outlined in the above-mentioned document, an EU Multi-Stakeholder Forum on CSR (CSR Forum) was set up. It brought together representatives of business, trade unions and civil society. The Forum successfully reached a consensus among participants, but it also revealed significant difference of opinion between business and non-business stakeholders. In 2006, the Commission issued the communication “Making Europe a Pole of Excellence on Corporate Social Responsibility”, which suggested the creation of certain coalitions for CSR. In 2011, a renewed EU strategy 2011-14 for CSR was presented. This communication from the Commission encourages companies to adopt a strategic and long term approach to CSR, to create shared value.

The concept of CSR has evolved since the 50s and there is not a generally agreed definition. However, leading regulatory agencies have provided several definition over recent years.

The **International Organization for Standardization** (ISO) defines CSR as “the responsibility of an organization for the impacts of its decision and activities on society and the environment, through transparency and ethical behavior that:

- Contributes to sustainable development, including the health and welfare of society
- Takes into account the expectation of stakeholders
- Is in compliance with applicable law and consistent with international norms of behavior
- Is integrated throughout the organization and practices in its relationship”.

The European Commission, states that CSR is "…the responsibility of enterprises for their impacts on society". The Commission also encourages enterprises by stating that they "should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders".

The World Business Council for Sustainable Development (WBCSD) defines Corporate Social Responsibility as “… the business' commitment to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life.”

Drawing from the definition of CSR presented above there are several characteristics that contribute to conceptualizing CSR.

✓ **Integration.** CSR is a way of managing business whereby companies should be accountable for their corporate economic, social and environmental responsibilities. To do so, organizations integrate economic, social and environmental concerns in their day-to-day business to manage their impact on these areas, minimize harm and maximize positive outcomes.

- ✓ **Stakeholders' perspective.** Stakeholders are the groups who may affect or be affected by the actions, decisions, policies, practices or goals of a company (e.g. local communities, customers, suppliers, employees, creditors, government and even future generations). Shareholders have traditionally been regarded as the main stakeholders. However the group of stakeholders towards whom the companies are responsible has broadened in as much as the responsibilities of the company have expanded. In this situation, firms must analyse the demands and interests of their different stakeholders and try to balance them in a way that maximizes total net wealth.
- ✓ **Voluntar**y. Companies implement CSR policies and actions voluntarily. There are no legal rules that compel organizations to engage in CSR. If there were some rules that mandated specific actions or behaviors, these would be no longer be regarded as CSR practices. There are several reasons to justify why firms introduce CSR strategies in their business: responsibility towards society, competitive advantage, differentiation strategy, legitimation…
- ✓ **Unilateral.** CSR is implemented regardless of the economic and technical interests of the organizations despite the possible interdependencies between them. This means that decisions regarding CSR cannot be justified based on economic or technical arguments, but rather on socially responsible reasons.
- ✓ **Plural.** CSR has a plurality of objectives, which covers a plurality of areas, for a plurality of agents and influences a plurality of elements. Therefore, CSR does not affect, act or interact in a specific area or single direction. Instead, it influences a plurality of actions and reactions.
- ✓ **Relative.** CSR is a relative concept. It depends on the demands of society in a specific location and at a given moment, based on its values and expectations. For example, depending on the country where the firm operates, the non-use of child labor may or may not be a CSR action.
- ✓ **Soft-law.** CSR is managed, measured and communicated using several soft-law instruments. These instruments are not binding and organizations can choose whether or not to follow them as well as the extent to which they will do so if they so decide. Thus, each company establishes their self-regulation based on these non-binding rules.

CSR dimensions: To whom is the company responsible? The company is accountable to itself (internal dimension) and to society (external dimension).

Internal dimension

This is the responsibility towards the people and activities that the company directly controls.

- Economic: Generation, communication and distribution, if applicable, of the value created among all the participants in the developed activity, including shareholders.
- Social: Care, development and enhancement of the quality of life at work, equal opportunities, reconciliation of work and family life, and integral development of each and every participant in the activity process.
- Environmental: Application of ecological criteria and environmental care in the use of natural and/or other resources, throughout the developed activity.

External dimension

This is the company responsibility towards society and environment which may be affected by the decisions and actions of the company.

- Economic: Design, production and making useful and demanded products and services available to users or consumers.
- Social: Participation in investment and business projects where ethical and responsible criteria prevail in the decision-making process.
- Environmental: Inclusion of environmental parameters in the strategic policy of the company, assessing the positioning of the organization in the value chain.

Socially responsible management: The importance attached to incorporating CSR criteria in company management has motivated several national and international organizations to develop several initiatives and instruments to facilitate the implementation process, performance, communication and evaluation of CSR.

Codes of conduct. Companies adopt codes of conduct as an internal management tool to state the values and ethical standards their business subscribes to; to influence the practices of their global business partners; and to inform consumers about the principles they follow in the production of goods and services they manufacture or sell. An example of this kind of instrument is the United Nations Global Compact (UNGC), a set of ten universal principles, requiring companies to communicate the progress they make on them.

Management standards. There are a number of different management standards and frameworks (e.g. quality, environmental, health and safety, workplace standards) that enable an organization to embed social and environmental considerations and stakeholder participation into business decision-making and operations. Examples of this kind of instruments are the standards developed by the International Organization for Standardization (ISO) (ISO26000, ISO14000, etc.).

Reporting. CSR reporting is the process of communicating economic, social and environmental performance to stakeholders. The recent increase in corporate sustainability reporting and, more generally, non financial reporting is linked to the demand for greater company accountability and transparency. Company approaches to reporting are as varied as are their approaches to CSR: the nature of each report depends upon the variety of issues covered; the range of stakeholders for whom it is intended; and the aims of the reporting organization. An example of this kind of instrument is the reporting framework developed by the Global Reporting Initiative (GRI) that represents the most highly recognized international reporting standard and, more recently the integrated reporting framework (IIRC).

Namely, the Global Reporting Initiative (GRI) is a "non-profit organization that promotes economic, environmental and social sustainability. GRI provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world aimed at disseminating a global framework of sustainability reporting guidelines for voluntary use by organizations that encompasses the economic, environmental and social dimensions of their activities, products and services. The guidelines have evolved since they were first issued, but they still require disclosures in the following categories: economic, environmental, social performance/labor practices, social performance/human rights, social performance/society, and social performance/product responsibility. The guidelines provide a Sustainability Reporting (SR) structure that helps reporters to organize the information they want to communicate. Given that SR has to be a tool to manage the organizations' sustainability strategy, it also helps them to establish their goals, measure their performance, and adjust their decisions towards better achievements. The guidelines are applicable to all kinds of organizations (private or public; small, medium, large or multinational; for-profit and non-for-profit; from any industry) and facilitate their sustainability disclosure. The main objective of the reporting principles is to achieve transparency and consistency in sustainability reporting. These two qualities make information useful and credible to society and allow stakeholders to make reasonable assessments of performance and take appropriate actions.

The Principles for defining report quality describe the process to ensure that the sustainability report information is adequate and well prepared. This includes presenting it properly. The quality of the information enables stakeholders to take appropriate actions. Concerning quality, the report must respect the following six principles:

- ✓ ***Balance:*** the information must be objective and fair. The report has to reflect both positive and negative aspects without influencing the opinions of the readers.

- ✓ ***Comparability:*** the presentation of the information should enable readers to analyze the evolution of the organization's performance over time and compare it with other organizations.
- ✓ ***Accuracy:*** the information must be precise and provide the necessary details to facilitate understanding and evaluation.
- ✓ ***Timeliness:*** information must be presented regularly and within a time period close to the time in which the reported events occur. Information should be timely available to facilitate decision- making.
- ✓ ***Clarity:*** the language and the structure of the reports should be readily understandable, especially for stakeholders having minimum knowledge about the organization.
- ✓ ***Reliability:*** the veracity of the reports and information must be verifiable.