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CORPORATE SOCIAL RESPONSIBILITY AS AN INTERGOVERNMENTAL POLICY AGENDA:

– Public Policy Developments and Challenges at
the European Union Level



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During the past few decades, corporate social responsibility has become one of the mainstream themes in business strategies and discussions. While it is generally agreed that socially responsible business behaviour acknowledges the correlation between economic, environmental and social impacts of corporate activities, questions have often been raised on whether corporate leaders are the best people to assess societal needs in this respect. Many groups of stakeholders have questioned the effectiveness and motivation behind the traditional self-regulative corporate social responsibility measures, and have started to call for governments to impose regulatory obligations and binding codes of conduct to corporations.

The purpose of this thesis has been to examine corporate social responsibility in terms of its role in public policy development processes, especially in intergovernmental environment. Focus has been on the policy development processes at the European Union level during the past decade, and the overall objective has been to find out and assess the challenges which have had an impact on process as a whole. The research process has been conducted by first reviewing past literature and theories concerning corporate social responsibility, business ethics, corporate governance, stakeholder relations, public policies and business-government relations at national and international levels. The second set of data that has been used in this thesis consists of the official corporate social responsibility-themed communications published mainly by the European Commission, and some public responses to them.

Based on the research, this thesis concludes that challenges associated with policy development processes at the European Union level have mainly been due to the chosen conceptual framework for corporate social responsibility, the operational approaches adopted by the European Commission, and the operative capacities of the European Union as an organisation. These challenges have caused some stakeholder groups to withdraw themselves from the process altogether. In addition, they have left the overall purpose and relevance of the policy somewhat vague and without tangible operational framework.

KEYWORDS:

Corporate Social Responsibility, Public Policies, Stakeholder Relations, Intergovernmental Organisations, the European Union

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YHTEISKUNTAVASTUULLISEN LIIKETOIMINNAN ASEMA KANSAINVÄLISESSÄ TOIMINTAPOLITIIKASSA: Kehityssuuntauksia ja haasteita Euroopan unionin institutionaalisella tasolla

Yhteiskuntavastuullinen liiketoiminta on viimeisten vuosikymmenien aikana kehittynyt oleelliseksi osaksi yritysten toiminnallisia strategioita. Yleisen käsityksen mukaan yhteiskuntavastuullisessa liiketoiminnassa otetaan huomioon taloudellisten, sosiaalisten ja ympäristönäkökohtien väliset riippuvuussuhteet. Jatkuvaa keskustelua on herättänyt kysymys siitä, ovatko yritysjohtajat ja päätöksentekijät päteviä arvioimaan yhteiskunnan tarpeita sosiaalisten ja ympäristönäkökohtien puitteissa. Useat eri sidosryhmät ovat kyseenalaistaneet perinteisten vapaaehtoisten toimintamallien toimivuuden ja tehokkuuden sekä yritysmaailman motivaation näiden mallien kehittäjänä. Nämä ryhmät ovat ajaneet näkyvämpää roolia poliittista ja lainsäädäntövaltaa käyttäville tahoille, joiden on toivottu asettavan sitovampia velvoitteita yrityksille.

Tämän opinnäytetyön tarkoituksena on ollut tarkastella yhteiskuntavastuullisen liiketoiminnan asemaa kansainvälisessä toimintapolitiikassa ja hallintoympäristössä. Tutkimuksessa on keskitytty yhteiskuntavastuullisen liiketoiminnan edistämistä tukeneisiin prosesseihin Euroopan unionin institutionaalisella tasolla viimeisen vuosikymmenen aikana. Opinnäytetyön päämääränä on ollut selvittää ja arvioida toimintaan liittyneitä haasteita sekä niiden vaikutuksia prosessin etemiseen ja tavoitteiden toteutumiseen. Tutkimus on toteutettu tutkimalla liiketalouden etiikkaan, yhteiskuntavastuulliseen liiketalouteen, sidosryhmäsuhteisiin, yrityshallintoon, sekä yritysten ja hallinnollisten toimielinten välisiin suhteisiin liittyvää kirjallisuutta. Empiirisenä aineistona on käytetty Euroopan komission yhteiskuntavastuulliseen liiketalouteen liittyviä julkaisuja ja toimintaa.

Tutkimustulosten perusteella selvisi, että Euroopan unionin tasolla yhteiskuntavastuullista liiketoimintaa koskeviin toimintapolitiittisiin päämääriin liittyvät haasteet ovat pääasiassa johtuneet asetetuista käsitteellisistä puitteista ja niistä aiheutuneista rajoitteista, valitusta toiminnallisesta lähestymistavasta, sekä Euroopan unionin toiminnallisesta kapasiteetista kansainvälisenä instituutiona. Näiden haasteiden seurauksena useat sidosryhmät ovat vetäytyneet prosessista, toimintapolitiittiset tarkoitusperät ovat jääneet epämääräisiksi ja toiminnalta on jäänyt puuttumaan konkreettiset puitteet.

ASIASANAT:

Yhteiskuntavastuullinen liiketoiminta, Julkinen Hallinto, Sidosryhmäsuhteet, Hallinnolliset Yhteenliittymät, Euroopan Unioni

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LIST OF ABBREVIATIONS

CSO	Civil society organisation
CSR	Corporate social responsibility
DG	Directorate-General
ECCJ	European Coalition for Corporate Justice
EMSF	European Multi-Stakeholder Forum on Corporate Social Responsibility
EU	European Union
ILO	International Labour Organization
MNC	Multinational corporation
OECD	Organisation for Economic Co-operation and Development
UN	United Nations

1 INTRODUCTION

This chapter presents the background for the subject matter of this thesis. It offers a brief overview of corporate social responsibility (CSR), the discussions and disputations surrounding it as a concept and practice, and the recent processes concerning CSR policy developments at the European Union (EU) level. After this, the purpose, research questions, scope and delimitations of this thesis are explained, and a brief description of the case organisation is presented. Finally, the outline of the structure of the thesis is provided.

1.1 Background

One of the most prominent concepts that has emerged from the debate concerning the moral responsibility and the role of corporations within the framework of society as a whole is the term corporate social responsibility. The concept shares a common ground with business ethics, which can be defined as the study of business related activities, situations and decisions where issues of right and wrong are addressed (Crane & Matten 2007, 5). However, although business ethics provides the basis and guiding principles for CSR, one of the differentiating factors between the two is that CSR can be seen as the practical, more precise expression of the theoretical ethical values through activities and policies. The core idea behind the concept is that corporations should incorporate economic, social and environmental considerations into their decision-making processes and business activities, and engage relevant stakeholders and their concerns in these processes and activities.

While CSR has gained mainstream recognition during the past fifty years, the concept has also become a controversial business topic. Corporations, governments and civil society organisations (CSOs) have often expressed differing views on what are the specific responsibilities of corporations, how to define the nature and extent of these responsibilities, to whom do corporations have responsibilities, and who can claim to have the authority to decide on these issues. Consequently, a number of other concepts have risen alongside

CSR to define it more thoroughly. Corporate citizenship, sustainable responsible business, triple bottom line, corporate social performance and corporate accountability are few of the terms which are often used interchangeably or in association with CSR.

It goes without saying that CSR clearly belongs to the business world as corporations are the key players in the actualisation of CSR processes and activities. However, many CSR initiatives have been direct responses to the pressures and demands from CSOs, governments, investors and the general public. These external parties have often been viewed as more legitimate in terms of their perceptions of social responsibility and this has reduced the business community's ability to shape CSR discourse in a self-contained manner (Burchell & Cook 2006, 121). The scrutiny by and involvement of these stakeholders has contested the traditional view which has emphasised the aspect of corporate volunteerism in CSR. While this viewpoint has suggested that CSR is essentially about businesses going voluntarily beyond legislative requirements in order to contribute more to societal welfare according to their own activities, resources and context, stakeholders are increasingly calling for regulatory imposition of CSR obligations and corporate codes of conduct (Robins 2008, 331). As a result, governments and intergovernmental organisations have actively started to step into CSR discussions and have, in some cases, started to develop their own CSR agendas and policies.

At the European Union level, CSR issues have appeared on political discussions from the 1990s onwards, and CSR has officially been part of the EU's strategic policy development processes since March 2000 when, for the first time and in line with the objectives that were set at the Lisbon Summit, the European Council made an appeal to corporations concerning their CSR practices (Perrini, Pogutz & Tencati 2006, 16). Ever since this appeal was made, the EU has actively strived to develop and promote CSR policies and practices by facilitating and participating in discussions with and between various stakeholders. Most of these discussions and policy development

processes have been initiated by the European Commission which has prepared and published communications concerning CSR since 2001.

1.2 Purpose and Research Questions

The aim of this thesis is to examine the current CSR policy development processes at the European Union level. The purpose is to review the relevant literature and the CSR policy reports produced by the European Commission as well as some of the public responses to them in order to explain and assess the challenges in the CSR public policy development process at a supranational and intergovernmental level, and their effect on the overall public policy development process. Within this framework, the following research questions will be addressed:

- 1) Why has it been challenging to develop an EU level public policy for CSR?
- 2) How have the challenges affected the overall public policy development process?

For this purpose, the thesis maintains a largely European perspective on CSR and CSR policy developments. Although the concept will also be discussed in a more global context, the research and discussions focus on the European Union's approaches on CSR policies during the past decade.

At the European Union's institutional level, this thesis will mostly focus on the CSR related work done and published by the European Commission. As the Commission is independent of the member states' national governments and operates as the EU's executive body, its role is to manage and implement the policies adopted by the European Parliament and the European Council as well as to oversee that EU laws are correctly applied in the member states. Within this role, the Commission has been the most active and visible institutional actor in terms of EU CSR policy developments.

It should also be noted that the purpose of this thesis is not to propose or pick the most accurate definition for corporate social responsibility. For this reason, the term corporate social responsibility will be used as an umbrella term for corporate decision-making processes and activities which aim to take into account the economic, social and environmental impacts and concerns, and engage relevant stakeholders in these processes. The use of the concept in this way also incorporates most of the alternative terms that are often used in the same context to define similar issues. Whenever a more formally established definition for the concept is used, a reference to its origin will be provided.

Finally, many of the current controversies over CSR have risen when publicly listed companies have undertaken or have been asked to participate in socially responsible activities which may restrict shareholder profit maximisation. As this dilemma is one of the discussion points of this thesis, and because it does not apply to privately-owned businesses in the same way, the focus this thesis is primarily centred on publicly traded companies. Privately held companies will, nevertheless, be included in discussions at a more general level.

1.3 Presentation of the Case Organisation

The European Union was established as an economic and political intergovernmental organisation by the Treaty of Maastricht in 1993. The EU is committed to regional integration and its role is based on a series of power-giving Treaties. The Treaties set policy goals and define the legal and operative powers of the EU institutions to implement those goals. They are also the basis for all the secondary legislation passed at the EU level.

The EU membership is open to any European country that fulfils the democratic, political and economic conditions called the Copenhagen criteria. It currently has 27 member states which have remained as independent, sovereign nations but have also agreed to delegate some of their decision-making powers to the shared institution of the EU. In practice this means that the member states have transferred some of their law-making authority

completely to the EU. In other areas, policy-making is shared between the EU and the national governments of the member states.

The decision-making processes in the EU involve three main institutions: the European Parliament, the Council of the European Union, and the European Commission. Out of these three, the European Parliament, which currently consists of seven political groups, is directly elected by the citizens of the EU member states. As an institution, it exercises democratic supervision over the other EU institutions. The Parliament, together with the Council of the European Union, is also responsible for passing European laws. In addition, it shares the authority over the EU budget with the Council.

The Council of the European Union, also known as the Council of Ministers, represents all the EU member states and it is the EU's main decision-making body. The meetings of the Council are attended by one minister from each of the member states' national governments according to the subject matter on the meeting's agenda. Approximately four times a year, the heads of the member states and the President of the European Commission meet at summit meetings as the European Council. These summits set the overall EU policies and resolve issues that have not been settled at lower levels.

The European Commission, as an institution, is independent of the national governments of the member states. It upholds and represents the interests of the EU as a whole and acts as the Union's executive body, responsible for implementing the decisions of Parliament and the Council. Together with the European Court of Justice it also enforces European law. The staff of the Commission is organised in departments called Directorates-General (DG) and separate services departments. Each DG is responsible for a specific policy area and it is their responsibility to draft legislative proposals which become official proposals if adopted by the Commission at its weekly meeting. Each DG is headed by a Director-General who is answerable to one of the 27 commissioners who are appointed by rotation from each of the member states. The Commission also represents the EU in negotiations with other countries at international level.

The EU acts in a wide range of policy areas in economic, social, regulatory and financial fields. These policies, as well as certain economic development and humanitarian aid programmes outside the EU, are financed by the EU's annual budget. In addition, the Commission distributes direct financial contributions in the form of grants to support projects or organisations which contribute to the implementation of EU programmes or policies. The spending of the budget is negotiated between the European Parliament and the Council of Ministers on a basis of a proposal by the Commission.

In terms of trade relations, the European Union operates as a single market. This environment has been achieved by free competition and the gradual elimination of trade restrictions and barriers between the member states. The single market is supported by various trade related policies which aim to ensure that market liberalisation benefits both businesses and consumers. Approximately half of the trade in goods within the EU is covered by harmonised regulations. However, as some sectors are still subjects to national laws, the EU cannot be considered as a single economic area.

1.4 Structure of the Thesis

This bachelor's thesis consists of five main chapters. The first one is an introductory chapter which starts with a brief overview of the topic of the thesis. After this, the purpose of the thesis, the research questions, the scope and certain delimitations as well as the outline of the thesis are presented.

The second chapter is the literature review part of the thesis. The chapter starts with a discussion about the history of corporate social responsibility and the previous theories, approaches and research concerning the conceptual framework of CSR. This part is then followed by a discussion about the relations between businesses, governments and intergovernmental organisations. Finally, the role of CSR in public policies is examined.

The third chapter focuses on the description of the research methodology that has been applied to this thesis. The research purpose and the applicability of

the chosen research strategy to the research purpose are explained. Validity and reliability of the data used are also discussed in this chapter.

The empirical data that was used in the research of this thesis is presented in chapter four. It is discussed within the framework of the research questions of the thesis and the theoretical background that was presented in chapter two.

In the final chapter, a summary of the theoretical findings, the conclusions derived from the research questions, and implications for future developments and research in the topic area of the thesis are presented.

2 LITERATURE REVIEW

This chapter of the thesis presents and discusses some of the previous research and theories concerning corporate social responsibility, and the relationship between CSR and public policies. It begins with a discussion about the history and conceptual approaches to CSR. The second part of this chapter focuses on the relations between businesses, governments and intergovernmental organisations, and the role of CSR in public policies.

2.1 Corporate Social Responsibility

Much of the controversy and debate surrounding corporate social responsibility stems from the fact that, although the reasoning concerning the conceptual framework of the concept started approximately half a century ago, there is still no universally agreed definition for the concept itself. As was mentioned in the introductory chapter, some have preferred to use alternative terms such as corporate citizenship, corporate social performance, triple bottom line or corporate social accountability. But even as a single concept, CSR has been framed with differing definitions and its advocates as well as its critics have sometimes expressed divergent views among themselves.

While most CSR definitions acknowledge the correlation between economic, environmental and social impacts of corporate activities, perceptions of what should be the scope of corporate social responsibilities, to whom exactly are corporations responsible, and who should have the right to decide on these matters vary greatly. This sub-chapter aims shed some light on these issues by presenting an overview of the historical background of corporate social responsibility as well as some of the views behind the debated questions.

2.1.1 History of Corporate Social Responsibility

Many academics have traced the origins of CSR back to the eighteenth century philosopher and political economics pioneer Adam Smith who proposed that by encouraging the pursuit of efficiency and gain, and by allowing people the

freedom of choice in terms of employment, purchases and investment, capitalism maximises liberty and creates greater social wealth than any other economic system (Lantos 2001, 596). In essence, Smith's argument was based on the assumption that, in the economic system the capitalistic pursuit of self-interest is acceptable because it produces morally desirable outcomes for the whole society. The origins of CSR have also been found in the ideologies of the early twentieth century theologians who proposed that certain religious principles, such as the principles of charity and stewardship, could be applied to business activities (Lantos 2001, 598). More fortunate individuals and wealthy businesses were therefore encouraged to assist less fortunate people, and to see themselves as caretakers of society's economic resources.

The term corporate social responsibility, however, has become a part of the business lexicon fairly recently. The civil rights movements and emerging environmentalism of the 1960s and 1970s, especially in the United States of America, provoked more public discussion related to the moral, ethical and philanthropic responsibilities of corporations. The notion of corporate social contract helped to raise the status of CSR as an important topic inside companies' board rooms. The main idea behind the contract was that because of corporate reliance on society and the potentially adverse effects of business decisions on society, non-economic social factors should be considered alongside financial wealth creation in corporate decision making processes (Lantos 2001, 599).

The last two decades of the twentieth century and the first decade of the twenty-first century have brought along rapid technological and political developments which have made territorial distance less of an obstacle. As the economic integration of the post-Cold War era has eroded the significance of national borders, globalisation has become one of the most controversial topics in contemporary society. Modern communication technologies have opened up the possibility for people from all over the world to interact with each other more efficiently. In addition, the governments' involvement in market economy has mainly occurred in ways that has guaranteed freedom of choice for the

economic agents (Utchay 2005, 21). This has meant that many corporations have been able to expand their operations to various different locations, and have thus gained powerful influence over local economies around the world. Furthermore, the continuous privatisation of state-owned enterprises has increased the reach and influence of private sector actors in public policy discussions.

In the context of business ethics and CSR, multinational corporations (MNCs) have often become the centre of public criticism as they have been accused of exploitation of workers in developing countries, excessive use of natural resources, and abuse of their increasing economic power (Crane & Matten 2007, 15). As national governments have lost some of their ability and power to regulate corporations and markets, many civil society organisations have strived to take on the role of watchdogs of the public interest and have tried to establish parameters of accountability for both corporations and governments. In other words, the growing significance of MNCs and CSOs has created a whole new economic and political domain which consists of private governance among MNCs, and participation by CSOs in global civic politics (Albareda 2004, 434).

Finally, the advancements in communication technologies and the increasingly prominent role of mass media have enabled news about corporate scandals to reach wider audiences. Well-publicised incidents of corporate misconduct, such as Nestlé in the late 1970s and early 1980s, Royal Dutch Shell in the mid-1990s, and Enron in 2001, have increased the public scrutiny of even the allegedly ethical companies. Growth in the number, connectivity and awareness of people with purchasing power has resulted in calls for better corporate governance with greater accountability, transparency and integrity (Nelson 2004, 1).

Consequently, CSR has become more than just a mainstream buzz-word for companies. As productivity alone is not enough anymore to justify their existence, many corporations have started to integrate CSR practices more directly into their business strategies. However, identifying what exactly should be included in those strategies has often proved to be a less than

straightforward process. Defining the actual scope of corporate social responsibilities has been a challenge for academics and business leaders for as long as CSR as a concept has existed, and will be discussed next in this thesis.

2.1.2 What Are the Social Responsibilities of Corporations?

Nowadays, most developed countries recognise corporations as legal entities accountable for their actions within a defined legal framework. The notion of corporate responsibilities is therefore rarely denied as businesses are expected to, for example, have a fiduciary duty to their shareholders. Debates have risen, however, when the scope of corporate responsibilities has been widened to include other elements. Defining which issues are included in social responsibilities, and to what extent should these responsibilities concern individual businesses is therefore still an ongoing debate.

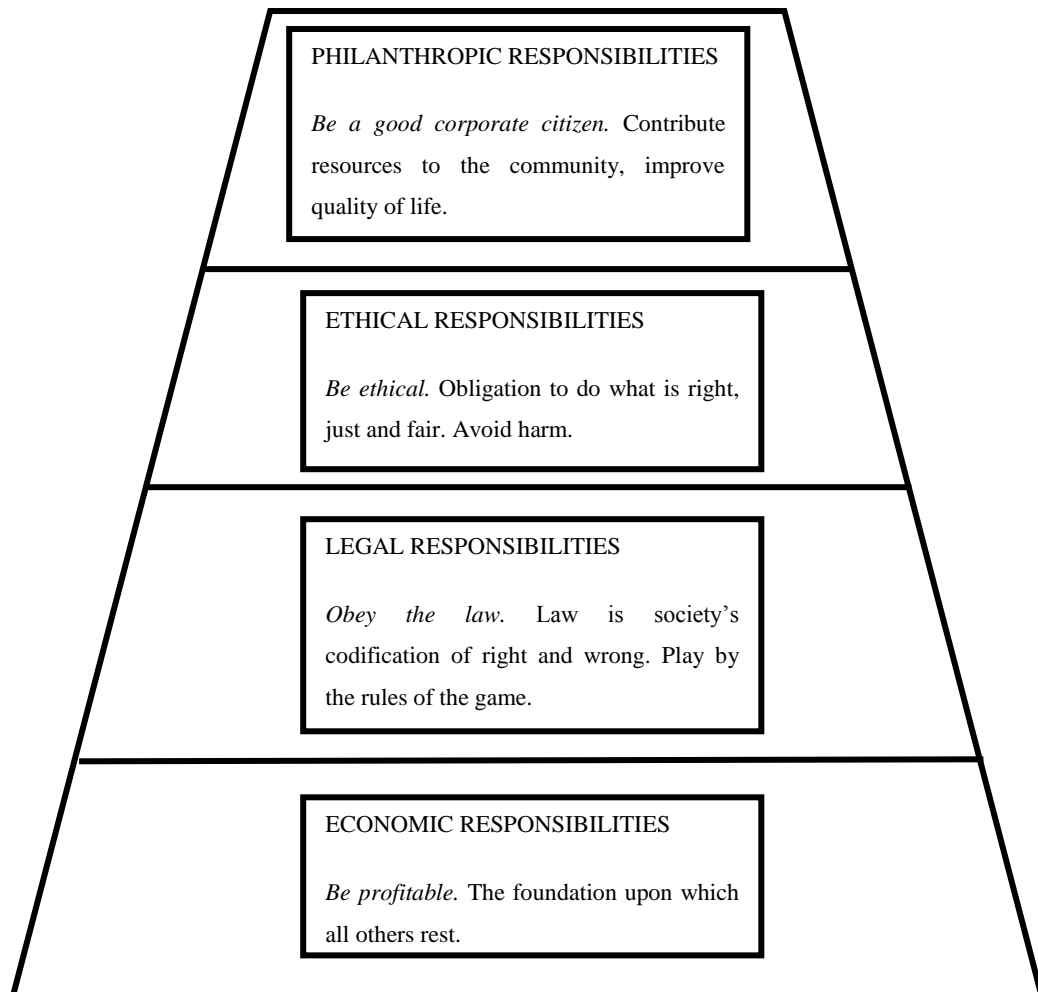
The strictly economic view of business responsibilities was personified by the American economist Milton Friedman who, in the 1970s, argued that “[...]a corporation is an artificial person and in this sense may have artificial responsibilities, but “business” as a whole cannot be said to have responsibilities, even in this vague sense” (Friedman 1970, 122). He went on to state that since a corporate executive is essentially an employee of the owners of the corporation, the only responsibility of the executive is to “conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom” (Friedman 1970, 122). Thus, Friedman clearly acknowledged corporations’ roles and responsibilities as entities subject to the law. However, from his point of view, directing company resources away from business purposes constituted as irresponsible corporate behaviour as these resources belong to owners, employees and customers.

One of the best-known and more endorsing views on CSR from the same decade is the category model by Archie Carroll. In 1979, Carroll argued that in order to address the entire range of obligations that businesses have to society,

the definition of social responsibility must embody the economic, legal, ethical, and discretionary categories of business performance (Carroll 1979, 499). The economic category includes corporations' responsibilities, as economic units, to produce goods and services that the society wants, and sell them at profit. The legal category maintains corporations' responsibility to fulfil its economic mission within the framework of legal requirements. The ethical category includes those expectations by society which are not necessarily codified in laws but can still be seen as responsibilities. The discretionary category is for those responsibilities which are left to individual choice and are not generally expected or required of companies, and are thus essentially voluntary. These categories were not be seen as mutually exclusive and any given responsibility could have economic, legal, ethical, or discretionary motives embodied. (Carroll 1979, 500).

In 1991, Carroll refined his model of categories by changing the term discretionary to philanthropic and by constructing a four-part pyramid model of corporate social responsibility, presented as Figure 1 on the next page. As with his earlier model of categories, Carroll maintained that the pyramid and its layers should be seen as a unified whole. However, unlike the 1979 model of categories, the pyramid portrays the four layers of CSR in a manner which places the notion economic responsibilities as the building block for all the other layers. Philanthropy is also purposely placed on the top as an icing of the cake because, although it is highly desired, it is perceived less significant than the other three layers of corporate social responsibility. (Carroll 1991, 43).

Figure 1. The Pyramid of Corporate Social Responsibility (Carroll 1991, 42).



As was explained in the previous sub-chapter, the 1970s were still the early days of CSR and since the concept has gained more public recognition, both Friedman's and Carroll's views have provoked both supportive and critical responses. Many CSR advocates have criticised Friedman for portraying CSR as something that can only increase costs for corporations. However, his argument about the scope of corporate social responsibilities has also received support. After all, Friedman did not deny the existence or acuteness of social problems but stated that it is not the role of businesses to attend to them. When decisions concerning general social concerns are taken by an individual firm

and its corporate managers, the danger is that these issues are addressed by business people who may lack the relevant knowledge and desirable expertise (Robins 2008, 335).

Moreover, CSR activities often require some trade-offs between the financial resources of the corporation and the ethical outcomes (Doane 2005, 24). As of yet, there is very little actual empirical evidence for the claims that acting in socially responsible manner would contribute financially to companies' well-being. Thus, when a publicly listed company decides to support social causes, it almost necessarily does so by using income that would otherwise be paid to shareholders or employees, and does this without any certainty of financial return (Robins 2008, 334).

Carroll's pyramid model is often praised for its pragmatism and for the fact that it acknowledges the demands placed on corporations to be financially profitable and to do so in a legally defined framework (Crane & Matten 2007, 47). For this reason, the pyramid approach has been the basis for numerous other CSR definitions. It has been especially widely used by corporations in their efforts to communicate company codes of ethics and CSR strategies to the public. The term triple bottom line is most often used in this context to convey the message that although corporations are interested in their financial bottom line, they also measure their success by ecological and social performance.

The hierarchical structure of Carroll's pyramid has, however, raised some criticism. By placing the economic responsibility layer as the building block for all the other layers, Carroll has, perhaps inadvertently, contributed positively to those statements which try to promote CSR as a means to improve financial performance. In other words, by emphasising the financial responsibilities over the others at the same time as linking the layers with each other, he has placed corporate wealth creation as one of the overall aims of CSR strategies. As was stated before, so far the results from assessments concerning the correlation between companies' financial performance and social performance have been rather vague. Nevertheless, the continuing focus on this side of CSR sometimes

draws attention away from questions concerning the effects CSR activities actually have on society (Margolis & Walsh 2003, 278).

In addition, one of the main limitations of Carroll's model is that it does not provide much help in situations when the different layers or responsibilities are in conflict (Crane & Matten 2007, 47). Although it is perhaps fairly straightforward to define the legal operational framework for a corporation in a specific context, situations concerning ethical responsibilities, for example, are often more complex and easily contrast with other responsibilities. Thus, the problem of balancing differing interest persists, and this is what will be discussed in more detail next.

2.1.3 To Whom Do Corporations Have Responsibilities?

CSR expectations towards corporations come from various different sources. One of the most pressing challenges for corporate managers is to define to whose interests they should pay attention to in decision-making processes and business activities. As was explained earlier, CSR critics such as Milton Friedman have often defined business responsibilities strictly in terms of fiduciary duties to shareholders. This view is often criticised as too narrow by the supporters of the idea of corporate social contract which strives to take into account the short- and long-term interests of other individuals, groups and institutions.

The best-known and perhaps also the most influential managerial approach in this area has been the stakeholder theory from the year 1984. The theory was developed and later revised by the American philosopher and professor of business administration R. Edward Freeman. Stakeholder theory contests the views of Milton Friedman and his supporters who have maintained that the main responsibility of corporations is to their shareholders. According to the stakeholder theory, the network of corporate stakeholders includes various other actors besides shareholders. Corporate managers must take into account the effects of their actions on several other parties, as well as the other parties' potential effects on the corporation. This approach entails that corporate

managers strive to understand stakeholder behaviours, values and contexts. (Freeman 2004, 231). Thus, whilst managers have a fiduciary responsibility to look after shareholders' interests, this responsibility must be balanced with the potentially competing interests of other stakeholders.

Freeman's stakeholder theory asserts that any business can be seen as a set of relationships among different groups, all of which have a stake in the activities of that particular business. Because the stakeholders are expected to have a stake in the decision-making processes, an effective stakeholder engagement by corporations entails strategic approaches for engaging stakeholders in an ongoing dialogue. According to Freeman, "[...] stakeholder approach emphasizes the importance of investing in the relationships with those who have a stake in the firm. The stability of these relationships depends on the sharing of, at least, a core of principles or values. Thus, stakeholder theory allows managers to incorporate personal values into the formulation and implementation of strategic plans." (Freeman 2004, 234).

Although there has not been that much debate about what kind of entities can be considered as stakeholders, stakeholder identification in terms of their salience has provoked more discussion. One of the most widely used definitions for a stakeholder is the one provided by Freeman himself in 1984. He defined a stakeholder as "[...] any group or individual who can affect, or is affected by, the achievement of the organization's objectives." (Freeman 1984, 46). Based on this definition, the traditional approach has been to define a company's relationship with its stakeholders in terms of its relationship with investors, customers, employees, suppliers, governments, local communities, civil society organisations, trade association, and other internal and external parties.

However, Freeman's definition maintains an extremely theoretical perspective of stakeholders and offers very little help to managing contrasting claims from different stakeholders. Many have pointed out that it is a pragmatic reality that managers cannot even attempt to attend to the needs and claims of all potential stakeholders. Thus, the degree to which managers prioritise stakeholder claims

has to go beyond the question of mere stakeholder identification and involve some sort of qualitative assessment.

To that end, Geoffrey P. Lantos has suggested that stakeholder groups and individuals essentially exist at four different levels. The first level is the macro-environmental level of larger societal factors, including the social system and the business system, consisting of economic, legal, political, natural and socio-cultural forces and institutions. The second level is the corporation's micro-environment which consists of exchange relationship partners, such as suppliers and distributors, competitors, customers, shareholders and local communities. The third level of stakeholders is within business entities themselves and consists of supervisors, subordinates, colleagues and labour unions. The fourth level of stakeholders includes the peers, families and friends of business decision-makers. (Lantos 2001, 604).

These levels may help to define the relevant stakeholder groups and individuals in terms of their relevance and proximity to a company and its decision-makers' interests. However, prioritising the claims from these different levels is still a challenge. According to Bradley R. Agle, Ronald K. Mitchell and Donna J. Wood, stakeholder groups and claims should be classified by their possession of power to influence the company, the legitimacy of their relationship with the company, and the urgency of their claims on the company (Agle, Mitchell & Wood 1997, 854). Based on this model, managers can classify the claims of stakeholders by considering the power relationship between the company and the stakeholder, the overall legitimacy of the stakeholders' claims, and the degree of urgency to which stakeholder claims call for immediate attention.

However, the ability of business managers and decision-makers to recognise what is expected of them in terms of CSR, and to classify stakeholder claims according to certain criterion is often considered as insufficient conditions for CSR practices to achieve desired social goals. When CSR decisions are left to managers without any third party assessments, many have speculated that businesses will just mix-and-match stakeholder claims and CSR activities according to whatever is most convenient for them. For this reason, the

voluntary vs. mandatory CSR discussions have become the watershed debates when it comes to the effectiveness of CSR practices. Some of the reasons behind and outcomes of these debates will be discussed next.

2.1.4 Who Has the Right to Decide on and Monitor Corporate Social Responsibility?

One of the main reasons behind the debate on corporate social responsibility is that corporations, CSOs and policy-makers tend to have different opinions on whether CSR should be regarded as a voluntary practice, or whether regulatory framework is needed to reinforce the applicability of the concept and everything it includes. Companies often fear that unless CSR remains voluntary and business-led activity, governments will introduce more restrictive legislation as well as time-consuming, bureaucratic implementation practices. Thus, while many businesses leaders have responded to public demands by establishing self-regulatory but essentially voluntary company codes of conduct regarding CSR, they have opposed the proposals for more established and standardised public policies (Albareda 2008, 433).

Many civil society organisations, however, see voluntary CSR codes of conduct and annual CSR reports as corporate propaganda and window dressing. They have often taken the stand that without means of economic coercion or binding legal obligations, companies will never act in a truly socially responsible and accountable manner (Winston 2002, 76). Pressure groups, charities, local community groups, non-governmental organisations and other types of CSOs have also frequently pointed out that, as representatives of collective interests of individual citizens, governments and CSOs should have a say on matters that enable or constrain 'acceptable' business behaviour (Crane, Matten & Moon 2004, 110). As a result, standard and rule setting frameworks from CSOs, often in collaboration with business entities and governments, have become one of the most rapidly developing fields of corporate self-regulation (Crane & Matten 2007, 15).

Governments have traditionally adopted a somewhat neutral position somewhere between the regulatory and voluntary approaches. In most cases, governments have been satisfied with monitoring and regulating specific areas directly related to CSR, such as labour rights and environmental standards. Broader and more encompassing regulative frameworks, especially at international level, have often been seen as infeasible or politically costly and generally not desirable (Steurer 2010, 50).

In recent years, however, some governments have started to show a more active involvement in CSR. In spring 2000, the new Labour government of the United Kingdom appointed the first minister of corporate social responsibility to provide focus and strategic leadership for the country's CSR policies. In Sweden, the Finance Ministry has monitored public pension funds since 2001 when it became obligatory for these funds to meet certain ethical and environmental standards. In the same year, the new economic regulations in France made CSR disclosure mandatory for publicly listed companies in their annual reports. Similarly, in December 2008, the Danish Parliament adopted an amendment to the country's Financial Statements Act which now requires over 1000 of the country's largest private and state-owned businesses to include information about their social responsibility positioning, policies and activities in their annual reports.

Many intergovernmental organisations have been at the forefront on setting and publishing CSR programmes and instructions as a point of reference for corporations. The United Nations (UN), for example, launched its Global Compact in the year 2000 as a policy platform and practical framework for businesses which are committed to responsible corporate practices and sustainability. The Global Compact aims to align business activities and strategies with then principles in the areas of labour, human rights, environment and anti-corruption. Correspondingly, The Organisation for Economic Co-operation and Development (OECD) has also published its recommendations on responsible business conduct. Addressed by the governments of the 33 member countries, OECD Guidelines for Multinational Enterprises contain

advice in areas such as consumer interests, industrial relations, human rights, environment, employment, bribery and taxation. However, like most publications and programmes by intergovernmental organisation, both the UN Global Compact and the OECD Guidelines are voluntary recommendations, and as such do not replace local laws or oblige companies to adopt specific compliance policies.

Finally, it should also be noted that views on the regulatory vs. voluntary issue of CSR differ because of the different cultural factors, socio-political traditions and institutional environments of countries and regions. In the United States of America, for example, corporations have traditionally engaged in explicit CSR practices much more than many Western European corporations which, in turn, have been involved in more implicit approaches (Crane & Matten 2007, 51). This is due to the fact that the Western European thinking usually sees the state as the funding and operational source of, for example, public services and social benefits. In the US, however, corporations are often expected to take on a philanthropic role, and interventions from the state are mostly seen as an interference with private liberty (Crane & Matten 2007, 52). Europeans have thus often been more open towards regulatory intervention in CSR related matters. The relations between businesses and governments, and the role of CSR in public policies are discussed in more detail in the following sub-chapter.

2.2 Corporate Social Responsibility and Public Policies

As was mentioned earlier in this thesis, few government initiatives or interventions have been undertaken as explicit CSR policies or integrated CSR strategies. The traditional view of CSR as a voluntary contribution has meant that corporations' CSR activities have started from where the regulatory framework ends. Governments' role has been to issue a legislative framework as one of the barometers according to which the baseline of generally acceptable business conduct can be set. CSR practices have been seen as additional business activities and their implementation, as well as effectiveness, has usually been left to companies to monitor and regulate. As was pointed out

earlier, this approach has generally been supported by business leaders. However, many groups of stakeholders have started to question corporations' motivation for self-regulative CSR. In addition, questions have been raised whether business leaders are the best people to assess social needs as well as the effectiveness and validity of CSR measures.

This sub-chapter examines the public policy perspective on corporate social responsibility. It will start with an overview of the relations between the three key players in this equation, namely corporations, governments and intergovernmental organisations. After this, the role of CSR in institutional and legislative public policy frameworks is discussed in more detail.

2.2.1 Relations between Corporations, Governments and Intergovernmental Organisations

In order to examine the relationship between corporations and governments it is necessary to specify the roles of both in more detail. Andrew Crane and Dirk Matten have defined government as a group of actors, institutions and processes that, at different levels, share a common power to issue laws which serve as a codification into explicit rules of the social consensus about what a society regards as right and wrong (Crane & Matten 2007, 457). This definition encompasses the multi-level dimension of governments which exist at different territorial and administrative levels. Although various different organisations have governing bodies, for the purposes of this thesis the main focus will be on national governments and multi-national, intergovernmental organisations.

Corporations are generally regarded as being business associations which are notionally owned by their respective shareholders but exist independently of them. This means that corporations hold their own assets and shareholders are not responsible for the debts or damages caused by corporations. Managers and directors of corporations have a fiduciary duty to protect the investment of shareholders and act in their best interest. In the eyes of the law, corporations are generally regarded as artificial persons with certain rights and responsibilities in societies. (Crane & Matten 2007, 43).

Based on these definitions, it is easy to see why governments are an important concern for corporate managers. With their legislative power, governments have a huge impact on the competitive context in which corporations execute their business strategies as governments can both restrict corporate activities and protect their interests. However, this power does not stem directly from a fixed level of hierarchy. By using R. Edward Freeman's definition of a stakeholder as a group or an individual who can affect or is affected by organisations' objectives, it can be argued that governments are in fact business stakeholders. This position manifests itself in at least two different ways.

First of all, in most democratic societies governments are elected by a public vote and can thus be seen as representatives of citizens' interests. As representatives of communities they become stakeholders with a power to define the conditions for corporations' licence to operate. In other words, they can either restrict or enable business activities according to their electorates' mandate (Crane & Matten 2007, 459). Secondly, governments are also actors with interests of their own. Their success and re-election is often defined in terms of their ability to uphold and improve the economic well-being of communities (Crane & Matten 2007, 460). In this respect, they are affected by corporate actions and business objectives. Just as governments have an impact on business environment, corporations can also influence government actions.

The relationship between corporations and governments becomes somewhat more complicated in the context of globalisation. In an economic and political environment that embraces the notion of integration and common markets, corporations have gained certain power over national civil governments. Although they cannot ignore national legislative and regulatory frameworks, they can relocate with relative ease to countries with more desirable conditions, and consequently cause economic damage to the countries they decide to leave behind.

Furthermore, in this global setting national civil governments have increasingly become addressees of trans-national regulations. Major intergovernmental

organisations, such as the UN with its various agencies, the OECD, the EU, and other organisations operating in a multinational and multilateral setting have become to play the part of international regulatory forums. The existence of these organisations has restricted the traditional freedom of policy making at national levels as the member states now need to take into consideration the coherence between national and trans-national frameworks.

While this kind of environment offers member states and their governments a beneficial medium of convergence in terms of their public policies (Utchay 2005, 158), it also brings along extra layers of governance. In most cases, the member states of intergovernmental organisations are expected to ensure that the decisions made at the intergovernmental level are respected at and applied to national level. It should be noted, however, that many intergovernmental organisations still emphasise and depend on the initiatives and activities of national governments. The European Union, for example, operates under the principle of subsidiarity which maintains that, in the areas where the EU does not have exclusive competence, it will only act if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the member states alone. Thus, although the autonomy of national governments has been decreased it has not been completely eradicated.

Furthermore, as was discussed earlier in this thesis, the traditional roles of governments and corporations have become somewhat interwoven in most Western societies. In the context of corporate social responsibility, the increased privatisation of public services and the growing power and visibility of corporations has prompted many citizens to place more social expectations on corporate actors. This change has also been driven by the recognition that governments alone lack the resources, skills and, in certain situations, even the will to deliver desired results (Nelson 2004, 3). Thus, the expectations placed on corporations often emphasise proactive rather than reactive role in shaping governance structures and public policies to support the achievement of broader economic, social and environmental goals (Nelson 2008, 9). The role of

corporate social responsibility in public policies, and the different actors in the public policy-making processes are examined next.

2.2.2 Corporate Social Responsibility as a Public Policy

Public policies are usually defined as attempts by governing bodies to address a public issues and concerns. In this sense, they are the finalised courses of action which have been decided upon after an actual or a potential problem has been identified. In most cases, public policies require a regulatory framework which defines restrictions, requirements and recommendations for action. In business context, this kind of regulation can be defined as rules, laws, directives, mechanisms, sanctions, processes and incentives issued by governmental actors or other delegated authorities to constrain, enable, or encourage particular business behaviour (Crane & Matten 2007, 458).

CSR related issues, such as environmental protection, human rights and corruption prevention are often addressed in governmental public policies. However, public policies which are built around the concept of CSR have proved to be challenging to construct. This is partly due to the fact that the definition for the concept itself is still under debate. In addition, the part that governments should play in CSR policies is a controversial topic. For these reasons, many governments have decided to restrict their involvement to only certain aspect of CSR. Furthermore, apart from corruption prevention, these regulations have often been placed in the context of environmental or social agendas, rather than in corporate behaviour related policies as governments have been reluctant to put the blame or responsibility exclusively on corporations.

Advocates of government-led CSR public policies have argued that the most effective and appropriate responses by businesses vary depending on the type of governance and institutional frameworks that exist in regions or situations in question (Nelson 2008, 5). Active involvement by governments in CSR policies is therefore believed to foster the dedication of corporate actors. Moreover, governmental involvement is often seen as a way to ensure that corporate CSR

activities are duly monitored and measured. This, in turn, provides a more formal system for bench-marking. It has also been pointed out that, in addition to ensuring corporate accountability, many CSR related regulatory efforts, such as social and environmental labelling of goods, have been effective tools for changing consumer behaviour (Doane 2005, 28).

As a response to these kinds of public opinions, many governments have started to develop their own CSR public policies. The regulative framework for these policies, especially at trans-national level, has often evolved around the so-called soft law measures, such as codes of conduct and guidelines, and promotion of best-practice approaches. In this sense, governments have usually strived to promote CSR policies as complements to the binding hard-law measures which exist in CSR related policy areas (Steurer 2010, 58). Soft-law centred approaches have often been seen as relatively feasible for corporations to implement, and have posed limited political risks for governments.

When it comes to business related government initiatives, corporations have traditionally used tactics such as lobbying as a persuasive attempt to influence governmental policy-making processes. However, as was mentioned earlier, the public has increasingly started to expect more proactive involvement from corporations in public policies which strive to resolve social and environmental issues. As a result of these expectations, and as a means of protecting their own interests, many corporations have become active in self-regulative policy-making processes.

The idea behind self-regulative approaches is that various actors are involved in setting up the regulative framework that they themselves will be affected by (Crane, Matten & Moon 2004, 17). In the context of CSR, the actors involved in these kinds of policy measures have usually been governments, industry representatives, corporations and civil society organisations. One example is Responsible Care which currently operates as the chemical industry's CSR initiative. Companies in chemical industry work together under Responsible Care, through their national associations, to improve the health, safety and environmental performance of their industry. However, much like the CSR

policies developed by governments and intergovernmental organisations, self-regulative initiatives such as Responsible Care remain essentially voluntary in nature.

The active inclusion of corporations into CSR public policy making has also raised certain concerns which go beyond Milton Friedman's argument of corporations not being responsible for social issues. One of these concerns has been that "[...] attempts by governments and others to engage companies in too many social issues beyond their area of core competence and material interest, will not only distract business leaders from focusing on getting the financial, social and environmental performance of their 'business basics' right, but may also 'let governments off the hook'." (Nelson 2004, 15). Views like these maintain that it is ultimately the role and responsibility of governments to attend to the social needs of the public. If this role would become dominated or even shared by corporate actors it "[...] would almost inevitably engender competition between business and government, not in the economic sphere where we are familiar with it and can handle it, but in the political and social spheres." (Robins 2008, 336).

Regardless of the aforementioned controversies surrounding the topic, corporate social responsibility has gained a footstep in many public policy discussions, and in most cases governments have supported and encouraged corporate input in these processes. The effectiveness of regulatory policies as opposed to more voluntary approaches has raised a lot of interest and debate but so far there does not seem to be much actual empirical evidence to support either view. Regulatory approaches have nevertheless received support as third-party intervention mechanisms which help to ensure that relevant and accurate information is made available to the wider public. As a consequence, and as has already been seen in countries such as Denmark and France, one of the developments which has gained momentum in recent years is the increase in disclosure requirements concerning corporations' ethical, social and environmental position and performance (Nelson 2004, 13).

3 RESEARCH METHODOLOGY

This chapter presents the research methodology that has been applied to this thesis. First, the process of choosing the research topic, problem, purpose and questions for this thesis is explained. After this, the research design and chosen research methods are discussed in more detail. The final sub-chapter addresses the selection process for and the nature of the data that has been used in this thesis, and also discusses the issues concerning the validity and reliability of the data.

3.1 Formulating Research Topic, Problem, Purpose and Questions

The first step in the process of writing this thesis was to choose a research topic. A research topic can be defined as a phenomenon or theme to be studied and it is usually broader and more general than a specific research problem (Ghuri & Grønhaug 2010, 30). Corporate social responsibility was chosen as a research topic because it has been a much discussed business issue for over four decades but has still remained a rather controversial and complex topic with many facets.

From the topic area of corporate social responsibility, it was necessary to move to the formulation of the research problem of the thesis, i.e. what more specific issue would this thesis address and investigate. The identification of the research problem was helped by a sample of past literature which enabled the researcher to examine the most debated issues concerning CSR. From this sample, it was clear to see that many discussions have traditionally revolved around questions concerning the exact nature and extent of business related social responsibilities. Partly as a result of these discussions, issues concerning voluntary versus regulatory CSR approaches have also been under continuous debate. These debates have often focused on who are or who should be the main actors in CSR activities.

A little less CSR related attention has been paid to the roles and relations between and among corporations, governments and intergovernmental

organisations, especially in terms of the institutional and global changes of the recent past. As the matter is nevertheless very current and worthy of further examination, it was decided that this thesis would investigate the role of CSR in public policies. A trans-national and multi-governmental setting was chosen as a focus area for this research problem because this can be seen as an environment where regulatory oversight is usually considerably weaker.

After the research problem had been defined, the actual purpose of the thesis needed to be specified as this helps to explain both why and to what extent the research is conducted (Ghauri & Grønhaug 2010, 44). As the European Union has been trying to formulate its CSR public policy for the member states during the past decade, it was decided that the thesis would focus on the public CSR policy development processes of this intergovernmental organisation. Within this framework, it was established that the purpose of the thesis would be to examine the challenges the EU has encountered in its CSR policy development process and assess the effects these challenges have had on the overall process. In order to address this purpose in an orderly manner and to identify the relevant data needed in the writing process, two specific research questions were developed as a means of elaborating the purpose:

- 1) Why has it been challenging to develop an EU level public policy for CSR?
- 2) How have the challenges affected the overall public policy development process?

The research problem, purpose and questions have an impact on the choice of research approach, i.e. the design and methods that are used in the research process. These issues are discussed in more detail in the next sub-chapter.

3.2 Research Design and Methods

Research design can be defined as a strategy or a framework for gathering the information needed to investigate the research problem under scrutiny. A well chosen research design is effective in producing the information needed and

wanted within the constraints put on the researcher (Ghauri & Grønhaug 2010, 54). Research designs can be classified into three different categories: exploratory, descriptive and causal. Exploratory research design is used when the research problem lacks a definite structure and the research process requires skills such as ability to observe, collect information, and construct explanations in a flexible manner (Ghauri & Grønhaug 2010, 56). In descriptive research, the research problem is structured and well understood, and the research process is conducted under precise rules and procedures for all variables in order to produce an accurate description. Causal research design differs from descriptive in that, although the problems under scrutiny are structured in both cases, causal research also aims to examine to what extent a specific cause may or may not result in certain effects (Ghauri & Grønhaug 2010, 57).

Research methods refer to systematic and focused collection and analysis of data for the purpose of gaining information that is needed to solve or answer a research problem or question (Ghauri & Grønhaug 2010, 104). These methods are conventionally divided into qualitative and quantitative methods. Quantitative methods place emphasis on testing and verification, employ controlled measurements, and aim to determine the truth or falsehood of a pre-determined hypothesis (Ghauri & Grønhaug 2010, 105). Qualitative methods, on the other hand, tend to be exploratory and their main emphasis is usually on gaining insight and constructing explanations or theories (Ghauri & Grønhaug 2010, 196).

For the purpose of this thesis, the most suitable research design is exploratory research because the research problem is a current phenomenon in a real-life context. In addition, the concepts and variables under investigation are complex, difficult to quantify, and require an interpretative approach which takes into account the different aspects of the research problem. Although the second research question of this thesis requires some analysis in terms of causality, it should be noted that the scenarios discussed in this context are expected to

manifest contextual correlation rather than uniform causality, and therefore remain in the area of exploratory research.

In terms of research methods, a qualitative approach has been chosen for this thesis. This is because the research problem is difficult to study with controlled, specific measurements. In addition, as the purpose of this thesis is not to prove or disprove a pre-determined hypothesis, but to investigate and explain a phenomenon that can be seen as context sensitive, qualitative research provides methods which enable a more exploratory orientation to the research problem. When it comes to data collection and analysis, in qualitative research these two activities are often conducted simultaneously in an interactive way (Ghuri & Grønhaug 2010, 197). These processes are discussed in more detail in the next sub-chapter.

3.3 Data Collection and Analysis

Data used in research can be divided into two different categories. Primary data consists of data collected by the researcher in question. Typical collection methods include observations, experiments, surveys and interviews. The main advantage of primary data is that, as it is collected for a particular project at hand, it is usually very consistent with the research questions and objectives (Ghuri & Grønhaug 2010, 99). Collecting primary data is, however, a very time-consuming process. Furthermore, it provides the researcher with less control of the process as a whole as the researcher is fully dependent of the willingness and ability of the respondent to cooperate (Ghuri & Grønhaug 2010, 100).

Secondary data, on the other hand, consists of information that has been gathered and published earlier by someone else and not specifically for the particular research at hand. When compared to primary data, the practical advantage of secondary data are the savings in terms of time and other resources as well as relatively easy access to information. Secondary data sources also facilitate cross-cultural/international research as they provide a comparison instrument by which results can be interpreted (Ghuri & Grønhaug

2010, 94). Disadvantages of secondary data include factors concerning timeliness, suitability and accuracy of information gathered by others with different objectives.

As the purpose of this thesis is to examine a process that has been initiated by a multi-institutional intergovernmental organisation, and because the process in question has been going on for nearly a decade, the research relies heavily on secondary data sources. In addition, as the research purpose requires a framework which leaves room for multi-level comparisons as well as for longitudinal analysis of the research problem time wise, it is more feasible to use secondary data as the main source of information. Using primary data sources without jeopardising the research purpose would have required the use of data collection methods, such as questionnaires and surveys, at numerous points in time as well as at various levels of different organisations and institutions.

In this thesis, secondary data was first used in the initial problem formulation stage. Previous literature concerning CSR was studied in order to map out the general topic area. After the research problem, purpose and questions of this thesis were defined in more detail, the secondary data available was scanned more carefully. For the theoretical background of this thesis, which is presented as literature review in chapter two, books, journals, articles and websites have been examined based on their relevance to the key issues of corporate social responsibility, business ethics, corporate governance, public policies and business-government relations at national and international levels.

At this point of data research, it was important to keep in mind that secondary data sources provide information which has often been collected for different purposes or with a different scope than that of the current research (Ghauri & Grønhaug 2010, 90). For this reason, not only the relevance of the data was scrutinised but also the timeliness and objectivity of the information published by the sources. Therefore, although it has sometimes been necessary to use information that is somewhat dated, biased or controversial, the original context

as well as the relevance of these sources to the purpose of this thesis has been explained to the reader.

The other set of secondary data that has been used in this thesis and is discussed in more detail in the next chapter consists of the official CSR communications published mainly by the European Commission. Although these communications are clearly valid for the research purpose of this thesis and their reliability as a source of information is hard to question, it is still important to keep in mind that they have been published by an institution with specific departments for different policy areas. What this means is that although they have been published as communications of the European Commission as a whole, not all the departments have been as actively involved in drafting these communications as some of the others have, and this factor should be noted when analysing the policy development processes.

4 EMPIRICAL FINDINGS

In this chapter, the European Union's CSR policy development processes are examined and analysed in more detail. Because it is beyond the scope of this thesis to examine all CSR related activities and initiatives by the EU, the focus is on the CSR public policy work initiated and facilitated by the European Commission during the past decade.

The first part of the chapter provides a chronological overview of the policy development processes by summarising the content of the three CSR policy-themed publications by the Commission as they have in many ways provided the foundation for most CSR related activities at the EU level. A sub-chapter is also dedicated to describe the work and role of the European Multi-Stakeholder Forum on Corporate Social Responsibility (EMSF), a forum set up, facilitated and chaired by the Commission as a part of its CSR policy strategy. The second part of this chapter examines the public policy developments and their outcomes in the light of the theoretical background presented in chapter two and within the framework of the research questions of the thesis.

4.1 Corporate Social Responsibility Policy Developments at the European Union Level

Corporate social responsibility has officially been part of the European Union's policy development processes since the Lisbon Summit in March 2000. During the Summit, the heads of states and governments launched a Lisbon strategy with an aim to make the EU the most competitive economy in the world with full employment by 2010. These strategic goals were to be achieved by combining economic reform and social cohesion with the formation of a more knowledge based economy. Based on these strategic goals, the European Council made a direct appeal to corporations concerning their CSR practices (Perrini, Pogutz & Tencati 2006, 16).

The Summit was also the starting point for the on-going CSR policy development processes at the EU level. In June 2001, the European

Commission was requested to prepare a paper detailing possible steps in CSR policy development. The Commission responded by publishing a Green Paper on CSR as a discussion document to launch a consultation amongst stakeholders in July 2001. After further periods of consultation, the Commission published two CSR related Communications, the first in 2002 and the second in 2006, with more detailed steps to foster and develop EU wide CSR policies. As a more pragmatic step, the Commission has also launched, facilitated and chaired a European multi-stakeholder forum on CSR for representatives from business and employers' organisations, trade unions, civil society organisations and other stakeholders. These development steps are explored in more detail in the following sub-chapters.

4.1.1 Green Paper on Promoting a European Framework for Corporate Social Responsibility

The Commission's first strictly CSR related publication was the Green Paper on promoting a European framework for Corporate Social Responsibility. The paper was prepared by the Commission's Directorate-General for Employment, Social Affairs and Inclusion, and was published by the Commission in July 2001 with an aim 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." (European Commission 2001, 3).

The paper invited public authorities, international organisations, multinational corporations as well as small and medium-size enterprises, civil society organisations, and other interested stakeholders 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 the interests of both business and stakeholders." (European Commission 2001, 21). With the help of exemplary questions, the Commission asked respondents to define their

perceptions of the roles that businesses, civil society organisations, the EU and other public authorities should occupy in terms of CSR policy developments. Respondents were also encouraged to propose effective methods to develop, implement, manage and evaluate CSR practices and instruments, and to suggest appropriate actions to promote and support the development of CSR.

Although the Green Paper was essentially consultative in nature, it offered an initial EU perspective on CSR for the readers to review. In the paper, the Commission defined CSR as “[...] a concept whereby companies decide voluntarily to contribute to a better society and cleaner environment” (European Commission 2001, 4). The concept was divided into two dimensions: internal and external. While the internal dimension was seen to encompass issues such as human resource management, health and safety, change management, and management of natural resources (European Commission 2001, 8), the external dimension was defined in terms of business relationships with stakeholders such as local and global communities, business partners, suppliers, consumers, public authorities and civil society organisations (European Commission 2001, 11).

In business context, the paper described CSR as an investment because it is “[...] a process by which companies manage their relationships with a variety of stakeholders who can have a real influence on their license to operate [...]” (European Commission 2001, 4). In political context, a European approach to CSR was seen as a complement to existing initiatives, such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises. As such, the approach was seen as a promotional framework for the quality and coherence of CSR practices, principles and ideas, as well as a supporting mechanism for independent verification of the effectiveness and credibility of CSR practices (European Commission 2001, 6). However, the paper also stated that CSR should not be seen as “[...] a substitute to regulation or legislation concerning social rights or environmental standards [...]” and that “[...] 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.” (European Commission 2001, 7).

4.1.2 Communication from the Commission Concerning Corporate Social Responsibility: A Business Contribution to Sustainable Development

The consultation period for the Green Paper on promoting a European framework for Corporate Social Responsibility lasted until the end of year 2001. As a follow-up for the Green Paper, the Commission published a Communication titled Corporate Social Responsibility: A Business Contribution to Sustainable Development in July 2002. According to the Communication, the Commission received over 250 responses to the Green Paper. Nearly half of these came from business organisations, employers’ organisations and individual enterprises. Trade unions, civil society organisations, and other organisations at local, regional, national, European and international level had also provided feedback. In addition, comments and feedback had also been received from other EU institutions, some individual member states, academics and other interested individuals. (European Commission 2002, 3).

Although the received feedback had been mostly in support of EU action in the field of CSR, the Communication stated certain differences between positions adopted by the respondents. Most responses had “[...] stressed the important role played by governments, international organisations and the civil society in raising awareness and enforcing implementation of internationally agreed social and environmental standards” (European Commission 2002, 7). However, most business representatives had emphasised the voluntary nature of CSR, while trade unions and civil society organisations had advocated for regulatory framework and had emphasised that in order to be credible, CSR practices should be developed, implemented and evaluated with the involvement of relevant stakeholders. In line with trade unions and CSOs, many investors and consumer organisations had also stressed the need to improve disclosure and transparency as well as overall information sharing practices. (European Commission 2002, 4).

In their responses, most EU institutions and Committees had emphasised the complementary nature of the European approach to CSR as an added value to existing local, national and international agreements and frameworks (European Commission 2002, 4). Based on this view and other responses, the Commission stated in its Communication that “[...] at global level, just as at European, the implementation of CSR principles should also go over and above the legal requirements that businesses need to comply with, and approaches should involve consultation with local stakeholders” (European Commission 2002, 7). The Communication also adopted the stance that although public policy can contribute to the development of an action framework which, in turn, can promote transparency and credibility for CSR practices, community action in the field of CSR should be built on the core principles laid down in international agreements and should be developed in full respect of subsidiarity principle (European Commission 2002, 8).

Based on the received responses, the Communication presented the Commission’s proposal for a strategy to promote CSR as a means for the EU to meet the goals adopted by the Lisbon Summit in March 2000 and by the European Strategy for Sustainable Development approved by the Göteborg European Council in June 2001, 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.” (European Commission 2002, 3). The Communication stated that the Commission will build this strategy on six guiding principles, listed in Table 1 on the next page. As its primary strategic focus areas, the Commission decided to emphasise seven points, presented in Table 2 on the next page.

Table 1. Principles for Community action (European Commission 2002, 8)

- **recognition of voluntary nature of CSR;**
- **need for credibility and transparency of CSR practices;**
- **focus on activities where Community involvement adds value;**
- **balanced and all-encompassing approach to CSR, including economic, social and environmental issues as well as consumer interests;**
- **attention to the needs and characteristics of SMEs;**
- **support and compatibility with existing international agreements and instruments (ILO core labour standards, OECD guidelines for multinational enterprises)**

Table 2. Strategic focus areas on CSR (European Commission 2002, 8)

- 1. Increasing knowledge about the positive impact of CSR on business and societies in Europe and abroad, in particular in developing countries;**
- 2. Developing the exchange of experience and good practices on CSR between enterprises;**
- 3. Promoting the development of CSR management skills;**
- 4. Fostering CSR among SMEs;**
- 5. Facilitating convergence and transparency of CSR practices and tools;**
- 6. Launching a Multi-Stakeholder Forum on CSR at EU level;**
- 7. Integrating CSR into Community Policies.**

4.1.3 European Multi-Stakeholder Forum on Corporate Social Responsibility

As was stated in the 2002 Communication, the European Commission acted on establishing, facilitating and chairing a CSR themed forum for European representatives of employer and business organisations, civil society organisations and trade unions. The mandate for the European Multi-Stakeholder Forum on Corporate Social Responsibility was officially approved in October 2002. It was agreed that the aim of EMSF is to promote CSR by fostering a dialogue between the different participating parties, and by raising the general level of understanding of CSR. The main objectives are to promote innovation, transparency and convergence of CSR practices and instruments (European Multi-Stakeholder Forum on CSR 2004, 2). In addition to the actual EMSF members, other stakeholders can also be invited to observe, participate and facilitate the work of the EMSF.

Between 2002 and 2004 EMSF organised four theme-based Round Tables, each of them meeting three times. These Round Tables concentrated on topic areas such as improving knowledge about CSR and facilitating the exchange of experience and good practice, fostering CSR among SMEs, diversity, convergence and transparency of CSR practices and tools, and development aspects of CSR. Each Round Table was organised according to principles which maintained that case examples were explored in a spirit of mutual respect, and experiences were presented, as far as possible, by multi-stakeholder teams (European Multi-Stakeholder Forum on CSR 2004, 3). In July 2004, EMSF presented a report on the work of each Round Table as well as a framework of conclusions and recommendations to the Commission.

Approximately two years later, in December 2006, the Commission hosted a plenary meeting of the EMSF in order to collectively review the implementation of the recommendations presented in the 2004 report. In February 2009, another plenary meeting was held to further review progress in CSR matters. The sessions on this meeting focused on global dimension of CSR, innovation and CSR, transparency and CSR, and education for CSR. The latest plenary EMSF meeting was held in November 2010 and focused on recent

developments in the field of CSR, and addressed issues such as responsible consumption, responsible investment, links between CSR and competitiveness, transparency and disclosure of non-financial information, business and human rights, and the global dimension of CSR in more detail.

4.1.4 Communication on Implementing the Partnership for Growth and Jobs:

Making Europe a Pole of Excellence on Corporate Social Responsibility

The Commission's latest official CSR-themed Communication, titled *Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility*, was published in March 2006. The Communication was directly addressed to the European Parliament, the Council and the European Economic and Social Committee but was published to the general public as well. The Communication draws on the review of past public debate and consultation concerning CSR, especially in the context of the European Multi-Stakeholder Forum on CSR. This review is then aligned with the revised Lisbon Strategy of sustainable growth and employment.

In the Communication, the Commission expresses its desire to give greater political visibility to CSR but it also maintained its position on the voluntary nature of CSR by stating that “[...] an approach involving additional obligations and administrative requirements for business risks being counter-productive and would be contrary to the principles of better regulation.” (European Commission 2006, 2). After acknowledging that businesses are the primary actors in CSR, the Commission states that CSR objectives can be best achieved by close cooperation with European enterprises, and announces its support for the launch of a European Alliance on CSR as a business-led, voluntary, open alliance for European enterprises to increase CSR uptake (European Commission 2006, 3).

The role and priority areas of the European Alliance for CSR are described in the annex attached to the Communication which states that basis for the Alliance is “[...] the understanding that CSR can contribute to sustainable development, while enhancing Europe's innovative potential and

competitiveness, thereby also contributing to employability and job creation” (European Commission 2006, 11). According to the annex, the Alliance evolves around raising awareness and improving knowledge, helping to mainstream and develop open coalitions of cooperation, and ensuring an enabling environment for CSR (European Commission 2006, 11). Businesses are described as the primary actors while public authorities have a supportive role to play. The Commission states its intention to step up its policy of promoting the voluntary and innovative efforts of companies on CSR by being consistent across the policy areas and integrating the promotion of CSR where appropriate (European Commission 2006, 13).

In the actual Communication, the Commission also states that external stakeholders should play a more prominent role in encouraging and rewarding responsible business behaviour, and that the position of “[...] employees, their representatives and their trade unions in the development and implementation of CSR practices should be further enhanced.” (European Commission 2006, 5). For this reason, the Commission promises to continue to facilitate further CSR dialogue with and between all stakeholders. The linkage between uptake of CSR in Europe and internationally is also addressed as the Commission stated that European companies should behave responsibly and in accordance with European values and internationally agreed norms and standards wherever they operate (European Commission 2006, 5).

As its proposed actions to promote further take-up of CSR practices, the Commission emphasised eight focus areas, summarised in table 3 on the next page.

Table 3. Proposed Actions to Promote Further Take-Up of CSR Practices (European Commission 2006, 6-8)

- 1. Awareness-raising and best practice exchange**
- 2. Support to multi-stakeholder initiatives**
- 3. Cooperation with member states**
- 4. Consumer information and transparency**
- 5. Research**
- 6. Education**
- 7. SMEs**
- 8. The international dimension of CSR**

4.2 Challenges in Developing an EU level Public Policy for Corporate Social Responsibility

The previous sub-chapter summarised the content of the European Commission's CSR policy-themed publications and presented a broad overview of the CSR policy development processes of the past decade. In this sub-chapter, those publications and processes are analysed in more detail with focus on the challenges involved in CSR public policy development at the EU level. These challenges and their impact are discussed and evaluated in terms of the conceptual framework chosen for CSR in the public policy development processes, the operational approaches adopted by the Commission, and the current operative capacities of the EU as an intergovernmental organisation. The theoretical framework presented in chapter two of this thesis is used as a reference point for the analysis in this chapter.

4.2.1 Establishing a Conceptual Foundation for Corporate Social Responsibility

Although the Green Paper on CSR was largely consultative in nature, it also imposed certain delimitations to the scope of discussion it was aiming to initiate. The Commission's definition for CSR as "[...] a concept whereby companies decide voluntarily to contribute to a better society and cleaner environment" (European Commission 2001, 4) was already very much in line with the perspective traditionally adopted by the business community. This position was further enforced by the 2002 Communication in which the recognition of the voluntary nature of CSR was named as one of the strategic principles for the EU to meet the goals adopted by the Lisbon Summit in March 2000 and by the European Strategy for Sustainable Development in June 2001. The principle of voluntary compliance was also supported by the European Multi-Stakeholder Forum on CSR which stated its baseline understanding of CSR as "[...] the voluntary integration of environmental and social considerations into business operations, over and above legal requirements and contractual obligations. CSR is going beyond these, not replacing or avoiding them." (European Multi-Stakeholder Forum on CSR 2004, 3).

It is important to keep in mind that the EU's CSR policy development process has essentially been built upon the premise that CSR should not be treated as something that is best developed or promoted by imposed corporate regulation. This is because while the approach itself may not have directly decreased the urgency and importance associated with CSR as a topic at the EU level, it has removed it further away from the context of corporate conduct and governance towards more general social agendas. One minor but still noticeable example of this contextual deviation is that the Green Paper on CSR was actually prepared by the DG Employment, Social Affairs and Inclusion, rather than DG Enterprise and Industry, a department generally considered to be the Commission's key player in setting industrial and business policies.

Furthermore, the Commission's perception of CSR as something that can contribute to the objectives of other EU policies by supplementing existing policy tools such as trade and development agreements (European Commission 2002, 18), has in many ways eroded the need for more holistic approach to CSR as a policy and governance concern in its own right. In this respect, the policy development process as a whole has suffered from lack of clear, tangible functional and theoretical framework which would help to establish a level playing field in which symmetry and operational equivalence exist between the different institutional and corporate actors involved. Similarly, the Commission's references to the existing CSR related guidelines and agreements issued by organisations such as the UN, the International Labour Organization (ILO) and the OECD seem to somehow undermine the need for more standardised and specifically EU level policy approaches to CSR.

It is naturally important to note that the chosen conceptual foundation for CSR reflects the overall operational and legislative capacities of the EU as an intergovernmental organisation, and this aspect will be discussed in more detail later in this thesis. As a basis for the public policy development process, however, the adopted position has sent a somewhat vague signal to the public. Although the Commission explicitly emphasises the voluntary nature of CSR, no coherent justification or experience based assessment is offered for the reasons behind this decision, and the Commission has not expressed any desire to try out regulatory approaches as an alternative means of policy implementation should the chosen approach prove to be inefficient. Similarly, no clear explanation is offered for why is it then necessary for the EU, and more specifically the Commission, an institution with a responsibility to draft and scrutinise legislation at the EU level, to interfere in policy development processes in a field which it identifies as essentially voluntary in nature.

In terms of actual policy setting procedures, the rejection of regulatory basis for CSR has inevitably directed the EU's institutional involvement towards soft law measures such as awareness-raising and competency-building functions. While the importance of soft law measures should not be underestimated, their

effectiveness depends largely on the general willingness of the targeted stakeholders to participate and change or adapt their behaviour. Harmonisation and coordination, which seemed to be the prerequisites of the Lisbon Strategy's aim to make the EU "[...] 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" (European Commission 2002, 3), are difficult to achieve without a well-defined operational framework with clear, measurable performance indicators and implementation requirements for coherence. In addition, credibility and transparency, which were named as one of the guiding principles for the EU's CSR strategy (European Commission 2002, 8), require a conceptual basis which does not rely merely on voluntary measures to encourage commitment. In this respect, the emphasis on voluntary conceptual foundation for CSR seems to actually contradict the need for greater accountability.

The need to promote and foster CSR is consistently brought up as a strategic focus area but, again, no explanation is provided as to why the Commission is the most suitable institution for this promotional role, or why the EU is considered as a feasible institutional arena for developments which are deemed as fundamentally business-led. As was stated before, the general problem with voluntary approaches and soft law measures is that it is quite difficult to assess and measure their effectiveness performance-wise. While the Commission, the EMSF, and the European Alliance for CSR have been active in publishing CSR-themed reports and organising discussion forums, it is unclear whether these efforts have had any actual impact on corporate conduct and whether the policy development process as a whole has created sufficient conditions for CSR uptake.

Furthermore, although the topic of CSR has been somewhat removed from the context of corporate governance towards more general social agendas, the policy development processes have nevertheless been very much based on the economic assumption that CSR "[...] can result in better performance and can generate more profits and growth." (European Commission 2001, 7). While this

assumption lacks verifiable evidence to support its claims at a general level, it can be seen as an incentive for corporate participation. However, much like Carroll's pyramid model of corporate social responsibility, which was presented in chapter two of this thesis, a CSR concept which places corporate wealth creation as one of the overall goals may divert attention away from other societal goals, and thus risks the actualisation of these long-term development objectives. Thus, one of the challenges for CSR policy development processes at the EU level has been to balance the relevance of desired economic outcomes with the consideration of social and environmental objectives to which financial value is difficult to assign.

Finally, as was stated in chapter two of this thesis, the voluntary versus regulatory views on CSR have traditionally provided the basis for drawing battle lines, with business representatives on the voluntary side and CSOs, trade unions and many other non-business stakeholders on the regulatory side. The Commission openly recognised this dichotomy in its 2002 Communication but decided to pursue its CSR policy development processes along more business-friendly lines of voluntary approaches. This decision has caused friction among the stakeholders and participants of the process and this challenge is discussed next.

4.2.2 Developing an Operational Approach to Corporate Social Responsibility Policy Development Processes

The Commission's operational approach to CSR policy development process has in many ways followed the model of R. Edward Freeman's stakeholder theory which was described in chapter two of this thesis. Although the stakeholder theory was developed for business management purposes, there are certain similarities in the Commission's approach to its CSR policy development process. For instance, the consultative Green Paper invited public authorities, international organisations, multinational corporations as well as small and medium-size enterprises, civil society organisations, and other interested stakeholders to express their views on the development of a new

framework for the promotion of CSR. In this respect, it is easy to assert that the operational approach has strived to be very open and holistic in nature.

However, with such a wide base of stakeholders with differing views and interests, the Commission has encountered the challenge of managing contrasting expectations from different parties. As was stated in chapter two of this thesis, this dilemma requires aptitude to go beyond stakeholder identification to prioritise their claims. From the array of stakeholders who responded to the initial CSR consultation, the Commission has so far clearly decided to prioritise the views and interest of the business community. This decision has been partly pronounced by the Commission's chosen stance which favours non-regulatory measures for CSR policy development at the EU level. In addition, the Commission has explicitly stated that it believes it can "[...] best achieve its objectives by working more closely with the European business [...]" (European Commission 2006, 2).

As was stated in the previous chapter, no profound explanation, theoretical or practical, has been provided for the decision to prioritise the views of the business community over other stakeholder groups. Although the decision has not directly excluded other stakeholder groups from participating in the development processes, it has caused criticism and scepticism towards the process and its overall goals. Regardless of the Commission's aspiration to "[...] create a more favourable environment for all actors in CSR and to explore with all stakeholders the potential of CSR to contribute to the development of European societies." (European Commission 2006, 4), many CSOs, for example, have decided to withdraw themselves from discussions concerning CSR in an EU institutional context as they have felt that their participation is meaningless in an environment in which their views are largely ignored.

This mistrust and unwillingness to participate has caused some operational setbacks to the development processes initiated by the Commission. The European Multi-Stakeholder Forum on CSR, which was established as a CSR themed cooperative forum for European representatives of employer and business organisations, civil society organisations and trade unions, has

suffered a loss of participation since its initial report in 2004. For example, the Green 10, an alliance consisting of ten environmental CSOs such as the European Federation for Transport and Environment, WWF European Policy Office, Greenpeace European Unit, and Friends of the Earth Europe, wrote an open letter to the directors of DG Employment, Social Affairs and Inclusion, and DG Enterprise and Industry, explaining their decision not to participate in the Multi-Stakeholder forum of 2006. The alliance elaborated that the 2002-2004 Multi-Stakeholder Forum and its follow-up meetings had not allowed for themes going beyond voluntary initiatives to be discussed. For this reason, the Green 10 believed that its participation in another Forum would not result in any meaningful progress.

Furthermore, the Commission's operational decision to offer its backing for the European Alliance on CSR as a partnership for enterprises has not been received well by some stakeholders outside the business community. The Commission rationalised its decision with an argument that "[t]he voluntary commitment of European business to the Alliance and the supportive role of the Commission within its policies and instruments where appropriate will strengthen the development of CSR within the EU and abroad." (European Commission 2006, 6). While the Alliance has attracted major business participants such as Microsoft, ExxonMobil, IBM, Johnson & Johnson, Nestlé and Nokia, the Commission has received criticism for openly supporting an entity which essentially involves only one group of stakeholders. For instance, The European Coalition for Corporate Justice (ECCJ) in its advocacy briefing following the Commission's 2006 Communication stated that "[...] the credibility of CSR initiatives is highly dependent on a number of basic criteria, such as the level of the standard and commitments, the involvement of stakeholders, transparency requirements, and the quality of the monitoring and independent verification.", and that the absence of these factors in the Alliance "[...] poses a great danger to serious CSR initiatives that have been evolving all over the world, in regulatory as well as voluntary spheres." (European Coalition for Corporate Justice 2006, 3).

Thus, although it is important to keep in mind that the Commission has continued to encourage participation of both business and non-business stakeholders in the CSR policy development processes at the EU level, it is also important to recognise the challenges involved in this approach. From an operational point of view, it has provided the basis for a broader range of facets to be included in the overall policy development process. At the same time, however, the approach poses the continuous need to balance diverging needs and expectations. As the examples stated before suggest, a lack of consistency in its all-encompassing stakeholder consultation approach and the ensuing, more selective operational choices has, in some eyes, undermined integrity of the overall policy development process. This, in turn, has resulted in loss of some key stakeholders and their relevant knowledge to facilitate the policy development process.

As was mentioned earlier, the chosen conceptual foundation for CSR at the EU level reflects the overall operational and legislative capacities of the EU as an intergovernmental organisation. This viewpoint should also be taken into consideration when discussing the operational approaches chosen at the EU level. For this reason, the current operational framework of the EU as an intergovernmental organisation and its impact on the CSR policy development processes is evaluated next in this thesis.

4.2.3 The European Union's Operative Capacity in CSR Policy Development Processes

The role of CSR in institutional and legislative public policy frameworks was discussed in general terms in chapter two of this thesis. It was pointed out that while many governments and intergovernmental organisations have become active in CSR related policy setting, explicit and systematic approaches to CSR as a policy matter in its own right have been rare. This has been especially true in terms of regulatory approaches which have often been perceived as complicated and politically costly. Furthermore, the power vested on governmental institutions is by no means absolute or universal, and it is often

determined by context and interplay between different parties. For this reason, it is important to place the challenges that have been associated with the EU's CSR policy development process in the context the EU's overall operative capacity as an intergovernmental organisation.

First of all, it is necessary to recognise the EU's role as an economic and political entity. This dual role poses challenges for decision making at the EU level as market integration and liberalisation principles need to be balanced against other policy coordination efforts. With respect to CSR policy developments, the EU's overall concern with the economic well-being and competitiveness of the area has been complemented by the need to also address social and environmental dilemmas while still pursuing financial viability. The absence of multilateral disciplines and agreements in this area, however, causes tension between efforts to liberalise trade and address corporate conduct.

This dilemma is further complicated by the difficulty of balancing the obvious need to keep the European business environment innovative and entrepreneurial while still maintaining a regulatory and supervisory system that upholds public interests. A widely held view is that competitiveness, economic growth and innovation go hand in hand, and that increased regulation may maximise the general risks associated with innovation and entrepreneurship, and this can consequently suffocate innovative processes altogether, especially when it comes to SMEs with less resources at their disposal. At the same time, however, it can be argued that higher requirements can help to open up and stimulate new markets for businesses developing new products and services that meet these standards. Thus, not only has the Commission needed to try to navigate through and prioritise the differing expectations of stakeholders, it has also been challenged to evaluate and balance the potential economic costs, risks and desired outcomes of its CSR policy and its adaptation.

Secondly, both as a political and as an economic entity, the EU can act only within the competences granted to it by the Treaties of the European Union which set the constitutional basis for the EU's operations. While these Treaties

provide the EU with the capacity to impose binding regulations on its member states, efforts in multilateral regulation are complicated by the principle of subsidiarity, introduced by the Treaty of Maastricht in 1993 and further elaborated by the Treaty of Amsterdam in 1997 and Treaty of Lisbon in 2007, whereby the EU should not regulate or undertake action in areas which do not fall within its exclusive competence or which can be managed more efficiently at national, regional or local level.

In this regard, the Commission's adopted stance which maintains that "[c]ommunity action in the field of CSR should be built on the core principles laid down in international agreements and should be developed in full respect of subsidiarity principle." (European Commission 2002, 8), reflects the operational capacities of the EU as a normative actor in multilateral policy setting. In practice, this has meant that the role assumed by the Commission, and the EU as an institutional whole, has been facilitative in nature, aiming to promote and raise awareness of CSR but not to regulate it at intergovernmental level.

While it is reasonable to question the effectiveness of such role and the soft law approaches it mandates, it is important to keep in mind that developing a regulatory policy framework in a playing field that consists of different countries, regions, governments, industries, corporations and other organisations with diverging interests and claims is a delicate procedure. In such a homogeneous environment, negotiations that aim towards consensus almost always face the risk of resulting in agreements which have been reached on the basis of the lowest common denominator, and leave most parties involved less than satisfied.

Moreover, it should be noted that even if the EU was to adopt a more regulatory approach to CSR, its legislative power over the member states is not absolute. The legal acts of the EU manifest themselves as regulations, directives and decisions. Regulations are those acts which become laws in all EU member states overriding conflicting domestic provisions. Directives require the addressed member states to achieve a particular result but do not regulate means of achieving that result. Decisions are only binding on the person or

entity to which they are addressed, and may not be applied to a whole member state. In addition to these measures, the EU can also issue non-binding recommendations which usually aim at preparation of legislation in member states.

Given that the subsidiarity principle limits the scope of legislative intervention at the EU level, regulations that override national laws of the member states must be carefully considered and drafted in a way that they accommodate other established regulatory measures and support the overall goals and objectives of the EU as a whole. In this context, direct CSR regulations would need to be negotiated so that they are in conformity with other policies concerning economic, social and territorial cohesion. Furthermore, even if the Commission was to adopt the next level legislative measures and started to draft CSR directives which would be approved by the Parliament and the Council of the European Union, this would not ensure a fully congruent compliance system. Because the nature of EU directives grants the member states considerable leeway to choose the means of achieving the desired results, member states with, for example, more vulnerable national infrastructure or less institutional capacities can be said to be in a disadvantageous position in relation to more prosperous member states. This, in turn, can create a discriminatory burden for fair competition and economic integration within the EU.

Finally, as was discussed in chapter two of this thesis, governmental institutions are actors with interests of their own as their success is often defined in terms of their competence to uphold and improve the economic well-being of the communities they represent (Crane & Matten 2007, 460). While the European Commission, as an institution, is independent of the national governments of the EU member states, The Council of the European Union as well as the European Council consist of representatives of the publicly elected national governments of the member states. Similarly, the European Parliament is constituted by direct public election. The challenge posed by this setting is that the EU, as any other democratically elected governmental entity, needs to

validate and justify its actions, decisions and positions in a way that they appeal and make sense to a broader audience.

It is beyond the scope of this thesis to speculate if or to what extent the interest to integrate CSR policy development into the wider framework of the Lisbon strategy was a tactical political decision, geared to allure the electorate and the business community with prospects of economic growth and competitiveness. It is, however, important to recognise the fact that the EU institutions do not always have the power or the will to impose policies with seemingly restrictive undertones. As political entities, they have policy preferences that affect both their actual operational role and the way they are perceived by the public.

It should also be noted that the political landscape of Brussels is a magnet for numerous interests groups and lobbyists from both business and non-business spheres. Furthermore, the EU institutions often openly welcome input from outside actors, the Commission's consultative Green Papers being just one example of this kind of encouraging approach to policy preparations. Because the Commission is the only EU institution in charge of drafting legislation, it is often perceived as the most useful target by lobbyists as prospective legislations can still be modified at this stage of the process. In order to maintain greater transparency in EU lobbying, the Commission has launched a voluntary register for Brussels-based consultancies and individuals working on behalf of corporations, industry groups and other organisations. However, as the register is essentially voluntary, it is difficult to estimate the actual volume and effect of lobbying in specific policy areas. It is nevertheless safe to assert that different advocacy groups are extremely active in Brussels and that the challenge posed by this kind of environment is to uphold decision-making processes which reflect a balance of interests in a transparent manner.

5 DISCUSSIONS AND CONCLUSIONS

The objective of this thesis was to examine and assess the on-going CSR policy development processes of the European Union. For this purpose, a review of previous literature and research concerning CSR and its role in public policies was conducted. The findings from this data were then used as a theoretical background for the analysis of CSR policy development processes at the EU level. The focus has been on the CSR policy related work initiated and facilitated by the European Commission during the past decade, and the process has been analysed within the framework of the research questions concerning the challenges in developing EU level public policy on CSR, and the impact these challenges have had on the overall policy development process.

This final chapter provides a brief overview of the theoretical findings of this thesis, and summarises the conclusions derived from the research. Implications for future developments and research in the subject area of the thesis are also discussed.

5.1 Theoretical Discussions

The literature review of this thesis focused on CSR, business ethics, business-government relations, and the role of CSR in public policies. From this theoretical background research, it was found that while CSR has become a prominent concept in business administration, there is still considerable controversy and debate over perceptions of what is the actual scope of corporate social responsibilities, and who has the right to govern and monitor CSR activities.

The findings of the background research indicated that while most modern CSR concepts recognise the correlation between economic, environmental and social impacts of corporate activities, seeking a balance between these aspects is a challenging task, especially when trade-offs between financial resources and ethical outcomes need to be considered. This task is further complicated by the diverging expectations and claims of the different stakeholder groups who

can affect or are affected by corporate activities. Although stakeholder identification and management is often considered as a prerequisite for successful strategic business planning, measuring stakeholder salience which would help corporate managers to prioritise CSR claims from different parties is a demanding challenge in a largely profit-oriented business environment.

The research also found that certain stakeholder groups, most notably various CSOs, have often questioned the ability and willingness of corporate managers and decision-makers to recognise what is truly required of corporations seeking to adopt socially responsible approach to their business practices. This has raised one of the most challenging issues facing current CSR discussions, namely should CSR remain a voluntary business practice or is a more formal and regulatory approach required to ensure the practical effectiveness of CSR strategies. While business communities have largely maintained that CSR should remain as a voluntary and business-led activity, many CSOs have argued that without governmental intervention and binding legal obligations corporations will not be able or willing to conduct their business practices in a socially responsible manner.

Although many national governments have strived to develop public policies concerning areas directly related to CSR, attempts to focus on CSR as a regulatory matter in its own right have been extremely rare. While the research concluded that certain European governments have started to show more active involvement in monitoring CSR, and that many intergovernmental organisations have been very active in developing CSR programmes and instructions as a point of reference for corporations, the findings of the theoretical review also supported the view that broader and all-encompassing regulative frameworks for CSR have often been perceived as infeasible or politically costly and complicated.

In terms of government-led CSR approaches, the theoretical review concluded that the complex relationship between businesses and governments, especially in international context, seems to hinder the ability and willingness of governments to pass CSR legislation which could be perceived as economically

disadvantageous. Furthermore, the continuing privatisation of public services has prompted the presence of corporations in society and this has caused many consumers to place more social expectations on corporate actors rather than on governments which have been deemed to lack the required resources to achieve the desired outcomes.

5.2 Conclusions

The empirical research conducted for this thesis examined and assessed the CSR public policy-themed work and publications done by the European Commission during the past decade. The research questions of this thesis assumed that the CSR public policy work conducted at the EU level has faced certain challenges, and that these challenges have affected the overall policy preparation processes. The theoretical framework that was presented in chapter two of the thesis was used as a reference point to assess the processes and to define the challenges and their impact. The research revealed that challenges associated with the policy development process concerned mainly the conceptual framework chosen for CSR, the operational approaches adopted by the Commission, and the current operative capacities of the EU as an intergovernmental organisation.

One of the most pressing challenges identified in the research was the Commission's need to navigate the territory of voluntary vs. regulatory approaches to CSR as a concept. The Commission's decision to base the CSR public policy work on the premises of corporate volunteerism has not been welcomed by all the stakeholders consulted in the process. This has caused damage to the Commission's operational approach which strived to include relevant participants from a wide array of different stakeholder groups. As the Commission has not been willing to compromise on its position on the voluntary nature of CSR, certain stakeholder groups have withdrawn themselves from the process altogether.

In a similar vein, the research findings also indicate that, from an operational perspective, the Commission's decision to try to involve stakeholders from

various different sectors was a challenging and ambitious decision to begin with. It presented the Commission with a demanding task to prioritise diverging claims and opinions from different parties. The Commission's rather vaguely validated decision to prioritise the claims of the business community, and pursue CSR public policy that is mainly based on economic objectives and voluntary corporate contributions has in many eyes undermined the integrity and legitimacy of the process as a whole.

The findings of the research also attested that the Commission has quite consistently regarded potential CSR policies at the EU level as little more than supplements to already existing policy tools and guidelines developed by the EU and other intergovernmental organisations. This refusal to recognise the need for a more holistic approach to CSR as a public policy has meant that the role of the Commission and other EU institutions in the process as well as the overall purpose and relevance of the specific EU policy have been left somewhat vague and at least seemingly irrelevant.

The assessment of the current operative capacities of the EU enabled the exploration of the challenges which have impacted the policy development process from an institutional perspective. The findings were partly in line with those of the literature review chapter of this thesis in that they confirmed the challenging position of the EU as an intergovernmental entity with democratically elected institutional branches which need to validate EU level actions, decisions and positions in a way that they appeal and make sense to the general public. In this respect, the Commission has been faced with a challenge to develop a CSR strategy that would not come across as politically volatile and which would support other established regulatory measures and the overall goals and objectives of the EU as a whole.

Moreover, the research also indicated that the current legislative power vested on the EU as an intergovernmental institution makes it very difficult for the Commission to draft a regulatory framework for any policy with both economic and social implications. This dilemma is especially prevalent in the current climate, characterised by economic uncertainty which requires that most policy

decisions need to be evaluated according to their potential economic costs and associated risks. But even without these circumstantial pressures, the research suggested that the EU's policy setting structures and frameworks which rely heavily on the principle of subsidiarity leave very little room for implementing hard law CSR measures at the EU level.

5.3 Implications for Future Developments and Research

This thesis has assessed the CSR policy developments at the EU level during the ten-year era of the Lisbon strategy. While this era came to an end in December 2010, the EU now operates under a new Europe 2020 strategy which, much like the Lisbon strategy, aims at smart, sustainable and inclusive growth. In its 2010 Communication, the Commission stated its intention to renew the EU strategy to promote corporate social responsibility as a key element in ensuring long term employee and consumer trust (European Commission 2010, 15). Although it is yet unclear what approach the renewed strategy will adopt, it is reasonable to expect that the CSR as a concept will be part of the overall 2020 strategy's initiatives to promote resource efficient economic growth and sustainable industrial policies. However, given that the operational setting for the EU is unlikely to change dramatically, it is improbable that the Commission will start to push for more regulatory EU level measures as part of the renewed strategy.

For this reason, it would be interesting to see more thorough research conducted on CSR policy developments at both national and regional levels in Europe. This could produce a clearer basis to compare the effectiveness and weaknesses between national and international approaches. In addition, it could also provide an assessment of how the EU institutions could truly best support the member states in establishing, developing and maintaining an enabling CSR environment which would take regional and circumstantial variations into account. For the past ten years, the EU has appeared to play its facilitative role in a vacuum of CSR principles and objectives which largely do not seem to

manifest themselves in practice. A strategic focus on each individual member state could help to make CSR a more dynamic process within the EU.

Moreover, due attention should be paid to the role of SMEs in CSR policy development processes at the EU level. While European SMEs have been stated as one of the main focus areas in nearly every CSR-themed publication by the Commission, it is still unclear to what extent SMEs have been willing or able to participate in the largely Brussels-based discussion forums and policy development processes. Similarly, the position of individuals and institutions engaged in socially responsible investment should receive a thorough assessment, as this sector plays a critical role in enabling shifts towards sustainable wealth creation and greater social equity.

More research is also needed to explore whether the EU is engaging the business community in CSR discussions in an effective manner. While the current discussions at the EU level seem to focus almost solely on innovation and the ways corporations can contribute to sustainable economic growth, the questions concerning the role of businesses in wider society setting have not been properly addressed. Given that corporations also have a stake in a healthy and prosperous society, it does not seem unreasonable to expect the business community to take on a more active role in investing and involving itself in the overall well-being of societies without a guaranteed financial return in a form of quarterly profits.

Further research could help to clarify if and how discussions that take into account these perspectives could actually help to involve private corporations, investors, governmental actors and third sector CSOs in closer cooperation with each other. Hypothetically, and perhaps somewhat idealistically, this could mean that the policies which are currently being developed in the realms of corporate social responsibility could be moved into framework of shared social responsibility.

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