

**CORPORATE SOCIAL RESPONSIBILITY IN THE
CONTEXT OF SOCIAL EUROPE AND ITS POSSIBLE
IMPLICATIONS FOR TURKEY**

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Corporate Social Responsibility in the Context of Social Europe and
its Possible Implications for Turkey

Sosyal Avrupa Kapsamında Kurumsal Sosyal Sorumluluk ve Türkiye
için Muhtemel Çıkarımlar

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- 1) Corporate Social Responsibility
- 2) European Union
- 3) Textile
- 4) Multinational Companies
- 5) Supply Chain

ÖZET

Bu çalışma Kurumsal Sosyal Sorumluluk (KSS) kavramının sosyal açıdan daha fazla düzenlenmiş bir Avrupa'dan birkaç adım geriye gitmek olacağını göstermeyi amaçlamaktadır. Bu durum, KSS gündeminin gelişimini, bunun uluslararası, ulusal ve iş çevreleri açısından incelenmesi ile açıklanacak ve bunun Türkiye için çıkarımlarının ne olacağı tartışılacaktır. KSS'un tanımı ile başlayıp, KSS hareketinin temelleri ve aktörlerini inceleyeceğiz.

İkinci bölümde, döküman ve yapılan aktivitelere bakarak KSS hareketinin Avrupa'daki gelişimine ve bu konunun nasıl üye ülkelerin, dolayısıyla iş çevrelerinin gönüllü katılımı esasına bağlandığına ve Avrupa Birliği'nin konu üzerinde Avrupa Birliği içindense uluslararası alanda nasıl daha sonuç odaklı çalışmalar yaptığına bakacağız.

Üçüncü Bölümde, devletlerin KSS aktivitelerini nasıl etkilediklerini açıklamak üzere AB üye ülkeleri seviyesinde KSS politikalarının nasıl ele alındığını inceleyeceğiz. Aynı bölümde Türkiye'nin KSS tartışmalarındaki halihazırdaki yerini tespit edeceğiz.

En son bölümde, belirli bir sektör, tekstil ve belirli bir alan olan tedarik zincirleri aracılığı ile iş çevrelerinin seviyesinden KSS kavramını inceleyeceğiz. Bu incelemede KSS'un gönüllü olarak uygulanması ve bunun Türk iş çevrelerine olan etkisini tartışacağız.

ABSTRACT

This study aims to demonstrate that corporate social responsibility (CSR) in Europe is a step backwards in the move towards a more socially regulated Europe. This will be demonstrated through examining the development of the CSR agenda, its applications in the international and national and business contexts and what this implies for Turkey. We will start by defining CSR, looking at its origins and actors taking part in the CSR movement.

In the second chapter, we will look at the evolution of the CSR movement in Europe by looking at the relevant documents and activities, to demonstrate how the issue was left to voluntary discretion of the nation states and thus the business and how EU preferred to act more effectively in the international arena than in the EU.

In the third chapter we will, then analyse the CSR policies at the EU nation's level, in order to be able to understand how national contexts shape the CSR activities. We will also be examining Turkey's existing position in the CSR debate in this chapter.

In the last chapter we will look at the business level of CSR in the specific sector of textiles and in the specific area of supply chains. This analysis will enable us to see how CSR works on a voluntary basis by the business and what implications this have in the Turkish business environment.

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List of Abbreviations

AVE-German Retailers Association

BITC-Business in the Community

CSR- Corporate Social Responsibility

EU-European Union

FDI-Foreign Direct Investment

ICC-International Chamber of Commerce

ILO-International Labor Organization

KILA-Finnish Accounting Body

MNE-Multinational Corporations

MONIKA-Finnish Committee on International Investment and Multinational Enterprises

NCP-OECD National Contact Point

NGO-Non-Governmental Organization

OECD- Organization of Economic Co-operation and Development

PR-Public Relations

SME-Small and Medium Enterprise

SOCAM-Service Organization for Compliance Audit Management

TEDMER-Turkish Ethical Values Center Association

TNC-Trans National Corporations

WTO-World Trade Organization

UK-United Kingdom

UN-United Nations

UNCTAD- United Nations Conference on Trade and Development

UNGC-United Nations Global Compact

UNITE-Union of Needle traders, Industrial and Textile Employees

USA-United States of America

1. INTRODUCTION

There is an ongoing debate about the future of social Europe. This debate concerns not only the EU members but those around the EU looking for a solution to the quite negative externalities globalization brought with it. There are great concerns about the future of 'Social Europe' and the welfare states, on their ability to withstand pressures of globalization. The general thought is that efficiency could be achieved in expense of equality, growth in expense of redistribution of the wealth created, competitiveness in expense of solidarity. Social insurance systems, working hours, health care schemes, pension schemes all those elements that make up the welfare state are put on debate. But all these constitute the essence of Europe and its way of organizing the economic and social life. This is what makes Europe different than any other economy. Corporate Social Responsibility (CSR) as will be discussed through out the paper should be considered in this context, in the context of wide debate on the future of social Europe. Only then, one can fully comprehend the developments in the course of CSR implementation. Thus the main thesis of this work will be to demonstrate that CSR in Europe is a step backwards in the move towards a more socially regulated Europe. This will be demonstrated through examining the development of the CSR agenda, its applications in the international and national and business contexts with a view on what implications the current course of developments has in the Turkish case,.

Through our analysis of the actors and the specific activities of EU countries and Turkey we will try to point out how very different sets of agendas of CSR came about and what this implies for the future developments in the CSR movement. Although CSR seems to be an issue between corporations and their stakeholders' we will argue that the governments, supranational organizations such as the EU, and international bodies will play a significant role in shaping the future applications of CSR activities. We will look at the issue from the global level, the EU level and national level which include the business, the community and the government. Only after this analysis will we be able to place Turkey in the right place in discussions of CSR issue.

Our methodology will be first to assess the origins of the CSR movement, through introducing the actors that take part, and outlining the developments as well as the documents produced in the international arena. This brief introduction will lead us into analyzing the EU documentation and selected member countries individually to later mention applications of CSR in the current Turkish case. We will conclude with a case study looking at CSR implementation in the context of the supply chain and what this indicates for Turkish business as part of the supply chain.

1.1 Definition of CSR

“(CSR) has increasingly provided the focus for exploration of broad philosophical questions about the roles and responsibilities of companies and their relationship with the roles and responsibilities of government and other stakeholders. But it has also provided the context for debate about more particular questions from employee volunteering, to health concerns about mobile phones, world trade rules, poverty eradication and AIDS. Does this mean that CSR risks being about everything and nothing?”¹

The term Corporate Social Responsibility, although widely used in private, public and consumer circles is a term not yet precisely defined. As the above words suggest the term is used in relation to a broad number of policy areas, that interest a wide range of groups, in such a way, sometimes, that dilutes its essence. Because of this very same reason, The CSR agenda has different meanings for different states and actors. This is explicitly seen in the conceptualization of CSR between the actors (corporations, citizens, governments, and international bodies) of the developed and the developing world. The reason for these vast differences and the changing way in which the issue of CSR is handled will be a major area of focus of this paper in order to demonstrate how CSR is used to avoid further regulation.

The extent of the responsibility of business can go from those specified in Milton Friedman’s arguments to the internationally accepted extensive OECD guidelines.

¹ UK Government update on Corporate Social Responsibility, http://www.csr.gov.uk/pdf/dti_csr_final.pdf

Friedman sees it as “to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.”, where ethical custom means the moral rules to make market mechanism function.²

CSR is left to the discretion of companies in the developed countries. For the developed world, such as the European Union the basic definition is much less like below as used in the Green Paper on Corporate Social Responsibility, back in 2001: “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”³

For the developing world the story is much different as CSR is an imported term, imported by the corporations of the developed world and applied not at all on a voluntary basis. Companies to come across the term or its applications in the form of Codes of Conduct, drafted by trans-national companies (TNCs) of the developed world sourcing from them, even for those local companies wishing to engage in CSR activities there are too many basic level problems to deal with, such as informal economy, corruption, high level of unemployment, lack of social security etc.

There is strong suspicion that CSR is a form of protectionism of the developed world and a brake on investment flows rather than as a potential market opportunity. For developing countries the emphasis is on “the employment opportunities and the development of economic and social conditions through the addition and retention of added-value”⁴.

For Europe CSR is a fairly recent phenomenon, imported from the US. As we will explain later on for business in Europe social responsibility is less of a matter that has to be dealt voluntarily than for business in the USA. CSR seems to be a step back from further regulation in an environment which is already highly regulated at the government

² Houck, John W. (ed); Williams, Oliver F. (ed), *Is the Good Corporation Dead? Social Responsibility in a Global Economy*, Rowman & Littlefield Publishers, Inc. USA, 1996, p. ix

³ Commission Of The European Communities, Green Paper- Promoting a European Framework for Corporate Social Responsibility, Com(2001), Brussels 18.7.2001

⁴ Roome, Nigel; *Some Implications of National Agendas for CSR* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p.311.

and EU level. The definition of CSR and the topics it covers varies from country to country. While bribery could be the top issue on the CSR agenda in one country in another it could be the health & safety issues in the workplace.

In the recent academic debate, there are attempts to replace the generic name of corporate social responsibility with stakeholder responsibility, where the business and society are not placed separately and where social responsibility is not only attributed to corporations, but all sectors of business whether small or big⁵, or with corporate citizenship where corporations are attributed the same rights and responsibilities as citizens.⁶ However for the purposes of our debate we will use the term corporate social responsibility.

1.2 Origins of CSR Movement

We will argue that the CSR movement originated as a by-product of globalization. When one looks at the first incidences that led to the emergence of cases of corporate social responsibility it is easy to see the link with globalization of production and improvements in communications.⁷ In a world where exchange of information and ideas are possible within seconds, movements of goods, people, and money in days, much of what is going on around the world is exposed openly. Much more than that what is happening in another part of the world now has immediate effect at other places no matter what the distances and differences are. This interdependence between people, nations, companies and many other actors has led to changes in the way business was managed at home and across the borders, as well as the way international trade was handled by nations.

⁵ Freeman, R. Edward; Velamuri, S. Ramakrihna; *A new approach to CSR: Company Stakeholder Responsibility* in Kakabadse, Andrew (ed.); Morsing, Mette (ed.); *Corporate Social Responsibility Reconciling Aspiration with Application*, European Academy of Business in Society, Palgrave Macmillan, Great Britain 2006.

⁶ Habisch, Andre; Wegner, Martina; *Overcoming the Heritage of Corporatism* in Habisch, Andre (ed.); Jonker, Jan (ed.); Wegner, Martina (ed.); Schmidpeter, Rene (ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p.113.

⁷ Oxford Analytica Brief, *International- Corporate Responsibility* <http://www.oxan.com/> May 22, 2000 : 3

While international trade was being liberalized, ripping away the power of the governments the parallel social responsibilities remained with them. This led to an imbalance on the side of governments and corporations in the way social issues were to be handled. The disparities between home country working conditions and those in which supplying operations were carried, were brought before the 'open society' whose efficacy has already reached beyond the borders through the pressure put on governments as citizens and on corporations as consumers. This led to growing concern about the environment and social standards but also to fear about the negative consequences this 'rush to the bottom' would bring to the citizens of the advanced economies. This soon started to be a problem in the developed world with large scale down sizing of factories. Thus there was a need to redistribute the roles and responsibilities of the different institutions of the specific societies and of global actors in general.

In Giddens words "globalization thus is a complex set of processes, not a single one. And these operate in a contradictory or oppositional fashion. Most people think of globalization as simply 'pulling away' power or influence from local communities and nations into a global arena. And indeed this is one of the consequences. Yet it also has an opposite effect. Globalization not only pulls upwards, but also pushes downwards, creating new pressures for local autonomy."⁸

The emergence of the CSR movement was thus not solely an internal issue, an issue of the nations but it was the result of the outreach to foreign sources, foreign nations and foreign problems. This is why CSR in the international supply chains has become one of the earliest and highly exercised implementation of CSR. This has also been pointed out as a reason for the growing recognition of CSR by the Commission of the EU in its Communication Concerning Corporate Social Responsibility: A business contribution to Sustainable Development:

"Globalization has created new opportunities for enterprises, but it also has increased their organizational complexity and the increasing extension of business

⁸ Giddens, Anthony, *Runaway World: How Globalization is Reshaping Our Lives*, Profile Books, UK 1999 p.13

activities abroad has led to new responsibilities on a global scale, particularly in developing countries...The global nature of CSR issues and concerns, reflecting the fact that a growing number of enterprises, including SMEs, are developing their business world-wide, as they take advantage of market liberalization and trade integration and are sourcing from subsidiaries and suppliers in developing countries.”⁹

When we look at how CSR evolved throughout the years historically we see that we can trace back the term around 40 years. The main issues, in the developed world, of the 70s were about product safety and functionality, brought up by consumers. The solution was to invest in the technology to make better goods. Growing concern about the actions of the developed world’s companies in countries governed by oppressive regimes was also an issue of debate, in these years. The 80s brought forward the environmental and social concerns, and the contributions of companies to the damage, and the term sustainable development was born. The issue was not the product itself but how it was made, and what external consequences this process had. The solution this time had to be managerial more than technical as the problem was about the process. In the 90s other concerns were at the forefront, treatment of employees and issues of equality. The debate of this decade focuses on the supply chains and how all of the above concerns are handled by the suppliers who are working for the Multinational companies all around the world. The solution was to form international standards to lift the level of companies to an agreeable environmental and social level enough to get ‘the license to operate’. So CSR is not a term only used for philanthropic activities of the corporations. ¹⁰

When Lipschutz, and Rowe look at the issue from the historical origins and developments they come to this conclusion:

“... Corporations have had legitimacy problems from their very beginnings. They have always had to think strategically about appeasing a concerned populace. While using CSR efforts as a strategic resource only became de rigueur in the 1960s and 1970s,

⁹ Commission Of The European Communities, *Green Paper- Promoting a European Framework for Corporate Social Responsibility*, Com(2001), Brussels 18.7.2001

¹⁰ Roome, Nigel; *Some Implications of National Agendas for CSR* in Habisch,Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer,Berlin, 2005 pgs.320-322.

and almost universal since the 1990s, it is helpful to realize that the corporate world's recent turn to ethics has many historical precedents. These suggest that business's "investments" in ethical practice have never been profound for, otherwise, legitimacy crises would not keep recurring"¹¹

As we can see the CSR movement is not a very new phenomena but a new version of the attempts to find a solution to the negative externalities business produces through its operations whether locally or globally. We can say that, up to now, such legitimacy problems and negative externalities have been problematic more in the US and Anglo-Saxon part of the world rather than in Europe where welfare states have been absorbing such negativities. This statement is in conformity with our thesis in saying that this is a new way of handling the historical issue of what to do with business externalities.

1.3 Actors of CSR Movement

"Four hundred years earlier, social responsibility shifted from the church to the state, as government replaced religious institutions as society's predominant force. At the dawning of the twenty-first century, business appears the next likely candidate to carry this mantle."¹²

We will now look at the key actors of corporate social responsibility movement, to test if CSR ownership can be attributed to just one sector of society, nowadays. The main actors are Trans-National Corporations (TNCs), stakeholders, governments including the EU and US international bodies including WTO, UN, OECD and ILO. We will also try to point out the basic transition of the roles and responsibilities between these actors, in today's world.

¹¹ Lipschutz, Ronnies D.; Rowe, James K., Globalization, *Governmentality and Global Politics-Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p.133.

¹² Makower ,Joel, quoted in Lipschutz, Ronnies D.; Rowe, James K., Globalization, *Governmentality and Global Politics-Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p.130.

1.3.1 National Governments

When we look at the role of national governments we have to set the reference time period to 20th century, to the emergence and establishment of nations and governments. And their expected level of involvement is presented below:

“The proper guardians of the public interest are governments, which are accountable to all citizens. It is the job of the elected politicians to set goals for regulators, to deal with externalities, to mediate among different interests, to attend to the demands of social justice, to provide public goods and collect taxes to pay for them, to establish collective priorities where that is necessary and appropriate, and to organize resources accordingly.”¹³

The role of the government started to change dramatically as globalization led to the emergence of new mechanisms and networks which enabled other actors to implement their own rules as a result of their growing financial and political power. We can say the market and the civil society went ahead of the government with their dynamics and set their rules without having to wait for the slow bureaucracy of the state and the result of doing so was, taking away some of its powers. Although this is the case, government is still the most necessary ingredient to create competitive markets, protect the environment and safeguard individual rights.

We can see a very clear example of this trade of power between the government and other actors, in the case of CSR. The government involvement level to strengthen CSR is categorized as mandating, facilitating, partnering and endorsing according to Fox, Ward and Howard¹⁴. Mandating refers to the use of instruments such as laws, regulations and penalties to control the operations of the business. Facilitating is to set policy frameworks to guide the business on issues of CSR. Partnering is putting joint efforts or sources of government and the company together to deal with specific CSR issues.

¹³ The Economist, January 22, 2005

¹⁴ Fox, Ward, Howard quoted in Ward, Helina *Public Sector Roles in Strengthening Corporate Social Responsibility: Taking Stock*, International Institute for Environment and Development for the Corporate Social Responsibility Practice of the World Bank Group, January 2004

Endorsing refers to positive support to companies through award schemes, public procurement practices and political support. We will see in our analysis of the individual governments of the EU, that each government has a different level of involvement in the CSR implementation as suggested above.

The relationship of government with the company is not only one where the rules are set by the governing authority and where the company only abides by them but a complex set of relationships that knit the two actors together. The governments, as long as they are not part of a global regime, do not have the power to enforce binding regulation on other countries, so they are not the medium for global enforcement of CSR regulation, in this sense. The goal of national governments is to get business involved with the social issues in a way that will not undermine their competitiveness. The governments power lie in its still predominant role in its territory and thus is the most powerful among the other actors in its ability to realize CSR issues.

1.3.2 Civil Society

When we look at the civil society and the transition it goes through we see that it is equipped with tools to effectively and almost effortlessly address the growing fragmentations, problems, expectations. The problems it faces are not of the same problems faced in the days where communications and globalization had not gained such a pace. So, the civil society has developed another mechanism than the rule of law to put pressure on others posing threat or causing damage, directly or indirectly. In Niomi Klein's words:

“We have been going through our own globalization process. And it is precisely because of globalization that the system is in crises. We know too much. There is too much communication and mobility at the grassroots for the system to hold. Not just the gap between the rich and poor but also between rhetoric and reality, between what is said and what is done, between the promise of globalization and its real effects. It's time to

close the gap.”¹⁵

Using the economic power gained from the loss of business community and the political power gained from the loss of the state, the civil society can exert pressure on both through new mechanisms most of the time even without bothering to make use of the old and conventional tools. But since what global civil society hopes is to get binding regulation of transnational corporations, it has to act on a global scale through individual governments or through international bodies.

1.3.3 Business

When it comes to business, we see a similar transition in the balance between the roles and responsibilities, power gained and power lost. Social or societal issues had never been issues for business before the pressure from civil society led them to do so. Business is not operating in a vacuum. They operate in societies, sometimes in their home countries, sometimes abroad. In terms of international trade, suppliers are becoming partners, whether local or foreign. The actions of the business, like the actions of the individual are also traced and thus business is held accountable for their actions.

The Transnational companies are voluminous in size. Only 122 large companies are responsible for 80% of CO2 emissions; 70% of international trade, and 90% of all patents and products, and 80% of total international investments is in the hands of 500 TNCs¹⁶. Europe, North America and Japan account for three-fifths of global imports of manufacturers and two-thirds of exports.¹⁷ The economic power accumulated in the

¹⁵ Klein Niomi; *Fences and Windows: Dispatches from the Front Lines of the Globalization Debate*, Flamingo; London 2002. quoted in Barry, John (ed.); Baxter, Brian (ed.); Dunphy, Richard (ed.) *Europe, Globalization and Sustainable Development*, Routledge Research in Environmental Politics, Routledge London and Newyork 2004 p. 9.

¹⁶ Gonzales, Marta de la Cuesta; Martines, Carmen Valor, *Fostering Corporate Social Responsibility Through Public Initiative: From the EU to the Spanish Case*, Journal of Business Ethics, Kluwer Academic Publishers, Netherlands 2004 p. 278.

¹⁷ Tavis, Lee A. *Managerial Discretion: A necessary Condition for Multinational Corporate Social Responsibility* in Houck, John W. (ed); Williams, Oliver F. (ed), *Is the Good Corporation Dead? Social Responsibility in a Global Economy*, Rowman&Littlefield Publishers, Inc. USA, 1996

hands of business didn't come free of responsibility. There was a need to redistribute the responsibilities according to the execution power.

Nigel Roome makes a distinction in CSR 'between taking responsibility (for the intended and unintended outcomes of choices and actions) and acting responsibly'. The first term deals with issues of transparency and accountability while the second 'is more concerned with the issues in which action is taken'. More and more firms are expected to take responsibility nowadays rather than acting responsibly¹⁸.

Looking at the supply chain relations we can say that suppliers are becoming partners but still there are many other issues that the TNCs need to consider. In Lipschutz and Rowe's words: "all corporations whatever their size, confront a complicated and constantly changing set of operating conditions in the areas of finance, technology, supply of raw and semi-processed materials, labor relations, national regulations, competition, and consumer tastes among others, and working conditions in subcontracting factors are only one consideration out of many."¹⁹

We can certainly say that economic benefit is not the first reason why companies are engaging in CSR. Of course we cannot say that companies do not care about their impact on society in their operations, but they will not do those things that will damage their profits, especially if it is voluntary. If they do they will be doing something that is contradictory with their basic mission.²⁰

According to the research by IfM Bonn for the Federation of German Industry based on 957 participant enterprise from manufacturing industry and related services in Germany, neither the size nor the way an enterprise is managed (owner or professional management) are determining the willingness and ability of a firm to participate in CSR

¹⁸ Roome, Nigel; *Some Implications of National Agendas for CSR* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p. 325

¹⁹ Lipschutz, Ronnies D.; Rowe, James K., *Globalization, Governmentality and Global Politics-Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p.133.

²⁰ Steger, Ulrich (ed.), *The Business of Sustainability Building Industry Cases for Corporate Sustainability*, Palgrave Macmillan, Great Britain 2004 p.3.

activities. There doesn't seem to be a connection between the current economic performance and CSR activities of the firm, this holds true for the relationship of the increasing or decreasing number of employees, as well. The philanthropic activities are often placed under the heading of sales promotion and public presentations.²¹

Business, to implement CSR as a business strategy cannot by itself pursue CSR goals. It has to work together with social partners. This is needed in order to minimize the risk of being blamed as “ a brake on social and environmental policies”. Furthermore business have quite a lot of tools to influence public policy in the positive sense,²² but the ultimate goal of business should be kept in mind and that is business does not want further binding regulation neither locally nor globally.

1.3.4 International Bodies

International bodies on the other hand are at a very delicate stand. Globalization has led individual actors handle international issues on their own without the use and license by international bodies to a certain extent. This is a reason why bodies like WTO,ILO,UN and many others are trying to redefine their reason of existence and the limits of their power. But it is also argued that globalization has been the reason of their existence and empowered these institutions to handle issues at a global scale. On the issue of CSR, these institutions yet have a limited role as they address governments and have rules and regulations that are binding, if they are binding at all, to governments rather than individual businesses. The current set of rules established through these institutions lack enforcement mechanisms. Nevertheless, with the issue of sustainable and socially responsible development discussed by many multilateral bodies and platforms,

²¹ Maap, Frank, *Corporate Citizenship and SMEs in Germany: A new institutional Economic Perspective* in Spence, Laura J.(ed.), Habisch, Andre(ed.), Schmidpeter, Rene(ed.) *Responsibility and Social Capital The world of Small and Medium Sized Enterprises* Palgrave Macmillan, Great Britain 2004 pgs. 121-122.

²² *Aligning CSR Goals and Trade Association Positions*, Business & the Environment with ISO 14000 Updates; Nov2003, Vol.14 Issue 11, p4-5, 2p

CSR will certainly move up on the international agenda. We can now look at specific international bodies working on CSR issues.

1.3.4.1 ILO-International Labor Organization

ILO is a key organization of the international arena who works on corporate social responsibility issues, specifically labor standards for a long time. The ILO Declaration on Multinational Companies is adopted in 1977 and revised in 2000. The body to carry on research and publications, promotional activities, interpretation of the Declaration, and follow up is The Multinational Enterprises Programme Committee. The monitoring is done through an impact assessment which is based on information from governments and trade unions and it is gathered every 4 years. The declaration is criticized as well as the impact of ILO. The declaration is criticized for the most part because of lack of transparency and accountability on the part of the governments as well as its limited scope. It is suggested that as long as ILO's enforcement mechanism is limited to ratified conventions, it will have limited effect.²³

The basic ILO conventions, in terms of labor laws have been ratified by many states. But they are not monitored or enforced by law through governments. This, combined with the lack of institutionalized political support for labor, especially in developing countries, “only makes violations a necessary part of doing business in a competitive global environment.”²⁴

1.3.4.2 OECD-Organization of Economic Co-operation and Development

In the 1970s the international scene was dominated by post colonial countries. They were limiting foreign capital in their countries, nationalizing industries and most important of all were pursuing international action on TNCs. A UN Commission on

²³ International Labour Organization

http://www.ilo.org/public/english/bureau/inf/download/brochure/pdf/broch_0904.pdf

²⁴ Lipschutz, Ronnies D.; Rowe, James K., *Globalization, Governmentality and Global Politics- Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p.73

Transitional Corporations was formed who aimed at drafting a legally binding UN Code of Conduct on TNCs. This was the environment in which OECD Guidelines on Multinational Corporations was born. So the reaction of the business society to legally binding UN Code of Conduct was a voluntary set of guidelines under OECD.²⁵

The Guidelines cover 9 areas such as, labor, environment, human rights, employment and industrial relations, information disclosure, competition, taxation, and science and technology. The Guidelines are up to now the only set of comprehensive codes of conduct that is endorsed multilaterally by governments. But this does not mean it is binding on either the governments or the Multinational enterprises. The implementation of the Guidelines is voluntary.

The institutional mechanism used in follow up of the guidelines is the National Contact Points; the OECD Committee on International Investment and Multinational Enterprises (CIME); and the advisory Committees. The national follow up of the Guidelines is done through National Contact Points, which almost act as multi-stakeholder forums. The National Contact Point's responsibility is promoting the Guidelines; handling enquires, and participates in the resolving of any issues that arise.²⁶ The CIME is the body responsible for overseeing the functioning of the guidelines. It responds to requests from adhering countries and issues clarifications, brings together the social partners and nonmembers, and reviews the guidelines.

Although some critics of the guidelines strictly believe that the voluntary nature of the Guidelines will not be a step toward the effective implementation of the issue some others think differently. They see the Guidelines as a tool to reaching binding regulation world wide: "A combination of world wide standardized information gathering and verification and multi-stakeholder dialogue will finally put in place the decision-making mechanism to create and protect sustainable societies. A start should be made with further developing the real-world... OECD Guidelines to effective, detailed global

²⁵ Lipschutz, Ronnies D.; Rowe, James K., *Globalization, Governmentality and Global Politics- Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p.123.

²⁶ OECD Guidelines Policy Brief,
http://www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_1,00.html

standard systems that generate the information needed and provide the space for networked information sharing and dialogue.”²⁷

1.3.4.3 United Nations- UN Global Compact:

In the light of Kofi Annan’s words in 1999 right after the World Economic Forum meeting in Davos “Let us choose to unite the power of markets with the authority of universal ideas”²⁸, The Global Compact emerged.

The Global Compact is a UN-sponsored platform for encouraging and promoting good corporate practices and learning experiences in the areas of human rights, labor and the environment. It is an entry point for the business community to work in partnership with UN organizations in support of the principles and broader goals of the United Nations, and provides a basis for structured dialogue between the UN, business, labor and civil society on improving corporate practices in the social arena. There are basically three guidelines for companies which are to introduce ways to act with principles in corporate communications, to communicate action on the issue and join UN projects in the developing countries. The members send yearly reports on the progress that they are making but there is no monitoring mechanism on the information given and thus no accountability on the part of the member companies.

Peter Van der Gaag of the Northern Alliance for Sustainability summarizes the concerns about the initiative “Some of my colleagues believe, and I tend to agree with them, that there will be advertising payoffs for those companies who have joined, we call it the potential for blue wash... now this “all is well” approach, coupled with the above concerns may even mean that the Compact will cause a slow-down of the so necessary fast continuous improvement...the planet needs so much.”²⁹

²⁷ Lipschutz, Ronnies D.; Rowe, James K., *Globalization, Governmentality and Global Politics- Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p.156.

²⁸ www.unglobalimpact.org

²⁹ Quoted in Lipschutz, Ronnies D.; Rowe, James K., *Globalization, Governmentality and Global Politics-Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p.155.

1.3.4.4. World Trade Organization-WTO

Compared to the above listed organizations WTO seems to be a better candidate as it has a rules based system and binding mechanisms for dispute settlement. The WTO is a good example of an international organization that works effectively and is binding internationally. It has the power to review domestic regulation in member states and issue remedies, accordingly. This situation led some, to think that WTO was an already existing and available platform to use for international action on CSR related issues rather than creating a totally new platform. The mechanisms were already in place and binding. Up to now this was not possible to apply as this would run counter to the very logic of WTO. As Niomi Klein puts it: “If the sweatshop problem is solved outside the trade context, labor standards will no longer be tools in the hands of protectionists.”³⁰ This brings the point of accepting the OECD and the UN as partners of the business community in the global arena, to be a medium for voluntary source of action on the issue.

After having summarized the role of key international bodies active in on issues covered by the CSR agenda, we can draw some conclusions: The first is that all these bodies are voicing the business case dominantly over the social case through their implementation strategies. And secondly, they serve as a platform for stakeholder participation and thirdly they are all based on voluntary principles and lack effective enforcement mechanisms. But through the negotiation processes in these international organizations it should be kept in mind that the business had to compromise to a certain extent although we speak about lack of enforcement and voluntary nature of the conduct. We can now turn to Lipschutz and Rowe’s question ³¹. “What has business given up in order to convince civil society this was a largely legitimate and worthwhile process?” and they answer: “Business has made two compromises that have captured the interests of civil society. The first is simply admitting the problem-that corporate conduct has often

³⁰ Klein Niomi *Fences and Windows: Dispatches from the Front Lines of the Globalization Debate*, Flamingo; London 2002. quoted in Barry, John (ed.); Baxter, Brian (ed.); Dunphy, Richard (ed.) *Europe, Globalization and Sustainable Development*, Routledge Research in Environmental Politics, Routledge London and Newyork 2004 p. 9.

³¹ Lipschutz, Ronnies D.; Rowe, James K., *Globalization, Governmentality and Global Politics- Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p. 153.

been unethical during the past decade and that remedy is required. The second is agreeing that government should play some role (even if extremely limited) in that remedy-the regulation of corporate conduct.”

As we can see international bodies are not yet the platform in which CSR could further be implemented although they have been a consistent partner of the debate. For the purposes of this paper we can conclude that governments will still base their CSR policies on internationally accepted standards and thus international bodies will still be reference units in the future for governments, business ad society in general.

2. EVOLUTION OF CSR POLICY IN EUROPE

2.1 Chronological Listing of EU Policy Developments

European Union is in a unique position. It has the leverage of but this time rather than making more stringent laws it uses this leverage in a way to balance the acts of the business. This is a clear sign on how CSR policy is a step back from further regulation in the context of social Europe debate.

In March 2005, the European Council underlined that “in order to encourage investment and provide an attractive setting for business and work, the European Union must complete its internal market and make its regulatory environment more business-friendly, while business must in turn develop its sense of social responsibility”.³²

Although behavior that could be named socially responsible under the current definition of the phrase has been a frequent exercise in European business environment, the structured discussions have only been brought forward in the late 1990s, in the European context. In Commission’s words: ‘socially responsible initiatives by entrepreneurs have a long tradition in Europe. What distinguishes today’s understanding of CSR from the initiatives of the past is the attempt to manage it strategically and to develop instruments for this.’³³

It has been suggested that EU is a late comer in the discussions of CSR following the US. While writing about the developments on the issue of CSR in Europe in general, it should be noted that there are great differences among the way different member states

³² Implementing the Partnership for Growth and Jobs: Making Europe a pole of excellence on CSR (COM(2006)136 final of 22.03.2006

³³ Commission Of The European Communities, *Green Paper- Promoting a European Framework for Corporate Social Responsibility*, Com(2001), Brussels 18.7.2001

handle the issue. Our main concern here at this chapter, will be to look at what has been accomplished at the EU level.

2.1.1 1995-2000 Preparation for a European Framework for Corporate Social Responsibility

Since year 2000 the EU has been engaged to build a European Framework for Corporate Social Responsibility. As early as 1995, then EU Commission President Jacques Delors together with a group of companies launched the Manifesto of Enterprises against Social Exclusion which led to the establishment of CSREurope, a network of 20 companies at the time of establishment.

The issue of applying Codes of Conduct by private companies dates back to much earlier periods, with much concern on human rights issues, such as child labor. On 15/1/1999 the European Parliament adopted a Resolution on “EU standards for European enterprises operating in developing countries: towards a European Code of Conduct”.³⁴ This shows that there was a need to reconcile private initiatives, each of which have already produced numerous standards, even before the Green Paper was on the agenda. Thus the Parliament was calling for a European Code of Conduct which would contribute to a greater standardization of voluntary codes of conduct based on international standards and the establishment of a European Monitoring Platform, including provisions on complaint procedures and remedial action. It is also interesting to note that this attempt of reconciliation was not for company actions in the EU territory but for actions of EU-based firms in developing countries. This is another indication of the growing concern about the effects of globalization which led to the origination and development of the CSR issue.

³⁴ European Parliament, Resolution on “*EU standards for European enterprises operating in developing countries: towards a European Code of Conduct*” 15.1.1999.

2.1.2 Lisbon Summit

In March 2000, the EU, facing the challenges of globalization and the need to build strategies for the future gathered for the Lisbon Summit, where the Council addressed several issues which were closely related with CSR. These included:

- The new strategic goal to make Europe ‘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’
- The reform goal of full employment, better jobs and fewer poor by 2010,
- The appeal to ‘companies’ corporate sense of social responsibility regarding best practices on lifelong learning, work organization, equal opportunities, social inclusion and sustainable development’,
- Modernizing the European social model, investing in people and combating social exclusion.³⁵

2.1.3 Social Policy Agenda

In June 2000, EU Social Policy Agenda is adopted, in which the working conditions in relation to the new economy were discussed and CSR mentioned as a tool to facilitate the process of transition. During the European Council in Stockholm, which focused on the implementation strategies of the goals set in the Lisbon Summit, it was no surprise that the issue of CSR was once more on the agenda. Business was invited to promote CSR, and Commission announced the intention of releasing a Green Paper on CSR to stimulate more debate in the area.³⁶

³⁵ Herrmann, Kristina K. *Corporate Social Responsibility and Sustainable Development: The European Union Initiative as a Case Study*, Indiana Journal of Global Legal Studies, January 2004, p. 47

³⁶ EU Commission , Brussels, 28.6.2000 COM(2000) 379 final, Communication from the Commission to the Council, The European Parliament, The Economic and Social Committee and the Committee of the Regions-Social Policy Agenda

In July 2001 in its communication on Promoting Core Labor Standards and Improving Social Governance in the context of Globalization, the Commission stressed the need to ensure the respect for core labor standards in the context of globalization. It stressed in particular the universality of core labor standards and the need for codes of conduct to integrate the ILO fundamental conventions.³⁷

2.1.4 Goteborg European Council

Yet at another event in the same month, the Goteborg European Council, Sustainable Development Strategy for Europe was agreed, mentioning that in the long-term, economic growth, social cohesion and environmental protection go hand in hand. It is also mentioned in the Communication of the Commission on Sustainable development that "public policy also has a key role in encouraging a greater sense of corporate social responsibility and in establishing a framework to ensure that businesses integrate environmental and social considerations into their activities...Business should be encouraged to take a pro-active approach to sustainable development in their operations both within the EU and elsewhere."³⁸

2.1.5 Green Paper- Promoting a European Framework for Corporate Social Responsibility

And finally that month, in July 2001, the EU Commission published the Green Paper titled 'Promoting a European Framework for Corporate Social Responsibility'.

³⁷ Brussels, 18.7.2001 COM(2001) 416 final Communication from the Commission to the Council, The European Parliament, The Economic and Social Committee and the Committee of the Regions-*Promoting Core LAbour Standards and Improving Social Governance in the Context of Globalisation*

³⁸ Brussels, 13.2.2002 COM(2002) 82 final Communication from the Commission to the Council, The European Parliament, The Economic and Social Committee and the Committee of the Regions- *Towards a global partnership for sustainable development*

With this Green Paper the Commission intended to open the debate on where to place the EU in the Corporate Social Responsibility agenda and what role it should take both at EU level and international level. With the release of this document, the Commission makes a clear statement to say that there is an expectation at the EU level that multinational corporations are to generate profits with contributions to social and environmental objectives, and that their behavior will not go unchecked. It is drafted with the participation of a broad range of actors in the society in a manner encouraging consensus. It sets out baseline guidelines for enterprises to adhere, unlike the complicated international sets of guidelines.³⁹

CSR is defined in the Green Paper as “a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment.” It is described further as a responsibility that is “expressed towards employees and more generally towards all the stakeholders affected by business and which in turn can influence its success.”

The main European approach is mentioned to be complimentary with the existing initiatives both at the EU and global level:

- “providing an overall European framework, aiming at promoting quality and coherence of corporate social responsibility practices, through developing broad principles, approaches and tools, and promoting best practice and innovative ideas,
- Supporting best practice approaches to cost-effective evaluation and independent verification of corporate social responsibility practices, ensuring thereby their effectiveness and credibility.
- Committed to the active promotion of the OECD guidelines. Observance of the core ILO labor standards (freedom of association, abolition of

³⁹ Chanin, Joshua M.; “*The Regulatory Grass is Greener*”: A Comparative Analysis of the Alien Tort Claims Act and the European Union’s Green Paper on Corporate Social Responsibility Indiana Journal of Global Legal Studies, January 2006, p. 48

forced labor, non-discrimination and elimination of child labor) is central to corporate social responsibility...”

The Green Paper is a result of a broad consensus achieved at the expense of those who wanted a more regulatory approach. The voluntary nature of the action was not the intended outcome when the debate on CSR had started at the end of the 90s. But as a part of the social Europe debate CSR had to be kept voluntary to avoid more regulation in the fear of losing ground in the general competitiveness of EU companies.

2.1.6 Communication on Corporate Social Responsibility: A Business Contribution to Sustainable Development

In July 2002 The EU Commission based on the voiced comments, remarks and reactions of different circles, released a Communication on Corporate Social Responsibility: A business contribution to sustainable development.⁴⁰. The Communication outlined the varying views of different actors.

The enterprises wanted further confirmation of the voluntary nature of the CSR activities, putting it in the framework of sustainable development .They also promoted a global approach in terms of content of the CSR, while opposing a ‘one-size fits all’ approach which would curb creativity and innovation.

Trade Unions and civil society initiatives, on the opposite declared the ineffectiveness of the voluntary initiatives, which cannot be considered as a replacement for legislation, but continue to warn that ‘overarching European legislation on CSR as a whole would risk becoming the lowest common denominator’. A more appropriate way to approach the issue would be through regulatory frameworks establishing ‘minimum standards’ and a ‘level playing field’, and by the involvement of stakeholders. They, too believe in the global nature of the CSR saying: ‘Companies operate on a global level and

⁴⁰ Brussels, COM(2000/20027347), Communication from the Commission to the Council, The European Parliament, The Economic and Social Committee and the Committee of the Regions *Corporate Social Responsibility: A business contribution to sustainable development*

therefore so must CSR'⁴¹. The issue of accountability of the companies was also pointed out. One specific concern of the trade unions is the increasing use of CSR initiatives by companies in a way to discard or replace trade union activities both in the EU and abroad.

The Council, in its Resolution of 3 December 2001, mainly stressed the importance of the issue for the business case, for competitiveness of the companies at the local and EU level. There was not a significant mentioning of the global level. The business case was supported obviously in the Council's Resolution

2.1.7 Multi-stakeholder Forum on Corporate Social Responsibility

European Parliament called for a triple bottom line reporting by companies on their social and environmental performance, including human rights dimension. The Parliament also proposed a European Multi-Stakeholder Forum on CSR (CSR EMS Forum) to exchange good practices and assess common guidelines.

In October 2002 European Commission set up a Multi-Stakeholder Forum on CSR for the purposes mentioned above. The Forum presented its report to the EU Commission on 29 June 2004, and a conference on CSR was held one year later. The results of discussions in the forum were aligned with the business view of voluntary action on CSR issues.⁴²

2.1.8 Annual Progress Report on Growth and Jobs of the Commission

The Commission's 2006 Annual Progress Report on Growth and Jobs pointed out to the need of better regulation and the promotion of entrepreneurial culture within the EU. The Commission issued a Communication in 2006 "Implementing the Partnership

⁴¹ Solidar Position on Corporate Social Responsibility 1.2.2002, www.solidar.org

⁴²http://forum.europa.eu.int/irc/empl/csr_eu_multi_stakeholder_forum/info/data/en/csr%20ems%20forum.htm

for Growth and Jobs: Making Europe a pole of excellence on corporate social responsibility”. The Commission declared that what they wished to do was give greater political visibility to what European enterprises were already doing in the field, and announced the forming of the European Alliance for CSR European enterprises. This will act as a political process and not as a legal instrument where companies will sign.

The Communication lists the areas where CSR activities can be complimentary to public policy.⁴³ These should also be read as the EU prioritization of CSR issues:

- “more integrated labour markets and higher levels of social inclusion, as enterprises actively seek to recruit more people from disadvantaged groups;
- investment in skills development, life-long learning and employability, which are needed to remain competitive in the global knowledge economy and to cope with the ageing of the working population in Europe;
- improvements in public health, as a result of voluntary initiatives by enterprises in areas such as the marketing and labelling of food and non-toxic chemicals;
- better innovation performance, especially with regard to innovations that address societal problems, as a result of more intensive interaction with external stakeholders and the creation of working environments more conducive to innovation;
- a more rational use of natural resources and reduced levels of pollution, notably thanks to investments in eco-innovation and to the voluntary adoption of environmental management systems and labelling;
- a more positive image of business and entrepreneurs in society, potentially helping to cultivate more favourable attitudes towards entrepreneurship;

⁴³ Brussels, *Implementing the Partnership for Growth and Jobs: Making Europe a pole of excellence on CSR* (COM(2006)136 final of 22.03.2006)

- greater respect for human rights, environmental protection and core labour standards, especially in developing countries;
- Poverty reduction and progress towards the Millennium Development Goals.”

The commission proposes, awareness-raising and best practice exchange, support to multi-stakeholder initiatives, cooperation with member states, better consumer information and transparency, research, education, activities for SMEs, and acting parallel to the international conventions as the next steps to promote CSR. As can easily be seen there is no mentioning of creating binding regulation on either to implement, report or follow action on CSR. This in return is left to the governments. It is interesting to note that in the international arena the Commission is applying binding regulations in its bilateral relations. “The Commission aims to strengthen the sustainable development dimension of bilateral trade negotiations and to pursue the promotion of core labor standards in bilateral agreements. The Commission will encourage the inclusion of provisions to support internationally agreed CSR instruments and will seek to address CSR issues in bilateral dialogue between the parties.”

Although there are some initiatives such as the EU Accounts Modernization Directive there are no mechanisms in place to forcefully implement CSR issues. All companies (with the exception of small companies) will be required to provide a Business Review in line with the EU Accounts Modernization Directive. Key aspects covered in the Business Review include: information relating to employee and environmental matters where it is material to the companies interests; a description of principal risks and uncertainties facing the company; a balanced and comprehensive analysis of the development, performance and position of the business.⁴⁴

2.2. EU efforts to promote CSR in the international scene

The EU has several tools to use to promote CSR on the international scene. This is one unique position of the EU, representing the member states in trade agreements at

⁴⁴ http://europa.eu.int/comm/employment_social/emplweb/csr-matrix/csr_matrix_en.cfm

the global level where it can use this power as leverage on CSR issues. It has a unique set of agreements with the third countries and regional groups. An example would be the Cotonou Agreement with the African, Caribbean and Pacific countries. Another tool is EU's Generalized System of preferences where countries have to fulfill requirements at the minimum social and environmental standards and a temporary withdrawal option is open where there are systematic violations of core labor standards.

The Commission, in the Green Paper on Corporate Social Responsibility underlines the fact that a growing number of EU companies are benefiting from global market liberalization and trade integration as they source from developing countries, and thus, 'Global governance, and the interrelation between trade, investment and sustainable development are key issues in the CSR debate.' And goes on to say that: "the underlying approach should be 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..."

The Commission also involved the candidate countries in the implementation strategy to promote CSR with the belief that CSR would contribute to enhancing sustainable development and good governance. The CSR would be used as a supplement to existing policy tools such as trade and development agreements and thus can be seen as a contribution to the goal of sustainable development.

In its 2006 Annual Progress Report, the Commission declares that in the international arena the Commission is applying binding regulations in its bilateral relations. "The Commission aims to strengthen the sustainable development dimension of bilateral trade negotiations and to pursue the promotion of core labor standards in bilateral agreements. The Commission will encourage the inclusion of provisions to support internationally agreed CSR instruments and will seek to address CSR issues in bilateral dialogue between the parties."⁴⁵

⁴⁵ Brussels, *Implementing the Partnership for Growth and Jobs: Making Europe a pole of excellence on CSR* (COM(2006)136 final of 22.03.2006)

There are other bilateral agreements of EU such as the accord of December 1995 between the EU and US on 150 policy issues including clauses about the suppression of bribery, ⁴⁶as part of a move towards the Trans Atlantic Free Trade Area. This is considered as a sign of the importance to deal with ethical issues on a global scale.

⁴⁶ Windsor Duane, A. Getz, Kethleen *Regional market integration and the development of global norms for enterprise conduct*, Business and Society Chicago: Dec 1999 Vol. 38, Iss. 4, p. 415-449 (35 pp.)

3. EU APPROACH TO CSR IN THE SOCIAL CONTEXT

3.1 The differences of the Anglo-American view and the European view of CSR

Having reviewed the factual developments at the EU level we can look at the issue from a comparative view, to be able to interpret these facts. As Dick Matten and Jeremy Moon put it corporate social responsibility is viewed as an American phenomenon “reflecting American traditions of participation, self-help and small or at least indirect government.”⁴⁷ There are certain similarities between the interpretations of CSR in European Countries, and certainly differences. So almost each country’s position is unique and all together there is a unique European approach that is not similar to the US approach.

We can also say that many of the social issues discussed under CSR heading are not new at the European context, and has long been incorporated in the law. So European business was forced in a way to incorporate social responsibility in their operations, unlike the American companies, so voluntary nature of social responsibility for European companies is new in this sense. As Whitley puts it there are three areas where national governmental systems affect the CSR activities. These are the role of the state in sharing risks, influence on capital markets and regulation of labor markets, the role of trade unions and industry association.⁴⁸

We can explain the first area in the following context. Since European governments are involved in large insurance systems and other mandatory social issues they are keener to put pressure on the companies to take responsibility. In other words governments are the stakeholders and their major concern is the social issues.

⁴⁷ Matten, Dick; Moon,Jeremy, *A Conceptual Framework for Understanding CSR* in Habisch,Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer,Berlin, 2005 p.335.

⁴⁸ Whitley, Roger *Divergent Capitalisms. The Social Structuring and Change of Business Systems*. Oxford University Press, UK 1999. p. 28.

The second one is less strong influence of capital markets. In credit-based systems, such as the European system the stakeholders are more important than shareholders. So profitability can sometimes be put aside for social goals.

The third one is regulation of labor markets, role of trade unions and industry associations. Since there is high degree of regulation in the European countries, much of which is considered as CSR in US is a part of the law and mandatory in the EU in the above mentioned areas.

The authors Matten and Moon make a theoretic differentiation of 2 types of CSR: explicit and implicit⁴⁹. Explicit CSR represents corporate voluntary practices, which are business oriented while implicit CSR represents a more institutionalized approach to CSR where formal and informal bodies of a country form laws based on societal needs which is declared to corporations in the medium of law, and which is much more society oriented. There is evidence of a shift to more explicit CSR in Europe, and much of the political debate in Europe is focused on this phenomena.

To explain why explicit CSR in Europe is on the rise, the author touches on several points. These would be helpful to summarize here so that we can refer to them later in or discussion. The first one is government or governance failures. It could be the emergence of a totally new system as in the case of Eastern Europe or economic restructuring as in the case of UK in 1980s. There is also the factor of obtaining “ a social license to operate” by the business, following a fear for more regulation and the growing financial opportunities for socially responsible companies.

Many of the European companies actively participate in regulatory efforts unlike American companies who prefer lobbying and the philanthropic activities of EU firms are much less than US as a result of high level of taxation by the governments to fund such needs of society. There is a strong tradition in Europe to involve different actors such as

⁴⁹ Matten, Dick; Moon, Jeremy, *A Conceptual Framework for Understanding CSR* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p.342.

NGOs, trade Unions, and associations of the society in the law making process. This is also what US view would think of as explicit CSR. Since governments are much more involved in the economic activities in Europe, than in US and there is the intensifying debate on the limits of the welfare state, there is a need to find a new compromise between the state and business.⁵⁰ This is also evident at the EU level evidenced by the high level of interest in the issue by the Commission which issued a Green Paper on Corporate Social Responsibility.

As Jan Jonker and Rene Schmidpeter puts it: “(I) t would be a mistake to underestimate the importance of the mutual investments in networks of trust and collaboration. If we decide otherwise, consuming the existing social capital created in the past, we will give away an important asset: the growing social cohesion that has served Europe as a successful political, social and economic concept...Europe is not a place for quick fixes and overnight solutions.”⁵¹

3.2 CSR in specific European Countries

There has always been some form of state intervention to the market conditions. There has always been some form of regulation. The state intervention is required to keep markets open and running. Even when we look at the case of WTO, we see that even for liberal and free trade, certain global rules need to be set to be able to regulate the environment in which trade is going to be pursued.

Green Paper responses also stressed the important role played by Governments, international organizations and the civil society in raising awareness and enforcing implementation of internationally agreed social and environmental standards. “...As there is evidence suggesting that CSR creates value for society by contributing to a more

⁵⁰ California Global Corporate Accountability Project (CAP), *Beyond Good Deeds- Case Studies and a New Policy Agenda for Corporate Accountability*, Natilus Institute for Security and Sustainable Development, The Natural Heritage Institute and Human Rights Advocates, July 2002 pgs.23-45

⁵¹ Jonker Jan; Schmidpeter Rene, *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p.380.

sustainable development, there is a role for public authorities in promoting socially and environmentally responsible practices by enterprises? The need for public action to promote CSR results also from inadequate governance at the global and national levels.’⁵²

Karl Polanyi pointed out throughout his book on *The Great Transformation* those efforts to create a free market led to protectionist reactions of the people which in return led to World wars. He described “double movement” as the resulting situation of the disembodying of economy from society which led to crises. He suggests 2 forms of state intervention, one to turn humans and nature into labor and land, and the other to make sure that humans and nature are not ravaged by the markets.⁵³ So the market needs a level playing field and legal certainty. Consumers need regulation as it provides them with information and protection. Governments want regulation as it is a way to make the actors of society and other governments to act in a predictable way. So let us look how this works for the European countries in the EU context.

It would be appropriate to say that there is a level of Europeanization of the states on CSR policies although the matter is left to the discretion of the business operating in the national setting, but it is not to the extent to override national rules and regulations. Thus each nation has its own way of implementing CSR.⁵⁴ There is strong influence of national cultures on the implementation of CSR in specific EU countries. In France, UK, Germany and Italy social responsibility mainly refers to issues of labor such as, wages, working conditions, and employment security. Here we can say that corporations are viewed as exploiting workers and government is the protector of the workers against this exploitation⁵⁵. The European governments in general use high tax levels to fund the

⁵² Commission Of The European Communities, *Green Paper- Promoting a European Framework for Corporate Social Responsibility*, Com(2001), Brussels 18.7.2001

⁵³ Polanyi, Karl *The Great Transformation*, Beacon, Boston, 1944 pgs 125-132.

⁵⁴ Jordan, Andrew; Liefferink, Duncan and Fairbass, Jenny; *The Europeanization of National Environmental Policy: a Comparative Analysis* in Barry, John (ed.); Baxter, Brian (ed.); Dunphy, Richard (ed.) *Europe, Globalization and Sustainable Development*, Routledge Research in Environmental Politics, Routledge London and New York 2004 p. 130.

⁵⁵ Steiner, George A.; Steiner, Gerge F., *Business, Government and Society A managerial Perspective*; McGraw-Hill International Editions Management and Organization Series, International Edition, 1997 p. 123.

handling of a wide range of general social issues. European firms do not really see the use of CSR other than for publicity, as they believe following the already comprehensive laws and by paying the tax they have met their obligations towards society. In the following table, the different levels of CSR implementation of individual EU countries can be seen. The table, explains EU member country CSR practices under 3 main headings promoting CSR, ensuring transparency, developing CSR-supportive policies. Promotion of CSR is divided into 5 headings, awareness raising, research, public-private partnerships, business incentives, management tools.

Awareness raising activities include awareness raising of the customers, business and the governmental agencies. Research mainly includes the research on systematized measuring and publishing of the information on CSR activities. Public-private initiatives are the level and number of projects developed to pursue CSR in a partnership approach. Business incentives are the projects and contributions of the private realm. Management tools, cover the developed systematized and formal approaches of the CSR applications.

Ensuring Transparency covers developing codes, ways of more accurate and efficient reporting, and the development of labels to contribute the appreciation of the efforts on CSR, socially responsible investment, and advertising of the CSR.

Under the policies heading, different policy areas that touch upon CSR are mentioned. These include sustainable development policies, social policies, environmental policies, public procurement, trade and export policies and other individual contributions. One can see from this table that CSR issues cover a whole range of activities and policy areas.

In the context of CSR we can speak of “national systems of corporate social responsibility”. We can specify certain headings to analyze to be able to detect the different agendas. These could be social and political history effecting the way society and business communicate with each other and how objections are raised, the way society is organized, whether there is a formal organization of societal sectors, the education and training systems, the management culture, the social and economic context and the

national agenda of priorities. Nigel Roome lays out the following headings in order to analyze the characteristics of societal governance operating in a country: Political Structure, political style and process, social structure, strength of commitment to voluntarism as opposed to acceptance of the rules and controls of the state, description of the role and position of non-governmental organizations and citizen groups in society, characteristics of educational system, societal expectations on leaders, historical traditions.⁵⁶

⁵⁶ Roome, Nigel; *Some Implications of National Agendas for CSR* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p.321.

| Compendium on National Public Policies on CSR in the EU | | | | | | | | | | | | | | | | | | | | | |
|--|----|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| | AU | B | CS | DA | FI | FR | DE | EL | HU | IE | IT | LA | LT | LU | PL | PT | SL | ES | SE | NL | UK |
| Promoting CSR | | | | | | | | | | | | | | | | | | | | | |
| Awareness raising | * | * | * | * | * | * | * | | | | * | * | | | * | | | * | * | * | * |
| Research | * | | | * | | | | * | * | | | * | | | * | | | | | * | * |
| Public-private partnerships | | | * | * | | * | * | | | * | | * | | | * | | | | | * | * |
| Business incentives | * | | * | * | * | | * | * | * | * | * | * | | * | * | * | | * | * | * | * |
| Management tools | * | | | | | | | | | * | | | | | * | | | * | | | * |
| Ensuring transparency | | | | | | | | | | | | | | | | | | | | | |
| Codes | * | | * | | | | * | | | | | | | | | | | * | | | * |
| Reporting | * | | | * | | * | | | | | | | | | | * | | | * | * | * |
| Labels | * | * | | * | | | | | | * | * | | | | | * | | | | | * |
| SRI | * | * | | | | * | * | | * | | | | | | | | | * | * | * | * |
| Advertising | | * | | | | | | | | * | | | | | | | | * | | | |
| Developing CSR-supportive policies | | | | | | | | | | | | | | | | | | | | | |
| Sustainable dev. | * | * | * | | | * | * | | | * | | * | | | * | | | | | | |
| Social policies | | | | | | * | * | | * | | | | | | | | | | | | |
| Environmental policies | | | * | | | | * | | | * | | * | | | | | | | * | | |
| Public procurement | | * | * | * | | * | | | | | * | | * | | | | | | * | | * |
| Trade&export policies | * | * | * | * | * | * | * | | | | | * | * | | * | | | | * | * | * |
| Other | * | * | * | * | | | * | | * | * | | | * | | * | | | * | * | * | * |

⁵⁷ http://europa.eu.int/comm/employment_social/emplweb/csr-matrix/csr_matrix_en.cfm

There are notable differences among the EU members on the understanding of CSR, the activity agenda and the actors involved and the results obtained. The cultural differences, the traditions, societal needs, historic developments all contribute to this vary approach to CSR in different countries. This has an effect both on the companies and the societies that they operate in. The establishment, development and functioning of business networks as well as social networks depend on the specifics of a country. The recent debate on clusters or the notion of industrial districts is ways to explain this complex networks that are not separate but interacting to form the unique environment in which companies operate. These unique environments bring to light unique competitive edges like financial services in the UK, automotive sector in Germany or the Silicon Valley.

According to research done on EU-15 by Laura Albareda, Tamyko Ysa, Josep M. Lozano and Heike Rocher⁵⁸, there are four models of government action in the development of public policies promoting CSR. These are the partnership, the business in community, the sustainability and citizenship, and the agora model.

The partnership model refers to the Nordic and Scandinavian countries namely, Denmark, Sweden and Finland, and to Netherlands. The common trait in these countries is their vast experience in environmental management. They have tools and mechanisms in place for social negotiation. There is a strong tradition of partnerships and shared idea of welfare. Being socially responsible for the companies in these countries is an inherent way of doing business. Local governments are highly involved in creating partnerships to bring together administrations, companies and social organizations. There is also a practice of giving information on CSR related activities, so there is a respect for principles of transparency. Consumers are knowledgeable and demanding.

⁵⁸ *The role of governments in fostering CSR* in Kakabadse, Andrew (ed.); Morsing, Mette (ed.); *Corporate Social Responsibility Reconciling Aspiration with Application*, European Academy of Business in Society, Palgrave Macmillan, Great Britain 2006. pgs. 116-128.

The business in the community model is applied in “English-speaking” countries according to the researchers, UK and Ireland. These governments see companies having a role in community development. The companies have an economic role in the communities they operate in. The economic development they bring helps combating social exclusion and poverty. The government is the facilitator in this case, where it provides certain incentives or tax measures to encourage private participation. The partnership of the public and private sector is through projects. The nature of these activities is staff training, company creation and investment in less developed parts. The government sees private sector participation as a way to deal with social problems that it does not have the means to deal with, and for this they use soft regulation.

Germany, France, Austria, Belgium and Luxemburg fit in with the sustainability and citizenship model. These countries already have experience in sustainable development but the term CSR is introduced to the social debate only after the Green Paper of the European Commission. The term corporate citizenship is used widely referring to the further obligations of the companies other than compliance with the law. The companies are expected to participate in their local environment and engage in partnership with other actors in society. The companies are seen as social agents. The government is only an agent and an encourager of CSR activities. Except France none of the governments listed above apply regulations about CSR activities. These states are all sound welfare states and the concept of social market economy is well embedded. So the main debate on CSR is by companies themselves. France again constitutes an exception in the sense that French government goes much further in its presence in the CSR activities than any other mentioned under this category.

The Agora Model applies to the Mediterranean Countries, Italy, Spain, Portugal and Greece. They are the latest among the EU-15 to engage in the issue. Their participation in the debate began only in year 2002. As the term is newly introduced there is a series of discussions on what to do about the issue. As we will see later the CSR activity reports of the countries mainly tell about how many conferences are held and how many gatherings are done. The multi-stakeholder forums are very common, including representatives from business, government, NGOs universities, associations

etc. These forums are created to decide what form of action the government should take. As these states have less developed welfare systems, social services are not as developed as the rest of Central Europe. There is a wide presence of SMEs and the Multinational companies that are present are mostly originated elsewhere.

For the Central and Eastern Europe The transition from planned socialist economies to free market, and the transition from an economy limited to the soviet economic bloc to one facing global competition, and EU membership has marked the economic development agenda.⁵⁹ Although companies of big scale in these countries act the same way as their counterparts originating in more developed economies⁶⁰, CSR issues are not yet discussed in other context than provided by the EU. There is very limited government, business and civil society debate on the issue.

Since CSR by definition is voluntary business is picking up issues that are of concern to its consumer or stakeholder base, so as long as the consumers and stakeholders have needs that differ and as long as the nature of business activity brings about different problems the CSR cannot be phenomena formulated and applied in a single way. But having said that, we should also mention government regulation and EU regulation can have an effect on establishing the minimum standards that all business has to comply with. This is also important in an era where European business is operating at a more European, and global level.

We will also be observing the difference between developed countries and developing countries and how the set of issues dealt under the notion of CSR vary. Employment opportunities and economic restructuring and related social restructuring is at the top of the list in developing countries where environmental concerns, avoidance of child labor and employment forms are more important for the developed world.

In the following pages we will look at different groupings of countries to see how some of these headings are causes of individual developments in European Union zone, and Turkey.

⁵⁹ Woolfson, Charles, *Un-Social Europe* Transitions Online; 6/13/2005

⁶⁰ OECD, *Corporate Responsibility Practices of Emerging Markets-A fact finding study*, June 2002

3.2.1 Northern Europe- Partnership Model

Partnership model of CSR implementation is present in these Nordic countries. Northern European countries place the legal system among the top 3 institutions that they trust the most together with the army and the police, whereas Southern European Countries and the UK charitable organizations have a higher level of trust than the legal system.⁶¹ This high level of trust is one of the reasons for the existence of partnership model of CSR implementation in Finland, Denmark, and Sweden.

3.2.1.1 Finland:

Finland is a country where the role of the government is much more extensive than the Anglo-Saxon countries, and the notion of welfare state much more on the forefront. Finland had incorporated many of CSR issues into law. Already in 2002, according to a study on SMEs, 82% of the Finnish SMEs are involved in social activities in which they are located, where the EU average is 49% and the least socially active is Greece with 44%.⁶²

It is considered as a corporatist country where regulatory process is carried on with the participation and consensus of the stakeholders from different sectors of society. So Finish companies contributed to the already existing high level of support from government in the social arena, with sponsorships and donations focused on sports and culture.

The main concern about Finnish companies is the ethical problems in business and trade in their operations abroad, especially in developing countries. A study on Finnish attitudes to ethical trading revealed a two thirds majority that though there were ethical problems in business and trade on issues like human rights violations and protection of environment. For the operations of Finish companies at home although the

⁶¹ Eurobarometer 2003, *Public Opinion in the European Union*. Brussels

⁶² The European Observatory of SMEs. *European SMEs and Social and Environmental Responsibility*, Brussels, 2002

issue of CSR towards employees is very important it is still placed behind the responsibility for products and services and compliance with the law⁶³.

When we look at the government role of CSR in Finland we see that the government is participating in discussions in international organizations such as the OECD and EU, and has established Committee on International Investment and Multinational Enterprises (MONIKA), within the Ministry of Trade and Investment. This division is mainly focused on promoting OECD Guidelines for Multinational Enterprises.

There is also the Finnish accounting Body, KILA to give guidance on recognition, measurement and disclosure of environmental issues in the annual accounts review as environmental responsibility issues are of extremely high importance in the agenda of corporate responsibility in Finland.⁶⁴

There is also the Finnish Ethical forum formed in July 2001 which is comprised of officials from organizations, unions, government and the church. This is to facilitate dialogue between business consumers and other related circles. Another important body for dialogue is The Finnish Business&Society network formed by seven companies together with the National Research and Development Centre for Welfare and Health, and developed into an association of 42 member organizations. This association is a partner organization of CSR Europe.⁶⁵

As ethical trade is very important in the Finnish community there is also a network formed by companies under the coordination of The Central Chamber of Commerce of Finland where enterprises that are committed to follow the common principles in ethical trading can become a member.

We can see here that Finland apart from promoting OECD guidelines did not bring in extra governmental regulation as most of the CSR issues are covered. Even if

⁶³ Korhonen Jouni; Nina Seppala; *The Strength of a High-Trust Society* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005, 14-22.

⁶⁴ <http://www.kauppakamari.fi/kkk>

⁶⁵ http://europa.eu.int/comm/employment_social/emplweb/csr-matrix/csr_matrix_en.cfm

there is a strong negative reaction of business conduct abroad, there is no forceful regulatory approach on the government side to act on the issue; rather this has been left to private initiatives.

In Finland we see a high level of implicit CSR. As there was no serious government failure or great corporate scandals to push companies to obtain “license to operate”, CSR practices are highly embedded and there is not a fast move to explicit form of CSR.

3.2.1.2 Denmark:

It is the case in Denmark as well, that many of the CSR issues have been already incorporated in the law or have been practiced informally. But as globalization of business and companies demand there is a felt need to systematize scattered CSR initiatives.

The Danish State is the main provider of social services, according to law. There is a high level of taxation of the business to fund the social activities of the government. The state is organized in such a way to enable local authorities to act independently. This leads to higher scrutiny of business at the local level and forces them to act together with local stakeholders.⁶⁶

Danish Business is traditionally socially responsible. The world’s first ethical accounting statement was from Danish Bank in 1989, based on voluntary decision of the companies CEO. But because this is a tradition and has been practiced in the country and government is the main overseer of the issue there is no immediate incentive by companies to do further on the issue.

⁶⁶ Morsing, Mette, Inclusive Labour Market Strategy in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p. 23-35.

The main issue of concern is the “inclusive labor market strategy”, where the Ministry of Social affairs plays the greatest role. The comprehensive campaign on CSR called “It concerns us all” was initiated by this Ministry in 1994. This campaign created a concern in business about a possible furthering of regulation but has remained to be a facilitator for voluntary approaches in CSR practices.

The issue is seen a part of the growth strategy for Danish companies in the global market and the focus of the government is on training and reporting and documentation on how to best use this already existing asset in promoting the business globally. The opening of the government financed internet portal on CSR of Danish companies is a proof of this.⁶⁷ There is a social labeling initiative “social index” and an Annual Reports Act in which companies are invited to report on social improvements along with the mandatory environmental reporting, since 2001. More than 1000 companies include CSR issues in their reporting under this act.

The most institutionalized approach to CSR is through “social coordination committees” and “the social chapter”. Social coordination committees are mandatory for Danish local authorities which add up to 269, in 1998. This acts as a forum to bring together representatives from Danish Employer’s Confederation, The Confederation of Danish Trade Unions, The Public Employment Agency, and other relevant parties. Their major area of concern is unemployment and social exclusion. The social chapter is coordinated by the National Association of Municipalities, the National Association of Counties, and the Trade Union for Public Servants, Copenhagen and Frederiksberg Municipalities. The importance of social chapter is the contribution of local authorities in sharing responsibilities of business in social areas. It is in the form of a framework agreement which therefore should be considered more of a commitment rather than voluntary action.

⁶⁷ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/denmark1.htm

The Danish government asks for a set of OECD guidelines to adhere from the companies in public procurement and to receive certain grants. The government gives guidance and training through the Copenhagen Centre which also holds a comprehensive database on social and environmental issues.

On the international level the Danish government is a participant of EU and UN initiatives as well as the OECD.

3.2.1.3 Sweden

Much like the other two Nordic countries Sweden because of the climate and geography presents a community where collectivism and pluralism is dominant and consensus building is the form of decision-making. High standards of living and social welfare enable Swedish companies to engage in projects in developing countries. There is a strong pressure from the Swedish community that Swedish companies act with ethical principles abroad.

This is clearly indicated in the Swedish policy statement on CSR website⁶⁸: “By active promotion of corporate social responsibility, two corner stones of Swedish policy are linked up, an active trade policy for greater openness and freer trade, and a foreign policy that strongly emphasizes the importance of human rights and sustainable development.”

Government uses export credits as a tool in supporting CSR. State-owned companies are asked to report about their conduct of business through filling of a voluntary questioner. Public procurement also constitutes an instrument to promote CSR. In this context, the government is currently assessing the possibilities of taking social and environmental concerns into account in public procurement. Under the Public Pension

⁶⁸ http://europa.eu.int/comm/employment_social/social/csr/country/sweden1.htm

Funds Act, the National Pension Funds are required to draw up an annual business plan, which must include guidelines for investment activities and describe their impact on environment and society. So we can say that employment and consumer issues, as well as business involvement in training and education are of less importance in terms of CSR in Sweden. This is a sign of the highly implicit character of the CSR issues in the Scandinavian context.

3.2.1.4 The Netherlands:

CSR practices have long been implemented in the Netherlands, although environmental concerns were higher on the agenda, as use of land and resources has traditionally been a topic of great concern. There is a high level of societal concern over social issues in the Netherlands. The research shows that the number of people participating at NGOs is relatively high and that people are willing to accept high government expenditure on development issues. The sustainability issues are priority in the Netherlands, and corporate community involvement as well as philanthropy is less common practices.

The main body to deal with CSR is the Dutch Social and Economic Council. In its strategic report “Corporate Social Responsibility- a Dutch Approach” it is mentioned that social activities of a firm are core activities of the firm. Although this view was endorsed by the Dutch Government, it was not effectively put into practice as a plea to introduce an obligatory reporting system for internationally operating companies failed to succeed.⁶⁹

The Dutch government openly states that it is not willing to impose CSR on firms. The government engages in public private partnerships and the main focus is

⁶⁹ Cramer, Jacqueline, Redefining Positions in Society, in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 pgs. 87-95.

employment, social cohesion, urban renewal and crime prevention. There is an emphasis in local participation rather than central.

What is worth mentioning in the Dutch case is the international approach taken by the Dutch Government. The Dutch government underlines the importance of the proper behavior of Dutch firms abroad. Traditionally being a merchant country a great number of Dutch firms operate outside the borders of the Netherlands. So companies are scrutinized not only in their action in their home country but also in their management of the supply chains and overseas investments. This also leads to engagement of CSR activities in developing countries by the Dutch firms.⁷⁰

There is also active promotion of CSR by the Dutch Banks. There are plenty of sustainability funds available, following the law enabling certain socially responsible investments to be deducted from tax. This also led to the emergence of a number of consultancy firms on the issue.

3.2.2 English Speaking Zone- Community Involvement Model

As mentioned earlier government and governance failures and a distrust of the conduct of business leads to more explicit forms of CSR. In UK and Ireland we see such a move towards explicit CSR. This is partly because CSR issues as a business practice has not been incorporated into law as it has been in the Nordic countries case. There is a more direct relationship between the society in need of such involvement of business and the companies themselves, so the regulation came within the companies rather than imposed on them by law after the filtration of government of society concerns.

⁷⁰ Roome, Nigel *Some Implications of National Agendas for CSR* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005, p.328.

3.2.2.1 UK:

CSR issues have been on the agenda for decades in the UK. 1980s were especially critical with high employment rates and social disturbances. In the 1990s the focus was moved from community involvement to product and process CSR, and responsible employee conduct. CSR in UK has gained wider importance with the downsizing of the government role on especially social issues.

The reasoning for the growing importance of CSR is much different than the reasoning for the Nordic countries where the state is seen as the source of social sustainability. The private initiatives in CSR is meant to go much further in UK than in many countries because of the position the government holds. It would be hardly possible to hear similar words as the below words of the Minister of Education, in for example the Nordic Countries. The Minister talks on the issue of expanding public-private partnerships in the UK schools:

“We cannot do this on our own. Education is a joint enterprise-between teachers and students but also between schools and the wider community. Business can sponsor Specialist Schools and Academies. Business can contribute to curriculum development. Business can offer work placements and work experience. Business can offer mentoring and governor support.”⁷¹

Discrimination is a topic where CSR activities focus in the UK. This is due to the multi-racial form of society, where there are high levels of immigration. Companies such as Littlewoods have made equality in work center to their CSR activities. There is great concern about safety of food, so food chains made projects on for example to remove genetic engineered products out of their supply.

The role of the Central government is to hold bilateral negotiations with each part of the society to make decisions unlike the consensus seeking multilateral negotiation

⁷¹ Miliband David, Minister of Education quoted in Moon, Jeremy *United Kingdom-An Explicit Model of Business-Society Relations* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer,Berlin, 2005 p.58.

process of some other mainland European countries. The UK government is the only government among the EU countries which has a Minister for Corporate Social Responsibility. The Ministry explains the government role in CSR as to raise awareness; provide guidance; promote consensus on UK and international codes of practice; and promote a framework for social and environmental reporting and labeling.

The umbrella organization for CSR was formed following a 1981 conference on community involvement, of UK and USA business leaders. Business in The Community (BITC) soon became the biggest organization to work along business on CSR, with members adding up to over 750 companies. Private initiatives providing consultancy and NGOs working on CSR is on the rise lately. According to a study 62% of the CSR consultancy had been created in the last 10 years in the UK. Increase of socially responsible investment funds has also encouraged this development.⁷²

The 1996 amendment to the Occupational Pensions Schemes Regulation which requires that social, environmental and ethical factors be included in the pension funds decisions is an example of a regulatory approach on the side of the UK Government. Another such example is the White Paper on Company Law Reform which refers to similar reporting for stock exchange companies. There is also the Government report on CSR which outlines the strategy to be followed and the progress on the government side. This is much focused on the business case of the CSR and helps facilitate the dissemination of information and best practices among UK companies.

On its report on CSR to the EU, UK summarizes the goal of this Strategic framework as such: “Its overarching goal is to ensure that approaches deliver practical outcomes and to encourage all relevant international and inter-governmental institutions to be actively engaged in ensuring a coherent approach to CSR.”⁷³

There is a National Strategy for Neighborhood Renewal, which seeks to engage businesses in the social and economic regeneration of the most deprived areas of England together with local partners, to create Local Neighborhood Renewal Strategies for where

⁷² http://europa.eu.int/comm/employment_social/emplweb/csr-matrix/csr_matrix_en.cfm

⁷³ http://europa.eu.int/comm/employment_social/emplweb/csr-matrix/uk

the appropriate funding should be allocated. There is a great emphasis on local wealth creation in these areas as part of CSR approaches.

The UK Government supports Business in the Community, the leading business organization in CSR. According to a study of OECD, UK companies have a higher level of propensity to formulate sourcing policies, to systemize them and to report on the outcomes.⁷⁴

There is a White Paper on Modernizing UK Company Law which has been submitted to the House of Lords on November 2005. It will be explanatory if we quote how this paper is presented in the UK Policy Update “A number of measures will be introduced by the bill including a statutory statement of directors' duties to clarify their responsibilities and improve the law regulating directors' conflict of interest; this will embed in statute the concept of 'Enlightened Shareholder value' which makes clear that directors' must promote the success of the company for the benefit of its shareholders which can only be achieved by taking account of the long-term and wider factors such as employees, effects on the environment, suppliers and customers.”⁷⁵ This is a direct echoing of the American approach to CSR, looking at the issue from a shareholder point of view than a stakeholder point of view.

Pension funds are not obliged to report on the CSR of their investments but they are invited to do so through Pension Disclosure Regulation. There is not yet much inclusion of social responsibility issues in public procurement other than some environmental issues.

Charity donations are deductible from tax, which is the reason why companies making charity donations increased from 1 in 5 to 1 in 3. There is also another payroll giving scheme to pull the SME sector into charity donations.

⁷⁴ OECD, *Managing Working Conditions in the Supply Chain-A fact finding study of corporate practices*, June 2002

⁷⁵ *Corporate Social Responsibility: International Strategic Framework* UK Policy Update
http://www.csr.gov.uk/pdf/dti_csr_final.pdf

On the international side the Government supports ILO and OECD Guidelines. But they underline the fact that a sanctions based approach towards implementing labor standards is not acceptable. The UK government published a white paper “Eliminating World Poverty: Making Globalization Work for the Poor” to provide guidance to the investors on development issues.⁷⁶ There is a report produced by the Government called International Strategic Framework on CSR. UK government is showing much more of a stronger effort in promoting the CSR issue on the international agenda as many Multinational companies of UK origin are facing global critics on their actions.

3.2.2.2 Ireland:

CSR is in its very early stages in Ireland. It is explained by Elenor O’Higgins, that there is a strong anti-establishment approach resulting from being a former colony of Britain, in Ireland. So tax evasion is a common practice which included big enterprises as well. There is a strong distrust in acts of corporations in Ireland, which leads to more explicit forms of CSR.⁷⁷

Although there is high level of unionization, the decision making process does not confirm the effectiveness of the workforce. Much of Ireland’s economy is market driven as a result of American Foreign direct investment. There is also much turbulence in terms of banking sector’s malpractices ad the practices of politicians, and Socially Responsible funds are rarely available.

EU membership has changed practices in many areas of social life in Ireland as EU regulation about employers, trade unions, government and the unemployed were introduced. But since there is a lack of consumer interest in CSR issues business has not been very proactive.

⁷⁶ <http://www.dfid.gov.uk/pubs/files/whitepaper2000.pdf>

⁷⁷ O’Higgins, Elenor, *Bridging the Atlantic* in Habisch,Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer,Berlin, 2005 pgs.67-76.

Social exclusion sits at the centre of focus on government initiatives to promote CSR, as there is great imbalance in social performance between different parts of the country. So the National Centre for Partnership and Performance was established by the government to encourage public-private partnerships .Another such initiative on the government side is Area Development Management which is responsible for delivering local development measures to address issues of social exclusion, poverty and unemployment in deprived areas. There is also the National Economic and Social Forum which deals with the same issues at the National level. There is a dominance of schemes and initiatives focused on employment, and thus business support and social capital accumulation.⁷⁸

The Irish Government supported the establishment of the business-led Foundation for Investing in Communities and Business in the Community – Ireland with the aim to encourage businesses to make CSR and community involvement part of their mainstream business practices and encourage philanthropy. This is not a compulsory issue for business but rather a more awareness raising initiative among the general public. This awareness raising initiatives are complementary with introducing social labels and corporate codes of conduct. Like in the UK charities and charitable fundraising is treated as a funding expense.

Sustaining Progress is a National Agreement ratified by the Irish social partners which includes the Government, employers, trade unions and the community and voluntary sectors. Some of the issues covered by it are Redundancy payments, statutory minimum pay, work life balance programmes, workplace learning etc. Community development activities are at the top of the agenda, in Ireland as it is in the UK.

3.2.3. Central Europe –Sustainability and Citizenship Model

3.2.3.1 Belgium

As a country occupied for long years, there is a strong culture of collective action and defense. The fact that Belgium emerged as an industrial country has a strong

⁷⁸ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/ireland.htm

influence in the minds of the society and business. There is a high level of expectation by the Flemish society on the responsibility of business on creation of welfare and well-being. Managers are the most trusted professional group among the Flemish civilian population. CSR initiatives have gained pace in the last decade in Belgium. The main reason is the growing interest of the public and the need for customer satisfaction. But when analyzed regionally, there are divergences in the appreciation of CSR activities. More than that, social reporting is not a common practice among the Belgian Companies. Researchers have explained the reason for this as the lack of a cultural tradition to explicitly communicate voluntary activities.⁷⁹

The unions play a significant role in the conduct of business in Belgium, but they are criticized for their defensive status rather than proactive engagement to play the role of a joint policy maker with the workers and the business. According to the results of a project which explores new European arrangements for outplacement, as part of the larger concept of employability conducted by Social Convoy and Sustainable Employment, Belgium is far ahead, ahead of Germany, The Netherlands, Italy and Spain in legislation concerning the protection of employees.⁸⁰ An explanatory example of this situation would be the number of cases the National Contact Point has discussed. The Belgian NCP discussed about 20 cases all under the heading of employment, and related to plant or facilities closing. So we see more explicit forms of CSR in Belgium.

The Belgian Network for Social Cohesion as the partner for European Business Network was formed in 1997 with the aim of acting on issues of social cohesion and later incorporated CSR issues in its mission.

Another initiative is the TRIVISI initiative, taken by the Ministry of Employment and tourism. Again employment and stakeholder issues are at the forefront at the Belgian case so TRIVISI focuses on managing diversity, learning, and responsible behavior

⁷⁹ Heene, Aime; Langenberg, Suzan, Dentchev Nikolay *A Hot Topic In Contemporary Management* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 pg. 89

⁸⁰ibid.

towards all the firm's stakeholders. TRIVISI acts as the main forum for the awareness raising activities.

There is a Federal Council for Sustainable Development, which is advisory in function on the implementation of Belgium's international commitments.

The Social Label is given by the Ministry of Economic Affairs, after consultation with The Committee for Socially Responsible Production which is the responsible body to do the controls. The companies are obliged to give all information of their suppliers and sub-contractors involved in making the product. There is also a new law proposed for forbidding misleading advertising on social conditions of production.⁸¹

We can summarize the main areas of focus on the CSR debate in Belgium as such: to promote responsible behavior of companies, including disclosure regulations, a social label (a label describing production conditions), and a strong commitment to the OECD and ILO Guidelines.

In November 2001, the Belgian government has approved the introduction of a social clause for federal public procurement to favor the inclusion of disadvantaged groups.

3.2.3.2 France

CSR has been practiced in France historically. The state has been involved with social issues such as working conditions, pension schemes, insurance etc., through binding regulation. So there is a strong emphasis on the welfare state in France. Social legislation has been an integral part of the government legislation. The historic distrust to employees and the strong presence of defensive unionization led to intensive regulation. According to law, the company has to have a "social interest" where the stakeholder is more important than the shareholder. France passed a law requiring all nationally listed

⁸¹ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/belgium.htm

corporations in France to report to shareholders and stakeholders on a range of sustainability issues.⁸²

The government also is supportive of business in cases of difficulties of the firm. France is the only country in the EU who as early as 1977 asked large companies to give an annual social report, mainly on employee relations.⁸³

The government is the main and dominant authority to implement social policies. The public expects the State to be the guardian of welfare than the firms, which is typical of highly centralized systems such as France. So voluntary approach does not have many supporters in France. Although this is the case, because of the concerns over social funding there is a shift of power to the firms. But we can say that France is probably at the top of the list of countries in implicit implementation of CSR.

The banking system has been the main source of funding for private companies and thus the notion of shareholding is not widely spread. There was no practice of pension funds until recently so we see dissimilarity between CSR implementation tools in France and in UK for example where the role of the shareholder is very important and regulation on pension funds have proved to be successful tools in realizing CSR practices. There is recent regulation on pension funds asking for certain social responsibility request be met, is an obvious example of a shift of power from the state to the private realm.⁸⁴

The term CSR has been recently used after several NGO campaigns and worldwide demonstrations against multinational enterprises; we should also add the financial scandals. The initiation of CSR activities was not a result of market conditions in France but rather a result of the strategic action of leading firms. This is a sign of a shift to more explicit forms of CSR.

⁸²Financial Times Aug 19, 2002

⁸³ Steiner, George A.; Steiner, Gerge F., *Business, Government and Society A manegerial Perspective*; McGraw-Hill International Editions Management and Organization Series, International Edition, 1997 p.79

⁸⁴ Beaujolin, Francois; CApron, Michel *France-Balancing Between Constructive Harrasment and VÍrtous Intensions*, in Habisch,Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer,Berlin, 2005pgs. 127-131.

In 2001, social and environmental reporting of publicly listed companies became mandatory. Certain social and environmental clauses are introduced into public procurement contracts. Fighting discrimination is a major area of CSR activity for the French. An independent administrative authority in charge of promoting equal treatment and fighting discrimination is about to be installed. This is an example on how specifics of a country shape the priorities of the CSR agenda.⁸⁵

The legislation on CSR was not a major area of interest for the government because many of the issues were already covered by law in an extensive way, but international pressure to set a standards based approach based on the Anglo-Saxon model initiated some active involvement on the government side. It was only in 2003 that a national Strategy on Sustainable Development was established. The national Strategy foresees a creation of a reference system at the national level, analysis of practices and development of socially responsible investment. In the French case the awareness raising, and communication activities will constitute the future action on CSR rather than the introduction of new binding regulation. This is why there is much emphasis in international organizations promoting CSR such as the ILO, OECD and the Global Compact.

3.2.3.3 Germany:

The German Corporate culture is very dominant. The approach to democracy and the proportional representation system together with strong presence of the Federal and local state all foster the corporate culture⁸⁶. It is a system of balance of interest where social issues are of every sectors responsibility. The regulations are very specific in laying down who is responsible of what, and once the regulations pass, government does

⁸⁵ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/france.htm

⁸⁶ Roome, Nigel *Some Implications of National Agendas for CSR* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p. 320

not intervene further than the specifics set. In the words of Lee Travis⁸⁷ “compared to regulation in the Anglo-American model, German regulators are seen more as auditors whose purpose is to ensure conformance to a set of clearly stated legislated requirements.” So corporate community involvement is much more on the forefront than sustainability and labor issues which have already been dealt with extensively in the German law.

The strong presence of unions, business associations, and professional groups all negotiate within the corporate culture under the umbrella of the state. As Hamish and Wegner put it there is “the presence of the quasi monopoly of the state as the omnipotent problem solver of German Society.”⁸⁸ So CSR as a voluntary approach is a fairly new and not a widely accepted phenomena in Germany. The term corporate citizenship is used widely instead or as a synonym of CSR. In the statement of Germany presented in EU Employment and Social Affairs website this fact is explicitly laid out “In terms of social commitment by business which extends beyond statutory requirements, it should be noted that there is already a relatively dense regulatory system in Germany and that this leaves little scope for further activity.”⁸⁹

The environmental movement which was a big success of the Green Party opened the door for the discussion of sustainable development. But there is not much knowledge of and interest in CSR on the consumer side. According to a survey conducted in 2003, two thirds of the respondents declared that they would be interested in information about the social and ecologic effects of business which has to be measurable and monitored by independent bodies. The study also shows that even when the same price and quality level is presented only half of the respondents would choose socially responsible products.

⁸⁷ Tavis, Lee A. *Managerial Discretion: A necessary Condition for Multinational Corporate Social Responsibility* in Houck, John W. (ed); Williams, Oliver F. (ed), *Is the Good Corporation Dead? Social Responsibility in a Global Economy*, Rowman&Littlefield Publishers, Inc. USA, 1996 p.111

⁸⁸ Habisch, Andre; Wegner, Martina; *Overcoming the Heritage of Corporatism* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005

⁸⁹ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/germany.htm

The main concern on CSR issues in Germany are child labor, environment and unemployment which are described in sequence as the most shocking, most established and the most worrying for the consumers. This listing is a characteristic listing of the welfare states.

Trade unions do not foresee any change in their positions and believe that they already are contributing to the social responsibility movement as they are. They mention a worry that CSR will replace the social dialogue mechanism they have between the labor unions and employer's associations. They also want legislation such as the German or European legislation be applied in 3rd countries.⁹⁰

CSR activities are stemming out of the wish to improve relations with the community and business partners as well as to achieve higher customer retention and not much because of ethical reasons. The civil society and NGOs are not really active to constitute a major pressure point of pressure on companies.

The legislative measures mostly focus on financial support, and the areas of implementation are, the integration of the long-term unemployed, handicapped, job starters, women and elder people as well as to set up training networks. The CSR activities are to promote networks, stakeholder dialogue and cooperation across societal groups. These are echoing of the European policy. The main driver of CSR activities is the EU in the case of Germany.

The incentives for CSR activities are not high enough to say that there is a strong backing of the German government on the implementation of CSR by the business. The business itself tries to avoid any further obligatory measures, in Germany, at the EU level and at the international level.

There are several initiatives on the public side. To give a few examples of what is done on the Federal Government level we can name the "New Quality of Work

⁹⁰ Weiss, Manfred; *Which Social Responsibility for the Enterprise? The German Case*, Journal of Managerial Law, Volume 47 Number 5 2005

Initiative” launched in 2001 where social partners come together. Another one is “Innovative Job Design-Future of work” which is a framework concept to give grants for research and development on improvement of the work life.

The most effective scheme seems to be the The Joint Federal Government/Länder Scheme "Improving the Regional Economic Structure" (annual support from Federal Government and Länder of € 1 billion). It is the major instrument of regional economic support and also assists non-investment measures in the field of lifelong learning, such as advice and training, formation of human capital and applied research and development in structurally weak areas. It also promotes telework and part-time jobs and jobs for women in areas where female unemployment is high.⁹¹

It should be noted that there is an interest on the German Government side to promote social and ecological standards in developing countries. The specific action fields are agriculture, certification in forestry and fair trade. Parallel to this, a "Round Table on Corporate Codes of Conduct" was set up with the aim to improve labor and social standards in developing countries via codes of conduct. There are representatives from various ministries, companies, NGOs and social partners, in the roundtable. The Foreign Trade Association of Germany together with AVE (German Retail sector), and companies introduced an initiative to draft a uniform set of codes of conduct for 3rd country suppliers to the German Market.

In the German case again implicit forms of CSR implementation are more common than explicit ones.

3.2.3.4 Austria:

Similar to the German case CSR issues have already been dealt with under sustainable development initiatives and with already existing regulations on social performance of companies. Again similar to the German case environmental activism has

⁹¹ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/germany.htm

constituted a base for further developments in the CSR field. The concept of fair and not free trade was built under the “eco-social market economy” concept by Vice Chancellor Dr. Josef Riegler which shaped the discussions on sustainable development for the last 20 years. There is a high level of awareness of Austrian Enterprises of their responsibility as corporate citizens reaching up to 97%. Publicly listed companies and those that are highly visible show a higher percentage of implementation of CSR activities.⁹²

The focus of action of the corporate citizenship programmes are health service and social mechanisms. As health services and social mechanisms are the two major areas of concern one of the most active Ministries in promoting CSR is the Ministry of Health and Social Affairs. They deal with projects on the issues of family and career balance, women and family friendly enterprises as well as drafting a voluntary code for corporate governance.⁹³

The main body dealing with CSR is CSR Austria initiative which is part of the CSR Europe. The discussions in the body follow a parallel line of discussion at the European level.

Civil initiatives such as the declarations of the Austrian Civil Society and the Federal Chamber of Labor are critical about the voluntary approach and see that the measures taken up to now could only constitute a first step to further regulation, especially in public procurement and competition and promoting public enterprises.

3.2.4. Central and Eastern Europe- New Comers

There are common traits among the countries of Central and Eastern Europe. They constitute the new comers bloc in the EU. They are also new participants to the CSR debate with rather a different agenda. Statistics show that Central and East

⁹² Strigl, Alfred *Concerted Action Towards Sustainable Development* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 pgs. 126-140

⁹³ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/austria.htm

Europeans are three times as likely to die at work than those in the EU-15. Working hours are longer, the workplace much noisier hotter and more polluted. There are more complaints by workers on health issues but fewer sick leaves. There is a very low level of union membership.⁹⁴

The former command economies now, need to learn how to regulate their market rather than trying to deregulate it all together for the sake of transition to market economy. So much of the legislation in these countries cannot function as they did not evolve out of the needs of the society and they are not backed up by institutions such as the court. In the words of Lee Travis “The history of government failure in these countries is being replaced with a good deal of market failure. On balance, the stakeholders and potential stakeholders in these countries are not well represented.”⁹⁵ As a result of this we see more explicit and immature forms of CSR in these countries.

3.2.4.1 Hungary:

“According to the legal point of view, the large scale public-corporations cannot be regarded as a sophisticated version of business partnerships based on the rights of a natural person to form, own and manage business enterprises but they are artificial creatures of the state. Since by using its sovereign power it is the government which gives the corporate entity existence, corporations in return should share the interests of society, as well.”⁹⁶ The debate on corporate citizenship reflects the decline of the welfare state but on the corporate side a claim to participate in political decision making.

As a result of the transformation of the 1990s the public large scale business were mostly privatized. But still there are very few large scale and multinational companies in

⁹⁴ Woolfson, Charles, *Un-Social Europe* Transitions Online; 6/13/2005,

⁹⁵ Tavis, Lee A. *Managerial Discretion: A necessary Condition for Multinational Corporate Social Responsibility* in Houck, John W. (ed); Williams, Oliver F. (ed), *Is the Good Corporation Dead? Social Responsibility in a Global Economy*, Rowman&Littlefield Publishers,Inc. USA, 1996 p.122

⁹⁶ Fekete, Laszlo *Social Welfare Lagging Behind Economic Growth* in Habisch,Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer,Berlin, 2005p. 141.

Hungary where CSR could be applied. Unlike the Czech and Polish privatizations the public corporations were sold directly to groups of investors and not turned into large-scale public corporations with dispersed ownership.

There is no real pressure from the government or from the public on fair conduct of business, so there is not much effort on the business side neither to implement implicit CSR activities nor to actively publicize on the current activities. So CSR activities are in explicit form practiced at the discretion of companies.

One thing should be noted on the tone and structure of the CSR debate in Hungary. As the country is home for multinational enterprises that are not of Hungarian origin the debate shifts its focus from being a discussion of how corporate entities take on responsibilities that formerly belong to the State, to one in which how can we get corporations to act more responsibly in their action in our country. The socially responsible activities of the corporations such as giving resources to local communities of public health care, education, sports and entertainment are not enough to fill the gap of social welfare system.⁹⁷

3.2.4.2 Czech Republic

There is a severe lack of trust to legislation, politics, the police and the administration in the country, but never the less people expect government to take action and not leave it to market forces to handle on social issues. CSR in these transition economies means a taking back of social functions by the big enterprises. But this time the enterprises are privately owned and the action is voluntary. The transition from a communist state of mind to a consumer mind is the reason behind the distrust. There is not a very well organized consumer movement in the country to be able to constitute a source of pressure on business and government. CSR practices have been introduced by the EU regulations and discussions mainly.

⁹⁷ http://europa.eu.int/comm/employment_social/emplweb/csr-matrix/hungary.htm

Motivation for CSR is from company missions (93%), recruiting and retaining employees (59%), PR (55%), competitive advantage (45%) and company reputation (32%). And according to respondents of the survey the state does not play any role in CSR.⁹⁸

The basic issues such as product safety, transparency, working conditions, and misleading advertisements have not been resolved to a sufficient extent to enable the focus to direct to more voluntary CSR issues. Political party frauding and transparency in public procurement were main concerns of the public in terms of government participation.

The market economy was not functioning well due to a lack of relevant legal regulations to guarantee the economic agents a level playing field. There is a high level of bribery and distrust in the judicial system.

There is a focus on philanthropic donations rather than donations as a part of a business strategy which points at a more PR based approach. This fact was approved by a study of the Donor's Forum in 1998 where advertisement is the first aim of corporate giving followed by social responsibility and company image. There is also a strong network of company training and education services.

3.2.4.5 Poland

The issue of business ethics is at the forefront in Poland as it was in Czech Republic. There are again high levels of distrust towards business. The state is expected

⁹⁸ Bohata, Marie; *Discovering a New Concept of Authority* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p.157

to interfere with CSR issues as a study showed that 81% of the respondents believed state policy may encourage a firm to get involved in CSR.⁹⁹

The form of corporate giving is financial support, material support and rendering facilities. Only a small portion engages in partnership projects with NGOs.

What is described as CSR activity by the Polish statement in EU website is mainly about enterprise development. Instead of laws and regulations many 'best-practice' approaches and competitions are preferred to be pointed out. And when stating public and private partnerships, a law described as aiming "elimination of psychological barriers concerning the role and function of the government in the execution of public tasks with participation of a private partner"¹⁰⁰ is mentioned. This shows how different the focus is. Issues of consumer protection are also mentioned as areas government action is being initiated.

It is stated that the entrepreneurs pay more attention to ethical behavior, social policy (good relations at work), pro-consumer policy (delivering good quality products and services) than to environment protection, activities for the local community and implementation of good economic practices.

In the Polish declaration the Polish Chamber of Commerce's participation in the organization of a seminar to encourage companies using road transport is presented as a CSR activity with the reasoning that companies making use of the road transport should attempt to contribute to the reduction in the accidents. This is another example of different needs leading to different solutions in the form of CSR on national base.

As a country trying to draw foreign investment into the country Poland does not wish to pose complicated regulation on corporations. Therefore it is listing the efforts to ease bureaucratic duties for foreign investment among CSR activities. Growth of unemployment (about 22%) was a natural outcome of this process creating a highly

⁹⁹ Gasparski, Wojciech; *Business Expectations Beyond Profit* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p.171.

¹⁰⁰ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/poland.htm

“flexible” workforce. It sure drew investments but also formed a barrier in the development of better workplace conditions.

3.2.4.4 Lithuania

CSR is fairly new phenomena in Lithuania and it has not been publicly discussed. The civil society is still forming its organizations and not fully established. The community expects business to open up new enterprises which would provide job creation, and social issues related to working conditions and health, social security etc. all are seen in the realm of government. The issues of downsizing of business, work force issues and career planning issues of discrimination are not discussed as they have not been the top issues. The ethical issues stemming from the imperfect legal system, transfer economy conditions, and political distrust are a major area of concern for the wider public.¹⁰¹

There is pressure from multinational firms that conduct business in Lithuania. They exert their codes of conduct and ask individual companies to act accordingly with EU standards of workplace. But generally the business views these efforts as efforts to reduce competitive advantage of Lithuanian companies. In Lithuania workers need the approval of two thirds of the workforce and in Latvia three-quarters for initiating industrial action. In Estonia, strikes in essential services are prohibited.¹⁰²

There are even no laws or policies to promote and provide incentives for charity giving. As the main concern is on job creation Ministry of Labor started some projects in collaboration with the local communities where unemployment rates are the highest on the issue.

¹⁰¹ Vasiljevene Nijole; Vasijev, Aleksandr *The Roadmap: From Confrontation to Concensus* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005

¹⁰² Woolfson, Charles, *Un-Social Europe* Transitions Online; 6/13/2005

3.2.5 Southern Europe-Agora Model

As mentioned earlier Southern European countries have a higher share of participating in charitable organizations. The countries under this heading experience more informal relation in their conduct of business. The nature of CSR activities is mostly explicit. Apart from Italy all of them practice low levels of social regulation compared to Central European Countries.

3.2.5.1 Greece

Greece is probably the least interested country in CSR among the EU members, certainly among the EU-15, and the least socially active with 44% where the EU average is 49%.¹⁰³ The Greek society is very suspicious of the corporations and business in general. They also do not trust each other. 62% of the citizens believe that other Greeks are ready to take advantage on them.¹⁰⁴ This creates general lack of interest in politics, and thus not a very well organized civil society. Greek society is not active even on issues such as consumer rights.

The business seems to exist solely for profit making and government for handling the social issues, especially after the deregulation of the government in the economic issues recently. Corruption is also another topic that is on the agenda, and laws to regulate financing of the political parties are enacted. It is stated that “in Greece, business and public officials, and even private citizens are accustomed to operate at the periphery of the law (Tax avoidance, illegal labor, bribery, favoritism).”¹⁰⁵ . So compliance to the existing laws is as important if not more than new regulation.

Public sector is the biggest employer in Greece. It provides services such as health systems, education, transportation, social security, water and energy and there is no CSR

¹⁰³ The European Observatory of SMEs. *European SMEs and Social and Environmental Responsibility*, Brussels, 2002

¹⁰⁴ Tsakarestou, Betty *The Experiment of Market Extension* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 pgs. 261-267

¹⁰⁵ *ibid.*

commitment in form of binding regulation by the government. The National Action Plan for the Employment considers the aspects related to workplace, health and security issues as challenges for the Greek employment policy. There is government action on employment issues but in advisory and general support form through conferences, awards and the usage of EU funds.

When business publicizes the CSR activities it is perceived by the society not as a real engagement of the business but rather as a form of advertising.

The Greek network for CSR, founded in June 2000 has only had members from 13 companies and 3 enterprises in the legal form of non profit company. The Network participates in 2 projects namely, employment of people with mobility problems and employment of economic refugees and immigrants.¹⁰⁶

3.2.5.2 Italy

Italy is a country which is not homogenous as there are great differences between the south and the north in terms of economic and social activity. While the south is still facing problems of illegal activity at a high extent the north faces more competitive pressures. As a result northern Italy participates in environmental and social issues in a deeper sense than the south.¹⁰⁷ Research shows that 84% of Italian consumers believe that CSR is important for corporate image. The unions play a great role in the area of worker's rights and working conditions. Recent scandals and restructuring efforts of major companies in Italy, namely FIAT, Alitalia and Parmalat brought the focus to ethical management efforts.

Italian public sector had strong presence in economy through the Central governance system and the tradition of publicly owned companies. The Italian government assisted companies in difficulty providing financial resources. This role

¹⁰⁶ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/greece1.htm

¹⁰⁷ Canarutto, Gheula; Nidasio Claudio *Mapping a New Business Landscape* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 pgs. 276-277.

diminished with the privatization process and entrance to the EU, but still the government through the very high tax rates is present in the realm of social, educational and healthcare.

In terms of the society religion plays a great role in determining the ethical and moral values and is considered to be a source for social activism and the 1968 period still has influence in the mindsets of the society. Recently there is a great increase in NGOs especially in Northern part of Italy. According to Canarutto and Nidasio “ catholic-inspired institutions and individuals made a contribution in establishing producer’s, consumer’s and credit cooperatives, in promoting general education and professional training, in experimenting with various forms of participation in the life of the work-place and in the life of society in general.”¹⁰⁸

The top reason for not participating in CSR activities is not the lack of resources or complexity of the issue but time-restraints. Most of the companies in Italy are of small size even macro-size enterprises. The linkages of such firms with society and their business are extremely high as they are a functioning part of the local economy, mostly the family itself, so it is mostly a matter of survival to act responsibly. As for the big firms CSR is a topic that is regarded first as an internal issue and a matter of obedience to the law. The companies exercise it in their own discretion but most companies do create an annual social balance sheet. The case of Parmalat has drawn much critics on CSR activities of voluntary nature as the company before the scandal broke out, was known to be one of the top in implementing CSR projects.

Initiatives on CSR reporting and certification are promoted by the government at the local level.¹⁰⁹ For example Tuscany region gives financial support to local SMEs to get SA8000 certification. Italy has the largest adoption of SA8000 rate among the EU members. There is an ethical bank named Banca Popolare Etica, which gives financial

¹⁰⁸ Canarutto, Gheula; Nidasio Claudio *Mapping a New Business Landscape* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p. 279.

¹⁰⁹ Gonzales, Marta de la Cuesta; Martines, Carmen Valor, *Fostering Corporate Social Responsibility Through Public Initiative: From the EU to the Spanish Case*, Journal of Business Ethics, Kluwer Academic Publishers, Netherlands 2004 p. 282.

aid to non-profit organizations.¹¹⁰ In Italy, we see implicit form of CSR as well but increasing explicit practices by the companies in the Northern part.

3.2.5.3 Spain

High level of privatization and EU membership marked the start of interest in CSR activities in Spain. There are a great number of Spanish companies operating multinationally in places like Latin America.

Unemployment is at the top of the list of concerns as it is in many other countries of Europe. But after that consumer issues, environment, quality of the workplace work and family life come. Corruption cases have decreased in the last years so it is not a major area of concern for CSR activities although the problems with tax evasion, lack of compliance with the law still continues.¹¹¹

The degree of organization of the civil society in order to form political pressure is still quite low. There have not been excessive pleas from the business on the side of Spanish community and the framework for CSR had been the law. The consumers are not basing their purchasing decisions on social and environmental criteria the medium of CSR activity is corporate giving as there are already regulations on environmental and labor issues. The level of awareness among the companies is not low as can be understood from the high number of membership to the Global Compact but the companies are not willing to go further than law or PR activity on the issue. Companies seem to take the lead on the issue mainly to avoid further regulation. CSR has been introduced to Spain mostly by partnering foreign MNEs with Spanish firms. Thus verification and reporting of the activities are more important in a way than the general

¹¹⁰ http://europa.eu.int/comm/employment_social/soc-dial/csr/country/italy1.htm

¹¹¹ Gonzales, Marta de la Cuesta; MArtines, Carmen Valor, *Fostering Corporate Social Responsibility Through Public Initiative: From the EU to the Spanish Case*, Journal of Business Ethics, Kluwer Academic Publishers, Netherlands 2004 p. 282.

effect it constitutes on society. A Spanish governmental Agency is formed to write the standards for an ethical label.¹¹²

There is not much government action but rather business action in CSR in Spain. There are no laws for ethical investments, social audits, financial incentives and tax compensation. Spanish companies consider corporate reputation, competitive advantage and the current tendencies in the industry as the main sources of CSR, so there is a shift to more explicit forms of CSR.

3.2.6 Turkey

For Turkish companies social responsibility does not go beyond legal requirements and enforcements. So there is a more explicit and institutionalized view of CSR applied in Turkey.

Turkey passed a stage of intense economic involvement of the state in the economic area until the 1980s where a certain level of liberal economic was introduced. Although there have been economic improvements in the last years, the level of foreign investment stayed quite low. According to UNCTAD 2005 World Investment Report, Turkey ranks 111th out of 140 countries in Inward FDI¹¹³ Performance.¹¹⁴ According to research this is mainly because of legal and judicial constraints and the disrespect for the rule of law. Turkey is placed fourth on the list of least transparent countries in the world according to Price Waterhouse Coopers report in 2001. Turkey is at the bottom in the ranking of respect to board oversight and transparency and second from the bottom on respect for shareholder rights according to McKinsey research of 2003. There is also high level of corruption. Transparency International's Corruption Perception Index 2005 ranks Turkey as 69th most corrupt country. According to a survey by the Turkish Ethical

¹¹² Fernandez, Jose; Mele Domenec *From a Paternalistic Past to Sustainable Companies* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 pgs. 290-294

¹¹³ Transparency International, http://www.transparency.org/policy_research/surveys_indices/cpi/2005

¹¹⁴ UNCTAD/WIR/2005 E.05.II.D.10 29/09/05 http://www.unctad.org/en/docs/wir2005_en.pdf

Values Centre (TEDMER) 57% of the respondents thought that organizations face unfair competition because of being ethical.¹¹⁵

When we consider the above facts we can predict that the CSR agenda in Turkey is quite different than in Northern and Central European countries, maybe similar to Central and Eastern Europe and Southern Europe. There is heavy state presence in economy in Turkey. Ararat and Uğur mentions about this fact and its consequences: “The state’s heavy involvement in the economy has led to two undesirable consequences. On the one hand, it fostered a political culture in which the legitimacy of the state is a function of the “rents” that the government could distribute rather than its ability to provide “public goods” such as a stable macroeconomic environment, a transparent regulatory system, and social conflict resolution mechanisms, etc. On the other hand, the state’s heavy involvement increased “private risks”. Therefore, it induced agents to pressure the government of the day to compensate at least private economic part of their risks...This second tendency combined with the first led to persistent favoritism, corruption practices, opacity, etc.-all of which have their own path dependencies.”¹¹⁶ When we consider heavy state presence in economy we can conclude that many of the social risks are seen in the realm of the government and business does not feel encouraged to deal with these risks through developing mechanisms of its own. The society expects the government to solve socially related issues.

We mentioned earlier that European governments are involved in large insurance systems and other mandatory social issues, and so they are the stakeholders of CSR practices in Europe. In Turkey, as the government is incapable of solving the daily matters of business, each company deals with its own problems in not a much systematized way. This leads companies to deal with CSR related issues on their own as a necessity, a part of their strategy of existence. So the government is not in a position to put pressure on companies to develop CSR strategies.

¹¹⁵ Ararat, Melsa *Social Responsibility in a State-Dependent Business System* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 pgs. 254-255.

¹¹⁶ Uğur, Mehmet *The European Union and Turkey: An Anchor/Credibility Dilemma*. Aldershot: Ashgate Publishers, 1999

Another outcome of the state presence is the low level of development and trust in the capital markets. As we said earlier European credit-based systems enable the stakeholder to be put to a level of equal importance as the shareholder in American system. But in Turkey, neither the stock market, nor the credit based system works properly and the revenues gathered through state intervention are much greater than that a company can make through liberal market conditions and especially through the stock market. So in this case, there is again a lack of pressure on the government side and the shareholder side to encourage CSR practices.

A third effect is on labor regulation, and the role of trade unions and industry associations. Although there is adequate regulation on working conditions and unionization, and the formation of associations, in reality much of this is not enforced through government and forceful action. The number of workers registered to unions is low. Many workers work without even being registered as workers with full social security. Furthermore, transparency issues act as a barrier before the government and the business in their daily conduct. So in this case, workers are not able to pressure the business or the government on deepening the CSR activities and making them more institutionalized.

The business and entrepreneurs because of this lack of transparency and necessity to do business in not totally legal ways have been quite uncomfortable about their wealth and the legitimacy of their business. Although the publicly listed companies are obliged to report on their social performance, as there is high level of family owned SMEs the professional mechanisms of shareholder pressure does not work. As Demirag and Serter indicated Turkish companies have the structure of limited shareholders, which is dominated by family members.¹¹⁷

Because of the above stated reasons CSR practices are mainly focused on philanthropic activities not directly related to the business activity area of the Turkish corporations. The activities can almost be seen as a payback or an apology to the society

¹¹⁷ Demirag Istemi and Serter Mehmet. *Ownership Patterns and Control in Turkish listed companies*. Corporate Governance, Volume 11 Number 1, January 2003,

the business grew up in. The business is not future oriented as professionalism is low. There is low level of societal collectivism as there is no tradition to act in a collective manner upon issues.

If we look at the civil society institutionalization we will see that it is not at a level close to most of the European countries. This is the result of military interventions in the political arena and legal and social barriers in forming organized action. Even on issues on usage of direct consumer rights institutionalization and pressure building is not strong enough to force business to act in a socially responsible way.¹¹⁸

Fraud, tax avoidance, bribing and discrimination are seen as ethical problem areas at work. Other issues that would be priorities for the developed world such as disclosure of quality public information and protecting the environment are not issues of emergency in the Turkish context. Unemployment is a major area of concern but combined with the informal economy it acts as a barrier to development of CSR issues.

Pension funds constitute a very small portion of the financial system compared to the UK case, and thus cannot be a major driver of CSR activities, and the banking system is not as important as those in Anglo-Saxon countries to present a pressure point.

When we look cultural drivers we come across Hofstede's research identifying where Turkey stands in terms of some cultural characteristics. Hofstede looked at four interrelated characteristics of culture, power distance, uncertainty avoidance, individualism and collectivism and masculinity and femininity.

We have already explained the cultural barriers that discourage business to openly engage in CSR activities, and lead them to mainly do silent philanthropic CSR practices. Power distance refers to the hierarchical approach of Turkish business where a common decision making process would be hard to pursue in the business context. Combined with the high level of individualism, this creates a barrier to apply long term and stable business strategies, in this instance, on CSR practices. Uncertainty avoidance refers to

¹¹⁸ Buğra Ayşe, *State and Business in Modern Turkey: A Comparative Study*, State University of New York Press, 1994 pgs. 196-199

the fact that Turkish businessmen prefers to avoid risks in making decisions, but it is not implemented as along term business strategy in the form of risk management, rather as short term avoidance of risks¹¹⁹. So CSR as a risk management tool does not quite fit the short term risk avoidance action.

When we look at the international level and actors that might encourage CSR activities we see that, Turkey signed the Universal Declaration of Human Rights, Convention on the Rights of the Child, OECD Guidelines for Multinational enterprises and conventions of International Labor Organization such as Equal Remuneration Convention (1951), Discrimination (Employment and Occupation) Convention (1958), and Worst Forms of Child Labor Convention (1999), Right to Organize and Collective Bargaining Convention, (1949).

There are 53 Turkish Companies listed to UN's Global Compact, however the number of the case studies, examples and projects signed to the UN GC web site is only one.¹²⁰ This also shows that Turkey is not an active participant of CSR activities in the international context either.

So what is the place of CSR practices in the Turkish business context? According to a study conducted by Ascigil in 2004, customers with 75% are considered to be the most important stakeholders, followed by employees with 50.8% and society at large by 24.3%. 53% of the managers would avoid ethical considerations if they had a negative impact on economic performance. According to the findings of the same study Turkish managers do not see a difference between legal and ethical responsibilities, and awareness about the CSR issues increase with the share of foreign capital¹²¹. So CSR mainly is a PR issue for those limited number of Turkish companies engaged in it.

¹¹⁹ Hofstede, Geert Culture's Consequences: International differences in work-related values Thousand Oaks, CA, 1980 pgs. 75-89

¹²⁰ http://www.unglobalcompact.org/NetworksAroundTheWorld/gc_networks.html

¹²¹ Ascigil, Semra Tesev research on CSR, unpublished

The international pressure on companies is becoming a major driver of CSR. The effects of globalization and the increase in foreign investment to Turkey will force Turkish companies trying to act in the global arena to implement CSR. This is a characteristic of the developing country drivers of implementation. In the later chapters we will demonstrate how the TNCs operate in Turkey through their supply chain and how this affects the Turkish companies working for them and the way CSR is practiced. It can be predicted that in the future applications of CSR, through foreign investment and better economic performance CSR concerns as of the developed world will start to be discussed rather than supply chain issues of the developing world. This is hinted by the latest discussion in the media on CSR issues in this context after one of the largest companies in Turkey, The Koç Group joined Global Compact of the UN.

Ascigil mentioned in her study that “CSR is not yet a topic by itself but is brought to the fore by related matters such as corruption, public governance reform, transparency, corporate governance, environmental concerns etc...”¹²² So we see more explicit forms of practice by companies.

EU membership and further legislation on workplace, health and safety, labor conditions, unionization will open up more debate on CSR. At that point Turkey will act in a similar way to the Agora model of Southern Europe where the government will bring together the interested parties to discuss how to act on the matter as it will be considered as an EU imposed matter, and further legislation will be of less importance than the implementation of the laws that already exist.

In the words of Bryane Michael and Erika Öhlund in their essay on The Role of Social Responsibility in Turkey’s EU Accession:

“Turkish company directors must think about consulting with parties beside shareholders and bankers if Turkish business is to successfully compete in Turkish and EU markets. While Turkish Boards already have complied with much of the legislation required by the *acquis communautaire*, they will need to continue work on provisions

¹²² Ascigil, Semra *Tesev research on CSR*, unpublished

regarding environmental protection, customer safety, workers' rights, competition policy, and anti-corruption. Corporate Social Responsibility represents one avenue by which Turkish firms will tackle these issues. Such responsibility entails more than philanthropic contributions – which Turkish firms do make. Instead, such responsibility will involve the way that Turkish companies implement programmes such as triple bottom line reporting, limited stakeholder boards, and consultative bodies with the government, in order to work more responsibly in their business environment.”¹²³ We will look further into the supply chain related CSR activities and how Turkey is participating in this debate in the next chapter. There, the expected evolution of the CSR practices will be more clearly explained at the business level.

¹²³ Michael, Bryane and Öhlund Erika, *The Role of Social Responsibility in Turkey's EU Accession*
<http://www.kssd.org/ingilizceyayinlar.htm>

4. IMPLEMENTATION OF CSR-USE OF CODES OF CONDUCT IN SUPPLY CHAINS

4.1 Codes of Conduct

We will now look at the case of the textile sector and how CSR policies are implemented, and where the codes of conduct come in. Because of the highly developed complicated and transnational nature of the textile supply chains many of the TNCs conducting business in the area have been subject to criticism and had to incorporate CSR activities.

It would be best, at this point, to describe codes of conduct to later place them in their appropriate location in the general CSR debate in the following pages. There are other terms used for corporate codes of conduct such as corporate codes of ethics or ethical sourcing guidelines. These documents are sets of principles that state the moral or ethic obligations of the company in conducting business. These documents act as guidelines for stakeholder relations.¹²⁴ The introduction of such codes is newer for European companies, than by US companies.

Following headings are generally incorporated in these codes, company obligations towards employees, shareholders, and consumers, responsibilities towards suppliers, and community. They could be as detailed as below and issue policies on environmental requirements, ethical standards, working hours, unionization, child labor, health and safety, legal requirements, employment practices, wages and benefits, forced labor, discrimination, legal requirements and disciplinary practices.

There are differentiating levels to ensure implementation of these codes in supplying factories. The most frequent and costly method used is through audits either by independent companies or by the TNC itself through its local office. There are practical limitations to the use of these codes, such as the small size and number of the companies

¹²⁴ Hopkins, Michael *The Planetary Bargain Corporate Social Responsibility Comes of Age* Macmillan Press Ltd, UK 1999 P. 53

in the supply chain, conflicting demands of different customers on what rules to follow, and the complexity of the supply chain operations.

We can now turn to the issue of voluntary use of codes of conduct and how they come in the global picture. As mentioned before for civil society the goal is to establish binding regulation of the TNCs. To reach that goal, global scale action is needed. “Thus, a strategic hope for activists is that voluntary corporate codes of conduct developed by individual companies, and international organizations like the UN and OECD, will nurture more regulation-friendly environments both nationally and internationally.”¹²⁵

On the other hand, business is interested in this voluntary application of codes of conduct mainly to avoid binding public regulation. They approach the issue strategically and either promote their own international organizations such as International Chamber of commerce (ICC) and World Business Council for Sustainable Development, or dilute the CSR initiatives in the main international bodies such as the UN and ILO and even EU to avoid binding regulation. The belief is that CSR can benefit companies economically; both in terms of better alignment with consumer requests and being able to reach and hold better human capital. There are several studies done on the correlation between CSR activities and financial performance of companies. The studies in most cases show a positive correlation but it is not possible up to now to show a casual relationship.¹²⁶ According to a study, out of the 21 studies to measure CSR effect on financial Performance, 12 reported a positive association where as 1 reported negative association and 8 no measurable association.¹²⁷

So both the global society and business use the same tool of voluntary codes of conduct to create totally opposite effects, binding codes of conduct in the former case and voluntary codes of conduct in the later case. The OECD Roundtable on Corporate Social

¹²⁵ Lipschutz, Ronnies D.; Rowe, James K., *Globalization, Governmentality and Global Politics- Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p.132

¹²⁶ Gonzales, Marta de la Cuesta; Martines, Carmen Valor, *Fostering Corporate Social Responsibility Through Public Initiative: From the EU to the Spanish Case*, Journal of Business Ethics, Kluwer Academic Publishers, Netherlands 2004 p. 277.

¹²⁷ Pava, Moses L; Krausz, Joshua *Corporate Responsibility and Financial Performance The Paradox of social Cost*, Quorum Books Westport, Connecticut, London, 1995 p.20

Responsibility concludes: “The more serious limitation of applying corporate responsibility through supply chain, however, may be its inability to reach the vast majority of people in the world who produce goods for local consumption or work outside the formal economy. For those people, attempts to enforce local law through the global supply chain would bring little or no benefit.”¹²⁸

Up to now these codes of conduct did not yield the results the civil society wanted, nor it seems possible that the codes will yield such results, as can be traced in the words of Chairman of the OECD “It is recognized that there are practical limitations to the ability of enterprises to influence the conduct of their business partners...The Guidelines are not a substitute for, nor do they override, applicable law. They represent standards of behavior supplemental to applicable law.”¹²⁹

4.2 International Competition

As many European companies expand their business to the pan-European level and the international level there will be a stronger need to adjust them to the international competitiveness. This will also include the efforts of CSR. Although the issue seems to be one between the customers and retailers it is also an element of competitiveness at the international level. The individual participants of the supply chain play an important role in shaping the global image of the firms.

At the end of the 1990s with growing pressures, the TNCs operating around the globe and specifically in Turkey were willing to know more about and thus better control the supply chains. The rush to the bottom in the textile and clothing sector, to very different often very deregulated areas around the world brought profits but also management problems. The TNCs in the sector have started to develop codes of conduct for their supply chain manufacturers and parallel to that started working on a possible

¹²⁸ OECD, in Business and Advisory Committee of the *OECD Discussion Paper on Supply Chain Management*

¹²⁹ Chairman of the OECD, OECD Ministerial Meeting June 2000 in Business and Advisory Committee of the *OECD Discussion Paper on Supply Chain Management*

convergence of standards which can be internationally accepted by all parties in the sector.

Unless there is a global CSR regime where the rules will apply to all TNCs conducting business in whatever part of the world, and appropriate monitoring schemes are set, it will be hard to avoid TNCs to participate in a race to the bottom search for nations with weak regulation. As Nigel Roome nicely summarizes¹³⁰:

“The dilemmas for companies that operate internationally particularly effect them when they are concerned about the sustainability of global commodity or supply chains...While there is significant variation in the agenda for CSR in Europe, that variation is even greater between Europe and developing economies. Developing economies often place more emphasis on employment opportunities and the development of economic and social conditions through the addition and retentions of added-value, while developed economies place more emphasis on environmental concerns and the avoidance of child labor and bad employment practices and the avoidance of bribery.”

This explanation nicely points out to the main difference between Turkish and EU approaches to CSR, in more general between a developed and developing country. 92% of the multinational corporations are based in industrialized countries where as 55% of the affiliates are in developing countries.¹³¹ There are many structural problems that companies face in the developing world some are the inefficiency of domestic markets, governmental failure to implement the laws forcefully and to make regulations and rules that help efficient production in the first place. The relatively efficient international markets and inefficient domestic markets did not work well on the side of the developing countries.

¹³⁰ Roome, Nigel *Some Implications of National Agendas for CSR* in Habisch, Andre(ed.); Jonker, Jan(ed.); Wegner, Martina (ed.); Schmidpeter, Rene(ed.) *Corporate Social Responsibility Across Europe*, Springer, Berlin, 2005 p.331.

¹³¹ Houck, John W. (ed); Williams, Oliver F. (ed), *Is the Good Corporation Dead? Social Responsibility in a Global Economy*, Rowman&Littlefield Publishers, Inc. USA, 1996 p.123

4.3 Implementation of CSR in the textiles sector

4.3.1 Implementation of CSR by Nike

Nike is a typical example of a trans-national firm in the textiles business, much similar to many other American and European textile giants. It sub-contracts all of its production around the world. As they put it: “Nike employs approximately 24,300 people.....As small as we feel, the Nike family is a fairly vast enterprise. We operate on six continents. Our suppliers, shippers, retailers and service providers employ close to 1 million people. The diversity inherent in such size is helping Nike evolve its role as a global company... As of May 31, 2004, Nike brand had 137 factories in the Americas (including the US), 104 in Europe and Middle East, 252 in North Asia and 238 in South Asia, providing more than 650,000 jobs to local communities.”¹³² All these facts show how vast a community Nike influences through its operations.

Nike is also one of the leaders of the corporate social responsibility movement. They represent the efforts in applying private initiatives to solve the problems arising from labor working conditions, violations of human rights, low wages, health and safety issues, child labor, unionizing etc. Most of the production facilities are in the developing or under-developed parts of the world which drew a lot of attention and condemnation through media coverage boycotts especially in the 1990s and Nike was among the most heavily criticized. We will look into their efforts to apply corporate social responsibility through their own codes of conduct to be able to demonstrate the extent a code of conduct can help improve the situation of labor in the developing world, in other words help implicit implementation of CSR. If it has the power to replace regulation as suggested by the business or if it has a negative effect on the introduction of new laws on better working conditions.

ILO conventions have been ratified in the countries where Nike works, and technically it is not of any business of Nike to oversee if the law is observed by companies in the country who are legal entities on their own and working only on

¹³² <http://www.nike.com/nikebiz/nikebiz.jhtml?page=54>

contract basis for Nike. It is up to the government of the country where the sub-contractor is established but then there is the problem of lack of monitoring and enforcement of the law which encourages companies not to abide by the law in conducting business. This is a typical developing country setting for most of the countries sourcing textiles as mass production.

Until the 1996 campaign against Nike this way of conducting business in the developing world and in some cases in the developed world went almost unnoticed. With global reaction to Nike's way of ignoring what was going on in the supply chains, the problem came to be known as "sweatshop labor", and the solution was anti-sweatshop or codes of conduct movements.¹³³ We will now look at how Nike specifically dealt with the issue to see how corporate social responsibility movement evolved and how it effected the supply chain management in the manufacturing areas.

As stated in Nike web-site over the past 15 years, it has adopted a Code of Conduct and a Memorandum of Understanding setting conditions for its subcontractors (1992), signed on to the Athletic Footwear Associations' "Guidelines on Business Practices of Business Partners"(1993), hired Earnst and Young to conduct audits in selected overseas factories (1994), joined the Apparel Industry Partnership-Fair Labor Association initiated by the White House (1996), established a Labor Practices Department (1996), and agreed to pay a minimum wage to Indonesian workers (1997). Nike has become a major corporate sponsor of Business for Social Responsibility (1998), announced that it would adopt US OSHA standards at subcontractor factories (1998), and raised the pay of its Indonesian workers to \$6.07 a week (1999). Student monitors have been permitted to inspect plants (2000), and company has hired major global accounting firms to conduct labor and environmental audits of its factories. Nike requires that a subcontracting factory pass an audit before a contract is signed and, in case where egregious violations are found, it will withdraw the contract. It is a cosponsor of Global Alliance for Workers and Communities, a group founded by Mattel, the World Bank, the

¹³³ Lipschutz, Ronnies D.; Rowe, James K., *Globalization, Governmentality and Global Politics-Regulation for the rest of us*, Ripe Series, Routledge, NewYork, 2005 p. 85

Mac Arthur Foundation, as well as the International youth Foundation, and remains a member of the Fair Labor association. Nike has established programs to conduct SHAPE (safety, health, attitude, people and environment) and Management audits.¹³⁴

Nike seems to have done a lot on the issue. It has collaborated with NGOs, government and its sub-contractors. It is the first company to list its producers publicly as a sign of how much it values transparency. Nike forces its sub-contractors to abide by the local law, and global standards through monitoring of the application of its codes of conduct. But still it received continuous critics about its conduct of business with its sub-contractors. There is no indication of a spillover effect of the work already done to other companies, the textile industry and developing world working conditions in general. There were several reports issued against Nike some of which are by Union of Needletraders, Industrial and Textile Employees (UNITE) in 2000, Global Exchange, Oxfam, several unions from US and Canada. What's more, Nike has been sued for "false statements and/or material omissions of fact" concerning the working conditions under which its products are manufactured.¹³⁵

Even if there were obvious changes in the positive direction in Nike plants, this did not lead to fundamental changes in the political environment in which Nike operated, in the developing country environment. Nor activities of Nike in Turkey yielded such results. This is an indication of how limited the results of business action are when they are not complimentary with governmental level action. This is in conformity with our thesis that CSR is a step backwards in the implementation of social policies through binding regulation.

4.3.2 Implementation of CSR by C&A

As there are differences among nations in their application of CSR, there are individual styles of the different companies in dealing with the issue. Let us examine a European based company C&A to see what they do as a part of their CSR strategy. They also have a written code of conduct named "C&A Code of Conduct for the Supply of

¹³⁴ <http://www.nike.com/nikebiz/nikebiz.jhtml?page=25>

¹³⁵ *ibid.*

Merchandise” They work with SOCAM, the “Service Organization for Compliance Audit Management”, SOCAM, carries out unannounced audits in several hundred producers every year. Since 1996, more than 10,000 inspections have been carried out worldwide, in over 60 countries according to date presented in the 2004 Social Compliance Report of C&A. The report continues with other interesting facts. “Altogether, 1,572 places of production were inspected in 40 countries. 67% of the inspections were made in the Far East and India, the rest in Europe and North Africa. There were complaints in more than 650 cases which led to immediate improvement measures or an agreement on a binding plan of correction.”¹³⁶

C&A gives the share of its social projects as follows: 2,0 % Disaster relief , 3,1 % Technical aid projects, 4,1% Support of minority groups, 4,1% Supply of drinking water, 4,1% Traffic safety programs, 8,2 % Others, 9,2% Health programs, 11,2 % Occupational education programs, 23,5 % Education and training programs, 30,5 % Children’s aid projects. C&A providing the financial start up for the projects have developed 57 projects in 8 countries. These include projects on childcare, mobile aid, vocational schools, orphanages and supply of water.

There is a great difference between the two social compliance reports of two Multinational companies operating in the clothing area, both supplying from global sources most of which is located in the developing world. Nike seems to focus on the quantification of data whereas C&A in the nature of its CSR work. Social issues that are not directly related to business partners seem to constitute a big budget of CSR work on C&A side. C&A works project based while Nike works on CSR as a long-term business strategy placing itself in many of the international CSR organizations. C&A too participates in international organizations but the focus is more on its local partnership projects in its supply base. Social audits constitute the main area of relationship between Nike’s suppliers and their local offices where as C&A brings together suppliers to build projects on social participation in areas mentioned in their web-site.

¹³⁶ <http://www.c-and-a.com/aboutUs/socialResponsibility/>

This could be exemplified in the approach of both companies to the issue of apprenticeship. To open facilities to raise apprentices is totally legal under the Turkish Law. Big textile companies open such facilities to train students for the future work. While C&A finds it acceptable Nike does not allow it. Nike asks companies to close down apprenticeship centers in big manufacturers seeing them as a source to employee child labor, and damage to their global image if the issue is publicized in a negative manner. This leads to the employment of those children under worse conditions and unregistered in other areas instead of working and learning under the conditions Turkish law provides.

It is declared on the C&A website that: “It’s not enough just to forbid child labor in textile production with the result that the children affected are employed somewhere else under the same unacceptable conditions. Much more, we must stress opening up long-term positive development prospects which contribute to lasting improvement of the entire situation. Co-operation with partners on location has proven to be a successful model – active involvement of those concerned particularly offers lasting prospects to improve the standard of living. That is why we are going to continue this work. For 2004, we are planning the support of further partnerships which should contribute to enabling schooling and vocational training and better health care.”¹³⁷

4.3.3 Implementation of Codes of Conduct in a developing country-Turkey

We can thus look at the case of the textile sector to be able to understand the course of the CSR development in EU and in a developing country, Turkey. Most of these issues listed under the CSR heading, are dealt with by the Turkish Law, the same way as codes of conduct suggest but it is interesting that the actual functioning of the companies are not always in accordance with the Turkish law as well. Typical to developing country conditions and to some extent Southern European practices the two

¹³⁷ <http://www.c-and-a.com/aboutUs/socialResponsibility/>

major problems pointed out by the corporate social responsibility department heads are, issuing of double payrolls and unregistered

The textile and clothing firms in Turkey are acquainted with the term corporate social responsibility for a long time. As supply chains became global in the textile industry, Turkey became the main source of supply for TNCs in the sector, especially for Europe. The pressures put on TNCs because of their misconduct through supply chains, has been directly transferred to manufacturers in the textile sector in Turkey. The customers of the Turkish textile sector, has been put under pressure on issues such as environmental protection and socially responsible production by their customers, business circles, and by the media, and by the society as a whole, and thus they have started working on the corporate social responsibility issues with the Turkish textile sector immediately after the issue became a hot topic.

Let us look at how the issue of social responsibility is handled by the TNCs working in the textile and clothing sector and have sourcing operations in Turkey. When a brand name (TNC) wants to work with a manufacturing company or wants a company she is working with currently to implement the standards they send in their company code of conduct and a staff from the corporate social responsibility department. Issues covered in most of the “company codes of conduct” are non-discriminatory hiring procedures, working hours, overtime payments, forced labor, voluntary employment, child labor, compensation, payment practices, health and safety issues, environmental requirements, freedom of association, and compliance with applicable laws. As one can see the issues cover a wide range of areas which are very touchy for the employers.

The general response to the requests is positive on the side of the business, but this is not because of a full belief in the CSR principles but rather an insurance not to lose the market share to less developed areas of the world. The issues are implemented only to the extent that will be enough to continue getting orders. There is a low level of obtaining certification by the companies themselves.

For those companies working with European TNCs the issue of child labor was on the top of the list as would be expected in the 1990s. The codes of conduct came from US&UK based firms at a much earlier date than from European based firms.

The manufacturers were no more only suppliers to the TNCs but were partners that they work with, and partnerships bring responsibility. This means, that a company becoming a partner and not the company next door or one in another country, depends on whether the company works according to CSR standards, whether it takes on this responsibility or not. Thus CSR is not voluntary or optional for the members of the supply chain in developing countries, such as Turkey where the price level is not attractive anymore, to create pressure on the TNCs to source from Turkey.

When companies are introduced with corporate social responsibility by their trans-national customers several arguments are put forward to justify the implementation of the standards. The companies are told that once they start applying the standards they will have internal and external benefits, the greatest external benefit being the license to continue sourcing. The internal factors include better working environment and more creative workers to create added-value which is needed to keep ahead in the competition. The human resources of the manufacturers would consist of more loyal, better trained and more productive individuals, highly motivated for the work. The better involvement with stakeholders will lower the costs as a result of the synergy created among them. The companies will become more institutionalized to enable solid and long term business partnerships. Non of these justifications are proven facts however. There are great difficulties in the implementation of social responsibility issues in Turkey, in the textiles and clothing sector.

Social responsibility although bringing several benefits to manufacturing companies of the supply chain, has associated costs, and thus is in conflict with competitiveness. The advantages are of a kind that can be realized in the long run. Especially for those companies with the SME status feel a great urge to trade these long term benefits for short term requirements of survival due to the pressures arising from international competition, and requirements of the customer for better quality products,

decreasing profit margins, faster and smaller deliveries. The implementation of socially responsible management also takes time and training of the staff, which also is an extra cost for the company.

The greatest challenge for Turkish clothing and textile manufacturing companies lie in the fact that corporate social responsibility standards are applied in very different ways all around the world. Following are the words of Kenan Doğan, İstanbul Readymade Garment's Association Board Member "If the issue of corporate social responsibility is for the enhancement of fair trade practices by these TNCs, then the standards should be applied in a similar manner in different geographical locations. Otherwise, this would lead to the emergence of new barriers in world trade, and result in unfair competitive advantage, which would be a sign of insincerity for manufacturers, TNCs, NGOs and, the end-customers." ¹³⁸

¹³⁸ Doğan, Kenan from speech at Corporate Social Responsibility Conference by CSR Association September 2005

5. CONCLUSION

It has been our aim to demonstrate that corporate social responsibility in its current format is a step backwards from a more regulated social environment. This has been demonstrated by the ineffectiveness of CSR initiatives at the global level through international institutions, national level through policies of different states, and at the business level through codes of conduct. None of the proposed solutions addressed the issue of the problems of the externalities of business to a full extent. The gap between the developed world and the developing world, or the social policy implementation gap between the countries in the EU or different views on the social Europe debate has converged through CSR policies on voluntary bases.

In the first chapter we put the corporate social responsibility issue into its framework by explaining the origins, actors and general international setting. In this chapter we observed that all the actors had limited capacity to act on the issue and although the issue is of global nature, the international bodies are not capable of bringing a globally accepted and implemented CSR guidelines.

In the second chapter we analyzed the EU efforts to shape the CSR policy, both internally and externally. Here, we observed that the efforts to introduce EU wide regulation on CSR failed to be replaced by voluntary action, internally. On the international scene EU is more willing to bring binding regulation especially to the developing countries she is in relationship with.

In the third chapter, we looked at the policies at the individual nation state level, among selected EU member states. The CSR is left to the regulation, or discretion of the EU member states. We observed that each state has a different level of involvement and regulation on the issue, where very small percentage of the implementation mechanisms involves regulatory action.

In the last chapter a business case on CSR was presented to clarify how business uses its discretion and what outcomes this has in terms of social Europe debate. Here it is

concluded that individual efforts of companies do not yield results that are of sustainable nature.

Turkey in all of this debate stays in the middle of different approaches to CSR within the EU and is starting to debate the issue only recently. Big scale business, the emerging multi-national companies started to implement CSR issues but for the rest of the society this does not go further than a few nice projects. Until the existing laws are put into implementation and unless social responsibilities are not only attributed to the business, CSR policies will not have effective results in the Turkish context, as it is the case for the EU countries.

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