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THE EUROPEAN MULTI-STAKEHOLDER FORUM ON CORPORATE SOCIAL RESPONSIBILITY (CSR)

Improving knowledge about CSR and facilitating the exchange of experience and good practice

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Introduction

Exchanging experience and good practices of CSR is only feasible if we have a thorough understanding of the meaning of this term. Since there is no general agreement on the content of CSR in the academic or in the business world, we will start by highlighting the different conceptual questions involved. On the base of this analysis we will show an important and dangerous expectation gap between the business world and society at large. In order to bridge that expectation gap we will translate these conceptual constructs into the business model. This note will end with a summary of the challenges the Multi-Stakeholder Forum is facing.

1. CSR: what's in a name?

From all parts of civil society, business firms are urged to take a more socially responsible stand. The anti-globalisation movement as well as numerous corporate scandals brought the business world in a negative limelight. A growing number of 'stakeholders' are scrutinising the behaviour of business firms wherever they operate in the world. The media, the Internet and the 'knowledge worker' are important ingredients in this global attention for socially responsible business.

Since so many actors are involved, they all have 'their' specific view on what the role of business in society should be. This creates a rather confusing agenda for the business world. Moreover the business firms themselves have a very diverse set of priorities and objectives, each holding a rather different approach of their role in society. It is therefore not surprising that no clear global, nor European agreement has been reached yet on the content of CSR.

Based on our in-depth research in CSR and Business in Society (BiS) we will try to construct a broad overview of possible approaches towards CSR. Before doing so we will start with an analysis of the European Commission's view on CSR.

A. CSR from the perspective of the European Commission

Corporate Social Responsibility (CSR) is defined, by the European Commission in its communication on CSR, as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with stakeholders on a voluntary basis.” (2002, p. 7). This definition highlights two important aspects on which quite different views exist:

- It positions CSR as triple bottom line management, by stating that economic, social and environmental concerns should be integrated when making business decisions and developing business operations. Different views exist on the questions involved: what social and environmental concerns and which stakeholders have to be taken into consideration? how can integration of such divergent interests take place?

- The EC definition also highlights that CSR should be developed voluntarily by the business world. Here again quite opposing views exists as to the best route to foster firms to behave responsibly. Some opt for a true liberal regime, others consider disclosure as an interesting route, some believe that a 'comply or explain' route within a general reporting reference framework is necessary while still others fear that only strict regulation will result in the necessary social responsibility of business firms.

It is clear that if the EC really wants to reach a more harmonised policy on CSR these fundamental questions will need further discussion. However the questions raised by this definition only partially cover the whole spectrum of the Multi-Stakeholder Dialogue. We will therefore broaden the scope to detect all relevant challenges ahead.

B. From sustainability to sustainable business

Simon Zadek (2001) argues that as a consequence of the sustainable development movement, an aspiration for 'sustainable business' arose. From an in-depth analysis of business practices and CSR literature, it is however clear that on this point a great gap exists between the business approaches and the expectations of society at large.

The point of view of civil society

Numerous stakeholders, like NGO's (referred to in a broader sense as 'civil society') positioned sustainable business alongside the need for sustainability, their concern being that we should not impair the fulfilment of future generations' needs by the activities of the current generation . As shown in the 1987 report of The World Commission on Environment and Development (Our Common Future), sustainable development is often interwoven with environmental concerns. Others however attach a far broader role to sustainability. The Board of Sustainable Development of the National Research Council (NRC) adopted a framework for 'transition towards sustainability' with the following primary goals (p.31):

- To meet the needs of a much larger but stabilising human population;
- To sustain the life support systems of the planet;
- To substantially reduce hunger and poverty.

The point of view of the business world

From the perspective of the business world on the contrary, the concept of sustainable business has often been associated with 'sustainability of the business', referring to the need for long term survival of the business firm. Therefore the attention was mainly focused on long-term profitability instead of searching for short-term success.

These different points of view show how difficult it is to reach an agreement on the strategy to develop sustainable business. Even if the business world would consider it to be its duty to take care of sustainability issues, the question remains what duties business firms can be expected to comply with. The duty of sustainability never really became mainstream because a lot of parties had difficulties with accepting the term, mostly because of its vagueness (Holliday et al., 2002). The NRC addressed this vagueness by admitting that even when there was consensus on what to sustain and what to develop, societies would not know how to arrive at these goals (1999). Zadek (2001) urges society to be careful with what it can expect from business: “In fact, we do not and probably cannot know enough about the system to understand in this sense the relationship between the activities of one organization and the whole system. There is little point in blaming pigs for not being able to fly” (p. 9). He adds that “a business‘s contribution to sustainable development therefore needs to be understood in terms of its viable options and what it makes of them”.

C. From sustainable business to Triple Bottom Line

Notwithstanding the great differences in view on the duties of the business world towards sustainability, the academic as well as the business practices of the 90'ies realised a quite impressive attention for sustainable business. One of the routes to cope with the challenges involved was the 3B's or the 3P's approach. The concept of 3B's stands for the Triple Bottom Line (TBL), whereby business firms have to manage the economic as well as the social and the environmental bottom line. The concept of 3P's is the same, but defines the TBL as Profit, People and Planet.

Although numerous academic and consulting reports have been published on this concept, the problems of divergent views remains the same. Moreover the implementation of a TBL approach is considerably difficult, since no good instruments exist today to guide managers in reaching that goal. Even the concept in itself is criticised, because it is nearly impossible to manage three bottom lines. A more integrated approach is needed, but still lacking today.

D. From Triple Bottom Line to CSR and CSP

The more recent CSR literature and practice are richer and more useful because they no longer consider 'social' and 'environmental' responsibilities as ad hoc or separate issues but try to 'mainstream' the CSR duties into business management. Moreover the academic literature on CSR also highlights the different levels of CSR responsibilities. Interesting in this respect is the definition given by Carroll and Buchholtz (2000, p. 35-38) that distinguishes four responsibilities towards society: economic, legal, ethical, and philanthropic responsibilities. Economic responsibilities are concerned with producing goods and services that are demanded by society. The legal responsibilities express a notion of fairness as meant by lawmakers. Ethical responsibilities relate to activities that are expected or prohibited by societal members. Last, philanthropic responsibilities are guided by choice and desire of the company and are not meant to provide a positive return.

This model was the basis of other, more advanced models articulated by Wartick and Cochran (1985) and Wood (1991, 1995). They emphasized more the outcomes of responding to the responsibilities, than the responsibilities themselves. This was defined as Corporate Social Performance (CSP). The performance focus is intended to suggest that what really matters is what companies are able to accomplish. This implies not only a definition of the responsibilities, but also of the patterns followed to respond to them, and the stakeholder issues that are tied to these responsibilities (Carroll and Buchholtz, 2000).

E. From CSR to stakeholder management

Notwithstanding the plurality of definitions and models of CSR and CSP, they all have the inclusion of traditionally omitted stakeholders in common (Freeman and McVea, 2001). Management was warned for the dangers of ignoring some groups of stakeholders. This links the whole debate back to the self-interest of the company. Through CSR, it became clear that stakeholder management was of great importance for the company’s success and survival.

But here again quite opposing views do exist between the business world and civil society. The business world is mainly concerned with its direct stakeholders, whereas civil society regroups a very heterogeneous set of stakeholders, all of whom create expectations towards corporate social responsibility. In order to have a good dialogue with stakeholders, business firms will therefore need to develop a stakeholder mapping.

The next section will give an overview of some of the instruments to manage CSR.

2. Translation into the business model

Corporate Social Responsibility (CSR) has been addressed by many institutions, leading to a multitude of definitions all emphasising the rising expectations of society towards business.

We would like to present our own model of stakeholder management and corporate social responsibility which is a result of thorough literature research and discussions with business people, actively involved in the field of stakeholder management and CSR. The model shows that stakeholders play an important role in the strategic management process of the company and that they should get appropriate attention.

Shacter (2000) pointed out that CSR can be perceived as altruism or opportunism, or somewhere in between. We believe that there is also a strategic reason why companies address their stakeholders. The difference between opportunism and strategy is that the first is focussed on short-term gains, while the latter is concerned with the long-term success of the company.

We based our model on a number of simple principles. First of all, a company exists for the achievement of its organisational purposes. The organisational purpose was in the past decades mainly considered as maximising (short-term) shareholder value. As this might be an organisational purpose, it is not the only one and is not the single purpose for every organisation.

A. Taking stock of the heterogeneous business views on CSR

In the previous section numerous references were made to the expectation gap, the CSR movement has created, mainly from the perspective of the divergent views between the business world and civil society. The expectation gap is also influenced by the quite heterogeneous views on CSR within the business world itself.

During the last decade we witnessed quite opposing trends in the business world. At the one hand side the 90'ies are marked by the race for shareholder value. In se, there is nothing wrong with managing for shareholder value when the interests of other parties, involved and influenced in that activity, are taken into account. In numerous circumstances however short term shareholder value prevailed over sustainable business. On the other hand the interest for CSR and related issues has never been more vivid. This dichotomy is in itself a proof of the great expectation gap that has been growing during that same decade.

A far more comprehensive analysis of the expectation gap within the business world can be made on the base of Johnson and Scholes (1999). They list four types of business organisations distinguished by their view on their role in society.

At one extreme there are organisations that have taken the view that the only responsibility they have is to work for the short-term interest of shareholders (and managers). Cases like WorldCom and Enron are clear examples of how sustainable such purposes are.

At the other extreme are shapers of society for whom financial objectives are of secondary importance, while the creation of societal value is most important. Also these extreme cases can be questioned as to their long-term viability. Can one really build a social paradise on an economic graveyard?

In between we find companies that take stakeholder needs and expectations into account in their management for long-term success. Shareholder value can still be a goal in itself but it can also be broadened with other stakeholder goals. (p. 224-225).

B. Developing the concept of externalities

In order to understand the impact of business on society, we introduced the concept of externalities (Van den Berghe and Carchon, 2002). Externalities are the side-effects of corporate activities on society. They can be either positive (economies) or negative (diseconomies).

We can relate this concept to the four categories of organisations of Johnson and Scholes. Unless internalised by law, the first category of firms will not take care of negative externalities, leaving all costs involved for society. Companies managing for short-term shareholder value will neither invest in fostering positive externalities. On the other side of the spectrum, the shapers of society want to create positive externalities while investing to cope with the negative externalities of their business activities. This is presented in the following figure.

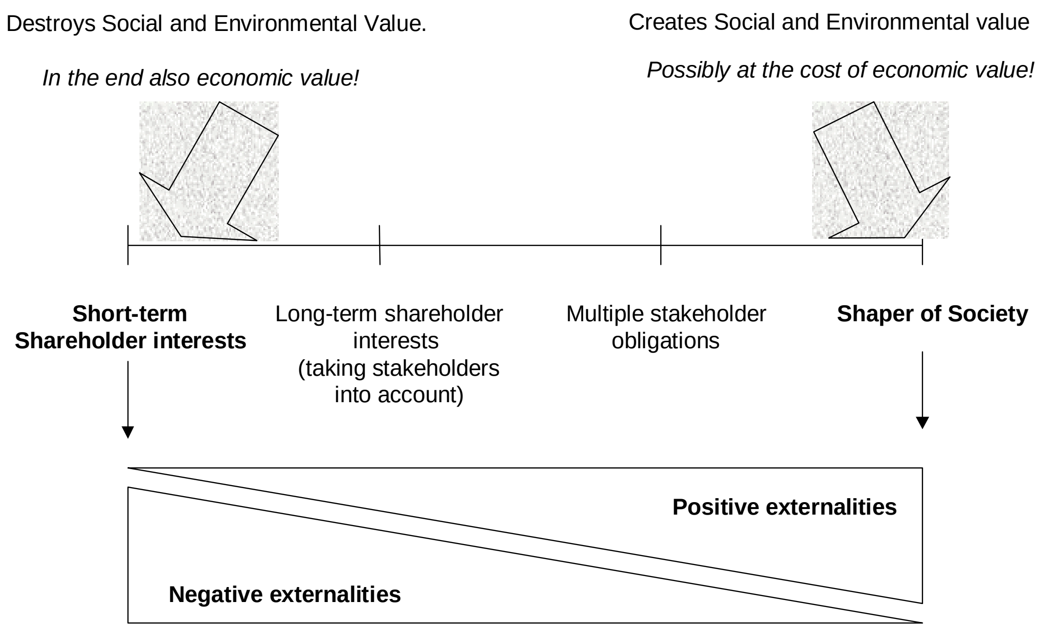

Figure 1: Four categories of companies and the externalities they create for society (based on Johnson and Scholes (1999, p. 224-225) and Van den Berghe and Carchon (2002)).

In a competitive environment, business firms will need to balance the costs involved in coping with externalities while keeping their long-term economic profit in mind. As shown in the picture above, both extremes are probably not sustainable in the long term. In order for a business firm to manage this difficult balance, one needs to develop a stakeholder mapping.

C. Stakeholder mapping

The challenge for the business world is to find the right equilibrium between the expectations of civil society and the need for profitability. The best route to do so is to make an inventory of the relevant stakeholders involved and their potential impact on the business firm. To have an idea of what importance implies, we can consider a framework developed by Johnson and Scholes (1999) that allows to map stakeholders based on two determinants of importance: power and interest.

Power can be defined as the degree of influence a stakeholder has with regard to the company's activities. Interest is the degree to which a stakeholder is interested in those activities and the degree to which this stakeholder will use its power. Further, Johnson and Scholes provide a strategy for each category of stakeholders.

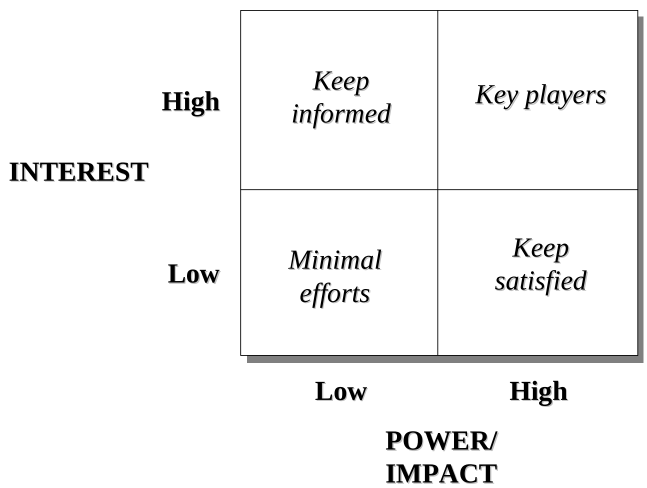

Figure 2: Power/Interest matrix (Johnson & Scholes, 1999, p. 216)

It is clear that stakeholders with a lot of power and a lot of interest, the so-called key players, will receive most attention by the company's executives. These key players need to be involved in the setting of purposes: they can be referred to as *dominant stakeholders*. These stakeholders are considered as partners without whose support, the company cannot achieve its objectives. The dominant stakeholders will certainly play a role in defining the organisational purpose (translated in mission and vision, ideally).

At the other end of the spectrum are the marginal stakeholders. Although this term is somewhat odd, it gives an impression of the importance of such stakeholders for the achievement of the company's objectives. They have not much power and are not very interested in what the company is doing. From a pure strategic point-of-view, these stakeholders should not receive as much attention as the other stakeholder groups. The strategy that Johnson and Scholes suggest is one of minimal efforts towards these stakeholders.

In between, we find two other groups of stakeholders. One group has a lot of power but is not very interested in the activities of the firm. It is important that these groups are kept satisfied.

Dissatisfied stakeholders with a lot of power can have a large negative impact on the achievement of corporate objectives. The other group is very interested but has not much power. They should be kept informed.

This matrix, or stakeholder map, is only a snapshot of the current situation. It does not tell the company how stakeholder attitudes will evolve over time. Therefore, it is also important to get an idea of the quality of the relations with these stakeholders, and the relationships among stakeholders. One variable is very important in this context. Influence by other stakeholders can inspire a group of stakeholders to move from one cell to the other. Bridging stakeholders, as the media, can influence stakeholders and change their attitude. Imagine what can happen when stakeholders with a lot of power and a minimum of interest, suddenly become interested because of negative attention in the media. These stakeholders become key players with a negative attitude.

It is clear that the number of stakeholders, and their importance, will also depend on the level of analysis one adopts. When we consider a company on group level, we will find that some stakeholders will be more important than others. The importance of the stakeholders on group level can differ from their importance on business unit level, where other stakeholders become more important.

D. Strategic stakeholder management versus CSR

The introduction of this model brings us closer to a better understanding of CSR and stakeholder management. A critique that is frequently expressed towards stakeholder management and CSR is that it is difficult to define which stakeholders should be taken into account (Freeman and McVea, 2001). This model tries to answer this problem.

We mentioned dominant stakeholders. They are without question the most important stakeholders of the company. Further, in the implementation phase of strategy, a number of stakeholders will be crucial to achieving the purposes and performance. We will call these strategic stakeholders. Both groups are stakeholders that are influenced by the company' activities and influence the activities as well. Freeman (1984) defined stakeholders as "any group or individual who can affect or is affected by the achievement of the firm's objectives" (p. 25). Up till now, we only mentioned stakeholders that can influence and are influenced. A third group is composed of stakeholders, which cannot exercise direct pressure or influence, but which are influenced by the company's activities. We could also add a fourth group, which are not stakeholders, but 'other members' of society. This grouping helps in explaining that make not every member of society has legitimate claims on a company's responsibilities.

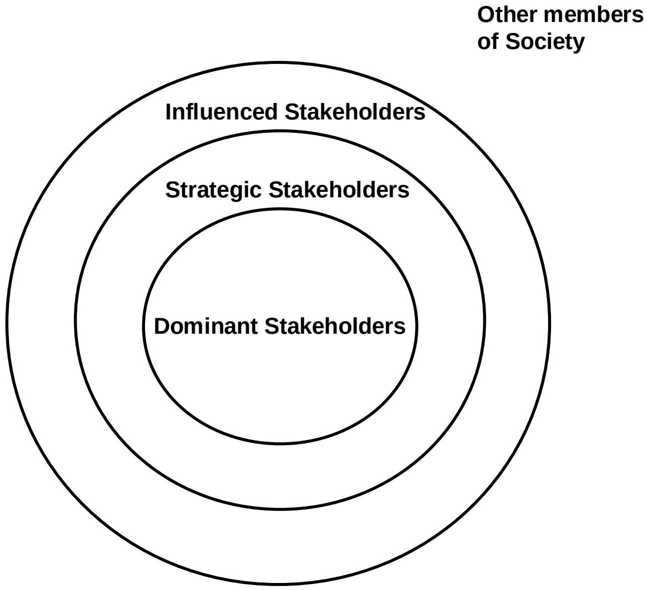

Figure 3: Constellation of stakeholders

Now, we can link figure 1 with figure 3. Companies that strive for short-term shareholder value do not address any of the other stakeholders. The dominant stakeholder is the shareholder and even strategic stakeholders are not taken into account. This might explain their failure in the long term. The two categories of companies in the middle take their dominant and strategic stakeholders into account. The more companies are positioned towards the right side of the axis in figure 1, the more stakeholders they take into account. The final category (at the right side of the axis) takes all stakeholders into account and is even willing to address the needs of other parties in Society.

Based on the above analysis, we would like to make a clear distinction between strategic stakeholder management and CSR. Companies that address their dominant stakeholders and strategic stakeholders are companies that have a long-term vision and acknowledge their interdependence with stakeholders (as members of society). Companies that also address the influenced stakeholders and even other parties in society, are true CSR companies.

E. From stakeholder mapping to stakeholder communication

In order to achieve that organisational purpose, a company will need a sound strategy. In formulating and especially in implementing this strategy, stakeholders will play a tremendous role. As Svendsen et al. (2000) already mentioned, stakeholders are "gatekeepers" to resources that the company needs in order to execute its strategy.

A part of the strategy process that is frequently skipped, is strategy communication. This is closely related to social reporting as it is defined by a number of institutions. Strategy communications aims at communicating what the strategy is about and to what degree it is being implemented. Stakeholders will receive clear ideas of what the company plans to do and what it offers them in return for their co-operation. Existing reporting formats such as the Global Reporting Initiative offer standard templates with a number of predefined indicators that might not be applicable to every company. Therefore, we urge for a system of strategy communication that is tailored to the activities of the company and its stakeholders.

The performance of the company is then expressed in relation to its organisational purpose. The degree to which the organisational purpose is achieved determines performance. It is clear that performance as it is perceived here is broader than financial performance since stakeholders play a significant role in corporate performance.

3. Exchange of experience and best practices: building on our own insights and experience

Because a lot of companies have the will but not the instruments to translate the presented model into practice, we can also add the development of concrete tools and instruments as a main issue in the further development of knowledge on CSR.

The Vlerick Leuven Gent Management School has 50 years of experience in research and has built a solid interactive platform with the business world.

Specifically in the field of CSR and stakeholder management, we have an Impulse Centre Business in Society (IBIS) that has completed a number of projects in the field of stakeholder management and CSR, in close collaboration with companies and government.

Under the authority of Minister Renaat Landuyt, Flemish Minister of Employment and Tourism, the Impulse Centre Business in Society of the Vlerick Leuven Gent Management School organised Trivisi, a 6-day training on stakeholder management and CSR for a group of 20 Flanders-based companies. Moreover, our Impulse Centre works closely together with a number of companies that allows us to get an insight in how companies perceive CSR and their role in the whole movement. This also allowed us to develop tools for stakeholder identification and stakeholder dialogue and give companies a head start in stakeholder management.

We are founding partner and serve in the Board of Trustees as well as in the Management Committee of the European Academy on Business in Society (EABiS). This platform allows us to have a European and even a global view on the challenges CSR is facing today and this in the academic as well as in the business world.

From the many interactions with the business world we learned that the issues discussed before, are perceived as crucial challenges for the business world.

We will shortly discuss hereafter how these issues could be tackled in the Round Table.

4. Addressing these issues by the Round Table

A. Taking stock of the expectations gap on the role of business in society

As discussed above there exists a large gap between on the one hand the expectations of civil society towards the business world and on the other hand the business perception of sustainable business and a socially responsible behaviour. Moreover there are considerable differences of CSR interpretations within civil society as well as within the business world itself. It is intuitively clear that we first of all need a clear understanding of these differences. This allows us further to define the roles of societal actors, including business. It is imperative for the success of sustainable development and CSR, that the goals and roles of all the social actors are defined at the European level.

B. Discussing routes to bridge the expectation gap on the role of business in society

The parties involved in the Round Table (including government) should recognise that they all have responsibilities in the achievement of sustainable development and CSR. If the goal of sustainable development and the actions to achieve it are clearly defined, then it is possible to delineate the responsibilities of all societal actors, including business. The members of the Round Table have to consider themselves as stakeholders of the business community and think in those terms as well. This will allow them to explicit their expectations towards business and create a guiding framework for business and the members' backing.

Once the social responsibilities of business are made clear, we can think of methods to address these responsibilities and to integrate them in the existing business models. Practically, companies need concrete tools and instruments to make this happen. That's where best practices and exchange of experience can play an important role.

C. Discussing routes to foster CSR practices

Taking stock of the expectation gap and discussing routes to bridge that gap is only a first step in developing a true European CSR strategy. As already discussed when we analysed the EC definition of CSR, another expectation gap exist, namely at the level of the enforcement of CSR practices. Although the EC starts from the position of a voluntary approach, the Round Table will certainly have to address the fact that numerous stakeholders consider this to be an ineffective route. The pros and cons of each method of enforcement and monitoring will deserve some extra attention.

D. Is CSR compatible with the aim of the EU to become the world's most competitive knowledge society?

As was explicitly stated in the Lisbon Summit, the EU has the ambition to become the world's most competitive knowledge society. The question is therefore to what extent CSR can help to realise this goal or whether on the contrary CSR will hamper such a goal. This is a very challenging question since our analysis clearly showed a (difficult) trade-off between economic profitability and social responsibility.

Especially from the perspective of global competitiveness, this trade-off also boils down to the question which corporate governance model Europe should strive for. Must Europe follow the route of the Anglo-American governance model or does it have and can it develop its own corporate governance system.