

CSR and transparency

German employers' contribution to the debate

October 2009

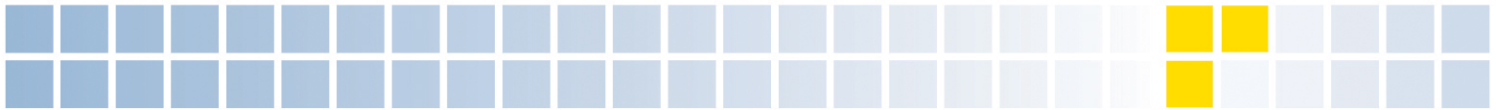
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I. Introduction

The financial and economic crisis over the last year has caused society to assign a completely new priority to the issue of transparency and credibility in business activity. With regard to corporate social responsibility, questions about the transparency of corporate commitment are the focus of attention in civil society, among policy-makers and within companies themselves. Dialogue processes are needed to define the possibilities and limits of social and environmental reporting more clearly, to clarify additional related questions such as how transparency can be increased without undue bureaucracy, and to contribute to a shared understanding of what can reasonably be expected of companies. Companies and business federations are therefore actively involved in the workshop being organised by the European Commission at European level over the next six months on reporting issues and in the framework of the CSR forum put in place by the German government in Germany on the theme of credibility and transparency. In addition, the business community has addressed this subject in detail, inter alia in the European CSR Alliance, and drawn up practical recommendations for strengthening transparency and credibility (see www.csreurope.org > CSR Toolbox > Communication and Transparency).

The debate must contribute to a differentiated way of looking at the issue. Not least against the background of the financial crisis, the indiscriminate cry for regulation in the area of CSR reporting is becoming ever louder. The need for new rules and stringent supervision of financial markets is not in dispute. But those matters should not be lumped together with the area of CSR. In the sphere of social and environmental reporting, also known as extra or non-financial reporting, the reporting criteria differ considerably depending on company size, sector and business environment. A medium-sized construction contractor does not have the same social responsibility as a multinational textile manufacturer, different reporting criteria are relevant for a business in the IT sector and an energy group. In addition, non-financial reporting is still a young field whose dynamic development should not be brought to a halt in an overhasty manner. Lastly, the idea of non-financial reporting often prompts exaggerated expectations in relation to promotion of CSR. The objective in the dialogue processes must be to identify paths which support a business in doing justice to stakeholders' expectations in terms of transparency and credibility without at the same time running counter to the diverse and complex character of CSR and creating new

bureaucratic burdens which ultimately pose a threat to jobs. This discussion paper hopes to make a contribution to this debate.

II. Where are we now?

➤ Companies meet their social responsibility openly and transparently

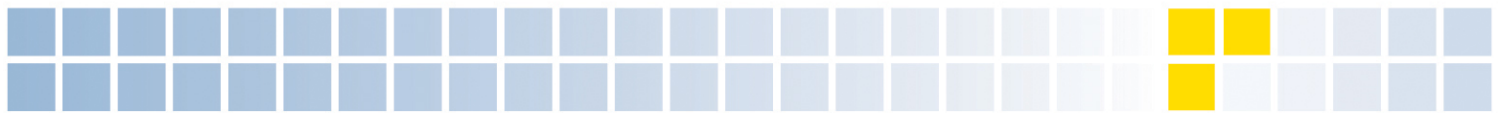
Companies have been involved in the community in which they do business for as long as there have been companies. The social commitment of companies has been encapsulated for some years under the heading of corporate social responsibility (CSR). CSR initiatives are contributions which companies make voluntarily in the areas of environment, social commitment and economy beyond what is required by law. Over the last twenty years, in the wake of globalisation, this involvement has been rendered more and more formal and public communication of the commitment plays an ever more important role. Not least due to urgent questions such as how globalisation can be shaped in a fair way and challenges including how demographic trends and climate change can be tackled, an ever more sensitive public increasingly expects companies to be transparent about how they are meeting their corporate social responsibility. Consumers and employees, but also customer firms, investors and policy-makers would like to know what companies are doing for sustainable development beyond what they are required to do by law.

Companies are meeting these expectations. The increased interest has led to sharp growth in CSR and sustainability reporting. As long ago as 2005 studies observed the rapid increase in CSR reports since the mid-1990s. According to a 2008 study by KPMG, 80% of the 250 largest enterprises worldwide now report on their social and ecological behaviour. Companies do this voluntarily, in order to generate trust among their target groups.

➤ Reasons for public communication of CSR commitment

Transparency with regard to CSR can build trust among customers, employees and the local community, and help to strengthen the credibility of companies. This is important for companies, for a variety of reasons:

- Trust binds existing customers and helps to win new ones in B2C (business to consumer) and B2B (business to business) business.
- Trust increases the positive acceptance of the company in the local community and creates



a good basis on which conflicts can be resolved constructively and successfully.

- Trust helps companies to attract the best brains and to keep employees.

Furthermore, transparency has an effect internally and can help to identify business risks and optimise processes. On the financial market, a company's social and ecological performances play an increasing role. Financial market participants, in particular sustainability funds, increasingly require transparency with regard to companies' social and ecological behaviour.

The benefits to the business of CSR and CSR reporting differ from one company to the next, and must be assessed individually for each company. The business case cannot be made with generalised findings. Depending on company size, sector and the individual requirements of the different target groups, companies also deploy transparency regarding their social responsibility in different ways. The question of transparency in relation to CSR is as complex as the issue of CSR itself.

➤ **Companies use a range of methods to generate transparency**

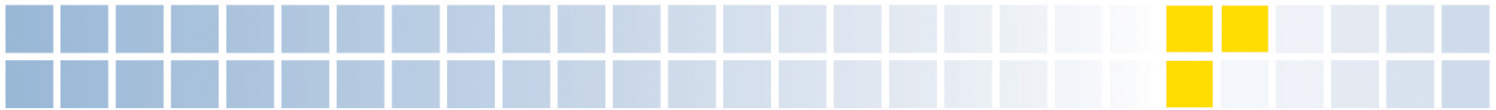
There are various ways for a company to communicate CSR internally and externally. Depending on the company and the relevant target groups, the need to make particular communication efforts also differs:

- In particular small and medium-sized enterprises (SMEs), which have few employees and are firmly rooted in the local community, often need to make no formal communication efforts in order to pass on information about their social responsibility. Employees, customers and local community know the entrepreneur personally and know about his commitment and behaviour. Information is passed on informally in direct contacts.
- In B2B business and on the financial market (SRI), transparency is generated by answering targeted questions. Customer firms and SRI funds send their suppliers questionnaires about their social responsibility and behaviour. There is no generally recognised and standardised survey and assessment procedure in place. Mainstream investors are also increasingly interested in companies' emission data. In addition, companies are increasingly asked about their corporate behaviour by researchers, NGOs,

consumer associations as well as individual citizens.

- In B2C business, companies make considerable efforts through supplementary voluntary information on packaging, the label or in direct communication with consumers in order to provide them with information about the product and the production process. Via Internet visits, contact forms, emails or hotlines, consumers and companies are in close contact with each other, and companies also demonstrate transparency with regard to their social and ecological behaviour. In this context, it is legitimate for companies also to use transparency in the area of CSR to build up their profile and image, and to appeal to their customers on the basis of their social responsibility.
- Companies organise workshops in order to come into contact with stakeholders, to account for their activities and to discuss social as well as ecological issues. Via information to the press, companies report on new developments, initiatives and projects. Via internal communication channels, companies regularly keep their employees informed. In addition, ever more companies draft a CSR or sustainability report in which they talk about their social and ecological behaviour. Lastly, they present themselves with their experiences on CSR websites, in good practice collections and in addresses. In the framework of the UN Global Compact, companies draw up so-called progress reports on implementation of the principles of the UN Global Compact. Moreover, there are numerous initiatives – some of them sectoral as in the Wittenberg process involving social partners in the chemicals industry – in which companies and employees, employer federations and trade unions work jointly on social responsibility in their sector.

The form of CSR communication is shaped by the company's possibilities, the needs of target groups as well as a cost-benefit analysis. How a company should generate transparency regarding its CSR activities is a business decision. CSR communication is an issue in flux, and an end to its development is not yet in sight. The fact that transparency is voluntary does not mean that there is no binding element. On the contrary, there is a finely meshed system of virtually binding rules and obligations, in particular concerning requirements in B2B business and also in the area of the capital market which shifts the issue of transparency and CSR into the core area of business activity.



➤ **Possible reasons for avoiding public communication of social responsibility**

Not every company reports on its social commitment. However, it is wrong to jump to the automatic conclusion that such companies behave irresponsibly. Companies can have very good reasons for declining to report:

- CSR is often pursued out of moral considerations which seem self-evident to the company. Companies want to avoid communication of their commitment being misunderstood as an advertising message.
- Reporting costs resources. Unless it can be ensured for a fairly long period, it is questionable to start a reporting process which then sometimes has to be quickly halted due to circumstances.
- Communication of a CSR commitment can generate a dialogue with interested parties for which no resources are available.

III. Conclusions for the political discussion

➤ **CSR reporting continues to develop on a constant basis: competition for the best solutions should be promoted, not hampered**

Although the first social reports by companies in Germany were presented in the 1920s, CSR reporting is a relatively young field. Increasing globalisation and expanding supply chains on the one hand and increased consumer awareness and interest from civil society on the other have led to a rapid increase in CSR and sustainability reporting. In parallel, CSR reporting as such has also constantly evolved further. For instance, the Global Reporting Initiative (GRI) developed voluntarily by companies has already twice reviewed the GRI guidelines on reporting first presented in 2000. In addition, the so-called GRI “sector supplements” have been drawn up with sector-specific requirements. These sector supplements should be understood less as fully fledged sets of rules than as evolving sector-specific reporting systems.

Alongside GRI, there are numerous other initiatives which deal with transparency in relation to the social and ecological behaviour of companies. Ranging from UN initiatives such as the UN Principles for Responsible Investment through the work of sustainability funds to the activities of a plethora of information service providers. Furthermore, reporting on specific

themes plays an ever greater role. Climate change and the associated issue of CO₂ and other greenhouse gas emissions (“carbon footprint”), for instance, have led to a host of initiatives for more transparency in this area. One of these initiatives is the Carbon Disclosure Project (CDP) in which investors are informed about the emission indicators of companies.

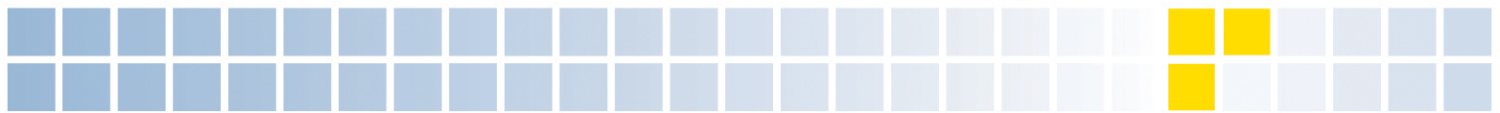
The development of meaningful CSR reporting is an ongoing process. In addition to companies themselves, a wide range of stakeholders – researchers, information service providers, NGOs – is involved looking for the best solutions for increasing transparency. This dynamic development should not be impeded and made more difficult by statistical requirements. Regulation in this area would result in companies concentrating on ticking boxes instead of seeking out the best solutions jointly with stakeholders.

- Policy-makers should back up this dynamic development by supporting and initiating dialogue processes, exchange of best practice as well as research and in-depth analyses on the theme of transparency and reporting.

➤ **Transparency must not lead to a bureaucratic approach**

The wish for information on specific social and ecological data from companies has led to an explosion of questionnaires, some of which tie up enormous resources which could often have flowed more effectively into CSR activities. A major challenge continues to be the question of how investors, consumers and customer firms as well as civil society can be provided with the information relevant for each group without this leading to excessive bureaucracy. In B2B business, where companies ask each other about their CSR commitment, it is up to business itself to find ways of assuring the social responsibility of suppliers without overloading them with requirements.

Efforts are needed to gain a grip on excessive burdens on companies in the area of preparing and passing on CSR information. The aim must be for the social responsibility of companies expressed through various CSR initiatives to be recognised without red tape. This is true above all for the financial market as well as for the B2B sphere. This should not involve harmonisation of CSR approaches and CSR communication, but rather do justice to the diversity and complexity of CSR, also in the area of transparency, and



accept the different communication possibilities for recognising a company's CSR efforts with greater openness. This applies especially in relation to SMEs.

CSR labels and certification obligations fail to take due account of the diversity, complexity and dynamic nature of CSR. Requirements for a CSR label run the risk either of overwhelming many companies – in particular smaller companies – or of reflecting such a minimal consensus that the label will be all but meaningless. The same applies for indicators in a certificate, except that this will also involve a large cost burden that would be better spent on a company's commitment than on a certificate.

- Companies, the financial sector and business federations are invited to identify ways in which the many CSR approaches in B2B business and on the financial market can be recognised more easily and with less red tape.

➤ **Avoid overburdening SMEs**

In all discussions on strengthening transparency and credibility, it must not be forgotten that SMEs make up the overwhelming majority of all companies. In Germany, only 0.15% of all companies employ 500 and more people. More than 90% of European companies have fewer than ten employees. Any thought of obliging companies to produce CSR reports only once they exceed a certain size makes no sense given this business structure.

Small and medium-sized enterprises are very active in society, but without having the resources to communicate their social responsibility in a glossy brochure. In the vast majority of cases, companies do not even speak about CSR. Requiring any type of reporting from these companies – in B2C and B2B business alike – completely disregards reality. Even without CSR reporting, the company's social and ecological behaviour is known to its important target groups in the local community. Businesses have relied on having a good name for centuries. Hence, reporting would not only overburden companies, but would also add little if any real value.

All initiatives to strengthen transparency and credibility in relation to CSR must take account of the German and also European business structure in which the backbone is formed by SMEs.

- Policy-makers are urged to take account of the limited possibilities and particular needs of

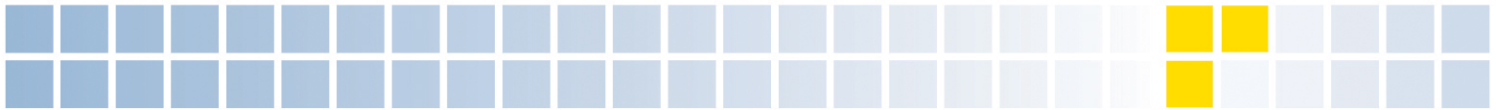
SMEs in all state measures relating to CSR. The aim must be to support SMEs in their CSR communication activities instead of overburdening them with far-reaching requirements.

➤ **Free the issue of transparency and credibility from exaggerated expectations**

Many target groups associate transparency and credibility with more far-reaching objectives. Many hope to see a strengthening of social responsibility as a result. In addition, there is a wish to strengthen the comparability of corporate social responsibility. The expectations are often exaggerated:

- Comparability of CSR: social responsibility is too diverse for companies to be compared with each other. How can the commitment of the baker at the corner of the street be usefully compared with the commitment of a multinational sports item manufacturer? Even at a sectoral level, comparability soon runs up against narrow limits. After all, the issue of weighting also arises in relation to the different priorities of companies in the same sector: does the in-house kindergarten rank higher than special initiatives to integrate people with disabilities? Is the special waste avoidance strategy better than measures which cut emissions by more than average? In addition, detailed social and environment-related data can also suggest a comparability which can lead to false conclusions. The "carbon footprint" of a supermarket may be higher as compared with its competitors, not because the supermarket is less concerned about its eco-efficiency but merely because the share of foodstuffs in the assortment that need to be chilled is higher than for competitors. Also, a supermarket chain that tends to serve rural areas will have a larger "carbon footprint" than the competition which concentrates on conurbations, due to higher transport requirements. But what follows from this? And against which parameters do you measure emissions – turnover, profit, employees, shop size, product type, geographical configuration? The CSR concept is not suitable for classification and evaluation of companies.

How to promote CSR: according to all studies, the overwhelming majority of German companies are active over and above what is required by law. Reporting obligations run the risk of weakening rather than strengthening this commitment, since resources must then be ploughed into reporting instead of into social



responsibility itself. The situation could develop where the glossy brochure is more important than the activities it reports. Efforts to promote CSR must focus on the real social responsibility of companies as it is experienced on the ground by employees, the environment and the local community, and not on the quantity of reports, documents and declarations.

If the goal is to strengthen the ecological and social activities of companies which go beyond the statutory minimum, policy-makers should support practical exchange of experience, awareness-raising and educational campaigns in companies as well as the inclusion of CSR as a topic in management courses. Those are the most effective ways to promote CSR.

- Policy-makers should promote CSR through measures which do justice to the diversity and complexity of the issue and do not run counter to its voluntary nature. With the European CSR Alliance, the European Commission is following the right path. The CSR Alliance pursues a practical and business-related approach. It is based on partnership, exchange of experience, dialogue and transmission of knowledge. Political players at national and international level should follow this approach. In that way, corporate social responsibility can best be supported and promoted.