INTEGRATING CORPORATE SOCIAL RESPONSIBILITY POLICY IN THE EUROPEAN UNION

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ABSTRACT

CAITLIN ALEXANDRA THOMPSON HOLMGREN: Integrating Corporate Social Responsibility Policy in the European Union
(Under the direction of Milada Vachudova)

This paper addresses the integration of corporate social responsibility (CSR) policy in the European Union (EU). Although many EU member states have national CSR policies, the EU has been developing a progressive and comprehensive CSR framework. This paper examines what drives CSR activity at the EU level. I define corporate social responsibility as "the responsibility of enterprises for their impacts on societies" (European Commission, 2011) and examine why a business would choose to engage a CSR policy, and why and how governments choose to support corporate social responsibility as public policy. I find there are multiple benefits to the European Union, including business contributions to sustainable development and public goods, and external benefits of increased normative power. By investigating potential benefits the EU stands to accrue through CSR, we are better informed as to its motivations. We therefore are able to analyze the theoretical explanations that rationalize European CSR outcomes.

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CHAPTER 1

INTRODUCTION

Corporate social responsibility has become a buzzword, especially in the last two decades, for businesses, society, and government. It is taught in MBA programs around the globe, is the subject of corporate triple bottom line reports, and even has its own stock indices (the FTSE4Good, Dow Jones Sustainable Index series, et cetera). Recently, governments have started paying close attention to how business can contribute to society through corporate social responsibility (CSR). The European Union (EU) has been one of the most active entities concerned with the promotion of corporate social responsibility measures. Despite the controversial nature of the subject and the relative sluggish progress in developing a European CSR framework, the European Union is one of the foremost government entities to advocate so resolutely for CSR. Although other governments do have CSR policies and regulations, the European Union is the first to move towards a so-called "smart mix of voluntary policy measures and, where necessary, complementary regulation" (European Commission, 2011) that could take corporate social responsibility policies beyond voluntary to mandated across 27 countries. The evolution of CSR from voluntary business strategy to a matter of European public policy is particularly significant to a wide variety of stakeholders inside and outside of Europe, including European societies, members of the supply chain, customers outside of the EU, and both European and international businesses operating in the European Union.

CSR research is currently expanding into a larger, multi-disciplinary sub-topic touching on management, strategy, finance, international law, public policy, and human rights. There is much academic debate surrounding why a business would choose to engage in corporate social responsibility, whether CSR is financially beneficial to the firm, and how governments are using CSR to promote sustainable development. Also, there is a wealth of literature on corporate social responsibility and Europe, especially pertaining to how it being implemented in European member states. However, despite being one of the most active proponents of CSR, there is currently a gap in the research of why the European Union itself is such ardent supporter of corporate social responsibility, when many of its member states have national CSR policies. What is driving integration in the area of corporate social responsibility in Europe? What kind of internal and external benefits does the European Union stand to gain by implementing a CSR policy, and how do these benefits inform its motivations?

The key aim of this paper is to address why the European Union and its institutions, particularly the European Commission and the European Council, have uploaded corporate social responsibility as shared competency between the European Union and the member states. In order to respond to these issues and attempt to explain current CSR outcomes at the EU level, I hypothesize that corporate social responsibility is an area of low-politics, and states allow integration to occur because the policies are supported by their domestic constituents, have no binding requirements, and allow member states to implement their own national corporate social responsibility policies.

The development of corporate social responsibility in Europe is beneficial both to the European economy and to the European Union, whose Commission can be seen as activist in the area of CSR policy. This outcome can be viewed through a neofunctionalist or liberal intergovernmentalist perspective. To test this hypothesis, I will examine statements made by the European Commission, the European Council, European and member state directives, and related literature. I shall not be testing other controversial questions such as whether or not CSR is beneficial; as the relevant actors perceive it so, for the purpose of this paper, I will only outline the theoretical debate.

The paper is organized as follows. In the first section, I will briefly give a historical context of corporate social responsibility and theories for why a business would choose to engage in a CSR strategy. I will also illustrate why a governmental entity could benefit from implementing a corporate social responsibility framework as a matter of public policy, in order to best describe the policy instruments used in Europe by member states and the European Union. As background to understand the theoretical section, I will explain the benefits the European Union stands to gain in the second section. I find that the European Commission, with the support of national member state governments, benefits from business contributions to sustainable development and to public goods, as well as increased normative power abroad. In the third section, I will consider the potential benefits of the European corporate social responsibility framework, both inside and outside of the European Union. I will look at current CSR public policy climate in the European Union and examine two competing theories of European integration, neofunctionalism and liberal intergovernmentalism, to interpret the conditions under which corporate social responsibility policy integration has occurred in European Union.

I conclude my findings with policy considerations and additional questions moving forward. This paper found that both neofunctionalism and liberal intergovernmentalism shed light on the timing and nature of CSR cooperation at the European level. Both have some valid explanatory responses to present European CSR outcomes; in this case, neofunctionalism accurately predicts an activist Commission and functional spillover, while liberal intergovernmentalism explains the domestic aggregation of preference for CSR policy and low-level bargaining in the low-politic area of CSR.

CORPORATE SOCIAL RESPONSIBILITY AS A CONCEPT

"*The business of business is business*" could be used to describe the 21st century's non-stop brand of global capitalism, and yet the past half-century has seen a dramatic rise in post-materialist concerns. As the world as become increasingly globalized and interconnected, so has it become interdependent, often creating a more open society but also new complications. After notable scandals over insider trading, human rights abuses, oil spills, and questionable financial products, the public has turned a critical eye on large multi-national corporations. Counter movements that support concepts such as local agriculture, small businesses, and corporate social responsibility have become increasingly popular. Public opinion polling in Europe shows that 70% of European consumers say that a company's commitment to social responsibility is important when buying a product or service, would be willing to pay more for products and 44% that are socially and environmentally responsible (CSR Europe, 2000).

While it is fairly foreseeable that many would look upon a business adopting a corporate social responsibility (CSR) strategy with a skeptical eye, many CSR promoters attempt to look at the subject not as the clash of two giants (civil society and business) but as part of an overarching movement towards the construction of a single society (Habisch & Jonker, 2005), reflected in parallel movements of political integration, transparency, and freedom of information. Additionally, part of the increased attention given to CSR can be viewed as a reflection of modern legal observations stemming from a transfer from hard to soft law, and the exchange of regulation for self- or co-regulation as firms "seek to avoid institutionalized regulatory framework while states are under the pressure of downward regulatory competition" (Kroger, 2011, p. 226)

Defining CSR

How can we define corporate social responsibility? Corporate social responsibility is not a new concept, though it has gained traction in recent years. Howard Rothmann Bowen defined CSR in 1953 as, "the obligation of businessmen to pursue those politics, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (The Social Reponsibilities of Businessmen, 1953). Corporate social responsibility has been defined by the Commission of the European Union as "the responsibility of enterprises for their impacts on societies" (European Commission, 2011) and described as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance" (European Commission, 2011). How this responsibility gets translated into a CSR company policy instrument is extremely variable and will be based on the company's geographic location, its business activities, its corporate strategy and culture, stakeholders' awareness/involvement, and a variety of other factors. For example, a Norwegian fishing company operating in the North Sea may choose to adopt a CSR policy that includes line-fishing at least half of its catch, while a London bank could implement a quota of 45% women on their executive board or C-suite as part of their CSR policy. A German auto manufacturer could develop a program with local schools to train students for jobs in their manufacturing facilities – all of these policies could be defined as "corporate social responsibility". CSR typically does not apply to acts of corporate philanthropy. According to the Commission, CSR at least covers:

> …human rights, labour and employment practices (such as training, diversity, gender equality, and employee health and well-being), environmental issues (such as biodiversity, climate change, resource efficiency, life-cycle assessment and pollution prevention), and combating bribery and corruption (European Commission, 2011).

Why would a business engage in corporate social responsibility?

There are many theories and much scholarly debate around why a business would choose to engage in corporate social responsibility. The title - "The social responsibility of business is to increase its profits" – of Milton Friedman's 1970 New York Times article accurately represents one of the two main currents in CSR theory literature. He argues that firms are beholden to their shareholders and are thus only responsible for increasing their profits, attributing CSR as a frightening move towards collectivism (Friedman, 1970). However, the original definition used by the European Commission in the 2001 Green Paper, where CSR is described as "a concept by whereby companies decide voluntarily to contribute to a better society and a cleaner environment", denotes a differing perspective also represented in CSR theory literature. From this angle, the business community is a fundamental component of society. Firms depend on society to provide their workforce, suppliers, and customers, and are thereby legitimized. Because business needs society and operates in it, it must act on societal preferences and expectations. Furthermore, concern for profit does not by necessity exclude the well being of stakeholders, a view shared by the European Commission. Through this theory group, businesses that adopt CSR are engaged in long-term value creation, and social investment can create significant competitive advantages; firms can also increase profits through cause-related marketing, product differentiation/specialization. A firm engaged in CSR has the potential to attract and retain high-quality employees, thus reducing training and unemployment costs. The European Union endorses this perspective in the executive summary of its 2001 Green Paper, where the Commission states:

> An increasing number of European companies are promoting their corporate social responsibility strategies as a response to a variety of social, environmental, and economic pressures. They aim to send a signal to the various stakeholders with whom they interact: employees, shareholders, investors, consumers, and public authorities and NGOs. In doing so, companies are investing in their future and they expect that the voluntary commitment they adopt will help to increase their profitability (European Commission, 2001).

Through this statement, the Commission acknowledges the variety of motivations behind the decision to pursue a CSR strategy, but does conclude in acknowledging CSR's role in garnering profit.

CORPORATE SOCIAL RESPONSIBILITY AS PUBLIC POLICY

Why would a government support CSR?

In this section, I will address why and how a government could choose to implement a corporate social responsibility public policy. CSR can play a major role in the sustainable development of both industrialized and developing economies. As Michael Blowfield (2005) explains:

> …Many feel that business was far too long left out of development thinking. Although western companies operated in developing countries, they were either ignored by development professionals or seen as problematic. Developing-country governments framed business' roles in terms of import substitution and nationalization; local entrepreneurs and politicians often eyed each other with mutual suspicion and resentment. There was a tacit acceptance that the private sector would generate employment and contribute to government revenues, but it was rarely thought of as having a central role. That changed in the 1980s when the private sector was seen as the liberator of underdevelopment economics.

CSR is intrinsically tied to development, or as one Inter-American Development Bank official writes, "CSR, by its very nature, is development done by the private sector, and it perfectly complements development efforts of governments and multilateral development institutions" (Jenkins, 2005), and many development agencies began promoting CSR in the 1990s (Jenkins, p. 5). Effective CSR, which includes all stakeholders, can contribute to sustainable development, and CSR could prove to partially deliver certain public goods. In its 2011 CSR strategy document, the European Commission explained:

> To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:
>
> -Maximizing the creation of shared value for the owners/shareholders and for their other stakeholders and society at large
>
> -Identifying, preventing, and mitigating their possible adverse impacts (A renewed EU strategy 2011-14 for Corporate Social Responsability, 2011).

How can a government support CSR?

There are four recognized public sector roles for corporate social responsibility: partnering, endorsing, facilitating, and mandating (Fox, Ward, & Howard, 2002). For example, governments could partner with other governments to author or co-author CSR instruments, as did the many national governments that drafted the OECD Guidelines for Multinational Enterprises. They could also endorse CSR by creating a labeling scheme; eco/social labeling is already in place in Denmark (2000) and Belgium (2002). By funding research and training, participating or sponsoring stakeholder forums and networks, governments facilitate CSR by helping build capacity to support it. Likewise, governments can support CSR through public procurement from socially responsible firms and in increasing transparency and democracy throughout its processes, governments can be a model for social responsibility. Finally, governments can regulate or create CSR mandates. Regulating CSR typically involves establishing transparency and accountability norms (Wolff, Bohn, Schultz, & Wilkinson, 2009). Company reporting laws that require businesses to disclose all non-financial information in annual reports are already in place in many European countries, where France (2001), Denmark (2001), Sweden (2003) and the UK (2005) were frontrunners (Wolff, Bohn, Schultz, & Wilkinson, 2009).

CSR public policy in Europe typically reflects institutional differences among different types of welfare states. Consequently, the variety of capitalism practiced in European Union member states often correlates with the public sector role for CSR. Institutions can be viewed as formal organization of government and corporations, but also to norms, incentives and rules (Matten & Moon, 2007). Similarly, companies exist in their relevant socio-political institutional settings. Gosta Esping Andersen and Hall and Soskice's welfare state typologies illustrate the different organizational patterns of modern Western economies. Esping-Andersen identifies three types of welfare state:

liberal (Anglo-Saxon), Christian Democratic (Continental), and Social-Democratic (Scandinavian); these types tend to fall along geographic patterns. All three provide some measure of worker's protection under the law and are evaluated by their levels of decommodification, the extent to which a person can maintain a livelihood without reliance on the market (Esping-Andersen, 1990). This typological model is simplified by the work of Peter Hall and David Soskice, who identify two pre-dominant welfare state models: liberal market economies (LMEs) and coordinated market economies (CMEs) (Hall & Soskice, 2001). LMEs roughly correspond to Esping-Andersen's liberal classification and CMEs would encompass both Social-Democratic and Christian-Democratic welfare states in Esping-Andersen's typology. Matten and Moon (2007) argue that corporate social responsibility can be used by national governments to remedy deficiencies arising from the institutional characteristics specific to each type of developed economy. For example, a LME or liberal economic model like the United Kingdom could develop a national CSR policy favoring financial disclosure (as is the case), due to the highly competitive nature and formal nature of that economic typology. However, a continental/CME like Germany might develop a CSR policy that encourages collaboration between the private sector and the education system, as that welfare state typology tends to rely more on credible commitments and non-market relations. Thus, CSR policies can reinforce the institutional predilections of national economies.

Matten and Moon take the relevant varieties of capitalism one step further and posit that the national business system of certain countries is the primary explanation for the development of European public policies concerning corporate social responsibility. In their study, they determine four main public sector roles for corporate social responsibility: mandating, facilitating, partnering, and endorsing (Matten & Moon, 2007). The type of market itself seems to determine the preferred public sector role for corporate social responsibility. According to Matten and Moon, markets are "embedded in human societies and are created and maintained by state actions, specifically in the design of legal frameworks and the management of the markets (Matten & Moon, 2007). The political, financial, educational, labor, and cultural systems, as well as differences in the nature of the firm, the organization of market processes, and coordination systems make up a state's national business system (NBS) (Matten & Moon, 2007); these institutional differences account for the variety of public policies concerning CSR and their implementation. There is a strong correlation between Matten and Moon's "national business systems" and the welfare state typologies created by Esping-Andersen and Hall and Soskice. In Matten and Moon's research, they found that liberal market economies national governments' supported CSR as a mostly explicit element of corporate policies – where liberalism and individualism were some of the main ideas supported throughout CSR policies. CME national governments encouraged more implicit CSR, by encouraging coordination, partnership, and collectivism (Matten & Moon, 2007).

CHAPTER 2

HOW DOES THE EUROPEAN UNION BENEFIT FROM CSR?

INTERNAL BENEFITS

Just as business and society stand to gain from CSR, government supports corporate social responsibility, as well. In this section, I will discuss both the stated rhetoric used by the European Union to support CSR and other underlying benefits that the EU can accrue through an effective CSR strategy. These benefits have wide ranging consequences both inside and out of European borders, touching a multitude of stakeholders. It is important to understand these benefits as they can inform the motivations of member state governments, the European Council and Commission, and civil society groups, whose involvement in pushing CSR on the supranational level will be discussed in the theory section.

CSR to support sustainable development

One of the main ways in which CSR could benefit the European Union is through contributing to sustainable development. When the European Union first addressed corporate social responsibility, it was directly linked to the objectives laid out in the Lisbon European Council of March 2000 (Lozano, Albareda, Ysa, Roscher, & Marcuccio, 2008), where the EU pledged "to become the most competitive and dynamic knowledge-based economic in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" (as quoted in: CSR: A business contribution to Sustainable Developement, 2002). Additionally, since the economic crisis of 2008 and the resulting financial and monetary distress, espcially in the Eurozone, the European Commission has repeated its faith in the CSR contribution to sustainable development in its Renewed Strategy 2011-2014, stating:

> Through CSR, enterprises can significantly contribute to the European Union's treaty objectives of sustainable development and a highly competitive social market economy. CSR underpins the objectives of the Europe 2020 strategy for smart, sustainable and inclusive growth, including the 75% employment target. Responsible business conduct is especially important when private sector operators provide public services. Helping to mitigate the social effects of the current economic crisis, including job losses, is part of the social responsibility of enterprises. CSR offers a set of values on which to build a more cohesive society and on which to base the transition to a sustainable economic system (European Commission, 2011).

Indeed, in the Europe2020 Strategy, the Commission made a commitment to renew its CSR strategy, at the request of the European Parliament and Council. As part of the flagship initiative of "Inclusive growth – a high-employment economy delivering economic, social and territorial cohesion" (European Commission, 2010), the EC cites its renewed CSR strategy as "a key element in ensuring long term employee and consumer trust".

Although CSR initiatives obviously vary according to company's size and function, their geographic location and the location of their stakeholders, as well as their preferences and stakeholder pressures, but one can see a variety of ways how CSR strategies could influence development and poverty reduction. Corporate social responsibility is also about the integration of companies in their local setting, whether this be in Europe or worldwide. Companies contribute to their communities, especially to local communities, by providing jobs, wages, and benefits, and tax revenues. On the other hand, companies depend on the health, stability, and prosperity of the communities in which they operate. For example, they recruit the majority of their employees from the local labor markets, and therefore have a direct interest in the local availability of the skills they need. CSR can help reduce poverty through job creation, paying “living wages”, and investing in the long-term health of employees. Companies implementing CSR strategies, for example, pertaining to the equal treatment and pay of women not only contribute to economic development, but to women’s empowerment, of which the importance to development has been argued by both academics and development agencies. CSR strategies represent an economic win-win for business, society, and government - if viewed through a long-term lens.

CSR to provide public goods

One possible explanatory motive for a the European Union to support CSR as public policy is the potential for business to become private contributors or even providers of public goods, or significantly curtail public bads through effective CSR strategies. Public goods are goods that are both non-excludable and non-rivalrous: you cannot prevent someone from accession a public good, nor does your usage of a public good prevent another user from access to it. Many examples of public goods are environmental: clean air, water, et cetera; however, more social and economic public goods like full employment, education, a stable economy and political system, transparent economic interactions, and national defense are often overlooked. The innate nature of public goods as non-rivalrous and non-exclusive necessarily begets a free-rider problem: consumers of the public good, because they cannot be excluded from it, might not necessarily be willing to pay for it – market failure. Thus, it has historically fallen on governments to become the providers of public goods, precisely because governments have the monopoly on the use of force, allowing them to collect taxes, ensuring the financing of public goods.

But what if market failure or under-provision of public goods could be remedied by market solutions? CSR can be viewed as a way for business to either aide governments in providing public goods or to alleviate public bads. Essentially, mitigating public bads and providing public goods are two sides of the same coin. For example, businesses can create a number of negative externalities, such as pollution (light, noise, air, water, soil, etc.) – a socially responsible enterprise involved in CSR initiatives going beyond legal requirements in this area is *internalizing* its *externalities*, and one could argue, by not allowing the public 'bads' to occur by atoning or fixing them, the company is thereby providing a public good. In an economic study on whether CSR is feasible and/or desirable in a competitive economy, Timothy Besley and Maitreesh Ghatak (2007) from the London School of Economic fight Friedman's 1970 argument that private corporations should get on with the business of making profits while governments should deal with public goods and externalities, concluding that:

> CSR is consistent with profit-maximization in competitive markets. In equilibrium firms sell ethical brands and neutral brands, and consumers self-select according to their valuation of the public good. Only those who care about the cause that the firm is taking up are willing to buy the product as long as other consumers are neutral, there is no adverse effect on those who do not care. Hence, CSR creates a Pareto improvement.

This is especially true in the case of government failure (Besley & Ghatak, 2007):

> We show that CSR has the greatest advantage when the public good is naturally bundled with the production of a private good…The government enjoys the

> advantage of being able to internalize externalities and to be able to impose taxes on its citizens, and spread the cost of public goods among taxpayers. However, it may not use the right social weights in making decisions and there may also be failures due to imperfect monitoring. In either case, CSR may have a comparative advantage.

The overall paradigm shift towards neoliberal public policy in the late 20^{th} century gives reason to the increasing dependence on corporate social responsibility by governments to provide public goods. The current reconfiguration of the power of different institutions in society implies the end of government as the monopolist in the delivery of public goods (Habisch & Jonker, 2005). Wolff et al. explain, "The increasing prominence of private actors in (sustainability) governance has been related to economic globalization and the diminishing power of national governments as well as to political self-retrenchment and the liberalization and deregulation paradigm" (CSR and public policy: mutually reinforcing for sustainable development?, 2009). Taking this perspective, governments with increasingly modest budgets and resources, like the European Union, may look to firms as more efficient suppliers or try to coordinate with them to effectively contribute to societal goals (Kroger, 2011), ultimately providing or complementing sustainability governance where little or no public policies existed before (Wolff, Bohn, Schultz, & Wilkinson, 2009).

EXTERNAL BENEFITS

The idea of normative power is also a very interesting perspective when looking at what benefits the European Union derives by taking up corporate social responsibility. Normative power is the ability to shape conceptions of "normal" in international relations

(Manners, 2002). The European Union was founded on five guiding principles that each member states adopts as part of the *acquis communautaire*: peace, liberty, democracy, rule of law, and human rights. It also have many minor norms reflected in its legislation and practices: social solidarity, anti-discrimination, sustainable development, and good governance. Ian Manners explains that these norms and how they are defined on the supranational level by the European Union generally come to be seen as the international standard by which countries are judged in the international arena. (Normative power Europe: A contradiction in terms?, 2002). Established positivist theories based in rationalism reject social constructivism and therefore normative power as an unfalsifiable worldview and, therefore, an illegitimate theory (Hyde-Price, 2006). However, post-positivist theories like social constructivism, propose the new idea of normative power for a novel, post-Westphalian political entity: the European Union. The EU is neither state nor super-state, and it is not a traditional military power; it is therefore appropriate to being conceiving of an *idée force*, an ideological power or power over opinion, to better approach the European Union's place in international politics (Manners, Normative Power Europe: A Contradiction in Terms , 2002). As Zaki Laidi explains in *Norms over Force*,

> Europe by definition cannot see itself in the "realist" terms of power politics because it is not a state. It is itself a highly institutionalized political construct that from the start has rejected realistic determinism. It is easy to understand that European power draws its meaning in a constructivist view of the world order—an order in which processes matter as much as structures (2008, p. 41).

There is evidence to suggest the European Commission embraces the call to spread European values in the world through corporate social responsibility throughout its CSR communications. The European Commission's CSR push also fits the three main criteria describer by Laidi (2008): policy that is negotiated and not imposed, legitimized by international bodies, and has the possibility of being enforceable on all actors, even non Europeans.

The EU approach to CSR has been inclusive and consultative, starting with the Green Paper of 2001. The last section of the 2001 Green Paper was titled "The Consultation Process", and the Commission invited:

> Public authorities of all levels, including international organizations, enterprises from SMEs to multinational enterprises (MNEs), social partners, NGOs, other stakeholders and all interested individuals to express their views on how to build a partnership for the development of a new framework for the promotion of corporate social responsibility... (European Commission, 2001).

This commitment to voluntary contribution and open negotiation continued with the subsequent 2002 Communication, the Multi-Stakeholder forum, which, "provided a platform for European representatives of business, employers, trade unions and civil society organizations to engage in an innovative process of learning and dialogue and to agree recommendations for more and effective CSR practice" (European Commission, 2006). Likewise, the European Alliance for CSR (founded as a result in 2006), echoes the negotiation approach to CSR policy.

Moreover, the EU promotion of corporate social responsibility legitimizes itself through third-party international representative bodies. In fact, every EU document pertaining to CSR makes reference to other international bodies and the need for an internationally incorporated CSR approach. In the 2001 Green Paper, the Commission states:

> A European approach to corporate social responsibility must thus reflect and be integrated in the broader context of various international initiatives, such as the UN Global Compact (2000), the ILO's Tripartite Declaration of Principles concerning Multi-National Enterprises and Social Policy (1977/2000), the OECD Guidelines for Multinational Enterprises (2000)…The EU is committed to the active promotion of the OECD guidelines.

This was made concrete in the 2002 Communication response, where the Commission adopted as part of its original framework the support and promotion of "the Community and EU Member States regarding the OECD guidelines for multinational enterprises". In the latest, 2011 Communication invited all European companies to make a commitment to either the UN Global Compact, the OECD Guidelines for Multinational Enterprises, or the ISO 26000 Guidance Standard on Social Responsibility by 2014, as well as the ILO Tri-Partite Declaration (p. 13). Through the aligning of European and international CSR approaches, the EU reinforces its commitment to interdependence among states and international organizations, as well as legitimizing their own actions.

The final prong of the three-pronged definition of normative power is that a norm could be enforceable on all actors. The idea that a European CSR policy could be enforceable on European multinationals operating outside of the EU (or conversely, foreign multinationals within the EU) is a provocative development, especially in the realm of normative power. While any CSR regulation on a European level is forthcoming, in principle, CSR is enforceable. CSR regulation, whether or not it makes certain CSR initiatives or reporting mandatory, would affect stakeholders both in and outside of Europe, leading to the spread of European norms and values throughout the world. The Commission has embraced this idea. A quote from the Commission's 2006

Communication on CSR summarizes its opinion on influencing international norms, stating:

> The EU's vision of long-term prosperity, solidarity, and security also extends to the international sphere. The Commission recognizes the linkages between the uptake of CSR in the EU and internationally, and believes that European companies should behave responsibly wherever they operate, in accordance with European values and internationally agreed norms and standards.

Likewise, In the renewed strategy 2011-14, the Commission states that the document "seeks to reaffirm the EU's global influence in this field, enabling the EU to better promote its interests and values in relations with other regions and countries (p. 6)". Seeing as it fits the three-pronged criteria for the definition of normative power, it is evident that the promotion of CSR is compatible with the projection of European norms, both domestically and abroad.

While normative power is an interesting perspective to examine when evaluating the European Commission's motives in pursuing corporate social responsibility as a policy area, CSR as an instrument of normative power ultimately falls into a line of critiques of European normative power. To situate the concept of Normative Power Europe is to inject oneself into fundamental and epistemological debates over whether International Relations can be classified as a science and the methodology of IR theories. One of the most scathing critiques comes from neo-realist Adrian Hyde Price (2006), where he states that normative power is, essentially, an idealistic excuse for Europe's lack of hard power. He argues, "Central to such liberal-idealist arguments is the claim that the apparent weakness of the Union as an international actor-its lack of coercive instruments and its consequent reliance on declaratory politics and soft power-in fact constitutes the very source of its strength. (Hyde-Price, 2006, p. 217). He extends this analysis by critiquing normative power's attempt to justify international outcomes by a combination of elements at the national or subnational, the lack of importance placed on power, and the explicitly normative approach to the subject (Hyde-Price, 2006). Hyde-Price clarifies, "The problem here is that when the object of study is seen as embodying the core values one believes in, it is difficult to achieve any critical distance (2006, p. 218)".

There is also a substantive critique to augment methodological concerns about normative power that apply to the Commission's CSR strategy. The European Union has chosen mostly non-enforceable policy modes concerning CSR, those that include endorsing facilitating, and partnering. The mandates or regulation that could fall under public policy for CSR include Emission Trading System (ETS) Directive on Industrial Emissions (2007), and the EU Accounts Modernisation Directive (2003/51; 2006/46) (Moon, Slager, Anastasiadis, Brunn, Hardi, & Steen Knudsen, 2012). These regulations are not enforceable on all actors in the international system, and the majority of enforceable mandates concerning CSR arise from EU member state national governments. The disconnect between rhetoric and action can be seen as an expression of the 'capabilities-expectation gap describer by Christopher Hill (1993). The European Union has the capability to act as a strong player given its main community competency - the single market – yet has chosen to limit its role to that of information sharing and coordination of actors. In a report measuring the efficacy of CSR practices throughout Europe, "Corporate Social Responsibility in Europe: Rhetoric and Realities, its authors conclude:

> Very briefly, we may state that the rhetoric of CSR is stronger that its reality (p.291)… To date, public policies to stimulate CSR are largely restricted to communicative instruments (labels) and disclosure on reporting obligations. If we accept that there is a potential to promote sustainable development through voluntary corporate action, even though CSR can and should not 'substitute… appropriate regulation in the relevant fields[1]', policy makers can exploit additional governance options and policy mixes to promote effective CSR (Wolff, Barth, Hochfeld, & Schmitt, 2009, p. 302).

However, the concept of European normative power offers a noteworthy angle on how to European Union could potentially benefit from corporate social responsibility policies even outside of its external borders.

Ultimately, effective public policies for corporate social responsibility could have a large impact on European society. An increase in successful CSR could partially provide public goods, contribute to the sustainable development of the European and international economies, and normalize socially responsible business practices outside of European borders. These benefits inform actors at the EU level: national member states, EU institutions, civil society groups, and the business community; they are part of their motivation in promoting a CSR policy. In the next section, I will examine current CSR activity through European integration theories, whose bases fundamentally rely on the motivations of actors, as discussed in this chapter.

[1] European Parliament resolution of 13 March 2007 on corporate social responsibility: a new partnership (2006/2133(INI).

CHAPTER 3

WHAT DRIVES INTEGRATION IN THE AREA OF CSR?

EUROPEAN INTEGRATION THEORIES

Having examined the definition of corporate social responsibility and what types of activities CSR covers, we can now see why a business would choose to engage a corporate social responsibility strategy. Also, sustainable development and institutional deficiencies can illuminate why governments would choose CSR as a matter of public policy, and what types of public policies could be used to support and promote corporate social responsibility. Having laid those important foundations, we can now examine what is driving European integration in the area of corporate social responsibility. In this section, I will examine how European integration theories explain current CSR activity on the European level.

European integration theories are plentiful and offer differing perspectives on the importance of various actors, states' interests, and the end result of the European project. Two main theories of European integration explain EU action by different mechanisms: neofunctionalism expects spillover and the influence of a plurality of actors, while liberal intergovernmentalists place the most explanatory power on states' interest. These two theories offer enlightening perspectives to examine why CSR has been upgraded from member state to shared competency. Both neofunctionalism and liberal intergovernmentalism offer important insight into the European Commission's and national governments CSR preferences, and both can be seen as correctly explaining CSR integration in different ways.

Neofunctionalist predictions

First, we will briefly outline neofunctionalism and its criteria for policy integration to analyze how its predictions apply to corporate social responsibility. In 1958, Ernst Haas developed a 'neo-functionalist' approach to European integration in "The Uniting of Europe". Neo-functionalists hold that rational, self-interested states are the most important players in deciding to integrate, but that other actors have significant roles as well, including transnational interest groups (Nieman & Schmitter, 2009, p. 48). Through the process of collective bargaining, socialization of actors can occur, modifying interests and behaviors. New institutions can escape the grasp of states and take on their own agenda, as neofunctionalists argue is the case of the 'entrepreneurial' European Commission (Nieman & Schmitter, 2009) (Pollack, 2010). States originally determine modest, "low politic" – yet economically vital – areas to integrate under the guise of new institutions (Rosamond, 2000). As state governments choose to integrate these sectors, to realize the full benefits of integration, other areas follow. Functional spillover occurs as neighboring policy areas are assumed as community competency; producing unforeseen consequences and promoting further integration (Pollack, 2010). Neofunctionalist theory bestows the idea of "Community method", where an activist Commission plays an essential role in the extension of European policy areas (Pollack, 2010). States hereby forego a snippet of their sovereignty as they expect long-term gains.

Testing Neofunctionalist theory

How can neofunctionalism explain the nature of corporate social responsibility integration at the EU level? Neofunctionalism would predict that although states are the most important players, that other actors would play an important role in the decision to integrate corporate social responsibility policy, that this further integration could be a result of or engender further functional spillover. In this section, I will evaluate these neofunctionalist claims as they apply to the integration of corporate social responsibility policy.

Neofunctionalism posits that although states play an active role, 'integration entrepreneurs' such as the European Commission and transnational interest groups are also important. When examining European CSR, it is apparent that the European Commission has been an early active promoter of corporate social responsibility[2]; indeed, the European Union has no less than eighteen policy instruments to facilitate, endorse, and partner to support corporate social responsibility in Europe. While some innovative national member state governments were the first early adopters of CSR as an area of public policy, the Commission began promoting CSR as early as July 2001 with the publication of its Green Paper titled "Promoting a European framework for corporate social responsibility". It has since been very vocal in its support, acting as a facilitator and catalyst for government action (Lozano, Albareda, Ysa, Roscher, & Marcuccio, 2008), as it has published four further communications (the most recent being the Renewed EU Strategy 2011-2014 for Corporate Social Responsibility) and sponsored conferences and multi-stakeholder forums to develop a European CSR framework. This

[2] See Table 1 for list of European Commission documents and their outcomes

progressively involved stance on the part of the Commission is predicted by neofunctionalist theory.

Likewise, corporate social responsibility can be seen as an area of functional spillover emerging from the community competency of the single market. Given that the single market is the main area of community competency, it seems natural that the European Union would find an interest in communalizing corporate social responsibility. Likewise, corporate social responsibility as an area of public policy is closely correlated with many other areas of community or shared competency, including environmental standards, labor laws, financial regulations, and et cetera. To harmonize with existing regulations, uploading corporate social responsibility to the European arena allows for complementarities. European corporate social responsibility can be seen as an area of functional spillover, as predicted by neofunctionalism.

Corporate social responsibility could also prompt more integration, especially concerning policy mandates, which have been discussed as a possibility in the Commission's Renewed Strategy 2011-2014. This document shows a fascinating change of direction for the Commission with implications for all of European CSR, starting with a new definition of Corporate Social Responsibility as "the responsibility of enterprises for their impacts on society". The first notable difference between this definition and the previous is the actual length of it – by cutting out the "contributing to a better society and cleaner environment" remark from the 2001 definition, the Commission does two things: broaden significantly the areas of concern and clarify that CSR means that businesses are responsible for *all* of their impacts on society, positive and negative. Nonetheless, the most important change between the two definitions is the absence of any mention of the word ‘voluntary’. Moreover, the change in the European definition of CSR opens the door to overarching European regulation. In an interview between the European Sustainable Development Network and Tom Dodd, the CSR Policy Officer at DG Enterprise and Industry, he states, “If CSR is the responsibility of enterprises for their impacts on society, then it does not make sense to ask whether CSR is voluntary or mandatory. Every enterprise has impacts on society, so every enterprise has a social responsibility” (Martinuzzi, Krumay, & Pisano, 2011).

Through the important change in definition and the agenda for action, we see new possibilities for functional spillover in the area of corporate social responsibility. A report analyzing the new Communication by the part of the European Sustainable Development explains, “The new CSR communication can be understood as an important step to establish public CSR policies as an autonomous and legitimate policy area, and to make use of strategic management approaches in this area” (Martinuzzi, Krumay, & Pisano, 2011). Although it is important not to forget that CSR is regulated on some level in 15 of the 27 member states, the landmark importance of this Communication is that it marks the first time that any international or, in this case, supranational entity has hinted at binding mandates concerning corporate social responsibility.

Finally, although based fundamentally on realist theory, neofunctionalism disputes the zero-sum nature of political bargaining (Nieman & Schmitter, 2009), and European CSR. Thus, neofunctionalists would not claim that because the European Commission has taken up corporate social responsibility as a policy area, that the national member states necessarily lose power or influence. This idea is reinforced by the response of the European Council to the latest European Commission strategy concerning

CSR. Indeed, the Council of the European Union supports the latest “Renewed Strategy” by the Commission, stating that it:

> WELCOMES the Communication from the Commission “A Renewed EU Strategy 2011-2014 for Corporate Social Responsibility as well as of the Social Business Initiative; EMPHASISES market advantages of responsible business conduct; ENCOURAGES the Member States to respond to the Commission’s invitation to develop or update their plans or lists of priority actions in support of the Europe 2020 Strategy… (Permanent Representatives Committee, 2011)

This quote seems to support the supranational decision making style of neofunctionalist theory, where compromises are reached through agreement and the uploading of common interests (Nieman & Schmitter, p. 49). However, as there is little substance behind the rhetoric of the European Council, the actual import of such statements is to be taken with a degree of skepticism.

Some questions do arise to dispute neofunctionalist explanations of corporate social responsibility policy in the EU. First, although one car argue the role of an activist Commission, there are no other transnational groups of note that seem to act as integration entrepreneurs. This could be due to the varied and broad nature of how corporate social responsibility strategies are implemented according to company philosophy, industry, and region. The institutional density and public awareness or sensitivity of policy area also likely contributes to the last of organization of outside actors; to put it briefly, the general public will mobilize according to visibility of implementation area (Wolff, Barth, Hochfeld, & Schmitt, 2009)

Liberal Intergovernmentalists Predictions

Another view of integration comes from liberal intergovernmentalism. To show how liberal intergovernmentalism explains the development of European CSR, it is important to first give a brief overview of the theory. Liberal intergovernmentalism, like neofunctionalism, also maintains basic realist assumptions. Liberal intergovernmentalism (LI) also posits that states are the primary drivers of integration and member states use EU institutions to their long-term advantage and are strengthened by integration (or not hurt) (Schimmelfennig, 2004).

Liberal Intergovernmentalism is a model of European integration in three parts. First, the theory's main proponent, Andrew Moravcsik, proposes a liberal theory of national preference formation. While LI continues to treat the state as a unitary actor, member states' policy goals differ based on fluctuating pressures from domestic social groups, channeled through political institutions (Moravcsik, Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach, 1993, p. 481). The national chiefs of government (NCGs) then combine these domestic interests with their own to formulate respectively their national preferences towards the EU (Pollack, 2010, p. 18). This liberal stage of the theory has three implications: one, that states preferences are dynamic and subject to variation; two, that these preferences are complex and are essentially an aggregate of the economics, institutions, and parties of each member state; and three, most importantly, that member state preferences are determined domestically, and not through participation in EU institutions, as neofunctionalists have claimed (Schimmelfennig, 2004). States behave according to rational interests, not succumbing to transnational interest groups or supranational entrepreneurs. In the second, intergovernmental stage of LI, member states take their preferences to Brussels – the "bargaining table". Bargaining is entered into on a voluntary basis and is 'non-coercive' (Rosamond, 2000, p. 137). The functional model of institution choice is the third stage of

LI theory. In this model, EU member states delegate sovereignty through supranational institutions like the European Court of Justice or the European Commission to increase the credibility of their mutual commitments (Pollack, 2010). They also pool sovereignty to reach collectively superior outcomes (Schimmelfennig, p. 78). To recapitulate, as Ben Rosamond explains, “At the heart of Moravcsik’s framework is – again – an assumption of state rationality” (2000, p. 137).

Testing Liberal Intergovernmentalism predictions for CSR

Thus, LI would seem to make three main predictions for integration of corporate social responsibility policy: that domestic economic interests influenced national chiefs of government to raise the issue of corporate social responsibility, that the member states would enter into integration concerning CSR only if that integration strengthens, or creates a superior outcome for the states, than not integrating CSR policy. In this section, I will examine each of these claims.

Liberal intergovernmentalism offers an explanation for why CSR has come to the supranational stage. LI claims that preferences are typically issue specific, dependent on societal interdependence, and domestic institutions (Moravcsik & Schimmelfennig, Liberal Intergovernmentalism, 2009). As previously discussed, the ascent of CSR as a societal preference is linked with other post-modern issues raised in the last half of the 20th century and augmented by crises of corporate governance in the last 20 years. As the general public supports the idea of corporate social responsibility, so does CSRs’ importance rise and becomes national preference. However, the business community is a powerful group that can greatly influence the national preferences of member states, one that realists argue dislike and will discourage regulation in favor of self-reporting or selfregulation. Given the aggregate of these two societal preferences, national member states would have a preference to support CSR, but through non-binding instruments where the business community self-regulates. Likewise, the state's ultimate goal is to preserve and even expand its power and influence. By examining European CSR policy instruments, we see that this is exactly the case.

First, from the very first document the EU published on CSR, the 2001 Green Paper "Promoting a European Framework for Corporate Social Responsibility", the desire to accommodate business interests is apparent. Two of the most important aspects of the 2001 Green Paper are its definition of CSR and the title of the communication itself. The Commission defines CSR as, " …essentially a concept by whereby companies decide voluntarily to contribute to a better society and a cleaner environment". This definition stresses first the vague nature of CSR- that it is a concept rather than a defined set of practices. It also emphasizes the "voluntariness" of CSR, which has important implications for government's involvement with CSR: if implementing a CSR strategy is accepted by the government as a company going above and beyond its legal requirements, CSR can obviously not be regulated, or imposed upon an enterprise that chooses not to engage. The title, "Promoting a European framework for Corporate Social Responsibility" is also of note – it underlines the EU's role as an active advocate and highlights the EU's preferred policy instrument in the area of corporate social responsibility. The Green paper explains how it views the EU's role as follows:

> In particular, should the EU add value and complement existing socially responsible activities by:
> - Developing an overall European framework, in partnership with the main corporate social responsibility actors, aiming at promoting transparency, coherence, and best practice in corporate social responsibility practices?

- Promoting consensus on, and supporting, best practice approaches to evaluation and verification of corporate social responsibility practices?
- And/or by which other means? (European Commission, 2001)

The second document to be published by the European Commission repeats similar rhetoric. The July 2002 document, called "CSR: A business contribution to sustainable development", was compiled after having received over 250 responses from interested stakeholders. In the synthesis of consultation of the communication, it is interesting to note that although "all respondents welcomed the Green Paper [of 2001] and confirmed the usefulness of an open debate about the concept of CSR" and "almost all parties supported Community action in this field", the very first response from the business community concerned, again the voluntariness of CSR (European Commission, 2002):

> Enterprises stressed the voluntary nature of CSR… there would be no "one-size-fits-all" solutions. In the view of business, attempts to regulate CSR at the EU level would be counterproductive, because this would stifle creativity and innovation among enterprises which drive the successful development of CSR, and could lead to conflicting priorities for enterprises operating in different geographic areas.

This response reflects the voluntary and non-binding nature of the European framework for corporate social responsibility because of the influence of state preferences for non-binding integration, as would be predicted by liberal intergovernmentalism.

Also, corporate social responsibility policy integration is composed of mostly non-binding policy measures, as predicted by LI. Using the four policy modes described by Fox et al. (endorse, facilitate, partner, mandate), the EU has a total of twenty-one corporate social responsibility policy instruments[3], including: eleven endorsement policy instruments, one facilitating policy instruments, six policy instruments to partner, and

[3] See Table 2.

only three mandating policy instruments: the Emission Trading System (ETS) , the Directive on Industrial Emissions (2007), and the EU Accounts Modernisation Directive (2003/51; 2006/46), as identified by the CSR Impact Research Program. (Moon, Slager, Anastasiadis, Brunn, Hardi, & Steen Knudsen, 2012). The ETS and Directive on Industrial Emissions, however, mandate no action on corporate social responsibility, only increased regulation in those industries. Likewise, the EU Accounts Modernisation Directive has no direct policy instrument to mandate the non-financial disclosure, but only encourage it. The Directive 2003/51 (European Parliament; European Council, 2003) states:

> It is expected that, where appropriate, this should lead to an analysis of environmental and social aspects necessary for an understanding of the company's development, performance or position… However, taking into account the evolving nature of this area of financial reporting and having regard to the potential burden placed on undertakings below certain sizes, Member States may choose to waive the obligation to provide non-financial information in the case of the annual report of such undertakings.

A similar exception is provided in Directive 2006/46, where the directive pronounces that companies have the option to "provide an analysis of environmental and social aspects", but only where, "necessary for an understanding of the company's development, performance and position" (European Parliament; European Council, 2006). Thus, the three 'mandate' policy instruments concerning corporate social responsibility prescribed by the European Union have no teeth, either towards national member state governments or European business, as liberal intergovernmentalism would predict. Because CSR policy integration is weak, currently involving little to no mandates, it can be argued that CSR does not hurt, but rather strengthens EU member states, as liberal intergovernmentalism would expect. However, liberal intergovernmentalism does not necessarily equate weak integration to government preferences. Sometimes governments prefer integration, even with binding legislation, when such integration strengthens the overall position of the state, either through increasing credible commitments or long-terms concrete gains. Liberal intergovernmentalists could view CSR as a low-politic policy area, where states allow integration to occur because it is uncontroversial and gratuitous. Member states give the European Commission its blessing to integrate as they have nothing to lose: corporate social responsibility is a trendy and voluntary concept that imposes no mandates on either the business communities that inform national preferences nor the member states themselves, who retain the power to implement their own individual frameworks complementary to domestic institutions.

Further developments may enlighten the debate over whether neofunctionalism or liberal intergovernmentalist best explain integration, especially if we were to see the formation of binding, mandated corporate social responsibility policy in the near future. Indeed, both theories are right in some ways. The Commission is acting as the agenda-setter, with the blessing of both civil society groups and member state governments. Yet, there is no real evidence of functional spillover. However, if CSR policy evolves into this "smart mix" of regulation, spillover could occur. This "smart mix of voluntary policy measures and, where necessary, complementary regulation, for example to promote transparency, create market incentives for responsible business conduct, and ensure corporate accountability" was proposed in the Renewed Strategy 2011-2014, yet the Commission's implementation table shows that binding agreements (on non-financial reporting, meeting human rights CSR) are still in on-going or consultative phases.

CHAPTER 4

CONCLUSION

The promulgation of a European CSR framework is decidedly a significant development for Europeans and non-Europeans alike, and it is representative of the European integration across societal, political, and economic spheres. Nonetheless, there is no overarching, supranational, binding corporate social responsibility mandate - in spite of the overwhelming evidence that the European Union, its member states, and public opinion is in favor of the concept. While a potential European CSR policy could foster a social integration in the European Union, it is important to note that the institutional diversity of the member states and the “fragile character” of CSR (Kroger, 2011). As Sandra Kroger elaborates, “While the former is a central reason why new modes of governance have been introduced to begin with, the latter is characterized by high volatility and dependence on the goodwill and the preferences of the relevant actors. The benefits of uploading CSR are multiple; in an age of continued retrenchment and shrinking public budgets, corporate social responsibility may contribute to sustainable development and alleviate the burden of the state in being the exclusive providers of public goods. Moreover, through the strong commitment the European Union has made to promote corporate social responsibility, it also may be able to influence business norms around the world. These benefits all influence motivations of actors at the EU level. Theoretically, both neofunctionalism and liberal intergovernmentalism have some explanatory leverage for current CSR activity on the EU level. Neofunctionalism correctly predicts the role of an entrepreneurial Commission and functional spillover, while liberal intergovernmentalism expects integration in low-politic areas through bargaining and coordination, without real delegation of powers.

Moving forward, many questions arise. First, fundamental changes in the national business systems across Europe have shaken European welfare states. Changes in the financialization of welfare states, coupled with deregulation and the weakness of organized labor groups are partial contributors to the rise of CSR as an area of interest for governments. Yet, the institutional differences among European welfare states and the current "soft-law character" of CSR undermine the efficacy of a European approach (Kroger, 2011). There are also concerns as to the value of CSR in achieving policy goals. Are CSR policy instruments effective in dealing with societal and environmental problems, or do we need more, focused, and industry specific smart regulation? There is a wide hole in the literature for empirical studies that show how corporate social responsibility policy instruments positively contribute to Europe's sustainable development goals or with the provision of public goods. There are many doubts as to the impact of Europe's promotion of corporate social responsibility, which will continue until European civil society groups push policy leaders to make corporate social responsibility a priority, set ambitious targets, and implement binding mandates.

In the future, I predict that corporate social responsibility will remain a priority for European consumers, business, and policy maker, as it is seen as a partial solution for sustainable growth and environmental concerns. However, for Europe to fully benefit from a corporate social responsibility policy, it should place its emphasis on developing effective policies that both continue to promote and enable corporate social responsibility as well as policies that reinforce CSR projects with quantifiable results. The European Union has an important role to play as an information-sharing platform. An open method of coordination approach among member states may help governments share specific CSR initiatives and instruments that might work across geographic or industrial boundaries. Likewise, continued outreach to business and civil society stakeholders like the Multi-Stakeholder Forum aides dialogue and increases public awareness about CSR. These methods allow for innovation and customization along Europe's diverse institutional differences, without mandating a one-size-fits-all policy. By utilizing the first three policy modes: partnering, endorsing, and facilitating; the EU can spread CSR instruments throughout Europe and, through the normalization of CSR principles, increase corporate social responsibility awareness and impact abroad, as well.

Nevertheless, the European Union must not shy away from the final policy mode: mandating complimentary regulation when applicable. The Commission has stated that a "smart mix" of policies, including regulation, is their goal pertaining the corporate social responsibility policy (European Commission, 2011). Yet, there are important CSR instruments like requiring non-financial disclosure or the creation of a meaningful, monitored labeling schemes that could immediately increase transparency of corporate social responsibility in Europe. Finally, because corporate social responsibility measures means that a company performs above and beyond legal requirements, instead of aiming for the lowest common denominator legal requirements, the European Union should look at raising the bar of legal requirements relating to environmental standards, labor practices, diversity, and ethical sourcing, in appropriate industries.

Moving corporate social responsibility from a broad, unenforceable concept, to a game-changing impetus for growth will require a paradigm shift from thinking of economic development as business versus government, to business with government. Nevertheless, the European public should not expect corporate social responsibility to be the silver bullet for all of Europe's economic problems – despite the many reasons why CSR theory says a business will choose to engage in CSR, not all businesses will behave responsibly. In these cases, there is a need for industry-specific, smart regulation that is transparent and enforceable among all actors. Likewise, despite the benefits that even the most ethical, well-meaning firms can offer society, there is no market solution to the fundamental provision of public goods; therefore, government must ultimately be responsible for their provision and offer viable solutions to remedy public bads. Corporate social responsibility has an important role to play in the sustainable development of Europe, and in the future, the European Union must learn to effectively use CSR as one part of a larger mix of policies to achieve a vibrant and sustainable economic future.

APPENDIX

Table 1

European Commission Documents on corporate social responsibility and their outcomes

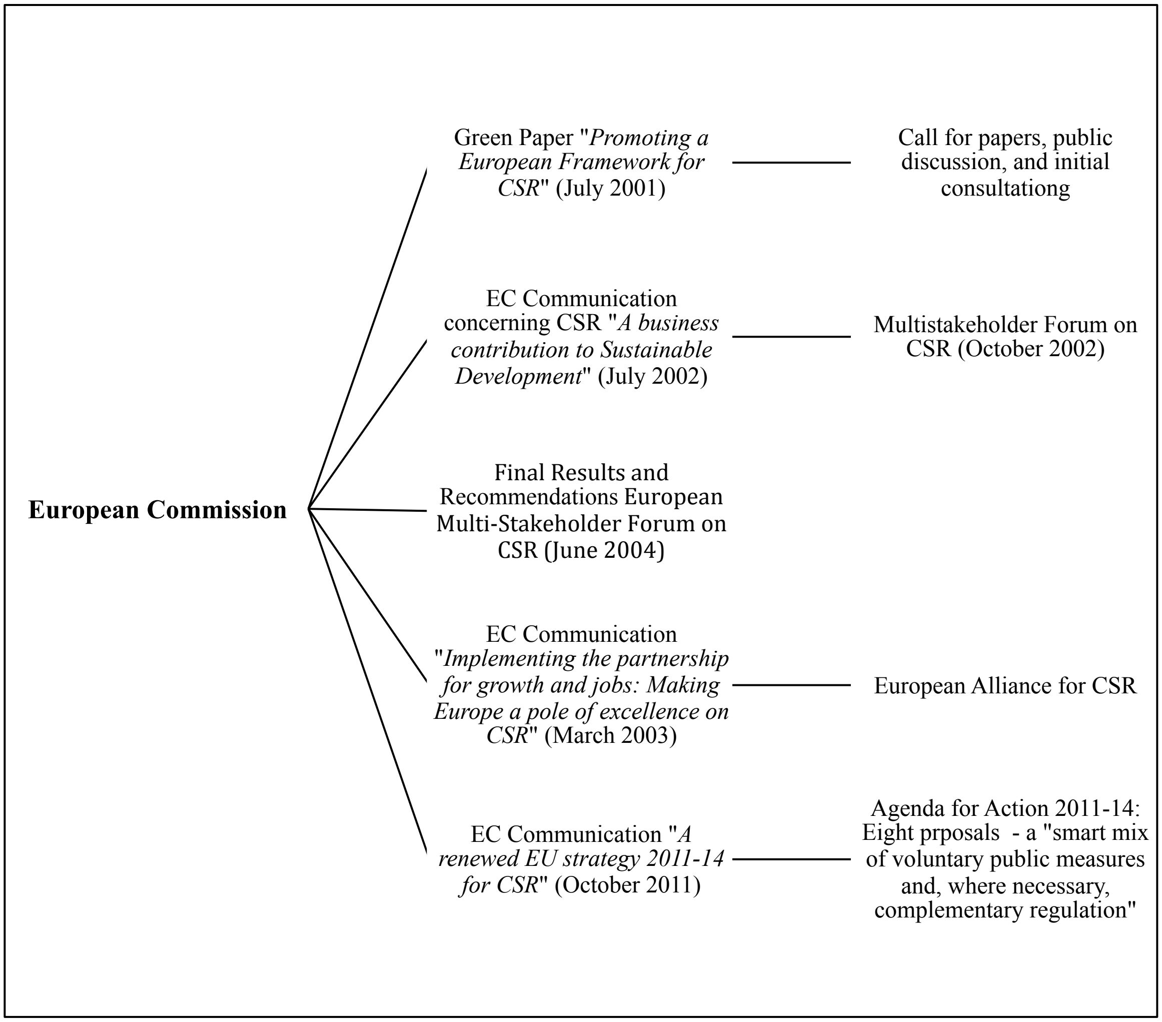

Table 2

Review of EU corporate social responsibility policy instruments (adapted from CSR Impact Working Paper 2)

Endorse	**Facilitate**	**Partner**	**Mandate**
EC Communications 2001, 2002, 2006, 2011 Pan-European Awareness Raising Campaign on CSR Environmental Compliance Assistance Programme European Enterprise Awards European Business Awards for the Environment Directive 2004/18/EC and Directive 2004/17/EC on Procurement 2002 EC Communication "Public Procurement for a better environment" Eco-Design Directives Energy Labelling Directives	LIFE funding scheme	High-Level Group of Member States' representatives European Expert Group on CSR and SMEs European Multistakeholder Forum on CSR European Alliance on CSR Retail Forum European Food Sustainable Consumption and Production Round Table	Emission Trading System (ETS) Directive on Industrial Emissions (2007) EU Accounts Modernisation Directive (2003/51; 2006/46)

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