Corporate Social Responsibility

A Case Study Approach

Edited by

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Introduction and overview

Christine A. Mallin

Corporate social responsibility (CSR) has gained an increasingly high profile in recent years. CSR can be defined as the ways in which a business seeks to align its values and behaviour with those of its various stakeholders. The stakeholders of the business include the employees, customers, suppliers, government, interest groups (such as environmental groups) and wider societal interests on whom the operations of the business may have an impact. Often it can be a difficult balancing act for a business to try to effectively consider the perceived needs of these often disparate groups of stakeholders, and some companies appear much more successful in this regard than others.

CSR is an area in which investors, especially institutional investors, are showing an increasing interest. The interest of institutional investors is often driven by the expectations of their clients, for example, the ultimate beneficiaries of pension funds; or by the pronouncements of industry body representative groups such as the Association of British Insurers (ABI); or by government-supported initiatives both at a national and an international level. The United Nations Principles for Responsible Investment (UN PRI) are an important development in this area. In 2005 the UN Secretary General invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment (PRI). The UN PRI website states

> [T]here is a growing view among investment professionals that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. Investors fulfilling their fiduciary (or equivalent) duty therefore need to give appropriate consideration to these issues, but to date have lacked a framework for doing so. The Principles for Responsible Investment provide this framework. . . . The Principles are voluntary and aspirational. They are not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-making and ownership practices.

There is a growing awareness that companies cannot operate in isolation from the wider society in which they are located, and that they need to consider the interests of groups other than shareholders if their longer-term sustainability is to be maintained. The purpose of this volume is to highlight, through various case studies, how CSR has evolved in a number of countries around the world and to illustrate its application in specific countries and case study companies. The volume has four parts which focus on different regions and illustrate the ways in which CSR is developing, given different legal structures (civil law versus common law); different governance and ownership structures; and differing societal expectations regarding the importance of various stakeholder groups.

CSR IN EUROPE

Part I focuses on corporate governance in various European countries. In Chapter 1, Andrea Melis, Silvia Carta and Silvia Del Rio provide a detailed analysis of CSR in Italy by analysing CSR practices in an Italian company, Sabaf. Sabaf is a family business, as are most Italian companies, and has already been recognized as one of the Italian companies more committed to CSR. Sabaf adopts a triple bottom line approach in its activities and reporting, that is, it takes into account and provides information to its stakeholders about its financial, social and environmental performance.

In Chapter 2, María Sacristán Navarro and Silvia Gómez Ansón provide an interesting overview of the development of CSR in Spain and illustrate the adoption of best practice in a number of Spanish companies encompassing Iberdrola, Eroski, Bankinter, Telefónica and Inditex.

Finally in this part, Bert van de Ven, André Nijhof and Ronald Jeurissen detail the development of The Body Shop and the importance to it of the social projects it has undertaken. They then discuss the implications of The Body Shop's reorganization, brand repositioning and the L'Oréal takeover, and what the future might hold for The Body Shop.

CSR IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

Russia and Poland are the two countries featured in Part II.

In Chapter 4, Alexander Settles, Olga Melitonyan and James Gillies discuss the development of CSR in Russia and highlight the impact of key events, notably the transition from a command to a market economy. They conclude that the focus of Russian firms with respect to CSR is primarily on domestic issues and that so far there is limited interest in issues of global warming, environmental protection, fair trade, or carbon footprints of business activities. Firms which do tend to give consideration to these broader areas are primarily those in the resource industries in which foreigners have major investments. It is interesting to note the influence of overseas investors in this regard.

In Chapter 5, Izabela Koładkiewicz analyses the development of CSR in Poland, recognizing that while there are still identified weaknesses in CSR in Poland, the Polish business world is continuously moving forward in the sphere of CSR, albeit it is the divisions of international corporations that continue to be the leaders. However, small and medium-sized enterprises are beginning to take part as well. Izabela provides a detailed analysis of the CSR implemented by the Camela S.A. Factory of Clothing Inserts in Poland.

CSR IN ASIA AND AUSTRALIA

In Part III, there are two thought-provoking chapters covering a comparison of the CSR dynamics in South Korea and Japan, and the tensions in the pulp mill industry in Tasmania, Australia.

In Chapter 6, Seungho Choi and Ruth V. Aguilera analyse the characteristics of CSR in South Korea and Japan in terms of the different influence that local actors exercise on their respective CSR practices. They discuss the general CSR trend in South Korea and Japan based on several CSR indicators, and the three general approaches to comparative CSR studies: cultural, attitudinal and actor centred. They highlight the role of local actors in moulding CSR in South Korea and Japan and the implications of CSR activity in the two countries.

In Chapter 7, Kathy Gibson and Gary O'Donovan provide a fascinating account of the case of Gunns Ltd, a large Australian public company, and the machinations and processes involving the company, the Tasmanian state government, the Australian federal government, and various activist groups in the proposed development of a large pulp mill in northeastern Tasmania. They highlight the many competing interests of diverse stakeholders, intent on maximizing or minimizing to their own advantage the triple bottom line (TBL) – economic, social, and environmental – returns.

CSR: ADDITIONAL DIMENSIONS

Finally, Part IV contains case studies which highlight CSR in four different contexts in several countries.

In Chapter 8, Kate Spilde Contreras and Donald S. Siegel present a case study of the strategic use of CSR by the gambling industry. They describe the birth and evolution of the American Gaming Association and its role in the creation of the National Center for Responsible Gaming. Their chapter highlights that CSR is not just a firm-level phenomenon, especially when an industry is highly regulated, such as the gaming industry.

In Chapter 9, Matthias Beck and Steven Toms, drawing on concepts of incrementalism and focusing on oil companies that operate in regions which are characterized by severe human rights abuses, examine differences in the nature of corporate social disclosure (CSD) reporting among these companies with the CSD of companies which do not operate in these areas. To illustrate their descriptive analysis, they examine how two companies of similar size, but with differing involvement in areas of human rights abuse have approached their CSD reporting. These companies are Forest Oil which predominantly operates in the US and Canada, and Santos Oil which operates in several Australasian countries.

In Chapter 10, Melsa Ararat and Mahmut Bayazıt discuss the adoption of codes of conduct in Turkey and assess the potential impact on the labour unions in the Turkish garment industry. Specifically they ask whether the adoption of these codes causes the marginalization of the role that unions play in a developing country context, where marginalization is defined in terms of both decreasing perceived utility of unions as well as scope and depth of issues that they can influence.

In the final case study, Samy Nathan and Chris Pierce (Chapter 11) discuss the adoption of CSR by Islamic financial institutions in the Middle East. They highlight that in order to fully understand the values and culture of Islamic financial institutions one needs to understand the nature of Shari'ah Law and the role of the Shari'ah Supervisory Boards.

CONCLUSIONS

This volume contains case studies from many different regions around the globe, reflecting various stages of economic development, legal systems, political and cultural aspirations. The development of CSR is at different stages in different companies, and industries, in various countries. However, the trend does seem to be for CSR to be increasingly viewed as an essential rather than as something that is merely desirable. The adoption of CSR practices leads to improved relationships with the various stakeholders and should also contribute to the long-term sustainability of companies, countries, and ultimately the world.

I would like to thank the authors for their time in writing the case studies. The authors, like the countries represented in the book, constitute a range of nationalities, and are from various professional backgrounds including academics and company directors. They all care deeply about CSR and how it can help to shape a better future for us all. I trust that readers of this volume will enjoy the various chapters and be made even more aware of the importance of CSR and how it holds the key to the future.

PART I

CSR in Europe

1. CSR and integrated triple bottom line reporting in Italy: case study evidence

Andrea Melis, Silvia Carta, Silvia Del Rio

INTRODUCTION

Corporate social responsibility (hereafter CSR) is a term that involves several different concepts and definitions (for example, Carroll, 1979, 1999; Crane and Matten, 2004). The definition provided by the Green Paper (European Commission, 2001: 8) seems to summarize the essential points of the concept, as the integration by companies of:

> 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 and investing 'more' into human capital, the environment and the relations with stakeholders.

Socially responsible companies are expected to integrate economic, social and environmental concerns into their business strategies and their activities, going beyond compliance with the law. CSR is not philanthropy. Parmalat was very philanthropic, but was not socially responsible, as emerged from the 2003 scandal.

In Italy the social responsibility of firms has roots dating from long before the emergence of the CSR movement during the last decades of the twentieth century. Article 41 of the Italian Constitution, promulgated in 1948, provides a basis to foster the social responsibility of private corporations, as it underlines how economic activity should not be undertaken if it conflicts with social usefulness or in any way that it brings any form of damage to human security, freedom and dignity. Furthermore, the same article clearly states that 'the law may determine suitable programmes and controls so that the economic activity could be addressed and coordinated towards social purposes'.

The academic debate about CSR has a long tradition in Italy, partly due to the influence of Catholic values within some mainstream academic circles. Onida (1968) provided the first modern contribution to this topic with his normative theory of 'simultaneous maxima' (*teoria dei massimi simultanei*), according to which, companies should maximize the value of all corporate stakeholders, rather than focusing on financial performance and shareholders' value. From a normative perspective, Masini (1970) argued that profit does not represent the final aim of a firm, but is instrumental in satisfying the needs of shareholders and workers. Coda (1985) pointed out that firms that seek profit maximization at the expenses of stakeholders' value are likely to have their financial sustainability constrained in the long term. Catturi (1994) endorsed a global added-value approach, similar to the triple bottom line (see Elkington, 1997), by arguing that a company creates value only if it satisfies all human needs, that is, the wealth captured by consumers, employees, and suppliers of capital exceeds any external costs (such as environmental costs) imposed on the surrounding community or on others who are not direct participants in the enterprise.

Industrial districts and small and medium-sized enterprises (SMEs) have engaged in sustainable forms of conducting business through the convergence of the interests of shareholders, employees, senior management and the local communities (Canarutto and Nidasio, 2005).

A recent survey conducted by Perrini et al. (2006), which selected 395 Italian companies that were likely to be 'CSR sensitive', found that the most frequent CSR activities carried out by the Italian companies analysed are: training activities (89 per cent), safeguarding employees' health (82 per cent), support of the local community (72 per cent), support of cultural activities (70 per cent), and control of product safety (67 per cent) and its impact on the environment (62 per cent). These companies have usually adopted CSR tools such as employee involvement programmes (83 per cent), sponsorships (75 per cent) and donations (51 per cent). As for the reasons that encouraged companies to adopt socially responsible behaviour, the most frequent advantages indicated by the companies were: (i) benefits to company image (90 per cent), (ii) opportunity to improve relations with the local community (76 per cent) and (iii) ethical motivations of senior management (56 per cent).

CSR reporting is a central charter for public relations in communicating an organization's socially responsible activities and in creating mutual understanding with its stakeholders in order to achieve legitimacy.[1] In addition, stakeholder-oriented reporting, which integrates financial reporting with social and environmental reporting in a single annual report, plays an active role in constructing the underlying ideas and notions of CSR. Such integrated reporting carries out a relevant role to crystallize abstract concepts, and to help visualize company's activities.

Thus it substantially contributes to making the 'stakeholder philosophy' viable and reliable, and influences company behaviour (Zambon and Del Bello, 2005).

This chapter provides a case study which describes CSR practices in an Italian company. Sabaf is a family business, as are most Italian companies, and has already been mentioned as a significant case concerning CSR in Italian companies (see Bergamin Barbato and Mion, 2004; Borgonovi, 2005). In 2003, Sabaf was named as one of the Italian companies more committed to CSR by 10 of the largest Italian institutional investors (Avanzi SRI Research, 2003). Sabaf adopts a triple bottom line approach in its activities and reporting, that is, it takes into account and provides information to its stakeholders about its financial, social and environmental performance. Sabaf is included in the list of companies in which ethical funds which operate in accordance with the Ethibel[2] evaluation can invest as well as in the Kempen SNS SRI index.[3] The company obtained the ISO 14001[4] certification in 2003 and has complied with SA 8000[5] since 2005. Sabaf prepares its social report according to the guidelines of the Global Reporting Initiative (hereafter GRI) (2000, 2002), the GBS guidelines (2001),[6] and the AccountAbility 1000 (AA1000, ISEA, 1999; AA1000SES, ISEA, 2005).[7] Furthermore, Sabaf complies with the Global Compact principles.[8]

COMPANY PROFILE AND CORPORATE GOVERNANCE

Sabaf Società per azioni (S.p.a.) was founded in the immediate post-Second World War period in Lumezzane (Lombardy, Italy) by Battista Saleri and his sons (Sabaf stands for Saleri Battista and sons). The company began its manufacturing activity in the brass industry, and soon focused on producing valves for gas cooking appliances. In 1993 Giuseppe Saleri, son of Battista, bought the shares from some of his brothers and took over control of the company. In 1998, Sabaf was listed on the Italian Stock Exchange. Nowadays, Sabaf is a worldwide leading manufacturer of components for household gas cooking appliances, with a market share of approximately 50 per cent in Europe and a global share of about 10 per cent. Its core market consists of the manufacture of household appliances, in particular of cookers, hobs and ovens.

In 2006 the Sabaf group comprised its parent company (Sabaf S.p.a.) and four other wholly owned companies: Sabaf Immobiliare S.r.l. and Faringosi-Hinges S.r.l., both based in Italy, Sabaf do Brasil L.t.d.a. (Brazil), and Sabaf Mexico SA de cv (Mexico). Sabaf has approximately

600 employees and over 50 per cent of its consolidated turnover comes from export sales. Therefore it may be considered to be a relatively small multinational group.

Despite the fact that the Saleri family, via Giuseppe Saleri Società in accomandita per azioni (S.a.p.a.), still controls 53.81 per cent of the company's voting shares and has three of its members on the board of directors, since 1994 the family has delegated the chief executive officer position to a professional manager, Angelo Bettinzoli. This was due to the decision of the major shareholder to separate ownership and management, with the latter delegated to senior managers led by the CEO.

The corporate governance structure is part of Sabaf's overall approach to social responsibility, as claimed by the company in its corporate governance report. Good corporate governance should ensure that a corporation performs better and has a better relationship with its stakeholders. In its corporate governance report, the company clearly states:

> The model adopted is based, in the first place, on the decision to achieve strict separation of the interests and choices of the key shareholder (the Saleri family) from the interests and choices of the Company and Group, consequently entrusting corporate management to managers not forming part of the key shareholder. In order to reinforce this decision, the Saleri family . . . has undertaken, also via signature of an accompanying agreement, not to hold, executive offices . . . within Sabaf Group companies. (Sabaf, 2006a)

Since 2001, Sabaf has chosen to belong to the so-called STAR (*Segmento Titoli ad Alti Requisiti*) segment, a mid-cap (middle capitalization) corporate governance segment which contains 'shares with high requirements', that is, listed companies that choose to comply with superior standards of internal control and monitoring.[9] This choice has forced Sabaf to comply with stricter transparency and disclosure rules on corporate governance.

Sabaf adopts a traditional Italian board structure, characterized by a board of directors and a board of statutory auditors (see Melis, 2004). Both boards are appointed through the shareholders' general meeting.

Sabaf's board of directors comprises 11 directors. Six of them are non-executive directors, including five who are considered as independent (Table 1.1). Both the Compensation Committee and the Internal Control and Audit Committee are exclusively composed of non-executive directors, the majority of whom are independent. Both committees are chaired by a non-executive director, who cannot be considered as independent according to the strict definition of independence chosen by the Italian Code of Conduct on Corporate Governance (Committee for Corporate Governance, 2006, para. 3.C.1), which excludes the independence of

Table 1.1 Board of directors and board committees at Sabaf S.p.a.

Board of directors					Internal Control and Audit Committee	Compensation committee
Position	Name	Executive	Non-executive	Independent		
Chairman	Giuseppe Saleri	X				
Deputy Chairman	Giambattista Saleri	X				
Deputy Chairman	Ettore Saleri	X				
CEO	Angelo Bettinzoli	X				
Director	Alberto Bartoli	X				
Director	Leonardo Cossu		X		X	X
Director	Franco Carlo Papa			X	X	
Director	Salvatore Bragantini			X	X	
Director	Federico Alberto Giua			X		X
Director	Raffaele Ghedini			X		X
Director	Flavio Pasotti			X		X

Source: Elaborated from company data – updated at July 2007.

company directors who have been in their position for more than nine years during the last 12 years.

In accordance with the recommendations of the Italian Code of Conduct (ibid., para. 2.C.3), Sabaf set up a lead independent director position, as the chairman's position is covered by a controlling shareholder.

Despite the fact that Sabaf complies with the key recommendations of the Italian Code of Conduct, it has not set up a nomination committee. This choice is common among Italian listed companies, which are characterized by the presence of a controlling shareholder (see Melis, 2006). However, in Sabaf the lack of a nomination committee is combined with the fact that the voting list system (also known as 'slates') for the appointment of directors has not yet been adopted.

The board of directors is wholly appointed by the Saleri family, with no representation of minority shareholders. However, Sabaf will introduce a slates system for the next board elections, in compliance with the 2006 Italian Consolidated Law on Finance. The purpose of this change is to ensure that at least one member of the board is appointed by minority shareholders.

The board of statutory auditors comprises three independent auditors, one of whom, the chairman, has been appointed by the minority shareholders, as required by Italian corporate law (Sabaf, 2006a).

The financial, social and environmental information provided by Sabaf in its integrated annual report is audited by A.G.N. Serca, a local auditing firm, for its financial content, and by KPMG for its social and environmental content.

CORPORATE IDENTITY AND CHARTER OF VALUES

Corporate identity is an organization's members' collective understanding of the features presumed to be central, and relatively permanent, that distinguish the organization from other organizations (Albert and Wetten, 1985), including the corporate ethos, aims and values that contribute to differentiating the organization within its competitive environment (Van Riel and Balmer, 1997). The clear definition of the main values and principles that characterize an organization is the first step to defining what an organization is and what it aims to be. The sharing and the identification of a social group's values and identity induce individuals to engage in, and derive satisfaction from, the view of themselves as a member of the group (Ashforth and Mael, 1989).

The definition of corporate identity in CSR aims to identify corporate values and the commitments that a company purports to make towards its stakeholders. CSR may be considered as a particular contract that the company signs with its main stakeholders (Sacconi, 1999). The conditions of this contract are the respect of the values and commitments stated either in the company's ethics code or in its charter of values. Sabaf, which has never had an ethics code, published its charter of values in 2003.

According to Sabaf (2006b: 24), the charter of values is a 'tool with which the Sabaf board of directors expresses the values, standard of conduct, and ways in which relations between Sabaf and its stakeholders are managed'. It contributes to formalizing the corporate identity and values, but provides fewer constraints to corporate actions than an ethics code, as it excludes formal sanctions.

Sabaf prepared its charter of values according to the recommendations of SEAN[10] and IBS.[11] Its charter is composed of five sections. The first two are dedicated to a description of the company's mission and values which are summarized in the concept of shareholder value with respect to environmental sustainability, promoting a continuing dialogue with the different stakeholders.

Sabaf's values have a central focus on individuals and on the respect of the individual's physical, cultural and moral integrity. Any alternative that does not respect these values is to be rejected even if that alternative might lead to economic benefits for the company. For example, Sabaf changes its working-hour shifts during the Ramadan period, to allow its Muslim employees to respect their religious rites.

The central focus on individuals is embedded with other commitments, such as:

- promoting the values of thought and belief that express the company's commitment to invest in the development of its employees' skills, and to promote the innovation of its products;
- promoting the value of action, which expresses the commitment to ensure the safety of its staff and customers through research and development (R&D) of new systems that guarantee a continued improvement of the processes and product quality. Sabaf is committed to promoting the safety culture through a communications policy on the external environment;
- promoting the value of communication, which expresses the commitment to conduct a continuing transparent dialogue with its stakeholders. The different stakeholders are informed about company policy and choices. Thus, they can monitor whether their expectations are met.

The third section of the charter of values, 'Principles of conduct', contains the principles that are intended to govern the behaviour of internal and external Sabaf stakeholders. The key principles are:

- honesty: respect of the laws, internal and external regulations and the charter of values;
- moral integrity: the assumption of moral behaviour in the face of different forms of discrimination;
- equity: respect of impartiality in decisions with no discrimination in relation to gender, sexual orientation, age, nationality, political and religious beliefs;
- transparency and fair dealing: respect of transparent communication with different stakeholders to guarantee them the opportunity to take decisions responsibly;

- efficiency and effectiveness; and
- dialogue: consulting stakeholders before taking a decision to reach a solution in accordance with different interests.

The fourth section of the charter of values contains a description of different stakeholders and the commitments made by Sabaf (see next section).

The fifth section, ‘Enforcement of the charter’, describes the mechanisms for the implementation of the charter of values. The first commitment is to monitor the implementation of the charter and the diffusion of values among stakeholders. To improve its charter of values, Sabaf revises it periodically, and verifies its comprehensiveness as well as the coherence of its activities (as reported in the integrated annual report) with its values and principles. Stakeholders may report any violation of the charter of values, by contacting the human resources manager (for employees) or the internal auditor (for other external stakeholders).

The provision of a monitoring device is a signal of the company’s commitments to respect the provisions of its charter of values, by involving all its stakeholders. The existence of the charter is not ‘sufficient for its enforcement but serves as the Constitutional Charter, expressing the values for which Sabaf must strive, by way of conduct and decisions of individuals and of the group as a whole’ (Sabaf, 2003a: 13).

VALUES DISTRIBUTION TO CORPORATE STAKEHOLDERS

Sabaf published its first social report in 2000 (Sabaf, 2000). Since then it has followed the guidelines suggested by GBS (2001), in accordance with GRI indicators (GRI, 2000).

Zambon and Del Bello (2005) argued that the reporting process may play an active role in putting CSR into practice: (i) directly, through the narrative parts which contain definitions and descriptions of the stakeholder-oriented activities performed, and/or (ii) indirectly, through the structure and content of the data reported.

In its socially responsible management system, the Sabaf management runs the company, taking into account its financial, social and environmental impact. To do so, Sabaf implements ProGReSS©, a socially responsible management system for sustainable development. Sabaf’s case study shows that a social report is not only a communication device, but it may also become a strategic management tool, in compliance with a triple bottom line approach.

Table 1.2 Evolution of the structure of Sabaf's social report

2000–2001	2002–2004	2005–2006
Social reporting		Integrated reporting
Methodological introduction	Methodological introduction	1) Identity and governance
Corporate identity	Corporate identity	● corporate identity
	Sustainability governance	● sustainability governance
Economic performance	Economic performance	2) Operation and management information
Social performance	Social performance	● directors' report on consolidated financial statements
	Environmental performance	● directors' report on social and environmental performance
Dialogue with stakeholders	Dialogue with stakeholders	● proposal for improvement ● independent auditors' report
Proposals for improvement	Proposals for improvement	3) Consolidated financial statements
Independent auditors' report	Independent auditors' report	4) Financial statements of Sabaf S.p.a.

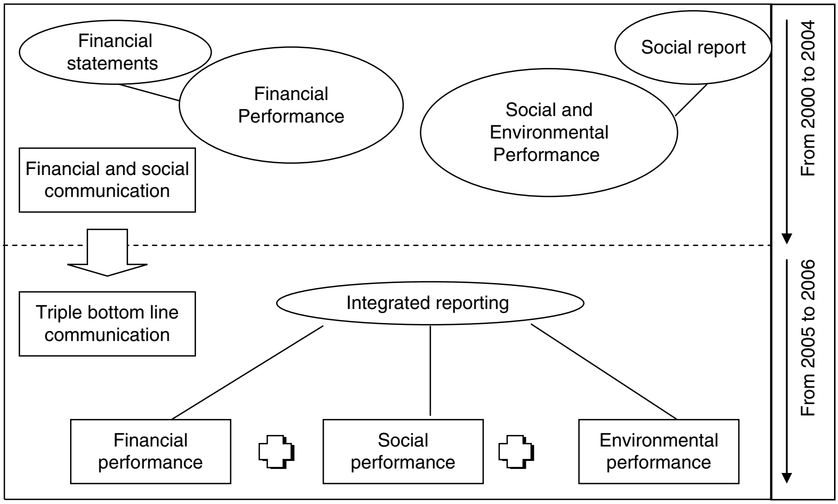
Source: Elaborated from company data.

Evolution of Sabaf's Social Report

From 2000 to 2006, Sabaf's social report structure (see Sabaf, 2000–2006b) has improved considerably, increasing its ability to disclose key information to its users (see Table 1.2).

In 2000 and 2001, the social report was composed of the following five sections (or chapters), preceded by a methodological introduction and followed by a statement of procedural compliance (Table 1.2):

- corporate identity (history, vision, mission, strategy and corporate governance);
- economic performance (allocation of added value);
- social performance (relationships with corporate stakeholders);



Source: Elaborated from company's data.

Figure 1.1 Sabaf's step to triple bottom line reporting in 2005

- dialogue with stakeholders (Sabaf is open to criticism by its stakeholders); and
- proposals for improvement (commitments to its stakeholders to improve its activities).

From 2002 to 2004 the methodology remained consistent, while the social report's structure changed. Sabaf began to differentiate between financial, social and environmental performances. In fact, information about these issues was already provided, but the revised structure made it more understandable. Two new sections were added:

- sustainability governance, which contained information about corporate governance and the social responsibility management system (previously contained in the section 'Corporate identity'); and
- environmental performance (previously contained in the section 'Social performance').

Sabaf began to prepare and present its annual reports in accordance with a triple bottom line approach, in which social and environmental outcomes were as important as financial results (Figure 1.1).

Since 2005, Sabaf has prepared an integrated annual report (see Sabaf, 2005, 2006b), that is, one single document in which financial reporting has been integrated with social and environmental reporting. Sabaf's CEO explained the decision of preparing and presenting a single integrated annual report as follows:

> The choice we have made is the result of an important consideration, which is this: the Corporate Social Responsibility Report constitutes 'certification' of a certain type of ethos, the opportunity to assert the centrality of the individual in business strategies, and the desire to demonstrate that, whilst pursuing its legitimate interest in profit, Sabaf also helps to improve the quality of people's lives. And if this is true, accounting data and social impact cannot be assessed separately – as if they were two separate topics, to be addressed in detached documents on separate occasions. They are, on the contrary, two aspects that are directly and tightly linked. (Sabaf, 2005: 4)

Since 2005, Sabaf's integrated annual report has comprised four sections (Table 1.2). Social and environmental information is contained in the first and second sections, with the exception of the directors' report on consolidated financial statements.

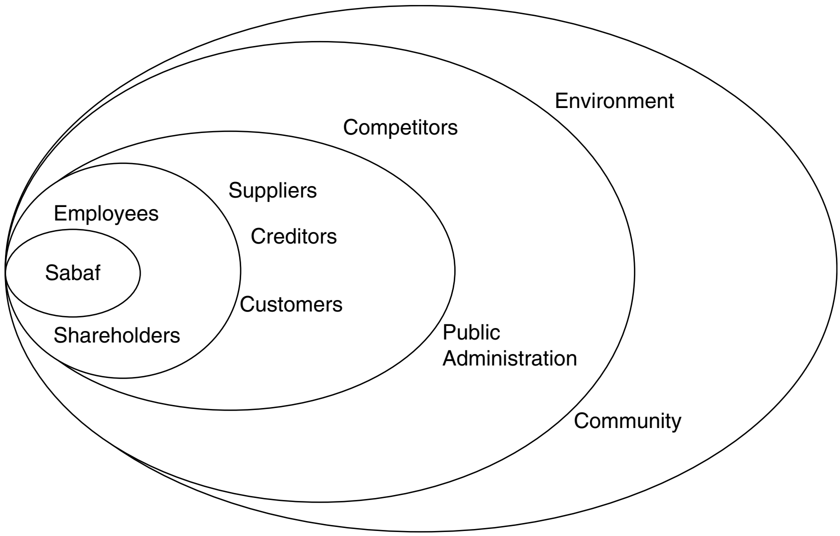
Identification of Stakeholders

In accordance with Freeman's (1984) definition, Sabaf identifies its stakeholders as follows: 'all those groups of individuals – consisting of individual persons, organizations and communities – that directly influence the company's business or that are directly or indirectly affected by it' (Sabaf, 2006b: 57).

In its socially responsible management approach, Sabaf interacts with all its stakeholders, both internal (employees and shareholders) and external (customers, suppliers, creditors, public administration, competitors, the community, and the environment), engaging with all of them. Sabaf acknowledges that a socially responsible company cannot be self-accountable (Sabaf, 2003b: 120). Thus, it seeks to understand its stakeholders' expectations, engages with them, and submits itself to their judgement. To do so, Sabaf implements the AA1000 standard (1999) to build an effective approach to stakeholders' engagement, which fosters companies' commitment to a longlasting relationship with stakeholders. In particular, Sabaf's dialogue with stakeholders follows the AA1000SES (2005)[12] guidelines.

Figure 1.2 illustrates Sabaf's relationships with its stakeholders. Stakeholders are represented closer to or farther from the company, depending on the size of influence that the company's actions can have on each of them. Sabaf identifies the following stakeholders:

- *employees*: all those who have a hierarchical relationship (or other type of working relationship) with Sabaf, for example, business



Source: Elaborated from company data.

Figure 1.2 Sabaf and its stakeholders

agents and other people who represent Sabaf in the outside environment and look after the company's relations with stakeholders. They are biennially involved in a satisfaction survey, which estimates employees' identification with the company's mission;

- *shareholders*: the majority shareholder (the Saleri family) and minority shareholders, such as Italian and international institutional investors, and private shareholders. Financial analysts and institutional investors are involved via questionnaires and personal meetings with senior management;
- *customers*: producers of domestic electrical goods, from large multinationals to niche SMEs, who are involved in a biennial satisfaction survey, via the corporate website, and personal meetings;
- *suppliers*: raw materials, machinery, equipment, goods, and services suppliers, who are involved through biennial meetings and surveys;
- *creditors*: banks and other financial institutions that contribute to the financial support of the company;
- *competitors*: companies which make components for domestic gas cooking appliances;
- *public administration*: central government bodies and agencies, regional governments, local authorities, and public agencies, which

Table 1.3 Evolution of identification of stakeholders

2000–2001	2002	2003–2004	2005–2006
Employees	Employees	Employees	Employees
Shareholders	Shareholders	Shareholders	Shareholders
Customers	Customers	Customers	Customers
Suppliers	Suppliers	Suppliers	Suppliers
Creditors	Creditors	Creditors	Creditors
Public administration	Public administration	Public administration	Public administration
–	–	Competitors	Competitors
Community*	Community	Community	Community
–	Environment	Environment	Environment

Note: * In 2000 and 2001, Community includes both people and the environment.

Source: Elaborated from company data.

are provided with copies of the analyses concerning emissions released into the atmosphere by Sabaf's factories;

- *community*: the local community, schools and universities, consumers of household appliances and, more generally, the entire civil society. Sabaf involves them through multi-stakeholder discussion panels; and
- *environment*: the local territorial context in which the company carries out its manufacturing activities and the wider environmental context which is potentially affected by the group's activities or products.

Sabaf's identification and description of its stakeholders as well as its evolution in the reports emphasize the company's improvement in its management system and social and environmental reporting (see Table 1.3). Two aspects are particularly important.

First, the inclusion of competitors in its stakeholders' analysis represents an example of the company's commitment to follow its stakeholders' suggestions and put them into practice. Competitors have been considered as stakeholders as a result of suggestions received in two different multi-stakeholder discussion panels organized to present the 2002 social report. These meetings were attended by representatives of creditors, customers and the local community, such as universities, trade unions and financial newspapers.

Second, the identification of the natural environment as a unique stakeholder represents the result of an increased CSR awareness. Until 2001, the environment was measured and analysed as a part of the local community in the 'Community' section (see Table 1.3). Since 2002, the environment has been assigned a specific section, 'Environmental performance', which has been given the same importance as 'Social performance'. Sabaf's environmental policy and impact have been analysed in more depth, by reporting an increasing number of indicators. The choice of the company to report its environmental policy and impact is the result of its compliance with ISO 14001, a continuous-improvement-oriented standard, based on the 'plan–do–check–act' methodology. Since 2002, environmental information has been provided in compliance with the first step of ISO 14001 (Plan). Since 2005, Sabaf has prepared an integrated annual report and the environment has been inserted into the 'Social and environmental performance' section, together with other stakeholders.

Stakeholders' Policies, Provisions and Projects

Sabaf's values focus on the central importance of individuals. This philosophy is also perceived in its activities towards stakeholders. Table 1.4 lists the main corporate policies and commitments towards its stakeholders, its compliance with the main voluntary provisions, and key projects. The most interesting aspects of stakeholder involvement concern employees, shareholders, customers and the local community.

Sabaf seeks to support employee involvement by improving internal communication.[13] First, Sabaf has recommended that its production managers and department supervisors behave responsibly and set an example for all employees. Second, it has adopted an organizational communication plan, aimed at fostering internal communication and analysis of staff needs. Third, since July 2003 it has published a quarterly in-house magazine whose purpose is to develop a continuous dialogue within the organization. Last but not least, during the 2006 training sessions, structured group meetings and individual interviews were organized for middle managers and for line teams. Practical aspects of the company's operations were discussed to ascertain the participants' perceptions and concerns.

Sabaf is committed to enhancing shareholders' value by guaranteeing the company's sustainable growth, and communicating strategies and policies in a timely and transparent way. As a voluntary disclosure, Sabaf has approved its *Corporate Governance Handbook* (Sabaf, 2006c), and complied with the key recommendations of the Italian Corporate Governance Code. Given its CSR commitment, the company has been included in the Ethibel list.

Sabaf is committed to providing safe and environmental-friendly products to its customers. In compliance with ISO 9001:2000, its quality and environmental management systems are integrated. Sabaf's quality management system has the following aims:

Table 1.4 Policies, provisions and key projects

Stakeholders	Policies	Provision compliance	Key projects
Employees	To foster: flexible working hours; respect for different cultures; regular information to trade union representatives; permanent training process; the value of its intangible assets	SA8000 OHSAS 18001	To improve internal communication through: dissemination of information; Organizational Communication Plan; 'Living the Values' training project
Shareholders	To provide timely, thorough, and clear communication To respect ethical values in management	Corporate governance handbook	To comply with the Italian Corporate Governance Code for listed companies
Customers	To support long-term relationships which aid innovation in components and finished products	ISO 9001:2000–Vision 2000 (Sabaf has had ISO 9001 certification since 1993)	To realize high-quality products with a low environmental impact
Suppliers	To monitor its supply chain (via the application of the SA8000 standard) To avoid any exploitation of its dominant position	Demand respect for SA8000 principles	
Creditors	To provide timely, complete, clear, and transparent communication and to ensure total equality of information		

Table 1.4 (continued)

Stakeholders	Policies	Provision compliance	Key projects
Competitors	To ensure integrity in management of business To promote fair competition, respecting rights relating to patents and trademarks To encourage social responsibility		
Public administration	To ensure clear, prompt, complete communication To collaborate with institutions to ensure the development of safer products		To guarantee an open dialogue with the various authorities to foster harmonious industrial development
Community	To improve the quality of life in the communities where the company does its business To make donations to non-profit associations To contribute to young people's education by liaising with schools and universities		To collaborate with AIESEC, and with the University of Brescia To make donations to local NGOs and charities To commit to long-distance adoptions
Environment	To promote the development and use of eco-efficient technologies and products To train employees so that they are aware of the environmental aspects and impacts connected with their job	ISO 14001 (since 2003)	To make energy-saving products To reduce hazardous waste

- to improve processes and products continuously, with special attention to environmental protection and employee safety;
- to involve partners and suppliers in the process of constant improvement, which fosters innovation in components and finished products;
- to enhance the value of human resources; and
- to improve business performance.

Sabaf aims to improve the quality of life in the communities where it operates. It promotes action in the social, cultural, educational and sports areas, by donating to non-profit associations or liaising with schools and universities to contribute to young people's education. For instance, since 2002 Sabaf has been collaborating with AIESEC, the world's largest student organization, which has been particularly active in promoting CSR issues.

SOCIAL AND ENVIRONMENTAL REPORTING AND KEY PERFORMANCE INDICATORS

A section of Sabaf's annual report, 'Key performance indicators', contains a summary of financial and non-financial indicators. The latter include human capital, structural capital, relational capital, and social and environmental indicators.

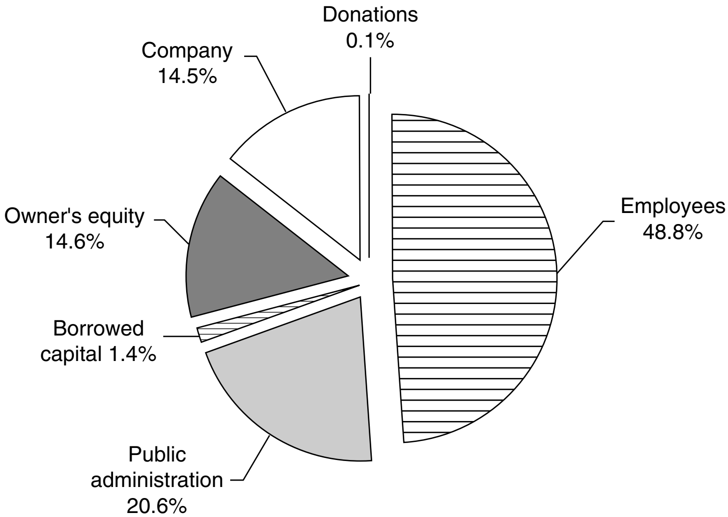
Financial Indicators

The financial dimension of sustainability concerns the organization's impact on the financial conditions of its stakeholders and on the economic system at local, national and global levels. Its importance is stressed in the GRI guidelines (2002).

One core economic performance indicator[14] is direct economic value generated and distributed which includes revenues, operating costs, employee remuneration, donations and other investments in the local community, retained earnings, and payments to capital providers and governments.

In the section 'Key performance indicators', Sabaf reports first the main performance ratios based on its income statement, comparing the results over a three-year period, then, the statement of the added value and its allocation among different stakeholders, as recommended by GBS guidelines (2001).

Nearly 50 per cent of the added value produced in 2006 was paid to employees and staff as their remuneration. The section 'Sabaf and its staff' explains the company's commitment to employees and the composition



Source: Elaborated from 2006 company annual report.

Figure 1.3 Added value allocation

of their remuneration. Employees are hired according to the rules of the Italian collective labour contract for the mechanical engineering industry, supplemented by company-level agreements, which include additional fixed and performance-related remuneration for all employees. Its Brazilian subsidiary guarantees a salary which is 17 per cent higher than the Brazilian minimum salary.

Over one-fifth of the added value produced in 2006 is given to the public administration via direct and indirect taxes. In addition, Sabaf claims that it has never received government grants or any particular government aid to support its business.

Some 1.4 per cent of the added value is paid to borrowed capital, which includes interest for loans and others forms of financial support of the company.

The remuneration of owners' equity increased in 2006. Dividends are 14.6 per cent of the added value. Besides the distribution of an ordinary dividend of €0.60 per share, Sabaf paid out an extraordinary dividend of €1 per share. The extraordinary dividend was considered appropriate, given the group's financial position and strong cash generation.

Some 14.5 per cent of the value added is allocated to reserves as remuneration for the company.

Donations amounted to approximately 0.1 per cent of the added value in 2006. Sabaf mainly supported local social and humanitarian initiatives in recognition of its commitment to the local community.

Human Capital

The first group of non-financial indicators referred to is human capital, which includes personal attributes such as knowledge, skills and experience (Roos, 1998). In particular:

- average employee age: reflects a constantly growing company and the desire to hire young workers, giving preference to in-house training and growth rather than bringing in outside skills;
- employee high educational level: measures the number of graduate workers and holders of higher education certificates to total employees. The section 'Sabaf and its staff' reports on the complete staff breakdown by educational qualifications. The company's policy is to offer traineeships in the mechanical engineering field to undergraduates and high-school students;
- staff turnover: measures the ratio between number of leavers and dismissed employees and the total of employees, as recommended by performance indicators in 'Labor Practice and Decent Work' (GRI, 2002). Sabaf is aware of the fundamental importance of having a stable and qualified workforce, therefore it monitors staff turnover; and
- average training hours per capita: measures the total training hours to total employees, as recommended by GRI (2002). Sabaf contributes to employee professional growth via a continuous training process. The subsection 'Training and internal communication' contains a complete description of the hours spent on training. This performance indicator is interrelated with the training investment to sales ratio, which has increased in 2006.

Sabaf reports a continuous improvement of its human capital main indicators since 2004 (see Table 1.5). For instance, the average employee age, the average training hours per capita and the percentage of training investment have all improved. These data seem to confirm the commitment of Sabaf to promote the development of its staff's skills and its policy of hiring young people.

Structural Capital

Roos (1998: 151) defined structural capital as 'the extension and manifestation of human capital into innovation, business processes and

Table 1.5 Human capital indicators

		2006	2005	2004
Average employee age	Years	33.8	34.3	34.6*
Educational level – high	%	42.1	42.2	41.6
Staff turnover	%	5.6	5.3	4.9
Average training hours per capita	Hours	29.0	26.0	27.0
Training investments/sales	%	0.23	0.19	0.17

Note: * Excluding Sabaf do Brasil L.t.d.a.

Source: Elaborated from 2006 company annual report.

relationships with dealers and others'. Key structural indicators, which concern investments and spending for intangible assets and quality of products and processes, are:

- process engineering hours on total hours worked: measures the hours with reference to R&D of new machines or products. It represents the time that the company spends on innovation;
- customer rejects: measures the number of customer charge-backs and credit notes for returned goods on sales. Since Sabaf is committed to guaranteeing high-quality standards for its products, the number of rejects is an important indicator to analyse the production process and correct relevant errors; and
- sustained quality costs on sales: measures the number of customer and in-house rejects on sales. This indicator provides information about the quality of internal and external processes, and measures their efficiency.

Sabaf reports an increase in investments in tangible and intangible assets (see Table 1.6). The reduction of investments for quality may be explained by the fact that measuring instruments and equipment had already been acquired in previous years.

Relational Capital

Relational capital represent the relationships with internal and external stakeholders (Roos et al., 1997). The main indicators adopted by Sabaf are:

Table 1.6 Structural capital indicators

	% – 2006	% – 2005	% – 2004
IT budget (investments + current expenditure)/sales	0.97	0.24	0.50*
Employees with PC	41.60	40.50	36.30**
New product development hours/total hours worked	1.30	1.10	1.50
Process engineering hours/total hours worked	3.00	3.80	3.90
Tangible investments/sales	10.60	7.90	16.20
Intangible investments/sales	0.74	0.50	0.65
Current spending for quality/sales	0.14	0.12	0.09
Investments for quality/sales	0.07	0.20	0.12
Customer rejects	0.06	0.07	0.08*
In-house production rejects	0.41	0.36	0.42*
Substandard quality costs/sales	0.47	0.43	0.50*

Note: * Sabaf S.p.a. only. **Excluding Sabaf do Brasil L.t.d.a.

Source: Elaborated from 2006 company annual report.

- strike hours for internal reasons[15] to total employees: measures participation of employees in strikes. Sabaf shares information and opinions with trade unions about issues such as hiring policies, equal opportunities, and health and safety. The section 'Sabaf and its staff' contains the reasons for the strike hours with the percentage of employee participation. In 2006, no strikes occurred in any of the group's companies;
- average sales per customer: measures the ratio between the total sales and the number of customers; this increased slightly in 2006. The section 'Sabaf and its customers' contains a complete sales analysis with a description of the number of countries and the customer breakdown by sales class;
- indicators such as percentage sales to new customers, percentage of sales to top 10 and top 20 customers: these monitor the relationship between Sabaf and its customers, by measuring the incidence of the main and the new customers. Sabaf aims to increase the number of customers, but also to establish a longstanding relationship with them;
- the number of samples produced for customers and number of different stock-keeping units (SKUs) supplied to 10 major customers: measures Sabaf's effort to involve its customers in the innovation process; numbers have increased. The distribution of samples helps

Sabaf to tailor its production process to its customers' needs and suggestions, thus consolidating its collaborative relationship with them;

- customer complaints: measures the ability and promptness of Sabaf to solve customer complaints. In 2007 Sabaf prepared a questionnaire targeting its main customers with the aim of estimating the level of their satisfaction in relation to these aspects;
- purchases from certified suppliers: measures the percentage of purchases from certified suppliers on total purchases. Sabaf involves its suppliers in a process of constant improvement, encouraging longlasting partnerships. Sabaf encourages its suppliers to adopt CSR practices. For example, its suppliers are required to respect SA 8000 standard (2005) as a prerequisite to establishing a long-term relationship;
- media presence: measures the number of times that Sabaf has featured in magazines and on websites, in newspapers and in other media. In order to improve its external communication, Sabaf's website contains links to all articles appearing in the business media. An increasing presence in the media enables Sabaf to announce its social and environmental performance and its progress towards total quality. Through the media, Sabaf divulges the technical characteristics of the group's new products and improves its external image;
- number of financial analysts following Sabaf stocks: measures the attention of the financial market to Sabaf shares. Sabaf considers financial communication crucial to its growth. In 2007 a questionnaire was prepared to estimate how the financial community evaluated its choices on CSR and corporate governance. The results, contained in the section 'Sabaf and its shareholders', were presented to potential investors; and
- lawsuits against the group's companies: measures the number of legal disputes with its stakeholders. The absence of legal disputes is a signal of the company's social behaviour. At 31 December 2006, legal disputes were underway with three employees.

Social Indicators

The main social indicators are:

- total employee headcount (men and women): measures the composition of employees and shows how Sabaf guarantees equal opportunity between men and women. The section 'Labour practices and decent work' performance indicators (GRI, 2002) suggests that the

Table 1.7 Relational capital indicators

		2006	2005	2004
Strike hours for internal reasons/ total employees	Hours	0	0	3.2
Average sales per customer	€/000	436	425	426
Sales from new customers	%	1.31	2.29	2.22
Incidence of top 10 customers	%	47	52	53
Incidence of top 20 customers	%	67	71	70
Samples produced for customers	Number	1,182	717	919
Different product SKUs supplied to top 10 customers	Number	2,713	2,282	2,265
Customer complaints	Number	324	274	280*
Certified supplier sales	%	54.3	49.3**	49.9**
Media presence	Number	279	274	223
Financial analysts following Sabaf stock on an ongoing basis	Number	6	7	5
Lawsuits against group's companies	Number	0	3	0

Note: * Sabaf S.p.a. only. **Excluding Sabaf do Brasil L.t.d.a.

Source: Elaborated from 2006 company annual report.

composition of the board of directors and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity should be reported. In accordance with the law, Sabaf guarantees equal opportunity to men and women. Although the percentage of female employees has decreased since 2004, Sabaf still encourages a high presence of female staff within the Italian metalworking and engineering sector;

- sickness rate: measures the percentage of sick leave hours to total workable hours; this has remained constant over the years. This ratio indirectly monitors the satisfaction of company staff and its commitment to the company. The section 'Sabaf and its staff' contains a subsection 'working hours and hours of absence' in which there is an explanation of the total hours of absence with the reasons compared with the sector average. Sabaf points out, for example, that the high number of maternity leave hours, compared with the sector average, reflects the high percentage of female staff. The total annual sick leave hours is lower than the sector average;
- accident frequency and gravity indices: indicators of safety. Sabaf monitors the effectiveness of its efforts to safeguard the safety

and health of its employees. These indices have been significantly reduced over the period analysed;

- job creation: measures the annual number of hirings and the company's commitment to create job opportunities and benefits for the local community. The number of jobs created has constantly increased. Indeed, its workforce has increased by 12 per cent since 2005;
- percentage of supplies bought from local suppliers: measures Sabaf's preference for local suppliers in order to allocate a significant part of added value within the local community. The section 'Sabaf and its suppliers' reports on the company's commitment to support the development of the territory where it operates by giving preference to local companies in selecting suppliers. In 2006, the purchases made in the local areas in which it operates accounted for some two-thirds of the total; and
- donations on net profit: measures the percentage of profit that Sabaf passes on to the community. Sabaf's commitment to the community is not only in the form of cash donations to humanitarian, sporting and cultural associations, but is also manifested in the creation of job opportunities and a 'constant activity with regard to disseminating good corporate business practices' (Sabaf, 2006b: 109).

Environmental Indicators

Sabaf considers that the environment is an important stakeholder. The ISO 14001 certification is a significant step towards respect for the environment in its production process. Products are made to guarantee the

Table 1.8 Social indicators

		2006	2005	2004
Total employee headcount	Number	594	531	507
Men	%	64.3	62.9	60.7
Women	%	35.7	37.1	39.3
Sickness rate	%	3.4	3.5	3.3
Accident frequency index		20.47	20.76	38.65
Accident gravity		0.19	0.24	0.39
Jobs created	Number	66	24	5
Supplier sales from suppliers in province of Brescia	%	49.6	43.0	44.8
Donation/net profit	%	0.2	0.5	0.7

Source: Elaborated from 2006 company annual report.

greatest efficiency and the lowest consumption. The Sabaf annual report contains several environmental performance indicators suggested by GRI (2002), which include:

- materials used: measures the consumption of the main materials (brass, aluminium alloys and steel) that Sabaf uses in its processes. The consumption of aluminium alloys increased in 2006 as it has several advantages over the production of brass valves, in terms of energy saving, lower lead content of product, lighter product and a consequent reduction of consumption for packaging and transport. Products made with these materials are easily recyclable. The section 'Sabaf and the environment' contains a complete description of the eco-efficiency of aluminium alloys compared with other materials (such as brass and steel), as well as a description of the main products and their advantages in terms of innovation and improvement of environmental performances;
- waste: measures the production of three types of waste – municipal, hazardous and non-hazardous. The monitoring of these is important with regard to improving environmental performance. In 2006, Sabaf achieved a drastic reduction of hazardous waste. Sabaf planned a further reduction for 2007;

Table 1.9 Environmental indicators

		2006	2005	2004
Materials used:				
Brass	Metric tons	4,937	4,373	4,795
Aluminium alloys	Metric tons	7,039	5,625	5,629
Steel	Metric tons	7,646	7,011	6,870
Waste:				
Municipal-type waste	Metric tons	130	134	219
Total hazardous waste	Metric tons	1,252	3,216	3,978
Total non-hazardous waste	Metric tons	7,527	6,148	6,305
Natural gas consumption	M^3 000	3,193	2,723	2,505
Electricity consumption	MWh	24,279	20,553	18,889
CO_2 emissions	Metric tons	21,419	18,460	16,706
Current environmental spending/sales	%	0.47	0.48	0.53
Environmental investments/ sales	%	0.08	0.35	0.09

Source: Elaborated from 2006 company annual report.

- natural gas and electricity consumption: measures the consumption of natural gas (a relatively clean energy source) and electricity. Sabaf promotes the advantages of cooking with gas as opposed to electricity, as the former is more efficient and more environment friendly than the latter. The use of natural gas enables Sabaf to reduce its emissions of greenhouse gases. The increasing use of natural gas reflects the increase of in-house production in the pressure die-casting and enamelling departments; and
- environmental spending and investments to total sales: measures the percentages of the costs incurred and investments made that Sabaf undertakes in order to safeguard the environment. The section 'Sabaf and the environment' contains a list of the main environment-related expenditures. The most relevant costs are related to waste disposal. In 2005, Sabaf made an important investment related to foundry water recycling plants, which have permitted a significant reduction of waste.

CONCLUSIONS

Sabaf is a family-run manufacturing business group. Sabaf considers good corporate governance as part of its overall approach to social responsibility, and thus decided that it should be listed on the Italian Stock Exchange within the so-called STAR segment. It is included in the Kempen SNS SRI index as well as in the list of companies in which ethical funds which operate in accordance with the Ethibel evaluation can invest.

Sabaf adopts a triple bottom line approach in its activities and reporting, which has improved significantly since its first implementation in 2000. Since 2005, it has integrated financial reporting with social and environmental reporting in a single annual report. This integrated triple bottom line reporting plays a dual role: first, it helps Sabaf to monitor its financial, social and environmental performance through several key performance indicators, and second, it fosters Sabaf's communication with its stakeholders.

Sabaf's management seems consistent with the definition of CSR stipulated in the 2001 Green Paper of the European Commission. The improvement in its reported performance from 2004 to 2006 demonstrates the company's commitment to translate its values into practice.

The only concern about Sabaf's social responsibility is that most of its CSR-related activities have little material negative impact on its financial performance. Although Sabaf states that any potential alternative that does not respect its core values would be rejected by its management, even if it provided financial benefits to the company, we found no evidence that its senior management has ever had to take such a decision. In other words, we found no evidence that the Sabaf management has ever faced a true CSR dilemma in recent years, that is a situation where pursuing social and/or environmental performance would have meant restricting the financial performance of the company in a material way, by either increasing its costs or curbing its revenues. Thus, the evidence from the Sabaf case study seems to be consistent with the so-called 'enlightened stakeholder theory' view of the firm (see Jensen, 2002) according to which, senior management pursues a total long-term firm value by taking into account, at the same time, the company's relations with all important constituencies.

KEY LEARNING POINTS

Sabaf represents a case of good CSR practice in Italy. This case study has illustrated how:

- Sabaf seeks to adopt a triple bottom line approach in its activities. Senior management manages the group in accordance with the corporate values stated in its charter of values, and states that any alternative that does not respect Sabaf's values is to be rejected even if such an alternative were to result in financial benefits for the company.
- Sabaf identifies its stakeholders and engages with them. The development of a continuous dialogue with its stakeholders is considered a *sine qua non*, as Sabaf is aware that a socially responsible company cannot be self-accountable.
- Sabaf monitors its financial, social and environmental performance, and communicates to its stakeholders by means of a single annual report. The integration of financial reporting with social and environmental reporting, also called triple bottom line reporting, represents a fundamental part of Sabaf's social responsibility, as it plays an active role in CSR.

DISCUSSION QUESTIONS

The following questions concern Sabaf's attempt to be a socially responsible company:

1. A socially responsible company cannot be self-accountable. Critically discuss this statement using evidence from the Sabaf case.

2. What does a triple bottom line approach mean? How does Sabaf put it into practice?
3. Who are the key corporate stakeholders? How does the Sabaf management interconnect with each of them?
4. How can a company measure its social and environmental performance? Critically evaluate Sabaf's triple bottom line reporting.
5. What active role is played by integrated reporting in CSR? Critically discuss this, using evidence from the Sabaf case.
6. How is corporate governance linked to corporate social responsibility?
7. To what extent does a company engage with its stakeholders to seek social legitimacy rather than actual social responsibility? Critically discuss this, using evidence from the Sabaf case.

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NOTES

1. Legitimacy theory predicts that companies adopt environmental and social responsibility reporting (in addition to financial reporting) to legitimize their operations within the society (see, for example, Epstein and Votaw, 1978).
2. Ethibel is an independent consultancy agency for socially responsible investments that advises banks and brokers, offering ethical savings accounts and investment funds. In order to guarantee the quality of such financial products, Ethibel has its own European quality label. The criteria for the social–ethical company screenings, which shape the characteristics of investment funds accredited with the Ethibel label, cover all aspects of CSR.
3. Kempen SNS SRI is the first index for socially responsible European small-caps (companies with small-capitalization).
4. ISO 14001 provides the guidelines for an environmental management system that enables an organization to develop and implement a policy and objectives which take into account legal requirements and information about significant environmental aspects (ISO, 2004).

5. SA8000 (SAI, 2005) is a global social accountability standard for decent working conditions, developed and overseen by Social Accountability International. It is based on the UN Universal Declaration of Human Rights, Convention on the Rights of the Child and various International Labour Organization (ILO) conventions.
6. GBS (Gruppo di studio per il Bilancio Sociale) is an Italian special interest group composed of academics, auditors, and other CSR experts, which published the first Italian guidelines for the preparation and presentation of social reports in 2001.
7. The AA1000 Framework was developed by the Institute of Social and Ethical Accountability (ISEA) to help organizations build their accountability and social responsibility through quality social and ethical accounting, auditing and reporting.
8. Global Compact is an international initiative that includes thousands of companies together with UN agencies, labour and civil society to support universal environmental and social principles.
9. The Italian Stock Exchange has attempted a market-based approach to improving Italian governance in 2000 with the introduction of STAR ('market for shares with high requirements'), a mid-cap corporate governance segment which certifies listed companies that comply with superior standards of internal control and monitoring. The Italian Stock Exchange aimed to promote 'good corporate governance', by providing discerning investors with the ability to immediately identify and invest in companies that meet stringent corporate governance guidelines.
10. The Social and Ethical, Auditing and Accounting Network (SEAN) is an Italian consortium founded by KPMG and a national consulting firm. Its aim is to promote a CSR management system, ProGReSS©.
11. Founded in 1989, Istituto Europeo per il Bilancio Sociale (IBS) is an Italian private consulting firm, whose activities have been focused on developing guidelines for preparing and presenting social reports.
12. The AA1000 Stakeholder Engagement Standard (AA1000SES) is a generally applicable framework for improving the quality of the design, implementation, assessment, communication, and assurance of stakeholder engagement developed by the ISEA.
13. Sabaf assumes that its intellectual capital may be fostered through the reinforcement of its human capital, via the increase of employees' skills, identification and satisfaction. Human capital fosters the development of its organizational capital (operational know-how and process improvements) ensuring a further development of relational capital (in terms of improving stakeholders' engagement).
14. Performance indicators suggested by GRI (2002) are classified as core and additional indicators. Core indicators are generally applicable and are assumed to be material for most organizations. Additional indicators represent emerging practices or address topics that may be material for some organizations, but not for others (ibid.).
15. These data do not include strike hours due to external reasons related to the renewal of the national collective labour contract.

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USEFUL WEBSITES (WITH AN ENGLISH VERSION)

Global Compact, www.unglobalcompact.org.
Global Reporting Initiative, www.globalreporting.org.
Institute of Social and Ethical Accountability, www.accountability21.net.
International Organization for Standardization, www.iso.org.
Sabaf S.p.a., www.sabaf.it.
Social Accountability International, www.sa-intl.org.

2. CSR in Spain: examples of some practices

María Sacristán Navarro and Silvia Gómez Ansón

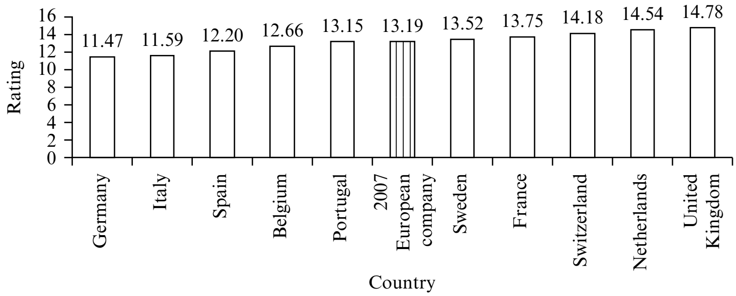
INTRODUCTION

> Over the last decade, corporate responsibility has evolved from a focus on what not to do towards a business innovation agenda that translates today's social and environmental challenges into opportunities for creating economic value . . . (AccountAbility 2007, p. 11)

As Günter Verheugen, Vice-President of the European Commission, argues, 'businesses of all sizes must consider their role in today's society when making strategic and operational decisions' (Verheugen 2007, p. 112).

Corporate social responsibility (CSR) has also evolved considerably in Spain during the last decade, and especially more recently. For instance, the year 2007 marked a considerable advance in CSR: it was the first year that the Unified Code of Best Practice, which was approved in May 2006, was applicable to Spanish publicly listed companies. The Unified Code of Best Practice includes, among others, recommendations that are closely related to social responsibility issues, such as: the approval of a CSR policy, the adequate management of reputational risks and the establishment of programmes of corporate integrity. As a consequence, in 2007 there was an increase in the number of Spanish quoted companies that approved formal CSR policies, decided to establish specialized committees within the boards of directors to deal with CSR issues and formalized programmes of corporate integrity (Fundación Alternativas, 2008, p. 23).

This movement, which relates CSR practices to corporate governance (CG) practices, aims to: (i) institutionalize CSR in quoted companies, as companies should understand that all relevant decisions should be analysed from a social, environmental, ethical and reputational view; (ii) formalize the responsibilities of the boards of directors in the issues linked to CSR; (iii) develop procedures that allow management teams to share CSR issues with the boards; (iv) allow the participation of the boards in CSR



Source: Heidrick & Struggles (2007).

Figure 2.1 Corporate governance ratings by country (Europe)

issues; and (v) provide the members of the boards with information that allows them to take informed decisions in CSR issues (ibid., p. 23).

What is the General Situation of CSR in Spain?

The Heidrick & Struggles report: 'Corporate Governance in Europe: Raising the Bar', published in 2007 and relating to information for 2006, situates the largest Spanish companies among the worst-valued in CG practices in Europe (Figure 2.1), and compared to the 2005 Report, Spain suffers a downgrading, in contrast to improvements found in the rest of Europe (the European CG average ratio amounted to 12.68 in 2005 and to 13.19 in 2007, while in 2007 Spanish companies obtained an average CG ratio of 12.20).

The study published by AccountAbility in 2007, 'The State of Responsible Competitiveness, 2007', also suggests that Spain occupies a non-favourable position in CSR issues among developed, and especially European, countries. The results of this study indicate that 'mature or developed nations, and European countries in particular, are most advanced in embedding responsible business practices at the heart of their economies. Nordic countries dominate the list, with Sweden taking first place and Denmark, Finland, Iceland and Norway all being in the Top Six, alongside the UK' (AccountAbility, 2007, p. 21). Spain with an index of 63.7 occupies the 26th position, far below the European average, and therefore does not belong to the cluster of top 20 countries, but to that of the 'asserters', which includes countries moving from the back to the front foot, countries seizing opportunities in responsible competitiveness (Table 2.1). Moreover, with regard to indicators at the firm level, those included under 'Business action', Spain has an index of just 61.4, and occupies an even lower position: 35th.

Table 2.1 Responsible index ratings

Country	Responsible competitiveness index 2007	Policy drivers	Business action	Social enablers
Sweden	81.5	86.0	90.2	74.7
Denmark	81.0	89.9	86.9	76.6
Finland	78.8	83.9	84.1	76.7
Iceland	76.7	83.5	74.9	86.3
United Kingdom	75.8	88.8	75.9	76.6
Norway	75.5	83.8	77.3	75.9
New Zealand	74.9	88.6	72.2	80.0
Ireland	74.6	85.0	73.8	78.1
Australia	73.0	82.7	73.6	73.3
Canada	73.0	83.7	72.5	74.8
Germany	72.7	81.8	74.8	70.1
Netherlands	72.6	81.6	75.0	69.5
Switzerland	72.5	87.8	74.5	65.7
Belgium	71.9	86.1	70.1	73.0
Singapore	71.3	83.7	74.4	63.5
Austria	70.9	84.1	71.6	67.2
France	70.1	76.9	69.2	73.6
United States	69.6	72.6	72.1	68.6
Japan	68.8	80.7	68.9	65.7
Hong Kong, China	68.3	84.5	68.9	60.6
Portugal	65.9	79.2	63.1	65.7
Estonia	65.0	73.5	67.4	73.0
Slovenia	64.1	76.0	61.3	63.7
Chile	64.0	80.3	65.4	67.9
Malaysia	63.7	82.3	68.4	59.2
Spain	63.7	73.3	61.4	63.3
Korea, Rep.	63.0	69.3	62.8	60.7
South Africa	62.5	75.8	66.9	61.3
United Arab Emirates	62.4	75.1	63.6	52.1
Lithuania	62.1	78.7	64.0	63.6

Source: AccountAbility (2007).

Nevertheless, CSR is nowadays part of the strategy of Spanish companies. More than 600 companies have signed the Global Compact principles and clients, investors, public administrations and other agents are putting increasing pressure on Spanish companies to respect ethical, environmental and social issues. Spanish companies are included in international sustainability indexes such as the DJ Sustainability Indexes or the FTSEGood Indexes, and the Spanish Stock Market has launched the FTSE4GoodIbex Index (March 2008).

Selecting examples of CSR practices among the many companies in a country is not easy. We decided to provide examples of different practices put in place by Spanish companies with respect to human resources: diversity (gender and disabled people), volunteering and suppliers.

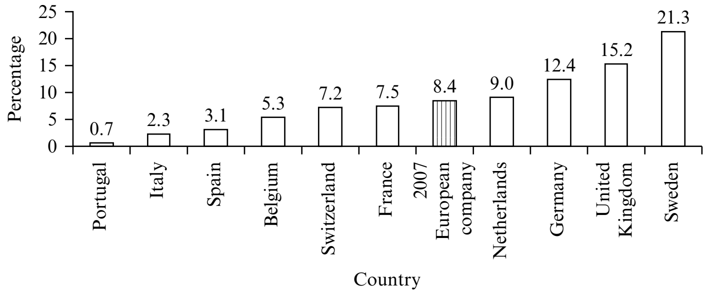
GENDER DIVERSITY AND EQUALITY OF OPPORTUNITIES

Institutional Setting

Spain has a women's employment rate below the EU27 average and one of the highest gender gaps among EU27 countries. Moreover, according to the Eurobarometer of November 2008, Spanish citizens are among those in Europe who face greater difficulties in reconciling professional and family life. Some 22 per cent of Spanish citizens interviewed find it really difficult to reconcile their professional and family life, a percentage that is only surpassed by Portugal (33 per cent of those interviewed) and Hungary (24 per cent), and 42 per cent find it quite difficult. Moreover, among the principal problems faced by Spanish families are those associated with the difficulties of reconciling professional and family life (30 per cent) and the low level of public support to families (18 per cent). In addition, Spanish citizens consider it more necessary to establish flexible solutions for childcare (77 per cent), and 69 per cent also cite access to temporary work as a priority.

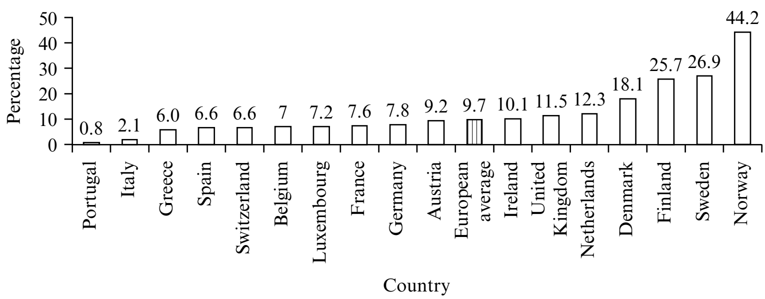
With regard to gender diversity in top management positions, Spain also obtains quite a low score compared to other European countries (Figure 2.2). According to the Heidrick & Struggles report, compared to a European average of 8.4 per cent of women on boards in 2006, Spain showed a mean percentage of just 3.1 per cent on the boards of the largest publicly listed companies. The situation improved during 2007 and the large Spanish publicly listed companies now have an average of 6.6 per cent women per board; nevertheless, Spanish companies are well below the European average (Figure 2.3).

The awareness of the existence of a gender glass ceiling and the need for Spanish companies to reconcile professional and family life increased with the approval of the Unified Code of Best Practice in 2006, which included a recommendation to promote women directors and the Equality Act of Women and Men (*Ley de Igualdad de Mujeres y Hombres*) in 2007. The following subsections will discuss how some companies have established CSR diversity-related practices.



Source: Heidrick & Struggles (2007).

Figure 2.2 Women in the boardroom by country (Europe, 2006)



Source: European Professional Women Network Monitor (2008), www.europeanpwn.net.

Figure 2.3 Women in the boardroom by country (Europe, 2007)

Iberdrola

Iberdrola, an electrical company, was designated as the best company within the utilities sector in the 2008 Dow Jones Sustainability Index (DJSI) and achieved the best score in its sector in two of the three facets that are taken into account when preparing the DJSI: the economic and social dimensions.

Iberdrola approved a Code of Professional Conduct in 2002 (amended in 2007) that formalizes the principles, values and standards of conduct of its professionals. To supplement this code, in 2007, the board of directors approved the company's CSR policy which, among other things, sets as objectives: (i) to respect all human rights and, in particular, those whose violation degrades workers as a group, rejecting child labour and forced or compulsory labour and (ii) to develop a favourable framework of labour relations based on equality of opportunity, non-discrimination and respect for diversity, promoting a safe and healthy environment and facilitating communication with the workforce. The Code of Conduct states that it will observe and promote non-discrimination through the application of a universal recruitment policy based on the merits and qualifications of candidates. It also guarantees that objective evaluation systems based strictly on professional criteria will be applied. Furthermore, companies' compensation models should establish fair rewards based on the level of responsibility of professionals, defined by categories, and the performance of employees, by recognizing effort and commitment, valuing experience, responsibility, the complexity of the work performed, versatility, flexibility and work abroad (Iberdrola, 2007, p. 157). The report also states:

> In addition, in order to give effect to the principle of non-discrimination, whenever there are employees with diminished ability to perform their duties for medical reasons who do not obtain the declaration of permanent disability, the companies shall assign them to the vacancy that is most suitable for their skills and knowledge, maintaining their original category. (Ibid., p. 162)

Iberdrola may be considered as a company leader in the reconciliation of professional and family life. As the company states:

> The entry of women into the workplace has entailed changes in social, labour and family relationships. However, there are serious obstacles to the achievement of a balance in their social and labour participation, largely for cultural reasons relating to their practically exclusive assumption of domestic and family responsibilities. All of this has a negative impact on their possibilities of employment in terms of equality and professional development. Following the principles set forth in the Law for the Equality of Women and Men, the Iberdrola Group, in its collective bargaining agreement, states its clear intention to promote real equality between women and men, eliminating the social obstacles and stereotypes that prevent the achievement of such equality. Specifically, it acknowledges the right to the reconciliation of personal, family and working life and promotes greater responsibility among women and men in assuming family obligations. Within this context, the Agreement specifically provides for the following:
>
> - Paid vacation.
> - Breast-feeding time.
> - Shorter working hours for family reasons.
> - Leave.
> - Job change.
> - Adjustment of the corporate organization to allow the exercise of the right to reconcile personal, family and professional life.

> Employees exercising the rights that seek to reconcile working and family life may not be discriminated against in any way and shall retain all their employment rights as provided in the Collective Bargaining Agreement and applicable laws and regulations.
>
> All employees of the companies forming part of the Iberdrola Group may exercise such rights on equal terms . . . (Ibid., pp. 160–61)

Furthermore, in 2003 Iberdrola implemented

> a maternity and family support policy which exceeds the rights afforded by current Spanish legislation, and which is based on two specific measures:
>
> - A 15-calendar-day paid leave to be taken prior to the expected delivery date. Since it was introduced, 108 employees had taken this leave by 2007.
> - A flexible five-hour working day starting on the expiration of the statutory maternity leave and during the period remaining until the first anniversary of the delivery date, with full salary. Since it was introduced, 198 employees had benefited from this measure by 2007. (Ibid., p. 162)

In 2007, Iberdrola moved further in the direction of reconciling professional and family life and became the first company listed on the Ibex-35 index to implement a continuous working day throughout the year.

All these measures have made possible the certification of the companies making up the Iberdrola Group in 2006 as a 'Family-Responsible Company':

> Iberdrola was the first electricity company to receive such a certificate and one of the first seven Spanish companies to do so. In order to receive this certificate, both an internal audit and an external audit are required to verify the information provided. The Company's responsible behaviour was, as has been described above, further strengthened during 2007, thus enhancing its competitiveness and allowing it to renew the certification, and its subsidiaries Iberdrola Operación y Mantenimiento and Iberdrola Renovables both achieved certification during 2007, thus consolidating the process within the companies of the Group. The following challenges, set forth in the Action Plan to consolidate Iberdrola's policy as a Family-Responsible Company, were also met:
>
> - Expand the scope of the Family-Responsible Company model to Iberdrola Operación y Mantenimiento and Iberdrola Renovables.
> - Include references in the Code of Conduct to Iberdrola's involvement in the reconciliation of professional and family life.
> - Develop, manage and strengthen the Family-Responsible Company model with indicator analysis (Scorecard), and report to the Human Resources Committee and the Corporate Social Responsibility Committee.
> - Issue the alternative measures certificate for the companies proposed for certification.

- Update existing procedures and establish new procedures.
- Develop internal audit procedures.
- Train employees, including such information in the reception and integration plans.
- Enhance the level of communication, with the presentation of periodic news and the inclusion of messages in road shows and the Sharing [*Comparte*] programmes.
- Develop surveys on family-responsible policies.
- Revise the policy manual. (Ibid., p. 162)

Eroski

Eroski is a retailing cooperative with more than 50,600 employees. More than 80 per cent of its workforce consists of women. It has set up an 'Equality Observatory' with the objective of changing the working conditions in the company for women. The Observatory comprises 17 people from Eroski with different responsibilities and representations:

> It fosters initiatives and maps out proposals for management on four key topics:
>
> - Women in the company, with professional plans connected with women and working conditions in general.
> - Women and health, working on concerns which directly affect the health and well-being of women from both the preventive and palliative points of view.
> - Women and training, with training programmes in which women gain a greater presence in professional skills and internal promotion programmes.
> - Reconciling work and family life.
>
> In 2007 the Observatory published its Guide to Non-Discriminatory Recruitment to prevent sex discrimination in recruitment procedures, and its Guide to Non-Sexist Language which is designed to help Eroski personnel involved in communication processes. (Eroski, 2007, pp. 37–8)

With regard to reconciling professional and family life, Eroski has extended the leave of absence for childcare, putting de facto and de jure couples on the same footing, and established a period of unpaid leave with the job being retained. The following measures have been implemented (ibid., p. 38):

- Leave of absence for looking after a child aged under 8 with a longer period (24 months) during which time the employee's job is kept for them. By law, workers are only entitled to a maximum of up to three years (we had previously expanded leave of absence time up to six years).
- Putting de facto and de jure couples on the same footing for all purposes (permits, licences, leave of absence and so on).

- Voluntary reduction (with no grounds required) of the working day with the option to return to a full timetable.
- Unpaid leave, with the job being kept open, to work with a non-governmental organization or for personal or professional development.
- No splitting of working days lasting less than four hours.
- Right to a minimum working week of 28 hours.

Furthermore, 'the Equality Observatory also seeks to create working environments which are adapted to the physical and structural conditions of women and to balance the presence of men and women in the professional categories traditionally occupied by members of one or the other sex'. In 2007, it carried out an evaluation of jobs and tasks and their redefinition according to ergonomic principles for the protection of working women, monitored the plans for evaluating and adapting jobs to the working conditions required for pregnant women, has set out the key jobs which could be held by women and has established measures to equalize the number of full working days for women and men in the same jobs (ibid., p. 37).

INTEGRATION OF DISABLED PEOPLE: BANKINTER

Bankinter is a Spanish bank that defines its objective as 'to improve the quality of life' (Bankinter, 2007, p. 2). It is rated as one of the best companies to work for in Spain (Best Place to Work Survey). In the area of social action, some years ago it decided to create a specific Social Action department whose watchword is 'we are different, so that we are all equal', and which has developed, *inter alia*, an accessibility project that has made it possible for the disabled to operate with the bank through any channel: Internet, branches, telephone, mobile telephone and so on. Also, it has worked actively on promoting the Corporate Volunteer Group, with 5.3 per cent of the labour force taking part in activities of this type organized by the bank.

Bankinter is also committed to equality between men and women. In 2007, women accounted for 48.2 per cent of the workforce, compared with 51.8 per cent of men. The constant efforts to ensure a diverse and balanced workforce are also reflected in the percentages of new hires, which stood at 48.4 per cent for men and 51.6 per cent for women in 2007. Furthermore, as part of its policy of equality and non-discrimination, Bankinter also promotes the diversity of its workforce: the bank has employees of 28 different nationalities.

Bankinter had 34 disabled members on its staff in 2007. Spanish law states that, 'companies that have not yet reached the quota of including

2 per cent of disabled workers on their payroll are legally permitted to use alternative means of fulfilling this social obligation, by purchasing goods and services from special employment centres, which are entities whose workforce comprises a majority of disabled people, or by making donations to non-profit entities dedicated to working with such persons'. Bankinter complies with the law as regards its integration of such individuals, but it goes further by taking on the challenge of meeting the quota or exceeding it in the 2010s and in addition it will be cooperating actively to achieve the genuine integration of the disabled, both within and outside Bankinter. The bank spends the amount allocated to its alternative measures on:

- Purchasing goods and services from special employment centres, in close partnership with Fundación ONCE (a Spanish foundation that aims to achieve the full integration and normalization of the disabled in Spanish and European society).
- Donating an amount to Fundación Adecco (a foundation that seeks the employment of those who face more difficulties finding a job) to be spent entirely on efforts for the selection, training and integration of the disabled at all levels of Bankinter (ibid., p. 43).

For this purpose Bankinter and Fundación Adecco have signed an agreement for the implementation of joint initiatives aimed at the full social and labour integration of the disabled and disadvantaged in three different fields: the integration of the disabled, of women with family responsibilities and of those over 45 years of age.

As part of this agreement, the 'Family Plan' aims to provide the relatives of Bankinter employees who suffer some degree of disability with assistance of various kinds to facilitate their real integration in the workplace and society. These actions focus on two specific groups:

- For adults: there are training initiatives centred upon developing skills and social attitudes to facilitate their entry into employment, as well as access to information, guidance and counselling relating to the search for employment.
- For underage individuals: Bankinter gives financial assistance of €3,000, paid into the employee's January salary, with a view to alleviating, where possible, the financial outlays of Bankinter employee families who have children with 30 per cent disability.

The actions carried out in 2007 included financial assistance for psychological counselling, equine therapy courses and summer camps, and the sponsorship of activities focused on developing skills and attitudes for movement and involvement in the community, such as the Pilgrim's Way to Santiago, an adapted alpine ski course and the multi-adventure weekend at the Burguillo reservoir (Avila). (Ibid., p. 44)

Bankinter has also developed and implemented accessibility projects that make it possible for any customer or employee, regardless of his or her personal or technological capacities, to access the bank through any channel. In this sense, Bankinter seeks to become a benchmark financial institution for the more than three and a half million disabled in Spain. In 2005, Bankinter became the first financial institution to adapt all its relationship channels and platforms on the basis of universal accessibility criteria. Bankinter.com was the first financial internet portal to attain an AA rating for website accessibility in 2005. In March 2007, Bankinter became the first bank to achieve the Eurocert European website accessibility certification, which guarantees that the bank's internet websites meet the highest standards of accessibility and that they comply with the guidelines established by the various specialist organizations with backing from the European Commission, which means that they are accessible for most people, irrespective of their limitations: 'Its most frequently consulted pages are fully compatible with the special software used by the physically disabled in their habitual internet browsing activities, whether this be reading software for the blind or visually impaired, or voice recognition software for persons with other disabilities' (ibid., p. 78). Furthermore,

> [A]t the end of 2006, coinciding with the Day of Persons with Disabilities, Bankinter launched an audio financial information service, aimed specifically at customers with visual impairment. This innovative project, called 'Integral Audio Statement audio', provides customers with a CD, if requested, furnishing complete and thorough audio information on all their positions at the bank. The information is provided on a monthly basis and consists of a spoken transcription of the balances of their positions at month-end and the detail of the movements made during the period. (Ibid., p. 81)

In 2007 Bankinter launched the same financial information in 'big letter' format, which entailed recognition of the visually impaired.

> The branch network has also been included within Bankinter's Accessibility project. At the end of the 2007, 94.8 per cent of the bank's branches were fully accessible. Major advances have been made in this physical network, for example: levelling of floors at the branches, improving the door opening systems, equipping the branches with furniture without sharp edges or corners, and creating areas of passage to improve movement within the branches. These projects were undertaken with the aim of building a bank without barriers and providing a uniform quality of service to all the customers. The maximum-access prototype branch which the bank launched at the end of 2005 comes into this category of 'physical access'. This branch is located in one of the Fundación ONCE Group's buildings. The branch was designed following a global concept of maximum accessibility which takes into account all aspects (the use of space, furniture, technological infrastructure, customer care service personnel and so

> on), to meet all the requirements needed so that anyone with impaired vision, hearing or mobility will have no obstacles or difficulties when carrying out their banking business. The branch has spaces that permit easy passage to improve internal movement, furniture that has no sharp corners or edges, an accessible ATM, is all on one level, computers with on-screen navigation systems or voice synthesizer programs, screen magnifiers, videos in sign language, interpreter services, a typetalk communicator and so on. Also the cash counter has been housed with an additional sound system (a sound amplifier and loop system) to improve the communication between the employee behind the reinforced glass panel and a customer with a hearing disability. Also, those in charge of the office are bank employees who have a disability. (Ibid., p. 82)
>
> In telephone banking, a specialist group was formed to serve the disabled. This group has the responsibility of providing a solution to all the difficulties that a disabled customer could encounter – whether this involves hearing or visual impairment – when trying to carry out a financial transaction. The bank has also set up a sign language interpretation service to provide the necessary support to deaf customers in the signing of certain transactions which, due to their complexity, require the use of financial language that the deaf may find difficult to understand. A simple telephone call to telephone banking – specifying the time, day and branch where the operation is to take place – is sufficient to take advantage of this service. Other specific services may also be requested such as the 'monthly audio statement', the 'monthly statement in big letters' and the 'Braille coordinates card'. (Ibid., p. 83)

With the aim of clarifying what should be and what is not being done in the area of bank accessibility, in December 2007, Bankinter and the ONCE Foundation jointly launched the 'Financial services accessibility guide':

> [This] is a manual, the first of its kind, the objective of which is, first, to make evident the needs of the disabled in terms of accessibility to financial and investment-related services and the difficulties that they face in their usual relations with banks; and, second, to systemize certain good practices that banks and savings banks should follow to be able to offer this type of service to all customers on an equal footing. (Ibid., p. 81)
>
> With regard to specific products, in July 2007 Bankinter publicly launched the first financial product constructed on the basis of the legal vehicle of protected patrimony, governed by Law 41/2003, on the patrimonial protection of the disabled. Under the commercial name 'Protected Patrimony Management' (PPM), this product takes advantage of the tax relief relating to this concept to offer the customer a higher rate of return. In addition to the product itself, Bankinter assumes the obligation to provide advisory services to disabled persons and their relatives to assist them in establishing a protected patrimony through various initiatives: placing at their disposal a network of the bank's legal advisers, who have been specially trained in this task; mediating with notaries versed in this legal concept, with the bank assuming the notary costs in the initial deed.

> Protected patrimony is a legal instrument of great interest to persons with serious physical or sensory disability and for those with intellectual disability. Its purpose is to allow the designation of specific assets (money, properties, rights, securities and so on), and the earnings arising from the management thereof, which allow the disabled to cover their everyday needs. In this way, the assets and the rights that comprise the protected patrimony are set apart from the other personal property of their owner-beneficiary, and have a specific administrative and supervisory regime which, *inter alia*, includes extraordinary tax advantages for the contributors (with a first to third degree of direct or collateral kinship, inclusive, spouse or the disabled person's carers under a tutelage or fostering arrangement). (Ibid., pp. 76–7)

Furthermore, in 2007 the Corporate Volunteer programme was started up, with the objective of encouraging employees to become involved and participate in the social action of the company: 'Bankinter's volunteer group is built upon the active involvement of any employees, and it is the employees who freely and voluntarily propose initiatives receiving the full support of the social action area to set the initiative in motion' (ibid., p. 77). The first initiative of the programme took place in April, under the name of 'Sports day for a good cause'. This activity, in which more than 100 of the bank's employees participated, aimed to raise funds for the Deporte y Desafío Foundation, devoted to aiding the social integration of disabled persons through the promotion of adapted sports and out-door activities. Also, a scheme was set up known as 'Zero Row', whereby employees, who either did not wish to or were unable to take part in the competition, could contribute to this socially committed project. The funds raised were given over to the start-up of one of the three projects presented by the Deporte y Desafío Foundation which were voted for online by the employees themselves on a website set up on the bank's intranet.

The Corporate Volunteer programme has added continuity to an initiative that began in 2005 with the launch of the Volunteer Portal – which came about as a result of the advice and cooperation of the Chandra Foundation – and had become extremely popular among employees, with an average of 1,462 visits a month.

As a result of these initiatives, in May 2007 Bankinter received the 2007 Internet Day Award for Best Website Accessibility. Also, in October 2007, Bankinter carried off the annual award presented by the BIP Foundation – devoted to the integration of the disabled through information communications and technology (ICT) – in the category of 'Best Socially Committed Business Project'. Furthermore, the Empresa y Sociedad Foundation also gave Bankinter a high profile in its annual study entitled 'The companies and savings banks best perceived as a result of their initiatives in relation to the integration of the disadvantaged', based on a survey that takes into account the opinions of 247 experts. In the eighth edition of this study, Bankinter ranked fifth in the category of the companies best perceived as a result of the projects of integration based on products and services.

VOLUNTEERING PROGRAMMES FOR EMPLOYEES: TELEFÓNICA

Telefónica, the telecommunication company, is well known in Spain for its large volunteering programme:

> Nearly 19,000 Telefónica Group volunteers in Spain and 13 countries of Latin America took part in community projects in 2007 as part of the Telefónica Foundation's Volunteering programme. Telefónica's employeess got involved for instance in 2007 in more than 443 initiatives and volunteered more than 164,408 hours of their time. The projects sought to help nearly 246,427 children, the economically disadvantaged, the elderly, and victims of natural disasters such as Peru's earthquake. (Telefónica, 2007, p. 49)

Among the highlights of 2007 was the support given to Proniño, a programme run by the Telefónica Foundation that aims to help eradicate child labour by getting children into school. In 2007, the programme provided schooling for over 52,000 children in Latin America. In 2007, Telefónica's annual International Volunteering Day was dedicated to Proniño for the first time.

In Spain, the company introduced the 'cyber-volunteer', where the employees volunteered to be trained online in ICT teaching, so that they can pass on their knowledge and skills to others. 'There were also initiatives to support people with disabilities, including sports activities in conjunction with the "También Foundation" and the Special Olympics, and schemes to help young people at risk of dropping out of school, through Junior Achievement educational programmes' (ibid., p. 49).

CSR POLICIES TOWARDS SUPPLIERS: INDITEX

The Inditex 'Annual Report' (2007, p. 24) states:

> Some 35 per cent of Inditex's production is carried out in Asia, 14 per cent in other European countries and the remaining 2 per cent in other regions. The group had to 31 January 2008 a network of 1,187 suppliers globally with which it maintains stable relationships. As an active part of the supply chain, Inditex extends to all its suppliers its policy of corporate responsibility and social undertaking by means of the implementation of the code of conduct

> of manufacturers and external workshops whose acceptance is obligatory to be able to maintain commercial relations with the group. Inditex regularly implements procedures for auditing and control of compliance with the code of conduct by its suppliers. International institutions and independent auditors are those responsible for carrying out these periodical audits based on international standards such as the Base Code of Ethical Trading Initiative, International Labour Organization (ILO) and United Nations agreements and the 10 principles of the Global Compact, among others.

This policy, the 'standards for suppliers', was awarded 89 per cent, well above the average (54 per cent) in the DJSI evaluation published in the CSR Report of 2007 by the company. Overall, Inditex obtained a score of 61 per cent, also above the average of 41 per cent.

The Code of Conduct of the Inditex group was approved by the board of directors in February 2001. The code is defined as an ethical commitment that includes key principles and standards for the appropriate development of the relations between Inditex and its principal stakeholders: shareholders, employees, partners, suppliers, customers and society. It included an Internal Code of Conduct and a Code of Conduct for External Manufacturers and Workshops to guarantee the suitable introduction and management of the principles contained in the Human Rights Declarations and the Conventions of the United Nations and those of the International Labour Organization, principally. The code was modified in July 2007. Its current regulatory framework is made up of the following (ibid., p. 71):

- The agreements of the International Labour Organization (ILO).
- The Universal Declaration of Human Rights of the United Nations.
- The Principles of the Global Compact of the United Nations.
- The Directives of the OECD for multinational companies.
- The Base Code of Ethical Trading Initiative (ETI).
- The locally applicable employment legislation.
- The local legislation in environmental matters and, in the absence thereof, the international legislation that is in force.

The code comprises 11 points that relate to:

- *Child labour:* The External Manufacturers and Workshops shall not work with minors. Inditex defines as minors those people who are under the age of 16 or in exceptional cases 14, in those countries included in section 2.4 of Convention 138 of the International Labour Organization. In the event that local legislation establishes a higher age limit, the provisions established in the same shall be respected.
- *Non-discrimination:* The External Manufacturers and Workshops shall not apply any type of discriminatory practice with regard to sex, race, creed,

age, nationality, sexual orientation, political opinion or physical or mental disability.

- *Freedom of association:* The External Manufacturers and Workshops shall respect the rights of the employees to associate or organize themselves or to bargain collectively, in no case shall employees be subjected to any kind of sanction because of this.
- *Harassment and abuse:* The employees of the External Manufacturers and Workshops shall be treated with dignity and respect. Under no circumstances shall physical punishment, harassment of any type or abuse of power be permitted.
- *Health and safety:* The External Manufacturers and Workshops shall guarantee their employees a safe and healthy workplace in compliance with the provisions of law, ensuring reasonable minimum conditions of light, ventilation, hygiene, fire prevention safety measures, as well as access to a drinking water supply. Likewise, the External Manufacturers and Workshops shall guarantee that these minimum conditions are met in any of the facilities that they could provide for their employees.
- *Remuneration policy:* The External Manufacturers and Workshops shall comply with the local legislation in force with regard to labour matters. They shall pay their employees at least the minimum wage established by law for each professional category.
- *Environment:* The External Manufacturers and Workshops are obliged to comply with the provisions of the legislation in force on environmental matters.
- *Subcontracting policy:* The External Manufacturers and Workshops, which subcontract work for Inditex, shall be responsible for the subcontractors' compliance with the code.
- *Other applicable law:* The External Manufacturers and Workshops shall comply with all the legislation in force (local, national and international).
- *Supervision and compliance:* The External Manufacturers and Workshops authorize Inditex itself or through third parties to carry out inspections, which guarantee the observance of this code, providing these supervisors with access to the necessary documentation and means to ensure this process.
- *Publication of the code:* The managers of the External Manufacturers and Workshops shall inform their employees about the contents of the Code of Conduct. A copy of the same, drawn up in the local language, shall be placed in any place accessible to all employees.

Inditex regularly implements procedures for auditing and control of compliance with the Code of Conduct by its suppliers. International institutions and independent auditors are responsible for carrying out these periodical audits. In this sense, in 2007, further to joint work conducted in previous years, Inditex reached a major agreement with the International Textile, Garment and Leather Workers' Federation (ITGLWF). Under this agreement, which is a first in the sector, both parties work together in the entire audit process of the production line in the verification of compliance with its Code of Conduct and, where appropriate, in the identification and correction of any breaches.

The company also considers:

> [Our] policy of corporate social responsibility includes the undertaking to improve the application of labour and social rights and quality of life of communities in which their manufacture activities are carried out. This means that supervision of compliance with the Code of Conduct of Manufacturers and External Workshops is completed with programmes for strengthening of the production chain and corrective action plans for suppliers that require this. The company conducts educational projects in the factories of its suppliers and in the communities where the workers and their families reside, within projects which include work with and for the community in an integral and sustainable manner.
>
> Inditex's CSR policy in the scope of the production chain is completed with work groups comprising participants in the process (suppliers, unions, buyers and corporate associations) with the aim of encouraging respect for fundamental rights and promoting innovative processes. (Ibid., p. 25)

Clusters are made up of networks of relations between manufacturers, business organizations, local trade unions and Inditex and their main objective is to develop selective and lasting relationships beyond the market relations (the price, the product and sale), such as the exchange of qualitative information, the implementation of codes of conduct and, on numerous occasions, direct cooperation between all the participants. The clusters constitute an important forum to debate the changes and adaptations necessary to the employment practices which give rise to an improvement in competitiveness. These clusters of suppliers are, for instance, active in Portugal, Morocco, Turkey, Bangladesh, India and China.

KEY LEARNING POINTS

CSR is a reality nowadays. There is still so much to do, but companies that believe in CSR may certainly obtain competitive advantages. Spain is country that still has a long way to go in order to enforce CSR practices in all types of firms. Nevertheless there are considerable exceptions to this situation as this chapter documents.

Corporate governance (the Unified Code of Best Practices in the Spanish case) may influence CSR, as some recommendations are closely related to CSR, but CG codes usually refer mainly to publicly listed companies. Spanish listed companies have actually increased the approval of formal CSR policies during the last years. Nevertheless several international reports situate Spanish companies among the worst-valued European companies in CG and CSR practices.

Substantial efforts are being made by Spanish firms to improve this situation. With regard to gender diversity and equality of opportunities, Spain is characterized by difficulties in reconciling professional and family life and by a low percentage of gender diversity among top management positions and on the boards of directors. The CSR diversity practices implemented by Iberdrola (an electrical company) or Eroski (a food retailing cooperative) aim to correct this situation. Iberdrola is a company leader in reconciling professional and family life and has obtained a Family-Responsible certificate. Eroski is an example of a non-quoted company which has established an Equality Observatory that aims to change the company's conditions for women. With reference to the integration of disabled people, Bankinter (a bank), constitutes an example of a company that promotes diversity and integrates disabled people. It aims to exceed legal requirements to integrate the disabled and has implemented projects that allow the accessibility of disabled people as customers. It has also designed financial products that respond to the aim of protecting the patrimony to such people.

Telefónica (a telecommunications company) is another example of a company that develops volunteering programmes for employees. Finally, with regard to suppliers, the chapter analyses the case of Inditex, an example of how CSR practices may be extended to suppliers and other stakeholders.

DISCUSSION QUESTIONS

1. Do you think that CSR could be enforced by legal requirements? Is it good for the companies to be forced to adopt some CSR practices or should they be voluntary?
2. If CG codes only affect quoted companies, what happens to non-quoted companies? What incentives should be established for non-quoted companies?
3. Is it more difficult to implement CSR practices among non-publicly listed companies? Why?
4. Read the Inditex example. How can CSR practices be extended to other firms' stakeholders? Do you think that this adds value to Inditex?
5. What advantages do volunteering programmes for employees have for a company?

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3. Sticking to core values: the case of The Body Shop

Bert van de Ven, André Nijhof and Ronald Jeurissen

INTRODUCTION

From the outset, The Body Shop attracted much publicity with its social commitment. This publicity proved to be an extremely effective way of increasing awareness of The Body Shop name. The Body Shop was able to pass through its first phase of expansion with none of the extravagant advertising campaigns that are common in the cosmetics sector. Although the reason for doing without advertising was Anita Roddick's lack of funds at the start, it has now become part of the corporate image. The Body Shop really is different; it is not a case of business as usual. But how different can a company remain as it grows from a small shop into a franchise chain with branches on every continent, and is now part of a major publicly listed company?

THE BODY SHOP: FROM ECCENTRIC SHOP TO SOCIALLY COMMITTED MULTINATIONAL

The Body Shop was founded in 1976 by Anita Roddick as a means of providing income for her family while her husband Gordon took a sabbatical year in America. Gordon's sabbatical used up most of their savings, so that the first Body Shop had to be financed from extremely limited resources (Roddick, 1991, p. 71). Various Body Shop characteristic features were born of this financial necessity. To start with, there is the unusual type of product that The Body Shop provides. Anita Roddick made a virtue out of a necessity by basing her soaps and lotions on natural ingredients, such as beeswax, grains of rice, cocoa butter, almonds and bananas. Having worked as a United Nations researcher in the 1960s, she was aware that men and women in Africa, Asia and Australia used locally grown plant extracts to care for their bodies. These ingredients have the advantage of being inexpensive and readily available. This brought her to the idea of The Body Shop's alternative cosmetics line. A second feature of the original shop formula was packaging the products in simple brown bottles with handwritten labels, which people could also reuse. Finally, The Body Shop was unable to afford any advertising. Anita Roddick managed to compensate amply for this by cleverly playing the role of the underdog – the mother and her children – when neighbouring undertakers objected to what in their view was The Body Shop's inappropriate name (ibid., p. 77). She managed to bring her problems to the attention of a local newspaper, and so generated free publicity for her extraordinary shop. This approach was so successful that she used it repeatedly until the late 1990s as a way of increasing awareness of The Body Shop's name.

Core Values of The Body Shop

The Body Shop's policy on animal testing was revolutionary at the time, and was a point on which The Body Shop wished to distinguish itself clearly from the competition. The Body Shop asked its suppliers to sign declarations that they had performed no animal testing in the past five years, and had no plans to perform tests of this kind in the future. The usual reason for animal testing in the cosmetics sector is fear of being sued for damages because of product deficiencies. However, the product recipes that The Body Shop generally used were extremely well established. Roddick therefore had no fear of any detrimental effects ensuing from the use of her products. Volunteers were engaged to try out new products, and the results were freely available to other producers. The usual animal testing methods were indeed quite barbaric. For instance, rabbits were made to eat solid matter such as creams and lipstick to determine the lethal dose. The amount that was found to kill more than 50 per cent of the animals became the official standard, as the name Lethal Dose 50 suggests (Sodeman, 2003, p. 601). Nonetheless, animal testing long remained commonplace, and was even prescribed in law for some new products, because of the priority given to consumer health. However, changes are now afoot. Several countries now have legislation that imposes a requirement of necessity on animal testing. The Body Shop lobbied strongly for legislation of this kind. It also has a singular philosophy of how to bind customers, albeit that Anita Roddick had concerns about whether it could survive:

> The hardest thing for me are the marketing people, because they focus on us as a brand and our customers as consumers. We've never called it a brand; we call

> it The Body Shop. In 20 years, we've never, ever called a customer a consumer. Customers aren't there to consume. They're there to live, love, die, get married, have friendships – they are not put on this planet to bloody consume. (Budman, 2001, pp. 15–16)

OUR VALUES

Against animal testing: We consider testing products or ingredients on animals to be morally and scientifically indefensible.

Support community trade: We support small producer communities around the world who supply us with accessories and natural ingredients.

Activate self-esteem: We know that you're unique, and we'll always treat you like an individual. We like you just the way you are.

Defend human rights: We believe that it is the responsibility of every individual to actively support those who have human rights denied to them.

Protect our planet: We believe that a business has the responsibility to protect the environment in which it operates, locally and globally.

When Gordon Roddick returned from his sabbatical, he found a profitable company, and, on Anita's request, he was appointed its managing director. In subsequent years The Body Shop expanded very substantially. The Body Shop shops are quite different from the usual cosmetics sales outlets. For instance, the staff are instructed not to push customers into buying, but to be receptive to questions and willing to advise, even if that does not lead to an immediate purchase. The staff of normal cosmetics shops, on the other hand, have a more dominant sales-oriented attitude. The Body Shop staff also receive half a day's wage for services to the community. This form of voluntary work is now a popular expression of one aspect of corporate social responsibility (CSR). The Body Shop was therefore in the vanguard of this trend. Staff policy addresses the combination of work, family life and care. Wives and husbands are allowed to work together, and there is a children's day-care centre on the company premises. The Body Shop has its own production facilities in the countries from which the ingredients are sourced, and pays relatively high wages, in what is known as the 'Trade not Aid' programme. Finally, employees are selected very much on the basis of personal values. Applicants have to answer questions about their personal heroes, literary preferences and attitudes to social issues (Sodeman, 2003).

Strategy for Growth

Anita Roddick and her husband have succeeded in conveying The Body Shop concept to others by turning it into a franchise. This happened as long ago as 1977. This move allowed The Body Shop to grow faster than would otherwise have been possible. The expansion was boosted in 1984 when The Body Shop was floated on the stock exchange. The Roddick family then jointly held 30 per cent of the issued shares and retained management of the business. Throughout the 1985 to 1990 period, revenue and profit rose by a factor of 10 (ibid., p. 602). The Body Shop's

THE BODY SHOP'S *MISSION STATEMENT*

Our reason for being:

To *dedicate* our business to the pursuit of social and environmental change.
To *creatively* balance the financial and human needs of our stakeholders: employees, franchisees, customers, suppliers and shareholders.
To *courageously* ensure that our business is ecologically sustainable: meeting the needs of the present without compromising the future.
To *meaningfully* contribute to local and international communities in which we trade, by adopting a code of conduct which ensures care, honesty, fairness and respect.
To *passionately* campaign for the protection of the environment, human and civil rights, and against animal testing within the cosmetics and toiletries industries.
To *tirelessly* work to narrow the gap between principle and practice, whilst making fun, passion and care part of our lives.
(Hanson, 1996, p. 30)

reputation, which is inextricably linked with Anita Roddick's, also developed favourably in this period. In 1985 she was named British businesswoman of the year, in 1989 she won the award for best British retailer, and she was also honoured with the royal 'Order of the British Empire' (OBE). Celebrities such as Princess Diana, Sting and Bob Geldof were Body Shop customers at the time, while its virtues were also extolled by like-minded entrepreneurs such as Ben Cohen, one of the founders of Ben and Jerry's.

An American Adventure

The Body Shop attempted in 1988 to extend the success of its franchise formula to the United States. However, The Body Shop found the going tougher there for the following three reasons (Sodeman, 2003). First, its product prices were significantly higher than those of mass-produced drugstore items. Second, The Body Shop failed to open many shops in the United States. One reason was that an entrepreneur doing business in different states of the United States is subject to varying requirements. In 1991 there were only 40 stores in 12 metropolitan areas around the country. Mail order sales were insufficient to support strong revenue growth. The third factor was that The Body Shop traditionally does not advertise, instead building up its market image through Anita Roddick's innovative entrepreneurship. This approach generated a continuous flow of free publicity. This strategy, which was born originally of necessity, has in the course of time become part of The Body Shop's alternative image. Advertising came to be seen as a waste of resources, and an insult to the customer. However, it became increasingly clear in the 1990s that further expansion in the United States would be difficult, if not impossible, without advertising campaigns. Even in the unique product segment of affordable luxury products with an exotic and natural image, The Body Shop has to be wary of competition from the likes of the Bath & Body Works store chain of The Limited.

The Body Shop Under Fire

In 1993 Anita Roddick appeared for the first time in an American television advertisement, breaking her own Body Shop policy of not advertising her products directly to customers. The advertisements depict her searching for new ingredients in exotic cultures (ibid., p. 603). Some Body Shop customers viewed this as submission to commerce. This affair turned out to be just the beginning of much poorer publicity. In 1994 Jon Entine published his crushing article about The Body Shop in *Business Ethics*, tellingly entitled 'Shattered image'. Some of the criticism in his article was directed at The Body Shop's Trade not Aid programme. Entine said that in fact only a small proportion of the ingredients was purchased through fair trade programmes, while the majority was bought on the world market. In an article in 1995, Entine added another serious allegation (Entine, 1995). An internal Body Shop memo from May 1992 stated that 46.5 per cent of the ingredients in their products were not free of animal testing. Although The Body Shop did not deny these criticisms, the impression they give calls for clarification.[1]

First, the production volume that could be generated from the Trade not Aid programme is too small for worldwide sales, so a proportion of the production is purchased through the mainstream market. It is also true that it is impossible to guarantee that all ingredients are free from animal testing. The only substantiated claim that The Body Shop was able to make at the time was that attempts had been made to persuade suppliers to abstain from animal testing. Furthermore, social and ethical auditing and reporting were in their infancy at the time, and The Body Shop was in the vanguard of businesses that scrutinized their own policy and systematically published the results.

Increasing Competition

In 1998 The Body Shop had 1,600 shops and 5,000 employees in 47 countries. In relative terms, however, the financial performance lagged the forecasts. This increased the pressure on Gordon and Anita Roddick. The position of managing director (or corporate executive officer) was transferred in that year to a professional manager, and Anita and Gordon became members of the management board. However, this measure was to have little effect, and at the start of the new millennium the results still underperformed financial market expectations. Furthermore, there was now also increased competition from store chains and own brands in the British domestic market. There were various attempts in 2001 to find a party to take over the company. However, the Roddicks were unable to identify an ethical investor for The Body Shop, and a possible sale to a venture capital fund was rejected on principle. After these failed attempts to have The Body Shop taken over, Anita and Gordon decided to stand down in 2002. The Body Shop then had to embark on a new course. Steve McIvor, the head of communication at The Body Shop, admitted that the mixture of politics and marketing had not always worked well, and that they will be trying to make the brand 'less soap-boxy, patronizing, and lecturing' (Carroll, 2003, p. 611).

A New Start for The Body Shop[2]

The new Body Shop approach is clearly identifiable mainly in the launch of new products and a new shop formula. For instance, there are efforts to design the new products more attractively, with more luxury packaging. More shelf space is being reserved for these new products in the new shop formula, because fewer products are being handled. The shops themselves have also had a complete makeover. The new shop formula was tested worldwide in eight shops in 2004, and then rolled out to many franchisees. Details of the new approach are discussed below, based on the changes that have occurred in The Body Shop Benelux (Carney, 2005).

Jan Oosterwijk, the director and owner of The Body Shop Benelux, has been involved in The Body Shop since the early years, and can enthusiastically recount the time when he and the Roddicks met 'soul mates' in the United States, such as the founders of Ben & Jerry's and the shoemaker Strike Right. Although he therefore personally endorses The Body Shop's values, he also thinks that The Body Shop has to change. Like Steve McIvor, he wants more attention to be given to product marketing. The shops must be more of a customer 'pamper station' and 'the odour of charitas' has to go, as far as Oosterwijk is concerned (Baltesen, 2003). Furthermore, The Body Shop also intends to sell its products outside its own shops. For instance, in 2003 their products went on sale in four BP filling stations. As a franchisee, Oosterwijk is dependent on The Body Shop International for the renewed products.

Oosterwijk's comments are crystal clear: the reason for working on the new approach, or, as he calls it, going 'on safari with The Body Shop Benelux', is that The Body Shop Benelux's revenue has been stagnating for several years, and that this is also attributable to the old Body Shop's products and shop formula. Furthermore, he says that increased competition could put profitability under even greater pressure. The goal, therefore, is to make more profit per customer by ensuring that customers buy more each time they visit a shop, and by arranging for stronger customer binding. This goal can be achieved only if The Body Shop succeeds in binding the right target group. This obviously has to start with identifying this target group. The new Body Shop's target group is made up of what are known as the 'cultural creatives'. This group was discovered by sociologist Paul Ray and psychologist Sherry Anderson in an extensive 13-year study into Americans' values (Ray and Anderson, 2000).[3] A feature of this group is its commitment to the current problems of society and the environment. It is possible to distinguish the following six themes:

1. care for the ecological problems of the world;
2. concern about the discrimination and exploitation of people;

3. criticism of materialism and economic gain;
4. attention for people in the immediate environment;
5. a better living environment; and
6. the importance of a personal lifestyle.

The last theme, personal lifestyle, already suggests that the cultural creatives' social commitment coincides with attention for their own lives as well as care for themselves and those close to them. This is why this target group is attractive for companies that respond to a need for products for personal pampering. Furthermore, this target group is interested in products that can help them shape their commitment to the world and society.

The Body Shop is interesting to the cultural creative in two ways. On the one hand, the products and the corporate image are consistent with a commitment to social and ecological themes. The Body Shop traditionally fulfils this need for luxury with products that transcend their pure functionality through an association with intangible values. On the other hand, but equally important, The Body Shop was present at the birth of the trend that has seen body care grow from a vital necessity to a lifestyle (Kramer, 2001) – except that The Body Shop has tended to neglect this luxury, or pampering, component of its brand in the course of time. The Body Shop Benelux is therefore devoting more attention to the luxury and the comfort that the products and the shop formula must offer customers. This demands a change of culture within The Body Shop Benelux, because the social commitment attracted more attention in the Anita Roddick years than other aspects of product quality. This imbalance, which The Body Shop itself recognizes, is eliminated in the new approach. The Body Shop Benelux now distinguishes three forms of product quality:

1. Functional quality: the products must deliver what they promise. The active ingredients must therefore really have the envisaged effect.
2. Visual quality: the packaging must be luxurious and attractive to customers, the promotional material must be of top quality, and the shops must look neat and tidy, and adapt their image to changing times.
3. Intangible quality ingredients: animal welfare; human welfare; natural and environmental welfare.

The third quality component again expresses The Body Shop's social commitment. It would therefore be wrong to suppose that The Body Shop no longer believes in CSR, or that they can no longer make their mark in this respect. After a period of limited activity in this area in the wake of the senior management changes, The Body Shop International is again investing in social and ethical auditing. However, this now concentrates more on main issues and on the most important Body Shop stakeholders, who are its consumers, employees, shareholders, franchisees, suppliers and the environment. It is therefore more of an instrument for stakeholder management, and less of a way of reporting to consumers and the general public (The Body Shop, 2004). Management of The Body Shop International states that this re-entry into the social and ethical reporting arena is merely a start, and that the Global Reporting Initiative benchmarks will be used more as a guide in future.

Results of the New Strategy

The new approach would appear to be bearing fruit (Carney, 2005). On the one hand, Carney explains this by increased efficiency in stock control, better organization of the supply chain, better use of sales data, and the use of new distribution channels, such as direct delivery to customers. The Body Shop has thus repositioned itself as what is known as a 'masstige' brand (a contraction of 'mass' and 'prestige') in which a premium quality product is offered at a price only slightly above that of mass-produced goods. Market analysts are now seeing a brighter future for The Body Shop. At any rate, several of them again recommended the share in the spring of 2005. Oosterwijk has since sold his franchise rights in the Benelux to The Body Shop. The Body Shop had already bought back the franchise rights in the UK, the United States and Canada. In 2004, the chain had 2007 shops.

Takeover by L'Oréal

The story of the The Body Shop took an interesting turn in March 2006. The French cosmetics group L'Oréal took over The Body Shop for £652 million (€975 million). The Roddicks received £130 million. In an initial reaction to the takeover, Anita Roddick appeared not to view this as selling out on her ideals: 'L'Oréal has displayed visionary leadership in wanting to be an authentic advocate and supporter of our values'.[4] She once thought otherwise. Only three years ago, she criticized L'Oréal because of what she called the group's part in a cosmetics industry conspiracy to undermine women's confidence in themselves (Van Straaten, 2006).

The Body Shop is continuing as an independent company, and will therefore retain as a brand the same commitment to CSR. Nonetheless, criticism was quick to follow the takeover. In particular, what many found hard to swallow was that The Body Shop was being taken over by L'Oréal, which some critics still accuse of using animal testing. For example, the website of Naturewatch, a non-profit animal welfare organization, is calling for a boycott for this very reason.[5] The first consumer responses on the internet have been fairly mixed, with many in favour of a boycott, while others hope that The Body Shop will have a positive influence on L'Oréal. The French cosmetics group itself appears at any rate to be planning to present a more socially responsible face, in which the takeover of The Body Shop can be a viewed as part of the strategy. Another sign in this direction is L'Oréal's purchase one month earlier of the French company SkinEthic, which developed a new product testing technique that uses artificial human tissue, entirely eliminating the need for animals (Van Straaten, 2006).

ANALYSIS

It is clear to consumers that The Body Shop is a special company in many respects. But how can The Body Shop distinguish itself from mainstream industry? Without pretending to be exhaustive, an answer to this question can be found by comparing two characteristics of The Body Shop's early years with a more conventional way of doing business.

The first characteristic has to do with the type of stakeholders on which The Body Shop focused in the early years. In a society in which social and environmental problems transcend the sphere of influence of national governments, in which information can span the world in the blink of an eye, and in which industry continues to gain power, the question that soon arises is how far the responsibility of companies extends. Which responsibilities should a company accept and to which parties? Stakeholder theory is something to hold on to when answering this question. Mitchell et al. (1997) suggest that parties can gain a company's attention on the basis of three criteria: power, legitimacy and urgency. In the power perspective, parties are deemed to be stakeholders if they have an important contribution to make to the organization's survival. Consider banks, customers and employees. In accordance with how significant, irreplaceable, and well organized their contribution is to the organization, these parties can insist that their expectations are satisfied. Where parties have power, they need make no appeal to morality in order to press their interests; power alone is enough. Consider the environment, future generations, and customers who have no purchasing power. Whereas powerful stakeholders can demand, these stakeholders – at any rate in a legal sense – can only ask. Whereas the first group can respond to a difference of opinion by resorting to power, the second group has to suffice with a moral appeal. How do these stakeholder categories relate to both The Body Shop and mainstream industry?

Mainstream industry focuses primarily on the powerful stakeholders, and occasionally attends to other parties, through sponsoring, or CSR projects. The Body Shop adopted a different approach from the outset. At the centre are powerless stakeholders, such as animals, for which steps are taken to prevent their use in product testing, alongside native population groups seeking an income, and the environment, which is not burdened with mountains of packaging waste. It goes without saying that The Body Shop also needs contributions from banks and employees, but it would appear in the early years that these were subordinate to promoting the interests of the powerless stakeholders.

The second characteristic that distinguishes The Body Shop from mainstream industry is its determination to break with the obvious. The deviant viewpoints – for instance with respect to advertisement and packaging – make The Body Shop look more like an interest group than a business. What is special, however, is that The Body Shop does not criticize the industry from outside, but demonstrates from the inside how to set up and expand a profitable company based on unconventional assumptions. For example, the use of animal testing in the development of new cosmetic products can no longer be justified as a 'necessary evil'. The Body Shop shows that this is a choice, in which different companies operate different policies. The same is true of the assumption that the price of raw materials is determined by supply and demand. That too is no longer an incontrovertible fact since The Body Shop has shown how a company also has the option of purchasing goods based on a fair price. Furthermore, The Body Shop's original aversion to advertising and the open activism in the name of the company deviate sharply from the practice of many other companies. In this way, The Body Shop questions numerous automatic assumptions in mainstream industry. The Body Shop grew to become a standard bearer of a broader movement in industry that seeks to do business differently. The Body Shop's impact therefore goes far beyond its immediate achievements in the cosmetics sector.

CONCLUSIONS

The Body Shop has gradually professionalized its approach and has also persevered with various social projects in the face of fierce criticism. With the reorganization, brand repositioning and the L'Oréal takeover, The Body Shop appears to have averted the risk of sustained erosion of its market share. After the reorganization, The Body Shop's management attention assumed more business and commercial aspects and less of a pioneering role in CSR. The question now is whether The Body Shop will continue in the future to be viewed by customers as distinct from competitors, who have slowly also become more active in CSR.

The history of The Body Shop has gone through three phases: rise, fall and recovery. The company's recovery is not a repetition of the early period, but a transformation, in which the ideals of old have been tempered by the hard business lessons of the fall. The Body Shop's new style is a synthesis of the previous two phases. These phase transitions that the company has been through suggest two conclusions, which we believe are of great importance for the thinking surrounding the business aspects of CSR, but as yet are still undeveloped theoretically:

1. The Body Shop is an example of sustainable business that actually does not appear to be so sustainable *commercially*, in that the *competitive advantage* of the sustainability was not preserved.
2. The Body Shop is an example of sustainable business that actually does not appear to be so sustainable in a *moral* sense, in that the moral values proved unable to withstand the *success* (and in particular the expansion) of the business.

Both observations, which we explain below, suggest that a business ethics success story might be rarer than the current CSR doctrine would have us believe. Ethics pays, but not always. Certain lights have to be at green if CSR is to be a success in both an ideal and a business sense. The case of The Body Shop has several important lessons for us.

KEY LEARNING POINTS

How Enduring is a Competitive CSR Advantage?

We can classify The Body Shop's strategy in the rise phase as one of differentiation. This is a competitive strategy in which a business manages to employ certain unique attributes of its product or its image as a way of distinguishing itself from its competitors. In this way, the company manages to bind to itself a specific group of customers with a strong brand preference, or manages to connect in a unique way with a certain emotion or perception of large customer groups. The Body Shop has succeeded in appealing to a very specific customer group, being the socially and ecologically aware buyers of body care products who identify with the founder Anita Roddick's sustainability ideals.

Together with Ben & Jerry's, the Triodos bank and others, The Body Shop has a place as one of the pioneers of the 'ethical differentiation strategy'. Since its foundation, The Body Shop has pushed for the intrinsic value of animal life, by selling cosmetics based on natural products, while paying a fair price and allowing no animal testing. The customer group that the special proposition of the ethical producer appeals to is usually also willing to pay a little extra – or, in the case of Triodos, not to squeeze the last drop out of financial efficiency.

It goes without saying that the competition will not sit back and watch all this happen. A successful differentiation strategy invites imitation. The Body Shop was therefore bound to be confronted at some point with a 'clone', which came in the form of Bath & Body Works. A differentiation strategy is more sustainable the more distinguishing properties can be identified, the more difficult it is to copy, and therefore the longer it can hold out against the competition. Porter (1985) speaks in this connection of the 'sustainability of differentiation', which depends mainly on two things: its continued perceived value to buyers and the lack of competitor ability to imitate it.

A strategy of ethical product differentiation runs into difficulty here precisely because of its *ethical* nature. Important CSR characteristics happen to be the transparency requirement and the principle of the dialogue with stakeholders. In other words, CSR demands external communication. The Social and Economic Council of the Netherlands (SER) says the following:

> It is expected of businesses in the current phase of social development that they answer legitimate questions from society, and are willing to be give full disclosure and to enter into a permanent dialogue with various stakeholders. (SER, 2000, p. 17)

The emphasis on transparency in the CSR doctrine is nonetheless at odds with the aim for sustainable differentiation, which is actually served when the unique resources, knowledge and skills of the company are *not* known, particularly by competitors. Porter speaks in this connection of 'proprietary learning': a learning process that only the company goes through, and not the competition (Porter, 1985, p. 159). This is the opposite of transparency and a CSR learning network.

Furthermore, it is a known phenomenon that companies that openly favour certain matters are the first to be tackled on practices that are not entirely in line with the ambitions. A good name for this effect would be the 'transparency paradox'. No one seems to notice the other, less conspicuous, companies, even if they commit many more blunders than those that make open statements. It is precisely the companies with a transparent approach that provide the media and interest groups with a handle to tackle them with. The outcome of this paradox is that the front-runners can expect criticism, and the less conspicuous companies will remain out of range. To some extent, this will also have happened with the criticism directed at The Body Shop.

What is interesting is that The Body Shop was actually a pioneer in the dialogue with stakeholders and the development of sustainability reporting. Are transparency and dialogue perhaps compatible with an ethical product differentiation strategy, in a way that Porter's theory does not predict? If so, *ethical* product differentiation would be something completely different from the 'ordinary' variety.

The Body Shop published its first social report in 1995, after consulting more than five thousand stakeholders. This makes The Body Shop a front-runner in the development of sustainability reporting (Wheeler and Sillanpää, 1997). The company has existed for over 20 years, and as time has passed it has come in for increasing censure. We tend to think this is no coincidence. It seems more likely that The Body Shop can attribute the prime of its early period – roughly between 1976 and 1990 – to a successful strategy of ethical product differentiation, which, however, began to tarnish after some 15 years, partly as competitors started to imitate the successful formula, but also because of political measures that undermined The Body Shop's distinctiveness, such as anti-animal testing legislation. The principles of the dialogue and the transparency, which The Body Shop started to embrace in 1995, were not part of an ethical differentiation strategy, but an answer to increasing suspicion and criticism of the company. A differentiation strategy usually yields only a temporary competitive advantage, until either the differentiating value loses potency, or the competition catches up. Only rarely does a company manage to benefit from a differentiating characteristic in the long term. The same applies to ethical product differentiation.

'Small is Beautiful', or Not?

With hindsight, The Body Shop seems to have failed to retain ethical product differentiation as a strategy. You could also say that the company has failed to retain the ethical fervour, which was definitely present in the convictions of founder Roddick, as a flexible strategy. To this day, for example, they still champion the fight against animal testing, which is no doubt necessary, but now contributes little to the company's sustainable differentiation, since animal testing for non-medical purposes is subject to increasing legal restrictions. Note that a full ban on animal testing for non-medical purposes in the European Union will not come into force before 2009.

In terms of an ethical product differentiation strategy, an extremely important trump card that The Body Shop had in their hand was the unique contacts that had been established with a group of stringently selected suppliers of natural products in the developing world, such as the Kayapo Indians, with their traditionally prepared nut oil. This is an inimitable asset. For a very obvious business reason, The Body Shop nonetheless threw away this competitive trump card: the company grew too large to be serviced by a stringently selected band of small-scale suppliers of this kind. As a result, the company was forced in the 1990s to admit that it had greatly diluted the original 'Community Trade' formula. The company also had to confess that it was not entirely free from animal testing. The official defence was that they only ever encouraged suppliers to abstain from animal testing; they had never claimed that The Body Shop ingredients were guaranteed to be animal testing free. Hair-splitting of this kind was expected of politicians, not of fervent sustainability pioneers. Why could The Body Shop not remain the company that Anita Roddick once must have had in mind: an honest cosmetics store, with natural, fair products, and without causing animals to suffer?

The answer should be sought, among other things, in the 1984 flotation and the expansion by a factor of 10 in the subsequent five years. Expansion is what the stock market likes to see, and preferably in double digits. But rapid expansion is at odds with the philosophy of 'conservation and preservation' (of authenticity, of nature, of native peoples, and of animals), on which The Body Shop was founded. The company could no longer keep its original promises; sustainable production was unable to keep pace with this increased demand, and The Body Shop started to make mistakes. Because the company had set such store by social responsibility, it effectively fell into a pit it had dug for itself.

Sustainable Success, Perhaps Briefly?

The Body Shop has now entered a third phase, in which it has become a much more conventional cosmetics business, or, in its own words, a 'pamper station'. Other sustainability front-runners have been through the same development process. The Van Melle sweets factory was a champion of corporate environmental care 10 years ago. This Breda-based company proudly announced as recently as 1997 that it had installed the largest industrial solar water heater in Europe. But there has been nothing but silence on the subject since the sale to Perfetti of Italy. When software house Origin was sold to Philips, the prominence in the company culture of the sustainability idealism of its founder, Eckhart Wintzen, almost visibly melted away.

The Body Shop announced in 2003 the purchase of £5 million worth of natural ingredients and accessories through the 'Community Trade' programme. This amounted to just 0.74 per cent of that year's total turnover, which is hardly something to shout about. The Body Shop's new style is not a radical departure from conventional business paradigms, and is no longer a major sustainability innovator.

The Body Shop's takeover by L'Oréal in March 2006 must be viewed with particular interest in this connection. L'Oréal is the largest cosmetics company in the world, and prides itself on its sustainability policy. The company reported in 1989 that it had stopped animal testing, and had developed several of its own technically innovative alternatives, such as testing chemicals on cell cultures. As far as animal testing is concerned, therefore, L'Oréal would appear to have even better credentials than The Body Shop. Maybe L'Oréal will succeed in developing its new acquisition as a jewel in its crown, and a new chapter will be added to The Body Shop's sustainability story. That would be a departure from the usual haste with which new business owners throttle the sustainable business practices of their takeover targets.

Sustainable business never provides more than a temporary competitive advantage. This is an important lesson from The Body Shop's history. This is not much of a surprise from a business studies perspective, but it might appear to put a damper on sustainable business thinking. We had yet to reach this stage in thinking-through the relationship between profit and principles. The reality is that sustainability gives us not the slightest ability to escape the laws of business. The knowledge of being morally right may also make a sustainable enterprise negligent of changes in the competitive field and the risks that are still a feature of the market.

Visionary Companies

But is this the only lesson we can draw from this case? Can sustainable business ever be more than hype or a passing fad? Perhaps it can. Collins and Porras (1997) have shown that it is not impossible for companies to be leaders in their sector for a long time. However, these companies exhibit a different form of differentiation, not that of products, but of their identity and strategy. Collins and Porras focus their research on companies they label as 'visionary'. These are the companies that set the trend in their sectors, and include Hewlett Packard, Johnson & Johnson, Sony and Walt Disney. Visionary companies are characterized by the central nature of their 'core ideology'. A company's core ideology can be compared with the fundamental ideals of a major nation, church or school. It is a cohesive whole of assumptions that act as a firm foundation for the enterprise:

'This is who we are, and what we stand for. This is what we are about'. Visionary organizations are guided by a goal, or a 'purpose', which Collins and Porras describe as: 'the organization's fundamental reason for existence beyond just making money – a perpetual guiding star on the horizon'. The associated time horizon is extremely long. It is about 'values we would strive to live up to for a hundred years'. The core ideology is an essential element of the historical development of visionary companies (ibid., pp. 73–4).

The entrepreneurs behind the visionary company are not driven by short-term commercial results. What is important to them is to build up an organization: a life's work. The stability of the core ideology, and the associated orientation to an ultra-long term, does not eliminate the need for the company to adapt extremely flexibly to changes in the external environment. However, the long-term strategy of visionary enterprises is not a matter of swimming with whatever tide happens to be running, but of a conscious change of course, based on the core ideology that defines the company's identity in the long term. Collins and Porras say that conserving the core of the company is the very basis of revolutionary change. Based on the work of Collins and Porras, we could also conclude that the success of The Body Shop's ethical product differentiation has diminished in the long term because the company stuck too rigidly to specific products and specific sustainability benchmarks. The company pushed through no revolutionary changes. In terms of Collins and Porras, we could say that The Body Shop never actually managed to become a visionary enterprise. The company failed to adapt flexibly to changing circumstances on the basis of a strong core ideology.

In the hands of entrepreneurs who are not only driven, but also know what competition means – at any rate according to Collins and Porras – sustainability has a chance of being more than a flash in the pan. Nonetheless, amending our initial conclusion in this way does not justify boundless optimism about the prospects of achieving sustainability through CSR, and therefore through the market. Entrepreneurs who are good in competition also understand that sustainability should not be pursued at any price. In their view, the win–win situation of profit and principles is a target that is constantly moving. They also know that they must always act in line with the market and that markets tend to equilibrium, even between ideal and reality. This means that, from the perspective of sustainability, a core ideology is not without risk. It is conceivable that at some point the benefits of a sustainable image can also be pursued with the minimum of effort and expense. A 'grey sustainability' can then also take hold in a company with a core ideology, as now seems to have happened with The Body Shop.

Anyone seeking a faster and more radical path to sustainability will have to trust not only in the market, but also in a strong government. As it happens, this was also Elkington's view. 'Sustainable corporations and sustainable markets will rarely evolve of their own accord', he wrote. And also: 'After two decades of celebrating markets and denigrating governments, we are probably on the threshold of a new era in which the triple bottom line agenda helps to give governments and regulation new forms of legitimacy' (Elkington, 1997, pp. 387–8). Regulation: it really does say that.

A key factor in the 'CSR doctrine', to use Carroll and Buchholtz's (2003, p. 43) term, is driven by the fundamental conviction that a company's business revenues and social responsibility go hand in hand. It goes without saying that this is a sensible fundamental conviction that directs and explains the socially committed actions of enterprises. But, of course, it is not always true. The conditions for congruency between profit and ethics are not always satisfied (Jeurissen, 2004). The Body Shop case study offers an interesting illustration of this point. The Body Shop history illustrates well the struggle of a company that aimed from the outset to combine sustainability and sound business. It was to be a story of trial and error.

DISCUSSION QUESTIONS

1. How does The Body Shop distinguish itself from mainstream industry?
2. Why are The Body Shop's principles gradually changing?
3. What conditions have to be satisfied to make corporate social responsibility a success in both an ideal and a business sense?
4. How might The Body Shop retain the ethical differentiation strategy now that competitors are also more likely to be engaging in corporate social responsibility?
5. What is the basis of the success of visionary enterprises?
6. How does The Body Shop's change of course test the beliefs of employees and management?

NOTES

1. For Anita Roddick's own response, see the *Utne Reader* of January/February 1995, p. 104.
2. This account is based on (i) an interview by Jan Oosterwijk and Sigrid Hettinga with the

author and Caroline Kroes on 25 March 2004; (ii) a presentation of the new strategy by Sigrid Hettinga at Tilburg University on 21 October 2004.

3. See also the website: www.culturalcreatives.org/book.html.
4. 'L'Oréal buys Body for £652m', *The Guardian*, 17 March 2006, available at: www.guardian.co.uk/business/2006/mar/17/retail.money (accessed 19 May 2008).
5. Naturewatch, 'Naturewatch boycotts The Body Shop. They are just not worth it', available at: www.naturewatch.org/shoppingguide/News_loreal_bodyshop.asp (accessed 7 April 2006).

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PART II

CSR in Central and Eastern European countries

4. CSR in Russia

Alexander Settles, Olga Melitonyan and James Gillies

INTRODUCTION

In their splendid book *Corporate Social Responsibility: Readings and Cases* Crane et al. (2007), citing Grafski and Moon (2004), write in their section on CSR in emerging/transitional economies:

> [W]hile there is a plethora of different approaches to CSR in these countries, one might argue that in some respects Russia and China represent the most extreme cases. Russia on the one hand has seen privatization and the turn to capitalism accompanied by rather weak and corrupt governmental institutions resulting in what some would refer to 'as a cowboy economy'. It is, therefore, little wonder that CSR is still a largely unknown concept in Russia and for many Russian business people, bears strong resemblance to communist times. (Crane et al. 2007: 12)

By definition transitional economies experience dynamic change. In the case of Russia the most recent – 2008 – changes have led to a strengthening of government and the centralization of many activities in various government departments. At the same time there has been substantial growth in the private sector of the economy and a rapid expansion of interest in, and acceptance of, modern private corporate governance practices.

In 2004–06, the Corporate Governance Centre at the Higher School of Economics (Gillies and Melitonyan, 2008) offered more than five seminars in four different cities throughout Russia on different aspects of corporate governance, including corporate social responsibility. Since then the demand for education and training in CSR has become so great that the Corporate Governance Centre at SU-HSE has expanded its original mandate of teaching corporate governance to include the teaching of a wide range of offerings in CSR. The search from the expanding private sector for knowledge about appropriate corporate governance practices and CSR has expanded exponentially, and with that expansion has come an increasing acceptance of various traditional types of corporate socially responsible activities.

Some further, but totally unscientific evidence of the interest in CSR in Russia is the fact that in November 2008, if 'Corporate Social Responsibility Russia' was entered in the Google search engine, more than half a million entries – 559,000 to be exact – would be found. While this number is not as great as for other BRIC countries (Brazil, Russia, India and China; Brazil led the way with more than 2 million entries), or European countries (there were 754,000 entries for Germany and 634,000 for the UK), or the United States (with close to 1,120,000 entries), it is still a very large number and does suggest that CSR is more than an 'unknown concept' in Russia.

Many of the entries, of course, are not relevant to the understanding or practice of CSR in Russia. A simple sampling of the 559,000 entries indicates that by far the most are from private organizations that operate throughout the world who use 'the web' to explain their position regarding CSR – always reporting it as being constructive in every country where they operate, including Russia. It would appear that about half of all the entries are of this character. Another 25 per cent of the entries are from organizations involved in promoting more CSR throughout the world, another 10 per cent are from various international agencies and the balance are Russia specific. While these figures are not much more than informed guesses – the contents of all 559,000 entries were not examined – it still means that in 2008 there were in the neighbourhood of 75,000 web entries devoted entirely to CSR in Russia. While this type of general evidence is far from indicative of an overwhelming and/or sufficient interest on the part of Russian corporations in the topic, it clearly is large enough to at least question Grafski and Moons's (2004) conclusion that CSR is a 'little known concept' in Russia.

To the contrary we argue that CSR has always been of significance in a large part of Russia and is becoming a more important element in the strategies and operations of an ever-increasing number of companies in the Russian business community.

THE UNIQUE CHARACTERISTICS OF CORPORATE SOCIAL RESPONSIBILITY

One of the great difficulties in assessing and comparing CSR among various countries is the fact that the idea itself has such a wide variety of meanings. Crane et al. (2007) attempt to make some order out of the vast number of concepts by suggesting that what it means depends to a considerable degree on who is defining it – government, business associations, corporations, non-governmental associations or social enterprises

– and indicate that within these groups there are numerous approaches (ibid.: 17). If this lack of definition among different types of groups were not enough to make the appraisal of CSR sufficiently difficult, concepts of CSR also vary enormously from country to country and from time to time. Consequently, all sweeping generalizations about CSR must be considered with care. Social, cultural and historical developments of nations are so diverse that no one set of CSR principles will fit all or indeed would be appropriate for all (Dayman, 2008: 1). Certainly, the extent of CSR in Russia in the twenty-first century is a product of unique geographic, historic and political conditions.

A BRIEF HISTORY OF CSR IN RUSSIA

The Soviet Years

One of the most important reasons for the early development of CSR in Russia is the vast territory of the country, the fact that most cities in Siberia and the far east of Russia are located very far from one another, and of course, the socialist organization of society. During the Soviet years, emphasis was placed on the development of resources, and the major method of doing so was through the massive planning and construction of great industrial enterprises around which great cities were built. The consequence of this type of development was that industrial plants and cities were inextricably intertwined with one another. State enterprises (companies) not only produced products from the plants but were also deeply integrated into all the activities of the community by providing heat and power to the houses, building roads, supporting schools and so on. They also sponsored sports teams, built stadiums and swimming pools, organized sporting leagues, and funded orchestras and dance groups. Workers depended on these enterprises for the allocation of housing, transport, leisure time and vacations, healthcare and sanatorium visits and so on. Depending on one's location in the Russian Federation, the enterprise or agency that people worked for was responsible for cradle to grave services. As one historian put it: 'these cities were practically parts of the plants, embedded in the communal and social infrastructure of the USSR' (Dayman, 2008: 2). Indeed, one can make the case that state enterprises in Russia started practising much earlier and much more vigorously than most of the activities (and many more) that were later recognized as major parts of CSR in many European and North American countries.

The Transition Years

In the transition years of Perestroika, between the mid-1980s and the 1990s, as it struggled to move from a command to a market economy, Russia underwent a revolution, perhaps even greater than that of 1919. It was an incredibly difficult time when the entire structure of the economy was altered as ownership of enterprises changed dramatically. Many of the largest firms in major Russian industries ended up in the hands of a few dominant owners – the 'Oligarchs'. Thousands of medium-sized enterprises were privatized and fell under ownership and management of groups who, not surprisingly, had little or no knowledge of how private markets worked, and of the changes that had to be made in their businesses if they were to be successful. And, finally, many organizations remained in government hands and were run in the traditional fashion by people who tried to maintain the system of management in a market economy that was used under the Communist regime. The result was a period of chaos in which the managers of many, if not most, businesses did not know how to operate – there was a breakdown in their sources of supply, limited demand for their goods and little enforcement of contracts. The government was corrupt, bribery became endemic and businesses began to search for ways to cut their costs. Simply surviving became the major goal of most enterprises.

What is not sufficiently recognized in most analyses of this transition is that it not only involved the transfer of ownership rights to the private sector, but that the privatized corporations inherited responsibility for the overwhelming range of social services that the firms carried out during the Soviet period. Basic activities such as transport, heating, water and waste disposal in some cities were suddenly the responsibility of these companies and their new owners, most of whom had no interest in retaining them. In places like Norilsk, Surgut, Tyumen, Sakha (Yakutia) and other company-dominated cities, the major enterprises dropped their traditional role as social service providers as they tried to become profit-maximizing corporations. They turned over to ill-equipped local governments the responsibility of providing the infrastructure required to keep communities operating. Consequently, 'in many regions, towns and settlements all types of infrastructure – from cultural (libraries, cinema, theatres, youth groups, etc.) to transportation and communication began to collapse' (ibid.: 2).

In addition to the decline in essential services the relationship between workers and employers changed dramatically. A cornerstone of the Soviet period was the provision by employers of non-monetary benefits such as housing, healthcare, vacations, and other services. During privatization these services stopped and wages were monetarized with a much lower purchasing power. As a result, an entire generation was left without the resources to acquire housing and the other services that were normally provided by the company for which they worked.

As is well known, without the existence of a well-functioning government at any level, the situation became so out of control that by 1998 there was a shortage of almost every kind of product, stores were empty, bankruptcies were rife, bribery was endemic, local governments were powerless, the banking system collapsed and the central government defaulted on its debts. Russia became bankrupt.

The Beginning of Stability

As the end of the twentieth century approached there began to be a better understanding among Russian business managers and owners of how the market worked, more stable government emerged and because of the rapid increase in the price and demand for natural gas, oil, precious metals and agriculture products from Europe and the Middle East, Russia's major industries, which were concentrated in the production of commodities, began to prosper. Many of the largest companies that had been acquired by the Oligarchs during the privatization period, particularly under Boris Yeltsin, adopted modern management methods and were beginning to be operated effectively and profitably. As these major companies prospered so did thousands of suppliers who provided the goods and services that the giant firms needed. The prosperity of the resource industries flowed over into other areas of the economy and the increase in the rate of growth of Russia's GNP between 1998 and 2004 was possibly one of the fastest ever experienced by a modern country.

Under such circumstances it is not surprising that the first decade of the twenty-first century was a period of enormous change for Russia. During the Soviet and transition periods Russians travelled little, were not exposed to Western culture and there was very little foreign investment in the country. After the end of Perestroika, Russians from all levels of society began to travel widely, became enamoured with Western television and literature and exchange of ideas among scholars and businessmen was common. Corporations increased the volume of international trade by enormous proportions and the government joined international organizations such as the Organisation for Economic Co-operation and Development (OECD). Russia once more became an active country within the community of nations.

During this period the approaches to CSR taken by Russian firms and governments were influenced by developments in other nations and international agencies, as well as by some of the changing domestic situations. The most significant of these forces are discussed below.

Rebuilding the infrastructure

The most important issue with respect to CSR in Russia in the first years of the twentieth century was the question of who should pay for rebuilding the economic infrastructure, so vital to the health and prosperity of industry, and who should pay for the collateral social services, so important in developing and maintaining an efficient, effective workforce? The strong economic growth of the era contributed to the stability of the government and provided a base for taxation and the raising of public funds for rebuilding the infrastructure. Historically, however, the business entities paid for much of the infrastructure and for the various cultural, educational and other services that people enjoyed under the Soviet system. In short, the question of CSR was at the centre of the relationship between the now quite strong private sector and a new strong central government.

There is no question that the central government expected the private sector to play a major role in dealing with CSR issues. Indeed, at the annual meeting of the Congress of Russian Industrialists – a major trade association of private firms – in November 2004, President Vladimir Putin declared that the Russian government anticipated that Russian business would 'increase their investment in social projects, science, education and the development of the so-called human factors' (Johnson, 2004). This was a very important declaration because 'in contrast to the mid 1990's when the state was weak and business dominated many aspects of life in Russia the state had recovered most of its positions and become the leading political player in the country' (ibid.). Leaders in the private sector were well aware that in the new market-driven Russian economy a high level of CSR was expected from them by the government.

In addition, circumstances led to the private sector becoming more deeply involved in many activities that normally would not be considered as part of CSR in other countries. Unfortunately during the years of transition, when local and regional governments were in control, normal public services deteriorated to the point that they became unreliable and in some cases almost non-existent. As a result, with the return of prosperity, not necessarily because they wanted to, but for their very survival, a large number of corporations once again began to operate the municipal services in various cities – they became associated with local governments in building roads, laying gas pipelines (not only to their plants but also to residential users) and developing power and sewage disposal plants. The fact is that Russian firms once again were not only absorbing many of the basic costs of running a community but were actually managing the activities in partnership with local authorities. Indeed, they were accepting almost as much CSR as had existed during the Soviet period.

But there was a major difference from the Soviet era. Now most local governments still saw themselves as partners of the newly privatized, and in the resource centres, wealthy firms. By and large, while companies recognized and were prepared, through the payment of taxes, to share the costs of social services, many were stunned when they wanted to expand or make changes to find that local authorities often made it clear that they could do so only if they dealt with certain parties. Otherwise, it was unlikely that they would ever be able to acquire the necessary services to run their businesses, let alone expand them. In time these costs began to be known euphemistically as 'franchise protection costs'. For many businesses these bribes were simply accepted as a cost of doing business and maintaining a modicum of order in civil society.

The willingness of many enterprises to accept responsibility for such a large number of services and pay bribes was based, however, on much more than simply getting the services they had to have in order to operate effectively. The introduction of such a new concept as private ownership, even to its greatest supporters, was distressing for many people – particularly older ones. If the transformation from a command to a market economy was to succeed, companies needed all the support they could muster from the community where they were located. Consequently, instead of reducing their support for local activities they tried to maintain and increase it.

At the same time, private market-driven businesses did not want to return to the Soviet system whereby firms provided all the services. As a result, the debate about the appropriate amount of CSR in Russia is not that much different in principle from that in other economies, that is, what is the appropriate distribution of responsibility for various social activities between the private and the public sectors?

The impact of international trade and investment

One of the results of the transfer from a command to a market economy was the growth of a number of gigantic Russian corporations. As these corporations grew, propelled by the huge worldwide demand for resources, their need for capital expanded. Under such circumstances, it is not surprising that large Russian firms, mostly but not all, controlled by the Oligarchs, began to list their shares on the London and New York Stock Exchanges. When they did so they had to meet all the listing standards. While most of these standards are associated with governance questions – transparency of operations and completeness in reporting and so on – the owners of the exchanges also expect that listed companies will perform in a 'socially responsible fashion'. In spite of the fact that what this means is not clearly specified, listed Russian companies accepted that they had a responsibility to behave, however defined, in a socially responsible fashion and began to proudly proclaim in their annual reports and other literature that they did so.

At the same time as Russian companies have been increasing their operations outside of Russia, foreign firms have been investing in Russia. Many, if not most of these firms have been associated with industries – mining, energy, forestry – that in many countries have begun to operate (not always without formal and informal pressure) according to strict standards with respect to safety, disposal of waste, protection of the environment and sustainability. When these firms entered Russia they brought with them their practices with respect to issues such as safety, maintenance of the environment, conservation, pollution and so on. They are conditioned to functioning, at least to some extent, according to CSR guidelines in other countries and consequently influence Russian companies and their Russian partners to operate in the same fashion. For example, according to its various reports, TNK-BP (a Russian British firm) prepares a regional and national social investment policy annually and has active programmes for providing housing for socially disadvantaged families, preventing and treating hepatitis and supporting underfinanced medical institutions. It also supports athletic teams and organizations in the regions where it operates and publishes a social report of its activities (TNK-BP, 2006). At the very least, the foreign companies provide standards against which to measure domestic operations.

The impact of privatization on management

It is not, however, simply following in the footsteps of foreign investors and professional advisers that has led large Russian firms to engage in various aspects of CSR. In the period of transition from a command to a market economy the newborn Russian companies adopted management ideas from all over the world. Indeed, management practices that evolved in Western companies over a century were put in place in a decade with the consequence that contemporary (2008) management in many Russian companies is by any definition 'very modern'.

Once they were privatized and sought the favour of customers, businesses in their supply chains and the support of various levels of government, Russian managers realized that including sound CSR practices as part of their strategic planning led to more effective performances. For example, Severstal reported in its company documents in 2007 that it was actively reshaping the social policy it had inherited from the past and an active part of its new strategy was to work to improve the quality of life of its employees. It reported: 'social responsibility of Severstal lies within the following fields: health protection and the improvement of living standards of the company employees and of their family members and charity work [and] in 2006 the company allocated $50.8 million towards social programmes and charity' (Severstal, 2008).

While it is not as yet as prevalent in Russia as in Western countries, in recent years some Russian companies have become very active in sponsoring various types of sporting and cultural events. They are doing this not only as a marketing tool but also as a part of larger programmes of CSR. Although the scale of such activity is not large in comparison with this type of sponsorship in many other countries, for example, Coca Cola supporting the Olympics, sponsorship is a rapidly growing element in the strategy of many companies. Moreover, it is important to note that some Russian companies are providing support to national institutions of higher education by paying the tuition of talented students and supporting the research of faculty members and young professors.

From an examination of annual reports and other documents it is clear that the very large major corporations are committed to incorporating their values and ethics into everything they do – from how they run their businesses, to how they treat their employees, to how they impact on the communities where they live and work. The extent to which they live up to their commitments is a matter for review and reporting, and such reporting is not as extensive in Russia as in many other countries. However, it would be quite incorrect to suggest that the highest level of management at major Russian corporations are unaware of the major CSR issues and that they are not taking at least some of them into consideration in their strategic business planning. It is not only because of a desire to be accepted among the great companies of the world, the consequences of history and the wish to cooperate with government goals that they are doing so, but also because they know that in the long run CSR contributes to the profitable operations of their companies.

The impact of philanthropy

There is a very long tradition of private philanthropy in Russia. As early as the seventeenth and eighteenth centuries, Russian merchants and noble families held magnificent parties, balls and poetry salons to introduce striving artists, dancers, musicians, poets and writers to the public. In the nineteenth century, Russian patrons of the arts such as Mamontov and Morozov were known throughout Europe for their great collections of unique artworks. During the Soviet years these collections, among many others, were nationalized and exhibited in national museums of arts.

During the Communist period there was no such thing as corporate or individual philanthropy. There was, however, under every leadership, one constant – strong support for cultural activities, particularly music and dance. The Russian Opera Company and the Ballet Russe both became organizations with worldwide reputations. Indeed, ballet has become a symbol of the culture of Russia. The support for these and similar cultural organizations by the Russian people and their governments has always been strong.

In recent years, private philanthropy has increased substantially. Indeed, many wealthy Russians are duplicating the role of the American tycoons who at the end of the nineteenth century filled their mansions with pictures and other types of art from Europe. The degree of large Russian corporations' involvement in various philanthropic activities, particularly in the field of arts, is so great that Russian collectors are now a very significant factor in the world art community. Indeed, in recent years, Russian Oligarchs have been among the leading supporters of contemporary artists (Thompson, 2007) and it is highly likely that many of their acquisitions will end up in Russia. In fact, it is already happening. In 2008, art collector Stella Kesaeva, wife of Russian billionaire Igor Kesaeva, 'signed an agreement with the Russian culture ministry to open a museum of contemporary art in Moscow in a bus garage built in the 1920s by modernist architect Konstantin Melnikov' (Art Newspaper, 2008: 1).

Private philanthropy of the nature and scale found in the United States, for example, where almost every citizen to some degree supports the United Way, which is based on fund raising from individuals by the companies in which they work, or the Red Cross, which mounts mammoth campaigns directed at individuals for funds, is not widespread in Russia. However, the situation is changing primarily because of the influence of foreign firms that have either invested capital in Russian organizations or established branches in Moscow. For these firms, such charitable giving is a part of their general operations – they support all types of charitable activities in other countries and so it is only part of their normal operations to support not-for-profit organizations doing important work in the areas of health, education and general welfare in Russia. Once it became the standard practice of foreign professional firms in Russia to accept some corporate social responsibilities it was not long before Russian firms, often clients of these professional organizations, followed suit.

The impact of international and national organizations

There is no question that the concept of CSR has entered into the lexicon of Russian business culture. The major Russian business associations such as the Russian Union of Industrialists and Entrepreneurs (RSPP), the Association of Russian Managers and the Russian Chamber of Commerce and Trade have followed in the path of their Western colleagues and focused attention on setting guidelines for businesses' role in society. The RSPP (once known as the group of 'red' directors) has adopted a Social Charter that outlines businesses' role in society and encourages its members to become an active part of the communities within which they operate. In addition to business associations' efforts, non-governmental organizations (NGOs) have facilitated CSR's entry into Russia by sponsoring over 30 seminars and conferences on CSR since 2004 and by the translation of international standards on CSR reporting into Russian.

The United Nations, through the UN Global Compact[1] has reached out to Russian business and government leaders to be a part of the UN's programme to engage business in solving social and environment problems. It publishes a quarterly that reports on developments associated with CSR in countries throughout the world:

> [A]t the beginning of 2007 CSR and sustainable reporting were part of the business practices of more than 40 Russian companies. Fifteen of them featured such reports as a separate section of their annual reports, while eighteen produced separate social reports, eight reported on sustainable development and the remaining four issued environmental reports. Thirteen of these documents were prepared on the basis of methodology and indicators of international standards. (Kostin, 2007: 3)

The UN has also sponsored information, research and consultative activity to develop CSR practices in Russia.

While most Russian businesses and business organizations have addressed social and political risks, only a small vanguard of Russian businesses has begun to address the environmental issues related to CSR. However, change is coming. The Association of Russian Managers has included an environmental component to their definition of CSR. It is reported that the adoption of environmental sustainability policies and a mechanism for reporting how they are enacted is in the initial stages in 43 companies (Kostin, 2007).

Environmental protection in Russia remains primarily a compliance issue. Most Russian business leaders still believe that international standards of environmental management are too costly and therefore major Russian companies have not focused on these issues and have not been anxious or ready to participate actively in international ratings. Unfortunately, currently only four Russian companies provide environmental reports.[2]

Some Russian national rating systems have also been developed: Environmental Responsibility of Biggest Russian Industrial Enterprises, the ratings of the International SocioEnvironmental Union and the

Independent Environmental Rating Agency. The value of the ratings varies but they are all designed to encourage Russian enterprises to incorporate social goals – broadly defined – into their strategic planning. In 2006, the International Design Bureau published its first rating of corporate responsibility of Russian firms based on the methodology of the international think-tank AccountAbility – the leading five Russian firms were OJSC Norilsk Nickel, OJSC Lukoil, OJSC UES of Russia, Severstal-Group and OJSC Novolipetsk Steel.

CSR in Russia: The Defining Difference

There is a defining difference between CSR in Russia and CSR in the Western world. It is being developed, analysed, scrutinized and judged in a country where within the memory of many citizens all services were provided by the state, Not surprisingly, CSR is more closely linked with the political, social and economic history of Russia than it is in any other modern industrial country. In most Western industrialized countries the great issues of CSR are associated with deciding what social issues are the responsibility of corporations that should be undertaken by business in a voluntary manner, and what are the responsibilities of governments. The fact that in Russia the state indirectly delivered all social benefits during the Soviet period and the privatized corporations did so in the transition and post-transition periods greatly complicates the issue. It is within this historical background that the current development of CSR in Russia is being worked out.

The great economic growth since the 1998 crisis, combined with high commodity prices, has created an expectation that the major Russian companies, particularly in the oil, gas, metals and mining and manufacturing industries, should readopt much of the general philosophy of the Soviet period. Those who clearly understand the nature of privatization recognize that the private company is now a totally different instrument from the company of the Soviet era, and cannot deliver all expected benefits and remain competitive in the free market. Many of the largest companies in Russia have been caught up in this legacy of the past. Both workers and governments are seeking a return closer to the Soviet model when companies paid for and delivered almost all services. Companies, of course, are resisting attempts to have them accept these costs.

Consequently, the debate about CSR is not simply about the voluntary acceptance of certain social, cultural or economic responsibilities by business but a discussion of the entire spectrum of social services. In recent years (2008) governments at all levels have stressed the need for profitable Russian corporations to improve the social benefits and infrastructure in the areas in which they operate. In response, business corporations through their various associations are constantly seeking a role in the long-term planning process in an effort to manage the expectations of governments and the public with regard to the appropriate scope of CSR activities of Russian companies. Moreover, many companies are trying to move away from programmes designed on the Soviet collective basis by putting in place policies that meet the needs of targeted groups of employees such as young specialists and highly skilled experts whom they wish to retain.

While debate about the distribution of social costs between business and government is not unique in most countries, it is of a different nature in Russia. The question in Russia is not whether it is appropriate for businesses to take on many socially oriented activities in the name of CSR, but rather whether it is responsible for businesses to give up activities that because of history and change they have for one reason or another been forced to take on in the past. This reversal in Russia of the situation found in other countries, and more importantly of the assumptions that underline the bulk of research and writing about CSR, may imply the need for a unique set of strategies and tactics for the proponents of an effective approach to CSR in the new world of free markets in Russia.

CONCLUSIONS

All of the above factors – the need to rebuild infrastructure, the impact of foreign trade and investment, the adaptation of contemporary management methods, the development of philanthropy and the work of international and domestic organizations – have had an impact on the development of CSR in Russia.

There is a long history, dating back to the Soviet era, of CSR in Russia, if CSR is defined in terms of the relationship of business organizations with the society of which they are a part. During that period, under a socialist philosophy, companies provided 'cradle to the grave' services to their employees and the cities where they were located. However, in the great transition from a command to a market economy to all intents and purposes all CSR disappeared in the midst of the general chaos. During the recovery at the end of the twentieth century, because of the breakdown in the normal infrastructure and social services during the transition, many companies became involved with governments in undertaking activities that in most industrialized countries would be considered solely the responsibility of governments. As the economy has grown and companies have prospered, the debate about the appropriate balance between private support and government support for such services has increased.

There is no doubt that large Russian companies are aware of the traditional notions of CSR and more importantly accept that it is in their interest to include them in their corporate strategies. The major companies have adopted both internal and external policies designed to improve the well-being of their employees in terms of health, housing and a vast array of educational and recreational and cultural programmes.

The focus of Russian firms with respect to CSR is primarily on domestic issues. So far there is limited interest in issues of global warming, environmental protection, fair trade, or carbon footprints of business activities. The major push for consideration of CSR by Russian firms in these broad areas has come primarily from firms in the resource industries in which foreigners have major investments. There is only a modest level of interest in international standards, and consequently public reporting according to standards of international organizations is low in Russia. Teaching about CSR to management teams has expanded rapidly, and CSR is by no means a foreign concept to Russian managers.

Corporate social responsibility in Russia has developed in response to the history and politics of the country. As such it has followed a very different pattern from that of other non-socialist countries. Given the fact that the Russian market economy is still very new, the implementation of CSR, as has been the case in the implementation of corporate governance, is still a thin, but thickening, crust that occurs primarily in large firms that have an international profile or which have been influenced by government to engage in CSR activities.

KEY LEARNING POINTS

1. If a socialist society for some reason decides to change from a command to a market economy, it is vital that plans be made to maintain public services. Failure to do so will lead to chaos.
2. Local governments who for years have not been in the business of providing local infrastructure are ill-equipped to take on the responsibility when the transition from a command to a market economy takes place.
3. Privatized companies must be in a position to continue to supply during and after a transition many of the public services and much of the infrastructure that they supplied in the socialist era.
4. Failure to make such plans will result in chaos. In 1998 it led to the failure of the Russian economy.
5. A strong government is an important factor in encouraging CSR.
6. Modern management techniques and methods flow rapidly and freely among open societies.

7. Knowledge about CSR is widespread in Russia and is growing.
8. A major force in acquisition of knowledge about CSR in Russia has been the listing of shares by large companies on foreign exchanges.
9. Foreign investment and foreign advisers to Russian firms have been significant forces in bringing knowledge about CSR to Russia.
10. Educational institutions in Russia have been instrumental in spreading knowledge about CSR.
11. Formal international agencies, international NGOs and similar organizations are well known in Russia and have had some influence in promoting CSR.
12. CSR is an important element in the strategic planning of the larger Russian companies and of large Russian companies with foreign partners.
13. Even among larger firms, CSR is focused much more on domestic than on international issues.
14. CSR is only recently becoming a factor in medium-sized and smaller Russian firms.
15. Philanthropy among major Russian companies and business leaders has become significant, particularly in the field of art.
16. As companies mature in the relatively young free market in Russia, they will unquestionably follow the practices of other industrial countries and embrace greater levels of CSR.

DISCUSSION QUESTIONS

1. How significant is the culture and history of a country in determining the degree to which the business community exhibits an interest in CSR?
2. Would Russian workers have more of the benefits of CSR, as identified in Western industrialized economies, if they were still under the Soviet system?
3. Did the collapse of Russian society during the transition from a command to a market economy have a major impact on the development of CSR in Russia? If so, how?
4. With increasing prosperity and stability in Russia, will foreign advisers and firms continue to have: (i) as much influence on the acceptance of CSR in Russia as they have had in the past; (ii) less; or (iii) about the same amount?
5. Which factors will induce Russian corporations to become more involved in the major international issues of CSR – climate change, sustainability, cleaner environments?

NOTES

1. The Global Compact is a partnership of the Office of the United Nations Commissioner for Human Rights, the International Labour Organization, the United Nations Environmental Programme, the United Nations Industrial Development Organization and the United Nation of Office of Drugs and Crimes.
2. OJSC Gazprom, OJSC Ryasan Grez, OJSC Arkhangelsk Pulp and Paper Mill and OJSC Northwest Forestry Company (OJSC: Open Joint Stock Company).

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5. Responsible business in Polish economic practice: the experiences of the Camela S.A. Factory of Clothing Inserts

Izabela Koładkiewicz

INTRODUCTION: AN OVERVIEW OF CSR IN POLAND

The state of advancement of implementation of the concept of corporate social responsibility (CSR) in Polish business practice continues to demonstrate that there is still a lot to do (Gasparski et al., 2004). Nevertheless, with the passing years it is possible to observe growth in an awareness of this subject not only among the implementers of the concept – businesses – but also throughout society. This is confirmed by an analysis of the six successive *Responsible Business in Poland* reports (from the years 2002–07) published by the Responsible Business Forum[1] (Koładkiewicz, 2008a). In spite of the fact that the picture of CSR in Poland emerging from this analysis presents only a segment of the greater whole, it demonstrates the increase in awareness of this topic in Poland. Expectations on the part of society concentrate on guaranteeing decent work and ethical behavior by the business world (Kalata, 2006, p. 7). This is pointed to not only by the results of research carried out among employees, but also by court sentences condemning employers for not paying wages (for example, Biedronka and APART) and the increasingly strong involvement of the media in promoting the concept of responsible business – for example, the 'White Ribbon' campaign promoting clean principles and respect for workers' rights (Kapcewicz, 2004, p. 7; UNDP, 2007). More and more voices are also being aired on the topic of responsible business by public partners and government administration (UNDP, 2007).

In the case of companies, it is possible to observe that the balance is slowly shifting from expressing mere interest and declarations of undertaking actions in the future to real implementation of ventures and programs tied in with responsible business (in the form of various social involvement programs, worker volunteer work, codes of ethics, public reports, educational efforts, and the introduction of socially useful products to the market, as well as the implementation of best practice in corporate governance and investments for environmental protection). This trend is confirmed by the continuously increasing number of program descriptions submitted each year to the authors of *Responsible Business in Poland*. One of the sources of these changes may be companies' growing interest in the idea of CSR in their local community (Wierzbowska and Kuraszko, 2006, pp. 12–13).

Another encouraging matter is the gradual evolution in the approach of companies to the idea of CSR. They are gradually starting to perceive it as more than mere actions aimed at improving their image. With increasing frequency they are moving beyond charity work. The number of long-term programs is also growing. This positive change is just the beginning of the road, however. Domestic companies are still plagued by a lack of knowledge and familiarity with professional instruments facilitating the effective implementation of the standards and principles of responsible business. This may be why they continue to prevaricate on a declarative level.

Another challenge is seeing the need to look at CSR as an essential element of company strategy. A strategic dimension should encompass the building of relations, especially long term, with stakeholders. A starting point for the implementation of this task should be the identification of all stakeholders, not just the most important ones (who are usually well known and well provided for), discovering their interests, creating effective channels for communication and innovation, and the continuous management of relations with them.

Summarizing, in spite of identified weaknesses, the Polish business world is making progress in the sphere of CSR, albeit it is the international corporations that continue to be the leaders. However, small and medium-sized enterprises are also beginning to participate. Furthermore, there has been a gradual ripening in the market vicinity, where the debate on the topic of CSR is encompassing ever-larger circles. In sum, we know what the concept of CSR is. The remaining problem is its effective implementation in real life, and how to solve this matter is among the more important challenges to be faced in the near future.

The objective of this chapter is to demonstrate actions in the realm of CSR implemented by the Camela S.A. Factory of Clothing Inserts, operating in Wałbrzych and Mieroszów in Lower Silesia.

Information obtained through interviews with two representatives of the management board procured over several hours was used in preparing this case study. The interviews were of a free-flowing character and were conducted on April 14 and 15, 2008 at the company offices in Wałbrzych.

Company documents and its internet pages served as a source of supplementary data on its CSR activities. Other observations were provided by visits to the manufacturing plants in Wałbrzych and Mieroszów.

A basic limitation of the study is the one-sidedness of opinions received. The interviews involved only the management board members. However, thanks to the open stance of the management board, it may be possible to conduct questionnaire studies among company employees in the future. The purpose of such studies would be to discover employees' opinions and approach to the concept of responsible business as well as learning their views on Camela practices in this area to date. The results of such a study will serve as an interesting supplement to this set of observations.

HISTORY

The Fabryka Wkładów Odzieżowych Camela S.A. (Camela S.A. Factory of Clothing Inserts) was formerly the Wałbrzyskie Zakłady Przemysłu Lniarskiego (Wałbrzych Factory of Flax Industry), which was established in 1951 in Wałbrzych in Lower Silesia.[2] It was a state-owned enterprise. The plant was active in the textile industry and manufactured linen, tow, deckchair, towel, and bed linen as well as fabrics for printing and harvest cloths.

The transformation of the Polish economy, launched in 1989, did not bypass the factory. It changed its name to the Camela Factory of Clothing Inserts (Camela) that same year and commenced the process of privatization in 1994. The outcome was the establishment of a worker-owned company in 1995, with 100 percent of the equity in the hands of the Camela employees. The property of the liquidated state treasury enterprise was taken over and used by the new company for a fee on the basis of a leasing agreement. In 1999, the company took over the assets completely. The joint stock company remains in the hands of its workers to this day, where top management hold a 50+ percent stake, while the rest of the shares are owned by the remaining employees.

CAMELA TODAY

Camela is among the few major companies (employment in 2007 amounted to 314) in the Wałbrzych region that not only managed to survive the difficult transformation period, but went on to develop and achieve success in a market economy. The latter finds confirmation in awards won by Camela in various fields each and every year (Appendix 5A contains a list of awards) as well as in its position as a leader in the Polish market.

To a great extent the following factors have contributed to the company's success, enhancing its competitive advantage:

- well-considered investments in modern technology, where the replacement of the machinery was a long-term process, not a one-off event. Thanks to this, today's Camela has at its disposal one of the most modern plants in the world;
- a strong orientation towards product innovation; and
- quality considerations: from its very beginning, the question of quality was among the key tasks at Camela. Thanks to its implementation, the company received a TÜV CERT PN-EN ISO 9001:2001 Quality Management System 2004 certificate as well as an Öko-Tex Standard 100 certificate for clothing inserts with thermoplastic adhesive, which confirms the human- and environmentally friendly nature of company products.

The continuously expanding product assortment includes clothing inserts (woven and knit, including elastic and bi-elastic), sewn inserts (shirt and tie inserts), thermoplastic adhesive footwear inserts, auxiliary materials for the manufacture of leather and fur products, canvases for hand embroidery, lambrequin stiffeners, composites and laminates, and related services, as well as weaving and knitting threads and yarns.

Camela's main markets, in terms of sales, are those in Europe, particularly in Poland, where Camela is successfully competing with three main competitors who hold approximately 60 percent of those markets. Moreover, Camela products may also be found in American, Asian, and African markets.

CAMELA: CONTINUOUS CARE FOR WORKERS, A VALUABLE LEGACY LEFT BY THE STATE ENTERPRISE

There is no doubt that among the important challenges for every company facing up to the concept of responsible business is guaranteeing employees 'decent work'. This means that the employer 'not only disburses salaries and forwards ZUS [Social security premiums] on time, but also creates decent working conditions, observes worker rights, and does not exploit the employees, but works towards their development and treats them as partners' (Kapcewicz, 2004, p. 7).

In the view of the management board, Camela is implementing the above task, albeit the term 'socially responsible business' is not formally used within the company. This view of the management board is confirmed by several prizes and awards received by Camela, including winner of the Fair Play Enterprise competition in the years 2002, 2004, 2005 and 2006 for reliability in their relations with suppliers, customers, and staff, and acknowledging the company as an Employer Organizing Safe Working Conditions in 2001 by the Wrocław District Labor Inspectorate, which awarded First Prize to the CEO in the group of companies employing over 250 people.

In characterizing actions undertaken in the interest of workers, members of the management board stressed the socialist past of the company. Camela operated as a state enterprise up to the period of systemic transformation. It was privatized in 1994–95 through worker privatization, whereby the employees became the company owners.

The persistently manifest state enterprise pedigree is, to a great extent, the result of the top management core being formed by managers who have been involved with the company for more than 30 or even 40 years. The CEO has been involved in its management since the 1960s. When installed as director in 1965, he assembled a new managerial team, which today continues to manage Camela. Years of work in a state enterprise as well as life in a socialist country continue to have an impact on his approach to workers – it is characterized by caring and respect.

Mutual relations between the managerial staff and workers are also influenced by long-term collaboration, which has existed under diverse conditions. It encompasses both the period of the centrally planned economy and the almost 20-year period of a market economy. Regardless of the character of the economy, the company has had moments that were both good and bad. Experiencing such moments together created the foundation for mutual trust. Note that just like the top management, most of the workers at Camela can also be characterized by their employment stability. Most of them have been employed by the firm since the1960s and 1970s. For many, Camela was and is their only place of employment. The result of this situation is the rather high average age of the workforce, which is approximately 40. The first major influx of 'young blood' occurred in 2007, but it did not encompass the top management.

Since the 1990s, the level of employment at the company has fallen significantly. Camela employed 690 in 1990; 10 years later the figure was only 371. A certain stability may be observed as of the year 2005, when the employment level was 314. Currently, the outflow of staff is the result of a natural passage into retirement, rather than a restructuring led by company needs. Workers rarely resign of their own accord, although there are single cases of departures resulting from an organizational mismatch.

There can be no doubt that a continuous reduction in employment is among the painful processes that have taken place in the company over the past 18 years. Moreover, the complexity of this process was also predetermined by the situation in the local labor market, which was very difficult. With the closing of all mines during the 1990s, the Wałbrzych region experienced structural unemployment of 27 percent. By 2008 it was approximately 18.4 percent,[3] while the unemployment rate for the city of Wałbrzych itself amounted to approximately 13 percent (December 2007).[4]

In the case of Camela, which is among the few companies that survived the transformation period in this region, the means of reducing the workforce subject to such conditions created a significant challenge for the managerial staff. Aware of the complexity of the situation – the necessity of satisfying the economic needs of the organization versus its status as one of the few employers in the region – the top management put in significant effort to find a solution, striving to reconcile these contradictory challenges. They felt responsible for their workers; decisions regarding layoffs were taken with great care and their basis was always the possibility of the fired employees receiving other social benefits (for example, early retirement). In fact, this approach to layoffs remains to this day.

Another event that left its mark on management–worker relations is certainly the privatization of the company. Both rank-and-file workers and the top management were a party to it. Consent for such a form of privatization as well as broad participation in the transaction was, to a great extent, the result of trust in the managerial staff, which was its initiator. At the same time, the top management undertook actions aimed at facilitating the participation in the privatization process of the largest possible group of employees. Among methods applied were payments of bonuses from special company funds as well as the granting of low-interest credit for the purchase of stock, and a wide-ranging campaign to convince workers as to the benefits of the concept of worker privatization. The result was the launching in 1994 of the process of privatization encompassing 670 employees, of whom 517 purchased stock. Currently, Camela continues to be the property of its workers, where over 50 percent of its shares is in the hands of the management board while the remaining shares are at the disposal of workers.

Another noteworthy factor is that Camela employees are endowed with business sense. This is demonstrated by the results of a questionnaire-based study conducted among workers in 2007 as well as in their approach to problems constantly cropping up in the company. For example, 2006 was a tough period for the company due to a lack of orders. The situation was serious enough to consider halting production, which created the threat of worker layoffs. In looking for a solution, the management board proposed restrictions on working hours, which signified a fall in wages, but simultaneously avoided layoffs. The management board submitted this compromise to the trade unions active in Camela, but they rejected the idea. In response, the management board decided on a meeting with all employees in order to present its proposal for solving the problem directly. The CEO met with the entire workforce in one of the production halls, where he presented the solution proposed by the management board. The outcome of this meeting was consent on the part of the workers to implement the idea, in spite of the fact that it signified lower wages – it guaranteed that there would be no layoffs. Note that a major factor in obtaining the employees' consent for implementing the management board's proposal was the trust which they had for the CEO as well as the other management board members. Years spent working together characterized by top management stability created a good foundation for mutual trust and reinforced the management's credibility among the workers. This undoubtedly fosters collaboration and a striving towards consensus. It should not be forgotten that the situation in the local labor market continues to be difficult, which may impact on the position of Camela employees with respect to the top management's proposals (agreement to work together rather than opposing everything).

Statements by representatives of the top management point to yet another dimension derived from the company's state enterprise pedigree: there is no major competitive pressure among workers. The positive aspect of this situation is the absence of any 'rat race', which influences the good working atmosphere in the company.

In addition to the valuable components of Camela's state enterprise legacy (that is, respect for workers and a good working atmosphere), there are also some negative influences/leftovers. These include expectations among workers for a continuation of activities in their interest that they experienced during the era of a socialist Poland. This stance is especially common among workers who were already working for Camela at that time. Employment in only one job and no experience in working for any other employer, particularly private employers, fosters a lack of appreciation for what workers actually have. To a great extent this factor is responsible for some workers adopting a position of passive recipient rather than noticing all the actions being taken with their interests in mind. Certain such activities are being continued at Camela in spite of the change in status from state enterprise to private company. Their scope has been limited, however. Among them is a subsidy for worker vacations (at present, most of the costs are covered by the worker, as compared with such costs being paid by the state during the socialist period). Moreover, the company pays for summer camps for the children of all employees.

An example of management care for workers is also seen in the interest taken in their health. A nurse is always on duty in the company and a physician is available twice each week. The organizing of all sorts of preventive checkups encompassing all employees is another initiative of the top management. Furthermore, in the event of illness, a worker can count on support from the company (including in the form of subsidies for the purchase of the necessary medicine at the local hospital). A recent management board initiative exemplifying its caring stance for the health of its personnel is the introduction of a bonus for not smoking. The trade unions demonstrated their disdain for this idea, but the workers themselves accepted it.

Care in providing a ‘friendly’ job station is among activities aimed at creating decent working conditions. In the case of Camela, use of modern technologies forces the continuous modernization of the production halls. As a result of these efforts, working conditions in production divisions are improving all the time. Great stress is placed on cleanliness on the factory floor as well as providing workers with a functional staff room.

Activities undertaken in the interest of workers at Camela are not restricted to providing them with a sense of security and good working conditions. Possibilities for personal development make up an important component. Investments in worker development vary in form – for example, the organizing of in-house training, including English language courses, and financial support for employees going to college as well as subsidies for college costs.

The company top management aims to identify the development needs of its staff and tries to meet them. For example, noting a lack of familiarity with the specifics of the textile industry among ‘non-textile’ workers, it organized post-graduate studies with the assistance of the University of Bielsko–Biała. The curriculum was specially developed to meet the needs of Camela and was intended to expand the knowledge of this group of employees about the textile industry. Classes were held over weekends at the university. Over a dozen people took part (and only two people dropped out).

Another method of stimulating worker development is the creation of conditions fostering innovative behavior. Camela’s top management is aware that in today’s climate a lack of innovation can mean the quick passage of a company into an economic limbo. Hoping to secure a continuous influx of innovative solutions, work has been launched on new regulations intended to encourage all employees to put forward ideas connected with the application of new manufacturing solutions. This means that each and every Camela employee can become a source of ideas. Each idea will be checked by the research and development department, and, if tests are successful, the originator of the idea will participate in the profits.

Stimulation of innovative behavior among company workers points to the implementation of another aspect of the CSR concept – the guaranteeing of sustainable development.

One aspect of the concept of responsible business is for the company to treat its workers as partners. This cannot be accomplished without dialogue. In this context, the creation of good communication channels between workers and the managerial staff becomes a major challenge. An increase in management activity in this sphere can be observed at Camela over the past year. The above-mentioned questionnaire study conducted among employees in 2007 was an attempt to expand applied communication instruments. Until the study, the main worker communication channel consisted of bulletin boards hanging by each production hall, which enabled workers to learn about the most important information related to company operations (for example, regarding quality or output). This method of communication has many limitations, however. First, information flow is in one direction (from the top management to workers), meeting the needs of only one side. Second, it is questionable whether workers actually read the information and announcements displayed on the bulletin boards.

Currently, the new form of communication that was inspired by the results of the study, which demonstrated a need to decrease the distance separating the managerial staff and workers, is to set up meetings between the president of the board and individual groups of workers. A total of 12 such meetings had already taken place by April 2008. They were organized in the 4th quarter of 2007 and the 1st quarter of 2008. The objective of the meetings was to discuss the workers' problems, and their expectations with respect to the management, and to pass on information about the situation of the company. The meetings proved popular among the employees, but they also provided several interesting insights into how the workers felt and their views on what is happening in the company. Furthermore, the CEO of Camela valued this formula for communications very highly. The idea was put forward to make such meetings a permanent fixture and organize them once every two years, for example.

Data gathered during such meetings can be a useful starting point for further improvement in managing worker relations. For example, the need to change the behavior of foremen with respect to their subordinates is something that must be tackled. Research has demonstrated a lack of sufficient skills on the part of foremen in managing workers. The top management is now considering various solutions, including the organizing of training for foremen aimed at increasing their knowledge of managing people.

Camela activities targeted at workers are not limited to questions involving the creation of a friendly work environment. A festival for workers has been organized annually at the Mieroszów stadium (the site of one of the company's production plants) for the past several years. Other residents of Mieroszów can also take part, but they must finance their participation themselves, whereas Camela employees are funded by the company. These events have proved very popular, which is borne out by worker attendance as well as interest on the part of the local community.

Camela experience to date demonstrates that the absence of use of the term 'corporate social responsibility' as well as of familiarity with the theoretical principles behind this concept in no way impedes practical implementation. Camela's top management is acting intuitively in accordance with the concept of CSR. In their quest for an answer to this phenomenon, representatives of the management board strongly stressed the socialist past of the company as well as their own experiences of living during that period and working for a state enterprise. A factor that is also responsible for the friendly approach to workers is employment stability, both in the case of the top management and the workforce. To a great extent, this plays a part in mutual understanding, which fosters trust.

It may also be assumed that the process of worker privatization with the participation of all interested employees might also have played a role in the increased level of responsibility of the company. This is especially likely in the case of members of the management board who became the owners of over 50 percent of Camela's shares as a result of the privatization.

There can be no doubt that with respect to actions in the realm of CSR, Camela has a solid basis for their further development. One of the major challenges remaining is an increase in awareness of the assumptions behind this idea among workers, and thus a change in their position from passive recipient to active participant in these processes. A good starting point may be the development of the code of ethics that is already functioning in the organization, albeit not in written form.

CAMELA AND THE LOCAL COMMUNITY

Camela actions targeting the local community can best be described as 'dispersed' because they are directed at many recipients. They mainly take the form of financial support. The company's management board is of the view that it is better to provide support for many with small amounts than to use a large sum of money in support of one. With such an approach, the company's beneficiaries receive amounts ranging from several hundred to tens of thousands of Polish zlotys (PLN).

The company's charity effort is mainly directed to those in need who are located in its area of operations as defined by the manufacturing plants in Wałbrzych and Mieroszów. The main recipients benefiting from Camela aid include local sports clubs and schools, which receive financing earmarked for the procurement of sporting equipment and supplementary meals for children.

There are also individuals among the beneficiaries of Camela's charitable activities, who have approached the company and requested assistance directly. For example, the company provided financing for two marathon runners, making it possible for them to participate in marathons organized around the world. Among other occasional activities is support for the theater in Wałbrzych as well as collaboration with the Wałbrzych city authorities in developing a brochure about the city and a subsidy for the local hospice. There is also the annual Mieroszów festival, which, although it is primarily organized for company employees, is open to residents and provides them with a welcome local attraction – the community is small and there is not much variety in terms of entertainment.

Actions in the interest of the local community meet the needs of the moment rather than being a component part of the company's long-term intentions. Moreover, the local community is the primary initiator of such efforts, which are directed at Camela when the company is asked for concrete help.

The company has no written procedures or rules regulating this sphere of its activities. Nor does it have a specific independent job position dedicated to collaboration with the local community. The only systemic solution is that the management board has made the president of the board its plenipotentiary with regard to decisions in this area (the president of the board is empowered by the board to set the level of the subsidy). The usual procedure is to submit such matters at management board sessions when signals from the local community suggest a need for support for or involvement in a given venture. Decisions regarding the granting of a subsidy or company involvement in a given venture are based on not only the logic or value of the idea, but also the economic situation facing Camela. An important aspect determining consent for assistance is trust on the part of the management board in the potential beneficiaries.

In the view of Camela's CEO, a stable company situation is a prerequisite to company activity in the interest of the local community or other stakeholders. In times of change – for internal organizational reasons or as a result of events in the community – all effort is concentrated on addressing company difficulties. Support for others activities drops into the background.

Although Camela's community activities are, for the most part, on a day-to-day basis in response to needs as they materialize, support for schools and sports clubs has a long tradition lasting more than 10 years. Essentially, this can be considered a long-term commitment.

The experience of one of the management board members suggests that for more than a dozen years, Camela's collaboration with the community has been characterized by fluctuating intensity as well as changing numbers of cooperating stakeholders. For example, he currently sees a trend of decreased collaboration with the municipal authorities. At one point such cooperation was very active, where a tangible effect was co-financing for the construction of the sewage treatment plant in the 1990s. The reason for the present situation is a fall in interest for such operations on the part of the municipality.

Another example of a weaker collaboration concerns Camela's support for the local hospital, whose current director seeks financial support (for example, for the purchase of medication needed by the hospital's patients) significantly less often than had been the case a few years ago. Camela's top management does not know the reason for this situation.

In spite of a strong orientation towards the local community, Camela also undertakes actions targeted at recipients beyond it. Such beneficiaries include vocational textile schools throughout the country. Using its more than 55 years of tradition in the textile industry as a foundation, the company tries to provide support by supplying all manner of materials that are useful in teaching the profession, including sample inserts, product catalogues, and brochures. An interesting formula for assistance is also the possibility of visiting the plant and organizing work–study programs for students.

In summarizing the involvement of the company in the community, what should be stressed is its strong local community orientation defined by the location of its manufacturing plants in Wałbrzych and Mieroszów. Currently, the main beneficiaries of this aid are children and youths attending local schools or local sports clubs. As expressed by a Camela management board member, such activities are considered as 'investments in our own region'. At this point it is worth reiterating that all Mieroszów residents can take part in the annual festival organized by the company for its employees.

The experience of Camela demonstrates that a lack of any long-term plans for action in the interest of the local community in no way interferes with continuous support, albeit these efforts are of a one-off nature, dispersed, and usually initiated by external stakeholders. In line with its potential, the company tries to assist the local community. This is why the gradual fall in interest among Camela's local institutional partners in collaboration aimed at improving the lot of the community is a reason for concern. The present representatives of the management board have the impression that there is a lack of interest on the part of the authorities in the region to maintain and develop such collaboration.

Although the assistance offered to the local community by the company is not systemic in character, it is seen as such by that community. However, as one of the management board members claims, this does not translate into the company's position in the region. Among the important factors responsible for this state of affairs, a board member singled out the industry in which Camela is active, as the textile industry is considered uninteresting and not offering any exciting possibilities for development.

CAMELA AND THE ENVIRONMENT

Camela's pro-environmental orientation is primarily expressed in its efforts to provide products that are people and environmentally friendly. The actions the company undertakes are aimed at meeting human–environmental requirements currently in effect in relation to standards for products that come into direct contact with the skin. Camela is one of 6,000 companies throughout the world that have implemented and apply the Öko-Tex Standard 100 certificate. The Öko-Tex certificate, which rates the environmental qualities of products, is a guarantee that the products are free of hazardous substances in concentrations that have a negative impact on human health (safe textiles). Moreover, Camela products meet legal regulations in force in Europe with respect to the application of azo[5] dyestuffs.

Camela strongly stresses its involvement in the manufacturing of products that are optimized in terms of human ecology as well as that they are tested and certified by textile institutes recognized throughout the world. An important effect of involvement in the certification system, stressed by the company, is the specification of safety standards for end-users in the textile industry chain.

For its part, care for the immediate natural environment is fostered thanks to Camela's completely modern manufacturing technologies.

CONCLUDING COMMENTS

The above presentation of the practice of Camela in implementing the CSR concept is a successive element expanding our knowledge of implementation of the idea subject to Polish conditions (for a summary see Table 5.1). Analysis of current experience of the company shows that

Table 5.1 Benefits provided by Camela for employees and the wider stakeholder community: summary

Benefits for Camela employees	Benefits for Camela area
Employment stability Decent working conditions A 'friendly' job station – continuous modernization in the factory Possibilities for personal development Good communications with workers Friendly approach to employees Subsidies for worker vacations Free summer camps for the children of all employees Nurse always on duty in the company and a physician is available twice each week In case of illness a worker can count on support from the company Bonus for not smoking Festival organized each year in Mieroszów	1. Benefits for the local community: Main recipients: local sports clubs and schools – financing for the procurement of sporting equipment and supplementary meals for children Financial support for two marathon runners, making it possible for them to participate in marathons organized around the world Support for the theater in Wałbrzych as well as collaboration with the Wałbrzych city authorities in producing a brochure about the city, and producing a subsidy for the hospice Festival organized each year in Mieroszów Co-financing for the construction of the sewage treatment plant in the 1990s 2. Benefits for the extended community: Support for vocational textile schools throughout the country: supply of various materials that are useful in teaching, including sample inserts, product catalogues, and brochures as well as the possibility of visiting the plant and organizing work–study programs for students 3. Benefits for the environment: Products that are people and environmentally friendly Öko-Tex Standard 100 certificate Completely modern manufacturing technologies

Source: Own research.

a much-stressed aspect of this activity is the absence of use of the term 'corporate social responsibility'. Implemented actions, especially those targeting workers, were a natural continuation of the tradition of the state enterprise (Camela is among the few companies in the region that survived the period of systemic transformation). One factor fostering this approach is the employment stability of the top management, whose members have been working for the company since the1960s and 1970s. Under Polish conditions, such a situation is a rare phenomenon. This is because for many state enterprises, adapting to new market conditions of operation signified ownership changes, and with the new owner came the replacement of the top management. The worker privatization path chosen by Camela and in which its workers participated, as well as a lack of further changes in the ownership structure in the wake of privatization (that is, the shareholder structure, consisting of members of the management board and the remaining workers, remains unchanged, although there were certain observable modifications to the size of share packages) did not upset the credibility of the top management who continue to serve as a foundation for trust visible in relations with the employees.

However, it seems that these are not the only factors that create the conditions whereby the company cares for its workers. Camela operates in the difficult and technologically quickly developing textile market, which necessitates continuous adaptation to changes (the fashion market is not foreseeable), constant care about quality, and ongoing innovation. It is not news that a prerequisite to the efficient execution of these tasks is the accumulation of human capital in the organization.

Well-motivated employees are the key to further success, including the generating of profits. This simply means that it is necessary to care for the workers, and Camela's top management is aware of this. This is confirmed by quality policy guidelines implemented in the company, which point out the need to:

- involve and motivate all employees in the continuous improvement of the quality of manufactured products;
- mold the conviction that each and every worker at his or her job position or in contacts with customers bears responsibility for quality and the company image and brand;
- successively improve the qualifications of the workforce; and
- increase the value of sales while simultaneously lowering costs.

A successive factor fostering the treatment of workers in a responsible manner, and thus creating the image of Camela as a friendly workplace, is the slowly growing need to 'rejuvenate' the workforce. Like the top management, the present team of workers is, to a great extent, made up of people who have been working for Camela for many years, and therefore the problem of a natural replacement of staff is approaching at an increasing rate. An ace held by Camela in the business of attracting new workers is its location in a region that was hit by structural unemployment in the 1990s (the closing down of mines). Even today, the job situation is not easy. Moreover, it is the view of the CEO that the wages offered by the company are better than anywhere else. The problem lies in the fact that it is not easy to attract a good worker. Among the reasons for this phenomenon are the character of the industry in which Camela operates (the textile industry is not perceived as having development potential) and the emigration of young people to the European labor market or to other major Polish cities. For this reason, an image of a company caring for its workers can prove very useful. Perhaps the top management should consider transforming its intuitive approach to the concept of a business that is responsible in its actions to a more systemic and long-term one, thus creating a component in the building of a long-term strategy for the company's development.

That same intuitive application of the assumptions behind the CSR concept was used in Camela's actions aimed at collaboration with the local community. There was no system for planning activities, which tended to emerge out of day-to-day needs and were mainly limited to financial subsidies directed at local sports clubs and schools. The weakness in company–local community relations is the passive stance of the company expressed in its waiting to be approached before taking action. Moreover, decisions regarding involvement in support are taken on the basis of knowledge held by the management board, which is not necessarily complete. This should come as no surprise as the primary task of the management board is not the monitoring of the needs of the local area, but the efficient development of the company. That is where it concentrates its complete attention.

There can be no doubt that the positive orientation of the management board to such types of activity fosters the potential development of collaboration between the company and the local community. The board members, as has been stressed several times, have not only been working for Camela over the past 30 or more years, but have also lived in this region and are fully fledged members of its relatively small community. What is more, and what was underscored during the interviews, is that as managers of the company they feel a responsibility to this community.

A positive outlook and hopes are not enough, however. The challenge facing the company is to develop a long-term and more systematic formula for collaboration with the local community. Closer ties with the local authorities would undoubtedly foster such actions. Unfortunately, observations of the past several years point to the opposite process – the municipality authorities have shown a steady decline in interest in such activities.

In concluding this characterization of Camela's experience in the area of responsible business, it is again necessary to stress that its approach to the idea of responsible business is, to a great extent, conditioned by the stance of its top management. This approach is shaped by faith in certain values drawn from life and professional experiences to date. Declarations from the management board show that it feels no pressure from other stakeholders to implement the assumptions behind the concept of CSR in practice. In its view, the idea of responsible business is of no interest to customers, workers, or the local authorities. However, the local community is aware of Camela's efforts to address CSR.

In order to prevent the evaporation of its achievements in this area, the Camela management board should try to activate collaboration with the municipality as well as influence growth in the activity of its own workers, through employee volunteer efforts, for example. The basic challenge is the building of the assumptions behind the CSR concept not only as a component part of a long-term strategy, but also as an important element of organizational culture. The high average age of the management board members points to the weight of such efforts. As new people appear on the management board, it is probable that they may have a completely different set of experiences and expectations, where action in the realm of CSR may be of no interest to them. In such an event, what will happen to Camela's current approach to responsible business, which to a great extent is the result of the stance of the present top management? This is undoubtedly an important question for which the top management should start seeking an answer. This is especially true as Camela's practice to date is, to a great extent, in line with the message of Günter Verheugen, Vice-President of the European Commission, directed to German entrepreneurs in 2006. In this message Verheugen pointed to the possibility of making socially involved business a calling card of European responsibility:

> Greater freedom in business today also means the greater responsibility of individual businessmen. . . . The businessman who sees that the workplace is threatened is obligated to look for solutions through his own activities. Bearing in mind the development of technology and competitiveness, the businessman should, more than in the past, strive for growth in innovation and the raising of the qualifications of this workers . . . (Verheugen, 2006)

KEY LEARNING POINTS

1. Year-by-year awareness of the concept of corporate social responsibility is growing in Poland. Not only is business interested, but so also is Polish society. The forms of activities and level of implementation of CSR differ among companies, however it is possible to observe the

slow shift from expressing mere interest and declarations of undertaking actions in the future to real implementation of ventures and programs tied with responsible business.

2. Among important challenges placed before every company by the concept of responsible business is guaranteeing 'decent work' for employees. This means that employers should not only disburse salaries and forward ZUS (social security premiums) on time, but they should also create decent working conditions, observe worker rights, strive for worker development, and treat workers as partners.
3. Camela's experience to date demonstrates that the absence of use of the term 'corporate social responsibility' as well as of familiarity with the theoretical principles behind this concept in no way impedes practical implementation. Among factors fostering action in the area of CSR in the case of Camela are employment stability, both in the case of the top management and the workforce, mutual understanding, and the trust and credibility of the top management.
4. Camela's experience demonstrates that a lack of any long-term plans for action in the interest of the local community in no way interferes with continuous support, albeit these efforts are of a one-off nature, dispersed, and usually initiated by external stakeholders.
5. A stable company situation is a prerequisite to company activity in the interest of the local community or other stakeholders.
6. The stance of the top management, to a great extent, determines the company's approach to the idea of responsible business.

DISCUSSION QUESTIONS

1. Corporate social responsibility in Poland: what are the main challenges?
2. Identify factors supporting implementation of the CSR idea at Camela.
3. List the strengths and weaknesses of Camela's activity in the process of implementation of the concept of corporate social responsibility.
4. List the threats and opportunities associated with responsible business that Camela may face in the near future. What should be done to avoid threats and to use opportunities?
5. What would you do as a member of the Camela management board to improve the level of institutionalization of the concept of corporate social responsibility in the company (more systemic and long-term activity in that area)?
6. What would you do as a member of the Camela management board to activate cooperation with stakeholders from the surroundings?

NOTES

1. The Forum Odpowiedzialnego Biznesu (Responsible Business Forum) is an association with the status of a *pro bono publico* organization and is the first and only non-governmental organization in Poland concerned with the concept of responsible business in a comprehensive manner (Report 2007).
2. 'The *Powiat* [county-level unit] of Wałbrzych is in the southwestern section of Poland in the Lower Silesian Voivodeship [Province]. It is located in the Central Sudeten Mountains, in the area of the Wałbrzych Foothills and the Wałbrzych, Kamienne [Stony], and Sowie [Owl] mountains. The *Powiat* borders with the Czech Republic' (Local Development Plan for the *Powiat* of Wałbrzych for 2005–2006 and subsequent years).
3. See www.dwup.pl/index.php?option=com_content&task=blogcategory&id=20&Itemid=52, accessed May 1, 2008.
4. See www.um.walbrzych.pl/strony/do_druku/gospodarka/oferta_inwest/statystyka_gospodarka/002-p.jpg, accessed May 1, 2008.
5. Azo is the name of a chemical compound of Nitrogen.

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APPENDIX 5A PRIZES AND AWARDS WON BY THE CAMELA S.A. FACTORY OF CLOTHING INSERTS

European Medal – A competition organized by the Business Center Club and the Office of the Committee for European Integration

2001 – For viscose no-spindle yarns
2002 – For decorative yarns
2004 – For elastic clothing inserts with thermoplastic adhesives
2005 – For clothing inserts with ‘double adhesive points’

The Fair Play Enterprise Certificate 2002, 2004, 2005

This award is granted by the Chapter of the National Chamber of Commerce
Fair Play Enterprise 2004 Statuette

The Teraz Polska Polish Promotional Emblem

2002, 2003 – Nomination in the Competition for Best Products and Services for the manufacturer of clothing inserts with double adhesive points

Polish Business Leader Competition

For the best large enterprise
2001, 2002, 2003, 2004 – Four nominations for the company and the President of Board and General Manager – Janusz Seńczuk – for the title of Polish Business Leader
2004 – Polish Business Leader Statuette

Lower Silesian Commercial Certificate

Competition organized by the Lower Silesian Lodge of the Business Center Club
2002, 2003, 2004 – Three awards by the Chapter of the Lower Silesian Commercial Certificate of the Lower Silesian Lodge of the Business Center Club
2003 – Lower Silesian Commercial Certificate Statuette
2004 – Golden Lower Silesian Commercial Certificate Statuette

Europroduct – 2000

First Prize for knitted clothing inserts with ‘double adhesive points’

International Poznań Fair Gold Medal

2002 – For knitted clothing inserts with ‘double adhesive points’
2004 – For elastic clothing inserts

The Wałbrzych Mouflon

2000 – Mouflon – First Prize in the competition for the best company and product of the Wałbrzych region in the company of the year category
2001 – Mouflon – First Prize for knitted clothing inserts with ‘double adhesive points’
2002 – Mouflon – First Prize and the Commercial Personality of the Region title for the President of Board of the Camela S.A. Factory of Clothing Inserts – Janusz Seńczuk
2003 – 3rd Prize in the best large enterprise category
2004 – 2nd Prize in the best product category for elastic clothing inserts
2005 – The Super Mouflon Award for the President of Board, Janusz Seńczuk, and the Camela S.A. Factory of Clothing Inserts

Employer Organizing Safe Working Conditions 2001

1st Prize in the group of companies employing over 250 people for the President of the Board Janusz Seńczuk, granted by the District Labor Inspector in Wrocław

Source: www.camela.pl/11.

PART III

CSR in Asia and Australia

6. CSR dynamics in South Korea and Japan: a comparative analysis

Seungho Choi and Ruth V. Aguilera

THE CONCEPT OF CSR

Over the past few decades, corporate social responsibility (CSR) – actions taken by the firm intended to further social goods beyond the direct interests of the firm and that which is required by law (McWilliams and Siegel, 2001) – has gained increasingly enthusiastic attention from business and academic researchers. However, the very extensive literature addressing the theory and practice of CSR is still very much grounded in the European and US contexts (Birch and Moon, 2004). Nonetheless, given the globalization of business, there is a pressing need to acquire insight into the nature of CSR in different countries. In recognition of this lacuna, we examine the activities of CSR in two Asian countries: South Korea (from here on, 'Korea') and Japan. These two countries are both East Asian democracies and have been closely linked to each other, given their geographical and cultural proximity as well as for historical reasons. Yet, despite their similarity, we show that these two Asian countries have adopted different approaches to CSR. Until recently, CSR practices and performance from most Asian countries have not been introduced to the Western world, with the exception of a few Japanese CSR studies (for example, Wokutch, 1990; Lewin et al., 1995; Wokutch and Shepard, 1999; Fukukawa and Moon 2004). Especially intriguing is the fact that there is no research in the Western academic world focusing exclusively and in depth on Korean CSR issues, although there are a few comparative CSR studies that include Korea among their sample of countries (for example, Chapple and Moon 2005; Welford, 2005).

The main purpose of our chapter is to analyze the characteristics of CSR in Korea and Japan in terms of the different influence that local actors exercise on their respective CSR practices. First, we introduce the general CSR trend in Korea and Japan based on several CSR indicators. Second, we discuss three general approaches to comparative CSR studies: cultural, attitudinal, and actor centered. Third, we explain the role of local actors in molding CSR in Korea and Japan. We conclude by discussing some implication of CSR activity in the two countries.

THE ASSESSMENT OF CSR PERFORMANCE IN KOREA AND JAPAN

To identify differences in CSR performance between Korea and Japan, we look at environmental and social responsibility. Corporate environmental responsibility emphasizes minimizing the ecological impact of organizational operations in a number of ways, such as, preventing environmental pollution, devoting resources to environmental protection, and voluntarily committing to governmentally sanctioned environmental rules and laws (Starik and Rands, 1995; Shrivastava, 1996). The environmental sustainability index (ESI) measures the ability of nations to protect the environment. It consists of 21 indicators of environmental sustainability including natural resource endowments, past and present pollution levels, environmental management efforts, contributions to protection of the global environmental systems, and a society's capacity to improve its environmental performance over time. 'Private sector responsiveness', among the 21 indicators used to evaluate corporate environmental responsibility, is especially significant in considering Korea and Japan. Private sector responsiveness of ESI is significantly correlated with other environmental measures such as ecological footprint per capita and the Environmental Vulnerability Index. Japanese firms have a score of 2.04 and are ranked third. In contrast, Korean firms rank 18th and score 0.76.

Social responsibility entails that companies care for the broader society in which they are embedded. It generally comprises the ethical, discretionary and legal responsibility of firms. Ethical responsibility is related to societal moral codes of conduct, whereas discretionary responsibility is concerned with voluntary involvement and support of wider societal entities (Carroll, 1979). We draw on a set of existing indicators to compare social responsibility in Korea and Japan. First, the opacity index of PricewaterhouseCoopers provides a corruption index as well as a ranking of ethical practices and legal responsibilities. The opacity index measures the lack of transparency in a country's legal, economic, regulatory and governance structures. In addition, the ethical practice criteria and credibility of managers contained in the World Competitiveness Report of the Institute for Management Development (IMD), Lausanne, are used to assess ethical and legal responsibility. Lastly, the discretionary responsibility is assessed by the amount of voluntary donation towards social progress.

Table 6.1 Rankings of social responsibility in Korea and Japan

Measures	Korea	Japan
Corruption criteria of opacity index	61st	38th
Ethical practices	38th	32nd
Credibility of managers	52nd	24th

Sources: Opacity Index 2004 (Kurtzman Group); IMD (2004).

Table 6.2 Social contributions ratio in Korea and Japan

Measures	Korea (2000)	Japan (1999)
Social donation/revenue	0.37% (out of 192 companies)	0.1% (out of 283)
Social donation/income for continuing operation	6.3% (out of 186)	2.3% (out of 279)
Social donation/income before tax	4.4% (out of 172)	4.76% (out of 229)

Sources: FKI (2003); Keidanren (2003).

As Table 6.1 shows, Korea's corruption score and ranking (61st) is lower than that of Japan (38th). In ethical practice criteria, Japan's ranking is 32nd and that of Korea is 38th. The ranking of the credibility of managers in Korea is placed 52nd, compared to 24th in Japan. However, Table 6.2 shows that the social contribution measures of Korean firms are generally greater than Japanese firms, which means that Korean companies spend a higher proportion of their revenue on social contribution than Japanese firms. Based on the above evidence, Japanese firms generally outperform Korean ones in social responsibility except in social contribution arenas.

Therefore, we can say that Japan is surpassing Korea in CSR performance based on two general CSR dimensions. However, Korea is also one of the few Asian countries to pay attention to CSR. For instance, in a study by Chapple and Moon (2005), Korea is the country with the second greatest impact of CSR in Asian countries.

COMPARATIVE APPROACHES TOWARDS CSR

There have been several attempts to explain CSR similarities and differences across countries from different perspectives. First, Wokutch (1990) explains the characteristics of Japanese CSR through culturally dominant factors, such as the sense of duty and importance of group membership, both of which are based on Confucianism. However, Korea and Japan have exchanged their cultural and social values for at least the past 1500 years, most notably Confucianism and Buddhism. In addition, the Japanese colonial period, from 1910 to 1945, stimulated the two countries towards sharing a similar institutional history. In particular, Japanese law, which originated from nineteenth-century German law, made an impact on the basic framework of Korean commercial law (Hamilton and Biggart, 1988). As a consequence of these similarities, the two countries share a lot in terms of history and culture. This is confirmed by Hofstede's (1980) cultural dimension index which is very similar in terms of power distance, uncertainty avoidance and individualism/collectivism and only differs when it comes to masculinity/femininity.

Second, most previous comparative CSR studies assess the difference of CSR activities by examining the attitudes and values of managers or executives towards CSR (for example, Quazi and O'Brien, 2000; Maignan, 2001; Singhapakdi et al., 2001; Maignan and Ferrell, 2003). This approach assumes that perceptions and personal values of employees will be directly related to actual CSR activities of corporations. In other words, it presumes that a more favorable perception towards CSR stimulates more active CSR performance. This approach has been identified as a significant determinant of the decisions of social and environmental corporate responsibility strategies and policies (Mitchell et al., 1999; Egri and Herman, 2000; Hood, 2003; Hemingway, 2005). Although the attitudes and values of individuals are powerful motivators to explain different behaviors, this explanation does not clarify why individuals have favorable or unfavorable attitudes and perceptions toward CSR. In addition, the favorable attitudes and values do not always translate into behaviors, especially since most CSR questionnaires are related to ethical aspects of respondents, which could readily tempt them to give socially acceptable answers regardless of their actual CSR performance. The oral illustrations of researchers or the presence of surveyors might prevent this kind of bias. Moreover, geographic limitations make it hard to conduct structured questionnaires in comparative CSR studies. In fact, many attitude approach studies are conducted via standard mail or email. Hence, there are limitations in substantially illustrating the differences between two countries with attitudinal determinants.

Finally, CSR can be explained using the stakeholder management model (Aguilera et al., 2006). This notion suggests that companies have an influence on various stakeholders, such as customers, employees, local communities, governments, and interest groups. Therefore, companies

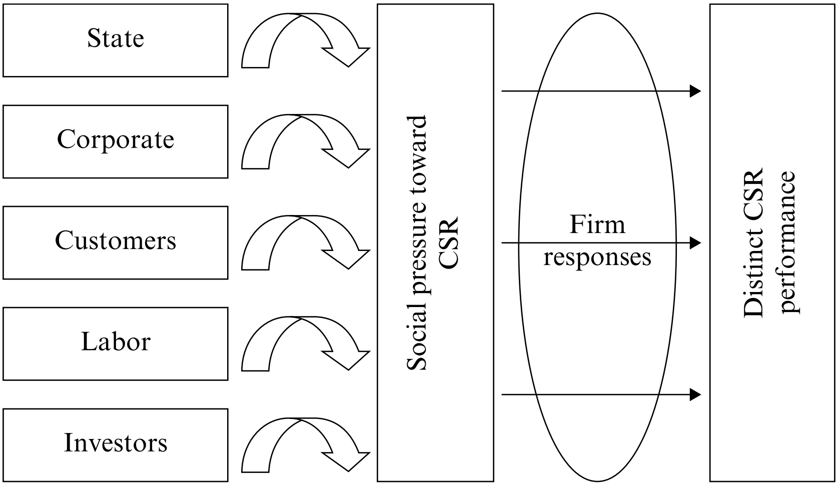

Figure 6.1 Analysis of the actor-centered approach in CSR

have a responsibility to consider the interests of multiple stakeholders in their operations, production and decisions. Although these stakeholders are recipients of CSR activities of firms, they also exert influence on the companies' CSR behaviors. Aguilera and Jackson (2003) see the creation and transformation of institutions as a result of the mutual interaction of agency of actors influencing institutions. They argue that the variance of corporate governance practices across countries is a product of the internal interactions of actors, including capital, management and labor, given their institutional environment. When considering stakeholders, who are related to CSR activity as actors, CSR might be regarded as the consequence of interactions of related actors. As Figure 6.1 shows, we adopt the actor-centered approach to analyze the differences and characteristics of CSR between Korea and Japan by looking at five actors: state, corporate, customers, labor, and investors.

CSR DYNAMICS IN KOREA

Korean society recognized the importance of CSR through its financial crisis. This historic economic disaster provided a context which generated societal demands and pressures on CSR by stimulating local actors. Korea experienced a financial crisis between October 1997 and March 1998, although the first symptoms were recognized in 1996. Korea's account deficit broadened from 2 percent of GNP in 1995 to 5 percent in

1996. The growth of exports slowed down and foreign debt increased dramatically to US$100 billion in 1996. The relative appreciation of Korean currency, a prolonged recession in Japan and Europe, and the contagion of financial crisis in other East Asian countries exacerbated the Korean economic situation (Ahmadjian and Song, 2006). The financial disaster had fatal impacts on chaebols,[1] which generated 40 percent of GNP in Korea (ibid.) and had played a significant role as an internal generator of Korean economic miracles. In 1997, 16 chaebols among the top 30 filed for bankruptcy, including Hanbo Steel (the 14th-largest chaebol), Sammi Group (17th largest) and Sangyong Group (fifth largest) and Kia motors (third-largest auto maker). The stock market dropped 50 percent and Korea's sovereign credit was downgraded by Moody's and Standard and Poor's from A1 status to junk bond status. One third of Korean merchant banks were closed and the default ratio rose to 62 percent in February of 1997. This financial meltdown required the Korean government to borrow a total of US$30.2 billion from the International Monetary Fund (IMF) and the World Bank (ibid.).

The financial crisis introduced the concepts of CSR to Korean society. For example, there was a substantial increase in references to CSR in the *Korean Economic Daily*. Although Korean firms superficially knew about CSR before the financial crisis, most CSR activities were generally limited to corporate contribution and philanthropical activities. This crisis had a great impact on local actors, such as state, corporate, unions, and consumers, who were important stakeholders in CSR. For example, the financial crisis brought the first transition of political power from the ruling to the reformative opposition party. Moreover, the severe restructuring of companies broke lifetime employment systems, and the uncovering of firms' corruptions prompted monitoring by non-governmental organizations (NGOs). Abolishing protectionist trade policies enabled customers to claim their rights and voice their complaints against Korean companies, which had enjoyed a monopoly for decades. Furthermore, these local actors saw the fatal consequences when companies pursued only their economic profits through the financial crisis. As a result, these bitter lessons make local actors rethink the role and responsibilities of corporations in society and stimulated them to generate considerable societal demands for improved CSR behavior in Korea.

State

Traditionally, the Korean government sustained close relationships with private firms for economic development purposes. A highly centralized, strong government set and implemented ambitious economic development programs for its industrialization (Kim, 1997). It had the power to license business projects of private firms and provide financial resources to firms through nationalized commercial banks (ibid.). The Korean government used chaebols as an engine for industrialization. Chaebols did not hesitate to follow government directions because they could enjoy many advantages as a result of their cooperation with government, such as export promotion in strategic industry sectors (Amsden, 1997; Kim, 1997) with the help of preferential credit allocations, tax benefits and protection from foreign imports and investments (Steers et al., 1989). Under government protection, chaebols could make use of unrestrained bank debt to diversify into new products, unrelated businesses and overseas markets, and focus on growth over profitability (Ahmadjian and Song, 2006).

However, the Korean financial crisis brought about a dramatic change in the strong bond between chaebols and government. In 1998, a reformative opposition party swept the government away from the conservative party, which had originated in military dictatorship. It believed that the ineffective management of chaebols was one of the main triggers of the Korean economic crisis. The new administration imposed new laws and regulations on chaebols as part of a restructuring program. For instance, it required them to reduce the debt to equity ratio below 200 percent, and introduced a mandatory requirement for independent directors for large listed firms (ibid.). In addition, it increased the penalties for accounting fraud (Chung, 2002) and introduced accounting principles to match international standards. President Roh Moo Hyun also showed his clear commitment to the reformation of chaebols through the following comments in 2002:

> What I mean to say is that the unreasonableness of the economic system governing chaebols, if it is not addressed, will weigh on the economy, undermine efficiency and consequently bring about an economic crisis. I will address the problem of the let-up in the reform of the chaebol system so as to forestall any burden on the economy. There will absolutely be no retreat from market reform, but there will be forward movement bit by bit. (Roh, 2002)

We argue that CSR might be a useful tool for the Korean government in accelerating the restructuring process of chaebols. The goals of CSR, which emphasize firms' social, ethical, and environmental responsibilities beyond economic and legal duties, are aligned with the goals of the reformation of chaebols by the Korean government. There are already several signs that the government intends to address the issue of CSR. For instance, MOCIE (Ministry of Commerce, Industry and Energy) has a plan to legislate CSR laws to promote CSR activities. MOCIE is also developing a CSR reporting system for companies and planning to use pension investment as a social responsibility investment (MOCIE, 2005). Furthermore, the Korean government established the Presidential Commission on Sustainable Development of the Republic of Korea (PCSD) in 2000. The PCSD is establishing a national strategy and policy for sustainable development, maintaining a balance between economy, society, and environment. Therefore, considering the historically strong influence of the government on firms and its recent support of and attention to CSR, the government might become a cornerstone of the development of CSR in Korea.

Corporate

Korean companies have used CSR activities to restore their damaged reputation and credibility. Korean companies, especially chaebols, were blamed as a primary cause of Korea's financial crisis. The public and government criticized their reckless overexpansion, cheating of shareholders and concealment of dodgy corporate deals. For instance, research shows that a Korean CEO perceives the strongest anti-corporate mood among 22 countries (Accenture, 2001) – 70 percent of Korean CEOs responded that there is an anti-corporate mood in Korea. Korean corporations recognize that the lack of credibility in the eyes of the public and the state is detrimental to their business success.

To restore their damaged reputation, many large Korean firms have been addressing CSR issues. They have established CSR or ethical departments and become involved in a variety of CSR activities including donations, community projects and the adoption of codes of conduct (FKI, 2003). Korean CSR activities focus especially on donations. For example, 79 percent of the total CSR budgets were executed in the form of cash or product donations as charity, and the amount of donations increased over time (ibid.). Usually, firms do not make any follow-up efforts after making donations, as they would with other CSR activities such as community involvement and social contribution. Large donations can easily draw the attention of media and give the public a favorable impression.

Nevertheless, the excessive focus on donations results in limited development of other CSR initiatives in Korea. Many Korean companies simply think of CSR as the extension of social contribution and community involvement. For example, the survey carried out by the Korea Enterprise Institute (KOREI, 2004) shows that only 20.6 percent of respondents in Korean companies are familiar with the concepts of CSR. In addition, only large companies in limited industries, which have a direct influence on the environment and export most of their products, such as oil and electronics, to foreign countries are involved in CSR activities (ibid.).

Furthermore, the convenience of donations inhibits the development of more sustainable CSR activities in Korea. In other words, Korean companies have used CSR as an impression management tool to repair their tarnished reputation and to increase brand value rather than internalizing long-term CSR into their corporate philosophy or core strategy. For example, Lee Kun-hee, chairman of Samsung Group, the largest Korean chaebol, recently donated $0.85 billion to charity to offset illegal political donations and dubious insider trading. In addition, Chung Mong-Koo, chairman of Hyundai Motor Group, the second largest chaebol, also donated $1 billion in shares of an affiliate to charity to defuse a deepening bribery scandal. Both companies announced their CSR plans in order to win over the support of the public at the moment when public opinion was at its lowest point. These cases clearly show the tendency of Korean companies to rely heavily on monetary donations as a solution to CSR problems. In sum, these highly visible examples show that Korean CSR activities are superficial.

Customers

Inglehart and Baker (2000) argue that individuals in high GNP per capita countries are more likely to be concerned with environmental and social issues, quality of life, and subjective well-being than individuals in low GNP per capita countries. In addition, people in high-income countries assert stakeholder claims for corporate responsibility based on their greater economic and human capital (Jones, 1999). Before the financial crisis, Korean consumers thought of chaebols as a key driver of economic development and, recognizing the limited presence of CSR, focused on the economic responsibility of firms. Korean consumers were willing to bear low-quality and expensive prices of products and services of Korean firms in the name of national economic development. As a result, the economic miracle made it possible for Korea to become the 11th country in the world in terms of economic size and GDP (IMD, 2004). The industrialized economy influenced Korean consumers to develop an awareness of and see a necessity for CSR activities. Above all, consumers clearly recognize that irresponsible activities of firms undermined the economy's strength through the lessons of financial crisis. A survey carried out by the East Asian Institute (EAI, 2005) found that 72.4 percent of respondents would not invest in companies that do not give social and environmental responsibility serious attention. In addition, 76.6 percent of subjects responded that they will not purchase the products and service of companies that do not fulfill a minimum CSR standard. Although only 15 percent of respondents have actually boycotted the products and services of irresponsible companies, 46 percent of consumers respond that they strongly intend to act on their convictions in the future. It is interesting that 63 percent of respondents support the intervention of government to promote CSR activities. Considering the Korean government's strong interest in CSR, consumers might support the direct involvement of government in the establishment of laws and regulations regarding CSR.

Labor

Korea adopted many of the Japanese labor institutions such as synchronized annual contract renegotiation, a seniority-based wage and a bonus system (Yoon, 2005). Nevertheless, unlike Japan, Korea has one of the strongest unions in the world. From 2000 to 2004, the number of working days lost due to strikes (per 1000 employees) was the sixth highest among the OECD countries and well above other Asian countries including Hong Kong, China, and Taiwan (OECD, 2005). In particular, the strike intensity figure in 2000 for Korea (109.1) was 63 times larger than that of Japan (1.6) (Yoon, 2005). We believe that this strong Korean union density has a high potential to influence the CSR agenda of companies for a number of reasons.

First, Korean unions pressure companies to apply elements of CSR in workplaces, which naturally favor unions. There is commonality between CSR and union interests in improved work–life balance, better childcare facilities, and flexible working arrangements for parents (Weitbrecht, 2003). Furthermore, other areas of CSR that foster union attention emphasize concerns for employee welfare, training, and the protection of employees from the negative consequences of restructuring (GPMU, 2001; Preuss et al., 2005). For example, the German union IG Bergbau, Chemie und Energie advocates that traditionally it has been making a contribution to CSR by fighting for co-determination and against unfair competition in its industries (Habisch and Wegner, 2005). The Federation of Korean Trade Unions (FKTU), the nation's largest labor confederation, pursues the issues of improvement in working conditions and the abolition of discrimination in the workplace. For instance, the FKTU made a certain contribution to the development of CSR in Korea by bringing these topics into the annual negotiation of labor contracts, including realistic real wage, employment security, and promotion of occupational health and safety standards. Recently it is focusing on human rights issues about contingent workers and workplace discrimination.

Second, the FKTU has a political alliance with the Domestic Labor Party (DLP). The DLP is a political party that represents workers and pursues progressive social, economic and political agendas. In 2004, it sent

10 representatives out of 299 to the National Assembly and gained 13.1 percent of the proportional representation vote. Although the DLP is still a minority political party in Korea, its entry into the National Assembly is significant in giving Korean unions a political force to represent their interests and concerns. Since European unions, which have representatives in congress, are actively involved in CSR activities, Korean unions also have the potential to make their voice heard in establishing CSR regulations and laws. In sum, strong Korean unions will occupy a significant position in promoting CSR through political alliances.

Institutional Investors

Socially responsible investment (SRI) represents a significant source to influence investors or potential investors in firms to manage all of the corporation's responsibilities (Waddock et al., 2002). SRI investors select targets for their investments after a comprehensive evaluation of the CSR and financial performance of companies. Usually, the main actors of SRI are institutional investors, who put pressure on companies to manage CSR activities through large investments.

The impact of SRI in Korea is currently minimal. Until 2004, Korea had only two SRI funds and about $10 million in assets (Yoon, 2004). It is essential for institutional investors to accurately and reliably assess information about CSR performance of firms for dynamic SRI activity. In order to increase the reliability and validity of CSR information, companies need to engage in more transparent and standardized reporting practices such as the Global Reporting Initiative (GRI). GRI establishes Sustainability Reporting Guidelines to create accepted reporting standards (Waddock et al., 2002). In 2005, only two Korean companies had joined the GRI (KOREI, 2005). Therefore, institutional investors in Korea have to rely on the selective and unreliable information provided by companies. The lack of reliable information makes it difficult for them to create a pool of SRI targeted firms.

CSR DYNAMICS IN JAPAN

Previous Japanese CSR studies in the 1990s paid attention to the exceptional CSR performance of Japanese companies across certain dimensions, including product quality, customer service and concern for employee welfare (Wokutch 1990; Lewin et al., 1995; Wokutch and Shepard 1999). During the 1990s, much of the world was attracted to Japanese innovative management practices such as just in time, quality circle, and total quality management. These advanced management practices enabled high-quality goods and services to be provided to markets at a competitive cost. As a result, Japanese companies enjoyed customer satisfaction and credibility. In addition, the participation of employees, life-time employment, good working conditions and extensive benefit programs in Japanese firms resulted in strong loyalty and high morale of employees. In particular, Japanese firms had a strong reputation for their occupational safety and health, evident in the extremely low worker injury and illness rates (Wokutch 1990; Wokutch and McLaughlin, 1992; Wokutch and Shepard, 1999).

Lewin et al. (1995) argued that the world might scrutinize the Japanese model of CSR in the future as it had Japanese management practices in the past. Although the CSR performance of Japanese firms is exceptional, compared to other Asian countries (Chapple and Moon, 2005), the CSR performance of Japanese companies has not met the expectations of these scholars. The CSR achievement of firms has been limited to certain areas such as environmental responsibility and the work environment. For instance, despite their achievements, Japanese firms have failed to improve chronic problems such as discrimination against minorities, women and foreigners, and are also noted for poor corporate governance (Fukukawa and Moon, 2004). Why has Japan failed to meet the expectations of the Western world in the CSR field up to the present day? We address this question through the analysis of each actor that participates in the formulation of CSR. We argue that Japanese actors have not created enough internal societal pressure to motivate firms to develop CSR practices that exceed limited and restricted past CSR activities.

Government

In Japan, there is a historical division of power between companies and states (Van Wolferen, 1990). In other words, although the Japanese government has maintained a close and stable relationship with companies, the two play their own distinct roles without interfering with each other (Lewin et al., 1995). Therefore, it is very hard to find direct state intervention in Japanese business activities. Instead, the government relies heavily on the extensive use of administrative guidance rather than legal procedures to control industries (ibid.). Based on this cooperative relationship with the state, companies have encountered a favorable legal and social environment for conducting their business, reflected in their opinions of the policies and laws of government.

This stable and harmonious relationship between firms and government restricts the influence of government on CSR. The Japanese state emphasizes initiatives and guidance to encourage CSR activities rather than specific laws or rules. This approach gives Japanese firms wide latitude in interpreting and applying government guidelines. Furthermore, when it establishes guidelines for CSR, the government takes into account the opinions of industry. As a result, most of the state's guidance has not exceeded the expectation and control of firms. For example, Keidanren (Japanese Business Federation) closely collaborates with METI (Ministry of Economy, Trade and Industry) and MOE (Ministry of Environment) in developing CSR schemes. The CSR proposal, in particular, which METI submitted to the International Standards Organization (ISO), is an example which demonstrates the strong influence of Keidanren. In 2005, METI adopted Keidanren's original CSR proposal with very little alteration to the suggestions for the standardization of social responsibility to the ISO.

Evidently, the over-reliance of the Japanese government on administrative guidance fails to establish institutionalized CSR programs and systems. Vague government guidelines result in the confusion of firms about the range and the definition of CSR. Furthermore, the liberal guidelines fail to produce conformity of CSR practices by way of legislation, laws and rules. Although legislation restricts the flexibility of business, it establishes clear standards and agreement on controversial issues. Without specific legislation regarding CSR issues, Japanese companies have selectively focused on CSR areas which are positively related to their profitability and public image, most notably employee health and safety, harmonious labor relations and high-quality products. In addition, it is difficult for the Japanese government to introduce reformative and innovative CSR policies which might ignite resistance from companies.

The effects of legislation on Japanese CSR activities are evident in the outstanding achievement of environmental responsibility. Unlike other CSR areas, the Japanese government has controlled and emphasized environmental issues with the assistance of legislation such as the Basic Environment Law of 1993 and the Basic Law for Establishing a Recycling-based Society of 2000. Although the government has made initiatives and issued guidelines, they are more specific and explicit as compared to ones in other CSR areas. Of course, the achievement of environmental responsibility might be attributed to other sources: domestic factors (Fukukawa and Moon, 2004) and foreign criticism (Wokutch, 1990). Nevertheless, the influence of legislation on this issue cannot be ignored.

In conclusion, the general guidelines and initiatives of CSR activities allow the Japanese government to sustain stable and non-adversarial relationships with companies. However, the lack of enforced legislation results in the selective development of CSR activities and the introduction of narrow CSR policies.

Corporate

Japanese firms have played a significant role in formulating the performance and characteristics of Japanese CSR. With regard to the indirect intervention of government and the limited influence of customers and unions on CSR, it is evident that Japanese firms have been a major actor in molding Japanese CSR activities. Previous studies emphasized the role of Japanese multinational companies, which imported the CSR practices of host countries into their own operations in Japan (Lewin et al., 1995; Wokutch, 1990). Furthermore, the performance of Japanese companies on certain dimensions of CSR has achieved high standards (Wokutch, 1990). For example, Japanese companies have a reputation of providing high-quality goods and services, which has led to high customer satisfaction. Furthermore, their harmonious labor relations and workplace safety and health promotion have become a benchmark for other companies. Environmental responsibility is the area of CSR in which Japanese corporations have made the most progress and impact (Keizai Doyukia, 2004).

On the other hand, there are certain CSR areas that Japanese companies have ignored. According to Wokutch and Shepard (1999), there is a huge discrepancy between the working conditions of regular workers in large companies and contingent workers and subcontractors. For instance, small Japanese subsidiary firms have not enjoyed the same level of safety and health conditions as major Japanese companies. Furthermore, most Japanese firms disregard gender equality issues, sexual harassment and racism. Also, they tend to be involved in business scandals related to political donations and mismanagement.

Without close interaction with or intervention of other CSR actors, Japanese companies have focused on CSR areas that are directly aligned with their profitability. Although most companies respond positively to the economic profit of CSR activity, companies in other countries are requested by governments, unions, and NGOs to engage in CSR activities that are not necessarily related to the firm's bottom line. However, Japanese companies have enjoyed autonomy in formulating CSR strategies without interference from internal and domestic actors. As a result, they consider CSR as an instrument to increase their self-interest and to improve their public image. In other words, the pursuit of self-interest is a major driver for Japanese CSR initiatives rather than ethical considerations (Wokutch, 1990; Lewin et al., 1995; Wokutch and Shepard, 1999). As a result, Japanese firms give priority to CSR areas in which they can see a clear connection to profit and return on investment. For example, these firms clearly recognize that improving the working environment and harmonious labor relations encourages the active participation of workers and increases employees' commitment to their work. The involvement and collaboration of employees results in boosts to worker productivity and loyalty, as well as increased product quality (Ouchi, 1981; Pascale and Athos, 1981; Schonberger, 1982; Wokutch and Shepard, 1999). Furthermore, the focus on occupational health and safety minimizes the productivity loss caused by illness and accidents.

Second, Japanese firms identify that advanced environmental CSR activities give them a competitive advantage over other companies. Historical environmental disasters, Minamata disease and Itai Itai disease, made Japanese firms realize their significant role in environmental responsibility. Furthermore, Japanese firms are evidently aware that their efforts to reduce environmental burdens have led to greater efficiency, lower costs and the creation of new markets for environmentally friendly goods and services. In addition, the effort to tackle environmental issues leads to innovation in technology and management. Fukukawa and Moon (2004) provide evidence showing that environmental responsibility is well institutionalized within Japanese CSR. Furthermore, the Kyoto Protocol to the UN Framework Convention on Climate Change, which was agreed upon in Japan, is pushing Japanese companies of all sizes and industries to reduce greenhouse gas emissions. This pressure forces Japanese firms to focus on resource conservation, recycling and the adoption of an environmental accounting system (Keizai Doyukai, 2004). Japanese hybrid cars are a good example of the effects of their environmental management. These cars are based on the advanced technology that offers fuel efficiency and ultra-low gas emission. Obviously hybrid cars are making a positive contribution to conserving natural resources and reducing pollution. Furthermore, they also provide new and fast-growing markets for Japanese companies.

On the other hand, Japanese corporations could find no direct profits or interest in improving social responsibility in areas such as discrimination based on gender, race, and age. They have shown no serious involvement in these areas and have even opposed any involvement in practices that do not match their interests. For example, the improvement in corporate governance is essential to increase the transparency of management, especially with regard to the continuous scandals of Japanese corporations. However, Keidanren clearly opposed the corporate governance reform which threatened the influence and authority of top management (Ahmadjian and Song, 2006).

Nevertheless, Japanese corporations have responded sensitively to the above social responsibility issues and corporate governance problems in their overseas business, especially in Western countries, due to strong pressures from host governments and customers for social responsibility.

For example, sexual harassment and racism are serious issues which can easily damage corporate image and public relations in the West. This discrepancy of Japanese firms' attitudes toward social issues reveals that self-interest is a strong driver and standard for Japanese CSR performance. Furthermore, some scholars even argue that much of the environmental progress that has been achieved in recent years has come about in response to foreign criticism rather than domestic pressure (Beck, 1986; Hamilton and Kanabayashi, 1994).

In conclusion, Japanese firms perceive CSR as an instrument to increase their profits and to generate competitive advantage. As a result, they have made outstanding progress in certain areas which align with their self-interest, such as environmental management, labor relations and working conditions. However, they continue to ignore other responsibilities such as promoting equal employment opportunities and effective corporate governance.

Consumers

A steady rise in economic prosperity and fulfillment of basic economic needs in Japan has brought about greater demands for CSR by Japanese citizens (Wokutch, 1990). Japanese consumers are willing to give support to companies which have a good CSR track record. Recent survey data reveal that 62.4 percent of respondents will give priority to buying from companies that are socially responsible and have a sound ethical policy (METI, 2004).

Nevertheless, it seems doubtful that the strong interest of Japanese consumers in CSR generates enough societal pressure to affect the CSR agenda of Japanese companies. Traditionally, the consumer movement in Japan has been relatively weak (Wokutch, 1990). Furthermore, Japanese firms place little importance on consumers' interest due to their protectionist trade policies, which place industry interests over consumer interests (Wokutch, 1990; Lewin et al., 1995). Therefore, it is uncertain how many consumers actually carry over their intention to support CSR into their behavior, such as boycotting the products and services of irresponsible companies.

Labor

Japanese labor institutions have created industrial peace in Japan (Hashimoto and Raisian, 1985; Ito, 1992; Flath, 2000; Yoon, 2005). Japanese unions have had very stable and predictable relations with companies. This labor–management cooperation has been a foundation of Japanese participation management, fostered in part by enterprise unions

(Wokutch, 1990). Enterprise unions organize workers within a single enterprise or establishment and cover all regular workers, both blue and white collar. One of their main roles is to inform employees about firms' decisions and to monitor the personnel administration of the company (Aoki, 1990).

However, the symbiotic relationship between management and labor limits the influence of unions on the CSR agenda of companies. Although Japanese companies actively seek the participation of employees, they have no intention of inviting unions to participate in decision-making processes. In fact, Japanese unions have been criticized for failure to contest the 'frontier of control of the workplace'. The enterprise unions that are based on a single firm cannot generate strong collective bargaining compared to craft or industry unionism. Furthermore, Japanese firms are well prepared to fight fiercely for the 'right to manage' and implement personnel policies which consolidate control (Whittaker, 1998). The personnel department has been developed to restrain unions (Aoki, 1990). Therefore, Japanese enterprise unions do not generate sufficient pressure on firms to go beyond standard CSR purposes.

Institutional Investors

Since the first SRI fund was introduced in 2001, Japan now has 11 funds with 100 billion yen in assets (Japaninc, 2003). With regard to SRI, Japan ranks third after the US and Europe, according to figures analyzed by SiRi Co. Ltd, an SRI research and consulting company, headquartered in Fribourg, Switzerland. A June 2003 survey of Japanese, US and UK investors conducted by Japan's Ministry of the Environment (2003) supported the strong interest of Japanese investors in CSR. Some 84 percent of Japanese investors surveyed responded that they were 'very much interested' or 'somewhat interested' in CSR. This number is larger than the percentage of US respondents (80 percent) and those in the UK (67 percent). In addition, 79 Japanese companies have joined the GRI and they provide credible and standardized information on their CSR performance.

Although the rapid growth of SRI in Japan is impressive, it is a relatively new concept with a short track record. Compared to the size and the number of SRI funds in the US and Europe, the development of Japanese SRI is in its infancy. For instance, the US manages 200 SRI mutual funds, and has \$151 billion in assets. Europe has 313 funds and \$12.2 billion in assets.

Nevertheless, we argue that institutional investors have high potential to make a strong impact on CSR performance in Japan. Unlike other actors such as unions, customers and government, institutional investors directly affect the interest of companies. For instance, the opinions and attitudes of institutional investors toward specific companies influence their stock price. Furthermore, most companies acquire their financial capital through institutional investors. Therefore, the strong interest of Japanese institutional investors in CSR might play a significant role in molding Japanese CSR initiatives.

DISCUSSION

This chapter shows different levels of CSR involvement in Korea and Japan. Generally, Japanese CSR activities outperform those in Korea in terms of environmental and social dimensions. As Table 6.3 summarizes, we analyzed the role of relevant actors in framing CSR in Korea and Japan by adopting an actor-centered approach and show how different actor influences – state, corporate, customers, labor and investors – lead to different types of CSR in the two countries.

Since the financial crisis, the Korean government has focused on reforming the inefficient and unreasonable management of the chaebols. In fact, weakening the chaebols' influence on the economy has been a central goal of the government (Ahmadjian and Song, 2006). Although the Korean government has not been directly involved in CSR, it recently recognized the relevance of CSR as a tool to accelerate the restructuring process of the chaebols. Considering the historically strong influence of the Korean government on corporations, we expect that the Korean state has high potential to become one of the most influential actors in molding CSR. In Japan, in contrast, the government has maintained its pro-business attitude toward companies. In addition, it relies on initiatives and guidance to encourage CSR activities rather than creating specific laws or rules. Furthermore, the government listens to the opinions of companies, while establishing CSR guidelines. However, vague government guidelines result in the confusion of firms about the range and definition of CSR. As a result, firms can adopt selective and instrumental CSR practices.

Korean firms have adopted CSR due to instrumental reasons such as restoring their damaged reliability and reputation. This perception has led Korean corporations to focus on corporate donations in their CSR activities, which can attract the attention of the media and give a favorable impression to the public. However, the excessive emphasis on corporate donations prevents Korean firms from understanding CSR as a multidimensional model. Furthermore, it makes corporations believe that they can avoid taking responsibility for their unethical and illegal behaviors by

Table 6.3 Comparison of the role of actors in formulation of CSR between Korea and Japan

Actor	Korea	Japan
State	Strong intervention in business activities Adversarial relationship with firms Reliance on legal procedure	Weak intervention in business activities Cooperative relationship with firms Reliance on administrative guidance
Corporate	Using CSR to restore damaged credit and public relations Focusing on corporate donations Failure to understand CSR Lack of real commitment to CSR	Most active role in formulating Japanese CSR Focusing CSR area directly related to profit: instrumental purpose, e.g., environmental management Enjoying autonomy of CSR activity without pressure from other actors
Customers	Increase in awareness of CSR Discrepancy between behavior and awareness	Increase in awareness of CSR Discrepancy between behavior and awareness
Labor	Strong trade union Adversarial relationship with management Strong collective bargaining Raise CSR issues in annual negotiation of labor contracts Having political alliances	Enterprise union Cooperative relationship with management Weak collective bargaining Reliance on firms (human resource department) in CSR issues No political alliances
Investor	Introduction of SRI Small size of SRI	Active SRI Rapid growth in the size of SRI

making donations to society. Japanese firms have played the most active role in formulating the involvement and characteristics of Japanese CSR. Without the direct intervention of other CSR actors, Japanese companies have been very successful in certain CSR areas that are directly aligned with their profitability such as environmental management, workplace safety and harmonious labor relations. Nonetheless, Japanese corporations have ignored and even opposed CSR areas that are not directly related to their interests. In sum, the commitment of Japanese corporations to CSR has failed to go beyond self-interest. There has been a growth in consumer expectations of socially responsible businesses, as consumer economic prosperity has increased. However, very few consumers are actually carrying through their concerns for CSR into their behavior, such as boycotting the products and services of socially irresponsible companies.

Korea and Japan share labor institutions such as synchronized annual contract renegotiation, a seniority-based wage and a bonus system. However, the influence and power of Korean unions is much stronger than it is for the Japanese unions. Korean unions have affected the development of certain areas of CSR through their collective bargaining, including a realistic real wage, employment security, and the promotion of occupational health and safety standards. Furthermore, Korean unions succeeded in sending their representatives to the Korean National Assembly. Therefore, we argue that the influence of Korean unions on CSR will increase in the future, and we also expect that it has a high potential to create external pressure to force Korean corporations to proactively adopt CSR. In contrast, Japanese unions have had very stable and predictable relations with companies. The nature of enterprise unionism prevents unions from having strong collective bargaining power which is diminished only through the policies and control of human resource departments weakening unions. As a result, a symbiotic relationship between management and labor restricts the influence of unions on the CSR agenda of corporations.

The development of SRI in Korea is limited due to the lack of a transparent and standardized CSR reporting system. On the other hand, the rapid growth of SRI in Japan is impressive. Although Japanese institutional investors have only recently adopted SRI, Japan's SRI has been established as the third largest in the world. There is a strong shared interest among Japanese investors in CSR. Furthermore, many Japanese firms provide credible and standardized CSR information for institutional investors. Therefore, we argue that institutional investors may have strong impacts on CSR performance in Japan and generate social pressures to force Japanese firms to adopt more far-reaching CSR policies.

CONCLUSION

Unlike other comparative studies relying on a cultural or attitudinal approach, we draw on an actor-centered approach to compare CSR practices in Korea and Japan. We believe that CSR in different countries might be regarded as the consequence of the internal interactions of related stakeholders. This approach is especially useful to compare countries when they have similar cultural and societal backgrounds or when surveys do not provide comprehensive information on CSR. We argue that CSR is often being used as a tool of impression management for companies. However, we expect that the strong interest of local actors in CSR, such as the government and the unions, can generate internal social pressure such as in the case of Korean firms. We confirm that Japanese corporations have established notable achievements in CSR programs and policies, yet this outcome does not meet the expectations of researchers who had predicted that Japan would establish its own CSR model as it has in management practices. For example, the success of Japanese CSR has been limited to areas directly aligned with their economic profit. We suggest that local actors in Japan have failed to create enough social pressure to motivate firms to go beyond the excessive emphasis on instrumental CSR. Japanese firms have been able to develop a CSR agenda without interference from other actors such as government, consumers and unions, and as a result they have taken an instrumental CSR view.

Our chapter also takes a comparative look at Korean CSR, which is a rare inquiry in the Western academic world. Although there has been active research on Korean CSR in Korea, most of it was published in Korean and has focused on certain areas of CSR, particularly social contribution and donations. We assessed the overall CSR performance in Korea by analyzing the role of each actor in influencing CSR.

We discuss the role of limited actors in pressuring for CSR in each country yet we are aware that other actors might also affect CSR practices. For instance, both Korea and Japan have many multinational companies operating all over the world. The interaction with local actors in foreign contexts, such as the US and the UK, countries more responsive to CSR, might encourage CSR in both countries. In addition, we do not mention specific measures to gauge the degree of influence of each actor on CSR or to estimate social pressure for CSR in each country; instead, our analysis is based on a review of the existing literature (in the original language) and archival data.

KEY LEARNING POINTS

- A useful way to compare CSR in two countries is to look at how different stakeholders might influence CSR practices. We look at five different 'players': state, corporate, customers, labor and institutional investors.
- Korean companies are just beginning to be aware of the importance of CSR, while Japanese firms provide credible and standardized CSR information to stakeholders.
- Our research shows that the strong interest of Korean local actors in CSR, such as government and unions, is likely to generate future

internal social pressure, which will cause firms to become more committed to CSR.

- Japanese corporations have in place extensive CSR programs and policies (particularly in environmental management, labor relations and working conditions) but they tend to be limited to areas directly aligned with economic profit.
- Japanese CSR lags behind when it comes to promoting equal employment opportunities and implementing effective corporate governance practices.
- Organized labor is more likely to exercise pressure on CSR in Korea than in the Japanese institutional setting of enterprise unionism.
- The development of SRI in Korea is limited due to the lack of a transparent and standardized CSR reporting system while there has been tremendous interest and impressive growth of SRI in Japan in recent years.

DISCUSSION QUESTIONS

1. Name four stakeholders that have the potential to influence CSR practices according to Choi and Aguilera. Can you suggest other stakeholders? Discuss.
2. What is the main difference regarding the role of the state towards CSR in Japan and in Korea? How do you think this difference shapes CSR practices in these two countries?
3. Describe the traditional CSR practices that Japanese and Korean firms have engaged in.
4. Discuss the corporate governance characteristics that prevent a wider and deeper development of CSR in Korea. Do you think other countries might face similar challenges?
5. In Japan, what is the relationship between its innovative management practices such as total quality management (TQM) and CSR issues?
6. Many multinational companies (MNCs) from the United States and Western Europe are doing business in Korea and Japan. How might these MNC influence the CSR practices of local companies in Korea and Japan? Provide some examples.

NOTE

1. Chaebols are Korean-style conglomerates, which are family-owned business groups (Kim, 1997).

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7. Pulp, politics, process and pollution: Gunns Ltd and the Tamar Valley pulp mill

Kathy Gibson and Gary O'Donovan

THE CASE

The best soap operas have multiple and intertwining plots, interesting and diverse characters and storylines, unexpected twists and turns, and, occasionally, outcomes which are not easily predicted. The case of Gunns Limited, a large Australian public company, and the machinations and processes involving the company, the Tasmanian state government, the Australian federal government, and various activist groups in the proposed development of a large pulp mill on the picturesque Tamar River in northeastern Tasmania, has all the ingredients of a great soap opera.

This case is laced with the many competing interests of diverse stakeholders, intent on maximizing or minimizing to their own advantage the triple bottom line (TBL) – economic, social, and environmental – returns. Companies, such as the powerful Gunns Ltd, are constantly trying to balance shareholder satisfaction with the social and environmental needs of other key stakeholders. This is even more pertinent in this case where, it is argued, Gunns and its present and proposed pulp mill operations are crucial to the economic health of the region as well as the State of Tasmania.

This case also extends the TBL to the 'quintuple' bottom line (QBL), by including issues of good governance and party political objectives at both state and federal levels. The governance extension (the fourth bottom line) relates to the responsibility of the parties involved in the process and ultimate decision to build (or not) the pulp mill to adopt transparent and accountable governance practices. The fifth bottom line concerns the political ambitions of the two main political parties at a state and federal level in Australia, the Australian Labor Party (ALP) and Liberal Party, as well as the growing importance of the Green Party. Complexity is added by the fact that the electorates where the mill development is planned are among the most marginal at all levels of government; local, state and federal. A federal election was held in November 2007 and campaigning for the election was at its peak at the time the impacts of the proposed pulp mill were at the forefront of special interest and political party agendas.

There are several key learning features in this case. In addition to extending the concept of the TBL to the QBL, the facts identified in the case raise serious questions as to who has, and who should have, ultimate responsibility and accountability in a case of this kind. The facts in this case also highlight the need for clearer delineation between the role and responsibilities of government and its regulatory process, and to what extent it may be influenced by a large private sector organization seeking to maximize profit for its shareholders and deflect scrutiny from its social responsibilities. These issues are of particular importance given the timing of the approval process and a volatile political environment, including a pending federal election. A final key issue of the extent to which a proposal of this kind should be decided on political, rather than social and environmental, grounds is also raised.

It is not the intention of this case study to comment in detail on the commercial, social and environmental merits of the mill development, but simply to examine the issues of the case in relation to good governance in the public and private sectors. The following is a contextual description of the process, and the roles of the main players within it.

THE COMPANY

Gunns Limited was founded in Tasmania in 1875 by brothers John and Thomas Gunn and is one of Australia's oldest companies. In 2008, this Tasmanian registered company was Australia's largest hardwood producer, operating five modern sawmills throughout Tasmania. These sawmills produce seasoned framing timbers, rough sawn kiln dried hardwood and hardwood products such as laminated beams, tongue and groove flooring, mosaic and block parquetry, mouldings and furniture components. Gunns also operates Tasmania's two veneer factories and a veneer factory in Christchurch, New Zealand. This makes the company the largest producer of sliced veneer in Australia and New Zealand. It also operates four woodchip export ports in Tasmania, exporting eucalyptus woodchips produced from sawmilling residues and residual pulpwood from integrated harvesting operations. It owns 185,000 hectares of freehold land and manages in excess of 110,000 hectares of plantations, with the majority of these being in Tasmania (Gunns Ltd, 2007).

The company also has joint venture arrangements with Forestry

Tasmania, a state-owned business enterprise which manages 1.6 million hectares of Tasmanian state forest land of which 50 per cent or 800,000 hectares is available for wood. At the beginning of 2007 Gunns employed about 1,700 people, most of whom were in Tasmania, and the company had a revenue turnover in the 2007 financial year of approximately AUD700 million.

THE PULP MILL PROPOSAL

> Smell the roses at the National Rose Garden . . . see the Little Penguins at Low Head . . . taste gourmet food and wine in the park . . . hear the sounds of summer . . . dive off the rocks . . . feel the hot sand between your toes . . . pick plump strawberries in the morning, drink sparkling wine with lunch in the vineyard where the grapes are grown, and stroll along the boardwalk at dusk to dine, facing sunset over the marina . . .

This is the Tasmanian government's description of holiday activities aimed at enticing tourists to the Tamar Valley region in northern Tasmania. The Tamar Valley, which leads to Bass Strait on the north coast of Tasmania, is described as 'the valley of the senses'. Launceston, the largest city on the Tamar River, is described as being at the centre of the natural and historic wonders of the region, a 'foodies' paradise', and comparable with the south of France (LTV, 2007).

It is in this area of Tasmania that Gunns Ltd proposes to build a pulp mill costing AUD1.7 billion on a greenfield site on the banks of the Tamar River. The pulp mill proposal was the largest ever planned investment within the private sector in Australia at that time. It aimed to enable 'downstream processing' of the company's timber resources to produce pulp and paper, both to replace imports and to develop an export market.

Despite strong support from the state government, the proposal was controversial. It polarized public opinion between those desiring the economic benefits anticipated from the mill and those with concerns about the environmental and social impacts and potential harm to existing businesses in the area, including wine, primary production, fishing and tourism. For example, an economic impact study commissioned by the Tasmanian Roundtable for Sustainable Industries (TRSI) reported that the pulp mill may add 280 jobs to the Tasmanian economy, but at a cost of an estimated 216 deaths from respiratory disease and log truck accidents. The report also identified additional potential negative impacts of the pulp mill, including 1,044 job losses in the tourism industry, with overall industry losses of nearly AUD1.1 billion. The fishing industry was also expected to lose AUD175 million of business sales and 175 jobs if Tasmania's clean green sales niche were lost, and four times that amount if a feared dioxin contamination of fish and shellfish in Bass Strait occurred as a result of dioxin-contaminated effluent from the pulp mill (Neales, 2007).

The following sections explain the proposal and its implications for corporate governance within the context of the financial imperatives of business, political and government structures, environmental policies and processes, and issues of community concern.

GOVERNMENT AND GOVERNANCE IN TASMANIA

Although Australia is one nation, it is a federal state with nine parliaments, comprising the federal parliament and one in each of the six states and two territories. Each state has its own state government, which enacts legislation and regulates the economic, social and environmental activities of the state. While the individual states are largely autonomous, the federal government has specific powers granted by the Australian Constitution (1900) to make laws in relation to certain matters. These include defence and taxation, trade and commerce (s.51 (i)) and the regulation and control of corporations (s.51 (xx)). Thus the federal government has power to intervene in all forms of corporate activity, including company activity in relation to the environment (Burritt and Gibson, 1993), even though environmental protection legislation *per se* is a matter for the states.

The federal and all state governments, except Queensland, have a similar three-part structure which comprises the Crown (represented by the Governor General of Australia and governors of each state), an upper house and a lower house. At the national, or federal, level, the upper house is the Senate, and the lower house is the House of Representatives. The Senate consists of 76 senators, 12 from each of the six states and two from each of the Australian territories, and a proportional system of voting is used to more accurately reflect the intentions of the electors. While the Senate's law-making powers are similar to those of the House of Representatives, the Senate is principally a house of review. The House of Representatives, known as 'the people's house' has 150 elected members who each represent an electoral division. Members are elected via a preferential voting system in which voters rank the candidates and the candidate with the most votes gains the seat. The functions of the House of Representatives include making laws, determining the government (the party with the majority of elected representatives in the lower house forms the national government), publicizing and scrutinizing government administration, representing the people, and controlling government expenditure (Parliament of Australia, 2008). Legislation passed by both houses of Parliament is then given assent by the Governor-General, the Queen's representative, prior to becoming Australian law.

In Tasmania, the upper house is the Legislative Council, which was established in 1825 as the original legislative body for Tasmania (then called Van Diemen's Land), following the constitutional separation of Van Diemen's Land from New South Wales to form a separate colony (Parliament of Tasmania, 2008). It is a house of review which has always been controlled by a majority of nominally independent members. The lower house in Tasmania is the House of Assembly, where there are five electorates, each with five members elected under the Hare–Clark[1] system of proportional representation. The political party that has the majority of members in the House of Assembly forms the state government, and the government leader is the state premier. It is a convention that the initiation of legislation in Tasmania resides in the House of Assembly, leaving the Legislative Council to act as a house of review. State laws are enacted by introducing a Bill into the House of Assembly, which, when agreed to and passed, is reviewed by the Legislative Council. Following Council approval, it then receives Royal Assent from the state governor.

The third level of government in Australia is local government. Prior to 1827, the Tasmanian colony was divided into nine police districts, each under the control of magistrates. Councils were established for Hobart and Launceston (the two major cities in the state), in 1835 and 1857, respectively, and these were followed by the development of rural municipalities. Municipal districts and boundaries have changed markedly over time, but following substantial changes in 1993, there are now 29 Tasmanian councils, overseen by the local government office of the state government. Local councils are required to exercise controls over environmental outcomes from a wide range of activities in their area, to monitor and control building activity, and engage in consultation with their residents to ensure high standards of public accountability (DPAC, 2008).

In relation to environmental legislation, while there is a Commonwealth Environmental Protection Act (CEPA), environmental protection and land-use planning in each state is the responsibility of state governments, and each state has its own environmental protection and planning legislation. The main environmental protection legislation in Tasmania is currently the Environmental Management and Pollution Control Act 1994 (EMPCA, 1994). This legislation established an Environment Protection Policy Review Panel, which is chaired by the executive commissioner of the Resource Planning and Development Commission (RPDC). The Commission was established by the Resource Planning and Development Act 1997 (RPDC, 2007a) to oversee the state's planning system, take responsibility for reporting on the state of the environment, and to assess public land-use issues and projects of state significance.

Promoters of development proposals with potential environment effects are required to apply for a permit within the normal planning processes set out in the Tasmanian Land Use Planning and Approvals Act 1993. If a proposal is identified as a project of state significance, it is then dealt with separately from the normal planning process. For this to occur, an order made by the governor declaring the proposal to be a project of state significance must be approved by both State Houses of Parliament before an assessment can begin. The state premier is currently the minister responsible for projects of state significance, and he directs the RPDC to undertake an integrated assessment of the proposal and make recommendations to the government. Following this recommendation, the government makes the final decision on whether the project will proceed.

Within this process, the proponent prepares a Draft Integrated Impact Statement (IIS) (Gunns Ltd, 2006) which describes the proposal and addresses all potential environmental, social, community and economic impacts of the construction and operation of the project. A key step is an invitation for public comment on a draft set of guidelines before the RPDC provides the final scope guidelines to the proponent. Following receipt of public submissions and the holding of appropriate hearings, the RPDC prepares a Draft Integrated Assessment Report (DIAR) (RPDC, 2007b) which is publicly exhibited for a minimum of 28 days. Submissions are invited, and further hearings may be held before the RPDC submits a final report to the Tasmanian premier. The government then determines whether the project is to proceed, and any conditions that should apply.

THE PULP MILL PROCESS

The processes, sequence of events and roles of the major players have significant implications for corporate governance in the private and public sectors. It could be argued in this case that the executive chairman of Gunns Ltd, John Gay, by maintaining a high personal profile throughout the process, deflected attention from the other directors. This enabled governance of the company's ongoing operations to be largely unaffected by the very large amount of media and public attention resulting from the proposed development. Gay, in turn, was skilful in emphasizing what he identified as problems with the process, rather than potential social and environmental problems with the proposed mill. In this way, much of the media and public attention became focused on the Tasmanian premier, Paul Lennon, who was championing the project, and who was held responsible for the perceived abuse of democratic processes involved in developing new and specific legislation, rather than confirming the normal assessment process. The fact that economic aspects of the proposal gained the support of trade unions and both of the major political parties also shielded the company from a great deal of scrutiny of its governance methods, and of the potential social and environmental effects of the mill's operations. The case has, however, raised considerable questions in relation to the state government's processes, and there remains a strong perception in the public mind that the boundary between corporate governance in the interests of shareholders and public sector governance in the interests of the community is now considerably blurred in Tasmania (Neales, 2008).

Tasmania has the greatest proportion of forest cover of any state in Australia, and logging and wood chipping has long been a major underpinning of its economy. Forestry operations are undertaken by Forestry Tasmania, a government business enterprise which is responsible both for implementing government forestry policy and for the sale of its timber resources. In recent times, there has been rising concern at the level of destruction of old-growth forests by logging activities that produce a low economic return, resulting in a limited, but increasing focus on other means of adding greater value to forest products, such as pulp and paper production. Tasmania also has an increasing number of high-return, niche industries including wine, olives, truffles, soft fruits, aquaculture and specialty dairy products that are increasingly contributing to the economy. Further, tourism developments have become of increasing importance and there are concerns that the traditional large forestry operations are incompatible with the development of further tourism growth and the other niche industries (ABS, 2006). While a pulp mill will add value to forestry production, it will require the continuation, perhaps increase, in extensive forestry operations in order to provide the volume of raw materials it will require. An additional concern is for potential harm to the 'clean and green' image of Tasmania that has been carefully cultivated by the tourism and newer agricultural, aquaculture and horticultural ventures, and by the traditional farm products that have also benefited from this brand image.

The issue of the mill was first raised in June 2003, when the then state deputy premier, Paul Lennon, dined with John Gay. It is reported (*Mercury*, 2007) that they discussed a proposed pulp mill development. In October 2003, at the request of the then premier, Jim Bacon, the RPDC provided guidelines for the mill development, and the government established a Pulp Mill Task Force within the State Department of Economic Development. In the following month, the state government announced its support for a billion-dollar pulp mill to be developed by Gunns and possibly a further partner, and in June 2004, Australian Prime Minister John Howard offered AUD5 million towards funding the mill in the lead-up to the federal election. In the same month the RPDC released for public comment a set of 'best practice' guidelines for the project, which had been prepared at the request of Paul Lennon, who was by then the state premier. The guidelines were approved in October, and the premier announced his strong support for the project, which was declared a 'project of State significance'. This declaration enabled the project to be independently assessed by the RPDC, aimed at avoiding delays which might otherwise occur during normal state planning processes.

In February 2005, Gunns confirmed that the chosen site for the mill was Long Reach, in the Tamar Valley, and indicated that, contrary to expectations, the mill would not use a chlorine-free process (Gunns Ltd, 2006). The RPDC released its draft scope guidelines in April, by which time the Wilderness Society was launching a Federal Court challenge to the development, on environmental and social grounds. By August 2005, Gunns had not lodged its required IIS with the RPDC, and indicated that further delays were to be expected. In the meantime, despite the project's upgraded planning status, tension and controversy were emerging, with accusations of government interference on behalf of the company. For example, in February 2005, the chair of the RPDC issued the first of several requests to the head of the government's Pulp Mill Task Force, asking that the Task Force 'curb its activities to prevent it having negative effects on the Commission' (Gale, 2007).

With a state election scheduled for early 2006, rallies against the mill were organized, and Gunns, anticipating that a minority government and reduced support for the project might be the outcome, threatened to develop the mill in Asia (Neales, 2007). However, when the incumbent ALP government was returned to power, with Paul Lennon as premier, John Gay announced that the mill's future in Tasmania was secure. The federal government also provided an AUD60 million budget for roads development to improve transport infrastructure for the mill.

Gunns submitted revised project information at the request of the RPDC, and filed its IIS of 7,500 pages (Gunns, 2006) in June 2006, and a call for public submissions was made, to close in September. During the submission process, in July 2006 Forestry Tasmania and Gunns signed a wood supply agreement for the mill (*Mercury*, 2007), and Gunns confirmed that it would continue to export woodchips once the mill was operational. This further raised public concerns in relation to the amount of native forests that would need to be harvested to meet the company's requirements. In September there were more public demonstrations in opposition to the mill and Gunns confirmed that an error in its IIS meant that dioxins released by the mill would be 45 times worse than estimated. This was followed by a Commonwealth Scientific and Industrial Research Organisation (CSIRO) report that the mill as planned would exceed emission levels for nitrogen oxide, the gas which causes acid rain (ibid.).

By December 2006, the RPDC was attempting to obtain additional information from the company in relation to the proposal, and in January 2007 two members of the Pulp Mill Assessment Panel (the chair and the industry expert) resigned, indicating that political interference was occurring. In the same month, Gunns expressed frustration at what it described as unreasonable delays, and in February provided the additional information that the RPDC had been requesting. Gunns then imposed a deadline of 30 June 2007 for approval of the project. In the meantime, the replacement chair of the RPDC Panel had resigned, saying that he was being pressured to speed up the process. The company again complained (ibid.) about the cost and length of the RPDC process, and accused members of the Commission of bias. Then, on 14 March 2007 the company announced to the Australian Stock Exchange that it was withdrawing from the RPDC process, and on the same day the state premier called an emergency cabinet meeting to discuss the issue.

Premier Lennon hastened to identify an alternative, more rapid, way of facilitating the mill development and, following the cabinet meeting, the Pulp Mill Assessment Act 2007 was introduced into parliament. This was aimed at enabling the pulp mill proposal to be dealt with directly by the Tasmanian parliament (House of Assembly), bypassing the RPDC process. In the ensuing political furor, an ALP member of parliament was sacked from the ALP for voting against the premier's proposal, and rallies of up to 5,000 people in support of the mill and 10,000 people against the mill were held. A survey (ibid.) taken in August 2007 revealed that more than two-thirds of Tasmanians were opposed to the fast-track approval process that had been introduced for the mill, and in the same month the federal environment minister indicated interim support provided that certain conditions were met. Despite vigorous opposition the Tasmanian Pulp Mill Assessment Act was passed on party lines. A report was commissioned from Sweco Pic, a Swedish pulp mill development company, and on the last day of August, the Tasmanian parliament gave approval for the development to proceed.

In the following month, September, the federal ALP opposition environment spokesman (Peter Garrett) indicated ALP support for the project, and the federal environment minister (Malcolm Turnbull) commissioned his own report. Gunns then reduced its profit forecast, citing delays in the mill approval process as a cause, and John Gay warned the federal government not to impose additional conditions on the mill. There was a strong campaign to put pressure on the federal environment minister to intervene, which he could legally do by virtue of the Australian Constitution and the federal Environmental Protection and Biodiversity Conservation Act (EPBC, 1999). Following an enquiry, which received more than 31,000 public submissions, the federal minister gave approval on 5 October for the pulp mill development to proceed, subject to an additional 24 conditions to limit emissions. Public protest, however, continued.

Throughout the process, the state government's strong support for the project, and in particular the development of a special Act of Parliament, attracted much of the criticism that might otherwise have been levelled at the company. While the company's behaviour, particularly in relation to the provision of information, was criticized, it was John Gay who drew most criticism for using the importance of Gunns Ltd to Tasmania to influence government actions. There was also much public criticism of Premier Lennon, who was seen by some as being unduly influenced by a large corporation, to its own advantage, and to the possible detriment of democratic processes within Tasmania. One member of the House of Assembly, for example, in abstaining from voting on the 'fast-track' process that led to the special legislation said:

> I believe the expediency Gunns has placed on this Parliament has caused a lot of public stress, and stress amongst my parliamentary colleagues. . . . No private company should ever try to bully a government into pressured decision-making. This is not a harmonious or collaborative way of working, so I see that Gunns have left this Government, this Parliament and the Tasmanian community hamstrung. This would have to be one of the most difficult positions this Parliament has faced for many years.
>
> Gunns . . . have made the government become the scapegoat because Gunns wanted a cheaper outcome. Why are they not held accountable? . . . I am not happy when a private developer has such a heavy influence on our democratic system. I am not happy that the RPDC process was abandoned by Gunns. (Hansard, 2007, 2.35)

POLITICS AND THE PULP MILL

Tasmania is pivotal to the fortunes of federal and the state governments in Australia. The northern region of Tasmania, near where the pulp mill site is proposed, contains two of the most marginal electorates at both federal and state levels. The political importance of Tasmania and issues emanating from it are discussed in this section and in particular the importance of party politics and the need to influence swinging voters when faced with two marginal electorates. The fine line the major political parties have had to tread during the last three decades in Tasmania has mainly related to issues that have created tension between economic, social and environmental impacts on voters in the Tasmanian and federal electorates.

Australia's population is approximately 21 million, of which Tasmania's is about 500,000. Tasmania has five seats in the federal parliament. Two of these seats, Braddon and Bass, have long been considered marginal and are in the region near where the proposed pulp mill is planned, as is the seat of Lyons. Historically, the party which has held Bass and Braddon at the same time has achieved government at the federal level. In the Senate, Tasmania has the same number of senators as every other state (12) despite the difference in population, and this makes the Senate votes of Tasmanians relatively more important than they otherwise might be. Voting at a federal level occurs every three years with the whole of the House of Representatives and half (36) of the Senate seats being decided at each election.

In Tasmanian state elections, held every four years, the seats of Bass and Braddon (the same names and locations as the federal electorates) are also the most marginal, and historically the party with the majority of members in these two seats has most often been in government. There are 29 local government councils in Tasmania, six of these in the areas most likely to be directly impacted by the operations of the proposed mill. Council elections are held every two years and these elections are fought and decided very much on local issues.

At a federal level there are two main parties, the Liberal/National Coalition (LNC) and the ALP. Over the last decade the Green Party (GP) has become more prominent federally and in Tasmania (where the party originated) with its primary message relating to environmental matters. The GP is a federation of eight state and territory parties which grew out of Australian environment movements in the 1970s and 1980s. The campaign to save Lake Pedder led to the formation of the United Tasmania Group in 1972. This was the first 'green political party' in the world and the people involved in this group eventually formed the national GP. At the federal level, the GP has at times held the balance of power in the Senate and has continued to increase its votes and power base since that time. It led the 'no pulp mill' campaign during 2007.

Environmental issues achieved national prominence in the 1983 federal election when the ALP won after campaigning strongly throughout the country in opposition to the Tasmanian government's proposed damming of the Franklin River below the Gordon River in Tasmania. That issue dominated Tasmanian politics throughout the late 1970s and early 1980s, spilling over to the federal sphere in 1982/83. The issue caused great rifts between those who supported the construction of the dam and those who sought the preservation of the wilderness values of the region. In

December 1982, the dam site was occupied by protesters, leading to widespread arrests and greater publicity. The dispute became a federal issue the following March, when a campaign in the national print media helped bring down the LNC government of Malcolm Fraser at the 1983 election. The new ALP government, under Bob Hawke, had promised to stop the dam from being built. A legal battle followed between the federal government and Liberal Tasmanian state government resulting in a landmark High Court ruling in the federal government's favour (CLR, 1983).

In the late 1980s, a pulp mill was proposed to be built near Wesley Vale in northern Tasmania. The claim that waste generated by the mill would threaten Tasmania's World Heritage listed forests became a significant environmental and political issue at the state and federal levels, and the project was abandoned by its foreign-owned backers, Noranda and North Ltd. This proposal was actively discouraged by the GP, which ran for the House of Assembly in Tasmania for the first time in the 1989 elections. They received 17.1 per cent of the vote across the state and won five of the then 35 seats in the state parliament (Tasmanian House of Assembly, 2008), largely on the anti-pulp mill and other forestry protection issues.

In 2004, at the federal level, the then ALP opposition leader Mark Latham campaigned very strongly on stopping the logging of old-growth forests in Tasmania and particularly in the areas near the seats of Bass, Braddon and Lyons. At a time when the economy was a dominant political factor, voters were more concerned about employment, and the LNC reclaimed the seats of Bass and Braddon from the ALP. Interestingly these victories would not have been possible without the assistance of traditional ALP-supporting, forestry, building and mining unions, who supported the LNC's forestry policy, rather than that of the ALP. In the post-election analysis, many media analysts remarked on these strangest of bedfellows.

At the November 2007 federal election, the ALP won after 12 years of LNC control, with a national swing of 5.7 per cent providing it with 43.4 per cent of total votes. There was a national swing of 0.6 per cent to the GP, increasing its share of the vote to 7.8 per cent. There is no doubt that the Tamar Valley pulp mill issue impacted greatly on the fortunes of the three political parties, particularly in specific electorates. The LNC, through the environment minister, Malcolm Turnbull, approved the construction of the pulp mill just prior to the election. The ALP, while giving the issue as low a profile as possible also indicated that they would support the pulp mill if elected, but would place stronger and stricter environmental safeguards on its construction and operation than would the LNC. The ALP regained the seats of Bass and Braddon and increased their majority

Table 7.1 Federal election results for Tasmania (%)

Party	Bass		Braddon		Lyons	
	2004	2007	2004	2007	2004	2007
(a) Before distribution of preferences						
ALP	39.2	37.2*	43.1	43.7*	44.6*	43.1*
LNC	49.1*	43.5	47.4*	44.0	42.3	32.5
GP	8.1	15.3	5.6	8.1	9.9	11.2
Ind (Quin)						9.6
(b) After distribution of preferences						
ALP	47.4	51.0*	48.9	51.4*	53.7*	58.8*
LNC	52.6*	49.0	51.1*	48.6	46.3	41.2

Note: * denotes winner.

in Lyons, but in considering the impact of the pulp mill proposal it is most interesting to look at the impact the GP and two independents had on the results. Table 7.1a compares the percentage of votes before the distribution of preferences and Table 7.1b is the two major party preferred vote after the distribution of preferences.

The clear message from these tables is that the pulp mill issue was very influential in the votes cast. The GP significantly increased their vote in Bass and to a lesser extent in Braddon and Lyons. The 7.2 per cent increase in the GP vote in Bass was well above the national average and can be directly attributed to the anti-pulp mill sentiment. The primary votes for the LNC, before the distribution of preferences, fell in all three seats. The primary votes for the ALP fell in Bass and Lyons, but rose slightly in Braddon. Given a national swing of 5.7 per cent to the ALP, the fall in its primary votes in Bass and Lyons indicates substantial voter dissatisfaction with its pro-pulp mill stance. There is little doubt that without the distribution of GP preferences, 75 per cent of which went to the ALP, it would not have won Bass. While the increase in the GP vote was not as great in Braddon as in Bass, it was still above the national average and, again, without GP preferences (again at 75 per cent) the ALP would not have won the seat. The seat of Lyons is interesting for a number of reasons. The independent candidate, Ben Quin, had been the pre-selected LNC candidate but he withdrew his candidacy a few weeks prior to the election, stating that he could not support the LNC party's position on the pulp mill. He then ran as an independent candidate. The 9.6 per cent of the vote which he gained, considered alongside the 11.2 per cent vote for the GP, indicates a very strong anti-pulp mill vote in Lyons. While 77 per

Table 7.2 Federal election results for Minister for Environment (Turnbull) and Shadow Minister for Environment (Garrett) (%)

Party	Wentworth (Turnbull)		Kingsford Smith (Garrett)	
	2004	2007	2004	2007
(a) Before distribution of preferences				
ALP	28.9	30.5	48.6*	52.8*
LNC	40.3*	50.3*	36.0	33.9
GP	12.9	15.0	7.8	10.0
Ind (King)	15.9			
(b) After distribution of preferences				
ALP	47.5	46.2	58.8*	63.3*
LNC	52.5*	53.8*	41.2	36.7

Note: * denotes winner.

cent of GP preferences in Lyons went to the ALP, Quin's preferences went almost 50/50 to the ALP and LNC.

Tables 7.2a and b compare the fortunes of the LNC Environment Minister Turnbull and the ALP Shadow Environment Minister Garrett. Both held their seats at the 2007 election but once again the voting support for the GP, which campaigned strongly on an anti-pulp mill platform in their two electorates, displays an interesting pattern. In essence, their support increased by a substantially greater proportion than did the national swing in both seats, and, in addition, their primary vote was much higher than the national average for their party. Nationally the ALP received about 80 per cent of the GP preferences, but in Wentworth they received 88 per cent and in Kingsford Smith, Peter Garrett received 85 per cent. Wentworth was one of the few seats where the LNC increased its vote in the 2007 election, but this was largely due to the fact that in 2004 the then sitting member, Peter King, lost a pre-selection competition to Malcolm Turnbull and ran as an independent, picking up almost 16 per cent of the vote. He did not contest the seat in 2007. An *Age* newspaper poll conducted two months before the 2007 federal election asked 2965 registered voters whether the decision to build a pulp mill in Tasmania's Tamar Valley would affect their vote: 87 per cent indicated that it would and 13 per cent that it would not, illustrating the importance of the issue to voters at the national level (Tapvision, 2008).

The most recent Tasmanian state election was in March 2006 and the ALP won comfortably, with Paul Lennon retaining the position of premier. However, the pulp mill proposal had not gained momentum and notoriety until after the election. Since that time, opinion polls have indicated that the Lennon government has lost a great deal of support and, notwithstanding a number of other scandals, the pulp mill and the public resentment at perceived abuse of the planning process has been a major cause of this downturn. Typical of the opinions being expressed are the following:

> Most of the year was marked by an extraordinary lack of good governance and abrogation of proper process from the Lennon government, particularly in relation to the State government's approval of the Tamar Valley pulp mill.
>
> By August 2007, an EMRS opinion poll showed Mr. Lennon's approval rating had fallen to a staggering low of 24 per cent. After being branded as Mr. 32 Per Cent in February in an earlier survey, it was not a slump Mr. Lennon relished.
>
> Labor members manning the booths and handing out how-to-vote cards (at the Federal election on November 24) reported a common refrain from Labor voters. In essence, the unwelcome message was: 'I'm voting Labor this time because I want a Rudd [the ALP leader] government in Canberra, but don't expect me to vote for Labor and Paul Lennon at the next State election'. (Neales, 2008)

In Launceston, the pulp mill also had a marked effect on local elections held in October 2007. The *Australian* newspaper reporting the outcome of the Launceston mayoral election said:

> A backlash against Gunns pulp mill has toppled Launceston Mayor Ivan Dean and his deputy and seen a number of anti-mill candidates elected to northern Tasmanian councils. Mill opponents yesterday hailed the results of Tasmania's local government elections as proof of widespread opposition to the mill, to be built in the Tamar Valley north of Launceston. As well, a plebiscite held with the council elections in Hobart showed 76 per cent opposition to the mill among voters in the state capital. Mr. Dean, who lost the Launceston mayoral race to anti-mill candidate Albert van Zetten, conceded his support for the $2 billion project 'played some part' in his downfall. (Denholm, 2007)

GUNNS LTD: ECONOMICS AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

Gunns is one of Tasmania's largest employers, and the economic prosperity of the state, especially its northern area, is heavily dependent on forestry and Gunns' contribution to this industry. Gunns claims that the pulp mill will bring about an average per annum increase in household expenditure of AUD870 per year in Tasmania, and an increase in tax revenue for the state and federal governments of almost AUD894 million for the period from 2008 to 2030, some of which will be returned to Tasmania under the Commonwealth Grants Commission scheme. It further argues that there will be an additional AUD39 million annual expenditure by the construction workforce into the northern Tasmanian economy and a 15 per cent increase in local property prices (Gunns Ltd, 2008a).

There is little doubt that the mill will generate economic activity. However, the 'net' benefits of the proposed project are difficult to identify and this calculation depends largely on whether both direct and indirect benefits and costs of the project are included. For example, in a 2005 radio interview, the general manager of the pulp mill project claimed that a university study indicated that the mill would create about 4,000 jobs directly, and another 4,000 indirectly during the two-year construction phase. The study also claimed that in its operational phase it would create an extra 1,500 jobs, both directly and indirectly. If these figures are accurate they represent a significant (approximately 2 per cent) contribution to Tasmania's GDP (ABC, 2005). Since then, however, it is clear that the direct number of operational jobs, once the mill is open, will be less than 300 and the number of indirect jobs and where they might be is not specified.

The figures provided by Gunns regarding the economic impact of the mill have been contradictory. Its latest estimates assert that about 3,400 more jobs can be expected in Tasmania in 2008 if the pulp mill is constructed, with 1,617 being employed in the operational phase, and that, by 2030, an extra 2,000 Tasmanian jobs may be created (Bell Bay Pulp Mill, 2008). However, other conflicting estimates from Gunns indicate that the mill, when completed, will provide only an additional 292 operational jobs, 60 per cent of which will require additional training (Gunns Ltd, 2008a) The national leader of the GP, Senator Bob Brown, has drawn attention to these variations, as well as others, noting:

> [T]he pulp mill will have 292 jobs, according to the Gunns' specification when it's built. Well, there's been more than 300 jobs shed out of the forestry industry since John Howard [the then Prime Minister] with the forestry division of the CFMEU [Construction, Forestry, Mining and Energy Union] and their flags flying made that momentous decision during the 2004 election campaign which said they'd protect jobs. They didn't. There's been more jobs shed since then because it suited Gunns' bottom line and lots of other logging companies in this state than the pulp mill will create. That's a furphy. This is a mill to make money for a corporation which exports it profits out and its job prospects out of Tasmania. But which according to an independent economic analysis, would have a \$3.3-billion hit on other prospective industries in Tasmania, including the clean green industries and many more jobs will be lost because of this than the mill will create itself. (Jones, 2007)

Gunns claim that they are committed to source employment and services from Tasmania whenever possible, estimating that 40 per cent of jobs during construction and 80 per cent of jobs once the mill is operational will be filled by Tasmanians (Gunns Ltd, 2008a). The 40 per cent figure, corresponding to about 1,400 jobs for Tasmanians, is difficult to believe as, at present, there are not enough surplus skilled workers available in Tasmania to meet that level of demand. If workers are sourced from within Tasmania, it will most likely be at the expense of other areas of building and construction, where there is and has been a shortage of skilled labour.

The mill's impact on other areas of the Tasmanian economy has been the subject of many claims by opponents of the mill. The Tamar Valley region, for example, is one of the main tourist routes in Tasmania and generates a great deal of economic activity each year. Fear of negative environmental impacts has opponents of the mill indicating the potential losses which may result. For example, one set of claims is that over a 30-year period, the economic losses generated will be in the range of hundreds of millions of dollars (Tapvision, 2007). These claims are summarized in Table 7.3.

The notion of striking a balance between CSR and profit maximization for the private sector has gained significant influence over the last 20 years. This seems not to be the position advocated by Gunns' CEO, John Gay, who emphasizes that the company's major objective is to maximize profit for its shareholders, as illustrated in the following excerpt from a nationally televised interview with John Gay in his response to a question about balancing corporate profits against protecting wildlife (Sunday, 2003).

> *Graham Davis (Reporter)*: Again, for many people – and not just the Greens – it's the scale of what's happening in Tasmania that's at issue, not whether

Table 7.3 Potential hidden costs of the Tamar Valley pulp mill

Loss	estimated cost (A$)	Reason
Food production	$320 million	Farming land used for tree plantations
Tourism	$110 million	Smell, increased log trucks, river pollution
Fishing	$100 million	Market concerns about dioxins and effluent in the river and other waterways
Water use	$50 million	Needed for trees and pulp mill process
Brand damage	Unknown	Loss of 'green' state reputation

> logging should or shouldn't take place. Only the most ardent conservationist would want to place 8,000 jobs at risk. Yet, if there are rules, they should be adhered to, even if there's no consensus on forestry, more of a balance should be struck. The chasm of perception here is obvious when you go to see logging's Mr. Big. What's good for the forestry business in Tasmania is always good for the rest. How do you feel about protected species dying for your business?
>
> *John Gay*: Well, there's too many of them and we need to keep them at a reasonable level.
>
> *Graham Davis*: You're saying there's too many wombats and ring-tailed possums?
>
> *John Gay*: Yes, most certainly.
>
> *Graham Davis*: Why are they protected then? Why are they classed as endangered?
>
> *John Gay*: Well, because the numbers are getting too great and the ring-tailed possum is a very small proportion of this. It's usually the brush possums that are poisoned, not ring-tails.
>
> *Graham Davis*: Well, how can you say that, though, when you concede that this thing kills everything?
>
> *John Gay*: Well, that everything that goes there to eat, but I believe it is an acceptable practice.
>
> *Graham Davis*: It is acceptable practice to knock off all the wildlife in the surrounding areas, so that you can put your tree seedlings in?
>
> *John Gay*: Yes.

As one of the major employers in a small state, Gunns is the focus of significant social and environmental pressures, similar in their intensity to those faced by large multinational companies operating in developing countries. For this reason, the company might be expected to demonstrate its sense of social responsibility in its annual reports (Gibson and O'Donovan 2007). However, in the last five years, Gunns' minimal annual report disclosures have been made, and the company does not produce a separate sustainability report. It is interesting to note that, despite a lack of general disclosure, positive information about the proposed pulp mill, its impacts and how they would be managed, featured prominently in the 2006 and 2007 annual reports. In terms of corporate citizenship, Gunns supports many Tasmanian community initiatives and sponsors philanthropic causes and sporting events, and in this context contributes to community and social capital.

Its philanthropy, however, may be considered selective, as in December 2004, the company instituted legal action against 20 groups and individuals, including the Wilderness Society, Doctors for Forests and Senator Bob Brown, for loss of business for the amount of AUD6.36 million. The basis of the action was that protesters and activists had disrupted a number of operational forestry activities in Tasmania and overseas and this caused a financial loss. From a CSR standpoint and the reputation of Gunns, the law suit created a huge backlash, one that is still continuing. The defendants, who have become known as the 'Gunns 20', come from many walks of life.

> The massive suit covered 10 different protest actions, in the state and overseas, over four years. Greens leader Bob Brown had a $1.7 million claim against him. Four people from the Wilderness Society each faced claims in excess of $1.3 million, and the organisation itself a further $3.9 million. Those sued range from a country grandmother to a town dentist, and a filmmaker to a law student. Some had assets, others not. (Darby, 2006)

The claims against six defendants, including all of the corporate ones, were dropped by Gunns in December 2006, but the courts ruled that actions against the remaining defendants could continue. Gunns paid the legal costs of the six defendants of about AUD500,000. The case is continuing, with another of the cases against one of the defendants, Dr Frank Nickalson, being struck out by the Supreme Court of Victoria on 17 September 2007. Vanessa Bleyer, President of Lawyers for Forests, was present in court and described the result as follows:

> Unexpected, given the order striking out the statement of claim came when Gunns applied to strike out a paragraph in the defendant's defence. It is of concern that Gunns appears not to want the truth of the doctor's statement tested in court. It is concerning that Gunns is suing people who raise public health issues in light of the pulp mill proposal. (Legal, 2007)

The reputation of Gunns as a good corporate citizen may have been seriously compromised as a result of this action. The issue of freedom of speech and the right to protest has become a core issue in the debate about the Gunns 20 case. It was reminiscent of the 1997 McLibel case where Helen Steel and Dave Morris were sued by McDonald's for libel for what was contained in leaflets they had produced and handed out in the UK. As with the McLibel case (McLibel, 2008), Gunns' law suit evokes images of a David versus Goliath struggle and the court of public opinion appears to be in favour of the defendants rather than the corporate protagonist.

SOCIAL AND ENVIRONMENTAL IMPACTS OF THE PROPOSED PULP MILL

> Do we invest $8,000 in buying outdoor furniture if we won't be able to sit there because of the odour? (Kirsty Allwood, Manager, Ninth Island Winery and Restaurant, quoted in Lyons, 2007, p. 26)

In a case of this length it is not possible to explain in detail the complex scientific arguments relating to the environmental impacts of the proposed pulp mill. In summary, a range of scientific opinion exists, some suggesting that the mill will have little adverse environmental impact, some indicating serious environmental destruction. As a result, there are many areas of disagreement between the parties to the dispute, relating to the type and degree of impact the mill will have, to what is acceptable and what can and should be done to minimize the impact. The pulp mill will use a variety of chemicals in the manufacturing process, notably dioxins, and there is no disagreement that a quantity of effluent and residual chemicals will end up in the waterways. This may have an adverse impact on marine life and on both the fishing industry and recreational fishing. There will also be discharges of gases into the atmosphere and this has the potential to increase human respiratory problems and produce unpleasant odours. The manufacturing process also requires large amounts of water and this is particularly pertinent for a state that often experiences drought conditions. The types and sources of timber used in the pulp mill have both direct and indirect environmental impacts, especially in relation to the ecological impacts of using wood from old-growth forests. In the case of plantation eucalypts, opportunity costs related to the alternative use of the land must be considered. Further, there are environmental and social impacts of transporting timber resources to the mill site, and delivering pulp from the mill to ports and ultimate customers. There are also several specific wildlife issues, most notably in regard to the mill's likely impact on a seal colony about 15 kilometres from the proposed site.

Gunns has listed its response to the potential environmental impacts of the proposed mill (Gunns Ltd, 2008a). In summary, it claims that the mill will be built to minimize negative environmental impacts using the world's best technology. The use of, or at least the claim to be using, world's best practice, does not mean that there are no dangers or impacts and Gunns does not claim that the impact will be zero. However, the notion of world's best practice is a relative measure, indicating that the practice involved is achievable based on what is affordable. It is the incongruity between the application of what is achievable (technologically) and what is affordable (to the company's financial bottom line) that is the crux of the ongoing debate about the benefits and costs of the pulp mill. When calculating financial profit, externalities (that is, the indirect costs of operation not borne by the corporate entity) are not included as expenses and do not act to reduce profit. However, externalities are real costs that must be paid for by society, and in particular the local community, if it wishes to achieve or maintain its lifestyle, including its physical environment.

The City of Launceston, in particular, is set in a valley in which the prevailing winds trap airborne pollutants, and this problem is exacerbated during the winter months by the existing, very prevalent use of wood heaters in homes in the area. This problem is sufficiently serious for the city council and federal government to instigate schemes to reduce the use of wood heaters in order to help relieve the pollution in the valley. One of the main social (and financial) impacts of this pollution is the increase in respiratory problems of people living in the area. This means that extra resources are required by the health system for medical treatment, that people are less productive in the work place, and that social and community activities are reduced. While the emissions from the pulp mill may not be dangerous in isolation, when added to the existing types and levels of pollution they may have a synergistic effect on the health of residents which will increase all of the associated costs.

> The Australian Government has paid $2 million replacing wood stoves with other forms of heating in the Tamar Valley to reduce air pollution. But it has also given Gunns $5 million to build a pulp mill whose boilers will create pollution equivalent to an extra 11,000 wood stoves. (Wilderness Society Tasmania Inc., 2007)

Social impacts are, arguably, more difficult to identify than environmental impacts. They are difficult to quantify, subject to a variety of conflicting opinions and beliefs, and change over time. Indeed, in many cases the unexpected social consequences of large-scale government and corporate activity are more immediate than longer-term environmental effects. For example, it is instructional to consider the social impacts and collateral damage that occurred in the small town of Valdez (population in 1989 about 3,500), Alaska, following the grounding of the oil tanker *Exxon Valdez* in March 1989, and whether this might be pertinent to the construction phase of the pulp mill. After the oil spill, many Valdez locals were forced out of their homes due to the rising rental prices caused by the influx of the media and clean-up crews. Locals who had worked in the area for years had their livelihoods in the oil industry and fishing and marine industry curtailed and at the same time the influx of itinerant workers saw large wage rises and skyrocketing prices (Alder, 1989).

At the height of the clean-up operations, some 15,000 workers were employed by Exxon and each worker had to be supplied with equipment, transportation, food, lodging, logistical support, and supervision. Valdez grew to three times its normal size almost overnight and bed and breakfast accommodation sprang up all over the city. New food and clothing stores were set up and prices soared. Temporary buildings were erected for Exxon's office space. On average it cost Exxon $1,000 each day to support one worker on a beach clean-up crew. It is true that a proportion of this windfall went to local people, but this was a temporary benefit as, in the longer term, the locals made their substantive living in the oil, shipping, fishing and marine industries, which were devastated by the oil spill (Valdez Alaska, 2007). The social capital of the town was changed forever in the aftermath of the oil spill.

It is planned that Gunns will build a temporary village in George Town, near the site of the mill, for 800 workers. It is likely that an anticipated further 3,000 or more construction workers will need to use rental or hotel/holiday accommodation in the area (Tamar, 2008). At present, rental properties in and around the Launceston area show a 95/97 per cent occupancy rate, so the implication of the construction of the mill is that tourist accommodation may be unavailable for periods during construction, or become substantially more expensive, leading to a decline in tourist numbers to the detriment of businesses that depend on tourism. This, in turn, could have an adverse long-term social, as well as environmental, impact. Similarly, the influx of large numbers of male workers into George Town and the surrounding areas will generate a number of adverse impacts. In Valdez, for example, there was a major increase in prostitution during the peak clean-up phase.

CONCLUSION

The concept of CSR and the responsibilities of companies in the private sector to balance the interests of shareholders and direct stakeholders with the broader interests of society is an accepted part of the culture of business in the twenty-first century. The extent to which companies practise and actively embrace CSR in a substantive, positive way, as opposed to attempting to manipulate public perceptions of their CSR, continues to be a matter of much debate. The case of Gunns and the proposed Tamar Valley pulp mill extends the CSR concept beyond the role of the corporation's relationship with its stakeholders and governance to consideration of the role of the government, the government's governance, responsibility and accountability and the importance of issues such as this to the electoral fortunes of political parties.

The timing of the mill proposal and the changes to the mill approval process in the context of a looming federal government election and in the 12 months immediately following a Tasmanian state election, clearly introduced political agendas into the landscape. This may have allowed the company to escape closer scrutiny in relation to their CSR than would have otherwise been the case. The lack of a clear, transparent and accountable process and the role of the Tasmanian government in the episode quickly became 'the story' and, despite the best intentions of many of the anti-pulp mill campaigners, the social, environmental and economic impact of the mill, and the way in which Gunns would be held accountable for them, faded into the background.

Finally, the case mirrors much of the criticism levelled at CSR practices of multinational companies in developing countries where the economic prosperity of the country is particularly dependent on the presence of the multinationals' operations in the country. Governments of developing countries have often been criticized for allowing these companies to operate at a lower level of social and environmental accountability than the companies would be allowed to in their home country or other developed parts of the world. The companies themselves are also criticized for taking advantage of the poorer countries in this regard. The uniqueness of the Gunns case is that Tasmania is a prosperous, although small, state in one of the richest and most developed countries in the world. While Gunns is a very important company in respect of the economic well-being of Tasmania, the facts of this case suggest that its level of influence over government decision making has much in common with multinationals in poor countries. From a good governance perspective, one might question the sustainability of this situation.

KEY LEARNING POINTS

- By including issues of government and political influence, the concept of the triple bottom line (TBL) is extended to a quadruple bottom line (QBL).
- Consideration is given to who has, and who should have, ultimate responsibility and accountability for a major project with complex and wide-reaching effects on the competing interests of a very broad range of stakeholders.
- The importance of clearly distinguishing between the regulatory process and the role and responsibilities of government is emphasized.
- An examination is undertaken as to what extent it is appropriate for government processes to be influenced by a large private sector organization seeking to maximize profits for its shareholders.
- The methods which may be adopted by a company in an attempt to deflect scrutiny from its social and environmental responsibilities is discussed.
- A key issue examined is the extent to which a large industrial proposal should be decided on the basis of political, rather than social and environmental, considerations.

DISCUSSION QUESTIONS

1. If a majority of voters are opposed to a particular development, should the government facilitate it because 'it knows best'?
2. What advice would you provide to a government about balancing social, environmental and economic concerns?
3. What factors should influence company boards in making decisions about development of new projects? Which of those factors do you consider to be most important?
4. Where a company makes a major economic contribution to a particular regional area, how much influence is it appropriate for that company to exert on government decision making?
5. Should triple bottom line considerations have a greater influence in decision making in the private or public sector, and for what reasons?
6. Who should have ultimate responsibility in a case such as this where there are clearly conflicting corporate, government, political and societal concerns?
7. Identify and explain to what extent Gunns Ltd abrogated their CSR to:
   (a) the Tasmanian government?
   (b) the federal government?
8. Do you believe that appropriate governance was practised in this case by Gunns; the Tasmanian government and the federal government? Identify where and how you think governance practices could be improved.

NOTE

1. The Hare–Clark voting system, named after Thomas Hare and Andrew Inglis Clark, has been used in Tasmania since 1909. It is an electoral system often called 'quota-preferential'. Candidates are elected from multi-member constituencies, but not using the proportional representation methods common in European countries. Candidates are elected by achieving a quota of votes, and those votes can be made up by votes cast for the candidate, or votes transferred to the candidate as preferences. The Tasmanian House of Assembly is the only place in Australia that uses the Hare–Clark system.

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PART IV

CSR: additional dimensions

8. A case study of the strategic use of CSR: the American Gaming Association and the National Center for Responsible Gaming

Kate Spilde Contreras and Donald S. Siegel

INTRODUCTION

In recent years, academics have devoted greater attention to the strategic implications of corporate social responsibility (henceforth, CSR). The term 'strategic CSR' was coined by Baron (2001). Following McWilliams and Siegel (2001, p. 117), CSR is defined as instances where firms go beyond compliance and engage in 'actions that appear to further some social good, beyond the interests of the firm and that which is required by law'. For example, an automobile manufacturer could produce 'hybrid' vehicles, which significantly exceed government fuel efficiency requirements. In a similar vein, a savings and loan association is said to be socially responsible when it approves a higher proportion of loans to poor or minority borrowers than required by the Community Reinvestment Act, which governs the lending practices of these institutions (Siegel and Vitaliano, 2007).

Other examples of the strategic use of CSR include incorporating social characteristics or features into products and manufacturing processes (for example, aerosol products with no fluorocarbons or using environmentally friendly technologies), adopting progressive human resource management practices (for example, promoting employee empowerment) to recruit and retain employees, achieving higher levels of environmental performance through recycling and pollution abatement (for example, adopting an aggressive stance towards reducing emissions), and advancing the goals of community organizations (for example, working closely with groups such as United Way).

This chapter presents a case study of the strategic use of CSR by the gambling industry. Specifically, we describe the birth and evolution of the American Gaming Association (AGA) and its role in the creation of the National Center for Responsible Gaming (henceforth, NCRG).[1] Although it is difficult to confirm the industry's motives for engaging in this activity, we conjecture that the AGA had two related objectives. The first goal was to reduce the negative externalities associated with gambling, which would help them accomplish their second objective: to forestall additional regulation and improve public relations in this highly controversial sector.

SYNOPSIS

It was the black-and-white photo that made Frank Fahrenkopf think twice: the line-up of tobacco industry executives holding up their right hands before the congressional committee, about to declare that their product did no harm. As he sat with Chuck Mathewson, Skip Avansino and Steve Wynn, who were recruiting him to become the top lobbyist for the gambling industry, at the Las Vegas Country Club in 1994, Fahrenkopf invoked that famous picture and told them, 'We can't make the same mistakes as tobacco, we can't go down that road by denying that there are people who develop problems because of our products' (Contreras, 2007). Indeed, Fahrenkopf made it clear that he would not leave his long-term legal career if these pioneers did not share his vision of the industry and agree to promote education among its members and transparency with the public.

When the AGA was launched in May 1995, there were few academic studies on pathological or problem gambling, and the field remained largely an outgrowth of more generic substance abuse literature. This lack of any definitive scientific evidence did not stop the anti-gaming lobby from claiming that 20 per cent of all gamblers had a problem and that those few gamblers accounted for 80 per cent of all gambling revenues, however. While these fringe groups had no facts, nor did the gambling industry itself. Indeed, there were over 27 different scientific instruments to measure problem and pathological gambling and no consensus definition of either the condition or its cause. There was a lot of work to be done.

THE BIRTH OF THE AMERICAN GAMING ASSOCIATION (AGA)

The gambling industry is not easily categorized. Legalized gambling in the United States consists of a range of diverse activities including state-run lotteries, riverboat casinos, pari-mutual horse and dog racing, tribal government gaming, commercial casino gaming, and sports betting, among other activities. Each product is carefully marketed to particular market segments and defined and regulated in various ways. Over time, casinos have variously marketed themselves as a part of the entertainment industry (think MGM Grand), as family entertainment venues and as high-end integrated resort/spas with a gaming component. While gambling opponents claim that gambling is part of a larger array of industries that rely on selling a vice, there are very few similarities between the structure of the various legal gambling products, the use of their revenue streams or their impacts on consumers or communities. Regardless of its official classification or self-definition, it is safe to say that all legal gambling is ultimately a partnership between government and industry in the United States. No one understood that relationship better than Frank Fahrenkopf.

By 1993, Fahrenkopf had concluded a successful stint as Chairman (1983–89) of the Republican National Committee (RNC) and had been practicing law for over 30 years, including his then current position as a partner with Hogan & Hartson in Washington, DC, where he chaired the International Trade Practice Group. Fahrenkopf specialized in regulatory, legislative and corporate matters for multinational, foreign and domestic clients. His early legal career included 17 years of practice as a trial and gaming lawyer in Nevada, his home state. In that capacity, he represented clients before Nevada gaming regulatory authorities. He had once been Wayne Newton's personal attorney. One of his clients at Hogan & Hartson was the American Pasta Association, which worked closely with the congressional agricultural committees to be sure that federal laws did not interrupt their industry's interests or upset their markets.

Representing the interests of the array of stakeholders who produce pasta in the United States exposed Fahrenkopf to the ways that 'an industry' can be mobilized as a political unit in Washington in spite of small differences between its members. After a board meeting at the Capital Hilton on 16th Street, Fahrenkopf met up with an old friend, Raymond 'Skip' Avansino who was President and CEO of Hilton Hotels, Inc. at that time. Fahrenkopf told him,

> I just met with the Pasta guys, who are always working to be sure the Federal Government doesn't screw them. Meanwhile, here you guys are putting millions of dollars into the ground and you have no representation in Washington. (Contreras, 2007)

By December of that year, Avansino called a meeting with Fahrenkopf, himself and the major players in the gambling industry at that time. At the end of the meeting, Avansino asked Fahrenkopf to start the process of creating a trade association to represent the interests of the commercial gaming industry. Fahrenkopf responded that he would need at least eight signatures to make it happen. Following the meeting, there were no formal plans to take up the issue, so Fahrenkopf continued with his law practice at Hogan & Hartson.

In the spring of 1994, the federal government announced a plan to institute a 4 per cent gross receipts tax on gambling in order to finance Hillary Clinton's healthcare plan. Thirty-one state governors signed letters opposing the tax and reiterating their dependence on tax revenues from gaming to fund their own government programs and services, and it was ultimately defeated. However, for the 'boys in Vegas', the federal tax proposal was a wake-up call. Fahrenkopf's phone rang off the hook, and this time the group asked if he would set up a national gaming industry organization . . . and run it. Fahrenkopf dodged the request and suggested that they hire a headhunter to find the appropriate person. Once the word got out that the American Gaming Association was forming, the executives received 200 applications. It was an impressive group, which included a former senator, a former congressman, a federal judge and a former head of President Ronald Reagan's legal staff. Chuck Mathewson, Skip Avansino and Steve Wynn spent an entire day conducting the interviews with the 10 finalists culled from the pool. When they were done, they went back to Las Vegas to make their decision. Nothing happened for two months.

Meanwhile, Fahrenkopf was invited to give a talk at the Young President's Association (YPO) at a conference in Las Vegas. Learning that he was in town, the search committee asked Fahrenkopf to join them for dinner. Because of his booked schedule, Fahrenkopf suggested instead that they meet for breakfast the next morning at the Las Vegas Country Club. The next morning over breakfast the committee came straight to the point: 'we know you, you know the law, you are from Nevada, and we trust you'. They asked Fahrenkopf to help the organization get up and running and to stay for a year. He agreed he would do it for a year, starting in mid-1995.

Fahrenkopf knew he could not do it alone, however. As he searched his Rolodex for ideas, he remembered a woman he had met a few years prior. One of his closest friends was a lawyer who had become president of the American Bar Association (ABA.) While at the ABA, his friend had a talented administrator, an attorney named Judy Patterson. Through this connection, Fahrenkopf worked with Patterson on various issues, including the ABA's project to change the American people's image of lawyers. The ABA was a dues-paying membership organization, which the new gaming trade association would also be. Fahrenkopf called Patterson that spring and she agreed to join him a month later. The AGA officially opened its doors on July 1, 1995, with three employees: Fahrenkopf, Patterson and an additional lobbyist. The AGA's first board of directors included a host of notable industry leaders, including Hilton Hotels, Inc. President Raymond Avansino, Mirage Resorts, Inc. Chairman Steve Wynn, Charles Mathewson, Chairman of International Game Technology (IGT), William Boyd, Chairman and CEO of Boyd Gaming, Henry Gluck, Chairman and CEO Caesars World, H. Steven Norton, President and COO of Argosy Gaming Company, Timothy Parrott, Chairman and CEO, Boomtown, Inc., Michael Rose, Chairman of Promus Companies and Clyde Turner, Chairman of the Board, President and CEO of Circus Enterprises.[2]

The first year passed quickly. After 30 years of practicing law, Fahrenkopf decided to stay. By that time, the US Congress was considering the creation of a national study commission to evaluate US gambling policy, which meant that there was an opportunity to impact the agenda.

THE NATIONAL GAMBLING IMPACT STUDY COMMISSION

In 1996, Congress was contemplating a federal study of gambling policy in the United States. Gambling activity had spread to 46 states at that time, up from two states in 1976, the last time that Congress had investigated the issue. The commercial gaming industry represented by the AGA was generally not in favor of federal regulation of gambling activity since it was currently a states' rights issue and the 1976 study had found this to be the most advantageous arrangement. The states' rights view of public policy for gambling was supported by a general belief that the local governments were in a better position to determine what was appropriate for their constituents than the federal government, which tended to legislate from a theoretical position, rather than a pragmatic one.

The Study Bill provided numerous opportunities to suggest improvement. Public records reflect that the AGA had five lobbyists – in addition to Fahrenkopf – working Capitol Hill to influence the bill. While the AGA did not formally oppose the study, they objected to various provisions (such as subpoena powers for Congress) and had a stake in who was appointed to the nine-member panel. The AGA was successful in extending the debate about the Study Commission Bill long enough to get reasonable people on the record, and AGA members ultimately agreed that a national study could and should be done as long as it was not biased. In the meantime, the AGA commissioned its own research on topics that were important to their constituents, including gambling employee satisfaction, the alleged relationship between gambling and crime and the effectiveness of state regulation of casino gaming.

For two years the AGA, along with other industry representatives and stakeholders, intently followed the actions of the Study Commission. They also continued to produce exceptional educational materials that were passed along to the body, which was lacking in data and information about most industry segments. The final report ultimately made few compelling recommendations and was considered politically neutral for the AGA's membership. Given the make-up of the Study Commission, which included a number of industry opponents, this neutral report was a major relief for the AGA and its membership. In addition, the Study Commission's analysis of the gambling products on their own terms (and in relationship to each other) benefited the commercial casino industry since it highlighted their employment benefits, the role of unions, and the heavy regulation of its businesses. In fact, Study Commission members formally commended the gaming industry for being the largest supporter of research on gaming through the NCRG.

Fahrenkopf's reaction to the report reflected this insight: 'While this report is not without its faults, it definitely draws a favorable distinction between commercial casinos and other segments of the gaming industry'.[3] Within a few years, the AGA had already made important progress in educating policy makers about the gaming industry.

EARLY RESEARCH

As the debate for the Gambling Study Commission was taking place, the AGA was already commissioning research into problem and pathological gambling's parameters and prevalence. There were very few scientists who could produce this kind of work, but the AGA was confident they found the right person in Dr Howard Shaffer. In the early 1990s Phil Satre, then CEO of Harrah's Entertainment Corporation (HEC), was invited to Harvard University to present on a panel addressing youth problems. The conference was organized by Shaffer in the Division on Addictions at Harvard Medical School. After that event, Satre contacted Fahrenkopf to tell him about the conference and about Shaffer's work. After that conversation, Fahrenkopf was attending a meeting of the National Association of State Attorneys General in St. Louis and Satre arranged for Shaffer and Fahrenkopf to meet for breakfast at the St. Louis Hyatt.

Fahrenkopf asked Shaffer if he would be interested in creating a research agenda to investigate the prevalence of problem and pathological gambling in the United States. Shaffer had some initial fears that the industry might try to use him, or that he would be perceived as an apologist for the industry. Fahrenkopf had his own fears: that problem and pathological gambling rates would be large enough to cause the gambling industry political harm. In spite of these concerns, both men agreed that the industry would ultimately benefit from finding the truth sooner than later and to sharing it with the policy makers and the public. The fear of appearing in gambling's version of tobacco's 'black and white photo' outweighed the concern about learning the scope of the problem or fully understanding the phenomenon of problem and pathological gambling.

From that relationship and the success of individual casino company initiatives, the NCRG was born in 1996 and established as an independent non-profit, charitable and educational organization based at the University of Missouri, Kansas City.

NATIONAL CENTER FOR RESPONSIBLE GAMING

When the state of Missouri first approved gambling, the Port Authority of Great Kansas City signed a development agreement with the casino companies to earmark funds to go toward the study, prevention and treatment of problem and pathological gambling. Early industry contributors included Boyd Gaming, Grand Casinos, Station Casinos, and Hilton. These four companies, through compliance with this development agreement, provided seed money to form the NCRG. Other major gaming entertainment companies such as MGM Grand, Mirage, Harrah's and International Game Technology followed with multi-year gifts that enabled the NCRG to jumpstart the first scientific research grants program in the US dedicated exclusively to supporting high quality research on gambling disorders and youth gambling.

In 1997, Shaffer and his team received the first grant distributed by the NCRG and produced what is considered to be the definitive study of problem and pathological gambling prevalence, 'Estimating the Prevalence of Disordered Gambling Behavior in the United States and Canada: A Meta-analysis'.

After three years in Missouri, the NCRG awarded a $2.4 million grant to Harvard Medical School's Division on Addictions to establish the Institute for Research on Pathological Gambling and Related Disorders, which then assumed responsibility for the grant-making oversight and also supported the groundbreaking research led by Shaffer and his colleagues. Now an affiliated charity of the AGA, the NCRG raises money for research and conducts educational programs for gaming employees, healthcare providers and the public. According to Fahrenkopf, 'the NCRG has grown like top seed since then' (Contreras, 2007).

Judy Patterson was one of the primary architects of the NCRG, along with Christine Reilly, the first executive director of NCRG, and Howard Shaffer. On the industry side, Tom Brosig of Grand Casinos was heavily involved in the early days, while Phil Satre of Harrah's and Bill Boyd of Boyd Gaming have been involved with NCRG's executive leadership and have financially supported the Center since its inception. When industry leaders like Satre and Boyd 'stepped up to the plate' the rest of the industry followed.

The NCRG remains the only national organization exclusively devoted to the funding of peer-reviewed research on disordered gambling and to educating the public about responsible gaming. The NCRG's mission is to support peer-reviewed, scientific research into pathological gambling and to provide scientifically-based responsible gaming education and awareness programs to casino communities nationwide. The NCRG has been an amazing success, investing $22 million in more than 40 peer-reviewed research investigations at 31 leading research institutions in the United States, Canada and Europe. Because gambling studies is still an emerging field, no other organization, including the National Institutes of Health (NIH), has funded as many individual research projects as the NCRG.

NCRG-funded research has always required rigorous, peer-reviewed scientific standards analogous to those required by the NIH. NCRG-funded studies have been published in more that 150 highly competitive, peer-reviewed scientific journals, and the NCRG has supported more than 30 research projects at institutions including Yale University, Boston University Medical School, Harvard University, Johns Hopkins University and McGill University in Canada.

WHY GAMING IS UNIQUE

We conjecture that the gambling industry is unique because it relies upon a partnership between government and industry. Fahrenkopf puts it this way:

> Our industry is different because it is a privilege not a right. Because of this relationship, the government has leverage over us and can require certain concessions. For example, when a German car company announces that it will open a plant in the United States, the states go crazy competing for it. When BMW came to South Carolina, the state gave them land, tax benefits and other perks in order to attract them. When a community hosts a casino, that business pays higher taxes than other business and generally creates all of its own infrastructure, with no perks. (Contreras, 2007)

Because of this relationship, the commercial casino industry is also heavily scrutinized by the media. Because the AGA is charged with protecting the industry's interests, it responds to many media issues, including a recent exposé on children in casinos. Fahrenkopf describes it here:

> I was watching 20/20 back in the late 1990s and just about had a heart attack. The reporters took cameras to Atlantic City at 1:00–2:00 in the morning and were going through the lobbies of some of the hotels. There were little children asleep on the couches in the lobbies while their parents were off gambling. I immediately contacted Judy [Patterson] and we sat down to brainstorm about a solution to this issue. We reached out to John Walsh and the Center for Missing and Exploited Children in order to determine the best course of action. When we met with Ernie Allen, we jointly developed a code of conduct for handling children, including what security should do. We are very pleased that we now have that adopted [by the AGA membership]. Interestingly, when the Mashantucket Pequot Tribe opened their casino and hotel, they built a child-care center with licensed childcare workers to care for the children. However, they were severely criticized for doing so. So you are damned if you do and damned if you don't. (Contreras, 2007)

It is this attention to emerging issues that has advanced the AGA's mission beyond just representing the commercial gambling industry's interests to helping shape – and protect – the industry itself.

BUSINESS-LEVEL CORPORATE SOCIAL RESPONSIBILITY

While Fahrenkopf's work at the AGA represents CSR at the industry level, individual gambling companies also have their own cultures and initiatives. Fahrenkopf mentions that Harrah's Entertainment has been the nation's top sponsor of Meals on Wheels for 10 years. Through Satre's early exposure to Shaffer's work, Harrah's was also one of the first companies to invest in youth and problem gambling programs.

In some cases, individual company initiatives have inspired the AGA to expand its scope. For example, gambling giant MGM MIRAGE practices CSR in the form of heavy investments in diversity. While the commercial casino industry has long been a proponent of diversity in the workplace, Fahrenkopf notes that, 'no company has spent more time, money and energy on diversity than MGM Grand. It's a personal thing for them' (Contreras, 2007). In 2000, the AGA created a Diversity Task Force to promote inclusion in all aspects of the commercial casino industry. The task force conducts workshops for industry professionals, suppliers, and minority, women and disadvantaged business enterprises (MWDBE); collects data on industry diversity; and creates and organizes programs designed for industry-wide implementation. The Global Gaming Expo (G2E), AGA's annual trade show and conference, instituted a diversity exhibitor program at G2E 2006. In November of that year, task force members also launched a Diversity Reporting Program for suppliers wherein companies who supply the commercial casino industry with goods and services are required to report on their own diversity practices in the areas of purchasing and contracting. While the program does not mandate a diversity threshold, the task force informed suppliers that diversity is attractive to casino companies. The AGA has committed to ongoing evaluation of the success of workforce diversity in the US commercial casino industry, including 2001 and 2003 reports by PricewaterhouseCoopers entitled 'Gaming Industry Diversity Snapshot'.

At the industry level, the AGA brings companies together on issues of mutual concern. In addition to the NCRG and Diversity Task Force, the AGA enacted a Responsible Gaming National Education Campaign in 1998 and an AGA Code of Conduct for Responsible Gaming in 2003. The signature program of the Responsible Gaming National Education Campaign is Responsible Gaming Education Week, which the AGA and its members created in 1998. Held during the first week of August each year, it is targeted at employees, patrons and the public. While the industry has a collective voice on these important issues, there are other issues – such as smoking policies – that companies address individually or at the state level.

While the AGA's membership consists primarily of commercial casino interests, they take a broad view of the gambling industry in their efforts. With the growth and success of the tribal government gaming industry, among other sectors, the AGA has recently made their own Code of Conduct and online employee training program available to non-AGA members. Due to AGA's success, other gaming organizations have recognized that a codified approach to responsible gaming is vital for success, but some lack the tools and information needed to develop and implement a comprehensive program. To meet this need within the larger gambling industry, the NCRG created the Partnership for Excellence in Education and Responsible Gaming (PEER) in 2007.

Through a unique partnership between the AGA and the NCRG, membership in the PEER program provides tribal governments or organizations with full access to the PEER Resource Guide, a blueprint for implementing the provisions of the AGA Code. Before now available only to AGA members, the PEER Resource Guide gives other gambling industry stakeholders the set of tools needed to develop and implement a world-class responsible gaming education program, no matter what the size of their facility or organization.

KEY LEARNING POINTS

More than a decade later, Fahrenkopf is still at the helm of the AGA. He is justifiably proud of the commercial casino industry's willingness to uncover the truth about their impacts (both good and bad) on communities and individuals. While Fahrenkopf admits that some of the research topics 'are not an easy sell' to his members he continues to be proud of the gaming executives he represents for supporting the NCRG no matter what the research reveals:

> I never wanted the gambling executives to end up in Congress like the heads of the tobacco industry. That famous picture presented an image of something we just couldn't do. I'm proud of what this industry has done in 10 years. They have been good corporate citizens and with the research from NCRG they have always let the chips fall where they may. (Contreras, 2007)

There are several lessons to be learned from this case. The first is that CSR is not just a firm-level phenomenon, especially when an industry is highly regulated, such as the gaming industry. In this instance, it was sensible for CSR to be a collective effort, that is, having an industry association take the lead on promoting 'socially responsible' gaming, while doing the hard work of investigating the scope and nature of the industry's potential externalities.

This raises the question of the relationship between CSR and corporate citizenship, which is a second lesson to be gleaned from this case. It is clear that the gaming industry was conscious of its role as a corporate citizen. The term 'citizenship' itself invites a different type of ethical justification than the term social responsibility invokes. Citizens are members of society who have rights, benefits and responsibilities. They are expected to abide by society's laws and norms, and may incur penalties for violating those laws and norms. At an individual level, good citizenship denotes the assumption of non-mandated responsibilities to advance the welfare of society. These distinctions can be mapped onto the concept of corporate citizenship.

In contrast, firms are legal entities, which can be regarded as 'citizens', to the extent that society grants them rights and privileges. In exchange for the benefits of citizenship, corporations must abide by society's laws and norms. However, good corporate citizenship also requires that firms affirmatively exercise additional responsibilities to society. CSR, on the other hand, typically does not denote such a broad or inclusive commitment. Corporations can be 'socially responsible' merely by satisfying certain stakeholder demands, but in this context, the industry was seeking to appeal to a broader constituency.

A third lesson to be drawn from this case study is that an industry (not just an individual firm) can use CSR strategically, in order to forestall additional regulation and to promote a better image for the sector. This is especially important for industries whose products and services might generate negative externalities on third parties, such as gambling. Specifically, the NCRG is designed to enhance the public and the industry's understanding of problem gambling and to identify effective methods for preventing and treating gambling disorders. The establishment of the NCRG is a classic example of a 'socially responsible' institution. It was a successful, proactive attempt by the gaming industry to demonstrate its commitment to reduce the negative externalities of gaming.

DISCUSSION QUESTIONS

1. How is the gaming industry using CSR 'strategically'?
2. How is CSR at the firm level different from CSR at the industry level?
3. What is the difference between CSR and corporate citizenship?
4. What lessons did you learn from the description of the birth and evolution of the American Gaming Association (AGA)?
5. Can you think of other industries that might benefit from applying lessons learned from CSR the gaming sector?
6. What aspects of Frank Fahrenkopf's career path and experience made him an ideal person to lead the AGA and develop its CSR initiative?

NOTES

1. NCRG was initially organized as the 'Gaming Entertainment Research and Education Foundation' with NCRG as a part of its activities. The Foundation subsequently changed its name to NCRG.
2. Press Release, American Gaming Association, 'Fahrenkopf to Head New Gaming Association', May 10, 1995.
3. 'PANEL RECOMMENDS A FREEZE ON NEW FORMS OF GAMBLING', *St. Louis Post-Dispatch* (Missouri), June 19, 1999, p. 13.

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APPENDIX 8A AGA CODE OF CONDUCT FOR RESPONSIBLE GAMING*

The American Gaming Association (AGA) and its members pledge to our employees and patrons to make responsible gaming an integral part of our daily operations across the United States. This pledge encompasses all aspects of our business, from employee assistance and training to alcohol service, advertising and marketing. This Code also covers the commitment of our members to continue support for research initiatives and public awareness surrounding responsible gaming and underage gambling. The following Code of Conduct details how we fulfill this pledge.

Pledge to Our Employees

- AGA members will educate new employees on responsible gaming.
- AGA casino companies will train gaming floor employees on responsible gaming and provide periodic refresher training.
- AGA members will implement communications programs for employees to improve understanding of responsible gaming and related policies and procedures.
- AGA members will distribute to new employees brochures describing responsible gaming and where to find assistance. Companies will make copies of these brochures available to employees.
- AGA members will post responsible gaming awareness signage bearing a toll-free help-line number at various locations where employees congregate.

Pledge to Our Patrons

To promote responsible gaming

- AGA members will make available brochures describing responsible gaming and where to find assistance. These will be available and visible in gaming areas and at ATMs.
- AGA members will make available on their Web sites information describing responsible gaming and where to find assistance.
- AGA members will display in gaming areas and at ATMs signage that can be easily read bearing a toll-free help line number.

www.americangaming.org/programs/responsiblegaming/code_public.cfm.

- AGA members will make available to patrons and employees information generally explaining the probabilities of winning or losing at the various games offered by the casino.
- Each AGA casino company will provide opportunities for patrons to request in writing that they not be sent promotional mailings and for revocation of their privileges for specific casino services such as:

  - Casino-issued markers.
  - Player club/card privileges.
  - On-site check-cashing.

  In addition, each AGA casino company shall make reasonable efforts to honor a written request from any person that it not knowingly grant that person access to gaming activities at one or more of its facilities.
- AGA casino companies reserve the right to exclude a patron from gaming, without a request from the patron.

To prevent underage gambling and unattended minors in casinos

- AGA casino companies will make diligent efforts to prevent underage individuals from loitering in the gaming area of a casino.
- AGA casino companies will communicate the legal age to gamble through appropriate signage and/or brochures.
- Employees working in relevant areas will receive training in appropriate procedures for dealing with unattended children, underage gambling, and the purchase and consumption of alcohol and tobacco by minors.
- If a child appears to be unsupervised or in violation of local curfews and other laws, security or appropriate personnel will be contacted and remain with the child while reasonable steps are taken to locate the parent or responsible adult on property or by telephone. If efforts are unsuccessful, security personnel will contact an appropriate third party, such as the police department or department of youth services, and release the unattended child to their care.

To serve alcoholic beverages responsibly

- AGA casino companies will observe a responsible beverage service policy including the following elements:

  - Casinos will not knowingly serve alcoholic beverages to a minor.

  - Casinos will not knowingly serve alcoholic beverages to a visibly intoxicated patron.
  - Casinos will make a diligent effort not to permit gaming by a visibly intoxicated patron.

- AGA casino companies will train appropriate casino employees in the company's responsible alcoholic beverage service policy, and will provide periodic refresher training to those employees.

To advertise responsibly

This Code applies to the advertising and marketing of casino gaming by AGA member companies. It does not pertain to advertising and marketing that is primarily of hotels, restaurants and entertainment that are often associated with or operated or promoted by casinos. For the purposes of this code, advertising and marketing include radio and television ads broadcast off the premises, print, direct mail, billboard and Internet promotions.

- Casino advertising and marketing will:

  - Contain a responsible gaming message and/or a toll-free help line number where practical.
  - Reflect generally accepted contemporary standards of good taste.
  - Strictly comply with all state and federal standards to make no false or misleading claims.

- Casino advertising and marketing materials will not:

  - Contain cartoon figures, symbols, celebrity/entertainer endorsements and/or language designed to appeal specifically to children and minors.
  - Feature current collegiate athletes.
  - Feature anyone who is or appears to be below the legal age to participate in gaming activity.
  - Contain claims or representations that gaming activity will guarantee an individual's social, financial or personal success.
  - Be placed in media where most of the audience is reasonably expected to be below the legal age to participate in gaming activity.
  - Imply or suggest any illegal activity of any kind.
  - Be placed in media specifically oriented to children and/or minors.

- Appear adjacent to, or in close proximity to, comics or other youth features, to the extent controlled by the AGA member.
- Be placed at any venue where most of the audience is normally expected to be below the legal age to participate in gaming activity.

Pledge to the Public . . .

To continue funding research

- AGA members will continue to provide funding for the National Center for Responsible Gaming, which is the leading source of science-based research and information on gambling and health.
- AGA members will use this research to identify the best practices for casinos to follow to promote responsible gaming.
- AGA members will continue to develop a dialogue surrounding scientific research on gambling and health to communicate to and educate patrons, employees and policy-makers.

To provide oversight and review

- One year following the adoption of this Code of Conduct each AGA member company will implement the Code and begin conducting annual reviews of its compliance with this Code.

** All aspects of AGA's Code of Conduct are subject to local, state and federal laws. **

9. Accounting disclosure and human rights in the oil industry

Matthias Beck and Steven Toms

OVERVIEW

During the past decade, companies operating in environmentally and political sensitive areas have placed increasing emphasis on corporate social responsibility (CSR) and corporate social disclosure (CSD). While there is clear evidence that the amount of 'socially' relevant information reported within the annual reports of most companies has increased – often in both absolute and relative terms – it is less apparent why companies provide this information and, even more so, how differences in their levels of disclosure should be interpreted. Drawing on concepts of incrementalism and focusing on oil companies that operate in regions which are characterised by severe human rights abuses, this chapter examines differences in the nature of CSD reporting among these companies with the CSD of companies which do not operate in these areas. In analysing this disclosure data, it is noted that companies with extensive operations in politically sensitive areas are more likely to focus on wider issues such as environmental and broader community concerns, which tend to impose relatively few concrete commitments and restrictions on these companies. By contrast, companies operating in less-sensitive areas emphasise issues relating employee welfare, which tend to carry more tangible obligations. These observations follow a 'restrictive adaption' pattern of CSD whereby companies adapt CSR ends to available means in an incrementalist fashion, making environmental and social reporting a tool for the reinforcement of inertia.

BACKGROUND

The past decades have seen a massive rise in the extent to which companies report on environmental, social and political issues (Toms, 2000, 2002). At the same time the oil industry has been characterised by significant social responsibility failures (Woolfson and Beck, 2005a). Although there is no clear understanding of the drivers of this process, the literature appears to distinguish two hypotheses, namely that of benign and enlightened capitalism and that of malign, or at the least, ineffectual CSR. In the benign view, firms are essentially enlightened oligarchies, which recognise their social, political and environmental impact and their associated responsibilities and make appropriate disclosures. Broadly speaking their CSD is assumed to arise from an ethical code which is espoused by the senior management of the firm and is transmitted 'top down' as a matter of policy. Applied to the issue of company operations in areas of human rights abuse, the benign model would suggest that ethical companies would either avoid operating in these areas, or alternatively do their utmost to support those working for them within these areas. In the latter case we would expect CSD reporting to focus on how the company is coping with these challenges, and in particular on how the company is seeking to ensure the welfare of employees and communities under potentially adverse circumstances.

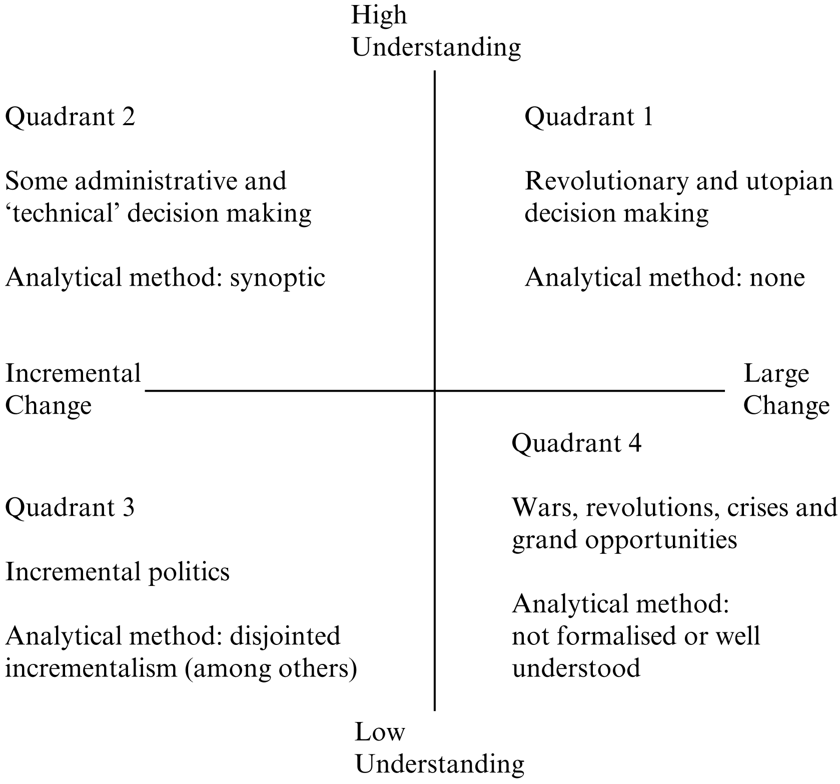
The alternative hypothesis is that firms have no such ethical code and that managers merely seek out profit opportunities wherever and whenever they arise. In so far as companies engage in CSD they would do so largely in response to market, social and political pressures. According to this hypothesis, CSDs are likely to reflect differential political, regulatory and lobbying power in different countries. Where these powers are the strongest, the firm makes greater CSDs in response, notwithstanding the objective level of impact in that country. Where powers are weaker, for example in unstable and underdeveloped countries, managers face less direct pressure to make CSDs. Actual disclosures in these circumstances are likely to be adapted to the expectations of the governments and public where the corporation is domiciled, particularly where political, regulatory and lobbying systems are well developed.

This negative or malign view of CSD is compatible with notions of malign incrementalism[1] where organisational actors maximise their own security by 'limiting considerations of alternative policies to those policies that differ in relatively small degrees from policies presently in effect' (Dror, 1964, p. 154; citing Lindblom, 1959, p. 84). According to the malign version of incrementalism, as elaborated by Dror (1964, 1971), incrementalism, which is usually characterised by a high degree of organisational consent, gives rise to 'pro-inertia and anti-innovation forces' (p. 155), which undermine the possibility of genuine policy reform. Implied in Dror's view is that, once organisational inertia has established itself as benefiting key members of the organisational hierarchy, further 'restrictive adaption' of policy alternatives will ensure that a genuine change in policy direction is virtually ruled out (see also Weiss and Jordan, 1976; Battle, 2001).

While Dror's malign version of incrementalism borrows heavily from

Lindblom's descriptive account of incrementalism, it radically rejects the positive normative implications which Lindblom's early work, in particular, attaches to this type of policy making. Conceptually Lindblom's descriptive account of incrementalism can, however, be seen as virtually independent from the advocacy of 'muddling through' which characterises much of his early work.[2] This applies in particular to Lindblom's joint work with Braybrooke (1963). In their book *A Strategy of Decision*, Braybrooke and Lindblom (1963) suggested that organisational decision making can be arrayed according to two axes, where one axis represents the severity of change and the other the level of understanding which decision makers bring to a problem.

Braybrooke and Lindblom's diagram gives rise to four types of decisions: (1) decisions which effect large change and are guided by adequate



Source: Braybrooke and Lindblom (1963, p. 78).

Figure 9.1 Braybrooke and Lindblom's diagram of decision types information; (2) decisions that effect small change and are guided by high understanding; (3) decisions that effect small changes and are guided by low levels of understanding; and lastly, (4) decisions that effect large change but are guided by little understanding and hence give rise to blind or unpredictable resolutions. According to Braybrooke and Lindblom, type 1 decisions are relatively rare in the normal course of organisational activity and involve elements of revolutionary and utopion decision making. Similarly, type 4 decisions are extraordinary in the sense of being characteristic of wars or crises. By contrast, type 3 decisions which effect 'small and incremental change and not guided by a high level of understanding' are typical of the 'day by day' decision making of politicians and/or corporate decision makers (p. 78). Specifically, Braybrooke and Lindblom (1963) state:

> These decisions, we now see, are the decisions typical of ordinary political life – even if they rarely solve problems but merely stave them off or nibble at them, often making headway but sometime retrogressing. Decisions like these are made day by day in ordinary political circumstances by congressmen, executives, administrators, and party leaders. (p. 71)

One of the crucial characteristics of type 3 incremental decision making for Braybrooke and Lindblom is that it supports consensus and stability, which they, in a grand leap of faith, appropriately criticised by Dror (1964) and others, equate with 'high-quality' decision making. This leap of faith is partially underpinned by another equally questionable but conceptually intriguing process, namely the 'fundamental dependence of ends on means' (p. 94) in incremental policy making which is explained as follows:

1. The analyst chooses as relevant objectives only those worth considering in view of the means actually at hand or likely to become available.
2. He [*sic*] automatically incorporates consideration of the costliness of achieving the objective into his marginal comparison, for an examination of incremental differences in value consequences of various means tells him what price in terms of value he is obtaining as an increment of another.
3. While he contemplates means, he continues at the same time to contemplate objectives, unlike the synoptic analyst who ideally must at some point stabilise his objectives and then select proper means. (p. 94)

Based on this type of adoption Braybrooke and Lindblom (1963) further conclude:

> Since policy analysis is incremental, exploratory, serial and marked by adjustment of ends to means, it is to be expected that stable long-term aspirations will not appear as dominant critical values in the eyes of the analyst. The

> characteristics of the strategy support and encourage the analyst to identify situations from which to move away rather than goals toward which to move. Even short-term goals are defined in terms of reducing some observed ill rather than in terms of a known objective. (p. 102)

Braybrooke and Lindblom's notion of incrementalism is closely linked to the earlier concept of satisficing, according to which decision makers do not select means to achieve objectives but rather engage in 'successive limited comparison' (see also Simon, 1955). In his early article 'The science of "muddling through"', Lindblom (1959, p. 81) describes successive limited comparison as follows:

> 1b. Selection of value goals and empirical analysis of the needed action are not distinct from one another but are closely intertwined.
> 2b. Since means and ends are not distinct, means–end analysis is often inappropriate and limited.
> 3b. The test of a 'good' policy is typically that various actors find themselves directly agreeing on a policy (without their agreeing that it is the appropriate means to an agreed objective).
> 4b. Analysis is drastically limited:
> i) Important possible outcomes are neglected.
> ii) Important alternative potential policies are neglected.
> iii) Important affected values are neglected.
> 5b. A succession of comparisons greatly reduces or eliminates reliance on theory.
>
> [Note: bs are in the original]

In addition to being limited in terms of analytical depth and conceptual breadth, Lindblom (1959) suggested that the successive limited comparisons characteristic of incrementalism or 'restrictive adaption', are highly selective in terms of which views they draw. Thus one inherent process of incrementalism is not only that only a small number of 'low change' alternatives are considered, but also that these selections are driven by powerful interest groups and/or majority coalitions with a view towards preserving and enhancing their position within the organisational hierarchy or broader organisational context.

The last argument in particular can be closely linked to the environments in which CSD policies are formulated. Like state policy makers who are aware of which interest groups are powerful and respond to their needs, corporate decision makers will have an understanding as to the intended target of their CSD activities. This is suggestive of two further detailed relationships. First, CSDs, like other accounting disclosures, are responses to the requirements of shareholders. As a powerful interest group, shareholders demand, and managers supply, non-financial as well as financial information as part of a risk management process designed to mitigate political risks. Consequently, a second relationship is that CSDs will be made for the benefit of the domestic population rather than for the benefit of populations impacted by the firms' overseas operations. A corollary is that CSDs inculcate a sense in domestic populations that their domiciled corporations are more socially responsible than they actually are,[3] in the very sense that incrementalist policy makers purport to engage in genuine policy reforms when they in fact 'restrictively adapt' to external needs on the basis of successive limited comparisons of existing policy options.

PRIOR STUDIES OF THE DETERMINANTS OF CSD

The purpose of the chapter is to investigate differences in the levels and nature of CSD among oil companies operating in areas of human rights abuse, in line with the benign hypothesis and the alternative hypothesis of 'restrictive adaption' as introduced above. There is currently little recent evidence in favour of either hypothesis or indeed on the relationship between international activity and CSD in general.

Legitimacy theory is founded on the notion of a social contract (Dierkes and Antal, 1985; Gray et al., 1995) and the dimensions of such a contract potentially increase as the firm diversifies its activities internationally. Accordingly, CSD is often seen as a response to threats to the organisation's legitimacy (Deegan, 2000; Deegan et al., 2002). CSDs may also be seen as a tool for establishing, protecting or repairing the legitimacy of the organisation in that they may influence public opinion and public policy (Patten, 1991; Cho and Patten, 2007) and reduce political, social and economic exposure and pressure (Deegan and Rankin, 1997). Additionally, legitimation through CSD may play a part in influencing the policy process by shaping social and environmental standards, as suggested by Patten (1992, p. 472).

Conceptually, legitimacy theory is nested within the benign hypothesis, as managers seek to fulfil their side of the social contract. The same might be said of ethical perspective stakeholder theory, in which all stakeholders (both primary and secondary) have a right to be provided with information about how the organisation is impacting on them, through pollution, community engagement and so on (Deegan, 2000). For Lindblom (1994), the purpose is to influence 'relevant publics'. If a multinational corporation begins to exploit the natural environment of an underdeveloped country, it follows that the members of that society become a 'relevant public'. However, it seems equally likely that the firm will not seek to manage its relationship with this 'public' if it has underdeveloped political organisation, regulation and lobbying institutions. Conceptually, this is an unsatisfactory model as it leaves it unclear whether a company's CSR activities are guided primarily by external pressures or by internal managerial and/or economic imperatives.

In this sense it can be argued that the concept of 'malign incrementalism', as discussed above, offers the potential for a theoretically more rigorous analysis of CSR, as it views CSR and CSD related decisions as being driven by managerial agents who 'restrictively adapt' to external demands. In other words, by assuming that managers opt for incrementalism when making decisions that effect small changes and are guided by low levels of understanding, we are able to formulate expectations with regard to the nature of the decision-making process.

As previously stated, the purpose of the chapter is to examine the empirical relationship between the moral attitudes of oil company executives, proxied by their willingness to operate in countries that engage in human rights abuses[4] and the disclosure of social and environmental information in their annual reports. These disclosures are differentiated principally by their reference to environmental and employment issues. Because the environment is a less tangible stakeholder group than the firm's employees, environmental disclosures are assumed to be at a higher level of generality than employee disclosures since they can be less easily identified with a contractual stakeholder and are less easily auditable. More unscrupulously managed firms might therefore be more likely to engage in environmental disclosure than employee disclosure. The major advantage of supposing such an empirical relationship is that it avoids the tautological reasoning of legitimacy theory discussed above by using a direct empirical proxy for managerial moral motive.

Whereas there is a large literature on corporate social disclosure (for recent reviews, see Newson and Deegan, 2002; Brown and Fraser, 2006), and its determinants, previous empirical studies have not examined this supposed relationship. As these reviews make clear, there have been a large number of single-country studies and similar case studies dealing with the environment disclosures as a focus. There have been similar, if somewhat fewer, studies that have considered employment-related disclosures. Fewer still have considered human rights as a focus for corporate concern, and make only passing reference to the attitudes of governments and organisations to human rights (for example, Gray et al., 2006). None has attempted to measure concern for human rights using a direct proxy, even though corporate immorality in this respect is frequently alleged where firms are seen to behave badly in particular circumstances (Aguilera et al., 2007). No previous study has attempted to link environmental and employee disclosures and concern or lack of concern for human rights.

All three elements are particularly important in the context of the oil industry. Companies in the industry have been associated with human rights abuses in particular countries, a leading case being Shell's treatment of the Ogoni people of Nigeria (Wheeler et al., 2002). The impact of corporate activity on the environment is at its most obvious and potentially most damaging in the case of oil. Moreover, in terms of employment strategy, oil firms typically rely on highly skilled and in many cases technically proficient workers, often unionised, from the country of domicile. Any study of CSD in the oil industry therefore should be concerned with these three elements at least to some extent.

Furthermore, the oil industry, perhaps more than any other, is truly international in its scope. The international dimension is an important element in the ensuing test of disclosure determinants. As a consequence the study contrasts with a prior literature which although international in its scope is usually country specific in its focus (for example, Deegan and Gordon, 1996; Deegan et al., 2002; O'Dwyer, 2002). The country-specific focus characterises prior stock market-orientated studies (Epstein and Freedman, 1994) and those testing legitimacy theory which relate CSD to the social context in which firms operate (Deegan, 2000; Deegan et al., 2002).

METHODOLOGY

The sample of this study comprises 38 companies from the global oil and gas industries, respectively. The dataset is based on year 2000 and the sample of oil and gas production companies was obtained from a population of 1,841 oil and gas production companies (as listed on the Wood Mackenzie database). Once firms which did not have stock market quotations or had missing data were eliminated, this left a sample of 38 companies. Generally speaking, excluded companies were smaller and less multinational in scope, which also reduces their potential relevance to the study. The information available for the remaining companies allowed the quantification of the number of countries where a company has oil and gas reserves and the commercial value of these reserves.

Variables

The following analysis is based on CSD and other company data for all of these 38 oil and gas companies. For the purpose of this analysis, CSD data as an empirical variable is defined as all the information produced by corporate management in the annual report regarding the interaction between the organisation and its physical and social environment, including issues such as those relating to human resources, community involvement and the natural environment. This study adopts the annual reports as the source of CSD data. The annual report is a statutory, accessible corporate document which speaks about the organisation as a whole, is widely used in prior research (Wiseman, 1982, p. 55; Deegan and Rankin, 1997; Gray et al., 2001) and is viewed as credible by user groups (Tilt, 1994).

Content analysis was used to measure CSD as it had been widely adopted in previous social responsibility disclosure studies (Hackston and Milne, 1996). To facilitate the completion of the content analysis, an interrogation instrument, checklist, and decision rules were developed. The sentence was used as the unit of coding. Reliability was assessed using two rounds of pre-testing by three coders. The two pre-testing rounds produced increasingly convergent views as to what constituted a CSD sentence, and led to the formulation of several decision rules and amendments to the initial checklist.

The key measure for quantifying CSD is the total number of sentences in an annual report pertaining to these issues. Crucially the CSD sentence count has been further categorised into five subgroups, namely 'environmental' [env], 'community related' [com], 'employee health related' [emph], 'other employee welfare related' [empo] and 'general' [gen].

Companies were categorised according to whether they operated in an area of human rights abuse on the basis of the Amnesty International list of the 'top worst offenders' in 1999.[5] This list included the following countries: Democratic Republic of Congo, Rwanda, Burundi, Algeria, Sierra Leone, Egypt, North Korea, Sudan, Indonesia, Yugoslavia, Pakistan, China, Libya, Burma, Iraq, Afghanistan, Iran, Yemen, Chad and Republic of Congo (formerly People's Republic of Congo). Of these 20 countries a total of 13 could be considered international oil producers: Republic of Congo (formerly People's Republic of Congo), Algeria, Egypt, Sudan, Indonesia, Pakistan, China, Libya, Burma, Iraq, Iran, Yemen and Chad.

Assessing the involvement of individual companies in these countries involved a detailed process where information from country regulatory agencies, multinational bodies, non-governmental organisations and company data was accessed. For the purpose of this analysis it was assumed that any operation, including small-scale drilling or exploration activities should be counted as 'country involvement' on account of the fact that, in political risky regions, such activities have the potential of attracting media attention. Notwithstanding the careful investigation of this issue, there is the possibility that some company involvements may have been overlooked, if only on account of less than transparent subcontracting arrangements adopted by some companies.

ANALYSIS

Based on the previous country list a total of 26 companies could be identified as having operated in one or several of the countries identified as being areas of human rights abuse, while 12 companies had not been involved in any of the listed countries. The average sales revenue of companies operating in areas of human rights abuse vastly exceeded that of the 'non-involved' companies (see Figure 9.2).

This pattern was mirrored by Figure 9.3 which showed average sales volumes to rise for companies which were involved in additional countries which had been identified as areas of human rights abuse.

This result is not surprising, since we would expect larger companies to be more willing to risk involvement in such countries on account of such factors as potential political instability, risk of civil unrest or expropriation and/or their lesser vulnerability to adverse media reactions. Also, it is notable that the study sample includes a number of small companies which continue to limit, or had at the time, limited themselves to domestic operations. This includes a small number of Canadian, Australian and New Zealand companies which were involved solely in domestic oil and gas production. One exception to this was the Venezuelan state oil company PDVSA which, although having a sales volume of 53,234 million US dollars, was not involved in any activities outside Venezuela.

In order to facilitate the successive analysis of CSD data, these

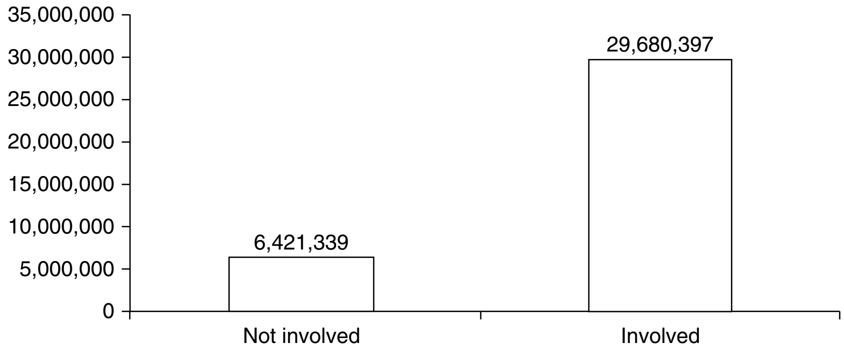


Figure 9.2 Average sales (in thousand USD) by involvement in areas of severe human rights abuse

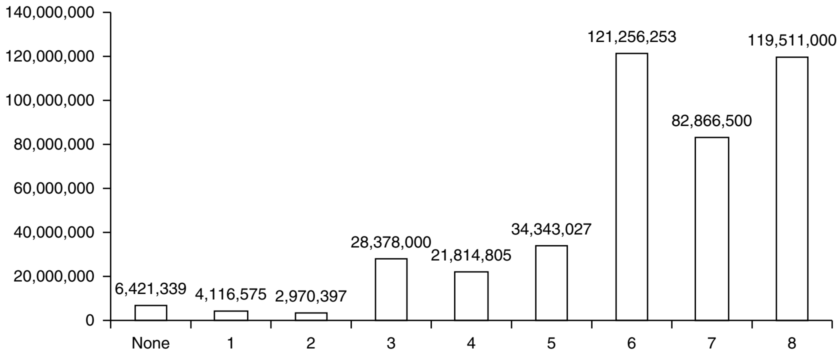


Figure 9.3 Average sales (in thousand USD) by involvement in areas of severe human rights abuse (number of countries)

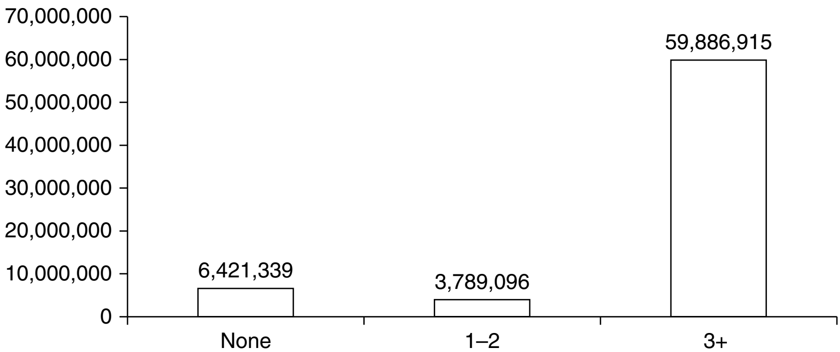


Figure 9.4 Average sales (in thousand USD) by involvement in areas of severe human rights abuse (groups of countries)

companies were grouped into three categories including companies which (i) had not been involved in any of the listed countries of human rights abuses (12 companies, or 11 when excluding PDVSA); (ii) had been involved in one or two of the listed countries (14 companies); and (iii) had been involved in more than three of the listed countries (12 companies). Due to the anomalous characteristics of PDVSA as a large company with no external involvement, this grouping resulted in a situation where the average sales volume of the first, or 'non-involved', group exceeded that of the second group of companies involved in listed countries (see Figure 9.4).

In order to avoid potentially distorting effects arising from the inclusion of PDVSA, the company was excluded from the subsequent analysis,

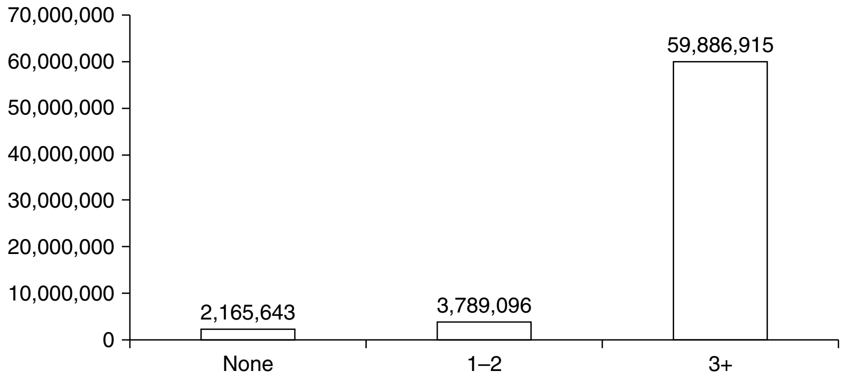


Figure 9.5 Average sales (in thousand USD) by involvement in areas of severe human rights abuse (excluding outlier)

which drastically reduced the average sales revenue of the 'non-involved' group (see Figure 9.5).

As a next step in the analysis, the level of CSD reporting across different subcategories was assessed. This included the above-listed subgroup of 'environmental' [env], 'community related' [com], 'employee health related' [emph], 'other employee welfare related' [empo] and 'general' [gen] disclosure. Overall there was a clear pattern where across almost all subcategories the absolute level of disclosure increased with the level of involvement in areas of abuse. This was particularly pronounced for the third group of companies (involved in 3+ countries) which averaged more than twice the absolute level of disclosure for the 'sum' subcategory as well as 'environment', 'community' and 'general' subcategories (see Figure 9.6). However, this pattern reversed for 'employee health' subcategory, where average total disclosure for the 'non-involved' group exceeded that of the other groups.

In order to reduce potential distortions due to larger companies conducting more extensive CSD, this pattern was investigated further by calculating subcategory disclosure levels as a percentage of total disclosure activity (Figure 2.7a–c). This analysis highlighted several interesting patterns. Thus, the CSD reporting of the 'non-involved' companies was dominated by 'other employee welfare' issues (53 per cent of total CSD), followed by 'environmental', 'community' and 'general' CSD. This pattern changed in the case of the 'minor-involved' companies (1–2 countries with human rights abuses), where environmental CSD was followed by 'other employee welfare', 'general', 'employee health' and 'community' CSD. Interestingly, even when both categories of employee-related CSD

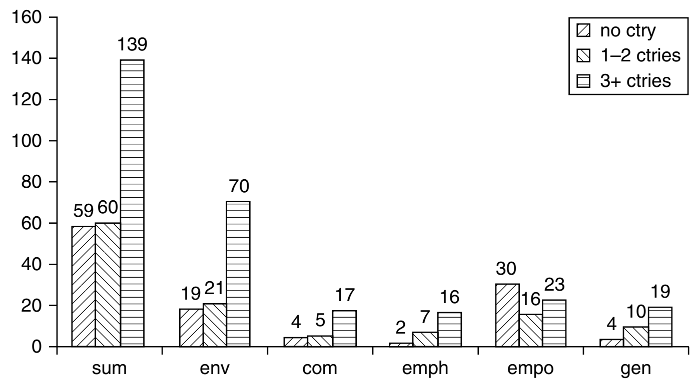


Figure 9.6 Amount of CSD reporting by topic and by involvement in areas of severe human rights abuse (excluding outlier)

(employee welfare and health) were added together for this group, this still amounted to far less disclosure than the CSD for employee welfare of the 'non-involved' group alone. Lastly for the 'major-involved' (3+ countries listed as human rights abusers) 'environmental' CSD accounted for almost half of total reporting, followed by the 'other employee welfare', 'general', 'community' and 'employee health' subcategories.

Taken together, this analysis suggests that companies which operate in several (3+) countries which are listed as suffering from human rights abuse, gear their CSD towards an emphasis of broad social issues such as environmental responsibility and general statements of objectives towards societies and communities. At the same time, their CSD places comparatively less emphasis on more tangible issues such as employee welfare and to some degree employee health (see comparison with 1–2 group).

While this finding is, needless to say, open to different interpretations, there is a strong possibility that these differences in CSD mirror a process of 'restrictive adaption' to achievable goals and 'relevant' demands, and of a 'successive limited comparison' of achievable policy goals. This is evidenced in particular by the focus of involved companies on broad environmental, social and general aspects of CSD and, perhaps even more so, the discernibly narrower focus of non-involved companies on employee welfare.

CASE STUDIES

To illustrate the previous descriptive analysis, this section briefly examines how two companies of similar size, but with differing involvement in

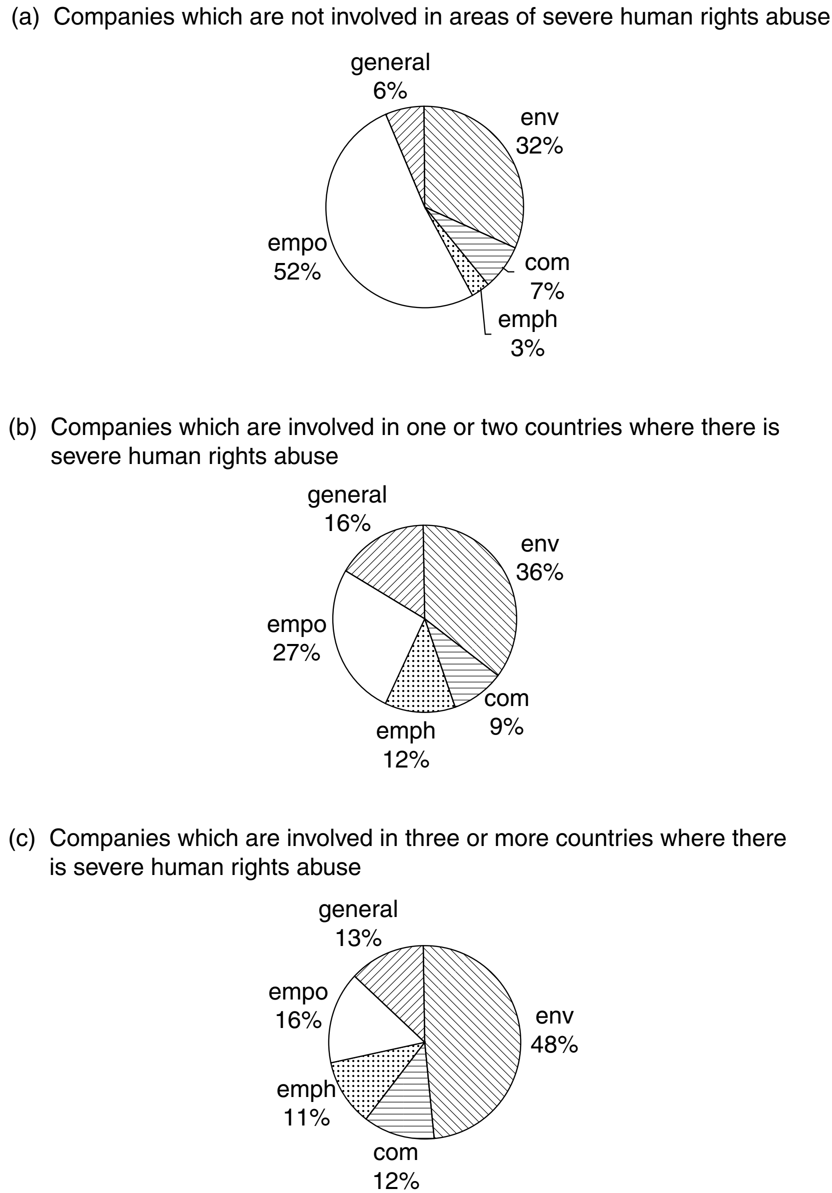


Figure 9.7 *Share of CSD reporting by topic for different companies by involvement in areas of severe human rights abuse (excluding outlier)*

areas of human rights abuse have approached their CSD reporting. These companies are Forest Oil which predominantly operates[6] in the US and Canada and Santos Oil which operates in several Australasian countries.

Forest Oil is a US oil company with total sales of 913 million US dollars in 2000 (the year for which the disclosure data was collected), which has focused its business on building reserves in the US and expanding in Canada. Following an expansion business operation in the southern US and the Gulf of Mexico, the company acquired large Canadian holdings in the mid-1990s. Partially due to its extensive reserves in Canada, the company had, by 2000, not acquired operations outside the US and Canada and its business continues to focus on these areas. The annual report of Forest for the year 2000 shows a strong emphasis on local charitable engagements and employee welfare with a lesser focus on environmental issues.[7] Interestingly there are extensive references to the company's charitable activities and involvements, with a particular focus on employee activities:

> Forest Oil Corporation has a long history of actively supporting our associates in their chosen community causes and volunteerism. With the improved economics in our business, and the nation's improved economic outlook, we believe it is more important than ever to lend assistance to those in need . . . . For the third consecutive year our employees availed themselves of a company-sponsored workday to participate in Habitat for Humanity's homebuilding project in the Denver area . . . . Employee volunteers comprise our corporate contributions committee so that Forest Oil's charitable grants are directed primarily to those organizations where our employees devote their time and resources. In 2000, these included our annual Christmas Project in which Forest Denver employees adopted an inner city family of seven through the Bridge Project and a Russian immigrant family of eight through Ecumenical Refugee Services . . . . Among other employee-sponsored outreach efforts were: homeless shelters; food banks; cancer, AIDS and hospice agencies; senior citizens and disabled outreach; events supporting Special Olympics, Shriners and the Salvation Army; and animal shelters and humane societies in Colorado. (Annual Report, 2000, p. 26)

This detailed description of Forest Oil's charitable involvements contrasts with the relative brevity of the annual report's statements on environmental issues. Characteristically for this report, these statements are linked to issues of community involvement with the report stating:

> Proactive citizenship is woven through the fabric of Forest Oil at all levels. From our activities in remote locations around the world to the communities where we live and work, we do not waver in our focus on safety and responsibility. We are dedicated to the protection of the environment and are striving to increase America's supply of clean-burning natural gas while minimizing the impact of our operation and even improving the lands upon which we work.

> The people of Forest Oil Corporation, wherever we conduct the business, take great pride in our culture of involvement and leadership in our communities. (Ibid., p. 26)

With operations in Alaska, Forest clearly does operate in an environmentally sensitive environment. However, the company's CSD appears to prioritise community relations over environmental policy *per se*. This can be interpreted as a form of incrementalism in the sense that greater focus is placed on the achievable goal of positive community relations than the avoidance or minimisation of potential environmental harm. With regard to human rights, Forest's position as a company operating almost exclusively in North America reduces the need for these issues to be discussed and, as far as relationships with native populations are concerned, this is again in an incrementalist fashion subsumed under the broader heading of community relations.

Santos is an Australian oil and gas company whose sales amounted to 1,500 million US dollars in 2000. Founded in 1954, Santos has been initially active in South Australia Northern Territory Oil Search. Apart from operating in the Timor Sea and Carnarvon Basin in Western Australia, Santos acquired significant holdings in Indonesia in the mid-1990s.

Santos's 2000 annual report makes no mention of human rights issues arising from its involvement in Indonesia.[8] The balance of the annual report, which the company website advertises as having won the 'Bronze Award for distinguished achievement in Annual reporting of the Australasian Reporting Awards' emphasises the company's commitment to environmental protection. Additionally there is a relatively lengthy section on the company's accomplishments in terms of occupational health and safety. Both sections focus on a description of organisational arrangements and/or targets. Regarding occupational health and safety the report states:

> Santos investigates and reports all accidents, near misses and hazards. The measure of safety performance used is the Total Recordable Case Frequency rate (TRCF) which is defined as the number of Recordable Cases (Medical Treatment and Lost Time Injuries) per million hours worked by Santos employees and contractors. . . . The Company strives for the highest standard of occupational health and safety (OH&S) and is fully committed to a work environment free of injuries. . . . Of particular emphasis for safety programs has been the intent that contractor safety performance should match that of Santos' employees. Many contractors now achieve safety performance matching that of Santos employees. (Annual Report, 2000, p. 22)

In terms of specificity, Santos's statement of safety targets probably exceeds what comparable companies would have reported at the time.

However, this positive aspect of this part of the report must be weighted against the relatively vague statements regarding the safety performance of subcontractors. Previous analysis of health and safety in oil operations have highlighted that subcontracting is often the source of major safety failures (Woolfson et al., 1996) and it is obvious that these problems could have been particularly pressing in the areas in which Santos operated.

With regard to the bulk of Santos's CSD, this focuses predictably on statements with regard to the company's commitment to environmental protection, which emphasise the company's organisational arrangements, policies and procedures rather than specific targets:

> The company has a long history of conducting its activities in a way that avoids and minimises potential impacts on the environment. Santos' first environmental professional was employed in 1980. Since that time, the Company has established a core team of dedicated environmental advisors as well as incorporating environment into the line management function. As with safety, the environment is everyone's responsibility – be they employee or contractor, operator or manager . . . . Santos has achieved high standards of environmental performance – illustrated by the many awards it has received. Relationships with regulatory bodies are robust and positive and focussed on an evolving process of co-regulation . . . . During 2000 Santos was not fined or prosecuted, nor did it receive any notices of non-compliance. This process of continual improvement underlies the Santos Environmental Management System, which in itself is subject to constant evolution, amendment and change – reflecting both external and in-company changes over time. . . . Management of environmental risk is managed through: comprehensive environmental management systems; environmental committees at Board and management levels; the retention of specialist environmental staff and advisers; regular internal and external environmental audits; and imposing environmental care as a line management responsibility. (Annual Report, 2000 p. 22)

Overall, Santos's annual report for the year 2000 lends strong support to the previously discussed hypothesis that companies with involvement in areas of human rights abuse tend to emphasise less auditable areas of corporate activity in their CSD. As a company operating in Indonesia at the time and operating in conjunction with Indonesian subcontractors, it can be assumed that the company faced significant issues in relation to employee welfare and community relations. However, its CSD places a strong emphasis on the company's adoption of an environmental management system, which, in terms of incremental decision making, can be considered as an incidence of restrictive goal selection where achievable policy goals are given priority over potentially more pressing issues, which might be more difficult and more resource consuming to address.

CONCLUSION

This chapter has drawn on concepts of incrementalism in order to investigate differences in CSD among oil companies that operate in regions which are characterised by severe human rights abuses, and companies which do not. One of the main expectations of this analysis was that, by acting as incrementalist or 'restrictive adaptors', companies would adapt CSD ends to available means. Expressly it was assumed that companies which operated in areas of human rights abuse would avoid addressing the specific problems arising from these engagements and focus their CSD on less tangible issues – as addressing human rights issues would require major, and potentially costly, policy changes. Meanwhile, it was assumed that 'non-involved' companies would focus more concretely on achievable targets with regard to employee welfare or community relations. Underlying these hypotheses was the assumption that, because the environment is a less tangible stakeholder group than the firm's employees, environmental disclosures were at a higher level of generality than employee disclosures since they can be less easily identified with a contractual stakeholder and are less easily auditable.

These assumptions gave rise to two specific hypotheses: namely, that companies with extensive operations in politically sensitive areas would be expected to be more likely to focus on wider issues such as environmental and broader community concerns, which tend to impose relatively few concrete commitments and restrictions on these companies. By contrast, companies operating in less-sensitive areas were expected to emphasise issues relating to employee welfare, which tend to carry more tangible obligations. Underlying these hypotheses was the assumption that, because the environment is a less tangible stakeholder group than the firm's employees, environmental disclosures were at a higher level of generality than employee disclosures since they can be less easily identified with a contractual stakeholder and are less easily auditable.

The chapter found strong quantitative and qualitative support for this hypothesis. On the quantitative level, it was found that companies which operated in several (3+) countries which were listed as suffering human rights abuse, geared a proportionately greater part of their CSD towards an emphasis on broad social issues such as environmental responsibility and general statements of objectives towards societies and communities, while placing comparatively less emphasis on more tangible issues such as employee welfare and to some degree employee health issues. Specifically, for the 'major-involved' (3+ countries listed as human rights abusers) 'environmental' CSD accounted for almost half of total reporting, followed by the 'other employee welfare', 'general', 'community' and 'employee health' subcategories. This contrasted dramatically with the 'non-involved' group, whose CSD was dominated by the 'other employee welfare' category, and which provided more CSD for 'other employee welfare', than the 'major-involved' group did for 'other employee welfare' and 'employee health' together.

On the qualitative level, the year 2000 annual reports for the companies Forest Oil, which operated exclusively in North America, and Santos, which operated *inter alia* in Indonesia, provided evidence of the tendency of annual reports of 'involved' and 'non-involved' groups to focus on different areas of corporate activity. In line with the previously discussed expectations, Forest's report focused on charitable and employee welfare-related activities, whereas Santos emphasised the commitment of the company to less auditable environmental goals.

Taken together the quantitative and qualitative analysis of this chapter lends strong support to the applicability of established theories of 'malign incrementalism' and 'restrictive adaption' to the context of CSD and CSR.

KEY LEARNING POINTS

1. This chapter started out by noting that the oil industry is characterised by significant CSR challenges which partially arise from the fact that these companies operate in regions where severe human rights abuses take place.
2. This chapter contrasted alternative views of CSR which we described as being associated with a benign or a malign view of the corporation. The benign view assumes that companies engage in CSD because they follow a genuine ethical code. The malign view assumes that companies are basically unethical and engage in CSD only when it benefits their bottom line.
3. In expanding the malign view, we argued that the behaviour of some companies was characterised by a form of 'malign incrementalism' where they chose their interventions by adapting to external demands in a minimalist fashion without engaging in genuine reform.
4. In order to test the hypothesis that CSD followed a pattern of 'malign incrementalism' we stated that we would expect companies which operated in regions which were characterised by severe human rights abuses to be less specific in their CSD than companies that did not.
5. This comparison showed that companies which operated in three or more countries of severe human rights abuse geared a proportionately greater part of their CSD towards an emphasis on broad social issues

such as environmental responsibility and general statements of objectives towards societies and communities, while placing comparatively less emphasis on more tangible issues such as employee welfare and to some degree employee health issues.

6. In the qualitative section we discussed the reports of two companies, one of which operated in areas of human rights abuse while the other did not. Again we found a greater proclivity for the first company to give general CSD information in its annual report than for the second.
7. The chapter concluded that the amount of CSD information a company provided was not necessarily a measure of how ethically engaged it was. This was the case because companies which operated in problematic areas often used general CSD information to deflect attention from the challenges they faced.

DISCUSSION QUESTIONS

1. Why does the oil industry face specific CSR challenges?
2. What is the malign view of CSD?
3. What is 'malign incrementalism'?
4. Why is legitimacy theory difficult to test?
5. How can companies create diversions from ethical challenges?
6. Under which circumstances would CSD be a good measure of a company's ethical engagement?

NOTES

1. While not specifically describing incrementalism as 'malign', Dror's (1964) criticism of Lindblom describes incrementalism as a source of dysfunctional policy making.
2. For an overview of Charles Lindblom's works on policy making see, for example, Anderson (1978).
3. This aspect of the asymmetric response hypothesis is similar to the 'Maginot' hypothesis (Glasbeek, 1988; Woolfson and Beck, 2005b), where, like the French fortifications of 1940, CSDs create a false sense of security.
4. It should be noted that the proxy only works in one direction so that firms that do operate in countries with human rights abuses are deemed to be immorally managed, whereas it is possible that firms which do not operate in such environments are also immorally managed but lack the opportunities to make such investments.
5. Accessed from www.guardian.co.uk/world/1999/oct/24/humanrights.theobserver2 in March 2008.
6. Forest's 2000 annual report (see below) notes a recent project in South Africa as the only involvement outside North America.
7. Accessed from www.forestoil.com/downloads.2000_annual_report.pdf in March 2008.
8. Accessed from www.santos.com/library/annual_report_2000.pdf in March 2008.

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10. Does the adoption of codes of conduct marginalize labor unions? The case of Turkey's garment industry

Melsa Ararat and Mahmut Bayazıt

It is much easier . . . to be benevolent than it is to share power.
(Bowen, cited in Selekman, 1958)

INTRODUCTION

Since the early 1990s, outsourcing labor-intensive production to low-cost countries has become a strategy widely used by transnational retail and branded goods companies in response to competitive pressures, while competition between suppliers has created a downward pressure on already inferior working conditions in those countries. The protection of workers' rights has meanwhile suffered a setback worldwide with the diminishing power of unions. As a result, the 'labor problem' and the issue of social standards at the workplace have taken center stage in the corporate social responsibility (CSR) discourse (see O'Rourke, 2003; Sethi, 2003).

Two strategies have been developed in response to public concerns, one being international systems of regulation such as the International Labor Organization (ILO) conventions. The second strategy involves the self-regulation of firms across their supply chains through 'voluntary' codes of conduct (CoC). These CoC are proposed as instruments of CSR.

In this chapter we try to answer the following question: does the adoption of CoC cause the marginalization of the role that unions play in a developing country context? We define marginalization in terms of both decreasing perceived utility of unions as well as scope and depth of issues that they can influence.[1]

In the first section we provide a background of the roles of unions and CoC. In the second section we present the analytical framework we use for our inquiry. The third section presents the case study, starting with a review of the industry, followed by an overview of the Social Standards Round Table (Round Table) – a multi-stakeholder European initiative aimed at developing institutional support to implementation of a proprietary CoC. We continue by analyzing the case based on observations of the Round Table, semi-structured interviews and archival data. The chapter concludes by arguing that: (i) CoC may become a tool allowing employers to decrease the utility of trade unions in the eyes of their workers, creating further challenges for organizing activities, and (ii) CoC may shift the balance of power to the buyer–supplier networks in setting and enforcing social standards, further marginalizing the scope and depth of issues that unions can influence. On the other hand, we also argue that CoC, when acknowledged, supported and monitored by a broad set of stakeholders, have the potential to set the agenda on social dialog – or lack of it – and the underlying structural issues.

THE ROLE OF UNIONS AND THE VOLUNTARY CODES OF CONDUCT

Role of Unions

Despite wide variations in industrial relations systems across the world, the underlying functions of unions, wherever they exist, are the same. First, unions are needed to rebalance the power in relation to employers or even tilt it in favor of the workers. Second, workers need protection from poor management and the ability to voice their true preferences without the fear of being fired. These two basic functions have been referred to, respectively, as the 'monopoly face' and the 'collective voice face' of unions (Freeman and Medoff, 1984). In the former, unions are basically viewed as rent extractors whereas in the latter they are regarded as rent creators (Aidt and Sena, 2005).[2] Although some economists still view unions mainly as rent extractors, that is, institutions using their monopoly power to raise wages over competitive levels, there is increasing consensus in the literature that rent creation, that is, seeking wage increases through contributing to higher productivity and efficiency, is more likely than rent extraction in competitive markets and in cooperative industrial relations climates (Freeman and Medoff, 1984; Aidt and Sena, 2005). Unions may also have a positive effect on labor productivity by raising wages and obliging the firm to introduce productivity-enhancing technology (Singh and Zammit, 2004). Others suggest that the costs and benefits of unions and collective bargaining depend largely upon the economic, institutional and political environment in which unions and employers interact (Aidt and Tzannatos, 2002).

At a higher level of analysis, unions can be considered a political force and a party representing workers' collective voice in social dialog in the larger society. As mobilizers of the working class, when unions have political power and connections to other civic organizations in the society, they play a critical role in making government more transparent, more effective, and more responsible to its citizens (Lee, 2007).[3]

Despite possible productivity and governance benefits offered by unions, union membership has been in decline around the world, especially in the private sector, since the 1980s[4] due to fundamental changes in attitudes and institutions associated with increased economic competition and the new managerialism with its rhetoric of 'human resource development'. In the less developed countries, unionization is also undermined by International Monetary Fund (IMF) agreements and debt crises (Martin and Brady, 2007). In addition to these macroeconomic effects, the incompleteness of industrial relations systems in these countries as indicated by restrictions on freedom of association, stringent registration requirements, political interference and acts of antiunion discrimination, are significant predicaments for unionization (Aidt and Tzannatos, 2002).

Responding to the erosion of union power, scholars, labor advocates, non-governmental organizations (NGOs), and community groups have sought to develop alternative or complementary ways of representing workers' interests. Although it is too early to reach a final verdict, alternative institutions which emerged in the US such as human rights activists, living-wage campaigns, legal service centers, and Working Today[5] seem to be limited in their impacts compared to workplace unions (Freeman et al., 2005). Even if they were effective substitutes for unions, these emerging labor market institutions are yet to emerge in developing societies.

Voluntary Codes of Conduct

Voluntary CoC have been proposed as an institution which complements the role of unions. Since their inception, CoC have raised much controversy. Advocates of CoC argue that these private initiatives are more flexible, democratic, and effective than traditional labor regulation in the light of the shift of power from central state to transnational firms (Arthurs, 1996). Some authors suggest that firm-level incentives could work, but only if they are supported by a global infrastructure (Fung et al., 2001) and based on internationally certifiable standards (Christmann and Taylor, 2006). Opponents such as Murray (2004), on the other hand, posit that the focus on branded goods obscures the issues related to the majority of workers who produce for local markets or produce non-branded goods.

A fundamental opposition to self-regulatory systems is related to their effect on the power balance between corporations and workers. Private regulations may challenge the legitimacy of state regulation or 'crowd out' the role of unions (Justice, 2001) since even if they secure worker protection they do so by increasing the scope of management power (Blackett, 2001). Furthermore, the replacement of union power by a privatized system may motivate companies to do only the minimum required to avoid bad publicity (Moberg, 2001).

Despite the controversies, the issuance of global CoC has been a growing trend over the last 25 years. Originally quite diverse, the CoC have been converging around the issues covered by the ILO Core Conventions.[6] A review of surveys, however, establishes that many CoC deal selectively with the Core Conventions, with freedom of association and wages continuing to be ignored (O'Rourke, 2003; Bethoux et al., 2007).

Unions have long been aware that the proliferation of CoC poses challenges for themselves. They suspect that CoC may be used as a substitute for collective bargaining, eroding the legal basis for workers' rights. The International Confederation of Free Trade Unions (ICFTU) and International Trade Secretaries (ITS) recommend that all CoC related to labor practice should be 'negotiated' between the company and the appropriate trade union (ICFTU–ITS, 2000). Similar concerns have been raised by scholars (Engels, 2000; Compa, 2001).

Unions in general are reported to be critical of CSR branded initiatives such as unilaterally adopted CoC; however, their actual response varies depending on the context. Unions in European countries with strong corporatist traditions (for example, in Germany) try to be in the driving seat. On the other hand, unions in the UK and France, possibly due to their weaker position with regard to influencing the agenda, see CSR as a threat (Preuss et al., 2006). In general, European unions express unanimous criticism of CSR perspectives which frame CSR as a 'voluntary' concept that could potentially replace legally enforced obligations, and transfer yet more power and discretion to corporations, negatively affecting the role that the unions play.

FRAMEWORK OF THE ANALYSIS

In response to stakeholders' skepticism towards emphasis on voluntarism related to the notion of CSR, the European Commission in its Green Paper (2001, p. 7) argued:

> Corporate social responsibility should nevertheless not be seen as a substitute to regulation or legislation concerning social rights . . . In countries where such

> regulations do not exist, efforts should focus on putting the proper regulatory or legislative framework in place in order to define a level playing field on the basis of which socially responsible practices can be developed.

Given this argument, it is important to understand what happens to unions and social dialog when CoC are introduced into a developing country where workers and their unions have a weak standing in society both legally and socially. We argue that four issues need to be considered to better understand the effects of CoC for industrial relations in developing countries:

1. the nature of CoC as a self-regulatory tool;
2. strategies that organizations use against institutional pressures;
3. the nature of the institutional environment and incentives; and
4. differences in cultural values between transnational companies and their suppliers.

CoC as Instruments of Non-governmental Regulation

The literature on non-governmental regulation explains it as a response to two connected developments: weakening of governments – and resulting failures of state bureaucracies – and the growing power of transnational firms (Haufler, 2001). It is suggested that transnational firms can promote ethical business practices in developing countries through use of CoC (Beschorner and Müller, 2007). Consequently CoC may have a diffusing effect by setting a normative framework for labor standards. A number of criteria are proposed (O'Rourke, 2003) to evaluate the effectiveness of non-governmental regulatory systems:

1. Legitimacy – are key stakeholders involved in all stages of standard setting, monitoring and enforcement?
2. Rigor – do CoC meet or exceed ILO conventions and local laws, are standards measurable, and is monitoring technically competent?
3. Accountability – is monitoring independent and transparent?
4. Complementarity – do private regulatory systems support and improve state regulation?

These criteria seem difficult to meet, especially if the CoC address individual businesses without the involvement of organized workers. A review of CoC implementations reveals that the inadequacy of most initiatives is manifested in the absence of disclosure of supplier locations, failure to embrace all core ILO conventions, weak implementation mechanisms, lack of legitimacy of auditors and lack of collective representation of workers (Miller, 2003).

Strategies Organizations Use against Institutional Pressures

If CoC are voluntary, enterprise-driven initiatives and refer to practices that are considered to exceed compliance with the law, it is important to ask what drives firms to adopt these initiatives. Three motivations – utilitarian, normative, and identity – have been identified to explain the adoption of practices. The first two types of motivation suggest that firms may use CSR for impression management by positively influencing the stakeholder perceptions of the firm. The last type represents genuine concern for social standards and suggests that firms may seek to enhance their social performance not as a means but as an end in itself. Echoing the utilitarian motive, the strategic choice perspective suggests the role of top managers' choice of strategies for competitive advantage in practice adoption (Chandler, 1977). Neo-institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983), on the other hand, argues that multiple external pressures lead firms to adopt structures to attain organizational legitimacy, although these structures are usually decoupled from the technical core of the firm and lead a life of their own, especially for late adopters.

It is clear from research evidence (Weaver et al., 1999; Kimerling, 2001; Ramus and Montiel, 2005) that institutional pressures generally lead to a ceremonious or symbolic adoption of CoC. CoC are 'embraced' as a public relations ploy or window-dressing while business continues as usual (Roberts, 2003). Rather than blindly acquiescing or conforming (that is, passive strategies) to institutional pressures, supplier firms may adopt other strategies – compromising, avoiding, defying, manipulating and associated tactics – as a form of resistance to these pressures (Oliver, 1991).

Organizations, when they are confronted with conflicting demands from their stakeholders (social standards versus cheaper production), may follow a *compromising* strategy by balancing these demands, that is, conforming to minimum standards to pacify the pressure or by actively bargaining to extract some concessions from stakeholders (ibid.). Organizations may follow an *avoidance* strategy by adopting CoC as a façade – by avoiding external monitoring of its social practices or by changing its boundaries. Organizations can use a *defiance* strategy by ignoring attempts by stakeholders to remind them of their social responsibilities, by challenging the virtue of institutional demands on social issues, or by outright attacking the stakeholders. Finally, organizations may purposefully *manipulate* institutional demands through co-opting important constituents such as monitoring agencies, NGOs or governmental bodies, by influencing the meaning and criteria of evaluation or by controlling institutional processes.

Organizations would evaluate the demands for the adoption of CoC in terms of their importance for organizational legitimacy and efficiency. Out of these demands, freedom of association and collective bargaining perhaps create the highest level of conflict with economic pressures since organized labor could potentially extract high rents through wage concessions and therefore decrease profitability by increasing labor rates. Although all CoC provisions can be considered a threat to the discretion of managers, it is freedom of association and collective bargaining that directly jeopardize their limits of authority by placing the requirement to negotiate with a third party. Managers socialized in the market-based regimes are expected to avoid and defy unionization by arguing that unions limit their flexibility in the face of changing environments, and with their corrupt leaders and outdated practices they are a menace to society. Therefore, we argue that supplier firms pressured to adopt CoC would strategically select provisions on freedom of association and collective bargaining rights to decouple from their practices, and these provisions would be most likely to be subject to attempts to achieve parity between multiple stakeholders' and organizations' interests.

In fact, most other standards, such as employment of forced and child labor as well as safe and healthy working conditions, because of the consensus on their basic nature between various stakeholders, have received more attention in the popular media, suggesting that legitimacy would more easily follow their adoption. In addition, violations of the right to freedom of association are among the easiest to conceal from, and the hardest to monitor by external stakeholders, relative to violations of other basic rights. This is because these violations are hidden in subtle day-to-day conversations and cannot be unearthed easily. We therefore expect that even when organizations adopt the provision of freedom of association: (i) they would try to hide violations of this provision from external groups; (ii) they would design and use monitoring schemes that make it hard for the monitoring body to uncover these violations; and (iii) they would choose business partners that do not have organized labor and change business partners if attempts to avoid unionization have been unsuccessful.

Since the precise meaning of CSR is open to discussion (Crane et al., 2007) and CoC, unlike governmental regulations, are suggested in order to provide much-needed flexibility, differences in the interpretation of CSR and in the content of codes across firms are to be expected. Unsurprisingly, many organizations create, either individually or collectively with other industry organizations, their own version of CoC rather than utilizing previously written codes of the ILO or the Organisation for Economic Co-operation and Development (OECD), or by writing one jointly with unions and NGOs (ILO, 1998). Therefore, it is likely that firms will, wherever possible, try to dominate the institutional process on social standards by writing their own codes, by choosing their own monitors (or choosing to monitor internally), by forming close ties with governments and by placing insiders in NGOs and partnerships.

Inhospitable Institutional Environment and Incentives

An extensive body of literature argues that under competitive conditions, firms behave opportunistically in the pursuit of short-term profits at the expense of employees' interests unless institutions are in place to mitigate such behavior (Albert, 1993). The garment industry's output market is characterized by high buyer price sensitivity and high bargaining power of buyers alongside low barriers to entry and low concentration of firms. The result is a highly competitive environment sensitive to the threat of increased wages by collective bargaining. Supplier firms may respond to these forces positively by making investments to improve productivity or negatively by disinvestment or subcontracting to small firms in the informal sector. Other options available to suppliers include targeting buyers who do not care about social standards and moving the production facilities to countries where the standards are lower. It is reported that capital investment is very mobile in this sector (Murray, 2004). Similarly, in the output markets, transnational buyers can respond to higher supplier prices by shifting subcontracting to countries where standards are lower.

Economic conditions affect the degree to which firms act in socially responsible ways but this relationship is mediated by a number of institutional factors (Campbell, 2007). Firms that are uncertain about the prospects of future profitability will allocate fewer resources to meet even the minimum threshold of socially responsible behavior. High inflation and volatile exchange rates frequently observed in developing countries create disincentives. Firms will be more likely to behave in socially responsible ways if (i) there are strong and well-enforced state regulations in place to ensure socially responsible behavior; (ii) there is a system of self-regulation in place to ensure socially responsible behavior; (iii) there are outsiders – private, independent organizations, including NGOs, institutional investors, and the press – who monitor their behavior and when necessary mobilize to change it; (iv) they operate in an environment where normative calls for good behavior are institutionalized in educational venues in which managers participate; (v) the firms belong to trade or employers' associations which promote socially responsible behavior; and (vi) they are engaged in institutionalized dialog with unions, employees, investors and other stakeholders (through work councils, co-determination, legally binding collective bargaining agreements and so on). Most of these institutional factors specified by Campbell are not present in many developing countries.

Another factor that creates a negative incentive for compliance is corruption. Corruption is a major issue in most developing countries, preventing enforcement of law and leading to unfair competitive advantage for corrupt firms. Firms located in countries with more predatory governments (for example, those resorting to bribes, confiscatory taxation, disregard of property rights and so on) practice weaker governance because owners of these firms have lower incentives to improve their self-regulation and transparency (Durnev and Fauver, 2008).

We therefore expect the supplier firms to respond negatively to outside pressures for social responsibility.

Cultural Values as Boundary Conditions

Apart from institutional environments constraining the effective diffusion of social standards, cultural differences also place boundary conditions on how likely it is that certain standards will take hold in various host countries. Culture is defined as several shared processes such as shared ways of thinking, feeling and reacting, shared meanings and identities, or shared motives, values and beliefs that members of collectives commonly experience and transmit through generations (House et al., 2004). Differences in terms of three types of cultural value are expected to facilitate the marginalization of unions through the use of CoC in certain developing countries. First, a cultural value that is in direct contrast with freedom of association and collective bargaining rights is uncertainty avoidance. Uncertainty avoidance is the extent to which the members of a culture feel threatened by uncertain or unknown situations and try to avoid such situations (Hofstede, 1980). In these cultures, conflict is usually suppressed out of a strong need for affirmation and consensus. Uncertainty-avoiding cultures therefore try to minimize the possibility of uncertain and conflict-ridden situations by strict laws and rules. Collective bargaining represents one such situation where conflicts are inherent and explicit and the end result is not known in advance (and can involve further escalation of conflict, for example, strikes). It is therefore expected that countries with a culture that is characterized by uncertainty avoidance, will limit workers' rights of collective bargaining. Even when collective bargaining rights are recognized by law, in these countries provisions of CoC which provide for collective representation may not be welcomed by owners and managers of suppliers. Collectivism, a cultural dimension frequently coupled with uncertainty avoidance, reinforces harmony-seeking behavior.

Another cultural value that does not fit with social standards on freedom of association rights is power distance. Power distance is defined as the extent to which the less powerful members of institutions and organizations expect and accept that power is distributed unequally (ibid.). In cultures with high-power distance, organizations are more likely to be hierarchical and centralized. A closely related concept to power distance is paternalism, which is defined as 'a system under which an authority undertakes to supply needs or regulate conduct of those under its control in matters affecting them as individuals as well as in their relations to authority and to each other' (Merriam-Webster Online, 2007). Although most of the Western world considers paternalism as 'a derogatory reference to an organization's "fatherly" efforts to better the lot of its employees', other countries, such as Brazil, Japan, Korea and Turkey, have well-established paternalistic traditions (Shafritz, 1980, p. 250). In high-power distance cultures with paternalistic traditions, powerful managers are expected to decide for the good of their workers and act as a benevolent autocrat or a good father. The acceptance of the freedom of association clause would amount to acceptance of workers as equals and workers' organizations as stakeholders. This would surely challenge the mindsets of managers who are used to having their way with their workforce.

The analytical framework explained above is graphically presented in Figure 10.1.

THE CASE OF TURKEY'S GARMENT SECTOR

Brief History and Evolution of the Garment Sector

The textile and garment sector has been the driving force of the Turkish economy since the 1980s largely due to the lower cost of production factors[7] and proximity to the European Union (EU) market. As of 2005, Turkey was the fourth-largest garment exporter in the world with a 3.3 percent market share. Some 70 percent of all garment exports from Turkey are to the EU; Germany is the biggest importer, accounting for approximately 30 percent of all garment exports from Turkey to the EU (Aras, 2006).

Due to its importance with respect to export capacity and employment, the sector has been generously supported by successive governments over

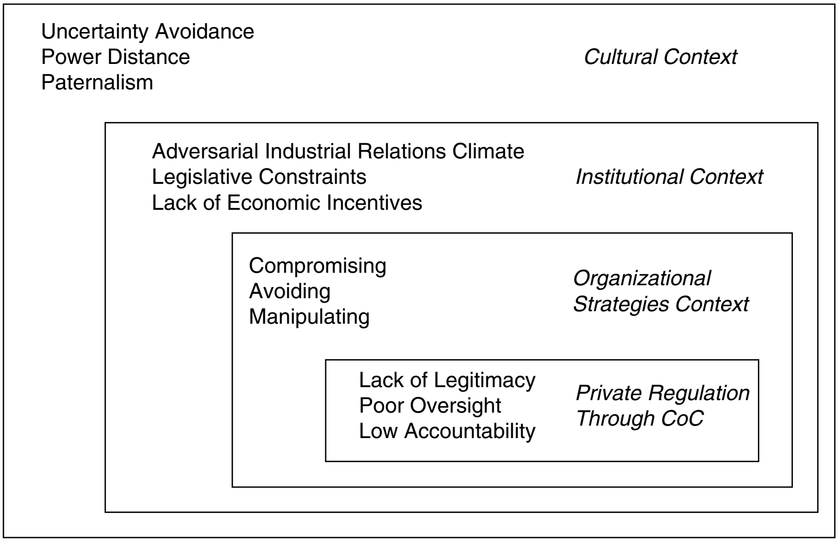

Figure 10.1 Analytical framework of factors affecting the adoption of CoC

the years; for example, in 2004 the sector received 60 percent of all industrial investment subsidies. Investment and export subsidies, until they were eliminated in 1989, and the informality in the sector suppressed competitive dynamics. Recently, increased competition, removal of quotas maintained under the World Trade Organization (WTO), erosion of cost advantages by high taxes and unfavorable exchange rate regimes created bottlenecks. Meanwhile the unit costs have been decreasing in China, India, Indonesia and Morocco. This trend has forced owners to move production facilities out of the main urban centers, and to employ agricultural workers with little or no experience in the industry. Although recently producers have been focusing on sector-wide differentiation strategies led by employers' organizations, many companies in the sector still choose to subcontract to the informal sector to maintain cost advantages.

Labor accounts for 20 percent of the input costs in the garment sector.[8] The sector is the largest employer in Turkey, employing 11 percent of all the registered and 20 percent of the unregistered workers. Taymaz and Ozler (2005) point out that effective application of the *acquis communautaire* by extending the coverage to informal sectors is likely to eliminate some firms and lead to a painful adjustment process in the medium term, although the long-run effect is likely to be positive for productivity, growth and employment.

The State of Industrial Relations in Turkey

Industrial relations in Turkey have a volatile history (see Cetik and Akkaya, 1999; Koray and Celik, 2007 for reviews). Before the establishment of the Republic, unionization was banned in 1909 by the parliament of the Ottoman Empire. A similar stance was taken in the early years of the Republic, outlawing workers from forming unions, from collective bargaining and/or from striking. These prohibitive laws are considered as an attempt by the one-party government to sustain the unity of the fragile state and avoid conflicts between classes. It was only after the Second World War and the changing of the dominant figures in Europe as well as the transition to a multi-party political system and the expansion of the private sector, that labor rights entered into the debate. A new union law was drafted in 1946 as a response to pressures from the ILO. This law was not functional, however, since it did not give workers the right to collective bargaining, largely out of concerns for class conflict. No significant gains for labor therefore materialized until the 1960s, when a new constitution and labor law incorporated freedom of association, the right to collective bargaining and the right to strike. Although such state-imposed freedoms created material gains, the fact that a workers' movement was premature meant that the protection of these freedoms over the long term was impossible. In fact, successive military coups in 1971 and 1980, in response to increasing class strife, first curtailed and then took back many of the rights gained in the 1960s. The 1970s witnessed an increasing polarization in the form of longlasting strikes with wide participation, followed by another military *coup d'état* in 1980. A set of new laws in 1983 effectively set stringent requirements for many union activities, including membership, collective bargaining and strikes. These laws, still in use today, are considered to contradict the ILO norms and agreements signed by Turkey (Koray and Celik, 2007). The period after 1980 is largely considered a time of proliferation of liberal economic policies and support of the private sector to the detriment of the workers' cause.

There are a total of nine unions organizing the textile and garment sector in Turkey; six are small independent unions and the other three belong to three national confederations (Cetik and Akkaya, 1999). Only the last three unions have the right to negotiate a collective bargaining agreement due to a law which requires that a union represent 10 percent of the sector's workforce before negotiating an agreement. Collective bargaining can only take place at the workplace level. There are 22,000 companies and 8,000 exporters in the industry. Although reported membership by the largest three unions – TEKSIF, TEKSTIL-IS and OZIPLIK-IS[9] – suggest that the union density of the garment sector is close to 86 percent in 2007,

Table 10.1 Turkey's garment industry, descriptive statistics (2007)

Description	Statistic
Share of GDP	10.7 %
Share of industrial production	20 %
Share of manufacturing labor force	24–28 %
Share of industrial exports	18.9 %
Export unit price increase (07/06) in USD	2.6 to 6.20
Share of world trade	5%
Ranking in apparel suppliers in the world	4
Share of Germany in exports	26%
Number of companies	22.000
Number of exporters	8,000
Number of registered workers	792,000
Number of unregistered workers (est.)	2,400,000
Number of collective bargaining agr.	12
Export value in 2007 to the EU (in USD)	12,774,938,000
% change (07/06) in exports to the EU	17%
% increase (07/06) in total exports	14.8%
% change (07/06) in exports to OECD	–12% (primarily Canada, USA)
% workers under collective agr. (est.)	1

Source: Own compilation from ITKIB, Jo-In, TEKSIF and TEKSTIL-IS reports.

this number is grossly misleading since it accounts for only 792,000 registered workers.[10] Moreover, the reported membership is inflated by the government because of political reasons, and by the unions themselves who need to have organized 10 percent of the sector. The estimated number of unregistered workers, including children and illegal immigrants, in the sector is between 2 and 2.4 million (Jo-In Briefing Paper No. 2, 2005). If this estimate is realistic, union density in the sector is less than 4 percent. The percentage of unionized workers covered by a collective bargaining agreement is somewhat lower, possibly around 1 percent, since only those three unions that can claim to represent at least 10 percent of the registered workers are eligible for negotiations. Most of the collective bargaining agreements are signed in the textile sector and the number of collective bargaining agreements in effect in the garment sector is estimated to be only 12. A selection of descriptive statistics about the sector is provided in Table 10.1.

As stated above, historically freedom of association and collective bargaining rights in Turkey have been subject to legal and practical restrictions.[11] Current labor regulations do not allow for spontaneous industrial action (for example, strikes are allowed only if an agreement cannot be reached through collective bargaining). Even the violation of a negotiated agreement by the employer does not form a sufficient basis for strike action. Furthermore, this right can only be exercised subject to a highly bureaucratic and complex process. Strikes that do not strictly follow this process are categorized as illegal; heavy penalties are attached to them such as immediate termination of employment for those on strike, liability for monetary damages incurred by the employer and jail sentences for those involved. Strikes that are general, that have a political purpose, that are conducted to protest or show solidarity with other unions, are considered illegal and can receive even harsher penalties than regular illegal strikes. In the past, even legal strikes that workers voted in favor of have been postponed and effectively cancelled by the government for 'health and national security reasons'. These decisions have been considered a violation of workers' rights by both the ILO and the EU (Commission of the European Communities, 2004).

One of the most important issues for Turkey's accession to the EU is adopting and implementing the EU *acquis communautaire* related to labor market regulations and employment policies. The new employment law, adopted in 2003, ignores the European Commission's (EC) recommendation (2002, 14) on consultation and employee representation. Provisions related to 'informing employees' in other directives are also left out.

The weak status of unions in Turkey is reflected in decreasing unit labor costs. From 1980 to 2000, labor productivity increased from 100 to 197 whereas the unit labor cost – as a ratio of nominal wages in manufacturing to value added deflated by consumer price index and GDP deflator, respectively – has decreased from 100 to 54.5. This indicates a decrease in share of labor in the distribution of income (UNCTAD, 2003).

Background of Social Standards Round Table

The history of the Round Table goes back to 2001 when a Round Table was set up in Germany by private companies, industrial federations, trade unions, NGOs and German ministries with the objective of developing an understanding of 'how social standards can be introduced efficiently and transparently with the participation of all concerned'.[12] The German Round Table led to a partnership between the German Federal Ministry for Economic Cooperation and Development (BMZ) and the Foreign Trade Association (FTA) of the German Retail Trade (AVE) aimed at improving social standards adopted by foreign suppliers to German industries in 11 countries including Turkey. The initiative had two implementation tracks, (i) developing a CoC which was to follow independent audits of the suppliers in order to identify the issues and (ii) the setting up of national Round Tables with the objective of implementation of social standards at the institutional and political levels.

With regard to the first track, the initial efforts of the German Round Table and the AVE were later channeled to the Business Social Compliance Initiative (BSCI) which was founded in 2003 by the FTA and member companies. The BSCI was intended as a sector solution for retail and was a response to previous failures of multi-stakeholder initiatives involving unions and NGOs. The BSCI is open only to corporations, but the unions and NGOs are invited to participate in an Advisory Council. The BSCI launched its code, which is inspired by the ILO's core labor standards and the SA 8000 standards, in November 2004. Following the foundation of the BSCI, the suppliers of member firms were informed of the initiative and were requested to respond to a questionnaire relating to the current status in their factories. Later, audits were conducted to verify the responses. Those suppliers who did not satisfy the German retailers were 'engaged' in a dialog and offered support for corrective actions.[13]

With regard to the second track, the GTZ initiated and provided operational finance for the National Round Tables.[14] National Round Tables are designed as multi-stakeholder forums whereby government representatives, labor unions, employer and exporters' unions and other relevant NGOs are invited as members. The objective of the National Round Table is to provide institutional support to the implementation of CoC. More than 60 Round Table meetings were held in 11 countries by the end of 2006.

Turkish Round Table

With its long experience of working in Turkey, the GTZ was able to initiate the Turkish Round Table with participation from the government, workers and employers' unions, the union of exporters and sector organizations. Throughout the first two years, the GTZ led, organizing the Round Table meetings. At the end of the second year, the GTZ asked the members to take over the ownership of the Round Table. Lacking mutual trust, members invited two university professors, one perceived to be closer to business circles, the other to the unions, to be the moderators.[15] After the third year with support from the GTZ and the moderators, the members finally took over the complete organization. The list of members is given in Appendix 10A1.

Table 10.2 Interviews with supplier firms

Firm	Code * Buyer(B)/ Own(O)	Unionization Yes (Y)/ No (N)	Interviews with	
			Workers/union representatives	Owners/ managers
Alpha	B	Y	x	
Beta	B and O	Y	x	x
Delta	B	N	x	x
Gamma	B	N	x	x
Omega	B and O	Y		x

Note: * B: Code imposed by the buyer/buyers; O: Code developed by the firm itself.

DATA AND ANALYSIS

Our observations started with interviews with the representatives of those organizations which have been members of the Round Table for two years, followed by participant observations in subsequent meetings for 18 months. We interviewed workers and managers of two supplier firms – Delta and Gamma – described as the most successful implementers of the CoC by Turkey's Garment Producers' Association (TGSD), a membership-based association, the most sympathetic of employers' organizations to social standards. We also interviewed two unionized firms – Alpha and Beta – the first one of which was already unionized before the introduction of the CoC, and the second was affiliated with an international brand name through common ownerships. Beta produced for both its affiliated brand name and other transnational retailers. Finally we interviewed the management of Omega, which was a wholly owned subsidiary of an international firm and manufactured only for its parent under its corporate CoC. The list is shown in Table 10.2.

Interviews with the leaders of labor unions TEKSIF and TEKSTIL-IS, and two government officers – one from the ministry of labor and one from the treasury – contributed to our analysis. Archival data included websites and printed documents of GTZ, BSCI, Jo-In[16] and AVE, and minutes and presentation materials used at Round Table meetings.

Our first observation was the existence of a tension between employer associations and unions which was evident from the tone and contents of statements made by both parties during Round Table meetings and interviews. This was not surprising given the history of adversarial relations between unions and managers in Turkey.

The second observation was the low level of unionization in supplier firms which have implemented the BSCI code and/or other brand-specific codes. Although it was not possible to compare union penetration levels in companies with or without CoC since neither the buyers nor the suppliers disclose the full list of their suppliers, the fact that there are only 12 collective agreements in the sector against more than 200 companies that have implemented the BSCI CoC suggests that the codes have not been successful in creating an environment where freedom of association was effectively exercised. This situation also raises questions about the informativeness of audits. According to audit reports, in most suppliers – 162 out of 205 – that implemented the BSCI code, the freedom of association and the right to bargaining were *fully protected* (BSCI, 2006). The BSCI (p. 23) attributes this contradiction to the legal framework and unions themselves:

> Turkey's labor laws are sophisticated and comprehensive. . . . [However] the laws and regulations for freedom of association and collective bargaining are very complicated and almost impossible to use. Besides this, existing unions heavily compete with each other.

What was the reason why the workers could not or did not use their right to organize and the right to collective bargaining if these rights were fully protected via CoC in the majority of suppliers? We applied our analytical framework in order to understand the effect of codes on workplace standards related to worker representation and specifically unionization.

Legitimacy, Rigor, Accountability and Compatibility

In our view, the involvement of key stakeholders participating in the Round Table in monitoring and enforcement was not satisfactory. First, none of the stakeholders demonstrated an institutional commitment to the CoC or to the mission of the Round Table. Although the Round Table provided an environment whereby the participants, as *individuals*, developed a better understanding of each other's positions, and engaged in a dialog which gradually became less antagonistic and controversial, it failed to mobilize the member organizations in their institutional capacity:

> We participate in the meetings because we personally want to, but we have difficulty in putting the social standards on the agenda of our boards. They are struggling with much more compelling issues. Therefore the results or decisions of the Round Table are not communicated to our members. . . . Round Tables helped to raise our awareness of social standards as individuals, but they had no effect on our institutions. They didn't have any effect at all on the producers (suppliers) either. (ITKIB)

While each employer organization has a slightly different attitude towards the CoC and the Round Table, unions attempt to show a unified front. In every Round Table meeting there is at least one representative from one of the three major unions, although, TEKSTIL-IS and TEKSIF clearly are more vocal than OZIPLIK-IS. These two unions seem to share similar views as to what their role should be in the Round Table. When asked about their view of CoC, the TEKSTIL-IS representative explained their guarded stance:

> We view [COC] cautiously. We have never cooperated in the preparation of one, we did not attempt to, and we will not attempt to after today. CoC did not bring the employers and the union together.

Union representatives suggest a number of reasons for their stance. First, they feel the need to align themselves with the International Textile, Garment and Leather Workers' Federation (ITGIWF), which has not put its stamp of approval on BSCI codes. In fact, representatives of all three national unions boycotted the 15th meeting of the Round Table (March 16, 2007) when they learned that the BSCI representatives were invited as guests. During this particular meeting no one around the table spoke of the unions' absence, as if this was something normal. The second reason why unions shun the CoC is the fear that pressure to adopt codes would facilitate the use of subcontractors, many of which are already part of a very large informal sector, eroding their membership base. Our subsequent interviews confirmed our initial observations of the tension between the parties connected with the implementation of codes:

> Unionism in Turkey has not yet completed its formation. . . . They [unions] perceive CSR as an alternative to unions and label CSR programs as acts of yellow unionism. They can't see the potential benefits of CSR for unions. On the other hand, employers must understand that such programs cannot be successful without unions. Unilateral initiatives destroy social peace and eventually fail. (Government Officer, Ministry of Labor)

> Unions' requirements are much less sophisticated than the codes. Unions think workers are only concerned about wages. A wrong assumption! I don't believe unions are concerned about workers' rights. In fact, employer associations are more active in promoting the codes than unions. (Manager of Delta)

While unions were reluctantly but consistently involved, contrary to the active role played by the German government in the German Round Table, the Turkish government has been a passive observer of the CoC implementations. Although both government departments invited by the GTZ accepted the invitation to become Round Table members, they rarely participated in the meetings and when they did, the participants were always very cautious when they spoke. There is no evidence of other supportive or complementary efforts by the Turkish government to raise the social standards at the workplace. Similarly we have not come across any evidence that the civil society, NGOs or the media, have shown any interest in the Round Table or CoC. This lack of key institutional support can partially explain the inadequacy of CoC in promoting social dialog.

The BSCI code has clear references to the ILO Core Conventions; however, the monitoring and enforcement system seems to be less than effective. Independent auditors were heavily criticized by the unions. For example during the fifth meeting of the Round Table, a presentation on the monitoring results of supplier firms provoked a heated discussion. Union representatives voiced their doubts about the monitoring results given that the results show no problems with respect to the freedom of association when there is almost no such freedom (Minutes, December 9, 2004). A similar concern about the adequacy of monitoring was also expressed in an interview with a TEKSTIL-IS union representative:

> Buyer firms try to get away with minor touch ups in response to complaints about a supplier's social standards if that supplier is irreplaceable. However, if the complaint is about a low-quality, high-price supplier with poor delivery performance then they use the low social standards as a pretext for immediately abolishing their contract. In addition, when we call the unit responsible for CoC monitoring we get a delayed response. They stall for two weeks. None of these people lift a finger before they call their bosses in the US. Those who are diffusing CoC are not doing their job properly. For example, 12 people were fired from a workplace because they became union members. We called the office to let them know, but before they responded to us the number of those who were fired increased to 35. During this time, the CoC office told us to write a report in English. These people act just as buyers. If the product is good they ignore the shortcomings [in social standards].

It was clear that despite the assumed merits of independent audits such as objectivity, accumulation of expertise and focus, there are issues when it comes to auditing the provisions related to freedom of association. The BSCI's project coordinator, who was invited to a Round Table meeting, confirmed that the current audit system is ineffective in addressing violations of freedom of association (Minutes, March 16, 2007). Auditors who have participated in Round Table meetings also noted that the competition between the auditors, cost concerns and lack of continuity limit the quality of independent audits in general.

The 'flexibility' of the model which leaves it to the buyers to react in the manner they see appropriate to failures of compliance with the code was frequently criticized by employers associations as well:

> Can your [BSCI's] members commit to continuing orders or long-term contracts to our members if they comply with the code? Do your members stop working with those suppliers who don't comply? No. Do you penalize your members if they continue ordering from substandard suppliers? No. (ITKIB questioning BSCI representative at a Round Table meeting)

In summary, we observed that the CoC were not effective in ensuring freedom of association due to lack of commitment from key stakeholders, ineffective audit systems and lack of incentives or sanctions, with the notable absence of government involvement:

> I am surprised by the lack of attention from the Ministry of Labor to the Round Table meetings. The garment sector is the biggest employer in Turkey which mandates that the ministry should be present here. If the current issues are not resolved, the sector will face bigger problems in the future. (H.-D. Koeppe, FTA advisor, Minutes, March 16, 2007)

Strategies and Tactics Used by Supplier Firms

It was clear from our observations that the majority of supplier firms which enter the social standards discourse enter it involuntarily, in response to demands made by transnational buyers, and thereafter utilize a variety of tactics to cushion themselves from what they saw as interventions of monitoring agencies, buyers and unions. The cautious stance of unions toward CoC coupled with their strategy of targeting supplier firms with CoC increases the defensiveness of suppliers. Some suppliers complain about the aggressive attempts to organize in their workplace. In one instance, a number of supplier firms participating in the Joint Initiative on Corporate Accountability and Workers' Rights (Jo-In) project in Turkey, provided escalating union pressure following a Jo-In meeting as the reason for doubting the value of further participation in the project (Jo-In Interim Report, May 2007). In fact, a number of managers reportedly stated that they prefer to deal with unions through the legal system rather than to bind themselves with CoC. In an interview with an owner–manager of a supplier (Delta) which 'successfully' implemented CoC, we were told that they were avoiding unions at all costs.

Suppliers argue that brands are not playing fair as they increasingly demand lower prices and at the same time ask them to provide a living wage to workers. These conflicting demands are especially hard to answer, given the unfair competition from informal sector suppliers as well as suppliers from lower-cost countries. Unofficial statistics suggest that unregistered workers on average take home less than half the wage (including benefits and bonuses but excluding overtime) of registered workers and about one-third of the wage (including benefits and bonuses but excluding overtime) of unionized workers (Jo-In Briefing Paper No. 2, 2005). Similar unfair discrepancies are reported with respect to overtime hours and overtime pay in comparison with other countries (Jo-In Briefing Paper No. 3, 2005).

The meaning and hence the Turkish translation of freedom of 'association' have been debated. Freedom of association was one of three standards 'where there is no consensus about their interpretation or where not enough is known about their implementation' (Jo-In Report, 2005, p. 3). The problem of its interpretation was also brought up in the Round Table. A union representative from TEKSTIL recommended a workshop that would potentially help different stakeholders to reach a consensus on its meaning. In an interview he stated that his recommendation was partly based on the irregularities in the various translations of the concept by the supplier firms in an attempt to water down the essence of the principle. We were told in interviews that the firms strongly oppose using the correct translation of the term. Some translations imply non-statutory informal gatherings. It is possible that the correct term '*örgüt*' is avoided because of its use in association with militant political organizations and outlawed organizations (that is, *terör örgütü*) in the media. Another possibility, which is voiced by the union representatives, is that the term is intentionally mistranslated by some of the suppliers to avoid legitimizing unions. This suggests the use of a manipulation strategy by the suppliers.[17]

The ILO's president of the Turkish branch, Gülay Aslantepe, reported that almost all complaints made to the ILO with respect to social standards were about freedom of association. At the 13th meeting of the Round Table, she argued that because employers believe that unions drive wages up and in the long run cause plant shutdowns, they promote the notion of a negative right, 'the right not to be a union member'. In the same meeting, Professor Ayşe Buğra, a researcher on social policies, argued that the primary reason for union avoidance is probably not only the fear of wage increases but is also to keep full control of the workplace: 'The complaint that union in the workplace implies two-headedness is voiced by many employers'. We found her argument valid at least in some cases: 'Unionization had only a marginal effect on our costs since we work in full compliance with laws' (Manager, Beta).

Just as suppliers are selective in implementing the provisions of the code, buyers are no different. Two groups of auditors independently estimated that, despite the inclusion of a freedom of association clause in most CoC, only 10–15 percent of branded companies pay any real attention to this topic in their social audits (ILO and Jo-In Report, 2005). According to these auditors, even in audits when freedom of association receives attention, questions regarding the unions' access to the workplace are directed solely to the managers. It is suggested that the issue of freedom of association is not to a priority for many auditors and it is not considered to be a factor in their pass/fail decisions at the end of audits.

There were some examples to the contrary, where auditors more concerned with freedom of association conducted detailed interviews and training sessions with managers and employees. However, the issue usually came to the forefront only when there were specific complaints or evidence about discrimination against employees who seek union affiliation. This suggests that a compromise is reached between suppliers who adopt CoC, auditors who are looking for work from branded companies, and branded companies that turn a blind eye to subtle violations of the freedom of association.

Another compromise involves equating workplace representation with union representation. Branded companies reportedly consider the issue of freedom of association as part of a broader issue of social dialog between the employers and their workers. In AVE's social audit questionnaire (2003) prepared by a consulting company, the issue of freedom of association and collective bargaining is covered in eight questions. Only one of these questions, the first one, deals directly with freedom of association. The following three deal with the existence of a workers' organization (question 2), the existence of a union (question 3) and the ability of a workers' organization or the union officials to communicate freely with their members inside the workplace (question 4). Other questions deal with collective bargaining rights, alternative mechanisms to compensate for the deficiencies in the legal frameworks, grievance mechanisms and worker actions. Hence, auditors generally check to see if there are ways in which workers can voice their concerns such as suggestion boxes and grievance mechanisms as manifestations of freedom of association. For example, in a website belonging to a major supplier who boasts about producing for brand names such as Tommy Hilfiger, Puma, Nike and Adidas, and about receiving the 'Best Social Compliance' award from Nike, the term 'workers' organizations' is used to refer to the use of workplace representatives appointed by the employer (www.imteks.com.tr/ifc.htm). Managers of supplier firms with such representation mechanisms argue that they do not need agents (unions) since their workers can directly communicate with them. Our interviews, however, with 'human resource managers' and workplace representatives, the two parties in this dialog, suggest that the content of this communication does not usually go beyond simple problems in the workplace, such as the size or taste of meals or personal conflicts between workers themselves: 'We always get what we want. For example, we wanted fruit instead of dessert, and food packages during Ramadan. Our boss agreed . . . We don't talk about wages in those meetings' (Worker, Gamma).[18]

It is unrealistic to expect that these mechanisms can address and resolve more critical issues, such as wages, benefits and job security. Despite some positive examples of the use of workplace representation summarized later in this chapter, they clearly do not provide voice to the extent possible via union representation and they are inherently insecure as they depend on the employer's willingness to maintain and support them (see Hammer, 2000).

The use of subcontractors can be considered an avoidance strategy of the suppliers. Many of these 'business partners', which at times carry half of the production load of the suppliers, are in the informal sector. It is clear that the low price that these subcontractors can give to the supplier in addition to their ability to work on small orders with high speed and flexibility are essential for their survival. A union representative from TEKSTIL-IS commented:

> I always tell the buyer firms not to give small orders. According to the Association of Subcontractors, there are about 40–45 thousand ateliers. If each employs 20 workers, it adds up to 800,000 workers. . . . It is very difficult to keep track of restructuring going on in the sector. Every day we hear about factories moving, companies closing and opening up somewhere else.

Another way in which suppliers use the avoidance and manipulation strategies is by choosing their own auditors. In the 15th Round Table meeting (March 16, 2007) where BSCI representatives presented their code and its implementation, the ITKIB representatives persistently asked if the suppliers would be able to select the auditors. The answer from the BSCI was positive. This interest in auditor selection is interpreted as a way of ensuring a good report from audits by securing the help of sympathetic auditors.

Such manipulation through the use of trusted third parties is also used by a supplier who decided to allow the union in its workplace in the face of buyer pressures. Two different local unions were invited to two different plants.[19] Next, in order to avoid the involvement of the local branch of the union, which had unsuccessfully attempted to intervene despite objections from the management and was therefore considered to be aggressive, they made arrangements for a union branch from a distant city to unionize one of the plants. The choice of branch was based on the social networks of the human resources director (that is, the branch president was a worker he had recruited in a previous employment).

In sum, our observations, interviews and archival information corroborate that suppliers use a number of strategies and tactics to cushion the unwanted effects of CoC. This was especially true with respect to freedom of association as well as wages and work hours. In fact, some of the other provisions such as that against using child labor were religiously complied with.

Incentives and Institutional Environment

Two major reasons were obvious in all interviews for employers' avoidance of unions: economic and cultural. Our interviews with employer organizations focused on understanding the expected consequences resulting from the implementation of CoC, particularly relating to freedom of association. We were given a uniform response: businesses were under a lot of economic pressure which made it impossible to accept the additional costs and complications that unions would bring:

> 1,000 companies relocated to lower-cost countries like Turkmenistan, Azerbaijan and Bulgaria, leaving 150,000 unemployed workers behind. (President of TGSD)

Government representatives confirmed that the unions would pose a threat because of their potential role in preventing informality in the workplace:

> The demands of the branded companies raised the cost of employment to a very high level. The wage that was agreed in collective bargaining was 700–750 YTL. The employer will not pay this legally. For many employers informality is the only way. The factories are looking for illegal immigrants; you see a lot of ads written in the Cyrillic alphabet. (Government Officer, Ministry of Labor)[20]

Having been forced to implement the CoC, the supplier firms had no intention of pressurizing their own subcontractors to comply with even the minimal legal requirements. Anecdotal evidence suggests that most supplier firms outsource about 40 to 50 percent of their production at various stages to substandard contractors. In some cases, subcontractors are affiliated with the main supplier through common or related ownership. It seems that structuring the business as a pyramid or network of firms with varying degrees of legality under common or related ownership is common. Such structuring allows the owners to spin off parts of the 'proper' business to less costly substandard operations:

> The main impact of implementing a CoC is on reducing informality both in employment and in trade. This is a problem for employers; you open your market, goods keep coming in and our firms have to compete with the manufacturers whose social standards nobody knows anything about. Naturally [Turkish suppliers] run away from CoC. (Government Officer, Ministry of Labor)

The distant stance of government and lack of genuine concern for sector-wide informality suggests that the government feels unable to ensure a civil climate for the development of social dialog in the sector. In fact, a report prepared for the European Foundation for the Improvement of Living and Working Conditions (Oke, 2006) suggests that although some positive developments in social dialog have been observed in Turkey, starting with the establishment of the Economic and Social Council (ESC) in 1995, this body until now has been a target of complaints and skepticism in terms of its functionality and representation. The ESC is mainly criticized on the basis that it convenes only when the government seeks the support of social partners and that its function is purely consultative (Dereli, 2004).

We observed a different stand in Omega and to a certain extent in Beta, both of which have voluntarily adopted proprietary codes. They were concerned about protecting their brand names' reputation.

> Economic conditions are harsh, but they cannot be overcome by stealing from workers' human rights. The problem is the government. Employers turn to informality instead of pressurizing government for fair play. (Manager, Omega)

> We started auditing our own subcontractors and demanding that they meet certain standards. We will raise the bar slowly. (Manager, Beta)

The possibility of a descent into informality is perceived as the biggest threat by workers when considering unionization (Bugra et al., 2007). Our interviews with workers of arguably the 'best implementers' in which unions were avoided provide ample evidence that lack of judicial protection and fear of unemployment is a real obstacle to unionization. In addition to difficulties inherent in the law, the ideological background raises barriers to freedom of association in Turkey. Turkey's recent economic recovery is generally attributed to adoption of liberal policies which have no role for trade unions. The 'greater good' of economic development justifies lower wages, increasing income disparity and high unemployment (average 11 percent, but over 30 percent in some areas) further weakening the structural power of unions. Unionists are aware of the challenges:

> The employers do not see the unions as stakeholders. Social dialog doesn't exist in the slightest sense. When there is no tradition of consensus building and dialog, power struggle and demonstration of power shapes the nature of the interaction between the parties. (TEKSIF)

> Workers go to the branded companies when they have a problem with workplace standards not to the unions. Unions have no power. Even they appeal to the branded companies when they think their rights are not respected. (Manager, Delta)

As a strategy, trade unions focus their union drives on those firms with CoC. They attempt to obtain lists of those firms adopting codes, assuming that these firms have in principle accepted their workers' freedom of association. This strategy is criticized by employers who argue that unions ignore millions of unregistered workers to focus on a smaller number who are already much better off socially thanks to CoC:

> Why don't the trade unions focus on developing solutions for informal workers if they represent the interests of the working class? For example, we cannot officially employ home workers due to the safety criteria required by the codes. They are, therefore, a part of the informal sector. They want to be close to home, they want to have time for their children. We need to get women out of their homes but also address their demands. Unions can come up with creative solutions to overcome the obstacles. (President of TGSD)

On the one hand, unions run into bureaucratic problems in organizing in the informal sector:

> To register a worker as a union member, the law requires that we need to write his social security registration number as well as the registration number of his workplace on his union card which should be approved by the notary. This law is limiting. Of course, firms operating in the informal sector do not have registration numbers just as their workers do not have social security numbers. If we fill a union card for these workers and send it to the ministry they throw this card into the garbage can instead of investigating the unregistered firm. (Interview with TEKSTIL-IS representative)

On the other hand, unions' strategy of organizing firms with CoC has not worked so far:

> In general our strategy has not been successful yet. In fact, it is harder to organize a firm with a CoC. Workers currently think only about economic terms . . . In Turkey, workers' rights and even human rights are issues that workers unfortunately have not learned about and defended enough after the 1980s.

In summary, we conclude that the harsh economic and competitive conditions, combined with high informality and corrupt practices in the absence of political will to reduce informality, will create disincentives for supplier firms to root the standards firmly in their operations.

Legacies and Culture in Play

Prior cross-cultural studies (Hofstede, 1980, 2001) indicate that Turkish national culture strongly emphasizes uncertainty avoidance (ranks 16–17 among 50 countries), and power distance (ranks 18–19 among 50 countries).[21] We expected that these cultural value emphases will exacerbate employers' resistance to unions and workers' unwillingness to engage in union activities.

Emphases on power distance and the related system of paternalism were most evident in our observations. Employer organizations were more reluctant to attend the Round Tables when they were hosted by trade unions, fearing that this may indicate 'equal standing'. The salaried representatives of employer organizations frequently complained about the difficulty of convincing their board members to meet with the trade unions:

> We need to bring them [employers and union leaders] together socially. If they meet outside their formal roles, the employers may understand that the union leaders of today are not the trouble makers of yesterday and accept engaging with them.

Age seniority is also a source of power in Turkish society. When the retiring leader of a union was replaced by a much younger, smartly dressed man, Mr Narin[22] is quoted as asking whether he is expected to 'sit around the table with boys?'.

Owners see the presence of unions as a threat to their power. In their view, sharing power with workers' representatives disturbs the peace in the workplace. In one particular case, the employer who dismissed workers who became union members has stated the reason for dismissal as 'union activities' on official documents although such dismissal is clearly illegal. This demonstrates the mental conditioning of the employers with regard to unions. In fact, suppliers were openly warned that unionization is a possible cost of adopting social standards in a training manual prepared by an employer organization for training Turkish suppliers in social standards. Some owner–managers were quite vocal about their resistance to trade unions:

> My workers have everything they need. What else can unions give them, but disruption of the harmony we have achieved in the workplace? The unions always try to prove their power. For example, they instruct the workers not to work overtime although the workers need the extra money. If my workers want to be unionized I cannot stop them, but I don't think they will. I give more to my workers than any trade union ever achieved in a collective bargaining agreement in this sector. (Owner, Delta)

In one case, management avoided unionization by taking control of the organizing activities; he gathered the workers together and asked them to vote openly for or against unions. In the presence of their employer, the majority voted against the union. The firm later faced a negative campaign from the local union and pressure from a number of branded companies, particularly Otto, to allow unionization activities. In response, the management decided to allow the union to become involved:

> We once again gathered the workers in the cafeteria. We explained that many buyers see not having a union in the workplace as a deficiency and therefore we will be unionized. (Manager, Beta)

The management negotiated a lower union fee on behalf of the workers and paid the notary fees through a one-time family assistance bonus. This not only decreased any financial concerns workers that might have had at the time, but also lowered the chance that they might expect the union to have an active presence in the future. In exchange for loyalty, the bosses demonstrate highly benevolent behavior not only with respect to work-related issues but also personal issues:

> If our workers need money, we lend them money or show them as laid off and then re-employ them so that they can use their accumulated pension reserves (severance pay) . . . They learned to eat less bread, and more vegetables. The bread consumption has halved since we started. . . . If you treat your employees as human beings, they give back loyalty and respect. (Owner, Delta)

> If a boss does not give, then there would be a need for a third party. A couple of years ago, we asked ourselves what more we can give to our workers. We decided to give a bonus as a gift for those who get married and have children. We pay an amount equal to the price of a wedding gown to those who get married. This was an unheard of practice. (HR manager, Gamma)

When the patrons appear to be paternal or benevolent, the feeling of indebtedness and loyalty increases. A workplace representative in a plant which implemented the CoC suggested that the loyalty was related to their gratitude and the family atmosphere in the workplace:

> The implementation of the CoC affected our culture considerably. The factory is like a family. Friendships are very strong . . . The harmony and order at the factory changed our family lives. We don't fight with our spouses any more. We learned how to negotiate without getting aggressive. (Worker, Gamma)

Most workers in the non-union workplaces also consider unionization as an act of disloyalty. They fear that inviting a union to become involved would result in undesired conflicts in labor relations and a disruption of the status quo. Employees' comments confirm the role of high-power distance and uncertainty avoidance that define the societal values in Turkey:

> We can't be against a workplace that fed us all these years. Organizing would mean division. Workers in other workplaces don't want to unionize out of fear that they might get fired. In here we don't want unionization because we have what we need. There are workplaces where unions set up a protest over trivial matters. In 1980 workers went on strike in a workplace because they wanted chicken instead of turkey for meals. (Worker, Gamma)[23]

In this setting, implementation of CoC makes it difficult for unions to become involved, reducing their perceived and real utility:

> When we introduced benefits for maternity and allowances for marriages, a friend of mine who is a union leader called me: 'What do you think you are doing?', he asked, 'how are we going to convince the workers to become union members now?'. (Manager, Beta)

Despite these demonstrations of 'caring for the employees', union representatives suggest that the employers want full power over employees and do not care about their human rights when there is a conflict with profits:

> When an urgent order comes in, some employers tell workers to do overtime regardless of the workers' family circumstances. If it is a unionized place, employers have to follow the law and ask the workers' consent. We usually negotiate with the employer to give a one-day advance warning of overtime. This is not a power issue for us; it is simply a human rights issue. We appreciate the employers' need for flexibility. In fact, when the employer needs overtime work and provides advance warning we make sure that workers understand the need and help plan the shift. Employers see workers as machines. For example, in [a non-unionized workplace] a woman was about to leave the plant at the end of the day. The security guards asked her to get out of the bus and come back. She told them she did not want to do overtime, but they forced her out of the bus. She came back crying; she was supposed to pick up her daughter from a bus stop on the way to their house. The manager sent someone to pick up her daughter but she wasn't there. Hours later a call came from another worker from the service bus who had picked up her daughter from the bus stop. But all this time she was worried sick about her daughter. These kinds of things happen all the time. We tell workers that freedom from such pressures is a human right. They just need to understand that only by organizing themselves can they have a mechanism to make their voice heard and to uphold their rights as workers and human beings. (TEKSTIL-IS representative)

Similarly, auditors taking part in a joint ILO and Jo-In workshop cited cases where workers are relocated to jobs in poorer conditions when they want to be unionized. There are also examples of groups of workers being laid off as a result of becoming a union member (interview with TEKSTIL-IS representative). These actions indicate that employers do not hesitate to use severe and illegal tactics when workers are considered to be disloyal. Employers ask and expect full loyalty from their workers in exchange for the privilege of a job. These behaviors and expectations are typical of paternalistic systems where an authority figure supplies the needs or regulates the conduct of those under its control. Workers fear that unions would bring more trouble than gain in this setting. They cite rumors of plant shutdowns or relocations as a result of unionization. Fear of reprisal by the employer and loss of employment is commonly voiced by the workers.

Further Observations

We have observed that work councils in workplaces where there are no unions benefit the employers:

> We can now turn our backs on our employees without fear. We were initially against the works councils, but we can't think of doing without them anymore. Our scrap levels went down drastically, productivity increased . . . . We use 'fish bone' methodology to solve production problems . . . . Our workers designed an original tool that completely eliminated the problems caused by the new machinery we imported . . . . We know that education is investment. We organize training sessions during work hours on any subject that our workers are interested in such as 'bird flu'. We want them to be free of worries so that they can focus on their work. (Manager, Gamma)

> Now we produce 15,000 items in our factory. We started with 10,000. We owe it to our workers' dedication. (Manager, Delta)

Although CoC made it more difficult for unions to enter a workplace and also marginalized the utility of unions, we were able to observe that an institutional dialog between employers and unions may work for both parties once union activities are authorized in a workplace:

> Once we sat around the table, we had a very smooth collective bargaining process. The only problem was that we wanted all the workers to benefit from collective agreement, not only those who were members. At first, the union [was] opposed to it, but our code prohibited us from discriminating workers on any basis. Eventually we solved the problem by setting up a joint education fund, equal in size to the amount of membership fees, for the benefit of union members . . . . I think the union leaders are as concerned about the continuity of our business as we are. When we need to work overtime, I just inform the union instead of talking to every shift; they organize it for us. My job is much easier now. Of course the threat from low-cost countries is always there, but it can't justify human rights violations . . . Our CoC changed our mentality. (Manager, Omega)

> We no longer fear any uncertainty that unionization may introduce in the future now that we have a union. Our clients also know that we have a stable business. (Manager, Beta)

> Unions are much more cooperative nowadays; leaders of past legacies are finally retiring, being replaced by young leaders who believe in compromise. Our boss says 'the success of the union is my success'. (Manager, Beta)

SUMMARY AND CONCLUSIONS

Codes are meant to apply to companies as a supplement to not as a replacement for state laws and regulations. The ILO standards which provide the normative basis for the contents of the CoC put obligations on signatory governments to include the conventions in a country's legal framework. Transposing the government responsibility to the business with respect to elimination of forced labor, minimum age, child labor, discrimination and equal remuneration seem to be less of an issue since observation of these rights can be easily monitored, observed and brought to the spotlight with the support of existing laws. In the case of freedom of association and the right to collective bargaining, this transposition seems to be problematic. As explained before, the judicial framework for industrial relations in Turkey is prohibitive and restrictive with respect to freedom of association and collective bargaining. Both of these issues go beyond improving the working conditions at the workplace to the heart of power relations. The legal barriers for exercising the freedom of association and collective bargaining make it easier for employers to avoid unionization. As we summarize below, CoC are ineffective in these areas:

1. Suppliers implement codes selectively; use various tactics to avoid unionization; make explicit or implicit threats to workers who seek union affiliation; and exploit workers' feelings of loyalty.
2. Independent audit systems are not effective in auditing the implementation of standards related to freedom of association and collective bargaining.
3. In the presence of a CoC, convincing the workers to give up their association rights is easier since CoC improves workers' conditions and decreases the utility of unions.
4. Owners'/management's long-held assumptions and beliefs about unions also play a role in opting for avoidance or acceptance. The cultural values and institutional background of the developing country seem to be important in the adoption and implementation of the CoC. When they directly contradict the values underlying the CoC, as in the case of Turkey, diffusion and internalization of the CoC become harder.
5. When unionization cannot be avoided, some suppliers increase the level of subcontracting and turn to informality. Government's

reluctance to eliminate informality and the lack of transparency in the supply chain makes it difficult to reverse this trend and root the standards firmly in the sector.

6. CoC do shift the power to the management in setting and enforcing social standards, further marginalizing the scope and depth of issues that trade unions can influence. The unions still play a positive role in the presence of CoC, but the benefits accrue to the employers more than to the workers except in the matter of resolving minor employee problems.
7. Although implementation of CoC improves the quality of life of the workers, the sustainability of these improvements may be questioned when the standards are not legally protected with a collective agreement.

As such, in the Turkish context, despite its positive role in improving the quality of life of workers in selected workplaces, CoC have two unintended consequences: increased informality and marginalization of unions. The second one is particularly important since the development of a complete industrial relations framework which would protect workers' rights in the long run and which would effectively include the freedom of association and the right to collective bargaining cannot be achieved without strong unions.

We believe that the promotion of CSR and 'voluntarism' may undermine the need to complete the legal framework that governs industrial relations. This outlook confirms Hiß's (2004) skepticism expressed in her case study of the BSCI initiative in which she drew attention to the fact that social standards were less a part of the wider societal rules, values and norms of the societies in developing countries, making it difficult for initiatives like Round Tables to reduce the gap between the structural power of workers and that of their employers.

Despite the difficulties, multi-stakeholder initiatives such as the Social Standards Round Table have the potential to play a crucial role in overcoming the shortcomings of private regulations. As such we find the Round Table concept to be innovative and credible. The Turkish experience could have had more success if the focus shifted to: (i) pressurizing the government to be actively involved; (ii) building trust between the member institutions; and (iii) building societal support to tripartite dialog. A Round Table project to improve the effectiveness of audit methodology in addressing the implementation of the standards related to freedom of association and collective bargaining could be the starting point to build trust.

We do not take the absolutist position that labor rights should be applied without attention to their economics, but argue that for fast-growing developing countries, the effects of higher labor standards are easily exceeded by the increase in productivity and competitiveness, as demonstrated in the experience of Asian countries during the past 20 years. Although we do not have any statistical evidence, our limited observations demonstrate that all parties – government, workers and employers – seem to benefit from an institutional dialog at the workplace. The Round Table can undertake further research in analyzing the economic impact of unionization on the firms and the competitiveness of the sector, disseminate case studies of successful social dialog examples, facilitate management education, organize panels, conferences, workshops, and most importantly engage the thought leaders and decision makers of social parties in the debate.

Why do the employers of firms that have accepted that they will implement CoC fear unions if union presence is likely to be of benefit? The answer may be found in the following words of a unionized worker:

> We feel much more confident and strong now. We know that the union will back us up if needed. We are not alone; we have a sounding board, we can consult with our leaders. . . . We meet with representatives from other factories in the union. We help each other to find solutions and learn from each other. This is a completely different feeling of belonging.

At the core of the fear probably lies the potential role that unions can play in representing the aggregate interests of workers at the national level as an economic and political agent and redressing the power imbalance between workers and corporations developed during the last 25 years thanks to neo-liberal policies and stand-by agreements. Turkey's economic recovery and the prospects of EU accession more than justify a view of the workplace as a key locus for a participatory form of democracy to evolve.

KEY LEARNING POINTS

Even though imposing the adoption of a CoC upon the suppliers may be considered as an act of social responsibility for the transnational buyers and retailers, the suppliers in developing countries adopt CoC in response to buyer pressure and as a matter of economic necessity for receiving orders. These circumstances lead to (i) decoupled and unsustainable practices, unless these improvements are protected by law and reinforced by legally binding collective agreements, and (ii) unintended consequences such as a push to formality and marginalization of unions – further weakening the chances for sustainable improvements in social standards. The case study demonstrates that the context in which business operates affects both the business behavior and the society's and government's expectations from business, and provides lessons for pressure groups and transnational companies for better understanding the key issues in implementing CoC in a developing country context where the freedom of association is not fully established and unions are already marginalized.

Key features are:

1. the context in which diffusion of CSR practices take place in developing countries;
2. the interplay between CoC and industrial relations systems;
3. the limitations of voluntary approaches in improving and rooting social standards in weak institutional settings; and
4. the ceremonial adoption of CoC.

DISCUSSION QUESTIONS

The case study aims to provoke a discussion on the following key question in addition to exploring the effect of CoC on the role of unions in developing countries: under what conditions can voluntarism and non-governmental (private) regulations work? More specifically:

1. Does the diffusion of CoC marginalize the role of workplace unions even when the CoC explicitly refer to the freedom of association and collective bargaining?
2. How does the CSR discourse affect the interpretation of CoC in countries where law enforcement is weak and informality is used as a basis of competitive advantage?
3. What role do the institutional environment and culture play in selective implementation of the CoC?
4. What kind of policies are needed for the effective implementation of CoC and enhancement of social standards?
5. What role can public–private partnership initiatives play in the implementation of CoC and enhancement of social standards?
6. What are the implications of the case for trade unions, branded companies and multi-sector initiatives which aim to improve the social standards in a workplace in a sustainable way?

NOTES

1. In this chapter, CoC are a set of standards concerning both labor practices and labor relations. We exclude standards addressing other issues such as the environment,

consumer rights, product safety, corporate governance, and ethical business practices. We also limit our scope to private codes and exclude the use of the term referring to instruments of governmental or intergovernmental organizations. Our focus is on CoC, adopted by companies which outsource internationally, and which are meant to apply to companies' suppliers and subcontractors regardless of their physical location.

2. Research indicates, however, that the union wage premia are much smaller in the developing world, estimated to be around 5–10 percent (Singh and Zammit, 2004).
3. Historically, freedom of association was the medium through which organizations were permitted to self-regulate. From this pluralistic perspective, collective bargaining is not characterized as a manifestation of governmental regulation, but rather of employers and workers to generate and enforce the norms which govern the workplace and eventually create the law applicable to them (Blackett, 2001).
4. Except for a few northern European countries such as Sweden, Finland, Belgium and Denmark where a Ghent system (a union-managed unemployment scheme) is in place.
5. Working Today is an organization which was originally founded as a broadly based membership organization representing workers, with a special focus on independent workers. It has now evolved into an organization that is striving to fill the lack of representation for professional and white-collar workers.
6. Core Conventions: freedom of association and collective bargaining, elimination of forced labor and compulsory labor, elimination of discrimination in the workplace and elimination of child labor. Engels (2000) reported that codes that refer to ILO conventions were almost exclusively unilateral employer products.
7. Turkey is the world's sixth largest and Europe's largest cotton producer with approximately 4 percent of the world's total cotton production. It has a comparative advantage in natural and synthetic yarn production.
8. According to TISK statistics, 32.8 percent of the workers had 5, 16.6 percent had 8 and 19.3 percent had 11 years of formal education. Only 3.5 percent of the workforce had higher education, and 24.3 percent of the workers had vocational training in high school (TISK Publications, 2005).
9. TEKSIF, founded in 1962, is the Textile, Knitting and Clothing Industry Workers' Union of Turkey and is affiliated with TURK-IS, the Confederation of Trade Unions of Turkey. TEKSTIL-IS, founded in 1965, is the Textile Workers' Union and is affiliated with DISK, the Confederation of Progressive Trade Unions of Turkey. OZIPLIK-IS, founded in 1978, is the Union of Textile, Thread, Knitwear and Garment Workers of Turkey and is affiliated with HAK-IS, the Confederation of True Trade Unions of Turkey. Only these three unions among others have the right to bargain on behalf of their members because of the size of their membership in the sector.
10. Registered workers are included in the social security system and their employers are obliged to pay social security contributions and personal income tax to the state. Not registering a worker is against the employment law. An unregistered worker does not have access to public healthcare services and pension benefits. All trade union members are registered workers, but not all registered workers are union members.
11. In fact, collective bargaining and strikes are legally banned for public workers.
12. See the GTZ website for details.
13. Engels-Zanden and Wahlqvist (2007) in their analysis of the BSCI explain the trend to move from cross-sectoral (multi-stakeholder) partnerships in CSR initiatives to 'post-partnerships' which are open exclusively to corporations, following the failure of previous cross-sectoral European initiatives. Most of these initiatives failed either due to the conflicts between corporations and unions or, and more often, due to the conflicts between unions and NGOs. The Swedish Clean Clothes campaign known as 'Dress Code' has collapsed as a result of withdrawal of union support from the project (Egels-Zanden and Hyllman, 2006).
14. GTZ (Deutsch Gesselschaft für Technische Zusammanarbeit) is an international cooperation enterprise for sustainable development with worldwide operations.

15. One of the moderators is the first author of this chapter. The second author has also been an observer in a number of meetings.
16. The Joint Initiative is another initiative, similar to the Round Table, which brings key stakeholders together in the 'global effort to improve working conditions in global supply chains'. Jo-In believe that 'codes of conduct can only make an effective and credible contribution to this effort, if their implementation involves a broad range of stakeholders, including governments, trade unions, employers' associations and civil society'.
17. It is worth noting that the Round Table was seriously involved in 'finding a word' which would replace '*örgüt*' so that employers would not become irritated when they read the Code.
18. See the minutes of a typical meeting in Appendix 10A2.
19. Interviews with union stewards in one of the plants suggested that they had no contact with the other plant and did not know whether employment practices differed between the two plants.
20. In fact, the average wage achieved in collective bargaining in the sector is said to be marginally higher than the minimum wage, confirming that the effect of unionization is primarily to reduce informality in the workplace. YTL recently changed to TLR (Turkish Lira).
21. In the uncertainty avoidance index (UAI) Turkey's score is similar to other Mediterranean countries (Greece, Spain, Portugal, France and Italy) and different from Anglo-Saxon (Britain, US, Canada, Australia) and Nordic (Sweden, Denmark, Norway) countries. Germanic countries (Germany, Austria, Switzerland and Netherlands) rank somewhere in the middle in uncertainty avoidance scores. Power-distance scores and rankings resemble the uncertainty avoidance scores except that Germanic countries also rank low in power distance similar to Anglo-Saxon and Nordic countries (Hofstede, 1980, 2001).
22. President of the Textile Employers' Union.
23. The worker who mentioned the strike caused by a disagreement over the meals was probably only a small child in 1980.

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APPENDIX 10A1 MEMBERS OF THE TURKISH ROUND TABLE

Government Representatives

- Ministry of Labor and Social Security
- DTM (Undersecretary of Foreign Trade, DG for Export, Dep. of Textiles and RMG)

Trade Unions

- OZIPLIK-IS (Trade Union, Member of HAK-IS)
- TEKSIF (Textile, Knitting and Clothing Industry Workers' Union of Turkey, member of TURK-IS)
- TEKSTIL-IS (Trade Union, member of DISK)

Employer Organizations

- ITKIB (Istanbul Textile and Garments Exporters' Union)
- TGSD (Turkish Clothing Manufacturers' Association)
- TUTSIS (Turkish Textile Employers' Association)
- TARGEV (Textile, Clothing, Leather Industries, Technology and Design Research and Development Foundation of Turkey)

Chambers

- TOBB (Union of Chambers and Commodity Exchanges of Turkey)
- Istanbul Chamber of Industry

International Agencies

- ILO (International Labor Organization) Ankara Office

NGOs

- Consumers' Union
- TUTKODER (Association for the Protection of Consumers)
- KSSD (CSR Association)

APPENDIX 10A2 MINUTES OF A MEETING BETWEEN THE WORKS COUNCIL AND EMPLOYER REPRESENTATIVES

Minutes of the Meeting, August 28, 2006

Workers' Representative	We would like food baskets for Ramadan.
Employer's Representative	We will discuss this matter at the board meeting.
Workers' Representative	We want to work on August 30, 2006 – an official holiday – instead of Monday August 4, 2006.
Employer's Representative	If all employees agree, we can do that.
Workers' Representative	The clocks on the shop floor don't work.
Employer's Representative	We will arrange to get them repaired.
Workers' Representative	We would like tea and coffee machines in the cafeteria and more fruit on the menu.
Employer's Representative	We will talk to the catering firm.

Workers' Representatives	*Employer's Representatives*
[6 names and their signatures]	Production Manager [Name and signature] Human Resources Manager [Name and signature]

11. CSR in Islamic financial institutions in the Middle East

Samy Nathan and Chris Pierce

INTRODUCTION

Islamic financial activity commenced in the Middle East relatively recently. Arguably the first bank in the region to be founded on Islamic principles was the Arab Bank of Palestine in 1930. In 1963, the first Islamic bank was established in Egypt followed by small banks in Egypt as well as in Saudi Arabia. Currently, there are more than 300 Islamic financial institutions (IFIs) in over 50 countries around the world and over 250 mutual funds that comply with Islamic principles (Solé 2007).

Islamic assets account for less than 1 percent of the world's total banking assets (Pace 2007). However, this sector of banking is currently growing at over 20 percent per annum. McKinsey, the consultancy firm, have identified that Islamic banking assets and assets under management in 2006 were approximately US$750 billion and have forecast that they are expected to exceed US$1 trillion by 2010. This exceptional growth has been caused by:

1. *New banks entering the market* For example, new Islamic banks that have recently been launched include the Inmaa Bank (Saudi Arabia), the Al Hilal Bank (UAE), the Al-Noor Islamic Bank (UAE), the Al Masraf Bank (Bahrain) and the Global Banking Corporation (Bahrain).
2. *Conventional Western banks converting to Islamic banks* Recent conversions include the Al Jazira Bank (Saudi Arabia), the National Commercial Bank (Saudi Arabia) and the Kuwait Real Estate Bank (Kuwait). In Indonesia, Panin Bank has converted Bank Harfa to an Islamic bank after acquisitions. Also, BRI has acquired Bank Jasa Arta to convert it to an Islamic bank.
3. *Conventional Western banks establishing 'Islamic windows'* These 'Islamic windows' in conventional Western banks provide Shari'ah-compliant products. HSBC (Indonesia) has set up a new Shari'ah unit

in Jakarta. OSK Investment Bank (Malaysia) has begun to conduct Islamic business.

4. *Increased cross-border transactions* Many banks have increased their cross-border activities. For example, in Bahrain, the Al-Baraka Banking Group (ABG) has recently acquired a license to operate a new subsidiary in Syria. Also, Bahrain-based International Investment Bank bought a 49 percent stake in Azerbaijan's Amrahbank to convert it to an Islamic bank. In Saudi Arabia, the NCB recently acquired 60 percent of Turkiye Finans in Turkey and Al Rajhi has launched operations in Malaysia. In the UAE, the Emirates Global Islamic Bank has recently commenced operations in Pakistan.
5. *The issuing of Sovereign Islamic Bonds* The issuing of Sovereign Islamic Bonds (SIBs) has grown substantially in recent years. In 2005, SIB issues were US$12 billion and by 2007 this had grown to US$39 billion. This phenomenal growth prompted new countries to issue SIBs such as the UK, Thailand and Japan. Moreover, the convertible *sukuk* have grown rapidly to contribute to the overall growth of SIBs.

Countries in the Middle East and North Africa (MENA) region are at different stages of development. Table 11.1 classifies the MENA countries into those that are developing IFIs, those that have established IFIs, those

Table 11.1 Stage of development of Islamic finance in the MENA region

Stage of development	Country
Developing Islamic financial institutions	Algeria
	Lebanon
	Oman
	Syria
Established Islamic financial institutions	Morocco
	Palestine
	Qatar
	Tunisia
	Turkey
Established Islamic financial institutions and mutual funds	Egypt
	Iran
	Jordan
	Kuwait
	Saudi Arabia
	UAE
Established Islamic capital market	Bahrain

EXAMPLE OF AN ESTABLISHED ISLAMIC FINANCIAL MARKET: BAHRAIN

Bahrain currently hosts 34 Islamic banks and financial institutions involved in commercial banking, investment banking, offshore banking and fund management. These banks are governed and controlled by the Central Bank of Bahrain (CBB). The CBB ensures that all the rules and regulations are fair to the Western and Islamic banks and that fair competition exists between the banks.

that have established IFIs and mutual funds and those that have an established Islamic capital market.

There are a number of empirical research studies focusing upon corporate governance in IFIs. For instance, Lewis and Algaoud (2001) focused their research upon the strategies and investment policies of Shari'ah Supervisory Boards (SSBs). Gambling and Karim (1991), Banaga et al. (1994) and Baydoun et al. (1997) have all examined the accounting and auditing practices within IFIs. Erol et al. (1990) and Grais and Pellegrini (2006) have focused on transparency and disclosure of market-relevant information by IFIs. Nathan and Ribière (2007) have compared and contrasted conventional Western banking knowledge and wisdom with Islamic banking.

However, there are many areas of research in this field that are under-explored. Corporate social responsibility (CSR) is one such area, although organizations such as the Dubai Centre for Corporate Values (DCCV)

DUBAI CENTRE FOR CORPORATE VALUES (DCCV)

The DCCV was established in June 2006 to disseminate CSR practices in Dubai and the region. In 2006 it produced its first corporate social responsibility and sustainability report on three leading organizations in the Emirates: the Dubai Technology and Media Free Zone (TECOM) Authority, the Dubai Financial Services Authority (DFSA) and the Dubai Airport Free Zone Authority (DAFZA). It has yet to make a report on an Islamic bank. For more information on the CSR in Dubai, visit: www.dccv.ae.

are attempting to disseminate CSR practices in Dubai and the MENA region.

CSR in IFIs has been described by Dusuki and Dar (2005) as providing:

> a framework for the role of business in society, setting standards of behavior to which a company must subscribe to impact society in a positive and productive manner. The emergence of social enterprise, business ethics, environmental practices, a human rights approach to recruitment and employment conditions and investment in the community are examples of such impact.

CSR is relevant to Islamic banks. IFIs are businesses established within the ambit of Islamic Law (Shari'ah) and are expected to be guided by an Islamic view based upon the principles of social justice and well-being derived from divine revelation. Dusuki and Dar have argued:

> Islamic banking system has an in-built dimension that promotes social responsibility, as it resides within a financial trajectory underpinned by the forces of Shari'ah injunctions. These Shari'ah injunctions interweave Islamic financial transactions with genuine concern for ethically and socially responsible activities at the same time as prohibiting involvement in illegal activities or those which are detrimental to social and environmental well-being.

This chapter examines the distinctive features of the Islamic framework, which are not very well understood by the West. In particular, issues associated with the need to comply with Shari'ah principles and the role of the SSBs will be discussed. This will help set the context for the discussion, and examples, of CSR activities in MENA banks in practice.

THE DISTINCTIVE FEATURES OF THE ISLAMIC FRAMEWORK

Many Islamic banking scholars such as Lewis and Algaoud (2001) and Iqbal and Molyneux (2005) have argued that although Islamic banks perform mostly the same functions as conventional Western banks, they do this in distinctly different ways. The main differences arise out of the need to comply with Shari'ah Law and the role of the SSBs which are discussed below.

Compliance with Shari'ah Law

Islamic beliefs provide a framework that determines the relationships between man and God, and between human beings. Shari'ah Law governs all economic and social activities and undertakings of Muslims and is derived from the Qur'an and Sunnah which are the sayings and practices of the Prophet Muhammad (PBUH).

According to Shari'ah Law, the Islamic financial system aims to enhance the economy of the country through the purchasing and selling of physical assets (investment activities), and building the infrastructure.

The framework for Shari'ah Law involves:

- *Fairness* Muslims believe that Allah is the creator and that He owns all heaven and earth and therefore the ownership of resources is only temporary and limited to a human's short life span. As a result, Islam requires that these resources should be acquired honestly, used properly and allocated equitably. Those who own should not act arrogantly towards those who do not own. Muslims are therefore expected to be faithful and trustworthy, not misuse their wealth and treat everyone fairly regardless of race, religion or nationality. The fairness principle requires anyone involved in a transaction to make an informed decision without being misled or cheated. The Holy Qur'an says:

  > Whosoever interveneth in a good cause will have the reward thereof, and whosoever interveneth in an evil cause will bear the consequences. (4:85)

  Islam emphasizes justice and fair dealings in business transactions. All business transactions should be fair to both parties (the buyers and the sellers). The reward for justice has been emphasized by the holy prophet (PBUH) when he promised that the honest merchant would be with the prophets and the martyrs on the day of resurrection.
- *The right to pursue personal economic well-being* Shari'ah Law permits the right to seek economic well-being. However, Islam makes a clear distinction between what is *halal* (lawful and permissible) and what is *haram* (forbidden and undesirable) in pursuit of economic activity. In general terms, Islam forbids all forms of economic activity that are morally or socially injurious. For example, transactions involving alcohol, tobacco, pork-related products, armaments, gambling, pornography and other activities that are deemed to be socially detrimental.
- *The strict and explicit prohibition of* riba *(usury or interest)* Borrowing and lending cash and achieving gain through interest is totally prohibited, because money is considered to be an intermediate commodity that does not have gain in itself. This means that the concept of time value of money cannot be applied in Islamic financial activities.

Shari'ah Law does not permit the charging of any type of interest on using money among Muslims only. In Islam, it is acceptable to charge interest to non-Muslims but paying interest to non-Muslims is forbidden. Islamic banks have developed mechanisms to allow interest income to be replaced with cash flows from productive sources, such as returns from wealth-generating investment activities and operations.

Any transaction performed for speculative purpose is completely forbidden (*gharer*), but accepting necessary business risk due to market changes is allowed.

Commercial insurance on various assets is prohibited because it trades on personal misfortune, however, mutual insurance (*takaful*) is allowed.

- *Risk and profit- and loss-sharing philosophy* Shari'ah Law requires that when profits are distributed, more emphasis is placed on reward for effort rather than reward for merely owning capital. IFIs must share the risk with the investor if losses occur. This type of risk management is normally defined between the two parties by signing contracts before the start of any transaction. These contracts are designed and standardized by the International Islamic Financial Market (IIFM) and act as a hedge against uncertainty.
- *Contractual certainty* The principle of *gharar* (the concept of uncertainty) requires that the seller must own the asset before the exchange of contracts and must inform the buyer about any defect in the asset unless it is trivial. There must be complete transparency between the two parties during the exchange of assets and clear identification of the transfer of ownership. Uncertainties or ambiguities that can lead to disputes may render a contract void under Shari'ah Law.

Figure 11.1 sets out the framework of Shari'ah Law. While some of the above principles and rules are based on clear and explicit rulings of Shari'ah Law, others are derived from Shari'ah Law scholars' interpretations and understanding of the Qur'an. These interpretations can and do differ between Shari'ah Law scholars. Certain contractual terms deemed to be valid under Shari'ah Law by the scholars of one school may not be acceptable to scholars from another school.

An alternative Islamic framework involving faith and belief, practices and activities and moralities and ethics is shown in Figure 11.2.

Islamic financial institutions (IFIs)

IFIs are of particular interest to researchers as *all* IFIs require total compliance with Shari'ah Law as a basis for *all* transactions. They prohibit interest and limit the channels of investments to specific activities.

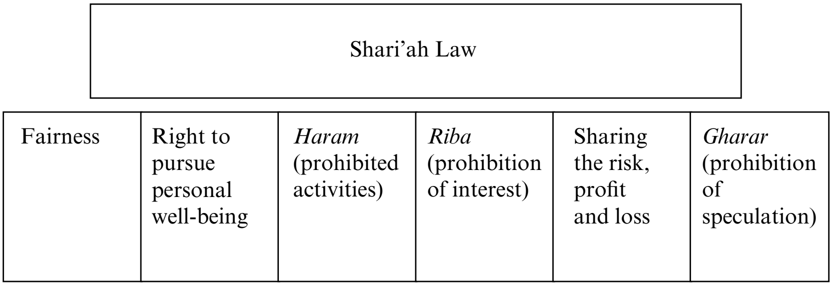

Figure 11.1 The framework for Shari'ah Law

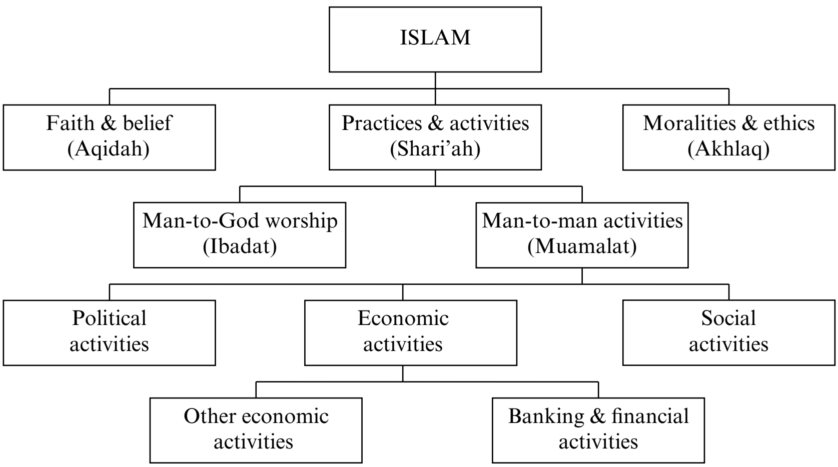

Figure 11.2 An alternative Islamic framework

IFIs are very different from Western financial institutions because of their Islamic banking practices which cover all types of investments that are religiously approved such as: managed funds, partnerships, cost-plus financing, leasing, futures contracts, and hedging.

Table 11.2 illustrates a typical portfolio of Islamic banking products that are offered by most IFIs.

Islamic corporate social responsibility (ICSR) and IFIs

The Accounting and Auditing Organization for Islamic Financial Institutions (IAAOIFI, 2008) is in the process of developing a definition of ICSR that refers to all activities carried out by an IFI to fulfill the following:

Table 11.2 Islamic banking products

Equity finance	Debt finance
Mudaraba (profit sharing)	*Murabaha* (cost-plus financing)
Musharaka (equity participation) permanent and diminishing	*Ijarah* (leasing)
	Salam (deferred delivery)
	Istisna'a (work in progress)
	Sukuk (Islamic Bonds)

- *religious responsibility*, that is, to obey the laws of Islam in all its dealings and operations;
- *economic responsibility*, that is, to be financially viable, profitable and efficient;
- *legal responsibility*, that is, to respect and obey the laws and regulations of the country of operation;
- *ethical responsibility*, that is, to respect the mass of societal, religious and customary norms which are not codified in law; and
- *discretionary responsibility*, that is, the expectation from stakeholders that IFIs will perform a social role in implementing Islamic ideals over and above the religious, economic, legal and ethical responsibilities.

The IAAOIFI is currently developing uniform standards on ICSR activities and compliance for IFIs. These standards are currently at the consultative stage. The standards are intended to codify existing principles and rules in a comprehensive structured format and ensure that ICSR activities and compliance of IFIs are communicated in a uniform, truthful and comprehensible manner to relevant stakeholders to whom the IFI owes a duty of accountability.

The consultative standard contains principles and rules in the following areas:

1. *Mandatory core conduct* This includes policies for screening clients, late repayments and insolvent clients, earnings and expenditures prohibited by Shari'ah employee welfare.
2. *Recommended core conduct* This includes policies for *Qard Hasan* (a non-interest-bearing loan intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the period), reduction of impact on the environment, screening clients, screening contractors, industry investment quotas, social impact-based investment quotas, environmental impact-based investment quotas,

par excellence customer service, entrepreneur and social savings and investments, and employee welfare.
3. *Mandatory supplementary conduct* This includes the policy for *Zakat*, a fixed religious obligation calculated by reference to net assets (including cash) that have appreciated over a specific period of time. It excludes assets that have been acquired for consumption or use in the production of revenues. *Zakah* is the Islamic principle of giving a percentage of one's income to charity that applies to Muslim.
4. *Recommended supplementary conduct* This includes policies for charitable activities, and *Waqf* (a religious endowment) management.

The objectives of ICSR are the same as the individual social responsibility of each Muslim: to enjoin right and to forbid wrong. The definition of right and wrong in Islam can be defined in various dichotomies which are overlapping. In their legal form, 'right' refers to everything that is permissible or recommended (*Halal* and *Mustahab*, respectively), while 'wrong' refers to everything that is not permissible or not recommended (*Haram* and *Makruh*, respectively). From the perspective of Islamic jurisprudence, 'right' refers to what is just while 'wrong' refers to what is unjust.

It is the responsibility of the SSB to provide an independent review and attestation of ICSR conduct as an assurance to stakeholders.

Shari'ah Supervisory Boards (SSBs)

The SSBs review the operations of financial institutions to ensure that they comply with the Shari'ah Law. This is, to a large extent, an investigatory role. In the increasingly complex and sophisticated world of modern finance, the religious board endeavors to answer the question whether or not proposals for new transactions or products conform to the Shari'ah Law and the SSBs offer constructive and creative recommendations. The role of each SSB is:

- to certify permissible financial instruments before issue through a fatwa (a legal opinion issued by a qualified scholar on matters of religious belief and practice);
- to verify that transactions comply with issued fatwas;
- to approve calculation of *zakat* (a religious tax deducted from the wealthy to be paid to the needy); and
- to dispose of non-Shari'ah-compliant earnings.

An IFI is required to establish operating procedures to ensure that no form of investment or business activity is undertaken that has not been approved in advance by the SSB. Also, the management of the IFI is required to periodically report and certify to the SSB that the actual investments and business activities undertaken by the institution conform to forms previously approved by the SSB.

The members of the SSB are appointed by shareholders at the General Assembly, employed by the IFIs and report to the board of directors.

The SSB has the right to appoint a Shari'ah internal auditor to monitor the day-to-day transactions and report directly to them. If the SSB discovers that any transaction violated the Shari'ah Law and that this transaction has generated revenue to the IFI then the SSB can set these earnings aside and donate them to a charitable organization.

It is the responsibility of the SSB to provide an independent review and attestation of ICSR conduct as an assurance to stakeholders.

This usually involves:

- a review function which examines whether ICSR is being implemented both in form and in substance by the IFI. The review function may be outsourced to an Internal Shari'ah review body of the IFI, at the discretion of the SSB, with an appropriate disclosure to that effect in the SSB report; and
- an attestation function, which provides a statement as part of the SSB report, stipulating that management has behaved in accordance with ICSR standards.

Since Islam has four different sects (Hanafi, Hanbali, Maliki and Shafi'i) which interpret the Islamic Holy Book (the Qur'an) differently, SSB members tend to be selected from the dominant sect in their country and consequently reflect their own understandings of the Qur'an on the transactions of IFIs.

The various governance challenges of the SSB are as follows:

1. *Competence* Since the Shari'ah scholars on the SSBs carry great responsibility, it is important that only high caliber scholars are appointed. There is currently a shortage of appropriately qualified scholars to provide rigorous challenge and oversight of a bank's products and services.
2. *Independence* Due to the shortage of scholars, many SSB members have positions on many different IFIs and have access to proprietary information. As a result the possibility of serious conflicts of interest exists. Little is currently known about how SSBs are dealing with this problem in practice.
3. *Lack of professional certification* IFIs currently experience difficulty in selecting between scholars due to the lack of professional certification in terms of Shari'ah expertise.

EXAMPLE: GULF FINANCE HOUSE (GFH)

In its Annual Report in 2006 GFH stated:

> As an Islamic institution, GFH takes its responsibility to support the well-being of the communities in which it operates seriously. GFH believes in the social responsibility of business towards overall human welfare. Accordingly, GFH endeavours to make a significant difference to the well-being of the world around it wherever the Bank is present. To handle such a role, it is GFH's belief that this task can be done by integrating social values into corporate activities – a principle that is woven into the day-to-day functioning of the Bank.
>
> During 2006 the Bank responded to the needs of the societies in which it has activities, in a number of different ways, as part of its proactive efforts to assist underprivileged sections of the community. The Bank's corporate social responsibility programme for 2006 continued to focus on helping the underprivileged, while enhancing the quality of life for everyone through supporting education activities, health programmes and sports events.
>
> The following are just some examples of the financial support provided by GFH in 2006:
>
> - establishment of the Gifted Students Centre in Bahrain, which is now complete: The centre's aim is to serve the Bahraini society by embracing special abilities and is designed to develop and enhance the various talents of these students for a brighter and promising future;
> - participation in the Crown Prince International Scholarship Program (Bahrain);
> - participation and financing of various social activities;
> - participation in 'Waqf' to promote Islamic finance activities.

Source: Gulf Finance House (2007).

4. *Consistency* Some commentators argue that there is a lack of consistency among SSBs. In particular, fatwas that are issued by some SSBs may conflict with fatwas issued by other SSBs.
5. *Lack of disclosure* There is a general lack of disclosure concerning Shari'ah scholars' duties, decision making, rulings and areas of competence. Some commentators argue that all fatwas issued by the SSB should be included in the Annual Report and if appropriate discussed at the General Assembly Meeting.

EXAMPLE: KUWAIT FINANCE HOUSE (KFH)

In its Annual Report in 2007 KFH stated:

> KFH continued its effective participation in the beneficial social activities carried out during the year, as it provided KD 1.250 million to Bait Al-Zakat (Kuwait Zakat House), entered into an agreement for implementation of charitable projects inside and outside Kuwait, increased the provisions allocated for the construction of 15 ambulance centers on the motorways in Kuwait worth KD 1.450 million, and participated in supporting the medical conferences and research on the early detection and diagnosis of cancer.
>
> Moreover, KFH has devoted itself to the construction and implementation of the Social Welfare Houses Club related to the Ministry of Social Affairs and Labor, at Al-Zour Area. KFH has established the Juvenile Care House at Sulaibikhat, financed the Care Centers for the People with Special Needs throughout the State of Kuwait, and supplied medical equipment and devices to a multitude of Ministry of Health hospitals.
>
> As far as charitable projects and Holy Qur'an projects are concerned, KFH is committed to the construction of the Holy Qur'an Recitation-Schools Center belonging to the Ministry of Awkaf. KFH has also supported the Family (Osareya) Development Association and the Holy Qur'an Institutes, Al-Seraj Al-Munir, Kuwait's Big Competition for Memorizing the Holy Qur'an, and the Knowledge Seekers Welfare Fund.
>
> As for support of education, KFH has fully equipped two laboratories at the Statistics and Research Section at Kuwait University and allocated sums for the Charitable Fund of Needy Students.
>
> Furthermore, KFH has assigned KD 0.5 million for the humanitarian relief activities in different places struck by earthquakes, hurricanes, and warfare worldwide.

Source: Kuwait Finance House (2008).

CSR ACTIVITIES IN ISLAMIC FINANCIAL INSTITUTIONS IN PRACTICE

Dusuki and Dar (2005) identified that 91 percent of respondents in their survey believed that social responsibility can enhance the reputation and public image of an Islamic bank and concluded:

> By effectively and efficiently being involved in CSR activities Islamic banks may inevitably generate valuable resources in terms of reputation, long term standing and loyalty from various stakeholders. . . . CSR can be used as a strategic

EXAMPLE: THE NATIONAL BANK OF KUWAIT (NBK)

In 2008 NBK, a leading provider of financial services in Kuwait, released its first annual CSR report (16 pages). NBK recognizes its 'duty and responsibility to support a variety of humanitarian, charitable and educational efforts in the community'. Examples of community activities include:

- the creation of NBK Children's Hospital at Al Sabah Medical Area to provide medical attention to underprivileged children. The KD 3 million hospital was built at the bank's expense and donated to the Ministry of Public Health;
- donation of US $1 million in aid for Lebanon;
- organization of *iftar* tents in various locations to serve more than 100,000 meals during the holy month of Ramadan;
- NBK staff visits to the sick and elderly in hospitals and institutions;
- a day-long beach clean-up on Kubar Island;
- an annual walkathon with over 5,000 citizens to promote healthy habits and a sporting lifestyle;
- sponsored Francophone day; and
- conferences and symposiums.

NBK was awarded the first Kuwait National CSR award in 2007.

> tool to enhance the reputation and public image of a business institution while at the same time prove to be profitable for the institution in the long-run.

However, the reality concerning CSR activities is extremely difficult to identify.

IFIs usually mention their CSR activities in the 'Consolidated Statement of Sources and Uses of Good Faith and *Qard* Fund'.

CSR ACTIVITIES IN NON-ISLAMIC BANKS IN THE MIDDLE EAST IN PRACTICE

A recent survey of banks in the MENA region by Hawkamah and IFC (2008) identified that very few banks provided CSR information in their annual report. The survey found:

EXAMPLE: GULF BANK

In 2006 the bank decided that it would focus its CSR activities on 'helping future generations of Kuwaitis achieve their full potential'. Examples of community activities include:

- sponsoring Injaz Kuwait, a non-profit NGO dedicated to educating young people about business, economics and entrepreneurship;
- donating ultrasound medical equipment to the Mubarak Al Kabir Hospital;
- sponsoring a child life specialist for one year at KACCH (Kuwait Association for the Care of Children in Hospital); and
- donating money for the orphans in a Lebanon charity home.

- only 39 percent provided any details on environment, social and economic sustainability issues; and
- only 27 percent of respondents from banks had a CSR policy published on their website.

CONCLUSION

IFIs are becoming more important in terms of total assets within the global financial market. In order to fully understand the values and culture of an IFI one needs to understand the nature of Shari'ah Law and the role of the SSBs. Recent empirical work has shown that social responsibility activities enhance the reputation and public image of Islamic banks and in the future it is likely that IFIs will have a higher level of disclosure and transparency concerning their corporate social responsibilities.

KEY LEARNING POINTS

This chapter should enable the reader:

- to understand the reasons for the growth in importance and size of IFIs over the last decade;

- to understand what makes IFIs different from other types of financial institutions (particularly in terms of their governance structures); and
- to be aware of examples of CSR activity in IFIs in the Middle East.

DISCUSSION QUESTIONS

1. Why have IFIs grown in importance and size over the last decade?
2. What makes IFIs different from other types of financial institutions?
3. What are the governance challenges of IFIs?
4. Whose responsibility is it within an IFI to provide an independent review and attestation of an IFI's corporate social responsibility?
5. Is Islamic CSR in IFIs different from CSR in non-Islamic financial institutions in the Middle East? (Give reasons)
6. Is Islamic CSR different from non-Islamic CSR? (Give reasons)

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