

Corporate Social Responsibility in Europe Today, and Challenges Facing Japanese Corporations

Observations of the Leader of the CBCC Dialogue Mission on CSR to Europe

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1. Mission Overview

The last few years have seen an ever greater need to build low-carbon societies that address climate change issues, and for sustainable economic growth achieved through poverty reduction and other measures. Europe has assumed a world leadership role in tackling these challenges, promoting corporate social responsibility (CSR) as one way to achieve sustainable economies, and playing a central role in CSR-related discussions and the establishment of international norms and standards for CSR.

The Council for Better Corporate Citizenship of Nippon Keidanren (Japan Business Federation) dispatched a Dialogue Mission on CSR to Europe, from December 1 to 5, 2008, in order to:

- Examine CSR issues in Europe since the onset of the present financial crisis
- Explore possible governmental policy frameworks that could promote CSR
- Identify challenges facing Japanese enterprises operating in Europe
- Explain the CSR efforts and perspective of Japanese corporations

While in Europe, our mission held discussions with 20 companies and institutions, including the European Commission and other governmental entities, organizations promoting CSR (especially accountability and the Global Reporting Initiative [GRI]), organizations promoting responsible investment such as the Financial Times Stock Exchange (FTSE), forward-thinking European enterprises, and the Japan Business Council in Europe. Mission members also participated in the European Alliance for CSR Event 2008 sponsored by the European Commission and CSR Europe.

The following are the main conclusions drawn from our discussions in Europe.

2. CSR Practices in Europe Today

(a) CSR in Europe: A process of trial and error

Two strong movements are at work in Europe — twenty-seven countries are striving for cooperation and consensus within an internationally competitive European Community,

while at the same time striving to maintain their independence and individual historical and cultural traditions. These two movements, which include attempts to achieve a balance between the two, are part of a continual trial and error process in the area of CSR, as well. CSR standards and management tools are being developed on a trial basis for corporate endeavors in many fields, with a view to discovering what best fits the European model. At the same time, steps are being taken to make Europe a world CSR leader, thereby enhancing its influence in this field.

We observed first-hand the results of the CSR Laboratories' CSR experiments and promotion of CSR in Europe, and witnessed current best practices and approaches there. Ironically, what we learned there actually demonstrated to us once more the strength of Japanese corporations.

(b) CSR efforts made by European enterprises since the onset of the financial crisis

European enterprises do not think of CSR as something to be practiced separate from their main endeavors. Rather, their business activities and strategies are characterized by an integrated approach that includes environmental, social and governance (ESG) considerations. This approach is designed to boost their international competitiveness, and treats CSR as an investment that will yield further business opportunities.

The current financial crisis has increased doubts about the transparency and trustworthiness of markets, and spurred calls for reform of corporate governance practices. Against this backdrop, European enterprises are enhancing their CSR efforts in a strategic attempt to offer something better than other companies in today's difficult business environment, and to gain market predominance. We were told, as a case in point, that climate change is viewed as a business opportunity, since corporate low-carbon leaders, being more competitive in the fight against climate change, will lead the market.

(c) CSR promotion by the European Commission and the European business community

Since the Lisbon Declaration in 2000, Europe has been foremost in the world in debating the significance of multi-stakeholder CSR and sustainable development, while examining ways to achieve them. The debate, however, has not yielded quick results.

In 2006, the European Commission issued a Communication entitled *Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility*. The Communication regards enterprises as central to CSR promotion, and encourages them to promote it voluntarily. Official efforts have included establishment of the European Alliance for CSR and the CSR Laboratories. Through multi-stakeholder participation centered on business groups such as BUSINESSEUROPE and organizations promoting CSR such as CSR Europe, discussions are continuing on ways to address CSR priority issues and promote best practices. However, it is still too early to determine

whether these discussions will yield the results hoped for, and whether stakeholders will regard these efforts favorably.

On the other hand, amid questions about the effectiveness of corporate self-regulation given the current financial crisis, there could be a change in the European Commission's regulatory approach due to the election of members of the European Parliament and a change in European Commission membership, both scheduled for this year.

Against this backdrop, Europe's business community, under pressure to demonstrate it is capable of voluntary, unregulated, socially responsible behavior, is attempting to take the leading role in CSR promotion.

Europe is home to many small and medium-sized enterprises, and one major challenge is to ensure that they promote CSR practices. This challenge is being tackled through collaboration among business communities in each respective country, in order to develop an environment conducive to gathering information on individual cases and drawing up guidelines.

(d) Investor (responsible investment institutions) trends

In Europe, screening to ensure socially responsible investment (SRI) is changing from the traditionally negative approach where corporate behavior is viewed critically through the lens of ethical values, to a more positive approach that uses specific standards to praise companies excelling in environmental, social and governance (ESG). (The "S" of SRI is considered to stand also for "sustainable.") Even mainstream investors now tend to consider ESG factors when conducting a financial assessment. Thus, responsible investment (RI) practices are increasingly becoming the norm, with the value of an enterprise being viewed comprehensibly.

Unfortunately, there are not many cases where long-term management practices that clearly reflect the ESG perspective have been given the above-mentioned positive approach. For this reason, our impression was that it will take more time before the majority of mainstream investors who expect long-term returns will consider ESG issues when examining the financial statements of prospective investment destinations. Even so, there is growing interest in investment instruments that address climate change issues.

3. CSR Challenges Facing Japan and Japanese Corporations, and the Role of the CBCC

(a) Commitment of top management to promoting CSR strategically

European enterprises and their top management now realize that CSR, rather than being a costly measure, instead offers opportunities to achieve greater corporate value and enhanced competitiveness. For example, Britain's BT regards CSR as practices that bring

innovation to the market as progressive efforts and strategic networks promote sustainable growth.

The top management of Japanese corporations, too, must commit themselves to promoting CSR strategically. They must also make this approach understood inside and outside their companies, showing that CSR makes business sense.

(b) Enhanced strategic communication with stakeholders

As the world economy becomes increasingly globalized, the roles and responsibilities that the public expects corporations to fulfill are growing more and more complex and broader in scope. Companies must therefore strategically promote communication with their stakeholders, to ensure that their CSR practices are understood and respected.

When corporations attempt to explain their ideals and vision in other countries, they need the understanding of people whose cultures and values are different from those in their home country. They will be more likely to succeed overseas if they can develop their own CSR narrative and communicate it strategically, taking into account issues and demands in those countries.

During our mission, the people we talked to expressed a strong appreciation for the steps taken by Japanese companies to protect the environment and mitigate global warming. Even so, we often heard that there is room for improvement in the way Japanese companies address social issues such as human rights. To ensure that Japanese corporate endeavors are viewed properly, there is a need to explain, on a global scale, how Japan's legislation and social background are different from those of other countries.

(c) CSR promotion through tie-ups linking industry, academic institutions, governments and civil society

CSR must be promoted through partnerships linking industry, academic institutions, governments, and civil society. In Japan, support systems promoting CSR are rudimentary compared with those in Europe, where many entities — led by the European Commission but including enterprises, labor unions, investors, NGOs and educational institutions — work for the development of sustainable societies. These entities maintain close contact with one another while actively promoting CSR practices throughout society.

General acceptance of CSR requires the involvement of educational and research institutions. In addition, a platform should be established so that policy proposals regarding international issues can be made on the basis of a global perspective and expert research. Furthermore, there is an urgent need to examine social and environmental issues from a broad perspective, within frameworks such as multi-stakeholder forums.

(d) The CBCC: Developing stronger ties with organizations promoting CSR in Europe

Since the onset of the current financial crisis, business communities and groups promoting CSR in Europe have pursued a range of promotion efforts, in cooperation with the European Alliance for CSR and the CSR Laboratories, keeping in mind that a more regulatory approach may be on the horizon. Our CBCC is keen to learn from these latest efforts in Europe.

During our visit to the European Commission, considerable interest was expressed in the CSR efforts being pursued by Japan's business community. The CBCC intends to share information on the best practices of both Japan and EU member countries. We also hope to promote strategic dialogues with European business groups and organizations promoting CSR in Europe, so that Asian values and concepts are reflected in global CSR norms and standards.