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Corporate social responsibility in the European Union: a new trade barrier?

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This paper contributes to the discussion about Corporate social responsibility (CSR), competitiveness and trade policies, and how trade barriers emerge between countries already committed to CSR and those for whom CSR is still gaining ground. The authors describe the development of CSR within Europe and explain its role in shaping trade relationships. Gaining access to the European market, and obtaining the 'licence to operate' in light of strengthening commitment to CSR, is an issue for many companies. For countries outside the EU it is important to understand what CSR means in the European context and to recognize its implications for conducting business in the region. Further, through its economic power and resources, the EU sets standards and influences international trade norms. **The authors conclude that the EU establishes CSR as a trade barrier for non-complying companies in the terms of organizational culture, communication, capabilities and compliance.**

Introduction

Corporate social responsibility (CSR) is a rising star in political discussions, management thinking and marketing activities. Arguably, Europe is the most vibrant region for its development, and the concept has been embraced by the European Union (EU) for strategic reasons. As this paper will show, it should be seen as a key to shape trade and protect the internal European market. Despite being vague in practical terms (or because of being so vague)**, it could be argued that CSR is emerging as a trade barrier disadvantaging non-European organizations. Regardless of international efforts to lower trade barriers, governments still**

protect local or regional markets with a variety of more or less obvious and strict regulations and policies. International management and global marketing recognizes that companies often face barriers that lay outside regulatory frameworks, such as WTO agreements. This is because they require organizational resources and capabilities a company may not have. They may also need integration into an organization's structural, logistical and cultural environment. Since the Lisbon Agenda in 2000, the EU and its Commission in particular, has sought to increase the competitiveness of its internal market through a strategy of sustainable development. As part of this strategy, CSR is seen as a key policy vehicle for companies to

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integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. It is a central part of the debate about globalization, competitiveness and sustainability. In Europe, the promotion of CSR reflects the need to defend common values and increase the sense of solidarity and cohesion (European Commission, 2006). **Beyond its role as an advocate, the EU is also a facilitator and partner in the establishment of a norm-based European CSR regime that challenges both European and foreign companies**. However, the former seem to be much better prepared, because they are part of the process, and can thus influence its development.

CSR and trade: what is the problem?

Arguably, the EU is the most vibrant region in the terms of progress in CSR (Diamantopoulou, 2005). The EU recognizes that CSR is business contribution to sustainable development. Sustainable development is core to the EU's strategic goal to become the most competitive and dynamic knowledge-based economy in the world as laid out at the European Council Summit in Lisbon in 2000. The Union recognizes that sustainable economic growth leading to more and better jobs and greater social cohesion needs the cooperation of the business sector. Hence, CSR is defined as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' (European Commission, 2001, p. 3).

The EU wants to be a leading modern organization that focuses on human rights, democracy and non-market issues (Moerth, 2004). On a global level, norm-based trade politics has become part of the European political identity and with its growing economic influence for example through enlargement. Trade Commissioner, Peter Mandelson (2007), states confidently: 'Exporting our rules and standards around the world is one source and expression of European power' (no page numbers). Hence, promotion and encouraging business to buy-into the concept of CSR is an important strategy for the EU to prevent unfavourable consequences of globalization, such as the 'race-to-the-bottom'. There is agreement that Europe needs to compete on levels such as knowledge, values and ideas rather than price (Finnish EU Presidency Conference, 2006b). It also guarantees social balance and internal coherence. In turn, companies secure their 'license to operate' within the EU and, by doing so, can benefit from the economic value that the common market offers. The Commission declares: 'CSR has become an increasingly important concept both globally and within the EU, and is part of the debate about globalisation, competitiveness and sustainability. In Europe, the promotion of CSR reflects the need to defend common values and increase the sense of solidarity and cohesion' (European Commission, 2006, p. 2).

However, from a managerial perspective, the adoption, integration and communication of CSR is an organizational challenge for individual companies that increases the need for resources like qualified staff, program costs, benchmarking and reporting, product development, and additional relationship and network building with market and non-market groups. **Confronted with higher governmental and public expectations and concerns about their business conduct and activities, and especially because of considerable regional differences in respect to such expectations, there are growing concerns that 'tooling up' for CSR is creating non-tariff barriers to trade or, at least, unwelcome imposition of foreign concern (The World Bank, 2002).** Concern was also expressed by the former Employment and Social Affairs Commissioner, Anna Diamantopoulou (2005), in respect of the development of the EU's internal market, where national private or governmental rules and the provision of grants or tax incentives could lead to 'unintended' new trade barriers.

The problem is that if it is acknowledged that CSR is at least partly based on a normative, value-based and ethical conceptualization and

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refers to strategies, process and production methods rather than the final product and service as such, then it is likely to be incompatible with traditional trade thinking as formalized, for example, in many WTO agreements. **Recognized and largely formalized trade concepts, like the Principle of Non-Discrimination and the application of Agreement on Technical Barriers to Trade Code of Good Practice for the Preparation, Adoption and Application of Standards, do not yet sufficiently cover this area: 'That is, labour, animal welfare and environmental standards are not trade compliant unless they produce a demonstrable consumption externality' (Isaac 2007, p. 409).** Hence, companies or foreign governments can hardly dispute non-governmental CSR developments, because this would need to be based on vague criteria.

We call obstacles clearly defined and formalized under trade agreements and regulatory approaches 'hard' trade barriers. However, **what we focus on in this paper is the policy-driven concept of CSR as a 'soft' trade barrier. It can be argued, that it is trade policies that shape trade relations rather than trade regulations—at least, the former influences the latter, not vice versa. One major distinction between what we call 'hard' and 'soft' trade barriers is that external players have hardly any voice in the process of negotiation and establishment of the latter (The World Bank, 2002; Isaac, 2007)**. This is even more critical for outsiders, since the EU's CSR strategy reflects the intention to approach the CSR concept as a communication and negotiation platform for governments, business and European civic society. Thus, incumbent players and coalitions of interest form networks, relationships and multi-stakeholder interaction to eventually establish an understanding of what CSR means and which resources are needed (and given) to implement it. This is likely to be challenging for foreign organizations and traders. And the EU clearly does not want to see its regions' high level of social welfare and societal wealth compromised. For example, the EU in co-operation with the United Nations Development Programme commissioned the baseline study, 'accelerating CSR practices in the new EU member states and candidate countries as a vehicle for harmonization, competitiveness and social cohesion in the EU'. It also set up an initiative to facilitate multi-stakeholder dialogue on CSR in these countries and to enhance capacities of existing and future CSR stakeholders to develop and implement CSR agenda in the region (www.acceleratingcsr.eu). In contrast to other trading blocks, the EU traditionally has had a social market approach, where market competition is promoted, but is linked to equity issues, for example, social cohesion or support for disadvantaged groups (Harris and McDonald, 2004).

The emergence of CSR: an outline of context, drivers, and controversies

CSR is gaining more and more attention from researchers, policy makers, business and the public in general. This is manifested in the growing number of publications, consultants, public attention, organizational efforts of companies to integrate CSR and the activity of national as well as supranational organizations. For example, in 2000 the UK created a minister of CSR within the Department of Trade and Development and in France, nationally listed companies are obliged to report on their social activities as part of their annual reporting. However, the actual meaning of the concept of CSR has remained controversial. Origins and scattered precursors of modern CSR can be traced back centuries. For example, acts of charity, stewardship, individual philanthropy and sponsorships are well known from at least medieval times (van Marrewijk, 2002). A critical history of CSR was provided by Cannon (1994) with his narrative of approximately 300 years of CSR in the UK. Likewise, Chamberlain (1982) gives the back- ground to the changing nature of the relationship between corporations and society in the USA over the last 200 years. Most notably, both historical investigations show that the role and understanding of business including its

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'responsibilities' is dependent on the respective political, societal and economic context. Thirty years ago Votaw (1972) described CSR as a 'brilliant' term: 'It means something, but not always the same thing, to everybody' (p. 25). Sethi (1975) commented on the widespread use of the term CSR and suggested that CSR, 'has been used in so many different contexts that it has lost all meaning' (p. 58). In contrast, more recent accounts suggest that CSR is real because it is expected from and implemented in companies (Carroll 2000, in Lantos, 2001; Lewis, 2001; Guthey et al., 2006). This fact is reflected in the growing influence it has gained in the management discipline (Lockett et al., 2006). It challenges corporate theory and widens the concerns of strategic management (Breitbarth and Harris, 2008).

Fundamentally, CSR addresses the question of the role of business in society (Thorne et al., 2005). Wood (1991) states that the basic idea of CSR is that business and society are interwoven rather than distinct entities. Frederick et al. (2002) outline the interactive nature of the ‘complex web of social relationships’ a business has to operate within. From an institutionalism perspective, the essence of the CSR phenomenon lies in the attention towards, ‘the reconfiguration of the balance between institutions that together make up society’ (Habisch and Jonker, 2005, p. 2). The high pressure on companies from various publics and stakeholders to explicitly declare their intentions and commitment to more socially responsible behaviour and the expectations to fulfill it everyday and everywhere is a clear sign that CSR dynamics are a relevant challenge for practitioners, policy makers and researchers at the dawn of the 21st century—or, in short, ‘CSR is an idea whose time has come’ (Wolff, 2002, in Matten and Moon, 2005, p. 335).

Specific value can emerge from companies embracing CSR. Herrmann (2004, p. 206) provides a summary as follows: managing risks; protecting and enhancing reputation and brand equity; building trust and ‘licence to operate’; improving resource efficiency and access to capital; responding to or pre-empting regulations; establishing good stakeholder relationships with current and future employees, customers, business partners, socially responsible investors, regulators and host communities; encouraging innovation and new ways of thinking and building future market opportunities.

With particular interest in the role of CSR in the EU’s social and trade policies, we see four fundamental drivers for the emergence of CSR (Finnish EU Presidency Conference, (2006a) provides an alternative list of nine factors). Firstly, agreeing with the above notion of Habisch and Jonker (2005) that CSR fundamentally is about changing configurations between various crucial institutions of society, open spaces have emerged with the state retreating from offering a wide range of services itself and rather taking over the role of a regulator and agent in the processes of market liberalization, deregulation and privatization. Companies are expected to fill such gaps and provide resources to help guarantee democracy, social justice and economic competitiveness in regions in which they operate.

Secondly, modern CSR is conceptualized and promoted in relation to its benefits for organizations. It is argued that adopting CSR leads to corporate sustainability and reflects good management. Sustaining reputation, reducing risks and costs, increasing stakeholder value, triggering innovation and influencing regulation are amongst these potential benefits. By positioning CSR in this way, governments, especially, like to encourage companies to buy into a wider and largely newer set of responsibilities and opportunities. Governments are drivers of CSR (Moon, 2004) and hold resources, like access to regulated parts of society that makes the inclusion of CSR opportunities relevant to strategic and operational management.

Thirdly, new players that had little or no voice a decade or two ago have emerged. Most

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notably there are a variety of non-governmental organizations (NGOs) that seek to counter random business globalization. They have gained influence because of their ability to represent vocal groups of civic society, often specific consumer groups and translate this resource into political bargaining power. Furthermore, Beck (1986) questions the domain of formal politics (i.e. especially the legislative process) as the only or even central place in modern society where the direction of society at large is discussed and decided. This is largely due to the forums and new forms of engagement NGOs have developed. In the CSR discourse private organizations have tried, and sometimes succeeded, in negotiating and implementing CSR standards, setting benchmarks and initiating new policy directions both outside and within the formal political process. Hence, not only governments may try to protect markets. Increasingly, NGOs demand and police the application of CSR in business activities (e.g. through campaigning against companies).

Finally, organizations in general and their business conduct, process and production methods, and wider consequences of their activities in particular, have become more transparent. This is mainly due to new media that enable information to travel faster and more publicly on a global level, outsourcing or cooperation of parts of the business, global supply chains and also the use of software that purposefully enables partners to access company data, but unintentionally also creates a rich archive of organizational behaviour, that can all too easily provide the evidence for legalistic or ethical challenges to a company’s behaviour. These drivers share a common requirement of pro-active thinking and action from companies. **EU Commission Vice-President, Guenter Verheugen (2006, 2007), stresses trust as the key concept in the CSR discourse. It is a resource EU citizens, governments and the Commission grant the business sector. However, it is not only reputation that is at risk for companies that don’t accept responsibilities and engagement beyond their traditional areas of operation. Certainly, Verheugen’s notion of trust includes the menace of what happens when influential institutional players may no longer ‘trust’ in business—it may well be regulation instead of self-regulation or voluntarily approaches, or denial of access to profitable markets.**

The development of CSR in the EU: raising the bar

A general debate about CSR and the role of business in society and business ethics has been going on much longer than the more recently focused discussion about business contribution to sustainable development. Policy-shaping organizations like the UN, the World Bank and the OECD promote both wider sustainability thinking and CSR engagement. Arguably, the global momentum was kick-started with the United Nations Conference on Environment and Development in Rio de Janeiro in 1992. It gained higher profile and more applicable direction for organizations with reporting recommendations of the UN GRI initiative in the late 90s and the launch of the UN Global Compact initiative in 2000. The latter is first and foremost concerned about exhibiting and building the social legitimacy of business and markets, mainly by encouraging ten specific ‘good’ business principles (www.unglobalcompact.org).

In relation to the EU, early initiatives to encourage business contributions to the European development strategy and change processes can be traced back to the presidency of Jaques Delors, manifested in the launch of the European Business Network for Social Cohesion in 1996 (since 1998 ‘CSR Europe’). **The following is a sketch of milestones in European policy development relevant to our question of to what extent should CSR be seen as a new trade barrier**. Figure 1 provides a broader overview, but for details about the emergence of CSR in Europe we refer the reader to accounts and discussions in Perrini et al. (2006) and De Schutter (2006). While the former authors analyse the relevance and describe the influence of governmental policy

and EU policy strategy, the latter concludes that today CSR is a process, 'in which the representatives of the business community have come to occupy the central role' (p. 2). In the early stages, the EU Commission was more inclined towards regulatory measures to ensure the visibility and implementation of responsible business behaviour. In 1998 the Figure 1. Political milestones at the European level (Perrini et al., 2006; adopted and extended).

Figure 1. (Continued).

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High Level Group on economics and social consequences of industrial change, also called 'The Gyllenhammar Group', suggested that companies with more than 1000 employees should publish an annual report on their management of change in order to give an account of the impact of their social activities. The final report of the Gyllenhammar Group and further confirmation and support of tackling CSR as a strategic issue for the sustainable growth of Europe by the European Council then quickly led to the first, and, since then regular, EU Presidency Conference on CSR and the Green Paper promoting a European framework for CSR in 2001. The Green Paper was the departure point for extensive public and industry discussions, and consultations of the Commission in the form of the EU Multi-Stakeholder Forum on CSR. It was chaired by the Commission, and brought together European representative organizations of employers, business networks, trade unions and NGOs. It promoted innovation, convergence and transparency in existing CSR practices and tools. Most notably, it outlined the EU's approach to CSR, condensed in the definition of CSR as, 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' (European Commission, 2001, p. 3).

Especially, four notions are of critical importance in relation to this definition. Firstly, and in contrast to other definitions, CSR is seen to include both social and environmental issues. Secondly, it is a voluntary concept, a point where NGOs and differed significantly, however a market-based diffusion approach policy has prevailed eventually. Thirdly, CSR is a stakeholder-driven concept, which places high value on the interaction with a wide range of internal and external stakeholders. Fourthly, CSR should be seen as a value-driven concept that offers opportunities both in terms of business strategy and operations. In respect to the last notion, EU Economic and Social Committee (2002) clearly stated its opinion that, 'competitiveness and profitability, as the basis for long-term survival, are the essential prerequisites for companies accepting social responsibility. The connection between business success and social responsibility must be seen in the following terms: social responsibility together with economic success contributes to a company's sustainability. It is, therefore, important to persuade

Figure 1. (Continued).

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companies to see social responsibility as a long-term undertaking, as a strategic investment in policies such as marketing, management tools and activities' (no page numbers).

With the activation and inclusion of a wide range of players throughout the Multi-Stakeholder Forum a momentum was created that the EU Commission and Council were willing to fuel. The following EU Presidency Conferences sought to mainstream CSR across Europe and understand the role of public policies in promoting CSR. According to the Commission's earlier proposal, the strategy for the period between its 1st Communication in 2002 and the 2nd in 2006 was focused on the following areas (European Commission, 2002): (a) increasing knowledge about the positive impact of CSR on business and societies in Europe and abroad, in particular in developing countries; (b) developing the exchange of experience and good practice on CSR between enterprises; (c) promoting the development of CSR management skills; (d) fostering CSR among SMES; (e) facilitating convergence and transparency of CSR practices and tools; (f) launching a Multi-Stakeholder Forum on CSR at EU level and (g) integrating CSR into Community policies.

Looking at this framework, the EU placed much value on recognizing normative trade implications (a), creating European networks and learning processes (b, d, f) and facilitating the development of certain benchmarks ('standards') regarding CSR operations and reporting (e). Seen in the context of this paper, these are factors that have led to the emergence of 'soft' trade barriers through the vitality and dynamics of CSR in Europe. For example, Matten and Moon (2004) observe how CSR is increasingly integrated in the education of business professionals in European countries. Worldwide, 54% of international business schools required students to take courses in ethics, corporate responsibility, sustainability or business in society in 2005, compared to 34% in 2001 (Aspen Institute: www.beyondgreypinstripes.org). In contrast, there is empirical evidence that such topics are still largely absent from curricula in Asia-Pacific (Ethical Corporation, 2006).

Another indication for the leading role of Europe is that 90% of Europe's top 100 companies report on social and environmental performance, while the figure is 59% in the USA and 61% of the rest of the world's top 100 (Finnish EU Presidency Conference, 2006a). Only 11% of New Zealand's companies report (New Zealand Management, 2007). Overall the UK and Germany are most active, demonstrated by the majority of world-wide CSR publications originated in the two countries (www.corporateregister.com). The latest Accountability Rating concludes that ‘Europe leads, America lags’ after measuring companies’ social and environmental impacts (Accountability Rating, 2007). **The crucial point here is that Europe and European companies strive towards a level of strategic and operational sophistication in terms of what CSR means, how to manage and communicate it, and how to influence its future**. In 2005, the European Council strengthened the link between CSR and Europe’s continued competitiveness, and its growing expectations of greater social responsibility in corporate behaviour: ‘in order to encourage investment and provide an attractive setting for business and work, the European Union must complete its internal market and make its regulatory environment more business-friendly, while business must in turn develop its sense of social responsibility’ (European Commission, 2006, p. 4). In the Integrated Guidelines for Growth and Jobs (2005–2008), the Council clearly recommended that governments should encourage enterprises to recognize the strategic importance of their social responsibilities and embrace and develop the concept accordingly. Again, the policy perceptive here is that politics and business benefit from mutual understanding in terms of the direction in which the European market and societal arrangements develop. However, the trade off between businesses’ CSR engage

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ment and lessening government regulation has been a main criticism voiced by NGOs, who argue that CSR could create the impression of ‘good’ business while the measurability, transparency and accountability of it remains problematic (Finnish EU Presidency Conference, 2006).

In 2006, the Commission’s 2nd Communication on CSR has largely replaced the EU’s former CSR strategy. Especially, the Commission announced backing for a European Alliance for CSR, an open alliance of European enterprises to further promote and encourage CSR. The Communication led to a break-up of the EU Multi-Stakeholder Forum on CSR, when all NGOs stepped out of the Forum in protest at the setting-up by the Commission of a different body, the European Alliance on CSR, of which NGOs are no longer a part (EurActiv, 2007). The Alliance is a political umbrella for CSR initiatives by large companies, small and medium-sized enterprises, and their stakeholders. It is seen as a vehicle for mobilizing the resources and capacities of European enterprises and their stakeholders in the interests of sustainable development, economic growth and job creation. The EU has been vocal in its willingness to include NGOs in future CSR discussions and processes. However, NGOs have since grouped together in the European Coalition for Corporate Justice, mainly protesting against the claim from companies to define the CSR standards that they should apply themselves.

The launch of the European Alliance marks an important new stage in the development of European policy on CSR. More than before, national and international best practice examples (business-driven and action oriented ‘CSR Laboratories’) are the vehicle to develop and benchmark CSR standards. The laboratories are mainly facilitated by CSR Europe.1 The Commission seeks to promote CSR practices in the European business environment and encourages organizations to back the European Alliance. Consequently, the Finish EU Presidency Conference on CSR in late 2006 focused on promoting innovation and competitiveness. In 2007, the following areas have been highlighted as CSR Laboratories topics (www.csreurope.org/whatwedo/alliance/CompaniesandEUAlliance/Laboratories) and are related to the goals and strategies of what CSR Europe sees as its CSR Roadmap (see Figure 2): innovation (includes B2B cooperation and alliances); supporting entrepreneurship and SMEs; CSR in supply chain; employability; diversity and equal opportunities; working conditions, health and safety; climate change; proactive stakeholder engagement and transparency and communication. At the Finish EU Presidency Conference on CSR (2006) it was agreed that, 'there was growing evidence that companies that related better to their stakeholders—including employees, customers, investors and the wider community—did build value and strengthen economic performance. By understanding shareholder concerns and ideas, business strategies were better able to optimize market potential' (p. 4). Despite inconclusive academic research of this matter, the talk about such connections aims towards making the CSR concept relevant for managers (Breitbarth and Harris, 2008).

On the policy level, the 2nd Communication identifies following eight areas which the Commission will emphasize in further promoting CSR (European Commission, 2006): awareness-raising and best practice exchange; support to multi-stakeholder initiatives; cooperation with Member States; consumer information and transparency; research; education; 1Other organizations currently facilitating CSR Laboratories are: Observatoire sur la Responsabilité Sociétale des Entreprises, IMS Entreprendre pour la Cité, Sodalitas, CSR Sweden, Business in the Community, Hellenic Network for CSR, Business in the Community Ireland, Foreign Trade Association/BSCI, BUSINESSEUROPE, ENGAGE, Impronta Etica, EABIS, econsense, ESBG (www.csreurope.org/whatwedo/alliance/CompaniesandEUAlliance/Laboratories)

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small and medium-sized enterprises and the international dimension of CSR. Despite shifting tactical measures to promote CSR in Europe, a comparison with the seven focal points in the Commission's 1st Communication on CSR (see above) confirms that much value is placed on creating European networks and learning processes. In summary, **the development of CSR in the EU shows how business and government play give-and-go in order to determine the informal market rules and consequently raise the bar for foreign organizations to access the European market. This is driven partly by values and norms the fundamental European movement is built on, but also by strategic decisions to sustain the region's competitiveness and relatively high social cohesion**. In literature on competitiveness, the role of governments is characterized, amongst others, as encouraging companies to raise their performance, for example by enforcing strict product standards, and to stimulate early demand for advanced products (Porter, 1990). In extending this output-focused observation to organizational action and social performance, it can be argued that **European companies are leading the way and are better prepared to embrace opportunities on the sustainability agenda than their international competitors**.

Implications: CSR in the EU as a new trade barrier

Reasons for governments to establish barriers to international trade can be of various kinds (for comprehensive lists see Cateora and Graham, 2001; Albaum et al., 2005), but the following motives should be considered central Figure 2. Goals and strategies of CSR Europe's CSR roadmap (Finnish EU Presidency Conference, 2006a, pp. 8–9).

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in our context: protection of home markets, maintenance of standard of living and real wages; conservation of natural resources; maintenance of employment and reduction of unemployment; increase competitiveness of home companies. Additionally, private companies and other organizations work together to form private market barriers, for example with the market structure potentially being a formidable barrier. Together, EU policy, national governments' actions and private engagement form the CSR regime that is emerging in Europe. In 2002, The World Bank (2002) analysed the role of public sector engagement in strengthening CSR. The report described four roles: mandating, facilitating, partnering and endorsing. In the previous sections we have described how the EU interprets its role similarly and, by doing so in cooperation with businesses and NGOs, creates a more favourable environment for European companies. **EU policies together with Member States' national counterparts (which have not been discussed in this paper; for more information see e.g. Nourick, 2004; Habisch et al., 2005), build capacities for domestic producers to enable them to develop and meet CSR expectations. However, international trade organizations like The World Bank (2002), WTO (2003) and the US-centred Institute for Trade Standards and Sustainable Development (2005) raise several concerns about the way this may lead to restricted market access for foreign companies. It is claimed that the EU establishes a CSR regime through non-transparent ways of facilitating, partnering and promoting and hiding behind private standard setting processes that are outside the reach of international trade agreements (Isaac, 2007; PR Newswire, 2007)**.

This is a reason why the EU's seeks to foster private initiatives, best practice benchmarks and standards, as can be observed with the backing of CSR Europe and the European Alliance for CSR. Another indication is the support of European NGOs on international terrain by EU governments who, 'are behind the ongoing efforts of other European pressure groups to promote, via United Nations agencies and international standardization organizations, the adoption by global industry supply chains of overly strict corporate social responsibility standards' (PR Newswire, 2007, no page numbers). **The Institute for Trade Standards and Sustainable Development (2005) lists several cases where it complains about the way Europe seeks to exports its high social and environmental standards (e.g. in forest management) worldwide and thereby enhancing its own industries' competitiveness. Thus, while the WTO is unsure if it is or should be in charge of**

implementing an international system of CSR (WTO, 2003), the EU is enforcing its agenda through concerted CSR policies and actions.

Extending our conceptualization of CSR as a predominantly 'soft' trade barrier, the EU's facilitation and promotion of a CSR regime that is difficult to restrict under international trade regulations in order to shape trade relationships and protect its internal market is, in effect a clear barrier to trade. Here, 'soft' trade barrier refers to challenging a company in its organizational thinking, set-up and capabilities to integrate CSR as a value-driven concept. Additionally, it initially keeps foreign players outside the 'closed club', not allowing them to influence processes. Hence, 'soft' barriers occur in three areas.

Culture

Here we refer to both external and internal culture. The challenge with respect to external culture refers to the restricted opportunities to engage in political, industrial and social networks that are CSR specific. Since CSR in Europe is largely based on a multi-stakeholder approach, a consequence is that it is harder to gain trust and acceptance by relevant parties in order to benefit from the innovation process of CSR discussions, activate own CSR activities and, more generally, get legitimization ('licence to operate'). Internally, it is also a matter of fostering an adequate organizational culture that drives ethical thinking and action, and embraces sustainable business strategy and practice. Here business education is key, since Copyright © 2009 John Wiley & Sons, Ltd.

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the stakeholder view of the firm has become widely influential in management (Freeman and McVea, 2001; Post et al., 2002; Webb, 2006) and, 'CSR requires students and managers to look at the systemic nature of their impacts on society' (Nigel Roome, citied in: Russell, 2006, p. 4). While a few regions have successfully integrated such CSR topics into business students' curriculum, especially in Europe and US, others are left behind (Ethical Corporation, 2006).

Communication

Communication is a central element of the CSR concept. This is because CSR requires the company and its respective managers to connect and build favourable relationships with internal and external stakeholders. For example, with the EU and national governments increasingly regulating markets and the high involvement of the public sector in the CSR context, political marketing and lobbying become more important (Harris and McDonald, 2004). Increasing speed of information transfer, especially via the internet, and more transparency in most business activities also needs strategic communication and media management. Beckmann et al. (2006) describe four basic strategies stakeholders may utilize to manage their concerns: creating public pressure through mass media;

mobilizing political pressure via parties or other institutions; initiating market forces through ‘exit and voice’ strategies and directly putting pressure on corporate agents. From a company’s perspective, especially maverick NGOs need to be watched, since they have developed and adopted sometimes aggressive modern communication tactics. Finally, CSR reporting is now standard in all larger European companies. Despite criticism about its sometimes glossy, story-telling, promotional approach (The Economist, 2004), regular reporting is now an account of a firm’s attitude towards society, societal matters and public expectations. Such reporting is seen as a benchmark of non-financial accountability, and while no international standards have emerged a number of European companies have achieved a high level of sophistication with this core CSR tool.

Capabilities and compliance

In order to embrace and integrate CSR, companies need certain organizational capabilities. This can be illustrated by the integration of a CSR reporting process. This requires additional costs in terms of trained staff (internal or outsourced) to set up and conduct the evaluation and communication of a company’s CSR performance. This may even stretch far beyond the individual organization and into their entire supply chain. SMEs especially may lack the required financial, knowledge or relationship resources, a problem for European SMEs that the EU has tried to tackle since its 1st Communication on CSR in 2001. In European MNEs it is now common to have special CSR or sustainability departments. However, since a firm’s communicated CSR approach must be ‘visualized’ and supported by concrete programmes, initiatives and activities, these also require the redirection of organizational resources. Often they are in cooperation with external partners, thus to be efficient, a company needs to be well integrated into relevant networks that, for mutual benefit, help in conducting their activities and assure their credibility. Another aspect of capabilities is the number of standards that a company has to integrate (by EU or national law, e.g. health and safety; non-discrimination measures), which can be overwhelming for foreign companies that are not exposed to the high and possibly complicated level of European social market structure in their country of origin.

Conclusion: building an enabling environment by the public sector Mandating, facilitating, partnering and endorsing are powerful roles governments and their agents can take in order to raise the level of business contribution to sustainable develop-

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ment worldwide. The EU and Member States are in the driver’s seat of advancing the global CSR discussion and its implementation. They also create what is called the ‘enabling environment’ for businesses. It is, therefore, recommended that if foreign nations and companies like to increase market access to Europe, they should seek to understand the CSR discussion, and try to get involved in standard and global policy development processes at early stages in order to either influence them or benefit from the learning that involvement with key European CSR players offers.

A World Bank (2002) report suggests a number of drivers of and constraints to public sector engagement in CSR (see Figure 3). We like to point out that CSR engagement should not only be encouraged from an ethical and sustainability perspective, but also because it generates market opportunities and value through non-market ‘embeddedness’. For exporters from niche economies, for example from New Zealand, new markets do open up (e.g. organic farming) or may break open if a favourable business environment is created, at least initially driven by the public sector. The knowledge and mindset developed from engaging especially in the European CSR process may indeed prove very valuable for local companies and such niche economy in the future. And hand-in-hand with that should come benefits for society in general, similar to the value being enjoyed by European countries and regions in which businesses have understood the need to play an active role in the solution of societal problems and in helping to shape the future.

Of importance for any aspiring European business partners clearly is the need for a comprehensive baseline study of how CSR is understood, negotiated, adopted and communicated. Research has been sparse and tends to focus on management systems (e.g. environmental management along ISO 14001) or the larger idea of sustainability. An approach needs to be made that recognizes the potentially divisive nature of current EU CSR policy. In particular, businesses and governmental trade facilitators must review and recommend how they are going to meet the challenge of a CSR policy that while at once championing the charge of social responsibility can, at the same time, create a barrier to its actualization. If the core assumption underlying the CSR concept is truly a fundamental reconfiguration of the balance between business and society then a clearer understanding of its implications is needed. Thus, future research is encouraged in relation to how the matter discussed in this paper affects specific countries reliant on trade with the EU, especially niche economies with weak power to shape international trade policies.

Figure 3. Drivers of and constraints to public sector engagement in CSR (The World Bank 2002, p. 20).

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