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Briefing Paper

Corporate Social Responsibility: A Comparison Between the United States and the European Union

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ABSTRACT
Investments in social and environmental funds have increased dramatically over the past decade. This has led to an increased reliance on corporate social responsibility (CSR) reporting. There is a growing debate as to how the information should be reported. The purpose of this article is to compare how the governments and corporations of the United States and the European Union have addressed this issue. While neither the United States nor the European Union appears close to any sort of mandatory regulation of CSR reporting, the movement in Europe seems more progressive on the issue. Copyright © 2005 John Wiley & Sons, Ltd and ERP Environment.

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Introduction

FINANCIAL MARKETS MUST ADAPT AND REMAIN FLEXIBLE TO MEET THE NEEDS OF INVESTORS. ONE need of growing concern is that of corporate social and environmental responsibility. Amidst fears that globalization is ruining the environment and causing social disorder, companies and governments are adapting.

Companies around the world have started to realize that their investors are not solely interested in financial performance. Greed and exploitation have been matched with compassion and sustainability. This is where the need for corporate social responsibility (CSR) or triple bottom line (TBL) reporting comes in. This involves reporting on economic, social, and environmental issues. Separate from an annual report, CSR reporting focuses on a company's performance on such factors as pollution, health and safety, human rights, child labour and other social and environmental issues.

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In most cases CSR reporting is voluntary, with companies including information in their annual reports or issuing separate CSR reports to address the issues. Companies such as Shell, McDonald's, The Body Shop, and Ben & Jerry's have received acclaim for taking on such initiatives. There is increasing pressure from investors, lobbyists, and non-government organizations (NGOs) to get individual companies and governments involved in this process. The purpose of this article is to compare how the governments and corporations of the United States and the European Union have responded to this change.

CSR Reporting

The primary reason for CSR reporting is to provide investors with the information they desire to make decisions. With the increase in social and environmental funds it is easy to see the need for such information. Many corporations already provide such information voluntarily. They promote their environmental and social accomplishments either in their annual report or in a separate stand-alone report. Companies in industries such as energy, forestry, and manufacturing use similar reporting techniques as a means to answer their critics. The problem with this is that without comparability and consistency standards the current reports are more 'greenwash' or environmental spin than a factual representation of the company's actual position. Without regulated reporting standards or guidelines to follow, current reports are nothing more than a strategic marketing strategy employed by the company.

The demand for CSR has resulted in competing standards of accountability. Some worry that the individual regulating organizations will not provide the assurance that comes with one internationally accepted global standard. Some of the more notable standards are as follows.

The Institute of Social and Ethical Accountability (ISEA) AA1000S. Launched on 25 March 2003, the AA1000 Assurance Standard is the world's first assurance standard developed to ensure the credibility and quality of an organization's public reporting on social, environmental and economic performance (AA1000 Framework, 2003).

Global Reporting Initiative (GRI). Developed by the United Nations, the GRI aims to standardize sustainability reporting procedures. It was conceived in 1997 by the Coalition for Environmentally Responsible Economies (CERES), a Boston-based group that encourages companies to adopt environmental practices (*Organisations Using the Guidelines*, 2003).

SA8000. Developed by the Council on Economic Priorities Accreditation Agency, the SA8000 standard is based on 'the principles of international human rights norms as described in International Labour Organization conventions, the UN Conventions on the Rights of the Child and the Universal Declaration of Human Rights'. It assesses performance on issues such as child labour, forced labour, health and safety, free association and collective bargaining, discrimination, disciplinary practices, working hours and compensation (*SA8000 Certified Facilities*, 2003).

ISO14001. The ISO14001 standard specifies requirements for establishing an environmental policy, determining environmental aspects and impacts of products/activities/services, planning environmental objectives and measurable targets, implementation and operation of programs to meet objectives and targets, checking and corrective action, and management review (Peglau, 2003).

Since the AA1000S is relatively new, the following comparison between the United States and the European Union will focus on the latter three standards. The comparison will also focus on role of the governments in the respective regions.

CSR in the United States

Due to the social and environmental concerns that arose in the late 1960s and early 1970s, the US government passed laws to address the issues. The legislation adopted included pollution and hazardous waste control (e.g. Federal Water Pollution Control Act, The Clean Air Act Amendments of 1977), the workplace (e.g. The Occupational Safety and Health Act of 1970, The Equal Employment Opportunity Act of 1972) and consumer protection (e.g. The Consumer Product Safety Act, The Federal Hazardous Substances Act) (Hess, 2001). While companies had to meet the requirements set by the state and federal government, there was no requirement on reporting their performance to the public.

Reporting came to the forefront again in the 1990s when companies used CSR reports as damage control. For example, Exxon-Mobil used CSR reporting after the Valdez oil spill, as did Nike after accusations of violating child labour standards in Southeast Asia. The problem with this is that without comparability and consistency standards the current reports merely represent biased marketing campaigns.

The reporting of CSR remains voluntary in the United States. An increasing number of firms are disclosing this information to meet the demands of their shareholders. Socially responsible investments (SRIs) constitute one of the most rapidly growing segments of the investing community, representing over $2.34 trillion or over 10% of all investments (Smith, 2002). Popular SRIs include Fortune's Reputation Index and the Dow Jones Sustainability Index. The increased amount of SRI in the US has caused the financial markets and fund managers themselves to rely on comparable and reliable reporting standards. US companies have been slow to implement the aforementioned internationally accepted standards. Of the 226 facilities certified by SA8000 only 2 (1%) are from the US, compared with 53 (23%) from the EU (*SA8000 Certified Facilities*, 2003). Of the 164 companies that prepare reports under GRI guidelines only 33 (20%) are from the US, compared to 91 (55%) from the EU (*Organisations Using the Guidelines*, 2003), and of the 46 836 companies that follow the ISO 14001 reporting standard, 2400 (5%) are US companies and 19 998 (43%) are from the EU (Peglau, 2003). This information is noteworthy considering that the gross domestic product (GDP) of the US is approximately 30% larger than that of the combined EU nations. This provides some evidence that corporate environmental and social responsibility is taken more seriously by EU companies.

There are concerns from conservatives in the US that over-regulation can have a negative impact on financial markets and that voluntary disclosure is the best option. This fear of regulation is what caused the US to abandon the 1997 Kyoto Treaty. The EU strongly protested the US decision, seeing it as yet another example of American egocentricity. The US government may be too concerned about maintaining a perfect market economy, forgetting about its responsibility to the rest of humanity. The American argument against regulation is that it is unfair unless implemented worldwide. The US does not want additional constraints on their companies unless all companies are playing on a level playing field. Those that oppose international norms or standards believe developing nations could be negatively impacted. Since circumstances differ from nation to nation, such official and unofficial regulatory actions would restrict the scope for mutually beneficial trade and investment flows. In particular, they would hold back the development of poor countries by suppressing employment opportunities within them (Henderson, 2002). This could have the exact opposite effect of the intended purpose of such social reforms.

A Securities and Exchange Commission (SEC) requirement of CSR reporting could help meet the growing investor demand on issues of corporate sustainability, in turn providing a mechanism for US companies to demonstrate their leadership on such issues and answer critics that question their environmental policies. In a period of scandals and uncertainty, it could be an opportune time for the SEC to take a proactive role in rebuilding investor confidence and reposition corporate America in a global economy.

After turning its back on the Kyoto Treaty and feeling the backlash from the Johannesburg Summit and War in Iraq, the US has been categorized as a selfish, self-absorbed nation. American environmental policies are criticized and its ethical standards are being questioned. As an economic leader the US should be setting a precedent; instead, they are lagging behind many European countries that have made great strides in this direction.

CSR in the European Union

CSR reporting requirements differ among the 15 nations that comprise the EU. The European Commission, the administrative body of the EU, has rejected a mandatory reporting approach in its newly published 'White Paper' on the subject (European white paper steers clear of regulation, 2002). However, in a separate proposal the European Commission requires all EU public companies to adopt International Accounting Standards (IAS) by 2005. This requirement will increase the consistency and comparability of financial reporting between member nations and could have a positive impact on social and environmental reporting.

As in the US, CSR reporting remains voluntary in the EU. However, some individual countries of the EU have taken a more proactive approach. In May 2001 France became the first country in the world to require public companies to issue CSR reports. Another country showing initiative on this issue is Spain. Spain is in the process of passing legislation that would require socially responsible investment disclosure, possibly by the end of the year.

Other EU countries that have shown significant progress include Italy, Germany, Sweden, and the UK. Of the 226 facilities certified by SA8000, Italy represents 36 and the UK 3, while the US only has 2 (*SA8000 Certified Facilities*, 2003). Of the 164 companies that prepare reports under GRI guidelines, the UK is represented by 28, Germany 11, Sweden 12, and the US 33 (*Organisations Using the Guidelines*, 2003), and of the 46 836 companies that follow the ISO 14001 reporting standard 3700 are German companies, 2917 British, ,730 Swedish, and only 2400 American (Peglau, 2003). While the GDP of the US exceeds that of the combined EU, individual EU countries surpass the US in terms environmental and social reporting. This analysis gives some truth to corporate America's reputation of ambivalence towards encouraging social and environmental reporting.

Conclusion

Neither the SEC nor the European Commission appears close to any sort of mandatory regulation of CSR reporting. However, the movement in Europe seems more progressive on the issue. The EU is adopting International Accounting Standards by 2005, an initiative the SEC has been slow to address. The geopolitical atmosphere in Europe may be more conducive to focusing on social and environmental concerns. In a strong capitalist society such as the US the government may be less assertive in dealing with these concerns.

Before reporting standards can be adopted internationally, the International Accounting Standards Board must adopt a reporting system that is agreed upon worldwide. The ISO14001 standard focuses primarily on environmental issues. The SA8000 certification concentrates on labour issues. The GRI and AA1000S seem like better fits, addressing economic, social and environmental matters. Comparing US companies with EU companies by these standards does offer some insight into the level of compliance by participating nations. The data suggests that the movement is much stronger in Europe than in the US. However, to reach a satisfactory conclusion more research is necessary and to end the comparison with a definitive conclusion would be premature.

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Biography

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