

CSR as a tool to reduce CO₂

- Is intervention necessary?

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TABLE OF CONTENTS

1. INTRODUCTION	1
1.1 PROBLEM.....	1
1.2 APPROACH TO PROBLEM.....	3
1.2.1 PRESENTATION OF HYPOTHESIS	4
1.2.2 MOTIVATION	4
1.3 METHODOLOGY.....	5
1.3.1 Choice of theory.....	5
1.3.2 Choice of cases.....	7
1.3.3 Delimitations	8
1.3.4 Structure of the thesis.....	9
2. THEORETICAL FRAMEWORK.....	11
2.1 GOVERNANCE IN THE EU.....	11
2.1.1 From the ‘Community method’ to new or more flexible modes of governance.....	11
2.1.2 Definition of governance.....	12
2.1.3 The different modes of governance in the context of EU.....	13
2.1.4 Advantages associated with flexible governance	14
2.2 INTEGRATION THEORY	15
2.2.1 Neofunctionalism	15
2.2.2 Liberal intergovernmentalism	19
2.3 SUM UP	23
3. CSR IN THE WAKE OF THE LISBON & SUSTAINABLE DEVELOPMENT STRATEGIES	24
3.1 THE LISBON STRATEGY	24
3.2 THE SUSTAINABLE DEVELOPMENT STRATEGY	25
3.2.1 The CO ₂ challenge and sustainable development.....	26
3.3 CSR IN THE EU.....	28
3.3.1 History.....	28
3.3.2 Definition of CSR in the EU	31
3.4 SUM UP	33
4. CASE DESCRIPTION.....	34
4.1 THE CEMENT INDUSTRY	34
4.2 THE CAR INDUSTRY	37
4.3 SUM UP	39
5. VOLUNTARY CSR? THE PERCEPTION OF CSR FROM A THEORETICAL PERSPECTIVE.....	40
5.1 WHAT DRIVES CSR FORWARD?	41
5.1.1 The Neo-liberal school: Market incentives is what drives CSR forward, not regulation	41
5.1.2 The State-led school: State intervention makes sense to drive CSR forward.....	41
5.1.3 The Third-way school: Active stakeholders is what drives CSR forward.....	43
5.2 SHOULD CSR BE VOLUNTARY OR COMPULSORY?.....	43
5.2.1 ”The business of business is business”.....	44
5.2.2 Voluntary CSR	44
5.2.3 Some regulation can be advantageous.....	45
5.2.4 It depends on the views of the stakeholders	47
5.3 DISCUSSION & SUM UP	47
6. VOLUNTARY CSR? THE PERCEPTION OF CSR FROM A STATE, BUSINESS & CIVIL SOCIETY PERSPECTIVE	50
6.1 THE ROLE OF STATE, BUSINESS & CIVIL SOCIETY IN CSR	50
6.1.1 Relationship between state, business and civil society.....	50
6.1.2 CSR and the cement industry	55

6.1.3 CSR and the car industry	65
6.2 TRENDS & SUM-UP.....	69
7. VOLUNTARY CSR? EXPERIENCE AND INTERESTS IN THE EU.....	72
7.1 CSR AT EU-LEVEL – INTERESTS AND DIALOGUE.....	73
7.1.1 Interests of business and civil society representatives.....	73
7.1.2 Interests of the European institutions	76
7.1.3 The development at EU level	82
7.2 WHAT DOES THIS TELL?.....	86
8. FINAL METHODOLOGY	89
9. CONCLUSION	90
10 PERSPECTIVE	92
BIBLIOGRAPHY	93

TABLES

Table 1: Four modes of governance.....	13
Table 2: Relationship between CO ₂ targets and fuel consumption – maximum consumption of petrol and diesel for achieving the EU’s ACEA targets.....	38

FIGURES

Figure 1: Global man-made CO ₂ emissions	35
Figure 2: Projected CO ₂ emissions from the global cement industry through 2050	36
Figure 3: Actors and exchanges among state, business and civil society	51

1. INTRODUCTION

The world is facing new challenges as world temperatures continue to rise. Today one can hardly turn on the news without hearing about a flood, drought, melting icebergs or other environmental disasters. Nobody is exempt from being influenced by climate change why this is a topic, which has been placed on top of the agendas in countries as well as in international organisations.

Climate change has also gained momentum in the European Union (EU) and many policies have since the late 1990s focused on this subject. In 2001, the Commission presented the EU Sustainable Development Strategy (SDS), which states that compliance of the Lisbon goals to attain higher growth and more and better jobs must not happen at the expense of the climate as this is essential to ensure the quality of life of current and future generations (European Commission 2001a, 2). The Commission therefore encourages every European citizen, European businesses and European governments to take action and change consumption and investment habits to ensure the situation does not get any worse.

The EU claims to be in the forefront of international efforts to combat climate change (European Commission 2008). However, analyses show that there is still a long way to go in order to reach the goals the EU agreed to in Kyoto, namely to reduce the EU's atmospheric greenhouse gas emissions by 8% compared to the 1990 level by 2012 and the SDS' CO₂ goals by at least 20% by 2020. In 2005, the EU had only reduced its greenhouse gas emissions by 2% compared to the Kyoto base year value which is why citizens and businesses are encouraged to make an even greater effort to reduce their emissions (Eurostat 2007, 287). Energy consumption tends to grow with economic growth, which means that emissions of CO₂ are closely related to the level of economic activity. Therefore, there tend to be concern that any attempt to reduce emissions has negative effects on the economy as the burden is placed on companies and governments, which can lead to higher unemployment and more expensive products for consumers. However, the consequences of not taking any action may prove to be even higher (Eurostat 2007, 41).

1.1 PROBLEM

In 2001, the Commission presented a green paper highlighting that to meet the SDS goals a greater sense of corporate social responsibility (CSR) is needed among businesses as these are causing high levels of anthropogenic CO₂ emissions. CSR was in the green paper presented as

a way whereby businesses voluntarily integrate social and environmental concerns into their business strategies (European Commission 2001b, 10). However, this voluntary or self-regulatory approach has been subject to much criticism. E.g. NGOs perceive it as naïve to believe that businesses actually think in anything besides economic gains. Debate on whether CSR shall be voluntary or compulsory has therefore ruled out since the subject entered the agenda in the EU. Therefore, when discussing whether CSR shall be voluntary or compulsory in a European context, this debate is much about how to ensure businesses' competitiveness while having as low consequences on the climate as possible. This thesis will therefore examine:

To what extent does it make sense to stick to a voluntary approach to CSR as a tool to meet the Sustainable Development Strategy's CO₂ goals?

By on the one side examining the advantages and disadvantage of a voluntary approach to CSR and the alternative governance methods according to CSR schools and theorists and on the other side holding these views up against that of state, business and civil society this thesis aims at assessing whether a voluntary CSR approach makes more sense in meeting the SDS's CO₂ goals than a more compulsory approach by examining the interests at stake at as well member state level and EU level by using the cement and car industries as cases.

The thesis deals with many different aspects and elements at the same time, namely the Lisbon Strategy, the SDS, CSR, governance and CO₂ but how are all these aspects interlinked? A third and sustainable pillar was added to the Lisbon Strategy in 2001. The aim of this pillar is to ensure that meeting the Lisbon goals to attain higher growth and more and better jobs will not happen at the expense of the climate. However, sustainability and compliance with the SDS goals must not happen at the expense of the competitiveness and growth either. One way the Commission has highlighted to ensure innovation and competitiveness of European businesses but still by thinking sustainability into these aspects is by encouraging a greater sense of CSR among businesses and this way make them integrate sound environmental policies into their business strategies. CSR is therefore seen as an attempt to translate the concept of environmental sustainability into an operational tool or instrument to obtain the SDS goals for businesses. This whole concept is interlinked with

governance and governance strategies in the sense that when choosing CSR as a tool to meet these goals, the EU had a choice. It could choose that CSR should be voluntary as it was seen in most other international organisations, compulsory or something in between these two approaches according to which conviction they believed the SDS goals would best be met without slowing down innovation and growth. Theorists and different CSR schools take a different stance on these issues ranging from Milton Friedman saying that businesses will always see CSR as an additional cost; to Porter and van der Linde, who believe that businesses will engage in CSR as it will lead to profit and regulation in this respect not necessarily is a disadvantage as it may create incentives for businesses to move beyond what is required of them by law; and to Freeman who claims that businesses have a responsibility towards more than simply shareholders and must meet stakeholder demands. Without meeting these demands, businesses will not be able to survive.

1.2 APPROACH TO PROBLEM

A model by Treib et al. presenting the different governance methods available in the EU is the framework of this thesis. This governance model will be used to place CSR within a theoretical framing and provide an overview of the alternative governance models to voluntarism. CSR schools and theorists do not agree on which approach they believe makes most sense in order to make businesses take a greater responsibility. These theoretical views will be held up against the interests of states, businesses and civil society when it comes to businesses' reduction of CO₂ by looking at the cement industry and the car industry at as well local as regional levels. This approach will be used in this thesis as it is believed that the many interests at stake are the decisive aspect in deciding whether it makes sense to stick to a voluntary CSR approach. Different CSR schools and theorists will therefore be included in this thesis to assess whether they can clarify or explain advantages and disadvantages of the different approaches compared to specific real world experiences namely experiences from the cement and car industries. Neofunctionalism and liberal intergovernmentalism will be included in an attempt to explain the debate and development of CSR at EU level as the chosen approach to CSR ultimately is chosen and negotiated by the EU-institutions. Focus will again be on experiences from the cement and car industries. Finally, the debate on whether to regulate or not may be placed within the ongoing discussion of socialism versus liberalism.

The thesis will therefore be a theoretical study examining and discussing whether the

chosen approach to CSR makes sense by the examination of theories and theorists in relations to the specific cases of the car and cement industries and in relations to the different levels.

The problem of this thesis has an assessing character. The assessing character of the question lies in the words “*To what extent...*”. This thesis will not end out drawing a line saying that to this specific point it makes sense to stick to a voluntary CSR approach as this is believed to be impossible. Instead this thesis will be based on an examination of the interests at stake and based on these and experience from the specific cases the thesis will discuss whether tendencies show that it will make more sense to introduce another governance method to meet the SDS’s CO₂ goals or to stick to a voluntary approach. The words ‘*make sense*’ will therefore refer to a discussion on advantages and disadvantages of state intervention and the problematics associated with this in the case of CSR first by examination of the cases and next a discussion at the European level.

1.2.1 PRESENTATION OF HYPOTHESIS

The main assumption of this thesis is that businesses only will engage in CSR if this is associated with economic gains why they need a push to take their responsibility for the climate change seriously. Civil society representatives have become more active in lobbying towards the Commission as climate change has reached a momentum. This has facilitated the way towards regulation. This leads to the hypothesis of this thesis:

It does only to a limited extent make sense to stick to a voluntary approach to CSR. Conditions have changed, which means that the European institutions are experiencing increasing pressure from civil society to which these are expected to respond.

Hypothesis

The assumption of this thesis will be examined based on experience from the two cases examined. It will be examined whether on the one hand businesses’ interests have been favoured over those of civil society and on the other hand whether any development has occurred meaning that pressure against the European institutions have increased.

1.2.2 MOTIVATION

CSR has been a buzzword the last years. Much debate has taken place about CSR and the effect of this concept. Besides, CO₂ and climate change has indeed entered the global agenda today. Despite of this, CSR and CO₂ have often not been associated. When starting working

on this thesis this was an issue, which was not on top of the public agenda. However, this has indeed changed. The fact that the Confederation of Danish Industries only within the last couple of months have started to engage in CSR and CO₂ and how to support Danish enterprises' voluntary effort to reduce the negative impact on the climate in the best way possible speaks volumes of the development which has taken place on this issue.

It is believed that CSR and the role businesses play in reducing CO₂ emissions will stay on the agenda for years to come and even receive increasing attention in the coming years towards the United Nations climate change summit (COP15) in Copenhagen in 2009 and towards 2012 where the Kyoto goals must be met. As the situation looks today the member states and thus the EU are struggling to meet these goals. As the industry and consumers are seen as the two great sinners in this respect it is believed that businesses to a higher and higher degree will be held responsible for the way they conduct their activities. Besides, it is believed that member states and the EU to a higher degree will be forced to consider what can be done to further lowering CO₂ emission levels. Due to this, it is believed that the chosen approach to CSR will come under revision. This thesis therefore contributes to the ongoing debate on voluntary versus compulsory CSR in a European context as a discussion on whether the governance approach should be taken up for reconsideration and will provide with a new insight on CSR and CO₂. This thesis is therefore believed to be relevant in a world where CO₂ emission levels are way too high and where a struggle for reducing these CO₂ emission levels is seen. This thesis touches upon topics of increasing interest and relevance. The choice to examine whether it makes sense to stick to a voluntary approach in meeting the SDS's CO₂ goals has been the result of the increasing attention climate change and CO₂ emissions have been given and the interest in looking at the role CSR plays in reversing this trend.

1.3 METHODOLOGY

1.3.1 Choice of theory

Available governance methods will be presented with a model by Treib, Bähr and Falkner. As this thesis questions the chosen governance method the model is seen as a relevant framework. This model will provide an understanding of which instruments are at hand when dealing with CSR. Many different governance models have been presented over time but it is believed that this model applies to the context of this thesis due to the following reasons; First of all, this model focuses on governance methods in the context of the EU and also includes

the more flexible approaches, than simply the top-down or community method. Second of all, models have their point of departure in either the policy, polity or politics dimension. This model focuses on the policy dimension, which correlates well with the approach to this thesis as it is an examination of the chosen approach. However, the thesis will also look at the politics as it will look into what happens at EU-level. The model is a general model which can be applied to different policy areas and not strictly to CSR. However, this model is believed to be relevant in this context as it covers the aspect of flexibility and rigidity and highlights the characteristics of these different methods. The model can be criticised, though, for not including the role of different actors in relations to the different governance approaches. A thorough examination of the understanding of governance could be made but due to limits of space a broad definition will be taken to this in the thesis as a broad definition covers the Community method and the more flexible governance methods as does the model by Treib et al. This model presents four different governance methods. However, emphasis will be on three of these approaches (coercion, framework regulation and voluntarism) as voluntarism and framework regulation reflects the approaches chosen to CSR in the EU and coercion reflects the Community method used in general in the EU. Targeting will therefore not be included in the analysis as it is believed to be difficult to assess the advantages and disadvantages of this approach, without being able to compare it with real-life examples.

This model will not be used to assess whether the specific approaches taken to CSR within the EU does totally fit within this model. The model provides a framework for the thesis rather than it aims to discuss whether the model manages to explain the specific case of CSR.

To place CSR within the context of this governance model, three CSR schools and the views of different theorists will be presented. These schools and theorists favour different approaches to CSR and may therefore be placed differently in the model by Treib, Bähr and Falkner. Besides, they introduce the role of state, business and civil society, which lacks in the model by Treib et al. These schools and theorists therefore participate in the debate on whether CSR shall be voluntary or regulation is needed, and which aspects are decisive in making businesses take their responsibility seriously.

The choice to include liberal intergovernmentalism and neofunctionalism has been made to analyse tendencies on the subject at EU-level. Liberal intergovernmentalism may be able to explain the mandate, which national governments have on the issue hence their stance

on CSR, and neofunctionalism any development, which has taken place. These theories will therefore contribute to answering the hypothesis presented above as they will be able to explain how development, which has happened on CSR, is reflected in the approach to CSR within the EU based on interests of as well states, businesses and civil society.

Together this forms the theoretical framework of this thesis. This framework is relatively broad and covers many aspects. This is however believed to be necessary when dealing with a complex issue and in order to be able to assess whether it makes sense to stick to a voluntary approach, which will be done by examining experiences from the local as well as the regional level.

1.3.2 Choice of cases

Whether the theories manage to explain what has actually happened will be examined by using the cement and car industries as cases. Though these cases have been chosen due to their similarities, they too have differences. The main similarity is that both industries are highly polluting and it is therefore seen as very relevant that these industries manage to reduce CO₂ emission levels. It is interesting why a more mandatory approach has been chosen towards the car industry but not the cement industry. This may e.g. be explained by the fact that in the cement industry it is the production process, which is polluting whereas in the car industry it is the end-product. Furthermore, cement is a business to business product whereas cars are bought by everyone. These aspects are believed to have high relevance behind the chosen governance method. Including the car case in relations to examining a voluntary CSR approach is relevant as experience can be drawn from this specific case. Examining these cases, therefore makes it possible to discuss advantages and disadvantages of the different approaches and to hold them up against the different CSR schools and theories.

As this is not an empirical study this will not be a thorough case study based on personal empirical examinations. Besides, this thesis is not a comparative analysis where the two cases will be held up against one another but experiences will be highlighted from the different cases and how the different approaches to CSR have been perceived by these industries.

1.3.3 Delimitations

1.3.3.1 Delimitation in relation to CSR and the SDS

This thesis will focus on the environmental aspects of the SDS and CSR and leave out the social aspects of these two strategies. However, fully to separate the three aspects of economy, environment and social aspects is difficult, which will also be seen in the thesis. Environmental decisions can suddenly become of a social character if it is decided that a company must be relocated as this will lead to layoffs. Therefore, when stating that social aspects will not be dealt with in this thesis it is referred to aspects such as health and safety issues at the workplace, working conditions, etc. Furthermore, when dealing with CSR focus is often on branding. To completely exclude this from the thesis is difficult as businesses clearly are active in CSR due to gains of reputation from it. However, this thesis will focus on the political and economic aspects of CSR.

This thesis strictly aims looking at CSR in relations to CO₂. Therefore, the conclusions of this thesis only apply to CO₂ reduction. Besides, what apply to these two industries must not necessarily apply to other industries as the degree of attention from civil society, the degree of pollution levels, etc. are changing from one industry to another. However, despite of these specific aspects and characteristics it is believed that the final conclusions will be able to give an indication of the industries in general.

When the term ‘CSR’ is used in this thesis it refers to the environmental aspects of CSR. Various definitions of CSR exist. In this thesis the definition by the EU will be used. This thesis will not provide a thorough discussion of the definition of CSR as this is believed to be a study in itself. Many different notions are used in the literature on CSR such as corporate citizenship, business ethics, corporate sustainability, etc. In this thesis no distinction will be made between these different terms.

1.3.3.2 General delimitations

This thesis will examine CSR at both the local and regional levels. However, when examining CSR at the local level it will not be an examination of how CSR is approached in the different member states. Some specific examples will be highlighted from the member states but the thesis tends to take a general view to this. As very specific conditions exist in the member states and CSR is understood differently as some tend to highlight social aspects of CSR and others take a more general approach to CSR, it will be difficult to examine all these different approaches and how CO₂ reduction is integrated into the national CSR approaches.

1.3.3.3 Time span

The time span of this thesis will be from 2000 until today. The reason for choosing this time span is to be able to go in depth with what has happened since 2000 where the Lisbon Strategy was introduced. As CSR also first formally given attention in the EU from around this time this seems like a logical time frame.

1.3.3.4 Literature

Different sources will be used to critically explain and assess whether it makes sense to stick to a voluntary CSR approach. Despite of the increased attention on climate change and in this respect on how CSR can be used as a tool to meet the challenges associated with these changes, not much literature deal with this specific link. The correlation between CSR, governance and climate has not received much attention. Nevertheless, it is possible, on the one hand, to find material on CSR and climate and on the other hand on CSR and governance. Therefore, it is believed that it is possible to reach sound conclusions to the posed problem based on the material used in this thesis.

1.3.4 Structure of the thesis

Chapter 2 of this thesis will provide the *theoretical framework*. Governance in a European context will be presented. Besides, the integration theories neofunctionalism and liberal intergovernmentalism will be presented. Chapter 3 will present the *context* in which CSR has been understood i.e. first a short presentation of the Lisbon Strategy will be given, next the SDS will be presented where a section will pay focus mainly on the interrelationship between the CO₂ challenge and the SDS. Finally, CSR in a European context will be introduced. This section will therefore provide an understanding of CSR in the context of the Lisbon and the Sustainable Development strategies and why CSR cannot simply be thought into only one of these strategies and therefore create a frame for why it makes sense to look at Lisbon, the SDS and CSR in relations to the problem of this thesis. Chapter 4 will give a short *introduction* to the cement and car cases with special focus on the businesses' CO₂ emission challenges. In the case of the car industry, the ACEA agreement will be presented. Chapter 5 will *examine* and *discuss* whether a voluntary or compulsory approach to CSR makes most sense according to three different CSR schools; namely the neo-liberal school, the state-led school and the third-way school and what drives CSR forward according to these schools. Whether CSR should be voluntary or compulsory according to the perceptions of theorists

such as Friedman, Porter and van der Linde og Freeman will be presented. In this chapter the advantages and disadvantages of the different approaches to CSR will therefore be analysed. This chapter therefore place CSR within the discussion on governance. Chapter 6 will first look at the relationship between state, business and civil society. Next an examination of the cement and car cases will be made. The perception of the different governance methods will be examined in relation to the cement and car industries and the interests of the state, business and civil society in this respect. The cases will be *analysed* making parallels to the theoretical context examined in chapter 5. It will therefore be discussed whether these theories are able to explain trends and can indicate whether one approach to CSR makes more sense than another by comparing this to real-life examples. In chapter 7 the analysis will be taken to the EU-level. This will be done as it ultimately is at this level the approach to CSR must be decided. The interests of the European Commission, the Council and the European Parliament will therefore be analysed as well as the interests and criticisms expressed by businesses and civil society towards the institutions. This way it will be possible to *analyse, discuss* and ultimately *assess* whether some interests have been favoured over others. Finally, a discussion and assessment of the problem of this thesis will be carried out looking at the different interests and elements the thesis has provided throughout the examination. Chapter 8 will provide some methodological considerations, which have had consequences for the analysis. Chapter 9 will be the conclusion of this thesis. Chapter 10 will very briefly place this subject within the broader discussion on state intervention versus no state intervention.

Methodological considerations and the value of the different chapters in answering the problem will be further elaborated throughout this thesis.

2. THEORETICAL FRAMEWORK

This chapter will provide the theoretical framework for this thesis necessary to ultimately assess and discuss whether it makes sense to stick to a voluntary CSR approach. A voluntary governance approach has been chosen as the tool to CSR in the EU but other approaches could have been chosen instead. Governance is a keyword and forms the frame of this thesis as the assessment and discussion taking place ultimately is about this approach chosen to CSR. In order to create this framework a model by Treib, Falkner and Bähr has been chosen as it deals with governance at a European level and provides a broad understanding of the advantages and disadvantages associated with the different models. Next, neofunctionalism and liberal intergovernmentalism will be presented. These two theories focuses on integration and may provide an understanding of why CSR is voluntary and whether any development has been observed, which is important to be able to understand the voluntary nature of CSR and to assess if this approach seems as the right choice or only as a provisional approach.

2.1 GOVERNANCE IN THE EU

In this section, the change from the community method to the use of new or flexible governance methods in the EU will be presented as well as some of the reasons behind the introduction of those new methods. This section will not be a thorough presentation of the governance debate as this is beyond the scope of this thesis but governance will be shortly defined and based on a model by Treib et al., which is believed to be of relevance to this thesis due to the reasons stated in section 1.3.1. To be able to conclude on whether it makes sense to stick to a voluntary CSR approach cannot be done without looking at the alternatives and the advantages and disadvantages with these different approaches to deal with issues such as CSR, which are complex and embraces many different policy areas. Classification of modes of governance in terms of the degree of involvement, coordination and authority of public and private actors is a valuable tool for understanding the potential of the different modes of governance and to be able to answer the problem of this thesis. This section will therefore deal with the modes of governance available in the EU.

2.1.1 From the ‘Community method’ to new or more flexible modes of governance

Focus on governance and governance methods have attained increasing attention during the last years. This is due to the fact that new or more flexible governance methods have

developed, which to a higher degree are applied in the EU context. According to Treib et al. distinguishing between old and new governance methods, which most academic articles tend to do, is without value as some governance methods, which might be new in some contexts might be well-established in other contexts. Besides most occurring governance methods are build on already existing governance methods (Treib et al. 2005, 4). Therefore, the term ‘flexible modes of governance’ will be used instead of ‘new modes of governance’ in this thesis.

The development of more flexible strategies was first seen with the introduction of the Euro. Before the introduction of the currency, there was a need for coordinating the member states’ economic policies and for the member states to achieve specific goals. However, as the member states’ economic policies were based on highly different structures there was a need for a loose and flexible structure, which ultimately led to specific attainments. Later on, the use of flexible governance methods has mostly been seen when dealing with employment issues. This flexible method was introduced to deal with employment issues due to the fact that employment is associated with highly different political structures and ideologies in the member states. Employment issues were seen as firmly rooted in the institutional traditions of the member states and were therefore of highly sensitive matter to the governments. The fact that integration had reached a level where the core areas of the European welfare states were directly affected by the policy decisions taken at EU-level meant that a more flexible structure than the community method was needed (Jacobsson 2001, 2).

2.1.2 Definition of governance

Different definitions of governance exist. Adrienne Héritier has defined governance in a broad and a more narrow way. In the broad use of the concept governance *“implies every mode of political steering involving public and private actors, including traditional modes of government and different types of steering from hierarchical imposition to sheer information measures”* (Héritier 2002, 185). Defining governance in a more restricted sense she states as *“types of political steering in which non-hierarchical modes of guidance, such as persuasion and negotiation, are employed, and/or public and private actors are engaged in policy formulation”* (ibid). This more narrow definition of governance excludes the more traditional and hierarchical instruments why this definition refers to the more ‘flexible modes of governance’. Stoker also applies the more narrow definition of governance as he defines this as the development of governing styles in which boundaries between the public and private

sectors have become blurred. According to him governance therefore provides a framework for understanding changing processes of governing. Furthermore, governance also draws the attention to the shift in responsibilities where governments are stepping back and push responsibilities onto the private and voluntary sectors as well as the citizens (Stoker 1998, 21). By a more flexible mode of governance is therefore understood a process, which “(1) include private actors in policy formulation, and/or (2) while being based on public actors, (3) are only marginally based on legislation (...) or that are not based on legislation at all (Héritier 2002, 186).

In this thesis, governance will be used in the broad or encompassing sense as the thesis focuses on the governance methods available in the context of the EU, which comprises as well the traditional top-down approach or the community method, which in the case of the EU comprises of directives and regulations to more flexible modes of governance such as voluntariness.

2.1.3 The different modes of governance in the context of EU

The model by Treib et al. below deals with four modes of governance namely coercion, targeting, framework regulation and voluntarism. The model is identifying these methods according to whether the policy instruments are based on legally binding provisions or non-binding instruments and whether the implementation method is rigid or flexible. By binding provisions is meant regulations, directives and decisions whereas the non-binding instruments cover e.g. acts, recommendations, declarations and guidelines. A rigid implementation approach defines clear goals, which must be met in a uniform fashion in all the member states whereas the flexible approach leaves it to the member states how to meet the agreed provisions (Treib et al. 2007, 14).

Table 1: Four modes of governance

	Policy instrument		
		Binding	Non-binding
	Rigid	Coercion	Targeting
	Flexible	Framework regulation	Voluntarism

Source: Treib et al. 2007, 14

Coercion is characterised by binding legal instruments. This means that little room for manoeuvre is left to the member states in the implementation process as the standards, which must be met are prescribed in a detailed and fixed manner. This governance method is the least flexible of the four methods presented in Treib et al.'s model and therefore it is the most intrusive instrument the EU institutions can use to make member states implement given acts. In this way there are relatively clear rules about how decisions are taken (by qualified majority voting or unanimity), who is involved in the process (e.g. the Council, the Commission and the European Parliament) and how the decision reached is supposed to be implemented.

Framework regulation is also binding in nature but in contrast to coercion it leaves the member states some leeway in the implementation of e.g. directives. This is for example done by defining broad goals but leaving it to the member states to make the goals more specific and decide how these goals must be met. The degree of EU intervention is therefore higher than when using non-binding instruments in the voluntary and targeting modes but lower than when using coercion as governance method. The use of this governance method can therefore also mean a greater degree of involvement of external parties such as social partners and business associations depending on the issue.

Targeting is characterised by non-binding recommendations but these recommendations are rather detailed so the member states do not have great possibility to influence how these are to be implemented.

Finally, *voluntarism* is the opposite of coercion as it is based on non-binding instruments and broadly defined guidelines. This method is defined by setting end-goals as it focuses on achievement rather than defining concrete reforms and leaves it to the member states how to obtain these non-binding goals using instruments such as best practices and peer reviews. This is therefore characterised by a low degree of supranational intervention. When dealing with this governance method the open method of co-ordination (OMC) is mostly highlighted but this is also used in other policy fields as will be seen with corporate social responsibility below.

2.1.4 Advantages associated with flexible governance

According to Héritier, the more flexible or voluntary modes are associated with specific advantages. First of all, the flexible or voluntary approach shall speed up decision making and avoid gridlocks. The fact that a threat of legislation is present tends to increase the willingness

of actors to agree on voluntary measures. As this mode is not based on regulations it is believed that it will meet less resistance from member states and the actors influenced by the agreements, e.g. businesses. Member states tend to be positive towards flexible governance methods as it allows them higher autonomy in shaping policies. Also trade associations and NGOs tend to be positive towards this as they have gained a greater role as they to a higher degree are consulted during decision making processes. Therefore, with the introduction of more flexible governance methods, a move from the more traditional top-down or vertical approach in the form of directives and regulations to a more horizontal approach is seen, which means that actors such as businesses and civil society to a higher degree are introduced in as well policy making processes and in the implementation procedures. Besides, an important advantage highlighted by a voluntary approach is the fact that private actors have participated in the process of the accord, which is believed to provide these actors with motivation for carrying out the accord. Furthermore, depending on the policy instruments used, but by using e.g. the ‘best practices’ instrument, a high degree of interdependence occurs among actors, which leave them with extensive information about other market actors. The advantages of this mode are therefore associated with higher flexibility of the policy measures and the possibility of better adaptability (Héritier 2002, 187).

2.2 INTEGRATION THEORY

2.2.1 Neofunctionalism

Neofunctionalism was developed in the 1950s and 1960s and is used to explain processes of regional integration mainly in Western Europe. The theory builds on the work of Ernest B. Haas and later it has been followed up by other theorists (e.g. Lindberg). Haas himself declared the theory for obsolete as integration started to stall in the 1960s after de Gaulle’s ‘empty chair policy’.

2.2.1.1 Rational actors with self interest as a motive

Neofunctionalism presume that primary actors in the integration process are political elites. These political actors in different geographic areas are convinced to direct their loyalty, expectations and political activities towards a new, political centre. When integration happens in one sector this will spread to other sectors and generate impetus for ongoing integration. As this happens actors shift their loyalties and activities to this new centre, which demands jurisdiction over nation states. These actors will shift their loyalties as they believe their

interests are better met at this new supranational level. The integration which takes place is a product of self-interest. Political integration and the growth of authority at supranational level will happen as a consequence of modest economic integration at the long-term. The goal of integration has therefore been stated to be political but the means were presented as non-political. The result of this is therefore the creation of a new state out of integration of several states (Rosamond 2000, 202).

2.2.1.2 *The integration process*

Neofunctionalism claims that integration to a higher degree is about a process than a condition. The basic assumption is that cooperation in one area automatically will lead to cooperation in other areas. Haas called this for spillover. This means that when the national governments have taken initiative to integrate in one area the process takes on a life on its own, which tends to take the member states further than they intended to go in the first place. Lindberg presented this in the following way:

In its most general formulation, ‘spill-over’ refers to a situation in which a given action related to a specific goal creates a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and a need for more action, and so on (Rosamond 2000, 60 & Strøby-Jensen 2000, 73-74).

There are three kinds of spillover: functional spillover, political spillover and cultivated spillover. *Functional spillover* argues that there is a high interdependency between sectors in a modern industrial economy so it is not possible to isolate one sector from the other. This means that when member states integrate in one sector this will build pressure, create strong incentives for further integration and the interconnectedness between the sectors will lead to spillover into other sectors or further integration in sectors where integration is already seen (task expansion). Spillover therefore occurs when integration is incomplete and undermines the effectiveness of existing policies both in areas that are already integrated and in sectors related to that where only limited integration has taken place. When integrating in one area there was hope of creating a momentum whereby the transfer of some competencies would facilitate the transfer of other competencies (Groom 1978, 113). Haas however came to understand that in order for spillover to happen a push had to be given in the right direction therefore moving away from the belief that such spillover would occur due to automaticity. Such spillover required coordination and direction from supranational institutions (Rosamond

2000, 61).

According to neofunctionalist theory the nation state is not the only or dominant actor at the international stage (George & Bache 2001, 9; Strøby-Jensen 2000, 73). Especially the Commission but also the European Court of Justice are seen as important players by the neofunctionalists. The Commission is believed to be in a unique position as it can put pressure on the member states to advance the process of European integration even when member states are reluctant to transfer sovereignty to the supranational level (George & Bache 2001, 10). Haas has argued that when negotiating, the outcome does rarely move beyond the 'minimum common denominator' why it is the role of the Commission to try and push the member states towards further integration and upgrade the common interest. The outcome of the negotiation process is therefore to some degree dependent on the ability by the Commission to do this (Tranholm-Mikkelsen 2001, 4-6). This has been called for *cultivated spillover*.

As the process of integration is gaining speed and supranational institutions increasingly are gaining competencies *political spillover* will occur meaning that elites will get the perception that their interests are better served if they are shifting their focus from the national to the supranational level. The actors will therefore refocus their interests and activities to this new level. This will lead to elites requesting for more integration. Such elites may e.g. be non-governmental such as leaders of political parties, business associations and interest groups or governmental elites such as COREPER, sub-committees and study groups (Rosamond 2000, 63; Tranholm-Mikkelsen 1991, 4-6; Groom 1978, 119). As activities expand elites seek legitimacy so their activities may expand still further. Because of this there is a tendency that new interest groups will form at regional level.

However, expansion of activities is believed to be associated with risks as political actors, interest groups, civil servants, etc. who are associated with the national decision-making centre may seek to stop the process of integration if this happens too soon or in too many areas (Groom 1978, 115).

According to Rosamond, neofunctionalism can be read as pluralist theory. Agreement among the national elites cannot always exist. As societies are composed of many different interests and these actors try to pursue their wishes the actors have a tendency to configure into different groups. These groups compete against influencing the decision-making

procedure and the policy outcomes (Rosamond 2000, 55). In pluralist theory, these groups direct their interests at the nation state, which therefore is subject to the different demands these groups request. In the case of neofunctionalism, the ideas behind pluralist theory transplant from the national to the supranational level as the industrialised, pluralistic and bureaucratic nature of the EC will ensure the presence of self-interested groups at the national level where they will act “*self-regarding and goal-driven*” (op.cit, 56) and in doing this they will provide dynamics for further integration. Therefore, integration will according to neofunctionalists “*(...) become apparent in changed behaviour on the part of groups. Most obviously, integrative processes would alter the attitudes and strategies of interest groups seeking to influence policy outcomes*” (ibid). These groups may change political tactics in order to ensure access to influencing the central institutions. One may therefore talk about a shift in loyalties as actors change their attention and loyalties at the supranational level. However, it might happen that actors continue to assume that their needs are met by national agencies. If this is the case, loyalty transference will not happen as imagined.

Over time Haas declared his theory for obsolete. He came to argue that integration pushed forward or led by a ‘dramatic actor’ (the Commission) backed by the authority will have greater effect in pushing integration forward than integration inspired by functionalist logic. However, this integration could also reverse if disagreement exists among the governmental and non-governmental elites. If such disagreement exists a risk for integration to fail will be present. As the Western societies are characterised of pluralism Haas argued that widespread consensus was not likely to occur often and “*progress of integration would rely on the balance of goals among elites and key groups*” (op.cit, 67).

Neofunctionalism thinks more in the transfer of elite loyalties and less in that of cognitive shifts among citizens despite this being a vital component in the process of forming a new political community (op.cit, 66). It was believed that if the elite led, the masses would follow (Groom 1978, 120).

Neofunctionalism therefore focuses on spillover as a concept where it is believed that integration in one sector automatically will create incentives for integration in other sectors. Besides, as integration gathers pace interest groups, associations, governmental elites, etc. will transfer their loyalty away from the national level towards the supranational EU-institutions. Finally, the supranational institutions will take the lead in furthering integration.

2.2.2 Liberal intergovernmentalism

Neofunctionalism has been criticised for its inability to explain the process and development of European Integration (Strøby-Jensen 2001: 72). Liberal intergovernmentalism was developed by Andrew Moravcsik in an attempt to create a response to the neofunctionalist analysis of European integration. Liberal intergovernmentalism agreed on with neofunctionalism focus on economic interests as a reason for integration but Moravcsik has also argued that the self-criticism which the neofunctionalists themselves had developed had to be taken more seriously. He therefore identified three self-criticisms:

- The regional integration theory, which followed a path towards a federalist goal, had to be supplemented by a more general theory which could explain national responses to international interdependence as neofunctionalism explains national processes but fails to explain variation in national demands for integration and the causes for these;
- the development of common policies had to get as much attention as the transfer of competences to the institutions in integration theories, and
- more than one theory was needed to explain the complexity of European integration and policy-making. The theories should be able both to explain the nation states' preference formation and the negotiation process (Moravcsik 1993, 478-489).

Moravcsik tried to take these critique points into consideration when he developed liberal intergovernmentalism. Liberal intergovernmentalism is based on three elements: 1) an assumption of the rational behaviour of states, 2) a liberal theory on how national preferences are formed, and 3) an intergovernmentalist understanding of how interstate negotiations take place (op.cit, 480). States are according to liberal intergovernmentalism seen as primary actors behind European integration. The interests and preferences of the states play an important role when decisions of 'high politics' character are to be made. Preferences are, according to Moravcsik, determined by interest groups and political forces in the member states. The national preferences are primarily determined by the costs and benefits of economic interdependence. As governments are always concerned about staying in office the governments try and act according to the interests of the interest groups and political forces. Therefore these groups articulate preferences and the governments carry them out. As preferences are not fixed but the result of the domestic political process "*the foreign policy goals of national governments are viewed as varying in response to shifting pressure from domestic social groups*" (op.cit, 481). National interests occur through political conflicts

among societal groups, which fight for political influence. Therefore, groups that associate an international agreement and international cooperation with great losses or gains tend to be most influential. According to the liberalist aspect of liberal intergovernmentalism the *“constraint ultimately rests on the desire of politicians to avoid imposing costs on – and thereby alienating – those social groups whose support maintains them in office”* (Moravcsik 1993, 484). So where Neofunctionalism focuses on the international society and supranational institutions, liberal intergovernmentalism concentrates on the state as the centre of analysis (op.cit, 480-481). Integration takes place as a means of achieving issue-specific domestic goals which are not always to achieve through domestic political means (op.cit, 485).

In accordance with Moravcsik, a two-step process must be analysed to comprehend European integration; preference formation and intergovernmental bargaining. The preferences of a state are mainly determined by a balancing of economic interests. The basic idea is that domestic economic and social interests play an important role in international politics as long as these interests are mobilized and recognised (George & Bache 2001, 14).

The second part of the theory investigates how conflicting interests are settled in negotiations at the EU-level. This happens in two stages. First, an agreement must be made on a common response to the current problem. Hereafter, the member states may try to reach an agreement on an institutional arrangement which is best suited to this common response (George & Bache 2001, 14; Moravcsik 1993, 481). According to liberal intergovernmentalists, the lowest-common-denominator outcome is present when the risk of a non-agreement is present in bargaining situations meaning that the outcome of bargainings is constrained by the preferences of the least forthcoming government (Moravcsik 1993, 501). Where the governments have rather weak or divided interests in integration, the aim of the institutions is to overcome domestic opposition more successfully by giving the governments greater political legitimacy and by giving them a greater say in the domestic agenda-setting power. The institutions are therefore seen as subservient to states and do not take on a life of their own once created (Moravcsik 1993, 515). This first stage therefore identifies the potential benefits the national governments' may obtain by cooperating based on the domestic preference formation process (demand) whereas the second stage defines the possible political outcome (supply). The interaction between those two aspects (demand and supply) shapes the behaviour of states. The outcome of bargainings is therefore explained by the member states' positions and their preferences.

2.2.2.1 National preference formation

Due to the research question of this thesis it is interesting to look a bit more into the preference formation. The theory of preference formation is as mentioned above based on liberal thinking. Liberal theories focus on the effect of state-society relations in shaping the national preferences (Moravcsik 1994, 483). As mentioned above, the goals of national governments in international bargaining situations varies according to the shifting pressure the national governments are exposed to. Private individuals and voluntary associations, which interact in civil society, are seen as the most influential actors. The interests of these groups vary according to subject and time according to the weighed costs and benefits and are not always clearly defined. Interests of the societal groups place constraints on the national government. Constraints vary according to the strength and unity of these social groups. In areas where net costs and benefits of the alternative agreement are risky or significant, citizens and firms will mobilise, which then results in constraints on governments and therefore leave this with little flexibility in negotiation situations. This will often result in a lowest common denominator outcome (op.cit, 487). Furthermore, in specific areas plausible motivations exist for government's support (or opposition) for European integration. One of these areas is what Moravcsik calls the *economic interdependence* motivation (op.cit, 484). This motivation sees the international cooperation as a way to coordinate national policies to manage flows of goods, factors of production and economic externalities more effectively than if no cooperation exists. As cooperation and transborder flows increase incentives to cooperate have also risen. Incentives to cooperate exist when such cooperation makes it possible for national governments to achieve goals, which were not otherwise possible to achieve. Cooperation is therefore perceived to be most valuable when coordination eliminates negative international policy externalities; i.e. a country with strict regulations can benefit from cooperation as it is believed that countries with lax domestic standards are currently having a negative impact on the country with strict domestic standards e.g. less favourable competitiveness conditions. Therefore, cooperation is not always supported by governments or by societal groups. Support for liberalisation and protection will always reflect the expected costs and benefits of a change in policy. When looking at the national preferences at the EU-level, Moravcsik claims that social groups with a high interest in a given policy have a greater tendency to mobilise than those with a weak interest. This means that political bias occur as producers tend to be better represented than those with a more diffuse interest such

as consumers and tax-payers. This also account at national level where it is believed that pressure from private economic actors is sufficient to make governments liberalise as pressure from producers impose constraints on state policies (op.cit, 488). The interest formation therefore depends on the identity of important societal groups, the interests of these groups and the influence on the domestic policy by these groups (op.cit, 483).

2.2.2.2 Public goods provision

In cases where the EU tries to coordinate policies to abate market failures as in the case of environmental protection, incentives for policy coordination also exists in areas with negative policy externalities. In case of cooperation in such areas governments must find a balance between on the one hand economic transactions and on the other hand public good provisions. Cooperation in such areas depends on the interests of governments; whether they are primarily concerned about trade liberalisation or providing public goods. In case of trade liberalisation the government will act according to gains associated with cooperation as explained above. In case of providing public goods, coordination depends on the level of conflict among the different governments. If governments e.g. have very different environmental goals cooperation is difficult as it is likely to be costly. Moravcsik states that interests in such areas often are broader than in commercial policy. This is due to the pressure from interest groups and civil society on such issues. In areas where existing national regulations have broad public support resistance towards a common European policy is likely to be high. The degree of constraints placed on the government depends on the intensity and divergence of the different interests. According to Moravcsik, in areas where regulation will directly influence production processes and goods the mobilisation of producer groups is likely to be strong. However, in areas of e.g. pollution the societal interests tend to be more diffuse. In cases where either strong public or commercial interests are unified in the wish for policy coordination the government will act according to these wishes. Where the results are perceived as more diffuse governments may enter into an agreement without direct pressure from any of these groups (op.cit, 492-493). To sum this up, pressure comes from two groups in the case of public goods provision: 1) producers who will place pressure on the government according to the gains and losses associated with cooperation and 2) the public, which is in favour of public goods provisions. When the societal interests are unified strong governments will act accordingly and in the case they are not governments will enter into an agreement to combat the policy failure based on one of these two dimensions (op.cit, 492-495).

Moravcsik came to the conclusion that major choices in favour of European integration were a result of the national governments' preferences and not the preferences of supranational institutions. Furthermore, the national preferences were a result of the economic interests of the member states more than political biases and lastly, the outcomes of the negotiations were a result of the states' bargaining powers. So a choice from the member states to delegate powers to the supranational institutions was a wish from the member states to be sure that the supranational institutions would carry through their part of the agreement rather than a belief in the institutions' efficiency (George & Bache 2001: 14).

Liberal intergovernmentalism has been criticised for its tendency to marginalise the significance of the supranational institutions and claim that supranational institutions act as mere expressions of the member states' preferences. According to these critics, the institutions' preferences are also important as the institutions are also important actors in influencing the style and substance of intergovernmental bargaining (Rosamond 2000, 144).

2.3 SUM UP

This section has provided the theoretical framework of the thesis. The available governance methods in a European context were presented with the model by Treib et al. as well as advantages and disadvantages associated with these different governance approaches. This model is the theoretical framework of this thesis. Four different approaches have been presented, namely coercion, targeting, framework regulation and voluntarism, which each are associated with advantages and disadvantages.

Neofunctionalism focuses on integration at EU-level and how there is a tendency towards more and more integration. Liberal intergovernmentalism takes its point of departure at the member state level as government preferences in international negotiation situations are formed on the basis of the national elites' interests. These theories will be used to explain whether the increased attention on climate change has had any influence on integration, which in turn will help explain whether it to a great extent makes sense to stick to a voluntary CSR approach as this on the one hand reflects the interests of businesses and civil society (which will be examined by using CSR theories held up against the two cases) and on the other hand how these interests are reflected and understood by national governments and the EU institutions, which reflect policy outcomes.

3. CSR IN THE WAKE OF THE LISBON & SUSTAINABLE DEVELOPMENT STRATEGIES

As stated in the title of this chapter, CSR occurred in the wake of the Lisbon and Sustainable Development Strategies. This chapter will elaborate how these three aspects are interlinked to establish the context in which the question of this thesis has taken form. First, the Lisbon Strategy will shortly be presented. Next the Sustainable Development Strategy will be described. These two Strategies are to a high degree interlinked why it will not make sense to only deal with the SDS despite of the Lisbon Strategy not being mentioned in the problem formulation. It does not work to only think in sustainability and CO₂ emission reduction as competitiveness and growth may still be ensured, which are focus areas of the Lisbon Strategy. CSR has been chosen as an element, which shall ensure that sustainability and competitiveness and growth can be combined. The European Commission has chosen that CSR shall be approached voluntarily as this leaves businesses with high flexibility as it was explained above. CSR embraces many different aspects and policies.

3.1 THE LISBON STRATEGY

The Lisbon Strategy was launched in March 2000 by the European Council. The purpose of this strategy is for the EU to become *“the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”* (European Council 2000). This aim is to be achieved before 2010.

The strategy came as a response to the new challenges the EU is facing; globalisation, an ageing population, and fast technological changes. The EU was in 2000 experiencing lower growth rates than e.g. the US, the unemployment rate was around 10% and too many people were found excluded from society (European Commission 2000, 4). The costs of the high unemployment rates and the social exclusion of people are enormous. Therefore, in order to sustain the European Social Model there was a need for a common European effort (Rodrigues 2006, 351). To obtain this required on the one hand a strategy which at the same time linked the economic, social and political objectives of the EU and on the other hand that the strategy becomes fully integrated and operational (European Commission 2000, 9).

When first adopted, the Lisbon Strategy rested on two pillars; an economic pillar and a social pillar. The aim of the economic pillar is by economic reforms to prepare for the transition to a dynamic, competitive and knowledge-based economy. This means that member

states, enterprises, etc. must constantly adapt to changes in the information society, must reinforce research and development, remove remaining barriers to services within the Internal Market, cut regulatory costs, fully liberalise the energy markets, etc.

The aim of the social pillar is to strengthen and modernise the European social model. This shall be done by investing in human resources and by fighting social exclusion. The European Commission believes that the employment workforce is not sufficiently exploited. Therefore, the EU has set a goal that employment rates must be raised from 61% in 2000 to close to 70% in 2010. The member states are therefore expected to invest in education, training and life-long learning and to conduct active employment policies.

3.2 THE SUSTAINABLE DEVELOPMENT STRATEGY

In 1997, sustainable development was included in the EU Treaty of Amsterdam and became here a fundamental objective of the EU but it was not till the Göteborg European Council meeting in 2001 that a third and environmental pillar was added to the Lisbon economic and social pillars. The outcome of this meeting was a Sustainable Development Strategy (SDS) adopted on the basis of a Commission Communication presented earlier in 2001. The SDS was developed in order to ensure that when striving for higher growth and more and better jobs in the EU as set forth with the Lisbon Strategy it should not happen at the expense of the environment. Sustainable development was in 1987 presented by the World Commission on Environment and Developed as “(...) *development that meets the needs of the present without compromising the ability of future generations to meet their own needs* (European Commission 2001a, 2). This definition was chosen in a European context as well.

In 2006, a renewed SDS with a stronger focus and a clearer division of responsibilities was presented. Four key objectives of the SDS were presented in this renewed SDS. These key objectives are to ensure environmental protection, social equity and cohesion, economic prosperity and meeting the EU's international responsibilities in a manner that does not compromise of the needs of future generations (Council 2006, 3-4).

By adopting the SDS the EU wanted to ensure that economic, social and environmental policies within the EU mutually reinforce each other and the Lisbon and Sustainable Development strategies are therefore seen as complementary as the Lisbon Strategy focuses on growth and jobs whereas the SDS gives a qualification to the kind of growth and jobs the EU wants to pursue. In more detail the SDS focuses on quality of life, coherence between the

different policy areas in the EU including external policies, as well as it identifies the role economic development has in advancing the transition to a more sustainable society. The Lisbon Strategy, on the other hand, focuses primarily on increasing competitiveness and economic growth and augmenting the job creation in the EU contributing to the overarching objective of sustainable development. The EU SDS therefore forms the overall framework within which the Lisbon Strategy provides the motor of a more dynamic economy (op.cit 2006, 6).

In order to achieve sustainable policies the four key objectives have been supplemented by seven key challenge areas. Overall objectives and concrete actions have been developed for these seven challenge areas which are: climate change and clean energy; sustainable transport; sustainable consumption and production; conservation and management of natural resources; public health; social inclusion, demography and migration; global poverty and sustainable development challenges (op.cit, 7-21).

How must more sustainable policies then be assured? In order to change unsustainable trends within these areas and make them sustainable everyone must take a responsibility. Due to the degree of urgency to change these trends, short-term action is required but also a long-term perspective is needed. The great challenge is therefore to change unsustainable production and consumption patterns. Everyone has a responsibility in obtaining sustainable policies.

The SDS should be seen as a catalyst for policy-makers to introduce institutional reforms and provide long-term frameworks for sustainable policies. The member states are furthermore encouraged to make their own national sustainable development strategies, to consult all relevant stakeholders and actively try to make all engage in achieving sustainable policies. Awareness must be raised among citizens through education and other public initiatives so they to a higher degree are aware of the impact they have on the environment and how they can make more sustainable choices. Furthermore, the involvement of businesses is important. CSR must foster cooperation and make businesses engage in achieving sustainable production. Progress relies to a high degree on the market power of businesses as well as regional and local authorities.

3.2.1 The CO₂ challenge and sustainable development

The SDS does to a high degree focus on environmental aspects and several areas are covered

by the key environmental objective namely natural resources, pollution, sustainable production, consumption, etc. Greenhouse gases and CO₂ emission reduction is seen as an essential focus area as these emissions induce global warming and lead to climate change, which is one of the key challenges covered by the SDS. It is believed that if greenhouse gas emissions are not reduced it will have enormous consequences for future generations. The change has implications for the nature, the infrastructure, the economy and is causing health and safety problems (European Commission 2001a, 4). The consequences of climate change are therefore not strictly limited to environmental aspects but also have economic and social effects why CO₂ emission reductions have been incorporated into the SDS. CO₂ emission reduction is mainly mentioned in relations with two of the seven key challenges: climate change & clean energy, and sustainable transport. The sustainable production and consumption challenge indirectly deals with CO₂ emissions as enterprises to a higher degree must think in sustainability when producing products and consumers should become more aware of sound sustainable products. Specific goals have been presented in the respect of reducing CO₂ emissions: the EU must meet its Kyoto targets meaning that the EU on average must reduce its greenhouse gas emissions by 8% compared to the 1990 emission level by 2012. However, meeting the Kyoto targets is only a first and short-term goal. At the European Council meeting in Göteborg, the Council furthermore endorsed the commitments presented in the 6th Environment Action Programme (European Council 2001, 7). With the 6th Environment Action Programme the EU recognises the fact that climate change is the main challenge for the next ten years (2002-2012). In order to stabilise the atmosphere's concentration of greenhouse gases at a level, which can hinder interruptions in the climate and ensure that global temperatures does not rise with more than 2°C compared to the pre-industrial level a longer-term strategy is needed. In order to ensure this it is believed that a total reduction of 70% is needed compared to 1990 levels (Official Journal of the European Communities 2002, 3). A preliminary aim is though to reduce CO₂ emissions by at least 20% by 2020 and the EU is willing to change this objective to 30% if an international agreement is signed where all developed countries agree to reduce their emissions substantially by 2020. Furthermore, the consumption of high-carbon energy sources must be reduced as well renewable energy to a higher degree must be introduced. Besides, CO₂ emissions from light duty vehicles must be reduced to 140g/km by 2008/9 and to 120g/km by 2012. Other aims, which indirectly contribute to reducing CO₂ emissions, also exist. By 2010, 5.75% of

transport fuel should consist of bio fuels and this shall be raised to 8% by 2015.

As mentioned above, these goals must be met in a partnership between different actors. Furthermore, different measures have been taken at EU level such as the EU Emission Trading Scheme (EU ETS), energy taxation, the European Climate Change Programme (ECCP) identifying and developing the necessary steps of an EU strategy of how to implement the Kyoto protocol, etc.

The SDS therefore focuses on how it can be ensured that development does not happen at the expense of future generations. The link of CSR with this SDS will be explained below.

3.3 CSR IN THE EU

3.3.1 History

Since the 1970s, society's expectations towards businesses' ethics have steadily increased. Corporate social responsibility started to gain momentum in the mid 1980s in the then European Community especially in member states such as Great Britain and Denmark. It was though not till ten years later the European institutions for real began to engage in the debate (Lux et al. 2005, 279).

The Commission has stated four reasons behind why CSR has become reality: 1) there are new demands from the stakeholders towards businesses due to globalisation and industrial changes; 2) individuals and institutions are to a higher degree thinking about social criteria when they are making decisions on investments; 3) stakeholders are to a greater extent concerned about the damage economic activities are causing the environment; and 4) the media and other modern communication and information technologies has led to increased transparency in the business community's activities (European Commission 2001b, 4). Gonzáles and Martinez add further reasons to the increased interest and importance of CSR (Gonzáles & Martinez 2004, 275). First of all, corporations have gained more and more power in society. According to Gonzáles and Martinez enterprises have in some cases gained more power than states. Despite of this, they have not engaged in the advancement of common goods and are according to some to blame for the environmental damage which is experienced these years. Secondly, changes in companies such as increase in sizes have led to increased impact on society. This is among other things seen when looking at CO₂ emissions where 112 companies according to Gonzáles and Martinez are responsible for 80% of the

total emissions (op.cit, 276). Finally, more and more companies have realised the role they are playing in improving social and environmental conditions and have become more willing to think these aspects into their business strategies (ibid). Such factors were decisive in putting CSR on the European agenda in 2001.

3.3.1.1 European papers on CSR

The Commission has since 2001 been seeking to boost CSR in the EU with the green paper, two communications and by making an alliance with the industry. Voluntary and mandatory measures as well as the role of civil society in CSR have not ceased to be the keywords in the debate.

The Green Paper came in the wake of the Lisbon agreement and the SDS. The EU was preoccupied with CSR as it was seen as a positive contribution in obtaining the Lisbon and SDS goals (Council 2003). The Commission states in the 2006 Communication to the Council, the European Parliament and the Economic and Social Committee that “*enterprises, as the motor of economic growth, job creation, and innovation, are key actors in delivering the Lisbon and sustainable development objectives*” (European Commission 2006, 3) why it was seen as important for the EU to engage in CSR. The Commission therefore encouraged European enterprises to enhance their social and environmental responsibility and exchange best practices on CSR. Responsible engagement in CSR would furthermore induce better results, profits and growth. The Commission furthermore highlighted that getting involved in CSR would lead to direct effects such as better utilisation of natural resources as indirect effects such as attention from consumers and investors (European Commission 2001, 7). CSR is associated with an internal and an external dimension. The internal dimension mostly relate to CSR within the business such as administration of the natural resources utilised in production. However, CSR is not only limited to the business itself but involves many different stakeholders, which are not only local and regional but due to globalisation also global. External CSR may therefore e.g. refer to reduction of CO₂ emission levels, which requires changes in internal production structures.

In 2002, the response to the Green Paper was published by the Commission in a communication (European Commission 2002). This Communication received more than 250 reactions from enterprises, labour organisations, trade unions, NGOs, etc. representing organisations at local, national, regional and international levels. These parties expressed that debate on CSR is a necessity to make it work as not only businesses play a role in this regard

but also citizens, consumers, etc. These parties were though disagreeing on which role they believe the EU shall play ranging from none till a very monitoring and legislative role. Despite the fact that the Commission presented CSR as a voluntary tool, the discussion and views expressed were highly centred on whether CSR should be voluntary or compulsory. Enterprises stated the main problem of a compulsory approach being a 'one size fits all' approach which was perceived as inappropriate and that regulation on CSR would remove incentives and create competitive disadvantages. Civil society representatives disagreed on this view stating that if CSR shall have any effect as a tool to meet the SDS goals some kind of regulation is needed. The problem or debate of this thesis has therefore went on since CSR entered the European agenda and has not yet led to any kind of agreement among the actors involved despite of the experiences made since 2001.

The role of the EU was stated in the 2002 Communication based on a question asked in the green paper on what the EU could do to advance the development of CSR on a European and international level. First of all, it was stated that the EU could give CSR increased value by developing a common frame in collaboration with the parties involved in CSR, hence enhance better transparency on the issue. Second of all, the EU should encourage consensus and control of the businesses' measures to exercise social responsibility. Finally, it is believed that the EU's success with regard to CSR is dependent on the acceptance of the CSR principles by the businesses, the social partners, civil society and the public authorities. In order to ensure such acceptance involvement of these parties in the framing of CSR was seen as a key to acceptance and credibility. As a response the Commission proposed to create a forum with the participation of these parties described above. This forum would make it possible to exchange best practices among the actors in the EU; to link the initiatives taken within the EU; and to stress areas where further initiatives were deemed necessary (European op.cit, 18-19). This resulted in a Multistakeholder Forum (CSR EMS Forum) launched in October 2002. This forum was chaired by the Commission and brought together representatives of as well employment, civil society and business networks. The aim of this forum was to promote innovation, convergence and transparency on existing CSR practices and tools (European Commission 2004, 12).

As a response to the green paper and the 2002 Communication, the Council of the European Union adopted a Council Resolution setting out the direction for future policy initiatives on CSR. This resolution recognises that CSR can contribute to reaching the Lisbon

and Göteborg or SDS goals. This resolution furthermore backs up the Commission that CSR first of all must be voluntary, second of all, is characterised by initiatives made by businesses over and above legal requirements, and finally supports the need for transparency and the compatibility of European CSR with international standards (Council 2003, 2-3). This furthermore is confirmed when looking through the draft Resolution documents¹. Here no member countries have expressed disagreement on the line laid out by the Commission.

A second communication was published in March 2006 where the Commission states a goal to make Europe a pole of excellence on CSR and to make CSR more visible (European Commission 2006). In this Communication the Commission once again ascertains that CSR is a voluntary instrument as *“CSR is fundamentally about voluntary business behaviour, an approach involving additional obligations and administrative requirements for business risks being counter-productive and would be contrary to the principle of better regulation”* (op.cit, 2). Furthermore, since businesses are the primary actors in CSR, the Commission has stated that to achieve its objectives it is necessary to work more closely with European businesses. This will be ensured by the launch of a European Alliance on CSR to which the Commission seeks backing by businesses but also the other actors involved in CSR. This alliance is not a legal instrument and shall therefore not be signed by businesses but is a political process, which shall make businesses accept and integrate CSR into their business practices. Following the 2006 Communication, the European Parliament decided to adopt a resolution. In this resolution the members of the European Parliament (MEPs) highlight that CSR policies shall be promoted by their own merits and *“neither as a substitute for appropriate regulation in relevant fields, nor as a covert approach to introduce such legislation”* (European Parliament 2006). The MEPs believe that it does not make sense to talk about neither a voluntary approach to CSR nor a mandatory approach and that this debate must be depolarised hence the debate in the EU must change from focusing on ‘processes’ till focusing on ‘results’. The approach to CSR shall essentially be voluntary however enabling research on the basis of social and environmental goals and without excluding further dialogue and research on binding commitments (ibid.).

3.3.2 Definition of CSR in the EU

But what does the concept of CSR then mean? CSR has been stated as a concept with unclear

¹ Council of the European Union, *Draft resolution on follow-up to the Green Paper on corporate social responsibility*, doc. 11263/01; 12936/01; 13582/01; 14086/01; 14489/01

boundaries and with no precise definition (Lantos 2001, 595). No universal definition of the concept exists why it is often interpreted differently by international organisations, governments, businesses, etc. The Commission has in its green paper from 2001 stated that CSR is a concept where businesses voluntarily choose to contribute to a better society and a cleaner environment (European Commission 2001b, 4). CSR covers many different concepts such as environmental issues, human right issues, employment issues, etc. why it is a very manifold concept and why it may be difficult to make a narrow definition of CSR. In 2001, the European Commission presented the green paper ‘Promoting a European Framework for Corporate Social Responsibility’ (Ibid). The purpose of the green paper was to create debate and invite interested parties to state their opinion on how the EU could best possible promote CSR in the EU and internationally and ensure transparency on the issue. Despite of different opinions, and the fact that debate at the time was very much centred on whether CSR should be voluntary or compulsory in the EU, the Commission defined 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”* (op.cit, 10). The fact that the Commission chose to include the word ‘voluntary’ in the definition was at the time seen as peculiar as it ruled out the ongoing debate between public authorities, political parties, companies, social partners, etc. which were not agreeing on a voluntary approach being the right decision in the EU (Hopkins & Hopkins 2005, 147). Due to the rather broad definition presented by the Commission and the wide spectrum of approaches to CSR both internationally but also among the member states the Commission presented three characteristics, which are relatively common for CSR:

- CSR is businesses’ behaviour beyond compliance. This behaviour is adopted voluntarily because businesses consider it to be in their long-term interest;
- CSR is linked to the concept of sustainable development meaning that businesses must integrate the impact of economic, social and environmental aspects (the triple bottom line) into their activities; and
- CSR is about how it is integrated into the management of the business and not an add-on to the activities of the business.

The importance of ensuring that CSR is fitted into the international context has been an important aspect in the EU line to CSR as this ensures that European businesses can remain

competitive. CSR is seen as an occupational opportunity for businesses, which creates win-win situations for businesses and society. The Commission has stated that engaging in CSR will lead to innovation and better competitiveness (European Commission 2002, 5).

To ensure the wanted effect of CSR and ensuring that it is contributing to meet the SDS goals, the Commission has stated that CSR must be integrated into all existing community policies associating the different policy areas CSR is covering ranging from environmental policies, employment policies, industrial policies and consumer policies to foreign policy.

CSR has been perceived as a new policy instrument where states or international organisations are setting incentives for businesses' behaviour to move beyond compliance in the social and environmental area. The increasing interest and use of this instrument has been explained by regulatory weaknesses and failures of traditional command and control approaches to deal with issues where member states have high national interests (RARE 2005, 11).

3.4 SUM UP

This chapter has provided an introduction of the Lisbon and Sustainable Development Strategies. The Lisbon Strategy shall ensure that the European economy stays competitive and dynamic in a global world where increased competition is experienced. However, this must not happen at the expense of the climate why the SDS shall ensure that striving for competitiveness has as low consequences for the climate as possible. The goal of the SDS is to limit CO₂ emission levels by at least 20% by 2020. CSR has been stated as a way to meet these SDS goals but also the Lisbon goals. CSR has been presented as a voluntary tool to meet these goals. Voluntariness, transparency, accordance with international CSR standards, and involvement of businesses and civil society in the debate on CSR seem to be keywords on CSR when dealing with CSR in a European context. This part of the thesis has shown why the debate on voluntary versus more compulsory CSR exist as it does not make sense only to think in one of these two aspects if as well the Lisbon and the SDS goals must be met and as sustainability is often seen as limiting competitiveness this creates a dilemma. This will be analysed in more detail later in the thesis but first the thesis will turn to a description of the cement and car industries.

4. CASE DESCRIPTION

The cement and car cases and especially the relations between these industries and CO₂ emissions will be shortly described below. In order to later on hold these cases up against theoretical perceptions a basic presentation is needed. This presentation will show the challenges with reducing CO₂ emission levels, which exist for these industries.

4.1 THE CEMENT INDUSTRY

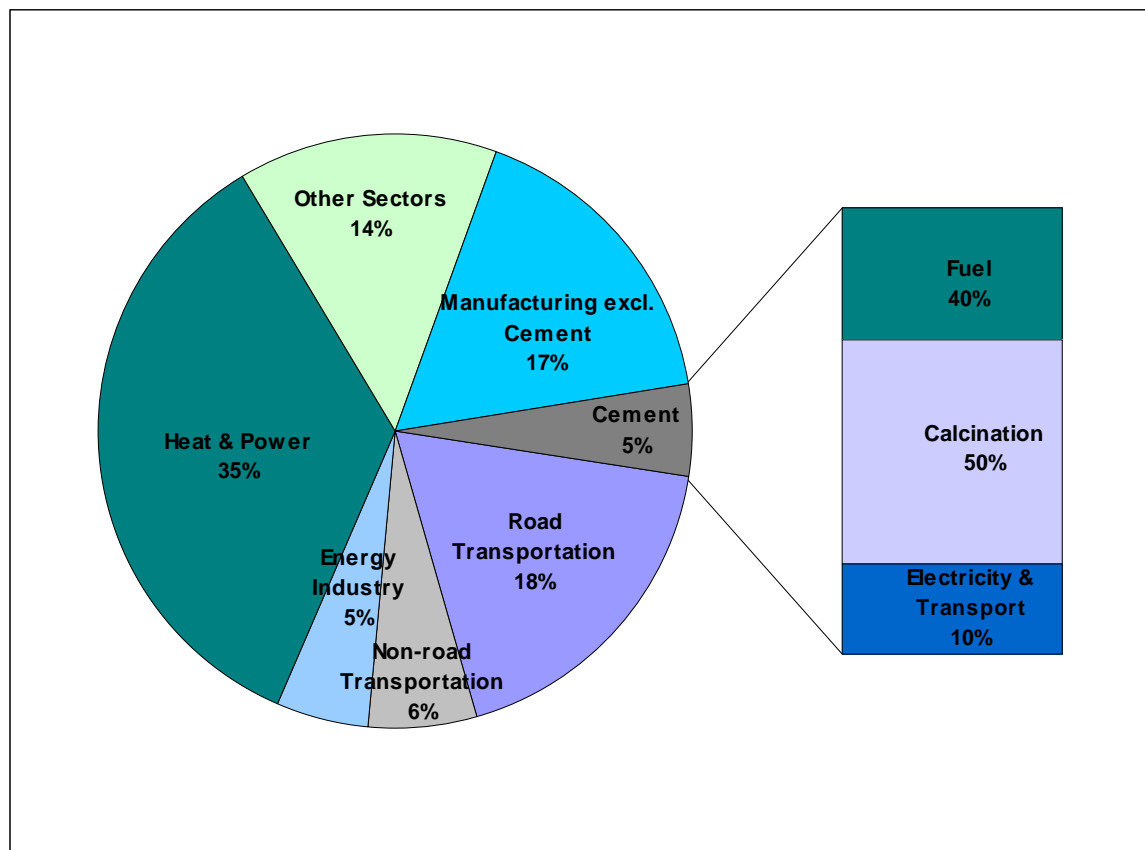
Cement is the second most consumed substance on earth after water with around one tonne being used per human per year. Cement is therefore an indispensable material, which till date has no replacement. The European Union accounted in 2006 for 10.6% of total world cement production (Cembureau 2006b, 4). Cement demand is mostly satisfied domestically due to the fact that transportation costs for cement are high compared to the price of the cement, which implies that cement is maximum transported 300 km inland. However, transportation by sea is economically feasible for cement industries placed at coasts.

The cement industry has as other industries paid increasing attention to sustainable development (SD) during the last years. The cement industry is mainly said to ‘contribute’ to SD in two ways. On the one hand, cement production contributes to SD in a negative way as it is a highly energy intensive industry, a big consumer of raw materials, it is a high emitter of dust and other pollutants, and it generates many greenhouse gases in the production process. On the other hand, cement contributes to society by delivering a key product used in developing the infrastructure to serve social needs such as buildings, water distribution, transportation infrastructure, sanitation and it helps to dispose waste such as used car tires as it can be used as alternative fuels and replace coal and oil. Waste is in this way contributing to make the reserves of fossil fuels last longer and furthermore, the need to transport fossil fuels over great distances to the plants is reduced (Battelle 2002, 21).

Cement production causes high pollution and is a very energy-intensive industry. It is believed that this sector accounts for around five per cent of global anthropogenic CO₂ emissions, and 3% of the total of emitted greenhouse gases, which makes the industry one of top two manufacturing industry sources of greenhouse gas emissions (van Oss & Padovani 2002, 89; Demailly & Quiron 2006, 111; Battelle 2002, 31). Energy accounts for approximately 30-40% of production costs (Szabó et al. 2004, 74).

The process of cement production requires approximately 1.7 tonnes of raw materials per tonne of clinker produced. This process emits around one tonne of CO₂ and 90% of emissions come from this clinker production process. Combustion of fuels counts for around 40% of the 90% and the calcination of limestone 50%. The last 10% of the emissions is split between electricity consumption and transportation. Electricity consumption is primarily used when crushing and grinding the raw materials but also to make the kiln rotate, to operate blowers in the case of preheating, in the clinker cooler, and to run motors (van Oss & Padovani 2002, 94). Finally, CO₂ emissions also arrive from the transportation of raw materials to the cement factory and from delivering the cement to the clients.

Figure 1: Global man-made CO₂ emissions



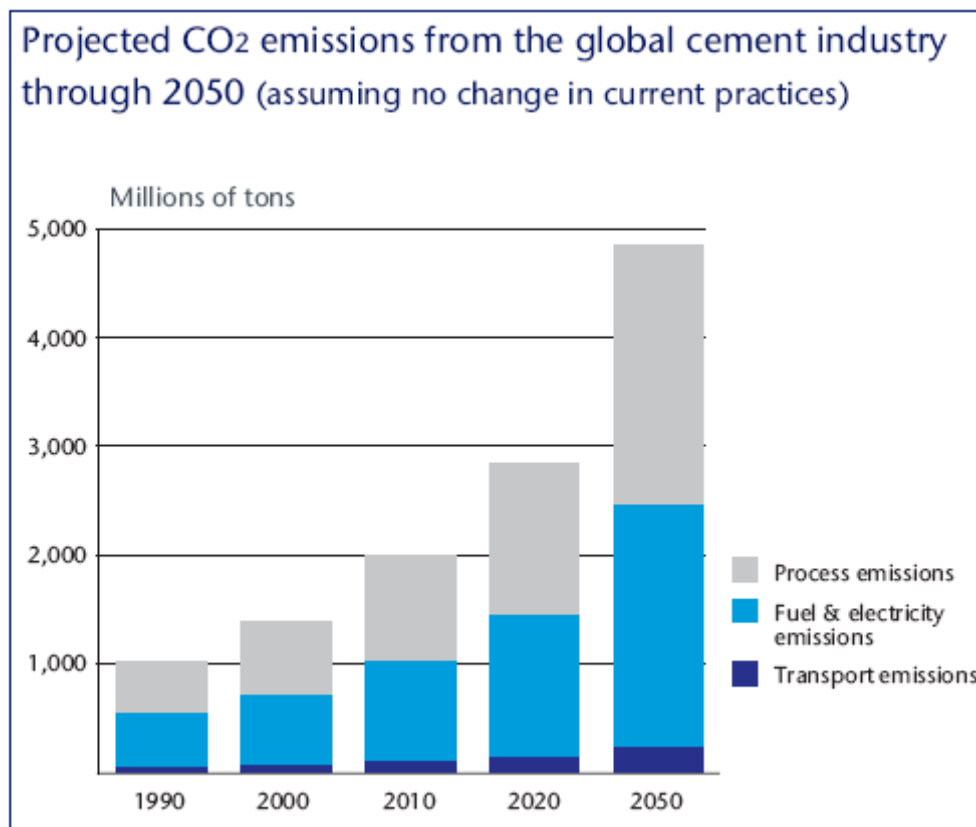
Source: Rehan, R. & Nehdi, M. 2005, 106

Different production methods exist as cement can either be produced by a dry, a semi-dry/semi-wet or by a wet process. The way the cement is produced has consequences for the amount of CO₂ emitted. The dry process, using preheaters and precalciners, is more

economically and environmentally preferable than the wet process as this is characterised by requiring higher energy consumption. This process is therefore slowly phased out in Europe. Some initiatives therefore may be taken to reduce CO₂ emission levels. A way to lower CO₂ emissions is e.g. by using preheaters. Besides, the way raw materials are mixed and the consistency of this also has great impact on as well the production process, emissions and the cost of the cement.

The emission trend is not believed to change up till 2050 if no changes are seen in current practices, rather the contrary. Actually, a study predicts that with a business as usual scenario CO₂ emissions will increase by 56% by 2030. However, this rise is believed more to be due to a rise in production as production is expected to increase by 75%. CO₂ abatement is expected to happen through energy efficiency improvements and changes in technologies (Szasó et al 2004, 79).

Figure 2: Projected CO₂ emissions from the global cement industry through 2050



Source: World Business Council for Sustainable Development 2007, 5

The cement industry is therefore an industry, which is highly characterised by having high CO₂ emission levels but is also a material, which is of high importance to society.

4.2 THE CAR INDUSTRY

The car industry has been the focus of attention of the European Commission due to the problems emissions, which are seen from the transport sector and as the number of cars on the European roads continue to rise (it rose by 40% from 1990 till 2004) this is an area where it is important to intervene if CO₂ emission levels shall be reduced. In 1990, the transport sector accounted for 21% of total EU emissions whereas this share had risen to 24% in 2005. Passenger cars are responsible for approximately half of this emission level (Kågeson 2005). In order to meet the Kyoto goals by 2012 the Commission therefore had to be concerned with emissions from passenger cars as the number of cars sold also continued to rise. Reducing this level is therefore of very high importance to the Commission. The Commission lobbied for implementing a regulatory tax scheme to meet the problem. However, any attempt by the Commission to legislate or impose taxes was rejected by the European Council. It was very unlikely that such a proposal could reach consensus in the Council because fiscal policies are within member state competences (Lepoutre et al. 2007, 399). The Commission therefore accepted that a voluntary agreement had to do for legislation. In 1995, a voluntary agreement presented by the Commission was accepted by the European Council aiming at reducing CO₂ emissions from cars to an average of 120 g CO₂/km by 2005 or 2010 at the latest. This strategy should be based on three pillars: 1) a voluntary agreement with the car manufacturers, which should improve the fuel economy; 2) a consumer information scheme; and 3) a fiscal framework. In 1998, the Commission reached an agreement with the European Automobile Manufacturers' Association (ACEA), the 'ACEA agreement' after a number of deadlocks. A series of circumstances meant a breakthrough in the deadlocks. First of all, the political will of the Commissioner and the positive stance by a new ACEA president towards a voluntary agreement helped moving the negotiations forward. Second of all, the threat by the Commission to legislate if an agreement was not reached forced ACEA to reconsider its stance. Third of all, the Commission promised to try to make the Japanese and Korean car industry support and join this voluntary agreement to avoid competitive disadvantages for the European car manufacturers, (Ibid). In the first place, ACEA proposed a CO₂ target level of 167 g CO₂/km by 2005, which was seen as too unambitious by the European institutions, which as mentioned above aimed at an agreement at 120 g CO₂/km. At the end an agreement

of 140 g CO₂/km by 2008 was reached. The Commission succeeded to reach an agreement with the Japanese and Korean car manufacturers in 1999. These manufacturers must meet the same goal as the ACEA members but not till 2009. The goal to reduce CO₂ emissions must be met in average meaning that one car can emit more than these limits but then a car must be produced, which emit less and this way compensate for the higher emissions from the first car.

Table 2: Relationship between CO₂ targets and fuel consumption – maximum consumption of petrol and diesel for achieving the EU's ACEA targets

Target	Fuel consumption (litre) per 100 km	
	Petrol	Diesel
120 g CO ₂ /km	5.1	4.6
140 g CO ₂ /km	5.9	5.4

Source: Kågeson 2005, p. 9, table 4

However, the Commission intended to extent this to 120 g CO₂/km by 2012. These extra 20 g should be achieved through the consumer information schemes and the fiscal framework. Information to consumers should be formalized by making car dealers displaying labels on the fuel economy and CO₂ emissions on every new car. Besides, the Council agreed with ACEA that it should evaluate the effort by the car manufacturers in meeting the goal in 2003 (Ibid.). What regards the third proposal the Commission still has difficulties changing the member states' views regarding a fiscal framework as the member states want to retain their autonomy in setting taxes. The Commission is though still trying and has recently made a proposal for EU legislation to include CO₂ criteria in passenger car taxes meaning that the highest CO₂ emitting cars will be subordinated to higher taxes as this is then believed to decrease the demand for CO₂ inefficient cars (Kågeson 2005, 24).

This agreement is therefore a voluntary agreement setting specific goals for the industry to meet. Therefore, in this case the Commission has made use of another governance approach than in the cement industry and to CSR in general. It is still a flexible approach but there is an end goal the industry must meet. This approach therefore corresponds well with the governance approach called framework regulation by Treib et al. However, this is still perceived as CSR as it appears to further a social good, which is beyond the interest of the

firm, is going beyond existing law and is not backed by sanctions (Anastasiadis 2007, 16-17). However, in December 2007, the European Commission agreed introducing mandatory targets for CO₂ emissions from cars as it became clear that the industry is failing to meet the agreed ACEA targets under the 10 year voluntary agreement. After some disagreement between the environmental Commissioner Stavros Dimas and the enterprise and industry Commissioner Günter Verheugen on whether the policy should stay voluntary (Verheugen) or whether a mandatory approach was necessary (Dimas) the European Commission adopted a proposal for legislation to reduce the CO₂ emissions. Commissioner Dimas wanted to stick to the goal of 120 g CO₂/km by 2012 but this ended on the less ambitious target of 130 g CO₂/km by 2012. When this goal is achieved EU car manufacturers will according to the Commission be world leading in producing fuel efficient cars (European Commission 2007a).

4.3 Sum up

This chapter was a short introduction to the cement and car industries emphasising the high amounts of CO₂ these industries are emitting. In the case of the cement industry, the production method as well as the different types of cement was shortly presented. The ACEA agreement was introduced, which will be the point of analysis when dealing with the car industry in the analysis below. The barriers associated with lowering CO₂ emissions by using CSR as a tool and further descriptions of the industries in relations to CSR will be outlined in section 6.1.1 and 6.1.2. First, the CSR schools and theorists will be presented as an introduction of these are needed to analyse the interests at stake among state, business and civil society in the cement and car industries.

5. VOLUNTARY CSR? THE PERCEPTION OF CSR FROM A THEORETICAL PERSPECTIVE

When the Commission first introduced its Green Paper on CSR, CSR was presented as a voluntary tool. This decision met substantial criticism from several parties as the efficiency of this approach was questioned. It was believed that some degree of government intervention was needed, some specific goals should be set-up or sanctions should be present in order for businesses to make an active effort in reducing CO₂ emissions. However, as stated in section 2.1.4 theorists have highlighted that by introducing a voluntary CSR approach businesses would feel a greater responsibility because they would have been active in the process of the accord. Whether it makes sense in an EU context to stick to a voluntary approach to CSR is still up for discussion and an assessment of this will be carried out in the following sections. In order to assess and discuss this, advantages and disadvantages of voluntary versus compulsory CSR according to theory and theorists will be examined. This will first of all be done by looking at what according to Bryane Michael are the main schools of CSR, namely the neo-liberal school, the state-led school and the third-way school (Michael 2003, 115). These schools have different perceptions of CSR and may be placed in different boxes of the governance model by Treib et al., which were presented in section 2.1.3 above. Besides, the schools deal with the role of state, business and civil society, which lacks in the model by Treib et al., which is very important when dealing with CSR in general and also of high relevance in the context of this thesis. Hereafter, the work of Friedman, Porter and Freeman, who are well-known CSR theorists, will be presented. These theorists deal with why businesses choose to engage in CSR in the first place. This is relevant in relation to this thesis as underlying political and economic incentives to engage in CSR are believed to have relevance for what is politically possible and can therefore help explain whether it makes sense to stick to a voluntary CSR approach or whether a more mandatory approach should be favoured and whether a more mandatory approach should be favoured. Advantages and disadvantages of voluntary and compulsory CSR according to theory and theorists will therefore be presented.

This examination will provide a framework for the next part in the analysis where the views presented in this section will be held up against how this is perceived in real life and in this case first and foremost by the cement industry and the car industry.

5.1 WHAT DRIVES CSR FORWARD?

5.1.1 The Neo-liberal school: Market incentives is what drives CSR forward, not regulation

The followers of what Bryane Michael calls the neo-liberal school, perceives CSR to be a tool for businesses to gain advantages. Companies will simply not engage in CSR if it is not to their own advantage why the followers of this school also believe that CSR is ultimately about profits. Businesses are inspired by incentives and insurances in the sense that managers are balancing between seeking returns from satisfied consumers, investors and employees and at the same time avoid the risk of further regulation, negative media exposure, consumer boycotts, etc. (op.cit, 117). Consequently, there are many reasons for companies to engage in CSR. Due to these factors, there is no need for governments to intervene in the process. Government intervention and regulations will simply lead to competitive disadvantages for the companies. Market incentives are encouraging businesses to engage in CSR and incorporate sustainable policies as some stakeholders to a higher and higher degree expect businesses to be sustainable responsible. Engaging in CSR is therefore perceived as a rational action and is seen as profitable to businesses and therefore ultimately to the shareholders in the long run and might even be so in the short run. The followers of this school do therefore believe that neither governance intervention nor legislation or regulation is needed as market incentives provide CSR, which means that businesses due to their own will engages in CSR to meet as well stakeholder and shareholder demands. CSR must therefore be *voluntary* (Gonzáles & Martinez 2004, 277; Michael 2003, 117). When looking at the relationship between state, business and civil society, the exchange arenas are therefore highly decoupled and distance is kept between the regulator and the market actors when it comes to as well commercial as regulatory exchanges (Midttun 2005, 163).

5.1.2 The State-led school: State intervention makes sense to drive CSR forward

The followers of the state-led school do not believe in leaving CSR to be totally up to the market forces. According to this school some degree of intervention is needed in order to make businesses engage in CSR to ensure a positive effect on the climate. The active welfare state has largely derived from a Keynesian critique of the liberal concept that the economy is self-balancing. According to this school an active state is needed and is playing a substantial role in securing conditions for businesses to be profitable and to compensate for market failures and inadequacies (Ibid). This school is therefore more concerned with the

environmental outcome (society case) than the business outcome (business case).

National governments as well as international organisations must therefore play an active role to ensure that CSR is promoted and enforced among businesses but also to ensure that awareness is raised on the issue. Governments and international organisations must set the agenda for CSR by the way of laws and regulations that will allow businesses to conduct policies without putting them in a disadvantageous position. Governments and international organisations must mainly intervene due to three reasons. First of all, CSR has positive externalities such as protection of the environment; it can create higher consumer welfare, etc. However, individual businesses in themselves may not be able to create these positive effects of CSR. To ensure this, bargaining and cooperation is needed between the public and private sector, as well as businesses need to be reminded that they have a responsibility and obligations. Second of all, states and international organisations shall create incentives for businesses to engage in CSR such as introducing labels and creating tax incentives. This way, problems of higher operating costs for individual companies can easier be avoided for those companies first engaging in CSR. Finally, the role of governments in this respect is more devoted to facilitating businesses' engagement in CSR rather than mere regulation. International organisations' engagement in CSR is to a large degree justified on the basis of such arguments as these are believed to solve 'first-mover problems' on an international scale as businesses then cannot claim that they are put in a disadvantageous situation (Michael 2003, 119). Therefore, creating transparency and e.g. exchange of best practice will encourage businesses to engage in CSR.

Furthermore, according to this school civil society is more concerned with collective welfare in contrast to what is assessed by the neo-liberal school presented above where civil society is more concerned with individual welfare. Therefore, civil society has a tendency to act collectively and this way they can place pressure on companies to make them engage in CSR (Midttun 2005, 163). Therefore, when looking at the interaction between state, business and civil society more integration between the three exchange arenas is encouraged. Regulation and intervention from states and international organisations can be more or less flexible and be constructed in different ways, which was also seen above with the model by Treib et al. Therefore, proponents of this school are not in themselves against voluntary initiatives but against voluntary measures as the only policies to ensure sustainable accountability.

5.1.3 The Third-way school: Active stakeholders is what drives CSR forward

According to what Bryane Michael considers to be the last school, stakeholders are the driving force of CSR. The stakeholders play an active and decisive role as they can first of all, influence policy making without being attached to either the government or the businesses and do in some sense represent civil society. Second of all, they play an educational role as they often possess knowledge on a specific issue and therefore serve to inform as well consumers, businesses and policymakers on relevant issues. Finally, they often collaborate with as well businesses and governments. By the involvement of these actors, social objectives are believed to be obtained in a better way than actions by dysfunctional states and greedy firms on their own (Michael 2003, 116). Therefore, these actors actively try to influence as well business and governments in order to ensure their own interests and may consequently be in favour of a more or less regulated governance approach according to the subject and interests of the different stakeholders.

As seen above, there is therefore no single view of whether states shall intervene in CSR or not and whether it makes sense according to the three schools to stick to a voluntary CSR approach in making businesses meet the SDS's CO₂ goals. Whether it is believed government intervention is needed may be associated with whether the school is focusing on the businesses' needs (the neo-liberal school) or what is best for society (the state-led school) in which context the stakeholders also place themselves with shareholders and consumers tending to agree with the neo-liberal school and civil society representatives and citizens with the state-led. How CSR is perceived by different theorists will be presented below.

5.2 SHOULD CSR BE VOLUNTARY OR COMPULSORY?

Above, the most quoted schools of CSR have been presented. Many theorists have dealt with CSR and many different views on whether CSR should be voluntary or mandatory have been expressed ranging from those opposed to CSR in general (which the three schools fail to explain) to those who believe that CSR should be compulsory. Many theorists tend to focus on the economic perspectives or business perspectives as does the neo-liberal school (business case) of CSR, looking at the link between sustainability, competitiveness and economic success for businesses but also the more social aspects of CSR are presented as seen with the state-led school (society case).

5.2.1 "The business of business is business"

This saying was made by Milton Friedman in the article "The social responsibility of business is to increase its profits" brought in New York Times Magazine in 1970 (Friedman 1970). Friedman is one of the most cited CSR theorists and a follower of neoclassical economic theory, which believes that the economy will always run smoothly provided that there are no interferences by states or other bodies and argues that environmental regulation and CSR simply imposes additional costs on companies (Schaltegger & Wagner 2006, 9). As corporate executives are themselves employees of the owners of the business (the shareholders), the corporate executive must meet the demands of his employers, which generally will be to increase profits as much as possible. Therefore, when a company or the corporate executive chooses to engage in CSR he or she is "*spending someone else's money for a general social interest*" (Friedman 1970). Businesses and corporate executives must stay within what is required of them by law. Some businesses will find themselves in a disadvantageous situation if they engage in CSR as the environmental costs and impacts are higher than the value added by their production activities (Clift & Wright 2000, 290). Engaging in CSR is therefore not seen as an opportunity to increase profits of an enterprise and followers of this school are therefore opponents of CSR altogether. They believe that states and other bodies shall not intervene in the affairs of businesses and may not force businesses to meet sustainable policy goals by using CSR as a tool. Friedman seems blind to the fact that if a company moves beyond what is required by it by legislation this could lead to competitive advantages but writes off CSR altogether except for organisations, which have other responsibilities than making profit such as hospitals.

5.2.2 Voluntary CSR

Environmental regulation is perceived as an additional cost to businesses. The environment is a requisite for businesses to be able to operate as it is the source of energy and raw materials in the input phase and leads to pollution and waste in the output phase. Therefore, regulations may have high costs for businesses with some sectors worse off than others. Environmental issues are therefore highly interrelated with economic issues and as economic gains are of utmost importance for the survival of enterprises the EU should leave CSR to be a choice of businesses themselves. Followers of this view consequently highlight advantages of a voluntary approach to CSR. By choosing a voluntary CSR strategy businesses have increased flexibility to find cost effective solutions which suits them best (Herodes et al. 2007, 16). The

main arguments for keeping CSR voluntary are interlinked with cost increases. Keeping CSR voluntary will not bring businesses in a disadvantageous situation what regards competition. Even though regulation will be common for all European companies competition from outside the EU will still persist and according to some this will even increase as European businesses may have to increase prices due to the regulations. Due to this it may become advantageous to import goods from outside the EU instead (Schaltegger & Wagner 2006, 9). Furthermore, complying with environmental regulations may require new production methods, which may be expensive for businesses. For example installing pollution control and prevention technology will lead to cost increases. Even research and development (R&D) to identify and analyse ways to decrease pollution is costly. Besides, change to new production processes, which may be necessary to comply with environmental requirements, may be less efficient leading to switching costs and plausible disruptions in the production. Additionally, the income of the business may decrease as a consequence of making necessary environmental improvements. This may influence the revenue as the quality of the products might be worse leading to reduction in sale and as also mentioned above probable cost increases due to higher production costs or cost decreases if it is necessary to adjust the price due to a worse quality of the product (Lankoski 2006, 34-35).

Engaging in CSR should be the choice of companies themselves. As stated above, followers of the neo-liberal school believe that regulation is not necessary as market incentives are encouraging businesses to meet their stakeholders' demands. By leaving CSR up to businesses, businesses are in a more profitable situation to accommodate the wishes of their consumers and this way use CSR as a PR strategy (González 2004, 277).

5.2.3 Some regulation can be advantageous

As stated above, not all seem to favour a voluntary CSR approach. Porter and van der Linde cannot be characterised as directly opposed to this stance. However, they have a slightly different view on how CSR can be of advantage to businesses and therefore disagree with Friedman's view that engaging in CSR simply is an additional cost for the company. They are opposed to the view that the relationship between environmental goals and competitiveness is a trade-off between social benefits and private costs. They believe that this view rises from a static view on environmental regulation. According to them *"in a static world, where firms have already made their cost-minimizing choices, environmental regulation inevitably raises costs and will tend to reduce the market share of domestic companies on global markets"*

(Porter & van der Linde 1995, 97). However, Porter and van der Linde do not believe such a static view is characteristic of today's world where international competitiveness instead is based on innovation. According to them, environmental goals and competitiveness of businesses can be combined (Ibid). Therefore, Porter and van der Linde believe that environmental regulation not necessarily is a disadvantage to businesses. They argue that *"properly designed environmental standards can trigger innovation that may partially or more than fully offset the costs of complying with them"* (op.cit, 98). If such standards exist, businesses will have to comply with those, which may actually result in more R&D, which in turn may lead to increased efficiency. This can lead to more efficient production processes, improved productivity and lower production costs by reducing the use of purchased inputs. This in turn will reduce the compliance costs as environmental taxes will be lower, fewer pollution rights will be necessary, fines will be avoided as compliance with environmental standards are ensured, and by anticipating regulations a higher degree of flexibility is ensured as well as the possibility to influence development is higher as legislation may then be avoided. Besides the cost savings, revenue increases may be the outcome for businesses choosing this approach as new market opportunities may occur due to the need of businesses to innovate to meet the environmental demands why first-mover advantages may be gained, and the reputation of the business may be improved due to the environmental stance, which can lead to increased sales. Such environmental standards may also, in contrast with what was stated above, lead to higher product quality (Lankoski 2006, 34-36).

Meeting environmental regulations by taking a social responsibility is therefore considered to be a policy instrument and incentive, which may lead to competitive advantages as the regulations this way force companies to be innovative, which in return may be of advantage to as well businesses and society (Schaltegger & Wagner 2006, 10). Consequently, according to these theorists, the ability to innovate and develop new sustainable production methods is crucial in order for businesses to be competitive at longer-term but possibly also in a short-term perspective (Porter & van der Linde 1995). If companies reject this view, they simply *"oppose and delay regulations instead of innovating to address them"* (Op.cit, 121). Therefore, according to Porter and van der Linde, competitiveness and CSR is not necessarily seen as contradictory as well as regulations may simply be a push for companies to be innovative. This being said, Porter has pointed out that competitive advantage to a great extent relies on the external business environment. Businesses shall according to him only

engage in CSR if it pays and this way he does not differentiate from the views stated above as he focuses on how CSR can lead to gains for businesses. Like Friedman and the neo-liberal school, Porter and van der Linde focuses on the negative and positive consequences from engaging in CSR for businesses taking a business case approach to CSR. This differ them from the followers of the state-led school who focuses on the effect on the society (society case) hence in this context the environment rather than consequences for businesses.

Porter and van der Linde do not explicitly mention the role of governments or international institutions. However, as long as regulations are well-designed, they are believed to lead to the above-mentioned advantages. Therefore, if governments or international institutions manage to create well-designed regulations, which makes it able for businesses to combine CSR with profitability they are allowed to play an active role. However, it is difficult to assess what is meant by a 'well-designed regulation'.

5.2.4 It depends on the views of the stakeholders

However, not only businesses have a role and interest in CSR. It seems that many theorists tend to focus on the gains and costs of businesses and to a lesser degree on the environmental outcomes from choosing an either voluntary or compulsory approach to CSR.

According to Edward Freeman businesses do not conduct their policies in isolation but have a responsibility towards more than simply shareholders and therefore must take into account more than just economic gains. Businesses operate in a net of stakeholders, which often represent different and contradictory interests where these may range from increasing profits as much as possible (shareholders) to reducing CO₂ emissions substantially in production processes (e.g. NGOs). Freeman believes that a socially responsible company is a company, which takes the interests of all stakeholders into consideration when running the business. Companies have through the running of the business a great influence upon the stakeholders but are at the same time influenced by these in relations to their business goals (Madsen & Ulhøi 2006, 259). Freeman believes that many groups in the society (stakeholders) have a moral claim on businesses as there is a potential that businesses will either harm or benefit them. Without stakeholders there would be no businesses as these are vital for the business to gain success and survive (Freeman 1984).

5.3 DISCUSSION & SUM UP

The advantages of legislation are backed by Hopkins and Hopkins. They believe that governments and international institutions through a compulsory approach will make it easier for businesses to know what is expected from them. This way it will be possible to penalise rogue companies if they do not comply with the standards. Besides, they believe that legislation will help improve the balance of profitability, growth and sustainability. Legislation will furthermore help avoid exploitation of the environment as businesses will be forced to think about the consequences their productions have on the environment. However, legislation is not only associated with advantages. Disadvantages stated with such an approach are that a one-size fits all approach is not possible on this issue. CSR is an issue, which covers many aspects and what may be efficient for one industry may be destructive for another. Another substantial criticism is that it is believed that if legislation is to be introduced it will only be possible to agree according to the lowest common denominator. This way legislation may in fact lead to lower involvement by businesses overall as businesses then is believed only to do what the law requires of them but never more than this. Besides, if legislation is introduced this will mean additional bureaucracy and increased costs of observance to states and costs of operation for businesses (Hopkins & Hopkins 2005, 155-158).

As shown above, there is no single answer among theorists and the CSR schools of whether it makes sense to stick to a voluntary approach to CSR as some see a voluntary approach as the right solution among others due to flexibility whereas others tend to be in favour of more regulation. These views somehow seem contradictory as on the one hand regulation is mentioned to increase costs for businesses putting businesses in a disadvantageous situation versus its competitors and on the other hand environmental regulations are seen as a way to boost innovation, which is deemed necessary for businesses to survive and be competitive. It is questioned whether governments shall play a more active role to try to move CSR towards more regulation or whether incentives occur from market forces, or stakeholders are the driving forces in making businesses incorporate sustainable production methods. These views seem to focus on the impact on businesses rather than on whether the approach is more or less efficient in meeting the CO₂ reduction goals. It is though believed that in order to make businesses engage in CSR, whether voluntary or compulsory, the businesses must link CSR with gains. However, businesses do according to Edward Freeman not carry out their

activities in isolation, which is why businesses have a responsibility towards more than simply shareholders and must take into account more than strictly economic gains. Stakeholders seem more and more focused on companies' impact on the environment. As climate and CO₂ emissions have become a topic, which ranks high on the agenda of international organisations, governments, the media, etc. this issue has attained increasing attention among stakeholders.

As was seen, there is no agreement between the different CSR schools as well as theorists on whether it makes sense to stick to a voluntary CSR approach as a tool to meet the SDS's CO₂ goals and whether it would actually be of an advantage to as well the environment as businesses to introduce a more regulated approach. This section has provided an overview of the theoretical debate, which shall help later on in the analysis to be able to assess whether it makes sense to stick to a voluntary CSR approach by comparing these theoretical views with the views perceived in real-life by state, business and civil society and by using the cement industry and car industries as specific examples.

6. VOLUNTARY CSR? THE PERCEPTION OF CSR FROM A STATE, BUSINESS & CIVIL SOCIETY PERSPECTIVE

The economic and political interests at stake for state, businesses and civil society will be examined and discussed below. These interests will throughout this chapter be held up against the schools and theorists presented above. This way it will be discussed whether the schools and theorists are able to explain how CSR is perceived in real-life by state, businesses and civil society. Therefore, the chosen strategy (voluntariness) will be explored by using the cement industry as a case and what talks in favour and against introducing other governance methods – mainly framework regulation, which has been used in the car industry. In relations to the question posed in this thesis this section will therefore create a framework of the interests, which exist among state, business and civil society. This is believed to be important in order to assess whether it makes sense to stick to a voluntary CSR approach as these actors are important when dealing with CSR why a European agreement cannot be made without some accept from these parties.

6.1 THE ROLE OF STATE, BUSINESS & CIVIL SOCIETY IN CSR

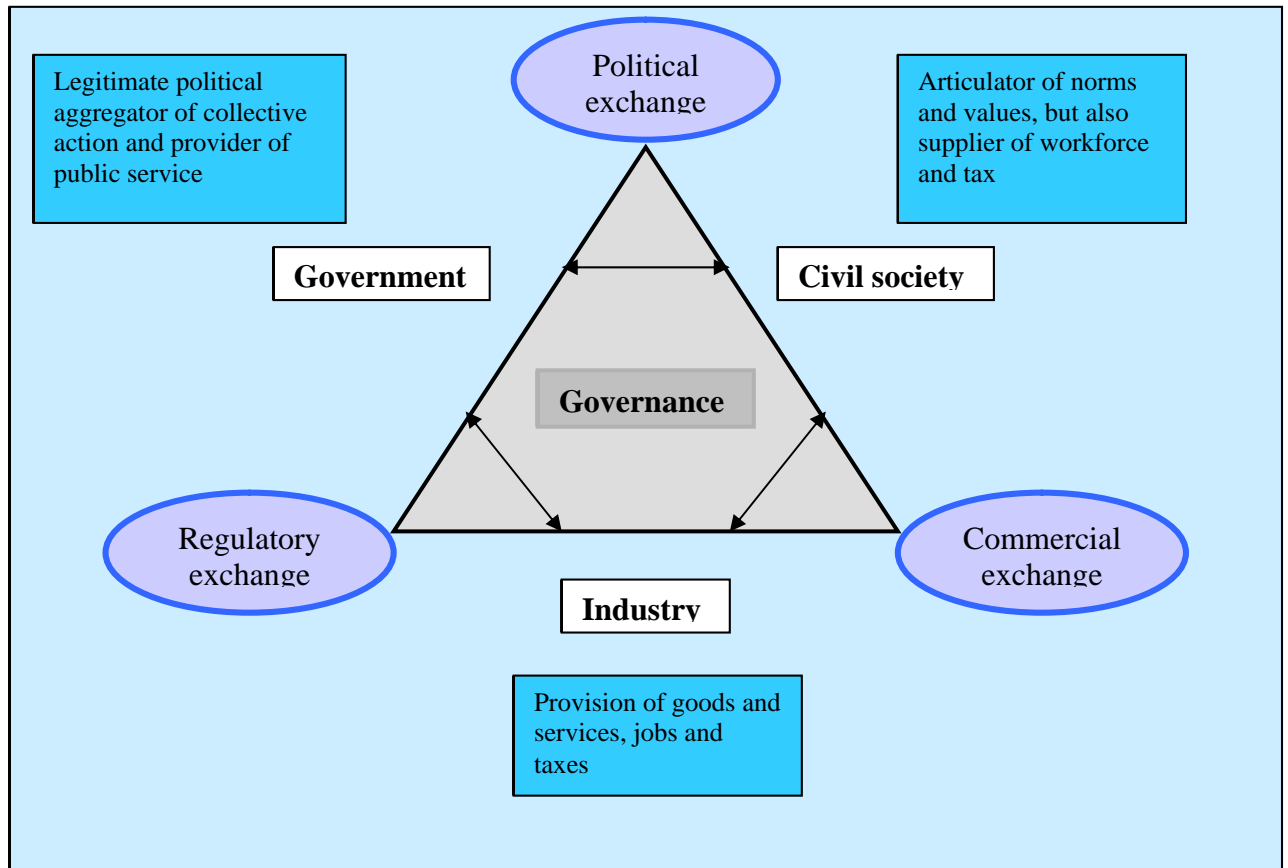
Henderson has stated that the conception of CSR marks a new departure. According to him, the three schools presented above as well as the views of the theorists place themselves in the debate on advantages by on the one side a capitalist system and on the other side a socialist system. However, according to Henderson, “*CSR represents a small part of a broader change in the relations between government, business and civil society – and is symptomatic of the search for new organizational forms related to these changing relations*” (Michael 2003, 122).

6.1.1 Relationship between state, business and civil society

The relationship between state, business and civil society is quite prominent when dealing with CSR as interaction happens among the different actors and as well at different levels as seen in

Figure 3: (1) a regulatory exchange takes place between the governments and businesses, (2) a commercial exchange between businesses and civil society, and (3) a political exchange among governments and civil society (Midttun 2005, 161).

Figure 3: Actors and exchanges among state, business and civil society



Source: Midttun 2005, p. 161, figure 1

Businesses provide goods and services but also jobs to civil society and taxes to the state. However, businesses do also provide products to the state, which might be a criticism of the model above. National governments provide public services, define laws and rules, and are the centre of political interest. Civil society represents the consumer, is the supplier of workforce, pays taxes and articulates norms, values and opinions. Therefore, much interaction is seen among these actors. As the interests are clearly different among states, businesses and civil society according to their roles and interactions they do also have different interests when it comes to businesses' CO₂ reductions. These interests may also differ according to the level of analysis which is analysed as stakeholders may change according to these levels and pressure may differ. In this thesis this model applies to both the local and regional level. As was seen above, theory states that regulations is seen either as an obstacle to competitiveness and therefore as expensive for businesses or as an opportunity, which can lead to increased competitiveness and this way to economic gains.

6.1.1.1 Businesses and CSR

Businesses tend to be in favour of a voluntary CSR approach as this leaves them with the possibility to model CSR according to how they believe they will best obtain as many advantages as possible from integrating sustainability into their business strategies. In an analysis on chief executive officers' (CEO) perceptions of CSR the CEO's stated four factors as being the most decisive to why businesses engage in CSR; 1) managing reputation and brand the business, 2) being able to attract, motivate and retain talented employees, 3) to protect the business' license to operate, and 4) in order to enhance the business competitiveness and market positioning (Roselle 2005, 122).

The climate change challenges seem to be taken more seriously now than they did only years ago. More and more companies state that green policies are now an affair for the chief executive officers. 60% of CEOs find that it is important to incorporate climate issues into the companies' overall strategy. However, the development which has been seen on this issue is primarily seen in big companies whereas small and medium sized enterprises (SMEs) are lagging behind. This may be explained by the fact that changing production methods to more sustainable methods may be more difficult for SMEs than for big enterprises as this may be associated with too high economic expenditures. Besides, companies, who are facing global competition, to a higher degree see the need of having a climate strategy as this may be used as a marketing approach (Lassen 2008). Among CEOs there is general agreement that the CO₂ debate over the coming years will have greater influence on companies' results in almost all sectors. In 2007, McKinsey conducted a global survey on how companies perceive climate change. This survey showed that among the 2,192 CEO respondents, the share who saw climate change as an advantage and those who saw it as a disadvantage was equally high (McKinsey 2008). This shows that equally many agree with Friedman that CSR is an additional cost to the business as is the share who believes that CSR is actually an advantage. According to this survey the share who perceives CSR as an advantage has though risen during the last years showing that CEOs to a greater extent is taking climate issues seriously.

6.1.1.2 Governments and CSR

As stated above, governments can play a smaller or greater part when dealing with CSR according to the chosen approach. The national governments are mediators between the European Union institutions and the industry. To governments advantages and disadvantages are associated with keeping CSR voluntary as well as integrating compulsory measures at

EU-level. Imposing too strict environmental regulations is interlinked with the fear of businesses choosing to relocate to areas with less strict regulations. Relocation will be expensive for governments and society as it will mean loss of tax incomes and lead to higher unemployment rates and will not ameliorate the effect on the climate as businesses tend to move to areas with less strict regulations and increase emissions from transportation. When CSR is kept voluntary it is easier for governments to stay in dialogue with the businesses and this way try to find a solution, which is acceptable to both parties. Governments are this way left with a higher degree of influence enabling partnerships with businesses and have greater possibility to engage stakeholders in the debate and draw on their competences to ensure the right national policies. The fact that CSR has been stated as a voluntary instrument at EU level does therefore not necessarily mean that it is voluntary in the member states. As CSR is kept voluntary in an EU context the national governments have the possibility to influence the national policy according to the national needs.

Another advantage of keeping CSR voluntary is the avoidance of administrative burdens associated with a compulsory approach to CSR. If governments regulate and are not able to keep control with whether businesses then comply with such regulations this may entail a loss of government's credibility in the eyes of civil society (Cloghesy 2004, 327).

However, governments need to ensure that businesses do take their role in society seriously and do reduce their CO₂ emissions as governments must comply with the Kyoto goals and the SDS climate goals they have agreed to. As was seen in section 3.2.1 there is still a very long way to go for the EU altogether meaning that member states are lagging behind. Businesses have a great responsibility for the increase in CO₂ emissions released why this is one of the sources at which governments must intervene. Therefore, many governments tend to prefer a command and control approach as it is believed to be more efficient despite the fact that it stifles innovation. Such an approach is though highly unpopular in the eyes of the industry (Rehan & Nehdi 2005, 111). On the one hand, governments have an interest in not being too strict towards businesses however on the other hand governments must comply with the environmental goals they have assigned to.

6.1.1.3 Stakeholders and CSR

When it comes to describing the interests and views of stakeholders this is more complex as it includes different groups in society such as the shareholders, NGOs, consumers, neighbours, etc. As stakeholders cover so many different groups it is impossible to deal with these

altogether. According to Madsen and Ulhøi there are three groups of stakeholders; the stakeholders who have direct influence on decision making in the business such as shareholders; those where there is a market-based relationship such as consumers; and stakeholders where an indirect influence is seen such as NGOs (Madsen & Ulhøi 2006, 260). According to Freeman, businesses must meet the demands of all these stakeholders in order for a business to be successful, whereas to Friedman only the interests of the shareholders matter. To be able to meet all stakeholder demands businesses need to be active CSR-wise at both local, regional and for some businesses also at global levels. Stakeholders may differ according to the level of operation as e.g. production and emissions of dust, etc. mostly bother neighbours at the local level; and labour unions, 'green NGOs', etc. primarily tend to place their focus at the European level. The focus will in this thesis mainly be on the two last of these three groups as it is believed that shareholder interests are reflected in the way businesses are operated and as it is interesting to look at the disagreements among civil society and businesses.

Civil society's awareness and interest on the subject has increased and hereby also the attention towards industries on this issue. By civil society is commonly understood the arena between the state, the market and the private sphere. Civil society is organising action around shared interests and values with the aim not only of influencing politics and policy-making but also the market.

A Gallup survey carried out in Denmark shows that only 14% of the Danes think that Danish companies are doing enough to reduce their CO₂ emissions and 57% think businesses' performance in reducing emissions are inadequate (Lassen 2008). When dealing with consumers in relations to CSR these tend to be concerned about the price of a product but is now also to a higher and higher degree beginning to demand that the products they buy are produced in a sound sustainable way. However, pressure is not only coming from consumers but to a high degree also from environmental NGOs longing for businesses to take more responsibility.

The Commission has stated that it is in favour of a voluntary approach to CSR. However, a more compulsory approach has been chosen when dealing with the car industry. The perception of CSR by state, business and civil society may therefore differ from one case to

another. Looking at the views and interests of states, businesses and civil society will be examined below by analysing the cement and car industries.

6.1.2 CSR and the cement industry

6.1.2.1 Involvement of the industry in CSR

As was seen in section 4.1.1 the cement industry is one of the most polluting industries causing around 5% of man-made CO₂ emissions. Figure 2 showed that this is a trend, which is likely to worsen if nothing is done to change current practices. Due to the fact that this industry is a high emitter of CO₂ one should think that the industry was subject to much criticism. However, this does not seem to be the exact case even though it has been stated by the industry that it has experienced increasing attention during the last ten years (Battelle 2002, 14). This may be explained by many citizens not being aware of the fact that the cement industry is a high polluter and as this is an industry with a relatively small clientele as the cement industry mainly sells its products to the industry and craftsmen compared to e.g. the car industry this is associated with lower awareness hence less attention. Besides, the cement industry is a very old industry, which perhaps means that expectations towards it are different as production methods and cement have stayed more or less the same during many years. This has been confirmed by a study made by the international science and technology enterprise Battelle, which has been hired by the industry to carry out a review and suggest ways in which plants can become more sustainable sound. Battelle has been working with stakeholders such as NGOs, governments and academia. This study shows that inertia is the greatest barrier for introducing sustainable policies as there is a tendency for cement companies to keep operating in the same way as they have done in the past. This is therefore an industry, which can be characterised by resistance and scepticism towards change and new ideas. According to the study this is a typical characteristic of a mature industry (Op.cit, 13). Besides, cement is a commodity product, which in the given industry means that prices are relatively uniform within a given market across companies. This does not encourage the cement plants to make high investments in sustainable friendly production methods as such investments are not clearly linked with near-term economic gains (op.cit, 13). Some hesitation has therefore been registered among the European cement plants in making production more sustainable. Besides, the industry states that cement does in itself contribute to better sustainability as was explained in section 4.1

The cement industry states itself that it perceives the high amount of CO₂ it emits as a problem and despite the fact that the industry is perhaps not as exposed to criticism and attention as other industries are, the industry seems committed to contribute to reducing its CO₂ emissions. The fact that 18 cement producers around the globe of which 10 are European (9 EU members) have chosen to engage in the “Cement Sustainability Initiative” (CSI) indicates that this is an industry where the responsibility towards the climate is taken seriously. These 18 producers account for more than 40% of the cement produced globally. The purpose of this initiative is to explore how this old industry can evolve to more efficiently meet the needs for sustainable sound production methods while at the same time meeting shareholder demands; CSI works to standardise techniques and issue guidelines on what cement plants can do to reduce CO₂ emissions (op.cit, v). The fact that these plants are engaged in CSI does give an indication that the plants are not totally opposed to CSR as they have engaged in the CSI initiative based on their own free will and as the cement industry has stated reluctance to engage in CSR if this is associated with economic costs they do not (at least not all) agree with Friedman that CSR is disadvantageous to businesses. view that CSR will always be associated with additional costs as the cement industry have stated their reluctance to engage in CSR if this is not associated with economic advantages. However, having been quite sparred against criticism

[i]t is really a bit surprising that the Cement Sustainability Initiative (CSI) happened at all. When it began in the last year of last millennium, neither cement nor the cement industry was seen by green groups as a major environmental villain. (...) Industry leaders could have kept their heads down and hoped not to be noticed in the fray over climate change (...) Instead they took the bold step of trying to make the entire industry more environmentally and socially friendly, not only in the area of greenhouse gas emissions, but other emissions, health and safety, and effects on neighbourhoods. I do not know of another example of such a major initiative by an entire industry (...) (WBCSD 2007b).

This was confirmed at a meeting held in October 2007 where the heads and senior staff of the 18 cement plants met in Brussels to continue the discussion of what can be done. The heads and senior staff have stated that there are no obvious ways for them to clean up their act why they fear future regulation. But instead of trying to hide they have decided to draw attention to their negative impact on the climate. As one member said “[u]nlike the airlines, cement is not

directly visible to the consumer, so cement companies don't have the same profile. I call it enlightened self-interest. We know there is an issue. If we draw attention to ourselves then we could attract criticism, but we could also have a voice in the regulatory solution. Otherwise we could have something thrust upon us" (Adam 2007). It does therefore seem that the industry mostly has acted out of the fear of further regulations thrust upon them rather than as a response to stakeholder pressure as it was perceived businesses would do according to the third-way school and Freeman. However, the fact that civil society representatives have been included in such processes may have had a proactive effect in ensuring less criticism. The industry has also stated that it will not be possible to carry out changes without the involvement of the groups, which are in some ways involved with the cement industry such as consumers and shareholder. To achieve sustainable production requires "*sustained teamwork*" (Battelle 2002, 2). Such teamwork shall lead to appropriate regulatory policies, increased dialogue between the cement industry and NGOs, and raise consumer awareness of the importance to invest in sustainable produced products, and encourage SD investment by financial institutions (ibid). So in order for the industry to engage actively in CSR it is important that society is also ready to receive sustainable produced cement.

6.1.2.2 Concerns of the industry

Engaging in sustainable sound production is perceived to be interlinked with as well advantages as disadvantages by the industry. Due to the fact that cement plants have a long life-cycle of up to 30 years changing production equipment is linked with high economic costs. A new cement plant costs around 3 years of turnover (Cembureau: Key facts). Therefore, this is not an industry where it is possible to become sustainable sound from one day to another without it being linked with high economic costs. This is therefore an industry where changes tend to be met with a conservative attitude. Therefore, as long as CSR is kept voluntary the cement producers can to a high degree introduce sustainable policies in their own pace. Several concerns have been stated by the industry. First of all, the industry is inevitably also concerned about its competitiveness as other industries are. Specific conditions exist for this industry as this is an industry where only limited export is seen. Only 15% of EU production was in 2000 exported with Luxembourg (58%), Denmark (51%), Greece (50%) and Sweden (48%) exporting the most of their national production while Britain exporting the least (4.2%). This amount of cement exported has not risen substantially since around 38 million tonnes were exported in 2000, which has risen to around 40 million tonnes in 2006.

The reason why export is relatively high in these countries compared to the average is due to the placement of the plant (if in a small country, or placed close to sea) or due to national demand situations, which is lower in countries as Sweden and Denmark with long winter periods where construction may be limited. In general, export within the EU is limited due to the fact that it is very cost intensive to transport cement, which e.g. makes it hard to export cement across borders in the EU except if the plant is situated close to the border or the size of the country is small. Competition may therefore be said to be rather limited internally in the EU due to these specific transport conditions. Transportation by road is limited to a radius of approximately 300 km. Transporting cement at long distances by road may be more expensive than the actual cost price of the cement. Transport by rail is rarely used as this requires railway tracks all the way to where the cement is to be delivered. Transportation by rail is limited to between 200 and 400 km to stay competitive. However, if transported by sea cement can be transported over great distances why it may be advantageous for plants to be situated as close to sea as possible (Wagner 2000). This mode of transportation is seen as much cheaper than the other ways as transporting 35,000 tonnes of cargo across the Atlantic Ocean is cheaper than transporting it 300 km by road (Cembureau, key facts). The cement industry is concerned that if further restrictions are imposed on them exportation will fall as well as consumers within the EU will import even more from outside the EU. However, imports have exploded from about 31 million tonnes in 2003 till about 40 million tonnes in 2007 making import and export levels equally high. China and India are big cement producers. In 2001, China produced 37% of the world's cement. Both China and India are not assigned to any environmental regulations why it is believed that they will be able to produce cement at cheaper prices. Imports from these countries will mean higher emissions under the production process as well as CO₂ emitted under transportation must be added. It will therefore be disadvantageous to the climate to import from these countries (Rehan & Nehdi 2005, 108). Data from Cembureau, 'The European Cement Association' show that transporting cement from China to Europe adds 10.9% to the CO₂ emitted under the production compared to if it had been produced under EU regulations (Cembureau 2008). Furthermore, recent surveys have found out that transportation by sea has much higher consequences on the climate than first estimated as shipping annually induces emissions of 1.2 billion tons CO₂ rather than the 420-600 million tons first believed. Emissions from ships are yearly believed to cause 60,000 lives due to lung or heart diseases. It is estimated that this

number will increase by 40% before 2020 if nothing is done to reduce CO₂ emission levels from shipping (Sørensen 2008).

Second of all, there is the risk of relocation of plants if too strict regulations are imposed on the industry. In 2006, the Danish Government worked on a plan to reduce Denmark's CO₂ emissions. The Danish cement producer Aalborg Portland feared the consequences for its competitiveness if the Government agreed to reduce the industry's CO₂ quotas as Aalborg Portland in 2006 was the highest emitter of CO₂ in Denmark. If the agreement was carried through, the Spanish owner Cementir seriously considered to relocate production, which would not only have consequences for the around 800 employees at Aalborg Portland but also on its many subcontractors (Metal supply 2006).

Third of all, changing to more sound sustainable production may mean a changed product outcome. Consumers have become more aware of the role they play in helping to reduce CO₂ emissions and have therefore begun to make higher demands to the product they buy. However, experience from the cement industry shows that consumer patterns have not changed so much that consumers are willing to pay more for sustainable produced products (Rehan & Nehdi 2005, 110). A German cement plant had difficulties marketing its blended slag cement, which causes lower CO₂ emissions and is characterised by having better durability than ordinary portland cement. Experience from this plant showed that consumers were cost conscious so in this case the sustainable friendly cement was thwarted by the cost preferences of the consumers (ibid; Battelle 2002, 27). Furthermore, analyses have shown that despite the fact that cement is perceived as a standard product, as there are only few classes of cement within the different types, consumers tend to stick to the product they are familiar with and preferably from the plant from which they normally buy their cement. The fact that consumers tend to stick to cement from the plant they know may talk in favour of competition being less of a problem. However, numbers show something else as importation to the EU has risen substantially meaning that this indicates of consumers being willing to buy the cheaper cement produced in e.g. India or China. The fact that the new blended slag cement has perhaps not been a success must be associated with the fact that cement is business to business product. The consumers of the cement industry may therefore be characterised as intermediaries. The consumers of these intermediaries may perhaps not be aware of the negative effects the production of cement has on the climate therefore not insisting on the intermediary using sustainable sound cement. The cement industry's consumers have shown

scepticism and reluctance towards buying new types of cement due to as well prices but also concerns about the quality. This may though give an indication that once consumers claim for sustainable produced cement the industry will be ready to change production methods but as conditions are now, CSR and sustainability is by many seen as an additional cost as Friedman claims.

Finally, the cement industry faces problems if it becomes subject to fixed emission targets. The industry itself states that without a binding cap emission levels will go up and the only way for the industry to meet a cap is by lowering production. However, this will instead mean that cement will be imported from e.g. China and India. The cement producers therefore tend to agree with the neo-liberal school (or some more with Friedman) that CSR is most efficiently managed by letting it up to the market forces as regulation is associated with competitive disadvantages and economic costs. The industry therefore believes that at long term, the only methods, which can reduce emissions is carbon capture and storage why the industry sponsors research on how this can be done (Adam 2007).

6.1.2.3 Advantages associated with sound sustainable production methods for the industry

Cost savings must occur to make plants engage in CSR hence being of advantage to the plants. A study, made by Battelle, shows that cost savings is an essential condition. Some aspects talk in favour of introducing sustainable sound production methods that may be of advantage to the cement industry. First of all, as the industry is so energy intensive there are great economic savings associated with introducing more sustainable production methods. Actually, the energy bill represents approximately 40% of total production cost (Cembureau, key facts). Under the EU's emission trading scheme (EU ETS) industries are allowed specific quotas for CO₂ emissions. According to Schultz and Williamson, who have assessed a company's carbon exposure, a manufacturer is expected to be short of around 150,000 tonnes² in 2007 equivalent to an expected value of €1,200,000 (Schultz & Williamson 2005, 387). Reducing the use of energy during the production process is therefore very essential.

Second of all, the fact that production of cement requires a significant amount of resources is a high barrier in becoming more sustainable sound. If alternatives are found to replace resources and energy, high prices might be saved. Such savings have been found as the cement industry to a higher degree uses hazardous waste as compensation for regular fuels

² To compare, Aalborg Portland emitted 2,764,907 tonnes of CO₂ in 2007. For 2008, Aalborg Portland has been assigned 2,567,181 tonnes. If the production level stays still in 2008 this means that Aalborg Portland will be short of 197,726 tonnes

in a cement kiln or as a substitute for clinker. Waste consumption in the EU accounted in 2001 for 12% of the industry's fuel mix and is a much cheaper alternative to the coal otherwise used. The advantages associated with the use of waste in the cement industry are that it lowers the volume of waste in landfills, reduces the costs of disposal of the waste, undisturbed land and minerals are preserved for future generations, and the net CO₂ emissions are lowered (Battelle 2002, 70). However, the use of hazardous waste has been met with substantial scepticism from as well the local and regional levels as neighbours to cement plants and NGOs have expressed concern that the use of waste may result in dioxin and furan emissions and have adverse effects on the health of those living next to a cement plant. It has therefore been recommended that the cement industry increases dialogue and seeks partnerships with experts securing that cement plants can choose the waste sources, which are safest and most environmentally and economically sound (op.cit, 72). Friends of the Earth are highly criticising the use of waste. They believe this is more of advantage to cement plants and governments than the environment, as governments are facing increasing difficulties getting rid of the increasing amounts of waste and as this is a cheap alternative to the coal for the cement industry. According to Friends of the Earth, the use of waste causes problems as it does not provide any incentive to reduce the amount of waste produced in the first place. Besides, the cement industry exists to make cement and therefore has no incentive to use waste in an environmental friendly manner. For them, it is strictly about saving money. There is only scant evidence that the burning of waste instead of fuels decreases environmental damage caused by cement. Not enough evidence exists ensuring that the use of waste is not worsening the situation instead of improving it (Friends of the Earth 2004, 2). German cement plants to a great extent use waste as an alternative fuel. As there are also restrictions on the burning of waste an agreement has been made between the plants using most waste and the German government. This agreement says that the plants are allowed to burn a specific amount of waste but as a consequence they have to accept stricter CO₂ emission limits (Hitchens et al. 2001, 14). This is therefore an example where dialogue has led to an agreement, which is perceived as an advantage by both the cement plants and the government. This agreement may be effective in reducing CO₂ emission levels however it may have negative consequences in other respects. However, how much civil society representatives have been involved in this agreement is questionable. NGOs have not been successful in making governments and industries abandon the use of waste altogether and find an

alternative to this, which is certain not to have negative consequences. This may be explained by the fact that the NGOs have been split on the issue as they on the one hand want to see CO₂ emission levels reduced as much as possible to which burning of waste is believed to contribute but on the other hand are reluctant towards the solution found by the industry as it leads to other emissions, which may have high health consequences especially for people living close to cement plants. Therefore, the consequences should be thoroughly examined before the use of waste (Friends of the Earth 2004).

6.1.2.4 Consequences of environmental CSR

In 2001, managers at cement plants in Germany, Italy, Spain, the UK and Poland were asked what they saw as the greatest competitive disadvantage being a cement producer in the EU. According to a study on best available techniques (BAT) (Hitchens et al. 2001) the EU countries' cement plants ought to be faced with the same environmental regulations in order for competition to be fair. At local levels, cement plants may be assigned to more or less strict environmental regulations. Germany and Italy, which are subject to the highest environmental standards among these five countries, stated environmental costs and strict enforcement of regulations as the highest disadvantage (Hitchens et al. 2001, 66). The German and Italian plants therefore feel discriminated negatively compared to the plants in the other EU countries. However, the stricter environmental standards seem to work as intended as the BAT study has shown that German and Italian plants tend to be more environmentally friendly than those, which have been assigned to less strict national regulations (Wagner & Triebswetter 2001, 15). Those countries exposed to less strict national regulations were characterised by lack of modern equipment and operating methods (Hitchens et al. 2001, 122). In the case of the dry production process the German and Italian plants have stated to be in a competitive disadvantageous situation compared to the other plants examined. This is mainly due to the fact that these plants work under no particularly favourable economic conditions as they have relatively old equipment, which requires high yearly expenditures making it hard to implement environmental measures and face high competition from Eastern Europe³. When looking at semi-dry/semi-wet processes the competitive situation has been different. UK investment in new equipment was only 15% of that of German and Italian cement plants, which were reflected in low environmental as well as economic performance due to high consumption of fuel and electricity by the UK plant. German and Italian plants

³ Notice that this was before the Eastern enlargement

have not to a high degree been complaining about competitive disadvantages in this respect as their investments have largely been paid off by economic benefits like low energy consumption and therefore supports competitiveness, such as Porter and van der Linde claims (op. cit, 126). In the case of the dry cement German and Italian plants therefore seem to be opposed to regulation whereas in case of semi-dry/semi-wet cement it has not been a competitive disadvantage. In the case of the dry cement, the plants are faced with high production equipment investments to meet requirements of their governments why the advantages of such investments may not yet show at the bottom line and on the sales numbers. Porter and van der Linde also claim that such gains may only show at long-term. There is therefore no unequivocal answer to whether regulation is of advantage or disadvantage to companies but in both cases this has proved favourable for the environment.

FLSmidth is a company producing systems and services for the cement and mineral industries. It is therefore an industry where the end-product is polluting and not the production process in itself (as in the car industry, which will be examined below). FLSmidth has as objective that it must at least comply with environmental legislation and actively contribute to sustainable environmental development by developing production processes, machinery and equipment, which ensures sustainable production and environmental protection for its consumers. This group has met increasing competition from especially Chinese cement system producers and has concluded that it is impossible for the group to compete with these Chinese producers as they are able to produce cement production systems at much lower prices than FLSmidth. FLSmidth was therefore forced to either lower its prices substantially (which was impossible) or to find a way to make its products differ from that of the Chinese. The countermove from FLSmidth has been R&D, innovation and investments resulting in the development of new products, which should give FLSmidth an image of producing environmentally friendly production systems. It has proved a success for FLSmidth, which this way is assured that they are ahead of their competitors as the Chinese are lacking behind when it comes to innovation. FLSmidth has turned increasing competition into a competitive advantage with higher environmental solutions why sustainability and competitiveness have been combined (EuroInvestor 2006). FLSmidth has experienced that cement plants to a higher and higher degree think sustainability into their production processes why it has been of advantage to FLSmidth to be at the forefront of this

development. In this case, global market forces forced FLSmidth to renewal as this was essential for the producer to stay competitive. In this specific case government intervention has therefore not been needed, which is consistent with the neo-liberal school of thinking.

The industry states that governments also have a responsibility and that it is not an acceptable solution that governments place the goals they have assigned to at Kyoto and in the EU upon the businesses. However, increased dialogue with the government has been stated as positive aspects of CSR by the cement industry as expectations this way better can be balanced. This way they believe it will be easier to find solutions, which are acceptable to both the industry and the government. Also recommendations from the industry have been given to the EU. The EU shall ensure CSR is kept voluntary. However, the EU is encouraged to set up a forum for the exchanges of best practices as cooperation within the different industries may be of advantage (Battelle 2001, 94). It is though not all who agree that such a forum is a good idea as the businesses are in direct competition with each other. Due to this they are constrained on their desire to collaborate and cooperate (Klee & Coles 2004, 116). Such a forum may therefore have limited effect.

6.1.2.5 Sum up

As can be seen from the above, the cement industry to some degree seems engaged in finding sound sustainable production methods despite the fact that CSR is voluntary. To avoid legislation or regulations have been stated as main reasons to why cement plants seem to take their responsibility seriously (Adam 2007). The cement industry has also stated that engaging in CSR and introducing sound sustainable production methods will not be done at any price. This must be associated with economic gains to ensure the survival of the plants. As civil society's tendency to demand for more sustainable sound products has not been reflected in the sale of products as consumers have been reluctant to pay higher prices and have expresses scepticism towards the quality of the new products the industry has not experienced that neither market forces (neo-liberal school) nor stakeholder demands have been the driving force behind engaging in CSR. Regulation was seen to have positive effects on German and Italian cement plants but was perceived negatively by these plants. The incentive for the plants in this respect has been rather restricted. In the case of FLSmidth increased competition from China was the main reason behind innovation as this forced FLSmidth to find another way to profile its products.

This industry is therefore facing different challenges in relations to introducing more sustainable sound production methods. There are different incentives in making the industry engage in reducing its CO₂ emissions. These could be seen as increased attention from civil society, increased competition, savings in energy and raw materials, etc.

6.1.3 CSR and the car industry

Also the car industry is facing challenges regarding engaging in CSR. The governance method used to CSR has been slightly different from that used in the cement industry. The car manufacturers signed the ACEA agreement with the Commission entailing that the industry must reduce CO₂ emissions to 140 g CO₂/km by 2008. The reasons behind why a specific agreement has been made with this industry and e.g. not the cement industry is first of all believed to be due to the high amount of CO₂ this industry is emitting. This sector accounts for 24% of total EU emissions and half of this stems from passenger cars as presented in section 4.2. Besides, this industry is not assigned to the EU ETS as is the cement industry, which means that national governments cannot use this scheme to make the car producers reduce the CO₂ levels.

A very fundamental difference exists between the car industry and the cement industries. In the cement industry CO₂ emissions occur when producing the cement whereas in the car industry it is the end-user product, which is polluting. There is also a main difference in the fact that the cement is a business to business product whereas consumers for buying a car are the ordinary citizen. This is believed to have fundamental relevance when dealing with CSR as this inevitably will lead to more attention from stakeholders such as consumers and NGOs. Citizens and consumers do not seem to be aware of the fact that producing cement is interlinked with so high CO₂ emission levels as they are not themselves faced with the emissions. When driving a car consumers are well aware of the fact that this is emitting CO₂. The car manufacturers are therefore facing more criticism from consumers, environmental NGOs, etc. who want the industry to produce more sustainable sound cars. An example of this was seen in Germany in 2007 where a green party politician called on consumers to boycott German cars and instead buy the Japanese Toyota Prius hybrid as this only emits 104 g CO₂/km (Gevers 2007). German cars are especially seen to be lacking behind meeting the ACEA goal as German manufacturers produce some of the biggest and heaviest cars why it takes a great effort for the German manufacturers to reduce the CO₂

levels substantially but in general the whole industry is lacking behind with PSA and FIAT closest to the goal in 2004 having reached 160 g CO₂/km. It does therefore not seem that the industry has used regulation as a push to innovation and gain of competitive advantages as Porter and van der Linde say it will induce. Despite of the attention towards the industry, the car industry claims to be facing the same dilemma as the cement industry as consumers do not seem to be willing to pay the additional cost of less polluting cars. Another problem the car industry is facing is the fact that they must produce as safe cars as possible as well as these must be as comfortable as possible. As safety and comfort often leads to heavier cars due to airbags, air-conditioning, etc. this has not been contributing to reducing fuel consumption levels hence reducing CO₂ emission levels (Volpi & Singer 2000, 2). When buying a car consumers are often more occupied with the size of the car, its safety, the price, etc. However, consumers are also to a high degree aware of fuel economy and as prices tend to rise for petrol and diesel this is believed to become an even more important aspect when consumers are deciding which car to buy. It is therefore imagined that the car industry to a higher degree than the cement industry will be able to use an environmentally friendly car as a sales argument, which is also seen more and more often. Besides, as cars are all the time technologically improved and consumers are replacing their cars regularly, consumers are used to trying different brands and models, which may make them less reluctant to shift from one mark to another or to a less CO₂ emitting car. This is not how it is perceived by the industry. On the one hand, the car manufacturers are experiencing increased pressure to introduce systems, which lowers the level of CO₂ emissions but on the other hand, this does according to the industry not seem to be the decisive factor for consumers when buying new cars. The incentive to be highly innovative and introduce less emitting systems has therefore not been backed enough by the consumers according to the car manufacturers. Nevertheless, experience from Toyota's hybrid car belie such as a statement. Despite the fact that this car has been more expensive than Toyota's other cars it has been a success and in 2005 Toyota had to establish an extra production unit in order to comply with demand. Besides, this car has won several prizes among others 'car of the year 2005' and ADEME, a CO₂ based prize in France (Bilpriser 2006). When European car manufacturers therefore claim that consumers are not ready and willing to buy more sustainable sound cars this is contradicted by Toyota's success. It is to a higher and higher degree experienced that enterprises but also individuals buy these cars in order to show they are following a green profile, are taking climate issues

seriously but of course also due to the fact that it is more fuel-economic. Also actors, musicians and other public figures use such environmentally friendly cars to make a statement and be role models as such behaviour have a tendency to transmit to the general population. Toyota has therefore experienced first mover advantages giving European car manufacturers increased competition and has to a high degree been able to use its less polluting car in sales strategies. There has been concern that if introducing legislation businesses will only comply with this and never do more. This has not been the case of Toyota's hybrid car, which emits 104 g CO₂/ km. However, that less polluting cars is a good sales argument these days was also confirmed by a recent article 21 May 2008, which based on an English test showed that emission levels from e.g. the Prius, but also other cars which claim to have low CO₂ emission levels, are much higher than the car manufacturers state. Test showed that the Prius is emitting 157 g CO₂/km instead of the promised 104 g CO₂/km (Graubæk 2008).

6.1.3.1 The ACEA agreement

As was presented in section 4.2 it proved difficult for the car industry and the Commission to reach an agreement on the maximum level of CO₂ a car must emit per km. Several negotiation rounds were needed in order to reach an agreement. The car industry has been quite sceptical towards this agreement as this meant that new production methods were needed in order to meet the 140 g CO₂/km agreement, which is associated with higher production costs hence the end product will become more expensive. Despite this agreement being perceived as too strict by the manufacturers it is seen as being too lax by other parties and has therefore been subject to much criticism. First, the agreement has been criticised for not being backed by sanctions as this means that if the industry fails to meet the 140 g CO₂/km they will not be subject to any punishment. This can be perceived as only partly true as the Commission several times has stated that if the industry fails to meet the goals legislation will be introduced. The Commission has also recently agreed that legislation is necessary as the car industry has failed to meet the emission reduction goals. That this is perceived as a threat by the industry was seen in 2006 where ACEA apologised for having only met half of the obligations. However, ACEA excused this by referring to a clause, which was incorporated into the agreement from 1998 saying that "*external factors beyond ACEA's control may influence the outcome*" (CEO 2007). These external factors have according to the industry been low demand for energy efficient cars by consumers and bad regulation on recycling influencing the number of new cars sold. According to this industry strictly relying on technological changes is not the

solution as more must be done to change demand why “*combined efforts of many parties and demand-related measures are essential instead*” (CEO 2007), which is like in the cement industry where the producers asked for ‘sustained teamwork’. The fact that the Commission is now seriously talking about introducing legislation has made the car industry starting to lobby, the car industry claiming that it should not only be up to the car manufacturers to meet the 140 g CO₂/km as emissions may also be lowered by setting standards on tire technology, through taxation policies, by reducing congestions, by using alternative fuels and setting standards for driving (Deutsche Welle 2008).

Second of all, the agreement has been criticised for being signed by ACEA rather than the individual companies. The agreement therefore means that the industry as a total must meet the reduction goal. This has been criticised for enabling free-riding by manufacturers punishing those who are actively trying to reduce their cars’ CO₂ emission levels. However, according to e.g. Freeman such free-riding behaviour will not be long-lasting as the manufacturers must anyway meet the demands of their stakeholders.

Third of all, during the negotiation procedure the ACEA negotiations were marked by a democratic deficit. The European Parliament was informed and could state its opinion on the issue but it had no decision-making power. Besides, civil society bodies were only consulted once as most of the negotiations took place behind closed doors. The process has therefore been marked by a low degree of public intervention, which can be criticised as the interaction among state, business and civil society is important when dealing with CSR. According to Porter and van der Linde, competitive advantages deriving from introducing more environmentally friendly systems relies heavily on the external business environment. However, it may seem difficult to assess beforehand whether innovation and introducing new production methods may in fact entail competitive advantages. If civil society groups to a higher degree had been involved in the decision process expectations, willingness and readiness. could easier be matched or at least weighed between consumers and the car manufacturers. Besides, the fact that stakeholders such as NGOs were not involved in this process meant that the car industry to a lesser degree was pushed to agree on more ambitious goals why it according to Volpi and Singer ended with a weak agreement (Volpi & Singer 2000, 8).

Fourth, another criticism of the agreement was the fact that any progress made is not publicly available. ACEA insisted that performance statistics for each car manufacturer

should not be published. This was decided as individual car manufacturers are not made responsible but instead the industry as a total. However, publishing such progress made by the individual plants would enable consumers, NGOs, etc. to compare performances and this way reward those manufacturers making most progress. This way much encouragement for the car manufacturers to actually make progress has been distant as the competitiveness aspect of moving beyond legislation this way has been removed.

Fifth, the perception that choosing a voluntary approach should be quicker than the adoption of legislation, which by Héritier was stated as an advantage, has also been criticised by Volpi and Singer. As it took four years to complete the ACEA agreement (1995-1999) this exceeded the three or four years it normally takes to adopt an environmental Directive.

Finally, the agreement is not sufficiently supporting a technological shift from the current use of combustion engines to the use and innovation of new methods such as methanol or hydrogen-based fuel cells (Volpi & Singer 2000, 8).

6.1.3.2 Sum up

To sum this up, the ACEA agreement is seen as too ambitious by the car manufacturers who from the beginning lobbied for an end-goal of 167 g CO₂/km. The industry has failed to meet the goals, which they themselves through ACEA have agreed to, claiming that other parties in society also must take a responsibility e.g. by showing willingness and interest in buying less polluting cars, stating that this has been the reasons why it has been impossible for the industry to comply with the goals. Environmental NGOs perceive the agreement and the effort by the industry as being too lax having directed much criticism at the industry as well as the Commission.

6.2 TRENDS & SUM-UP

As seen above, conditions for the cement and car industries have been quite different with CSR being voluntary in the cement industry what in Treib et al's model is called 'voluntarism' and the car industry having to meet a specific end-goal through a flexible but though binding method namely 'framework regulation'. Industries in general tend to be in favour of voluntary CSR, which is also the case in the cement and car industries. The cement industry has been active in incorporating CSR into their business strategies in order to avoid legislation or regulation. Opposition against the choice to use 'framework regulation' as the approach to CSR in the car industry has been expressed by the industry and reaching an

agreement proved difficult. The fact that legislation (making CSR coercive) is now on the European agenda has led to another round of lobbying by the car manufacturers.

In general the cement and car industries have ameliorated their CO₂ emission levels when taking into consideration the increased production these industries have experienced. From both sectors it must though be assessed that economic gains are a decisive factor in deciding to engage in CSR and this tend to predominate the effects on the climate. Despite the fact that initiatives have been taken by the cement plants to reduce CO₂ emissions, analyses tend to agree that more regulation is needed in order to seriously make the industry engage in CSR. As CSR is not mandated by regulation it is assessed as unrealistic that cement companies will invest in expensive equipment and incur significant costs in reducing their plant's negative effects on the climate, which the state-led school has claimed and has been confirmed by from the BAT study showing the e.g. plants from the UK and Spain have been reluctant in this regard. This also showed that German and Italian plants in the case of semi-wet/semi-dry production methods have managed to stay competitive due to lower electricity and fuel consumption such as Porter and van der Linde has claimed. The dry process though showed another picture and therefore cannot confirm the statement by Porter and van der Linde.

From a business point of view a voluntary approach such as the neo-liberal school stated is perceived to be the best approach, which in the case of FLSmidth this has also proved to be sufficient to leave it to the market forces as they were forced to be innovative in order to stay competitive.

Looking at the car industry, no uniform picture exists. The 'framework regulation' approach has not proved successful as the car industry is lacking behind achieving the ACEA goals. The fact that more business leaders have stated that "*green is lean and profitable*" (Mikler 2003, 21) has not been transferred into action. Porter and van der Linde states that properly designed environmental standards can trigger innovation and offset the costs of complying with them. However the car manufacturers do not seem to think that being assigned to regulations has led to advantages. What by Porter and van der Linde then is meant by 'properly designed environmental standards' may be questioned. Whether a voluntary approach in this industry would be a better approach to meet the SDS's CO₂ goals is doubtful since the manufacturers have failed to meet the goals despite of this being obligatory why thinking they would engage in voluntary CSR is difficult. In the case of the ACEA agreement

some kind of sanction is therefore believed to be necessary. Whether it would then make sense to introduce such an approach in the cement and other industries may therefore be questioned even though circumstances are different from one industry to another. However, CEOs state that they to a higher and higher degree do not believe it is possible to operate and be successful in today's world without thinking about the negative consequences operating a business have on the climate as consumers and citizens become more aware of these matters. The cement and car industries have stated that external aspects must be present, which ensures businesses that they are able to sell their products. This was also stated as an important aspect by Porter and van der Linde. However, they seem to fail to explain of what these external factors consist and how enterprises shall be able to assess whether the external factors are favourable beforehand. For the industries to blame external factors may be a bad excuse. In the car industry it was shown that conditions have been present for introducing more environmentally friendly cars. Pressure from stakeholders have to a high degree been present in the car industry however not sufficiently to make the car manufacturers take it seriously. This may be explained by the fact that much lobbying has taken place at EU-level, which will be explained below.

Relying on stakeholders as the driving force in making businesses engage in CSR does not seem to be the right or at least a sufficient approach to take. It is believed that other factors are needed to make businesses take their responsibility seriously.

To introduce regulations as was seen in the car industry cannot be associated with great success as car manufacturers have failed to meet the ACEA goals. German and Italian cement plants though tended to take the regulations they have been assigned to more seriously. These plants have been more effective in reducing their emission levels. This therefore gives a mixed picture.

This gives an indication of the complexity of the system as not one school or theorist is successful in explaining what has happened, why and the effect of this, hence whether it makes sense to stick to a voluntary approach as experience is not uniform. Therefore, to conclude on this matter it is believed that it will be necessary looking at the regional or EU-level as it is ultimately the Commission, which must present a proposal on making CSR more regulated, which the Council then shall approve. The interests at European level will therefore be the focus of the next chapter of this thesis.

7. VOLUNTARY CSR? EXPERIENCE AND INTERESTS IN THE EU

“One could argue that [climate change] is a test of EU’s capacity to act as a political entity” (Anastasiadis 200, 24). This view has been stated regarding the difficulties finding a solution, which at the one hand represents the view of e.g. ‘green’ NGOs’ wish for a greater environmental responsibility in the EU i.e. more regulation and on the other hand businesses’ wish to conduct their affairs without interference i.e. no regulation. The subject of this thesis therefore falls into a broader debate on the issue of legislating versus not legislating, which is the result of a very old political debate on (neo)liberalism versus socialism (as also presented with the neo-liberal and the state-led schools). This again reflects business or market interests versus civil society or community interests. As seen above, this is also reflected in the CSR schools and theoretical views presented in this thesis. However, it is not only reflected in theory but also in the two cases examined as businesses favour voluntary CSR and civil society representatives favour regulation or legislation. However, as was also seen above no clear answer exists on whether one approach makes more sense than another as experiences pull in different directions.

To be able to assess to what extent it makes sense to stick to a voluntary CSR approach the thesis also needs to deal with the European level as it is ultimately here the debate on legislation versus no legislation rules out. This part of the analysis will focus on the hypothesis, which sounded *“It does only to a limited extent make sense to stick to a voluntary approach to CSR. Conditions have changed, which means that the European institutions are experiencing increasing pressure from civil society to which these are expected to respond.”* This analysis will analyse whether changes in interests among civil society have influenced the stance of the European institutions and caused any development. This will be done by looking at the cases. Neofunctionalism and liberal intergovernmentalism will be applied to these aspects to explain the interests and development in this regard if possible. Based on this, this chapter will discuss whether it only to a limited extent makes sense to stick to a voluntary approach as formulated in the hypothesis and the research question of this thesis.

On the one hand, it does according to civil society only to a limited or rather to no extent make sense to stick to a voluntary approach to CSR as businesses need a push to take their responsibility seriously. On the other hand, the fact that civil society is concerned about climate change but consumers as a group in civil society do not respond accordingly

strengthens the belief of businesses that CSR must stay voluntary why it according to those to a great extent make sense to stick to a voluntary approach to CSR. As views are diverging between these two groups it is therefore ultimately in the institutions the wish for more integration must occur. Whether civil society has been successful on placing pressure on the institutions will therefore be examined below.

7.1 CSR AT EU-LEVEL – INTERESTS AND DIALOGUE

7.1.1 Interests of business and civil society representatives

Much attention on CSR has been directed at EU-level. This may e.g. be due to the way the Commission has approached this subject involving as well business and civil society representatives in the process of outlining a European approach to CSR. Dialogue and involvement of states, businesses and civil society is seen as a very crucial element of CSR. However, finding an approach which meets the diversity of opinions expressed on CSR has proven difficult. As presented in section 3.3.1.1, the Commission set up a Multistakeholder Forum aiming for the parties participating in this forum to reach an agreement on how CSR should and could best be approached in a European context. The role of the Commission in this forum was to define the agenda and the procedure i.e. the European institutions were only present as observers. It was believed that the Commission felt a need to launch this participatory governance process due to the various actors involved in the area of CSR and their different opinions on the issue. In order to address these different views it was by the Commission believed that only by “*a structural and partnership-based approach between businesses and their various stakeholders*” (European Commission 2002, 22) and “*a concerted effort by all those concerned towards shared objectives*” (op.cit, 10) would it be possible to reach a consensus for designing a European CSR framework. The forum was therefore a possibility for different parties to voice their opinion on the subject and have a say on how CSR should be approached in the EU. However, this forum has not been without criticism. The Commission has been accused for being partial in the selection of the participants, which was seen as an attempt by the Commission to balance the power in favour of the business representatives (Papadakis 2005, 46). Several of the civil society representatives felt that their participation in the forum did not help them in strengthening their voice against a voluntary CSR approach. Quite on the contrary, they felt that it only highlighted a voluntary approach as being the right decision. The forum most of all seemed

like a talk show about the exchange of good practices, which was only advantageous to businesses (op.cit, 50). As the civil society representatives furthermore did not feel that the outcome of the forum, namely a report summarising the positions of the participants and the set up of a preliminary agenda on how to tackle the issue of CSR, reflected the debate of the forum this did not help civil society representatives feel that their participation in the forum had strengthened their voice. According to them, the report is overemphasising the voluntary dimension of CSR i.e. focusing too much on the businesses' perception of CSR and undervaluing the views of civil society (Capron 2004, 1). This distortion may therefore give the wrong picture of the opinions stated at the forum in favour of voluntary CSR or as a representative of the Green 8 has stated "*[the report] is a flawed analysis and portrays an unrealistic consensus –a lowest denominator approach put forward by stakeholders*" (Papadakis 2005, 46). Not only in relations to the multistakeholder forum have civil society been critical and felt less prioritised. Also regarding the Commission's 2006 Communication where the Commission set up an alliance solely between the Commission and businesses. This has provoked anger from civil society organisations and trade unions which will set up their own coalition as a response (EurActiv 2007). This may be perceived as a strange move by the Commission as it is under increasing pressure from civil societal groups and as businesses tend to state the importance of staying in dialogue with stakeholders as seen in the two cases examined above. According to civil society representatives the ACEA agreement can by no means be considered as a good example of an effective climate change policy as civil society were almost totally left out from the negotiation process leading to an outcome, which did not respond to the interests of the different stakeholders but simply that of the car manufacturers and shareholders (Volpi & Singer 2000). Civil society representatives have therefore been very active directing their criticism at the Commission.

In general civil society representatives have been sceptic about a voluntary CSR approach and do not believe that businesses will think in social responsible behaviour if this is not associated with economic gains. Despite the fact that many civil society lobbyist are placed in Brussels these are underrepresented compared to the business representatives, which are accounting for two thirds of the 15,000 lobbyists working in Brussels. Due to this; the fact that civil society representatives cover many broad issues and therefore not always manage to lobby a common stance; and the fact that business representatives tend to have far better resources at their disposal leave businesses in a much stronger position for influencing the

Commission. An example of this has been seen in the car industry. The fact that the Commission is now seriously talking about introducing legislation has made the car industry start to lobby. Especially the German car manufacturers have been active in this respect as they at the moment are furthest from meeting the 140 g CO₂/km (Deutsche Welle 2008). Whether they this time will have success in avoiding legislation is doubtful as the Council members in general have expressed content of an average emission limit of 130 g CO₂/km for cars. However, as seen above, the German government is to a great extent trying to advocate the case of the German car manufacturers somewhat in accordance with the belief of the liberal intergovernmentalists theory as the German Minister clearly support and speak out for the German car manufacturers. That the German and the other national Ministers have stated their accord towards introducing legislation meaning that the car manufacturers most probably have to meet an average of 130 g CO₂/km. This may witness of the government representative having been influenced by the increased pressure expressed by civil society and the high attention climate change has on the public agenda. However, civil society representatives would have liked the reduction goal to be more ambitious. The fact that climate change has gained momentum and increased pressure from civil society therefore seems to have influenced the decision to legislate on this issue but business interests are still seen to be prioritised, which is illustrated by the emission reduction target. The discussion in the Council is also more centred on how to meet the average reduction goal than on the number by which emissions shall be reduced.

Though, the discussion is more centred on how to meet the average reduction goal than on the number itself, which witnesses of civil society having managed to influence this debate and the car manufacturers must be prepared for a further reduction of 10 g CO₂/km.

Experience tends to show that interests of businesses have been favoured over those of civil society representatives. This may be assessed based on the above presented analysis as well as the Commission's choice to present CSR as a voluntary tool despite civil society representatives opposing this from the very beginning. This is believed to be due to the very decisive role businesses have in the functioning of a society. So when claiming that interests of as well states, businesses and civil society must be met in order for CSR to work as a tool to meet the SDS goals it may in the case of the EU be stated that business interests have seemed more important than civil society interests. However, one may ask if this does not

make sense since it is ultimately businesses, which must change their strategies and incorporate social responsible behaviour into their business strategies and production methods? Maybe so but the EU and the member states still have to meet the Kyoto goals by 2012 and the SDS goals by 2020.

However, to state that a voluntary approach to CSR simply has been chosen due to the EU-institutions wishing not to impose too strict regulations on businesses is believed to be an exaggeration. The fact that CSR is a complex issue, which covers many different aspects, is believed to be another important reason.

7.1.2 Interests of the European institutions

7.1.1.1 The Commission

The Commission has from the beginning presented CSR as a voluntary tool to meet the SDS goals favouring a business case approach over a society case approach. In the Green Paper the Commission stated that

[a]s companies themselves face the challenges of a changing environment in the context of globalisation and in particular the Internal Market, they are increasingly aware that corporate social responsibility can be of direct economic value. Although the prime responsibility of a company is generating profits, companies can at the same time contribute to social and environmental objectives, through integrating corporate social responsibility as a strategic investment into their core business strategy, their management instruments and their operations. (...) Where corporate social responsibility is a process by which companies manage their relationship with a variety of stakeholders who can have a real influence on their license to operate, the business case becomes apparent (European Commission 2001b, 5 - 7).

The Commission therefore believes that engaging in CSR is of economic interest to businesses and businesses therefore due to this but also due to their relationship with various stakeholders will engage in CSR.

The view of the Commission therefore differs from that of Friedman. Whether the Commission then thinks that CSR should be left totally to businesses such as the neo-liberal school thinks or it favours an approach such as that of Porter and van der Linde, is the question. At first sight, one may argue that the Commission clearly favours that CSR is totally left to businesses as the Commission at all times has stated that CSR is a voluntary

instrument and as the Commission has not done much to further CSR except introducing some voluntary instruments such as the EU ecolabel, the Eco-Management and Audit Scheme (EMAS)⁴ and the set-up of the business Alliance. However, some aspects in the Green Paper may indicate that the Commission is not totally opposed to regulation or legislation as

[i]n principle, adopting CSR is clearly a matter for enterprises themselves, which is dynamically shaped in interaction between them and their stakeholders. (...) [T]here is a role for public authorities in promoting socially and environmentally responsible practices by enterprises (...) and need for Community action in the field of CSR. Firstly, CSR may be a useful instrument in furthering Community policies. Secondly, the proliferation of different CSR instruments (...) that are difficult to compare, is confusing for business, consumers, investors, other stakeholders and the public, and this, in turn, for Community action to facilitate convergence in the instruments used in the light of the need to ensure a proper functioning of the internal market and the preservation of a level playing field (European Commission 2002, 10).

Such a statement indicates that the Commission believes that community action to some degree is needed to ensure a common European line on CSR and may be a tool for furthering Community policies. This statement made in the 2002 Communication has given civil society representatives hope that the Commission will perhaps over time impose legislation or regulation on businesses as lack of unity may have consequences for the functioning of the internal market why meddling by the Commission may be necessary (Papadakis 2005, 38). This has also been highlighted in an analysis on CSR where it was stated: *“Grønbogen og især 2002-Meddelelsen kan muligvis også læses som varslers om skridt hen imod indførelse af retligt bindende krav, såfremt virksomheder ikke på frivilligt grundlag handler i overensstemmelse med Kommissionens anbefalinger”* (Buhmann 2006, 6). Some aspects talk in favour and some against such a belief that the Commission has as ulterior agenda to integrate CSR via a voluntary approach to facilitate the introduction of legislation or regulation over time. Five aspects talking against this will be presented here. First, the Commission and the EU institutions in general have an interest in not being too strict towards

⁴ EMAS is an official scheme recognising organisations' environmental performance. The EMAS registration correspond to the ISO 14001 international standard for environmental management.

businesses as they bring jobs, taxes, products, innovation, etc. to society, which are essential aspects in ensuring European competitiveness and the foundation for the functioning of the member states and the EU. Second, the Lisbon agenda goals have high priority in the EU. Innovation and competitiveness are two key words in ensuring these goals are met. CSR is an important tool in this respect. The Commission has stated that as long CSR is voluntary, competitiveness and innovation is ensured as businesses have to meet stakeholder demands and recognises that it pays to care about sustainable development as it spurs innovation, which results in new products the consumers want. Therefore businesses will take their responsibility seriously despite of the voluntary approach to CSR (European Commission 2005, 17; European Commission 2006, 2). Businesses have also used the Lisbon goals as an argument to ensure the Commission keeps CSR voluntary. E.g. the cement industry has stated that placing further regulation on the industry runs directly against the aim of the Lisbon Strategy (Cembureau et al. 2007). However, whether regulation actually stifles innovation is not clear as seen in the above analysis why this argument may be contradicted. Third, not much witnesses of the Commission actively trying to push the member states towards adopting a more regulated approach to CSR such as neofunctionalists claim the Commission will do. The fact that the Commission has actually done so little to push CSR forward has been seen as a bit peculiar but must again reflect the Commission's wish of not being too strict towards businesses. However, the car case again differs from this as the Commission at several points has tried to introduce legislation. Fourth, '*need for Community action*' as stated in the 2002 Communication may simply refer to the fact that the Commission believed the EU needed a common CSR approach reflecting that other international institutions had such a policy. Besides it must not be forgotten that the Commission in its definition on CSR wrote that CSR is a voluntary tool. Finally, CSR must not only be thought into a European or local context but must fit into the broader global framework where CSR is also approached voluntarily. This being said, it is a curious observation that the Commission has stated a voluntary approach as a solution in making businesses incorporate CSR into their business strategies due to the economic incentives and the wish of businesses to meet stakeholder demands and at the same time has chosen that regulation or further steps were necessary in the case of the car industry. This may make one wonder whether a voluntary approach has actually been chosen due to a belief from the Commission that market forces are simply enough in making businesses take their responsibility seriously or whether the Commission in

general has favoured business interests over those of civil society and the environmental outcomes. It must not be forgotten that CSR was only introduced in the car industry because the Commission failed to introduce legislation in the first place. As the alternative seemed to be no agreement at all the Commission had great interest in finding a solution why a regulatory approach leaving it to the industry how to meet the goals (framework regulation) seemed like the best alternative as the goals were binding. As the car manufacturers feared the Commission would ultimately succeed in imposing legislation they signed the ACEA agreement, which ensured the industry several years without the threat of the Commission introducing legislation. This has also been highlighted by Greenpeace as “[c]armakers are doing their utmost to present a green image (...) but behind the concept cars and niche models is a backstage effort to block climate saving legislation and promote a vast fleet of polluting vehicles.” (Ee Times 2008). According to Greenpeace this shows that it is not only the car manufacturers but also the Commission, which are setting profits over planet having been too slow to introduce legislation and has set allowed emission levels too high (Greenpeace 2008). Using framework regulation as an alternative to legislation seemed to be a good alternative for the car manufacturers and for the Commission. In the case of this agreement it may though be argued that this approach has been used simply as a precursor for legislation. As was seen above, the car manufacturers have failed to meet the 140 g CO₂/km by 2008 they assigned to with the ACEA agreement. It may therefore be questioned whether an agreement without any kind of sanction being present makes any sense. As the manufacturers have failed to meet the requirements the Commission has now backed by the European Parliament shaped the frame for a legislative proposal. The Commission has stated that the purpose of this proposal is to ensure a well-functioning Internal Market as there without harmonisation is risk that the Internal Market will not function properly due to unilateral initiatives in the member states with a view to ameliorate cars’ fuel economy (European Commission 2007b, 2). In general, the Council has also been positive towards introducing a goal of 120 g CO₂/km by 2012 (130 g CO₂/km in average for the cars) but is opposed to the penalties the Commission has proposed of €95 per excess gram of CO₂ that is emitted and is fighting internally on how the burden for cutting the average fleet emissions shall be distributed among the big vehicle manufacturers mainly located in Germany and Sweden and the small vehicle manufacturers mainly situated in France and Italy. The present proposition by the Commission is criticised as it in its current form is penalising

manufacturers of small cars as they are required to lower their emission levels more than the heavier cars even though small cars currently emit less CO₂ (EurActive 2008). It may therefore be argued that the ACEA agreement has paved the way for enabling legislation. According to neofunctionalists, the ACEA agreement can be associated with ‘task expansion’ as integration is seen as incomplete and therefore undermines the effectiveness of the agreement why further integration is necessary and ultimately will occur. The next step for the Commission is then to push the member states to agree on an ambitious agreement, which is beyond the lowest common denominator (cultivated spillover). However, whether the Commission will succeed in this is not possible to assess at present moment of time where negotiations have just begun. The Commission struggling for legislation in this aspect also shows civil society that the Commission is concerned with the environment and is choosing a strict line towards businesses. Criticism from civil society in this respect may therefore be reflected in the choice of policy in this case.

7.1.1.2 The Council

The Council is “*supporting (...) business-led voluntary integration*” (Council 2003) hence supporting the stance of the Commission. According to liberal intergovernmentalism, heads of state and government are concerned about staying in office why they will bring the opinion of elites with them to Brussels in a negotiation situation. However, as seen above no uniform view on CSR exists within the member states as civil society representatives tend to be against the voluntary approach and businesses in favour. When conflicting interests are experienced in the member states those groups associating international cooperation with the highest losses or gains tend to be more influential in convincing member state governments to ‘talk their case’. As businesses in the case of CSR will be highly influenced by EU-regulation a common EU-policy is by them associated with high economic costs as they may be forced to change production methods or lower production to meet requirements, which will be costly for societies. Businesses are therefore believed to mobilise strongly as was also seen among car manufacturers as such regulation will be associated with high economic costs as liberal intergovernmentalism states.

Liberal intergovernmentalism may be right when stating that heads of state and government in international negotiation situations reflect the views of national elites or at least the business representatives. Certainly the Council has not expressed any criticism to the voluntary approach chosen by the Commission nor has it pushed for further regulation.

However, whether it is based on the elite's interests the Council has agreed on a voluntary approach to CSR is difficult to assess but it is certainly believed to be a very important aspect in deciding the stance of governments due to the reasons stated above. As voluntary CSR is also associated with some positive elements by member state governments such as higher leeway it may come as no surprise that CSR is voluntary in a European context.

Nevertheless, according to liberal intergovernmentalism, common European regulation may actually be of advantage to some member state countries; namely those countries with high regulatory standards as they are exposed to negative policy externalities. In the case of the cement industry it may be of advantage to German and Italian governments as the cement plants in their countries are faced with higher requirements. However, this trend may of course look different for other industries where they can be assigned to lower regulations than in other member state countries. Therefore, to be able to assess this, a thorough examination of all industries is needed.

7.1.1.3 The European Parliament

Members of the European Parliament (EP) have not been unequivocal on this issue. In a report from 2006, the European Parliament criticises the Commission for its wish to become a pole of excellence on CSR but not take any action on the issue. In the report it has been stated that “(...) *companies cannot be a substitute for public authorities when the latter fail to exercise control over compliance with social and environmental standards*” (European Parliament 2006, 6). The Committee on Employment and Social Affairs has stated a wish for more regulation or at least better transparency and making reporting on CSR mandatory for larger enterprises. MEPs believe that the Commission is giving enterprises carte blanche to operate as they want by underlining the voluntary approach to CSR. As the rapporteur on CSR in the Committee on Employment and Social Affairs stated:

The Commission wants Europe to be 'a pole of excellence' in business, but instead has dumped five years of debate and consultation into a black hole. The Commission says that public authorities should create an enabling environment for CSR yet opts out from any proposals for concrete action for itself, simply repeating generalisations which we have all read before. The failure to build on extensive work since 2001 creates the risk that companies, as well as other interests, will walk away from the debate. If this is all the Commission can come up with, Europe risks being sidelined on a critical issue for the future of business, while the UN Global Compact and the Global

Reporting Initiative take the lead on CSR." (EurActiv 2007)

The members of the Committee on Industry, Research and Energy has stated less scepticism towards the existing approach and stresses that the involvement of businesses should be voluntary and ensuring that the right balance between environmental protection and competitiveness for businesses are found (European Parliament 2006, 21).

As in the case of the national politicians, the MEPs of course as well have interest in staying in office and gaining as many seats for their political party as possible. However, whether the MEPs believe this is best assured by taking the stance of the European businesses and support a voluntary approach to CSR or that of the civil society and support a more regulated approach differ.

7.1.3 The development at EU level

Sticking to a voluntary approach to CSR does not make sense according to as well liberal intergovernmentalism and neofunctionalism as loyalties and interests change over time, which means that integration also will change as a response to these interests. Therefore, something that makes sense today may not make sense tomorrow. This is also the experience in this thesis mixed with the fact that what makes sense in one member state, industry or business may not make sense in another, which witnesses of the complex character of CSR.

When first entering the agenda CSR was highly centred on how to help reverse the trend, which at the time was associated with high unemployment, many people excluded from the labour market, low growth, etc. as highlighted in Lisbon, which reflects the debates in the member states and the European institutions. This may indeed have influenced the choice to make CSR voluntary as regulations are often associated with stifling innovation, which could have negative effects on growth. As was seen above, business interests have been favoured over those of civil society representatives. The voluntary approach to CSR may therefore be explained by governments and the Commission not wanting to place restrictions on businesses as this negative situation, which existed in the member states should be changed. To do this would only be possible by businesses, which confirm the great role businesses have in society. As pressure from civil society representatives was also less present at that time as climate issues were not to the same degree an issue, national governments and the Commission experienced less pressure to meet demands from these groups, which according

to liberal intergovernmentalism and neofunctionalism can explain the voluntary outcome to CSR.

However, as seen the situation has changed. Climate change has gained momentum at local, regional and global levels. As matters change, concerns of climate issues have turned into bargainings at the local and regional levels. Businesses must be able to meet demands from all these levels and will therefore tend to lobby at local and regional levels to avoid regulation or legislation. Civil society representatives have tended to direct their attention at the regional level and form into coalitions to have a greater chance to influence the debate and to make the Commission introduce regulations or legislation such as neofunctionalism claims will happen as groups will lobby to ensure their self-interest. However, the fact that the general public has now become aware of the seriousness of the climate change and this has attained high attention in the media is believed to be an important aspect of putting CSR and CO₂ on the agenda i.e. placing pressure on the governments and institutions. The fact that neofunctionalism claims that a transfer of elite loyalty is more decisive in ensuring integration than a cognitive shift among the citizens may therefore be questioned. Despite the fact that e.g. 'green' NGOs tend to lobby at regional level member state governments are not spared from being under pressure as citizens to a high degree are claiming for more action to reverse the negative trend economic activities have on the climate. Therefore, the member state governments are now not only met by pressure from business representatives. This means that governments are faced with pressure from two dissident parties. Liberal intergovernmentalism claims that the group where cooperation is associated with the highest gains or losses tends to place most pressure on governments. In the case of the ACEA agreement it has been seen that the Council has changed its stance regarding legislation to make the car manufacturers produce less polluting cars, which was rejected by national governments before. The car manufacturers have therefore not been successful in avoiding legislation by placing pressure on member state governments. This may by liberal intergovernmentalism be explained by the diverging interests the member states are faced with. Where public interests are unified governments will act as a response to these wishes but in situations where these are more diffuse governments may chose accordingly. This has been reflected in the ACEA agreement where national governments have not turned down the legislative proposal by the Commission altogether. Had so much focus not been on climate change in this specific case it is believed that the Council would be more resistant towards this proposal. In the case of CSR

it is therefore believed that governments now are forced to think climate change and CO₂ emission reductions into their stances hence reflect the wishes of civil society representatives. Besides, the fact that the Commission has presented a legislative proposal backed by the European Parliament may also be seen as a response to the intense round of lobbying, which civil society representatives have led. Increased pressure and attention at the one hand towards member state governments by citizens and on the other hand towards the Commission e.g. by 'green' NGOs has therefore been seen as decisive factors in the decision to make the ACEA goals legally binding. Neofunctionalism also states that when interests change integration happens. This may be confirmed in this case as the fact that more people have become concerned about climate change has led to increased pressure and hence further integration. Development therefore witnesses of civil society representative's interests to a greater degree are recognised, which is essential to influence policy outcomes.

However, why has more integration and development been observed in the case of the ACEA agreement than in the case of general CSR? This is highly believed to be due to citizens' awareness of the environmental damages emissions from cars cause, which has led to increased pressure on the Commission to present a legislative proposal. The fact that voluntarism is still predominant in CSR may therefore be explained by the important role businesses have in society and the great means of lobbying the industry uses. This therefore tends to show that businesses have a great power in society and manages to use this power to influence governments and international institutions, which will reflect policy outcomes. As they tend to be strongly presented at as well local and regional levels this means that they direct pressure at as well member state governments, which is relevant in relation to bargainings in the Council and at the Commission, which is relevant in influencing the policy proposals. As civil society representatives have tended to be more organised at regional level this may reflect bargaining outcomes. Holding this up against whether it makes sense to stick to a voluntary CSR approach no uniform answer exists. The theories tend to show that introducing legislation becomes less impossible as pressure increases towards as well the member states and the institutions. This has been backed by the ACEA agreement and is believed also to apply for CSR in general. Despite the Commission having been criticised e.g. by some of the MEPs as being too reluctant to introduce regulation the Commission has presented two Communications since its green paper. Such Communications ensures that the debate and dialogue continues. However, if settings are not present for introducing regulations

it is believed that outcomes will be according to the lowest common denominator or lead to no agreement at all as the Council members will be reluctant in imposing further restrictions on their businesses and the Commission will experience problems in pushing these members forward. The outcome of such a policy may therefore instead of fostering innovation and make businesses engage in CSR make them oppose this concept altogether and lead to free-riding behaviour as has been seen in the car industry.

The two theories applied in this discussion therefore shows that to weigh the options for voluntary or legislative CSR and the outcome of such bargainings, one must look at as well the interests expressed at the local level and at the regional level and how they influence the views of governments and institutions. Whether it then only to a limited extent makes sense to stick to a voluntary approach to CSR depends on the interests present at the given moment of time and the desired outcome of such bargaining situations. The debate is therefore ultimately centred on interests of businesses versus civil society or consumers versus citizens, which is part of a greater discussion and ultimately depends on the political stance of individuals and institutions. Therefore, according to the theories and experience it does only to a limited extent make sense to stick to a voluntary approach to CSR as interests are very divided on the issue. As the pressure from citizens has grown bigger the extent to which it makes sense to stick to a voluntary approach to CSR becomes more limited as pressure from the two groups becomes more equal, which means that the agenda setting and policy outcome to a higher extent can go one way or another. Consequently, it does to a lesser extent make sense to stick to a voluntary approach to CSR today than it did when CSR was introduced. The hypothesis of this thesis must therefore be (partly) verified. The European institutions are expected to respond to the increased pressure from civil society. However, whether they respond to this increasing pressure or to that the always present pressure from businesses is unclear and expected to differ from case to case. Therefore, if it should be bargained today whether CSR should become more regulated the increased pressure from civil society is believed to matter but whether it is decisive in making the institutions favour the environment over the market is still questioned and will probably lead to internal disputes within the institutions according to the conviction of the involved parties, which will also be seen in the perspective of this thesis (chapter 10). Both of these theories can therefore contribute to the explanation of the development, which has been seen regarding CSR focusing on different levels of attention.

7.2 WHAT DOES THIS TELL?

Based on the diverging interests on this issue, a gap between whether it makes most sense to respond to demands from businesses or civil society exists. For the European Commission to try and force through regulation or legislation will require much work and is likely to fail. Regulation or legislation is not necessarily believed to have greater effect than leaving it to the industries themselves to respond to demands. Experience from the car industry has shown that the manufacturers have been reluctant to meet the requirements they have assigned to. Besides, it is believed that negotiations in the Council would end with a lowest common denominator outcome due to the diverging interests and the believed economic costs associated with introducing regulations as the theories also claims. Based on the experience from the ACEA agreement the chosen approach can therefore not be said to have led to the desired outcome of the Commission. However, if the intention of the Commission from the beginning was to use CSR as a forerunner for legislation it may not have been a bad choice as businesses this way gradually grow accustomed to thinking sustainability into their business strategies. However, this way is still opposed by as well businesses and civil society. Whether the threat of legislation is enough to push businesses into engaging in CSR is unclear. The car manufacturers saw the ACEA agreement as an advantage as it would ensure the industry would not be met with legislation within this period. The threat of legislation has though made some European cement plants involve in the CSI initiative and are therefore, contrary to other industries, trying to bring attention to their problems with pollution.

According to Freeman, businesses are believed to respond to demands from different groups of stakeholders. Two of these groups are consumers and civil society often represented by NGOs. Businesses tend to be very concerned about economic gains but as citizens have become more concerned and aware of the consequences the climate change causes they have placed more pressure on businesses what the car industry in particular has experienced. However, whether such pressure is enough in making businesses take their responsibility seriously has been questioned through the examination of the two cases. As reducing CO₂ emissions requires changed production processes this is believed to make businesses resistant, which is also explained by liberal intergovernmentalism. E.g. that child workers have not been used to produce products has been a requirement for a long time but since the CO₂

debate is still relatively new compared to the other aspects CSR is covering businesses may not yet have responded to this pressure.

A recent analysis shows that 9 out of 10 Danes state that consumers must act socially responsible confirming that citizens are actually thinking about the climate change problems. However, when it comes to living out this social responsibility below half are willing to pay extra prices for sustainable products and only around 20% are doing it (Beder & Grünbaum 2008). The fact that the concerns of citizens does not translate into concrete action by consumers creates a gap as businesses are not willing to change production processes if they are not able to sell the product. Therefore, to make businesses act socially responsible it is believed that the consumers play a decisive role as they are the prerequisite for businesses' survival. If high pressure was seen from consumers businesses would have no other choice than to comply with these wishes. Therefore, if demand for sustainable products were high such pressure would make regulation or legislation more unnecessary as expectations from consumers would have to be met. As the situation is today introducing regulation would be met with great opposition from businesses. Therefore, in order to meet the gap between whether one should respond to demands from businesses or civil society it is believed that consumers have a great role to play in this regard. In the SDS, the Commission also stated that consumers play a key role in reversing the negative trend of CO₂ emissions. Therefore awareness on the negative effects production processes or end-user products have on the climate should be raised. European institutions and the member state governments play a great role in this regard.

Whether it only to a limited extent makes sense to stick to a voluntary approach to CSR may be questioned. As shown above, conditions have changed. The fact that climate change has gained momentum and pressure then has increased is believed to make the institutions more aware of the role civil society plays. Despite of this civil society representatives still feel overlooked by the Commission as they do not feel they to a sufficient degree are incorporated into discussions on CSR. From a civil societal point of view it does to no extent make sense to stick to a voluntary approach to CSR as businesses must be pushed forward in order to make them take their responsibility seriously. However, when assessing the interests in general it is not sufficient for the institutions to strictly look at civil societal demands. As seen above, businesses have a very important role in society, which makes it difficult for the European

institutions to ignore the interests of this group. This leaves the institutions in a dilemma as they are not able to respond to demands from civil society as well as businesses. Whether they then favour demands from civil society or those of businesses is the question but since businesses have such an important role in society it is uncertain that the increased pressure from civil society will lead to regulation on CSR. As long as competitiveness is understood to be best ensured by sticking to a voluntary approach to CSR the role of civil society is believed to play a minor role than businesses. As the situation is today nothing witnesses of the Commission wishing to introduce more regulation or legislation as neofunctionalism claims will happen – though with exception from the car industry where the Commission has stated that to ensure proper functioning of the Internal Market and fair competition legislation is needed. One may then wonder why the car industry differs from other industries in this regard as such aspects are believed also to apply in other industries.

8. FINAL METHODOLOGY

Writing this thesis has to a high degree been a learning process. Finding the right angle to the thesis and mixing all the different aspects, subjects, theories and policies has proven to be a rather long and challenging process but as the different pieces have been laid and the puzzle has started to take form, working on this thesis has become more and more interesting. Due to these many aspects included in this thesis it has proven a challenge to narrow the thesis down and one may ask whether it at all makes sense to talk about CSR only by looking at one aspect and leaving out e.g. the social and human rights aspects of CSR as bargaining on this issue will happen for all these areas. It has been necessary to narrow the thesis down in this respect.

Despite this subject has been much narrowed down during the process it is believed that it would have been interesting to go more in depth with some aspects. It would have been interesting and relevant to examine the interests within the different institutions, how these diverge and if some trends can be observed (this will shortly be dealt with in the perspective below). Besides, it would have been relevant to go more in depth with how the environmental aspects of CSR are approached nationally in relations to the analysis of the cement industry. Having been able to do this would have enabled a more thorough analysis of the interactions at the different levels as explained by figure 3. This would give a clearer indication of the interests expressed in the member states i.e. the degree of pressure the member state governments have been exposed to, which is relevant in relations to the interests expressed in the Council and according to assessing the value of liberal intergovernmentalism.

9. CONCLUSION

With this thesis it has been attempted to assess whether it makes sense to stick to a voluntary approach to CSR to meet the CO₂ goals by looking at alternative approaches. Interests of state, business and civil society have been examined and analysed at local and regional levels and held up against different CSR schools and theorists. How the interests have affected development on CSR has been explained by liberal intergovernmentalism and neofunctionalism. The cement and car industries have been used in this respect. This has led to assess that it in some cases may make sense to stick to a voluntary approach but this depends on many aspects and different interests. The issue of CSR reflects complexity and calls for a variety of issues and methods.

It was seen that not one CSR school or theorist managed to explain whether it makes most sense to stick to a voluntary approach or to introduce regulation or legislation. That market incentives have been sufficient to make businesses engage in CSR as the neo-liberal school claims may only to a limited extent be confirmed (FLSmith + CSI). However, experience from the cement plants shows that relying strictly on market forces has not tended to have the same effect on CO₂ emission reductions as in the cases where the cement plants have been assigned to national regulation (Germany & Italy), which talks in favour of regulation such as the state-led school claims. In some cases Porter and van der Linde tend to be right when claiming that regulation leads to renewal, which has positive effects on the competitiveness due to lower production prices (the semi-wet/semi-dry process) but in others (the dry production process) regulation was not associated with competitive advantages. The ACEA agreement has not been seen as a success in making businesses take their responsibility seriously despite of this industry having to comply with a specific emission reduction goal. Pressure and demands from civil society has not been a decisive factor in making businesses engage in CSR either.

Pressure from civil society has increased. However, whether this is decisive in making the institutions favour the environment over the market may still be questioned as the role of businesses is still seen as very important. Nothing witnesses of the Commission planning to introduce regulations on CSR even though civil society representatives saw hope for such regulations. The fact that there is a risk of a policy outcome according to the lowest common denominator, as it is believed the Council will be reluctant towards such regulations, also talk against introduction of regulation as this is believed to have limited effect. However, as seen

with the ACEA agreement integration may over time lead to legislation.

No clear answer to the research question of this thesis exists. According to civil society it does only to a limited or rather no extent at all make sense to stick to a voluntary approach. However, businesses will claim the opposite that sticking to a voluntary approach is the only thing that makes sense. Governments and the European institutions seem divided on this issue. On the one hand, they are interested in not imposing too strict regulations on businesses as they are essential for society to work. On the other hand, they must meet the Kyoto goals they have assigned to by 2012 and the SDS goals by 2020.

CSR is to a high extent a complex issue as it involves several actors (state, business and civil society) and is operational at several levels (local, regional and global). What may make sense in one member state, industry or business may therefore not make sense in another, which means that one method cannot be used to explain the complexity of this issue and whether it makes sense to stick to a voluntary CSR approach. All these levels and aspects interact and have an interest in how CSR shall be approached to obtain the goals they want to achieve from CSR as these varies accordingly

Therefore, based on the analysis carried out in this thesis, it may be concluded that no one-size-fits all approach to CSR seems possible due to the complexity of this issue. Therefore, no unequivocal answer exists to the question of to what extent it makes sense to stick to a voluntary approach to CSR to meet the SDS's CO₂ goals.

10 PERSPECTIVE

Placing the issue of state intervention versus no state intervention into the ongoing discussion of socialism versus liberalism in order to show how this analysis could be developed is believed to be interesting. Whether or not for states to intervene has been an ongoing discussion for centuries and as stated above the subject of CSR is no exception why it is believed to be interesting to think this aspect into the broader context of this thesis. This discussion therefore also deals with whether market or society shall have priority. This is not a simple question and despite of businesses having been favoured over civil society representatives this trend may perhaps be about to turn as a response of pressure and wishes from citizens. When looking at the development and interests on CSR in the European institutions this debate also exists. The European institutions do not seem to agree on whether regulation or voluntarism is the right way forward as the European Parliament has claimed the Commission of not moving forward, which means that CSR becomes a *carte blanche* for businesses. However, also within the Commission disagreement exists. Disagreement was for example expressed recently in the case of the ACEA agreement where enterprise and industry Commissioner Verheugen wanted to stick to a voluntary approach to CSR and the environment Commissioner Dimas believed legislation would be necessary to achieve the wanted goals why these two parties needed to compromise before being able to make a proposal for legislation. Also within the European Parliament divergent views have been expressed where members of the Committee on Employment and Social Affairs have expressed discontentment with the current approach to CSR and members of the Committee on Industry, Research and Energy have tended to be more positive towards the current approach.

It is therefore believed that the discussion on state intervention or not is ultimately about whether market should be favoured over community or community over market, which is ultimately based on which stance the involved parties choose to respond to according to their interests as also explained by the theories in section 7.1.3. This is therefore a general discussion on whether state intervention is needed or not to achieve a specific goal. Whether introducing legislation or regulation is possible is therefore also believed to be influenced by the politicians involved at a specific point of time and in a given subject.

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