The Role of Social Responsibility in Turkey's EU Accession

Bryane Michael and Erika Öhlund

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Abstract: Turkish company directors must think about consulting with parties beside shareholders and bankers if Turkish business is to successfully compete in Turkish and EU markets. While Turkish Boards already have complied with much of the legislation required by the *acquis communautaire*, they will need to continue work on provisions regarding environmental protection, customer safety, workers' rights, competition policy, and anti-corruption. Corporate Social Responsibility represents one avenue by which Turkish firms will tackle these issues. Such responsibility entails more than philanthropic contributions – which Turkish firms do make. Instead, such responsibility will involve the way that Turkish companies implement programmes such as triple bottom line reporting, limited stakeholder boards, and consultative bodies with the government, in order to work more responsibly in their business environment.

During the December 2004 negotiations between Turkey and the European Union (EU), a number of commentators have noted that Turkish companies could work more constructively with other organisations such as the government, civil society groups, and even other business actors such as the labour unions and their own suppliers. The 2004 *Regular Report on Turkey's Progress Toward Accession* notes that while Turkey has been doing much to pass the laws needed for Turkey to join the common market "Turkey needs to address a number of shortcomings in the transposition of some Directives" (108). In non bureaucratic language, the "shortcomings in the transposition," refer the way that Turkey companies treat their employees as well as relate to government and the trade unions.[1]

Such shortcomings are not simply a Turkish problem, but have been long standing for other European countries as well. Corporate Social Responsibility (CSR) – the title under which firms are encouraged to consider the interests of other stakeholders instead of simply shareholders -- has become increasingly important. The several definitions of CSR all address this relation with the company's stakeholders. In a 2001 European Commission Green Paper *Promoting a European framework for Corporate Social Responsibility*, CSR is defined as:

> "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (10). [2]

[1] Chapter 13 of the *aquis* relating to social policy and employment evaluates Turkish law (and thus Turkish company compliance) with labour law, equal treatment of women and men, health and safety at work, social dialogue (coordination between government trade union confederations, employers' unions, and the civil servant union), public health, employment policy, social inclusion, social protection and anti-discrimination.

[2] Other stakeholder-based views of CSR abound, such as Professor Michael Hopkins' who defines CSR as "concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. The aim of social responsibility is to create higher and

A number of Turkish companies are already practicing some form of CSR. Through Türkcell's programme – *Contemporary Girls of Contemporary Turkey* – which provides scholarships to girls in Eastern Anatolia, Türkcell seeks to alleviate the budgetary burden on local government, improve the welfare of future generations, and contribute to the wider business community through a more educated workforce. Ülker's contributions to the *10 Billion Oak Tree Campaign* considers stakeholders such as local communities and the environment itself. Often, these programmes work in collaboration with the current government.

Government is one of the most important stakeholders – especially in the Turkish context. Through participation in quasi-public institutions, such as the business associations and the trade unions, business interacts repeatedly with government. While these interactions have sometimes been nurturing, sometimes they have involved the solicitation of "the use of public power for private gain" (corruption). Corruption "is one of the most serious obstacles to Turkey's accession" according to an unnamed official at Transparency International, an international NGO dedicated to fighting corruption. Examples of prominent corruption cases include the indictment of Cumhur Ersumer and Zeki Cakan, (in the energy ministry), Mesut Yilmaz (a former prime minister), Koray Aydin (housing and public works ministry) and Yasar Topcu (public works ministry) among others. Yet, these examples of corruption clearly point to broader problems with the systems by which Turkish companies are responsible to their stakeholders (including the government).

Turkish companies must have structures at the Board of Directors level which consult with parties beside shareholders and bankers if Turkish business is to successfully compete in Turkish and EU markets. While Turkish Boards already have complied with much of the legislation required by the *acquis communautaire*, they will need to continue work on provisions regarding environmental protection, customer safety, workers' rights, competition policy, and anti-corruption. Corporate Social Responsibility represents one avenue by which Turkish firms will tackle these issues. Such responsibility entails more than philanthropic contributions – which Turkish firms do make. Instead, such responsibility will involve the way that Turkish companies implement programmes such as triple bottom line reporting, limited stakeholder boards, and consultative bodies with the government, in order to work more responsibly in their business environment. The Turkish government will need to pass through parliament legislation providing positive incentives for CSR work undertaken by Turkish business. Turkish NGOs will need to conduct surveys, present CSR projects, and monitor both government and business.

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higher standards of living, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation."

EU Requirements: A CSR Perspective

The European Union's 380 million potential consumers with their € 8.5 trillion worth of market demand will represent an important customer base for Turkish companies. Many indications suggest that Turkish companies can compete successfully in this market. The recently released Business Competitiveness Index from the World Economic Forum ranks Turkey as 52nd out of 103 countries. While Turkey ranks below for example the Czech Republic (35th) and Hungary (42nd), Turkish businesses are still more competitive than many accession countries such as Romania (56th place), Poland (57th place) or Bulgaria (75th place). A European Commission Green Paper stresses that CSR is important in increasing competitiveness by stating that, "the experience with investment in environmentally responsible technologies and business practice suggests that going beyond legal compliance can contribute to a company's competitiveness."

CSR will not only be helpful, it may be necessary if Turkey is to join the EU. Turkey is increasingly harmonising its legislation in preparation for EU accession. Part of this harmonisation entails the adoption of the *acquis communautaire* – the legislation that all EU members must share as members of a political and economic union. Important parts of the *acquis* cover CSR issues such as consumer and environmental protection (chapters 22 and 23), the promotion of fair competition (chapter 6), and combating corruption (a basic criteria for membership). Yet, according to highly visible groups such as Greenpeace (the international environmental NGO), "in order to make sense of it and to make it credible to the public, the CSR process itself – even when being voluntary for companies – must go beyond the *Acquis Communautaire* and other existing national legislation in the EU."[3] Companies who do not comply with EU regulations will not be allowed into these large markets.

If Turkey wants to compete in European markets, it should eventually comply with three types of European Union activities pertaining Corporate Social Responsibility (see Figure 1). The first type of activity deals with promoting CSR and encompassing activities such as awareness raising and research. The second type of activity ensures transparency. Environmental labels and certification represents one example of such an activity. The third type of activity aims at developing CSR-supportive policies.

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[3] Green 8 Position Paper on Corporate Social Responsibility & The EU Multi-Stakeholder Forum Process. Available at: http://eu.greenpeace.org/downloads/corplia/Green8PosPaperOnCSR.pdf

Figure 1 CSR Activities in the European Union

Activity	Examples of Countries Engaging in Activity
Promoting CSR	
Awareness raising	Belgium organised a big European conference on CSR in 2001.
Research	The Danish Institute of Social Research monitors CSR developments until 2006 and will publish an annual yearbook with results from the study.
Public-private partnerships	The German Federal Citizenship Responsibility Network promotes co-operation between NGOs, companies and federal governments.
Business incentives	An annual award is given to enterprises promoting health and security at work from the Greek Institute of Hygiene and Security at Work.
Management tools	The Ministry of Labour and Social Affairs in Spain has a programme promoting equal opportunities as a good management strategy for companies, by constructing and implementing action plans.
Ensuring transparency	
Codes	Austrian ministries and enterprises have collaborated in developing a code of conduct for the protection of children from sexual exploitation in travel and tourism.
Reporting	More than 300 Dutch companies are required to submit reports on their environmental performance to the government and the general public.
Labels	NGOs, academics and public officials in the Italian region Emilia Romagna are developing a social quality label which includes responsible production criteria.
Socially responsible investment	The Swedish Public Pension Funds Act requires national pension funds to describe how environmental and ethical considerations are taken into account in their investment activities.
Advertising	Belgian law prohibits misleading advertising concerning effects on the environment.
Developing CSR-supporting policies	
Sustainable development	The German business community has voluntarily signed an agreement with the government promising to follow the Kyoto Protocol guidelines.
Social policies	The Training Place Developer programme aims at increasing opportunities for eastern German companies to provide training.
Environmental policies	Swedish government agencies must integrate environmental management systems and report annually on their progress.
Public procurement	The Belgian government has introduced a social clause for certain federal public procurements, favouring the inclusion of disadvantaged groups.
Fiscal policies	Spain gives tax benefits to NGOs and enterprises which contribute to public interest goals and activities.
Trade and export policies	Most EU countries, including Belgium, France, Germany, and the Netherlands, follow the OECD trade guidelines and inform the business sector about these guidelines.
Development policies	Dutch Ministry of Development Co-operation supports NGOs who aims at raising CSR awareness in developing countries.

Source: European Union. (2004). *Corporate Social Responsibility: National Public Policies in the European Union.*

Compliance with international conventions represents another important way that both Turkish business and government can consider their stakeholder groups. The OECD Guidelines for International Investment and Multinational Enterprises provides concrete operating guidelines for OECD member countries (of which Turkey is one) covering investors (the principle on disclosure), employees (the principle on employment and industrial relations), social and environmental issues (principles on consumer interest and environment), other businesses (principles on competition and science and technology), and the government (principles on taxation and combating bribery).

The UN Global Compact provides the guiding framework for company operations within the four areas of human rights, labour, environment and anti-corruption. The respect of human rights continues to be a point of contention not only between the Turkish government and Brussels, but remains problematic for Turkish businesses who are perceived abroad to gain competitive advantage by not respecting human rights. Turkish labour practice also continues to be a point of contention. The Global Compact principles on labour – which are identical to the ILO Declaration on Fundamental Principles and Rights at Work -- cover four areas. These areas are freedom of association and right to collective bargaining, elimination of forced and compulsory labour, abolition of child labour, and elimination of discrimination at the workplace. Turkish business, especially in the textile and carpet-making sector, has been widely perceived as violating all four of these elements. Adherence to environmental standards has been lax as any visitor to Istanbul or Ankara can attest.

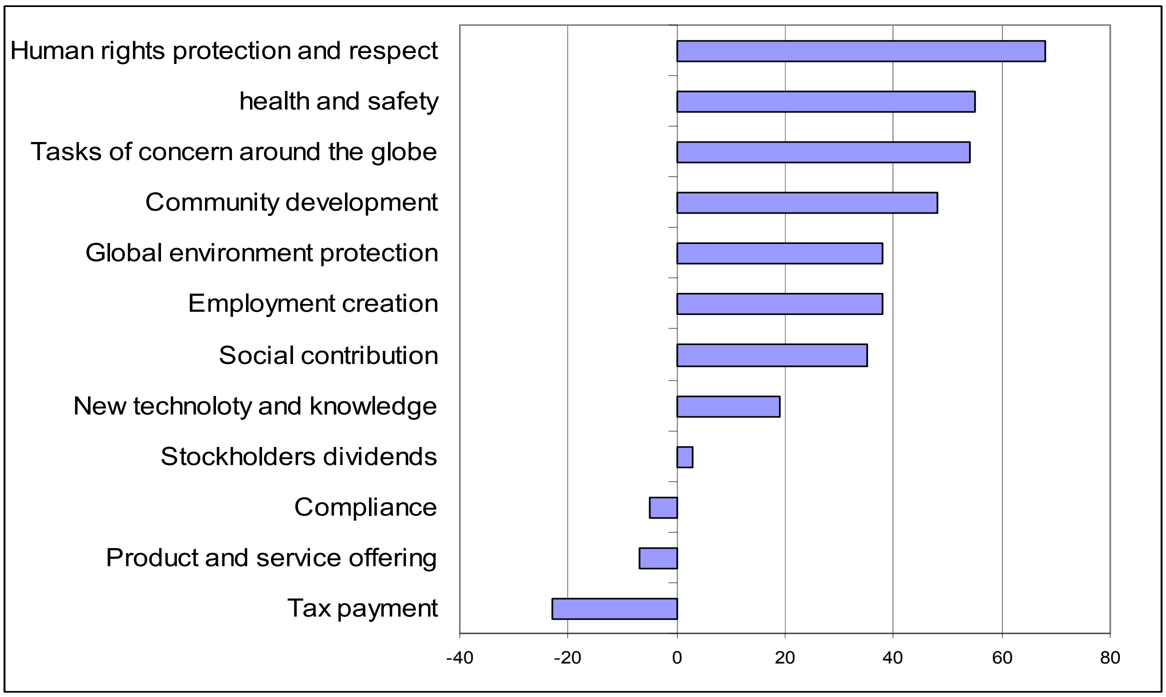
Anti-corruption will be a key element of the Global Compact and potential EU accession for Turkey. If Turkey wants to join the EU, one of the main obligations will be compliance with the Copenhagen Criteria. The Criteria, established by the 1993 Copenhagen European Council, mandated that accession countries reduce corruption. The Criteria requires "institutions guaranteeing democracy [and] the rule of law" and policies which help secure a "functioning market economy." More specific guidance on reducing corruption for these countries is given by the *acquis communautaire* which requires the adoption of a number of international conventions making bribery a civil and/or criminal offence in domestic legislation.

Compliance with these international requirements can only be done by the boards of directors of Turkish companies. First, only the board of directors can set strategy. Turkish companies must expand their presence in EU countries, and only the board of directors can develop the internal capacities for such expansion. Second, the board of directors has a fiduciary responsibility to comply with laws on behalf of the company. If Turkish directors fail to respect international regulations when operating in foreign countries, their companies will be heavily fined, and depending on the severity of the breach, the directors may be personally criminally liable. Third, only the board of directors can exercise leadership – analysing the activities undertaken in other countries and adopting them to their own countries. Only Turkish directors will have the connections and influence needed to work with high-ranking government officials on a CSR-friendly regulatory environment. And these boards of directors will have to know where Turkey is today in order to adopt these requirements.

Where is Turkey Now?

CSR is important for business in Europe. According to JIPRI (2004), European firms place great importance in CSR activities. As shown in Figure 2, human rights issues top the list of issues which companies must respect. Labour rights, as reflected by health and safety issues, was considered to be the second most important issue. Moreover, a number of empirical studies suggest that there is a positive correlation between the implementation of CSR activities and firm value. Hillman and Keim (2001), for example, find a positive, strongly significant correlation between the creation of shareholder wealth and good relations with stakeholders. Companies with good relations with their stakeholders – and companies with CSR activities -- create more wealth for their shareholders.

Figure 2 Relative importance of CSR activities in Europe versus non-European countries.*



*Note: Non-European countries here apply to Japan and USA. These data take the difference between the percentage of European firms claiming that a particular CSR issue was important from the percentage of non-European firms claiming the issues was important.

The picture of Turkish corporate social responsibility is mixed. Figure 3 shows Turkey's ranking according to several "proxy" CSR measures. The first is the Freedom House's political rights and civil liberties index, which is the CSR measure in which Turkey has the lowest performance. Compared with other countries which have recently acceded into the EU as well as other EU candidate countries, Turkey is the only country that is regarded as "partly free". The second measure is labour standards, where Turkey also gets the lowest score among the surveyed countries. The third measure, environmental concerns measured by carbon dioxide emissions per capita, contributes slightly to improve the picture of CSR performance of Turkish business. Turkey has almost the least carbon dioxide per capita of the included countries.

Figure 3 Turkey's ranking in three CSR measures

	Freedom House PR and CL status	ILO Labour Standards (percentage compliance score for each country)	Carbon dioxide emissions (metric tonnes per capita)
Turkey	Partly free	59.9%	3.3
Bulgaria	Free	n/a	5.2
Cyprus	Free	n/a	8.5
Czech Republic	Free	84.8%	11.6
Estonia	Free	n/a	11.7
Hungary	Free	90.6%	5.4
Malta	Free	n/a	7.2
Latvia	Free	n/a	2.5
Lithuania	Free	n/a	3.4
Poland	Free	81.7%	7.8
Romania	Free	n/a	3.8
Slovakia	Free	n/a	6.6
Slovenia	Free	n/a	7.3

Source: Freedom House, ILO and UNDP.

Within the Turkish context, the data suggest a qualitative relationship between attention to corporate social responsibility and firm performance. According to a worldwide opinion poll, the Turkish part conducted by YONTEM Research & Consultancy, "one in five consumers worldwide 'reward' or 'punish' companies" because they feel that CSR is important. Attention to CSR could be a signal about managerial quality or about the strength of relations between the firm and its stakeholders. For example, according to the December 1995 issue of *Capital* magazine, the five Turkish based companies with the best reputations – Arçelik, Vestel, Türkcell, Koç/Sabanci, Garanti Bankasi, and Coca-Cola (Turkish affiliate)– all also have some form of CSR programmes. Some scholars argue that CSR promotes "reputational capital" and trust which sustains long-term relationships. Yet, common sense argues that firms which treat workers well get employees who stay longer and ask for lower wages because they get other benefits.[4]

Turkish CSR performance with respect to corruption (another key factor of CSR) seems relatively promising. According to one of the best known indicators, the Transparency International (2004) Corruption Perceptions Index, Turkey rates 77 among 145 ranking places in the Index. This ranking is 26 places below the Czech Republic (higher numbers imply more integrity) – yet 10 places above Romania. On paper, Turkey looks well poised to meet the Criteria related to corruption by engaging with anti-corruption work. The Turkish parliament has already ratified the Council of Europe Civil Law Convention on Corruption. and the OECD's Convention on the Bribery of Foreign Officials in International Business Transactions. A parliamentary anti-corruption committee has issued a 1,200 page report and started investigating a number of high-level

[4] Barney, Jay, and Hansen Mark. 1994. "Trustworthiness as a source of competitive advantage". Strategic Management Journal, Winter Special Issue 15: 175–190.
Ring, Peter S., and Andrew H. Van de Ven. 1994. "Developmental processes of cooperative interorganizational relationships." Academy of Management Review 19: 90–118.

improprieties.[5] In January 2004, a working group -- consisting of employees from the Prime Ministry Inspection Board, the Ministry of Justice, Ministry of Interior, Finance, the Treasury and the State Planning Organization -- was brought together to assist the parliamentary committee in charge of the Action Plan on Enhancing Transparency and Good Governance in the Public Sector.

In comparison to other European countries (a comparison which is important as it represents a yardstick for thinking about Turkish competitive performance in EU markets), Turkish CSR has made important first steps. Human rights, while still worrying many, have become much better. Labour stands have improved and environmental protection – while needing further improvement – holds the promise of making the major cities' streets clean. Anti-corruption is being embraced, though business must work with government. Given Turkey's promising start at tackling CSR, what are some activities which can be pursued?

What is to be done?

Turkish businesses which want to "do CSR" can engage in a number of activities (see Figure 4). Training represents possibly the most important activity which Turkish directors can undertake to promote CSR. If Turkish companies want to join a CSR membership organisation, adopt CSR certifications, introduce Triple Bottom Line Reporting, stakeholder board committees, and engage in socially responsible investment, they must undertake training.

Turkish business will not respond to CSR unless given incentives by the Turkish government. The Turkish parliament will need to play an important role in passing CSR-friendly legislation and Turkish political parties will need to put the issue on the table. Figure 4 lists several measures which Turkish parliamentarians can take to help provide an environment that enables CSR activities in companies.

In modern Turkey, NGOs will have a key role to play. Many foreign NGOs are already partnering with Turkish partners to engage in CSR – and some Turkish NGOs like TESEV and TEDMER have organised activities. Larger membership organisations such as TUSIAD and TOBB have sponsored dialogues about CSR, while universities such as Sabanci and Bilkent have increasingly worked on merging the academic and policy debates on CSR. Figure 4 gives further suggestions on the roles of NGOs in improving Turkish companies' competitiveness through CSR.

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[5] European Union. (2004). *Regular Report on Turkey's progress towards accession*. Available at: http://europa.eu.int/comm/enlargement/report_2004/pdf/rr_tr_2004_en.pdf

Figure 4 CSR Activities for Businesses and Key Stakeholders

CSR Activities for Businesses	CSR Activities for Policy Makers	CSR Activities for Civil Society
Training – companies can learn how to incorporate CSR into strategy, finance, operations, marketing, and human resource management.	**Introduce CSR to main political parties** like AKP, CHP, DYP and HHP. Smaller parties – SP or ANAP – may try to use CSR to get votes!	**Organise fora on CSR** – help government by organising fora and making concrete proposals to parliamentarians and ministers.
Join a CSR membership organisation -- Company membership organisations like the Copenhagen Centre or the Business Social Responsibility allow business to "outsource" CSR to an organisation which is competent.	**Vote for tax breaks for CSR activity** – which tax breaks may go against important fiscal policy objectives to raise tax revenue and compliance, they internalise externalities.	**Provide training to companies** – academics and specialists removed from the grind of daily business can provide training and present examples from EU countries.
Adoption of certifications – certifications show potential consumers, investors and others that the company is serious about the communities in which they work. Some examples include the ISO 9000/14000 standards, the Global Reporting Initiative (GRI) guidelines, the Social Accountability 8000 (SA 8000) standard and the AcountAbility 1000 standard.	**"Talk up CSR"** – since Kemal Ataturk, the Turkish government has always been a progressive role in educating the public and preparing it for integration in the world economy. Parliamentarians can educate their constituencies directly and can mandate that the central government provides educational materials.	**Collect data and case studies** – in the EU, NGOs conduct surveys and watch business and government.
Triple Bottom Line Reporting – companies should report not only the financial, but also the social and environmental impacts of their work. In some EU countries, this is becoming a legal obligation.	**Participate in multi-national fora** – the EU as a multi-stakeholder forum for CSR and the UN, OECD, World Bank and other organisations are becoming increased involved in CSR.	
Stakeholder board committees – putting people such as suppliers, key customers, and evens prominent members of the local community of the Board of Directors can be a way to increase the flow of information to the company.	**Establish a department** in an existing ministry to work on CSR and/or mandate a CSR ministerial post.	
Socially responsible investment – these companies can refrain from investing in high polluting technologies or in companies which do not respect workers' rights.	**Provide funds** to the national governments for CSR grants and rewards to innovative companies.	
	Host a National CSR workshop inviting all stakeholders to contribute ideas toward a Turkish CSR law.	

Source: Michael, B., J. Riedmann, and S. Dinler. (2005). *Implementing CSR Programmes in Turkish Companies: How to Do it and Why*.

Turkish NGO involvement will be particularly important as in the EU, the civil sector plays a large role in CSR. NGOs play a large role because people trust NGOs more than other organisations. A survey among opinion leaders in EU, performed by the PR consultant Edelman, found that 55% of respondents trusted NGOs on environmental issues, while 16% trusted government, 13% trusted the media, while only 6% trusted corporations on these issues. Some prominent NGOs include the World Business Council on Sustainable Development and human rights groups like Civicus, Social Accountability International, and membership groups like CSR Europe. These NGOs bring CSR issues to the attention of businesses and policymakers by organising national workshops, policy committees, public-private partnerships, and facilitating donor funding of innovative CSR practices.

Without tackling corruption, much CSR activity will be either ineffective or less credible. On the anti-corruption aspect of CSR, several measures also have to be taken within Turkish companies. In a countrywide survey by TESEV in 2001, 22% of business people responded that "bribery and corruption" is the most pressing problem in Turkey today. There are two key measures that have to be taken to decrease corruption in Turkish companies. The first measure is co-operation between the corporate sector, the government and NGOs. Business activity can for example be strengthened by increasing the role of TOBB and TUSIAD members in promising not to engage in corruption and reporting corruption when they find it. The second is measure will be comprehensive deregulation.[6] Turkey has embarked on a programme of deregulation outside the public sector covering sectors such as telecommunications, banking, gas and infrastructure as well as increased competition and market openness. In line with IMF recommendations, fiscal transparency has been enhanced by eliminating budgetary and extra budgetary funds. Yet, according to the World Bank *Doing Business* data, regulation still represents an important obstacle for business in Turkey.

Training will also be an important element in any anti-corruption programme. Training programmes, such as Rockwell Collin's programme for employees about how to comply with international laws which prohibit bribes, are a first step. Turkish companies must also implement long-term training strategies to stop corruption and bribery if they want to compete on the European market.

Conclusion

Many Turkish recipients of CSR may feel that "bayram degil seyran degil enistem beni niye optu" which translates roughly in English as "it's not a holiday, why are you giving me something?" The answer is CSR. This article does not argue that Turkish companies need to engage in CSR activity because these activities make better business sense – the evidence is mixed. Instead, CSR activities must be adopted because they will be required by EU governments and other business with whom Turkish firms will work. Turkish companies have already started thinking about CSR broadly. Now Turkish company directors will need to sit down and think concretely about CSR in their own firms.

[6] For more on Turkish deregulation, see the *OECD Reviews of Regulatory Reform. Turkey: Crucial Support for Economic Recovery*, (Paris: OECD, 2002).