

# A VIEW FROM PARIS: CORPORATE SOCIAL RESPONSIBILITY: A STRUCTURAL TREND

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**CSR is now a key measure of public companies' emphasis on environmental, social and governance issues, and under-performance may impact on both a company's reputation and value, say Emmanuel Draï and Olivier du Mottay at Latham & Watkins in Paris.**

Corporate social responsibility (CSR) is a business trend that no listed international company can ignore. A result of globalisation, it encompasses environmental, social and governance issues and goes beyond the relatively limited, and unharmonised, remits of national regulation. CSR should contribute to the acceptance by stakeholders of this new space and, by harmonising the conditions of competition, could limit any advantages given to the lowest environmental or social bidder; CSR is increasingly viewed as one of the key regulatory tools for a sustainable global economy.

International initiatives, such as the United Nations Global Compact are growing in number, while ISO is expected to create a CSR standard by the end of 2008. Companies may define their own

ethics programs but they already routinely go beyond the environmental or labour regulations of many of the countries in which they operate.

Actualmente se considera de vital importancia la Responsabilidad Social Corporativa al evaluar la adherencia de una empresa y se hace hincapié en factores medioambientales, sociales y de gobierno corporativo. Asimismo, ésta se puede apreciar cómo la herramienta clave de la regulación para una economía mundial sostenible lo cual es cada vez más considerada como una medida de actuación financiera. El bajo rendimiento de la Responsabilidad Social Corporativa puede repercutir en el valor de las empresas públicas tanto como una situación financiera negativa, dicen Emmanuel Draï y Olivier du Motta y, de Latham & Watkins en París.

Do these programs create a self-imposed ethical compliance norm, thus creating responsibilities for both managers and companies? The answer seems to be yes.

But this compliance duty in any event finds its source in different constraints, encompassing economic, financial, legal and contractual issues. The reputation, sales and the rating of a company may be affected by acts considered unethical. Ordering parties may require providers to respect their own CSR norms. One could also mention international initiatives such as the Equator Principle, under which 54 banks have agreed that the financing of projects in excess of \$10m should be subject to borrower compliance with pre-determined ethical criteria – CSR has thus become part of contractual conformity.

With respect to accounting, the French National Company of Certified Accountants (CNCC) has indicated that it is the Accountant's duty to verify if a company's social and environmental policy may impact its financial situation, and the need to evaluate its coherence and truthfulness.

Additionally, in France, a listed company's annual report must now include a discussion on social and environmental issues and indicate the main risks and uncertainties a business faces. The Board should carry out all the checks which they consider appropriate, while the Chairman must communicate to Directors any useful information allowing them to perform their duties. Permanent information given to the market must be "truthful, precise and sincere", while compliance with ethical charters may be taken into account by some market indices and ethical investors.

Compliance with the self-defined CSR norm can therefore be viewed as a mission of the Board and of company managers – the European Parliament is currently studying ways in which it may enhance such duties and liabilities. Similar trends can be observed in other countries (eg in the UK, Companies Act 2006)

As noted by the French Institute of Directors (IFA), a CSR risk exists, identical to a financial or operational risk. Compliance with CSR standards should therefore be subject to scrutiny with impulse and periodic monitoring by the top management. The IFA recommends that the Board discuss CSR during their examination of the annual report, of risk mapping, and that remuneration committees assess managers' behavior with respect to a company's CSR principles.

This will inevitably require appropriate training to ensure effectiveness and the establishment of a CSR committee with powers for the management of issues. Consideration should also be given to creating an ethics alert to highlight potential CSR issues to the relevant committee. In case of crisis, this would allow the centralisation of information, the management of internal and external communications, and to remedy matters in conjunction with the departments concerned. Through

regular reports the Board can therefore perform effective work definition and monitoring.

The CSR risk exists – not only in France – and must be subjected to specific internal control. But it goes well beyond a simple legal constraint. CSR has become part of the value chain and can thus be considered a strategic and structural issue of the company.

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