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**– Filozofia Społecznej Odpowiedzialności Biznesu dla małych i
średnich firm w Unii Europejskiej.**

Competitive, small and responsible

**– The philosophy of Corporate Social Responsibility for small and
medium sized enterprises within European Union.**

Praca magisterska

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*“Ensuring a better
Quality of life for
Everyone, now and
For generations to
Come”*

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Introduction

Business, technology, communications, workplace and wider society have all been transformed over recent years and will continue to change as we progress into twenty first century. This ongoing evolution demands new thinking and new strategies. With steady increase, people are concerned that business should play a responsible role in our society.

Today, forward-thinking companies understand that balancing needs of their stakeholders is an essential component of sustaining business success. Many of these companies are engaging in socially and environmentally responsible business practices and working to develop new communication strategies that speak to investors, consumers, and employees. Philosophy of Corporate Social Responsibility has become a response to nowadays changing expectations. Majority of experts indicate that social responsibility can help any business to succeed, not depending on firm's dimension, because it is relevant for companies of all sizes. It is about business behaviors that not only deliver commercial objectives but also have a positive social impact. This means having concern for interests of a range of stakeholders, including employees, customers, suppliers, the local community and the environment. Social responsibility can help build sales, develop the workforce, build enthusiasm and trust in the enterprise as a whole. Social responsibility covers almost any activity of a business that goes beyond meeting the basic legal requirements. Every business has an impact on society through what it produces, how it employs and develops its people, how it purchases supplies and sells its products or services, how it affects the environment, and how it acts in the community. It is proved fact that, companies are stronger and work better when they have the support and respect of all their stakeholders, customers, staff and communities.

Effectively, companies are evolving to meet the demands placed upon them as the market evolves. Recognizing that stakeholders desire social and environmental information, companies are transforming their cultures and communication styles to disseminate this data. It has been shown that it is in a company's best interest to provide substantive information about its responsible initiatives while demonstrating efforts to address vulnerabilities and challenges. It is also important for a company to carefully consider the tone of a message, because it can considerably impact how a company is perceived by its stakeholders.

As it was mentioned before, the concept applies to companies of all sizes, which is so important considering the fact that small and medium-sized enterprises (SMEs) play a central role in the European economy. They represent the basic source of entrepreneurial skills,

innovation and employment. In the enlarged European Union of 25 countries, some 23 million SMEs provide around 75 million jobs, represent 99% of all enterprises and are also a key of European industry, as they contribute up to 80% of employment in some industrial sectors¹. Nonetheless, the market leaves a lot of challenges in front of them, as it is full of imperfections. SMEs often have problems with acquiring capital or credit, especially in early start-up phase. As a result small companies have a limited access to new technologies or innovation. Therefore, one of the European Commission highest priorities is the support for SMEs.

The theory of Corporate Social Responsibility was created on the grounds of big corporations, because of that most studies were usually concentrated on bigger companies. Obviously, the concept is new for small and medium-sized enterprises, but experts indicate that results can be adequate on the smaller scale as well. The difference can be noticed in financial aspect, mainly how much money one company is capable of spending on particular cause. But benefits and profits are quite similar, just adequate to the company's scale and environment, in which it operates. According to the information obtained from a comprehensive survey conducted amongst 7662 European SMEs, half of the enterprises are involved in external socially responsible causes and only 12% support environmentally responsible activities². This study remains the best attempt at measuring the CSR activity of SMEs across the European Union. Nonetheless, when small business is concerned, it is a fact that companies often act responsibly without even realizing that. Moreover, a lot of them instinctively use CSR and treat it as their daily business routine. Of course the goal is to make sure that every SME understands the concept, as well as engage each company in aware use of the theory.

Poland belongs to countries where concept of Corporate Social Responsibility is very new, and is mostly promoted by foreign corporations that operate on Polish market. According to the latest report of the Forum of Responsible Business, year 2005 did not bring the crucial change in this aspect. Nevertheless, it was a year of systematic hard work for majority of Polish companies, and the term of CSR finally found its solid place in business language. Bolesław Rok is of the opinion that now there is an attempt of incorporating CSR into other strategies existing in company, communication, personal or marketing strategy³.

¹ Source: http://ec.europa.eu/enterprise/entrepreneurship/index_en.htm

² Report: "European SMEs and social and environmental responsibility", Observatory of European SMEs 2002/No 4, European Commission, Belgium, 2002

³ Report: "Responsible Business in Poland – 2005", *Jaki to był rok dla odpowiedzialnego biznesu w Polsce?* - Bolesław Rok, Forum of Responsible Business, 2006, p. 4

Unfortunately, this is a longer process for small and medium-sized enterprises, which usually spend its energy on simply surviving in Polish reality, struggling with bureaucracy and competition. While it is true that society and Polish entrepreneurs become more aware of the concept of CSR, only few companies are actually using it. Although, the benefits are significant, they can only be applied, when enterprise communicates about its responsible actions.

The aim of this paper is to promote Corporate Social Responsibility among Small and Medium-Sized Enterprises. Personally, I wish my work will serve somehow as a guide for all SMEs and will encourage them to take an active part in responsible business movement.

Objective of this paper

Several recent studies suggest that it is critical for companies to not only develop CSR initiatives but to communicate them as well. A free market relies on the flow of information so that investors, consumers and employees can make educated decisions. As an added benefit, communicating socially and environmentally responsible practices and policies can improve a company's reputation and competitive advantage, which can increase a company's success. Some consumer analysts argue that reputation is everything. A company with a high-quality product but poor social performance record will face more challenges to success than a company with a high-quality product and a good reputation. Maintaining a strong corporate reputation goes beyond regulatory compliance. The companies that exceed legal requirements and respond to the public's expectations of acceptable business practices are the ones, who maintain and enhance their admirable reputations. The new global marketplace is crowded, competitive and cluttered with messages and information. A company needs not only to identify what makes it unique, but also to communicate those differences to interested audience. Research conducted by MORI⁴ shows that initiating sustainable, progressive and socially responsible practices helps companies improve brand identity and be more competitive⁵. Stakeholders are willing to support companies whose policies and management practices match their own personal values.

Therefore, objective of this paper is to provide the reader with all necessary information concerning the theory of Corporate Social Responsibility and to show facts

⁴ MORI: Market & Opinion Research International, the largest independently-owned market research company in the United Kingdom

⁵ Adopted from CSRwire website, www.CSRwire.com, The Global Newswire for Corporate Social Responsibility News Releases and Reports

regarding actual use of presented new management philosophy. It will be demonstrated that corporate responsibility is no longer a luxury for big companies and that in today's global economy, it is critical for companies, including SMEs, to embrace social and environmental responsibility in order to meet the demands of their investors, consumers, employees, and communities they serve. Throughout the years, European Union has demonstrated its interest and great support for philosophy of CSR, which can be noticed in several initiatives and programmes launched in order to promote and sustain the idea. Especially a great deal of attention has been given to small and medium-sized enterprises. Corporate Social Responsibility has become not only one of the ways that can contribute to sustainable development, but also a potential drive for SMEs. On the example of European Union I would like to show how gradually implemented CSR initiatives help small business to become more competitive and successful. Secondly, the intention of my paper is to encourage small and medium sized entrepreneurs to incorporate the idea of good practices in the philosophy of their business, and in their daily actions.

Structure of this paper

This paper is divided into five chapters; each one provides reliable knowledge about Corporate Social Responsibility and Small and Medium Sized Enterprises.

The introduction gives a general idea of the presented topic, tells about objective of this paper and its structure.

Next, in chapter one, the term “corporate social responsibility” is defined and explained thoroughly. The theory and different viewpoints are described.

Chapter two gives a comprehensive explanation why it is worth including philosophy of CSR into company’s strategy. This section is accompanied by statistical data taken from Millennium Poll – the largest survey ever of global public opinion on the changing role of companies. Additionally, arguments for and against are provided to help understand the reasons and need for being socially responsible.

Chapter three will deal with most important factors which have an influence on CSR. Moreover, it will describe how companies implement the philosophy within their strategy; yet each company differs in how it implements corporate social responsibility, but there are some key strategies that companies can use when implementing CSR policies and practices.

Chapter four is devoted to show essential facts about SMEs – theory and general information about SMEs within European Union. Also, the history of CSR concept within EU is described, as well as initiatives dedicated to CSR and SMEs.

Chapter five describes attitudes toward CSR among Polish society and entrepreneurs, based on different surveys. Additionally, it will illustrate two business cases of small enterprises involved in social and environmental work: one based on real company from EU, the second one based on imaginary company placed in Polish reality.

Chapter six will finalize this thesis by presenting conclusions from the work.

The last chapter will present all sources used to complete the thesis.

Chapter 1

Introduction to Corporate Social Responsibility

In this chapter, I will present all the necessary information on Corporate Social Responsibility. I will try to familiarize the reader with theory of CSR, and also demonstrate different viewpoints on CSR.

1.1 Definition of Corporate Social Responsibility

Corporate social responsibility is necessarily an evolving term that does not have a standard definition or a fully recognized set of specific criteria. With the understanding that businesses play a key role on job and wealth creation in society, CSR is generally understood to be the way a company achieves a balance or integration of economic, environmental, and social imperatives while at the same time addressing shareholder and stakeholder expectations. CSR is generally accepted as applying to firms wherever they operate in the domestic and global economy. The way businesses engage the shareholders, employees, customers, suppliers, governments, non-governmental organizations, international organizations, and other stakeholders is usually a key feature of the concept. While business compliance with laws and regulations on social, environmental and economic objectives set the official level of CSR performance, CSR is often understood as involving the private sector commitments and activities that extend beyond this foundation of compliance with laws.

A variety of terms are used- sometimes interchangeably- to talk about Corporate Social Responsibility: business ethics, corporate citizenship, corporate accountability, corporate sustainability, corporate responsibility or corporate stewardship.

From a progressive business perspective, CSR usually involves focusing on new opportunities as a way to respond to interrelated economic, societal and environmental demands in the marketplace. Many firms believe that this focus provides a clear competitive advantage and stimulates corporate innovation.

CSR commitments and activities typically address aspects of a firm's behavior (including its policies and practices) with respect to such key elements as:

- Business Ethics;
- Environment;

- Human rights;
- Community development;
- Corporate Governance;
- Workplace Issues;
- Staff Development, Sustainability;
- Health Promotion;
- Education.

In fact, CRS has become a company’s philosophy; that has grown exponentially in the last decade; and sets the path of priorities on which basis the company manage the business processes to produce an overall positive impact on society.

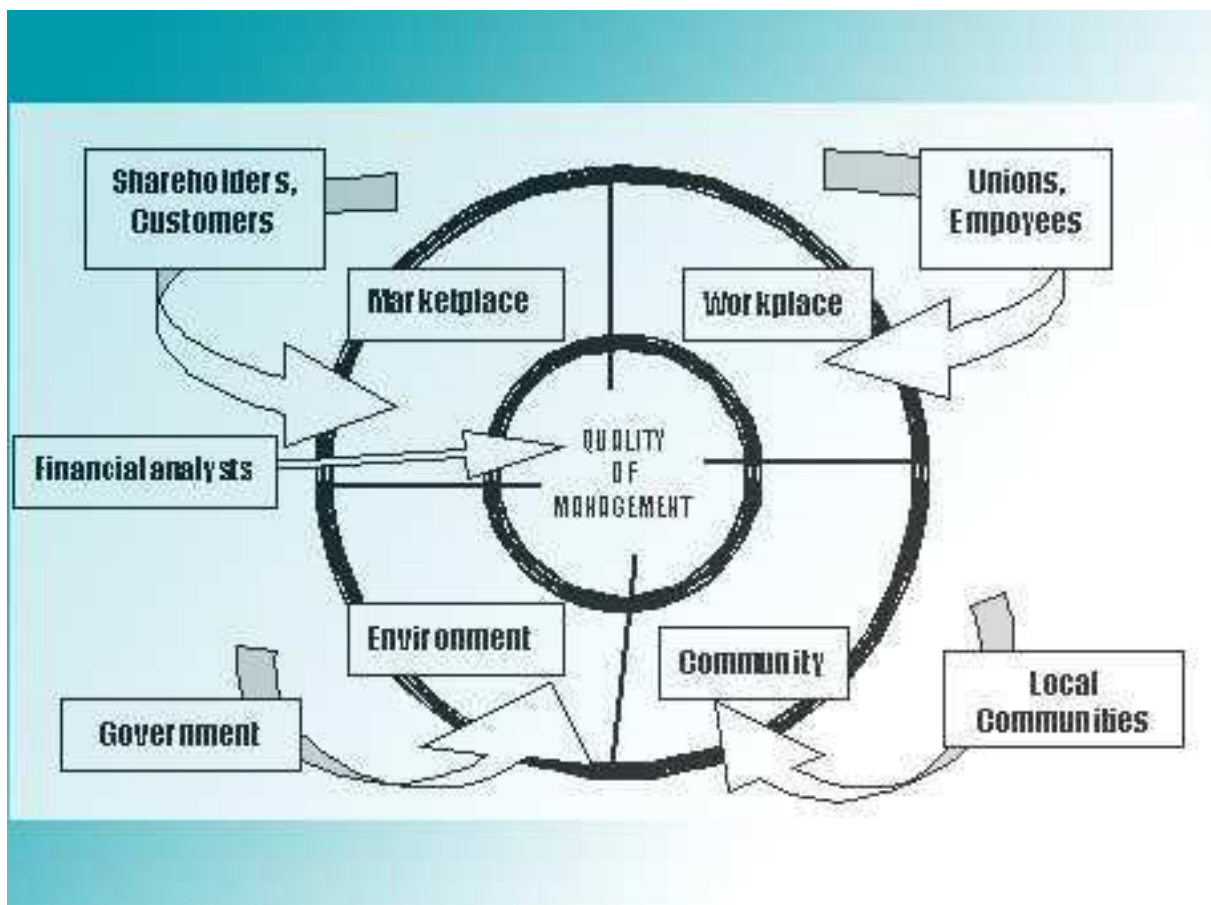


Illustration 1: Business in Society⁶

⁶ Source: individual illustration

Companies need to focus on two aspects of their operations (see illustration 1):

- the quality of their management, in terms of people and processes,
- the nature and quantity of their impact on society in the various areas.

Stakeholders have an increasing interest in activities undertaken by companies, in particular, what company has actually done, good or bad, in terms of its products and services, in terms of its impact on the environment and the local communities, or how it treats and develops its workforce. Apart of above specified elements, it is also financial analysts who are predominantly focused on quality of management as an indicator of likely future performance.

1.1.1 Chosen definitions of CSR

In literature, there exists variety of individually structured definitions, as different organizations have framed different definitions, although there is considerably common ground between them. Here are examples of some other definitions of CSR:

1. CSR is a set of commitments to protect and strengthen the society in which company operates.⁷
2. The company orientated on responsibility is the one, which positively respond to expectations of divisional environment, institutions, and people, who form it. H.I Ansoff called such company- an organization serving society.⁸
3. Corporate Social Responsibility is being responsible for actions taken upon other people.⁹
4. Corporate Social Responsibility means that the company is morally responsible for its actions and committed to law and society. The company is responsible before:
 - owners
 - employees
 - stakeholders
 - customers
 - creditors
 - banks
 - environmental organizations
 - suppliers

⁷ R.W. Griffin, *Podstawy zarządzania organizacjami*, Published by PWN 1998, p.144

⁸ B. Wawrzyniak, *Odnawianie przedsiębiorstwa. Na spotkanie XXI wieku*, Published by Poltex, Warsaw 1999, p. 213-214

⁹ B. Klimczak, *Etyka gospodarcza*, Published by AE Wroclaw, 2002, p.70

- government administration¹⁰.
5. Corporate Social Responsibility means that:
 - private company is responsible to society in farther terms than production of goods and provision of service concentrated on profit,
 - company serves to a bigger group of people than just its stakeholders,
 - companies are connected with society not only through market,
 - companies serves human's values of higher rank not just only values *stricte* economic¹¹.
 6. Corporate Social Responsibility – it is obligation to make such decisions and to choose such activities that are the best for company's benefit and at the same time make a contribution to society.¹²
 7. The complete definition of CSR was formed by A.B. Carroll¹³. The author based it on pyramid model and distinguished four levels of responsibility:
 - economic and legal responsibility (demanded by society)
 - ethical responsibility (expected by society)
 - humanitarian responsibility (desired by society)
 8. Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.¹⁴
 9. CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.
 - CSR is a behavior by businesses over and above legal requirements, voluntarily adopted because businesses deem it to be in their long-term interest;
 - CSR is intrinsically linked to the concept of sustainable development: businesses need to integrate the economic, social and environmental impact in their operations;
 - CSR is not an optional 'add-on' to business core activities — but about the way in

¹⁰ L. Zbiegień-Maciąg, *Etyka w zarządzaniu*, Published by CiM, Warsaw 1997, p. 48-49

¹¹ R.A. Bucholtz, *Business Environment and Public Policy: Implication for Management*, [after:]

M. Rybak, *Społeczna odpowiedzialność biznesu- idea i rzeczywistość*, "Gospodarka Narodowa", nr 3/2001, p. 28

¹² *Ibidem*, p. 28

¹³ A.B. Carroll, *Business&Society. Ethics and Stakeholder Management*, Second Ed., South-Western Publishing Co., Cincinnati Ohio, 1993, p. 35

¹⁴ Lord Holme and Richard Watts, *"Making Good Business Sense"*- publication for The World Business Council for Sustainable Development

which businesses are managed¹⁵.

Traditionally in the United States, CSR has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving.

The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons.

But as with any process based on the collective activities of communities of human beings (as companies are) there is no "one size fits all". In different countries, there will be different priorities, and values that will shape how business act.

1.2 Historical Context

The view that a business can have obligations that extend beyond economic roles is not new in many respects. Throughout recorded history the roles of organizations producing goods and services for the marketplace were frequently linked with and include political, social, and/or military roles. For example, throughout the early evolutionary stages of company development in England, there was a public policy understanding that corporations were to help achieve societal objectives such as the exploration of colonial territory, setting up settlements, providing transportation services, developing bank and financial services, etc. During the nineteenth century, the corporation as a business form of organization evolved rapidly in the US. It took on a commercial form that spelled out responsibilities of the board of directors and management to shareholders (i.e. fiduciary duty). In this later evolutionary form, public policy frequently addressed specific social domains such as health and safety for workers, consumer protection, labor practices, environmental protection, etc. Thus, corporations responded to social responsibilities because they were obligated to be in compliance with the law and public policy. They also responded voluntarily to market demands that reflected consumer morals and social tastes.

By the mid-point of the twentieth century, corporate social responsibility was being discussed in the US by business management experts such as Peter Drucker and being

¹⁵ European Commission report on "Corporate Social Responsibility, A business contribution to sustainable development", European Communities, 2002, p. 9

considered in business literature. In 1970, economist Milton Friedman outlined his view that the social responsibility of corporations is to make profits within the boundaries of societal morals and laws (but cautioned that socially responsible initiatives by corporations could lead to unfocused management directions, misallocations of resources, and reduced market competition, opportunity and choice). CSR emerged and continues to be a key business management, marketing, and accounting concern in the US, Europe, Canada, and other nations.

In the last 30 years, theory and management practice have gradually changed. The very beginning of these changes have its source in humanization of labor. It is a process of restoration a human factor to work. The chart below presents different aspects of managing business have been replaced by new ones.

The company based on Taylor's principles		The company based on idea of corporate responsibility
Technocratic rationality	Replaced by	Corporate culture
Immediate effectiveness	Replaced by	Quality project
The obligation to perform superiors' instructions	Replaced by	Voluntary performance based on the right motivation

Table 1: Taylor's management vs. management through values¹⁶

In the last decade, CSR and related concepts such as corporate citizenship and corporate sustainability have expanded. This has perhaps occurred in response to new challenges such as those emanating from increased globalization on the agenda of business managers as well as for related stakeholder communities. It is now more a part of both the vocabulary and agenda of academics, professionals, non-governmental organizations, consumer groups, employees, suppliers, shareholders, and investors.

1.3 Diversity of Perspectives on CSR

In this section different viewpoints on CSR matter are presented in order to give the reader the idea of how organizations conceive corporate responsibility matter. They reflect

¹⁶ Dr Tomasz Wołowiec, "Społeczna odpowiedzialność przedsiębiorstwa nową formułą zarządzania", EiOP, nr 3/2004, p. 4

the challenges and opportunities for both the public and private sectors to effectively operationalize and align CSR between domestic, continental and international levels. They also indicate the challenges and opportunities to develop the most appropriate relationships between shareholders and other stakeholders as well as to use the optimal policy mix of legislative and voluntary instruments.

1.3.1 Business Actions for Sustainable Development (BASD)¹⁷

The BASD integrates and places CSR in the context of sustainable development. CSR is viewed as being one of three key corporate responsibilities that also include economic responsibility and environmental responsibility. CSR falls under the auspices of corporate responsibility. To this organization, CSR is "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large." The priority CSR elements are identified as:

- human rights
- employee rights
- environmental protection
- supplier relations
- community involvement
- stakeholder rights and
- CSR performance monitoring and assessment.

1.3.2 The Organization for Economic Cooperation and Development (OECD)¹⁸

The OECD takes the view that CSR can mean different things to different groups, sectors and stakeholders and that it is evolving. This organization believes that "there is general agreement that in a global economy, businesses are often playing a greater role beyond job

¹⁷ Business Actions for Sustainable Development; (previously The World Business Council for Sustainable Development -WBCSD); is a coalition of 170 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. Members are drawn from more than 35 countries and 20 major industrial sectors. It also benefits from a global network of 45 national and regional business councils and partner organizations located in 40 countries, involving some 1,000 business leaders globally. Source: www.wbcsd.ch

¹⁸ The OECD groups 30 member countries sharing a commitment to democratic government and the market economy. With active relationships with some 70 other countries, NGOs and civil society, it has a global reach. Best known for its publications and its statistics, its work covers economic and social issues from macroeconomics, to trade, education, development and science and innovation. Source: www.oecd.org

and wealth creation and CSR is business's contribution to sustainable development" and that "corporate behavior must not only ensure returns to shareholders, wages to employees, and products and services to consumers, but they must respond to societal and environmental concerns and values." In 2000, the OECD revised the Guidelines for Multinational Enterprises and these were endorsed by OECD members including Canada. The Guidelines establish voluntary policies that promote corporate transparency and accountability, specifically addressing:

- disclosure of material information
- employment and industrial relations
- environmental management
- bribery
- competition
- consumer interests
- science and technology diffusion, and taxation

1.3.3 Business for Social Responsibility (BSR)¹⁹

The organization defines CSR as business practices that "strengthen accountability, respecting ethical values in the interests of all stakeholders". BSR also proposes that "responsible business practices respect and preserve the natural environment" and that by "helping to improve the quality and opportunities of life, they empower people and invest in communities where a business operates. CSR addressed comprehensively, can deliver the greatest benefits to a company and its stakeholders when integrated with business strategy and operations." The key CSR issues challenging businesses, according to BSR include:

- business ethics
- community investment
- environment
- governance and accountability
- human rights

¹⁹ Business for Social Responsibility (BSR) is a global organization that helps member companies achieve success in ways that respect ethical values, people, communities and the environment. BSR provides information, tools, training and advisory services to make corporate social responsibility an integral part of business operations and strategies. A nonprofit organization, BSR promotes cross sector collaboration and contributes to global efforts to advance the field of corporate social responsibility. Source: www.bsr.org

- marketplace
- mission, vision and values
- workplace

1.3.4 The Commission for European Communities²⁰

In its recent Green Paper the Commission views CSR as “essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment”. The Green Paper notes that for an organization to be socially responsible means not only that legal expectations be fulfilled, but it also means “going beyond compliance and investing more in human capital, the environment, and stakeholder relations”. The Paper describes CSR in two categories:

- 1) The internal dimension
- 2) The external dimension

The former is interpreted to include human resources management, health and safety at work, adaptation to change, and management of environmental impacts and natural resources. The latter is projected to include local communities, business partners including suppliers and consumers, human rights, and global environmental concerns. A holistic approach to CSR is defined to include:

- social responsibility integrated management
- social responsibility reporting and auditing
- quality in work
- social and eco labels
- socially responsible investment

²⁰ The European Commission embodies and upholds the general interest of the Union and is the driving force in the Union's institutional system. Its four main roles are to propose legislation to Parliament and the Council, to administer and implement Community policies, to enforce Community law (jointly with the Court of Justice) and to negotiate international agreements, mainly those relating to trade and cooperation. Source: www.europa.eu.int

1.3.5 GlobeScan²¹

Based in part upon their periodic surveys of consumers and citizens in a variety of countries tend to see company social responsibilities falling into two general categories:

- a) Operational responsibilities which are seen as the standards which companies should achieve in their normal course of business, and
- b) Citizenship responsibilities that are not actions companies need to undertake in their normal business operations, and therefore allow a company to differentiate it from competitors. The operational category is interpreted to include responsibilities such as the following:

- protecting health and safety of workers
- not engaging in bribery or corruption
- not using child labor
- protecting the environment
- making profit and paying taxes
- treating employees fairly
- providing quality products at lowest price
- providing secure jobs
- applying universal standards across the world

The citizenship responsibilities include:

- responding to public concerns and viewpoints
- reducing human rights abuses
- increasing economic stability
- reducing the gap between the rich and poor
- supporting charities and communities
- solving social problems
- supporting progressive government policies

²¹ GlobeScan; (formerly Environics International); has been providing reliable public opinion and stakeholder research and counsel to clients for over 16 years. First established in 1987 as a Canadian public opinion research practice, it has evolved to encompass the study of emerging global issues, and advise clients of the implications for both corporate strategy and public opinion policy. GlobeScan is the largest provider of multi-client public opinion research in the world, specializing in strategic analysis of global issues, including the social, ethical, environmental and economic impacts on corporations and their stakeholders. Source: www.globescan.com

1.3.6 The Global Reporting Initiative²²

The GRI has developed a framework that differentiates between the economic and social and environmental performance of an organization. To the GRI, the social dimension of sustainability “captures the impact of an organization's activity on society, including employees, customers, community, supply chain and business partners”. The activities cover four contexts:

- the workplace (health & safety, wages and benefits, non-discrimination, training, child labor, etc.)
- human rights
- suppliers, and
- products and services

1.4 CSR tools

Companies interested in advancing corporate social responsibility and in improving their social and environmental performance as part of their business have a wide range of tools available for application. Tools can vary widely in terms of objectives, scope, costs, level of formality, partnerships, extent of stakeholder involvement, and many other characteristics. Tools can be applied to one or more of the planning, implementation, checking, and improvement facets of corporate operations.

Businesses have options in how they can use the tools. For example, companies can use the tools that have been developed by others or they can develop their own tools - either independently or in partnership with other stakeholders.

The tools reflect activity at the domestic and international levels as well as initiatives by both the private and public sectors. In some cases the tools may be focused on one element

²² The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labor organizations from around the world. Started in 1997, GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact; www.globalreporting.org

of CSR such as environmental protection and in others may be more comprehensive such as the Global Reporting Initiative.

1.4.1 Principles and guidelines

As a first step for pursuing CSR, many companies focus on defining the normative directions that would be appropriate and acceptable to them. These directions can be converted into a formal statement of business values and practices. Such statements can be presented in the form of principles, guidelines, or codes of conduct. In effect, these become a commitment vehicle for the business to declare its perspective and way of doing business with respect to the challenges relating to corporate social responsibility.

Here are some principles, guidelines and codes of conduct that companies can use to develop their statements of commitment include:

- ***OECD Guidelines for Multinational Enterprises*** – the guidelines are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, competition, taxation, and science and technology.²³
- ***OECD Guidelines for Corporate Governance*** – the original OECD Principles of Corporate Governance were endorsed by ministers at the OECD Council meeting at ministerial level on 26-27 May 1999. They were developed in response to a mandate given to the Organization by the OECD Council meeting at ministerial level in 1998 to develop a set of standards and guidelines on good corporate governance. It helps to assure that corporations operate for the benefit of society as a whole. It helps to maintain the confidence of investors - both foreign and domestic - and to attract more long-term capital.²⁴
- ***United Nations Global Compact*** – provides guidelines on “Corporation between United Nations and the Business Community” in its report issued by the Secretary-General of the United Nations, 17 July 2000.²⁵

²³ Source: www.oecd.org

²⁴ *Ibidem*

²⁵ Source: www.un.org

- ***Global Sullivan Principles*** – for the first time introduced in 1977, by the Reverend Leon Sullivan, with intention to help persuade US companies with investments in South Africa to treat their African employees the same as they would treat their American counterparts. These principles were then relaunched in 1999 as the Global Sullivan Principles for Corporate Social Responsibility. The Global Sullivan Principles refer to the support for universal human rights, equal opportunities, respect for freedom of association, levels of employee compensation, training, health and safety, sustainable development, fair competition and working in partnership to improve quality of life. A company wishing to be associated with the Principles is expected to provide information which publicly demonstrates its commitment to them. The Principles aim to be applicable to companies of any size, operating in any part of the world. They have been endorsed and implemented by a number of business councils, campaigning non-governmental organizations, local authorities, companies and representative organizations. To date, around 100 companies have signed up to them.²⁶

1.4.2 Management system

Management frameworks and systems are another avenue for improving corporate performance with regard to economic, social, and environmental objectives. Businesses recognize the benefits of a management systems approach to managing their operations. The use of management systems offers a business the opportunity to internalize demands and challenges on a range of CSR fronts including environmental protection, health and safety, and community development and stakeholder engagement. The systems usually comprehensively cover the planning, implementation, checking, accounting, auditing, reporting, and improvement facets of typical business operations.

The most useful tools available to businesses with respect to management systems appear to be management system specifications or standards as well as related implementation guides that have been developed on a voluntary basis by industry and other stakeholders at international or domestic national levels. The following represent some of the more popular management system tools:

- Quality Management System: ISO 9000

²⁶ Source: www.globalsullivanprinciples.org/principles.htm

- ISO 9000 is a set of standards for quality management systems that is accepted around the world. Currently more than 90 countries have adopted ISO 9000 as national standards. Products or services from organizations that are registered to the appropriate ISO 9000 standard have important assurance that they quality will satisfy customer's expectations.²⁷
 - Environmental Management System: ISO 14000
- ISO 14000 is a series of international standards on environmental management. It provides a framework for the development of an environmental management system and the supporting audit programme.²⁸
 - Social Accountability System²⁹: SA8000³⁰
- SAI's first accountability system, SA8000, is a way for retailers, brand companies, suppliers and other organizations to maintain and decent working conditions throughout the supply chain. The SA8000 standard and verification system is a credible, comprehensive and efficient tool for assuring humane workplaces. SA8000 is based on international workplace norms in the ILO conventions and the UN's Universal Declaration of Human Rights and the Convention on Rights of the Child.
 - Health and Safety Management System: OSHA 18000³¹
- OSHA 18000 is an Occupational Health and Safety Assessment Series (OHSAS) for occupational health and safety (OH&S) management systems to enable an organization to control OH&S risks and to improve performance.
 - Sustainability and CSR Reporting: Global Reporting Initiative (GRI)
- GRI has developed a set of core metrics intended to be applicable to all business enterprises, sets of sector-specific metrics for specific typed of enterprises and a uniform format for reporting information integral to a company's sustainability performance. In broad terms, the GRI Sustainability Reporting Guidelines recommend specific information related to environmental, social and economic performance. It is structured around a CEO statement, key environmental, social and economic indicators, a profile of the reporting entity, descriptions of relevant policies and management systems, stakeholder relationships, management performance, operational performance, product performance and a sustainability overview.

²⁷ Informative Bulletin on ISO standards issued by International Organization for Standardization

²⁸ Source: www.iso14000-iso14001-environmental-management.com

²⁹ Social Accountability System (SAI) is a U.S.-based, nonprofit organization dedicated to the development, implementation and oversight of voluntary verifiable social accountability standards; source: www.ceppaa.org

³⁰ *Ibidem*

³¹ Source: www.nsaiinc.com/ohas.html

1.4.3 Indicators, Measurements Reporting and Benchmarking

Another cluster of tools that are available to businesses involve the means by which companies can become more transparent about their performance on CSR through the presentation of information. This includes tools that help to employ indicators for measuring performance, account and report on corporate performance, and assess CSR performance of a business relative to some benchmark such as an acceptable framework, its past activity, or to other companies.

Companies recognize that transparency and sound tools that support the transparency can build credibility within the marketplace and society where the businesses operate. Increased transparency through the use of indicators, measuring approaches, accounting and reporting, assessments, and benchmarking can help a company to build business value.

It is probably fair to characterize the existing situation with respect to this cluster of tools as being at a relatively early stage of development. There is both exploration and experimental work taking place with regard to most of the tools. In many cases, the tools are considered as being at a draft or preliminary stage of development. Nonetheless, the tools can aid a business to enhance their performance on CSR across the planning, implementation, checking, and improvement facets of the management of their operations.

1.4.4 Other CSR tools

There are other groups of tools and vehicles that can be employed by a corporation to advance and encourage effective progress on CSR performance. This includes tools that help a business to: integrate CSR into corporate structures and processes, create innovative and proactive CSR solutions, collaborate with internal and external stakeholders on CSR challenges, and report and account for CSR performance.

Further opportunities may exist for businesses to enhance CSR through such tools and avenues as:

1.4.4.1 *CSR Awards*

Recognition of performance improvements can help to act as an incentive to motivate employees and managers to advance corporate social responsibility. The recognition can take place at different levels such as those of the project team, corporate management, company,

specific industry sector, all industry within a country, etc. There are many examples of these and they may range from awards for progress on a specific area (e.g. climate change) of a specific CSR element (e.g. environmental protection) to a wider scope of more CSR elements in general.

1.4.4.2 *Education and Training*

A wide range of education and training tools can be employed to achieve success in enhancing CSR within a business. Within a company, this includes the use of courses, working groups and seminars, manuals, guiding primers, distinguished speakers, etc.. The education and training tools can serve to improve the knowledge capacity of employees with respect to the different CSR elements including such areas as environmental protection, human resource management practices, hiring practices and diversity, and business ethics. Beyond the company, tools such as labels, information packages, and certification programs can be used to inform external stakeholders such as consumers about becoming more progressive on CSR fronts.

1.4.4.3 *Networks and Multi-partner Organizations*

Companies can have their managers and employees participate in organizations that aim to advance responsible business practices for the benefit of business and society. This goal to develop closer co-operation on CSR and SD can involve a wide or narrow range of partners depending upon needs and circumstances. The partners can include other businesses, government, civil society, labor unions, investor groups, etc.

1.4.4.4 *Promotion and Communication*

Still another area that can be employed as a vehicle for encouraging progress on CSR within a business involves tools related to promotion and communication. In some respects, this tool area overlaps with a number of the tools that have already been presented. The tools related to promotion and communication often involve a marketing and normative dimension. There is an advocative nature to the tools to encourage changes in behavior within a firm (e.g. employees and managers) as well as beyond the boundaries of the company (e.g. customers, suppliers). While many of the tools presented previously could be employed to supplement

and complement this cluster, they tend to be more explicitly normative. They often tend to be used by responsibility centers within a business or by other external organizations that have responsibilities for the social and environmental domains and have interests in expanding the imperatives of these domains into the essential elements of corporate structures and processes.

Chapter 2

The influence of CSR on business and society

In this chapter I will try to answer the question why it is worth for companies to use CSR in their everyday practices. The arguments for and against advocated by experts will also be presented.

"The aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation."

Michael Hopkins, Director - MHC International

2.1 Why CSR?

Why should companies care about their social and environmental responsibilities? It is believed that companies have both moral and financial reasons to practice CSR. The moral ones seem to be quite clear, while the financial ones are still more difficult to measure.

The Business Impact Task Force³² clearly showed the following benefits:

- Reputation - affected by the costs and benefits of a company's goods and services, how it treats its employees and the environment, its record on human rights, its investment in local communities, and even its prompt payment of bills;
- Competitiveness - the advantages of good supplier and customer relationships, workforce diversity and work/life balance, as well as efficient management of environmental issues;
- Risk Management - better control of risks - financial, regulatory, environmental, or from consumer attitude.

The trends that are making these factors increasingly important in the business world include:

³² The Business Impact Task Force was initiated by Business in the Community and chaired by Bill Cockburn, Group Managing Director of BT. It published its report "Winning with Integrity", November 2000

- Greater mobility of customers and suppliers and improved communications - making reputation increasingly vital to all businesses, whether in the brand value of a large multinational or a local shop's reputation for customer service;
- Greater job mobility - there is powerful evidence that a strong track record on social responsibility helps attract and retain the best people in a competitive jobs market;
- Increasingly dynamic marketplaces - success depends on responding to local communities and cultures, as well as on innovation and strong risk management;
- Growing expectations from customers and others - concerns about the increasing power of business mean that there is increasing pressure for companies - especially large ones - to behave responsibly.

There have been conducted several polls that constitute a great support for stated benefits coming from use of CSR. As reputation and standing is concerned³³:

- ✓ In 1999 a poll of 25,000 citizens across 23 countries on six continents showed that perceptions of companies around the world are more strongly linked with corporate citizenship (56%) than either brand quality (40%) or the perception of the business management (34%);
- ✓ 81% of consumers agree that when price and quality are equal they are more likely to buy products associated with a good cause;
- ✓ 73% of people agreed that they would be more loyal to an employer that supports the local community;
- ✓ A recent poll indicated that 17% of consumers were likely to be influenced by ethical considerations when making purchasing decisions, with another 5% regularly taking account of a business's ethical performance when shopping;
- ✓ The Co-operative bank has found that more than 90% of its customers approve of its ethical policy and that its market share has increased with the promotion of this policy through cinema, poster and direct mail marketing.

As far as competitiveness is concerned³⁴:

- ✓ A study conducted by McKinsey, "The War for Talent", published in 1998 found that only 3% of companies responding believed they had enough talent to reach their objectives in five years. They all recognized the need to market themselves to potential employees. MORI research throughout the 1990s consistently found that the

³³ Data taken from „Winning with Integrity” report, MORI, Co-operative Bank

³⁴ *Ibidem*

vast majority of people believed that a company that supports society and the community is a good company to work for;

- ✓ Bain & Co³⁵ found that those companies that have the highest employee retention also have the greatest customer retention;
- ✓ In their 1998/99 Social Impact Review, Natwest Group noted that 92% of the staff involved in their programme of placing volunteers from business in arts organizations said that involvement had provided access to valuable new skills or knowledge;
- ✓ Improved efficiency in the use of energy and natural resources has been shown consistently by government programmes to save 10% of waste at no cost as well as improve impact on the environment. This could potentially save UK industry £2.6 billion a year as well as reducing the use of natural resources.

Finally, as far as risk management is concerned³⁶:

- ✓ MORI research conducted in 1998 among British adults found that 17% had boycotted a company's product on ethical grounds, 19% had chosen the product/service because of companies ethical reputation and a further 28% had done both.

The business case for CSR argues that a responsible attitude toward society and the environment can make a business more competitive, more resilient to shocks, and more likely to attract and hold both consumers and the best employees. In a world where socially responsible investment is growing, it can also attract investment and save businesses money in dealing with regulators, banks and insurers. Some companies also feel that CSR is a significant part of their risk management and reputation strategy. In a world where brand value and reputation are increasingly seen as a company's most valuable assets, CSR can build the loyalty and trust that ensure a bright sustainable future.

2.2 Corporation as an organization serving society and environment

Economic globalism, political transition and technological transformation are making rapid and fundamental changes in society. Business has emerged as the principal engine of growth and development in the new world order. This is changing the perceived roles and

³⁵ Bain & Company is a global business consulting firm

³⁶ Data taken from „Winning with Integrity” report, MORI, Co-operative Bank

responsibilities of the state, civil society and companies. In this context, society's expectations of corporate behavior are evolving quickly. Business leaders are working to understand society's fast rising expectations of the role of companies in areas previously seen as responsibilities of the state. Since much of what has come to be called corporate social responsibility has to do with public attitudes and perceptions, Environics International Ltd. launched the Millennium Poll on Corporate Social Responsibility to provide companies with a reliable global measure of society's expectations of them. With the collaboration of The Prince of Wales Business Leaders Forum in London and The Conference Board in New York, and with the support of the corporate sponsors and subscribers, Environics developed and coordinated a survey on these topics involving representative samples of 1,000 citizens in each of 23 countries on 6 continents – a total of 25,000 interviews worldwide, conducted during May 1999. The presented information and statistics are all taken from Millennium Poll³⁷ in order to explain how public conceive corporate duty toward society and environment, and most of all how important it is for company not to deny this obvious fact.

- ✓ Citizens in 13 of 23 countries think their country should focus more on social and environmental goals than on economic goals in the first decade of the new Millennium.
- ✓ In forming impressions of companies, people around the world focus on corporate citizenship ahead of either brand reputation or financial factors.
- ✓ Two in three citizens want companies to go beyond their historical role of making a profit, paying taxes, employing people and obeying all laws; they want companies to contribute to broader societal goals as well.
- ✓ Actively contributing to charities and community projects does not nearly satisfy people's expectations of corporate social responsibility – there are ten areas of social accountability rated higher by citizens in countries on all continents.
- ✓ Fully half the population in countries surveyed is paying attention to the social behavior of companies.
- ✓ Over one in five consumers report either rewarding or punishing companies in the past year based on their perceived social performance, and almost as many again have considered doing so.
- ✓ Opinion leader analysis indicates that public pressure on companies to play broader roles in society will likely increase significantly over the next few years.

³⁷ The Millennium Poll on Corporate Social Responsibility conducted by Environics International Ltd. in corporation with The Prince of Wales Business Leaders Forum and Conference Board

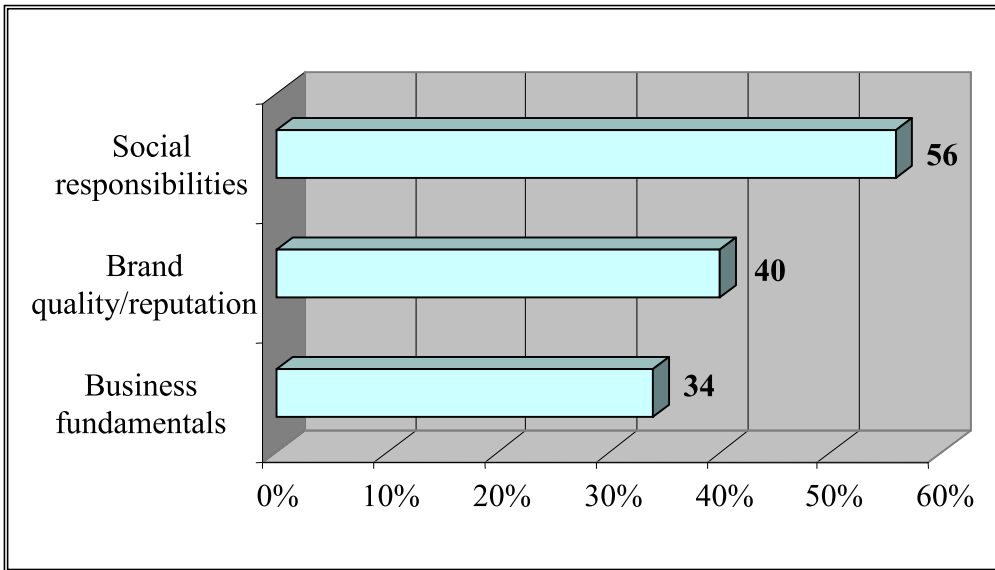


Diagram 1: Factors Most Influencing Public Impressions of Individual Companies

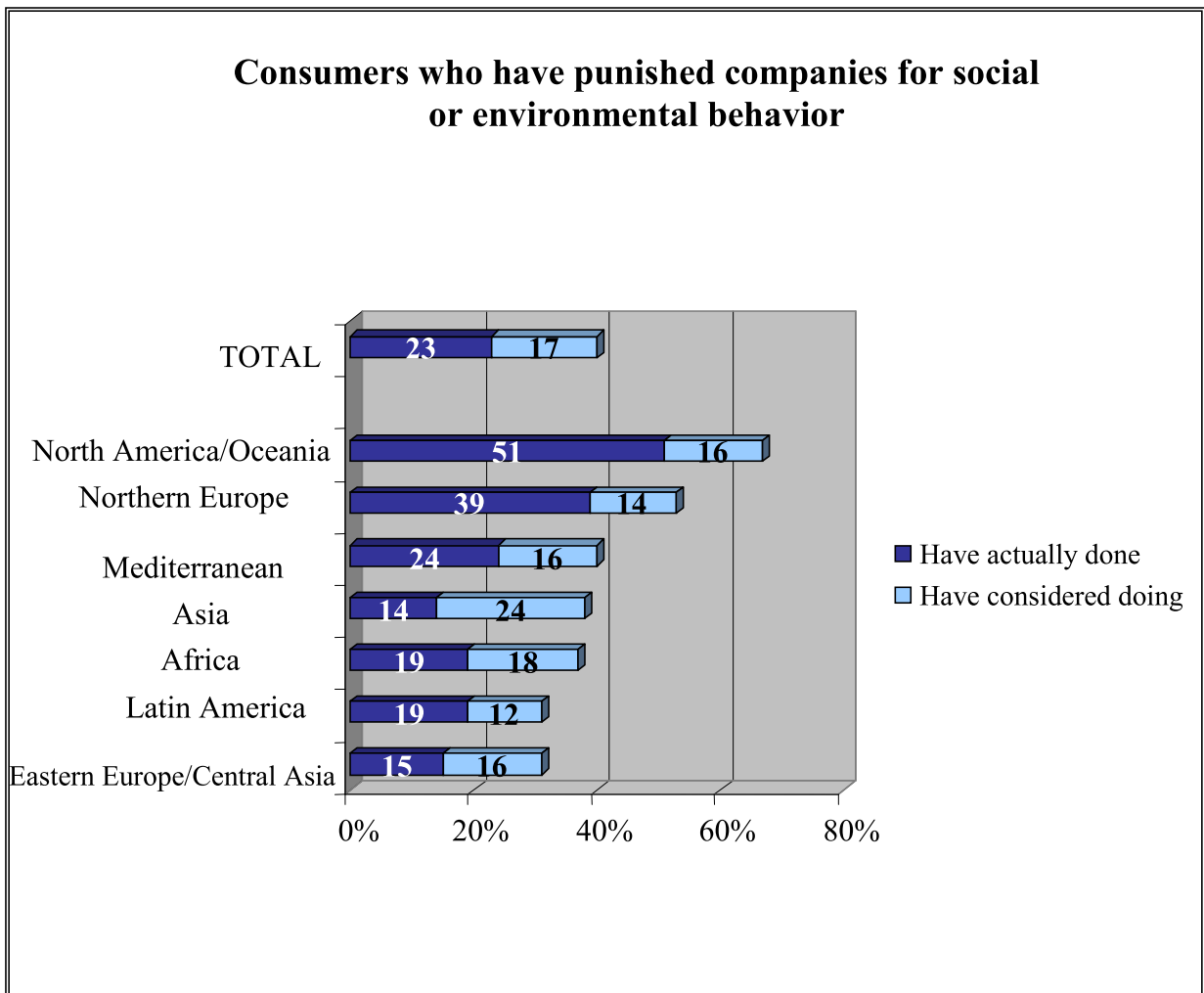


Diagram 2: Regional differences in activism on Corporate Social Responsibility- Citizens who have punished a company seen as not socially responsible

Role of Large Companies in Society

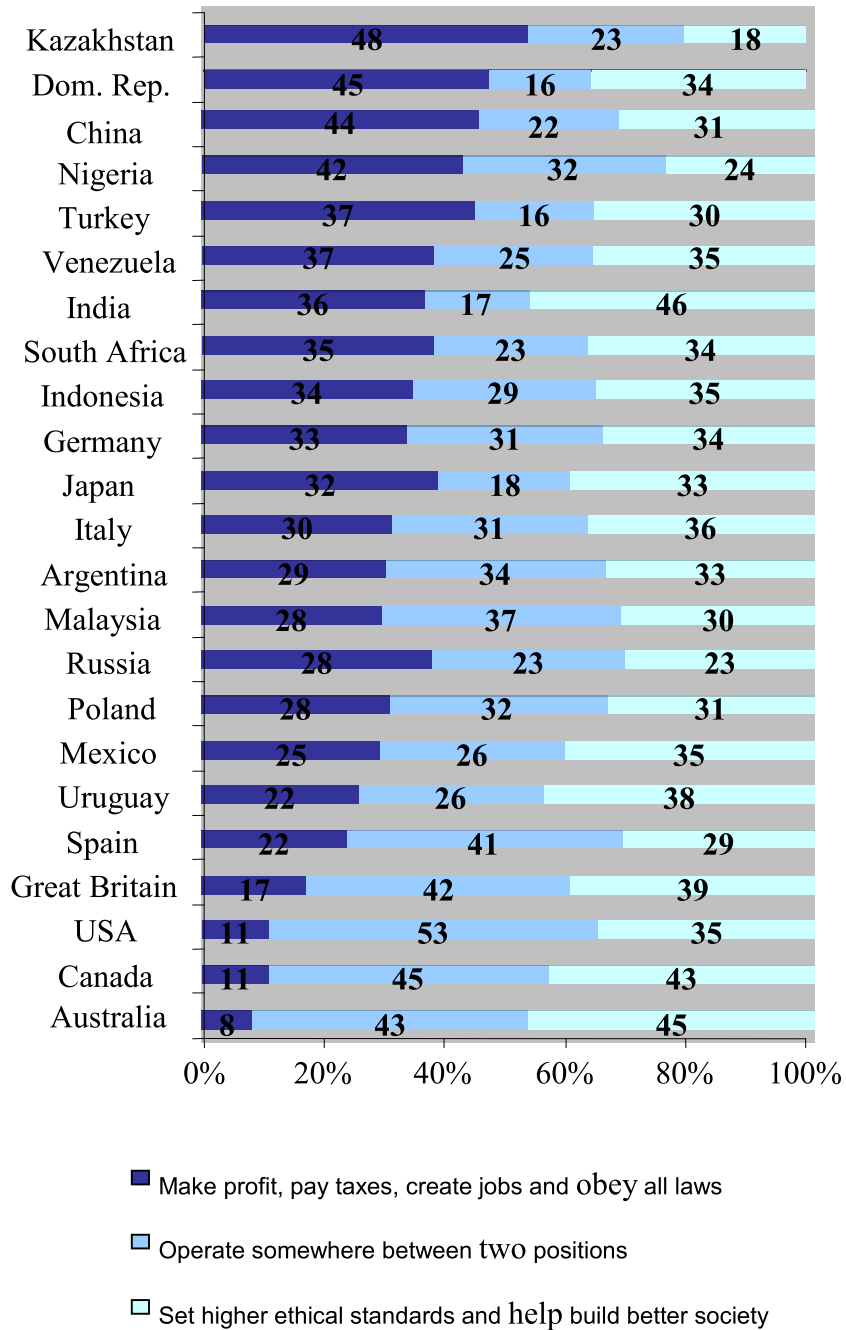


Diagram 3: Company's role in society

Diagram 3 demonstrates that majorities of citizens in all but three countries surveyed think companies should go beyond the minimum definition of their role in society. This is particularly strong in North America and Australia and weakest in Russia, Turkey and Kazakhstan. In other words, the richer nation the higher demands for CSR. The strength of public opinion wanting companies to go well beyond the traditional business role both explains the mounting social pressures that business feel and underlines the importance of companies understanding how best to respond.

The strength and breadth of the findings from this largest-ever global survey of public expectations of corporations suggests that major companies in the 21st Century will be expected to do all of the following:

- ✓ Demonstrate their commitment to society's values and their contribution to society's social, environmental and economic goals through actions.
- ✓ Fully insulate society from the negative impacts of company operations and its products and services.
- ✓ Share the benefits of company activities with key stakeholders as well as with shareholders.
- ✓ Demonstrate that the company can make more money by doing the right thing, in some cases by reinventing its business strategy. This "doing well by doing good" will reassure stakeholders that the new behavior will outlast good intentions.

2.3 Business Importance- why is it worth using CSR?

There is a growing body of data – quantitative and qualitative – that demonstrates the bottom-line benefits of socially responsible corporate performance.

- Improved Financial Performance: Business and investment communities have long debated whether there is a real connection between socially responsible business practices and positive financial performance. In the last decade an increasing number of studies have been conducted to examine this link. One of the most recent analyses – a 2002 DePaul University study – showed that overall financial performance of the 2001 Business Ethics Best Citizen³⁸ companies was significantly better than that of the

³⁸ Report: "100 Best Corporate Citizens" issued by Business Ethics, 2001

remaining companies in the S&P 500 Index,³⁹ based on the 2001 “BusinessWeek” ranking of total financial performance. The ranking was based on eight statistical criteria, including total return, sales growth, and profit growth over the one-year and three-year periods, as well as net profit margins and return on equity. The Best Citizens scored ten percentile points higher than the mean ranking of the remainder of the S&P 500 companies.

- Reduced Operating Costs: Some CSR initiatives can reduce operating costs dramatically. For example, many initiatives aimed at improving environmental performance, also lower costs. Many recycling initiatives cut waste-disposal costs and generate income by selling recycled materials. In the human resources arena, flexible scheduling and other work-life programs that result in reduced absenteeism and increased retention of employees often save companies money through increased productivity and reduction of hiring and training costs.
- Enhanced Brand Image and Reputation: Customers often are drawn to brands and companies with good reputations in CSR-related areas. A company considered socially responsible can benefit both from its enhanced reputation with the public as well as its reputation within the business community, increasing a company’s ability to attract capital and trading partners. A 2001 Environics International CSR Monitor⁴⁰ survey showed that the factors most influencing public impressions of companies were social responsibility (49%); brand quality/reputation (40%); and business fundamentals (32%). The answers in the survey represent the percent of respondents mentioning these factors as one of their top two.
- Increased Sales and Customer Loyalty: A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must first satisfy customers’ key buying criteria, such as price, quality, availability, safety and convenience, studies also show a growing desire to buy (or not buy) because of other values-based criteria, such as “sweatshop-free” and “child-labor-free” clothing, lower environmental impact, and absence of genetically-modified materials or ingredients.

³⁹ Standard and Poor’s 500 Index – S&P 500 – an index consisting of 500 stocks chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock’s weight in the index proportionate to its market value. The S&P 500 is one of the most commonly used benchmarks of the overall stock market.

⁴⁰ The International Environmental Monitor is the world’s largest annual global public opinion study on key environmental and natural resource concerns, attitudes and behaviors.

- Increased Productivity and Quality: Company efforts to improve working conditions, lessen environmental impacts or increase employee involvement in decision-making often lead to increased productivity and reduced error rate. For example, companies that improve working conditions and labor practices among their suppliers often experience a decrease in merchandise that is defective or cannot be sold.
- Increased Ability to Attract and Retain Employees: Companies perceived to have strong CSR commitments often find it easier to recruit and retain employees, resulting in a reduction in turnover and associated recruitment and training costs. Even in difficult labor markets, potential employees evaluate a company's CSR performance to determine whether it is the right "fit". For example, a survey conducted by The Aspen Institute⁴¹ Initiative for Social Innovation through Business between 1999 and 2001 found more than half of MBA students would seek another job if they found that their values conflicted with the business where they work.
- Reduced Regulatory Oversight: Companies that demonstrably satisfy or go beyond regulatory compliance requirements are given more free reign by both national and local government entities. In many cases, such companies are subject to fewer inspections and paperwork, and may be given preference or "fast-track" treatment when applying for operating permits, zoning variances or other forms of governmental permission. The U.S. Federal Sentencing Guidelines allow penalties and fines against corporations to be reduced or even eliminated if a company can show it has taken "good corporate citizenship" actions and has an effective ethics program in place.
- Access to Capital: The growth of socially responsible investing (SRI) means companies with strong CSR performance have increased access to capital that might not otherwise have been available.

2.4 Arguments in favor and against CSR

As much as there are many positive aspects of using socially responsible approach in doing business, there are some arguments staying in opposition to this idea. Nevertheless, if

⁴¹ The Aspen Institute is an international non-profit organization founded in 1950. Its mission is to foster enlightened leadership, the appreciation of timeless ideas and values, and open-minded dialogue on contemporary issues. The institute also conducts different kinds of researches.

those arguments against were widely accepted nobody would even talk about beneficial impact of CSR.

Here are some most often stated arguments against Corporate Social Responsibility:

1. *“Businesses are owned by their shareholders - and money that are spend on social responsibility programs is effectively theft from shareholders, who can, after all, decide for themselves if they want to give to charity”*⁴²

This is the voice of the *laissez-faire* 1980s, still being given powerful voice by advocates such as Dr Elaine Sternberg⁴³. Sternberg argues that there is a human rights case against CSR, which is that a stakeholder approach to management deprives shareholders of their property rights. She states that the objectives sought by conventional views of social responsibility are absurd. Sternberg is very clear about the role of business ethics: “...business is ethical when it maximizes long-term owner value subject to distributive justice and ordinary decency”⁴⁴. By distributive justice, Sternberg means that those who do most for the organization deserve most from it. By ordinary decency, Sternberg argues that business must be conducted with honesty, fairness, an absence of coercion and with respect for the law. The problem with the first condition is that it is often extremely hard to calculate the contribution an individual makes to overall company performance. In reality, the case strongly depends on the model of social responsibility adopted by philanthropic business. The starting point assumption is that, through CSR, corporations simply get to “give away” money which rightfully belongs to other people. In fact, CSR is about building relationships with customers, about attracting and retaining talented stuff, about managing risk, about assuring reputation, and certainly is not a process by which the business manages its relationships with a variety of influential stakeholders.

2. *“The leading companies who report on their social responsibility are basket case – the most effective business leaders do not waste time with this stuff”*⁴⁵

Taking look at “World’s Most Respected Companies”⁴⁶ survey, among top three respected companies are General Electric and Microsoft and neither have achieved their world class status through “playing nice”. Afterwards, Bill Gates has been able to achieve the financial status where he can choose to give lots of money away by being ruthless in business. Is it than

⁴² Mallen Baker – Development Director for Business in the Community, source: www.mallenbaker.net

⁴³ Dr Elaine Sternberg, professor at University of Leeds, the author of “Just Business: Business Ethics in Action”, “The Stakeholder Concept: A Mistaken Doctrine”- first critical of stakeholder approach to business ethics

⁴⁴ Dr Elaine Sternberg “The Stakeholder Concept: A Mistaken Doctrine”, 1999, p. 40

⁴⁵ Mallen Baker – Development Director for Business in the Community, source: www.mallenbaker.net

⁴⁶ Report: “World’s Most Respected Companies” survey by the Financial Times/PricewaterhouseCoopers, 2003

true that “real men don’t do CSR”? On the other hand, many of the leading companies with regard to their social responsibility are equally successful companies. The same “World’s Most Respected Companies” survey named IBM and Motorola as leaders as well, and these are companies that have been much more strongly associated with the CSR movement.

3. *“Our company is too busy surviving hard times to do this. We cannot afford to take our eye of the ball – we have to focus on core business”*⁴⁷

The problem is based on belief that it is all very well for the very big companies with lots of resources at their disposal to be social responsible, and not for small ones which have to fight for survival. But the truth is that managing social responsibility is like any other aspect of managing business. It can be done well or badly. Well managed CSR supports the business objectives of the company, builds relationships with key stakeholders whose opinion will be most valuable when times are hard, and should reduce business costs and maximize its effectiveness. Because, when times are hard, it is not company’s interest to - pollute more and run an increased risk of prosecutions and fines, lose some of its most talented people, ignore changing values in its customer base towards socially responsible goods and services or ignore the fact that the local communities around the company are poor living environments with low education achievement.

4. *“It is the responsibility of the politicians to deal with all this stuff. It is not our role to be involved”*⁴⁸

If CSR is simply about obeying the law and paying taxes, then perhaps the above statement is fair comment. If it is about managing the demands and expectations of opinion formers, customers, shareholders, local communities, governments and environmental NGOs - if it is about managing risk and reputation, and investing in community resources on which you later depend - then the argument is a nonsense. In this case the answer is simple.

5. *“I have no time for this. I have got to get out and sell more to make our profit line”*⁴⁹

It is supported by reliable researches that using CSR provides higher profit in long term run and it needs to take time and a change in fundamental attitudes towards doing business before majority of managers will understand this fact and adjust to it.

6. *“Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive*

⁴⁷ Mallen Baker – Development Director for Business in the Community, source: www.mallenbaker.net

⁴⁸ *Ibidem*

⁴⁹ *Ibidem*

doctrine. If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is?”⁵⁰

Milton Friedman believes that corporations do not have any other responsibilities in front of society rather than making maximum profits. He claims that “business has only one social obligation – it can use its resources and be engaged in activities in order to maximize its profits as long as the company follows the rules, which means it participates in open and free competition without any deceptions”⁵¹.

And more arguments against CSR:

7. It weakens investing potential and effectiveness of company.
8. A company is *stricte* economic institution and does not act because of moral values.
9. The cost of social programmes sponsored by companies has it effect in increased prices of goods and services.
10. Companies’ involvement in social programmes gives them too much power, what can effect in governments withdrawal from sponsoring those programmes.

Here are some shortly stated arguments for Corporate Social Responsibility:

1. Economic activity brings a lot of problems and that is why companies should participate in solving them.
2. Companies are also “citizens” in our society.
3. Companies are in possession of indispensable resources useful in solving many problems.
4. Companies are partners in economy; they create a community with others.
5. Strengthens relationships with customers and suppliers.
6. Creates the ability to recruit and retain key staff.
7. Allows efficient use of natural resources and energy and reduction of costs.
8. Maximizes the contribution and effectiveness of all company’s staff (managing diversity).
9. Enables becoming an employer of choice, able to attract the best staff.
10. Provides continual development within a framework of respect for work-life balance to retain the company’s staff.

⁵⁰ Milton Friedman, “The Social Responsibility of Business Is to Increase Its Profits”, New York Times Magazine, September 13, 1970

⁵¹ Milton Friedman, “Capitalism and Freedom” – translation M. Lasota, A. Kondratowicz; Published by Centrum im. Adama Smitha & Rzeczpospolita, Warsaw 1993, p. 127-128

11. Manages the key stakeholders' relationships that could affect the business.
12. Minimizes risk of exposure to environmental accidents of human rights violations.
13. Develops a positive relationship with local communities.
14. Companies involved in social problems will earn public respect. This can effect in clients' interest, enlargement of sales, easier access to financial market and skilled staff. CSR model is treated as the best way to gain competitive advantage on global market, where clients, employees and investors start to appraise more other than just *stricte* economic values.

Chapter 3

CSR in reality

In this chapter I will familiarize the reader with most important factors, which influence development of CSR; moreover I will describe how companies implement the philosophy of CSR within their strategies.

3.1 Key developments sectors

Several factors have converged over the last decade to shape the direction of the CSR field. Here are some of the most notable ones:

- **Increased Stakeholder Activism:** Corporate accounting scandals have focused attention more than ever on companies' commitment to ethical and socially responsible behavior. The public and various stakeholders have come to expect more of business. Increasingly, they are looking to the private sector to help with myriad complex and pressing social and economic issues. There is a growing ability and sophistication of activist groups to target corporations they perceive as not being socially responsible, through actions such as public demonstrations, public exposes, boycotts, shareholder resolutions, and even "denial of service" attacks on company websites.
- **More Sophisticated Stakeholder Engagement:** On the corporate side, the debate for companies has evolved from whether to engage with stakeholders to how to engage.
- **Proliferation of Codes, Standards, Indicators and Guidelines:** New voluntary CSR standards and performance measurement tools continue to proliferate, adding to an already complex landscape. At the same time, there is a growing consensus among many in the CSR community that voluntary external standards (ranging from broad, aspirational standards such as the UN Global Compact and the Global Sullivan Principles, to issue-specific standards such as the CERES environmental principles or the SA8000 labor standard) need to be consolidated and streamlined.
- **Accountability Throughout the Value Chain:** Over the past several years, the CSR agenda has been characterized in large part by the expansion of boundaries of

corporate accountability. Stakeholders increasingly hold companies accountable for the practices of their business partners throughout the entire value chain with special focus on supplier environmental, labor, and human rights practices. Additionally, company purchasing power is being viewed as a unique resource that contributes economic development investment capital, as well as facilitating basic trade of products and services.

- **Transparency and Reporting:** Companies are facing increased demands for transparency and growing expectations that they measure, report, and continuously improve their social, environmental and economic performance. Companies are expected to provide access to information on impacts of their operations, to engage stakeholders in meaningful dialogue about issues of concern that are relevant to either party and to be responsive to particular concerns not covered in standard reporting and communication practice. Leadership companies are also investigating various types of audit and verification as a further means of increasing the credibility of their transparency and reporting efforts. Increasingly, demands for greater transparency also encompass public policy; stakeholders want to know that the way companies use their ability to influence public policy is consistent with stated social and environmental goals. As part of this move toward greater disclosure, many companies are putting increasingly detailed information about their social and environmental performance – even when it may be negative – onto their publicly accessible website.
- **Growing Government Interest and Action – Europe is Leading the Way:** In Europe, CSR has moved to a prominent place in both the business and policy agenda. A great deal of this activity has been catalyzed by the public sector. The European Commission has placed CSR at the core of Europe’s competition strategy, and has issued a Green Paper⁵² on CSR and a subsequent communication outlining the Commission’s definition of CSR and steps that companies, governments, and civil society can undertake to refine their commitments to CSR. This has led to the creation of a European Multi-Stakeholder Forum on CSR that will recommend to the Commission how to more fully embed CSR in policy and practice. National governments have also been active; requirements for social and environmental reporting have been established in France and considered in the UK, and Denmark has made efforts to promote cross-sectoral collaboration. European companies have also

⁵² Green Paper for Promoting a European Framework for Corporate Social Responsibility issued by European Commission, 2001

increased their commitment to CSR, and have participated prominently in the World Summit on Sustainable Development and the UN Global Compact, as well as individual company initiatives. Other initiatives are underway at least at a policy development level in South Africa, Brazil, and Argentina. The Organization for Economic Cooperation and Development (OECD) has done some work to convene member states and private and civil society stakeholders to discuss how it might do more to encourage member states to implement and enforce its Guidelines for Multinational Enterprises.

- **Convergence of CSR and Governance Agendas:** In the past several years, there has been a growing convergence of the corporate governance and CSR agendas. In the 1990s, the overlap was seen most clearly on issues such as board diversity, director independence, and executive compensation. More recently, an increasing number of corporate governance advocates have begun to view companies' management of a broad range of CSR issues as a fiduciary responsibility alongside traditional risk management. In addition, more and more CSR activists have begun to stress the importance of board and management accountability, governance, and decision-making structures as imperative to the effective institutionalization of CSR.
- **Growing Investor Pressure and Market-Based Incentives:** While religious and socially responsible investors have been pressuring companies on their social, economic, and environmental performance for the last 30 years, CSR is now more and more part of the mainstream investment scene. The last few years have seen the launch of several high-profile socially and/or environmentally screened market instruments (e.g., indexes like the Dow Jones Sustainability Indexes, FTSE4Good, and the KLD/Russell/Mellon products, as well as screened investment offerings from Morgan Stanley, Citigroup, Credit Lyonnais and Vanguard). This activity is a testament to the fact that mainstream investors increasingly view CSR as a strategic business issue. Many socially responsible investors are using the shareholder resolution process to pressure companies to change policies and increase disclosure on a wide range of CSR issues, including environmental responsibility, workplace policies, community involvement, human rights practices, ethical decision-making and corporate governance. Activist groups are also buying shares in targeted companies to give them access to annual meetings and the shareholder resolution process.
- **Advances in Information Technology:** The rapid growth of information technology has also served to sharpen the focus on the link between business and corporate social

responsibility. Just as email, mobile phones and Internet speed the pace of change and facilitate the growth of business, they also speed the flow of information about a company's CSR record.

- **Pressure to Quantify CSR “Return on Investment”:** Ten years after companies began to think about CSR in its current form, companies, their employees and customers, NGOs, and public institutions increasingly expect returns on CSR investments, both for business and society. This is leading to questions about how meaningful present CSR practice is, and the answers to those questions will determine – in part – both the breadth and depth of CSR practice for the next decade. Companies want to determine what their CSR initiatives have accomplished so that they can focus scarce resources most effectively. Societal CSR advocates want to see demonstrable social and environmental improvements, while critics will continue to assert that CSR is just a fig leaf helping to preserve the status quo.

3.2 Implementation steps in introducing CSR within the company

Each company differs in how it implements corporate social responsibility. The differences depend on such factors as the company's size, sector, culture and the commitment of its leadership. Some companies focus on a single area – the environment, for example, or community economic development – while others aim to integrate a CSR vision into all aspects of their operations. Below are some key strategies companies can use when implementing CSR policies and practices.

- **Mission, Vision and Values Statements:** If CSR is to be regarded as an integral part of business decision-making, it merits a prominent place in a company's core mission, vision and values documents. These are simple but important statements that succinctly state a company's goals and aspirations. They also provide insight into a company's values, culture and strategies for achieving its aims. The mission or vision of a socially responsible business frequently references a purpose beyond “making a profit” or “being the best,” and specifies that it will engage in ethical and responsible businesses practices, and seek to make decision that balance the needs of key stakeholders, including shareholders/owners, employees, customers, suppliers communities and the natural environment.

- **Cultural Values:** Many companies now understand that corporate social responsibility cannot flourish in an environment where innovation and independent thinking are not welcome. In a similar vein, there must also be a commitment to close the gap between what the company says it stands for and the reality of its actual performance. Goals and aspirations should be ambitious, but care should be exercised so the company says what it means and means what it says.
- **Corporate Governance:** Many companies have established ethics and/or social responsibility committees of their boards to review strategic plans, assess progress and offer guidance about emerging CSR issues of importance. Some boards that do not have these committees have the full board consider issues of corporate social responsibility. In addition to having committees and boards, some companies have adopted guidelines governing their own policies and practices around such issues as board diversity, independence, terms, and compensation.
- **Management Structures:** The goal of a CSR management system is to integrate corporate responsibility concerns into a company's values, culture, operations and business decisions at all levels of the organization. Many companies have taken steps to create such a system by assigning responsibility to a committee of the board, an executive level committee or a single executive or group of executives who can identify key CSR issues and evaluate and develop a structure for long-term integration of social values throughout the organization. One important observation though is that there is no single universally accepted method for designing a CSR management structure. This is definitely not a "one-size-fits-all" exercise. What works for one company may not work for another, and vice versa. What does work, though, is following a process that allows you to design a structure that aligns your company's mission, size, sector, culture, business structure, geographic locations, risk areas and level of CSR commitment.
- **Strategic Planning:** A number of companies are beginning to incorporate CSR into their long-term planning processes, identifying specific goals and measures of progress or requiring CSR impact statements for any major company proposals.
- **General Accountability:** In some companies, in addition to the efforts to establish corporate and divisional social responsibility goals, there are similar attempts to address these issues in the job descriptions and performance objectives of as many managers and employees as possible. This helps everyone understand how each person can contribute to the company's overall efforts to be more socially responsible.

- **Employee Recognition and Rewards:** Most companies understand that employees tend to engage in behavior that is recognized and rewarded and avoid behavior that is penalized. The system of recruiting, hiring, promoting, compensating and publicly honoring employees all can be designed to promote corporate social responsibility.
- **Communications, Education and Training:** Many companies now recognize that employees cannot be held accountable for responsible behavior if they are not aware of its importance and provided with the information and tools they need to act appropriately in carrying out their job requirements. These companies publicize the importance of corporate social responsibility internally, include it as a subject in management training programs, and provide managers and employees with decision-making processes that help them achieve responsible outcomes.
- **CSR Reporting:** Thousands of companies have come to understand the value of assessing their social and environmental performance on a regular basis. Annual CSR reports can build trust with stakeholders and encourage internal efforts to comply with a company's CSR goals. The best reports demonstrate CEO and senior leadership support; provide verified performance data against social, environmental and economic performance indicators; share "good" and "bad" news; set goals for improvement; include stakeholder feedback; and many times are verified by outside auditors.
- **Use of Influence:** Some socially responsible companies recognize that they can play a leadership role in influencing the behavior of others, from business partners to industry colleagues to neighboring businesses. They understand that ultimately it is in everyone's best interests to have as many companies as possible honoring the requirements and expectations of corporate social responsibility.

3.3 Prices for companies which use CSR philosophy

The number of CSR-related awards has grown in the last decade. While a handful of awards, listed below, cover general CSR performance and leadership, many more awards cover specific areas, such as environmental responsibility, workplace practices, ethics and community involvement.

- **Most Admired Companies** lists are produced by a number of media outlets in various parts of the world, including *Report on Business* in Canada, *Fortune and Corporate Reputation Review* in the United States, *Asian Business* in Asia, and *Management Today* and the *Financial Times* in the United Kingdom. Corporations are judged on numerous criteria, including corporate social responsibility qualities such as reputation for ethics and honesty and community and environmental responsibility.
- **Best Companies to Work For** lists are compiled by *Fortune*, *Report on Business*, and other publications. Several publications also create more specific lists. For instance, *Working Mother* lists the best companies for working mothers, and *Fortune* has a list of best companies for minorities.
- **Business Ethics Awards**, given annually by *Business Ethics* magazine, honor companies that demonstrate leadership in ethics and social responsibility. The awards vary annually and have included Environmental Excellence, Human Rights Initiatives, Employee Ownership, and General Excellence in Ethics. *Business Ethics* also compiles an annual list of “The 100 Best Corporate Citizens,” honoring companies that serve four stakeholder groups well: employees, customers, the community (which includes the environment), and stockholders.
- **American Business Ethics Award (ABEA)**, given by The American Society of Chartered Life Underwriters (CLU) & Chartered Financial Consultants (ChFC), recognizes companies from public company, private company, and small business categories that demonstrate a firm commitment to ethical business practices in everyday operations, management philosophies, and response to crisis or challenges.
- **Awards for Excellence**, including “Company of the Year,” are given by Business in the Community, a U.K.-based CSR consultancy, in association with the *Financial Times*. The awards recognize “companies that demonstrate the value of reviewing and improving the way they do business to have a positive impact on business and society.”
- **Corporate Conscience Awards**, given annually by Social Accountability International, are intended to “honor and bring to public attention companies that demonstrate a recognition, at the corporation's highest executive levels, of a responsibility to respect the rights and promote the well-being of all stakeholders, whether employees, consumers or the community; and to uphold environmental stewardship.”

- **The Ron Brown Award for Corporate Leadership**, given to “honor companies for the exemplary quality of their relationships with employees and communities,” is administered by The Conference Board. Awarded by the President of the United States at a White House ceremony, it is given to companies that have “demonstrated a deep commitment to innovative initiatives that not only empower employees and communities but also advance strategic business interests.” All privately and publicly owned companies are eligible to apply for the award.
- **The Henry Morrison Flagler Award**, given by the Kenan Institute of Private Enterprise, recognizes the significant and vital role that entrepreneurial leaders play in advancing private enterprise and improving society. The award is made annually to an individual who has demonstrated exceptional entrepreneurial leadership through the creation of innovative and highly effective institutions that span the boundaries of business and society.
- **BBB International Torch Award**: The Council on Better Business Bureaus, representing local Better Business Bureaus in Canada, Mexico, and the United States, confers annual marketplace ethics awards on one company in each of four size categories – (1) more than 1,000 employees, (2) 100 to 999 employees, (3) 11 to 99 employees, and (4) 1-10 employees. Awards go to companies “in recognition of their outstanding commitment to exceptional standards in relationships to their consumers, employees, suppliers, competitors, shareholders, and surrounding communities.”
- **The Distinguished Corporate Citizenship Award** is awarded by the Center for Ethical Business Cultures to individuals who demonstrate sustained and imaginative leadership in corporate social responsibility.
- **U.S. Department of State Award for Corporate Excellence**: The U.S. Department of State began giving an award for corporate excellence in 1999 to publicize U.S. companies that exhibit exemplary behavior abroad. State Department diplomats nominate U.S. companies operating in their geographic areas.
- **Award for Corporate Citizenship in the Americas** is given by Trust for the Americas for corporate social responsibility in Latin America.
- **Responsible Entrepreneurship Award** is given for initiatives that promote corporate social responsibility and sustainable business practices in the social and/or environmental domain. The award is one of the European Enterprise Awards, the body launched by the European Commission to recognize excellence in promotion of entrepreneurship in European regions.

- **Other Regional Awards:** Some governments or regional organizations offer awards to companies that demonstrate corporate social responsibility.

Chapter 4

Social Responsibility in small and medium sized enterprises

In this chapter I will try to provide the reader with essential knowledge about small and medium-sized enterprises – theoretical concept, as well as facts about SMEs within European Union. Also, initiatives undertaken by European Commission in order to promote CSR among SMEs will be discussed.

4.1 Introduction to SMEs

4.1.1 Definition of SMEs

In a single market with no internal frontiers, the one that is represented by European Union, it is essential that measures in support of SMEs are based on common definition. It is important for two reasons, first of all to improve their stability and effectiveness, and secondly to limit distortions of competition.

A recommendation establishing the first common SME definition was adopted by the Commission in 1996⁵³. The definition was widely used throughout the European Union, until the new recommendation⁵⁴ was adopted by the Commission on 6 May 2003. It entered into force on 1 January 2005 and now applies to all the policies, programs and measures that the Commission operates for SMEs. The new definition was embraced in order to point out the changes as an implication of general economic developments since 1996, and a growing understanding of the specific difficulties confronting SMEs. The new definition is more acceptable to the different categories of SMEs and takes better account of the various types of relationships between enterprises. It also helps to encourage innovation and promote partnerships; while at the same time, it ensures that only those enterprises, which actually require support, are targeted by public schemes.

The first step to qualify as an SME is to be considered as an enterprise. According to new definition, an enterprise is “any entity engaged in an economic activity, irrespective of its

⁵³ Commission Recommendation 96/280/EC of 3 April 1996 concerning the definition of small and medium-sized enterprises, *Official Journal* L 107, 30 April 1996, p. 4-9

⁵⁴ Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of small and medium-sized enterprises, *Official Journal* L 124, 20 May 2003, p. 36-41

legal form”⁵⁵. Once this element is verified, the data of enterprise can be established according to the following three criteria:

- Staff headcount
- Annual turnover
- Annual balance sheet

Finally, by comparing the data with the thresholds for those three criteria, it can be determined whether it is micro, small or medium-sized enterprise. It should be noted that while it is required to respect the staff headcount thresholds, an SME may choose to meet the criteria of either the turnover or balance sheet ceiling. It is necessary to underline that it does not need to fulfill both criteria and may exceed one of them without its status. By providing this option, Commission ensured that even SMEs engaged in different types of economic activity are treated fairly.

According to the Table 2, enterprises are divided into following categories⁵⁶:

- Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million Euro
- Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million Euro
- Medium enterprises are defined as enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million Euro, or an annual balance sheet total not exceeding 43 million Euro.

⁵⁵ European Commission report on *The new SME definition – User guide and model declaration*, 2005, p. 12

⁵⁶ *Ibidem*, p. 14

<u>Enterprise Category</u>	<u>Headcount:</u> <u>Annual Work Unit</u> <u>(AWU)</u>	<u>Annual Turnover</u>	<u>Annual balance sheet</u>
		OR	
		total	
Medium-sized	<250	≤ € 50 million (in 1996 ≤ € 40 million)	≤ € 43 million (in 1996 ≤ € 27 million)
		OR	
Small	<50	≤ € 10 million (in 1996 ≤ € 7 million)	≤ € 10 million (in 1996 ≤ € 5 million)
		OR	
Micro	<10	≤ € 2 million (previously not defined)	≤ € 2 million (previously not defined)
		OR	

Table 2: The new thresholds⁵⁷

The modifications in new thresholds were to a large extent based on two rounds of intensive public consultation in 2001-2002. As a result, for instance⁵⁸:

- The typology of enterprises (difference between the three categories: autonomous enterprises, partner enterprises and linked enterprises) was clarified and aligned with the Directive on consolidated accounts, while introducing a calculation method for the thresholds, which gives a realistic picture of their economic strength,
- Apprentices or students in professional training are no longer included in the calculation for headcount. This has been done to promote vocational training,
- A model for a self-declaration which should be completed by the enterprises themselves will avoid the uncertainties in the interpretation of the definition and will reduce the administrative burden;
- The exemptions for research institutes and venture capital funds were expanded to encourage the equity financing of SMEs and promote research.

⁵⁷ Source: European Commission report on *The new SME definition – User guide and model declaration*, 2005

⁵⁸ Source: http://europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm

4.1.2 The overview of SMEs in European Union

Most indicators, such as absolute numbers, contribution to GDP, contribution to employment, demonstrate that small and medium-sized enterprises are the predominant form of enterprise in the European Union. The diagrams below represent the breakdown of main indicators in European Union – 25's business economy by enterprise size class⁵⁹. The numbers come from 2001 and were estimated on incomplete country data.

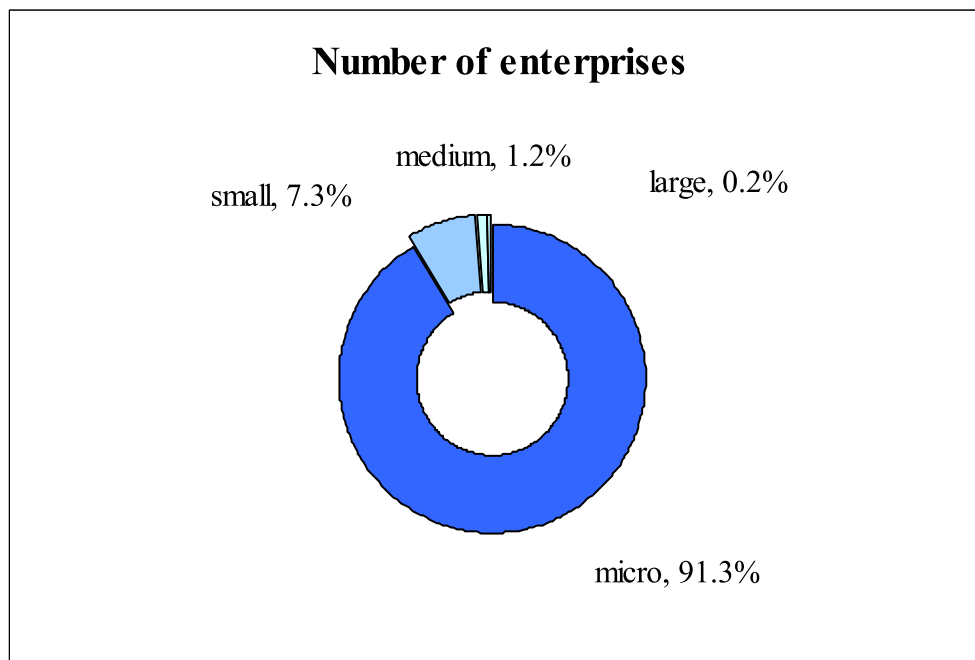


Diagram 4: Absolute numbers of enterprises in the European Union

⁵⁹ Source: <http://epp.eurostat.cec.eu.int>

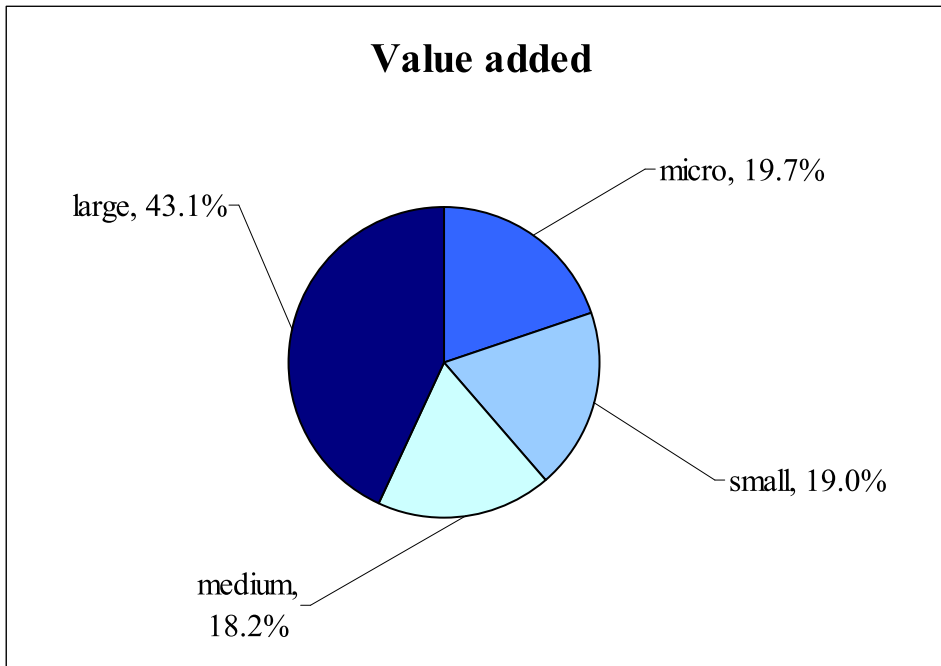


Diagram 5: Total contribution to GDP by enterprise size class

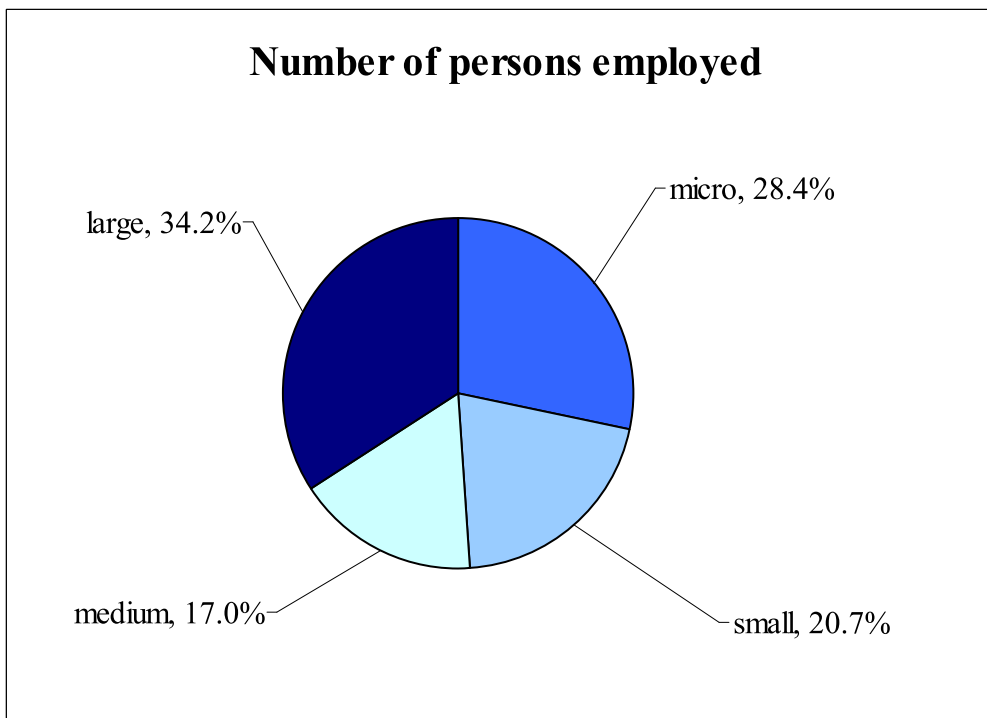


Diagram 6: Total contribution to employment by enterprise size class

Because of their significant economic role, small and medium-sized enterprises have been the subject of specific policies, as well as number of initiatives launched by European Commission. Most of the initiatives, which were launched in order to promote and improve SMEs sector, are the result of the Lisbon European Council of 23 and 24 March 2000. The representatives of the European Union have set a new strategic objective for the next decade: “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more jobs and greater social cohesion”⁶⁰. This framework for action until 2010 is known now as the Lisbon Strategy. The plan assumes a positive vision of the future and series of polices to accomplish its goal. The Lisbon Strategy agreed on four key political objectives⁶¹:

- ✓ To establish an inclusive, dynamic and knowledge based economy;
- ✓ To produce accelerated and sustained economic growth;
- ✓ To restore full employment as the key objective of economic and social policy, and reduce unemployment to the levels already achieved by the best performing countries;
- ✓ To modernize European social protection system.

In particular, the plan can be accomplished through the implementation of an enterprise policy which main objectives are the improvement of the business environment and the development of SMEs. The Multiannual Program for Enterprise and Entrepreneurship has been adopted by the Council Decision (2000/819/EU) of 20 December 2000 and amended by the Decision (1776/2005/EC) of the European Parliament and of the Council of 28 September 2005⁶². This framework plan indicates how companies could meet the challenges of globalization and the new knowledge-driven economy, with specific agenda for SMEs for 2001-2006. The agenda lists activities which aim at⁶³:

- ✓ enhancing the growth and competitiveness of business in a knowledge-based internationalized economy;
- ✓ promoting entrepreneurship;
- ✓ simplifying and improving the administrative and regulatory framework for business so that research, innovation and business creation in particular can flourish;
- ✓ improving the financial environment for business, especially SMEs;

⁶⁰ European Charter for Small Enterprises approved by EU leaders at the Feira European Council on 19-20 June 2000, p. 1

⁶¹ “The Lisbon European Council – an Agenda of Economic and Social Renewal for Europe, Contribution of the European Commission to the Special European Council in Lisbon, 23-24 March 2000”, p. 12

⁶² Source: http://ec.europa.eu/enterprise/enterprise_policy/mult_entr_programme/programme_2001_2005.htm

⁶³ *Ibidem*

- ✓ giving business easier access to Community support services, programmes and networks and improving the coordination of these facilities.

Following the goal set up for the European Union at Lisbon, European Commission decided that small enterprises must be considered as a main driver for innovation, employment as well as social and local integration in Europe, and should be brought to the top of the agenda. This belief resulted in issuing the European Charter for Small Enterprises, where have been outlined main principles and lines for action that will assure better work of small businesses. The Charter provides a framework which will help to create the best possible environment for small business and entrepreneurship. The generally stated actions are listed below⁶⁴:

1. Education and training for entrepreneurship
2. Cheaper and faster start-up
3. Better legislation and regulation
4. Availability of skills
5. Improving online access
6. More out of the Single Market
7. Taxation and financial matters
 - Identify and remove barriers to the creation of a pan-European capital market and to the implementation of the Financial Services Action Plan and the Risk Capital Action Plan;
 - Improve the relationship between the banking system and small enterprises by creating appropriate access conditions to credit and to venture capital;
 - Improve the access to the structural funds and welcome initiatives by the European Investment Bank to increase funding available to start-ups and high-technology enterprises, including equity instruments.
8. Strengthen the technological capacity of small enterprises
9. Successful e-business models and top-class small business support
10. Develop stronger, more effective representation of small enterprises' interests at Union and national level.

There have been launched different programs, as well as various ideas were introduced in order to make the above plans possible. Nonetheless, European Commission, first of all

⁶⁴ European Charter for Small Enterprises approved by EU leaders at the Feira European Council on 19-20 June 2000, p. 2-4

believed in great advantages of implantation of Corporate Social Responsibility in order to achieve its goals, and devoted a lot of initiatives to promote the theory among small and medium sized enterprises.

4.2 The rise of Corporate Social Responsibility within EU

Activities related to Corporate Social Responsibility were first started in the 1990's, and European commitment in CSR was affirmed at the Lisbon Summit in March 2000. It is vital to mention that CSR is closely related to the concept of sustainable development, which is one of the EU's main objectives. The EU launched its Strategy for Sustainable Development in June 2001 at Gothenburg Summit⁶⁵. The strategy is based on the idea that the long run economic growth, social inclusion and environmental protection should go hand in hand. The next step was made in July 2001 when the Commission presented the Green Paper for Promoting a European Framework for Corporate Social Responsibility⁶⁶. The document set two main goals, first - to launch a debate about the concept of CSR, and second - to build a partnership for the development of a European approach to CSR. The paper received over 250 responses and half of which came from European enterprises⁶⁷. The Green Paper defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on voluntary basis"⁶⁸. Therefore, CSR is about trying to make a difference at a company level in a socially responsible manner. Experts suggest that if companies succeed to do that, it will have a very positive impact at the macro-economic level, which will definitely contribute to achieving the strategic goal set by the Lisbon Summit. In the following year a new document was published – Communication by the Commission with detailed presentation of EU strategy to promote CSR. The Communication is addressed to European institutions, Member States, Social Partners as well as business and consumer associations, individual enterprises and other concerned parties. The paper underlines the fact that development and implementation of CSR can only be achieved through joint effort of above mentioned groups. The Communication

⁶⁵ A Sustainable Europe for a Better World: A European Union Strategy for Sustainable Development, Commission of the European Communities, COM (2001)264 final, Brussels, 2001

⁶⁶ Green Paper for Promoting a European Framework for Corporate Social Responsibility, Commission of the European Communities, COM (2001)366 final, Brussels, 2001

⁶⁷ Source: http://ec.europa.eu/enterprise/csr/index_en.htm

⁶⁸ Green Paper for Promoting a European Framework for Corporate Social Responsibility, Commission of the European Communities, COM (2001) 366 final, Brussels, 2001

clearly points out globalization and associated with it changes as a main factor for increasing importance of CSR. The Commission proposes to focus its strategy on the following areas⁶⁹:

- ✓ Increasing knowledge about the positive impact of CSR on business and societies in Europe and abroad, in particular in developing countries;
- ✓ Developing the exchange of experience and good practice on CSR between enterprises;
- ✓ Promoting the development of CSR management skills;
- ✓ Fostering CSR among SMEs;
- ✓ Facilitating convergence and transparency of CSR practices and tools;
- ✓ Launching a Multi-Stakeholder Forum on CSR at EU level;
- ✓ Integrating CSR into Community policies.

The Communication gives a lot of examples how to encourage the uptake of CSR among enterprises. It also points out the importance of education and training of managers that was stressed out in Green Papers, as well as the need of transparency of all CSR practices and tools. Of course the main focus constitutes small and medium-sized enterprises, as in many other EU publications. A very interesting remark is made concerning fostering CSR among SMEs, mainly “a positive correlation between SMEs strategic focus and their socially responsible activities can be established: SMEs focusing on innovation, quality and growth also score higher on current or future social engagement. Lack of awareness seems to be the most significant obstacle to social engagement, especially among the smallest SMEs”⁷⁰. It seems very significant in farther understanding the special need for being socially involved. Obviously, small businesses do not draw the same value from their CSR practices as large companies, especially when it comes to financial aspect. That is why is so important to assist SMEs in adopting a more strategic approach, and to create programmes which particularly help SMEs, somehow make it easier for them to achieve the goal. The Communication suggests that collecting evidences of good practices among entrepreneurs is the key to a better understanding and increased SME participation. But also the involvement of all company’s stakeholders is necessary in the EU success in promoting CSR. Therefore, the Commission encouraged the dialogue between businesses and their stakeholders. As result the European

⁶⁹ Communication from the Commission concerning Corporate Social Responsibility: A business contribution to Sustainable Development, Commission of the European Communities, COM (2002) 347 final, Brussels, 2002, p. 8

⁷⁰ *Ibidem*, p. 11-12

Multi-stakeholder Forum on CSR was launched in October 2002 with the aim of promoting transparency and convergence of CSR practices and instruments, through⁷¹:

- ✓ Exchange of experience and good practice between actors at EU level;
- ✓ Bringing together existing initiatives within the EU, and seeking to establish common EU approach and guiding principles;
- ✓ Identifying and exploring areas where additional action is needed at European level.

In its foundation the proposed Forum is to be chaired by the Commission and will bring together some forty European representative organizations of employers, employees, consumers, civil society, professional associations and business networks. The other EU institutions will be invited with observer status. A two-level structure is envisaged⁷²:

- two plenary meetings of the Forum - at political level - each year, to agree broad guidelines, rules of procedures and a work programme, and assess progress;
- theme-based Round Tables, in a more restricted composition to be defined by the Forum itself, to implement the work programme. Depending on the specific issues addressed, participation to these Round Tables should include relevant stakeholders and experts, including through the use of the Internet to consult and seek input, where costs prohibit direct participation. Participation from developing countries will also be ensured.

The European Multi-stakeholder Forum produced its final report in July 2004, known as a “Report of the Round Table on Fostering CSR among SMEs”. The Forum adopted a series of 9 recommendations⁷³:

1. Raising awareness of core values and key principles embodied in reference texts
2. Collecting, exchanging and disseminating information about CSR
3. Researching and improving knowledge about and action on CSR
4. Enhancing the capacity of business to understand and integrate CSR
5. Building the capacity of “capacity builders”
6. Including CSR in education and the curriculum
7. Creating the right conditions for CSR
8. Developing stakeholders dialogue
9. The role public authorities / EU

⁷¹ Communication from the Commission concerning Corporate Social Responsibility: A business contribution to Sustainable Development, Commission of the European Communities, COM (2002) 347 final, Brussels, 2002, p.17

⁷² *Ibidem*

⁷³ CSR Forum Recommendations – Progress review – Compendium of actions by European Commission, December 2006, p. 3

Described steps were essential in promoting the new concept, nevertheless, the Commission wished to give greater political visibility to CSR, and at the same time act on the twin challenges of the EU – sustainable growth and more and better jobs. This is why the Commission called for a fresh start to the Lisbon agenda by launching a Partnership for Growth and Jobs in February 2005 and renewing its Sustainable Developing Strategy in December 2005. This is also why the informal meeting of Heads of State and Government at Hampton Court in October 2005 called for innovative answers to address the competitive challenge while defending European values. The revised Lisbon strategy promotes growth and jobs in a manner that is fully consistent with sustainable development, which remains an overarching long term goal for the European Union. Enterprises, as the motor for economic growth, job creation, and innovation, are key actors in delivering the Lisbon and sustainable development objectives. The Commission agreed that Europe does not need just business but socially responsible business. In its contribution to the March 2005 Spring Council, the Commission recognized that CSR “can play a key role in contributing to sustainable development while enhancing Europe’s innovative potential and competitiveness”⁷⁴. In March 2005, the European council underlined that “in order to encourage investment and provide an attractive setting for business and work, the European Union must complete its internal market and make regulatory environment more business-friendly, while business must in turn develop its sense of social responsibility”⁷⁵. In the Integrated Guidelines for Growth and Jobs (2005-2008), the Council recommended that Member States should “encourage enterprises in developing their corporate social responsibility”⁷⁶.

The Commission believed that the potential of enterprises can and should be better used. In keeping with this spirit, the Commission published in January 2006 its Annual Report on the Lisbon Strategy, the partnership between the EU and Member States for growth and more and better jobs. The message from the Commission President José Manuel Barroso was strongly orientated on small and medium-sized enterprises. Barroso said: “My overall message is clear, it is time to move up a gear. There has been a wind of change moving through the corridors of Brussels and national capitals since we re-launched the Lisbon Strategy last year. There has been a step change in activity. We’ve come a long way since last year and the right foundations are now in place. (...) 95 percent of what is in these reports is

⁷⁴ COM (2005) 24

⁷⁵ Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee – Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence or Corporate Social Responsibility, Commission of the European Communities, COM (2006)136 final, Brussels, 2006, p. 4

⁷⁶ *Ibidem*

common sense, Member States must make it common practice. They must find the political will to match words with deeds – it’s time to move up a gear”⁷⁷.

The next step was made in March 2006, when The Commission has published a new communication on CSR entitled “Implementing the Partnership for Growth and Jobs: Making Europe a pole of excellence on CSR”. Awareness, understanding and uptake of CSR have improved over the past few years, partly as a consequence of the CSR Forum and other actions supported by the Commission. Nevertheless, the Commission was convinced that implementation and strategic integration of CSR by European enterprises should be further improved. Following this belief, the Commission has set the ambitious objective of working with relevant stakeholders to “make Europe a pole of excellence on CSR”. Certain that the potential of CSR can contribute to sustainable development and to the European Growth and Jobs Strategy, the Commission suggests that CSR practices, while not a substitute for public policy, can nevertheless contribute to a number of public policy objectives, such as: skills development, more rational use of natural resources, better innovation performance, poverty reduction, and greater respect for human rights. Therefore, the Commission announced backing for a European Alliance for CSR – an open alliance of European enterprises to further promote and encourage CSR. The Alliance is to be a political umbrella for new or existing CSR initiatives by large companies, SMEs and their stakeholders. The Commission expects the Alliance to have significant impact on the attitude of European enterprises to CSR and on their positive engagement with social and environmental issues. In its foundation, the Alliance has an open nature and it is not a legal instrument to be signed by enterprises, but rather a vehicle to mobilize the resources and capacities of European enterprises and their stakeholders in the interest of sustainable development, economic growth and job creation. Also the Commission encourages enterprises that support the Alliance to improve the transparency, visibility and credibility of CSR practices. While the Communication acknowledges that enterprises are the primary actors in CSR, it also stresses the important contribution of non-business stakeholders. The Commission underlines the importance of dialogue with and between all stakeholders, and recognizes that “without the active support and constructive criticism of non-business stakeholders, CSR will not flourish”⁷⁸. The

⁷⁷ Report: Annual Progress Report on Growth and Jobs – “growth and jobs – working together for Europe’s future”, IP/06/71, Brussels, 25 January 2006; http://europa.eu.int/growthandjobs/index_en.html

⁷⁸ Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee – Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence or Corporate Social Responsibility, Commission of the European Communities, COM (2006)136 final, Brussels, 2006, p. 6

Communication also identifies 8 areas, which the Commission will emphasize in further promotion of CSR⁷⁹:

1. Awareness raising and best practice exchange
2. Support to multi-stakeholder initiatives
3. Cooperation with Member State
4. Consumer information and transparency
5. Research
6. Education
7. Small and medium-sized enterprises
8. The international dimension of CSR.

Developing policies in which economic growth, competitiveness, social justice, and, environment protection, are mutually reinforcing is an objective of the Commission. CSR has been considered as having an equally important role to play in harnessing the potential of globalization and in developing stronger global governance.

4.3 Corporate Social Responsibility and SMEs

Corporate Social Responsibility is clearly affecting small and medium-sized enterprises through direct supply chain relationships, as well as development of legislation, and international standardization and certification. As it is true that CSR is relevant for businesses of all shapes and sizes, relatively little is known about CSR amongst SMEs. Most of the existing key concepts and tools addressing CSR issues have been developed by and in the context of large companies. There have been some attempts to measure the scale of CSR amongst SMEs, but still much better baseline is available for large companies. Sometimes small and medium-sized enterprises are involved in social and environmental sustainability even without realizing that their actions are one of good practices in CSR theory. It is much easier to find such examples in large companies and communicate them to the business world. This fact can be explained by several reasons. On the one hand, large companies have higher public profile that generates more interest about their CSR activities. On the other hand, large

⁷⁹ Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee – Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence or Corporate Social Responsibility, Commission of the European Communities, COM (2006)136 final, Brussels, 2006, p. 6-8

enterprises are more easily accessible. According to one of the observations drawn by Round Table – “measures to support SMEs in adopting CSR need to be as close to the market and as close to the customer as possible”⁸⁰, as there is a huge disparity in experience, ambitions, capacities and resources among small enterprises. SMEs are subject to a number of distinctive and intrinsic characteristics that make them different from their large counterparts. In essence, some of their uniqueness will affect the nature of the SMEs’ CSR activities. Some of these features are listed below⁸¹:

- ✓ In most small firms, ownership and management are usually concentrated in the same hands; so the entrepreneur plays a central role in the development of an SME, as he or she decides about appropriate ways to allocate funds. Personal choice is the most influential factor affecting the type and extent of SMEs’ external community involvement.
- ✓ Small business owners are strongly attached with their local communities. SMEs depend much more than large enterprises on the health, stability and prosperity of the local communities in which they operate, since most of their clients and majority of their employees come from the surrounding area. Therefore, the reputation of a company at its location, its image as an employer or producer, certainly influences its competitiveness.
- ✓ SMEs often lack personnel, financial and time resources. SMEs are more economically vulnerable than large companies; long-term investments (CSR activities viewed as not clearly related to the core business) are regarded as secondary by owner-managers and very often are postponed. SMEs’ CSR activities are more likely to be affected by the state of the economy; therefore these activities fluctuate through times of recession and economic boom. Also owners are very likely to suffer from important time and task pressure, which leave them with little time and energy to reflect strategically and plan on future activities, especially if they are regarded as ‘beyond’ the usual business actions.
- ✓ Personal relationship and close individual contacts are more frequent in smaller businesses. There is a greater possibility of personal contacts between the owner and employees, financing partners, suppliers, customers, and sometimes, even competitors help to build trustful and open business partnerships in a way that is impossible in

⁸⁰ Report of the Round Table on “Fostering CSR among SMEs”, European Multi-stakeholder Forum on CSR, final version 03/05/04, p. 6

⁸¹ Report: “European SMEs and social and environmental responsibility”, Observatory of European SMEs 2002/No 4, European Commission, Belgium, 2002, p. 16

larger firms. However, if things go wrong, the existence of personal relationship may add pressure to both sides and easier destroy built trust.

While it is true that masses of studies linking social, environmental and financial performance has concluded that doing good can be good for business. However, at the same time doing good is not the only way of doing business, or even a guarantee that the company will necessarily stay in business. As surveys show many SMEs are driven to integrate CSR because of the personal beliefs and values of the owner and employees. Additionally, some of SMEs are driven by combination of minimizing risks and maximizing opportunities. There are various benefits that can be adequate specifically for small and medium-sized enterprises⁸²:

- ✓ Attracting, retaining and developing motivated and committed employees;
- ✓ Winning and retaining consumers and business customers (supply chain pressures and opportunities) especially because economic stagnation means SMEs need to find new markets;
- ✓ Being a good neighbor – maintaining a license to operate from the local community;
- ✓ Responding to pressures from banks and insurers;
- ✓ Reputation – with internal and external stakeholders (enhanced relationships by better social and environmental performance)
- ✓ Changing perceptions of the role of business in society (not only a source of profit);
- ✓ Cost and efficiencies savings (e.g: reduced insurance, landfill costs, waste reduction and energy efficiency, reductions in absenteeism and staff turnover);
- ✓ Networking opportunities;
- ✓ Product / market innovation, differentiation, and competitive edge, improvements in productivity and quality; and the need for more sources of creativity and innovation in business;
- ✓ Anticipating future legislation / getting practical experience of compliance in ways that help business (learning new ways to work, develop skills, manage risks, seize opportunities and solve problems).

Of course these benefits will not be significant for every company, and even doing “the right thing” can sometimes lead to financial ruin for some enterprises. But it cannot be denied that a link between better management of sustainability issues and financial performance reflect the

⁸² Report of the Round Table on “Fostering CSR among SMEs”, European Multi-stakeholder Forum on CSR, final version 03/05/04, p. 8

quality of management of the company. As once was suggested by Reto Ringger, the President of Sustainability Asset Management: “It is our thesis that companies which are better managed environmentally indicate more sophisticated management throughout the company...and good management is the single most important factor in corporate profitability, growth and future earnings”⁸³.

Despite the often powerful business arguments for CSR, there are some obstacles that are especially common for SMEs, mainly⁸⁴:

- ✓ Perceived and/or actual costs (e.g: for verification for big business customers’ codes of conduct);
- ✓ Lack of awareness of business benefits;
- ✓ Conflicting time and other resource pressures;
- ✓ More immediate pressures from the daily struggle to survive commercially (some SMEs living below the poverty line);
- ✓ Lack of know-how and know-who (mostly to relate CSR as a mainstream issue, to make the business case, and where to find technical support);
- ✓ Being reluctant and too slow to seek external help;
- ✓ The burden of compliance and monitoring;
- ✓ The CSR paradox: Are SMEs unable to generate benefits from CSR?

Nevertheless, there is no doubt that incorporation of SMEs into the global social value chain is crucial for their growth, as well as sustainable development of economy.

“Action Research on Corporate Citizenship among European Small and Medium Enterprises” distinguished several facts about SMEs and CSR in Europe, mainly⁸⁵:

- ✓ SME policies and practice are generally more developed in relation to environmental impacts than to social and economic impacts. This reflects the greater degree of environmental public policy, public awareness and international standardization of certification and auditing processes;
- ✓ SMEs tend to prioritize CSR issues and concentrate on one or two key issues rather than cover the broad mix that larger enterprises are able to deal with;

⁸³ Report: Corporate Social Responsibility – Implications for Small and Medium Enterprises in Developing Countries, published by UNIDO and the World Summit on Sustainable Development, Vienna 2002, p. 52

⁸⁴ Report of the Round Table on “Fostering CSR among SMEs”, European Multi-stakeholder Forum on CSR, final version 03/05/04, p. 9

⁸⁵ Report: Corporate Social Responsibility – Implications for Small and Medium Enterprises in Developing Countries, published by UNIDO and the World Summit on Sustainable Development, Vienna 2002, p. 35

- ✓ SMEs tend to focus to a greater extent on local issues and programmes;
- ✓ SMEs tend to be more active in CSR where they have greater networks of relations, increased focus on quality, and links with foreign countries or were involved in production with high environmental impact or heavy use of intellectual capital.

Several initiatives have proved the crucial contribution that SMEs can make in driving responsible business forward. The mission now was too actually foster responsible behavior among European enterprises. The diagram below shows the actual number of enterprises involved in social activities in year 2001. The data comes from report on “European SMEs and Social and Environmental Responsibility” produced by the European Observatory of SMEs. This report remains the best attempt at measuring the CSR activity of SMEs across the European Union.

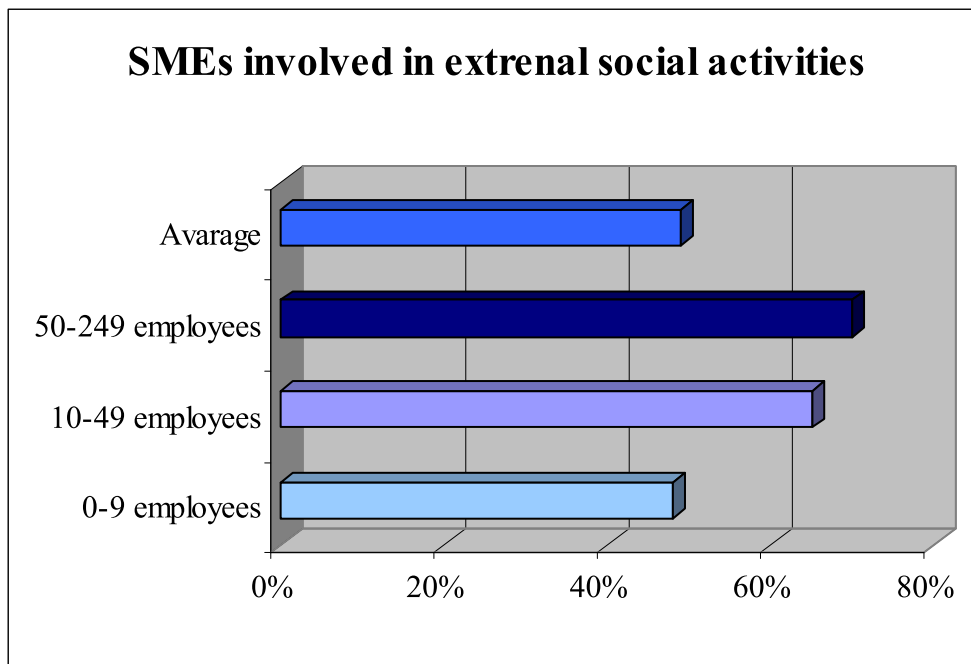


Diagram 7: Percentage of SMEs involved in external social activities, by enterprise size

In order to increase this numbers European Union launched several initiatives that will be discussed further in work.

4.4 What EU is doing on CSR and SMEs?

European Union has undertaken three major initiatives in the area of CSR and SMEs⁸⁶:

1. *Mainstreaming CSR among SMEs* – This programme was launched in September 2005, and has two components: a group of experts from European Member states exploring the best ways of supporting and encouraging CSR among SMEs; and the funding of a number of projects that directly seek to promote the uptake of CSR amongst SMEs.
2. *Responsible Entrepreneurship project* - This project identified a unique collection of case studies from SMEs across Europe, providing evidence that small businesses can and do practice what is called CSR, and that CSR can help them to be more successful.
3. *Pan-European Awareness Raising Campaign on CSR for SMEs* - Implemented with the help of EUROCHAMBRES (European Association of Chambers of Commerce) and UEAPME (European Association of Craft, Small and Medium-sized Enterprises), this campaign ran from October 1994 – June 1995.

4.4.1 Mainstreaming CSR among SMEs

The project will be run from 2005 to 2007, and is financed under the European Commission's Multiannual Programme for Enterprise and Entrepreneurship. It builds on the report and recommendations of the EU Multi-stakeholder Forum on CSR, and especially on the work of the SME Round Table. The project is aimed to small business advisors, SME representative organizations, trade/sector organizations, chamber of commerce, larger companies that work with SME suppliers, as well as public authorities, trade unions and NGOs.

The "Mainstreaming CSR among SMEs" project has two components:

- 1) Financial support for projects.

Following a call for proposals published in May 2005, the Commission has selected 16 projects, out of nearly 120 proposals, for funding. These projects employ a variety of techniques and channels to encourage and support CSR among SMEs in different European countries. Of course now the call for proposals is closed and the

⁸⁶ Source: http://ec.europa.eu/enterprise/csr/index_en.html

Commission is no longer able to consider any new projects. Table number 3 presents selected projects.

<u>Project</u>	<u>Lead organization</u>	<u>Duration</u>	<u>Countries</u>
<p>CSR – Code to Smart Reality for SMEs CSR resource centre, training for small business advisers, good practice exchange and handbook, code of conduct, award</p>	Maribor Chamber of Commerce and Industry	May 2006 - October 2007	Slovenia
<p>CSR and competitiveness – European SMEs good practice Better baseline data (survey), dissemination of information and good practices (workshops, brochure, website)</p>	KMU Forschung Austria (Austrian Research Institute for SME research)	May 2006 - April 2008	Austria, Finland, Germany, Norway, Poland, Romania, Spain
<p>Corporate Social Responsibility for Small and Medium-sized Enterprises (CSR-SME) Research (analyses and comparisons), awareness raising and training events (seminars, questionnaires)</p>	Euro Info Centre Viborg	May 2006 - October 2007	Denmark, Hungary, Ireland, Lithuania, Poland, United Kingdom
<p>CSR in Estonia, Latvia and Lithuania: measurement, dissemination, awareness Research, prize, best practice collection, three linked web portals, SME tool (manual), PR campaign</p>	Latvian Chamber of Commerce and Industry	May 2006 - July 2007	Latvia, Estonia, Lithuania
<p>CEASAR: CSR relays in Chambers of Commerce Training for business advisors (training forum, company visits, practical guidelines manual, web portal)</p>	Eurochambres	May 2006 - April 2007	All EU Member States, Bulgaria, Romania, Turkey

<p>CO-OPERATE – Companies Operating in a Responsible Area and with Transparent Ethics</p> <p>Identification and dissemination of best practices and tools (training initiatives, sets of indicators, etc.), cluster sustainability report</p>	<p>Scuola Superiore Sant’Anna</p>	<p>May 2006 - April 2008</p>	<p>Italy</p>
<p>Mainstreaming CSR among SMEs</p> <p>Training for business advisors, publication of case studies, tools on the internet</p>	<p>IBA Development Services</p>	<p>May 2006 - July 2007</p>	<p>United Kingdom, Ireland</p>
<p>Small suppliers in global supply chains – Partnerships for sustainable competitiveness</p> <p>Action research on supply chain, promotion of buyer-supplier partnerships</p>	<p>The Copenhagen Centre</p>	<p>June 2006 - November 2007</p>	<p>At least 2 EU Members States, to be defined</p>
<p>Supporting enterprises in their CSR orientation through business development and qualification</p> <p>Survey, advice to SMEs, technical training, good practice exchange, curriculum</p>	<p>GILDE</p>	<p>May 2006 - April 2008</p>	<p>Germany, France, Poland</p>
<p>Utilising business support organisations to mainstream CSR in SMEs in two European regions</p> <p>Awareness raising seminars and training events for business support staff, cluster/sector work, measuring regional CSR performance, scoping study on Cyprus</p>	<p>Sustainability North West</p>	<p>June 2006 - May 2008</p>	<p>United Kingdom, Cyprus</p>

<p>Evaluation tools and strategies to implement CSR within micro-enterprises and business start-ups SME evaluation tool, awareness raising module, CSR strategies to support SMEs</p>	<p>Initiative, Cité et Développement</p>	<p>May 2006 - April 2008</p>	<p>France, Belgium, Italy</p>
<p>Responsible and sustainable innovation for European SMEs: RESPONSE CSR Innovation model (best practices, tools), training workbook, teaching materials, website, academic papers and literature report</p>	<p>University of Girona, Centre CID</p>	<p>May 2006 - July 2007</p>	<p>Spain, Italy, United Kingdom</p>
<p>Responsible business management in German SMEs – Raising awareness, technical training and practical support of SMEs in respect of CSR Awareness raising, virtual competence centre, collection of available tools, SME guide, self-assessment tool</p>	<p>Bundesinitiative “Unternehmen : Partner der Jugend” (UPJ)</p>	<p>May 2006 - April 2008</p>	<p>Germany</p>
<p>Integration of social responsibility principles and practices in SMEs Research, training material for intermediaries/SMEs, training workshops, conference, fair, regional events, info portal, including self-diagnostic tools, SME guide</p>	<p>Hellenic network for CSR</p>	<p>May 2006 - April 2008</p>	<p>Greece</p>
<p>Corporate Social Responsibility – Communicating to SMEs Best practice research, workshops for SMEs, company visits, conference, website/resource pack, curriculum</p>	<p>The Irish Exporters Organisation</p>	<p>June 2006 - May 2008</p>	<p>Ireland</p>

<p>Responsible Entrepreneurship in SMEs</p> <p>Dissemination of handbook/toolkit in 10 languages, interactive business game, virtual resource centre, VET curriculum, seminars (train-the-trainer)</p>	<p>UEAPME</p>	<p>September 2006 - August 2008</p>	<p>Belgium, Bulgaria, Czech Republic, France, Germany, Hungary, Italy, Lithuania, Portugal, Romania, United Kingdom</p>
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Table 3: Projects selected to be co-financed by European Commission under the programme “Mainstreaming CSR among SMEs”⁸⁷

- 2) The establishment of an “expert group” to serve as a forum for the collection and exchange of ideas and experience on how best to support CSR among SMEs.

The work of the group is structured around seven key topics. For each topic, the group will collect available information and experience, and engage in structured discussions with the aim of identifying important lessons and good practices. The seven key topics are:

- I. CSR, SMEs and regional competitiveness – the group decided that it was important to have an up to date analysis of why it made sense to encourage more SMEs to engage in CSR. In order to do that group is trying to find answers to questions focused on two levels. On the one hand, the macro or regional level: how can CSR as practiced by SMEs help to make regional and national economies more competitive? And on the other hand, the micro or enterprise level: how can CSR help individual SMEs to be more competitive?
- II. The “business case” of CSR for SMEs – the result of this topic was the publication of the study “The business case for social responsibility in small and medium-sized enterprises”, developed with the support of the European Commission, Employment and Social Affairs Directorate. The study ascertained that “SMEs are ideally placed to pursue responsible business practice”. The main challenge of the business case was to stimulate thinking among smaller businesses as to what constitutes responsible business and above all demonstrate its effect on performance and the vitality of a company as a whole. It helped understand how stakeholders and their views matter to once company.

⁸⁷ Source: http://ec.europa.eu/enterprise/csr/ms_sme_projects.html

- III. Capacity building for business support organizations – the work group decided that in order to truly “mainstream” CSR some focus and support should be placed on organizations that advise and train SMEs, as they have a key role to play. This organizations include: chambers of commerce, SME associations/federations, trade and sector associations, support and advice centers for SME (especially for start-ups), business advisors (public and private), and potentially also banks, accountants and large firms.
- IV. Awareness raising – following the belief that SMEs are a “hard to reach” group, as well as the conviction that many SMEs do not see social and environmental issues as immediately relevant to their business; the expert group is studying some of the good practice examples, where SMEs have successfully engaged with advice and information about CSR. The group believes that it will help to answer many questions and ensure the success of raising awareness among enterprises.
- V. Toolkits and management systems, including reporting (further discussed)
- VI. Supply-chain issues, mentoring and certification - Quite a lot of SMEs first have to deal with CSR issues in response to the requirements large businesses place on their supply chain as part of their CSR policies. SME suppliers are often under contradictory pressure: buyers want suppliers to show their commitment to CSR, while requiring ever lower prices and tight delivery times. Yet, buyer requirements, if introduced and managed appropriately, have the potential to help mainstream CSR amongst SME suppliers. CSR can also create business opportunities for responsible businesses, allowing them to position themselves as suppliers able to meet or even exceed buyers’ CSR and sustainability requirements. The expert group has looked for examples of initiatives regarding supply-chain issues, including how large companies can help by “mentoring” their SME suppliers.
- VII. Definition and content of CSR in different national contexts (Chapter 1).

4.4.2 Responsible Entrepreneurship project

Responsible Entrepreneurship means how to run a business in a way that enhances its positive contribution to society while minimizing negative impacts on people and environment. Responsible Entrepreneurship is a way of adding value to both the business and

society. Not only it donates voluntary business strategies to achieve sustainable development, but also is fully in line with the notion of corporate social responsibility.

The Responsible Entrepreneurship project – carried out with the help of a group of national experts nominated by EU Member States, candidate countries and Norway – came to an end in mid-2003. Its main result is a publication of the report “Responsible Entrepreneurship – A collection of good practice cases among small and medium-sized enterprises across Europe”. The report gathered 25 SME good practice cases from 16 European countries. Additionally, 18 good practices identified by the expert group can be viewed on-line. Results from the report also contributed to the work of the European Multi-Stakeholder Forum on CSR.

One of the project objectives was identification of existing support measures and tools for SMEs. Of course each country can have its own initiatives and solutions orientated to help small businesses implementing socially responsible behavior, but there are some available for all European countries. Two of them are most commonly used:

- **The SME Key**⁸⁸ – is an online support tool, which consists of arguments for the “business case”, a downloadable guide to assessing a company’s social responsibility and a database of SME responsible practice. The SME Key has been developed by CSR Europe in cooperation with national partners and with the support of the European Commission. All the information and the tool itself are available on SME Key homepage: <http://www.smekey.org> .

Three components together offer SME a flexible way to evaluate and strengthen its current socially responsible activities and practices.

- The Business Case
 - Introduces SME to the bigger issues driving and shaping the future of responsible business
 - Helps SME to make connections between an enterprise and its stakeholders
 - Clarifies the link between SME business imperatives and responsible practice
- The Guide to assessing company’s social responsibility - takes the enterprise step-by step through the process of sketching where it is and charting what it has already achieved. But more importantly, it gives tips to take this further.

⁸⁸ The SME Key – Unlocking responsible business, an initiative of the European Business Campaign on Corporate Social Responsibility, with the support of the European Commission, Employment and Social Affairs Directorate-General, 2002

The guide is designed to help every enterprise decide a social approach that will work for this company. The guide focuses on 3 key concepts:

- The triple responsibility of business (economic, social and environmental)
- Relationships with stakeholders
- Consolidating current good practices
- The Database of SME responsible business practices provides the enterprise with social evaluations already produced by users, case studies of SMEs and social responsibility, and links to national and international players, further information and other initiatives.

The SME Key is believed to help every entrepreneur to:

- Develop statements on the economic, social and environmental impact of the business
 - Take action on the social responsibility policy
 - Document and report the activities
 - Measure and place a value on the social responsibility activities
 - Draw up a framework to help communicate with stakeholders
 - Raise awareness among colleagues about the full scope of the social responsibilities
 - Create a database outlining the strategy and actions that can support and shape company's approach to responsible business
- **The COSORE⁸⁹** - the project aims to raise the social responsibility in SMEs through the development of the necessary methodologies and instruments based on the Siemens model and using evaluation method based on the Balanced Score Card. The project is carried out by Siemens in conjunction with partners from Germany, Italy, Belgium and Portugal, with the support of the European Commission.

Specific objectives of the project are:

- To develop, test and disseminate a model to raise corporate social responsibility in SME based on the experience and good practices of Siemens. The model will approach both in-company and community social work; in order to create a better organizational environment with more learning potential in the companies (improving social dialogue, organizational

⁸⁹ Source: <http://www.cosore.com>

flexibility and gain competitiveness) and to make ethical codes of best business practice in employment, consumer protection and community involvement; and will include the methodologies, methods and instruments necessary to the implementation.

- To develop an on going evaluation based on the Balanced Scorecard Method in order to assure quality and evaluate the effects of a social responsible management.
- To establish an European partnership work involving a big company, SME and their representatives, a big NGO, a training provider and a research institute in order to assure the integration of the different actors perspectives and different European realities.
- To establish a regional partnership in each country with a consulting function to assure a wider participation of actors.

Methodology and methods used in the project include:

- Kick-off meeting/building the project partnership with a Learning Exchange Workshop using participative facilitation techniques;
- Analysis of the state of the art in SME in relation to CSR by reporting what happens in each country;
- Development of the concepts "Social responsibility inside a SME" and "Social Responsibility of SME towards the Community" and on going evaluation concept based on Balanced Scorecard
- Development of Training/ learning concepts based on the models developed under activities 3.
- Building partnerships for the implementation phase
- Implementation/Test Phase
- Elaboration of Evaluation Report and Final Report

COSORE offers the full line of products selected for specific enterprise:

- A package with the necessary instruments aiming to raise CSR in SME
- An evaluation method based on the Balanced Scorecard
- A final report of the project and the evaluation Report
- Improvement of communication and common work within the regional networks.

4.4.3 Pan-European Awareness Raising Campaign on CSR for SMEs

The main contribution of this campaign has been two publications that still serve as a base for small and medium-sized enterprises, which are willing to engage their work in social responsibility. The first publication is titled “Introduction to Corporate Social Responsibility for Small & Medium-Sized Enterprises”, and essentially explains the term of “responsible entrepreneurship”, what it means in practice and why it is worth to adopt this philosophy. The paper also gives examples of socially and environmentally responsible actions that are easy to undertake and do not necessarily involve large financial investments. For instant⁹⁰:

- Investing in company’s employees by offering training that will benefit workers as well as the business;
- Making better provisions for employee welfare;
- Supporting a good cause and encouraging employees to volunteer for community activities;
- Managing company’s relationship with neighbors, local community groups and public authorities; according to the belief that smaller companies are often able to manage these relationships skillfully, as their businesses are integral and visible part of the community that they serve;
- Taking actions to help preserve the environment (energy, efficiency, pollution prevention, waste minimization and recycling can deliver cost-savings and contribute to the viability of the company, or it can even open the door to new business opportunities with customers looking for ‘green’ suppliers).

The document brings out also very important point as to never forget to tell people about company’s actions, and for further information sends the reader back to the second publication: “A guide to communicating about CSR”. The guide answers the most essential questions, which every entrepreneur can face, like: “Why should you communicate about your Responsible Entrepreneurship?”; “What can communication do for your business?”; “What is effective communication?”; “What should you be talking about?” and “Who are you talking to?”. The guide clearly points out the benefits from communicating about company’s responsible behavior⁹¹:

- New business opportunities;

⁹⁰ “Introduction to Corporate Social Responsibility for Small & Medium-Sized Enterprises”, An initiative of the European Commission, Directorate-General for Enterprise, p. 4

⁹¹ “A guide to communicating about CSR”, An initiative of the European Commission, Directorate-General for Enterprise, p. 4

- Higher levels of customer satisfaction and loyalty;
- Improved company, brand and product reputation;
- More motivated and productive employees;
- Better relations with the local community and public authorities;
- Increased cost savings.

Of course in order to benefit, the communication have to be very effective, the company needs to make sure that the target audience really ‘gets the message’. Also very important becomes the selection of specific target group, which depends on the initiative the company wants to share. Generally speaking, most companies’ responsible entrepreneurship initiatives fall into four major categories: marketplace, workplace, community or environment.

- Marketplace Audiences – If the company wants to raise awareness about the way it operates responsibly in the market, it will need to consider which of the following groups to notify: employees, customers, consumer associations, suppliers, business partners, or investors.
- Workplace Audiences – If the company wants to make a statement about improvements in its workplace policies, it could think of informing: employees, trade unions (if any are involved), the local community, or public authorities.
- Community Audiences – If the company wants to convey information about its commitment to the local community, you could focus on communicating to: employees, relevant local organizations or institutions (associations, schools, and hospitals), public authorities, and relevant not-for-profit organizations.
- Environment Audiences - If the company wants to communicate about its initiatives that help to preserve the environment, it might speak to: employees, business partners, relevant not-for-profit organizations, consumers, public authorities and the community around it.

There are many ways of communicating to a target audience. The most commonly used tools include product labels, packaging, press/media relations, newsletters, issue-related events, reports, posters, flyers, leaflets, brochures, websites, advertisements, information packs, or simply word-of-mouth. The most important is what the company wants to say and why, and also to whom the information is addressed to. Table number 4 gives examples of possible tools that company can use while communicating with the particular audience.

<u>Communication with...</u>	<u>Ways of communication</u>
Staff	Company value statement Regular all-stuff meetings New employee orientation Suggestion boxes Posters and banners Newsletters Memos and emails Internal video and brochures Intranets
Local community	Company brochures Mailing lists Product labels and packaging Events Websites Advertisements Newsletters and company reports
Press	Press release (the structure of 6 questions: who, what, where, why and how) Interviews

Table 4: How to communicate with specific target groups

While it is true that big companies are better at communicating about their responsible business, smaller companies actually have more impact, since they are closer to the communities they serve, and are often more integrally involved in their responsible entrepreneurship activities.

Chapter 5

Responsible entrepreneurship – Poland and other examples

In this chapter I will present the summary from recent reports concerning Polish attitude towards Corporate Social Responsibility, as it is essential to understand how the conception is viewed among Polish entrepreneurs and customers. Further, I will describe a very interesting case of a small company, which is a great example how much good even family owned company can do. Also, very effectively working CSR initiative that was undertaken by Polish company will be illustrated. Moreover, I will try to create a CSR strategy plan for two *incognito* companies based in Polish reality, to demonstrate that practically every enterprise affords to be socially responsible.

5.1 Corporate Social Responsibility and Polish reality

In the last years, “corporate responsibility”, these two key words have been used more often in Poland. But, taking a journey back, just to 1998, majority of Polish entrepreneurs agreed that the most important purpose for which companies exist is gaining profit at all cost. Nowadays, the situation looks much better, but still the idea is mostly popularized by companies supported by foreign investors, which in public eyes are regarded as “alien”. Unfortunately, this makes it difficult to build the whole idea of corporate responsibility within Polish business. In addition, there are several other aspects like bad economic situation, constant politic affairs, high level of redundancy, bad firms’ condition that do not help in gaining public faith in business ethics. Lack of social programmes, educating both- managers and customers- about the idea of CSR, makes it more difficult to build trust.

There have been conducted two researches, one in December 2002 investigating public attitude towards corporate social responsibility and the second one in October 2003 examining managers’ perception of CSR while doing business.

5.1.1 “Managers 500 and responsible business: knowledge – attitude – practice.”⁹²

Experts greatly support the view that corporate social responsibility should become integral part of management and be present in everyday action. Nonetheless, this philosophy requires a lot of changes within and outside the company. In Poland, for almost 50 years of communistic ideology nobody even discussed such way of doing business. Only after year 1989, the discussion about connections between economy and moral values was brought up. The conception of corporate social responsibility is one of the possible answers.

The presented research gives complex information how responsible business is regarded by Polish companies, is it include in company’s strategy or is ethical business nothing more than just declarations without actual implementation. The poll was conducted on 170 firms chosen from the list of 500 biggest companies made by “Rzeczpospolita”.

For majority of those interviewed the idea of CSR was well known, but still 16% of those surveyed have never heard about it.

The results of the survey indicate that majority of managers (99%) considered ethics in means of running business as important or extreme important. Also 99% of managers agreed that ethical principles are the most significant when employees are concerned. Employees should have an equal opportunity of self development within the company, not depending on their political or religious believes; sex, age or physical condition. Unfortunately, ones declarations do not always operate in reality. It can be generally felt that results are quite surprising as there are so many corruption affairs and financial tricks nowadays. As indicated before, the research confirmed that the ethical values and social commitment are mostly popularized by companies with foreign capital. Consequently, those firms have a better understanding for need of responsible practices in business.

All firms are of the opinion that the main inner advantage of using social responsibility programmes is improving the level of organizational culture. The other benefit is winning the best employees over. Among outer advantages, the most important are increased value of image and firm’s reputation. But also, the loyalty of customers makes social responsibility vital for companies.

Majority of companies with foreign capital have their own codes of ethics whereas companies with domestic capital usually do not have one, not in form of a written document.

⁹² Report: „Managers 500 and responsible business: knowledge – attitude – practice”, issued by Forum of Responsible Business compiled with association of the World Bank and Academy of Philanthropy Development, Warsaw, October 2003

Within Polish companies, decisions are generally made by one person – the owner, and this makes it more difficult to combine social responsibility programmes with improving quality of management.

The survey clearly shows that Polish managers are becoming more and more interested in corporate social responsibility in their actions. It is almost certain that now, after Poland has joined the European Union, the interest and knowledge of CSR will improve. All companies point out that the greatest impediment in conducting responsible business are often changes in economy and too high taxes and costs of work. It is also noticeable that companies do not have any particular expectations from government according to social responsibility in business. Probably, those companies are not familiar with important public discussions which are taking place in other European countries and changes that are appearing in their economic policy and within European Commission. They are not aware of what should they demand and what should they expect. They do not also feel public pressure from institutional and consumer organizations. But, not participating in discussions, not presenting their own propositions, makes those companies exposed to passive expectancy for regulations, which Poland eventually will need to undertake in coming years.

5.1.2 “Attitudes towards Corporate Social Responsibility in Poland”⁹³

The purpose of this report was to evaluate the level of social awareness and attitude towards responsible business among Polish society. The results of this survey revealed that there is a great difference in approach to CSR between public opinion and business representatives.

In general terms, Polish society evaluates companies mainly on the basis of their products’ quality and the way how they treat their employees and share-holders. In addition, some of those surveyed also pointed out – the quality of customer service and honesty in giving information about company’s products and activities. Whereas, ethical and responsible behavior, social and charitable involvement or company’s policy toward natural environment are considered as second rate matters. In other words, companies are mostly regarded from two sides- customer, who wants to buy good quality product combined with pleasant service, and- employee, who wants to be treated well and receive accurate payment.

⁹³ Report: „Attitudes toward Corporate Social Responsibility in Poland” conducted in five Middle-West Europe countries; in Poland with cooperation of Foundation of Social Communication; December 2002

Around 20% of people surveyed could not answer what should responsible company do. A significant percentage of Polish society (53%) is of the opinion that the major purpose of big companies is to generate profit, pay taxes and provide work places according to law. Only few people believe that firms should establish higher social standards, help with creating better social conditions for everyone and not only focusing on things required by law. Polish people claim that majority of companies do not treat their social responsibility serious- “they talk more than they do” (79,8%) and that main motivation for being socially responsible is case of company’s promotion (88,1%).

Experts indicate that theory of corporate social responsibility is only slightly noticeable in public debate in Poland. This state is connected with general level of Polish economy and low consumers’ awareness of business responsibility toward society. Nonetheless, the research reveals that about 70% of those questioned will be able to pay more for products, which are environmentally friendly and are not produce using child labor. More than half of Poles would never buy product from company that is not social responsible. Companies are also expected to create common ethical standards, which gives an opportunity for establishing organizations that could gather entrepreneurs and demand from them the actual realization of certain social responsibility standards.

There is no clear definition of CSR in Poland. Another issue is providing adequate information about company’s social or environmental actions to public news. As well as, activities that would increase costumers’ awareness in matter of CSR. Respondents claim that the main source of information about company is their friends’ opinion. The second preferable source of information is independent press stories. But the best solution would be reports from autonomous institutions.

5.1.3 The new perspective

Slightly different and more up to date perspective gives the survey conducted on behalf of Danone and Responsible Business Forum⁹⁴. The report states that majority of Poles (68,8%) recognize the responsible business as a variety of ethical actions, namely: an honest treatment of employees, stakeholders and clients, and only 11,9% of those surveyed identified it as a social involvement. But in both cases, the roots of undertaking those activities are assigned in company’s internal motives. The main reason, listed in context of measures linked

⁹⁴ Source: Report from the survey conducted on behalf of Danone and Responsible Business Forum, February 2005, [in] Report: „Responsible Business in Poland – 100 good practices – 2004”

with ethical and just practice of a company, was the honesty of the people managing the company (39,1%), while the profit reason (30,6%) was only stated on second place. The opposite situation has place when social involvement is concerned. Here, the majority of people believes that key reason falls under the category of gaining profit (51,3%), and management's honesty is evaluated only on 22,6%. Interesting seems to be the fact, that responsible business is more often linked with public rather than private companies, as well as Polish ones rather than foreign. Nonetheless, this assumption depended on the work place of those surveyed.

The important conclusion from this survey is that significant majority of society when evaluating company's social behavior is willing to accept the motive of direct benefits for society, than merely own benefit for the company.

In the turn of year 2004 and 2005, there has been conducted a study on the subject "What companies think about business social responsibility", based on the comparison of attitudes and activities in Hungary, Poland and Slovakia⁹⁵. Among Polish companies, 84% belonged to small and medium-sized enterprises. The survey clearly shows that just a little more than half of the firms consider improvement of the reputation, as the main advantage from implementing social responsibility practices. Comparing to 2003, almost 80% of firms pointed out that answer. This change shows that nowadays, other reasons are listed, like: solidarity with local community, environment protection, country development, clients' loyalty, and intangible benefits. This fact indicates very positive direction of CSR perception among entrepreneurs. No longer only company's advantages count, but also the case of being good citizen as an enterprise is valued. However, the implementation barriers are still very visible. Polish managers pointed out the lack of regulations and being mostly focused on short term profits, what results in inevitable inconsideration of CSR internship among financial success. Moreover, the lack of proper government policy encouraging investing in CSR activities remains a big problem for Polish companies. Almost 80% of firms believe that mostly tax concession would improve and develop the social responsible practices.

In Poland there are still problems with enforcement of mandatory responsibility. Unclear and very often changing regulations make it difficult to do "the right thing". On the other hand, the absence of strong consumer organizations does not motivate companies to be

⁹⁵ Report: "What companies think of Corporate Social Responsibility, – The comparison of attitudes and practices in Hungary, Poland and Slovenia", conducted on behalf of the World Bank and European Commission, presented at Conference of Responsible Business 2005, FOB, <http://www.fob.org.pl>

responsible towards their clients, as it works all over the world. But that will change in the next few years, as customers have bigger expectations, also within moral area.

Nonetheless, the future for CSR in Poland seems to be promising. More and more managers actually understand the need of implementation the programs which are focused on building strong and proper relations with stakeholders. But most of all it depends on how the conception will be recognized among small and medium-sized businesses as they make up majority of Polish companies. The strategy of responsible business is based on social dialogue on the local level, what can strongly contribute to social and economic development, especially with the globalization process in the background. Today, small and medium-seized businesses do not identify their practices with the CSR conception, simply because they are not aware of this particular term. But at the same time, it doesn't mean that they are not responsible. Being social responsible does not inquire big financial efforts, but first of all obeying the law, paying your employees in time or creating friendly work environment, and that's what market and employees more often expect from SME sector nowadays.

Even the changes in customers and managers' perspective of social responsibility are noticeable, and they certainly have evolved in the more cautious position on that matter, surveys clearly show that there is still a great need of informing and educating consumers about CSR.

Only the combined knowledge of both- customers and managers- about the idea of social responsibility will affect its further development and gaining profit. Especially, when we take into account small and medium-sized enterprises in Poland and how they understand this particular issue. In my work, I intended to present one of Polish companies engaged in social or environmental activity, that were given as an example in the collections of good practice cases across Europe. I thought it would be essential for my work to present how social responsibility grows in our small companies and that we are becoming an important part of that big European family. Unfortunately, I was disappointed one more time with Polish attitude. I contacted each Polish enterprise, which name I had found in European Commission's publications, with a request of providing me any documents concerning CSR activities within the company that I could use in my thesis. Regrettably, I was left with either no answer at all, or a short information that it is against company's policy. And alike other companies, none of those firms had a section on their webpage devoted to Corporate Social Responsibility. As much as I was disappointed, I was assured one more time that Polish SMEs have still a long way to go, to reach the maturity of being social responsible companies,

because it should be reflected in such small details as an approach to any person interested in the company, as I have witnessed in American or West European firms.

Because of the lack of further information from any Polish company, I have decided to present Belgium company, which I think might be very interesting for one particular reason. Among cases presented by European Commission it was the smallest enterprise but with a great potential. I have chosen Koffie Kàn with intention to show that even the company, which employs less than ten people, can be social responsible and make a change to its community and environment.

5.2 Koffie Kàn⁹⁶

Koffie Kàn is a Belgium medium-sized coffee roasting house, owned and managed by Johan Vermeersch, his wife, Martine Nijsters, and their daughter, Marjolein Vermeersch, together with Marjolein's husband and two employees, the Koffie Kàn team is complete. The roasting house is situated in the very heart of Wenduine, a family seaside resort on the Belgian coast. Koffie Kàn has embedded itself in the fabric of the local community in which it has operated since 1972. Koffie Kàn is known for its own unique technology that allows for complete control of the coffee-roasting process: DYCOLOTE® roasting. The coffee is roasted at the lowest possible temperature. A computer program controls and regulates the heat in the roasting drum to a very fine degree, keeping the heating curve as gradual as possible. This careful treatment of the coffee beans ensures that the sugars and oils are not burnt and no ashes form inside the beans. That makes the Koffie Kàn blends so easy to digest.

Following the perfection of the coffee, the company started to insist on the highest standards in all stages of business. The owners are proud of their quality trademark which resulted in "delicious coffee with a soul" and also by this quote, they presume the vision of how a business should be run. They feel that, as the owners of a business, they have a clear obligation towards society. In this respect, they made sure their company would be sustainable and socially responsible.

According to company's vision stakeholders are regarded as one of the most important cell and it is also believed that stakeholders' management is basically based on good communication. Since the company is small, personal contact and communication is naturally inherited. The company communicates openly and very frequently with customers, staff,

⁹⁶ Information presented in this paragraph are taken from Koffie Kàn webpage: <http://www.koffiekan.be>

distributors and suppliers, neighbors and the local authorities. This certainly helps to create a positive interaction with this diverse range of stakeholders and results in an atmosphere of mutual confidence and trust. This communication is very important for small enterprises for different reasons, but mostly because it assures that the company is viewed within society and its small community in a positive way, which has an effect in sales, costs and brand recognition.

Secondly, the environment in which company operates becomes an essential issue. Koffie Kàn has always tried to ensure that it is friendly to its neighbors. Therefore, the company invested heavily in environmental protective measures. For example:

- Koffie Kàn went in search of the best way to package its coffee blends. The aim was to cut down on raw materials and as a result - lightweight packaging was developed, consequently producing less waste. Company's packaging uses 35% less raw materials than a standard vacuum pack with paper. But obviously company's main concern was to protect the valuable aroma of Koffie Kàn with the greatest care. Now, Koffie Kàn blends are packaged in 250-gram valve bags, using the very latest technology.
- Koffie Kàn uses energy and water according to a downright economical plan.
- In August 2005, Koffie Kàn installed a new roasting machine at a total cost of approximately 400, 000 EUR. More than half of this amount was spent on dust and odor filters and on isolation systems to limit the noise, along with the dust and smell.

Company claims that the biggest return from these environmental investments lies in the knowledge that Koffie Kàn will be able to remain in its present location and it will be able to maintain its existing good relations with the local community.

But of course not only local investments decide of being considered as a good neighbor. The clear evidence for that is how Koffie Kàn honors the concept of fair trade, for instance:

- Koffie Kàn sells Max Havelaar coffee – this label ensures that small farmers in developing countries receive a fair price for their products and work under correct conditions. Max Havelaar controls the supply chain from the grower to the consumer according to international criteria set by FLO, the Fair Trade Labelling Organization. No fertilizers or chemical pesticides are used and coffee plants are planted between the trees to prevent erosion thus ensuring the long-term sustainability of small farmers.
- The company has sponsored several projects in coffee producing countries, such as an educational project for street children in Columbia, and several projects organized by

Plan International. For instance, the company helps financing a project for mothers in Guatemala and Honduras. Koffie Kàn has created a special coffee blend, called 'Pachamama', which means 'Nourishing Mother Earth', in order to make its customers susceptible to the problems in the coffee producing countries. This way the profit from this mild Arabica is donated to Plan International.

- In Belgium, Koffie Kàn is also an active member of Kauri – a consultative body that promotes better relations between NGO's and the business world.
- Koffie Kàn buys coffee beans which are high grown Arabica's from small plantations, with whom it has been working for over 30 years. For these "distant partners" the company developed a series of supporting activities. For high quality, which those small plantations assure, Koffie Kàn guarantees them the off take and price advantage. Koffie Kàn pays growers more than the normal going rate: an average of 120 U.S. cents per pound in comparison with the market average of 70 to 80 cents per pound. The company feels that in this way, it operates contrary to the current trend towards large scale and intensive mass production. By doing this, it provides the small coffee farmers with a guaranteed source of income. In Koffie Kàn's philosophy this falls under the social responsibility, which Koffie Kàn feels it owes to its suppliers.
- Another caring gesture was donation of an old coffee-roaster to a small coffee grower- Ramiro Clemente, in Chiapas. The machine was replaced by a new one, because it had become too small for the company, but it was still in perfect working condition, with a second-hand value of 25,000 EUR. According to company's philosophy, it is equally vital that small-scale growers like Ramiro should continue to survive. Koffie Kàn believes that this is the only way to guarantee a continued supply of the high quality coffee it requires. But the donation was not so simple, as it turned out the cost of sending the machine to Ramiro – taking it apart, packing it, transporting it, shipping it to Vera Cruz, importing it into Mexico, transporting it across the country to Chiapas and finally reassembling it – was much higher than originally expected. The cost was about 5,000 EUR, the money that Ramiro could certainly not afford to spend. To help him, Koffie Kàn organized 'Sea miles for Ramiro'. Everybody got involved in the project: neighbors, friends, suppliers and customers, and surprisingly 4,700 EUR had been collected. Also Koffie Kàn's suppliers offered actual logistic support and raised more funds. Thanks to effort of generous individuals, Ramiro can now use his new machine.

It should be noticed, that with this last project Koffie Kàn has generated a lot of awareness among customers, showing its involvement and impact to society. This is certainly one of the best ways to communicate about company's success with the community it operates in.

Koffie Kàn has continued to make caring efforts for more than 30 years and by its actions has raised an overall awareness and inspired other companies in Belgium. The owners claim that being a caring company brings little direct financial benefits, but customer loyalty and goodwill of its community cannot be measured. The company's reputation has also been gradually improved via its support for social development projects and by adding organic and fair trade coffee to its high quality choice of products⁹⁷. In recognition of this long and valuable approach to Corporate Social Responsibility, Koffie Kàn was awarded the Belgian bi-annual Solidarity Award.

5.3 Clean Business

The Clean Business Programme is an example of one of "the good practices" among Polish enterprises, selected by Responsible Business Forum and presented each year in its report "Responsible Business in Poland – good practices". The programme was developed in 1998 as a partnership between BP Poland, the Polish Environmental Partnership Foundation (PEPF) and Groundwork Blackburn in the United Kingdom. The programme demonstrates BP Poland's commitment to corporate social responsibility and remains company's fundamental strategy in this area. So far there has been little encouragement from government for companies to increase their environmental performance as a basis for increasing their competitiveness. This is because environmental expenditure has still to be recognized as a significant contributor to economic growth, technological innovation and jobs. The Clean Business is one of the answers of how to unlock this potential. The programme was set out to find a way of encouraging Poland's 2.3 million SMEs to take action for the environment and community in which they operate as a part of their day-to-day business operations. The Clean Business is based on a conviction that companies must recognize that improving environmental performance and community action are important business development issues and not just optional extras, additional costs or increased bureaucracy. In other words, The

⁹⁷ Report from business cases on Corporate Social Responsibility among Small and Medium-sized Enterprises issued by European Commission

Clean Business is a self-help programme for small and medium-sized enterprises, which want to improve their environmental performance both externally and internally to company operations by reducing costs, securing new business partners and increasing their competitiveness. Also programme provides companies with opportunities to become engaged in long-term projects with NGOs and local government partners, which contribute to sustainable development of the communities within which they operate. The programme is delivered through Clean Business Clubs, which bring together companies from a defined geographical area. There are now 16 Clubs in operation, engaging 320 companies located in the regions of Małopolska, Silesia, Podkarpacie, Mazowsze, Świętokrzyskie and Pomerania. Of course new clubs can be established, wherever local companies and governments make a commitment to improving environmental performance. Each Club is run by a co-ordinator, who maintains contact with member companies on an ongoing basis and helping them get the best out of the programme's offer. Members of the Clean Business Clubs receive assistance in the form of advisory and information services, assistance with environmental audits, environmental policies, seminars and workshops, as well as training opportunities. In return, companies commit to improving their environmental performance based on an environmental review of operations carried out by Foundation specialists. On the basis of the review, the company is expected to introduce an environmental policy, undertake practical problem-solving in production processes and develop environmental management systems. In general, a company joining Clean Business is helped on its journey through support customized to its needs and circumstances. This is achieved through advisory services, including environmental reviews and a help-line service, delivered to the company itself or indirectly through motivation provided by large companies, such as BP, which help set environmental performance standards. BP made a long term financial commitment to supporting the programme and also committed to be actively encouraging other large companies operating in Poland to join the initiative, as well as engaging its own staff, suppliers and operations and making expertise available from other parts of the BP organization.

The Clean Business also engages companies in one of its specialized programmes that are directly related to their business operations. The programmes are⁹⁸:

- *Clean Tourism* – the programme is dedicated to tourism sector companies, the goal is to improve competitiveness of tourism sector companies by helping them improve

⁹⁸ Source: <http://www.czystybiznes.pl>

their environmental performance (with the aim of reducing bad environmental impact) and engage in community action.

- *Brightside* – the objective of the project is to increase the visual attractiveness of a company site and of surrounding areas through engaging company's employees and local partners: NGOs, community groups, schools and local authorities in the process.
- *Green Office* – targets company offices, as well as offices in schools and NGOs, the main objective is to help offices reduce environmental impact of office activity, while generating cost-savings and improved management of energy, paper, water and waste minimization.
- *Green Business Parks* – the objective of the project is to improve attractiveness of industrial areas for existing companies and new investors; effectively generating new jobs and creating new opportunities and benefits for company, as well as local authority.
- *Waste* - the objective of the project is to demonstrate how adopting a systematic approach to identifying and carrying out often small but very practical steps to minimize waste can reduce a company's environmental impacts and achieve substantial cost savings. Waste Minimization helps companies minimize the amount of solid and liquid wastes generated, reduce energy and water consumption and decrease emissions. Minimizing wastes is linked to improving management, increasing production efficiency and reducing operating costs. Thanks to the project, companies can improve internal communication and information exchange; engage employees in taking practical action for the environment and promoting their responsibility externally.

In 2000, Clean Business launched an annual award scheme to celebrate the achievements of Clean Business companies. The motivation was to recognize companies which undertake practical action to improve their environmental performance, and so their economic performance and engagement in the wider community. Winners of the Clean Business Awards go on to compete for the European Business Awards for the Environment organized by the European Commission.

In 2001, an award winner in category "Water, energy or waste management" was Jan Ożga Bakery and "TARNAWA" Flue Construction Clean Business Club in Tarnów. Two companies were rewarded for recovering waste heat from the Jan Ożga Bakery to provide hot

water and central heating using a heat exchanger installation specially developed by TARNAWA Flue Construction. The initial environmental review of the Jan Ożga Bakery identified ineffective energy management as an opportunity for both cost savings and environmental improvement. Specialists from Groundwork Blackburn in the UK proposed installation of heat exchangers, which would provide considerable benefits. Unfortunately, these turned out to be beyond the financial means of the bakery, but mobilized the owner to search for another solution -- partial heat recovery from the flue emissions of the bakery oven. Another member of the Tarnów Clean Business Club, the TARNAWA Flue Construction company, agreed to develop a prototype heat exchanger customized to the needs of the bakery. The heat exchanger contains a double pipe arrangement, which extracts some of the heat from emissions to heat water flowing through the pipe. In addition, an extractor fan sends dry and hot air from above the baker oven to the finished products storage area. Thanks to introducing these simple solutions, direct monthly cost savings are approx. 1500 PLN. Energy savings on central heating run at approx. 1000 PLN/month, which means paying only 40% of previous energy bills. Additional cost savings result from solving the problem of excess humidity in the bakery, which impacted on final product quality and required painting of the walls 4-5 times per year. Other benefits include improved safety thanks to dry floors and reduced risks of boiler overheating. The heat exchanger arrangement installed at the Jan Ożga Bakery has proven cheap, effective and easy to install when compared to the off-the shelf alternatives available on the Polish market-place. As a result, four other Tarnów bakeries have now followed the lead of the Jan Ożga Bakery and opted for a similar solution to their energy management problems.⁹⁹

This case shows what can be achieved with a little bit of good will and cooperation and common support between two companies. Besides, it proves that one good example can encourage other companies to become responsible for their actions. Moreover, it can make company understand that by doing so, it brings benefits for itself, as well as local society. The Clean Business Programme presents Polish future of CSR in brighter colors, shows that it is really possible and simple to be socially and environmentally responsible. Of course it is always easier with support from “someone bigger”, but it also gives hope that in years it will change, and even small companies will feel strong enough to become a member of CSR family.

⁹⁹ Rafał Serafin and Dagmara Pilis, „Clean business or how to make environmental improvement and community action a part of day-to-day business activities in Poland – How 8 practical partnership principles have been used by the Polish Partnership Foundation to guide a cross-sector partnership for sustainable development with BP, Groundwork and 263 small and medium-sized companies (SMEs)”, Cambridge, 2002

5.4 Simple strategies

Consistent with the aim of this thesis, as to serve as a guide for every small and medium-sized enterprise; which shows how few simple activities can bring a company closer to the world of CSR; I will present two business cases.

5.4.1 Restaurant

The restaurant *Stare Miasto* is located in town named Nowy Sącz, which is an hour way from Cracov. The city is located in beautiful mountain scenery, with a little over 40,000 inhabitants. The restaurant was opened almost eight years ago, and during this time has gained trust among local people, as well as tourists. Twice the restaurant was recognized as one of the best in Małopolska region. Along with the excellent food quality, goes the price range, which makes it available almost for everyone. That is one of the reasons, why restaurant became so popular among students from Wyższa Szkoła Biznesu National-Louis University. Significant is the fact that students are very important source of income for most businesses in the city, and remain one of the best target groups.

The restaurant is ranked as a medium-sized enterprise, the owner hires 15 people on permanent basis (six servants, two bartenders, chef and three persons to assist him in the kitchen, driver and two cleaning ladies), plus temporarily two waitresses for the summer period, when the outside bar is open. The restaurant inside can seat ninety people, while the summer garden have thirty places. Additionally, a new service has been offered, which is food delivery, especially to dormitories. Moreover, the restaurant has an interesting catering offer; it can organize professional dinners for companies, as well as private parties, either at its location or client's house. The specialty of the restaurant is traditional Polish food, but also seasonally barbeque dinners.

So far the owner was mainly focusing on the income, as his intension was investing in the restaurant itself. But, what if his attention was brought to the more social aspect of business, he can choose from wide range of 'doing good' actions. Mainly, by getting socially involved within his community, the owner can gain respect and secure position for his firm, which can assure the long term success, so important for small and medium-sized enterprises; but also it can become a great promotion method for the restaurant. The table below presents possible social responsible activities and the ways of how to communicate them.

Social responsible activities	Ways of communication
<ul style="list-style-type: none"> ✓ Very ambitious, because it takes not only the restaurant good will, but also other small businesses, is the complete supply chain management. The main aim is the investment and development of the local business region by buying only from the local producers. Moreover, the restaurant owner can convince farmers to form a cooperative that will agree on not using pesticides, when growing its vegetables and fruits, and be rewarded by product prices that are 5% above the home market price. ✓ Development of new products (e.g. items on the menu) especially at the request of customers in addition to its standard offer, can demonstrate a commitment to innovation and excellent customer service ✓ Building good image among local people by being a part of their every day lives. Mainly by getting involved in local cultural life, either by co-financing, or by donation of restaurant's products on different events as a treat ✓ On main holidays the restaurant can prepare food for shelters for homeless and orphanages. This idea in time should become a city campaign that involves, not only employees from the restaurant, but also other volunteers (all city residents, including students) ✓ Sponsoring students' festivals (e.g. Juwenalia in May) ✓ Organizing contest for the best barbequed ribs in town, in which not only the owners from the local restaurants can take part, but also random people. It can even become a local tradition and become a tourist attraction and wide-known culinary festival 	<p>⇒ local newspaper and radio; <i>Gazeta Wyborcza</i> – Małopolska edition; as an interesting news in “Agrobiznes” – the television programme dedicated to latest news in agriculture; Internet homepage</p> <p>⇒ menu; leaflets; Internet homepage; local newspaper; <i>Amperstand-</i> WSB students' newspaper</p> <p>Internet homepage; main Polish newspapers (<i>Gazeta Wyborcza</i>, <i>Kurier Poranny</i>) and radio (RMF FM, Radio ZET); local newspaper; <i>Amperstand-</i> WSB students' newspaper; information in Intranet WSB (e-mails to students)</p>

Table 5: Examples of possible social responsible activities for the restaurant business

5.4.2 Florist

The florist *Lilly* is family owned business, which operates on the market for more than twenty five years. *Lilly* is located on the main street in Białystok, and is managed only by family members. The company is in the father's name; his two daughters are working in the store, preparing flower compositions, while his son delivers flowers. Also together they are responsible for buying supplies on the flowers' market. In the future a son will take over the firm. The florist serves for its clients with professional knowledge and experience gained during many seminars, trainings and flower exhibitions. It is not easy to stay on the market for

the floral store as the competition is huge in this sector; the most important become loyal customers and company's image. Generally, Lilly's clients value high quality and accessible price of the products. Wide offer includes:

- Preparing flower bouquets depending on occasion, with the latest trends
- Flowers and fruits' baskets
- Blossom and flower pots, and their different compositions
- Wedding and funeral bouquets
- Cars' decorations depending on occasion (sales and rentals)
- Decorations of ballrooms, boardrooms or churches
- Sale of flower-pots, candles and small gifts
- Flowers delivery and professional free consultation

Orders can be placed in person, or by telephone or fax, recently also by Internet, as the florist has now its own webpage.

Nonetheless, family members as the owners of small business would like to do something for their town and people, who live here. They are a part of this community, their future, as well as the future of the company is tied with the city, and that is why they see urge and need to get socially involved. Here are some examples how it can be done.

Social responsible activities	Ways of communication
<ul style="list-style-type: none"> ✓ The profile of the company, especially its products, brings a simple conclusion to invest in environmentally responsible actions, e.g. by supporting green space in town, and region's nature. Together with the city council and other floral stores, the firm can start a campaign, which will raise money to buy new flowers and trees, and together with volunteers plant them around the city ✓ This region is sometimes referred to as "green lungs of Poland", there are great terrains of forests and lakes surrounding the city that create incredibly healthy place to live in. Following this idea, the florist can designate 1 zł from every sold bouquet to preserve the local nature ✓ Employees can form the initiative "Joint action against crime", which can work together with local police station. The initiative would aim to stop violence in the neighborhood and to encourage residents to get involved in voluntary environmental work 	<p>⇒ posters and leaflets informing about different actions (available in store); local newspaper; Internet homepage</p>

Table 6: Examples of possible social responsible activities for the floral store

These are only some of the ideas and actions that can be used in order to become more socially and environmentally responsible, simply to become a “good neighbor” in the local community. Some of these actions do not involve large spending, mostly more time and good will. Most of all dedication of employees and interest of society, motivation to make a difference, to help those in need and give good example for others, and maybe encourage them to try too. Few simple steps can bring a company closer to the philosophy of Corporate Social Responsibility, which will become just “a way of doing business around here”.

Chapter 6

Conclusions

On the basis of information provided here, it can be said that corporate social responsibility is fast becoming a global expectation that requires a comprehensive response. Companies most experienced with corporate social responsibility find that the only effective response is to go beyond treating it as an “add-on” and to make it a core business value and strategy that is integrated into all aspects of the company from research and development, through sourcing raw materials and producing its products, to the use and disposal of its products.

Studies suggest that arguments for Corporate Social Responsibility are crucial and cannot be denied in any possible way. Company as a part of society is being responsible for its actions and it should provide positive social impact by all its endeavors. Use of CSR can ensure company’s good reputation, increase competitive advantage and gain long-term success. One of the important facts about CSR is that social responsibility is not just for large companies, it is relevant for companies of all sizes, big or small. Businesses can help to improve the lives of customers, staff and shareholders by enabling them to share in the wealth they create. Companies should deal honestly with their suppliers and competitors, and they should act as good citizens in their local communities. CSR requires companies to attempt to strike the balance between economic development, environmental protection and social objectives. Businesses clearly have to respect the rule of law, but in some circumstances they may wish to do more than the legal minimum.

Our economy is increasingly characterized by easier access to information, speedier communication, greater demand for transparency, and the globalization of corporations. These factors support the assertion that Corporate Social Responsibility is a critical element of business stability in the 21st century. Now more than ever, investors, consumers, and employees take into account a company’s corporate citizenship record when deciding whether or not to support the company. And like never before, the general public is better informed and able to shape the success of companies.

This is for companies own long-term good, as well as for reasons of principle, that businesses should aim to be responsible in all their activities and to embrace the principles of

sustainable development in their widest sense. CSR is definitely profitable for company itself – and certainly it is not an absurd.

CSR is one of the core policy points for European Union, which gave it an excellent global visibility, especially with connection with small and medium-sized enterprises that again are one of the main EU's concerns. Thanks to that SMEs are somehow more visible to the outside world. CSR initiatives focused on SMEs help them grow, help them becoming more competitive, and at the same time help the whole economic growth. CSR is closely associated with the concept of sustainable development, which is one of the EU's main objectives. Series of actions undertaken by European Commission opened a debate in Europe about the concept of CSR, today, neither political nor business world can deny the importance of the new philosophy. This visibility goes hand in hand with sustainable development and more jobs creation. It is no longer a luxury for big corporations, with main offices overseas, but it is a reality of every company, even the smallest one. Of course the uniqueness of SMEs creates a need of adjusting the theory to actual companies, but it is no longer a discussion whether it is worth it. Lack of social awareness is a great obstacle for every company, and sooner or later will leave the company behind the others. Every European Commission report concerning CSR stresses out the need of transparency – company's every action should be communicate to the public, because otherwise it will not meet with the right public reaction and will not help company. Example of European Union shows that it is really possible to implement, develop and gain profits from "trusting" the theory, when engaging it within small and medium-sized enterprises. Obviously, the work is not yet done, it is a good start, but there is a long way to go in front of European SMEs, at least they are on the right track.

In my personal view, Corporate Social Responsibility is inevitable tool for all the companies, certainly not depending on their size, that want to improve their economic, environmental and social performance in the short and long term. In today's world the most important truth is that everything is made because of people and for the people and that is what philosophy of CSR is all about – to be aware, but mostly to be sensitive to people's needs. The strength of the Millennium Poll findings plus the early experiences of leading companies suggest that in the coming decade, Corporate Social Responsibility is likely to become a new pillar of performance and accountability of successful companies. Corporate Social Responsibility matters to all of us, for those who work in and for the companies, and for those who buy from the companies. It also matters to the local communities where companies operate, who want to know that they are living amongst enterprises that share their values and concerns. But still, it can be noticed that the richer nation and the more developed

economy it has, the higher demands and justification for CSR. Presented studies clearly confirm assumptions stated in introduction of my thesis, that is why my final recommendation is mainly implied to Poland, but in many aspects it can be inferred to whole range of nations around the world. I suggest to increase managers', business owners and society awareness about CSR and try to make it an integrate part of every company strategy now and in the future, "to ensure better life for generations to come".

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There is available a wide range of books that treat about business ethic or ethics issue itself. However, there are only few books on Corporate Social Responsibility. That is why many of the information used in this thesis is based on reports and Internet resources which provide a complex and up-to-date knowledge.

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