



**Opportunities and Options
for Governments to Promote
Corporate Social Responsibility
in Europe and Central Asia**

Evidence from Bulgaria, Croatia, and Romania

Working Paper

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Introduction

Corporate social responsibility is the voluntary commitment by company managers to integrate social and environmental considerations in their business operations.¹ This commitment goes beyond normal compliance with the legal, regulatory, and contractual obligations, which companies are expected to meet.

Corporate social responsibility business practices complement rather than substitute for state actions that promote social and environmental development. While corporate social responsibility practices contribute to the realization of social, economic, and environmental goals, promoting them should not be a pretext for shifting public responsibilities to companies.

To strike a balance between the expectations and potential for making their respective contributions to overall social well-being, companies, governments, and spokespeople for societal interests need to engage in an inclusive and evolving dialogue. That dialogue must be followed up with incentives and resources to translate the results of dialogue into action.

This report is not specifically about the practice of corporate social responsibility. A rich set of analyses of corporate practices considered “responsible” has emerged through the efforts of the European Union, UN Global Compact, the World Bank, Business for Social Responsibility, the International Business Leaders Forum, and CSR Europe, to name just a few.² These analyses (available on these institu-

¹ The World Bank defines corporate social responsibility as “the commitment of business to contribute to sustainable development working with employees, their families, local communities, and society at large to improve their quality of life that are both good for business and good for development”.

² World Bank efforts in this area have taken various forms. The European Multi-Stakeholder Forum on Corporate Social Responsibility, under the leadership of the European Commission, was established in 2002. It comprises four thematic round tables, with participation by business, trade unions, civil society organizations, and other stakeholders for the purpose of raising awareness, exchanging information, and engaging in dialogue on future actions to promote corporate social responsibility. The World Bank Institute Institutional Capacity Building Program has organized multistakeholder consultations on corporate social responsibility to raise awareness, promote dialogue on policy, and support programs with specific country and cross-country focus. It provides Web-based information, e-conferencing,

tions' Websites) offer an extensive base for understanding how corporate social responsibility is and can be practiced in various industries and what issues have arisen as a result. This report focuses on what governments could do to take a more proactive role in promoting corporate social responsibility. It aims to trigger discussion within and outside the World Bank by people working in this field.

This paper focuses on the Europe and Central Asia Region, where a dynamic process of social and economic change is occurring, mainly through the process of European integration. Within this dynamic, the corporate sector is already encouraging suppliers and customers to practice responsible business behavior. Governments are aware of these developments and have often praised them, but they have not generally adopted comprehensive policies that support the corporate responsibility movement. They may be failing to reap the benefits of the potential contributions of business to public goods and the public interest. Establishing corporate social responsibility partnerships with business could enhance the efficiency of public administration.

This report is divided into five parts. Part two summarizes the basic concepts of corporate social responsibility. Part three reviews how corporate social responsibility is perceived in three Central and Eastern Europe countries—Bulgaria, Croatia, and Romania. Recognizing that the corporate social responsibility movement has been driven largely by business, part four examines issues governments have to face in adopting a policy-driven approach to encouraging corporate social responsibility and making an operational strategy sustainable. Part five discusses the possible instruments through which the World Bank, as a substantial source of advice and financial support, could contribute to the design and implementation of a country's corporate social responsibility strategy.

and educational materials. The Corporate Social Responsibility Practice of the World Bank's Foreign Investment Advisory Services (FIAS) Investment Climate Department has conducted several industry-specific analyses of best corporate social responsibility practices and thematic studies (on codes of behavior, corporate social responsibility, and competitiveness) and provided technical assistance for governmental and industrial groups on corporate social responsibility programs. The International Finance Corporation's Corporate Citizenship Facility (CCF) identifies and defines the business case for better environmental and social practices in individual businesses and across sectors, actively disseminates and replicates successful findings through the private sector, and helps clients and the wider private sector realize opportunities and reduce risks of market exclusion.



Corporate Social Responsibility in Central and Eastern Europe

It is easy to forget that under Communism, business existed purely to serve the needs of society. Before the transition to market economies in the 1990s, state-owned companies in most of Central and Eastern Europe implemented large-scale and costly social programs, often referred to as the company's "sphere of obligations." This approach entailed voluntarily "giving back" time and money to provide "good works" that contributed to the well-being of various societal stakeholders, even if doing so cost the firm profits. Collective ownership and central planning were intended to ensure that the stake of the entire community was recognized and safeguarded.

Firms in the former Soviet bloc helped alleviate social ills they had not caused, such as lack of sufficient funding for educational institutions, inadequate money for the arts, urban blight, alcoholism, and illiteracy. Taking on these responsibilities hurt their profitability and threatened their viability.

With the move to a free market system, companies had to face up to the need to operate competitively, leaving activities deemed nonessential to the business vulnerable to termination.³ For many managers of the newly privatized state-owned industries and entrepreneurs in the former Soviet Union, the notion that exercising social responsibility could be consistent with the profit motive was difficult to grasp.

Pressures for Change in Business Practices

The debate about corporate social responsibility has acquired a new sense of urgency in recent years within the business community, international financial institutions, governments, and NGOs in Central and Eastern Europe. Companies in the Europe and Central Asia Region, especially those in Central and Eastern Europe,

³ A 1993 survey of 22 companies in Central Europe conducted by the Private Sector Development Department of the Europe and Central Asia Region, World Bank (World Bank 1993) found that major corporations owned numerous social assets, including employee housing, kindergartens, vacation resorts, and in one case the municipal fire department and local hospital. These noncore social assets were the first operations to be sold once the companies were privatized to strategic shareholders.

face a changing business environment that must meet the challenges of European integration, globalization, and liberalized internal markets.

The change has been generated as the Central and Eastern European countries start adopting corporate social responsibility practices as part of the negotiations over European Union (EU) enlargement. In 2001, EU member countries published a Green Paper entitled “Promoting a European Framework for Corporate Social Responsibility”. In July 2002, they adopted the EU strategy on corporate social responsibility, “A Business Contribution to Sustainable Development.” The European Union considers corporate social responsibility a positive contribution to the sustainable development strategy for Europe agreed on in Gothenburg in June 2001 and to the strategic goal adopted in Lisbon: “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”

For their part, companies, particularly large, multinational leaders, are becoming increasingly aware that adopting socially and environmentally responsible practices can be of direct economic value. Although the prime focus of business is generating profits, corporations can also contribute to social and environmental goals by applying corporate social responsibility as a strategic line in their core business practices, corporate governance, and management instruments.

The experience of developed countries has shown that governments have a new role to play in promoting the adoption by businesses of socially responsible practices and regulating cases in which companies do not adopt them on their own. Governments have a strong interest in promoting corporate social responsibility as a complement to their own social and environmental programs to serve long-term national interests. Reforming regulations to remove antibusiness bias, endorsing initiatives to establish business standards and ethical codes, and recognizing the constructive social and community involvement of business, including small and informal sector businesses, could help corporations adopt social responsibility practices.

Civil society can actively work with governments and businesses to encourage the adoption of good practices. The three parties need to work together to ensure the most efficient and effective application of good corporate responsibility principles, make companies in Europe and Central Asia more competitive, and improve living and environmental conditions in the region.

Building sustainable relationships among stakeholders requires time and resources. It also requires a genuine willingness on the part of government, business, and civil society to listen and learn from one another. Establishing effective partnerships can be difficult due to institutional, organizational, and cultural differences.

Most countries in the Europe and Central Asia Region are at a much earlier stage of development than other European countries in terms of corporate social responsibility. Significant barriers to improving the corporate environment will have to be overcome before countries in the region can fully adopt the EU philosophy. In many countries the legacy of past policies of nationalization, central planning, inappropriate industrial policies, arbitrary political interference, and corruption have

created mistrust between the private sector and the government. One of the key challenges to achieving lasting results lies in bridging the difference and striking the right balance between the goals of government, business, and civil society (WBI 2002). No single solution works best in all circumstances. Through engagement in concrete partnership projects governments, businesses, and communities can learn how to be more innovative and collaborative.

The Europe and Central Asia Region is highly diverse in terms of both economic development and global integration. Annual per capita income ranges from US\$170 in Tajikistan to US\$10,070 in Slovenia. While many countries, especially those in Central Europe and the Baltics, are firmly headed toward European and global integration, others still struggle with long-simmering tensions and the constraints of geography. As a result, no single approach to introducing corporate social responsibility concepts can work throughout the region.

Several factors favor the introduction of corporate social responsibility as a business practice, particularly in middle-income countries and in sectors in which foreign direct investment has been concentrated (Central and Eastern Europe and to some degree Armenia, Azerbaijan, Kazakhstan, the Russian Federation, Turkey, and Ukraine). External flows of private investments to these countries are growing relative to official development assistance, and in most cases they have significantly surpassed official flows (UNCTAD 2004).

In most cases, the first steps in developing corporate social responsibility practices have been taken by large multinational investors who brought with them a tradition of community engagement, environment-friendly technologies, a new management culture, and a practiced eye for how business might help solve social and environmental challenges (Simpson 2002). These leaders set standards for their suppliers and offer business models for others. In many countries in the region, local companies have also started adopting corporate social responsibility practices, as privatization progresses and the process of building new businesses has advanced. The challenge for Central and Eastern Europe will be to help manage the process of introducing corporate social responsibility as part of their development efforts.

Dimensions of a Corporate Social Responsibility Program

A program to promote corporate social responsibility in Central and Eastern Europe would incorporate several dimensions. It would emphasize those factors that are most critical for success, touching on all of the following.

Corporate Governance

Ensuring that business operates under adequate and meaningful systems of corporate governance is among the most widely discussed concerns of government, business leaders, and civil society. The traditional model of governance sees management as solely accountable to investors (shareholders). But a growing number of corporations have accepted the notion that stakeholders other than shareholders

have a legitimate interest in the workings and behavior of their business and that the corporation must be accountable to them as well. Motivated by good will or fear of being regulated, companies have expanded traditional governance arrangements to include accountability to the full range of stakeholders. When a company expands its sense of accountability, it takes on a values system that is translated into the corporation's inherent culture, and corporate social responsibility generally follows.

This is not a completely new idea in Central and Eastern Europe, but corporations still struggle to apply it to their own circumstances. A significant number of companies in the region are already practicing corporate governance. Their involvement in corporate social responsibility comes with the critical awareness that sustainable development is needed to make businesses and economies work. Governments face the challenge of promoting such good governance as part of their strategy.

Environmental Protection and Enhancement

Environmental protection has been among the most important political and economic issues in the region. Governments and businesses have not yet resolved how to share the cost of identifying and then mitigating the negative environmental impacts of business and restructuring technological processes to make them more environment-friendly.

Experience from the European Union has shown that companies that follow sound environmental standards tend to be more competitive in the international market in the medium and long term, as environmental standards promote innovation and modernization of processes and products and lead to cleaner technologies. In particular, the use of cleaner technologies is often associated with improved resource efficiency. Moreover, in the emerging global economy, where the Internet, the news media, and the information revolution shine light on business practices around the world, companies are more and more frequently judged on the basis of their environmental stewardship. Business partners and consumers want to know what is inside a company. They want to do business with companies they can trust and believe in. Ever more frequently, companies adopt environmental policies that extend through their supply chains, in the form of requirements that suppliers adhere to sustainability certifications such as ISO 14001, SA 8000, and FSC.

Environmental protection in Central and Eastern Europe has progressed remarkably well toward meeting the requirements of the European Union. But many environmental problems still remain to be tackled. The countries of the region inherited a legacy of pollution and neglect of environmental infrastructure. The dumping of waste and the extraction of minerals has created many unusable hot spots. The energy sector often uses outdated technology and relies on poor-quality fuel. As a result, average per capita air particulate emissions remain much higher than in the European Union (EEA 1999).

As a precondition for joining the European Union, countries will have to put in place environmental legislation and standards that meet the EU standard, which is among the strictest in the world. Central and Eastern European countries will

eventually benefit by addressing their environmental problems, both by creating more efficient industries and by improving the health of their citizens. But full compliance with the EU environmental framework will be achievable only in the long term, as the European Commission's Agenda 2000 recognizes. In some areas, such as environmental protection, new legislation in accordance with European standards and conventions has been slow, and there is still a wide discrepancy with EU norms.

Voluntary environmental protection initiatives could help address environmental problems in the shorter term. The motivation for adopting voluntary action is not only the desire to avoid regulation and costly taxes. Voluntary action also reflects other issues such as the concept of shared responsibility, the concept of stakeholder involvement, and the principle that a problem should be solved at the level that can most effectively address it. Voluntary initiatives could effectively support meeting the EU standards through much greater corporate engagement in environmental issues (Ten Brink 2002).

Small- and Medium-Size Enterprises

Developing a sense of social responsibility is an important issue facing large and small businesses alike. But until recently, large and multinational companies were much more involved than smaller firms (Garyson and Bhatt 2003).

Small- and medium-size enterprises make up the majority of businesses in Central and Eastern Europe and are often dynamic and longstanding players in the local community. Further engaging these companies in social responsibility provides a key opportunity for businesses of all sizes to work together and spread best practice along the entire supply chain.

The European Commission's Green Paper on corporate social responsibility emphasized the need to involve small- and medium-size enterprises in the debate on social responsibility and to strengthen and promote socially responsible practices of smaller businesses throughout Europe. In the longer term, the Green Paper will also apply to countries from the Europe and Central Asia region interested in joining the European Union.

Many small- and medium-size enterprises have not adopted a recognized corporate social responsibility approach. Their involvement with the community and environment is local in scope, occasional in nature, and often unrelated to their business strategies. Because of their low organizational complexity and the strong role of the owner, these firms often manage their societal and environmental impact in a more intuitive and informal way than large companies. In doing so, they may be missing opportunities to contribute to their societies while improving their own operations. The main driver behind the corporate social responsibility actions of these firms is the ethical perspective of the owner, although a significant number of small- and medium-size enterprises also recognize business benefits, such as improved relations with costumers and the local community. Lack of awareness seems to be the most significant obstacle to deeper social and environmental engagement,

especially among the smallest firms, followed by resource constraints on new investment and environmentally safer technologies (Garyson and Bhatt 2003).

Some potential negative effects could accompany introducing the corporate social responsibility concept in small- and medium-size companies. For example, small- and medium-size firms that form part of multinational company supply chains may be expected to pay the costs of applying a corporate social responsibility regime dictated by their larger customer. Multinationals may do little, if anything, to share these costs, even while benefiting strategically from their suppliers' efforts. Corporate social responsibility may also reinforce the growing power of larger firms by squeezing small firms in the supply chain and concentrating production in larger firms with greater capacity to implement corporate social responsibility initiatives (Utting 2003). To ensure an adequate balance between costs and benefits for them, caution is required in introducing the corporate social responsibility concept to small- and medium-size enterprises.

Social Inclusion

In many countries historical and cultural barriers have segmented society, to the detriment of vulnerable and minority groups. Although promoting social inclusion is a complex problem, expanding corporate social responsibility offers an option by which business can support the process. In many countries in the region, business is playing a significant role in developing initiatives that help bring opportunity to those who have been marginalized through the transition process. Examples include new policies designed to promote the hiring of ethnic minorities (such as the Roma) and community-based activities that seek to help disadvantaged young people, women, and ethnic minorities (Simpson 2002). These policies have been confined largely to large companies, most of them foreign. New entrepreneurs and managers of newly privatized companies are at the beginning of a long process of recognizing their role in this area. A government strategy for corporate social responsibility could support social inclusion by providing incentives, technical assistance, and information in their programs for enhancing inclusion.

Strategic Partnering and Cooperation

Strategic partnerships for sustainable development by companies, government, and civil society are a relatively new but growing phenomenon in Central and Eastern Europe. Working together, partners seek to recognize common objectives and develop the means of reaching them together. They seek to share risks, pool resources and skills, and deliver mutual benefits to each party rather than attaching blame and shifting responsibilities. Maintaining these partnerships is challenging. Like any new relationship, a partnership requires a common vision by all involved parties and a clear division of responsibilities. It must also be able to respond to external commercial and political realities.

Governments in Central and Eastern Europe are exploring several opportunities to involve private providers more extensively in the provision of public services,

particularly in areas where services are investment intensive, such as infrastructure provision. A constant and recurrent theme throughout the region is that building responsible businesses requires information sharing, dialogue, and informed “negotiations” between major partners and stakeholders. Businesses could take important initiatives to improve their own corporate practices. But if these initiatives are to be sustainable and scalable, civil society and government must participate. Building and maintaining such partnerships requires continuous and well-managed communications.

Experience from various Central and Eastern Europe countries shows that although companies and their stakeholders are attracted to the concept of corporate social responsibility, they are often uncertain as to what steps may create an adequate environment for putting the concept into operation. Government strategy could include promoting information exchange, confidence building, and other partnership-enhancing actions.

Anticorruption Measures

Economies in transition have acute problems with governance and corruption. In Central and Eastern Europe the speed with which the liberalization of markets occurred vividly exposed the problems of trying to dismantle the command and control system without having a new system in place (Simpson 2002). In particular, it revealed the problems of immature legislative and institutional frameworks, which helped fuel corrupt practices.

Recent research (World Bank 2004) has demonstrated that corruption slows economic development, disables social services, retards the establishment of civil society, and reduces business competitiveness. Corruption scandals in many countries in the region—and worldwide—have alerted the global finance and development communities to the seriousness of the problem.

There has been much scrutiny of the public sector in the past 10 years, and many initiatives now exist to pressure and encourage Central and Eastern European governments to tackle corruption. Governments now recognize that corruption diverts investment into unproductive sectors, retards the development of consumer markets, disproportionately harms the poor, and often leads to environmental damage when public officials are not compelled to enforce the law. Corruption imposes a particularly heavy burden on small- and medium-size enterprises, which often lack the resources to deal effectively and persistently with corrupt officials.

Less attention has been paid to engaging the corporate sector, individually and collectively, in fighting corruption and promoting governance. During the past decade, dramatic new imperatives have emerged for companies to take action against corruption and bribery. Once viewed by many firms as an awkward but necessary requirement of doing business, corruption and bribery are increasingly seen instead as a form of business malpractice. The risks of exposure have become greater, the costs of exposure more substantial, and a compelling body of evidence demonstrates that engaging in corruption and bribery damages company integrity, de-

grades the business environment, and fails to create enduring competitive advantage. Leader companies have responded to these imperatives by establishing comprehensive codes of conduct and anticorruption and bribery programs that include strong written policies, extensive training, and rigorous auditing and internal controls.

Codes of conduct and anticorruption programs are a relatively new phenomenon for companies in the Europe and Central Asia Region. Companies often implement anticorruption programs because of new laws, major external events, or galvanizing incidents. Initially, the primary goal of these programs is generally to reduce vulnerability to fines and criminal sanctions. But some companies increasingly recognize a range of additional benefits, such as preventing damage to their reputations, protecting and increasing access to capital, preserving share value, developing new consumer markets, controlling costs, and preventing internal corrupt practices. A government corporate social responsibility strategy could include validation and support for companies that establish codes of conduct.



Attitudes about Corporate Social Responsibility in Bulgaria, Croatia, and Romania

The World Bank surveyed business leaders in Bulgaria, Croatia, and Romania to identify private sector views of corporate social responsibility and the ways in which it is practiced.⁴ These studies are part of a broader corporate social responsibility pilot program of the Development Communication Division focused on operationalizing the corporate social responsibility concept in World Bank supported projects in the Europe and Central Asia Region.

The principal objective of these surveys was to determine how corporate managers in each country perceive corporate social responsibility and define their companies' roles. The sample included firms from different economic sectors, firms with different types of ownership, and firms of different sizes (Figures 1, 2, and 3).

The survey included 36 questions, asked in face-to-face interviews with chief executive officers or other senior managers in the second half of 2003 and first quarter of 2004 (157 interviews in Bulgaria, 165 in Croatia, and 153 in Romania).

Figure 1. Sampled firms by ownership structure

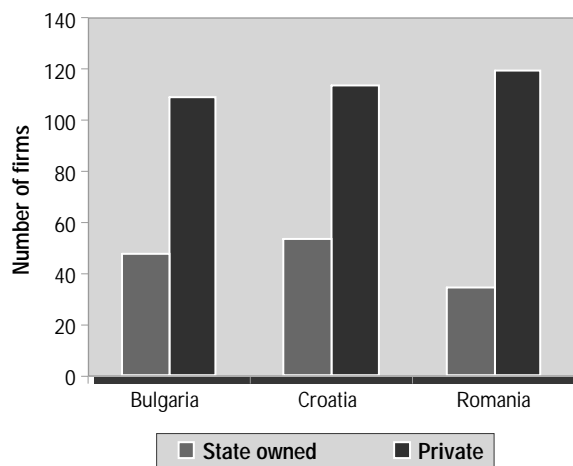
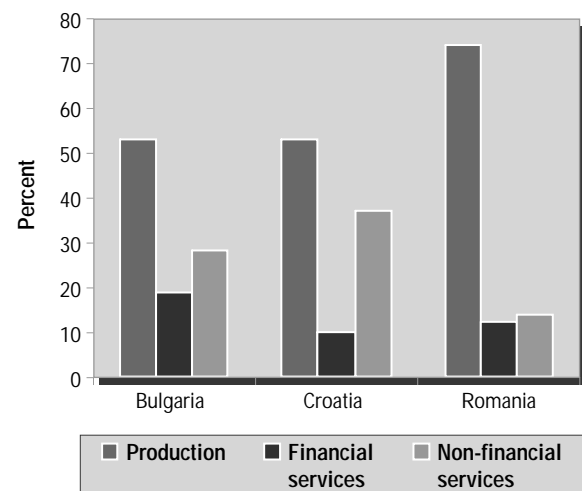


Figure 2. Sampled firms by sector



⁴ Detailed survey results as well as the questionnaire are available at <http://www.worldbank.org/developmentcommunications/where1/environment/csr.htm>.

Questions were primary closed-ended, but provision for written comments was provided where appropriate and feasible.

Companies revealed a diverse and somewhat limited view of what constituted responsible corporate behavior (figure 4). In all three countries, more than of half of respondents consider “ethical conduct in operations” the main component of socially responsible activities. They also identify transparency in operations, establishment of stakeholder partnerships, and compliance with existing law as significant parts of the concept. The fact that conducting “environmentally friendly activities” received a low ranking is striking, particularly given that similar surveys conducted among the top 1,000 global companies revealed that environmental management is considered one of the main corporate social responsibility components (PwC 2002, 2003).

Almost all business leaders in all three countries view their social role as complying with corporate and product protection laws and protecting worker welfare (Figures 5, 6, and 7). They also identify providing job security and earning profits as part of their societal obligations. A smaller number identify creating jobs, paying taxes, and contributing to charities as part of their role.

Figure 3. Sampled firms by number of employees

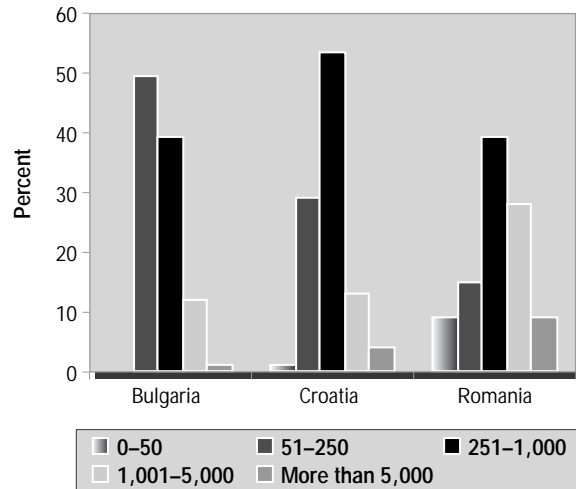


Figure 4. Understanding of corporate social responsibility

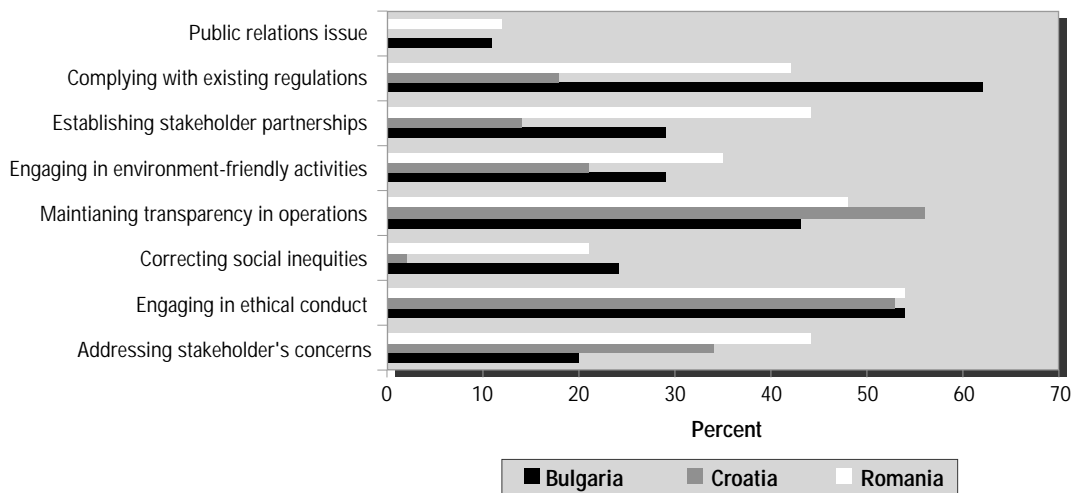
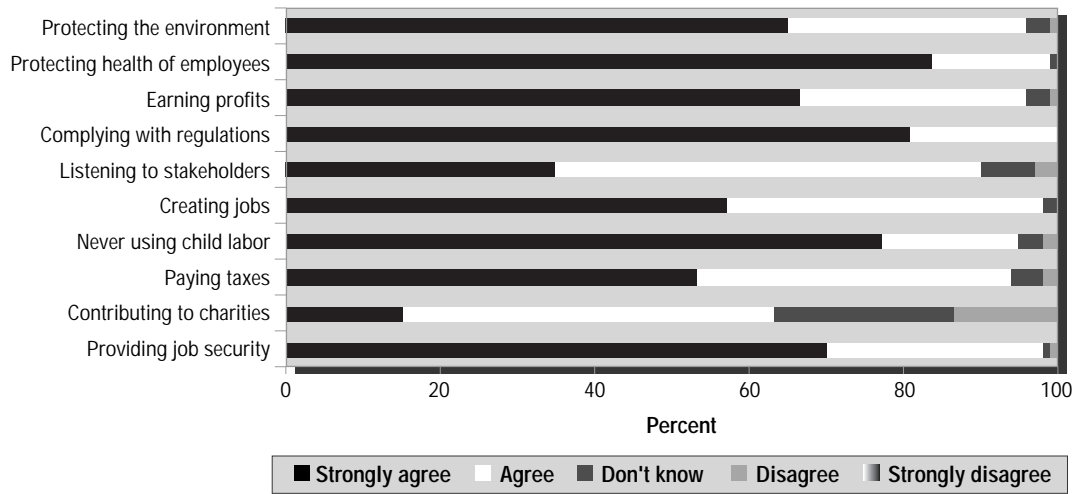


Figure 5. Bulgarian executives' view of their companies' main role in society



The results for the three countries differ somewhat from those of EU members. But they nevertheless reveal that good social and environmental practices are in place and that information and sentiment exist that could be the basis for further development of corporate social responsibility practices.

Stakeholders

Respondents in all three countries indicate that their main stakeholders are their shareholders (75 percent in Bulgaria, 58 percent in Croatia, and 53 percent in Ro-

Figure 6. Croatian executives' views of their companies' main role in society

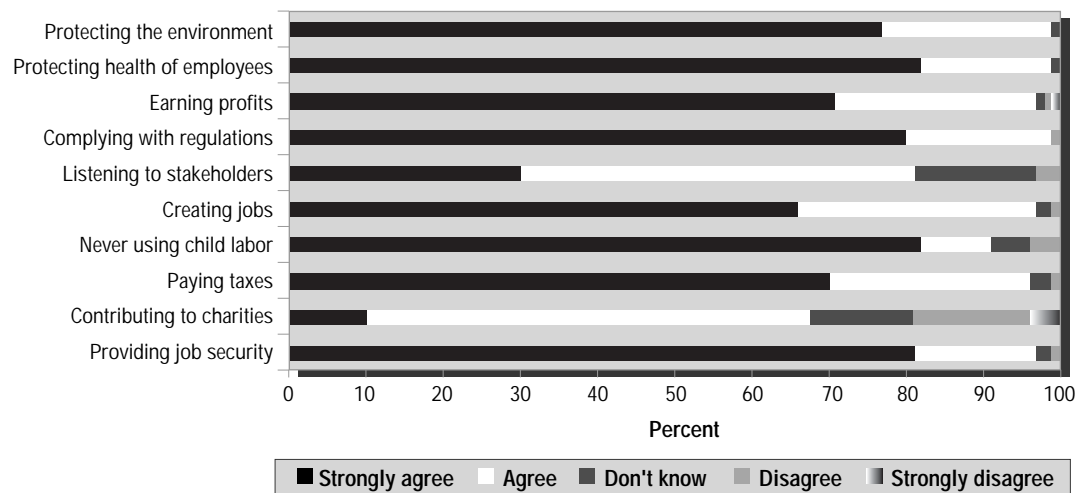
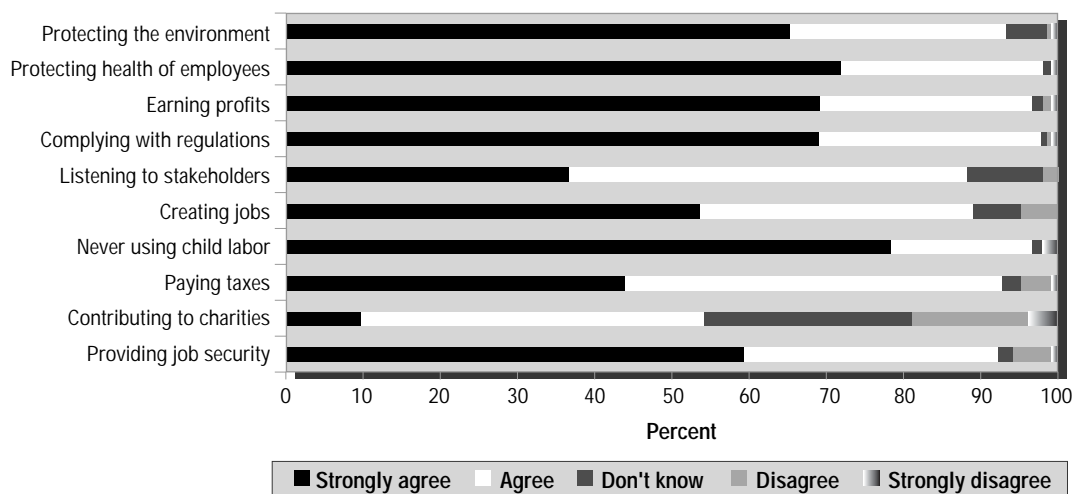


Figure 7. Romanian executives' views of their companies' main role in society



mania) and employees. A significantly smaller percentage consider government and local communities as having a stake in their operations: just 20 percent of Bulgarian companies, 19 percent of Croatian companies, and 26 percent of Romanian companies consider government a significant stakeholder. Few companies see local communities as stakeholders (15 percent in Bulgaria, 9 percent in Croatia, and 13 percent in Romania). Only a negligible number of companies cite civil society organizations as important (3 percent of respondents in Romania, 1 percent in Croatia, and 2 percent in Bulgaria).

These results differ slightly from those of top global companies whose CEOs identify customers (26 percent), board members (22 percent), and shareholders (20 percent) as the main stakeholders. Among these respondents, just 13 percent view employees as stakeholders. Other stakeholders identified in the global study are fellow executives (11 percent), government (4 percent), and NGOs (1 percent).

These results suggest that firms in Bulgaria, Croatia, and Romania are focused mainly on the internal aspects of their operations that are directly linked with their bottom line and employee welfare; external stakeholders are far less important to these companies. Several reasons could explain these results, such as the weakness of civil society organizations, which have only limited impact on or interest in private sector operations, and the declining role of governments in these economies as privatization progresses. The result indicates a lack of positive signals or incentives from governments that corporate practices go beyond the confines of boardrooms and affect other parties.

The countries' enabling environments for promoting corporate social responsibility are perceived as weak: according to respondents, governments have a limited understanding of and willingness to stimulate corporate social responsibility (Figure

8). In Bulgaria (58 percent) and Croatia (61 percent), most respondents disagree or strongly disagree that the government helps implement socially responsible activities and that current government policies encourage companies to make investments in corporate social responsibility. In Romania the figure was just 32 percent. In contrast, more than 60 percent of CEOs in the global study cite regulations as an important factor in their engagement in corporate social responsibility activities.

An overwhelming majority of respondents (92 percent in Bulgaria, 73 percent in Croatia, and 89 percent in Romania) believe that intensification of multistakeholder dialogue with all stakeholders helps make social and environmental practices more relevant in their operations (Figure 9). This might require initiatives supporting awareness building on corporate social responsibility among all stakeholders and, in the longer term, the institutionalization of such a dialogue.

Cooperation between sectors is a relatively new phenomenon, even in the developed world. To make cooperation a part of common business practice in Central

Figure 8. Percentage of firms that believe current government policies encourage companies to invest in corporate social responsibility

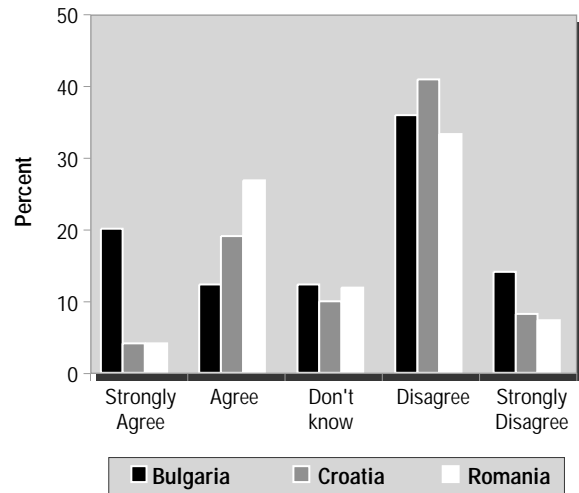


Figure 9. Type of dialogue viewed as important in increasing relevance of corporate social responsibility

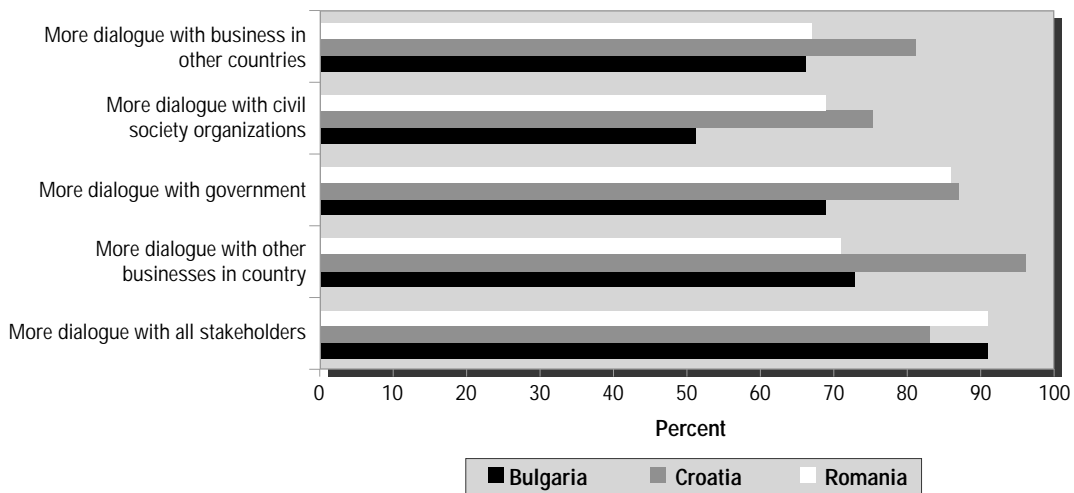
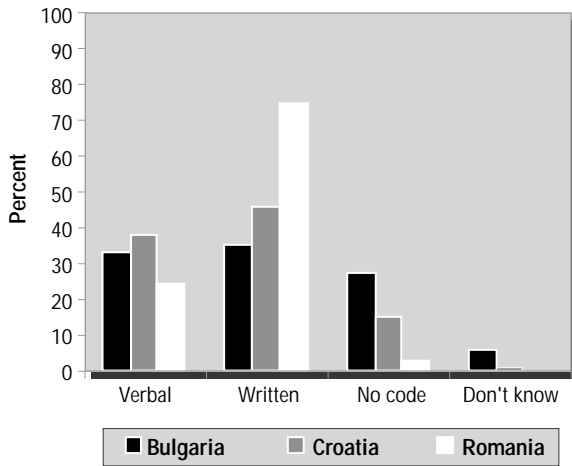


Figure 10. Percentage of companies with codes of conduct



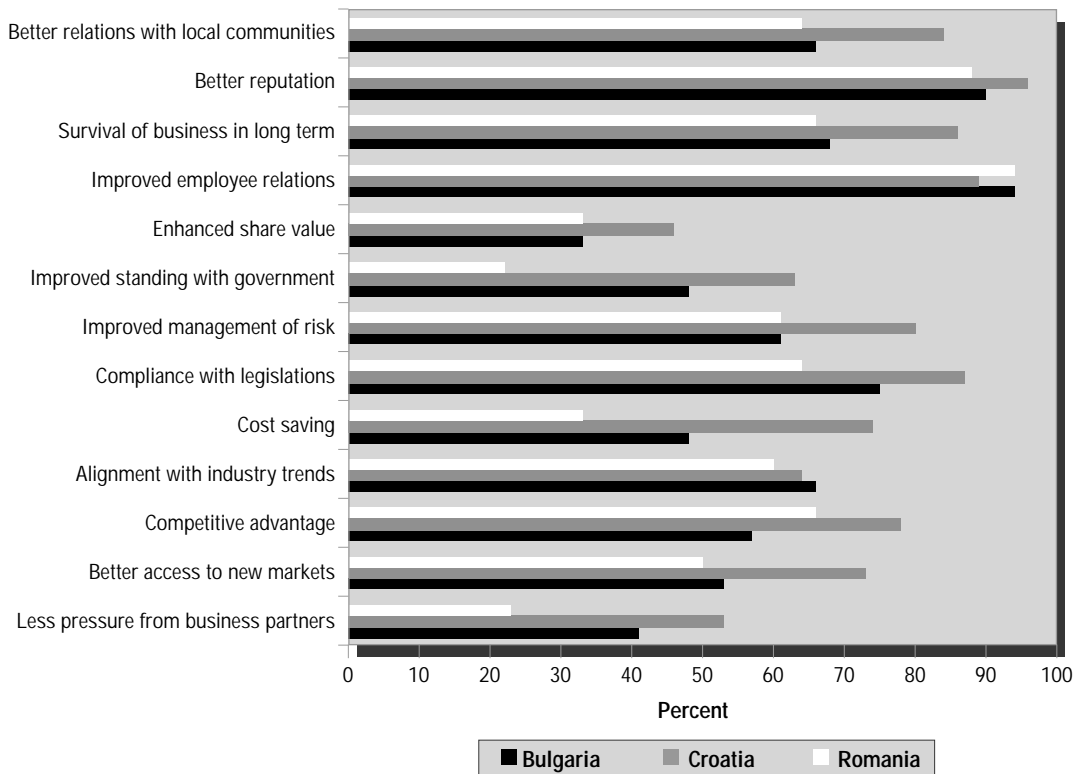
and Eastern Europe, a first step would be to raise awareness of the potential benefits of incorporating the views of different sets of stakeholders in corporate management.

Values, Principles, and Transparency

Most companies and leaders in corporate social responsibility use internal codes of conduct to implement their corporate social responsibility policies. Among survey respondents in Bulgaria, 35 percent have a written code of conduct and 33 percent use a verbal one (Figure 10). In Croatia, 46 percent of

companies have written codes and 38 percent use verbal ones. In Romania, 74 percent of companies use written codes of conduct and 24 percent use verbal codes. In

Figure 11. Main reasons for having a code of conduct



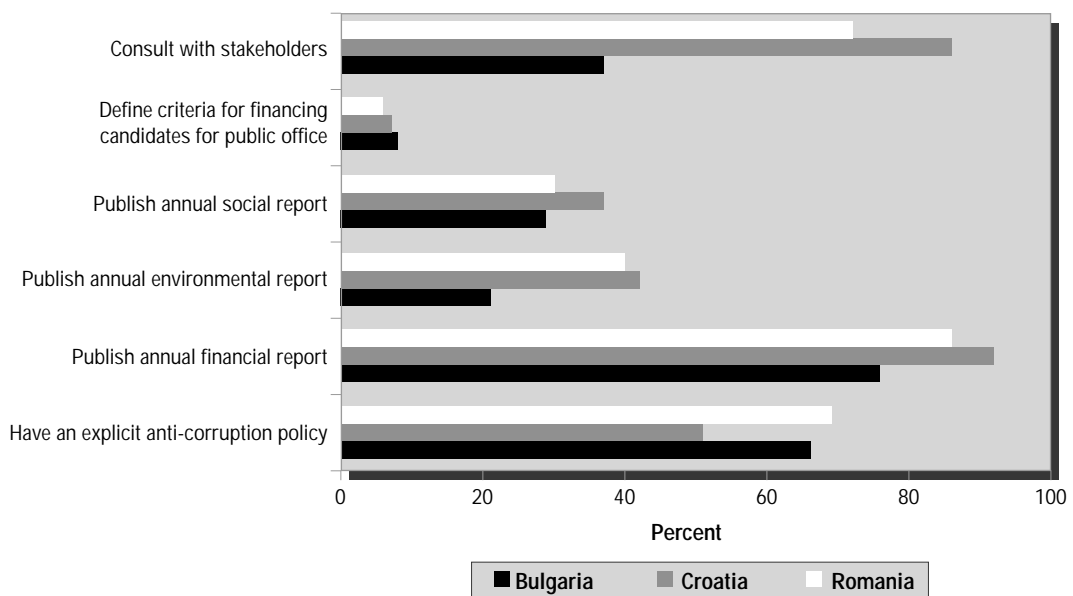
contrast, 87 percent of top global companies include ethics, values, and codes of conduct in their day-to-day management practices.

Almost the same percentage of state-owned companies and private businesses report using codes of conduct. Reasons for introducing these codes include gaining a competitive advantage, aligning with business trends, improving the management of risks, and complying with regulations (Figure 11).

In developed countries, for a variety of reasons, including pressure from stakeholders and the desire to avoid media scandals, companies started producing social and environmental reports to inform the public about how they had performed environmentally and socially over a period of time. Voluntary reporting has become part of the operational culture of many companies worldwide. This trend is also evident among leader companies in Bulgaria, Croatia, and Romania (Figure 12). In Bulgaria, 66 percent of companies have anticorruption policies, 76 percent of all firms publish annual financial reports, 21 percent report their environmental performance, 29 percent report their social performance, and 8 percent have clear criteria for contributing to political candidates. In Croatia, 51 percent of companies have anticorruption policies, 92 percent publish annual financial reports, 42 percent report their environmental performance, 37 percent publish their social performance, and 7 percent have clear criteria for contributing to political candidates. In Romania, 69 percent have anticorruption policies, 86 percent publish annual financial reports, 40 percent report their environmental performance, 30 percent publish their social performance, and 6 percent have clear criteria for contributing to political candidates.

Although these results were not analyzed by company size, it appears that larger companies, both state-owned and private, are undertaking more systematic report-

Figure 12. Company efforts at transparency



ing. Foreign-owned companies are more likely to engage in social and environmental reporting.

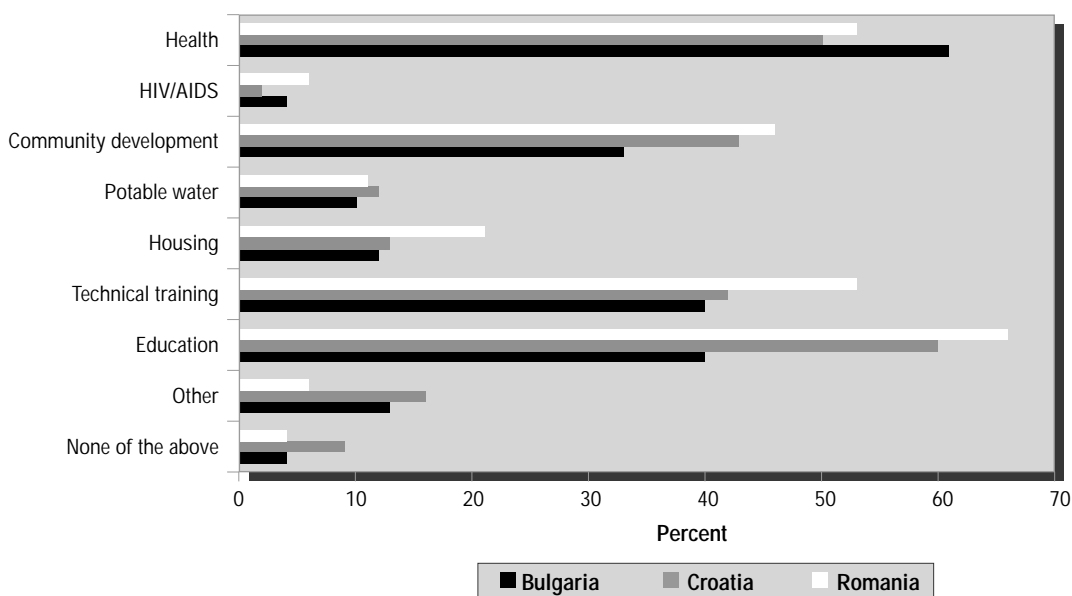
These results suggest that the concept of the triple bottom line is not advanced in these countries, but the concept does exist. This process could be enhanced in various ways. Governments could establish mandatory social and environmental reporting, integrated with a company financial reporting law. They could increase awareness by providing best practice guidelines on environmental reporting, endorsed by appropriate ministries, NGOs, and business associations. The main stakeholders could consider introducing social and environmental reporting awards, which would help interested parties recognize responsible companies.

Companies and their stakeholders need to devote much attention to enforcing and further developing anticorruption practices. Legislation needs to be established or enforced on corporate contributions to political parties and candidates and disclosure of business payments to government officials.

Labor and Staff Development

Most companies report engaging in good labor and staff development practices. In Bulgaria, 71 percent of state-owned companies and 74 percent of private businesses include antidiscriminatory practices in their recruitment policies. In Croatia, 60 percent of state-owned firms and 57 percent of private companies have this kind of policy. In Romania, such policy exists in 91 percent of state-owned companies and 85 percent of private firms.

Figure 13. Areas of social involvement



Most companies report having training programs for employees, either continuous programs or programs that are offered when the need arises. Companies in all three countries offer good health protection to their employees, with 83 percent of firms in Bulgaria, 75 percent in Croatia, and 84 percent in Romania providing health protection. In all three countries state-owned firms are more likely than private firms to offer health protection. As all three countries are signatories to the main International Labour Organization conventions, the challenge ahead is to enforce them and promote complementarity with conventions, codes, and certification options.

Social Practices

The overwhelming majority of companies invest in various social programs, mainly related to improving the well-being of their employees and developing the communities in which the firms operate (Figure 13). In Bulgaria about 94 percent of respondents offered social programs, related mainly to health (61 percent), education (40 percent), technical training (40 percent), and community development (33 percent). According to respondents, the main beneficiaries of these projects are youth, the local community at large, indigenous people, and ethnic minorities. In implementing social initiatives, companies often cooperate with municipal institutions, government agencies, and other companies. In most cases this cooperation is ad hoc.

Like Bulgarian firms, Croatian companies are engaged mainly in health (50 percent), education (60 percent), community development (43 percent), and technical training (42 percent). The main partners in these projects are municipal institutions, civil society organizations, and governmental institutions. Social programs focus on children, youth, people with disabilities, and the community and society at large.

In Romania, almost 79 percent of respondents report involvement in social activities. The main partners are municipal and community institutions, government agencies, civil society, and representatives of other businesses.

These results confirm the broad involvement of companies in a variety of social issues. Traditionally, firms were engaged in health protection and education; community development seems to be a relatively new aspect of their social activities. In the context of health protection programs, companies will need to rationalize existing practices to ensure that they do not undermine these programs' existence in the long term. The challenge is also to establish a mechanism that will encourage companies to address specific issues, such as HIV/AIDS. There is also a need to introduce frameworks for assessing the social impact of companies' operations.

The Environment

Bulgarian companies lag far behind developed countries in terms of environmental practices. Only 11 percent of respondents report participating in external programs related to environmental protection. Just 15 percent have recycling programs, 10

percent implement ISO 14000 norms, and another 10 percent use other environmental norms. About a quarter of companies report organizing environmental education activities for employees, managers, or local communities.

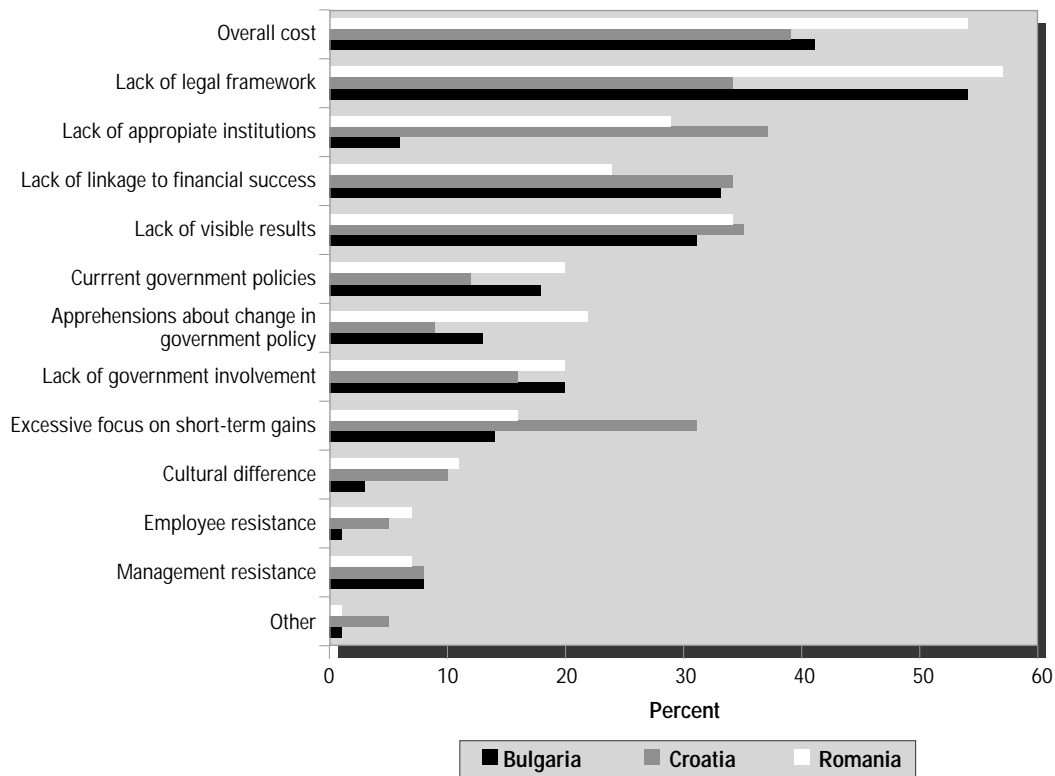
In Croatia 30 percent of respondents reported having environmental programs. Some 49 percent recycle, 15 percent implement ISO 14000 norms, and 27 percent implement other environmental standards. About 52 percent provide environmental education activities for employees, managers, or local communities.

In Romania, about 25 percent of companies report involvement in environmental initiatives. Some 58 percent recycle, 25 percent implement ISO 14000 norms, and 9 percent implement other environmental standards. Half of all firms provide environmental education activities for employees, managers, or local communities.

These figures are lower than comparable figures in developed economies. The fact that about 26 percent of interviewed companies are in the service sector, which usually has less of an impact on the environment than other sectors, does not change the fact that environmental practices in these countries are lacking.

As these countries adopt environmental regulations that meet EU requirements, the main challenge will be to develop effective enforcement, partnership, and en-

Figure 14. Main barriers to adopting corporate social responsibility



dorsement mechanisms. Awareness needs to be developed of the importance of incorporating certification for production and products to international market access. Providing tax incentives, which businesses believe are the most effective tool, for adopting an environmental management system might be effective in helping these countries meet EU standards. Promoting green consumerism by main stakeholders could also help promote more sustainable corporate policies.

Risks and Barriers

Business leaders perceive that expanding their corporate social responsibility could increase their costs, reduce their profitability, and increase regulatory interference (Figure 14). They see much less risk to quality, growing demands of stakeholders, declining productivity, or loss in comparative advantage. Surprisingly, a strong number of respondents perceive no risk in broadening the adoption of corporate social responsibility practices—under the right circumstances. This is a positive sign that purposeful action could contribute to expanding corporate social responsibility.

The most frequently identified barriers to expanding corporate social responsibility practices are the lack of regulatory frameworks setting rules of the game for businesses and the cost of making changes in plant, personnel, and practices in order to internalize corporate social responsibility. Many respondents also cite the lack of visible short-term results of their actions, linkages between actions and financial success, and adequate institutional arrangements and appropriate govern-

Figure 15. Main external benefits from adopting corporate social responsibility

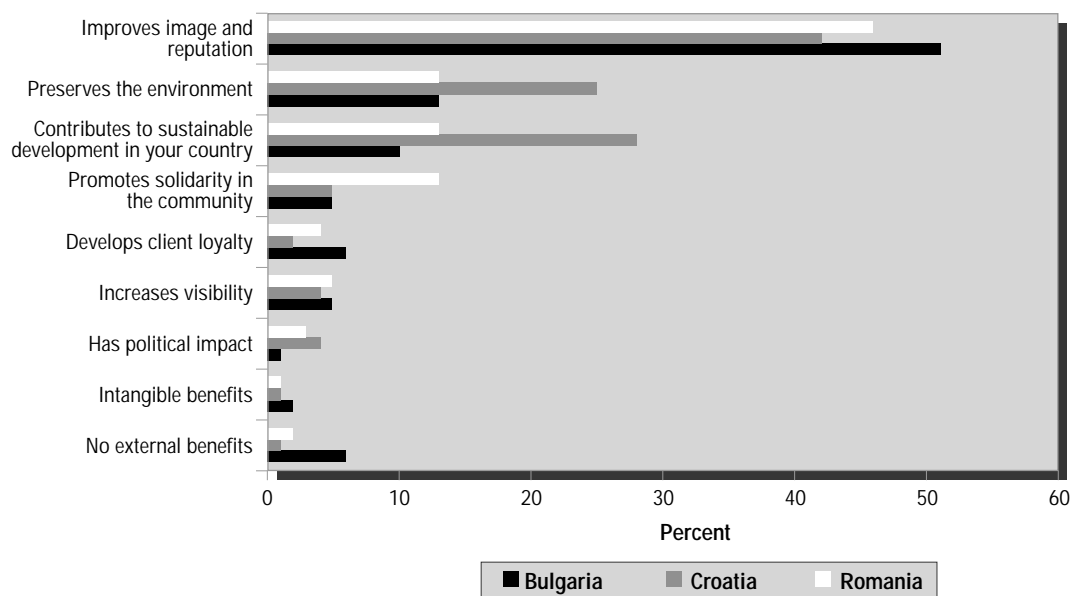
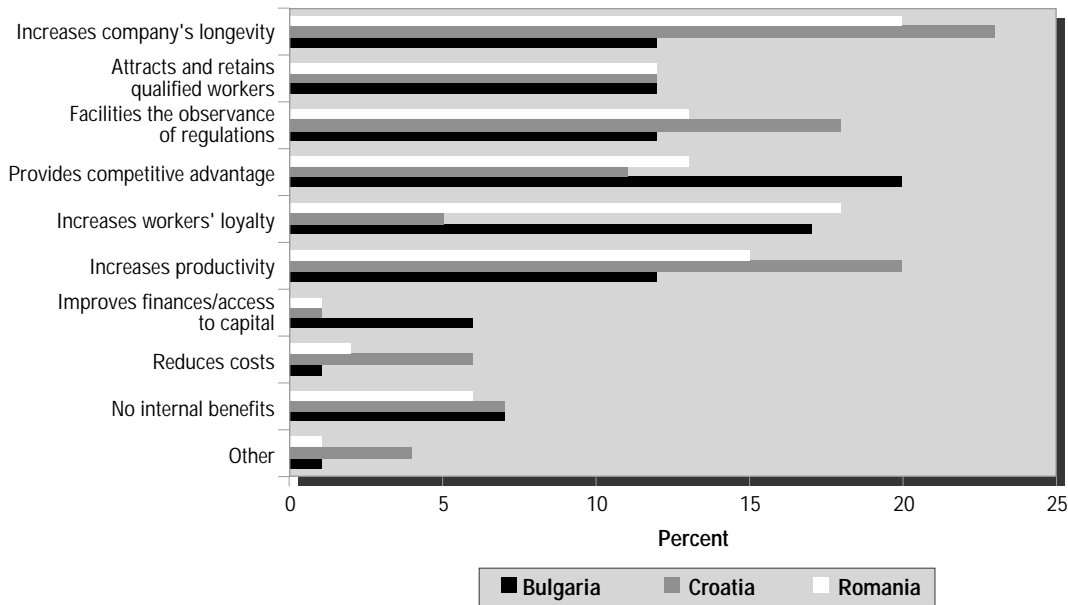


Figure 16. Main internal benefits from adopting corporate social responsibility



ment leadership as constraints. Surprisingly, neither short-term profit motives nor reluctance by management or labor leaders are cited as significant barriers.

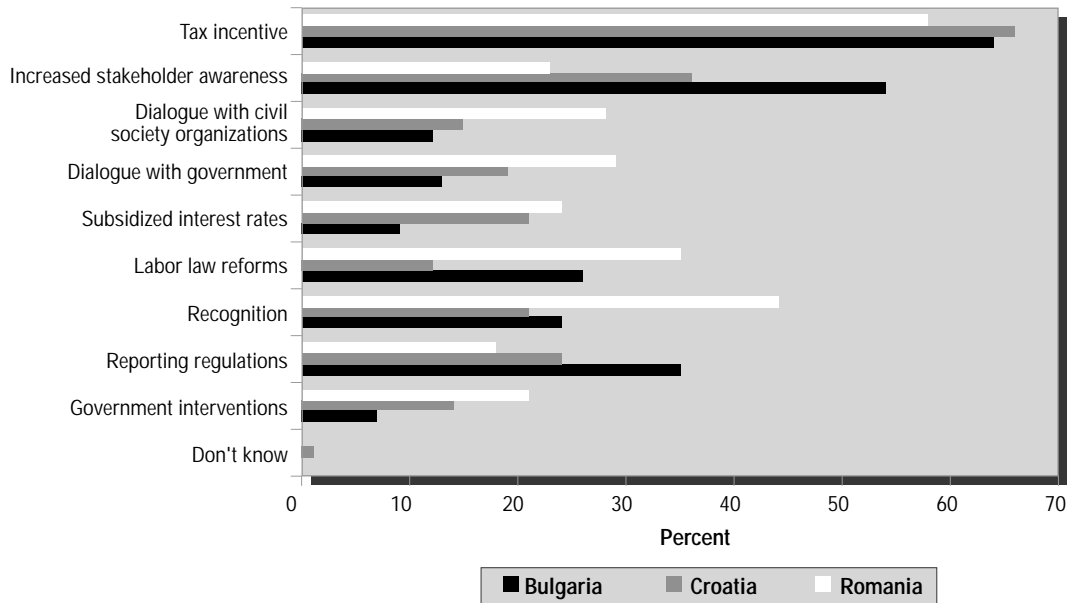
Drivers

The desire to improve corporate image and reputation is the most important external reason cited for undertaking corporate social responsibility (Figure 15). The most important internal benefit is the belief that corporate social responsibility practices could increase company longevity (Figure 16). Similar drivers are identified by CEOs of the largest global companies, among whom 79 percent cite reputation and brand as having extensive or considerable impact on their approach to corporate social responsibility activities, 69 percent cite attractiveness to employees, and 63 percent cite improved shareholder value as reasons to engage in corporate social responsibility projects. Only 26 percent of global CEOs cite outside pressure groups (NGOs, local communities) as a driver.

Maintaining client loyalty has relatively little impact on a company's decision to implement corporate social responsibility activities, possibly because customers in these countries place little value on social and environmental performance. In contrast, more than 84 percent of consumers in Western Europe consider companies' social responsibility an important or very important factor in forming decisions about buying a product or service.

Price appears to be the main driver for costumers in Bulgaria, Croatia, and Romania, which explains why companies do not see improved financial results as a

Figure 17. Actions perceived as helpful in improving company’s social and environmental performance



main driver for adopting corporate social responsibility initiatives. Competitive advantage and increased productivity are other important drivers for corporate social responsibility in all three countries. These results suggest that awareness-raising activities for all stakeholders, especially customers, and programs promoting certain behaviors could support further development of corporate social responsibility in these countries. The private sector needs a solid business case for adopting corporate social responsibility

Measures for Enabling an Environment for Corporate Social Responsibility

Respondents are divided over whether current government policies encourage corporate social responsibility practices. They cite tax incentives as the most important enabling initiative (Figure 17). They also perceive measures such as government regulations, dialogue with government and civil society organizations, and subsidized interest rates as creating a favorable environment for corporate social responsibility. Most companies do not see direct governmental interventions as a supportive factor.

Conclusions

The survey of 475 company managers in Bulgaria, Croatia, and Romania reveals that the concept of corporate social responsibility is known and interpreted by many to mean more than simply “abiding by the rules.” But thinking may not have ad-

vanced to the point that companies view government, communities, and other civil society organizations as having a legitimate stake in the company's business. Companies do not view these entities as stakeholders. Indeed, the idea of working with partners rather than owners is not a well-accepted view among company managers.

Company managers view their social responsibility as meeting the needs of their employees. They have a less-well developed view of their responsibilities for the environment, beyond some relatively low-technology approaches, such as waste reduction and recycling. Few have adopted more sophisticated measures, such as the full ISO14000 agenda.

Most firms would be willing to do more, but they perceive that there may be hidden costs and are concerned about the lack of guiding frameworks or policies. Given the historic context, these are powerful drags on independent action.

Governments are not generally perceived as offering leadership in promoting corporate social responsibility, although with more transparent policy and regulatory frameworks they could be. Financial incentives are seen as the most effective way of encouraging firms to act.

These results present a clear picture of the situation governments face and the instruments and processes they could use to capitalize on corporate social responsibility as an element of public policy. They indicate that governments would not necessarily be called upon to make massive public investments or budgetary transfers or to provide large financial incentives to increase corporate social responsibility. Information, communication, and facilitation through regulatory reform and processes may be effective in changing behavior.



Options for Encouraging Corporate Social Responsibility

Why Should Governments Encourage Corporate Social Responsibility?

Corporate social responsibility behavior in Central and Eastern Europe has been developed and applied largely by private companies, often multinationals that are expanding their operations consistent with their own best strategic interests. Many companies have gone beyond strictly legal and regulatory requirements in trying to meet the needs of their employees, customers, and communities. Governments have seen that corporate social responsibility can serve societies interests and have been satisfied that lead companies are aligning themselves with business practices under the pressure of the market. Consequently, they appear to have been satisfied with an implicit policy of remaining aware and sometimes endorsing private-led initiatives while monitoring and enforcing compliance with regulations, without an explicit policy to broaden or promote corporate social responsibility.

This relatively disengaged policy stance has served countries with vibrant formal business sectors relatively well to date. But circumstances have changed, and business is now asking for a more explicit policy regime for corporate social responsibility.

Obstacles to the development and application of corporate social responsibility practices include the perception of risks and costs and the legacy of mistrust of government. Addressing these issues requires explicit government action. Business leaders appear to be saying that the risks of expanding the scale of their corporate social responsibility would be reduced if the economic and social environment for business that governments establish were more predictable and transparent and if the risks of economic losses and loss of competitiveness resulting from being socially responsible were reduced. They seem to feel that when corporate social responsibility practices have social value, governments should provide financial incentives to encourage such practices and remove the risks of hidden costs and potential liabilities for businesses acting responsibly. Business sees a special role for a government in shaping supportive policies in areas such as sustainable development, social policies, environmental policies, public procurement, and fiscal, trade, and export policies. All of these ends would be served if the actions of governments were transparent and followed established regulations, so that mistrust would be reduced.

Other factors also compel the adoption of a more explicit policy for corporate social responsibility. Meeting growing public expectations for improved social and environmental conditions may be beyond the means of Central and Eastern European governments alone, so that establishing a regime that favors voluntary responsible business behavior would be in its and the public's interest. The scale of past environmental liabilities, which the state will be obliged to assume, and the perceived social obligations to a new socially aware population seeking equity with people in the European Union suggest the need for greater corporate social responsibility. Because the legal and administrative ability of most Central and Eastern European governments is less well developed than that of most EU governments in the area of the enforcement of environmental standards and meeting social standards, greater reliance on voluntary compliance may be required. Governments may also find it less costly to employ incentives and negotiations as a complement to monitoring and enforcing regulations governing environmental and social responsibilities of business.

Managing public expectations will require that government explain and work to establish limits to which society seeks to tie responsibilities for social and environmental development to businesses, acting as an honest broker between the businesses and society as a whole. This is particularly critical in Central and Eastern Europe given the transition from a command economy, in which employees expected employers to meet all of their needs, to a market economy, in which the separation of business and social interests is legitimate. Many of the functions that would help the private sector advance the use of corporate social responsibility—awareness, information, facilitation, the harmonization of differences between national and international standards—would benefit from the scale that a government operation could provide.

Finally, as one of the major economic actors, the government could set an example by developing good practices governing its own operations (procurement, maintenance, civil works). Most governments have taken actions on an ad hoc basis, but these solutions run the risk of being contradictory, leaving gaps, and being unsustainable. Developing and implementing a coherent corporate social responsibility policy would avoid these risks.

What Would a Public Policy Entail?

Once it decides to develop a national policy guiding the expansion of corporate social responsibility, a government needs to weigh options that are consistent with the structure of its corporate sector (formal and informal); existing regulatory frameworks; recent political, social, and economic history; and national aspirations. Corporate social responsibility has emerged largely from the initiatives of larger, often multinational companies and the case-by-case responses of governments; few coherent national corporate social responsibility policies can serve as models for further development.

Governments developing policies need to establish the objectives and indicators of achievement. They also need to determine the scope of coverage.

Objectives and Indicators of Achievement

To provide transparency and accountability for results, governments need to move from the qualitative to the quantitative expression of their policy objectives, setting targets for achievements that can be monitored and periodically disclosed to the public. Doing so would allow targets to be created covering, for example, the types of activities; the numbers and types of beneficiaries of these activities; the diversity of businesses involved, including small- and medium-size enterprises and business from different sectors; and the continuity with which corporate social responsibility practices are used. Further accountability for results could be ensured through the feedback of businesses and their stakeholders.

Governments could encourage companies to participate in public schemes that set social and environmental standards, monitor compliance, promote social and environmental reporting and auditing, certify good practices, and encourage multistakeholder dialogue. Usually this approach includes a monitoring and reporting scheme that ensures that information is disseminated internally and externally to compensate for the lack of legal obligation and maintain sufficient peer pressure.

Scope of Coverage

Policymakers have access to a vast array of international experience and case studies on the corporate social responsibility processes used by particular industries and firms. The World Bank (2003b) has compiled detailed studies of corporate social responsibility performance in the oil (Angola), mining (Philippines), and footwear (Vietnam) sectors, and it may soon complete a large inventory of corporate social responsibility practices in other industries.

Governments can apply this evidence to their corporate social responsibility policy by considering three closely related questions: In which areas are actions likely to do most to serve the public interest? What type of policy instrument would best promote such actions? Where should policy be targeted?

Areas of potential benefit. Governments have identified a public policy interest in a wide range of economic, environmental, social, and governance-related issues and initiated actions to synchronize corporate behavior with public and national norms and aspirations. Policymakers could assess the feasibility of engaging companies in different industrial sectors to address the following challenges:

- *Economic:* Ensure employment and retirement security, employee safety and protection, respect for labor standards, protection of human resource development concerns, fairness and transparency in contracting and supply chain management, and protection of intellectual property rights.
- *Environmental:* Improve environmental safety in production, distribution, product design, and service delivery; conduct ex ante environmental assessment

and incorporate risk management in investment; and conduct environmental monitoring, inspection, and management of remedial actions.

- *Social*: Protect human and employee rights; reduce violence and manage conflict; conduct ex ante assessment of the social impacts of business decisions and follow-up risk management; harmonize corporate and community needs and perceptions; encourage and manage charitable giving and social investment; and conduct social monitoring and reporting.
- *Governance*: Protect the rights of corporate shareholders and investors, establish codes of conduct for business, reduce corporate and government corruption, and maintain transparency and accountability in corporate management decisionmaking.

Instruments of public policy. In choosing the most effective instruments for realizing policy objectives, governments should be sensitive to their own political, cultural, and social experience and their own capacity to affect the rate and timing of social change. Depending on the circumstances, governments intervene to realize public goals by changing corporate behavior through four types of actions:⁵

- Mandating performance in the form of law and regulation, providing for inspection and control and penalties for noncompliance.
- Facilitating the adoption of corporate social responsibility practices by offering cash and tax incentives, technical assistance, nonbinding guidance, and codes; stimulating dialogue between business and civil society; and raising public and corporate awareness.
- Partnering with business by combining public and business resources to achieve economies of scale, leverage resource commitments to adopt corporate social responsibility practices, cross-fertilize ideas, and develop and disseminate best practices.
- Endorse corporate social responsibility practices with political and public recognition, support, publicity, praise, awards, and encouraging leadership by example.

In the countries covered by the survey, most firms indicated that there was a social role for business, but their perceptions of what that role should be were limited mainly to being ethical, being transparent, and caring about the well-being of workers rather than participating in correcting social inequities. Firms also felt that among those actions that were within their role, protecting worker health, respecting regulations, being environmentally sensitive, and respecting child labor law,

⁵ This categorization of activities is considered to be “objective” and is not a prescription. It has been used by the World Bank (2002, 2004b) in its work with governments and firms.

were the most important. This is a relatively narrow vision of responsibility. Policy debate needs to focus on what corporations could contribute to other issue areas and what course of action would best motivate them to do so.

Targeting sectors, regions, and types of firms. Expansion of corporate social responsibility by small- and medium-size enterprises will be necessary to achieve the next phase in meeting societal goals. As a group, these enterprises employ more workers, are closer to communities, are more widespread across the economy, and may collectively pose greater risks to the environment than a few large multinational companies. The resource and capacity constraints of these enterprises are very different from those of large or multinational firms. Explicit recognition of their characteristics should be part of a corporate social responsibility policy.

Depending on the circumstances, specially designed interventions and actions may also be required to promote corporate social responsibility in specific sectors (such as recreation, mining, forestry, and power generation) that offer particular opportunities and present specific risks. The scope of corporate social responsibility policy should therefore account for specific sectors and geographic regions. Governments may want to consider options for more explicit targeting of a corporate social responsibility policy to specify actions and types of actions to be applied nationally, regionally, by industry, and by type and size of firm. National policies could apply to all businesses throughout the country. They could be linked to enhancing national competitiveness, establishing a more predictable business climate, and dealing with national issues such as labor laws, child employment, and the environment. Other issues could be handled through policies that target certain sectors, regions, and types of firms.

How Would a Corporate Responsibility Policy Be Designed and Managed?

The first challenge for developing an engaged policy is to identify the most promising areas to be covered and the most acceptable balance of actions for addressing the issues involved. Most firms appear to be engaged in social development, with the strongest focus on the health and education of their own workers. To build on this willingness to play a social role and tap the additional contribution that might be made by business in areas not yet being addressed (housing, water development, HIV/AIDS prevention, technical training), a policy plan could be developed that endorses promising activities that have already been undertaken, revisits mandated actions that required regulatory frameworks, facilitates others through incentives, and possibly establishes a cost-sharing partnership. Basic analyses could be conducted by experts and officials who understand the technical basis of the issues involved.

The second (and possibly greater) challenge would be to elicit the level of ownership, commitment, and volunteerism among those affected by a policy (stakeholders) needed to effectively sustain a corporate social responsibility program. The engagement of a broad set of stakeholders in policy development through participatory and consultative processes is not yet common in Central and Eastern

Europe, and governments in the region have not traditionally engaged stakeholders in the monitoring and evaluation of the effectiveness of policy.

A rich literature on promoting the participation of civil society and business in policymaking could provide guidance for governments embarking on a proactive corporate social responsibility policy. The OECD (2001a, 2001b) the World Bank (1999) and other institutions have active programs that support governments that want to pursue a public participation strategy.⁶ A strategy would evolve as confidence between the government and civil society is built and experience gained. This process occurs in three stages:

- The government transparently develops and disseminates information on the policymaking process, providing open access to information and deliberations.
- The government asks for, receives, and potentially acts on feedback from interested parties and stakeholders, through comment periods, opinion surveys, and delegations.
- The government actively engages stakeholders in policy development, and identifying issues, options for resolving problems, and means of implementing solutions.

Policymakers determine how to engage the public and provide the resources to do so. The institutions responsible for managing the process require the mandate, positioning among government bodies, staffing, and resources to follow through with this policy.

The effectiveness of a corporate social responsibility program depends in part on the institutional arrangements for implementing it. The choice of arrangement is very context-specific, but should reflect decisions in several key areas.

Leadership

The governmental agency that leads the corporate social responsibility promotion effort would be responsible for leading policy development, supervising its implementation, and accounting for its results. It would define the policy's objectives and accountability, create an initial network of stakeholders, and provide a "cultural" perspective to the effort. A corporate social responsibility policy led by an apex ministry (finance, planning, the presidency) may be different from one under the leadership of a sectoral ministry (industry, trade and commerce, social services, environment).

⁶ Efforts include the OECD's Public Management Service; the World Bank Institute's Community Empowerment and Social Inclusion Learning Program; the World Bank Institute's cosponsorship of an international roundtable on "Building Open Government in South Eastern Europe: Information, Consultation and Public Participation," held May 23-24, 2002, in Ljubljana, Slovenia; and the toolkit prepared by the World Bank (1999).

Organizational Options

Governments can embed the functions related to corporate social responsibility policy and its implementation within agencies in several ways. Functions can be added as additional mandates to existing agencies, or they can be handled by new offices or bureaus established specifically for the purpose. New agencies may be created within the administrative structure of the government or established as autonomous or semi-autonomous agencies. The level of authority of the agency to communicate, convene, inform, request information, or mandate action by others depends on the functions to be assigned to that agency. The functions of policy development could be handled by the same agency that handles policy implementation, or by a different agency.

Sustainability

Policy development and management requires staffing and operational resources. Options for providing these will depend partly on how the functions are embedded organizationally. If mainstreamed within the government administration, such resources may flow through the state's regular budget. Policymakers must also determine whether and how to mobilize resources from the business community, a decision that will depend on the type of interventions and actions adopted. For example, the cost of developing mandated actions and monitoring compliance and enforcement would clearly be a state-financed function. Cost sharing may be associated with interventions that develop partnerships.



The Role of the World Bank

Donors have become increasingly interested in helping governments promote corporate social responsibility. Participants at a recent international conference on this topic reached the collective view that most countries, especially low-income and least-developed countries, could benefit from donor assistance in four areas:⁷

- Building government capacity and a public governance framework (implementing existing laws, strengthening monitoring, reviewing performance, and building transparency).
- Building capacity in the local private sector (including unions, industrial organizations, citizen forums) to be a partner in reforming corporate behavior and to participate in managing funding or other incentives that might be available to business to promote corporate social responsibility.
- Expanding the vision and practice of responsible business to small- and medium-size enterprises (and even microenterprises) through dialogue with governments.
- Developing local corporate social responsibility leaders (advocates, networks, mediators, and “brokers”).

Donors have been providing some (in some cases all) of the resources required to support activities of this type. While specifics depend on the country’s situation (income level, level of institutional maturity, history of donor partnerships), the resources to operationalize such activities could include the following:

- International and national consultant services for diagnostics and analyses supporting dialogue, policymaking, and implementation frameworks.

⁷ The conference, held in Stockholm in March 2004, was entitled “Development Cooperation and Corporate Social Responsibility: Exploring the Role of Development Cooperation Agencies in Corporate Responsibility.” Participants also concluded that by setting a good example by managing their own operations in a socially responsible manner, donors would be providing a fifth area of assistance for governments.

- Staff and personnel development and redevelopment services in both public and private sector institutions, including training, mentoring, and development and dissemination of knowledge products.
- Logistical and material support for institutions and activities including operating support, information technology and training, office sites and equipment, and local staffing.
- Incentives packages providing direct incentives (development or investment funding, matching grants), indirect incentives (tax or interest incentives), or both.

Depending on its institutional procedures, a donor such as the World Bank could explicitly align the areas of support as “outputs,” with resources as “inputs.” Inputs could be supplemented with indicators of results and a timeframe for achieving them, in a framework that effectively “projectized” its support.

Current World Bank Assistance

The World Bank has been a strong advocate of improved corporate governance as a necessary step in promoting investment, creating jobs, and reducing poverty. It has joined others in highlighting the contribution that business can make to social and environmentally sustainable development by adopting responsible practices. In addition to being an advocate of corporate responsibility, the Bank is implementing a program to adapt corporate social responsibility practices to its own operations as an example for other businesses.

To support its advocacy, the Bank is providing educational and training services, supporting information exchange, and conducting strategic studies for businesses and governments. The focus has been on helping them become aware of the business case for and strategic advantages of corporate social responsibility and practices for implementing a corporate social responsibility regime. Support has been provided through the World Bank Institute, which has organized learning and information exchange events; the Corporate Social Responsibility Practice Group of the Foreign Investment Advisory Services, which has developed and disseminated information packages, conducted strategic studies, and provided technical assistance to firms and governments; and the Development Communications Division, which has contributed to corporate social responsibility diagnostics, awareness building, and networking, principally in Eastern Europe. These services have been financed principally through the Bank’s operating budget and trust fund arrangements.

The Bank has also provided resources to governments to refine the application of corporate social responsibility policies through components of lending operations. Most of these efforts have been in conjunction with work in private sector development and the enhancement of national and industrial competitiveness. The Bank has not yet launched a free-standing corporate social responsibility lending operation, although there have been some limited discussions of the idea. To date

Bank activities in the Europe and Central Asia Region consist mainly of awareness building, diagnostics, and dialogue.

Other Options for Providing Assistance to the Europe and Central Asia Region

To respond to the emerging pressures on Central and Eastern European countries to adopt a more pro-active approach to corporate social responsibility, the Bank could re-examine the adequacy of its current efforts. It could consider taking a “country strategic” approach to corporate social responsibility development, with the objective of mainstreaming a comprehensive corporate social responsibility policy. Such an approach would involve encouraging governments to demonstrate a higher level of commitment and ownership of the corporate social responsibility concept than has been evident and to provide their own resources (possibly supported with donor or Bank financing) for corporate social responsibility programs. The Bank could support these efforts by making explicit time and budgetary provisions for corporate social responsibility promotion in country assistance strategies.

With government agreement and cooperation, Bank assistance could focus on the specific needs of the country. A country assistance strategy might contain some or all of the following:

- *Analytical and advisory activities.* Regardless of income level and institutional maturity, the Bank could assist willing governments through diagnoses and analyses of options leading to policy formulation. This could involve establishing the rationale for a corporate social responsibility policy and its objectives and formulating operational strategies based on international best practice.
- *Nonreimbursable technical assistance.* The Bank’s current support for corporate social responsibility through trust funds and nonreimbursable technical assistance could continue to be an element of a country assistance strategy, depending on the availability of Bank-managed resources that are not managed exclusively within the Region. Given resource constraints, this option may be more viable for low-income countries. These constraints could be partially alleviated though intra-institutional cost-sharing. The option of negotiating a reimbursable technical assistance arrangement with the Bank has not been explored to date.
- *Grant support.* The country assistance strategy could provide grants (under the Development Grant Facility) that could be mobilized to support building government corporate social responsibility programs. Assuming that the country and proposal met other criteria for receiving grants, this option could be best suited for lower-income and institutionally less-mature countries.
- *Lending operations.* Viewing corporate social responsibility promotion from a project perspective is the least explored option. But Bank experience with other aspects of public sector policy implementation (privatization, private sector

development, public financial management, judicial reform) suggests that in terms of building ownership, fostering commitment, and mobilizing the right resources in the right amounts with the right management arrangements to mainstream corporate social responsibility, lending may be the most effective vehicle for assistance. Lending operations to support corporate social responsibility would also respect country levels of income and institutional maturity, which analytical and advisory activities could identify.

To date the Bank has addressed country needs for corporate social responsibility support mainly through corporate social responsibility components within operations with other developmental objectives. Whether this approach has fully met the promise of corporate social responsibility as a tool of social and economic development has not been evaluated. In other areas (education, health, nutrition, HIV/AIDS, institutional development, the environment), the Bank has found that establishing a focused project for a clear development objective raises the level of accountability for results and commitment on the part of governments. The lessons of that experience could be applied to corporate social responsibility as it becomes a more clearly identified element of sustainable national development.

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