

Regional Corporate Social Responsibility Conference
“Responsible Business – A New Strategy for Development”
October 6-7, 2003, Warsaw, Poland

Conclusions

DevComm-SDO
World Bank

I. Background

As companies in the ECA region face the challenge of a changing business environment in the context of European Integration, globalization, and liberalized internal markets, they are increasingly becoming aware that using socially and environmentally responsible practices can be of direct economic value. Although the prime focus of the business is to generate profits, corporations can at the same time contribute to social and environmental goals, through applying CSR as a strategic line into their core business practices, corporate governance, and management instruments.

However, most ECA countries are at relatively early stage, compared to the European Union member countries, in exploiting the potential of CSR as a business phenomenon. Experience has shown that Governments have a new role to play, in providing incentives and promoting the adoption by businesses of socially responsible practices and regulating those cases in which the parties may not spontaneously adopt them. Civil society, besides being an active participant in the improvement of the social and environmental conditions, can also actively work with Governments and businesses to encourage the adoption of good practices by both parties.

There is a demonstrated need for the three parties to work together to ensure the most efficient and effective application of good corporate responsibility principles, make companies in ECA countries more competitive, and improve living and environmental conditions in those countries. They may need, however, guidance in how to achieve this partnership. There is therefore, a role for international institutions supporting European Integration, such as the World Bank to provide technical/substantive assistance to the ECA countries on how to create an environment for sound corporate social responsibility practices, and how to build tripartite coalition for long-lasting results.

As part of the World Bank's promotion efforts, the Development Communication Division of the World Bank, jointly with a local NGO – the Forum of Responsible Business, European business network – CSR Europe decided to organize a regional conference on issues related to corporate social and environmental practices in the ECA region.

The main objective of the conference was to present and examine trends in corporate socially responsible business in CEE countries and to share best practices from companies, governments and civil society organizations that support and implement CSR concept in their activities, and to provide analysis of the European Union framework on CSR.

The conference was the first of its kind in the region to focus exclusively on CSR and sustainable development related issues. It was attended by more than 300 participants

from 18 countries in the Central and Eastern European region. The conference attracted very senior representation of both local and international companies operating in the region including several vice presidents from major companies like Microsoft; IBM. Johnson and Johnson, Diabler-Chrysler; a number of local and global CSOs; mid-level representatives from the Polish Government (Ministry of Environment, Ministry of Economy and Social Policy, Office for Competition and Consumers, etc); senior representatives from the Presidential Chancellery including the Secretary of State, and economic Advisor to the President; and international organizations such as UNDP, UN Global Compact and the European Commission.

The conference was divided into the main two parts. During the first day participants discussed the role of partnerships among the private sector, governments and civil society, from the view point of operationalizing the CSR concept, while during the second day participants focused on concrete examples illustrating application of CSR in various sectors.

This document tries to present some conclusions from these discussions, which could be useful in supporting the World Bank's efforts towards sustainable development in the ECA region.

II. Overall conclusions

Governments should become more involved in promoting CSR among businesses in their countries. Governments have a strong interest in promoting CSR as a complement to their ongoing social and environmental programs to serve long term national interests. However, this involvement would be most effective if provided by supporting leadership from the business community and civil society, and serving as a partner not a prime promoter. Reforming regulations to remove anti-business bias would be an important step as would legitimizing initiatives to establish business standards, ethical codes, and recognizing constructive social and community involvement of business. This should extend to small and informal sector business as well.

A constant and recurrent theme throughout the conference was that building responsible business and corporate governance required information sharing, dialogue and informed "negotiations" between the major stakeholders. Business alone could take important initiatives to improve its own corporate practices, but for these to be correctly appreciated, to be sustainable, and to be scaled up, the participation of civil society and of government was needed. Building and maintaining such partnerships required continuous and well-managed communications.

The demand for the World Bank support to a market driven mechanism (based on the CSR concept) using all main domains of the public sector - mandating, enforcing,

facilitating, and partnering - to "convince" the private sector to behave more environmentally and socially responsibly was broadly recognized. Bank's convening power can not be underestimate in this effort. A neutral platform for multi-stakeholder dialogue which could be offered by the Bank (especially country offices) has been widely acknowledged. Participants (CSOs and business associations) from Bulgaria, Croatia, Slovakia and Romania requested Bank's support in establishing such dialogues at the country level, as well as in designing of awareness rising initiatives and partnership building efforts.

A systematic collecting of best practices from CEE countries could be useful in the nearest future not only for the "second wave" EU pre-accession countries, but also in countries such as Russia, Ukraine, Turkey, and even in the countries of Central Asia, where Bank concentrates its activities in the region.

III. How to create a positive climate for CSR?

Surveys of several hundred business leaders in Poland, Bulgaria and Romania conducted before the conference by the World Bank/DevComm-SDO , and a broad survey of SMEs conducted by the EU show that business leaders generally see their social role being served by complying with corporate and product protection laws, and by protecting worker welfare. They also identified non-use of child labor, providing job security, being profitable and protecting the environment as part of their societal functions. Many larger multinational firms go well beyond this. In addition to practicing responsible behavior through proactive programs to reduce the environmental risks of their operations and promote community well-being, they also frequently leverage the adoption of responsible business practices by their suppliers.

However, while there is good general awareness that corporate CSR social practice exists, as a practical matter, there are significant constraints on broader adoption of CSR practices. Surveys have shown that there is still a residual unawareness and misunderstanding of what could be considered "responsible" behavior beyond the strict adherence to legislation and regulation. In addition, the business community is dominated by small and owner-operated enterprises, employing few individuals, and often operating in the "informal" sector. These SMEs most frequently "discount" the actions of larger multinational corporations as serving other motives such as public relations, not social concern, see little relevance to themselves of the concept of CSR, and are very suspicious of governments in general and regulators in particular. Business leaders also fear incurring higher costs, reduced profitability, and growing regulatory interference.

In this context, creating a stronger environment for promoting CSR would require several interconnected activities and partnerships. Achieving results would involve a process of learning, dialogue and agreements on incremental improvements, not a legal or

legislative process. Governments, who have possibly, the strongest interest in promoting responsible business as a complement to its own social and environmental programs, operating in the long term public interest, would be called on to show commitment and leadership as a critical element. However, they could not be identified as the driving force, and would create partnerships with the business community and civil society who in turn would assume the most visible leadership roles.

For its part, Government would reform regulations to reduce anti-business bias, provide greater equity in taxation and transparency and predictability in applying sanctions, and liberalize economic control to reduce the incentives for business to remain in the informal sector, and legitimize (and even support) institutional arrangements promoting social participation (helping to develop business standards, codes of ethics, self-policing and self regulation among businesses). To be sustainable, a firm would need to understand the basic business rationale for adopting a CSR practice, however, once committed, Governments may also provide financial incentives and assistance when practicing responsible business involves providing technical assistance, new investments and technology development.

For their part, business and civil society would take the initiative in building awareness and dialogue among and between business and stakeholders. They would provide the basis for setting standards and codes of ethics that could be institutionalized. Finally, business itself would play a major role in bringing small and informal firms into the orbit of CSR by sharing information, best business practices and setting examples.

Multinational organizations such as the EU, IBRD, IFC, Business Forum can support these efforts on a national level with advice and resources.

IV. CSR Challenges – Importance of Co-operation between sectors

Strategic partnerships for sustainable development between companies, government and civil society are relatively new phenomena, but are a growing feature of both developed and emerging economies. Working together, partners seek to meet the objectives of each, while performing better than alone. They seek not to shift responsibility and risk from one party to another, but to share risks, pool resources and skills and deliver mutual benefits for each party. However, maintaining partnerships is a challenging task. A partnership, like any new relationship needs a common vision of all involved, a clear division of responsibilities, and a capacity to respond to external commercial and political realities.

Multi-stakeholder partnerships could be a method for operationalizing sustainable development - one that highlights an expansion of the traditional public sector responsibilities for environmental and social safeguards to now include business and civil

society. Such partnerships are a new approach to responding to weaknesses in institutions and organizations to overcome the persistent challenges of sustainable development, in particular, sustainable economic growth, social inclusion and environmental protection. Such partnerships could be defined as “*strategic alliances between organizations drawn from the three sectors of society – government, business and civil society – who commit to work collaboratively on a project or program to pursue sustainable development goals in which all partners contribute from their core competencies, share the risks, and benefit by adding value beyond the next best alternative*”. It is important to draw attention to the marked differences between (a) conventional, contract-based, public private partnerships, and (b) voluntary-based multi-stakeholder partnerships. One can recognize four key success factors for building effective multi—stakeholder partnerships. Partners should: (a) exploit their core competencies; (b) recognize the role (at certain junctures in the partnering process) of an independent third-party brokers; (c) ensure that the partnership engages with the wider institutions lying behind each partner; and (d) work to sustain the benefits of the partnership after the life of the partnership is over, for example, by building the capacity of the public sector to discharge their civic duties. Moreover, there is a need for partnerships performance tracking tool. Such a tool could track the real costs of partnership engagement for business, setting these against indicators for three types of ‘benefits’ relating to (a) the sustainable development priorities of stakeholders in society, (b) strategic business benefits, in the compliance, reputation and commercial areas; and (c) bottom-line financial benefits, as they appear in the company’s financial accounts. There were mentioned a number of multi-stakeholders partnerships in the region, for example:

- **Kazakhstan** – international organization collaborating with Citibank and Chevron-Texaco to help local SMEs access the supply chain of the oil company. Success to-date includes preparation of 220 business plans with local SMEs, and a rise from 7% to 40% in the company’s ‘local’ sourcing;
- **Poland** - a multi-stakeholder participatory sustainable development planning exercise for the City of Plock, an exercise aligned with statutory requirements for municipal development planning and with the UN Local Agenda 21. The resulting Plan is being implemented by various civil society organizations, drawing on a ‘fund’ to which the ‘City’ and PKN Orlen (a Polish company) have contributed;
- **Bulgaria** – Umicor jointly with municipalities of Pridop and Zlatiza signed a three-year Regional Development Program supporting sustainable community development through municipal cost reduction, employment and revenue generation, and environmental improvement.

V. Can small and medium size enterprises benefit in any way from implementing responsibility standards?

Social responsibility is an important issue facing big and small businesses alike. However, until recently, action had mostly centered on large and multinational companies. Small and medium sized enterprises (SMEs) make up the majority of businesses in Central and Eastern Europe and are often dynamic and longstanding players in the local community. Further engaging SMEs 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 CSR, published in July 2001, emphasized the need to involve SMEs in the debate on social responsibility and to strengthen and promote socially responsible practices of smaller businesses throughout Europe. In a longer term it will also consider countries from the ECA region.

Social responsibility is often a tricky issue for small and medium sized companies to deal with. All companies face similar questions and challenges: a) How much will it cost me in time and money?; b) How does it really relate to my core business?; c) How can a company of this size have a significant impact on the environment? d) Won't this just give me even more regulations to deal with?; e) How will those regulations help my business prosper?

However, for many SMEs, social responsibility is just a new way to describe something they do already: investing in broader social values whose benefits go beyond profit. In this context, social responsibility is not about "re-inventing the wheel." Because of their lower complexity and the strong role of the owner, SMEs often manage their societal and environmental impact in a more intuitive and informal way than large companies. Their community and environmental involvement is characterized by as being local in scope, occasional in nature, and often unrelated to business strategy. The main driver is the ethical consideration of the owner, even though a significant number of SMEs 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 SMEs, followed by resource constrains.

Governments, business associations, as well as international organizations have an important role to play in rising awareness through the provision of information, user-friendly tools, and the dissemination of good practices. It is about building on existing

good practice, maximizing its impact and raising awareness among important internal and external audiences in a way that will help companies to become more competitive. Since SMEs do not draw from their social and environmental involvement in the same way as a large companies, it is important to assist SMEs in adopting a more strategic approach. Collecting evidence on the business case for different types of SMEs operating in diverse cultural backgrounds seems to be key to a better understanding and increased SMEs participation. The most significant pressure on SMEs to adopt CSR practices is likely to come from their large business customers, which in return could help SMEs cope with these challenges through the provision of training, mentoring, etc.

There are tools that could assist smaller companies unlock the full potential of responsible business, both in terms of their core activities and in their relationships with a wide range of stakeholders. For example, CSR Europe developed the SME Key, an online tool that a) communicates the business case for social responsibility, and b) provides a guide to help SMEs evaluate their current CSR practices and integrate them better into their core activities and strategies.

There were presented some best practices from the region:

- **Poland** – Clean Business Program of BP. The main goal is to increase the competitiveness of SMEs by promoting ways of integrating environmental management and community action with day-to-day business operations, particularly supporting SMEs in taking action for the environment in their internal business operations, especially those that lead to cost-savings, motivating companies to undertake action on the environment externality to business operations, especially by improving the physical environment in the immediate surroundings of a factory, providing companies with opportunities and mechanisms for longer-term action for the environment and social revitalisation of local communities in partnership with governmental agencies, NGOs and other companies. Benefits for SMEs include: lower production costs due to improved management of raw materials, practical knowledge and better compliance with environment regulations; integration and cooperation between businesses on the site, improved image of the industrial area – improved image of companies, better relations with local residents, access to modern environment-friendly technological solutions; promotion of the site and the company. Benefits for stakeholders include: reduction of emission and pollution, improved physical surroundings, a real business community set up, opportunity for cooperation with leading companies in the sector, improved security on the site, practical ecological education, potential for new jobs creation.

- **Bulgaria, Croatia and Slovakia** – Integra Foundation’s project of fighting corruption in SMEs sector. The Project outcomes comprise: a) Elaboration of strategy for countering corruption in the small and medium size sector; b) Elaboration of specific recommendations for the state institutions enabling them to come with anticorruption policy in the SME sector; c) Publishing Ethical Code and Social Audit Manual.

VI. Is environment management only an additional cost for companies?

Environmental protection has been among the most important political and economic issues for dozens of years. Most of the long-term predictions show that the non-replenishable natural resources are running low, which can not only stop development, but threaten further existence. Uncontrolled growth of global consumption causes not only drastic use of resources, but also “production” of waste materials on a scale that has never been encountered before. Governments and business still face unsolved problems in mitigating negative environmental impact and restructuring technological processes to make them more environmentally-friendly. The role of business in this field is substantially growing.

Experience from the European Union shows that companies, which follow sound environmental standards, are, in medium and long term, more competitive in the international market, as environmental standards promote innovation and modernization of processes and products and lead to cleaner technologies. In particular, the use of cleaner technologies are often associated with improved resources efficiency, and can provide savings for the company. 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. Partners in business 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 many companies adopt environmental policies that extend through their supply chains in the form of requirements for suppliers to adhere to sustainability certifications such as ISO 14001, SA 8000 or FSC, etc. This transparency of business practices means that for many companies, corporate social responsibility, CSR, is no longer a luxury but a requirement.

The public sector plays a vital role in enabling companies to change their behavior, and engage in socially and environmentally responsible activities. Public agencies can stimulate this change by providing funding for research, or by leading campaigns, collecting and disseminating information, training, and raising awareness. Public bodies can develop or support appropriate management tools and mechanisms, including voluntary product labeling schemes, benchmarks, and guidelines for company

management and reporting systems. They can also stimulate change by creating incentives and by applying their public procurement and investment leverage. The other crucial role the public sector can play is partnering in environmental initiatives. Government which fails to establish efficient environment management systems that encourage more modern, eco-efficient and competitive technology, reduce the country competitiveness.

- **Croatia** – Pliva (pharmaceutical company) has defined the improvement of environmental protection as integral part of its business strategy. Over the last years, company has carried out several projects contributing to the company's development and to minimize the company's environmental impact. One of the challenges Pliva has had to face is ensuring sufficient quantities of high-quality water while, at the same time, reducing consumption. Water consumption has been continuously reduced by a number of activities, such as: a) substitution of drinking water with technological water, b) changing the production structure, c) use of new technologies, d) reduction of water loss in distribution. This resulted in the production increase by 250%, and reduction of water use by 400%. Pliva also developed its own energy management program. For example, the utilization of additives and catalysts, the addition of water to the fuel, and the use of an ultrasonic water-in-oil units has enhanced combustion in the boiler rooms, thereby decreasing hazardous air emission and reducing fuel consumption by 2%. The pro-ecological program helped Pliva attract international investors such as EBRD and IFC, and develop its position as a producer and investors in the CEE market.

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