

## THE PERCEPTION AND ROLE OF CORPORATE SOCIAL RESPONSIBILITY IN CENTRAL AND EASTERN EUROPE

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### Abstract:

*The article is focused on the analyses of the issues that the global society faces – hunger, unemployment, ethnic minority inclusion, improvement of labor conditions, the need for highly skilled labor force, illiteracy, drugs and alcohol abuse, crime or poverty, etc. – and which require considerable attention, responsible actions and more concern and involvement from the main economic players on international, regional and national levels. That means the business sector might be the missing link in this challenging puzzle. A series of concepts such as: corporate governance, corporate social responsibility, corporate citizenship, corporate community involvement, promotes and stimulates the contribution of the business sector at the community level in order to solve problems and improve the life of the community. Corporate social responsibility is to be seen as an important feature of the new economy and needs a special attention in order to be efficiently developed and applied in Central and Eastern Europe by private companies, often multinationals that are expanding their operations in order to be consistent with their own best strategic interests.*

**Keywords:** corporate social responsibility, Central and Eastern Europe, social issues

**JEL Classification:** D210, M14, M16

### Introduction

Nowadays the global society faces so many social issues – hunger, unemployment, ethnic minority inclusion, improvement of labor conditions, the need for highly skilled labor force, illiteracy, drugs and alcohol abuse, AIDS, crime or poverty – which require considerable attention, responsible actions and more concern and involvement from international and national levels to the level of the companies as main economic players. That means the business sector might be considered as one of the principal missing links in this challenging puzzle. Corporate involvement culture began to be developed in communities, entangling a wide range of specific actions, from philanthropy to volunteerism and cause related marketing. A series of concepts such as: corporate governance, corporate social responsibility, corporate citizenship, corporate community involvement, promotes and stimulates the contribution of the business sector at the community level in order to solve problems and improve the life of the community.

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### **Corporate social responsibility as a concept**

Corporate social responsibility can be viewed as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Union, 2002). The voluntary commitment goes beyond the compliance with legal, regulatory and contractual obligations. The corporate social responsibility business practices contribute to the achievement of social, economic, and environmental goals. The promotion of those goals should not be a pretext for shifting public responsibilities from governments to the companies.

The corporate sector has made constant efforts in order to convince the customers and suppliers to put into practice a responsible business behavior in Central and Eastern Europe, a geographic area which is going through a dynamic process of social and economic change, mainly due to European integration process.

With a population of nearly half a billion, the enlarged European Union of 27 countries has become a major sociological and economic superpower, representing a frontier-free single market stretching over some 5 million square kilometers. Businesses located in Central and Eastern Europe started to have access to the European Union market, at far less than average European Union costs.

Multinational companies face a number of risks and opportunities altogether. Their challenge is becoming the corporate social responsibility agenda, as their efforts have been directed at the provision of social, economic and environmental equity above what the governments offer. During the Communist era, businesses were expected to serve the needs of society. 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.” The Milton Friedman ideology of business having no responsibility other than to make a profit for its shareholders did not apply in such a context. With the move to a free market system, companies had to operate competitively, thus moving towards creating a corporate social responsibility agenda.

Corporate social responsibility is the voluntary commitment by company managers to integrate social and environmental considerations in their business operations. 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.

Corporate social responsibility in Central and Eastern Europe is expected in some sectors of business. Even if the standard terminology and language is not universally understood, concepts such as fair pricing, health and safety, good working conditions, community involvement and environmental protection are on the list of concerns for the population. Central and Eastern Europe people have no objections to foreign, profit-making businesses operating in their countries. They are all aware that the foreign direct investments are bringing about the rapid economic growth. In this respect they are not willing to accept growth at any expense or to see the present

inequity growing further. Many businesses operating in Central and Eastern Europe are taking seriously their responsibilities, but there are others taking the easy way, thus using PR to alter public perception. This kind of cause related marketing causes sometimes more harm as several research studies reveal that Central and Eastern Europe people would be more interested in a formal report or awareness event than an advertisement. Multinationals started to promote and pursue global projects and programs.

### **Innovative approach to corporate social responsibility**

Businesses looking to operate in a Central and Eastern Europe country will need to have a modern and innovative approach to corporate social responsibility; they will also have to examine and adapt their strategy in the context of the region and its historical evolution.

Companies in Central and Eastern Europe 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 enlargement. The strategic goal of all members was “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.” (strategic goal adopted by EU countries in Lisbon, 2001). Companies, particularly large, multinational leaders, are becoming increasingly aware that adopting socially and environmentally responsible practices can be of direct economic value. The main goal of business is to generate profits, but corporations can also contribute to social and environmental goals by applying corporate social responsibility as a strategic line.

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)]. By applying their knowledge they set the standards for business partners, offering a business model. Local companies started to adopt corporate social responsibility as the process of building new businesses has advanced.

There are several important factors critical for the success of the corporate social responsibility promotion such as: corporate governance, environmental protection and enhancement, SMS enterprises, social inclusion, strategic partnering and cooperation, anticorruption measures. All of this above mentioned factors have a particular role in the whole process of applying the corporate social responsibility strategy.

The first of the critical factors of the success of promoting the corporate social responsibility is corporate governance. In the traditional model of governance management is seen as the only one accountable to investors (shareholder).

Stakeholders (others than the shareholders) have interest in the behavior of the business and the corporation should be accountable to them as well. In this respect, companies have expanded the traditional governance arrangements to include the accountability to the full range of stakeholders. As a result, the company creates a values system transposed in the culture of the business, which usually triggers a corporate social responsibility policy.

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.

Another worth mentioning factor is the 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.

Companies that have good environmental standards are more competitive in the international market on the medium and long term, as they promote innovations and modernization of processes and products, leading to cleaner and environment-friendly technologies.

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. The countries of the region inherited a legacy of pollution and neglect of environmental infrastructure, facing a lot of environmental issues such as: dumping of waste, outdated technologies in the energy sector.

Small- and Medium-Size Enterprises face the same important issue of developing a sense of social responsibility. Large and multinational companies were much more involved than smaller firms. Small- and medium-size enterprises are dynamic and longstanding players in the local community of Central and Eastern Europe. A key opportunity for business of all sizes to work together and spread best practices along the entire supply chain is created by involving them in social responsibility. 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)].

Social Inclusion is another factor that influences the applicability of corporate social responsibility. Expanding corporate social responsibility offers an option by which business can support the process of promoting social inclusion. Opportunities

for people who have been marginalized through the transition process can be developed by the involvement of businesses in social initiatives. New policies have been designed to promote the hiring of ethnic minorities and there are a number of community based activities that help the disadvantaged young people (Simpson 2002). Such policies have been developed by experienced large companies, while the new managers and entrepreneurs are just at the beginning of defining their role in the process. The government has the possibility to provide incentives, technical assistance, and information for enhancing social inclusion.

In Central and Eastern Europe the strategic partnerships and cooperation can be viewed as a determining factor for the success of corporate social responsibility programs. By working together, business partners establish common objectives and develop the means of reaching them together. They share risks, resources and skills, delivering mutual benefits to each party. A good and successful partnership needs a common vision and a clear division of responsibilities. 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. 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.

Another factor that determines the success of corporate social responsibility applicability is the anticorruption measures, as economies in transition face the acute problem with governance and corruption. The liberalization of markets in the region has revealed the problems of legislative and institutional frameworks, which encouraged corrupt practices. Corruption slows economic development, disables social services, slows down the establishment of civil society, and reduces business competitiveness. 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. Companies in Central and Eastern Europe, following the example of multinational and leader companies, have established codes of conduct and anticorruption and bribery programs due to new laws, major external events or incidents. The goal of such programs is to reduce vulnerability to fines and criminal sanctions. There are additional benefits such as preventing damage to their reputation, protecting and increasing access to capital, preserving share value, developing new markets, preventing internal corrupt practices. A government corporate social responsibility strategy could include validation and support for companies that establish codes of conduct.

### **The perception of corporate social responsibility**

The perception of corporate social responsibility in Central and Eastern Europe countries (Romania and Bulgaria) is further on analyzed in the paper by referring to

the behavior of companies. These companies participated to various surveys conducted to reveal how corporate managers perceive corporate social responsibility and how they define the role of the company. The survey tackles upon areas such as: stakeholders, transparency, people management, social practices, and environmental issues.

Companies revealed a diverse and limited view of what constituted responsible corporate behavior, and identified some components of socially responsible activities such as: ethical conduct in operations, transparency in operations, establishment of stakeholder partnerships and compliance with existing laws. All business leaders view their social role as complying with corporate and product protection laws and protecting worker welfare and identified 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. There is room for improvement in the perception of corporate social responsibility area, but good social and environmental practices are in place and they constitute the basis for further development of corporate social responsibility practices.

In terms of stakeholders most of the respondents indicate that the stakeholders are their shareholders and employees. The other stakeholders with less importance to the companies are government, local communities and civil society organizations. These results differ slightly from those of top global companies whose CEOs identify customers, board members, and shareholders as the main stakeholders. These results suggest that companies in Central and Eastern Europe are focused on the internal aspects of their operations, linked with employee welfare; external stakeholders are far less important to these companies. The explanation could be that the civil society organizations are weak and have limited impact on private sector operations.

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. Most respondents disagree that the government helps implement socially responsible activities and that current government policies encourage companies to make investments in corporate social responsibility.

Most companies and leaders in corporate social responsibility use internal codes of conduct to implement their corporate social responsibility policies. Compared to the top global companies, which include ethics, values and codes of conduct in their day-to-day management practices, only a small percent of the companies in Central and Eastern Europe have written codes. The reasons for introducing these codes of conducts would be gaining a competitive advantage, aligning with business trends, improving the management of risks, and complying with regulations. In developed countries, companies issue social and environmental reports in order to inform the public about their performance over a period of time. This trend can be observed among leading companies in Central and Eastern Europe, as they publish anticorruption policies, annual financial environmental performance reports, and

social performance reports. 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.

Most companies report are engaging in good labor and staff development practice, by including antidiscriminatory practices in their recruitment policies, having training programs for employees, offering good health protection to their employees.

Most companies invest in social programs, related to the improvement of the well-being of their employees and developing the communities in which the companies operate. The programs refer to health, education, technical training, and community development. 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. 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 survey reveals that companies in Central and Eastern Europe are behind the ones in developed countries in terms of environmental practices. A small number of companies participate in external programs related to environmental protection, have recycling programs or implemented the ISO norms. As these countries adopt environmental regulations that meet EU requirements, the main challenge will be to develop effective enforcement, partnership mechanisms. Awareness needs to be developed of the importance of incorporating certification for production and products to international market access.

Expanding the corporate social responsibility could increase their costs, reduce their profitability, and increase regulatory interference. A large number of respondents perceive no risk in broadening the adoption of corporate social responsibility practices—under the right circumstances. The barriers identified 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. The main reasons for undertaking corporate social responsibility are the desire to improve corporate image and reputation, to increase company longevity, to gain competitive advantage and increased productivity. Activities that raise awareness for all stakeholders and programs promoting certain behaviors could be supportive for the further development of corporate social responsibility in Central and Eastern Europe countries.

The survey reveals that the concept of corporate social responsibility is known and interpreted by many to mean more than simply “abiding by the rules.” Companies do not yet view government, communities, and other civil society

organizations 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. Financial incentives are seen as the most effective way of encouraging firms to act.

### **Conclusion**

In conclusion, corporate social responsibility is to be seen as an important feature of the new economy and needs a special attention in order to be efficiently developed and applied in Central and Eastern Europe by private companies, often multinationals that are expanding their operations consistent with their own best strategic interests.

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