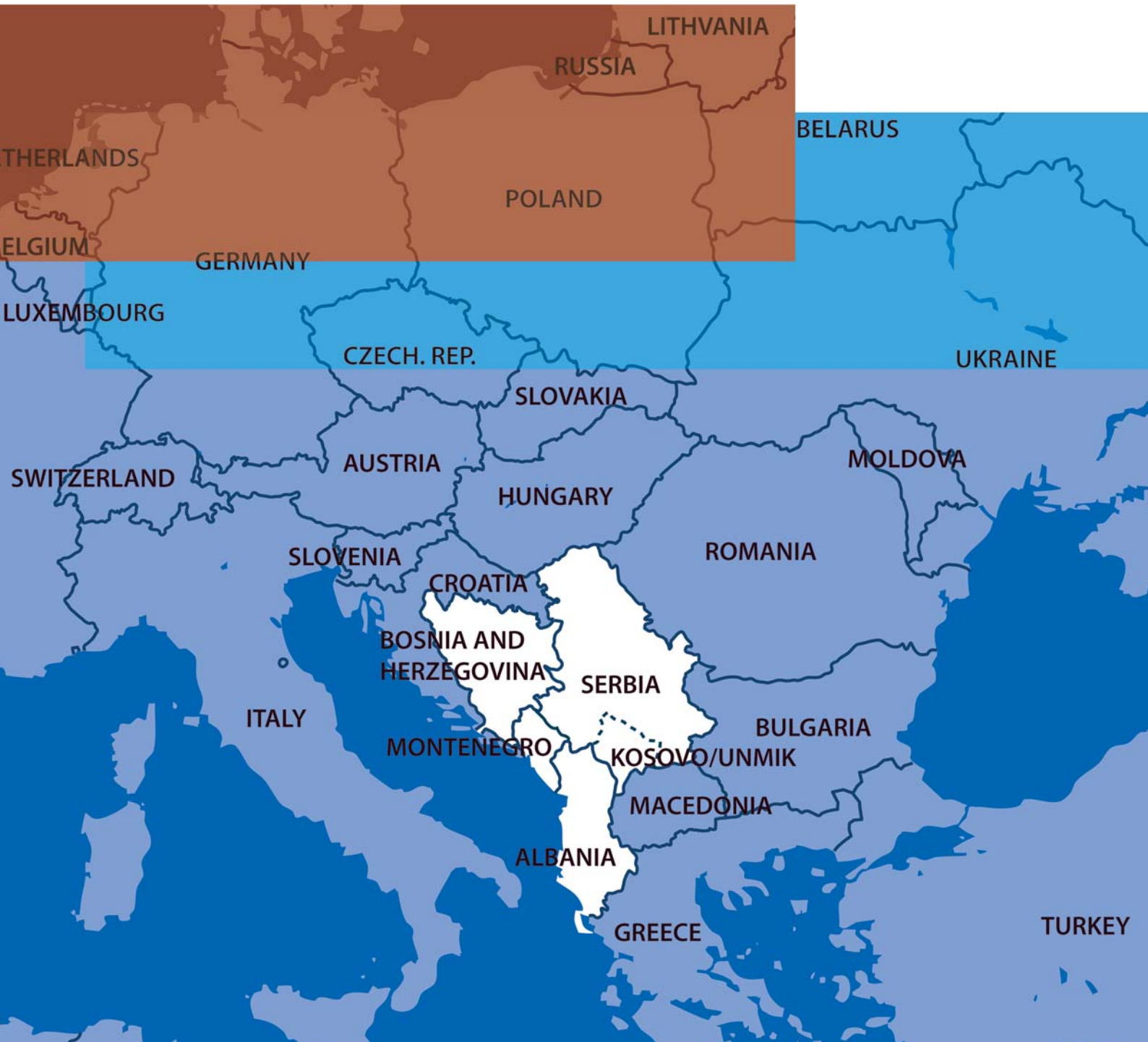


Baseline Study on Corporate Social Responsibility Practices in the Western Balkans



Baseline Study on Corporate Social Responsibility Practices in the Western Balkans

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The views expressed in this study reflect the author's opinion and do not necessarily represent the position of UNDP.

Materials and analysis provided in this report are for information and guidance purposes only. The information and views included in this study have not been endorsed by any of the stakeholders or businesses examined.

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FOREWORD

Corporate Social Responsibility (CSR) is not just a progressive business strategy; it is a tool for fostering sustainable development and higher living standards. Sustainable development is no longer only a concern of governments and civil society organizations; it is increasingly on the agenda of private companies. For this reason, the establishment of dialogue and partnerships that bring together both public and private sector actors has become extremely important.

CSR offers a framework for managing organizations according to a set of financial, environmental and social principles. Incorporating responsible business strategies into daily operations provides companies with an opportunity to engage in innovative processes, open new markets, raise competitiveness, reduce legal risks, improve the bottom line, save energy and improve relations with shareholders and the public.

Against this exciting background, I am pleased to share with you the first comprehensive baseline study of CSR in

the Western Balkans – Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia. The study builds upon a similar mapping study conducted in the New EU Member States and candidate countries.¹

The analysis presented here provides snapshots of the current state of CSR in the Western Balkans, maps relevant CSR organizations and initiatives operating in the region, and evaluates the implementation of CSR practices. It is addressed to a wide range of actors from business leaders and government officials, to civil society and grass-roots leaders. It offers useful and inspiring recommendations to encourage the development of CSR in the region.

The report was funded by the United Nations Development Programme (UNDP). It reflects the organization's commitment to, and active support of, CSR. I believe this report will stimulate debate both on national and regional levels about CSR's role in building a more sustainable and prosperous future.

Jens Wandel

Deputy Director
Regional Bureau for Europe and CIS
UNDP

¹ For more information on the project "Accelerating CSR practices in the New EU Member States and candidate countries as a vehicle for harmonization, competitiveness and social cohesion in the EU" see www.acceleratingCSR.eu.

EXECUTIVE SUMMARY

The question of how businesses can increase the good that they do, and minimize the adverse impacts of their activities, is increasingly becoming a major issue for governments, business organizations and civil society organizations (CSOs) worldwide. In the context of the global economy, and the interest of all countries and companies to participate fully in global supply chains, Corporate Social Responsibility (CSR) is understood to be a potentially powerful tool to help give competitive advantage in the marketplace. Increasing numbers of:

- *Business leaders* understand that long-term company value is based on the capacity of business to respond to society's changing needs and expectations;
- *Employees* prefer to work for companies whose values and mission they share, and where they can make a contribution to society;
- *Local communities* want to know that businesses are being good citizens;
- *Investors* look for companies that understand and manage their risks, and are entrepreneurial in identifying emerging business opportunities;
- *Regulators* want to ensure that business activities not only create jobs and economic growth, but also help solve pressing problems such as climate change;
- *Consumers* often seek products and services of companies they believe are doing the 'right thing' in terms of human rights and the environment;
- *NGOs* expose examples of irresponsible behaviour and campaign for greater corporate accountability and transparency; and
- *Media* organizations look for examples of best – or worst – practice to spotlight.

Against this background, the study was conducted as part of a larger UNDP regional initiative aimed at assessing the level of CSR in Central and Eastern

Europe. The main goal of the study was to measure the level of CSR engagement among both the business community and non-corporate stakeholders of CSR promotion in the Western Balkans region including Albania, Bosnia and Herzegovina (B&H), Kosovo/UNMIK² (hereinafter referred to as Kosovo), Montenegro, and Serbia. The study was implemented from February to July 2008 with the support of national teams of experts from the above countries and under the guidance of international consultants. The study included desk research on CSR-related literature from the region, and surveys with CSR non-corporate stakeholders as well as members of the business community.

The Baseline Study on Corporate Social Responsibility Practices in the Western Balkans is the first comprehensive CSR analysis conducted across the region. The report presents findings in both exploratory and descriptive format. It describes detailed analysis of CSR development and practices in the region and illustrates existing drivers, barriers, and available resources for CSR engagement and promotion. The report also suggests a set of recommendations for all stakeholders of CSR implementation based on its findings and academic literature.

The study findings and recommendations should be useful for a wide variety of stakeholders. Representatives of national and international business companies with operations in the region can use them to build, implement and evaluate their CSR strategies. Governments, civil society organizations, media and development partners³ interested in CSR-related activities and/or promotion in the region, can apply the findings and recommendations of the report in developing their CSR-related policies and programmes.

² Kosovo is a UN Administered Territory as per Security Council Resolution 1244.

³ Development partners include international organizations, western public and private donors and institutions.

The report presents findings in the regional context only. The detailed country specific analysis of the findings from the study is presented in five different reports published by UNDP offices in Albania, B&H, Kosovo, Montenegro, and Serbia and can be obtained from UNDP web pages in each Country Office (CO)⁴.

I. Major findings

Overall, CSR engagement in the reference countries is shaped by a number of region-specific factors. These include the political and economic transition process, the effect of shrinking economies, armed conflicts and political instability, weak civil society, along with the limited capacity of governments in effective policy making and in implementing necessary reforms. CSR is a relatively new concept in the region and has only recently been supported by multinational corporations and development partners. Nevertheless, the rapid development of regional economies, along with the countries' firm intentions to pursue EU integration and adopt market economy principles are among the major factors creating a favourable environment for CSR development.

CSR UNDERSTOOD AS PHILANTHROPY, COMMUNITY SUPPORT AND ENVIRONMENTAL PROTECTION

There is no official or academic definition given to CSR in any of the research countries. The study utilizes the following European Union CSR definition which is the most commonly used in the region: "CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis⁵."

Although CSR engagement in the region is mainly driven by the multinational business community and development

partners, the current understanding of CSR among companies significantly differs from the EU definition. There is limited understanding of CSR as a potentially powerful way of helping businesses better understand societal expectations, engage in dialogue and partnerships, and in so doing identify business risks and opportunities. Businesses in the region view CSR mainly as philanthropy, community support and environmental protection. Although previous studies indicated companies understood CSR mainly as philanthropy, an increasing number of companies (81 percent), influenced by the rising attention given to climate change globally, see environmental concerns as the major CSR issue, however, only a very small percentage of companies are engaged in environment related activities. Although many businesses place the topic at the top of their agenda, they are yet to take real action.

EARLY STAGES OF CSR ENGAGEMENT

A relatively high number of companies reported being engaged in CSR activities at some level. However, CSR activities usually consist of *ad hoc* donations to charities and communities, environmental projects, and investments in occupational health and employee training. There are very limited reports of activities in other areas (e.g. fair treatment of customers, good corporate governance, stakeholder engagement, transparency and accountability, risk management, social inclusion, socially responsible investment, etc.).

The research used the AccountAbility rating TM methodology and rated CSR engagement of companies in the Western Balkans region, along six domains: Strategy, Stakeholder Engagement, Governance, Performance Management, Public Disclosure and Assurance. According to the findings:

- 19 percent of the companies in the region currently incorporate CSR into their overall business strategy;
- 12 percent involve stakeholders in company activities and decision-making processes;

4 UNDP Albania, <http://www.undp.org.al>.
UNDP B&H, <http://www.undp.ba/>.
UNDP Montenegro, <http://www.undp.org.me/>.
UNDP Kosovo, <http://www.ks.undp.org/>.
UNDP Serbia, <http://www.undp.org.rs/>.

5 European Commission presented Green Paper in 2001 as the main policy document to start debate about CSR. The paper also defined EU definition of CSR. http://ec.europa.eu/employment_social/soc-dial/csr/greenpaper.htm.

- 22 percent have governance and management systems that integrate CSR into business processes;
- 23 percent have good reporting behaviour⁶; and
- 4 percent utilize independent experts' services to assure CSR-compliance levels.

The numbers correspond to those of previous research from the region⁷ which indicated relatively higher levels of strategy and governance and lower levels of assurance practices. Conversely, companies in the Western Balkans scored relatively higher with regards to reporting on CSR performance and much lower with regards to stakeholder engagement.

Multinational corporations are leaders in terms of CSR in the region. They apply practices and experience gained from their international operations. Small- and medium-sized enterprises (SMEs) are typically 'bystanders' of CSR activities. State-owned companies fall in between national-private and multinational companies with regard to their engagement in socially responsible activities.

The findings are consistent with early stages in the continuum of CSR engagement. Companies from the Western Balkans should be acknowledged for their efforts in a particularly difficult context, and encouraged to go further in embedding the CSR concept into their strategies and operations.

A WEAK ENABLING ENVIRONMENT FOR CSR

The policy environment where businesses operate does not actively encourage CSR engagement to an adequate level. Unlike an increasing number of EU member states, none of the countries included in this study has established a national CSR agenda with clearly defined objectives for incorporating CSR values in business practices. While governments have adopted a wide range of laws and regulations that relate to different aspects of CSR, mainly as a precondition to EU accession, mechanisms to implement and enforce this legislation are often weak or absent. By and large, gov-

ernments lack the capacity or information needed to provide financial and/or non financial incentives for CSR engagement and to assist in creating a socially responsible business climate. In addition, CSR may not be prioritized by governments over other pressing issues in post-conflict, transition economies, such as completing privatizations, reducing unemployment and rural poverty, and ensuring political stability. Although there are many civil society organizations in the region, few are actively engaged in promoting CSR. As a legacy of the former regime the general public, consumers and communities themselves, are often not empowered to demand greater business responsibility and hold business accountable. In short, businesses commonly operate in an environment where they do not feel that 'someone cares' whether they are accountable. Finally, the full potential of academia and media to promote CSR in the region is yet to be realized.

SOME BARRIERS TO CSR BUT MANY DRIVERS AS WELL

There are a number of internal constraints associated with companies' own capacities. Overall companies report *lack of CSR knowledge* and *lack of technical capacity* to implement CSR-related activities along with *insufficient financial resources* as the major barriers to their involvement in CSR activities. On the other hand, *Building company reputation*, being able to *hire skilled employees* and *expanding boundaries of current market* are listed as the main drivers for businesses to engage in CSR activities.

There are a number of important non-corporate actors working on CSR promotion in the region. Development partners are considered the most active and important in this process. The EU and governments of other developed countries have significant influence in shaping and reforming the public policies and programmes in the region. Under EU encouragement, many governments have adopted laws and regulations in different areas that relate to CSR. Implemented adequately, this progressive legislation

⁶ Refers to structured/standardized information on CSR and related policies and performance in the public domain.

⁷ Baseline Study on CSR Practices in the New EU Member States and Candidate Countries; Bulgaria, Croatia, Hungary, Lithuania, FYROM, Poland, Slovakia, and Turkey.

can create a favourable environment for CSR development. In addition, the governments of many EU countries fund specific projects and programmes on CSR promotion in the region. Organizations, such as International Finance Corporation (IFC), International Labour Organization (ILO), Organization of Security and Cooperation in Europe (OSCE), UNDP, United Nations Industrial and Development Organization (UNIDO), InWent, and USAID (United States Agency for International Development) implement programmes that fall under the CSR agenda, and contribute to building business and government capacity in different CSR-related issues (e.g. CSR knowledge and promotion, labour standards, sustainable development, or environmental protection etc.).

II. Summary of main recommendations

Based on the findings of the study and existing literature on CSR best practices, a set of recommendations are proposed for each major stakeholder group – businesses, governmental and public agencies, and other non-corporate organizations – as to how CSR might be better promoted and implemented in the region.

BUSINESS:

IT IS RECOMMENDED THAT BUSINESSES –

- Pursue their efforts to *embed CSR in their strategies and operations* by developing a CSR strategy that identifies the risks and opportunities of better responding to changing societal needs and expectations, and holding someone at the highest level, accountable for its successful implementation. It is also important to focus efforts on public reporting and assuring progress towards strategy objectives.
- Actively *engage in dialogue* with civil society and government to better understand and meet their expectations, and to progressively incorporate internationally accepted CSR standards, in order to enhance their competitiveness and sustained value.
- Support *business associations, think-tanks, and professional organizations* which promote understanding of CSR and provide advisory and research serv-

ices. By collectively investing in such organizations, businesses can reduce costs of in-house CSR work, and develop high national standards. Such organizations could also provide information on international best practice and help the monitoring of national performance.

- Actively involve NGOs in their CSR-related programmes and gradually establish partnerships with relevant NGOs, with the view to improving CSR performance in the stakeholder engagement and public reporting domains.

GOVERNMENTS:

IT IS RECOMMENDED THAT GOVERNMENTS –

- Designate a *national state body* responsible for the coordination of the promotion and development of CSR practices. To ensure wide national influence, the selected body might come under the direct authority of a relevant Ministry.
- Launch a *national multi-stakeholder dialogue* to identify country-specific CSR objectives aimed at the creation in the medium term, of a *comprehensive national CSR strategy* that should be closely linked to any existing country's sustainable development strategy.
- Put processes in place to *raise awareness of and enforce legislation* relevant to CSR. Ensure also that *national legislation and public sector practices support CSR*. Through measures such as public procurement policies, governments can ensure that public monies encourage production of more environmentally friendly products and services, and support employment and social inclusion of vulnerable groups.
- Provide *incentives to the business sector* to encourage progressive extension of corporate engagement in CSR activities. Such incentives could include tax benefits, financial and non financial recognition, and awards for implementation of CSR good practices.
- Promote *awareness-raising* on CSR and *knowledge-sharing* among CSR stakeholders. This could be done through supporting CSR research, inclusion of CSR in the academic curriculum, hosting and facilitating conferences, educational workshops, training, and highlighting existing CSR practices.

OTHER NON-CORPORATE ACTORS:

IT IS RECOMMENDED THAT –

- More NGOs efforts should be invested in communicating *the business case for CSR* that helps demonstrate concrete gains from CSR involvement. The media should also be encouraged to air debates on the topic.
- CSOs should try to engage in *more dialogues, common projects and initiatives* with businesses on different social, environmental issues including CSR. Development partners and governments should facilitate and support such partnerships.
- CSO and development partners should work towards *making international standards and expertise available* to businesses.
- Development partners with CSOs could play a valuable role *in developing the capacity of government to take a leadership role* and implement reforms and incentives related to CSR.
- Universities and higher education institutions *incorporate business ethics and CSR in their educational curricula* and ensure that their graduates are equipped with world-class knowledge of CSR so as to be able to compete in the regional and global job market.
- Development partners work with NGOs to *build civil society's (including the media's) capacity as a watch-dog* to identify, evaluate and report on corporate CSR performance.

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ABBREVIATIONS

AA1000	AccountAbility 1000 Standard	IFC	International Finance Corporation
B&H	Bosnia and Herzegovina	ILO	International Labour Organization
BCIF	Balkan Community Initiatives Fund	InWEnt	Capacity Building International, Germany
BRC	UNDP Bratislava Regional Centre	IPCC	International Panel on Climate Change
CRNVO	The Centre for Development of Non-Governmental Organizations	IRC	International Rescue Committee
CSO	Civil Society Organization	ISO	International Organization for Standardization
CSR	Corporate Social Responsibility	MBA	Montenegro Business Alliance
CEE	Central and Eastern Europe	NGO	Non-Governmental Organization
CSPC	Civil Society Promotion Centre	NCRI	National Corporate Responsibility Index
DFID	UK Department for International Development	NET	National Expert Team
EAR	European Agency for Reconstruction	OHSAS	Occupational Health and Safety Standard
EBRD	European Bank for Reconstruction and Development	OSCE	Organization of Security and Cooperation in Europe
ECSRSE	Establishing Corporate Social Responsibility in South-eastern Europe Initiative	OECD	Organization for Economic Cooperation and Development
EMAS	Eco-Management Auditing System	SA8000	Social Accountability 8000 Standard
EU	European Union	SME	Small- and Medium-Sized Enterprise
FYROM	Former Yugoslav Republic of Macedonia	USAID	United States Agency for International Development
FOSS	Fund for an Open Society in Serbia	UN	United Nations
HACCP	Hazard Analysis and Critical Control Points	UNDP	United Nations Development Programme
G100	Fortune Global 100	UNICEF	United Nations International Children's Emergency Fund
G50	Fortune Global 50	UNIDO	United Nations Industrial and Development Organization
GC	United Nations Global Compact	UNMIK	United Nations Mission in Kosovo
GDP	Gross Domestic Product		
GRI	Global Reporting Initiative		
IDRA	Albanian Institute for Development Research and Alternatives		

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INTRODUCTION

Increasingly, CSR is regarded as a key driver of competitive business advantage and sustainable economic growth. The European Commission has long recognized the potential positive contribution that the European economy can gain by engaging in CSR activities. Since its Green Paper on “Promoting a European Framework for Corporate Social Responsibility” in 2001, the EU has issued a communication recognizing the importance of CSR engagement in the sustainable growth of European economies and extensively promotes CSR engagement among all layers of European business⁸. Individual EU member states have also been active in exploring CSR. Many have developed national CSR strategies, the most recent example being Denmark. Others, such as the UK, have introduced legislation requiring companies to report on relevant social and environmental aspects of their operations. Since 2008, Sweden has required state-owned companies to report on the sustainability aspects of their operations. Within the European business community, it is now commonplace for major listed companies to have a specific CSR strategy and to report annually on their CSR performance. CSR is also being actively developed in many new EU members and candidate countries. Some countries (e.g. Lithuania) have already adopted a national programme/strategy on CSR promotion and others (e.g. Poland, Slovakia) have launched multi-stakeholder dialogues aimed at developing such a strategy⁹.

EU member states have also been active outside Europe in promoting CSR at the international level. In 2007 and 2008, the ‘G8 Group’ of industrialized nations (which includes Britain, France, Germany, and

Italy, together with Canada, Japan, Russia and the United States) underlined their support for CSR, specifically calling on the business community worldwide to adhere to recognized international standards. In the context of sustainable development, the world’s governments agreed at the 2002 UN World Summit on Sustainable Development on the need to ‘enhance corporate environmental and social responsibility and accountability’. Governments noted that this would include actions at all levels to ‘encourage industry to improve social and environmental performance through voluntary initiatives, including environmental management systems, codes of conduct, certification and public reporting on environmental and social issues’¹⁰. Most recently, the International Organization for Standardisation (ISO) has launched negotiations on the first ever International Standard on Social Responsibility. When completed, this Standard (to be known as ISO 26000) will provide detailed guidance on what it means to be a ‘socially responsible’ organization, and set new levels of expectations.

As in many other transition countries in the region, the history of CSR in the Western Balkan region is comparatively recent. As all countries in the Balkans are aiming towards EU accession, governments have been keen to align their public policies with EU standards. The first CSR-related initiatives – in the sense defined by the EU definition – were launched in the countries reviewed, in the middle of the current decade by development partners and some multinational corporations. Most often, however, those programmes concentrated on specific CSR issues or segments of society/business and

⁸ 2006 Commission Communication ‘Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility’. See also: 2006 European Parliament ‘Report on corporate social responsibility: a new partnership’.

⁹ Conference Report: Accelerating Corporate Social Responsibility (CSR) Practices in the new EU Member States and Candidate Countries as a Vehicle for Harmonization, Competitiveness, and Social Cohesion in the EU - International Conference “Public Policies On Corporate Social Responsibility (CSR) In Eastern And Central Europe” 9 -10 September 2008, Vilnius, Lithuania.

¹⁰ Report of the World Summit on Sustainable Development (2002), World Summit on Sustainable Development, Johannesburg, South Africa, 26 August – 4 September 2002, Plan of Implementation, Paragraph 18, <http://daccessdds.un.org/doc/UNDOC/GEN/N02/636/93/PDF/N0263693.pdf?OpenElement>.

were not able to create wide debate on the CSR agenda or to generate large-scale changes. The need for a comprehensive research project that would investigate CSR development in the region, illustrate the overall situation in detail, set regional benchmarks and open the way for policy consultations, has been discussed among experts for several years. The aim of this Baseline Study on Corporate Social Responsibility Practices in the Western Balkans project was to close the knowledge gap among all CSR stakeholders with regards to CSR development.

The present study analyses the current CSR development situation – CSR understanding, actors, drivers, available resources, current policies etc. – and investigates gaps and barriers to CSR engagement in order to facilitate region-wide discussions, consultations and actions. The findings of this research can be widely utilized as a guide by businesses, governments and other non-corporate stakeholders, in assessing their current CSR programmes and policies and in designing new CSR-related initiatives.

The study was funded by the United Nations Development Program (UNDP) Bratislava Regional Centre (BRC) and covered the Western Balkan region, including Albania, Bosnia and Herzegovina, Kosovo, Montenegro, and Serbia. In coordination with BRC and the Regional Project Manager based in Albania, the UNDP Country Offices in the respective countries recruited National Teams of experts which were responsible for the study implementation. The experts were trained in using a common research methodology and conducted the study (desk research and field surveys) between February and June 2008, under the guidance of international experts.

The study included three major components: (i) Desk research, (ii) Field surveys for private sector companies, and (iii) Field surveys for non-corporate stakeholders. Field surveys were conducted with 180 companies and 70 non-corporate actors. This report presents a critical analysis of the information collected from the above sources. In addition, internationally accepted

Accountability Rating^{TM11} standards were used in assessing the level of companies' engagement in CSR practices.

- **Section I.** of the report discusses the regional socio-economic background and rationale for CSR;
- **Section II.** gives detailed analysis of non-corporate actors of CSR promotion in the region, their role, and existing projects and programmes;
- **Section III.** analyses the current situation of company engagement in CSR activities. The section gives a statistical display of the current situation, discusses the patterns with regards to different CSR areas, business understanding of the CSR concept, incentives and barriers for company engagement and demonstrates company ratings on six AccountAbilityTM domains – Strategy, Stakeholder Engagement, Governance, Performance management, Public Disclosure and Assurance;
- **Section IV.** summarizes the main findings of the report, and
- **Section V.** provides comprehensive recommendations for Businesses, Governments and other Non-Corporate Actors on the design of their CSR activities and policies.

The author and research team hope this report will create broad policy debates on CSR development in the region and will result in significant positive changes.

¹¹ <http://www.accountabilityrating.com>.

METHODOLOGY¹²

The Western Balkans CSR Baseline Study was conducted between February and July 2008 by national expert teams from the region. The research included:

- a) Comprehensive desk research, conducted in the months of February and March by National Expert Teams (NETs) using the standardized questionnaire prepared by international experts. The desk research covered literature review of previous CSR research and other relevant documentation nationally and in the region; identified key business and non-business actors engaged in CSR implementation and promotion; identified regulations and laws which facilitate CSR promotion and implementation; and explored best CSR practices in the region.
- b) Semi structured interviews with non-corporate actors¹³ promoting CSR, conducted during April – June; and
- c) Semi structured interviews with business organizations, conducted during April – June.

4. Assess the level of dialogue between different actors promoting CSR;
5. Identify the level of foreign/domestic business engagement in CSR implementation at country level and collect examples of good practices;
6. Identify capacity gaps/constraints of CSR promoters and business entities to engage in CSR activities;
7. Formulate recommendations and suggest specific activities based on the findings of the survey; and
8. Provide a basis for Central and Eastern Europe-wide comparison of CSR practices by aligning study findings with those of a sister UNDP project – “Accelerating CSR practices in the new EU member states and candidate countries as a vehicle for harmonization, competitiveness, and social cohesion in the EU” (www.acceleratingCSR.eu), whose Baseline Study on CSR Practices in New EU Member States and Candidate Countries was completed in 2007¹⁴.

I. Goal and Objectives

The main goal of the study was to measure *the level of CSR practices and development in the Western Balkans*. The study objectives included:

1. Define CSR boundaries given the Western Balkans social and economic conditions;
2. Identify actors/entities promoting CSR at country level;
3. Assess the level of engagement in CSR of actors/entities;

II. CSR Definition

Globally, there is a significant body of literature providing definitions of CSR. However, until now, there has been no official or academic definition of CSR in the surveyed countries¹⁵. In consultation with the national teams, the study chose to utilize the EU definition of CSR as: “A concept whereby companies integrate social and environmental concerns in their business opera-

¹² Please review Annex 2 for additional information on the research methodology and detailed description of the survey samples.

¹³ As it will be further explained below, non-corporate actors are defined as: government representatives, civil society and non profit organizations, higher education institutions, and development partners.

¹⁴ A similar CSR study has already been conducted in the region in 2007. The study covered eight countries Bulgaria, Croatia, Hungary, Lithuania, FYROM, Poland, Slovakia, and Turkey. The study final report is available at http://ec.europa.eu/employment_social/soc-dial/csr/pdf/undpconference_26062007_brochure.pdf.

¹⁵ As it will be further described in Annex III. – Country Specific Overviews, in almost all countries, businesses and other civil society organizations engaged in CSR are using translations of CSR in local languages. However, these translations are sporadic and do not represent one accepted definition. There is no officially accepted definition given to CSR by any of the governments in the 4 countries.

tions and in their interaction with their stakeholders on a voluntary basis.” The logic behind this was that: i) the definition emphasizes the essentially voluntary character of CSR; ii) all countries included in the study are potential EU candidate countries, and thus it is important to relate CSR in its EU formulation; and iii) the UNDP sister project’s baseline study completed in 2007 in new EU member states and candidate countries took similar definition, and it was important to keep consistency with previous research in the region.

III. National Expert Teams (NETs)

Data collection was carried out by teams of national experts from each country under the guidance of international consulting experts. UNDP Country Offices were responsible for recruiting the NETs in each country. Previous experience in conducting CSR work and implementing national scale research projects was taken as the main criterion in selecting NET representatives. The detailed description of NETs is given in Annex I. NETs were further trained by the international experts on implementing desk research, selecting samples, conducting interviews, and writing country specific reports. NETs’ responsibilities included:

- conducting comprehensive desk research in each country;
- participating in training on surveying techniques
- selecting the sample of companies and non-corporate actors;
- translating interview questions into local languages;
- sampling and selecting respondents;
- organizing interviews and entering the data into a database; and
- conducting national-level analysis and writing country specific research reports.

IV. Limitations

There were several limitations to the study that need to be taken into consideration:

- *The most important limitation was related to sample size.* Due to resource constraints the

number of companies selected in the sample was relatively small which led to a larger potential margin of error in percentages reported. It is recommended that UNDP and other organizations conducting such studies in the future invest sufficient resources to enable a larger sample size, with a smaller margin of error.

- *Sample population.* It was not possible in all research countries to obtain a government registry of companies along with their contact information. This meant that NETs had to utilize alternative company databases from which to draw the sample and obtain company contact information. These directories were more likely to include larger and well-known companies than other businesses. As a result, companies that had given more attention to branding and participation in different networking activities had more likelihood of being included in the sample;
- *Participation in the surveys was voluntary.* Companies that did not have a clear CSR understanding were more likely to refuse to participate in the survey. As was noted by NETs, being ‘blamed’ for not doing good or accepting lack of knowledge and skills in certain issues were considered failure and sometimes offensive for many companies in the region. We acknowledge that our sample might slightly over represent those companies that had some understanding of CSR.
- *Self assessment.* All survey percentages given in the report are based on self assessment by the companies. NETs did not employ alternative sources of information to confirm or reject (except in the case of the Accountability Rating™ grading) the statements made by respondents. Therefore, percentages should be accepted as the opinion of the respondents rather than describing the actual situation of the particular company.
- *The original survey questionnaires were translated into local languages before being presented to companies.* Taking into account that CSR is a new terminology in all the countries, translation might have affected the meaning of some questions. In order to avoid these types of problems, the research team simplified the survey questions to the extent possible to avoid translation errors.

During interviews, NETs were available to explain the questions further if a respondent experienced difficulty in understanding them. Moreover, the answers to all questions from different countries were later cross tabulated, cleaned and scrutinized. Companies were re-interviewed if their answers were contradictory.

For more information on methodology, please see Annex II.

1. REGIONAL BACKGROUND

This section provides analysis of the socio-political and economic situation and the context for CSR development in the region.

I. Socio-Political and Economic Overview

All the study nations have experienced many years of socialist economic systems followed by political and economic transition. These broad socio-economic changes resulted in economic downturns, hyper inflation, increase of poverty, high unemployment rates and deterioration of living standards and welfare. Moreover, these countries' abilities to restructure economies while maintaining high socio-economic indicators were weakened by the disintegration of pre-

transition forms of inter-governmental cooperation. Specifically, Yugoslav successor states were particularly hard hit by military conflicts and economic sanctions by the United Nations which lasted for nearly a decade. Currently, it is the EU's commitment to integrating these countries which represents a significant incentive in their efforts towards democratic governance and market reforms. Since 2000, a series of Stabilisation and Association Agreements between the countries in the region and the EU have provided for extensive trade liberalization and significant assistance in different areas (transport, customs, education, media etc), including sub-regional cooperation in Southeast Europe.

As poverty and the level of economic development usually have considerable impact on overall business practices in a country, reviewing socio-economic indicators would be the first step towards understanding the regional picture (Figure 1).

Figure 1. Regional socio-economic comparison (2007)

Country	Albania	B&H	Kosovo	Montenegro	Serbia
GDP (billions)	\$10.319	\$14.78	\$4,675	\$2,974	\$ 41.7 US
GDP increase	6%	6%	4.4%	7.0%	7.5%
GDP per capita	\$3,353	\$3,712	\$2,226	\$4,385	\$5,595
Transparency index ¹⁶ (2007)	2.9 (105th among 179)	3.3 (84th among 179)	-	3.3 (84th among 179)	3.4 (79th among 179)
Total population	3.166 million	3.982 million	2.1 million	678,177	7.5 million
Population below the poverty line	19%	18%	37% (2003)	7% (2007)	6.5%
Life expectancy female	80.71 years	82.19 years	67-71 (2003)	76.71	78.09
Life expectancy male	75.12 years	74.74 years	63-67 (2003)	72.24	72.7
Time required to start a business	39 days	54 days	-	47 days	-

Source: International Monetary Fund, World Economic Outlook Database, April 2008

¹⁶ Transparency International, Corruption Perceptions Index 2007, http://www.transparency.org/policy_research/surveys_indices/cpi/2007.

As demonstrated in Figure 1, in comparison to others in the region, Kosovo falls behind in almost all economic and social indicators. Kosovo has the lowest GDP per capita and highest level of poverty. Despite recent economic improvements, Kosovo's economic growth in 2007 was 4.4 percent – the lowest in the region. Among the five nations, Serbia enjoys the highest economic development, GDP per capita and the lowest level of poverty. Albania and B&H also have significantly high poverty levels in comparison with Serbia and Montenegro. Another important indicator is the transparency and corruption index developed by Transparency International, where Albania falls far behind, (there is no data for Kosovo). Albania is rated as 105th place among 170 countries in the world based on the level of transparency perception in the country.

II. CSR Overview

During the socialist period, some aspects of CSR, particularly in the area of social protection and benefits to employees, were present through state-led programmes. Being socially responsible to employees, donating money to local communities, complying with laws and regulations, were all part of the state-mandated culture. Presently, however, the modern internationally accepted EU notion of corporate engagement and CSR is still a new concept in the region. As all the nations have undertaken various initiatives leading towards EU integration, they are also seeking to adopt EU values and standards in governing both the business and public sector. One of the recent policies that the EU is strongly promoting among member countries is to make businesses more accountable to their stakeholders and engage in socially and environmentally responsible activities. The adoption of CSR standards and practices is, therefore, viewed as an important part of the policy preparation for European Union integration.

Against this background, international organizations, governments and bilateral donors from Western coun-

tries, and multinational corporations were the first to introduce CSR in the region. The following initiatives are among the main ones implemented in the region aimed at developing CSR in the regional context¹⁷:

1. The United Nations Global Compact;
2. This UNDP-sponsored study – “Baseline Study on Corporate Social Responsibility Practices in the Western Balkans”;
3. The UNIDO regional programme called “Development of Corporate Social Responsibility in Central and Eastern Europe” (CEE),
4. The Establishing Corporate Social Responsibility in South-eastern Europe” (ECSRE) project initiated and supported by the German Federal Ministry for Economic Cooperation and Development and implemented by InWent; and
5. The Southern Europe International Standards and Technical Regulations project initiated by International Finance Corporation Advisory Services¹⁸.

III. Why do we need CSR in the Western Balkans?

Every country is concerned about obtaining competitive advantage in the world economy and achieving sustainable development. As globalization advances, social, cultural and economic borders between countries fade and national economies and businesses encounter international competition. Along with many opportunities, globalization can bring challenges. When economies of less developed countries compete globally they risk becoming less competitive against more technologically and financially equipped and experienced multinational businesses. From this perspective, CSR – incorporating social and environmental concerns in core business operations – can be a critical tool for obtaining competitive business advantage and sustainable growth¹⁹. In contrast, a lack of CSR expertise

¹⁷ The list contains programmes that have regional focus. There are several country specific initiatives and programmes in the region that will be described in Section II. and Annex II.

¹⁸ The programmes are described in details in Section II.

¹⁹ The European Union has officially recognized environmental and social responsibility as core factor towards long-term sustainable economic growth in June 2001 in “Sustainable Development Strategy for Europe” agreed at the Göteborg European Council.

among businesses can segregate the economy of a country from the global supply chain and reduce its sustainability. Consumers in the global market increasingly seek products and services of companies they believe are doing the 'right thing' in terms of human rights and the environment. Investors look for companies that understand and manage their risks, and pursue innovative strategies in identifying emerging business opportunities. Employees prefer to work for companies whose values they share, and where they can make a contribution to society. For Western Balkan countries, adhering to CSR principles among the domestic business community is a necessary step towards increased competitiveness and better integration in the European context.

CSR engagement might also become a strong tool for regional cooperation and integration. Economic interests can facilitate social, political, cultural integration in the region. Socially and environmentally responsive businesses will attract better skilled employees and a wide segment of consumers and eventually become more successful, which will result in crossing the boundaries of local markets and integrating with regional economies.

This research process also demonstrated the high level collaborative spirit of country representatives participating in the implementation of this project which led us to believe wide scale regional CSR engagement might become excellent common ground for regional integration and cooperation.

Country specific overviews including existing CSR practices in those countries can be found in Annex III.

2. NON-CORPORATE STAKEHOLDERS OF CSR PROMOTION

I. Introduction

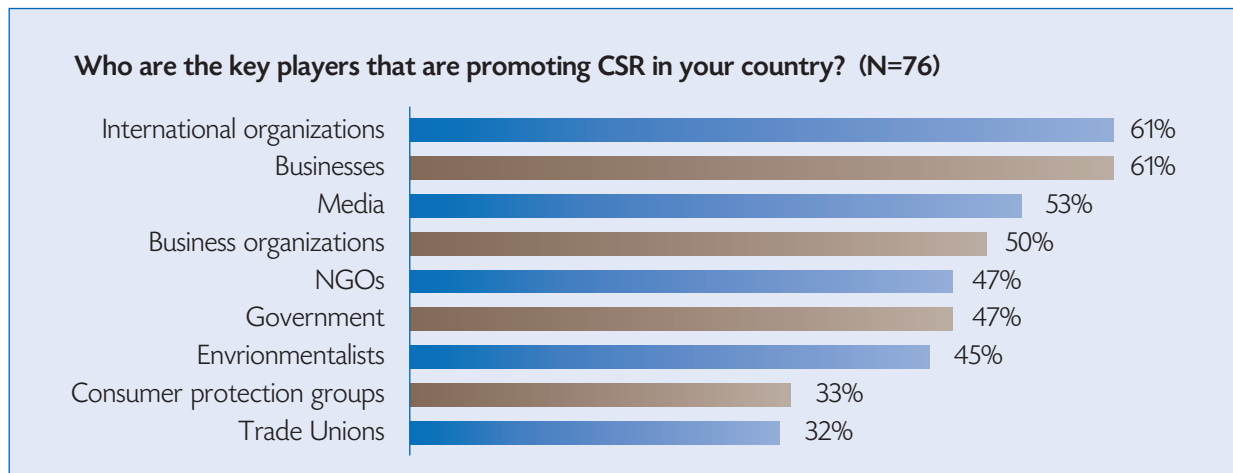
The study explored initiatives by major non-corporate players in promotion of CSR in the region. A sample of major non-corporate representatives of CSR promotion in the region was selected and interviewed. A total of 76 actors were interviewed representing:

- Business associations;
- Trade unions;
- Local government / municipalities;
- National government / regulators;
- Non-governmental organizations;
- Media;
- Education: higher (universities, colleges); and
- Development partners.

The sample was selected based on stakeholder type and stakeholders' contribution in promoting CSR in the country.

Figure 2 displays the ranking of key CSR promoters across the region as seen by non-corporate stakeholders²⁰. Some 96.1 percent of the latter reported that international organizations and businesses themselves are the key promoters of CSR practices in the region. In contrast, it was stated that national governments (47 percent) and CSOs, such as environmental groups (45 percent), consumer protection groups (33 percent) and trade unions, are not very active in promoting CSR. This finding is aligned with the desk research results and literature from the region, as described in Section 1 and Annex 3, which indicate that development partners and multinational corporations are the main drivers of CSR in region²¹.

Figure 2. Actors' perception on key CSR promoters



²⁰ Survey only asked non corporate actors to identify key CSR players. Business respondents were not asked the same question.

²¹ The previous CSR baseline study that covered 8 countries (Bulgaria, Croatia, Hungary, Lithuania, FYROM, Poland, Slovakia, and Turkey) identified businesses themselves, supported by international organizations, as the key actors of CSR promotion.

II. Governments

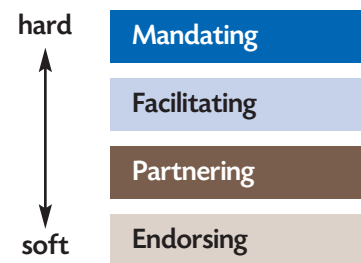
The role of governments in promoting CSR practices in the region varies. However, there are three important aspects characterizing overall government involvement in CSR-related activities.

- (I) *High expectations from business and civil society.* In the socialist era, governments controlled business activities and provided all social services. The belief persists among the general public and business community that governments should take a leadership role in ensuring social welfare, such as caring about communities, ensuring well-being of the poor etc. Consequently, for many businesses, minimum compliance with laws and regulations and providing wages for employees are the only social responsibilities²² they believe they have.
- (II) *Weak capacity of governments to promote CSR.* Governments do not have solid experience either in promoting good CSR practices and creating a CSR culture or in providing incentives for companies to engage in CSR activities. There is no clear CSR strategy or programme implemented by governments in any country that was studied.
- (III) *Different priorities currently perceived and pursued by governments.* Governments of the region are grappling with various issues that they

need to prioritize. Completing the privatization process, fighting unemployment and rural poverty as well as ensuring the competitiveness of key sectors of the economy are higher on their agendas than CSR.

As CSR literature demonstrates (Figure 3), government's role in promoting CSR can be classified in four stages²³.

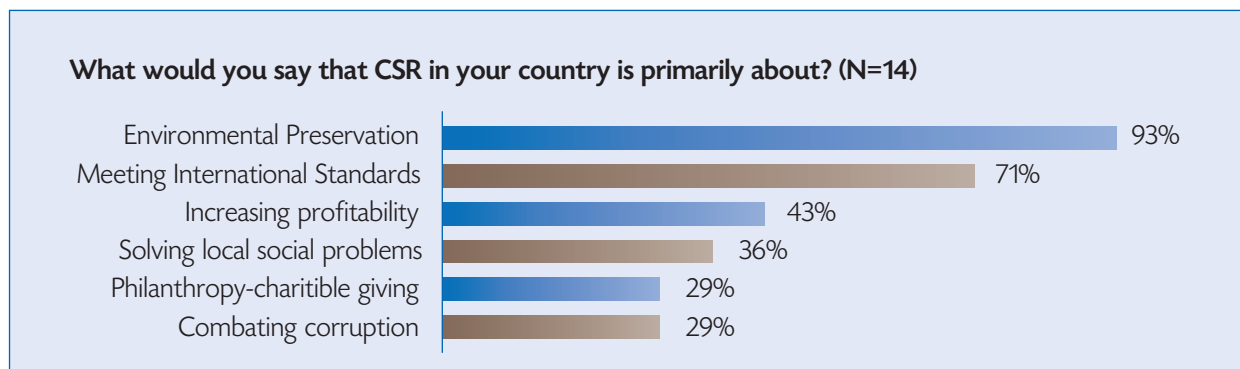
Figure 3. Government role in promoting CSR



Adapted: World Bank. 2006. CSR implementation Guide

- (I) *Mandating* – governments set up minimum standards and regulations in certain sectors for businesses to follow;
- (II) *Facilitating* – governments create incentives for companies to engage in CSR activities;

Figure 4. Governments perception of CSR



²² The similar findings was reported from previous study in the region, CSR Practices in New EU Member States and Candidate Countries, completed in 2007.

²³ World Bank. 2006. CSR implementation Guide Non-legislative options for the Polish Government.

- (III) *Partnering* – governments implement partnership projects, agendas, and policies with businesses; and
- (IV) *Endorsing* – governments profile or support certain successful CSR activities and initiatives to the wider business community.

The experience of many developed countries suggests that in order to engage businesses in socially responsible practices, government should first start setting rules and standards (mandating) in different fields and industries to ensure that businesses meet certain basic requirements in their operations. At the same time, governments should extend their engagement with business, including by partnering and facilitation, encouraging them to go beyond mandatory requirements. By facilitating and partnering with business to become socially and environmentally responsible, governments enable the businesses to invest more resources and efforts in local communities, which promotes sustainable human development. In doing so, the burden of government responsibility for the welfare of different layers of society can be reduced.

As revealed by the survey, government representatives tend to view CSR more as ‘meeting international standards’ than as ‘solving local problems’, transparency and/or philanthropy (Figure 4). There is no national programme, law or regulation in any of the study countries directly aimed at promoting CSR principles. However, overall, governments in the region have done most work on the ‘Mandating’ stage of CSR promotion. All research nations have set their long-term strategy on the goal of European Union accession. As a result, they have adopted a number of reforms, laws and regulations aligned with EU standards (Figure 5) and relevant to CSR. Nevertheless, they still do not use their full mandating potential, as processes, capacities and resources for communicating and enforcing the laws and regulations are not in place²⁴.

The governments show a low level of activity in relation to the other stages of CSR promotion (facilitating, partnering, and endorsing). There is no single ministry

or designated government body responsible for CSR implementation. Instead, different government bodies deal with various CSR-related activities.

As demonstrated in Figure 2, only 47 percent of the non-corporate actors consider the government as ‘important’ or ‘somewhat important’ in promoting CSR. The number is even lower (37 percent) when responses from government representatives themselves are excluded from the sample. Although companies and civil society organizations expect more government support, governments usually do not have sufficient capacity and expertise or may have other priorities.

Business corporations’ and non-corporate stakeholders’ concern over the lack of a pronounced government role in CSR promotion is supported by the qualitative survey responses. Of the fourteen central government institutions interviewed, only 4 were able to give concrete examples of what they are doing to support the business community to follow the CSR standards:

Can you cite any examples of what you do to promote CSR with businesses, government agencies, or CSOs?

- “...promoting the application of CSR especially in the environmental aspect.”
- “Consulting with the community and stakeholders, public debates.”
- “Cooperation with business groups on the preparation of new laws, like discussion held on the law on health safety at work and complaints from mining workers.”
- “Institutional networks for support of private sector development; Credit lines with better conditions.”

Similarly, national government institutions are not very successful in describing the best CSR practices that they have observed.

²⁴ It is interesting to report that during the national presentation of this Baseline Study results in Albania on June 23rd, 2008, participating business representatives were surprised that, compared to most countries in the region, Albania has a very progressive legislation dealing with various aspects of CSR. According to the participants, most of these relevant laws are not implemented at a satisfactory level; consequently, businesses also do not find the necessary government support and encouragement to engage in CSR activities.

Figure 5. Existing laws and legislation in the region related to CSR²⁵

Albania	Bosnia & Herzegovina	Kosovo	Montenegro	Serbia
<p>Transparency & Accountability</p> <ul style="list-style-type: none"> • Law on the Protection of Competition' • Law on the Prevention of Money Laundering and Financing of Terrorism' • Law on Accounting and Financial Statements • Law "On the Prevention of the Conflict of Interests in the exercise of Public Functions • Law "On Public Procurement" • Law "On the Financing of Political Parties • Law "On Ethical rules in Public Administration <p>Human Rights & consumer/employee protection</p> <ul style="list-style-type: none"> • The Labour Code of the Albanian Republic • Law "On Stimulation of Employment" • Law "On the Social Assistance", • Law "On the Status of Paraplegic and Tetraplegic Invalids" • Law "On Social and Health Insurance in the Republic of Albania" • Law "On the Inspection of Labour and the State Labour Inspectorate • Law on Consumer Protection • Law on Food and Food Safety • Law "On the Production, Collection, Treatment and Trading of Milk and Sub-products" <p>Environmental protection</p> <ul style="list-style-type: none"> • Law "On the Protection of Environment" • Law "On the Environmental Management of Inert Waste" • Law "On Elimination of Waste". • Law "On the Protection of Air from Pollution" • Law "On the Environmental Treatment of Polluted Water" • Law "On the Estimation of Environmental Impact" • CoM Decision of Year 2007, "On the Approval of the Inter-sectoral Strategy of Environment" • Law "On the Protection of Agricultural Land" • Law "On Energy Efficiency" 	<p>Transparency & Accountability</p> <ul style="list-style-type: none"> • Criminal Law of B&H • Law on Conflict of Interest • Law on Free Access to Information of public interest in B&H • Law on Public Procurements • Law on Competition Protection in B&H • Law on Accountancy and auditing in B&H <p>Human Rights & consumer/employee protection</p> <ul style="list-style-type: none"> • The Labour Law of the Federation B&H; The Labour Law of Republika Srpska • The General Collective Agreement for the territory of the Federation B&H; The General Collective Agreement for the territory of RS • Law on Council of Employees of the Federation B&H; • Law on Professional Rehabilitation and Employment of Disabled Persons in RS; • Employer's General Normative Act of legal nature related to labour <p>Environmental protection</p> <ul style="list-style-type: none"> • Law on Environmental Protection • Law on Air Protection, • Law on Water Protection, • Law on Waste Management 	<p>Transparency & Accountability</p> <ul style="list-style-type: none"> • Law on Public Procurement in Kosovo • Law on Public Financial Management and Accountability • Anti corruption • Law on competition • Law on copyright and related rights • Law on foreign investment • Law on Internal Audit • Patent Law • Law on Trademarks <p>Human Rights & consumer/employee protection</p> <ul style="list-style-type: none"> • Law on Consumer Protection • Occupational Safety, Health and the Working Environment • Kosovo Health Law • The Anti-Discrimination Law • Law on The Protection and Promotion of the Rights of Communities and their Members in Republic of Kosovo <p>Environmental protection</p> <ul style="list-style-type: none"> • Environmental Protection Law (2002/8) • Law on Protection of Plants Varieties (2007/02-L98) • Law on Spatial Planning (2003/14) • Law on Air Protection (2004/30) 	<p>Transparency & Accountability</p> <ul style="list-style-type: none"> • Law on money laundry prevention • Law on the Conflict of Interests • Law on Accounting and Auditing • Law on business organizations • Resolution on fight against corruption and organized crime <p>Human Rights & consumer/employee protection</p> <ul style="list-style-type: none"> • Labour Law • Law on health care • Law on workplace safety • Law for consumer protection • Law on human rights and freedom • Law on strike • Law on pension and health insurance • Charter on human and minority rights • Law on social and child care <p>Environmental protection</p> <ul style="list-style-type: none"> • Law on environment • Law on nature protection • Law on waste management • Law on estimation of the impact on the environment • Law on energy 	<p>Transparency & Accountability</p> <ul style="list-style-type: none"> • Criminal Law • Law on Conflict of Interest • Law on Free Access to Information of Public Interest • Law on Financing Political Parties • Law on Public Procurements • Law on Competition Protection • Law on Accountancy <p>Human Rights & consumer/employee protection</p> <ul style="list-style-type: none"> • Labour Law • Law on Professional Rehabilitation and Employment of Persons with Disabilities • Law on Labour Safety and Health <p>Environmental protection</p> <ul style="list-style-type: none"> • Law on Environmental Protection • Law on Strategic Estimation of Influence on Environment • Law on Estimation of Influence on Environment • Law on Integrated Suppression and Pollution Control

²⁵ The list of legislations and laws is an overview of the situation and is not exhaustive.

Can you cite any examples that you consider „best practices“ of CSR, either by government agencies, CSOs/NGOs, or businesses?

- “business donations for the reconstruction of local schools, kindergartens, etc; expansion of green areas in institutions.”
- “Environmental protection, saving energy.”
- “NGO activities on environmental protection.”
- “Provided grants on behalf of increase of competitiveness, in cooperation with the Investment Promotion Agency.”

Despite these shortcomings, there are some indications of greater government engagement in CSR promotion in countries of the region.

In **Montenegro**, the Directorate for Development of Small and Medium-Sized Enterprises under the Ministry of Economic Development is one of the leading government agencies that work on CSR promotion. The Directorate partners with an international initiative entitled Establishing Corporate Social Responsibility in South-eastern Europe (ECSRSE) financed by the German government²⁶. In 2007, in partnership with ECSRSE, the Directorate awarded the “Best CSR Company of 2007” award to a business company that was selected based on its CSR merit. The government body also works with businesses to raise CSR awareness. In addition, the Agency for Environmental Protection in Montenegro is responsible for controlling activities of pollution-emitting companies and the Anti-Corruption Initiative Agency under the Ministry of Finance works towards fighting corruption and increasing transparency in business.

As desk research results revealed, and as the Baseline Study on Corporate Social Responsibility Practices in **Albania** (2008) stated: “...although the legislation and structures that address business activity issues (such as labour code, business-environment relations, etc) are in place, at national government level there is no strategy/programme/legislation directly addressing CSR development in the country. However, to some extent gov-

ernments promote CSR by giving priority to companies that apply CSR in public procurement procedures.” – At central government level there is a National Strategy for Development and Integration, implemented by the Ministry of Integration. This document covers CSR issues such as environment protection, transparency and corruption, improvement of the business environment, consumer protection, etc. The Cross-sectional Strategy for Environment, for example, implemented by the Ministry of Environment, considers creating a Code of Good Practices in different industries and the agricultural sector by the year 2008, and the implementation of mandatory environmental standards for all public procurement contracts by 2010. Although the strategy covers different areas pertaining to CSR, the document does not incorporate CSR as a concept.

Denmark CSR Strategy. As part of the continuous efforts to support business to engage in CSR activities, the Danish government adopted the **Action Plan For Corporate Social Responsibility** in May 2008. The main purpose of the action plan was to give businesses the “*optimum framework within which to conduct their social responsibility work*” and help Danish businesses harvest more benefits from being at the global front line of Corporate Social Responsibility. The action plan considered more than 30 initiatives falling in four key categories: (i) Propagating business-driven social responsibility, (ii) Promoting businesses’ social responsibility through Government activities, (iii) Corporate sector’s climate responsibility, and (iv) Marketing }Denmark for responsible growth.

http://www.csrinfo.org/images/publikacje/denmark_csr_plan_2008.pdf

Bosnia and Herzegovina provided some other examples of national government involvement. While there is not currently a body responsible for CSR or a specific government programme, focused on CSR promotion and development, the Ministry of Foreign Trade and Economic Relations has demonstrated active interest in

²⁶ ECSRSE was launched in six Balkan countries including Montenegro, Albania, Bosnia & Herzegovina, Croatia, Serbia and FYROM. The project aims at increasing CSR practices in the region by involving different stakeholders.

leading CSR activities in the country. The Ministry has appointed a responsible contact person to represent B&H in a Regional CSR Centre²⁷.

Kosovo has no government bodies directly responsible for CSR promotion, no government sustainable development strategy and no programme that embraces CSR. However, there are many internationally supported programmes aimed at building the capacity of the public sector in Kosovo. For example, the Support for Economic Growth and Institutional Reform Project implemented by Kosovo's Ministry of Economy and Finance²⁸, Hulla and Co Human Dynamics²⁹ and PKF³⁰ and funded by the European Agency for Reconstruction (EAR)³¹ aimed at improving public sector capacity to engage in (i) developing the private sector, (ii) creating support services for businesses, (ii) supporting an enabling environment for businesses, and (iv) improving the workforce.

Although the **Serbian** government does not have a government body responsible for CSR, the National Sustainable Development Strategy Paper, supported by the EU and implemented under the supervision of the Deputy Prime Minister, considers CSR to be a part of the government's strategy. The Paper considers business engagement in CSR and environmental protection in particular, as one of the main drivers for a sustainable future of the country. Furthermore, the Serbian Poverty Reduction Strategy Paper Office, in cooperation with the Serbian Investment and Export Promotion Agency, has created a database of the best socially responsible practices in the country. The initiative aims to promote CSR practices among the business community. The Institution of Environmental Inspectors has done significant work in controlling companies' adherence to environmental norms. In 2007, several Serbian companies paid fines for polluting rivers. A state-owned petrochemical company paid the largest fine for continuously polluting the air and was ordered to discontinue operations for several months.

In conclusion, although governments investigated in this study have no specific CSR programmes, laws and/or regulations and there are no designated governmental bodies overseeing or coordinating CSR activities, laws and regulations supporting different aspects of CSR are in place. If communicated, implemented and enforced, these laws and regulations could create a favourable environment for businesses to pursue CSR activities in future. What is missing now is governments adequate capacity to do so.

III. Development partners

Development partners are considered the main CSR drivers in the region (Figure 2 above). Their involvement in CSR includes national level programmes to educate the public sector and business community in CSR, providing grants for non-profit organizations dealing with different CSR issues, as well as advocacy and pressure on governments to adopt laws and regulations related to CSR.

The *EU* has significant influence in the region. The research countries, in seeking EU accession, will have to harmonize their legislation with the EU legal framework including in the areas of social policy, environmental protection, and procurement which will positively influence CSR development. Although the EU has no programme or project directly promoting CSR in the Western Balkans, and, CSR, as such, is not part of the negotiation process for EU membership, many EU member countries fund CSR-related programmes.

As research demonstrates, *UNDP* is an important player in promoting CSR, implementing several regional programmes which play a major role in promoting the CSR agenda in the research countries. UNDP is also the facilitator of the UN Global Compact networks in the region countries. This is one of the few international CSR initiatives that is widely taken up by the business

27 B&H CSR Baseline study National Report, 2008; The Regional CSR Network is promoted by UNIDO and covers B&H, Montenegro and Serbia among research countries.

28 <http://www.mfe-ks.org>.

29 <http://www.humandynamics.org>.

30 <http://www.pkf.co.uk>.

31 <http://www.ear.eu.int/kosovo/kosovo.htm>.

community in the region. The UNDP Private Sector Strategy adopted in 2007 has articulated CSR as one of the five priority areas that will continue to be the focus of UNDP efforts over the next few years.

Another regional CSR programme has been supported by the leading German-based international organization *InWent*³² in cooperation with *IIITIS*³³ and a number of other local partners since 2007. The programme is funded by the German Federal Ministry for Economic Cooperation and Development and aims at (i) developing CSR awareness, (ii) activating CSR key players and creating commitment, (iii) encouraging businesses to engage in CSR, (iv) initiating and supporting joint projects among NGOs and businesses, and (v) promoting existing CSR best practices. The programme is being implemented in Albania, B&H, FYROM, Montenegro and Serbia.

UNIDO is implementing a programme called “Development of Corporate Social Responsibility in Central and Eastern Europe (CEE)” covering Serbia, and Bosnia and Herzegovina. The aim of the programme is (i) to disseminate the concept of CSR and implementation practices throughout CEE and (ii) to forge a regional network of public and private partner institutions that will support SMEs to adopt CSR practices³⁴. In 2007, *UNIDO* prepared an issue paper that assessed the level of CSR development in Bosnia and Herzegovina, Bulgaria, Romania and Serbia³⁵. *UNIDO* is also keen to create a Regional CSR Network in Central, South and Eastern Europe focused on enhancing competitiveness and market access for SMEs through continuous improvement of the business and social environment.³⁶

The International Finance Corporation (IFC) Advisory Services has recently launched a regional programme called “Southern Europe International Standards and Technical Regulations” supported by the Norwegian Ministry of Foreign Affairs. The programme provides a

range of technical services and assists companies from Albania, Bosnia and Herzegovina, FYROM, and Serbia to increase their awareness of international standards and technical regulations³⁷.

International Labour Organization (ILO) implements several programmes and projects in the region on issues pertaining to CSR such as revising the national labour legislations, fighting child labour and human trafficking, advocating transparency, equal access to quality services, etc.

USAID does not have explicit CSR promotion programmes in the Western Balkans. It has, however, an office in each country and supplies grants for a number of CSOs in implementing numerous projects and programmes that fall under the CSR agenda. *USAID* priority areas include building democracy and economic security, fuelling economic growth and building a good investment climate.

There are also other institutions such as *Pohl Consulting and Associates (Germany)*, *Human Dynamics (Austria)*, *OSCE, EAR, EBRD, The World Bank, DFID* implementing a range of programmes and projects related to CSR at national and regional levels.

IV. Academia

As the experience of other countries demonstrates, the academic community has the potential to play an instrumental role in promoting CSR across different disciplines. Academic institutions are the cradle of capacity building, windows to the wider world of CSR and culture-specific research. Mainstreaming corporate responsibility into academic and vocational studies curricula is of central importance, as they are contributors to the formation of future entrepreneurs, business leaders, managers and employees.

32 <http://www.inwent.org/>.

33 www.iltis.de.

34 http://www.unido.org/fileadmin/media/images/resized/Private_Sector_CSR/csr_Development_of_Corporate_Social_Responsibility_in_CEE.pdf.

35 *UNIDO*. 2007. On the state of corporate social responsibility (CSR) in Central and Eastern Europe (CEE). Special focus: Bosnia and Herzegovina, Bulgaria, Romania and Serbia.

36 <http://www.unido.org/index.php?id=5650>.

37 http://www.ifc.org/ifcext/pepse.nsf/Content/ISTR_Home.

Academia’s role in promoting CSR can vary:

- Higher education institutions can promote CSR; preparing CSR qualified graduates by offering CSR-related courses;
- It can get involved in partnership programmes and projects with public, private and civil sectors aiming to promote the CSR agenda through country/culture specific research initiatives, CSR publications, policy formulations etc.; and
- Academia may also offer a number of professional CSR-related courses for business and public authority representatives.

There are a number of educational institutions which provide curricula related to CSR across the Western Balkans. In some countries academia is actively engaged in CSR development.

Academic instruction on CSR in **Albania** is in a very early stage of development. In 2005, the Albanian Institute for Research and Development Alternatives (IDRA) conducted research showing that students in economic departments at public universities are not familiar with CSR terminology and lack understanding of responsible business practices. In the spring of 2008, though, the subject of Corporate Governance was introduced by the Economic Department at Tirana University; the course integrates some aspects of CSR in its outline. The same university also offers classes on

Environmental Engineering and Business Ethics. The Institute of Training for the Public Administration has recently started providing business ethics training courses.

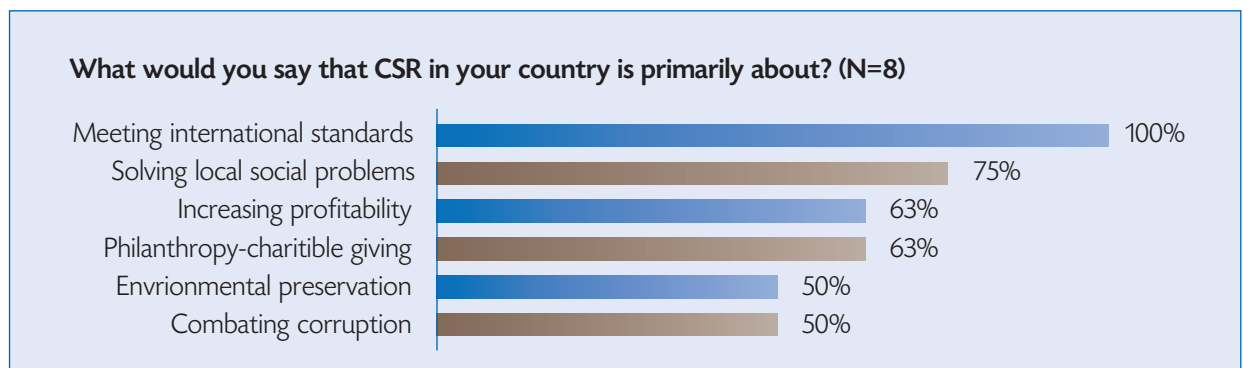
In **Bosnia and Herzegovina**, the Economic Faculty of the University of Sarajevo has incorporated CSR teaching in its curriculum. The university is also engaged in promoting CSR among the general public and businesses and offers a Masters degree in Environment and Industrial Ecology.

Kosovo has experienced a recent increase in the number of private higher education institutions. However, the American University of Kosovo is the only university offering classes related to CSR.

Teaching CSR classes is not part of the education system in **Montenegro** and there is no evidence of universities teaching subjects related to CSR.

In **Serbia**, there are a number of classes and degrees available at private universities that have direct linkage to CSR. The Faculties of Law³⁸ and Organization Science³⁹ at the University of Belgrade, for example, offer Business Ethics classes. Business Ethics is also taught at three different faculties (Faculty of Business⁴⁰, Faculty of Informatics and Management⁴¹, and Faculty of Tourism and Hospitality Management⁴²) at the Singidunum University in Belgrade

Figure 6. Academia perception of CSR



38 <http://www.ius.bg.ac.yu>

39 <http://www.fon.bg.ac.yu/>

40 <http://www.pfb.singidunum.ac.yu>

41 <http://www.fim.singidunum.ac.yu>

42 www.fthm.singidunum.ac.yu

as well as at Megatrend University⁴³ (Faculty of Business), University of Academy of Economics (Law and Management Faculties), and Braca Karic University⁴⁴ (Faculty of Management, Faculty of Trade and Banking). There are also classes on Environmental Protection at the Belgrade University, Novi Sad University⁴⁵ and Singidunum University. In addition to academic institutions, CSR classes are available for managers and employees at many companies. In March 2008, the MBC Company⁴⁶ started providing introductory seminars on CSR for managers. The Centre for Monitoring and Evaluation⁴⁷, in cooperation with the Serbian Chamber of Commerce⁴⁸, offers free CSR seminars for representatives of the business community.

Overall, academia views CSR differently from government representatives (Figure 6). CSR is primarily viewed

as an initiative to reach international standards, solve local problems, and increase profitability. Only half of the academic institutions think environmental preservation and transparency are the primary CSR values in the region.

In conclusion, although no academic institution in the region offers a CSR degree, there are many classes on business ethics and environmental protection offered by various universities throughout the Balkans. Compared to the rest of the region, universities in Serbia have done considerable work in incorporating business ethics and environmental protection into their education process. Preparing professionals knowledgeable about CSR is one of the contributing factors for increasing competitiveness of the economies of the region in the future and, as such, particular attention should be paid to further mainstreaming CSR concepts in education curricula.

CSR Related Degrees and Courses in the Region⁴⁹

	Academia	Course/Degree
Albania	Tirana University Tirana University The Institute of Training for the Public Administration	Corporate Governance course Environmental Engineering and Business Ethics degree Business Ethics course
Bosnia & Herzegovina	University of Sarajevo – Faculty of Economics	CSR teaching (Marketing and Strategic Management course) Environment and Industrial Ecology degree
Kosovo	American University of Kosovo	Business Ethics course
Montenegro	-	-
Serbia	University of Belgrade – Faculty of Law University of Belgrade – Faculty of Org. Science	Business Ethics course Business Ethics course Environmental protection course
	Singidunum University – Faculty of Business Singidunum University – Faculty of Informatics Mnt. Singidunum University – Faculty of Tourism & Hospitality	Business Ethics course Business Ethics course Business Ethics course Environmental protection course
	Megatrend University – Faculty of Business University of Academy of Economics – Faculty of Law University of Academy of Economics – Faculty of Mnt. Braca Karic University – Faculty of Management Braca Karic University – Faculty of Trade and Banking Novi Sad University	Business Ethics course Business Ethics course Business Ethics course Business Ethics course Business Ethics course Environmental Protection course

43 <http://www.megatrend-edu.net/institucije.php>.

44 <http://www.uni-bkacyu>.

45 <http://www.nsacyu>.

46 <http://www.mcb.co.yu>.

47 <http://www.csr-online.info>.

48 <http://www.pks.co.yu>.

49 The list of CSR related classes and degrees is an overview of the situation and is not exhaustive.

V. Civil Society and the Non-profit Sector

CSOs are traditionally important in bringing new ideas and innovations into society. The experience of other countries has demonstrated that CSOs play a key role in raising awareness, promoting CSR practices, and helping hold government and business accountable for their activities.

CSOs in the region have developed rapidly since the 1990s. There are many NGOs and business associations that run programmes and campaigns dealing with CSR areas such as human rights, protecting the environment, etc. However civil society's interest in CSR is relatively new in the region. A comparatively small number of non-profit organizations currently implement specific programmes and projects focused on CSR promotion and development. In most cases those projects are funded by international donors and the governments of EU countries. Business involvement in funding such projects in the region is limited.

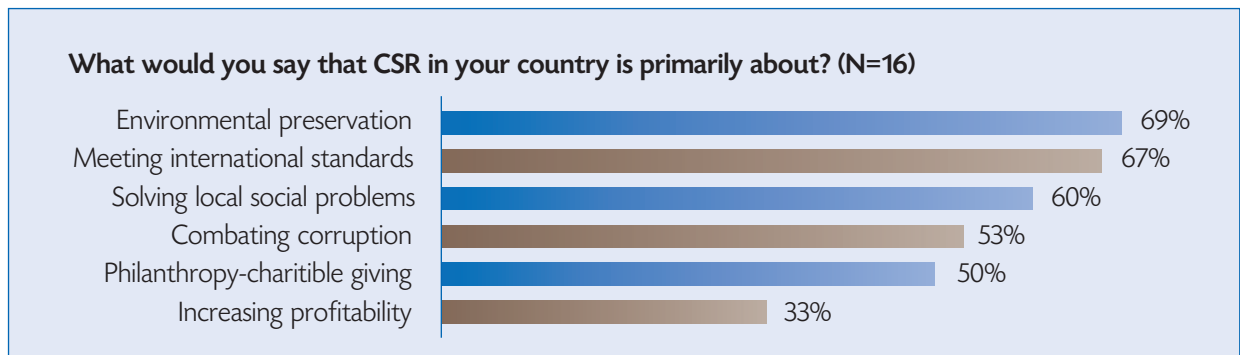
Civil society is involved in CSR in mainly four different ways:

- I. *Watch-dog function* – Some organizations act as watch dogs by organizing public campaigns to prevent/stop company malpractices covering human rights, environmental protection, consumer rights protection etc.. The potential of CSOs in the region to pursue more assertive tactics to fight against company malpractice is yet to be realized. Limited financial self-sufficiency, dependency on

donor money, bad public image reflected by limited ability to influence public opinion creates obstacles for civil society organizations, especially watchdogs to ensure responsiveness and accountability of the private sector. Nevertheless, there are some cases in the region where NGOs created coalitions to prevent environmental pollution or publicly criticized companies and successfully prevented company malpractice.

- II. *Bringing CSR knowledge into the business community and building business and government capacity in CSR.* These activities include promoting CSR among businesses, raising awareness of best practices, organizing conferences and workshops, delivering awards for good CSR attainment, etc.
- III. *CSOs are also involved in teaching and promoting different practices that may not be described as CSR but fall under its scope.* Activities such as protecting human rights, fighting against discrimination towards vulnerable groups, working towards equal income distribution, etc, may not be clearly communicated as actions related to companies' social responsibilities, but nonetheless contribute to making businesses more socially aware and active.
- IV. *Seeking common ground and building partnerships with businesses.* Companies and CSOs can learn from, and work with each other on implementation of joint social responsibility projects. Through establishing closer cooperation and partnerships, CSOs can exert significant influence on CSR behaviour of companies and make them more sensitive towards the needs of communities.

Figure 7. Civil society and NGO perception of CSR



Civil society in **Albania** is less engaged in direct CSR promotion than in other countries in the region. However, there are some newly developed CSR projects funded by Development partners and implemented by local NGOs and CSOs. The Regional Development Agency of Tirana, in partnership with InWEnt/ILTIS, implemented a project which involves recognition and award for the best socially responsible company in the country. More than 70 companies participated in the initiative in 2007. Moreover, several initiatives that fall within the CSR agenda in fields such as environmental protection, anti-corruption and human rights have been carried out by NGOs during recent years.

Bosnia and Herzegovina has a great number of NGOs and business associations working on CSR activities, such as promoting human rights, environmental protection, transparency, and rights of minorities, such as: Transparency International BiH⁵⁰, Balkan Human Rights Network⁵¹, Centre for Environmentally Sustainable Development⁵², the South East European Youth Network⁵³, Women Economic Network⁵⁴, etc. The best example of a CSR engaged CSO is Foundation MOZAIK which has organized a number of seminars on different CSR topics for business leaders and established CSR awards for the business community⁵⁵. These awards covered: (i) Corporate Philanthropy, (ii) Good Cause Marketing, and (iii) Responsible Business Practices. Another good example is the Civil Society Promotion Centre⁵⁶, which organized a Regional CSR Conference in 2005 and prepared a country strategy on improving cooperation between civil society and businesses. The conference hosted businesses, civil society and government representatives from Croatia, Serbia and Montenegro, and B&H⁵⁷.

CSOs involvement in promoting CSR in **Kosovo** is not operating at its full potential. One of the CSR areas where CSOs have a more significant role is fighting against corruption and promoting transparency. In 2007, the American Chamber of Commerce organized the first Business Ethics Week in Kosovo and involved various international experts teaching local businesses best practices of ethical business. The NGO Cohu has concentrated its activities on promoting environmental standards among businesses.

A few CSOs in **Montenegro** are running specific programmes and projects promoting CSR, including the Centre for Development of Non-Governmental Organizations (CRNVO)⁵⁸ which can be considered as the leader in advancing the CSR concept. The Centre has implemented a number of programmes promoting CSR and philanthropy and conducted several CSR studies among business representatives, the general public, media and civil society. In 2005, an NGO called MOST⁵⁹ created a coalition of more than 25 civil society organizations protesting the creation of an environmentally harmful hydro-plant on the Drina River. The Centre for Consumer Protection of Montenegro⁶⁰ has organized several projects protecting consumers' rights.

Although **Serbia** has a relatively active civil society, only a few organizations implement concrete CSR projects. The Centre for Monitoring and Evaluation⁶¹ publishes monthly news bulletins on CSR and promotes the best CSR examples. In addition, in cooperation with the Serbian Chamber of Commerce and other partners, the Centre conducted a number of CSR teaching seminars for business leaders, organized CSR conferences and ran evaluations of CSR programmes. Another NGO, Smart Kolektiv, conducted the first Serbian research on CSR in

50 www.ti-bih.org.

51 www.balkan-rights.net.

52 www.coor.ba.

53 www.seeyn.org.

54 www.bhzem.ba.

55 <http://www.mozaik.ba/eng/index.php?id=dobro8>.

56 www.civilnodrustvo.ba.

57 "Odgovorno poslovanje za dobrobit privrede i drustva"; IRC regional Conference 21-22 March, 2005, minutes.

58 www.crnvo.cg.yu.

59 www.ngo-most.org.

60 www.cezap.org.

61 <http://www.csr-online.info>.

2006 and promotes cooperation among businesses, NGOs and the government. For the first time in Serbia, The Balkan Community Initiatives Fund (BCIF) launched a programme on Corporate Philanthropy in 2007 and awarded a number of companies for their philanthropy work. NGO Hajde da⁶² also organized training in CSR for young people and implemented a number of CSR projects. The Serbian Association of Managers⁶³ worked with businesses to facilitate development of ethics and professional codes of conduct for companies. Last but not least, the American Chamber of Commerce⁶⁴, the Foreign Investors Council⁶⁵, and the Business Leaders Forum are among the business associations that actively promote CSR in Serbia.

As shown in figure 7, perception of CSR among civil society organizations is primarily related to Environmental protection and meeting international standards. This perception is also reflected in the country examples mentioned above.

It is important to note that although NGOs and business associations have been among the pioneers in bringing the CSR concept to the region, the survey revealed that their efforts have not created substantial changes in business behaviour and attitudes, nor have they been recognized as an equal partner at national levels. The business community is yet to consider NGOs activities as a significant factor in the CSR agenda. The possible reasons for such low grading are further explained in the next section of this report.

VI. The Media

The media has significant potential to shape public opinion, educate people on different issues and have an influence on policy decisions. In many countries, the media has demonstrated that it can be a powerful tool for advancing social responsibility, such as by exposing examples of

good/bad practice, and airing different viewpoints. However, according to the findings of the study, the media's role in CSR promotion in the region is limited.

Although more than half of the actors in the region consider the media's role as important in promoting CSR (Figure 2), there were very few examples of this happening. In general, the media in the region is involved in CSR promotion in three different ways.

- (I) *Control of company performance.* Media is keen to highlight scandals and company malpractice – in most cases, media covers issues that have possible negative consequences to the public such as corporate scandals, criminal cases, and/or polluting activities committed by businesses.
- (II) *Companies use media exposure to promote their best CSR practice to enhance their reputation and public image.* This usually happens through paid (or other mutually beneficial arrangements) advertising, media outlets, TV programmes, newspaper articles, etc.
- (III) *Few media institutions have a specific objective of promoting CSR and educating the public and business community on socially responsible practices.* Media that purposefully promote CSR are usually electronic or paper newspapers and magazines specialized in business and economic development.

The best examples of media focused on CSR promotion could be found in **Serbia**. *Ekonomist Magazin*⁶⁶ has consistently published articles aiming to educate the business community on CSR. *Ekonomist Magazin*, with approximately 10,000 copies issued each week, is part of the leading *Ekonomist Media Group (EMG)* that focuses on issues related to economic, financial and business activities in Serbia. *Broadcasting Corporation B92*⁶⁷, besides regularly informing the public in Serbia on CSR activities and issues, has also developed and implemented its own CSR programme, where it identifies important social

62 <http://www.hajdeda.org.yu>.

63 <http://www.sam.org.yu>.

64 <http://www.amcham.yu>.

65 <http://www.fic.org.yu/cms/item/about/en.html>.

66 <http://www.emportal.co.yu>.

67 <http://www.b92.net/eng>.

issues, offers solutions and stimulates other companies to participate in solving social problems. Moreover, *E-Magazin*⁶⁸ publishes weekly CSR promotional articles while the electronic bulletin, *CSR Monitor*, publicizes regular CSR articles from the international press aiming to educate Serbian businesses on the international best CSR practices. Some other newspapers (*Danas*, *Blic*, *Politika*, *Vecernje Novosti*) have also been active in incorporating CSR-related articles in their publications in Serbia.

In **Albania**, *Monitor Magazine*⁶⁹ has published articles on CSR and its implementation since 2002. *Monitor Magazine*'s main focus has been introducing the concept of CSR, examples of companies engaged in CSR in Albania, publishing a series of educational articles on ISO certification, and producing updates on the topic of quality certification in the country's private sector.

There is no data available from other study countries on media institutions that focus on promoting the CSR agenda.

It is clear from the analysis that the media's potential in promoting CSR has not been fully utilized in the region. Media needs to be further educated and encouraged to support CSR promotion.

VII. Trade Unions

Apart from the labour dimension, trade unions in the region do not usually promote CSR or engage in CSR activities. As demonstrated in Figure 2 above, less than 32 percent of actors in the region consider trade unions' CSR efforts as substantial. But trade unions have an important role to play in promoting the rights, wages and working conditions of employees in the region.

VIII. Conclusion

There are a number of non-corporate promoters of CSR in the region. Among them, development part-

ners, NGOs and business associations are considered most active. However, the non-profit organizations' approach to engaging the business community in CSR has not yet reached its potential.

Overall, *governments* have not fulfilled the expectations of businesses and other actors to provide support for CSR engagement. Although governments have created the basic regulatory foundations on which CSR can be built, they often lack the capacity to promote and enforce their legislation. CSR activities are usually not coordinated between ministries and/or government institutions. The majority of actors do not see governments as the current key driver of CSR promotion in the region.

Development partners are key players in bringing CSR to the region through partnership projects, funding initiatives and advocacy efforts. The most influential international entity in the region is the European Commission that demonstrates significant influence on governments to adopt and reform policies and legislation. UNDP is also one of the most active development partners engaged in CSR development in the region.

Academia's role in incorporating CSR in the process of education is in its infancy but rapidly growing. Academia is becoming more active in incorporating CSR in the education process. Courses on business ethics, corporate governance, and environmental management are now part of the educational curriculum at many universities in the region.

Non-corporate actors' involvement in CSR promotion cannot be precisely compared across countries. However, there are some trends that should be mentioned. Overall, Albania has the most comprehensive legal framework in areas pertaining to CSR in comparison to other research countries, yet the Albanian government lags behind with regard to implementing and enforcing those laws and regulations. Montenegro and Serbia have relatively more civil society organizations actively involved in CSR promotion and development. However, there is not a single higher education institu-

68 <http://www.emagazin.co.yu>.

69 www.monitor.al.

tion in Montenegro that teaches CSR or business ethics related classes. B&H and Serbia are doing slightly better in incorporating CSR in education. B&H is the only country where CSR is taught at university level. Due to recent history, Kosovan non-corporate actors' involvement in CSR is significantly weaker in comparison with all research countries from the region.

Non-corporate actors' engagement in CSR promotion in the Western Balkans is somewhat similar to the results of the CSR study conducted in the eight other countries from the CEE region⁷⁰. The previous research documented weak government capacity to promote CSR, inactive media and limited capabilities of civil society to hold business accountable for their impact on society and communities. The research also identified development partners and multinational companies as the main drivers of CSR development in the region. Despite similarities, there are some differences between the countries with regards to actors' roles in CSR development that need to be acknowledged. Countries studied under the previous research are already members of the EU (Bulgaria, Lithuania, Poland, Hungary, and Slovakia) or candidate countries (Turkey, FYROM) and they have managed to accomplish more socio-economic and political reforms. Many of the countries have already appointed government bodies responsible for coordinating and promoting CSR-related activities and are in the process of conducting multi-stakeholders dialogue and adopting national action plans for CSR development⁷¹, whereas, countries in the Western Balkans are only at a very early stage of this process.

70 Baseline Study on CSR Practices in the New EU Member States and Candidate Countries; Bulgaria, Croatia, Hungary, Lithuania, FYROM, Poland, Slovakia, and Turkey.

71 Conference Report: Accelerating Corporate Social Responsibility (CSR) Practices in the new EU Member States and Candidate Countries as a Vehicle for Harmonization, Competitiveness, and Social Cohesion in the EU - International Conference "Public Policies On Corporate Social Responsibility (CSR) In Eastern And Central Europe" 9 -10 September 2008, Vilnius, Lithuania.

3. CORPORATE ENGAGEMENT IN CSR

Irrespective of the work done by non-corporate stakeholders in promoting CSR, businesses are the key players in CSR. Since CSR is by definition a voluntary activity, it is the businesses' ultimate decision whether to be involved in socially responsible activities and to select which of them they will pursue. Therefore, this research explores companies' CSR engagement through assessment of multiple variables providing a detailed picture of this engagement.

I. Overall CSR Engagement and Understanding

a. Level of Engagement

One of the most important goals of this research is to assess the level of company engagement in CSR activities and the factors influencing it. As shown in Figure 8, only 3 percent of sample companies express no interest in CSR at all. A great majority (73 percent) are either 'somewhat' or 'very actively' engaged in CSR. Interestingly, an additional 20 percent are not yet

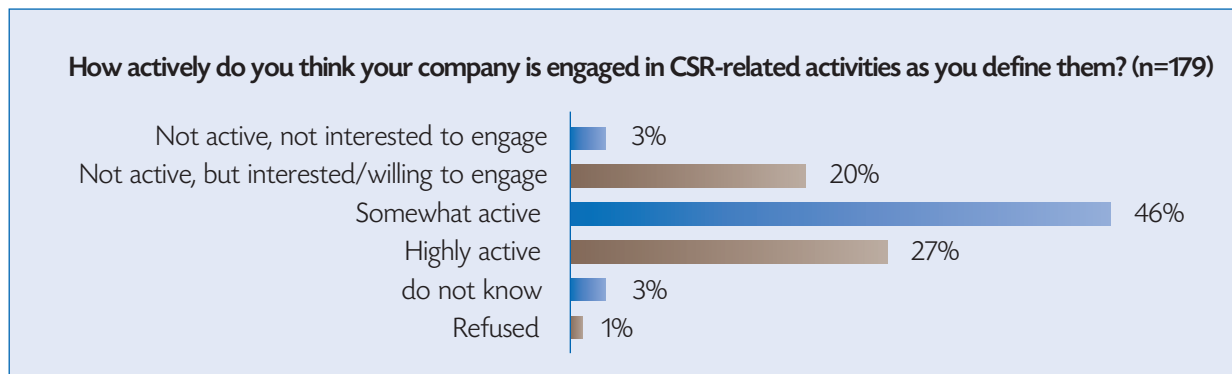
engaged but are interested in being involved⁷². Not surprisingly, perhaps, more than 60 percent of the companies which rated their CSR involvement as 'highly active' are branches of multinational corporations operating in the region. The majority of private-national and government companies are only 'somewhat active' (50 percent and 46 percent) in their CSR activities. All 3 percent of companies who reported to have no interest in CSR are private-national businesses (Figure 8).

At first sight, the figure of 73 percent of companies engaged in CSR seems very high. However, there are several aspects that need to be taken into account in interpreting this number.

Firstly, as mentioned in the methodology section, the research sample contained a high proportion of companies that had previous CSR engagement and which allocated resources to promotion and networking.

Secondly, the percentage is based on companies' own self assessment, which is significantly affected by companies' own perception of CSR. There are specific

Figure 8. Company engagement in CSR



⁷² Please refer to the methodology section and Annex II. to see how representative the research sample of the companies in the region was.

aspects of CSR understanding among companies that are defined by the political and socio-economic background of the region that need to be taken into account. As the Baseline Study on CSR practices in the new EU Member States and Candidate Countries reports: *“Since the transition, economic sustainability was a continuous challenge for entrepreneurs so in general local enterprises, mainly SMEs, had no time and resources to pay attention to social or environmental responsibility – the general public did not put pressure on companies to be any more than profitable. Companies had never experienced applying the principles of good corporate governance or considering their wider impacts, so there was a lack of knowledge, instruments and tools. Nobody knew how to be efficient, profitable and socially and environmentally responsible at the same time. Privatization and the new economic agenda resulted in “wild capitalism”, where profit became the most important goal for most companies in the region⁷³.”* This situation had been very similar in the Western Balkan countries and started changing at the turn of this century. As part of their EU integration process, governments adopted a number of laws and regulations on environmental protection, employee health and safety, corruption and transparency, etc., that companies are obliged to follow. However, those laws and regulations are often not being supported, implemented and enforced, at an adequate level. Only the more progressive companies are either aware of the requirements or able to invest in compliance measures.

As a result, in many cases, companies would report being engaged in CSR activities, when actually their CSR activities consisted mainly in compliance (e.g. providing benefits to employees, ensuring occupational safety, taking environmental precautions in their operations). Companies that are performing relatively well in some aspects of socially responsible business practices and very poorly in others would still rate themselves as CSR engaged. For example, NETs encountered companies that regularly donated money for

charitable purposes, while at the same time, did not treat consumers fairly e.g. by monopolizing the market. In the absence of clear guidelines or incentives on consumer protection (or possible penalties in case of non-compliance), a company might not consider it a problem to abuse consumer rights. The same company would still claim to be engaged in CSR through charitable donations they made. This is part of the process of transition from ‘wild capitalism’ to a socially responsible business community, where some aspects of CSR are emerging but others are not yet acknowledged.

In order to determine types and specific characteristics of CSR activities that companies in the region are engaged in, the survey asked businesses to describe CSR-related best practices that they implement. Overall, responses from companies can be divided into four categories⁷⁴: **(i) Philanthropy, (ii) Preserving the Environment, (iii) Investing in Local Communities, and (iv) Supporting Employees.**

PHILANTHROPY

Voluntary financial contributions by the business sector to cultural, sporting and other non-profit bodies and events in their communities have long played a part in CSR globally. While there has been some questioning in recent years about whether philanthropic investments are always the best strategy for companies to build brand and value, philanthropy continues to play an important role in the suite of CSR instruments a company can use. Based on company responses, philanthropy is the most widespread CSR activity practiced in the region. The donation of money and goods is the most convenient and visible way of being ‘CSR active’. Donations to schools, hospitals and other educational, art and healthcare related activities are the most widespread. Donations to vulnerable communities (disabled, victims of disasters, minorities, etc.) are also common. As our research suggests, the building of company brand/reputation is the main stated incentive for CSR engagement in the region (Figure 11).

73 UNDP 2007. Baseline Study on CSR Practices in the New EU Member States and Candidate Countries.

74 It should be noted that there is no clear cut methodology to categorize different best practice activities. In most cases, community development activity can also be related to environmental protection and philanthropy. The most important point is that the range of all best practice activities mentioned by companies does not go beyond four categories.

PRO MONTE

Pro Monte is the first mobile operator in Montenegro. Company Pro Monte's slogan "We are here to help" best describes their intensive activities in social support. Pro Monte is involved in a number of community and support activities:

- *Pro Monte has been the general sponsor of the prestigious music festival "Suncane Skale" as well as the sponsor of the children's music festival "Na a Radost";*
- *Pro Monte is the sponsor of plays at the Herceg Novi Film Festival, Podgorica City Theatre as well as a series of other cultural events such as Summer Carnival in Kotor, Mimosa festival in Herceg Novi and many others. Besides the above mentioned, Pro Monte is also the sponsor of the International Book fair which is held in Podgorica for the second time;*
- *General sponsorship of the fashion Week – the most significant event of this kind in this area – is evidence of Pro Monte's concern for the Montenegrin fashion scene;*
- *Pro Monte is actively involved in the field of sports and is supporting the Montenegrin Handball Association as well as prominent individuals: Ivan Strugar (the winner of numerous state, European and World medals in kick boxing) and Milutin Vujosevica (champion racing driver); and*
- *In the field of education and youth guidance – it offers significant support to CASAZ and the Office for Drug Addiction Prevention in carrying out their activities and programmes.*

ENVIRONMENT

The reports of the Intergovernmental Panel on Climate Change (IPCC), high profile government agreements on CO2 reduction, and worldwide awareness-raising campaigns on climate change have placed environmental concerns at the top of the global agenda. Around the world, companies are showing a greater interest in measuring, reducing and reporting their environmental

impacts. This can be seen in the popularity of sustainability reporting instruments, which provide specific environmental indicators which companies can use to assess their impacts, and develop appropriate response strategies. The majority of best practice environmental activities in the region are related to waste recycling and energy saving as well as promoting environmental protection

Vodafone Albania

Vodafone Albania established the Vodafone Albania Foundation in January 2008 as part of its commitment to social responsibility. The foundation receives its funding from Vodafone Albania and the Vodafone Group Foundation, which represents an international network of 24 foundations. The foundation is one of the first of this type of initiatives in Albania where local businesses strategically target the needs of communities. The Foundation has several priority funding areas including improving quality of life in communities by investing in technological innovations, educational, healthcare, and environmental projects.

The company tries to take environmental concerns seriously:

- *It has installed solar panels to reduce pollution from the use of power generators;*
- *It applies methods for the recycling of paper, mobile phones and other materials used during work processes; and*
- *It conducts regular assessment of the electromagnetic radiation of its antennas.*

Since its establishment, the Vodafone Albania Foundation has funded several projects:

- *Financial support of Lek 24,000,000 (approx. 200,000 EUR) – to address the needs of the people affected by the explosion in GĐrdec vilage (VorĐ);*
- *Financial assistance (Euro 295.000) for the implementation of several cultural and community support projects; and*
- *Sponsorship of the annual competition "The World of Change", a unique and innovative experience that aims to promote passion and devotion in individuals for responding to the social needs of the surrounding community.*

Vodafone Albania is one of the pioneering companies in the region that is trying to work on CSR principles with its suppliers. The company has a code of ethics in purchasing policy and assisted some of its suppliers to adopt similar ethics principles in their purchasing process.

COMMUNITY DEVELOPMENT

Businesses around the world are recognizing that they cannot prosper in communities that are not themselves prospering. The communities in which businesses work provide potential employees, customers, investors and critics. Therefore, it is in a company's interest to understand the needs and concerns of local communities and attempt to respond to these, even where this is not specifically required by regulations.

This appears to be well understood within the region. Supporting and investing in communities is a widespread CSR activity, with the majority of community development activities concentrated in areas that produce visible and tangible results such as constructing and renovating community facilities, roads, etc. Activities that attract publicity and visibility for companies, such as supporting sport events and clubs, are also common.

***Raiffeisen Bank**, headquartered in Austria, is the second largest commercial bank in Kosovo. Apart from being focused on providing banking products and services, RBK is also committed to contributing to Kosovo society. RBK supported several CSR-related activities during 2007. The bank donated a cheque for EUR 5,000 to SOS Kinderdorf International in Kosovo which takes care of abandoned children and provides them with a home and a new family. Also, in cooperation with the American Chamber of Commerce in Kosovo, RBK organized a dinner charity event called "For a Better Life" with the purpose of raising funds for Children's Paediatric Hospital in Pristina, the capital of Kosovo. As a result of this initiative the Children's Paediatric Hospital has been remodelled and now offers much better conditions for the Kosovo children in need of medical treatment.*

EMPLOYEE WELL-BEING

Employees are critical to the success of a company. To attract, maintain, and get the best out of its workforce, companies worldwide are using a CSR approach to go further than simply applying local labour laws. Increasingly, companies see employees as vital sources of ideas, innovation and efficiency, and put in place training and communication strategies to develop their human resources to the full. Companies in the region also report spending money to support employees and create better working conditions for them. Some have special policies to integrate disadvantaged groups into their workforce. However, these types of activities are not as popular as community development or philanthropy.

In conclusion, analysis of best practice CSR engagement demonstrated an emphasis on activities that have short-term tangible targets. What was less clear was how companies approached longer-term sustainability goals, including sustainability risks to their operations (e.g. rising energy and raw material costs) and opportunities from the growing global markets for more sustainable goods and services. Among the 180 surveyed companies, none mentioned best practice activities in some key areas related to CSR (e.g. fair treatment of customers, good corporate governance, stakeholder engagement, transparency and accountability, risk management, social inclusion, socially responsible investing, etc.), which suggests great potential for companies in the region to broaden their approach. The concept of CSR is new and not many companies have been able to integrate all aspects of it. However, since CSR offers a wide menu of options, it is normal for companies to seek out those activities that deliver the quickest and lowest cost returns. There is no 'one size fits all' for CSR: to decide what is most material to them, companies are well advised to consult widely on stakeholder perceptions and expectations, and prioritize responses that reduce risk and build business value. Usually these will include internal pollution reduction measures (e.g. energy efficiency), improved employee training and awareness, and helping build sustainable local communities.

Among those companies that reported best practices, private-national and state-owned companies were in the minority, while local branches of multinational companies made up the majority.

Bosnalijek is the biggest industrial producer of medicines in B&H with a production programme that includes generic medicines for use in human medicine and disinfectants.

- In 2008, Bosnalijek conducted an Employee Satisfaction Survey. The aim of the survey was to assess the employees' satisfaction, but also to consider possible improvements of business processes and suggest necessary preventive and corrective measures. The company also encourages professional training of its employees and invests in their specialist and post-graduate studies. Bosnalijek entered 2008 with 9 specialists and 38 employees who were attending different post-graduate education programmes.
- In 2008, Bosnalijek is providing scholarships to 203 university and high school students, which is the greatest number of scholarships awarded so far. The above number includes 71 university and high school students who had been awarded Bosnalijek scholarships during 2007- 2008 academic year.

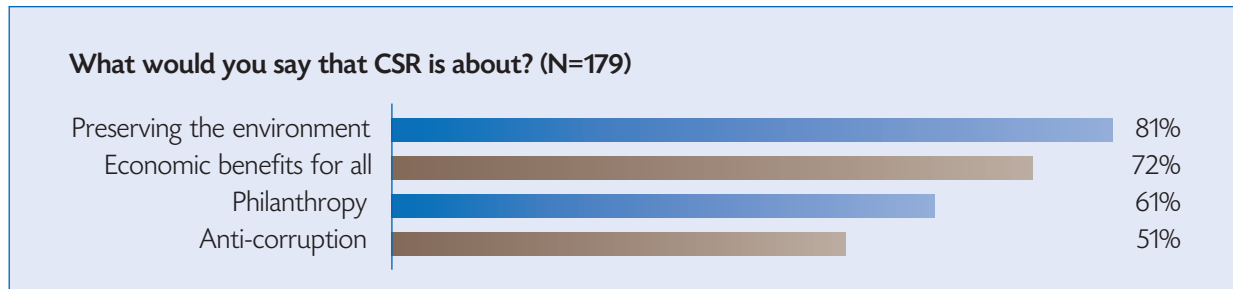
main definitions of CSR given by business respondents. The list corresponds with the list of best CSR practices from the region described above. Here transparency appears to be an exception, with 51 percent of respondents citing it as an important CSR definition, but not identifying any best practice transparency activities.

Understanding CSR as environment, philanthropy and community support is a general phenomenon across CEE. Several studies have tried to define the understanding of CSR among businesses in the region and reached the same conclusions. As the Baseline Study on CSR Practices in the New EU Members States and Candidate Countries reports "In most countries in the region, CSR is generally seen as an addition to the core business activity of companies, and is often connected with philanthropy and sponsorship, it is not seen as central to risk management and stakeholder relationships"⁷⁵. A study conducted in 2006 by Smart Kolektiv in Serbia concluded that the majority of businesses in Serbia viewed CSR as addressing only environmental concerns, philanthropy and community support⁷⁶. Other research by the World Bank which studied Montenegrin and Serbian businesses found that compliance with the law and business ethics were the top CSR priorities.⁷⁷ A report written by the Albanian Institute for Research and Development Alternatives in 2005 confirmed that philanthropy was the main notion of CSR in the country⁷⁸. Another study by UNIDO in 2007 stated "at this stage CSR in the Central and

b. CSR Understanding

As demonstrated in Figure 9, environmental concerns, improved wealth distribution and philanthropy were the

Figure 9. Company perception of CSR



⁷⁵ UNDP 2007. Baseline Study on CSR Practices in the New EU Member States and Candidate Countries.

⁷⁶ Mazurkiewicz P. et al. 2006. Business Perspectives about Corporate Social Responsibility: Attitudes and practices in Serbia and Montenegro, Smart Kolektiv.

⁷⁷ World Bank. 2005. Republic of Montenegro: Economic Memorandum. A Policy Agenda for Growth and Competitiveness Report No. 32623-YU.

⁷⁸ http://www.idra-al.org/pdf/en/BizEthics2004-2005FinalNarrativeReport_Web.pdf.

Eastern Europe region is still commonly understood as corporate philanthropy or charity, or associated with public relations and marketing strategies, and not as a company's responsibility to all its stakeholders.⁷⁹ Finally a study by the World Bank in three regional countries in 2005 revealed that the majority of businesses in the region viewed CSR as a 'public relations issue' and 'compliance to existing laws'⁸⁰. A relatively lower percentage of companies recognized environmental concerns as a CSR issue.

However, in contrast to previous studies, our research suggested that companies' perception of CSR as environmental protection rated higher than community support and philanthropy. This **apparent shift in CSR perception within the business community** may have several drivers. It is probable that recent internationally-funded environmental initiatives implemented in the region (involving international standards), pressure from the European Commission to adopt environmental standards, and worldwide media attention to issues such as global warming have affected corporate attitudes. This is generally in line with evolving business perceptions worldwide, and can be considered as a positive shift towards taking environmental concerns more seriously in the region.

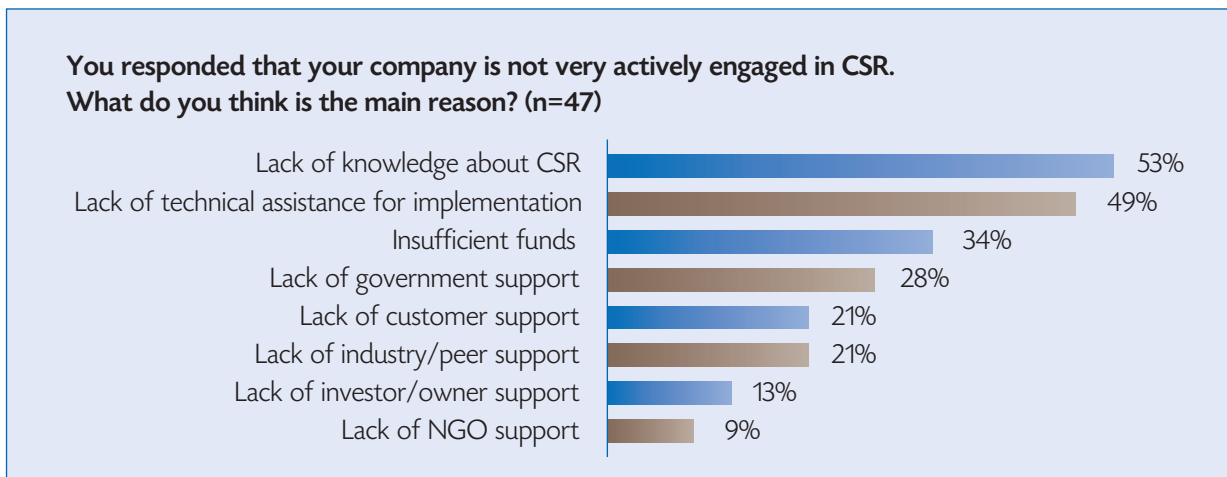
II. Barriers and Drivers

a) Barriers

There are a number of barriers to companies engaging in CSR activities. Many of these barriers are associated with the economic and political environment in which they operate. Factors mentioned above include: weak promotion and enforcement of laws and regulations; issues related to pre-transition legacy such as a low level of trust between public and private sectors, the belief that social welfare is governments' sole responsibility; and relatively disengaged civil society and media. Together, these have a strong influence in shaping the business environment of the region.

There are further constraints related to companies' own competencies to develop and implement CSR activities, such as lack of capacity (e.g. knowledge and expertise), lack of resources and leadership. The study asked companies to rate the reasons hampering their CSR engagement (Figure 10). According to the results, **lack of company knowledge of CSR** and **lack of technical support in CSR development and implementation** are the primary barriers preventing com-

Figure 10. Barriers to CSR engagement



79 UNIDO. 2007. On the state of corporate social responsibility (CSR) in Central and Eastern Europe (CEE). Special focus: Bosnia and Herzegovina, Bulgaria, Romania and Serbia.

80 World Bank 2005. Opportunities and options for governments to promote corporate social responsibility in Europe and Central Asia: Evidence from Bulgaria, Croatia and Romania.

Figure 11. Reasons for CSR involvement

Please rank the importance of the following factors in your company decision to be involved in CSR activities (n=115)				
	ALL companies	National	Multinational	Government
Reputation enhancement	4.37	4.23	4.50	4.37
Environmental protection*	4.23	3.94	4.56	4.58
Management request *	4.20	3.95	4.41	4.71
Attract "best" employees	3.91	3.70	4.20	3.83
Market/trade expansion	3.80	3.75	3.90	3.66
Local/international competition	3.74	3.66	3.93	3.36
Consumer requirement	3.71	3.66	3.64	4.21
Shareholder/parent company pressure	3.50	3.27	3.59	4.38
Risk management	3.48	3.20	3.78	3.77
Government legislation/requirement *	3.48	3.44	3.19	4.57
Government financial incentives *	2.71	2.57	2.62	3.83
International organization pressure *	2.56	2.17	2.90	3.25
NGO pressure	2.34	2.15	2.57	2.58

Understanding Figure 11. Companies were asked to rate a number of specific factors that influenced their decision to be involved in CSR on a five-point measurement scale where: 1 – Not important at all; 2- somewhat unimportant; 3- neither important nor unimportant; 4- somewhat important; and 5- very important. The numbers shown on the table represent the average mean value of those values for each factor. For example, all companies in the sample on average reported that ‘reputation enhancement’ was ‘very important’ (4.37) for their CSR involvement, whereas, those companies reported that NGO pressure on average was ‘somewhat unimportant’ (2.34). * -indicates statistical significance in <.050 level.

panies’ involvement in CSR. **Financial considerations** – such as lack of government incentives and insufficient financial resources are cited as additional hindrances.

Companies’ ownership characteristics also provide a clue as to barriers to engagement. Private-national companies, for example, are more likely to identify lack of CSR knowledge, technical assistance, and government support as major obstacles for engaging in CSR than multinational and state-owned companies.

b) Drivers

There are various **drivers** that may lead companies to take CSR principles and standards more seriously. The most important driver is a company’s perception of the short- and long-term economic benefits of investing in CSR activities. Not all businesses can find direct

linkages between current social expenditures and future economic benefits and/or have enough understanding and resources to implement those activities. Usually multinational companies are better able to make the connection between CSR investments and business value.

The study tried to assess which drivers were the most influential in helping companies become more socially responsible. Figure 11 shows the ranking of influential factors across all types of companies – multinational, national and government owned. **Reputation, enhancement, concerns over the environment, being able to hire skilled employees, and expanding boundaries of current market** were the main reasons that induced companies to engage in CSR.

Understandably, companies rate highest those factors related to future **competitive advantage and profitability**. Reasons related to external pressures were

rated the lowest⁸¹. The conclusion – that profitability and competitive advantage are the main incentives/drivers leading companies to become socially responsible – is consistent with attitudes elsewhere in the world. CSR needs to be financially sustainable. For this reason, it is appropriate that CSR approaches lead to both short (e.g. reduced energy costs, improved customer satisfaction), and longer term benefits (e.g. improved capacity to deliver more sustainable goods and services).

While governments in the region are not viewed as the main drivers of CSR, lack of government support is seen as a problem. Companies see the absence of government support as one of the major barriers to their CSR involvement (Figure 10), but existing government

policies and regulations as providing limited incentive to increase CSR activities (Figure 11).

The fact that companies overall rated NGO pressure in their decision to be involved in CSR as ‘unimportant’ (Figure 11) or even a reason for not engaging in CSR (9 percent – see Figure 10) has strong implications for the work of NGOs in the region. Analysis of NGO activities in CSR suggests they may not focus enough on communicating the business case for CSR, which is crucial for businesses to understand, and which is the starting point to their CSR engagement. Additional efforts by NGOs are required to help businesses understand that CSR is an investment that will create long-term profitability rather than short-term cost and will increase their chances of becoming more sustainable and thereby gain competitive advantage in local and global markets.

Figure 12. Actors’ perception on CSR



Understanding Figure 12. Actors of CSR promotion were asked to rate a number of specific factors that influenced companies’ decisions to be involved in CSR on a five-point measurement scale where: 1 – Not important at all; 2- somewhat unimportant; 3- neither important nor unimportant; 4- somewhat important; and 5- very important. The numbers shown on the figure represent the average mean value of those values for each factor. For example, all actors in the sample on average reported that ‘reputation enhancement’ was ‘somewhat important’ (3.96) for companies to take CSR seriously, whereas, those actors reported that supply chain improvement on average was ‘neither important nor unimportant’ (2.94).

⁸¹ Among the external factors, the research did not offer companies a choice to rate the influence of development partners in their decision to engage in CSR related activities. Therefore, we cannot assess the extent to which companies consider development partners’ role in their CSR engagement. Development partners do more work in influencing and changing policies and laws, bringing international expertise, standards and research to region and do less work with individual company capacity building and CSR engagement. Therefore, the low rating of external factors is not an argument against development partners being one of the main drivers of CSR promotion in the region.

It is worth mentioning that as companies in the region engage in the global economy, it would be consistent with international best practice to pro-actively seek out NGO perspectives and develop dialogues and partnerships where appropriate.

The research also examined non-corporate stakeholders' perceptions of drivers that encourage business to engage in CSR (Figure 12). **According to non-corporate respondents, it is generally difficult to get businesses to take CSR seriously.** Non-corporate respondents rated the importance of each factor much lower than those of businesses⁸². Furthermore, although companies reported **environmental protection** as one of the main factors affecting their CSR decision, non-corporate stakeholders did not think that businesses took environmental precautions very seriously. On average, non-corporate stakeholders reported that environmental concerns were of little perceived relevance to the businesses – somewhere between 'neither' and 'somewhat important' level (3.53). The difference can be explained by non-corporate stakeholders' critical view of the business sector's efforts to protect the environment.

Further breakdown of the non-corporate respondents' sample suggests that national government agencies (regulators), NGOs and development partners report business interest in environmental protection at the lowest level, while business associations and trade unions reported the opposite. Actors in Montenegro, Kosovo and Serbia are more likely to think negatively about the business commitment to environmental protection than those in Albania and Bosnia and Herzegovina.

It is clear that there is a division of opinion between business corporations and non-corporate actors on the businesses' role in protecting the environment. This

underlines the importance for the business sector of reassessing its standing in society and using CSR tools (e.g. dialogue, engagement) to better understand societal expectations.

Further analysis suggests that among the companies that believe environmental concerns are 'very important' or 'somewhat important' to their involvement in CSR, only 13 percent state that they are involved in measures to prevent climate change at any level, 29 percent use environmental or eco labels on their products, 27 percent develop environmentally friendly products or methods in running their businesses and 33 percent have recycling facilities. Over two thirds, however, state that they try to reduce the amount of pollution that they produce. A conclusion that can be drawn is that **although companies report environmental concern to be one of the top priorities in their CSR engagement, there is still significant scope for incorporation of environmental protection measures in their operations.**

This finding is consistent with previous publications from the region. The UNIDO Issue Paper in 2007 concluded that although all countries in the region had adopted environmental laws and legislations in line with EU standards, the actual implementation activities and standards required by those laws were only in an emerging stage of development.⁸³

III. Accountability Rating

The research measured business engagement in CSR practices utilizing the **AccountAbility Rating™**, developed by *Csmetworks*, a CSR consultancy and AccountAbility, an international think-tank, and first applied in 2004⁸⁴. This rating was applied in order to keep

82 Both companies and actors rated the factors on the same 5 point scale. Overall actors gave lower rating for each factor that makes companies take CSR seriously. For example 'Reputation Enhancement' mean score for companies was 4.37 (figure 11) but for non profit ratings only 3.97 (Figure 12). The same pattern is true for each factor that was rated by both sides.

83 "Nowadays, environmental protection is one of the most important political and economic issues that needs to be addressed in the region. However, governments and businesses have not yet resolved how to share the costs of mitigating the negative environmental impacts of business and restructuring technological processes to make them more environment-friendly. Even though environmental protection in the new EU member States in Central and Eastern Europe has progressed remarkably well in terms of meeting the requirements for accession, many problems still need to be tackled, particularly in the remaining countries in the region". UNIDO. 2007. On the state of corporate social responsibility (CSR) in Central and Eastern Europe (CEE).

84 For more information please review <http://www.accountabilityrating.com>.

findings consistent with prior research conducted in the field and to have a single common framework to assess the level of company engagement. The AccountAbility RatingTM is applied annually to the world's largest companies (the Fortune Global 100, or 'G100'), and the headline results are published in Fortune magazine⁸⁵. The AccountAbility RatingTM measures company engagement in CSR activities in the following six domains:⁸⁶

- **Strategy** looks at how well a company's management recognizes its main social, ethical and environmental impacts and sets relevant performance targets and objectives in a way that integrates these with the core business strategy.
- **Stakeholder Engagement** looks at the level and nature of systematic dialogue and engagement processes with those who have the ability to influence a company's operations or may be affected by its business.
- **Governance** looks at responsibility and accountability with the company for CSR policies and performance, from the highest level throughout the organization.
- **Performance Management** looks for processes, standards and incentives used to achieve social and environmental goals, as well as financial ones.
- **Public Disclosure** looks at how reporting on the company's social and environmental performance is con-

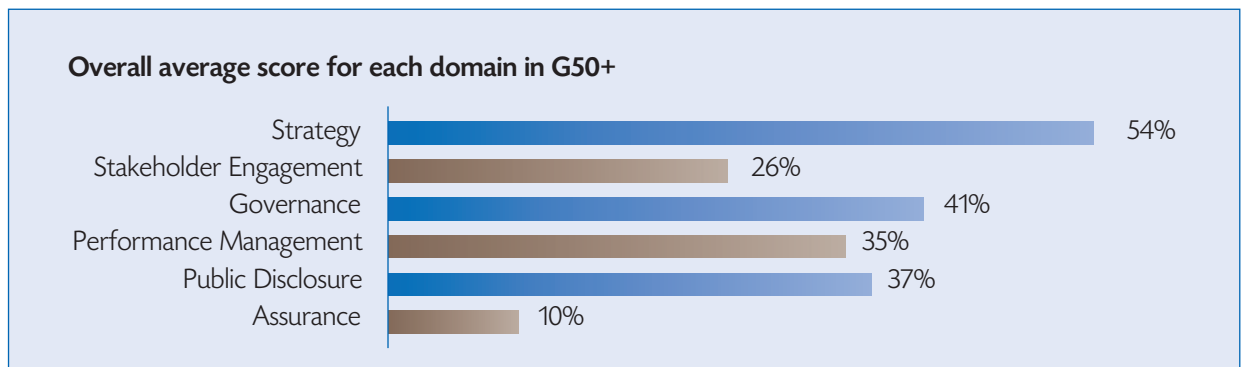
ducted, including transparency on policies and performance.

- **Assurance** looks at internal and external processes that build the credibility and effectiveness of CSR processes and reporting⁸⁷.

In 2006 the AccountAbility RatingTM was applied to 60 large global companies⁸⁸. The overall results from the evaluation are shown in Figure 13 below. Overall, companies received the highest scores on the Strategy, Governance and Public Disclosure domains. Company scores on Assurance and Stakeholder Engagement were considerably lower. The results of the global 2007 rating were similar. The large global companies were strongest in the Strategy domain, and weakest in relation to the Assurance domain. Based on the 2007 rating, European companies were performing considerably better than companies from other regions. Among the 20 companies that scored the highest in all domains, 18 were from Europe. Companies from the United States lagged behind in comparison to European businesses.⁸⁹

Accountability rating results from the 180 companies from the Western Balkans investigated under the scope of this study are highlighted on Figure 14.

Figure 13. Overall average score for each domain for 50+ large global companies in 2006



85 Ibid.

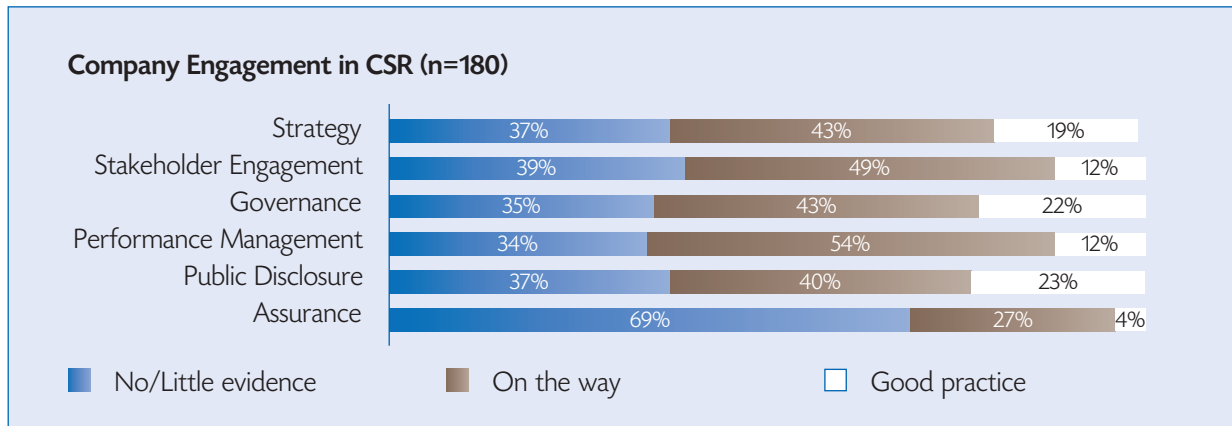
86 AccountAbility has updated its domain classification in 2008 but this report uses the old version in order to compare the results with the those of the Baseline Study on CSR Practices in the New EU Member States and Candidate Countries. For more information on the current classification please visit AccountAbility webpage.

87 AccountAbility Rating 2006. Summary Report of Results.

88 These comprised Fortune Global 50 companies and additional 10 large companies selected by AccountAbility). AccountAbility Rating 2006. Summary Report of Results.

89 AccountAbility Rating 2007. Key findings from annual study of the world's largest companies.

Figure 14. Western Balkan companies' engagement in CSR activities across all six domains



Understanding Figure 14. Company engagement in six CSR domains was assessed on a three-point measurement scale where: 1 – No/Little evidence; 2- On the way; and 3- Good practice. The numbers shown on the figure represent the percentage distribution of the companies across all six domains. For example, only 4% of all 180 companies were rated to have ‘good’ CSR Assurance practices, whereas, about 23% of companies have the same level (good) reporting practice.

The rating was conducted based on company responses to different survey questions as well as NETs’ assessments of company backgrounds. NETs rated every company as having ‘little/no evidence’, ‘on the way’, or ‘good practice’ engagement in each domain. The results were cross-checked by international experts on consistency with the company answers to different survey questions. (See Annex IV and V on how companies were rated within each domain and a detailed description of scoring methodology).

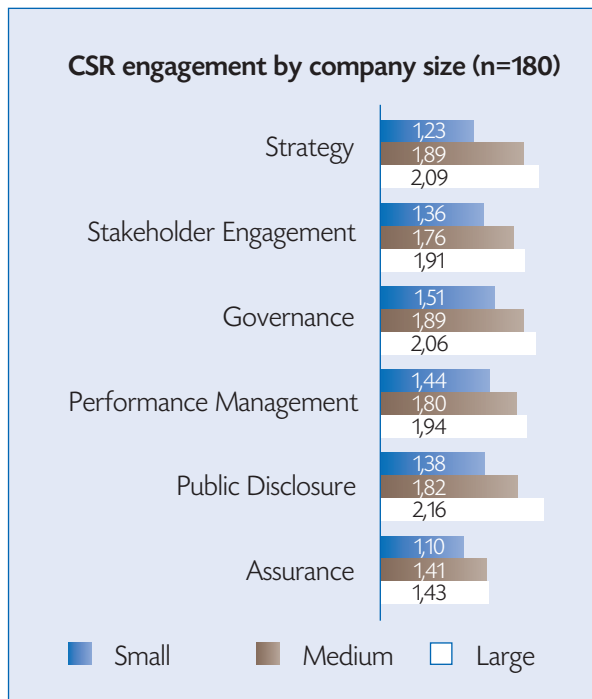
As shown in Figure 14, companies scored the lowest in Assurance and Stakeholder Engagement domains, whereas the results for the Public Disclosure, Governance and Strategy domains were the highest. Less than 4 percent of the companies were ‘good’ at assuring their work with independent experts and only 12 percent had good stakeholder engagement. Nearly a quarter, however, were ‘good’ at producing CSR-related reports, 22 percent had well developed CSR governance mechanisms, and 19 percent incorporated CSR in their overall business strategy.

The results for the Western Balkans were somewhat similar to ratings produced for the 2007 CSR research

covering Bulgaria, Croatia, Hungary, Lithuania, FYROM, Poland, Slovakia, and Turkey⁹⁰ – relatively higher level governance, and strategy, lower performance management, and very low assurance practices. However, companies from CEE were rated to have better stakeholder practices. Companies in the Western Balkans scored slightly higher in their CSR reporting practices than did companies in CEE. The previous research from the eight CEE countries mentioned receiving conflicting results on company reporting. On the one hand, desk research revealed low levels of company reporting in the public domain; on the other hand, company interview results suggested greater public disclosure activities. The previous research report provides no further clarification on the issue; however these conflicting results point to a possible misinterpretation of Public Disclosure by the company respondents. Indeed, although what is being measured here is companies’ CSR/sustainability reporting, there may have been confusion with public relations activities such as media ‘reporting’ of business philanthropic donations. In the Western Balkan context, where philanthropy is considered a key CSR activity, this misinterpretation may have been even more acute, leading to the difference observed in the results between the eight CEE coun-

90 UNDP. 2007. Baseline Study on CSR Practices in the New EU Member States and Candidate Countries.

Figure 15. Company engagement in CSR activities across five domains by size of company



Understanding Figure 15. Company engagement in six CSR domains was assessed on a three-point measurement scale where: 1 – No/Little evidence; 2- On the way; and 3- Good practice. The numbers shown in the figure represent the average mean value of those values for all companies taken together. For example, if an average small company scored 1.23 on Strategy domain, an average large company operating in the region scored much higher – 2.09 in the same domain. The difference across company sizes for all domains is statistically significant at <0.050 level.

tries Baseline study and the present one. In addition, the following points may explain this difference:

1. Differences in methodologies used in selecting both samples and rating.⁹¹
2. Except Albania, the four others have mandatory financial reporting requirements for all publicly funded companies. This may positively influence general reporting behaviour among businesses.
3. The number of multinational corporations in the sample, which are characterized by well devel-

oped international CSR reporting practices covering their operations in the region (but not necessarily involving country-specific reports).

Annex V. provides more information on company reporting behaviour.

A company's size can have a significant effect on its CSR engagement. As indicated in Figure 15, large companies were rated much better than SMEs across all domains. One explanation is that larger companies have access to greater staff and financial resources, and may have a longer history in understanding the significance of CSR activities. Larger companies are more likely to be held accountable for their activities due to: their significance in the national and international economies (e.g. based on their higher use of natural/environmental resources and corresponding impacts); and their capacity to affect lives of a large number of stakeholders. The effect of company size on CSR engagement holds true for all countries that were studied under this research project.

Company ownership also has a significant effect on its level of CSR involvement. Multinationals and subsidiaries of international companies operating in the region show considerably higher CSR engagement across all domains than do national private and state-owned companies (Figure 16). As shown in Figure 16, branches of multinational companies' CSR performance, averages close to the 'good practice' (mean more than 2.00) level across all domains, except for Assurance.

State-owned companies appear to perform a little better in the Assurance and Public disclosure domains. Most state-owned companies in the region are large-sized companies that provide public services (e.g. electricity, water, natural gas distribution, banking, manufacturing, etc.) on a national level. As noted earlier, larger companies are usually more likely to be engaged in CSR activities than SMEs. Therefore, company size has an influence on the higher performance rating of state-owned companies; it generally does not affect as many

⁹¹ As described in the methodology section (Annex II), we tried to adjust our sample to be representative of national economies of the countries rather than individual companies based on their sizes. We are not sure whether such adjustment was made in previous research. Furthermore, the previous research did not include small (less than 50 employees) companies in their sample. We do not have information on the proportion of government, private national and multinational companies in the previous research sample which might also have affected the results.

aspects of CSR engagement of the multinational companies. Overall, medium multinational companies perform better than large-sized private and government-owned national companies in all domains. The small sample size of this study however does not permit more detailed analysis.

As shown in Figure 17, companies in the (i) water, electricity and gas supply, (ii) transport, storage and communication, (iii) financial, and (iv) manufacturing sectors are champions in integrating CSR into their operations. Meanwhile, companies in the (i) wholesale and retail trade, motor repair, (ii) construction, (iii) hotels and restaurants, and (iv) education and private schools sectors are lagging behind. Company size may affect the above findings. The first set of industries tends to be represented by larger corporations, with larger resources, international links, and access to relevant expertise. In comparison, restaurants, hotels, construction companies, and private educational institutions are usually smaller and with limited resources.

The AccountAbility Rating™ has classified companies based on the distribution of rating scores into four different categories⁹²: (i) **Leaders** – are pioneering companies that integrate CSR practices into their operating culture; (ii) **Challengers** – are the companies keen to integrate CSR into their business practice and usually follow the leaders; (iii) **Participants** – are the companies engaged in non-financial aspects of CSR and most often demonstrate accountability to some of their stakeholders such as customers and employees; (iv) **Bystanders** – are the companies not yet seriously involved in CSR activities and that usually do not report non-financial performance.

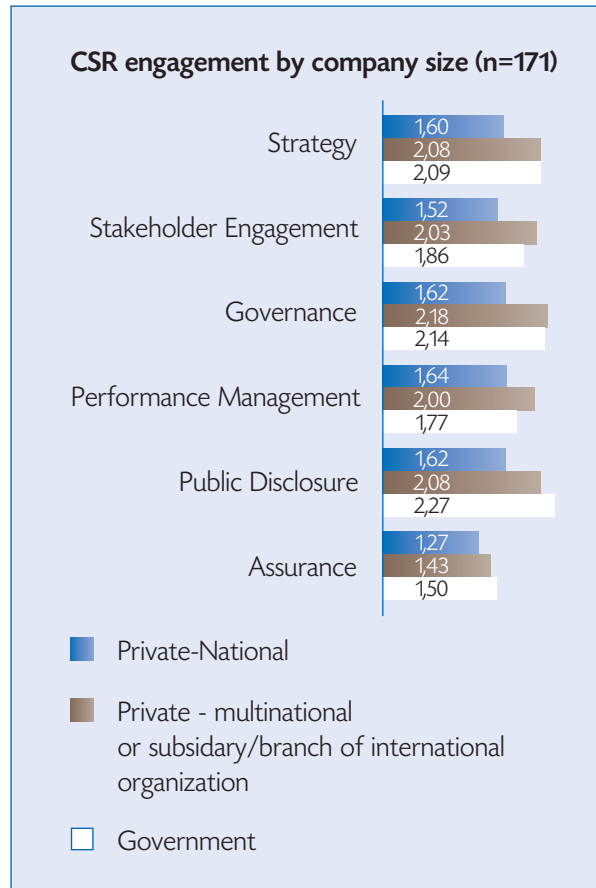
To the extent possible, this study has adopted the scoring methodology to assess regional performance. Not surprisingly, local branches of multinational companies are either **Leaders** or **Challengers** of CSR promotion and implementation in the Western Balkans region. This applies particularly to multinational subsidiaries with more than 250 employees; and predominantly in public service industries. National privately-owned companies are usually **Bystanders** or **Participants** of CSR imple-

mentation, in particular the ones with less than 50 employees and primarily in the sectors of trade, construction, hotels and restaurants, and education.

Appendix V presents an analysis of how surveyed companies are rated within each domain.

CONCLUSION

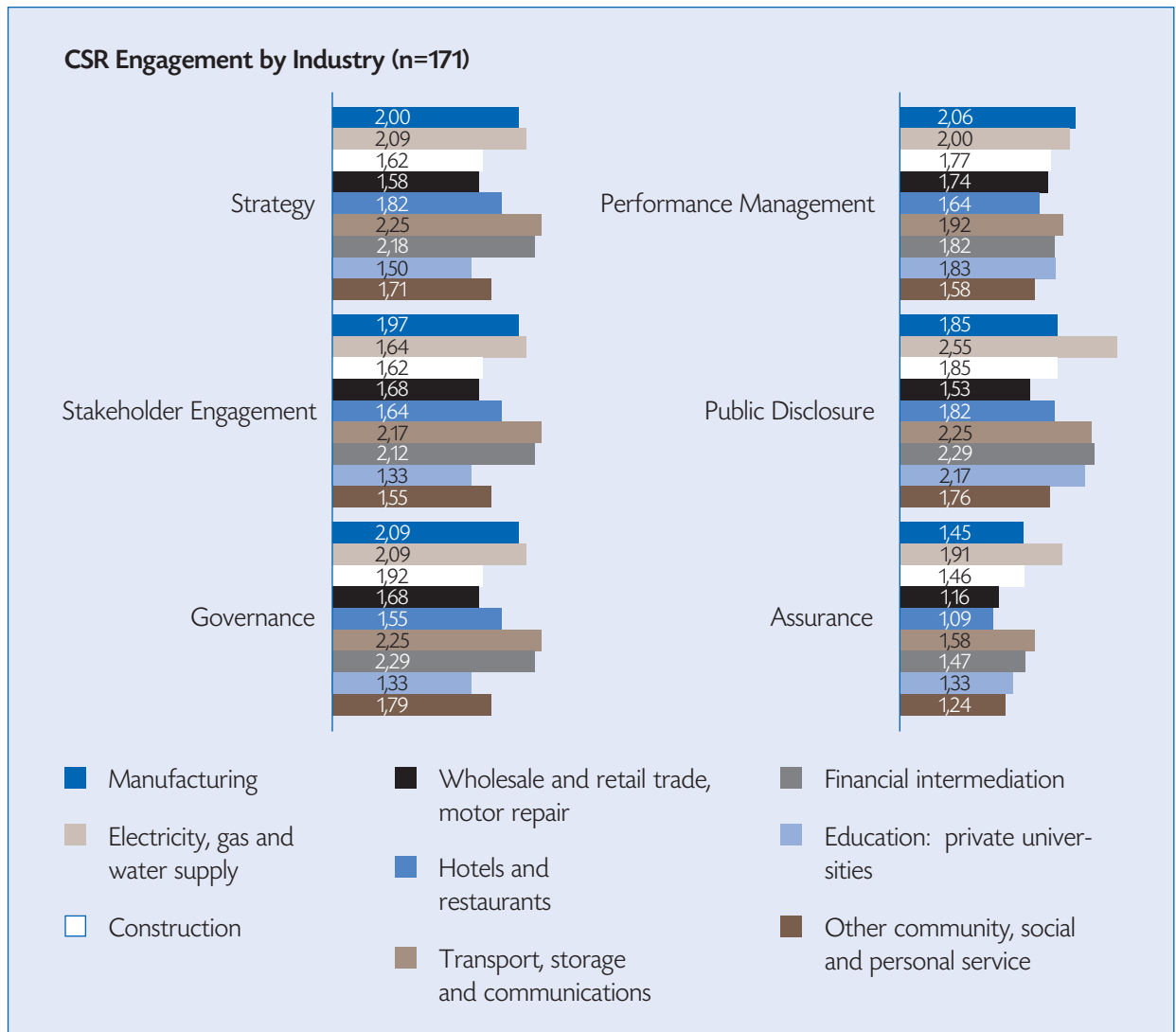
Figure 16. Engagement in CSR activities across five domains by type of company



Understanding Figure 16. Company engagement in six CSR domains was assessed on a three-point measurement scale where: 1 – No/Little evidence; 2- On the way; and 3- Good practice. The numbers shown on the figure represent the average mean value of those values for all companies taken together. For example, if an average private company scored 1.60 on strategy domain, an average international company operating in the region scored much higher – 2.08. The difference across company types for all domains is statistically significant at <.050 level.

92 AccountAbility Rating 2006: Summary Report of Results.

Figure 17. Company engagement in CSR activities across five domains by industries



Understanding Figure 17. Company engagement in six CSR domains was assessed on a three-point measurement scale where: 1 – No/Little evidence; 2- On the way; and 3- Good practice. The numbers shown on the figure represent the average mean value of those values for all companies taken together. The difference across industries for all domains is statistically significant at <0.050 level except in Performance Management domain

Nearly three quarters of the companies operating in the region report some level of involvement in CSR. However, involvement usually consists of expected legal compliance, supplemented by acts of philanthropy, community support, environmental projects and activities related to occupational health and employee support. Only a few companies engage in the wider CSR

activities that are becoming mainstream in the EU, such as stakeholder dialogue, fighting against corruption, elimination of employment discrimination and participation in private/public partnerships. Private multinational companies are far more involved in CSR than private-national and state-owned companies. Overall, multinational companies are the main drivers of CSR in the region. Due to their global experience and supply

chains, they are more likely to understand CSR as a long-term investment that will generate profit, and have experience, expertise and capital to be able to engage in those activities.

There are a number of barriers to CSR engagement but also numerous drivers that can provide further stimulus for enhanced CSR activities. *Lack of company knowledge of CSR* and *lack of technical support in CSR development and implementation* are the primary barriers reported by businesses. *Financial considerations* – insufficient financial resources, and lack of short-term benefits – are additional problems. Major drivers, such as reputation and competitive advantage, have direct linkages to short- and long-term profitability. Companies that view expenditures associated with socially responsible programmes as long-term investments are more likely to be involved in various CSR activities. Drivers such as NGO support and government – are reported as having only minor influence on business' decision to get involved in CSR. These findings underscore the need for government and NGOs to be more involved in supporting businesses as well as putting pressure on them to engage in CSR.

Company engagement in CSR was rated in six different domains: Strategy, Governance, Stakeholder Engagement, Performance Management, Public Disclosure, and Assurance. According to the results, 19 percent of the companies in the region are 'good' at having incorporated CSR **strategy** in their overall company strategy, 12 percent of companies have the same results in engaging their **stakeholders** in company activities, 22 percent of companies have incorporated CSR in their **governance**, but only 12 percent have sound performance in implementing CSR plans and strategies, 23 percent are 'good' at making their company information **publicly available**, and only 4 percent **assure** that their CSR work meets accepted standards. The majority of those companies are large multinational corporations that work in public services and manufacturing sectors. Multinational businesses apply various international CSR-related standards in their business processes, usually based on their corporate experience in other developed countries.

It can be concluded from the data that assurance of CSR work by external experts is almost completely lacking in the region and that stakeholder engagement by businesses is very weak. Businesses are not the only ones to be 'blamed' for limited stakeholder engagement. Low stakeholder pressure and activity is among the reasons why stakeholder opinion is not incorporated in company decision making and points to the need for stronger cooperation between the private sector and civil society. The business sector needs to explore how it can better align its performance with societal expectations using voluntary CSR approaches. Meanwhile, CSOs representing various stakeholders need to invest more effort into building a positive reputation to ensure that business accepts them as equal and influential partners.

4. SUMMARY OF FINDINGS

This section summarizes the main findings of the report.

I. Business Corporations

The majority of businesses across the Western Balkans (73 percent) claim to be engaged in some aspects of CSR; only 23 percent of the companies in the region report that they are not involved in any CSR-related activities; and an additional 4 percent do not know or declined to answer. The percentage of company self assessment on CSR engagement is strongly influenced by the regional understanding of CSR. As analysis demonstrates 'CSR involvement' usually consists of donations to charities and communities, engagement in environmental projects and financial support and training towards a company's own staff members. Furthermore, as many laws, regulations and standards are not implemented and enforced at an adequate level, many companies would report having CSR engagement when their socially responsible activities consist mainly of compliance. As CSR is a voluntary activity, companies usually engage in CSR areas that are more suitable to their situation and interest. Consequently, companies that are engaged in some aspect of socially responsible business behaviours and are not doing well in some other areas are still eager to report as being involved in CSR. The pattern can be considered a standard transition from non-existence of CSR into an emerging stage of CSR development in the region.

CSR projects implemented in the region by companies can be categorized into four groups:

1. Engaging in philanthropy;
2. Supporting community initiatives;
3. Implementing environmental projects; and
4. Investing in employee welfare and education.

Business involvement in many other CSR-related activities (such as engaging stakeholders in decision-making

processes, working on consumer protection and observing consumer rights, operating transparently, good corporate governance, socially responsible investing etc.) is only in an emerging stage of development which suggests there is potential for companies to broaden their CSR approach.

Compared to previous studies conducted in the region, *there is evident change in company perception and understanding of CSR*. Under the influence of recent internationally funded environmental projects and initiatives implemented in the region, and worldwide media attention to issues such as global warming and climate change, more companies recognize environmental concern as a CSR issue, which is a shift from the results of the previous studies in the region. Businesses put environment as one of the top CSR issues and acknowledge the importance of environmental protection. However, wide-scale business involvement in activities related to preserving the environment has yet to be developed.

Building the company's reputation, engaging in sustainability, and gaining competitive advantage are the main drivers influencing businesses' decisions to be involved in CSR. Businesses point out the major barriers that discourage companies from being involved in CSR activities as i) general lack of knowledge of CSR and ii) lack of technical skills on how to implement CSR activities. In addition, a lack of (internal) funds and limited government support hinder the CSR-involvement process. The enabling environment for businesses to become socially and environmentally responsible is generally not in place. *Non-corporate stakeholders, especially civil society and government have not yet realized their full potential to put significant pressure on companies to become accountable.*

The research rated CSR engagement of companies in the Western Balkans region according to six internationally

accepted categories: Strategy, Stakeholder Engagement, Governance, Performance Management, Public Disclosure and Assurance. According to these findings, at present, only 19 percent of the companies in the region incorporate CSR into their overall business strategy, 12 percent of the companies involve all internal stakeholders in company activities and decision-making processes, 22 percent have governance and management systems that integrate CSR into the work process, 23 percent have good reporting behaviour, and 4 percent utilize independent experts services to assure CSR-compliance levels. The ratings provide an accurate picture of companies' overall engagement in CSR – companies which receive better ratings across the six categories, are also the ones which offer high salaries and benefit packages to their employees, are prone to engage in community projects, and invest in CSR training.

Generally, large multinational corporations operating in the Western Balkans along with development partners are the main drivers and champions of CSR engagement, while, privately-owned national SMEs are 'bystanders'. State-owned companies' engagement in CSR falls in between national-private and multinational companies. Multinational corporations usually incorporate CSR practices and standards that have been applied by their head offices in other countries. Having necessary financial and human resources, technical capacity and skills, and international experience give multinational companies an advantage over other companies. SMEs are lagging behind in all aspects of CSR engagement in the region. Lack of necessary resources, and technical skills, experience and understanding, along with a non-enabling environment are among the many factors hampering SMEs' involvement in CSR. SMEs (in our sample) usually operate in industries such as wholesale and retail trade; construction; hotels and restaurants; and private schools. Taking into account the fact that SMEs are large contributors to the economy and employment, efforts should be expanded to support their engagement in CSR.

II. Non-corporate Stakeholders

Non-corporate stakeholders' involvement in CSR varies across societies. In **Serbia** and **Montenegro**, civil soci-

ety organizations are most actively involved in promoting CSR among the business community. In **Kosovo and Albania** there is a general lack of CSR involvement from members of civil society organizations, government, and academia. At the same time, **B&H** is the only country where CSR is being taught at university level. The strong presence of development partners in **Kosovo**, however, is having a significant influence on the accelerated adoption of international values and governance practices. **Albania** has the most progressive legislative background and laws in the region which, if implemented accordingly, can be a great resource for further development of CSR practices.

The five governments in the region do not meet the expectations of business or civil society in ensuring an enabling environment for CSR implementation. None of the states in the region has a specific CSR programme or government strategy that has clearly defined goals and objectives of incorporating CSR values in business practices. Among many roles (mandating, facilitating, partnering, endorsing) that government can play in promoting CSR, governments have done more work on mandating – by passing laws and regulations, covering almost all areas of CSR, aligned with EU standards and requirements. However, legislation is inadequate to create an enabling environment for CSR development. All other areas of potential government activity are only in their infancy. A recent positive development is that some government bodies have started assuming a leadership role in CSR promotion.

CSOs are not the main drivers of CSR implementation. The full potential of civil society in promoting CSR is yet to be realized. NGO activities in promoting CSR usually include awareness campaigns, research activities, training, publications etc. but do not focus enough on the business case for CSR, which would produce better results with the business sector. Substantial efforts also need to be invested in developing overall civil society capacity and influence at national level to be able to hold business accountable for its impact on society and the environment. Partnership and cooperation among private and civil society sectors needs further facilitation and development in order for businesses to acknowledge NGOs as important and equal partners.

Along with multinational corporations, *development partners are the main drivers of CSR in the Western Balkans region*. The EU has significant influence in the region and all governments of the region have conducted reforms and adopted a number of progressive laws and regulations with the view to getting closer to EU standards. Provided they are adequately implemented those reforms will create a favourable environment for substantial CSR development. A number of other development partners are implementing various CSR programmes in the study region. In most cases, these programmes are implemented in partnership with NGOs, businesses, and sometimes with governments.

5. RECOMMENDATIONS

This section is aimed at recommending a set of concrete actions for the consideration of businesses, governments and other non-corporate actors to facilitate further development of CSR in the region. The recommendations were derived from the findings of this research and evidence-based best practices in other countries, especially in CEE, available in the literature⁹³.

I. Businesses

Businesses and corporations should realize that being socially responsible is not an extra cost or burden but rather an investment and key to future success and sustainability. Around the world, society is looking to the business sector to help meet the world's economic, social and environmental challenges. Consumers, investors and multinational enterprises have a preference for businesses whose activities are of the highest standards, actively managing their risks and maximizing the good that they do. Looking at the current trends, e.g. in the automobile industry⁹⁴, wind turbine industry⁹⁵ etc., it appears that companies which incorporate CSR practices in their business strategy and operations can gain tangible results within a relatively short time period.

1. Businesses should consider investing more financial and human resources in learning and incorporating different CSR practices in their work.

Designating a CSR department or responsible person enables better learning, coordination and implementation of CSR activities within the company. The person

responsible for CSR should have very close access and interaction with company executives.

2. Businesses can benefit from supporting think-tanks, professional organizations and business associations who promote CSR practices.

Those organizations play a vital role in bringing international practices and standards into the region and in supporting business engagement in CSR. Investing in those organizations will significantly reduce the cost and burden associated with the development of in-house CSR learning and knowledge management programmes.

3. Businesses should consider entering into dialogues with civil society and government on different CSR-related issues.

Those are a rich source of information and provide the basis for future partnerships with the public sector. They enable businesses to learn about best CSR practices (including those of their competitors), contribute to identify the needs of key stakeholders, and can help identify risks and business opportunities.

4. There are many evidence-based CSR business practices that need to be incorporated in business strategy and operations.

So far, philanthropy and community support, environmental protection, and employee well-being are the only practices that are common in the region. Businesses should invest more time in learning and implementing other types of best practices.

5. Businesses should incorporate internationally accepted CSR standards in their processes.

⁹³ The findings and recommendations from the previous CSR baseline research in the region have been incorporated. UNDP 2007. Baseline Study on CSR Practices in the New EU Member States and Candidate Countries.

⁹⁴ Automobile companies that incorporated fuel efficient and hybrid car production in their businesses in late 1990s when the price of the oil was around \$10 US are becoming leaders in the industry after only 10 years. By contrast, the companies that focused on short term gains 10 years ago and did not incorporate environmental concerns in their production are currently running out of business and losing the edge in the industry.

⁹⁵ The wind turbine industry is among the fastest growing in Europe and North America due to its ability to produce low cost energy. According to research results by Hillpoint Energy's Ben Spitz. („Wind Turbines: The US Market“, 2008) wind turbine industry in the USA will increase from \$7.9 billion in 2007 to \$60.9 billion in 2013.

Implementing those standards will enhance competitiveness and facilitate integration into the global economy, ensuring access to world markets, either directly or through the supply chain.

6. Businesses themselves are and should remain the key drivers of CSR in the region. By embedding CSR principles at all levels of a company management and operations, and reaping the benefits, socially responsible businesses can become models for other businesses and in particular SMEs. This reflects positively on a company's reputation and image, can lead to the creation of a culture of socially responsible businesses in a given country, which will eventually result in improved competitive advantage and sustainable economic development.

II. Governments

As the research shows, governments are not seen as the main drivers of CSR in the region. Companies do not feel that governments are encouraging them to accept and adhere to socially responsible business practices. In order for governments to play a key role in creating an enabling environment for CSR, and in this way aligning business behaviour with government objectives and widely accepted international standards, it is recommended that governments:

- 1. Designate a national state body to be responsible for encouraging and creating an enabling environment for CSR promotion and development.** The government body should function under the jurisdiction of the most relevant ministry (e.g. ministry of economic development, ministry of European integration). A key point is that it must be seen as having national influence, and able to lead and coordinate all other line ministries and government agencies on the national CSR agenda. In addition, this body should be responsible for promoting CSR within the business community and among the wider public, overseeing any national CSR strategy. It is important that this body coordinates its activities with, and is accountable to a multi-stakeholder committee consisting of representatives from private, public and civil society sectors. It should also
- ensure that public agencies also 'walk the talk' in terms of their own respect for international CSR standards and accountability.
- 2. Start a multi-stakeholder dialogue process to develop a national CSR agenda.** It is recommended that governments of Western Balkan countries launch multi-stakeholder forums to inform a potential national CSR agenda. These should include representatives from all sectors and disciplines including civil society, private and public sectors. The experience of some European countries (e.g. Lithuania) in preparing a national CSR strategy should be explored and used in this process. The forums should aim at identifying priority areas for CSR development. The final outcome of the dialogues should be a proposed national CSR agenda and action plan clearly linked to any sustainable development strategy that the country may have developed.
- 3. Governments should consider creating processes to monitor and enforce laws pertaining to basic standards relevant to CSR.** A good body of progressive laws and regulations are on the books in the region, however, as the research has demonstrated, in many cases legislation is not being implemented and enforced. Adequate implementation of the laws will create enabling conditions for CSR development.
- 4. Governments should create clear financial and non-financial incentives for companies to promote their involvement in CSR.** It is believed that governments do not offer enough incentives for businesses to engage in socially responsible activities. Most often companies are more interested in short-term economic benefits rather than long-term sustainability. Therefore, governments should create incentives for companies such as tax cuts, non-financial recognition and financial awards for environmentally clean products, community activities, etc
- 5. Awareness-raising and promotion of dialogue on CSR.** One of the main reasons why companies are not involved in CSR activities is related to a lack of knowledge and available information. Governments could encourage universities to include CSR research and education in their curricula. They can also help develop research on

best practices and disseminate data on how superior CSR performance can result in improved business value. Finally, Governments could facilitate dialogues among civil society, public and private sectors on the benefits of CSR involvement.

6. **It is recommended that governments in the region review and revise their public procurement rules and procedures to make them more environmentally and socially friendly.** Governments are well placed to be pioneers in incorporating environmentally and socially responsible practices – especially when governments act as consumers or suppliers. There are many such public procurement procedures from EU countries that governments can refer to in developing their own policies.

III. Other Non-corporate Actors

Despite a significant number (48 percent) of non-corporate actors viewing CSOs, including NGOs, as a key player in CSR promotion, the research showed that very few companies saw NGO activities as the reason for their involvement in CSR. This is an important finding for NGOs when building their programmes and activities.

1. **More NGOs' efforts should be invested in communicating the business case for CSR that helps demonstrate concrete short and long-term gains from CSR involvement.** Businesses are interested in tangible benefits from CSR involvement. The media should also be encouraged to air debates on the topic.
2. **Multi-stakeholder partnerships are needed.** As research demonstrated, the level of partnership among private, public and civil society sectors is not at an adequate level to produce significant results. Businesses are yet to acknowledge civil society as equal partners. CSOs should try to engage in more discussions, common projects and initiatives with businesses on different social, environmental issues including CSR. Development partners and governments should facilitate and support such partnership initiatives.
3. **CSOs and development partners should work towards making international standards and expertise available to businesses.** With an eye on the international supply chain and access to foreign investment, it is important to implement globally accepted standards with regard to environmental management and labour rights.
4. **CSOs and development partners could focus more of their efforts on influencing and building government capacity to implement reforms and CSR incentives.** In order to have a national-level impact, the effort should be led and coordinated by government. However, the research shows that government involvement in promoting CSR is currently very limited due to a lack of knowledge and skills. Therefore, CSOs and development partners should consider how they can help governments to take a leadership role in CSR promotion.
5. **Universities and higher education institutions should incorporate CSR-related courses in their curricula and build their capacity accordingly.** It is expected that CSR skills will become a requirement for any progressive business employee. Universities should make sure that their graduates (Business, Public and NGO management fields) have those skills in order to be able to compete in the global market and contribute to national sustainable development. Higher education institutions might also want to consider offering CSR and business-ethics-related degrees and preparing specialists and experts in this field. As economies integrate into global markets there will be more need for CSR experts and consultants.
6. **Non-profits, research institutions and development partners should research and incorporate more CSR evidence-based practices in their teaching in order to facilitate further CSR implementation.** CSR is only in the early stages of development in the region. Research could be conducted in different areas dealing with CSR and should be region, country, sector, and industry specific. Research that focuses on a specific sector or industry would create detailed evidence and insights of the problems and opportunities in that sector. The findings of such research could become instrumental for the promotion and application of CSR in the field.

7. **Development partners should invest more resources in building civil society's capacity as a watch-dog to evaluate, analyse and report on company social and environmental activities.** The fact that civil society is not very actively involved in making business accountable is one of the contributing factors for companies not to feel any pressure to be involved in CSR.
8. **Special attention should be paid to take SMEs interests and needs into account when implementing CSR programmes and initiatives.** Civil society organizations and development partners should be aware that national SMEs are less likely to be engaged in CSR activities and might need extra support in adopting standards of socially responsible business.
9. **Development partners, donors in partnership with NGOs should consider paying more attention to engaging and training national media in different CSR issues.** The research has demonstrated very limited media involvement in CSR promotion. Media has a great potential to educate businesses and the public in CSR.
10. **CSOs and international donors should consider creating non-financial incentives.** The research has demonstrated that the lack of incentives is a factor limiting businesses' engagement in CSR-related activities. Such incentives could be awards, certificates and recognition for CSR performance and ethical businesses.

ANNEXES

Annex I. National Expert Teams

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Annex II. Methodology and Sample Description

I. Desk Research

Desk research was conducted by NETs in each country in accordance with questionnaires created by the consulting international experts. The following areas were covered by the desk research:

- Perception of CSR: CSR understanding in local language and culturally specific drivers of CSR;
- Legislative background: existence and implementation of laws and legislations that cover issues related to CSR (analysis of legislation);
- CSR incentives and control mechanisms: existing government financial and non-financial incentives to encourage company engagement in CSR as well as mechanisms to monitor performance and ensure accountability;
- CSR data and statistics: previous reports, studies, publications, etc., demonstrating level of CSR practices in the region (literature review);
- CSR-related negative events: recent CSR-related scandals, cases of pollution, etc., (media analysis);
- CSR best practices: utilization of international CSR standards by businesses, best practices in stakeholder engagement, philanthropy, community engagement, environmental protection, etc. (media analysis, expert opinion, CSR literature in the country);
- key players of CSR promotion: main drivers of CSR in the country (media analysis, CSR-related literature, expert opinion); and
- CSR resources: existing resources in the countries that companies can utilize in engaging in CSR.

The detailed analysis of desk research results from each country was prepared by NETs and submitted to the international experts. The latter independently conducted a further country specific and regional

review of CSR literature available in the open domain. The results were then cross checked for consistency.

II. Surveys

In each research country, surveys were conducted with companies and non-corporate actors of CSR promotion. The surveys were carried out based on common questionnaires prepared by international experts and translated into local languages by the NETs. The detailed description involved in the sample and interviewing process is given below.

CORPORATIONS

A sample of 180 companies was selected and interviewed by NETs. As demonstrated on Figure 18, the distribution of samples across region was almost equal (19 percent – 22 percent).

Figure 18. Business sample distribution⁹⁶

	Number of companies	Percentage
Albania	40	22%
Bosnia & Herzegovina	34	19%
Kosovo	32	18%
Montenegro	34	19%
Serbia	40	22%
Total	180	100%

The system of business registration differs in each country, with the result that there is no comparable database of companies across the countries. In these circumstances, NETs were given the flexibility to identify the most appropriate sources to draw the sample from. As demonstrated in Figure 19, sources of samples are different in each country.

In many cases NETs had to utilize a number of methods for selecting the sample and contacting companies for

⁹⁶ Samples from each country were also similar with regards to company size and ownership variables.

Figure 19. Company sampling source

Albania	Enterprise Register of the National Statistics Institute
Bosnia & Herzegovina	Government Business Registry database and UNDP Global Compact Local Network
Kosovo	Kosovo Business Associations' company member databases, UNDP Kosovo, Kosovo Chamber of Commerce and the American Chamber of Commerce in Kosovo
Montenegro	Montenegro Business Alliance (MBA) and Business Guide – published by governmental Directorate for Development of Small and Medium Enterprises
Serbia	Serbian companies' database from the National market of goods and services ⁹⁷ and Top 300 companies in Serbia list published by the Serbian Economist magazine

the interviews. For example, in Kosovo, the NET used the database of companies registered under Kosovo Business Associations to select the sample. However, the NET was not able to retrieve contact information from the same database and utilized a number of other sources (UNDP Kosovo, Kosovo Chamber of Commerce and American Chamber of Commerce) to reach the companies selected for the interview. Such difficulties in accessing companies' information have left out of the sample many of the companies that are not members of those Chambers of Commerce in Kosovo. Other NETs faced similar problems. Many companies that were not listed under MBA in Montenegro, the Serbian companies' database and Top 300 in Serbia, Global Compact and Government Business Registry in B&H had no chance of being included in the sample⁹⁸.

The sample was adjusted to sizes of companies. Company size was identified based on the number of employees (Figure 20); and not on financial aspects – e.g. profits, assets, or market capitalization. A cut off of six employees was used for the small company category. This threshold was used in order to eliminate very small companies, which presently make up the majority of businesses in the region. Due to their profile in the economic landscape, the number of medium and large companies in the sample was comparatively overly-represented. The study sample was therefore adjusted to be representative of national economies rather than individual number of companies.

Distribution of Sample based on industry is given on Figure 21.

NON-CORPORATE STAKEHOLDERS

The main non-corporate stakeholders for CSR promotion in the region were identified by desk research. The findings of the desk research were also taken as the basis in selecting the actors' sample. The non-corporate stakeholders' sample was selected based on each organization's position in society, relevance to CSR agenda and previous engagement in CSR promotion. A total of 76 actors from various fields were interviewed. Distribution of non-corporate stakeholders' sample is provided below, Figures 22 and 23.

Figure 20.
Business sample distribution across size categories

	Number of companies	Percentage
Small (6 to 49 employees)	39	22%
Medium (50 to 249 employees)	71	39%
Large (above 250 employees)	70	39%

⁹⁷ National market of goods and services is a national project initiated and supported by Serbian Ministry of Economics and Regional Development. For more information, please visit <http://www.trzistesrbije.com>.

⁹⁸ Other limitations of the report are explained in the Limitation section.

Figure 21. Business sample distribution across industries

	Number of companies	Percentage
Agriculture, hunting and forestry	4	2%
Mining and quarrying	2	1%
Manufacturing	35	19%
Electricity, gas and water supply	11	6%
Constuction	13	7%
Wholesale and retail trade, motor repair	23	13%
Tourism, hotels and restaurants	13	7%
Transport, storage and communications	12	7%
Financial intermediation	17	9%
Real estate, renting and business activities e.g. computing	3	2%
Education: private universities	6	3%
Health and social work	1	0.6%
Other community, social and personal service	40	22%
Total	180	100%

III. Interviews

NETs were given a margin of flexibility on how to conduct interviews. Some NETs conducted interviews primarily over the phone; some other corporations/non-corporate actors were initially contacted over the phone and then interviewed in person. When NETs made initial contact with the companies, the company management was informed of the purpose of the interview, the voluntary nature of participation, and the organization-specific anonymity of survey results. As a general observation, companies that had already

engaged in or had an understanding of CSR appeared to be more willing to participate in interviews than companies that had no prior engagement in CSR. For this reason we believe that our sample tends to lean slightly towards companies that already employ some CSR practices or understanding.

Interviews were conducted in accordance with questionnaires developed by the international experts. Prior to interviews, the NETs translated the questionnaires into national languages in each country. Interviews were conducted using semi-structured questionnaires consisting of a number of closed and open-ended questions which allowed interviewers to obtain both quantitative and in-depth qualitative information. Each NET entered collected information into databases and international experts merged data from the region for aggregate analysis.

Figure 22. Actors sample distribution

	Number of organizations	Percentage of total
Albania	20	26%
Bosnia & Herzegovina	13	17%
Kosovo	15	20%
Montenegro	13	17%
Serbia	15	20%
Total	76	100%

IV. Analysis

No weighting was applied in analysing the data. Most of the analysis presented in the report was developed through cross-tabulations of unweighted data.

Significance was examined through chi-square and ANOVA statistics. The threshold for reporting relationships as statistically significant was set as $p < .05^{99}$.

The internationally accepted standard Accountability Rating™ was used in assessing the level of companies' engagement in CSR practices. The rating¹⁰⁰ was applied as a means to compare results with the sister UNDP project's study – Baseline Study on CSR Practices in New EU Member States and Candidate Countries, completed in 2007, and allowed for wider regional comparison. For more information on how companies were rated, please see Annex IV.

All survey percentages displayed in the report reflect respondents' opinions based on survey questions. Therefore, many percentages rely on self-assessment of company representatives, rather than on evaluations conducted by the research team. However, percentages describing Accountability Rating™ are the only numbers that were calculated by the research team based on both survey questions as well as secondary data sources.

Figure 23. Actors sample distribution sectors

	Number of companies	Percentage of total
Business associations local	9	12%
Business associations (local branch of international)	2	3%
Trade Unions (national)	4	5%
Local government / Municipalities	7	9%
National government / regulators	14	18%
Non-governmental organizations	16	21%
Media	8	11%
Education: Higher (universities, colleges)	8	11%
Development partners	8	11%
Total	76	100%

⁹⁹ $p < .050$ is statistical significance threshold referring 95% of assurance that relationship between variables is true and not due to chance.

¹⁰⁰ The same rating was applied in assessing the baseline CSR engagement in a number of other countries in the region. For more information on the previous work please review: UNDP 2007. Baseline Study on CSR Practices in the New EU Member States and Candidate Countries. The report recommends further research in the field to apply the same methodology (recommendation #1).

Annex III. Country Specific Overviews

Albania

Albania's past has considerably affected present socio-economic conditions in the country. In comparison to the rest of the region, Albania experienced, more isolation from the outside world, and a more regulated and centralized economy which led to higher levels of poverty and suffering in the country when going through the political and economic transition process. Albania elected its first transition government in 1992. The new government immediately started reforms in the public and private sectors and achieved significant results by the late 1990s. As a result, the GDP grew at an average rate of 6.6 percent per year between 1992 and 1997¹⁰¹. In 1997, the collapse of pyramid saving schemes hindered economic growth. In 1998, the economy resumed its growth. On average, GDP increased 7 percent between 1998 and 2006¹⁰². According to the World Bank, the percentage of population living below the poverty line declined from 25 percent in 2002 to 19 percent in 2005, lifting more than 230,000 people out of poverty¹⁰³. Despite these improvements, the Albanian economy experiences a consistent trade deficit, with exports amounting to only 25 percent of imports¹⁰⁴. It also has a high level of corruption: the country's transparency index ranks 105th among 179 countries in the world¹⁰⁵.

Awareness and development of CSR practices in Albania is very limited. In 2003, The Albanian Institute for Development Research and Alternatives (IDRA) with support from OSCE launched a project called Introduction of Business Ethics at Albanian Universities¹⁰⁶. The project aimed at introducing con-

cepts of business ethics at Albanian Universities. The project was carried out until 2005. According to its final report, the students and faculty at the universities demonstrated significant interest in the subject of business ethics. However, students had the perception that Albanian businesses do not adhere to any principles of business ethics and that the understanding of social responsibility is very limited among students. As stated in the report: *"It has almost created the perception that in order to prosper in the Albanian Business Environment one should avoid ethics as much as possible. You can prosper only if you are amoral, bribe or cheat, engage in unfair competition and so on."*¹⁰⁷

According to the desk research results, there has been no study, survey or other research project conducted in Albania in order to investigate the CSR development in the country. There are few CSR initiatives (see below) in the country that are supported by development partners and are often implemented by CSOs. However, the scale of those projects is usually not at the level to affect national policies or create significant public awareness. The *Global Compact* implemented by UN, *ECSRSE* by InWent, *Southern Europe International Standards and Technical Regulations* by IFC are among the few aimed at developing CSR initiatives at the national scale. Besides development partners there are several pioneering multinational and national companies (e.g. Raiffeisen Bank, Pespa Alumil, Bankers Petroleum, Floryhen, National Commercial Bank, Vodafone. etc.) in the country that are actively engaged in various CSR-related activities.

The term CSR has not been officially translated into Albanian. However, direct translation of CSR as "Përgjegjshmëria Sociale e Korporatave" is used along with the English version among businesses and other stakeholders engaged in CSR.

101 World Bank. 2007. Albania Urban Growth, Migration and Poverty Reduction: A Poverty Assessment Report. No. 40071-AL.

102 Ibid.

103 Ibid.

104 Foreign trade, December 2007, INSTAT.

105 Transparency International 2007. http://www.transparency.org/policy_research/surveys_indices/cpi/2007.

106 http://www.idra-al.org/pdf/en/BizEthics2004-2005FinalNarrativeReport_Web.pdf.

107 IDRA. 2005. Business ethics at Albanian universities: Final Report. Main finding point #7.

Bosnia and Herzegovina

Bosnia and Herzegovina suffered considerably from the armed conflict in the 1990s. B&H declared its independence in 1991, which was followed by a civil war that lasted almost four years. More than 200,000 people were killed or went missing and over a million fled the country¹⁰⁸. By 1995 the country's economy shrank by more than 70 percent and industrial production dropped by more than 90 percent¹⁰⁹.

B&H economy started gaining positive momentum just after the war's end in 1995 and the declaration of the Dayton agreement. The unemployment rate decreased by 10 percent and average wages doubled during the 12 month period between 1995 and 1996¹¹⁰. The economy has grown steadily by about 5 percent per year since 2000 and real GDP growth was 5.8 percent in 2006¹¹¹. But there are still many problems with the social welfare of the population and economy. The official unemployment rate is close to 28 percent¹¹² and more than half of the national income is earned by 20 large companies¹¹³.

In 2004, a mission from the UNDP Nordic Office and UNDP B&H conducted the first CSR assessment in B&H in order to determine the possibility of launching the Global Compact network in the country¹¹⁴. The assessment included more than 70 businesses, development partners and CSOs to gauge their knowledge and engagement in CSR¹¹⁵. The results demonstrated (i) a very low level of CSR awareness among businesses and other stakeholders, and (ii) business community concerns over the high corruption rate and lack of transparency. The Global Compact was launched in 2005 by the UNDP and had recruited 31 members by June 2008.

In 2004, the International Rescue Committee (IRC) started an initiative to engage business, government and non-profit sectors in a dialogue on CSR. Several round-table discussions and training events were held with representatives of different sectors. Many companies blamed time-constraints for not being able to participate further in discussions¹¹⁶.

In 2005, a regional non-profit, Civil Society Promotion Centre¹¹⁷ (CSPC), in cooperation with IRC organized a regional conference on CSR in Sarajevo, including representatives from B&H, Croatia, Serbia, and Montenegro. The conference reached several key conclusions with regards to strategies on developing CSR in the region. They included recommendations to (i) increase cooperation between all sectors of society (government, private, civil society), (ii) exchange evidence based best practices among countries in the region, (iii) raise public awareness on CSR, (iv) adopt necessary legislation for CSR promotion, (v) stress the importance of CSR in European integration, (vi) invest in communities and support NGO development, (vii) strengthen media involvement in CSR promotion, and (viii) increase the level of government CSR promotion.

Among all research countries B&H is the only one that was included in calculating National Corporate Responsibility Index (NCRI) in 2005, that assessed the level of corporate responsibility in 80 countries¹¹⁸. According to the results, NCRI in B&H fell behind not only in comparison to developed European countries but also to that of other countries in the region such as Bulgaria, Croatia, the FYROM, Slovenia, etc.

Currently, the main drivers of CSR in the country are multinational and some national companies (e.g. Coca

108 World Bank. 1997. Bosnia and Herzegovina from poverty to sustainable growth: country study.

109 Ibid.

110 Ibid.

111 World Bank 2006.

112 B&H National Report (2008).

113 Mesanovic E. 2005. Corporate Social Responsibility: Leading aspects of CSR concept in Bosnia and Herzegovina.

114 Global Compact Network Bosnia – Herzegovina. 2007. Annual Report.

115 UNIDO. 2007. On the state of corporate social responsibility (CSR) in Central and Eastern Europe (CEE). Special focus: Bosnia and Herzegovina, Bulgaria, Romania and Serbia.

116 Ibid.

117 www.civilnodrustvo.ba.

118 UNIDO. 2007. On the state of corporate social responsibility (CSR) in Central and Eastern Europe (CEE). Special focus: Bosnia and Herzegovina, Bulgaria, Romania and Serbia – do you think would be possible to add the web-link (not applicable if it is stated in the references).

Cola, Vitinka from Zvornik, Bobar Group, Širbegović Group, Violeta, Bosnalijek, Energoinvest) that have incorporated some CSR principles in their businesses, development partners such as UNDP, UNIDO, UN Global Compact, and local CSOs such as Foundation MOZAIK¹¹⁹, CSPC, Chamber of Commerce, etc.

The term “*društveno odgovorno poslovanje*”, a direct translation of Corporate Social Responsibility into local languages, as well as another term “*društveno odgovorno poslovanje*”, are used in describing CSR.

economic reforms spearheaded by the UN administration. During the war, most infrastructure was damaged and thus a significant portion of the international aid was invested in the public sector. As demonstrated in Figure 24, between 2001 and 2006 Kosovo received more than 43 percent of total EAR grants on a per capita basis¹²⁰.

However, the economy of Kosovo still remains underdeveloped compared to other countries in the region. According to the World Bank, Kosovo has the poorest economy in Europe (2006) and approximately 37 percent

Figure 24 Western Balkans Populations and EAR Grants’ Disbursement Comparison

Countries	Population		EAR Grants 2001-2006	
Kosovo	2,126,708	16%	698 €	43%
Serbia	8,032,338	62%	527 €	32%
Montenegro	678,177	5%	188 €	11%
Macedonia	2,061,315	16%	226 €	14%
Total	12,898,538	100%	1,638 €	100%

Source: CSR Kosovo National Report 2007

Kosovo

The conflict in the territory of Kosovo in the late 1990s, led to a NATO intervention in 1999. In the aftermath, the United Nations Security Council passed Resolution 1244 which placed Kosovo under temporary UN rule. Kosovo declared its independence in February 2008, although the mandate of the UN Mission in Kosovo (UNMIK) continues to be in force.

The war in 1999, ethnic tensions, unstable political situation, and economic sanctions during the 1990s severely damaged the economy of Kosovo. After the conflict ended, the Kosovo economy started to grow rapidly due to a large volume of international assistance and eco-

of the population still lives under the poverty line.¹²¹ Remittances from Kosovars living abroad – mainly in Germany and Switzerland – make up more than 12.9 percent of GDP¹²².

As in other countries in the region, the CSR concept was brought to Kosovo by development partners and multinational corporations operating in Kosovo. There are a number of CSR-related initiatives in Kosovo. Kosovo’s Ministry of Trade & Industry¹²³ and the Kosovo Chamber of Commerce¹²⁴ organize an annual event called ‘Company of the Year,’ aiming to promote leading business engagement in CSR activities. The Kosovo Tax Administration¹²⁵ and the American Chamber of Commerce¹²⁶ give an annual ‘Best Taxpayer’ award to the

119 www.mozaik.ba.

120 EAR’s Annual Report 2006.

121 http://siteresources.worldbank.org/INTKOSOVO/Resources/Kosovo_AAG.pdf.

122 IMF Aide-Mémoire, April 2008.

123 www.mti-ks.org.

124 www.odaekonomike.org.

125 www.atk-ks.org.

126 www.amchamksv.org.

company that scores best in tax compliance. In addition, there are several UNDP initiatives such as the UN Global Compact and of course this particular project. Prior to this study there has not been any study conducted in Kosovo that investigates development of CSR initiatives.

Kosovo has one advantage over other countries in the region with regards to CSR integration. During the last eight years, the dominance of international organizations in the public, private and civil society sectors has significantly influenced the culture of 'doing business' in Kosovo. European values on social responsibility are embedded in many sectors of society, which offer great potential for rapid CSR development.

Montenegro

Montenegro declared its independence in 2006 in a popular referendum vote; prior to that it was part of the Serbia and Montenegro union. Similar to other countries in the region, Montenegro's economy underwent major tremors in the 1990s. Economic sanctions by the UN, civil conflict in Bosnia and Herzegovina and in Kosovo, and hyper-inflation were among the factors that hampered economic development. However, it is to be noted that Montenegro was not affected as much as the other countries of former Yugoslavia. Economic reforms were initiated in the early 1990s, but a real economic up-turn began only after 2000. Between 2000 and 2004 the real GDP grew at an average of about 2 percent a year and inflation dropped from 25 percent to 4 percent¹²⁷.

The concept of CSR, as defined by the EU, was first introduced in the middle of this decade by development partners as part of European Union integration. In 2006, the Centre for Development of Non-Governmental Organizations¹²⁸ in cooperation with the US Consulate conducted the first CSR study in Montenegro¹²⁹. The survey included 57 companies and

51 NGOs from 2 Montenegrin cities (Podgorica and Bar). Among the businesses interviewed 79 percent stated that they knew what CSR was about, but only 27 percent of them believed that CSR concepts could be applied in Montenegro. More than two thirds of companies from the survey (69.6 percent) reported that they have implemented some CSR-related activities in the past which mainly included charitable donations to children and youth related initiatives. The findings of the survey demonstrated very weak cooperation between businesses and civil society. Almost two thirds of companies interviewed (63.6 percent) did not report cooperation with the NGO sector. The study was followed by a number of consultations and round table discussions with various stakeholders with the purpose of raising awareness among the general public and business community on CSR issues.

In 2006, another similar CSR study was conducted by NGO Smart Kolektiv¹³⁰ and supported by the World Bank¹³¹. The study assessed CSR practices in Serbia and Montenegro. According to the results, the majority (50-70 percent) of companies defined 'being socially responsible' as complying with existing laws and regulations, and being ethical and transparent. Few companies (less than 40 percent) thought stakeholder engagement and environmental concerns were related to CSR. For the majority of surveyed companies, lack of government support – such as non-existence of government regulations and incentives – was a major hindrance to engagement in CSR activities. Further, companies thought that lack of short-term visible financial gains, and high engagement costs were among the main impediments to CSR involvement.

Another step in promoting CSR in Montenegro came in 2007 through the Corporate Social Responsibility in South-Eastern Europe regional project¹³². The project is still active and supported by a number of development partners (InWEnt, ILTIS), and is implemented locally by the Directorate for Development of Small and

127 World Bank. 2005. Republic of Montenegro: Economic Memorandum. A Policy Agenda for Growth and Competitiveness Report No. 32623-YU.

128 <http://www.crnvo.cg.yu/eng/>.

129 CRNVO. 2006. Projekat društvena odgovornost preduzeca u crnoj gori http://crnvo.cg.yu/istrazivanja/drustvena_odgovornost_preduzeca_izvjestaj.pdf.

130 <http://smartkolektiv.org>.

131 Mazurkiewicz P. et al. 2006. Business Perspectives about Corporate Social Responsibility: Attitudes and practices in Serbia and Montenegro. Smart Kolektiv.

132 InWent 2008. Establishing Corporate Social Responsibility in South East Europe: Programme Update.

Medium-Sized Enterprises under the Ministry of Economic Development of Montenegro. The programme includes establishment of a CSR resource centre, regular CSR publications and awareness raising activities, as well as the introduction of the Best Socially Responsible Company Award. The UN Global Compact is also being actively promoted among the Montenegrin business community by UNDP office in Montenegro.

The Montenegrin Commercial Bank (CKB), Montenegrin Telecom, Pro Monte (the first mobile operator in Montenegro), and the First Bank of Montenegro (Prva Banka Crne Gore) are among the companies whose names are frequently mentioned as the champions in incorporating CSR principles in their work.

The term 'CSR' has already been translated into Montenegrin as "Social responsibility of companies" (Drustvena Odgovornost Preduzeća) and is widely utilized among businesses and civil society promoting CSR standards.

Serbia

Serbia experienced a tough political and economic transition process into democracy and the market-based economy. The socio-economic situation in the country was devastated by armed conflicts, UN sanctions, an economic embargo, and political instability. The country's economy was profoundly damaged between 1989 and 1994, and again in 1999 due to the civil conflict in Kosovo.

The political instability significantly affected the economic reforms and privatization of state-owned companies and property that started after 2000. According

to the NET desk research some of the largest state-owned companies (National Oil Industry, Airport Nikola Tesla, Yugoslav Airport Transport, Telekom, National Power Supplier – EBS, National Pharmaceutical Company – Galenika) are yet to be privatized, which creates obstacles for economic development¹³³.

The national economy started gaining positive momentum in 2000 due to rapid economic reforms. The economy grew an average of 4 percent¹³⁴ a year between 2000 and 2003 and up to 7.5 percent in 2007¹³⁵. Agriculture and the agro-processing industry account for the greatest share of the national economy¹³⁶. The World Bank named Serbia a champion of economic reform in the 'Doing Business 2006' report for reforms implemented between 2004 and 2005¹³⁷.

The first CSR initiative in Serbia was conducted in 2004 by the national non-profit Balkan Community Initiatives Fund (BCIF)¹³⁸. In November 2004 BCIF organized a conference called 'Concept of Corporate Social Responsibility: Serbia and Comparative Experiences'. The conference concluded that cooperation between the private sector and civil society was very limited and the need for CSR promotion and information exchange between sectors was great¹³⁹. Another CSR conference was organized in Serbia in 2005 by the Foreign Investors Council of Serbia and Montenegro and the Swedish Embassy. During the conference, the President of Serbia acknowledged growing support of international companies in implementing CSR-related projects and activities and stressed the need for companies to invest more in social and environmental initiatives.

There have been several attempts to investigate the level of CSR engagement in Serbia. In 2005, a local non-profit organization called Smart Kolektiv, as part of a Responsible Business Initiative, in cooperation with the

133 Privatization of the state-owned enterprises was considered as one of the major reform initiatives implemented by almost all former socialist countries as part of the transition from state-run economy to market economy.

134 World Bank. 2004. Republic of Serbia: An Agenda for Economic Growth and Employment. Report No. 29258-YU.

135 Republic of Serbia Republic Statistical Office. 2007. Communication. No 326.

136 Dragana Gnjatovic (2007), Capacities for Serbian foreign debt financing, Economic financial relations of Serbia with abroad, Faculty of Economics in Belgrade, Belgrade.

137 http://www.doingbusiness.org/documents/DoingBusiness2006_fullreport.pdf.

138 <http://www.bcif.org.yu>.

139 UNIDO. 2007. On the state of corporate social responsibility (CSR) in Central and Eastern Europe (CEE). Special focus: Bosnia and Herzegovina, Bulgaria, Romania and Serbia.

Fund for an Open Society in Serbia (FOSS) and the Economic Chamber of Serbia, conducted the first attempt to research the CSR situation in Serbia¹⁴⁰. The survey included more than 2000 respondents from all sectors of Serbian society. According to the results, business representatives understood CSR as addressing environmental concerns, philanthropy and community support, as well as compliance with the law. However, the research further revealed that only philanthropy and participation in different community-support projects were among the CSR activities undertaken by companies. Only a small number of businesses (31 percent) implemented any environmental protection projects. The general public also reported that they did not trust businesses to be accountable and work for the benefit of society. The level of trust for local companies was 16 percent, multinational enterprises – 11 percent, and the government – 18 percent. In 2006, another study conducted by Smart Kolektiv (see section on Montenegro), analysed CSR development among businesses in both Serbia and Montenegro¹⁴¹. The findings were similar to the ones in the previous research: the majority of companies identified philanthropy, compliance and environmental concerns as the major CSR issues. Businesses also reported that lack of government support and incentives along with limited knowledge of CSR were among the main factors hampering their engagement in CSR.

There are several international initiatives implemented in Serbia aimed at CSR promotion at the national level. These include the UN Global Compact, UNIDO's Development of CSR in CEE project, IFC initiatives on integrating international standards and technical regulations in Southern Europe, and ECSRE by InWent. In addition, there are pioneering national and multinational companies (e.g. National Bank of Serbia, B92 – Serbian private Broadcasting Corporation, Soko Stark, Hemofarm, Holcim, EFG Euro Bank in Serbia, Telenor, Delta Holding, Erste Bank a.d. Novi Sad, Coca-Cola HBC Serbia) in Serbia that are integrating CSR principles in their work.

As in other countries in the region, CSR is a relatively new concept in Serbia. There is no official definition given to CSR. Despite many translations of the term 'CSR' in the local language, the English term is frequently used among CSR promoters and the business community.

140 Smart Kolektiv. 2005. Corporate social responsibility in Serbia: Attitudes of profit, general public, non profit, and public sectors leaders in Serbia towards the concept of corporate social responsibility.

141 Mazurkiewicz P. et al. 2006. Business Perspectives about Corporate Social Responsibility: Attitudes and practices in Serbia and Montenegro. Smart Kolektiv.

Annex IV. Company Scoring Accountability Rating TM¹⁴²

Each company respondent was assessed in six different domains¹⁴³ using the Accountability Rating TM.

1. Strategy
2. Stakeholder engagement
3. Governance
4. Performance Measurement
5. Public disclosure
6. Assurance

The rating for each domain has three (3) values: 1) Little/No evidence, 2) On the Way, 3) Good practice. Below is the description of each domain.

STRATEGY

- *No / little evidence: there is no specific strategy for managing CSR risks and opportunities; there are no guidelines, toolkits and policies related to CSR; there is no specific budget for CSR activities.*
- *On the way: there is some evidence of strategy for managing CSR risks and opportunities but the CSR programme does not / partly supports strategic goals of the company; there is some budget allocated for CSR activities and CSR communication.*
- *Good practice: there is a specific strategy for managing CSR risks and opportunities; the CSR programme supports strategic goals of the company; CSR has been taken into consideration as a tool for achievement of strategic goals; there are toolkits, guidelines that help implementing CSR in business strategy.*

STAKEHOLDER ENGAGEMENT

- *No / little evidence: there is no / very limited interaction with stakeholders, stakeholders are not clearly defined, stakeholder relations are not managed.*
- *On the way: there is ad hoc interaction with stakeholders, communication of stakeholder con-*

cerns regarding CSR is reactive; company feels pressure from stakeholders, but stakeholders' priorities are not identified.

- *Good practice: there are existing processes for managing stakeholder relations and conducting stakeholder dialogues; points of view of stakeholders' issues are prioritised and are taken account in the business strategy.*

GOVERNANCE

- *No / little evidence: there are no policies related to transparency, accountability, or CSR issues; there is no executive/manager responsible for CSR issues; CSR does not appear on Board agenda.*
- *On the way: there is an executive/manager responsible for CSR issues in the company, but reporting to Board on CSR is ad hoc, not required or regular; collaboration between departments on CSR issues is not expected.*
- *Good practice: there is a named individual accountable for CSR issues on board level/ senior management; there are regular reports to the Board on CSR; there are policies to promote transparency and accountability of the company.*

PERFORMANCE MANAGEMENT

- *No / little evidence: there are no management systems relevant to CSR; performance improvements on CSR issues are not quantified; there are no set/specific goals, objectives and targets to drive improvement; CSR issues are not managed in supplier relations.*
- *On the way: there are several management systems that are relevant to CSR; there is some quantification of performance improvements on CSR issues.*
- *Good practice: there are management systems that are relevant to CSR; performance improvements on CSR issues are quantified; there are set/specific goals, objectives, targets to drive improvement; CSR issues are managed in the supplier relations; environmental, social or fair-trade labels are used on products.*

¹⁴² <http://www.accountabilityrating.com>. The rating methodology is exactly the same from previous research.

¹⁴³ Note that the Accountability Rating TM has been modified from the six-domain approach to a four-domain approach. However to maintain comparability with the new EU Member States and Candidate Countries CSR Baseline Study report, we are using the old six-domain approach here.

PUBLIC DISCLOSURE

- *No / little evidence: no / very limited information in public domain (report or web), beyond legal requirements.*
- *On the way: ad hoc information on CSR in public domain; measurement systems are being set up to structure information on CSR performance.*
- *Good practice: structured/standardized information on CSR and related policies, performance in public domain*

ASSURANCE

- *No / little evidence: there has never been any assurance process by an independent organisation at the company.*
- *On the way: an assurance process by an independent organization is planned or being prepared/indicated at the company.*
- *Good practice: CSR / SD / Environmental Report has been assured by an independent organisation.*

Annex V. Analysis of Companies within Each Accountability Rating TM Domain

STRATEGY

Having a clear CSR strategy is essential for effectively implementing sustainable growth and development. A strategy defines the types of outcomes and targets to be achieved while using specific methods and tools. Going further and incorporating CSR into a company's vision and strategy makes it easier to mainstream CSR into the company's everyday business processes. In addition, companies with appropriate integrated CSR strategies are more likely to understand and respond to future social, environmental, political and economic risks and challenges.

As shown in Figure 26, more than 70 percent of companies from the sample report somewhat or fully taking CSR into account when developing their business strategy and 58 percent see CSR as an integral part of their business (Figure 25).

Multinational corporations operating in the region are more likely to report integrating CSR into their business strategy than national private and national government companies.

The findings imply that companies are self-rating their own CSR strategy efforts higher than the NETs. Although 24 percent of companies report having CSR fully integrated in their strategies, NETs assessed only 19 percent of companies having well integrated CSR strategies. The difference, which is admittedly not large, is not surprising taking into account the fact that, a company's own assessment is subjective and based on that company's understanding of the concept of CSR strategy, whereas NETs used more objective methods.

Figure 25. CSR Companies' views on CSR

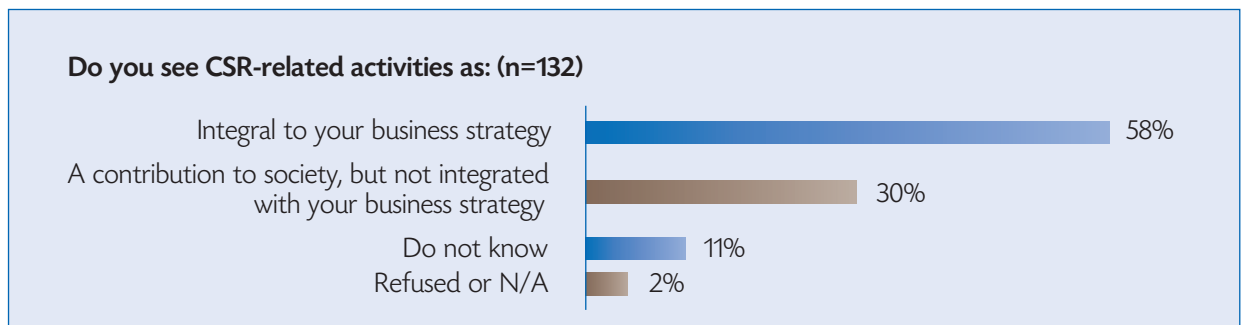


Figure 26. CSR part of company strategy



Figure 27. Effect of strategy on CSR Outcomes

Strategy	Has written code of ethics (%)	Employee health benefits above industry standards	Company pension above industry standards	Employees given time off from work to volunteer	Engaged in community support (very often)	Has a policy to create jobs locally
No/Little evidence	50%	19%	17%	19%	31%	48%
On the way	82%	21%	22%	27%	42%	78%
Good practice	88%	42%	34%	40%	71%	80%

Having a good strategy has an effect on the overall company CSR outcomes (Figure 27). Like all business activities, a good strategy can also result in effective CSR activities. As seen in Figure 27 below, 71 percent of companies with good CSR strategy are actively engaged in community support whereas, only 42 percent of the companies with an ‘on the way’ strategy level and 31 percent of companies with a ‘no/little’ level are involved in community development. On average the difference between ‘no/little’ strategy and ‘on the way’ strategy is smaller than the difference between ‘on the way’ and ‘good’ strategy rating for almost all outcome variables (Figure 27). This finding suggests that in order for a company’s CSR strategy to be seen as effective, it should be developed and incorporated at all levels of company business operations. A CSR strategy becomes more effective when it is an integral part of overall company strategy and is considered as an instrument to achieve company strategic goals.

Holcim/Serbia is strongly committed to sustainable development. This company mostly works in three areas: environmental protection, community development and sustainable construction. Related topics also include: health and safety protection and use of alternative sources of energy. Holcim was the first company in Serbia to print a full CSR report. The company has its commitments to CSR and current activities updated regularly on its website. It implements part of the global Holcim CSR strategy, adjusting it for local needs. (<http://www.holcim.com/cs>)

STAKEHOLDER ENGAGEMENT

Stakeholders can be individuals, other businesses (e.g. suppliers or customers), or organizations that either affect company activities or are affected by them. Engaging stakeholder concerns at all levels of business decisions and activities is a key component of CSR engagement. By considering stakeholders’ opinions in the decision making process, businesses can use this information to ensure that their operations and activities respond to societal expectations and needs, affect positively the lives of people and communities, and do not harm or produce negative consequences that may expose the company to increased risks. Information acquired this way can be a very cost-effective way of improving any company’s risk management practices. Furthermore, systematic stakeholder engagement can create direct economic benefits to companies. When companies are fully aware of the evolving needs and desires of their customers, they can shape their products and services better to meet market needs. As the literature demonstrates, companies that build systematic stakeholder engagement and dialogue can gain competitive advantage in the market place, improve networks and reputation, and in so doing enhance value.

As explained above, among the six accountability domains, Stakeholder Engagement is the one where companies usually score very low (Figure 14 above). In order to assess the characteristics of stakeholder engagement in the region, the study asked business respondents to rate specific issues that stakeholders discuss with them. The stakeholder groups considered were internal (business owners, shareholders, employees, management) and external (customers, local com-

munities, suppliers, NGOs and environmental interest groups, investors, and local and national government bodies). Human rights, labour standards, environmental concerns, and transparency were selected by the research team as priority issues that might be promoted by stakeholders. **The findings demonstrate a low level of stakeholder dialogue around all selected issues.** As shown in Figure 28 below, no stakeholders reportedly discuss human rights with 51 percent of companies, labour standards with 39 percent of companies, environmental protection with 47 percent of the companies, and transparency with the 61 percent of companies¹⁴⁴.

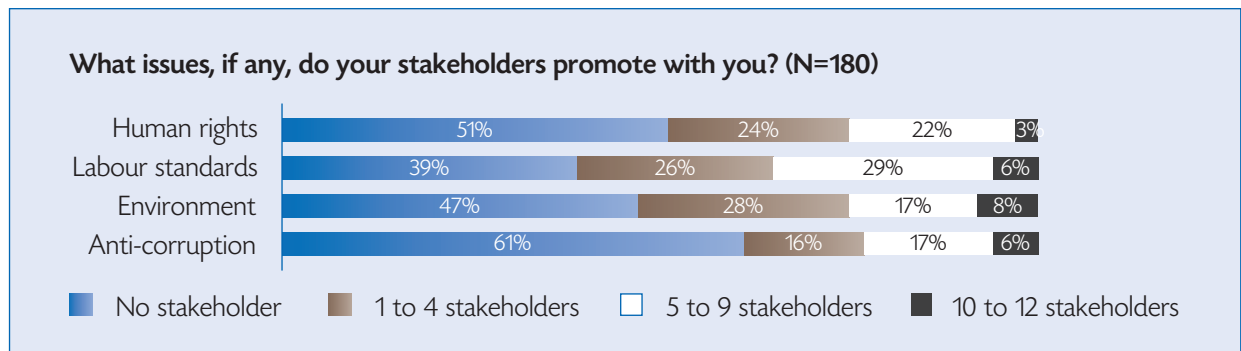
As demonstrated in Figure 28, only 3 percent of companies reported that human rights were promoted by 10-12 stakeholder groups, 6 percent reported labour standards, 8 percent reported environment, and 6 percent reported promotion of transparency by the same number of stakeholders.

For the reasons mentioned, regular dialogue and engagement with both internal and external stakeholders is an important tool in helping companies to become more socially responsible and more effective.

Previous regional research concluded that businesses in the region generally focused more on internal stakeholders than external ones¹⁴⁵. Similar results were found in this study. The majority of businesses report having some pressure to be socially responsible from their internal stakeholders; whereas a very low percentage of companies report the same about their external stakeholders. It is obvious that taking into account the views of managers, employees, and shareholders is much simpler and apparently more appealing than doing the same with communities and civil society organizations. As noted, third party stakeholders can be a source of potential risks (e.g. NGO campaigns), and constructive ideas (e.g. consumer feedback on product performance and ideas).

The level of company external stakeholder engagement also strongly depends on the environment in which businesses operate. In countries where civil society organizations, and governments are more active and dynamic, the chances that companies accept civil society opinion in decision making are higher. Active stakeholders can always hold companies accountable. However, as mentioned in Section II, civil society position is very weak in the region; governments do not

Figure 28. Stakeholder role in promoting specific CSR issues

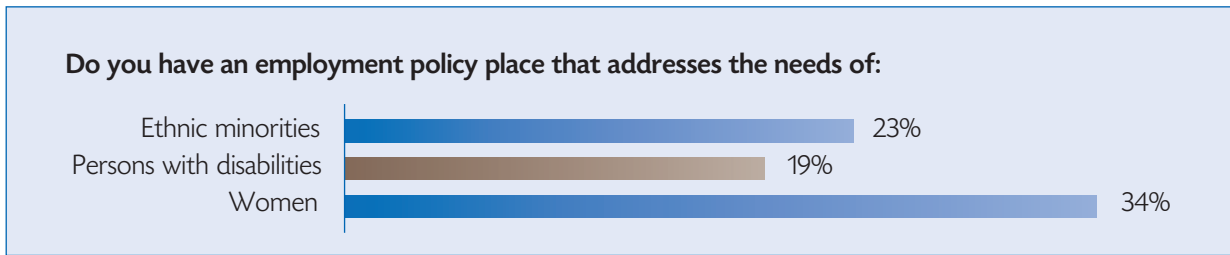


Understanding Figure 28. Companies were asked which stakeholders promote what kinds of CSR issues with them. The results have been grouped into 4 categories for each CSR issue: zero-no stakeholders promote the issue, 1 to 4 – at least one and max 4 stakeholders promote issue, 5 to 9 – from 5 to 9 stakeholders promote the issue, and 10 to 12 – from 10 to 12 stakeholders promote the issue. For example, 61% of companies have reported that no stakeholder has ever promoted transparency with them and 6% reported that at least 10-12 stakeholders promoted the same issue with them.

¹⁴⁴ The findings cover Montenegro, Kosovo, Serbia and Bosnia and Herzegovina. The results for this particular question from Albania are not included in the analysis.

¹⁴⁵ World Bank 2005. Opportunities and options for governments to promote corporate social responsibility in Europe and Central Asia.

Figure 29. Company policies toward disadvantaged groups



have clear mechanisms and strategies to implement CSR incentives and/or enforce CSR-related standards; and business owners and shareholders have comparatively limited knowledge and understanding of CSR. **The findings that more than 61 percent of companies do not feel any encouragement or incentives to be more transparent and more than 47 percent see no motivation from stakeholders to preserve the environment should be of concern to governments, business associations and civil society interest groups in the region.** Transparency about policies and performance is essential: for governments wanting to know whether their policies are on track; for investors who want to know about the quality of management; for business leaders who want the private sector to be trusted as a social partner; and by the wider community, who want to know that business is being a responsible citizen. Besides a low level of companies' own stakeholder engagement efforts, this finding also suggests that the company operating environment is not stimulating CSR practices. **Businesses in the region operate in an environment where they do not feel sufficient encouragement or incentive from their stakeholders to engage in CSR activities as a routine practice.**

Of equal concern is the finding that the majority of companies that reported they have no stakeholder involvement in specific activities belong to the national-private companies group. State-owned companies report better stakeholder engagement in their activities. However, stakeholders engaged with government-owned companies are government institutions themselves. That government companies reported a high level of government involvement in their activities is to be expected.

On key social issues such as disadvantaged communities, only 23 percent of companies have specific policies to promote employment of ethnic minorities, 19 percent persons with disabilities and 34 percent women (Figure 29). All types of companies (government, multinational and national) have almost the same level of policies to employ women and ethnic minority groups. By contrast, multinational companies do much better at providing work-opportunities for persons with disabilities (28 percent) than are state-owned (18 percent) and national businesses (14 percent).

Policies towards disadvantaged groups also differ across the research countries. Generally, these policies are influenced by recent political history/government in power and the percentage of ethnic groups in the country. Overall, Kosovo businesses have more advanced practices of integrating disadvantaged groups. The difference is especially prevalent among state-owned companies in Kosovo. As mentioned above, the fact that Kosovo has been under the influence of development partners has positively affected many business practices in the country. In addition, although Albanian companies have very similar results to other research countries with regards to employing women and disabled persons, only 5 percent of the companies in Albania reported having employment policies towards ethnic minorities.

Figure 30 examines the extent to which company engagement of stakeholders has a direct effect on the level of companies' overall CSR engagement. It shows how stakeholder engagement affects the overall level of companies' social responsibility. Companies with 'good' stakeholder engagement are more likely to have

Figure 30. Effect of stakeholder engagement on CSR outcomes

Stakeholder engagement	Has written code of ethics	Training budget include funds for CSR training	Company pension above industry standards	Employees given time off from work to volunteer	Has more than 10% of overall expenses going on CSR
No/Little evidence	64%	13%	19%	20%	8%
On the way	74%	33%	21%	26%	12%
Good practice	88%	56%	40%	68%	25%

a written code of ethics, allocate funding to CSR training of members of their staff, pay more benefits to employees, encourage employees to volunteer in communities, and have more than 10 percent of the company expenses invested in socially responsible activities.

In conclusion, less than 12 percent of the companies in the region have what is assessed as good stakeholder engagement in their activities.

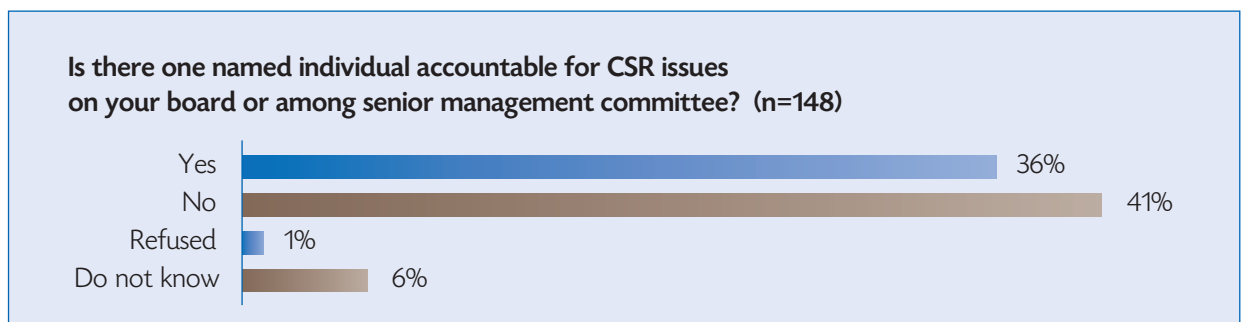
Multinational companies with international links and longer CSR history are much better at incorporating stakeholders in their decision making. State-owned companies have relatively higher stakeholder engagement scores than national private companies due to the fact that most of them are directly accountable to the state. Finally, the more a company takes stakeholders' opinions and ideas into account, the more likely it will understand its operating environment and can become a socially responsible company.

GOVERNANCE

Good governance is all about setting the "tone from the Top". As with any organization, having strong leadership and committed management is important for the successful setting and achievement of goals. An accountable, ethical and committed management is the cornerstone of a credible and effective governance structure. Strong leadership on CSR is especially important, particularly where tangible short-term benefits are not always readily visible. Good governance requires clear accountability for CSR policies and performance, with leadership from the most senior levels of the organization. It includes having a designated high-level representative responsible for CSR integration, development, monitoring and evaluation across the company's entire operations.

Although CSR is a very new concept in the region, good leadership and management practices have a relatively longer history. Companies that have well established sound leadership practices should find it easier to incorporate many aspects of good CSR governance in

Figure 31. Company has CSR responsible individual



their business processes. Overall 22 percent of the companies were rated as having ‘good practice’ level CSR governance and an additional 43 percent are in the process of developing it (Figure 14).

As noted, an important aspect of good CSR management is having a designated person in the company responsible for leading and coordinating CSR activities. As shown in Figure 31, almost 36 percent of the companies in the region have designated someone to be responsible for CSR development, integration, and measurement. The number is the same for state-owned companies, much higher for the branches of multinational companies operating in the country (65 percent) and lower for private-national companies (28 percent). There is a clear relationship between the size of the company and the existence of a CSR-responsible individual. Larger companies (56 percent) are more likely to employ someone directly accountable for CSR than medium-sized (39 percent) and small companies (19 percent). In most cases those responsible individuals are employed in

- Public Relations and Marketing (31 companies);
- Human Resources (9 companies);
- Administration and Strategy (5 companies);
- Quality Assurance (5 companies); and
- Dedicated CSR Section (3 companies).

Only 3 companies in the sample have specialized CSR departments. In most cases, the person responsible for CSR implements a number of other duties and works in the Public Relations (PR) and Marketing departments. Furthermore, in only a few cases are the responsible staff members in senior management positions. While there is no reason why PR staff cannot be high-

ly competent, there is a risk that the focus on marketing aspects might prevent them from being open to wider business risks and opportunities.

As mentioned earlier, good leadership and governance increase the prospects of favourable outcomes. As shown in Figure 32, there is a substantial effect of good CSR governance on a company’s CSR outcomes. The companies rated as having ‘good’ CSR governance are three times more likely to have a **budget for CSR training**, and three times more likely to have a **higher health and retirement pension package** for employees; they are also twice more likely to give **employees time for volunteering** than are companies with ‘no little’ governance practice.

In conclusion, almost 22 percent of all companies in the region are rated to have good CSR governance structure in place and 36 percent have a designated person responsible for CSR activities. In a majority of cases, CSR staff members work in marketing and public relations departments which seems to confirm the findings in the section above that companies view CSR as related to building their public image and enhancing reputation. Ideally, however, to ensure that CSR is embedded across a company’s operations, CSR leadership should be as close to the Board as possible and not associated exclusively with PR and Marketing. This ensures a more coherent and coordinated approach that draws on all the company’s resources and addresses the full spectrum of its challenges.

Figure 32. Effect of governance on CSR outcomes

Governance	Company very actively engaged in CSR	Training budget includes funds for CSR training	Employee retirement pension above industry standards	Employee health benefits above industry standards	Employees given time off from work to volunteer	Engagement in community support (very often)
No/Little evidence	15%	18%	13%	15%	22%	33%
On the way	27%	23%	22%	22%	30%	48%
Good practice	49%	54%	39%	46%	41%	54%

PERFORMANCE MANAGEMENT

Neither the existence of a comprehensive strategy nor of a dedicated and knowledgeable leadership alone can achieve company CSR goals, if the necessary processes, standards and incentives to achieve those goals are not established, implemented and measured. Performance management evaluates the existence and quality of CSR procedures, standards, and incentives. It measures the extent to which a company sets and implements social and environmental goals in its interactions with suppliers, customers and other stakeholders; it evaluates company procedures in treating stakeholders, recycling, producing environmentally friendly products, using fair-trade marks in its products, etc.

As demonstrated in Figure 14, only 12 percent of the companies in the region have 'good practice' in performing their CSR activities. Most – 57 percent – are in the developing stage, and the remaining 30 percent have 'no/little' level of CSR performance management. Overall a relatively bigger percentage of companies have good CSR governance and strategy than good CSR performance management. One conclusion that can be drawn is that while companies are doing relatively well in preparing plans and strategies, they are lacking in proper processes to implement those plans.

This may in part be due to the lack of specialized staff and high level leadership, coordination and follow-up. As discussed throughout the report, it seems that companies in the region are beginning to recognize the importance of CSR engagement but do not have enough understanding, resources, skills and enabling environment to actually implement socially responsible activities.

Having CSR-related procedures and policies integrated in daily business activities is an important indicator of good CSR performance management. This study explored the extent to which companies integrated different social, environmental and sustainable development procedures and policies in their business processes.

As shown in Figure 33 above, the majority of companies scored very low in many of the performance measurement indicators. Less than 30 percent of the companies give priority to suppliers that incorporate CSR in their work, use recycling facilities, consume environmentally friendly goods, use environmental or eco and fair-trade labels in their products, help improve CSR with suppliers or get involved in climate change initiatives. At the same time, some encouraging facts are that almost 60 percent of companies state that

Figure 33. Company ranking in performance management indicators

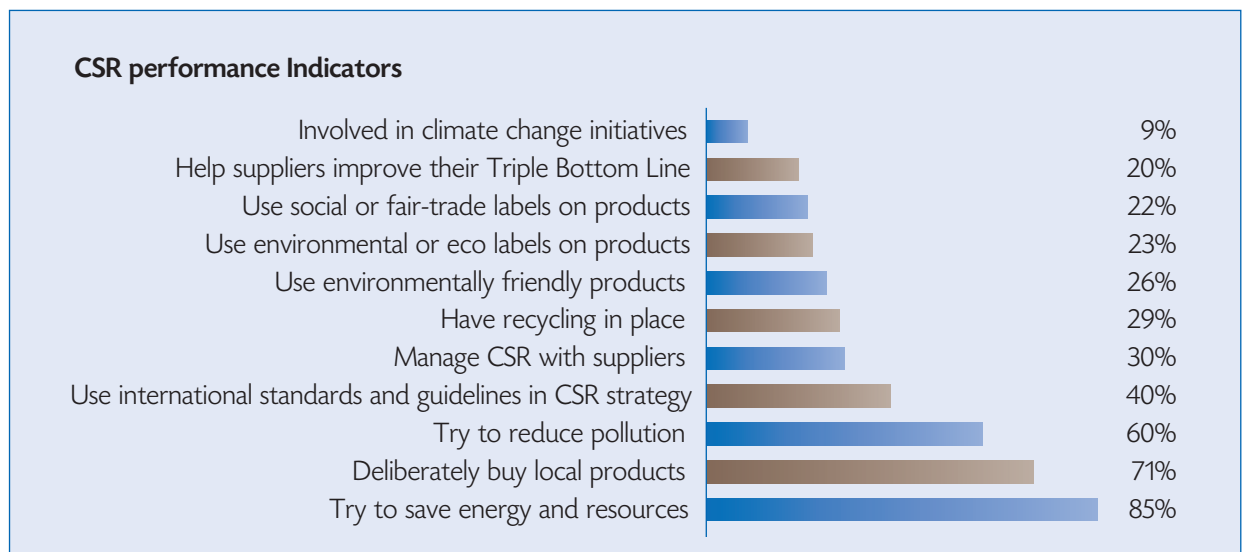


Figure 34. Effect of performance management on CSR outcomes

Performance Management	Company very actively engaged in CSR	Training budget include funds for CSR training	Employee retirement pension above industry standards	Employee health benefits above industry standards	Employees given time off from work to volunteer	Engagement in community support (very often)
No/Little evidence	16%	12%	10%	10%	12%	31%
On the way	31%	27%	26%	27%	34%	48%
Good practice	52%	62%	43%	57%	33%	62%

they attempt to reduce pollution from their work, more than 71 percent deliberately buy local products, and more than 85 percent save energy and other resources.

Understandably, short-term-profitability-related factors scored high – i.e. saving energy, buying local products, etc. At the same time, the majority of factors related to preserving the environment and engaging stakeholders and suppliers were rated lower than 30 percent.

Having good performance management had a strong influence on company outcomes related to CSR. As shown in Figure 34, companies that have good performance management are almost four times more likely to have a budget for CSR training, five times more likely to have better health benefits and twice as likely to be engaged in community support as companies with ‘no/little’ level of performance management.

In conclusion, **a relatively low percentage of companies in the region are doing well in incorporating progressive CSR performance management practices into their business processes.** Understanding the importance of CSR, having a CSR strategy and a person accountable for its implementation is important for a company, but having actual processes and procedures in place to implement different CSR activities in relation to the strategy, and to evaluate performance against targets are equally important. Not many companies in the region have achieved that progress. The CSR-related procedures that have been adopted by the majority of businesses have direct linkages to cost savings and short-term financial benefits. Having good performance management practices significantly influ-

ences a company’s overall CSR engagement and the chance to build long-term value.

***Violeta** is a leading firm in producing and distributing hygienic products in B&H. Most of its responsible activities are in the area of environmental protection:*

- *Sorting, pressing and delivering waste materials,*
- *The company has bought ‘Grune Punkt’, a packaging recycling programme, and*
- *It has carried out energy efficiency assessments in its manufacturing and trade centres.*

Besides environmentally responsible activities, the company donates a package of hygienic products for every baby that is born in B&H, which is around 32,000 packages per year, gifting also a brochure on healthy nutrition that supports nursing.

PUBLIC DISCLOSURE

Public disclosure examines the extent to which companies report on their performance and making information on their governance, mission, goals, key policies and performance available to the public. Reporting is an essential component of transparency and accountability for any company. By producing CSR reports, companies make a statement about the importance they attach to stakeholders’ views. Businesses also use the CSR report as a tool to measure and better manage their internal operations, and to build their positive

Figure 35. Company public reporting

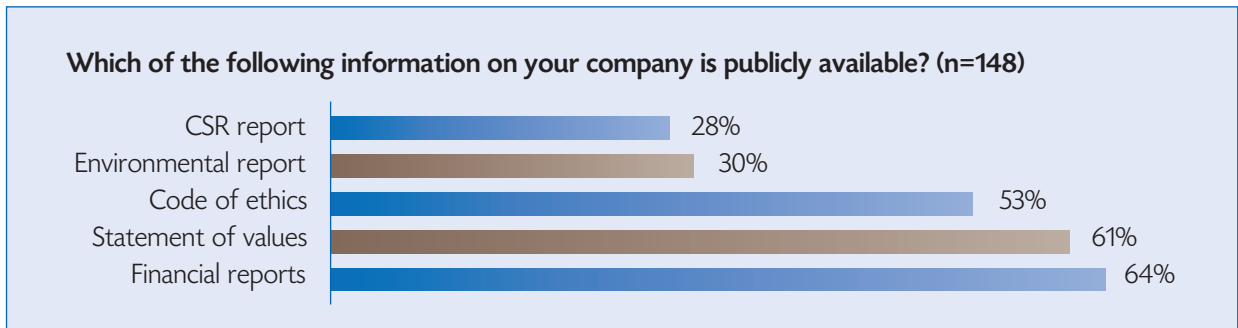


image and reputation. Since the 1990s, CSR or ‘sustainability’ reporting – facilitated by the use of instruments such as the Global Reporting Initiative (GRI) – has become a widely used tool among leading business organizations around the world. This trend has been encouraged by legislation in several countries that requires reporting on environmental and social performance (e.g. Britain and France, and the EU Accounts Modernisation Directive), and by increased interest from the investor community in non-financial performance.

As shown in Figure 14 above, almost a quarter of the companies in the region report on their CSR performance. A further 42 percent have some reporting experience; while a third have no evidence of reporting. Overall companies are more likely to report on their financial performance, statement of values and code of ethics than they are on CSR and the environment (Figure 35). While financial reporting is mandatory for publicly financed companies in all countries in the region (except Albania), there is no legal requirement to have a code of conduct, statement of values, or to report non-financial performance. Although many companies do have own-company codes or value statements, a minority issue CSR reports. The fact that about 30 percent of companies produce reports on their environmental performance is driven by mandatory reporting requirements for many industries in the region. The companies that use natural resources and/or have the potential to damage the environment are required to prepare a report on their environmental performance. Purely voluntary reporting on environmental performance is very low: an estimated one

in 5 companies that report on environmental performance do so voluntarily.

Multinational corporations are more likely to produce CSR reports (37 percent) than national private (22 percent) and state-owned companies (27 percent). However, state-owned companies do slightly better in producing environmental reports than multinational companies. The main reason state-owned companies are more willing to report on environmental activities may be related to the industry in which they operate. The majority of the state-owned companies operate in the energy sector (supply and distribution), natural gas and water. These are sectors that have a greater potential for exploiting and damaging the environment, and consequently have the highest level of legislative requirements, including a mandate to produce environmental reports. Therefore, more state-owned companies report on their efforts to preserve the environment.

Using widely recognised internationally accepted standards for reporting on CSR performance is the path often taken by companies interested in improving their CSR performance. Research on the level of utilization of international standards by companies in the region showed that 40 percent of the companies use any international standards in implementing their CSR work. As shown in Figure 36, among those companies that use international standards, only 8 percent use the GRI framework, which enables companies to report on their social, environmental and economic performance. The ISO 14001 environmental management standard, which is not a reporting standard, is the most widely used international standard (43 percent), followed by

reporting for the Global Compact Communication on Progress (26 percent). Some other reporting initiatives and standards followed by companies include:

- Bologna declaration,
- HACCP,
- ISO 9001:2000; 2002; 2001,
- ISO/TS 16949:2002,
- OHSAS 18000,
- OECD Guidelines for Multinational Enterprises, and
- other standards that multinational companies have developed for internal use.

By way of comparison, recent surveys of the practice of leading international companies tend to show wide use of ISO 14001 (for environmental management); the GRI for CSR or sustainability reporting (GRI reports are also accepted by the UN Global Compact as Communications on Progress); and the Global Compact principles or the OECD Guidelines for Multinational Enterprises for guidance on applicable international standards of good behaviour. In some sectors, there are specific codes of conduct that have been developed. A list of the kinds of international standards available was recently published by the OECD¹⁴⁶.

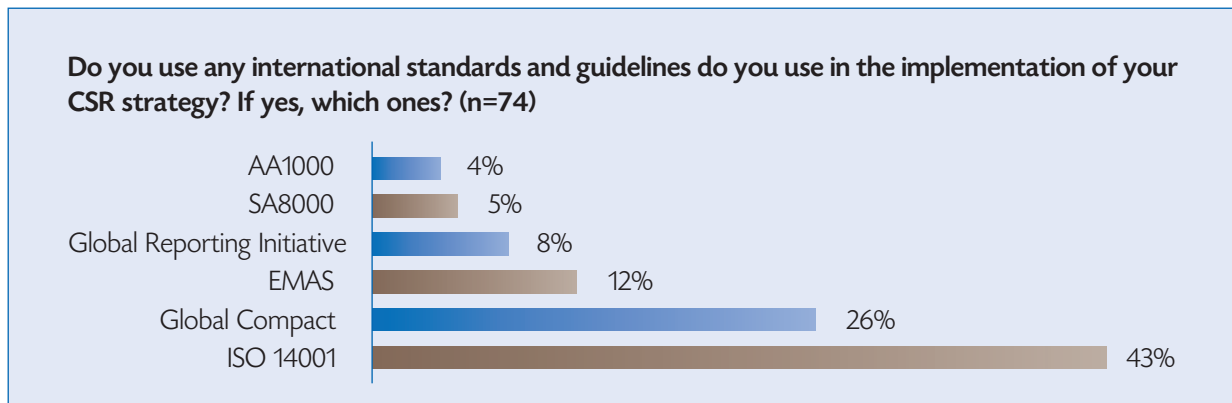
Overall, large multinational companies in the region are more likely than state-owned and private-national companies to accept and use recognized international

standards. There is often no direct explanation why companies use particular international standards in their work process. Usually branches of multinational corporations operating in the region use the international standards accepted and implemented by their head offices. It also usually depends on a company's sector, and on the applicability and popularity of a certain standard in the company as well as skills, technology and resources required in using that particular standard.

The standards that are easily and widely applicable are more likely to be utilized. For example, the UN Global Compact has been widely adopted in the region. The ten principles and values promoted by the Global Compact can be applied to a wide variety of businesses working in different fields and industries¹⁴⁷. Furthermore, if the company is interested in becoming part of the initiative there is always help and support available as there are Global Compact focal points in each of the study countries. By contrast, the Bologna declaration would only be relevant to businesses that operate in the field of higher education and teaching. The declaration sets the principles for operating in the European educational system.

Utilization of recognized international standards can become a strong tool in enhancing a company's public image and reputation, and draw on the experience and

Figure 36. Companies use international standards in their CSR work



¹⁴⁶ Overview of Selected Initiatives and Instruments relevant to Corporate Social Responsibility, OECD, June 2008.

¹⁴⁷ Please visit Global Compact webpage for detailed information on its principles and values. www.unglobalcompact.org

credibility that comes with them. Many companies that have applied internationally accepted quality and environmental standards communicate a use of these standards for marketing purposes to attract customers and build trust in their products and services.

International Standards in the Region

ISO 14001 – specifies for an environmental management system to enable an organization to develop and implement a policy and objectives which take into account legal requirements and other requirements to which the organization subscribes, and information about significant environmental aspects. It applies to those environmental aspects that the organization identifies as those which it can control and those which it can influence.

(www.iso.org)

ISO 9001 – specifies requirements for a quality management system where an organization (i) needs to demonstrate its ability to consistently provide products that meet customer and applicable regulatory requirements, and (ii) aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable regulatory requirements.

(www.iso.org)

The UN Global Compact – is the UN initiative that encourages business to engage in socially and environmentally responsible activities and report on their performance. Global Compact asks companies to embrace 10 principles in areas of human rights, labour standards, the environment, and anti-corruption.

(www.unglobalcompact.org)

EMAS – Eco-Management Auditing System – is a voluntary initiative designed to improve company environmental performance. Its aim is to recognize and reward those organizations that go beyond minimum legal compliance and continuously improve their environmental performance. In addition, it is a requirement of the

scheme that participating organizations regularly produce a public environmental statement that reports on their environmental performance. (www.emas.org.uk)

GRI – The Global Reporting Initiative, a multi-stakeholder initiative involving business, employee organisations and NGOs, has developed the world's most widely used sustainability reporting framework. This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.

(www.globalreporting.org)

SA 8000 – Social Accountably 8000 Standard is an auditable certification standard based on international workplace norms of International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child. It is a credible, comprehensive and efficient tool for assuring humane workplaces.

(www.sa-intl.org)

AA1000 – AccountAbility's standards, the AA1000 Series, are principles-based standards that provide the basis for improving the sustainability performance of organizations. They are applicable to organizations in any sector, including the public sector and civil society, of any size and in any region. (www.accountability21.net)

Bologna declaration – was signed by Ministries of Education from 29 European countries in 1999. The aim is to create the European higher education area by making academic degree standards and quality assurance standards more comparable and compatible throughout Europe.

OHSAS 18000 – is an international occupational health and safety management system specification. It is intended to help an organization to control occupational health and safety risks. It was developed in response to widespread demand for a recognized standard against which to be certified and assessed.

(www.ohsas-18001-occupational-health-and-safety.com)

OECD Guidelines for Multinational Enterprises are part of the OECD Declaration on International Investment and Multinational Enterprises and consider companies' voluntary engagement in responsible business practices in the areas of employment, human rights, environment, disclosure, transparency, consumer rights, science and technology, competition, and taxation. Companies from the member nations recommended adhering to principles regardless of geographical location of their operations.

Public disclosure has a generally positive effect on the overall company CSR outcomes. As described in Figure 37 below, compared to companies with 'no/little' and 'on the way' level public disclosure, companies rated as having a 'good' practice of reporting are more likely to report being actively engaged in CSR, have a training budget for CSR, introduce better pension and health package for employees, and engage in community support. Recent international research also suggests that companies that report on their CSR performance enjoy higher levels of trust and credibility among stakeholders¹⁴⁸.

In conclusion, although the level of companies reporting on CSR activities is somewhat favourable in the region, the majority of reporting took place when it was required by law, legislation or/and company procedures. Multinational corporations are the champions in CSR reporting. Reporting on environmental perform-

ance mainly takes place among the companies that work in the industries with potential to damage the environment and where mandatory reporting requirements are in place. There is not enough information on quality and cohesiveness of the companies' CSR or Environmental reporting. ISO14001 and Global Compact are the most widespread international standards utilized by businesses in the region.

ASSURANCE

The Assurance domain explores the extent to which companies use external independent organizations or experts to assess the rigour and credibility of their CSR processes, performance and reporting. Every company can create its own way of engaging in CSR and claim to be accountable and in compliance with accepted CSR standards. Using third-party stakeholders and experts to evaluate the company CSR performance is regarded as the best way of ensuring that the company's efforts are verified. Assurance is an important tool in building company reputation and trust among its stakeholders. The most common assurance utilized by the business community around the world is related to assuring company reporting.

As noted above, the literature suggests that Assurance is the CSR dimension where most global companies in the world are lagging behind. It is not surprising therefore that in the region only 7 companies (4 percent) in the sample are rated as having 'good' practice of using external experts to assess their CSR engagement and

Figure 37. Effect of Public Disclosure on CSR Outcomes

Public Disclosure	Company very actively engaged in CSR	Training budget include funds for CSR training	Employee retirement pension above industry standards	Employee health benefits above industry standards	Employees given time off from work to volunteer	Engagement in community support (very often)
No/Little evidence	19%	16%	14%	17%	21%	22%
On the way	25%	22%	25%	24%	25%	50%
Good practice	49%	49%	32%	39%	39%	66%

¹⁴⁸ See, for example, the KPMG/SustainAbility Readers Choice Survey Report, May 2008.

29 percent had some plans and strategies to use assurance in the future (Figure 14). The majority of companies (67 percent) have done almost nothing in this domain. Here, company ownership does not appear to have a significant impact on the results. In terms of companies' size, smaller companies are doing much worse than medium and large businesses with regard to use of assurance services.

Overall, very few companies reported that there were assurance companies in the country that they were aware of. And even fewer of them (7 percent) were able to name any assurance organization or company operating in their country. Among the 7 percent that listed actual names of assurance organizations, some companies use general terms such as Government, Local government, NGOs and other names of organizations that are not involved with CSR assurance in the region (e.g. UNICEF). Only a few of the companies could recall the names of the companies that provide CSR assurance services in their respective countries. While some assurance processes (such as AA100) do use stakeholder consultations in the assurance context, accounting firms or specialist consultancies commonly provide assurance.

In conclusion, assuring CSR implementation and reporting by using external consultants and companies is the least developed practice in the region. Moreover, many companies have no stated intention to use external consultants and very few have knowledge of such services.

Annex VI. CSR Leaders in the Western Balkans

In an attempt to identify the CSR leaders in the Western Balkans region, we asked companies to list the names of companies that are champions in integrating CSR. Company names, compiled in alphabetical order, are listed on Figure 38.

Multinational corporations operating in the region (Coca Cola, Philip Morris, Vodafone etc.) make up the majority of companies mentioned. Nevertheless, a number of large private national companies (Pro Monte, Bosnalijek, B 92 Broadcasting Corporation etc.) usually with international ties are also mentioned. There are some important considerations to be made in interpreting these findings. The companies mentioned most frequently do not necessarily score highest in all domains. As explained previously, the understanding of CSR in the region is characterized mainly by philanthropy, community support, environmental projects, and initiatives on employee well-being. Furthermore, most companies in the region use CSR engagement to promote their reputation by publicizing their CSR work through the media. Therefore companies that are engaged in philanthropy and community support and advertise their work through open media are more likely to be mentioned.

Figure 38. Can you give any specific names of companies who can show particularly good practice examples of CSR in your country / industry in the last two years?

	Representing country	# of times name was mentioned
Albpetrol,	Albania	1
Aluminijum	B&H	1
AMC	Albania	1
B 92 Broadcasting corporation	Serbia	3
Bimal Brcko, Dk Trade, Grupacija Mims, Omv	B&H	1
Bosnalijek	B&H	5
Calivita International, Dunav Osiguranje	Serbia	1
Calsberg Serbia; Coca Cola	Serbia	1
Coca-Cola in B&H	B&H	1
Delta Holding	Serbia	2
EFG Euro Bank	Serbia	2
Erste bank	Serbia	1
Euromax; Prima	Albania	1
Farmavita	B&H	1
Fabrika Duhana Sarajevo, Sarajevska Pivara	B&H	1
Fericelly, Procredit	Kosovo	1
Hemofarm	Serbia	3
Holcim Serbia	Serbia	2
Knjaz Milos, Nektar, Imlek	Serbia	1
Kosovo Commercial Banks	Kosovo	1
Montenegrin Telecom, Hypo Alpe Adria Bank, Atlas Bank, NLB Montenegro Bank, Montecco L.L.C.	Montenegro	1
Oriflame, Avon	Serbia	1
Philip Morris; Kavex Elbasan, Tobacco Enterprise	Albania	1
Phillip Morris	Serbia	2
Pro Credit Bank	Kosovo	3
Promonte	Montenegro	5
Telenor	Serbia	2
Tigar, Erste bank	Serbia	1
Tirana International Airport	Albania	1
Vodafone Albania	Albania	6
US Steel	Serbia	1

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United Nations Industrial and Development
Organization
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UN Global Compact
www.unglobalcompact.org

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