



## **DEVELOPMENT OF A CORPORATE SOCIAL RESPONSIBILITY (CSR) CONCEPT FOR CROATIA**

As a country in the process of stabilisation and accession to the European Union, Croatia is under strong pressure to bring itself into line with EU policies. One policy concept, which is rapidly growing in importance in European markets, is Corporate Social Responsibility (CSR). At the same time, Croatian enterprises, in particular small and medium-sized enterprises (SMEs) are under pressure to show customers and potential clients within the EU and elsewhere in the OECD countries, that they are practicing CSR. In order to respond to these twin needs to promote the concept of CSR in Croatia, the former UNIDO Director-General Carlos Magariños and Croatia's Minister for Economy, Labour and Entrepreneurship, Branko Vukelic, signed an agreement on the Development of Corporate Social Responsibility in April 2004. Since 1992 UNIDO has undertaken more than 20 projects in Croatia, mainly in the field of environment protection. This new project that emerged aimed at presenting evidence of the positive impact that CSR has on SMEs and the society, promoting the exchange of good management practices and of experiences on CSR, building capacities in CSR and disseminating a practical methodology with supporting tools that SMEs in Croatia can use to implement CSR concepts in a cost effective manner.

In particular, the project pursued the following objectives:

- To generate the evidence for the Croatian stakeholders in CSR that the concept can have a positive impact on business, targeting in particular SMEs, by disseminating good practices and experiences, and by making practical demonstrations.
- To build the necessary CSR-related capacity in the country so that industry support institutions can assist the business sector, especially export-oriented SMEs, to use a practical methodology and related tools that will enable them to cost-effectively comply with CSR requirements of global buyers and supply chain partners.
- To assist in the development of a strong, export-oriented SME sector, which is able to meet the environmental and social requirements of international customers in the most competitive way.
- To facilitate the preparation of a Croatian business agenda for CSR in partnership with public and private sector institutions and enterprises.

By doing so, the project actively supported the achievement of the Millennium Development Goals, in particular the goal of achieving environmental sustainability (MDG 7) and the goal of developing partnerships for development (MDG 8).

## **1. CONTEXT**

The last twenty years have seen a radical change in the private sector's relationship both with the state and civil society. Globalisation, deregulation, privatisation and a redrawing of the lines between state and market have changed the basis on which private enterprises are expected to contribute to the public good. Meanwhile, the relationship between companies and civil society has moved from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society. These dynamics have led to the emergence of a new approach to CSR, with companies recognizing that reducing their impacts and addressing wider social and environmental problems will be crucial in securing their long-term business success.

Corporate Social Responsibility is now also being discussed and debated in the public policy sphere – on a global sphere the UN Global Compact is bringing together companies and UN agencies to address CSR, the UK has a Minister for Corporate Social Responsibility, the EU has recently published a Green Paper on the subject and 2005 has been designated the European Year of CSR.

Croatian businesses have had a difficult period in recent years, facing the economic burdens of destruction by war, loss of traditional markets, privatization and transition to a market economy. At the same time, those companies that have survived are faced with the economic and business challenges posed by the country's wish to accede as soon as possible to the EU. This upcoming accession highlights the urgent need for Croatian companies to obtain know-how and practical support in upgrading themselves to meet the standards and requirements of potential buyers in the EU in order to be able to market their products successfully within the European marketplace. In this race to upgrade their environmental and social performance as the accession clock ticks, small and medium sized enterprises in particular are in need of assistance and guidance to meet environmental and social requirements put in place by actual and potential buyers.

In Croatia, CSR<sup>1</sup> is becoming more and relevant, given the increased importance of the private sector, the rollback of state in favour of enterprises, the need to regulate businesses within a global market place and the growing strength of consumers and NGOs. The value of CSR has already been recognized by some leading Croatian enterprises that committed themselves to it and formed the National Business Council for Sustainable Development (BCSD). However, the Government did not dispose of an appropriate policy framework to coherently encourage and support the adoption of CSR practices by Croatian enterprises, and the companies lacked methods or capacities to adopt CSR in the most cost-effective manner. Apart from that, the way Croatian entrepreneurs were responding to these changed expectations and directions on social, environmental and economic performance has not been sufficiently investigated. There was therefore an urgent need not only to investigate already applied practices but also to further develop and promote the CSR concept in Croatia.

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<sup>1</sup> It has to be noted at this stage that the term 'corporate' has a special meaning in countries like Croatia with a tradition of large state-run corporations, meaning that the scope of CSR can potentially be misunderstood. Therefore, the term 'responsible business practice' is more appropriate in the Croatian language.

## **2. PROJECT APPROACH**

This project sought to build the necessary national capacity able to provide practical support for SMEs in the area of environmental and social improvement, assisting them to assess their status and to identify and implement cost-effective improvement options, while not jeopardizing their overall competitive position in supply chains. In addition to that, the project supported the Government of Croatia and relevant public institutions in determining, on the basis of experiences elsewhere, what public policies best support the country's business community in its efforts to implement practical CSR strategies. These twin goals were addressed within the scope of this project through:

- Building capacity on CSR, its benefits, and its application;
- Promoting public policies in line with CSR practices;
- Building consensus on instruments to apply, measure and report CSR between the various parties involved, in particular considering the existing various national policy frameworks within a global dimension;
- Enhancing consumers' and investors' recognition of CSR;
- Building up "business cases" through demonstration projects in SMEs to increase awareness and knowledge about the potentially positive relationship between CSR and business performance; and
- Teaching and training,;

Based on these considerations, the activities of this project were grouped into three phases: the assessment phase, the policy- and instruments-building phase and the CSR cases-building phase.

### **2.1. The assessment phase**

Initially, an assessment was carried out in cooperation with BerganGea Communications L.L.P., which produced the report "*2004 SME and Multi-Sector CSR Practices in Croatia – Development of the CSR Concept in Croatia*"<sup>2</sup> with the objective to provide an overview of the status quo in the country in terms of CSR compliance and to identify possible target areas to focus on in the course of the planned project activities. This kind of survey dealt with the diffusion and perception of CSR in Croatia and compared similar experiences worldwide.

As the European Commission's 2001 "Promoting a European Framework for CSR - Green Paper" vision formed the basis for the Croatian Government's request to UNIDO for the development of the CSR concept in Croatia, the purpose of this report was also to define a basis for the development of the CSR concept in Croatia with sections that facilitate CSR partnership brokering, strategy, project development and management and workshops. It set the ground for UNIDO engagement through:

- Defining the potential partners and their views, interests and objectives;
- Defining the CSR issues in Croatia in each sector;
- Defining CSR observations and recommendations on issues;
- Providing Public, Private, NGO, Media and CSR database information;
- Defining CSR partnerships and initiatives in each sector.

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<sup>2</sup> For further information on this study, please contact Mr. Kai Bethke ([k.bechtke@unido.org](mailto:k.bechtke@unido.org))

In order to avoid the duplication of efforts, UNIDO made also use of other investigations in that sphere to increase the knowledge base, such as a report called *“An overview of corporate social responsibility in Croatia”* (2004)<sup>3</sup> – a recent survey of CSR in Croatia conducted by the Prince of Wales International Business Leaders Forum (IBLF), in collaboration with the Academy for Educational Development (AED) and MAP Consulting. This research encompassed a review of existing literature, analysis of media coverage of CSR in Croatia, and interviews with representatives of over sixty companies, governmental institutions, business associations, expert bodies, non-governmental organizations (NGOs), and the media. That study found that there were significant clusters of CSR practice developing around environmental protection, human resource development and community involvement. Croatia has a rich legacy of local business practises, which can be seen as socially focused. Indeed, while ‘CSR’ is an imported term, many of its concepts and practises were already familiar to Croatian business community. However, the country’s enabling environment for promotion of CSR was found to be weak and companies, in particular SMEs, lacked the know-how to apply CSR practices effectively.

Following this initial assessment of the situation in Croatia, UNIDO was engaged in the elaboration of another study called *“Towards a Croatian Business Agenda for Corporate Social Responsibility”* (June 2004) (see Annex I). This research went one step further as it dealt with the critical challenges to economic and social development in Croatia, and also identified the potential for CSR strategies to meet the needs of Croatian businesses and stakeholders in these areas. It further highlighted more precisely potential public policy options for promoting CSR in the Croatian context. In this study the Responsible Competitiveness Index (RCI)<sup>4</sup> was recalculated, including Croatia and other SEE countries covered by the Global Competitiveness Report 2002-2003 developed by the World Economic Forum. In this analysis, Croatia ranked 7th out of the 10 peer countries for which data was available in terms of corporate responsibility. Croatia scored 54 out of 100 in corporate governance, well ahead of Bulgaria and Romania (the EU average is 66). Regulatory frameworks were found to certain extent satisfactory, while de facto corporate governance practice remains quite poor, with company law rating more extensive than effective. As of mid-1993, the country had not engaged with the Kyoto Protocol, nor had a single business signed the UN Global Compact. Apart from that policy dialogue between sectors did not happen on a regular basis.

<b>For Croatia, strong points in the RCI study included:</b>	<b>Less strong points identified in the RCI study further included:</b>
<ul style="list-style-type: none"> <li>• Good workplace safety, employment laws and training;</li> <li>• Reasonable engagement with civil society;</li> <li>• Good contributions to public finance through corporate tax.</li> </ul>	<ul style="list-style-type: none"> <li>• Problems with business ethics and corruption;</li> <li>• Difficulties with public policy formulation;</li> <li>• A limited uptake of Environmental Management Systems.</li> </ul>

<sup>3</sup> For further information on this study see <http://www.iblf.org/resources/general.jsp?id=48>

<sup>4</sup> The Responsible Competitiveness Index (RCI) is a tool to help examine whether business responsibility has a positive impact on national, regional and sectoral competitiveness. It was developed by the London-based Institute for Social and Ethical AccountAbility and a consortium of 10 international bodies making up the Responsible Competitiveness Consortium ([www.responsiblecompetitiveness.org](http://www.responsiblecompetitiveness.org))

## **2.2. The policy- and instruments-building phase**

In November 2004, UNIDO organized a multi-sector workshop on the “*Development of Responsible Business in Croatia: The Need for a Comprehensive Policy Framework*” (see Annex II), in cooperation with the Government of Croatia and the Croatian Cleaner Production Center in Zagreb. This workshop discussed – based on the preliminary research findings – how to develop a comprehensive policy framework for responsible business, building on the progress made to date by individual businesses and multi-sectoral partnerships.

In this session, participants also discussed international and Croatian evidence that responsible business practice can improve quality of life, enhance the environment, and build competitiveness, making individual businesses more productive, sectors and clusters more innovative and overall economies more attractive.

The meeting confirmed a recent assessment that CSR is both promoted and practiced to certain extent throughout the Croatian business community. However, corporate social responsibility itself could not at this point be considered as a dominant trend in doing business in Croatia, nor did it significantly influence the public perception of the private sector's social role<sup>5</sup>.

### **Needs identified in the course of the workshop:**

- Building the business case for SMEs;
- Assistance in the elaboration of a ‘national responsible business strategy’ pulling together the wide range of existing policies and filling in gaps with new policy;
- Strengthening the legal framework to support and facilitate CSR initiatives; and
- Setting-up a national focal point.

With regard to national policy, tools and instruments (including benchmarks) for enhancing CSR practices in Croatia and reporting them, the project provided a variety of suggestions obtained through an interactive consultative process with the participation of the main national stakeholders. The suggestions of UNIDO in that respect can be summarized as follows:

The Croatian government should play a decisive role at each of the three levels of government involvement in CSR: 1. Creating an enabling environment for responsible competitiveness. 2. Promoting CSR good practises and, 3. Using CSR as a mechanism to achieve specific public policy goals. This can be achieved through mandating (legislation/standards), facilitating (incentives, platforms, etc.), endorsing (approval of private sector initiatives) and partnering (multi-sector).

With regard to the first level, the Croatian Government must strengthen the following key general enablers: corporate governance, ethical business practices, progressive policy formulation, building human capital, engagement with civil society and environmental management. The Croatian legal framework needs further coordination to help CSR initiatives flourish. In addition to legislation, the Government must ensure the full implementation of existing and new regulations. Other supportive incentives include building CSR requirements into public tenders and requiring all state-run businesses to produce responsibility reports on a regular basis.

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<sup>5</sup> IBLF, Academy for Educational Development & MAP Consulting, 2004

Beyond providing a basic enabling environment the government should support the emerging CSR movement in Croatia by endorsing and facilitating initiatives, which enable CSR best practises to achieve wider uptake by the country's businesses. At the same time, the Government should draw on the potential of multi-sector partnership approaches, involving business alongside civil society and public sector organisations. There is also a role for setting up a National Focal Point to undertake the following tasks:

- Run a CSR campaign;
- Undertake research activities;
- Maintain operational independence;
- Hold regular meetings on implementation of the strategy;
- Engage SMEs, by for instance with the Chamber of Economy Small Business Department and by providing case studies;
- Creating initiatives to encourage firms to join the UN Global Compact;
- Coordinate action from other stakeholders;
- Set up a CSR monitoring system;
- Promote public awareness (awards for best practice, better media coverage);
- Maintain a one-stop shop website for CSR issues in Croatia;
- Network with regional partners; and
- Represent Croatia in the CSR Europe network.

One of the key areas where CSR can contribute to a country's strategic development is through the recruitment of the private sector itself to overcome obstacles, which stand in the way of competitiveness and a sound business environment. Key issues, in which there are strong possibilities for multi-sector processes to enable the private sector to play a greater part in the national development strategy and competitiveness of the country are principally the following: European readiness (EU accession), responsible restructuring and enterprise development, anti-corruption and good governance and investing in Croatia's human capital.

The role that the Government can play in promoting effective CSR practices must be seen alongside the complementary actions of the private sector itself, as well as other stakeholders (NGOs, trades unions, media, academia, etc.). The traditional concept of the duty of these different players in the regulation of business behaviour is that NGOs lobby, government enacts and businesses react. However, individual businesses do not have to wait for such government action to realize the benefits of cross-sector working. For that reason UNIDO also worked closely with businesses, providing them with the necessary know-how and CSR tools and focused on addressing the issues that are material to their performance and their impact on society. This was achieved partly through demonstration projects as described in the next project phase.

### **2.3. The CSR cases-building phase**

All the experiences, findings and results acquired in the course of prior project activities were applied in this phase through UNIDO's *TBL (Triple Bottom Line)<sup>6</sup> Approach* to selected companies in order to demonstrate with practical examples the concrete benefits of CSR. The results achieved (together with recommendations for implementation, lessons learned and a list of experts) form a learning module that

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<sup>6</sup> The Triple Bottom Line approach, initially phrased by Elkington in 1999, goes beyond the traditional "financial bottom line", and includes two additional components of corporate disclosure and reporting: the "social bottom line" and the "environmental bottom line". While it is well understood that companies have to realize gains on its financial bottom line in order to be sustainable, the approach is based on the assumption that the bottom line, defined as the return on investment, should not only take into account financial capital, but include also "social capital" and "natural capital".



can be implemented by businesses with similar economic backgrounds (see Annex III). The project activities related with the introduction of CSR in the selected companies were implemented by the Croatian Cleaner Production Centre (Cro CPC), in cooperation with UNIDO experts, through training, technical support and consulting.

The methodology for the implementation of CSR improvements at company level, the TBL approach, combines the application of tools in three main areas: the *productivity domain*, the *social domain* and the *environmental domain*.

For this project, the three approaches were combined to contribute jointly to the enhancement of the triple bottom line. Work at company level started with a questionnaire directed to employees, aimed at assessing the current situation with regard to each of these domains and was followed by training and coaching to identify priority areas for the implementation of measures. Benchmarking was done with international, European and Croatian standards and practices to support companies in their work.

In the productivity field, the objective was to support a more efficient and systematic organization of the workplace and improve the efficiency of production processes, based on Total Quality Management. Developed in Japan, this method assumes that no effective and quality job can be done without a clean and safe environment and behavioral rules. This methodology allows to establish a participatory process of change aimed at improving the organization of the workplace and initiating continuous improvement within the production process. Coaching was provided on this methodology to support the companies in the implementation of certain measures.

In the social domain, emphasis was given on the internal dimension of CSR, related to enhancing employees - management relations, as well as working conditions through the promotion of enhanced labor standards.

In the environmental field, the aim was to introduce a cleaner and more rational use of the companies' resources and to train firms on methods to reduce waste and emissions at the source. Several of the participating companies had already worked with the Croatian Center for Cleaner Production on implementation of the cleaner production methodology in their processes. The companies were required to follow up indicators related to their environmental impact, based on UNIDO REAP software.

The *Responsible Entrepreneurship Achievement Programme (REAP)* (see Annex IV) is a software tool, which enables companies, in particular SMEs, to implement CSR practices in a cost-effective manner through benchmarking, analyzing and improving company performance in the financial, environmental and social areas. It can be seen as an operative guide for businesses, for both the analysis of the baseline situation and the documentation of the changes and improvements achieved. The programme is based on the ten principles of the UN Global Compact and is designed to prepare reports that enterprises can use to demonstrate to clients, business partners and other stakeholders the efforts undertaken to improve CSR concepts. The REAP lays a stable and solid ground for a broad implementation of responsible business practices, responsible supply chain management, and a national and local business-related policy framework, geared towards sustainable industrial development. REAP was introduced to the participating companies through training as a tool to document their performance and the measures adopted in the promotion of their triple bottom line initiatives.



### **3. REGIONAL CSR AGENDA AND FORUM**

Based on the Croatian experience, UNIDO has been asked to extend the CSR programme to other countries in the region, such as Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Romania, Serbia, Montenegro and Slovenia.

In order to discuss the framework for such regional programme, UNIDO, jointly with the Government of Croatia, the Croatian Cleaner Production Centre and the support of the Government of Hungary, organized a Regional Forum on Corporate Social Responsibility for Small Businesses in Central and Eastern Europe, which took place in March 2006. The Forum brought together political leaders, business executives and experts, to launch a broad discussion on policy and company interventions in the field of CSR. More specifically, intention was to generate commitments for creating comprehensive CSR policies allowing countries in the region to better use its potentials, to support existing initiatives in public-private cooperation, and to provide strong business cases to be examined by the business sector representatives.

The principle objectives of the Forum were to present and discuss the achievements of the Croatian CSR project and to explore possibilities for the extension of the concept to other countries in the region. The Croatian project team reported on attained improvements, especially in environmental area, where implemented principles of cleaner production resulted in reduction of waste and pollutants, and brought sound evidence that Improved performance in the fields of productivity, environmental protection and relations with employees generate financial benefits. Participants acknowledged with satisfaction the outcomes of the Project, and evidences on improvements provided by Croatian SMEs fostered a vibrant debate on modalities for the transfer of Croatian experiences to other countries in region. More specifically, this Regional Forum focused on the question how a regional approach can help to disseminate know-how and expertise on implementing CSR principles in small and medium sized enterprises.

Given the strategic importance of the CSR development in the Region, especially concerning the processes of the accession to the EU, the forum recommended the setting up a Regional CSR Centre, that serves as a platform to foster the exchange of CSR experiences and information on best practices.

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