Towards a Croatian Business Agenda for Corporate Social Responsibility

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1 Contexts

1.1 Business in Croatia

Croatian businesses have had a difficult period in the past decade, facing the economic burden of destruction by war, loss of market, transition and privatisation. They have had to respond by changing and restructuring to meet the demands of the free market, new legal requirements and society’s changing expectations about the role and responsibilities of business.

The most dynamic sector of the economy has been the private (non-privatised) sector made up mostly of Small and Medium Enterprises (SMEs). SME employment and productivity and the size and number of SMEs are all on the rise but still only account for around a third of the private sector’s productivity.\(^1\)

Croatia’s economic health remains vulnerable. Unemployment, though falling, is high and many large enterprises continue to generate losses defaulting on bank debts, and accumulating arrears with other businesses. Export growth remains elusive, and is propped up by subsidies to the ship-building industry. Inadequately established property and creditor rights and a poorly functioning judiciary as well as rigid labour markets, and barriers to entry for new firms, are considered the primary obstacles to greater economic competitiveness, growth and prosperity.\(^2\)

There is however, great potential for the Croatian economy to continue the path of renewal and growth it has experienced since the end of the conflict, as the government continues to address key issues hindering the country’s development. The prospect of accession to the European Union provides both an impetus for change and an opportunity for growth. In its 2003-2007 program, the Government of Croatia called for “The spirit of enterprise accompanied by social responsibility” to give Croatia a new impetus.\(^3\)

This paper examines the role that social responsibility of the private sector could play in this phase of Croatia’s development. Therefore, it is the aim of this paper to provide an information resource and common framework for understanding the possible roles and policy options available to various actors. This is done as a contribution towards developing a business agenda for CSR in Croatia through a participative consultative process.

1.2 The rise of corporate social responsibility

Corporate social responsibility (CSR) has become an increasingly mainstream concern within the international business community. CSR has been variously defined (see box) but essentially concerns “why, when and how business actively manages its social, environmental and economic aims and outcomes, as part of its business strategy, activities and performance”.\(^5\) It goes beyond compliance and very much includes businesses’ role in shaping public policy and regulations as well as

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What is Corporate Social Responsibility?

Corporate Social Responsibility is defined as the way that businesses meet society’s needs and expectations:

"The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.” (World Business Council for Sustainable Development)

“Not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders.” (The European Commission)\(^4\)
strategic and operational business decisions.

Whilst CSR is most often associated with large multinational corporations, socially responsible business practices are also a concern for small and medium sized enterprises. Many small companies address social issues as an integral part of their values and have strong links with their local communities. However others fear that greater demands for formalized social and environmental responsibility may overburden SMEs and put them at a competitive disadvantage with larger companies. Certainly, it is increasingly recognized that ‘responsible entrepreneurship’ by SMEs is likely to be a crucial element in the future of CSR. 6 Ex-state owned businesses are also key players in CSR developments across Europe. These companies face the challenge of making the transition to market competition, while meeting the demands that they continue to provide universal access to essential services and nationally significant employment.

The development of CSR has partly been driven by the same dynamics at work in Croatia: the roll-back of the state in favour of private enterprise, the challenge of successfully regulating business within a global marketplace and the need to harness the potential of the private sector to meet new social and environmental challenges. However, other specific drivers, which are not present in the Croatian context, have also been important in North America and Northern Europe in particular - for example strong NGO and consumer campaigns, the heritage of colonial ties and the threat of litigation e.g. the US Alien Tort Claims Act, which allows foreign victims of human rights abuses to sue the perpetrators in the US courts.7 A wide range of standards and initiatives has also been developed to promote and support corporate social responsibility - these provide a positive but potentially confusing menu of tools, some of which may well be useful in the Croatian context.

The most common approaches to CSR have been philanthropic in nature and have not related to the more significant impacts of the core business. However, as the EU’s European Action Framework for CSR notes, internationally there has now been a shift beyond traditional approaches to business responsibility towards a more strategic concept of CSR:

“Socially responsible initiatives by entrepreneurs have a long tradition in Europe. What distinguishes today’s understanding of CSR from the initiatives of the past is the attempt to manage it strategically and to develop instruments for this. It means a business approach, which puts stakeholder expectations and the
principle of continuous improvement and innovation at the heart of business strategies.”

Whilst CSR is often thought of as a list of issues from human rights to pollution and from involvement in education to equal opportunities, the issues that will be important in any one company, industry, or country, or at any one time, differ widely.

CSR management frameworks, such as the SIGMA process illustrated above, have been developed which build wider stakeholder concerns into the classic management cycle of “plan-do-monitor-evaluate”. These provide a structured way for companies to identify and manage their social and environmental impacts, and understand and reconcile the concerns of different groups of stakeholders within a cycle of continuous improvement.

The key difference with traditional management frameworks are the involvement of wider stakeholders at every stage: in defining goals, in operationalising them, and in assessing performance. Stakeholder dialogue, Multi-stakeholder partnerships and the development of externally validated standards for corporate behaviour have been the defining features of the recent development of corporate social responsibility.

CSR is a cycle of continuous improvement in which impacts increase as businesses move beyond basic compliance with standards and norms of good practise, and begin to innovate their business processes, products and relationships to solve social and environmental problems. Multi-stakeholder partnerships involving clusters of businesses, government and civil society organisations have emerged as one of the key ways in which CSR is able to move beyond philanthropy and harm minimisation, towards creating value both for the business community and for stakeholders.

1.3 Socially responsible business practise in Croatia

A recent survey of CSR in Croatia by The Prince of Wales International Business Leaders Forum (IBLF), in collaboration with the Academy for Educational Development (AED) and MAP Consulting found that:

“While corporate social responsibility itself cannot at this point be considered as a dominant trend in doing business in Croatia, nor does it significantly influence the public perception of the private sector’s social role, this research shows that CSR is both espoused and practiced throughout the Croatian business community.”

The study, which looked at CSR practices and promoters by businesses, business organisations, public sector and voluntary sector bodies, found that there were

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Standards relevant to CSR in Croatia?

A range of standards has been developed to provide guidance on key CSR issues and processes. These include:

- AA1000 Framework
- Amnesty International’s Human Rights Guidelines for Companies
- CERES Principles
- EU Eco-label
- European Eco-Management and Audit Scheme (EMAS)
- European Foundation for Quality Management
- Global Reporting Initiative Guidelines
- Global Sullivan Principles
- ISO14000 / 9000
- OECD Guidelines for Multinational Enterprises
- SIGMA guidelines
- The UN Global Compact Principles
- Transparency International Business Principles
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 are immediately recognisable as socially focused; these include sponsorship of community sports and cultural facilities, and the participation of workers in corporate management processes. Indeed, while ‘CSR’ is an imported term, many of its concepts and practises are already familiar to Croatian business community, as the survey highlighted:

“It is interesting that many of the Croatian companies interviewed, and those international companies with a largely Croatian management, find the concept and practice of CSR relatively new, but have a much longer-term familiarity with, and commitment to, ‘ethical business’, ‘care for the local community’, and ‘production quality’.”

Linkages with international organisations and companies, whether through trade, foreign direct investment (FDI) or specific CSR initiatives have been an important source of cross-fertilisation with local strains of socially responsible business practise - bringing in strategic perspectives, tools and resources from outside. The Croatian Business Council for Sustainable Development (HPSOR) for example, has been set up through links with the World Business Council for Sustainable Development, while UNIDO is working together with Croatian businesses in propagating cleaner production methodologies. International companies with a presence in Croatia such as Coca-cola, Ericsson and Holcim are also bringing with them best practises in CSR such as social reporting, ISO 14001 Certification and community engagement.

1.4 CSR and the EU
The prospect of integration into the European Union has raised the profile of CSR in Croatia. While the EU does not require specific CSR measures as a condition of accession, it does include candidate countries within its CSR strategy, which focuses on a facilitation role.

Economic reform and European integration will give the Croatian economy the opportunity to grow through greater market access to the EU and FDI. However, in order to take advantage of this opportunity Croatia will have to compete with others in the EU, and outside, for foreign investment and export markets. Recent research published by the World Bank highlighted the growing importance of CSR considerations for multinational companies in deciding where to operate -- over 80% of companies surveyed indicated that CSR performance was one of the factors they consider in choosing between potential locations and business partners.12

<table>
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<tr>
<th>How does the EU support Corporate Social Responsibility?</th>
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<td>• Researching and publicising the positive impact of CSR on business and societies;</td>
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<td>• Facilitating exchange of experience and good practice between enterprises;</td>
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<td>• Promoting the development of CSR management skills;</td>
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<td>• Fostering CSR among SMEs;</td>
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<td>• Facilitating convergence and transparency of CSR practices and tools;</td>
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<td>• Organising the EU Multi-Stakeholder Forum on CSR;</td>
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<td>• Integrating CSR into Community policies.</td>
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1.5 Towards a Croatian business agenda for CSR

The demands of export markets and the involvement of international organisations in the development of socially responsible business practice are important external drivers for adoption of CSR processes by Croatia. But even without these external pressures, Croatia would still have to answer the question ‘what is the role of business?’ The issue of the relationship between business and society is at the heart of the transition that Croatia is undergoing. The most useful approach to CSR will be one that is orientated towards meeting the critical challenges facing Croatia’s economic, environmental, and social development.

This paper focuses on the critical challenges to economic and social development in Croatia and identifies the potential for CSR strategies to meet the needs of Croatian businesses and stakeholders in these areas. It highlights potential public policy options for promoting CSR in the Croatian context, drawing on the experience of other countries.
2 CSR in Focus

A number of excellent guides to the development and practise of corporate social responsibility already exist.\textsuperscript{13} This paper will not attempt to repeat such a comprehensive introduction to the field, but will focus on experiences from other countries within Europe, which illuminate key issues that are particularly relevant to the development of CSR in Croatia. These are:

- CSR development in other economies in transition.
- The impact of CSR on SMEs.
- The interaction between CSR and national level economic competitiveness.
- The role of government in promoting CSR.

2.1 CSR in economies in transition

International CSR developments, and in particular those relating to economies in transition offer a source of inspiration for Croatian CSR. These countries share many of the legacies of central planning, and have suffered from obstacles that have hampered the development of enterprise, in particular:

- A shortage of trained and experienced commercial managers.
- Institutional inadequacies in legal, financial and regulatory systems.
- Inadequate physical infrastructure, particularly in rural areas and poor urban districts.
- Underdeveloped environmental protection processes and technologies.

The transition process itself has brought with it high social costs: unemployment, corruption, the loss of social protection and healthcare. CSR is seen as the way in which companies can contribute to overcoming these obstacles to development and to mitigating the social costs of transition.

The development of CSR in Central and Eastern Europe (CEE) has been driven by a range of factors, in particular:

- Openness to the global economy and the associated growth in competition.
- Need to respond to societal expectations and stakeholder demands.
- Need to overcome obstacles to enterprise development.
- Growing importance and vulnerability of knowledge, reputation and other intangible assets.
- External pressure from growth of media information, NGOs, and civil society lobbies.
- CSR approaches linked to foreign direct investment.

At the same time there is mistrust between different sectors and a lack of understanding of how business can add value.

For individual companies, the business case for CSR can be thought of as being at three levels:
1. **Reputation protection;** Pressure from NGOs, consumers, media, the state and other public bodies leading to responsive action to avoid potential financial loss and protect brand image.

2. **Cost benefit;** Tangible financial gains, for example from improvements in productivity or reducing energy and material inefficiency, which can be offset against the costs involved.

3. **Strategic;** CSR as a core part of a company’s development strategy, such as a fundamental shift in products, CSR as integral to brand identity or as a route for learning and innovation.\(^\text{14}\)

CSR efforts have often focused on the first two levels. However, it is increasingly recognised that community engagement and the need to address the challenges of sustainable development can be powerful enablers for business innovation - generating new insights, products, business models and management strategies.\(^\text{15}\)

These three levels of business case concern *why* companies engage in CSR. Three spheres of CSR practise and influence can also be identified which concern *how* companies put their commitment to responsibility into action:

1. **Philanthropy and social investment** - donations in cash and in-kind to ‘good causes’, provision of facilities and expertise to community, for example: providing sports facilities for local people.

2. **Core business practises** - changing the way a company operates to improve its social and environmental impacts, for example: introducing cleaner production processes, working to end discrimination at work.

3. **Institution building and public policy influence** - contributing to public policy dialogue in a transparent and ethical manner, helping to build the institutions necessary for effective development of markets and broader society e.g. working in partnership to develop business education.

However, as in other countries, the most common mode of CSR in Europe’s transition economies has been philanthropy:

> “When international companies first started to explore opportunities for their businesses in CEE, building relations with different stakeholders was problematic. In an unfamiliar environment, especially one where expectations of society were difficult to gauge because the norms of the most developed consumer-driven societies were not yet established, companies often sought to import and wholesale processes and behaviour patterns from elsewhere... With most companies turning to the traditional philanthropic model to express their commitment to society, the cheque signing mentality demanded little more than choosing a ‘deserving’ cause - the orphanage or local sports team being particularly popular.”\(^\text{16}\)

Nevertheless, broader approaches to CSR are emerging which encompass changes in core business operations and public policy influence, and which develop the business case for action more strategically.

The examples below highlight just a few of the approaches taken by businesses large and small, and in partnership with others, to address social and environmental problems while capturing business benefits for their own company. They have largely been associated either with the involvement of international...
organisations concerned with aspects of CSR, or multinational corporations with established CSR programmes.

Important areas where private sector involvement can play a key role include:

- **Good Governance and anti-corruption strategies.** Underdeveloped institutional and legislative frameworks in transition economies have been a breeding ground for cultures of poor governance and corruption. The effects of corruption go beyond the direct burden of facilitation payments; "The abuse of political power for private gain deprives the most needy of vital public services, creating a level of despair that breeds conflict and violence. It also hits the pockets of taxpayers and shareholders worldwide." Corruption is a powerful disincentive to business development both by local entrepreneurs and international investors. At an international level Transparency International has launched its *Business Principles for Countering Bribery* as a reference to good practice in countering bribery. The UN Global Compact is to introduce a ‘tenth principle’ covering corruption and transparency. At a national level multi-stakeholder initiatives such as the IBLF/Merck/World Bank Corporate Governance Programme in Poland are spreading international best practise.

- **Enterprise support and technology transfer.** Transfer of management skills and technological processes are one of the most significant ways in which international businesses are able to contribute to the economic and social development of economies in transition through foreign direct investment and trading links. The Pressalit Group/Kagi cooperation in Lithuania and Diageo in Poland are two examples of single companies investing in their supply chain to bring sustainable benefits for both supplier and purchaser. The Shell Livewire programme in Hungary is an example of a multinational company assisting in the development of a culture of enterprise in its host country by providing support for young entrepreneurs.

- **Responsible Restructuring.** Privatisation and modernisation of industries in transition countries has led to industrial re-structuring and the loss of the job-for-life provided by employers. The responsibilities of companies in relation to employees in terms of notice periods, union negotiation, redundancy pay etc., are largely governed by the legal framework, however, good practise in terms of ‘socially responsible restructuring’ can help to achieve necessary change while mitigating the social costs. Continuous social dialogue both with labour representatives and the local community is key to a building up trust and developing practical solutions. Successful programmes have included training, SME creation and job search support.

- **Diversity and social inclusion.** Business, as an employer, service provider and trading partner has an important role to play in enabling people marginalised from society. Many companies are developing policies to ensure that groups such as, women, ethnic minorities, and the elderly are not discriminated against in the workplace and in the marketplace. The Marriott Hotel in Warsaw highlights an example of a company improving its services for people living with HIV/Aids by turning what could have been a simple philanthropic gesture as a platform for staff development and training and more long-term impact.

- **Cleaner production.** Some of the strongest business-case evidence for benefits from social responsibility in economies in transition can be seen in environmental process improvements, which begin to give quick returns in terms of cost savings. Examples can be seen in small and large companies throughout the region. A number of initiatives have been developed to
facilitate and recognise such changes. For example, the Clean Business Program in Poland brings together SMEs and local NGOs to work in long-term partnerships to address environmental issues. The Czech Business Leaders Forum Health Safety and Environment Award is a business-led initiative to give recognition to companies that have improved their environmental impact and to enable best practise to be spread.

**Clean Business Program, Poland**

The Clean Business Program supports small and medium-sized enterprises in their efforts to improve environmental performance, by helping them reduce production costs and environmental impacts and so increase competitiveness.

The Program works through Clean Business Clubs, which bring together companies from a defined geographical area and enables them to work in long-term projects with NGO and local government partners. Member companies receive assistance in the form of advisory and information services, as well as training.

The Clean Business Program is a partnership initiative of the Polish Environmental Partnership Foundation, Groundwork (UK), BP and all member companies.


**Business Leaders Forum Health Safety and Environment Award, Czechoslovakia**

The annual Health, Safety and Environment Award is awarded by the Czech Business Leaders Forum to organisations that positively influence the natural and living environment in its vicinity. The Award is given to the organisation that can prove the best measurable contribution to the improvement of the local natural or work environment or health either of its employees or local inhabitants, or any other improvement that contributes to the global environment improvement. Projects undertaken only for compliance with the law, or under mandate are excluded from the competition.

**Corporate Governance Programme, Poland**

The International Business Leaders Forum in Poland brought together a range of organisations from the World Bank to local business leaders in a survey and dialogue on the issue of corporate governance and the problems of corruption. They concluded that one of the main reasons for the high level of corruption is that there is a lack of understanding of the damage it can cause. Solutions suggested included more materials in the Polish language to raise awareness of the problems and, sector and regional specific activities to address the particular problems of different industries.

The World Bank, Deloitte & Touche, with IBLF Poland’s input, agreed to launch an anti-corruption and bribery education programme for Polish business managers and public sector employees which will be run on industry specific lines as well as addressing governmental workers. Plans include surveys of governance and corruption, a Code of Practice, training programmes for managers, civil servants and journalists and educational visits.

**Pressalit Group: Investing in the supply chain, Lithuania**

Pressalit Group is a Danish company that sells toilet seats and personal care products. At the end of the nineties, Pressalit began looking for an alternative supplier of wooden toilet seats. The search for a new supplier was concentrated in the Baltic States where they selected Kagi - a small furniture factory with a staff of 15, housed in an old poultry farm in Lithuania. Although below Danish standards, Kagi’s operations, with respect to safety and working environment, were in accordance with Lithuanian legislation.

Over time, Pressalit helped Kagi to raise both the standard and scale of their operations.
while securing itself a supply of high quality, reasonably priced products. Today Kagl employs over 50 people and is a producer and exporter of high quality wooden products.

**Eletpálya - Shell Livewire programme, Hungary**

Shell’s Livewire youth enterprise programme was set up in Hungary as ‘Életpálya’ in 1993. The programme aims to assist in developing an advanced market economy and to reduce unemployment. The project involves the Hungarian business community who form partnerships with young entrepreneurs to help create an environment that encourages and supports starting your own business. Életpálya provides young people with a range of training and business management support from an enquiry services to residential weekends to financial support and regional and national start-up awards.

**Diageo, Poland**

Diageo in Poland sees its role in technology transfer and promoting national competitiveness through its relationship with its suppliers as integral to its impact on society. The business case is clear: good business relations with the producers of Diageo’s spirits and packaging are vital to its brand quality and reputation.

When Diageo first decided to produce its premium brand Vodka in Poland it worked with a local spirit producer to upgrade their technology for bottling, water demineralisation, distillation and filtration. This has helped raise standards of vodka production and bottling at the plant, increasing the quality of its other brands thereby increasing its competitiveness. Diageo regularly monitors supplier performance through independent testing, shares the results of this and discusses areas for improvement.

The company recognises that cash flow is of prime importance to its suppliers and has a policy of paying supplier invoices within 20 days of presentation.

**Warsaw Marriott Hotel, Poland**

The Marriott chain of International hotels has a long-standing involvement in promoting HIV/AIDS awareness and contributing to initiatives to support people living with HIV/AIDS. In August 1999 the Warsaw Marriott hosted the 9th International Conference for People Living with HIV/AIDS. The conference was attended by almost 500 delegates from over 60 countries, most of who were HIV positive. The hotel assisted the conference by providing some complementary rooms, reduced conference rates, free equipment hire and reduced catering costs.

However, the involvement did not stop with this philanthropic gesture. The hotel took the opportunity to provide HIV/AIDS education to staff to increase their awareness and sensitivity to these issues both for the conference, for their own information and for future guests. The hotel has since made a commitment to undertake a longer-term HIV/AIDS education program to continue to train its full and part-time staff. The value of this program to the hotel is in the prevention of HIV/AIDS among the workforce and a more professional approach to HIV/AIDS issues with regard to service provision to future guests of the hotel.

2.2 CSR and SMES

Whilst much discussion of CSR centres on large, multinational companies, there is now an increasing focus on responsible business practice as it relates to smaller enterprises. Just as large companies can both contribute jobs, products and innovation to society and can impose unaccounted costs such as pollution and unsafe working conditions, so can small businesses. However, mainstream ‘CSR’ is not viewed as relevant by many small business owners - it appears complex, costly and risky for companies which lack the resources, skilled staff and technical expertise to enact sustainability strategies and the big brand reputations to benefit from them.

However, SMEs may engage in “Silent CSR” reflecting their tendency to be less mobile than larger companies - making a more long-term investment in the local community and have more local civil and cultural links. Furthermore, the existence of a vibrant SME sector is associated with a growing economy.

Previous work by UNIDO identified impact pathways in which CSR can be both a risk and an opportunity for smaller businesses:

- **Corporate Social Responsibility as a condition of business with larger companies** - international companies have integrated stipulations about working conditions, environmental management and human rights protection into their decisions about companies they will do business with and countries they will invest in. Companies and countries, which can demonstrate that they meet these conditions, can therefore gain competitive advantage in attracting foreign direct investment and contracts to supply international companies.

- **SME links as a CSR approach** - Some big companies recognize that one of the key ways that they can have a positive impact on society is by helping to create a multiplier which spreads the benefits of enterprise more widely throughout a country through trading with small businesses. A number of individual company and industry sector ‘business links’ programmes have been developed which help SMEs gain access to markets, finance, training, physical infrastructure and business support services. TNCs contribute management expertise and training to boost the skill and standards of local companies and commit to stable trading relationships to help these businesses grow.

- **CSR that fosters an enabling environment for enterprise** - Even those SMEs, which do not have direct business relationships with major companies, may benefit from their philanthropic, community involvement, partnership and public policy influencing approaches. Where CSR helps to develop education, health, infrastructure, finance and other enabling foundations for entrepreneurship, smaller companies and entrepreneurs can benefit.

- **CSR Market Shifting.** A number of CSR initiatives aim to shift the production or marketing strategies of whole markets or industry sectors through labelling, socially responsible investment, and shifts in demand. Probably most relevant for Croatian businesses are market shifts towards greater environmental responsibility and market demands for environmentally friendly products and organically certified agricultural products.
A number of CSR organisations around Europe, are now focusing on how to promote social responsibility in SMEs. Initiatives like the UK SME Consortium (see box) work through a combination of awareness raising, working with business schools and business advisors and developing how-to-guides. Others are working with major companies to develop business-links, mentoring and supply chain sustainability, which aim to improve the competitiveness and social impact of clusters of suppliers and distributors.

An EU funded project aims at stimulating synergies amongst SMEs and supporting organisations across Europe, to identify and exchange a critical mass of best practices of SMEs involvement in socially responsible practices and to create a how-to guide on Social Responsibility for SMEs for Europe-wide dissemination.

2.3 Responsible competitiveness

At a national level, it has been proposed that corporate responsibility can contribute to competitiveness. This can be through an aggregation of the individual business benefits described, but also clustering and market-wide effects that enable businesses to learn more readily and avoid the problem of ‘free riders’ associated with individual business action and through the development of more flexible institutions.  

Responsible competitiveness occurs when an economy’s productivity and overall competitiveness is enhanced by businesses taking explicit account of their social, economic and environmental performance. Such a virtuous circle has been proposed by Michael Porter among others (Porter & Kramer, 2002). Anecdotal evidence has pointed to the possibility that clusters of responsible businesses and partners can deliver competitive advantage to their host nations. Recent work by AccountAbility and an international consortium to understand and measure the concept of ‘responsible competitiveness’ at a national level identified three distinct levels of impact on competitiveness:

1. **Aggregation of micro-level business cases** - individual enterprises gain benefits in terms of cost savings, market share, market development etc., from aligning their social and environmental performance into their business strategy.  

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**The UK SME Consortium**

The UK SME Consortium aims to raise the competitiveness and profitability of small and medium sized businesses in the UK by promoting effective corporate social, environmental and community management. Its plans include:

- Compiling comprehensive information supporting the business case for SME engagement.
- Developing a Case Study Library to demonstrate responsible business practice by SMEs.
- Providing a comprehensive database of relevant contacts, services and links.
- Providing supporting data that can be used by business advisors, CSR advocates or entrepreneurs etc.
- Providing resources relevant to SMEs.
- Promote SME CSR through the media.
- Provide a toolkit of information, links and explanations of existing initiatives and standards mapping the commonalities between each one and their context, audience and time-scales, such as Benchmarking Indexes, AA1000, and EFQM Excellence Model.
- Providing a database of speakers on issues surrounding SMEs and CSR.
- Working with business schools and other research organisations to develop relevant tools and evaluation.

Source: Introduction to the UK SME Consortium - November 2002
2. **Corporate responsibility clustering** - collective corporate action caused by civil pressure, market openings, or governmental regulation can lead to more efficient ways of operating, in particular by addressing ‘free rider’ issues.  

3. The broader effects of **corporate responsibility practices on institutional flexibility and innovation** - corporate responsibility builds skills and relationships across sectors. This enables business to learn more readily from social shifts, and public sector and civil society organisations to work more effectively with business on a range of issues.

Their research tended to confirm the hypothesis, that corporate responsibility is good for competitiveness; showing for 51 countries a strong correlation between measures of competitiveness and corporate responsibility at the national level.

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**Measuring Responsible Competitiveness**

The researchers constructed a national-level index of corporate responsibility (The National Corporate Responsibility Index (NCRI) made up of 21 indicators covering the seven broad aspects of a nation’s environment considered to be core in defining whether it is enabling or disabling of corporate responsibility practices:

1. Corporate governance structures:
2. Ethical business practices
3. Progressive policy formulation
4. Building human capital
5. Engagement with civil society:
6. Contributions to public finance:
7. Environmental management

(See Section 3.5 for Croatia’s rating in the National Corporate Responsibility Index).

On this basis, the researchers included corporate responsibility alongside other drivers of competitiveness such as technology, public institutions and macroeconomics to form a **Responsible Competitiveness Index (RCI)**. They found that the RCI was a stronger predictor of economic growth than mainstream competitiveness indices. In short, there is a strong argument to be made that corporate responsibility is a driver of sustainable economic growth.
2.4 Public policy and CSR

Effective CSR depends on changing the relationship of government and the private sector from one of clienteeism and lobbying for protection, to one in which each sector is able to pursue its business, while legitimately inputting to the other’s development. However, it is not simply a case of ‘hands-off’ government public policy playing a positive role in promoting and enabling CSR development.

There has been much debate about the role of legislation and public policy in developing corporate social responsibility. While the ‘voluntary vs. mandatory’ debate rages on, in practise there are dynamic linkages between voluntary approaches and regulation already affecting the ongoing development of CSR. Whilst the European Commission defines CSR as going ‘beyond compliance’ it recognises the role of public policy in creating an enabling environment:

“Public policy also has a key role in encouraging a greater sense of corporate social responsibility and in establishing a framework to ensure that business integrate environmental and social considerations into their activities...Business should be encouraged to take a pro-active approach to sustainable development in its operations both within the EU and elsewhere.”

Government involvement in CSR can be seen occupying three distinct levels:

Firstly, there is its fundamental role in providing the basic enabling environment for good stakeholder relationships and governance that underpin both economic development and the development of CSR. These include the rule of law, effective justice system, independent media, good corporate governance and open and timely consultation about laws, as well as the quality of the business environment including infrastructure and human and social capital. These are the issues, which the ‘Responsible Competitiveness’ index focuses on, and are also the focus of the EU’s Aquis Communitaire.

Secondly, there are specific interventions by government aimed at promoting the spread of CSR best practice. Government action can encourage more companies to undertake CSR commitments by increasing the incentives or decreasing the costs of making these changes. This does not always mean tax-breaks or regulation but may mean promoting the uptake of CSR standards and tools, or funding or endorsing support organisations, which reduce the need for each individual company to ‘redesign the wheel’ in developing their approach to CSR.

Finally, there are strategic partnerships, where governments recognise the need to work with business and civil society organisations to solve social and environmental problems and reach public policy goals at a regional or national level.

Within these three levels of involvement, work for the World Bank provides a useful classification of specific public sector roles in relation to CSR:

- **Mandating**, where governments implement, through legislation, minimum standards of business performance. In France, the government has implemented the New Economic Regulations that require stock-market listed companies to include social and environmental information in their annual reports.

- **Facilitating**, where the government will create incentives and a platform for the development of CSR. This has been the main approach taken by many European governments. For example, in Austria the government together with the national employers and labour organisations has launched “CSR Austria”. It aims to provide a forum for discussion and formulation of Austrian CSR
Guidelines and to provide companies with practical information to enable them to put CSR into practise. Other national governments have gone further in putting in place financial incentives for CSR performance - for example the Dutch Government makes familiarity with the OECD guidelines for Multinational Enterprises a condition of its financial support for international trade promotion, investment and export credit insurance.

- **Endorsing**, where governments lend their stamp of approval to private-sector initiatives and actions. This may be in ad-hoc public speeches or more formally. For example, The Belgian Government has developed a social label that certifies supply chain labour standards of individual companies.

- **Partnering**, where the government is a direct partner in a multi-sector partnership to engage the private sector in addressing a specific social issue. In the UK, the government’s National Strategy for Neighbourhood Renewal, seeks to engage businesses in the social and economic regeneration of deprived areas by involving them in Local Strategic Partnerships, which bring together key public, private and community organisations to develop Local Neighbourhood Renewal Strategies.

At the European level, the Community’s strategy to promote CSR is based on a number of principles, which focus largely on the second level:

- Recognition of voluntary nature of CSR;
- Need for credibility and transparency of CSR practices;
- Focus on activities where Community involvement adds value;
- Balanced approach to CSR, including economic, social and environmental issues as well as consumer interests;
- Attention to the needs and characteristics of SMEs;
Support and compatibility with existing international agreements and instruments (ILO core labour standards, OECD guidelines for multinational enterprises)

However, more broadly, through the EU Social Fund and other initiatives, the EU promotes ‘New Social Partnerships’ as a key problem-solving approach to addressing social exclusion in Europe. \(^\text{26}\)
3 CSR in Croatia

3.1 The need for sustainable competitiveness

Economic growth and the more equitable distribution of the benefits from such growth are the only ways to close the gap between current low incomes and the economic and social aspirations of the people of Croatia.27 These dual aspirations of competitiveness and social cohesion are reflected in Croatian Government’s policy programme28 and in the EU's strategic goal “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”.29

The key role for the Government of Croatia in enhancing business competitiveness is strengthening the underlying conditions for business development, in particular:

- Stable, progressive and predictable laws and institutions;
- Efficient labour and financial markets;
- Macroeconomic stability.

These have been recognised and are being addressed through the ongoing process of transition, agreed within the terms of the Stabilization and Association Agreement (SAA) signed with the European Union in October 2001 and through the Government of Croatia’s ongoing policy programme.

As the government addresses these issues it will create a better business environment, to attract foreign investment and enable local enterprises to compete internationally. The ensuing competitive pressures will involve extensive enterprise restructuring as well as the creation of new jobs and new businesses.

What is often missing however, when discussing competitiveness is the contribution of a more socially responsible private sector. However, recent international evidence, as highlighted in the previous chapter, suggests that corporate responsibility can be a key driver of national competitiveness.30

Croatian Competitiveness

Croatia is middle ranked among 102 nations in terms of its potential for sustained economic growth, according to the World Economic Forum’s latest Growth Competitiveness Index. As a middle-ranking country it sits together with countries as diverse as Namibia, Brazil and India. Within South East Europe (SEE), it ranks below prosperous neighbour Slovenia (rank 31st) but well ahead of Bulgaria (64th) and Romania (75th).

According to the index, Croatia’s economic growth potential is driven mainly by its strong technological performance, but this is constrained by the quality of the macroeconomic environment, and, even more, by the standard of the country’s public institutions. The National Competitiveness Council (NCC), an advisory body uniting representatives of business, government, unions, science and education, was set up in February 2002 to promote competitiveness and to tackle “the country’s relative underdevelopment relative to comparable countries, and the need for nation-wide modernization to secure economic progress and accession to the European Union”.

Although Croatia’s competitiveness rank improved somewhat, from 58th in 2002 to 53rd in 2003, the NCC recognises that there was in fact “a decline in growth competitiveness and microeconomic competitiveness. The most problematic aspects of doing business in Croatia have not changed. These are: inefficient bureaucracy, tax regulations, corruption and high tax rates.”

In January 2004, the NCC responded to the challenges implied by the World Economic
Forum’s international benchmark by setting ambitious economic and social goals for the country, notably to double GDP per capita in ten years, to boost exports and to significantly reduce unemployment. To achieve these goals, it put together 55 policy recommendations, covering seven priority areas: education; rule of law; cost and price competitiveness; innovation and technology; the development of small and medium enterprises; regional development and the building of clusters; and the development of positive attitudes and leadership.

3.2 Shifting stakeholder relationships

The key challenge for the business community is to manage the shifting relationships with their stakeholders that transition and exposure to the global markets necessitate:

- **Workers** - balancing responsibilities to workers in traditionally protected industries, such as shipbuilding, with the need for greater flexibility in employment and the problem of unemployment. Managing restructuring processes to ensure that they are not destabilised by the impacts of job losses and that ex-workers are assisted in the transition process. Improving employment practices with regard to traditionally unprotected and disadvantaged workers (unofficial, casual labour, part-timers, ethnic minorities, women). Retaining and recruiting a skilled workforce, particularly once Croatian nationals gain the right to work throughout Europe.

- **Consumers** - developing a greater consumer orientation that enables enterprises to move beyond basic manufacturing to undertake more high-value activities such as design of products, marketing, logistics, post-sale services and technology development and to enable growth in key export-earning sectors such as tourism.

- **Government and regulators** - developing a relationship with government not based on clienteeism and the search for bailouts, subsidies, favours and protectionism but on the legitimate input of businesses into the development of government policy and effective working partnership.

- **Investors** - attracting international investment requires good corporate governance, quality management, risk management and increasingly, compliance with international social and environmental standards. SMEs are likely to be a significant source of growth. Ensuring that investment capital is accessible to small business entrepreneurs will also be crucial.

- **Citizens and communities** - Particularly for ex state-owned businesses and public services the challenge is to renegotiate relationships and expectations with citizens and communities. This may mean changes in traditional responsibilities such as providing sports facilities and new ones, such as greater business involvement in the school-to-work transition.

These are nationwide issues affecting both government and the private sector, but they are played out at a micro-level in the web of relationships with different stakeholders, which each individual business must manage. If businesses are able to successfully renegotiate and manage these relationships they will be able to translate a better business environment into productivity gains. However, conversely, there is a danger that if these relationships are poorly handled, the resulting instability or the entrenchment of vested interests could form a political pain barrier that would undermine the stabilisation and adjustment measures necessary for economic growth.
3.3 The business case for CSR in Croatia

The effective development of CSR depends on individual companies being able to identify a business case for investing time and resources in this area. The business case for engaging in CSR differs from company to company and industry to industry. However, some broad trends can be seen in Croatia, which affect the motivation and ability of companies to put CSR into practice:

- **Reputation building and protection.** This appears to be the main driver for CSR in Croatia at the present time - in particular the reputational benefits of supporting local community organisations and events. However, such short-term reputation-focused CSR has its limitations; in this case limited external attention from NGOs, consumers, the media, and public bodies make this unlikely to be a major driver of the next stage of development of CSR in Croatia beyond this type of philanthropic action.31

- **Cost benefit.** Tangible financial gains that can be offset against the costs involved are likely to be a major driver of social and environmental improvements. These will potentially include both technical solutions such as Coca-Cola Hrvatska’s redesign of its wastewater treatment system and, management changes such as those associated with ensuring that companies are able to attract, retain and develop high quality staff. A lot of work is going on internationally, focusing on the cost/benefit business case - for example through the UN Global Compact and the Ford Foundation’s work on Win-Win partnerships. This can help to identify and highlight business case benefits, which could be exploited more widely. Sector-wide and multi-sector partnership collaboration reduce the cost of undertaking CSR initiatives by sharing best practise and ensuring that each individual company does not have to ‘reinvent the wheel’ in dealing with common problems.

- **Strategic.** If companies are able to develop strategic approaches to CSR that enable learning and innovation and are core to their development strategy, this has the potential to provide a greater level of contribution to Croatia’s economic growth and transformation. Key examples here would include innovative approaches to restructuring such as those taken by Erste Bank and Holcim Croatia in helping redundant workers to find new jobs, or to set up their own businesses.

A further driver in the Croatian strategic business case for CSR are the incentives for businesses that go beyond compliance with the current consumer, environment and employment laws, in terms of preparedness for the new requirements, which will come into force over the coming years as the country adopts the *acquis communautaire* of the European Union.

Obstacles to greater CSR and multi-sector partnership working include a culture of clienteeism on the one hand and an underdeveloped NGO sector on the other. As one commentator on this issue has pointed out, the practice of corporate giving, and by extension CSR, cannot be viewed in isolation from the strong influence of politics and the government on all social and economic processes in Croatia.32

As in any case of voluntary action, one of the key obstacles to widespread impact is the ‘free rider’ problem, in which there is not enough motivation for every company to shoulder their portion of the costs of changes that will benefit all. One key example of this is in addressing corruption. Whilst it would be better for the economy as a whole if economic and political decisions were not swayed by facilitation payments, the pressure on individual companies and individuals to ensure the smooth running of their business remains strong.

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The business case for CSR by SMEs is more fragile, and cannot simply be thought of as a cut-down version of the big-business approach to CSR. With tighter margins, less resources, and fewer opportunities to gain in terms of reputation, SMEs need clear short-term benefits in terms of cost-savings or sales increases in order to make CSR-led changes. However, as the work of UNIDO highlights, SMEs can solve common problems and take advantage of market opportunities through inter-enterprise clustering and collaborative relations with local support institutions.

3.4 What are companies in Croatia doing in relation to CSR?

The recent Overview of Corporate Social Responsibility in Croatia by the Academy for Educational Development, the Prince of Wales International Business Leaders Forum and MAP Consulting Inc., identified key areas in which CSR practices are being developed by companies in Croatia, starting most close to home with workplace practices and radiating out through impacts on suppliers, local communities and the public policy environment:

- **Investing in training and development** both by developing in-house training capacity and working together with universities and colleges to develop business-relevant training and education programmes more broadly. The Pharmaceuticals company, PLIVA is one example.

- **Establishing sports and cultural associations** and other facilities for staff and their families are a well established Croatian business practice, aimed at benefiting staff morale.

- **Developing innovative approaches to restructuring**, beyond offering redundancy payments. These have focused on assisting employees find new jobs or create their own businesses. Erste Bank, Ericsson and Holcim Croatia have all developed retraining, reemployment and entrepreneurship programmes to mitigate the impact of job losses.

- **Taking a more systematic approach to diversity**. Some larger companies are beginning to address barriers to employment for women, ethnic minorities, disabled people and other marginalised groups.

- **Developing cleaner production systems**. The issue of environmental management is probably the most well established CSR issue in Croatia. Most large companies report some investment in eco-efficient production, waste management, environmental accounting or pollution control.

- **Investing in value chain development** is a key way in which large companies can have a broader positive impact outside of their own workforce. Large Croatian companies and multinationals are investing in improving their suppliers’ and distributors’ technical, marketing, and management capacity. Examples range from the Croatian dairy company, Lura to the multinational, Microsoft.

- **Ensuring transparent and accountable business practises**. Many international companies have their own codes of practise about business, however, this has not been a high profile issue for the private sector in Croatia. This is though now being addressed by some of the business associations, for example, the Croatian Chamber of Commerce has drafted a Code of Business Ethics.

- **Supporting community organisations**. Many companies provide funding and in-kind support to ‘good causes’. A few companies take a more strategic approach. Vara’´dinksa Bank and Holcim Croatia are two examples of companies using their skills and resources to work with NGOs for community and company gain.
Engaging in policy dialogue. Cross-sector initiatives and dialogues are rare but becoming better established. The National Competitiveness Council is one example.

Examples of Corporate Social Responsibility in Croatia

The Overview of Corporate Social Responsibility in Croatia highlights a number of examples of actions identified by companies operating in Croatia as part of their CSR approach:

- **PLIVA** provides a well-developed training programme for managers that was, particularly before there were business schools in Croatia, an important contribution to developing management skills of Croatian companies more broadly.

- **SMS**, a Croatian olive oil and food company offers employment to social groups that are marginalised in the labor market, including women over the age of 45, former drug addicts, inexperienced youth and social cases.

- **Specijalna vozila d.d.d**, a producer of vehicles, sources its vehicle upholstery from the Institutions for Rehabilitation of Persons with Special Needs through employment and professional development.

- **Erste Bank** played a role akin to that of an employment agency by helping redundant workers to find new employment, when it merged with Rijeka Banka.

- **Holcim Croatia** helped workers who became redundant after privatisation to establish their own businesses, often as suppliers to the company.

- **Ericsson Nikola Tesla** offered retraining, a business incubator space and advisory support for redundant employees.

- **Lura** cooperates with thousands of individual milk producers and dairy cooperatives to source its milk supplies. The company includes producers in post-war affected areas where regular payment and provision of free conservation equipment is vital for families in isolated, depopulated locations.

- **Microsoft Croatia** works with its network of Croatian distributors to enable knowledge and technology transfers through training and certification programmes.

- **Vara'dinska Banka** celebrates World Savings Day with bank employees visiting kindergartens to educate the children about the importance of savings.

- **Holcim Croatia** works to ensure that its community involvement goes beyond simply giving financial support. It organises events in which its grantees can meet each other to explore new opportunities for cooperation, promote their activities to the public and learn about other funding opportunities.

- **The Croatian National Competitiveness Council** was set up by the government in response to business leaders’ requests for a multi-sector forum in which a better understanding of the foundations of competitiveness in Croatia could be developed.

Source: IBLF, AED, MAP (2004)

Despite these examples of CSR practise in the Croatian business community, the IBLF/AED/MAP study found CSR is rarely strategically managed. Most CSR remains at the level of philanthropy and community involvement, with a few examples of more sophisticated approaches that align core business practices with responsibilities to stakeholders. Cross-sector partnerships are limited, mainly due to the lack of understanding between different sectors of society.
3.5 Croatia’s corporate responsibility rating

Croatia was not included in the 51 countries covered by the original Responsible Competitiveness research carried out by AccountAbility. For this paper we have recalculated the Responsible Competitiveness Index, including Croatia and other SEE countries covered by the Global Competitiveness Report 2002-2003.

In this analysis, Croatia ranks 7th out of the 10 peer countries for which data was available in terms of corporate responsibility. It ranks just below Bulgaria but ahead of Romania, as the chart below shows. Of the countries included in the analysis, only Slovenia approaches EU15 average performance.

Corporate governance

Croatia scores 54 out of 100 in corporate governance, well ahead of Bulgaria and Romania. The EU average is 66. SEE countries in general have made significant progress in corporate governance, with recent reforms improving the legal framework and providing better protection against abuse. Several national initiatives to issue guidelines, statements of best practices or to set up specialised good corporate governance tiers on the stock exchange, have contributed to raising the awareness and improving practices. Stock exchanges and securities regulators have reinforced their monitoring of companies’ conduct (SECGR/OECD, 2003).

Croatia has led in the region with full adoption of international standards on both accounting and auditing. According to the 2001 World Bank/IMF Report On The Observance Of Standards And Codes in Croatia, “Interest in corporate governance is rising with the potential for growth in the corporate sector being driven by privatisation. Improvement in corporate governance is seen to have the potential for improving access to capital, and promoting efficient development of the new private sector”. Regulatory frameworks are considered by EBRD as satisfactory or even good, while de facto corporate governance practice remains quite poor, with company law rated more extensive than effective.
Ethical business practices

Insider trading is rife in SEE, according to SECGR/OECD (2003); and bribery and corruption are still known issues in Croatia. But in recent years, says Transparency International, Croatia has considerably improved its rating on the Corruption Index.

Business executives polled by the World Economic Forum on business ethics and the business costs of corruption were reasonably positive, but Croatia had an anti-dumping measure taken against it at the WTO, which dragged down its performance on the index to a score of 38, just below Bulgaria.

Progressive policy formulation

In SEE, businesses are beginning to engage with government and civil society through dialogue and consultations to help shape policy change. In Croatia, business executives feel that environmental policy is reasonably cooperative, though other regulatory standards are not seen as being very demanding. In this, Croatia scores ahead of Romania and Bulgaria.

As of mid-1993, the country had not engaged with the Kyoto Protocol, nor has a single business signed the UN Global Compact. In contrast, Bulgaria has ratified Kyoto and 30 companies have signed up to the Global Compact. These two indicators account for Croatia’s low score on public policy (35 as against Romania’s 49).

“In Croatia policy dialogue between sectors still does not happen on a regular basis”, says the IBLF/AED/MAP study, “although there are some examples particularly through cross-sector initiatives and mechanisms”.

Building human capital

Croatia scores well on human capital in the workplace (58, against the EU15 average of 69). Fatal accident rates compare favourably with Latin America and countries like Thailand and South Africa, but are however, estimates for SEE as a whole due to lack of data reported by countries to the ILO.

Business executives do not rate the country’s performance on staff training - a view confirmed by the National Competitiveness Council’s focus on the need for new skills. Nor are employer-labour relations judged to be very cooperative. In contrast, Croatia scores highly on the World Bank’s Employment Laws Index as compared to Romania and Bulgaria.

Engagement with civil society

Croatia scores well on business engagement with civil society (with 56, as against 45 for Bulgaria, 49 for Romania and 63 for the EU15). Cement company Holcim Croatia has been cited as a good example of proactive partnership-building with civil society.

The country, according to Freedom House, has fairly high levels of civic freedom, and at least one national consumer group to represent its relatively sophisticated consumers. Executives say that companies have become reasonably customer-oriented, too.

Contributions to public finance

Croatia performs well in terms of business contributions to public finance, with a score of 66, ahead of the Czech Republic at 60. The country had a healthy corporate tax rate in 2002, and executives reported lower levels of irregular payments to tax authorities than other countries in the region. Public spending on education could be higher however.
Environmental management

The issue of environmental management is arguably the corporate responsibility theme best understood by the Croatian private sector. However, the country performs poorly on the set of indicators selected for the national corporate responsibility index, with a score of 41 (Bulgaria and Romania do worse still, however). Executives report that environmental regulations are good for business, but that environmental management systems are very limited. There are no Croatian companies listed on the world Dow Jones Sustainability Index, and Croatian industry as a whole is energy intensive in terms of carbon dioxide emissions, according to the IEA.

3.6 Croatia’s responsible competitiveness

Croatia’s performance on corporate responsibility is on a par with its current levels of income and competitiveness. The chart below compares performance on AccountAbility’s National Corporate Responsibility Index (NCRI) against the World Economic Forum’s Growth Competitiveness Index for the same countries. At the top right is the EU15, and overall there is a fairly strong correlation between the two variables. This supports the hypothesis that CSR contributes to national level competitiveness, and should therefore be considered in an overall strategy for growth.
4 Towards a Croatian Agenda for Corporate Social Responsibility

The Croatian government can play a decisive role at each of the three levels of government involvement in CSR identified previously outlined: 1. Creating an enabling environment for responsible competitiveness. 2. Promoting CSR good practice and, 3. Using CSR as a mechanism to achieve specific public policy goals.

4.1 Creating an enabling environment for responsible competitiveness

The analysis of Croatia’s strengths and weaknesses in relation to responsible competitiveness highlight some of the key general enablers, which could be strengthened:

- **Corporate governance.** Transparent and effective corporate governance is essential to socially responsible business management. Rules on disclosure of ownership and control, governance by shareholders and supervisory boards and the audit practices of external auditors were key areas highlighted for improvement.

- **Ethical business practices.** Governments play a crucial role in ensuring that corrupt businesses do not out-compete honest ones. Anti-corruption initiatives in the public sector, combined with strengthening of the legal infrastructure are key areas where public policy can create an enabling environment for ethical business practices to flourish.

- **Progressive policy formulation.** Processes of policy dialogue between sectors are at a nascent stage and could be developed to enable timely, transparent and effective consultation and input into policy development by both business and voluntary sectors.

- **Building human capital.** This has been identified as a key factor for Croatia’s competitiveness. Better provision for workplace training, school and life-long education as well as school-to-work transition, are needed to provide the new skills necessary for responsible competitiveness in the country.

- **Engagement with civil society.** The country has fairly high levels of civic freedom, with at least one national consumer group representing its relatively sophisticated consumers. However, levels of mistrust on all sides (government, the private sector and the non-government organisations) remain high, with a lack of understanding of how business can add value, and a fear that the concept of ‘social responsibility of business’ is a retrograde step to command and control of the economy.

- **Contributions to public finance.** Croatia performs well overall in terms of business contributions to public finance - with a healthy corporate tax rate and lower levels of irregular payments to tax authorities than other countries in the region. However, government spending choices determine how effectively this money contributes to responsible competitiveness - it could be better focused particularly on education.

- **Environmental management.** There are hopeful signs that Croatia’s performance on environmental management could soon improve further. All the large companies interviewed for the IBLF/AED/MAP study reported some form of investment into environmentally responsible management.

Many of these issues are covered within the demands of the European Union’s *acquis communautaire* and within the Croatian Government’s own ongoing
programme. However, an environment of challenging NGOs, environmental regulation and public expenditure are more often assumed to be factors opposing business competitiveness rather than recognised as an essential foundation for the development of a competitive economy.

4.2 Promoting CSR best practise

Beyond providing a basic enabling environment the government can support the emerging CSR movement in Croatia by endorsing and facilitating initiatives which enable CSR best practise as demonstrated by leadership companies and encapsulated within international standards to achieve wider uptake by the country’s businesses.

Clearly there is much that can be learned from the experience of other countries in developing CSR tools and policies. Certainly companies that are able to incorporate aspects of best practice in human resource management, environmental and consumer protection, into their operations are likely to reap benefits and be better prepared for European integration than their competitors. Foreign direct investment too, is bringing with it aspects of best practice and CSR policies. This is where involvement of international organisations such as the EU, the World Business Council on Sustainable Development, UN agencies such as UNIDO and initiatives such as the UN Global Compact, can provide support and guidance alongside local institutions and international companies doing business in Croatia.

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<tr>
<th>Key areas of CSR best practise</th>
<th>Key international players/ sources of guidance and support</th>
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<tr>
<td>Diversity at work</td>
<td>EU, ILO, CSR Europe</td>
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<tr>
<td>Environmental management, cleaner production</td>
<td>UNIDO, WBCSD, EU, GEMI.</td>
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<tr>
<td>Corporate governance</td>
<td>World Bank, Transparency international, OECD.</td>
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<tr>
<td>CSR management and accountability</td>
<td>The SIGMA Project, AccountAbility.</td>
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4.3 Using CSR to achieve public policy goals

The government can draw on the potential of multi-sector partnership approaches, involving business alongside civil society and public sector organisations, as method of solving pressing problems and meeting development goals.

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. Given the experience of CSR in other economies in transition and the needs and priorities of the Croatian business community and Croatian society more broadly, a number of key issues can be identified, 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:
• **European readiness** - Accession to the EU demands that the Croatian government brings its environment, consumer, human rights & equal opportunities regulations into line with the EU’s *aquis communautaire*. This will create a raft of new substantive and administrative demands on business from the largest to the smallest. Partnership working between business associations, government departments, labour and consumer representatives could help businesses to understand, prepare for and benefit from these new regulations.

• **Responsible restructuring and enterprise development** - Further restructuring is on the cards for protected and unprofitable industries. While the ability for companies to go out of business (as well as new enterprises to be created) is essential for competitiveness and economic growth, it is nevertheless painful for those who lose their jobs. International examples of good practise in ‘responsible restructuring’ offer a way forward in providing retraining, enterprise and employment opportunities.

• **Anti-corruption and good governance** - Corruption is recognised as a problem in Croatia, both for established businesses, potential foreign investors and for society more broadly. Whilst corruption has traditionally been seen as a problem for government to solve, leading companies, trade associations and business groupings internationally have demonstrated that they can combat corruption by developing comprehensive anti-corruption programmes based on written policies, training, auditing and internal controls. International standards and guidelines, specialist NGOs such as Transparency International and International organisations such as the World Bank offer resources to assist businesses in addressing the issue.

• **Investing in Croatia’s human capital** - Croatia’s education system is one of the key areas where improvement is necessary in order for the country to improve its competitiveness. Education, training and school-to-work transition are key areas where the private sector can work in partnership with government and civil society organisations to develop the necessary skilled workforce needed for the economy to grow, and to enable Croatian citizens to benefit from employment opportunities.

There will certainly be other areas where Croatian organisations can identify a good fit between the needs of society and the capacities and motivations of the business community, both at a national and regional level. The World Bank’s CSR Public Policy Framework, provides a useful tool for analysing the costs and benefits of using CSR as a tool to meet these (and other) public policy goals. The key is not for the government to create a ‘CSR strategy’ around a ring-fenced set of issues but to see enabling CSR and involvement in multi-sector partnerships as one way, alongside regulation and public sector action, as a way to meet its development goals.

### 4.4 An agenda for the private sector

This paper focuses on the role that the Croatian government can play in promoting effective corporate social responsibility. This must be seen alongside the complementary actions of the private sector itself, as well as NGOs, trades unions and others such as the media and academia. 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, effective CSR demands not simply that the private sector takes account of a wider range of social and environmental issues but that these traditional routes of influence and governance
are augmented by a new structure of feedback loops, dialogue and partnership working.

At present CSR performance is rarely strategically managed by businesses in Croatia, and remains predominantly at the level of philanthropy and community involvement. The public policy steps outlined in this chapter can help to create an enabling environment for broader CSR. However individual businesses and civil society organisations do not have to wait for such government action to realize the benefits of cross-sector working.

Business associations, such as The Croatian Business Council for Sustainable Development, The Croatian Employers Association, The Croatian Chamber of Commerce, and the National Competitiveness Council are well placed to promote and develop CSR tools, standards and resources based on international best practice and on an understanding of local needs. Leading businesses - both those originating in Croatia and those that are part of international corporations - should play a key role in sharing best practices in the area on contributing to policy dialogue. They can do this both through their active membership of these organisations and within their own network of relationships with stakeholders.

These international CSR tools and standards as well as expertise will be useful in accelerating CSR development in Croatia. However, more important than adhering to any particular standard is for businesses to identify and focus on addressing the issues that are material to their future performance and impact on society. Similarly, whilst lessons learned from partnership working internationally can be drawn on to help to overcome the lack of understanding between different sectors of society in Croatia, it cannot supplant the need for learning by doing, which is central to CSR development in any country.
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