



SUSTAINABLE BUSINESS

A MANUAL FOR SMALL AND MEDIUM ENTERPRISES

Tomasz Gasiński
(Det Norske Veritas)
Grzegorz Piskalski
(CentrumCSR.PL)

for
the Ministry of Economy

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RAFAŁ BANIAK

**UNDERSECRETARY OF STATE,
MINISTRY OF ECONOMY**

Ladies and Gentlemen,

It is our great pleasure to present the long-awaited and so much needed Corporate Social Responsibility Manual. Development of CSR understood as a grassroots initiative of the business community is sector-specific, region-specific and legal system specific, and – although the term ‘corporate’ might imply so – it does not concern only major companies or transnational corporations. It is becoming increasingly common for small and medium enterprises to play a significant role in development of local communities, while not being entirely aware of the CSR’s potential and therefore not making the most of it. It is therefore the prime purpose of the Manual to present those of the CSR tools and practices that can be applied in the Polish business reality.

Sustainable business is a complex issue, as it concerns the economy, the society and its values, as well as relations with the company surroundings. CSR is based on transparency and dialogue between not only such stakeholders as the government or employers and employees’ organizations, but also other civic society organizations. In this sense, CSR applies to much more than the traditional labour relations with the arrangements intended to balance interests of employers and employees, covering also interests of consumers, local communities or the natural environment.

Challenges the Polish economy is facing today in view of the need to stand up to the open market competition belong to the most difficult we have ever experienced. Handing the Manual over to you, I believe that information it contains will convince Polish entrepreneurs that taking voluntary CSR initiatives may make their businesses more attractive and trustworthy on the international market, giving them a high position among companies applying good business practices.

Det Norske Veritas (DNV)

MANAGING RISK



is an independent foundation established in 1864 and headquartered in Oslo, Norway. Since the beginning of its activity, DNV has been a provider of risk management services in a broad meaning of the term. This includes expert assessment, audits, training courses and workshops, as well as improvement and consultancy projects.

DNV is among global leaders supporting sustainable development according to its vision: *Global Impact for Safe and Sustainable Future*. DNV co-operates with many institutions and business organizations (e.g. World Business Council for Sustainable Development). DNV operates in 100 countries and employs high class specialists whose expertise is supported by our own research and development activities, carried out often in co-operation with specialist institutions. In Poland, DNV experts have been offering their services since 1956 and DNV Poland (based in Gdynia) is among the leaders of business efficiency and risk management improvement.

CentrumCSR.PL



is an independent foundation, a non-profit, civic society organization, established in 2006. It is a think tank disseminating knowledge, bringing about public debate and lobbying in the field of CSR. Centrum CSR.PL co-operates with many diverse organizations representing various social groups in Poland and abroad. The Foundation offers its expertise to other community-based organizations, trade unions, and public administration bodies. While co-operating with the business, the Foundation does not provide consultancy services.



WŁODZIMIERZ BIEL

**VICE-PRESIDENT OF THE MANAGING BOARD
DET NORSKE VERITAS POLAND**

Ladies and gentlemen,

The publication we are presenting to you is unique on the Polish market. The problems of social responsibility have been approached in a systemic manner, as one of the companies' management policy material elements. In the age of growing competition and customer requirements, developing the company's relations with the business and social environment and building its reputation in a professional manner are becoming, along with financial efficiency and products and services quality, crucial to winning a competitive edge, also on the international market.

When working on this publication, we used as a basis DNV's global experience and our specialist tools for sustainable business verifications, as well as experience from the Polish market. We co-operated with Centrum CSR.PL foundation and with Polish managers, to provide a comprehensive material presenting concrete, applicable to the Polish reality guidance on implementation of sustainable development mechanisms in small and medium enterprises.

We should like to thank the Ministry of Economy for the honour of being entrusted with the work to prepare the Manual. We also wish to express our satisfaction that thanks to this co-operation we are given the opportunity to promote best practices and modern concepts of social responsibility management in Poland.

FROM THE AUTHORS

TOMASZ GASIŃSKI
(tomasz.gasinski@dnv.com)
GRZEGORZ PISKALSKI
(g.piskalski@centrumcsr.pl)

Dear Reader, our purpose when working on this Manual was to create material presenting the context in an accessible manner and providing a source of inspiration and knowledge of the basic tools enabling representatives of Polish small and medium enterprises (SMEs) to commence implementation of the sustainable business principles.

Considering the growing role of sustainable development in how the international economy is evolving, and in particular its influence on how major business organizations are behaving, it is becoming extremely important for SMEs to apply global knowledge in close

correlation with the Polish business reality specific to the Polish SME sector. The number of companies, mainly large international corporations, using a range of business tools related to sustainable business, keeps growing and many of them require their business partners (including SMEs) to do the same. CSR – Corporate Social Responsibility – is an anticipatory approach to business, consisting in integrated management of business, social, environmental and ethical issues, following the sustainable development assumptions. Companies apply a range of practices in this field, including announcements of sustainable development policies, development and implementation of corporate good practice codes, participation in industry initiatives and publishing reports of the activities taken. It is becoming increasingly common for companies to undergo audits, independent verification and certification of CSR various areas. A company oriented towards sustainable development manages its relations with all relevant social groups (stakeholders) in a proactive manner, exercising its impact on them through its operations, while being influenced by them at the same time.

To reduce the uncertainty of decisions concerning business development and efficiency, SMEs should be aware of the market, social and legislative trends, including the sustainable development issues. This applies not only to acceptance of the sustainable development assumptions, but also to exploration of mechanisms governing CSR strategies in major organizations, in order to identify the areas of potential competitive advantages to be achieved by taking opportunities and avoiding risk.

The Manual consists of 2 sections: Chapters 1 and 2 are theoretical; their purpose is to make the manual user more familiar with the sustainable business context; they describe the main topic areas of CSR and present good practices that might inspire SMEs to take action.

Chapters 3 and 4 have been intended as a more advanced business tool, devised to assist SMEs in implementation or improvement of their CSR management systems in a manner allowing for initiatives and programmes to provide sustainable competitiveness. This approach is also reflected in two dominant perspectives sustainable business can be perceived from: firstly, this

is an extensive, global social movement addressing business with some postulates, secondly – a catalogue of business standards and tools enabling companies to respond to growing expectations of the society. Considering how broad is the context of sustainable business, CSR or management-related issues proper, we have been trying not to impose any precise interpretation of the social responsibility problems, leaving the freedom of valuing and defining these to the Readers. An important tool we made use of when working on the Manual, was a draft standard providing guidelines on social responsibility – ISO 26000. We both participate in the work of the Technical Committee on Social Responsibility of the Polish Committee for Standardization and we are convinced that dissemination of the standard, may bring a new quality into activities related to sustainable business. We wish to extend special thanks to the following persons for their priceless tips and hints: Beata Adamczyk (Ministry of Economy), Katarzyna Grzeszyk (Polish Chamber of Commerce), Liliana Anam (CSRinfo), Maciej Bieńkiewicz (Entrepreneurship and Economic Development Research Institute), Barbara Wojtoń (Elektrociepłownia Wybrzeże S.A.), Wojciech Iwulski (ALSTOM Power Sp. z o.o.), Piotr Majewski (Flextronics), Piotr Janicki (ALLCON S.A.) and many other specialists who helped us with the subject-matter related and technical aspects of this study.

The purpose of the authors was to provide reliable information enabling SMEs' owners and managers to make informed business decisions, including those concerning the possibilities and the scope of using CSR tools. We do hope that the Manual will be useful, in particu-

lar for SME owners and managers, as well as experts responsible for implementation of CSR practices and strategies and that it will make a positive contribution to development and directions of sustainable business in Poland.

KEY WORDS:

sustainable development
CSR
sustainability
responsible business
system approach
management
risks and opportunities

10



22



34



48



Contents

1. Sustainable business – what is this?	10
1.1. Business and sustainable development	11
1.2. Corporate Social Responsibility (CSR)	12
1.3. Are sustainable development and CSR new subjects for business?	13
1.4. CSR principles vs. standards of the law. Voluntariness of CSR	14
1.5. Sustainable business definitions and areas	14
1.6. Is sustainable business worth the trouble?	18
1.7. CSR in Poland	19
2. Analysing the relationship between sustainable business and SME's competitive edge	22
2.1. How do SMEs seek to achieve sustainability of their business	23
2.2. Core areas of sustainable business for SMEs	24
2.3. Personnel and all those working for the organization	24
2.4. Community engagement	26
2.5. The environment – lower cost? Higher profit? Both?	27
2.6. Communicating on sustainable development	28
2.7. What are the directions of sustainable business development?	30
2.8.1. Intangible values and risk – new paradigms of management	31
2.8.2. Managing risk	33
3. The concept of integrated sustainable development management for SMEs	34
3.1. Building CSR strategy as a method to achieve a long-term competitive advantage	35
3.1.1. Stage I. Identifying the context, priorities, opportunities and risks, as well as the interested parties	36
3.1.2. Stage II. Dialogue with the stakeholders – initiating	41
3.1.3. Stage III. Selecting areas for in-depth analysis	41
3.1.4. Stage IV. In-depth analysis of risks and opportunities in operations/processes	42
3.1.5. Stage V. Setting objectives, defining activities and procedures	42
3.1.6. Stage VI. Communicating the outcomes of analyses and CSR goals	43
3.1.7. Stage VII. System implementation	44
3.1.8. Stage VIII. Management (PDCA)	45
3.2. CSR implementation schedule	46
4. SME as a link in the supply chain – a return on investment in sustainable business	48
4.1. Supply chain requirements	50
4.2. Evaluation of CSR-related opportunities and risks within the value chain	51
Annex 1. Business criteria vs. CSR	54
Annex 2. CSR maturity matrix	56
Annex 3. Sustainable development/CSR tools	58
References	66



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Most people overestimate what they can accomplish in a year -
and underestimate what they can achieve in a decade.

Jim Rohn

Sustainable business – what is this?

THE PURPOSE OF THIS CHAPTER IS TO PRESENT THE HISTORICAL CONTEXT AND THE SCOPE OF CSR AS A RESPONSE OF THE BUSINESS WORLD TO THE SUSTAINABLE DEVELOPMENT CHALLENGES.

1.1. BUSINESS AND SUSTAINABLE DEVELOPMENT The need to take sustainable development principles into consideration was first indicated internationally in 1969 by the UNO Secretary General, U'Thant during the General Assembly's XXIII Session. The sustainable development assumptions were defined in the "Our Common Future" report published by the World Commission on Environment and Development in 1987 (also referred to as Brundtland Report, after the name of the Commission's Chair). In 1992, a conference known as the Earth Summit was organized by the UN in Rio de Janeiro, resulting in a set of sustainable development principles – the so-called Rio Declaration and an Action Plan with recommendations and guidelines, confirmed 10 years later during the Earth Summit in Johannesburg. At the same time, in the year 2000 a catalogue of challenges to be faced by the humanity in the XXI century – Millennium Development Goals – was agreed by the United Nations member states. These challenges include eradicating extreme poverty and hunger, achievement of universal primary education, promotion of gender equality and empowering women, reducing child mortality rates, improving maternal health, combating HIV/AIDS, malaria and other diseases, ensuring environmental protection and developing global partnership for development¹.

¹ United Nations Development Programme, www.undp.org.pl

Although some of the sustainable development challenges may seem distant, in fact they are increasingly becoming a basis for the global agenda followed by international organizations, governments of various states (including Poland) and also by social partners and business.

Sustainable development

is social and economic development where a process of integrating political, economic and social activities occurs with natural balance and durability of the basic natural processes preserved in order to guarantee the possibility of meeting the basic needs of individual societies or citizens of both the present and future generations.

SOURCE: THE ENVIRONMENT PROTECTION LAW

CSR is frequently recognized as a response of the business world to the sustainable development challenges (OECD, 2001), while discussions are increasingly focussed on the relationship between voluntary commitments to protect the environment and local communities on the one hand and businesses competitiveness on the other. Therefore, the Manual concentrates on presentation of the integrated sustainable development management options, while indicating the areas with the highest potential for strengthening the competitive advantage of small and medium enterprises (SMEs).

Which topics are most important?

- » climate change (with losses caused by floods, hurricanes, rising ocean levels);
- » loss of biological diversity (endangered species);
- » poverty, social inequality;
- » human rights protection.

Today, it is rather difficult to imagine a website of a large corporation with no mention of sustainable development or social responsibility. Advanced CSR business tools are also becoming increasingly common. Business community sets up platforms for sharing experience in this field, e.g. World Business Council on Sustainable Development (WBCSD) or Business Leaders Initiative on Human Rights, or enters strategic alliances with intergovernmental organizations, to mention such examples as Global Compact or European Alliance for CSR. The recent “One Percent for the

Planet” initiative is also worth mentioning here: some 150 businesses made a commitment to donate 1% of their sales value to environment protections, regardless whether they are generating profit or loss².

Stock market indices

Some stock exchanges are using indices, where companies’ sustainable development performance is taken into account. The best known are:

- » Dow Jones Sustainability Index (DJSI);
- » FTSE4Good;
- » Ethibel Sustainability Index (ESI).

Economic motivation, i.e. information on how sustainable development activities can be forged into market success appeals to business people best. Companies incorporated in Dow Jones Sustainability Index (measuring sustainability performance of companies quoted on the New York Stock Exchange) and FTSE4Good perform better when compared to the others³ (SAM and PWC, 2008).

Terms „sustainable business” and „social responsibility” are often used interchangeably. The concept of CSR, concentrating on a given organization, constitutes a certain philosophy, as well as a set of tools enabling achievement of business sustainability, which, in a long-term perspective, guarantees a durable growth of the company value besides environmental and social benefits. In case of smaller companies, these activities can also be referred to as responsible business.

The terms of CSR, responsible business and sustainable business are used interchangeably in this Manual.

1.2. CORPORATE SOCIAL RESPONSIBILITY (CSR)

When attending seminars and conferences, as well as following the media, CSR is the most commonly encountered term. Responsible business seeks synergy between company’s three functional areas:

- economic
- environmental,
- social.

This can be defined by the 3P rule: People – Planet – Profit. The basic assumption of CSR is that business

² www.wbcsd.org, www.globalcompact.org, www.csreurope.org/pages/en/alliance.html, www.iblf.org, www.onepercentfortheplanet.org

³ The Business Case for Sustainable Development. Making a difference toward the Johannesburg Summit 2002 and Beyond, World Business Council for Sustainable Development 2002. http://www.wbcsd.ch/web_publications/business-case.pdf, <http://www.sustainability-index.com/>

should be more responsible and ethical in its behaviour towards all social groups impacted by its activity, with possibly highest respect to the natural environment. To put it in simplest terms, the thing is that business should mend its ways, i.e. make voluntary commitments to social communities and the environment, while reducing the possibility of adverse effects that could pose a threat to the company operations.

CSR, CR, CC or anything else?

CSR, standing for Corporate Social Responsibility, has caught on in Poland when business responsibility is referred to. Although it seems to be the most common term, you will most probably encounter other expressions too, e.g.

corporate sustainability,
corporate responsibility,
corporate accountability,
social responsibility,
corporate citizenship,
sustainable development

– the latter being a real umbrella term.

Yet, it is always about taking actions intended to make the company better.

Big corporations have been making a lot of efforts to be perceived as responsible for years, as they realize that they are being watched thoroughly and judged by both consumers and nongovernmental organizations as well. Corporations' responsibility is rightly believed to be greater, as they model our life to a high degree, influencing consumption patterns for example.

On the other hand, SMEs are definitely much greater in number both in Poland and all over the world, constituting the economy's driving force and influencing local development very much. As practice shows, namely SMEs are most actively involved in the local community life, especially when under charismatic leadership.

At the same time, many of the SME sector companies have barely heard of CSR, while practising it to a higher or lower extent. It is therefore one of this Manual's purposes to indicate how initiatives already taken can be systematized and how social and environmental issues can be integrated into the company management process, in order to achieve measurable business benefits.

1.3. ARE SUSTAINABLE DEVELOPMENT AND CSR NEW SUBJECTS FOR BUSINESS? You have certainly observed that sustainable development and CSR have become fashionable in recent years. It seems that namely the scale of interest in the subject makes it look new. Should one have a closer look at CSR issues however, it turns out then that they are not new at all, especially as far as "responsible business" in the SME sector is concerned. Merchants' ethics or good practices in crafts have been there then and now. At the time of industrial revolution, many manufacturers developed their own, then-innovative social programmes. They used to establish hospitals and public utility facilities, build simple dwellings for workers, pay hardship benefits and in time they also

Sustainable business background:

» **Globalization.** Free capital flow stimulates trade and foreign investments, whereas the economic potential of major private supranational corporations is becoming comparable to that of medium size states, while being subject to much less control. On the other hand, many of them begin introducing ethical issues to their supply chain management and defining requirements towards suppliers, including SMEs.

» **Democracy, civic society and information society.** As a result of the split-second information flow (e.g. on the Internet) nothing can be concealed. Transparency of actions is becoming a rule in all areas of life, while consumers' ethical expectations keep growing, following the rule of zero tolerance to errors. Sometimes, consumer boycotts (protests in form of abstention from buying products of some brands) are organized by strong green movements and human rights initiatives.

» **Development of business administration studies.** Under sharp competition, the importance of company intangible assets is growing, and reputation is particularly valuable. This results in strong correlation between CSR and PR. At the same time, standards such as ISO or OHSAS are becoming common, contributing to growing interest in system approach to management.

began to care more about occupational health and safety.

One should remember however that no legal regulations covered the sphere of social security and labour conditions those days and such achievements as an eight-hour working day, prohibition of child labour, not to speak of other employee benefits considered obvious today, were mainly attained by trade unions building up their first organizations then.

Responsible business – in today’s meaning of the term – originated in the 1980s. It was an implication of the growing interest in sustainable development we have described above, with new elements being added to the catalogue of business responsibilities, such as human rights for example, and more social actors being involved, including civic society organizations.

Chemical industry: from Bhopal to Responsible Care

Societies’ growing environmental awareness and expansion of ecological movements gave a strong impulse to development of CSR. In the 1980-ies, chemical industry raised criticism, especially after the Bhopal disaster in Central India. A leak of methyl isocyanate from the Union Carbide pesticide plant, located in a densely populated area resulted in a death toll of some 15,000 and half a million injuries. As a consequence of this accident and other similar cases, governments were reluctant to permit construction of any new plants, local communities protested and many high-qualified employees chose work in other sectors. In response to these problems, to defend its licence to operate, the chemical industry launched Responsible Care initiative. Today, companies participating in the programme represent some 85% of the global chemical production. The initiative promotes HSE management activities, as well as improvement in transparency and dialogue with stakeholders. It is also present in Poland (www.rc.com.pl).

Co-ordinated by the Polish Chamber of Chemical Industry, it assembles major companies from the chemical sector.

What commitments does business have?

- » **Economic:** generating profit through offering goods and services according to the market uptake and at a reasonable price.
- » **Legal:** operating in full legal compliance.
- » **Ethical:** operating according to standards accepted by the society.
- » **Discretionary:** resulting from managers’ or owners’ individual choices (e.g. philanthropy).

BASED ON DRAFT ISO 26000 STANDARD

1.4. CSR PRINCIPLES VS. STANDARDS

OF THE LAW. VOLUNTARINESS of CSR You have learned from the Manual so far that sustainable business is a substantial issue, which involves making voluntary commitments. It should be stressed at the same time that CSR activities taken by the company are neither required in terms of legal compliance, nor related to day-to-day operations. CSR requires going beyond these standards and recognizing higher ethical norms. There is no legal requirement to recognize the needs of the local society or to take greater care of the customers or consumers. Nevertheless, CSR is becoming some sort of a good custom or even a cultural norm. Moreover, it is a good idea to see CSR as a business strategy. The management may choose to invest in CSR and potentially benefit from this decision or take into account adverse consequences of failing to act.

An analysis of consumer scandals and boycotts shows that in most cases problems could have been avoided if the company had implemented an elementary system for managing the sustainable development issues at least.

1.5. SUSTAINABLE BUSINESS – DEFINITIONS

AND AREAS And now, having some general knowledge of social responsibility, let us try to define it more precisely and identify the key principles of CSR. The fact that CSR requirements are inconsistent and implicit causes much confusion and yet, having analysed the definitions quoted here one distinguishes some common elements.

These include:

- integrated approach to 3 dimensions of sustainable development: i.e. social, environmental and economic;
- acting to change the society for the better;
- co-operation with stakeholders, i.e. all those who are affected by business and can affect business.

Some selected definitions of Corporate Social Responsibility:

- » responsibility of an organization for the impacts of its decisions and operations on the society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including health and welfare of society. The commitments take into account the expectations of stakeholders, comply with applicable law and consistent with international norms of behaviour and are integrated throughout the organization and practised in its relationships (draft ISO 26000 standard)
- » a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary (European Commission)
- » Corporate social responsibility is 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)
- » an approach to management and a response to social, environmental, broad economic issues and ethical matters, as well as to stakeholders' expectations concerning these issues, to the extent to which business is able to respond (UNDP, 2008)
- » the scope within which social, environmental and ethical risks and benefits are managed in order to protect and enhance the shareholders' value (PWN, 2007)

A conclusion can be made that innovation of CSR management consists in systematizing issues from many various areas and makes a company directly responsible for observance of high ethical standards. This conception is often referred to as holistic, as it is not possible to be somewhat responsible and somewhat irresponsible. Also, it is increasingly common to hear that social responsibility is not only expected of businesses –

although it applies to them in the first turn – but of any type of organization (e.g. community-based organizations or public administration bodies), according to the assumption that all organizations are partly responsible for implementation of the sustainable development principles.

Through more precise definition of the areas of responsibility, the ISO 26000 draft standard seeks to make the concept of CSR more consistent. The text is available at www.iso.org/sr. One should bear in mind that the areas of responsibility listed below are interrelated and interacting.

What makes a business successful?

Companies operate in a network of complex social relations, therefore their success is determined by social and environmental factors. Hence, company success is to a high degree determined by satisfaction of its stakeholders, such as shareholders, employees, customers, suppliers and the local community.

BASED ON ISO 26000 DRAFT STANDARD

CSR core subjects as per ISO 26000 WD 4	Key issues for these areas	Potential benefits to be gained from addressing the issues
<p>1. Organizational governance</p> <p>Organization's decision making process</p>	<p>Transparency, openness. Ethical behaviour. Accountability for commitments made. Respect for stakeholders interests. Efficient use of resources. Fair representation of women in the managerial staff. Increased employee participation in the CSR-related decision-making process. Decisions follow-up and clear accountability for both beneficial and adverse effects of organization's operations.</p>	<p>Informed basis enabling better decisions. Better understanding of public mood and related greater ability to avoid risks and identify opportunities. Stakeholder engagement increases trust in the organization and understanding of its operations.</p>
<p>2. Human rights</p> <p>All inalienable rights people are entitled to by virtue of being endowed with dignity.</p>	<p>Guaranteeing the employees freedom of association and recognizing their right to collective bargaining. Eliminating all forms of forced labour, child labour and all forms of discrimination in the work environment (e.g. with regard to gender, religion, sexual orientation, disability).</p>	<p>Reputational benefits – stakeholders' belief that the organization violates human rights may result in loss of the public trust and lessen employees' loyalty.</p>
<p>3. Labour practices</p> <p>All organization's relationships with employees performing work for the organization, whether internally or externally.</p>	<p>All those performing work for the organization have to do this based on an appropriate contract. No practices should be applied intended to avoid a part of employer's responsibility under a typical employment relationship. The importance of secure employment for both an individual employee and for the society at large should be recognized. Active management of human resources should take place in order to avoid major seasonal fluctuations in employment. Information and consultations with worker representatives should be provided in due time to mitigate adverse impacts of changes in operations due to e.g. plant closure or production transfer. All forms of discrimination should be eliminated (as above).</p> <p>Using only such contractors or sub-contractors who are able to provide adequate working conditions to their employees.</p> <p>Not benefitting from unfair practices towards sub-contractors, suppliers – the organization should recognize its responsibility for work performed on its behalf by other organizations. Depending on the circumstances, as appropriate, the organization takes control measures, e.g. includes adequate clauses in contracts, makes unannounced visits and inspections. The codes of practice being used should be consistent with international standards. When operating abroad, local resources should be used as much as possible.</p>	<p>Considerable, positive impact on the organization's ability to attract new employees, motivate and retain those who already are its employees or members, hence – improved ability of the organization to achieve its goals. Improved occupational safety and health, increasing their commitment to seek opportunities brought in by CSR and to reduce risk. Positive effect on organization's reputation.</p>

4. The environment

An impact of organization's decisions and operations on the natural environment.

Reducing the use of resources and energy, reducing production of hazardous waste and other pollutants (radiation, vibrations, etc.). Awareness of the impact on climate change (greenhouse gases emission). Protecting and restoring natural ecosystems and unique natural resources, respecting biodiversity (endangered species, ecosystems, etc.). Identifying potential adverse environmental impacts, implementing mechanisms to internalize external environmental costs, taking environmental issues into consideration at the product design stage (eco-design, life cycle analysis – LCA/LCM).

Savings resulting from more efficient use of resources, reduced water consumption, lower expenses on waste disposal, recycling (production becoming less material-intensive and energy-intensive). Long-term benefits: greater strategic availability of raw materials, reduced adverse consequences of climate change (reduced CO₂ emissions). With growing public environmental awareness – reputational benefits.

5. Fair operating practices

Organization's ethical conduct in dealings with all other entities.

Combating corruption, fraud and money laundering, responsible involvement in public life (e.g. political lobbying), fair competition, respecting property rights, promoting social responsibility in relations with other entities, e.g. through including clauses on social and SHE issues in contracts, conducting inspections as appropriate and sharing related costs, implementing relevant procedures in these areas and training the employees.

Improved organization's social and economic environment. The attitude of combating corruption, promoting honesty in politics, encouraging fair competition and improving honesty of transactions leads to fairer social and economic environment. Fairness provides equal operating conditions for all organizations, spurs innovativeness and – in the long term – cost reduction.

Fair competition, not engaging in price fixing.

6. Consumer issues

Responsibility for goods and services offered to consumers.

Fair and transparent marketing, access to information and contracting process. Minimizing risks from the use of products and services through adequate design, information provision, support services and complaint procedures. Stimulating sustainable consumption.

Consumers choices have a strong impact on organization's success. Through involvement in co-operation with consumers an organization can respond to their expectations more effectively, enhance its reputation and minimize potential products and services related conflicts.

7. Community involvement and development

Organization's relations with other organizations present in the area of its operations and contributing to improved quality of life in all its dimensions.

Contributing to achievement of the Millennium Development Goals: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability, develop global partnership for development. Respecting the rights of the local community members. establish partnership with other organizations supporting social development. Undertaking social investments related to the company operations, also in co-operation with non-governmental organizations.

Contributing to the common well being, strengthening the civic society and institutions that constitute an important element of social stability, cohesion and justice. Improved quality of life of the community and organization's ability to achieve its own goals. Reputational benefits and enhanced employee morale. In the long term, the organization may benefit from the local society's social and economic development, e.g. better education.

An organization aspiring to be called socially responsible should seek to manage CSR in a comprehensive manner.

1.6. IS SUSTAINABLE BUSINESS WORTH THE TROUBLE? The question whether CSR pays back is not entirely clear yet, although it is subject to many studies. (Kurucz and others, 2008).

Typically, two basic motives behind implementation of corporate social responsibility are distinguished:

- creating new opportunities and increasing benefits (market expansion, enhanced reputation),
- improved control of the risk of hazards.

The literature of the subject based on empirical research indicates negative correlation between the corporate social responsibility performance and business risk (Orlitzky and Benjamin, 2001), a positive relation between employee satisfaction and organization's performance (Baptiste, 2008), stakeholder management and growth of the company value (Hilman and Keim, 2001), as well as media attention and sustainable

development focus in the company operations (Bansal, 2004).

For many years reasoning was used both in Poland and in other countries under transformation, that their economy was not mature enough to address social and environmental issues, that companies needed to meet the challenge and kept fighting for survival on the market. And yet – which company does not have to do the same? This is a natural element of the market game. On the other hand, the relatively high economic growth of the recent years should mobilize businesses to invest in innovative organizational and marketing solutions.

A closer look at the causes of the crisis which hit the financial markets in autumn 2008, to spill thereafter over the entire global economy makes one to reflect over the lack of social responsibility demonstrated by managers of some companies. Hopefully, some busi-

When looking at the studies of economic benefits that can be gained from CSR one should note the findings of the Institute for Private Enterprise and Democracy (2007). 2 groups of companies were compared there: winners of the “Business Fair Play” program and a group selected from the Central Statistical Office (COS) database (the same business sectors and comparable employment figures). 4 analytical procedures were carried out, leading to a conclusion that “observance of the corporate social responsibility principles brings measurable benefits to enterprises, employees and society at large. These benefits have their quantitative and qualitative dimension”. Responsible companies were found to show highest sales growth, generate greater profit and make higher investment outlays. Moreover, they are characterized by a high financial liquidity. Interviews with responsible entrepreneurs revealed numerous benefits gained through implementation of CSR, such as greater employee commitment, enhanced business prestige, better business performance, easier and more efficient management of both human capital and the company as a whole.

VARIABLE TYPE	CSO GROUP	CSR GROUP
Revenue from sales per 1 employee – PLN average	443,7	368,5
Taxable profit per 1 employee – PLN thousand average	24	29,3
Profit per revenue from sales unit – average in %	6,0	6,8
Profit per fixed assets unit – average in %	24,3	92,4
Investment outlays per 1 employee – PLN thousand average	21,5	22,1
Fixed assets per 1 employee – PLN thousand	156,5	138,9
Assets per 1 employee – PLN thousand	284,0	225,1
Current ratio – average in %	1,16	2,13
Social insurance contributions and other employee benefits – PLN average/month	518	623
Gross salary per 1 employee – PLN average / month	2276	2834
VAT per 1 employee – PLN thousand average / month	14,4	16,5
CIT per 1 employee – PLN thousand average	3,7	4,4

Based on: Bąk M., Bednarz P., Kulawczuk P., Rataj R., Szcześniak A., Zajac P., *Analiza korzyści ekonomicznych ze stosowania zasad społecznej odpowiedzialności biznesu (CSR) w polskich przedsiębiorstwach. Streszczenie i wnioski. Instytut Badań nad Demokracją i Przedsiębiorstwem Prywatnym 2007.*
http://www.iped.pl/publikacje/Analiza_korzysci_ekonomicznych_csr.doc

CSR vs. innovativeness

Innovativeness requires one to define the areas of previously unperceived opportunities on a continual basis, e.g. the opportunity to satisfy the needs of customers valuing ethics and environment protection through offering environment-friendly products, donating a portion of the profit to a public purpose, etc. An approach like this often opens new business prospects, e.g. many manufacturers' striving to reduce the adverse environmental impacts resulted in development of a whole sector of environmental industry and environment-related services.

nesses will now be seeking new competitive advantages in e.g. offering ethical financial products.

To sum it up, the benefits from following the sustainable business principles can be grouped into 2 main categories:

1. Better market position – winning competitive advantage. Responsible companies enjoy good reputation and show better against competitors. Customers and consumers appreciate this, are more loyal to a responsible brand and trust it. Moreover, it is easier to attract business partners and capital. Sub-contractors are often required to meet strict environmental, quality and OHS requirements. This is where lacking certain standards can even lead to market exclusion.

2. Better use of resources, including personnel. Companies using the sustainable business model strive for less energy- and material-intensive production and services, reducing costs of energy, materials, water and waste disposal, thereby significantly enhancing their profitability. Employees who feel well in their company are obviously better motivated and this may lead to deeper commitment and greater productivity. Besides, they consider changing jobs less often. What is more, as the situation on the employment market changes (deficit of personnel in many sectors), employees, especially those high-qualified, tend to apply for a job to companies with a reputation for being good employers. ISO 26000 draft standard provides for the following benefits from running a sustainable business:

- enhanced reputation;
- enhanced employee morale and productivity;
- improved perception among investors, financing organizations, sponsors and the financial community;

- improved ability to recruit and retain employees, users and customers (the standard does not address business organizations only);
- improved relations with the government, media, suppliers, competitors, customers and the local community.

1.7. CSR IN POLAND It seems that opportunities entailed by CSR activities in the sphere of realistic business activities still remain undiscovered, particularly in the SME sector, and yet there are enough examples of good practices in the field of business sustainability, although professional CSR tools, codes of ethics, sustainability reporting, auditing and certification (to be discussed in more detail further in the Manual) are mainly used by major companies.

Recently, the Polish editorial market has offered a number of publications worth recommending, some of them being:

- » Jadwiga Adamczyk, *Spółeczna odpowiedzialność przedsiębiorstw. Teoria i praktyka*, Polskie Wydawnictwo Ekonomiczne 2008.
- » Chris Laszlo, *Firma Zrównoważonego Rozwoju*, Studio Emka 2008.
- » Marcin Żemigła, *Spółeczna odpowiedzialność przedsiębiorstwa*, Wolters Kluwer 2007.

In the Polish public opinion, companies striving for quick and short-term profits and lacking any long-term strategy, as well as absence of authorities on the CSR scene are the main barriers to development of CSR (opinion polls: CBOS, 2006, IPSOS 2003).

The following behaviour types are indicated by the Polish society as the most important factors modelling responsible business:

- » internal aspects of company operations – the interesting thing is that for the public opinion, namely these are the most important constituents of sustainable business, i.e. good relations between the employees and the management (27% of indications), observance of regulations and industry standards (20%);
- » the respondents identified three types of behaviour as equivalent to social responsibility: good workplace relations (47%), providing jobs to population of the region and paying overtime (42%). OHS and honesty in taxes took more distant positions in this catalogue (21% and 17% respectively), followed by relations with local communities (12%) and environment protection (10%).

Below, Polish business people's opinions on CSR are summarized:

- » » shareholders and clients are businesses' most important stakeholders (some 70% of indications), followed by employees (40%), with the local society and the government taking more distant positions (some 15%) and societal organizations given almost no attention (some 5%);
- » ethical behaviour is what the respondents associate with social responsibility first of all (some 80%), followed by transparency of operations, legal compliance, care for the environment and partnership with stakeholders (some 50%);
- » when asked about the most significant internal benefits from implementing CSR, business people referred to sustainable development of business (19%), gaining competitive advantage (17%), legal compliance (16 – 17%); only 3% of the respondents did not see any benefits at all;
- » most indications as regards external benefits referred to enhanced reputation (51%, contributing to sustainable development of the country (11%) and environment protection (10%), while solidarity with the local community and customer loyalty were stressed by few respondents only (7% and 5% respectively);
- » in the business people's opinion, lack of adequate regulations, cost of implementing CSR practices and no economic motivation behind activities in this field are the greatest barriers to sustainable business development (some 50% of indications).

There are relatively many organizations dealing with the issues of business social responsibility in Poland. The SME sector is certainly familiar with such initiatives as "Fair Play" launched by the Institute for Private Enterprise and Democracy together with the Polish Business Chamber, or UN's Global Compact represented by UNDP in Poland. Philanthropy is popularized by the Academy for the Development of Philanthropy in Poland, employee volunteering initiatives are promoted by the Volunteering Centre. Major international corporations co-operate with the Responsible Business Forum, while among academic institutions the group of leaders includes the Business Ethics Centre (a joint initiative of the Institute of Philosophy and Sociology of the Polish Academy of Sciences and Kozminski University) and the Faculty of Management at the University of Łódź. An ecological programme for business has been launched by WWF Poland. As far as the central administration is concerned, the importance of initiatives of the Ministry of Labour and Social Policy, the Ministry of Economy, the Office for Competition and Consumer Protection and the Ministry of Environment should be emphasized.

Having analysed numerous studies and reports dedicated to CSR in SMEs, we have distinguished the following types of sustainable business good practices prevailing in Poland:

Employees	<ul style="list-style-type: none"> » organizing integration events for employees and their families; » expanded OHS activities; » investing in employee competence (training).
Customers and consumers	<ul style="list-style-type: none"> » expanded product warranty; » product labelling; » discounts and preference pricing.
Environment protection	<ul style="list-style-type: none"> » implementing environmental management systems and participating in competitions » recycling; » efficient use of energy.
Local communities	<ul style="list-style-type: none"> » sponsoring and patronage (sports, culture, health care); » providing support through transferring company goods and services (construction, accounting, Internet services, etc.) » internship and practical training for young people.

Useful links

Poland

- » Academy for the Development of Philanthropy in Poland – www.filantropia.org.pl
- » CentrumCSR.PL – www.centrumcsr.pl
- » Business Ethics Centre – www.cebi.pl
- » CSRInfo – www.csrinfo.org
- » DNV – www.dnv.pl
- » Dobry Biznes, a portal dedicated to good business practices – www.dobrybiznes.info
- » Social Campaigns – www.kampaniespoleczne.pl
- » Responsible Business Forum – www.fob.org.pl
- » Global Compact in Poland – www.globalcompact.org.pl
- » National Business Chamber – Fair Play – www.fairplay.pl
- » Etyka Biznesu, a portal dedicated to business ethics – www.etykabiznesu.pl

Europe

- » European Commission (DG Employment) – http://ec.europa.eu/employment_social/soc-dial/csr/
- » European Commission (DG Enterprise) – http://ec.europa.eu/enterprise/csr/ereb/ereb_en.htm
- » CSR Europe – www.csreurope.org
- » CEE Bankwatch – www.bankwatch.org
- » Corporate Europe Observatory – www.corporateeurope.org
- » Karat Coalition – www.karat.org
- » European Coalition for Corporate Justice – www.corporatejustice.org
- » SOMO – www.somo.nl
- » Vaderegio – www.csrvaderegio.net
- » London Benchmarking Group – www.lbg-online.net
- » Eurosif, European Social Investment Forum – www.eurosif.org

World

- » Accountability (AA 1000) – www.accountability21.net
- » Business and Human Rights Resource Centre – www.business-humanrights.org
- » Business in the Community – www.bitc.org.uk
- » Business Ethics Forum – www.managementlogs.com/business_ethics.html
- » Business for Social Responsibility – www.bsr.org
- » Boston College Centre for Corporate Citizenship – www.bcccc.net
- » CSR Wire – www.csrwire.com
- » DNV – www.dnv.com
- » OECD – www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_1,00.html
- » OECD Watch – www.oecdwatch.org

- » Dow Jones Sustainability Index – www.sustainability-index.com
- » FTSE 4 Good – www.ftse.com
- » Clean Clothes Campaign – www.cleanclothes.org
- » Global Compact – www.globalcompact.org
- » Global Compact Critics – www.globalcompactcritics.net
- » GRI (Global Reporting Initiative) – www.globalreporting.org/Home
- » Global Sullivan Principles – www.thesullivanfoundation.org/gsp/
- » Global Witness – <http://www.globalwitness.org/>
- » Good Corporation – www.goodcorporation.com
- » ISO – Social Responsibility (ISO 26000) – www.iso.org/sr
- » International Business Leaders Forum – www.iblf.org
- » Mallen Baker Blog – www.mallenbaker.net/csr/
- » Social Accountability International (SA 8000) – www.sa8000.org
- » Codes of Conduct – www.codesofconduct.org
- » Ethical Corporation – www.ethicalcorp.com
- » Principles for Responsible Investment – www.unpri.org
- » World Business Council for Sustainable Development – www.wbcsd.org

Working all day
leaves no time to make any money .
John D.Rockefeller

”



Analysing the relationship between sustainable business and SME's competitive edge

THE PURPOSE OF THIS CHAPTER IS TO PRESENT THOSE AREAS OF CORPORATE SOCIAL RESPONSIBILITY THAT ARE KEY TO SMEs AND INTRODUCE GOOD PRACTICES CONTRIBUTING TO THE GROWTH OF BUSINESSES' COMPETITIVENESS.

2.1. HOW DO SMES SEEK TO ACHIEVE SUSTAINABILITY OF THEIR BUSINESS As we have shown in Chapter 1 of the Manual, a company striving for sustainable business has to pit itself against a very complex matter; CSR is composed of a multitude of interrelated subjects and areas.

Achieving what is called a sustainable business is an extremely ambitious goal – one might wonder, how realistic for SMEs. Therefore, we should like to demonstrate in this section of the Manual, that any organization may accept responsibility for sustainable development proportionally to its capacity. Analysis of the findings of a number of studies on CSR and SMEs leads one to one basic conclusion: in most cases, SMEs practice what may be called an unaware CSR, i.e. when given an explanation of the sustainable business concept, they turn out to be able to identify many practices consistent with the social responsibility idea.

2.2. CORE AREAS OF SUSTAINABLE BUSINESS

FOR SMES In order to systematize the areas of sustainable business that are most important for SMEs, we have adopted the following division of companies' spheres of influence (somewhat narrower than the broad coverage proposed in ISO 26000 standard and presented in Chapter 1 of the Manual):

- relations with the company personnel,
- social involvement,
- environment.

In the next chapters we shall expand the context of these areas and describe good practices as well as management directions, taking the nature of SMEs into account.

What do modern business leaders need?

Sustainable business vs. leadership. A strong correlation exists between sustainable business and a trend which is important in management – namely, leadership. Ethical values are key to both these conceptions success. The qualities of business leaders include sensitivity to matters concerning people they work with, understanding of the conditions in the society, understanding the impact of business decisions on the stakeholders and awareness of not only what is produced but also how this is achieved. (PWN 2007)

2.3. PERSONNEL AND ALL THOSE WORKING

FOR THE ORGANIZATION It seems that most good practices of sustainable business are oriented towards employees and persons performing work for the company. SMEs rightly consider personnel to be the most important group of their stakeholders. People are the most vital resource of any organization. Many Polish companies are experiencing deficit of qualified employees and this situation may be a serious barrier to their growth. Therefore namely this is the area where one can make the most of responsible practices and the image of a responsible employer.

What benefits can be gained from practicing CSR in this area

- Better employee morale – satisfaction with work, productivity and innovativeness (it is worth noting that innovativeness can be SMEs competitive advantage, as creativity not always requires high outlays, e.g. technological solution and what is more, it is easier to

implement new ideas in smaller organizations, as their structure is less formalized);

- Loyalty – employees who are satisfied (not only in financial terms) feel more attached to the company;
- Easier recruitment – the image of an attractive employer.

What is worth attention?

- The basic questions one should ask are: are employees satisfied with their job? What is the level of this satisfaction? Do the employees feel that they are appreciated? Do they believe that their opinion matters? Do they believe that their work contributes to development of higher-order values?

- It is important that employees are informed of the management's CSR efforts. It is vital to win their commitment to the ideas the management is implementing. It happens commonly that employees react with reluctance to information that support is provided to external stakeholders, commenting this: „Why did they get it and we didn't”?

- The management's statements of social responsibility principles and values are verified by the employees in fact. If the company communicates its sustainability

Good practice examples:

» Denkstatt GmbH (Austria). A consulting company, making efforts to invest in its employees' health, providing them with a free of charge access to fresh fruit and sports.

» Bad & Heizung Kreuz GmbH (Germany).

A company operating in the sector of sanitary installations; provides job training to young people suffering from problems with learning. This is an example of supporting a group threatened with social exclusion and implementing a policy of equal opportunities.

» Euroquímica de Bufi & Planas S.A (Spain).

A company operating in the chemical sector; the personnel is offered an opportunity to acquire company shares. Moreover, a holiday internship programme has been launched for children of the company employees.

» Opteam Henkilöstöpalvelut (Finland). A recruitment company. In their recruitment processes they take employees' situation in life is taken into account, trying to find such job offers that would suit both the employee and the potential employer. This reduces customer's personnel fluctuation.

SA 8000 – Human Rights at the workplace

SA 8000 – a standard focusing on human rights observance – can be a useful tool in creating a workplace in a responsible manner. SA 8000, developed by Social Accountability International (SAI – www.sai-intl.org), is an auditable and certifiable standard. It may be helpful for:

- » subcontractors and suppliers of major and renowned recipients who require their business partners to meet high standards in the field of human rights (this applies in particular to luxury goods, textiles, toy industry and cosmetics – mostly, those delivered to the American market);
- » companies seeking certainty that they respect human rights, e.g. those subcontracting production in developing countries (e.g. in China, India).

SA 8000 consists of 9 requirements: child labour and forced labour prohibition, provision of adequate OHS environment, guarantee of freedom for trade unions, elimination of all forms of discrimination, prohibition of corporal punishment, a working week of no more than 48 hours, decent compensation, implementation of an adequate management system.

Currently, there are 1,779 companies certified against SA 8000 (situation as of June 2008, according to SAI), a half of them being based in developing countries (mainly – India, Pakistan, Brazil, China) and another half – in Italy. SA 8000 did not catch on in Europe (no case of implementation in Germany or Great Britain). In XI 2008, 6 companies were holding a valid SA 8000 certificate in Poland, the list being available at SAI's website.

externally, while the personnel knows that OHS regulations are violated, this affects the employee morale adversely and trust in the employer is lost.

OHS

Providing a safe and healthy work environment is a matter of extreme importance, subject to numerous regulations of the law. Hygiene, including its mental aspect (stress), as well as good health translate into the quality of work directly. Such management standards

as OHSAS 18001 or PN-N-18001 can be used as helpful tools here.

Social dialogue

Respecting employees' freedom of association and their right to organize trade unions is one of the fundamental principles of sustainable business, addressed by all voluntary CSR standards (not to mention regulations of the law). Trade unions are recovering from crisis in Poland and begin establishing new organizations, also in smaller business of the private sector. They should not be regarded as an intruder – a correctly conducted social dialogue may contribute to elimination of critical situations as well as to identifying and developing areas of common opportunities.

Equal opportunities

Discrimination is unacceptable in any form; there can be no disparity of working conditions or earnings between women and men doing the same job, just as they have to enjoy equal opportunities of professional promotion and development. In Poland, discrimination may also occur in terms of age, as well as recruitment policy and employment termination.

Gender Index

Gender Index – a UNDP project – is a valuable source of information on diversity management and equal opportunities.

www.genderindex.pl

Foreign employees

Companies experiencing a deficit of employees sometimes choose to employ personnel of foreign nationalities. This happens in particular in such sectors as gardening and vegetable farming or construction. This work is often seasonal in nature. One should remember that it is a desirable practice to treat all employees equally. Moreover, it is worth helping them with adaptation to work in Poland, especially when employees come from different cultures.

Employee volunteering

Employee volunteering is an attractive form of company personnel's engagement in social activities and it may add to employees' satisfaction, atmosphere at work and team integration. Many practical hints and tips can be found at the Volunteering Centre's website – www.wolontariatpracowniczy.pl.

2.4. COMMUNITY ENGAGEMENT Most SMEs' management systems do not cover any community engagement. They are lacking target groups definition, procedures, strategies, budgets, performance indicators, objectives, criteria and forecasts. It is worth at least start with establishing priorities and directions – this will enable the organization to build its competence in some particular area and associate the company image with it.

The Academy for the Development of Philanthropy

Many initiatives aimed at promotion of social engagement of business are launched by the Academy for the Development of Philanthropy in Poland. One of them is the annual “Benefactor of the Year” competition. The “Act Locally” programme undertaken in partnership with the Polish-American Freedom Foundation, yielded a manual of good practices for the SME sector. More information is available at www.filantropia.org.pl.

Areas of investment

Financing is the most obvious and most common form of support. A good this is to allocate a certain budget for social activities and communicate priority areas and groups to be supported. In addition to co-financing projects, a company may provide a valuable support to local community organizations, offering know-how or mailing messages about organization's projects to its business partners. In the recent years, employees involvement in the local social work has been becoming increasingly popular. This includes helping such institutions as nursing homes, orphanages, youth centres, etc. The important thing is that volunteering is not imposed on employees and that it is based on their potential, expertise and skills.

Company foundation

It happens often that owner(s) of a successful business choose sharing their success with the others, making donations to charity purposes. The higher the company profit, the greater the value of subsidy or grant. For the funds to be used in a most efficient manner, the budget should be strictly set and clear criteria for support granting should be defined. One of the ways to control this process is to establish a company foundation – more info to be found at the donors' forum website – www.corporategiving.pl.

Partnership – a model form of business-NGO collaboration

When initiating social engagement activities it is worth finding a partner, e.g. a local non-governmental organization, which is familiar with the most important problems in the local community. It is also worth establishing regular co-operation, i.e. partnership. Partnership, when community-based organizations and companies collaborate, sharing goals, resources (proportionally to their respective capacity), responsibility and risks related to a community project and when the main objective is achieved through joint action. Partnerships should promote innovative solutions of problems and forms of projects, yield mutual benefits to project partners, generate added value, i.e. through joint actions the partners should be able to build what they would not achieve single-handed.

Sector co-operation

When replacing individual actions with collective effort, one may attain measurable results, e.g. the effect of scale or more efficient use of resources. Business associations may become an important centre for sustainable business promotion, contributing to local communities' greater trust in business as such.

What is worth attention

- Establish correspondence between what you are doing and the company profile.
- Inform of what you are doing.
- Choose a meaningful direction and be consistent.
- Look for original, innovative ideas.
- Involve your employees in what you are doing.

Good practice examples:

» Talens (Poland). A wood industry company manufacturing products for artists. The owner initiated and allocated funds on a non-public secondary school of art, where education is offered free of charge. Thanks to this initiative, 30 children from Bieszczady region have an opportunity to start artistic education each year. The school and its students are occasionally supported by company's business partners (e.g. organizing trips), the community of

artists assembled around the company and the local authorities.

» Meblik (Poland). A manufacturer of furniture for children. The company joined the Polish Humanitarian Action's (PAH) mission in South Sudan. With Meblik's donation, PAH will build a well where more than 1000 people will be able to draw water every day. This example shows that through partnership with a non-governmental organization, SMEs may make their contribution to solving global problems.

2.5. THE ENVIRONMENT – LOWER COST? HIGHER PROFIT? BOTH. Since Poland's accession to the EU, companies have been imposed high environmental standards. This often involves significant financial outlays. Implementation of environmental management standards is increasingly becoming a common system approach to the natural environment related issues. This includes both formal systems, certified against ISO 14001 or registered in the EU's Eco-Management and Audit Scheme (EMAS), as well as participation in informal initiatives, such as Clean Production⁴ or Responsible Care⁵ programmes. Environmental management systems enables processes to be improved and use of resources optimized in a systematic manner. This may lead to reduced costs of energy and materials, lower environmental fees or fines – if any, as well as to enhanced perception of the company attractiveness by its business partners and access to new markets.

The following key stages can be distinguished within the process of constructing an environmental management system:

- identifying aspects of operations affecting the environment;
- establishing principles for controlling the a.m. aspects in the organization's processes;
- developing a system for monitoring, reporting and improving the operations.

Besides the environmental management standards, product labelling with an eco-mark and displaying a reliable description of its environmental characteristics is another positive demonstration of how environmental management practices are implemented in business.

⁴ <http://www.programcp.org.pl/polpcp.htm> (there are 76 companies in the Polish Register of Clean Production, including 30 SMEs).

⁵ The group of Programme signatories consists of 37 chemical sector enterprises.

London Benchmarking Model – a useful tool to evaluate involvement with the community

Companies engaging their resources in CSR projects may find it difficult to make a realistic estimation of the benefits to be gained by each of the stakeholder groups. Additionally, the need for project benchmarking is essential. Here, a model developed by the British organization London Benchmarking Group (www.lbg-online.net) can be helpful. This is a very simple tool enabling evaluation of the investments made and the performance, including the long-term social benefit. In Poland, the London Benchmarking Model is promoted by the Institute for Business and NGO Partnership (www.bi-ngo.pl).

There are many eco-marks on the market, such as the Polish "Eko-znak", the EU eco-label and other area-specific marks (e.g. FSC – Forest Stewardship Council – displayed on products made of wood coming from responsibly harvested and verified sources). Moreover, some major organizations use advanced lifecycle environmental impact analysis methods and tools (LCA – Lifecycle Assessment).

System approach to environmental management may yield a very prompt return of expenses and a competitive advantage in terms of both the organization's potential for growth and within the supply chain it operates in. Environmental management systems being implemented in Poland are growing in number year by year (including more and more SMEs) and this fact is the best recommendation and evidence that environmental management works.

Smaller organizations may use such tools supporting environmental management as:

- **Ecomapping**© enabling identification of organization's significant environmental impacts, as well as activities that may improve its environmental performance
- **EMAS easy**™ supporting the process of developing system documentation for documenting the environmental management system by means of simple Excel forms, based on **Ecomapping**© outcomes.

Interesting projects aimed at promotion of the environmental management principles in Poland are initiated by the Environmental Partnership Foundation (www.epce.org.pl).

The Polish National Chamber of Commerce together with other 61 chambers from 12 countries participates in the CHANGE project (Chambers Promoting Intelligent Energy for SMEs). The purpose of the project is to build SMEs awareness of the need for rational energy management and optimal consumption through a European network of consultants, where chambers are playing a role of contact points located closest to the project beneficiaries. The main emphasis is on the issues of energy efficiency, renewable energy sources and opportunities resulting from liberalization of the energy market in EU. More information about the project can be found on the National Chamber of Commerce website – www.kig.pl.

2.6. COMMUNICATING ON SUSTAINABLE DEVELOPMENT Communication is one of the key areas of sustainable business. Should we agree that CSR is an investment yielding profits in the long-term, we need to be aware that failing to communicate what we are doing we are losing a part of the benefits at least. Although sustainability reporting occurs in major companies only, there is a variety of simple tools that can be used by SMEs (e.g. their websites as the basic source of information about the company and its operations).

Tripple Bottom Line

This is some sort of a standard, sometimes identified with the 3P rule which has already been mentioned in the Manual. Reporting covers organization's performance in all three areas of sustainable business: economic, environmental and social.

Communicating CSR is tightly linked to the map of stakeholders: to communicate efficiently, one needs to know who the key recipient of the message is. Further in this Manual you will find out how to create a map like this.

It is often wise to reveal that which cannot be concealed for long.

Friedrich von Schiller

Whitewash, greenwash

These are rather contemptuous terms referring to activities of companies trying to promote their image as of being socially responsible, while disobeying the basic rules at the same time, e.g. violating human rights or degrading the natural environment. There are many independent civic society organizations hunting such corporate hypocrisy down. Since the year 2000, the Public Eye Award has been granted each year during the World Economic Forum in Davos to most irresponsible corporations present in Davos. One other interesting initiative is the Greenwashing Index (www.greenwashingindex.com) created by a commercial American social marketing agency to enable rating of adverts.

What benefits can be gained from communicating on sustainable business

- improved company image, enhanced reliability in the stakeholders' eyes;
- better relations with the local community;
- greater number of consumers (consumers, when given access to a wide range of products with a similarly good quality and price, will most probably choose products produced according to the sustainable development principles).

As starting point for building a sustainable business, a company should develop a positive vision, a mission, a policy statement and the resultant CSR strategy/program – this process will be described further on in the Manual.

Examples of such positive missions, visions and initiatives include maintaining a positive company image, social acceptance, servant leadership, developing new activities, inspiring, attractive and innovative products and services (including eco-innovation), promoting health, satisfying stakeholders and being the most wanted employer.

Business people sometimes tend to demonstrate a certain kind of false modesty (i.e. reluctance to boast about actions taken out of the need of one's heart) and fear that informing of one's doings may lead to escalation of demands and questions from the stakeholders. To address these concerns, one may establish, determine and

communicate just the basic rules and main directions of the company's community involvement – in line with its strategic goals or its values.

There are at least two reasons for a company taking sustainable development related activities to consider the option to communicate its performance in areas other than financial:

- giving up any attempt to forge these achievements into a market success, e.g. the image is an omission. "If you are doing something and fail to talk about it – it is just as if you were doing nothing".
- sharing one's experience with other companies may inspire them to action. Besides, communicating the performance gives one a chance to gain a name of a sustainable business leader in the town, region or industry.

The relation between CSR and PR deserves an explanation. PR includes all activities related to organization's communication with its social environment, e.g. by means of media and development of a positive image. Thus, the results of both PR and CSR are similar. A material difference is that PR is limited to the message proper, while CSR covers all the activities helping one to fill the message with contents. This can be expressed as follows: CSR first, PR next.

Differences between sustainable business and PR will be easier to understand when arranged into a table:

Sustainable business	PR
Long-term approach – strategy	"Media hits", one-off actions
Responsibility rests with a person with a strong position; management commitment	A person in the PR department or an external PR agency
A clearly defined group of beneficiaries the activities are targeted at.	The cost of arranging the action (e.g. PR agency services) often exceeds the recipient's benefits, these becoming an addition to the action.
Related to how the company earns its money	Related to how the company spends its money

The catchwords presented in the table above are exaggerated, to highlight the most important differences. It should be added at the same time that a good PR is one of CSR's greatest allies. It happens often in companies that CSR issues are handled by PR specialists.

Directions of communication and communication techniques

There are two basic areas of communication: internal and external. They should not be separated one from another. It seems however that internal PR is often neglected, companies losing in this way a potential benefit of enhanced employee awareness and morale resulting in a better atmosphere inside the company.

» **Public opinion.** SMEs based in small and mid-size towns often do not find it necessary to inform people around of what they do, assuming that people will know anyway.

» **The Internet.** This is the most commonly accessible and cheapest medium today; it is worth making a dedicated tab on your website, e.g. 'Community engagement' or 'Sustainable business'; today, many companies and SME owners choose also blogging.

» **A report, a brochure.** Information on CSR activities can be passed to customers at official meetings for example. It can be attached to promotional materials, press release folders, etc.

» **A conference, seminars, trade fairs.** Such occasions also provide a good opportunity to highlight the CSR activities; this creates good atmosphere and adds greatly to the company image.

» **Media.** It is worth maintaining good contacts with local journalists; with competently arranged media relations the message can reach an incomparably larger group of people than with single-handed actions.

What to communicate

The following issues should be communicated: the mission and the vision; awards received; the fact of making all payments in due time; collaboration with local partners; opinions of satisfied customers and business partners; positive product opinions issued by independent sources; OHS information; training information, any sponsoring and volunteering activities; environmental initiatives.

Besides, it is worth showing, what benefits the company and its stakeholders are gaining from various CSR tasks and initiatives.

This is worth remembering

It does not take much effort to create a tab dedicated to CSR, while it adds to organization's history. Maintaining contacts with local journalists representing e.g. a city portal, a cable TV station, a regional newspaper or a radio broadcaster may reinforce the message.

GRI – Global Reporting Initiative

Some SMEs may wish to draw up a sustainability report or seek guidance on identifying the scope of responsibility and monitoring activities in various areas of CSR.

The most popular standard on CSR reporting is GRI framework with its sector-specific supplements. Companies developing their sustainability reports according to GRI indicators are included in the database available in GRI website, together with information as regards the extent to which the company has used them (conformity with GRI is confirmed on one's own or subjected to independent verification). GRI guidelines are available at www.globalreporting.org. In Poland a good example of how GRI guidelines can be followed is the report published by Lotos Group in 2008. GRI guidelines will be published in Polish soon. More information on sustainability reporting can be found on Raporty Społeczne website dedicated to sustainability reporting (www.raportyspoleczne.pl).

2.7. WHAT ARE THE DIRECTIONS OF SUSTAINABLE BUSINESS DEVELOPMENT? Main trends:

» New regulatory forms on both the European and global level

Trends being set by international organizations (UN, OECD, UE) result in development of national legislations. Criteria other than prices will be included in the public procurement procedures (e.g. green and sustainable procurement). Major publicly quoted companies may also expect a requirement to report the non-financial performance and this fact will have its implication for SMEs too. The public-private partnership development will address CSR issues, giving priority to projects in co-operation with stakeholders.

» Development of sector-specific guidelines

Working out voluntary, sector-specific arrangements is becoming an increasingly common good practice in the field of CSR. Thereby, realistic directions can be set and opportunities for benchmarking are provided.

» Growing consumer expectations

The price is not the only criterion for choosing products or services any longer. It still remains important, but with the public awareness increasing and with the wealth

growing, consumers will tend to pay attention to other criteria as well, e.g. they will be expecting compliance with the environmental, social and ethical standards. Their choices will be demonstrating their attachment to personal values. Requirements of the so-called ethical consumers may become a business opportunity for SMEs, especially in the foreign markets.

» Claiming attitude, damages

The growing civic awareness may also be expressed in the form of claims. Stakeholders suffering any damages caused by the company will be using legal instruments more effectively and there will be more lawyers specialized in collective suits.

» Supply chain

Co-operation with major partners (e.g. in the automotive, mechanical, electronic, metalworking or furniture industries) will be increasingly determined by the ability to document compliance with the sustainable development criteria.

The most important issues resulting from dissemination of CSR management in the supply chain

» Environmental standards may require using technologies that will be difficult to implement for SMEs (e.g. because of their high cost), environment-friendly materials, etc.

» SME management processes are often less formal; they do not have any procedures enabling them to document that certain criteria have been satisfied, therefore it may be problematic for them to meet some of the standards. On the other hand, a risk exists that the gains will not pay the cost of certification back.

» With the increasing importance of CSR for major clients, some SMEs may not survive in the market. Seeking to reduce the environmental and social risks, corporations may be trying to reduce the number of entities they co-operate with (this applies mainly to developing countries).

Source: Fox T., 2005

These sector-specific criteria will often be imposed by the dominant market players and their organizations. The sustainable procurement/purchasing policy will be increasingly referred to.

2.8.1. INTANGIBLE VALUES AND RISK –

NEW PARADIGMS OF MANAGEMENT In the previous chapters of the Manual, the outcomes of studies on the competitive advantage areas gained from practicing CSR were presented. It was stressed that people (employees), their attitude, their motivation, etc. are one of the company's fundamental assets. Having satisfied the basic needs and the related sense of security (by means of – among others – an adequate pay), the employee seeks satisfaction of higher needs (as per Maslow's pyramid of needs), including the sense of belonging and self-fulfilment.

The organization owner or manager, when choosing to implement and communicate the CSR policy and activities, should analyse the extent, to which the company meets the employees' needs mentioned above. The motivational effect of actions can hardly be overestimated these days, when people, their creativity and commitment constitute the real asset on the market.

Good practice example:

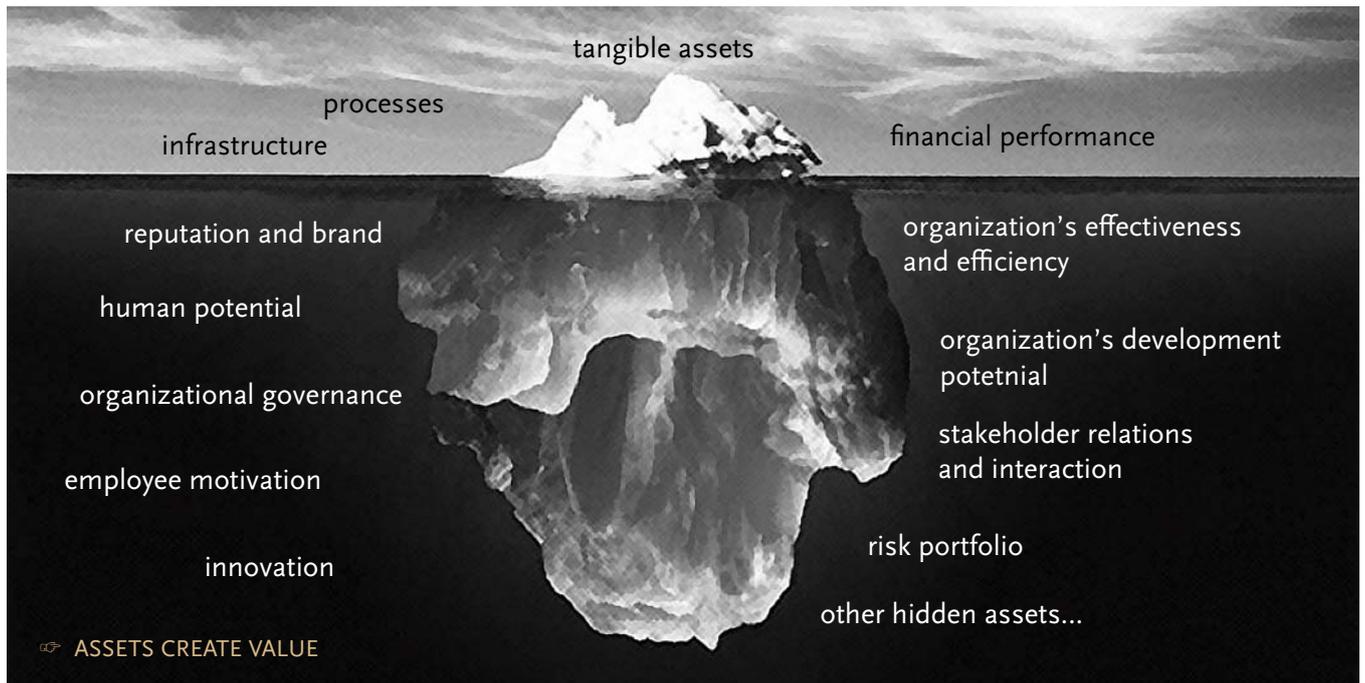
The WE DO project initiated by one of major consulting organizations can be referred to as a good practice example. The purpose of the initiative was to help the employees to reduce their personal carbon footprint through financing grass-root initiatives with funds from the organization's profit.

The amounts received could be spent on e.g. appliances reducing the household's energy consumption, new lighting installation, heating systems, sun panels, installation of an alternative fuel tank in a car, buying a bicycle, etc. An assumption had been made that the employee needed to pay 20% of the investment expenses, therefore buying decisions were well-thought over. The programme was completed to employees' satisfaction.

What has been achieved:

- » employees have been involved in environmental issues;
- » motivation and thinking oriented towards reduction of energy consumption have been triggered;
- » support has been obtained for energy consumption programmes in the organization (under ISO 14001 system being implemented);
- » the employees perception of the company as being responsible has been strengthened;
- » motivation to work has been enhanced.

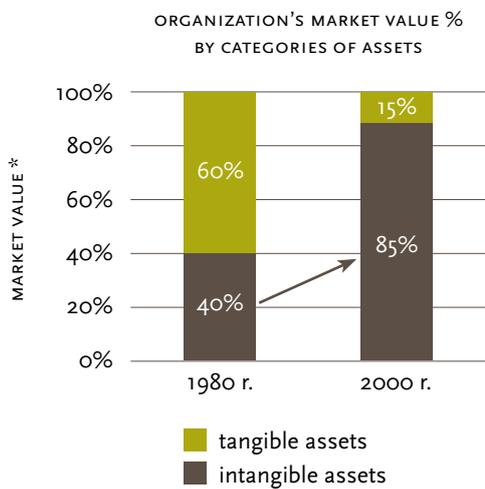
With motivated personnel, not as much control and inspection is required as in case of non-motivated personnel. Besides, purely financial demands are less frequent. The employee volunteering referred to before is an example of an initiative responding to personnel's higher needs. But, activities in this field do not have to be limited to philanthropy. It is rather recommended to choose such areas of support to external stakeholders, where benefits are gained by both the organization and the partners involved (e.g. co-operation with universities, public-private partnership). Practices of PWC Poland can be given as a good example: employees are offered an opportunity to dedicate a certain amount of their monthly working time to community-related purposes.



When analysing the figure above, one can note some regularities and correspondence with the existing management practices:

- tangible assets, production and non-production assets, infrastructure and financial performance are subject to proper management (measurable, active controls are in place); moreover, we learn how to control processes effectively, thereby increasing their efficiency (most typically in a short, one-year perspective);
- the areas below the water level (intangible assets in most cases), although commonly known, are not managed properly; we do appreciate their impact on the overall effectiveness and efficiency of the organization, while not being able to identify measures well enough and set measurable goals for the organization to achieve value growth.

Source: DNV studies

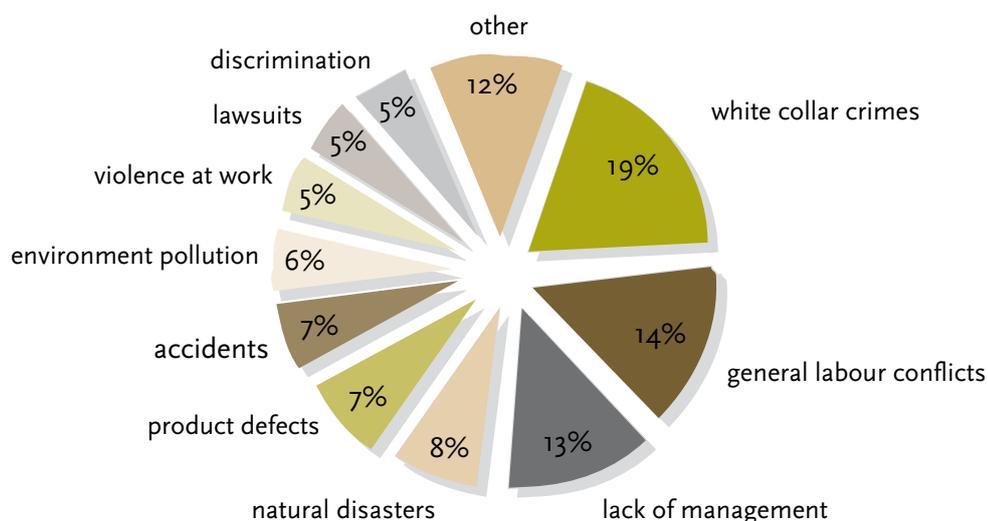


* book value = balance sheet values
 market value = how much the market would pay

Source: DNV studies

The graph on the left side shows how proportions between intangible and tangible values changed in the last 20 years. Data from major organizations provide more evidence of the intangibles' growing role. In some cases, the role of intangible assets is much greater than it used to be in the past, accounting for nearly a half of the organization's market value (Coca Cola) or even prevailing (Google).

A high value of intangibles may also be important to SMEs, especially to those owners, whose objective is to develop their company and sell it. To sum it up, we can state that when implemented, CSR policy and tools may add to the intangible assets value, the latter having a significant impact on the competitive advantage and achievement of the business goals, thus determining the organization's long-term success.



Source: DNV studies

2.8.2. MANAGING RISK CSR is often understood as a way to take the opportunities in business. In chapter 1 we have presented the effects SMEs can achieve as a result of implementing CSR rules and practices. At the same time, when speaking of CSR and analysing events described in media, we are dealing with reports of crisis situations in organizations first of all. A half of crises in business are incidents that could have been avoided or their consequences minimized.

These include:

- accidents at work,
- labour disputes,
- environment pollution,
- violence at work,
- discrimination,
- white collar crimes – fraud and corruption.

The graph above shows statistical shares of various crises in business. Although the specification applies to major organizations, it is not irrelevant for smaller companies operating within the supply chain. A crisis may imply painful financial and reputational losses. It is a very common reaction to media reports of a serious crisis to transfer responsibility onto a subcontractor for example. An approach like this is typical for an early stage of practicing CSR.

When analysing the above graph one can see that the so-called white collar crimes, i.e. fraud and corruption, are those having the highest in the total number of

crises. According to the 10th edition of Ernst&Young global report (2008) presenting the outcomes of the studies on corruption in business, 18% of the Polish managers experienced corruption, this rate being twice as high as in developed countries. At the same time, 69% of managers from developed countries and only 44% managers from Poland expressed an opinion, that bribing is not necessary to win a customer. According to other sources (PWC, 2005), an average company loses from 3 to 6% of its revenue as a result of fraud and corruption each year.

This risk area concerns ethics and sustainable business activity and affects profit significantly, therefore it should be managed in SMEs as well.

Annex 3 to this Manual shows correspondence between intangible assets and CSR areas, as well as tools supporting opportunities and minimizing risks in the sustainable business area.

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The young do not know enough to be prudent,
and so they attempt the impossible and achieve it, generation after generation.

Pearl S. Buck



03

The concept of integrated sustainable development management for SMEs

THIS CHAPTER PRESENTS SUBSEQUENT STAGES OF THE PROCESS/PROJECT TO DEVELOP AND IMPLEMENT A SUSTAINABLE DEVELOPMENT/CSR STRATEGY IN AN ORGANIZATION ORIENTED TOWARDS GAINING THE COMPETITIVE ADVANTAGE.

3.1. BUILDING CSR STRATEGY AS A METHOD TO ACHIEVE A LONG-TERM COMPETITIVE ADVANTAGE The following pages contain a detailed description of how to implement CSR strategy in an organization based on Deming's PLAN-DO-CHECK-ACT model. Sustainable development management is a new discipline, but management rules and mechanisms are universal in nature for organizations of all types and sizes. Depending on the type, size and organizational culture, implementation of CSR can be more or less formalized; it is important for the owners and the management to effect an intellectual process and to make an informed business decision as regards the scope of using the sustainable business practices..

➤ SCHEME: STAGES OF CSR STRATEGY IMPLEMENTATION

PLAN (P)

STAGE I: Identifying the context, priorities, opportunities and risks, as well as the interested parties

STAGE II: Dialogue with the stakeholders

STAGE III: Analysing the outcomes and selecting areas for in-depth analysis

STAGE IV: Risk analysis and assessment

IMPLEMENT (D)

STAGE V: Determining activities and procedures, setting objectives

STAGE VI: Communicating the outcomes and the objectives

IMPLEMENT (D) / CHECK (C)

STAGE VII: System implementation

CHECK (C) / IMPROVE (A)

Management (PDCA)

BASED ON DEMING'S PDCA CYCLE (Plan-Do-Check-Act)



Source: DNV, authors' studies

Stage I. Deciding, what sustainable business/CSR means for the organization

Example of 7 core subjects to be reflected over (as per ISO 26000 draft standard):

- Organisational Governance
- Human Rights
- Labour Practices
- Environment
- Fair Operating Practices
- Consumer Issues
- Social Development

3.1.1. STAGE I. IDENTIFYING THE CONTEXT, PRIORITIES, OPPORTUNITIES AND RISKS, AS WELL AS THE INTERESTED PARTIES The basic and the

first element of implementing the CSR strategy is to define the business context of CSR for the individual company. The owners and the management should specify, what CSR means to them, what types of practices they consider to be responsible from the stakeholders' point of view: firstly, the owner, the employees, the customers, the suppliers and the subcontractors and subsequently, the local community, the administration and the environment in a broad meaning of the term. Definition of the CSR context in the organization functions also as the initial status analysis, i.e. it requires the sustainable development practices used so far to be defined and identified. To determine, what is relevant, one should define scope of the concept. When analysing the subjects of CSR/sustainable development, one may address the guidelines provided in ISO 26000 draft standard. The document describes CSR issues in terms of 7 core subjects:

Organisational Governance

- legal compliance
- accountability
- transparency

- ethical conduct
- recognition of stakeholders and their concerns

Human Rights

- civil and political rights
- social, economic and cultural rights
- vulnerable groups
- fundamental rights at work

Labour Practices

- employment and employment relationships
- conditions of work and social protection
- social dialogue
- health and safety at work
- human resource development

Environment

- pollution prevention
- climate change mitigation and adaptation
- protection and restoration of the natural environment

Fair Operating Practices

- anti-corruption and anti-bribery
- responsible political involvement
- fair competition
- promoting social responsibility throughout the supply chain
- respect for property rights

Consumer Issues

- fair marketing, information and contractual practices
- protecting consumers' health and safety
- provision and development of environmentally and socially beneficial products and services
- consumer service, support and dispute resolution
- consumer data protection and privacy
- access to essential products and services
- sustainable consumption
- education and awareness

Contribution to the community and society /

Social Development

- community involvement
- contribution to economic development

One should remember that the weight of each of the areas depends, among other factors, on the company type and size, the industry, the situation on the market and the organizational strategy, as well as on the situation and the strategy of the entire supply chain the SME operates within. When selecting priority issues, it will be helpful to fill a table designed to analyse and

evaluate the strategic impact of individual areas (high 4p., medium 2p., insignificant op.).

Filling the table presented below (p. 38) enables one to evaluate the relevance of CSR/sustainable business areas from the organization's point of view. There is no one single method for selecting CSR areas; management may cover all areas that are important for the owners or apply the Pareto rule and choose 20% or, according to the extended Pareto, choosing 30% of the most relevant subjects.

One may also, as the example above shows, choose 50% of relevant subjects that are significantly distinguishable among all CSR areas. It is for the management to decide and the exercise suggested here and the table are only intended to support the process of reflection.

The exercise below is essential, as it may determine the success of the future work to design and implement the development guidelines. No matter the organization's size, the following rules apply:

- subjects that are not important to the management/owners, will not find much support as far as implementation and provision of funds is concerned;
- subjects that are not important to the employees, will not find much support and commitment from the personnel;
- subjects that are not important to the customers will not be perceived by them as value-adding and will not translate into any negotiation advantage;
- subjects that are not positive differentiators will not provide any competitive advantage.

Further on, we shall analyse the correspondence between CSR issues and business strategies and goals, as well as organization's processes.

Evaluation of CSR areas relevance from the owner's/ shareholders'/management's point of view with regard to:

- strategy (mission, vision, values),
- objectives,
- processes,
- opportunities (at the strategic level),
- risks/threats (at the strategic level).

One should begin with an in-depth analysis of CSR relevance to the company strategy, i.e. analyse and identify the external activities that will support the strategy implementation and the internal activities that are desirable in terms of achieving all of the objectives (the

PROPOSED SUSTAINABLE BUSINESS AREAS RELEVANCE MATRIX

CSR SCOPE	IMPORTANT FOR THE OWNERS, MANAGEMENT	IMPORTANT FOR OUR EMPLOYEES	IMPORTANT FOR OUR CUSTOMERS	AFFECTS OUR COMPETITIVE ADVANTAGE – MAY MAKE US STAND OUT	TOTAL
Organizational governance	2	2	0	2	6
Human rights	2	4	2	0	8
Labour practices	2	4	4	2	10
Environment	4	2	2	4	12
Fair operating practices	2	4	4	4	14
Customer relations	4	2	4	4	14
Social development	2	4	0	0	6

area of opportunities). The next step is to identify those internal and external situations, that may jeopardize achievement of the objectives (risk area).

Filling the table below will be helpful in selection of strategic topics (analysis and evaluation of the strategic impact: high 4p., medium 2p., insignificant op.).

As it appears, the same CSR areas are used at both stages of our model analysis:

- Labour Practices

- Environment
- Fair Operating Practices
- Consumer Issues

This means that the organization should concentrate its efforts on the a/m CSR areas and develop them, taking stakeholders' expectations into account. Management mechanisms should be worked out for these issues, i.e. objectives, activities, a system for monitoring, analysing and improving these activities. The profile of relevant CSR aspects described above is universal in nature and

CSR SCOPE	STRATEGICALLY RELEVANT – AFFECTS VALUE GROWTH FOR THE OWNER	CONSISTENT WITH THE BUSINESS PRINCIPLES (VALUES) ADOPTED	THE ELEMENT IS WITHIN THE ORGANIZATION'S SPHERE OF INFLUENCE	AREA OF STRATEGIC THREATS	AREA OF STRATEGIC OPPORTUNITIES	TOTAL
Organizational governance	2	2	4	2	0	10
Human rights	0	4	4	2	0	10
Labour practices	4	4	4	4	2	18
Environment	4	4	2	2	4	16
Fair operating practices	0	4	4	4	4	16
Customer relations	4	4	4	4	4	20
Social development	0	2	2	0	2	6

can be applied in both production and services industries, in major companies and in SMEs as well.

The important thing is to identify the stakeholders who are affected by the organization's objectives, development directions and processes, as well as the stakeholders who have a significant impact on the organization's value growth.

The organization should identify those stakeholders whose contribution to strategy implementation is greatest and who influence the company value perceived by the owners the most. The concept of owner value is not clear-cut and may mean different things to various organizations, depending on the industry, size, culture, development, organizational culture, place and position within the supply chain. The following elements can be perceived by the owners/management as their value:

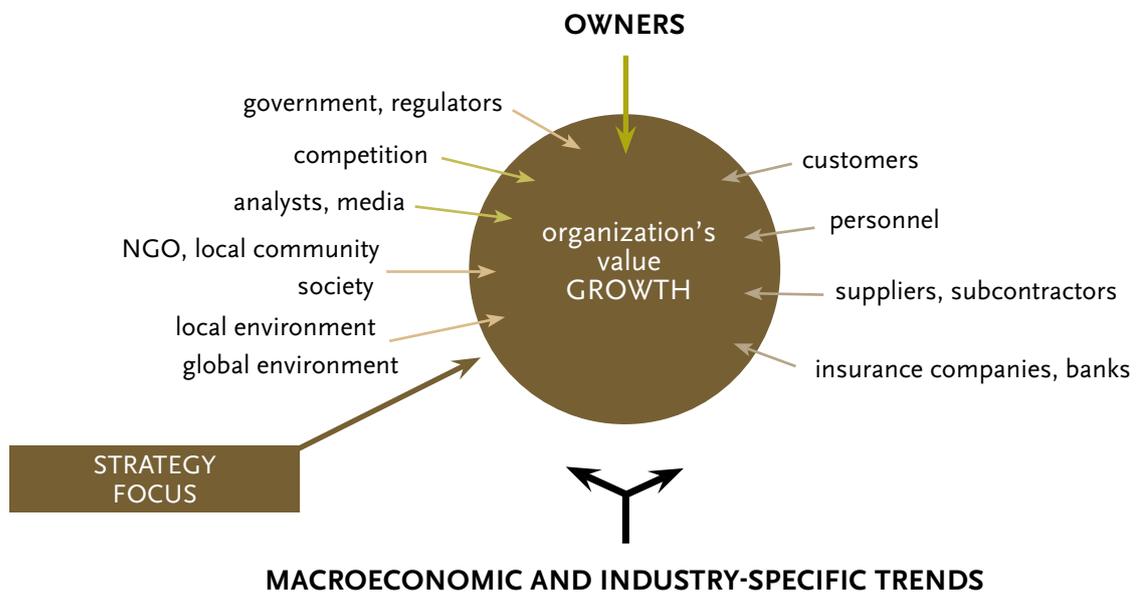
- return on capital,
- organizational growth,
- achieving the position of a leader,
- profit,
- surviving in the market at the time of recession,
- development potential,
- innovativeness,

- human resource value,
- other elements.

The figure below shows various possible stakeholders affecting the value growth.

The process of selecting key stakeholders should begin with setting a specific goal as regards the organization's value growth, as well as with planning a method for achieving the goal (this information is very often missing at SMEs, as they do not have any formalized strategies; in such a case it is the owner and the management whose decision prevails).

⇨ STAKEHOLDERS AFFECTING THE ORGANIZATION'S VALUE GROWTH



Source: DNV, author's studies

STAKEHOLDERS AND THEIR IMPACT ON:	ACHIEVEMENT OF STRATEGIC GOALS	PROCESSES	OPPORTUNITIES	THREATS	DEVELOPMENT POTENTIAL IN THE FUTURE	TOTAL
owners	4	2	4	4	4	18
personnel	4	4	4	4	4	20
suppliers	2	2	2	4	4	14
subcontractors	4	4	2	4	2	16
customers	4	4	4	4	4	20
community	0	0	2	2	2	6
administration	0	2	2	2	2	8
industry organizations	0	0	2	0	2	4
business chambers	0	0	2	0	2	4

Stage II. Dialogue with stakeholders – initiating

Inviting the stakeholders and explaining organization's approach to CSR, specifying mutual expectations as regards the dialogue and process of co-operation.

Stakeholders' evaluation of each of the CSR areas (understanding and prioritizing):

- defining positive practices in organization's operations;
- defining negative practices in organization's operations.

3.1.2. STAGE II. DIALOGUE WITH STAKEHOLDERS – INITIATION Following analysis and selection of those stakeholders whose impact on the organization's current situation and its development is greatest, it is worth planning a meeting, where the following will be presented:

- purpose and subject of the meeting (these should also be mentioned in the invitation);
- activity scope (basic company data and its background);
- basic product/service information and general information about its environmental and societal impact;
- company mission, vision or policy, as well as its objectives (business rules the owners and the management adhere to);
- what is expected of the stakeholders and of the process of dialogue with them;
- further steps to be taken in the process of dialogue.

The meeting can also be used as an opportunity to start a discussion (moderated by the organization or by consultants) on stakeholders' expectations and opinions on the most important areas of organization's impact, thereby identifying the most active stakeholders, but also areas requiring reflection.

Stage III. Analysing and selecting areas for in-depth analysis

Selecting priority areas of CSR to be managed:

- identifying priority areas that are common for the organization and its stakeholders (opportunities and risks as well);
- identifying the areas of differing priorities (follow-up, analysis and actions).

3.1.3. STAGE III. SELECTING AREAS FOR IN-DEPTH ANALYSIS The next step proposed is organizing another meeting with the interested parties, to present in detail (again) products/services affecting the stakeholders and/or areas significantly, as well as those areas, where the stakeholders affect organization's operations and efficiency, or its effectiveness in achievement of development goals significantly. Such meeting should not be longer than 2-3 hours and they should focus on a selected aspect of the organization's products/services or processes impact.

As a result of these meetings with the stakeholders, areas for an in-depth analysis should be identified, with special attention paid to:

- presence of strongly positive practices in the organization's operations, affecting the stakeholders;
- presence of strongly adverse practices in the organization's operations, affecting the stakeholders;
- presence of stakeholders' strong impact on the organization.

Outcomes of these meetings and analysis will enable the organization to verify the initially chosen group of stakeholders and to select the material stakeholders for the dialogue.

Stage IV. In-depth analysis of risks and opportunities in operations/processes

Analysis of operations/processes in priority areas:

- risk identification and assessment: facts of practices giving rise to opportunities and threats in the organization's operations/processes;
- selecting opportunity/risk areas to be managed

3.1.4. STAGE IV. IN-DEPTH ANALYSIS OF RISK AND OPPORTUNITIES IN OPERATIONS/PROCESSES

Following the a/m meetings with the stakeholders, the organization should have knowledge of:

- stakeholders' expectations as regards the process of dialogue and co-operations;
- stakeholders' attitude to the social impacts of products or processes;
- the areas of greatest – in the stakeholders' opinion – potential in terms of responsible business;
- the areas of greatest opportunities related to stakeholder engagement;

- the areas where conflict of organization's and stakeholders' interests occurs.

The issues listed above should be managed in an informed manner. This does not mean that objectives, operational rules and monitoring methods need to be specified for all of them. Informed management means deciding, which issues the owner/the management wishes to take care of first of all (which of them may have the greatest impact on the company value).

CSR issues should not be approached in a selective manner, i.e. one should not avoid difficult matters or concentrate only on those requiring not that much resources and commitment. A business context analysis table may be helpful in visualizing these issues and in making the right decisions.

3.1.5. STAGE V. SETTING OBJECTIVES, DEFINING ACTIVITIES AND PROCEDURES

The organization

Stage V. Setting goals, defining actions and procedures:

- defining and writing the policy (main principles/codes, company-specific improvement guidelines);
- approving objectives and programmes/activities – internal and external consultations;
- defining and writing (where necessary) procedures for CSR management, process/activity control, performance monitoring (KSI – Key Sustainability Indicators / KPI – Key Performance Indicators / KRI – Key Risk Indicators), communicating the performance both internally and externally (to stakeholders), reporting the performance and incidents, taking preventive and corrective actions in cases where the planned results are not achieved.

Area affects our organization's and our stakeholders' opportunities and risks significantly.	Issues are fully managed, the organization determines the activities and their results.	The area is or may be subject to legal regulations in the future and failure to act may cause barriers to business and development.	The area may affect achievement of the competitive advantage significantly.	Cost-benefit analysis shows that benefits can be gained from making commitments in this CSR area and changing the activities there.
YES/NO	YES/NO	YES/NO	YES/NO	YES/NO

should define its sustainable development policy based on priority areas of CSR that have been identified. The policy may be less or more formalized, direction-oriented only, fitting into one A4 page or just the opposite – describing the rules and principles in a detailed manner (in this case, the document may take the form of a code of conduct or a set of rules). The organization should address the CSR aspects chosen and the policy/code, specifying a detailed scope of activities intended to support effective implementation of the policy oriented towards opportunities that can be used and towards avoidance of risk in the sustainable development areas.

It may turn out necessary to set objectives and tasks for individual managers and specialists, e.g. through extending job descriptions with specific CSR management tasks. Most probably, this is the stage when questions, disputable issues and concerns about the rules or the policy will emerge – according to the rule that the further you go, the deeper you get. Therefore, it is necessary to fine-tune the objectives, definitions, tools, resources and methods of monitoring implementation of the sustainable development policy. The reason why this stage is so important is that the policy/principles, when defined and recorded, will be communicated throughout the organization and to the stakeholders (including suppliers, subcontractors, local administration, etc.). Thus, we shall be exposed to employees' business partners' and other partners' criticism. If we are not able to answer such questions as: "what does this particular rule apply to?" and "what will this mean to our organization in a given situation and with the given product/service?" at the stage of communicating the principles, it may happen that the efforts made so far will be wasted.

For the sustainable development policy implementation monitoring to be effective, it is recommended to specify *Key Sustainability Indicators* showing the goals achievement status to the management. This type of indicators can be identified using *Key Performance Indicators* (KPI) or *Key Risk Indicators* (KRI) as an example:

- quantity and scope of CSR training,
- employee initiatives in numbers,
- quantity and scope of initiatives taken together with the stakeholders;
- process safety level/OHS monitoring data,
- number of defective products /material-intensiveness indicators,
- energy consumption per product (in case of production) or per volume (value) of services provided,
- customer complaints in numbers,
- cost of product recalls,

- environmental fines charged,
- and other elements.

Examples of performance indicators are presented in ISO 14031 Environmental Performance Evaluation Standard. These standards apply mainly to the environment protection issues, but they provide a number of good practices and options to extend the scope of monitoring at the same time. Moreover, examples of indicators are also presented in a document dedicated to environmental communication, namely ISO 14063 Environmental Communication Guidelines (www.iso.org).

Monitoring of CSR activities does not necessarily need to provide a zero-one answer to the question, whether the objective has been achieved. It should rather be regarded as a measure of the extent to which the organization has managed to approach the targets, what trends can be observed, what attention should be paid to, what changes occur in the business environment and how our commitment to sustainable development translate into business performance (revenue, cost, profitability, returns). The organization should develop its own, company-specific indicator – adequate for monitoring the strategy and the objectives chosen.

Stage VI. Communicating the outcomes of analyses and CSR goals:

- throughout the organization;
- to stakeholders participating in the process;
- to other interested parties
(WWW, sustainability reports).

3.1.6. STAGE VI. COMMUNICATING THE OUTCOMES OF ANALYSES AND CSR GOALS

Having defined the objectives, the policy/codes and the responsibility for each of the sustainable development areas, the organization should be ready to communicate the strategy to the stakeholders. The group of most important stakeholders includes the owners and the personnel, therefore care should be taken to ensure that the responsibilities implied by the new development direction are understood by the managers of various levels first of all (to ensure consistency of decisions being made).

When communicating the CSR strategy, the company personnel cannot be ignored. It happens often that reports and principles are communicated externally, e.g. via websites, prior to being presented to the employees. This is a serious mistake, which exposes the organization to the risk of losing trustworthiness. Having communicated the directions, the objectives and the responsibilities for the sustainable development issues throughout the organization, one may communicate these externally.

There are many methods of external communications:

- company website (the most common source of information for the stakeholders),
- conferences / meetings with the stakeholders,
- letters to the stakeholders,
- sponsoring campaigns, when the organization has an opportunity to present its CSR strategy (which may include sponsoring or philanthropic activities).

At this stage, we are recommending co-operation with the persons responsible for communication and PR in the organization – they are able to specify the form and the contents of messages and to make the most of the effort invested in building the system approach to the sustainable development issues.

As development of the CSR practices progresses, the organization may choose preparing a sustainability report, sometimes referred to a *triple bottom line* report – see Chapter 2.). Many major organizations are very serious about this stage, as sustainability reporting is becoming a sort of a good practice. Numerous publications and guidelines on reporting (also dedicated to SMEs) can be found on the GRI's website, including proposals of industry-specific performance indicators that can be used for the purpose of benchmarking.

The process of reporting should be based on a precisely defined scope and methodology. The organization should concentrate on material issues and bear in mind that the report must be written in a comprehensible language and presented in a reader-friendly form.

Reliability is the essence of reporting. In a good report, the organization (and its impacts in particular) should be presented objectively. Another important feature of credible reports is that they enable the recipients to follow up the progress in policies implementation. Therefore, it is necessary to define performance indicators and methods of data collecting precisely. An organization wishing to make information presented in the report more reliable may consider external verification by specialized bodies (such services are commonly

offered by certification bodies and major consulting organizations) or ask a public trust person or a non-governmental organization to verify the report.

Stage VII. System implementation

- **monitoring the performance and the practices being used;**
- **preventive and corrective actions;**
- **internal audits;**
- **continuing dialogue with the stakeholders.**

3.1.7. STAGE VII. SYSTEM IMPLEMENTATION

The process described in the previous VI steps can be considered an implementation project, with the degree to which CSR practices have taken root in the organization's operations as an important attribute of implementation, affecting system efficiency. In time, many initiatives are lost in the tangle of organization's operational and strategic problems. Therefore, establishing a process for systematic performance monitoring and for making decisions to address the effectiveness and efficiency of goals achievement are vital elements of the sustainable development management system implementation. One should remember that implementation, understood as system embedding, is the most difficult stage of the project. The extent to which sustainable development practice take root in the organization depends on many factors, the organization owners' and management's awareness being the most crucial however – Annex II includes a synthetic description of sustainable management maturity as per BS 8900.

When describing stage V we mentioned KSI/KPI/KRI indicators. A monitoring system is nothing else than rules for periodical reporting on the performance and making business decisions based on objective data. If a trend revealed by monitoring shows that performance is at variance with the objectives, so-called preventive actions should be taken.

In case when reporting, internal audits or internal inspection reveals violation of the policies, processes or good practices, a path of corrective actions should be planned. These mechanisms are perfectly known to organizations where managements systems have been implemented (e.g. ISO 9001, ISO 14001, OHSAS

18001/PN-N-18001, SA 8000). At the same time, implementation will require planning a path of sustainable development/CSR training for the newly employed personnel, as well as two-way communication with suppliers and sub-contractors (within the organization's supply chain).

Stage VIII. Management (Plan Do-Check-Act – Deming cycle)

- monitoring performance and development (management review);
- up-dating evaluation of opportunities and risks;
- evaluating effectiveness of the system, policy and indicators.

3.1.8. MANAGEMENT (PDCA) As many decisions concerning operational issues and directions are made at the stage of implementation, it is difficult to identify the moment when one moves on from implementation to management, both stages being interrelated and overlapping.

Periodical reviews of development directions should cover organization's current needs and respond to changes in the environment, as the objectives accepted at the beginning of CSR strategy/programme implementation may turn out to be:

- not good enough – we all learn from mistakes;
- unachievable;
- invalid;
- inadequate to new directions of products and services development;
- inefficient – they do not translate into business performance within the time-span adopted for the review.

Therefore, the sustainable development strategy and objectives should be approached to in the same way as organization's other objectives evolving in time, following changes in the external environment (the market, the stakeholders, the public opinion and awareness, legal and other requirements) and closely related to the owners'/management's priorities.

If objectives are modified as a result of changes in the external environment and internal determinants, one should refer to the organization's policy as a compass

The only constant thing
in business is change.

Peter Drucker

indicating directions consistent with the organizational values and culture.

An organization adhering to the sustainable development principles should seek optimal results in three dimensions: economic, social and environmental, regardless the circumstances.

The ability to spot and seize opportunities, i.e. so-called windows of competitive advantage gives evidence to organization's effectiveness.

In case of more demanding and interrelated markets, it may turn out essential to expand the sustainable development practices within the given industry or cluster, where they may add significantly to competitive advantage or development potential of the organization and its supply chain. The supply chain issues will be discussed in Chapter 4 of the Manual.

NOTE: Smaller organizations should adjust the way of implementing the project and the mechanisms of sustainable development management to their nature and situation. A model project might consist of the following stages:

- identifying the organization's CSR context
- defining the stakeholders and selecting the most important areas of collaboration
- determining the methods of improvement for these areas (setting the objectives)
- defining performance evaluation and management methods.

It is also worth stressing the purpose of CSR management is not to build new mechanisms or structures within the organization, but to embed the environmental and social aspects in the existing management tools.

3.2. CSR IMPLEMENTATION SCHEDULE The Gantt graph on the next page shows the main stages of CSR strategy/programme implementation in an organization.

The model schedule should not be regarded as a recommendation for all SMEs; both the duration and the scope of activities depends on the organization size and project implementation culture, as well as on the scope of CSR strategy development that has been adopted.

It may turn out that in an organization taking up several CSR issues (e.g. due to its size) the management will need much less time (2 months in total, for example) to define relevant issues and stakeholders, as well as to specify directions and activities.

No matter the size of the organization, when implementing the sustainable development management system one should engage all key persons whose support to the project may be crucial to its success, as well as secure project financing. In major organizations with a complex structure and scopes of responsibilities defined (employing more than 100 people), this group will include first of all:

- the top management (no matter the size of the organization);
- the person responsible for HR;
- the person responsible for PR and communication;
- the employee representation;
- the mid-level managers, including in particular those representing those areas of CSR that are important for the organization (e.g. contacts with the suppliers and sub-contractors, i.e. the purchasing department, the investment/maintenance/production department);
- the management representatives responsible for quality and OHS&E management systems;
- other persons, depending on the organization.

A series of meetings to be attended by all personnel of the organization should be planned for the following stages of the project:

- working out development directions;
- communicating the policy;
- communicating the objectives;
- communicating the outcomes.

The literature of the subject stresses that an organization planning to develop in a sustainable manner does not need to initiate any complex projects at the very beginning – it may model its development by means of gradual expansion of all measures/initiatives fitting into CSR in the broad meaning of the term.

In the next chapters of the Manual, the authors will attempt to demonstrate, how CSR issues fit into the most relevant criteria determining competitive advantage within the supply chain. These include: cost, quality and time discipline (see: Żemigła, 2007).

		2009				
STAGE	QUARTERS OF THE YEAR	IV	I	II	III	IV
STAGE I. IDENTIFYING THE CONTEXT, PRIORITIES, OPPORTUNITIES AND RISKS, AS WELL AS THE INTERESTED PARTIES						
1.1	Defining the CSR context – defining, what sustainable development means for the organization					
1.2	Evaluation of CSR areas relevance from the company point of view (owner/shareholders/management)					
1.3	Analysing stakeholders in terms of organization's development strategy					
1.4	Selecting stakeholders for co-operation					
STAGE II. DIALOGUE WITH THE STAKEHOLDERS – INITIATING						
2.1	Inviting the stakeholders and presenting CSR scope, needs and rules of co-operation					
2.2	Stakeholders' evaluation of CSR areas (interactions between and relevance of each of the CSR areas)					
STAGE III. SELECTING AREAS FOR IN-DEPTH ANALYSIS						
3.1	Identifying important areas that are common for the organization and its stakeholders					
3.2	Selecting areas for in-depth analysis of risk and opportunities in organization's and stakeholders' processes and operations					
STAGE IV. THOROUGH ASSESSMENT OF RISKS AND OPPORTUNITIES						
4.1	Detailed identification and assessment of risk – impacts, incidents or practices creating opportunities and threats in the organization's processes					
4.2	Selecting risk and opportunity areas the organization can influence and is able/intends to manage					
STAGE V. DETERMINING ACTIVITIES AND PROCEDURES, SETTING OBJECTIVES						
5.1	Defining & recording CSR policy/principles/strategy/codes					
5.2	Specifying and approving CSR objectives and programmes/ activities					
5.3	Defining CSR management procedures for process control, monitoring, follow-up and reporting to stakeholders					
STAGE VI. COMMUNICATING THE OUTCOMES AND THE OBJECTIVES						
6.1	Communicating the outcomes and policy/objectives/principles in the organization					
6.2	Communicating the outcomes and policy/objectives/principles to stakeholders participating in the dialogue					
6.3	Communicating the outcomes and policy/objectives/principles at the forum of other interested parties (via www/reporting)					
STAGE VII. SYSTEM IMPLEMENTATION						
7.1	Selecting key sustainability indicators					
7.2	Monitoring CSR performance and practices					
7.3	Preventive and corrective actions / internal audits and inspections					
STAGE VIII. MANAGEMENT (PDCA)						
8.1	Review and assessment of policy effectiveness and management performance					



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Listening attentively to the voice of customers
should become each company's business.

Tom Peters

04

SME as a link in the supply chain – a return on investment in sustainable business

THIS CHAPTER IS DEDICATED TO REFLECTION OVER RATIONALITY OF USING THE SUSTAINABLE DEVELOPMENT CONCEPT AND CSR TOOLS WITHIN THE SUPPLY CHAIN IN THE CONTEXT OF THE MOST CRUCIAL BUSINESS CRITERIA IN THE PURCHASING PROCESSES.

Any SME owner or manager, when reading this Manual, will ask the following question: is sustainable business worth the trouble? His or her next questions will go deeper: is it possible that the CSR-based approach to business proposed here yields better results than the management methods used so far? Will the changes enhance opportunities for my organization and are these opportunities great enough to justify the changes? Is the potential risk involved in sticking to the current methods of doing business high enough to take the effort and change the approach to management?

These questions are very much justifiable. Anything that may spur achievement of the basic business goals should be analysed and made use of by the managers. The subject of sustainable business and CSR is so much in fashion these days that it is not only right to talk about it, but also to form an opinion as regards the possibility of applying CSR practices in one's business. It is, hence, worth analysing individual areas of sustainable business, in order to make an informed decision as to choosing and implementing those of the CSR tools that may most contribute to the company success. It is necessary to evaluate the organization's current strategy and business model, as well as the portfolio of existing and prospect customers and other stakeholders having a significant impact on the value of organization's revenue and profit.

4.1. SUPPLY CHAIN REQUIREMENTS Besides the owners, namely customers are each organization's primary stakeholders, also in case of SMEs. Therefore, customer expectations, both current and future, will be determining the way how business is done, including directions of organization's development. The group of SME's customers may include individual clients, subjects covered by the public orders system, but also – corporations or their immediate suppliers. A substantial number of SMEs operates in one or several supply chains (manufacturing organizations in particular). A SME may be a major organization's immediate supplier/subcontractor or a supplier/subcontractor of a smaller intermediate link within the supply chain. Therefore, this chapter will be dedicated mostly to requirements imposed by corporations on SMEs in their supply chains.

Sustainable Supply Chain Management

Corporations, taking care of their image, are increasingly seeking promotion of the sustainable approach to business. CSR policies and strategies are to a higher or lesser degree passed onto the first, second and third tier suppliers. CSR/sustainable development requirements very seldom apply to the entire supply chain and this may also constitute a serious risk for the business (many of the crisis and risk areas have been indicated in Chapter 2).

Many corporations have launched training and awareness projects in *sustainable procurement/purchasing*. Nevertheless, the situation in the markets and markets oscillation require invariably the management to focus mainly on the short-term financial performance. Hence, corporations operating in Poland are, similarly to other companies, interested in business profitability and efficiency first of all, the long-term objectives taking more distant positions. Therefore, one of the solutions is to look for customers who are serious about their commitment to sustainable development (see: a matrix at the end of this chapter) or to analyse, whether CSR tools may contribute to competitive advantage in the three procurement areas that are most frequently indicated by corporations, i.e.:

- **cost** (current and the potential to optimize these, with supplier's/sub-contractor's flexibility taken into account);
- **quality** in broad meaning of the terms (OHSE aspects management, with reputation included);
- **timeliness** (of deliveries, project completions).

The crisis being experienced by the automotive industry today belongs to the most evident examples of a business risk resulting from ineffective management of the sustainable development issues within the supply chain. Competitive changes occurring in the vehicle sales market brought about a strong need to cut prices, this resulting in a long-lasting reduction of profitability throughout the supply chain. With its high specialization and technological advancement, the automotive industry is characterized by a very long supply chain. Costs of raw materials and energy posed limits on any further reduction of prices. Under such circumstances, the first, second and third tier suppliers were not able to lower their manufacturing costs any longer. Not only SMEs were affected, but such previously unbeatable giants as e.g. General Motors suffered as well. One may presume that if GM had reduced material-intensiveness and energy-intensiveness throughout the supply chain, it might have been able to compete with the makers of Asian brands today. The profile of GM's high-capacity engine cars portfolio (mainly in the American market) turned out to be a real nail in the coffin. An analysis of the product energy-intensiveness throughout its entire lifecycle, combined with an assessment of the risk of oil price changes in fuel markets might have provoked the GM management to initiate a meaningful, focussed policy change as regards engine capacities of cars being made and thereby to respond to the global challenge imposed by the need to reduce the climate change effect.

Social and environmental issues are sometimes taken into account when business partners are selected. In some industries, the very fact of being an ISO 14001 certificate holder is a prerequisite for being included in the list of potential suppliers (e.g. selected producers in the automotive and chemical industries). Nevertheless, so-called double standards can be encountered frequently, where organizations communicate a sustainable development policy on their headquarters' websites, stressing that this applies to the entire supply chain, while the personnel responsible for purchasing in local (national) markets has not been trained in CSR.

The authors of this Manual are of the opinion that this state of the matters is caused by the lack of *corporate governance over policy implementation or by CSR practices not having taken root. One should also remember that for many organizations, establishing a sustainable development policy is nothing else than a response to CSR fashion. Thus, suppliers, including SMEs may state that no visible correlation exists between chances of winning a contract and the fact of using the sustainable development practices (although preferably, this correlation should be strong).*

NOTE: Cases when rules and good practices, including human rights, are openly violated by corporations, can be reported to OECD contact points; in Poland a point like this can be found at the Polish Information and Foreign Investment Agency (PAIiZ).

Hence, let us ask the following question: do the business criteria referred to above preclude the rationality and relevance of the CSR issues? To give an exhaustive answer, one should carry out an analysis consisting of the following stages:

☞ CUSTOMER'S CRITERIA ANALYSIS



The next question to be answered is: which of the criteria are critical to my customer's business and which of them are actively affected by my organization?

Having analysed and defined precisely the parameter given: cost (product cost, delivery cost, customer's additional cost related to usage of our products and servic-

es, cost of flexibility, cost of the package being delivered, future cost reduction potential, fixed and variable costs in contracts, what is perceived as a cost by the customer), we should ask one more question: which of my product or service characteristics are perceived by the customer as having a significant impact on the a/m critical characteristics?

4.2. EVALUATION OF CSR-RELATED OPPORTUNITIES AND RISKS WITHIN THE VALUE CHAIN

The question to be answered following analysis of the main purchasing criteria is: what CSR-related risks or opportunities within the value chain may be perceived as important by my customer?

The Manual authors have selected examples of elements to be found in the common business criteria and applied them to CSR tools that leverage the value growth on both sides: the SME management and the customer (the value of our products and services is critical to analysis and making the right business decisions). The correspondence is presented in Annex 1 to the Manual. Positioning the customers on the matrix of CSR relevance in the supply chain may additionally facilitate the analysis of how these selected practices are perceived by the customer – a corporation or a customer within the value chain. The matrix may be used for analysing the existing customers, as well as for working out development plans and strategies for the organization (e.g. for analysing prospect customers).

We suggest SMEs to choose those of the CSR tools that have a real impact on such critical business criteria as: **cost, quality and timeliness.**

Following analysis of the a/m areas, one should identify the CSR tools that ensure most successful implementation and highest return on investment.

☞ CSR PRACTICES RELEVANCE IN THE SUPPLY CHAIN MATRIX

ANALYSIS OF THE SUPPLY CHAIN OPPORTUNITIES RESULTING FROM IMPLEMENTATION OF THE SUSTAINABLE DEVELOPMENT PRACTICES

<p>The customer co-operates closely with organizations considering CSR requirements (e.g. human rights and environment protection) as the basic business assumptions. The customer is exposed to CSR risks (e.g. labour and environmental risks). The customer has experienced CSR risks. Our operations may expose the customer to serious financial and reputational losses.</p>			<p>Area of major opportunities for SMEs in the supply chain implied by the use of CSR practices</p>
<p>Public expectation/investors' expectation of sustainable business is growing considerably within our market or our customers' market as regards the products or services being provided, e.g. reputational characteristics have gained much importance. Our operations may expose the customer to serious financial and reputational losses.</p>	<p>Area of small opportunities for SMEs implied by the use of CSR (possibly, a an opportunity in the long-term perspective)</p>	<p>Area of medium opportunities for SMEs implied by the use of CSR practices (return to be expected in the long-term perspective)</p>	
<p>Our operations cannot expose the customer to losses resulting from CSR-related risks. Our operations do not affect the potential opportunities today or in the future as regards the use of CSR practices. The market we are operating in is high-competitive in terms of prices, therefore other characteristics of the product/service are irrelevant.</p>	<p>The customer communicates that CSR is important for him but focuses on philanthropy and sponsoring mainly. The customer uses CSR as a reputation building/PR tool first of all.</p>	<p>The customer has established a CSR policy/strategy or a sustainable supply chain policy. The customer has defined CSR criteria or questions in the process of supplier/contractor selection. The customer communicates the importance of CSR strategy in business, including the supply chain (the approach goes beyond philanthropy).</p>	<p>The customer is effectively implementing a sustainable supply chain policy. The customer expects the subcontractors to declare their commitment to sustainable business or the use of CSR practices. The customer expects the suppliers and subcontractors to hold ISO 14001/OHSAS 18001 certificates or compliance with other SA8000 standards. The customer conducts supplier/sub-contractor audits within the pre-defined scope. The customer is active in dialogue with its stakeholders.</p>

Annex 1.

THE TABLE BELOW PRESENTS PRODUCT ASPECTS AND HOW THEY ARE RELATED TO CSR PRACTICES

SCOPE OF PARAMETER: COST, QUALITY, TIMELINESS	PERCEIVED AS RELEVANT BY CUSTOMERS FROM WHICH SECTORS	WHAT CAN WE DO TO INFLUENCE THE PARAMETER OR ENHANCE THE VALUE AS PERCEIVED BY THE CUSTOMER BY MEANS OF CSR PRACTICES
COST of environmental fees in product cost	ALL sectors (manufacturing and services)	<ul style="list-style-type: none"> » Reduce environmental fees through eco-innovations – thereby, the product cost can be lower and product price – more competitive and flexible
COST resulting from the amount of materials and energy used	ALL sectors (manufacturing and services)	<ul style="list-style-type: none"> » Processes to be made less material-intensive and energy-intensive » Implement an environmental management system according to ISO 14001 requirements or registered in EMAS (medium-size organizations) or implement an informal system, e.g. under the Clean Production programme » Eco-designing in the life cycle assessment methodology
COST of materials and labour on the customer side, resulting from using the products being offered	ALL sectors (manufacturing and services)	<ul style="list-style-type: none"> » Increase the product value for the customer through e.g. reduction of material-intensiveness and energy-intensiveness on the customer side in the product use phase » Use the life cycle assessment methodology
COST, TIMELINESS reputational cost caused by potential strikes or protests of our customer's employees, affecting the customer's business	ALL sectors (manufacturing and services)	<ul style="list-style-type: none"> » Reduce the reputational risk by means of projects oriented towards improvement of the employees' and subcontractors' working conditions
QUALITY AND COST understood as cost and effectiveness of handling customer complaints	ALL sectors (manufacturing and services)	<ul style="list-style-type: none"> » Enhance our employees' motivation and will to face the dissatisfied customer and to represent the organization owner's interests – through implementing employee programmes » Build values common for the company and the employees – internal CSR
QUALITY of the product, workmanship, defects	ALL sectors (manufacturing and services)	<ul style="list-style-type: none"> » Enhance our employees' motivation through implementing employee programmes, working together on process efficiency, reducing material- and energy-intensiveness » Implement ISO 9001 (medium-size organizations)
QUALITY of customer service, co-operation with the customer, response to customer needs	ALL sectors (manufacturing and services)	<ul style="list-style-type: none"> » Enhance our employees' motivation to represent the organization owner's interests – through implementing employee programmes
QUALITY of packaging	ALL sectors (manufacturing and services)	<ul style="list-style-type: none"> » Enhance product value for the customer by means of e.g. replacing the materials being used and reducing packaging, thereby reducing charges and compulsory recycling on the customer side
QUALITY of information attached to the product	ALL sectors (manufacturing and services)	<ul style="list-style-type: none"> » Reduce reputational risks through providing detailed product information (product characteristics, recall rules and recycling).

Business criteria vs. CSR

SCOPE OF PARAMETER: COST, QUALITY, TIMELINESS	PERCEIVED AS RELEVANT BY CUSTOMERS FROM WHICH SECTORS	WHAT CAN WE DO TO INFLUENCE THE PARAMETER OR ENHANCE THE VALUE AS PERCEIVED BY THE CUSTOMER BY MEANS OF CSR PRACTICES
QUALITY AND COST understood as product safety	Organizations in the following industries: automotive, electronic, household appliances, toys, construction, food, pharmaceuticals, furniture	» Ensure product conformity to customer specification and stated requirements as regards e.g. heavy metals content
QUALITY AND COST understood as product safety	Organizations in the following industries: chemical, petrochemical, logistics, construction, heavy industry	» Implement an OHS management system as per PN-N-18001 or OHSAS 18001 (medium-size organizations) or meet high industry standards for service safety
QUALITY, COST AND TIMELINESS quantity and categories of defects in our deliveries	Organizations in the following industries: manufacturing, automotive, electronic, household appliances, chemical, food, pharmaceuticals	» Reduce defects by means of enhancing our employees' motivation » Implement such quality programmes as Lean or Six Sigma oriented towards reduction of defects and thereby improvement of material – and energy-intensiveness ratios; in consequence – increasing profitability of the business
COST type of materials used	Organizations in the following industries: automotive, electronic, packaging, construction, manufacturing where employees work in physical contact with the product	» Substitute with easily recyclable materials » Use materials that are safer in usage » Support awareness and control building as regards product usage
QUALITY AND COST our employees' and subcontractors' working conditions	Organizations in the following industries: cosmetics, construction, banking, toys, jewellery, luxury goods, where the reputation factor is important to the customer	» Ensure observance of high work standards and human rights » Implement and certify SA 8000 (medium size organizations)

Source: DNV, authors' studies

Annex 2.

SUSTAINABLE DEVELOPMENT MATURITY 

PRINCIPLES AND PRACTICE		MINIMUM INVOLVEMENT	
INCLUSIVITY	Stakeholders engagement and issues identification	Restricted to few	<ul style="list-style-type: none"> » Defensive » Some dialogue with immediate stakeholders
INTEGRITY	Key drivers	Quarterly return-driven Profit paramount	<ul style="list-style-type: none"> » Reactive-driven by regulatory, NGO, shareholder and/or investor pressures » Cost/return decisions
	Leadership, vision and governance	Direct and narrowly focussed	<ul style="list-style-type: none"> » Adherence to one or more public codes
	Managing risk	Fire-fighting	<ul style="list-style-type: none"> » Compliance by the book » Compliance effort where likelihood of enforcement » Seek „safe-harbours“
STEWARDSHIP	Sustainable development culture	Minimalist: doing as little as can „get away with“	<ul style="list-style-type: none"> » Tick-box approach, seeing PR only, if little cost/ impact » Meeting regulatory baseline requirements only
	Building capability	Closed shop Minimum standards or below	<ul style="list-style-type: none"> » Statutory rights only
	Key management issues, e.g. supply chain	Lowest price suppliers Latest possible payment	<ul style="list-style-type: none"> » Supplier rating scheme based on technical compliance, cost and delivery time
	Environmental assessment	Minimal awareness	<ul style="list-style-type: none"> » Standards not embraced » Ad hoc solutions
TRANSPARENCY	Review	Not valued	<ul style="list-style-type: none"> » Minimum standards
	Reporting and building confidence	Little or none unless pressed	<ul style="list-style-type: none"> » Minimal or as required

CSR maturity matrix



FULL ENGAGEMENT	
<ul style="list-style-type: none"> » Systematic stakeholder identification » Issues emerge and clarified » PR and competitive advantages recognized and opportunistically utilized 	<ul style="list-style-type: none"> » Strong and continuing engagement of all material stakeholders. » Issues clear and regularly reviewed » Feedback network established » Focus on strengthening relationships » Promotion and support of wider sustainable development
<ul style="list-style-type: none"> » Sustainable development part of reputation/risk management » Based on longer term development 	<ul style="list-style-type: none"> » Short, long term and broader view fully integrated » Proactive planning and seeking out opportunities » Championing of sustainable development
<ul style="list-style-type: none"> » Leadership commitment consistent » Publish SD and SR statement, policy and objectives » Non Executives influential 	<ul style="list-style-type: none"> » Sustained leadership internally and externally » Purpose, vision and values integrated » key role of reviews based on audit and analysis of performance
<ul style="list-style-type: none"> » Main risks identified and managed » Performance indicators, but sustainable development separate 	<ul style="list-style-type: none"> » Sustainable development policies fully integrated » Spirit not letter » Prevention rather than cure
<ul style="list-style-type: none"> » Seeing link between sustainable development and business advantage and PR/marketing focus » Developing education programme 	<ul style="list-style-type: none"> » Culture of sustainable development embedded at all levels » Values-led and ethical approach » Sustainable development part of all relevant planning and decision making » Wide understanding and buy-in » Sharing know-how outside organization
<ul style="list-style-type: none"> » Building rights, responsibility frameworks and competencies » Stimulating innovation, learning and people-empowering 	<ul style="list-style-type: none"> » Continual reappraisal and learning » Recognizes and rewards of sustainable actions » Encourages and values diversity » Internal cohesion and common direction
<ul style="list-style-type: none"> » Broadened criteria of selection, to include SD, SR and environmental factors 	<ul style="list-style-type: none"> » Conformity of interest fully recognized » Assistance given to lower tiers when necessary
<ul style="list-style-type: none"> » Education and training » Apply environmental policies and external standards 	<ul style="list-style-type: none"> » Environmental impact/risk assessment/audit » Comprehensive, integrated in decision making and valued » Prevention rather than care
<ul style="list-style-type: none"> » Analysis of needs » Integrated system design and planned dissemination 	<ul style="list-style-type: none"> » Periodic review and adjustment » All necessary recipients served
<ul style="list-style-type: none"> » Selective to determined ends 	<ul style="list-style-type: none"> » Legitimate stakeholders (internal and external) receiving regular and appropriate reporting » Building understanding in the stakeholder community » Seeking to explain decisions and implications, and wider long-term education » Building trust and confidence

Source: BS 8900:2006 (2006:12)

Annex 3.

TOOL DESCRIPTION	ISO 9001 QUALITY MANAGEMENT SYSTEM Based on requirements of ISO standards; the currently valid issue was published by ISO in 2000 (IV revision in 2008). The standard is dedicated to requirements for an organization's process management system ensuring provision/production of a product which satisfied customer requirements and expectations, as well as legal requirements applicable to the product.
WHEN TO APPLY	Typically, ISO 9001-based systems are implemented by organizations on request of their major and well-organized customers, who, wishing to avoid conducting second-party audits of their suppliers, require them to have a system which increases the probability that the customer is provided a product/service as per the contract or order.
HOW TO APPLY – IMPLEMENT	ISO 9001 can be implemented on one's own, but, considering that the requirements are relatively well known and there are many qualified specialists available in the market, it is suggested to contract a consulting company or employ (regularly or on a project-basis) a specialist who will help implement a system meeting the organization's needs. ISO 9001 implementation project duration – 6 to 12 months.
GENERAL REQUIREMENTS	The standard requires the system to be documented in a quality policy, a quality manual describing the organization and several procedures (up to ten or even more – depending on the organization nature and needs). Sometimes, it turns out in the course of implementation that stricter control is needed in the product quality inspection area, control of test and measurement equipment, product identification or employee competence.
COST	The cost of implementation depends on the scope of co-operation with external consultants and ranges between PLN 10 thousand and 50 thousand in Poland. If any failures are identified and found to be causing basic quality problems, additional expenses may be required. The cost certification ranges from PLN 5 thousand to PLN 50 thousand (depending on the number of employees and the certification body).
IMPACT	Impact on: quality, timeliness, cost Marketing effect For some companies – a ticket to trade, a chance to sign a contract, to gain customer's approval (especially with corporate customers). Systematized scopes of responsibility and authority, as well as internal procedures Objectives defined Internal processes measured » Product (or service) quality control ensured, the risk of delivering a non-conforming product reduced. » Self-improvement mechanisms embedded in the organization (corrective and preventive actions) contribute to: cost optimizing through establishment of quality objectives (less defective products and recalls, stabilized processes); internal conflicts limited by clearly defined responsibilities and process flows.

CSR – STANDARDS, CODES AND GUIDELINES, INITIATIVES Organizations wishing to implement proven system-based sustainable development management mechanisms are offered a number of tools and systems that have been improved for years with regard to various areas of sustainable development/CSR, such as for example:
- ISO 9001 Quality Management Systems,

- ISO 14001 / EMAS Environmental Management Systems,
- OHSAS 18001 / PN-N-18001 OHS Management Systems,
- SA 8000 Social Accountability Management System.
The Manual presents the most popular standards specifying requirements for management systems. They all are well known in the market and commonly used

Sustainable development/CSR tools

TOOL DESCRIPTION	ISO 14001/EMAS ENVIRONMENTAL MANAGEMENT SYSTEM based on requirements of ISO standards (the currently valid issue was published by ISO in 2004) or on EMAS scheme. These standards apply to managing organization's environmental aspects (environmental impacts) and controlling legal requirements applicable to environmental protection matters.
WHEN TO APPLY	Such systems are implemented mainly by organizations exercising a strong environmental impact – usually production companies; in some sectors customers require their suppliers to have environmental management systems (e.g. the automotive industry).
HOW TO APPLY – IMPLEMENT	An environmental management system can be implemented on one's own, but considering subsidies that can be obtained under the Infrastructure and Environment Programme, as well as the availability of qualified specialists in the market, it is suggested to contract a consulting company or employ (regularly or on a project-basis) a specialist who will help implement the system. ISO 14001 implementation project duration – 6 to 12 months.
GENERAL REQUIREMENTS	It is necessary to identify environmental aspects and select significant aspects from among them. The environmental management system is constructed around significant environmental aspects. Legal compliance is required.
COST	Cost of implementation is similar as in case of ISO 9001. In the course of ISO 14001/EMAS implementation additional expenses may be required (some of these may be substantial) to adjust the operations to the environmental protection law.
IMPACT	Impact on: quality and cost Marketing effect For some companies – a ticket to trade, a chance to sign a contract, to gain customer's approval (especially with corporate customers). Systematized scopes of responsibility and authority, as well as internal procedures Objectives defined Internal processes measured » High environmental standard of services ensured (particularly important e.g. in case of construction services) » Ensured compliance with the environmental law and requirements of customers or other stakeholders the organization made a commitment to » Cost optimizing through establishment of environmental objectives and achievement of these (e.g., reduced energy- and material-intensiveness of processes) » Reduction of environmental fees and external environmental costs » Control of raw materials consumption, energy consumption and emissions to the environment

by organizations, including SMEs. The standards referred to above are applied for a variety of reasons:

- customer requirements,
- competitive pressure or pressure within the industry,
- the need to improve the internal processes,
- the wish to use proven tools.

The above, as well as other CSR instruments described in the Manual are presented in this Annex in order to

acquaint SMEs with the basic requirements, potential estimated costs and barriers implied by implementation or certification of various management systems.

And yet, the organizational and financial effort involved in the process of a management system certification may be great for many organizations, especially the small ones.

TOOL DESCRIPTION	OHSAS 18001/PN-N-18001 OHS MANAGEMENT SYSTEM based on requirements of the Polish Standard or guidelines of the British OHSAS series; the currently valid issue was published by the Polish Committee for Standardization in 2007. The standard is dedicated to requirements for the OHS management system (OHS risk assessment and OHS risk management) as well as to control of legal requirements concerning OHS.
WHEN TO APPLY	Implementation is usually chosen by organizations with a high OHS risk; in some industries customers require their subcontractors to have OHS management systems (e.g. construction and renovations sector, companies providing product maintenance).
HOW TO APPLY – IMPLEMENT	OHSAS 18001 or PN-N-18001 can be implemented on one's own, but, considering the availability of qualified specialists in the market, it is suggested to contract a consulting company or employ (regularly or on a project-basis) a specialist who will help implement a system in the organization. OHSAS 18001 implementation project duration – 6 to 12 months.
GENERAL REQUIREMENTS	The standard requires OHS risk assessment and reduction of risk to the acceptable level, as well as ensuring working conditions compliant with the applicable regulations and customer requirements (this includes provision of training and control of OHS conditions).
COST	Cost of implementation is similar as in case of ISO 9001 or ISO 14001. In the course of OHSAS implementation additional expenses may be required to adjust the operations to legal compliance.
IMPACT	Impact on: quality, timeliness, cost Ensures conformity to OHS requirements (legal and other, imposed by customers). » Minimized risk of accidents and thereby ensured safe/timely completion of projects and work of installations (production assets). » Reduced costs of lost opportunities resulting from loss of reputation. » Control of subcontractors' work.

In such cases, information presented on the next pages of the Manual can be used as a guidance to develop directions of organization's operations according to the guidelines provided for in the standards referred to above. One should remember that the international standards described here were developed (and are updated) as sets of best business practices in each of the areas they cover.

In terms of the law, participation in these initiatives is voluntary, although sometimes enforced by business partners (e.g. in case of ISO certification).

TOOL DESCRIPTION	SA 8000 SOCIAL ACCOUNTABILITY MANAGEMENT SYSTEM ensuring that business is done according to the ethical principles included in, but not limited to such documents as: » Universal Declaration of Human Rights, » International Labour Organization's (ILO) Convention, » UN Convention on the Rights of the Child.
WHEN TO APPLY	Implementation is usually chosen by organizations collaborating with customers sensitive to the human rights issues: the sector of luxury goods, cosmetics, toys and investors operating in developing countries.
HOW TO APPLY – IMPLEMENT	Similarly as in case of ISO or OHSAS standards. Currently, SA 8000 is the only standard oriented directly towards human rights observance.
GENERAL REQUIREMENTS	It is necessary to identify environmental aspects and select significant aspects from among them. The environmental management system is constructed around significant environmental aspects. Legal compliance is required.
COST	Cost of implementation – similar as in case of other systems. In case of implementation in a company located in a developing country (Asia), all related costs need to be added (e.g. hiring a foreign expert, travel, etc.).
IMPACT	Impact on: quality and cost » The system reduces the risk of human rights violation and has a beneficial impact on employee relations, as well as on relations with suppliers/subcontractors. Moreover, a well-balanced system has a positive effect on employees' motivation.

TOOL DESCRIPTION	GLOBAL COMPACT
WHEN TO APPLY	Chosen by major and international corporations, expecting benefits from participation in a global initiative.
HOW TO APPLY – IMPLEMENT	Submit a Letter of Commitment to the Global Compact Secretariat.
GENERAL REQUIREMENTS	Supporting and observance of human rights adopted by the international community. Eliminating any cases of human rights violation by the company. Respecting the freedom of association. Eliminating any forms of forced labour. Abolition of child labour. Effectively counteracting discrimination in employment. Precautionary approach to the environment. Taking initiatives aimed at promotion of environmental responsibility. Using and disseminating environment-friendly technologies. Counteracting all forms of corruption, including extortion and bribery.
COST	No costs at the moment of submitting the letter of commitment. Within 2 years the organization has to present a document describing the progress in implementation of the principles (GRI reporting may be used).
IMPACT	Impact on: quality

TOOL DESCRIPTION	SUSTAINABILITY REPORTING, INCLUDING GRI
WHEN TO APPLY	In cases, when the organization wishes to be transparent to its stakeholders and intends to report its sustainable development achievements.
HOW TO APPLY – IMPLEMENT	Specify the materiality of issues for the stakeholders. Specify the scope and methods of data collecting; specify responsibilities for internal reporting of performance indicators.
GENERAL REQUIREMENTS	No special requirements. A number of guidelines can be found at www.globalreporting.org
COST	Costs are hard to estimate – they mainly involve obtaining and analysing costs of operations. Costs of preparing a report for stakeholders (external reporting), the costs will depend on the communication method chosen (WWW, a printed sustainability report, co-operation with consultants, third-party verification of the report).
IMPACT	Impact on: quality, costs The process of reporting requires systematic building of the knowledge database on various types of impacts and performance indicators to be used as business reporting tools for business decision making.

TOOL DESCRIPTION	DIALOGUE COMMUNICATION WITH STAKEHOLDERS Considerate, systematized selection of stakeholders material to organization’s operations and development. Analysis and selection of common opportunities and minimizing threats. Selecting and carrying out joint projects, including support to community and environmental initiatives.
WHEN TO APPLY	No specified scope of communication, or the moment for starting it – it depends on the owner’s decision.
HOW TO APPLY – IMPLEMENT	Organizational development strategy analysis. Stakeholder analysis. Selecting those with the highest impact on the organization. Analysing stakeholders expectations or dialogue with them. Selecting areas for active development. Communicating the outcomes and further dialogue with stakeholders.
GENERAL REQUIREMENTS	No special requirements.
COST	Costs depend on the method chosen for communication with stakeholders. Cost of internal analysis. Cost of meeting the stakeholders.
IMPACT	Impact on: quality, timeliness and costs Increased development potential. » Social licence to operate. » Enhanced community engagement. » Synergy effect.

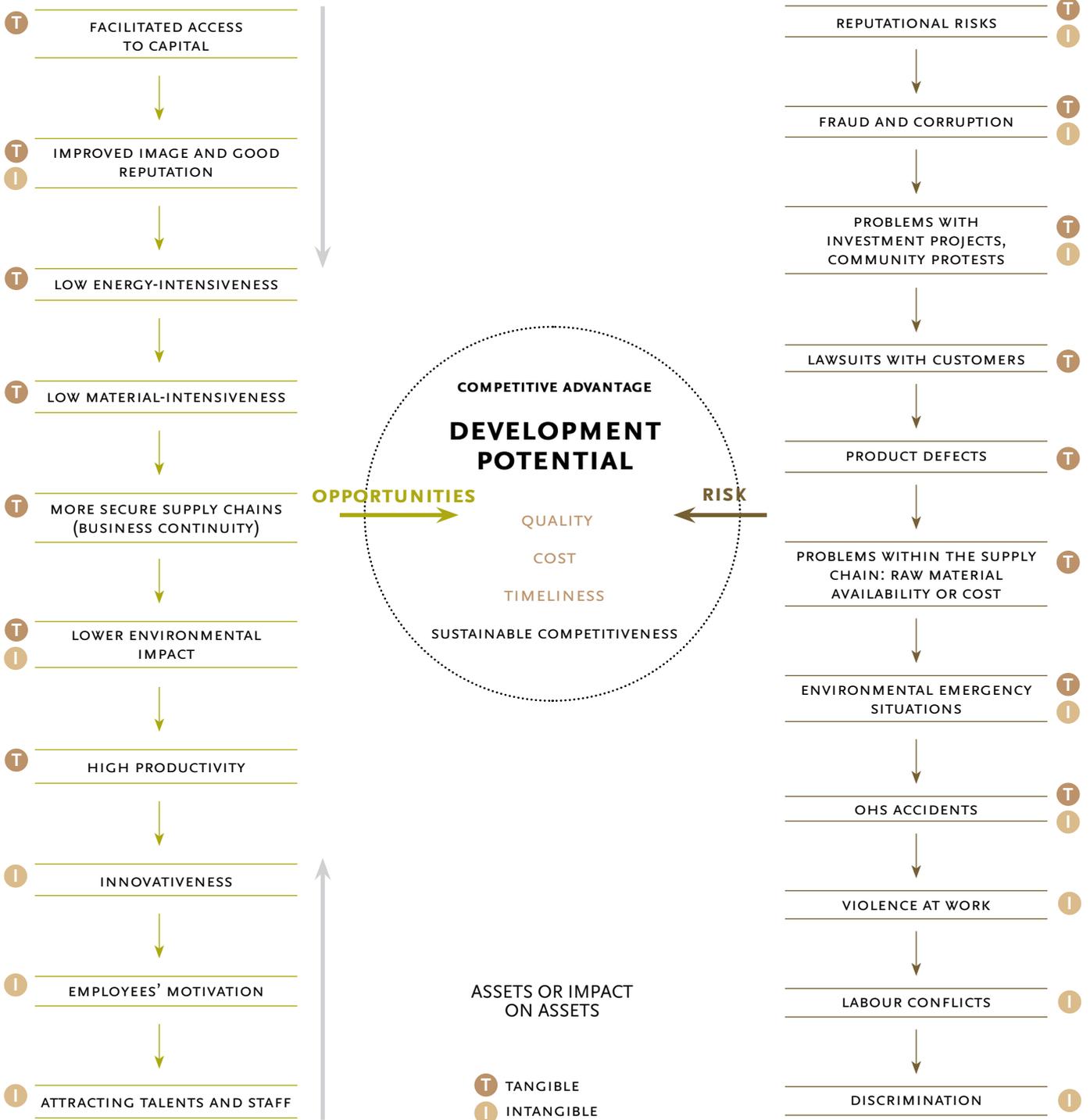


You do not need more creative solutions,
you need more creative questions.

Andy Greek

TOOL DESCRIPTION	SUSTAINABLE DEVELOPMENT/CSR STRATEGY Considerate approach to doing business which provides a balance between economic, social and environmental expectations. The strategy should provide a chance for gaining competitive advantage through winning new markets and reducing costs as a result of changed or improved operations and avoidance of risk.
WHEN TO APPLY	At the moment of considering development directions for the organization, when planning a new strategy or updating the existing strategies.
HOW TO APPLY – IMPLEMENT	Prepare the strategy in co-operation with key persons in the company, based on analysis of opportunities and threats; opinions of material stakeholders should also be taken into account.
GENERAL REQUIREMENTS	No special requirements. The strategy should indicate business directions and methods, ensuring that material stakeholders' needs are met, i.e. economic, social and environmental requirements.
COST	Can be carried out internally, by the organization's management and specialists and stakeholders' representatives. In case of collaboration with external consultants, the cost may be PLN 5-60 thousand.
IMPACT	Impact on: quality, timeliness and cost Areas of competitive advantage analysed and identified. As all employees understand the directions, operations can be effected in a manner supporting strategy implementation.

☞ SUSTAINABLE DEVELOPMENT OPPORTUNITIES AND RISKS



🔗 SUSTAINABLE DEVELOPMENT TOOLS



OPPORTUNITIES RESULTING FROM / USING SUSTAINABLE DEVELOPMENT / CSR TOOLS

- CSR STRATEGY
- IALOGUE WITH STAKEHOLDERS
- POLICIES / CODES OF ETHICS
- SUSTAINABILITY REPORTING
- VOLUNTARY INDUSTRY-SPECIFIC INITIATIVES
- MANAGEMENT STANDARDS
- MANAGING RISKS AND OPPORTUNITIES
- SUSTAINABLE SUPPLY CHAINS
- PRODUCT LIFECYCLE ASSESSMENT / MANAGEMENT
- LABELLING
- PERSONNEL INVOLVEMENT
- EMPLOYEE VOLUNTEERING
- PUBLIC-PRIVATE PARTNERSHIP
- PHILANTHROPY/SPONSORING

RISKS RESULTING FROM INADEQUATE CSR/SUSTAINABLE DEVELOPMENT PRACTICES



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DESIGN AND DTP:
OLGA FIGURSKA, LUNATIKOT



LUNATIKOT