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# **Innovative Issues and Approaches in Social Sciences**

The background of the cover features a complex, abstract pattern resembling marbled paper. It is dominated by various shades of blue, from deep navy to bright sky blue, with intricate, swirling, and wavy lines creating a sense of depth and movement.

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# THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY IN THE CONTEXT OF SMALL AND MEDIUM ENTERPRISE

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Dejan Jelovac<sup>1</sup>

## Abstract

This article offers a critical insight into the impact of corporate social responsibility (CSR) on entrepreneurship i.e. small business within an EU context. While today the prevailing opinion is still that socially responsible activities of business only apply to large companies, we are witnessing a growing interest by scholars in the area of the implementation of CSR in SMEs. This article focuses on this growing area of discussion, and more specifically, on the relationship between the concepts of small business social responsibility (SBSR) and the moral responsibility of the businessman or entrepreneur, topics which, according to author's opinion, have been most neglected in recent literature. The article concludes that within the context of small businesses, which are the focus of attention for the EU when setting its priorities regarding the promotion of CSR activities, the entrepreneur themselves as the founder/owner/manager (they are generally all three) of the SME are of crucial importance in this regard. Therefore, it seems to be extremely important to find out, with the aid of ethical analysis, what the entrepreneur's personal moral integrity might be, since research has shown that the attitude held by the small business towards social responsibility very often overlaps with the attitude of its owner-manager to their own environment.

**Key words:** business ethics, moral responsibility, corporate social responsibility, small business social responsibility, small and medium enterprise.

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## Introduction

The academic debate on the concept of *corporate social responsibility* (CSR) has a relatively short history. Although its origins can be traced as far back as the U.S. in the 1950's, it is still in its infancy as a field of research still defining its basic tenants. The same can be said for in relation to the horizon within which the field of practical action and academic research can move around. In fact, these dilemmas still haven't been successfully resolved by the theorists and/or practitioners who are dealing with CSR. In the meantime this concept has become so widespread in today's world, that it could be already discussed as a kind of unique fashion. In the widest sense, it's all about trying to find the right connection between the social and economic aspects of business, or in other words, it's about the fundamental dilemma that is as old as business. The basic question at the heart of CSR is the same as the basic issue of each business separately: *what is a business for and what contribution does it make to society* (Handy, 2002)?

The concept of CSR has emerged as a response to the irresponsible behaviour of big corporations that are exclusively interested solely in its own economic success: *The business of business is to make - profit*. Such a view was expressed most clearly and openly defended by Milton Friedman, Nobel Laureate – Prize in Economic Sciences 1976. In 1970 he claimed that the only social responsibility of a company is to *increase its profit* (Friedman, 1990). According to Friedman, the study of CSR is in a "subversive doctrine", the coat that hides irresponsible managers. Since the owners of a corporation hire managers to increase profits and thus justify their investment, Friedman believes that the mitigating of social problems is not included amongst their responsibilities, but it is, rather, the obligation of the government or the state (*ibid.*). CSR proponents represent a completely opposite view. One of the first definitions of social responsibility can be attributed to Bowen in the early fifties when he stated that "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953: 6). Later, during the Vietnam War civil-society movements emerged in the U.S. that were concerned about the unethical and irresponsible business practices of large corporations, most of all, in their community. The media also focused their attention on such practices as a result of pressure from various NGOs and activist groups. With the expansion of globalization and the relocation of industrial production from the West to mainly underdeveloped countries, corporations behaved socially irresponsible and abused the lack of regulation in these states. What was not allowed or considered to be morally unacceptable at home these companies carried in the Third

World without conscience. Because globalization also meant the globalization of information flow the media broke news about the truth of the *ethics of dual standards* of many famous corporations (for example, Nike in Asia, Nestle in Africa, Union Carbide in Bhopal, India, etc.). Top management of these corporations began to suffer at home as a consequence of their immoral behaviour in the third world, and began to realise that the attention of media and adverse publicity can lead to reduced sales of their products and employee dissatisfaction as well. The top management responded proactively in favour of social responsibility in order to prevent these negative consequences. In this way they reduced the public pressure and prevented the adoption of adverse legislation by the state. Thus, in the 1970s the concept of CSR emerged in the form of *social responsiveness* of the corporation. In support of the concept of CSR, in 1984, Freeman engaged with his *stakeholder theory* of the corporation, in which it is responsible not only to its shareholders but also to all its *stakeholders*. They are defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984: 46). According to this theory, the corporation has an obligation to act responsibly towards the wider community or to anything that corporation contacts, whether it is or is not provided for by the law (Freeman, 1984).

### A conceptual and practical background of CSR

Considering that we are living in times of financial crisis, weak economic growth and/or recession, companies are deciding more and more to reduce costs. Included in this process of cost reduction is CSR. There are still many owners and managers who believe that large investments in technologies that preserve the environment, providing benefits to many employees or supporting local community development significantly increases the costs of their product or service. It may bring a short-term benefit to the enterprises trying to increase their competitiveness in the market – but on the contrary in the long term such a strategy does not pay off because it is, simply, morally disputable. The theories of social responsibility argue that the traditional view, which suggests that the only way that enterprises contribute to society is by providing jobs and *eo ipso* enhance social welfare, is considered to be the wrong one. For example, Carroll (1979) has offered the following definition of CSR: "The social responsibility of business encompasses economic, legal, ethical, and discretionary expectation that society has of organizations at a given point in time" (Carroll, 1979: 500). In later works Carroll developed a "*pyramid of CSR*" that included economic, legal, ethical and philanthropic expectations, the economic responsibility representing the cornerstone of this pyramid (Carroll, 1991). Clarkson (1995) defined a theory of the rights of stakeholders that

relies on Freeman, according to whom corporation stakeholders are actually individuals and groups whose activities have impact on it and/or are affected by the activity of the corporation. Hart (1995) developed a natural resource-based theory of competitive advantage of corporations, based on a relation to the environment, McWilliams and Siegel define CSR "as actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams and Siegel, 2001: 117). Consequently, "CSR means *going beyond obeying the law*" (*ibid.*). Drucker sees social responsibility through another dimension that might be named the *business opportunity* (Drucker, 2002), Porter and Kramer (2002), as representatives of the theory of social investment developed concepts of strategic philanthropy and strategic social responsibility which enable corporations greater competitive advantage and benefit to the wider community, Matten and Crane (2005) introduced a different perspective (basing on the political theory) which they called "extended theoretical conceptualization of Corporate Citizenship". The authors state that corporations are "in active citizenship and exhibit citizenship behaviour" (Matten and Crane, 2005: 175), but the corporation is neither a citizen itself (as individuals are) nor does it have citizenship. Thus they describe Corporate Citizenship as "the role of the corporation in administering citizenship rights for individuals" (Matten and Crane, 2005: 173). All these authors derive from the assumption that corporations should take on the part of their own costs associated with the environment and associated with the problems of society as whole.

International institutions and organizations could not stay out of these trends either. Perinni (2006) illustrates this point with a few typical examples. The World Commission on Environment and Development states that "sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987: 43) and "CSR 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, 1999). The Prince of Wales International Business Leaders Forum meant by CSR a concept of "open and transparent business practices that are based on ethical values and respect for employees, communities, and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders" (<http://www.iblf.org/csr>). Business for Social Responsibility (BSR, a US-based global business organization) define CSR as "a business enterprise operating in a manner that consistently meets or

exceeds the ethical, legal, commercial, and public expectations society has of business" (<http://www.bsr.org/>). The UN Global Compact through the power of collective action "seeks to advance responsible CC so that business can be part of the solution to the challenges of globalization. In this way, the private sector - in partnership with other social actors - can help realize the Secretary-General's vision: *a more sustainable and inclusive global economy*" (<http://www.unglobalcompact.org>) (Perinni, 2006: 307). The European Commission defines the concept of social responsibility in its Green Paper on Promoting European Framework for CSR (2001) as well as responsible actions of companies not only in relation to its owners, partners and employees, but also beyond. Social responsibility in this way goes beyond the boundaries and expectations, arising from a purely legal framework, since the company must devote greater attention to human resources, relations with other stakeholders and, last but not least, to the environment. It's the only way the company can help to increase their competitive advantage for conscious consumers, its employees and investors in the global market. And, finally, at the G8 Evian Summit 2003, where it was said that CSR can be understood as consistent with the outcomes of the World Summit on Sustainable Development. Hence, G8 support "voluntary efforts to enhance corporate social and environmental responsibility" (<http://www.g8.fr/evian/english/>).

Due to the economic crisis that has resulted from the inflated construction and financial sector and its social consequences, which in some instances shaken the faith of consumers in the economy, more public attention directed to the moral action of enterprises and their managers was needed. For this reason the European Commission renewed its efforts in the direction of supporting social responsibility and is committed to medium and long term creating of conditions for lasting growth, responsible action of enterprises and for creation of permanent jobs. For this purpose, the European Commission adopted a new strategy on CSR entitled "Corporate Social Responsibility: a new definition, a new agenda for action" on 25<sup>th</sup> October 2011. This document redefines social responsibility as "the responsibility of enterprises for their impacts on society ... Corporate social responsibility concerns actions by companies over and above their legal obligations towards society and the environment" (European Commission, 2011). According to the European Commission, the necessary condition to take such responsibility is to respect the current legislation and collective agreements between social partners. Enterprises consistently ought to carry out the duties they have as part of the process of the integration of "social, environmental, human rights and ethical consumer concerns into their core business operations and strategy in close cooperation with

their stakeholders" (European Commission, 2011). The main objective is: "(1) to maximise the creation of shared value, which means to create returns on investment for the company's shareholders at the same time as ensuring benefits for the company's other stakeholders, (2) to identify, prevent and mitigate possible adverse impacts which enterprises may have on society" (*ibid.*). Such a renewed strategy is based on the internationally recognized principles and guidelines of the OECD for Multinational Enterprises, the ten principles of the UN Global Compact, the ISO 26000 Guidance Standard, the ILO Tripartite Declaration and the guiding principles of the UN on Entrepreneurship and Social Rights. Based on these documents and the situation in which there is in European society currently, the European Commission amended the scope and content (denotation and connotation) of the concept of CSR by determining that social responsibility includes within itself in any case fields such as: human rights, labour and employment practice, issues of environment protection and fight against corruption. The European Commission expands the content of the concept of CSR, and also on the problems of social cohesion and social development, inclusion of disabled persons and the interests of consumers along with the protection of their privacy. Among the important common issues are also issues of encouraging companies to take responsibility for the wider community and the environment in the supplying network, and the disclosure of non-financial information about their business in their reports. The Commission introduced another novelty by involving voluntary participation of employees in the CSR. And finally, the Commission encourages companies to disclose information about the realisation of their standards of good governance regarding taxes. At the same time in relations among states it encourages the three principles of tax management: transparency, exchange of information and fair tax competition.

To meet all these expectations a company must not only be economically successful but also morally correct. This means it should implement in its actions the care of their internal and external environment. Supporting this goal are the leading managerial virtues, and their system of values and legal obligations. A company can successfully carry out the inclusion of CSR in their business practice in a number of ways. There are different models of CSR. They have been theoretically set by Carroll (1979, 1991) and other theorists and practitioners. The company must provide at least: (1) the definition of its socially responsible business, (2) the participation of management, (3) a change of the organizational culture of the company, especially in its attitude to social problems, (4) the selection and rewarding of management that takes account of social political aspects and (5)

management training programs for socially responsible behaviour. All this applies particularly to large companies, but what about small and medium-sized companies? In SMEs, as we shall see below, things are slightly different.

## **CSR and small business social responsibility (SBSR)**

It is still the prevailing opinion today, that socially responsible activities and business operations that are based on so-called *sustainable development* are suitable only for large companies. But it is forgotten that most jobs are in fact created by small and medium enterprises (SMEs). Therefore, SMEs are in the focus of the European Union when it sets its priorities in promoting CSR. Thus, the European Commission defined the concept of so-called *responsible entrepreneurship* in early 2003 "as one that (1) treats customers, business partners and competitors with fairness and honesty, (2) cares about the health, safety and general well-being of employees and customers, (3) motivates his workforce by offering training and development opportunities, (4) acts as a good citizen in the local community, and (5) is respectful of natural resources and the environment" (European Commission, 2003). Hence, we could argue that such a concept is complex and multifaceted. For this reason we will try to integrate contributions from the fields of business ethics, entrepreneurship and social responsibility into our critical discussion of SBSR. In the course of this discussion the concept of CSR shall be shown to also be relevant to SMEs and not just large corporations. This means that the so-called *responsible entrepreneurship* provides for both the economic success of the company and also offers a positive impact on society as a whole and on the environment at the same time. Since CSR had been studied during last few decades, as previously stated, mainly from the perspective of large companies, today it is very important to shift the research focus on the small and medium enterprises. According to the latest Observatory of European SMEs (2007), they represent over 99% of all companies the EU, and those companies achieve more than a half of the total value added and two-thirds of jobs in the European Union (*ibid.*). SMEs have, therefore, an important role in modern European society. That's why the study of their characteristics and attitudes towards social responsibility can positively influence the development of theory and practice of CSR (Heene and Lepoutre, 2006). The authors argue that "although the literature on SBSR has been growing over the last years, the knowledge on SBSR is still fragmented and has not yet developed into a coherent theory" (Heene and Lepoutre, 2006: 257). They illustrate this argument by way of a meta-analysis of existing empirical studies, which show that the different findings of researchers are sometimes very contradictory. For this reason authors tried to construct a model that would help further

research into the theory and practice of SBSR. They have used European Commission's 2003 definition that determined conduct of responsible entrepreneur as the basis for this model. Lepoutre and Heene explored the influence of a company's size on its socially responsible behaviour. Based on research that had been carried out regarding the impact of firm size on all factors of contingency SBSR behaviour, they classified them into four, more or less similar dimensions (Chau and Siu, 2000; d'Amboise and Muldowney, 1988; Longenacker et al.; 2006; Solynossy and Masters, 2002; Lepoutre and Heene, 2006). The four dimensions are issue, personal, organizational and contextual characteristics. The authors explain that "issue characteristics refer to the situation or the matter of concern to SBSR behaviour; personal characteristics relate to the values, competencies and actions of the owner-manager; organizational characteristics involve the tangible and intangible resources and structures of the firm; and context characteristics refer to the economic, social and institutional factors, which are external to the organization« (Lepoutre and Heene, 2006: 259).

In the past few decades, researchers dealing with SBSR identified some common characteristics of SMEs. They found typically that the founder/owner of the SME is general the manager in their company as well. Therefore, the attitude that such a company has for social responsibility is often the same as that of the owner-entrepreneur to their environment (Jenkins, 2006; Lepoutre and Heene, 2006; Cambra-Fierro et al., 2007; Courrent Gundolf, 2009). For the SME it is characteristic that they: (1) are closely associated with the local community because their owner/owners usually originate from those surroundings, (2) have a diverse ownership structure, (3) have mainly local partners, (4) are flexible, which means to respond rapidly to changes, (5) do not trust bureaucracy and government agencies and do not respond to institutional pressures, (6) are not confined to a single economic sector (7) are driven with different managerial styles but not too bureaucratic as day to day problems must be solved by various solutions, (8) in formal communication with employees, they tend to have informal relations and generally attach importance to these informal relations. Perrini believes that whilst large enterprises interpret CSR as a multi-stakeholder approach, in SMEs, CSR practices are based on synergies and relationships between different subjects, i.e. they are *based on social capital* (Perrin, 2006). The concept of social capital is usually associated with intangible assets, reputation, credibility, legitimacy and consensus (Putnam et al., 1993; Spence and Schmidpeter, 2003; Habisch et al., 2005). Socially responsible actions can often be very exciting because the community believes in the companies that implement them and vice

versa, as the company fosters a positive relationship with its environment. SMEs have a problem in that they are generally lacking in the human, technical and organizational resources that are needed to realize social responsibility policy (Lepoutre and Heene, 2006). Investments in CSR are so complicated and expensive for SMEs because they have a lack of know-how and the benefit from it is often vague and uncertain. For this reason, in recent years scholars are exploring what might help SME to adopt and integrate CSR into their daily business practices. The results of empirical research, carried out in Britain in 24 small and medium-sized enterprises, which were "champions" of good practices, suggest that *SMEs act mostly unconscious socially responsible* (Jenkins, 2006). The purpose of this study was to construct a model which would enable the transfer of these companies' experiences of best practices to other SMEs. Jenkins states that entrepreneurs prefer to learn through networking and from their idols. She has seen this as a possible way of knowledge-sharing of social responsibility. Therefore, support organizations such as trade associations, business clusters, chambers of crafts, chambers of commerce and similar can with their engagement (e.g. selection of the most socially responsible businesses, organizing workshops to transfer knowledge in the field of CSR, etc.) contribute to the development of social responsibility in small and medium-sized enterprises.

Battaglia et al. (2010) had comparable findings suggesting that small and medium enterprises can overcome the barriers that occur when introducing CSR in their business policy by connecting in a "cluster" that will systematically coordinate relationships with local partners. "This allows the sharing of a collective identity based on common values , also with respect to the way the business is run" (Battaglia et al., 2010: 134). Their research in industrial enterprises confirms the tendency of SMEs to act in clusters that are *tightly linked to its environment and its context*. Therefore, it is possible to expect that it might have a positive effect on the integration of SBSR in their business.

Murillo and Lozano investigated the impact of the promotion of social responsibility in SMEs. Their study was carried out in Catalonia in four medium-sized enterprises, which had received awards in the field of best practices. They found that the term "corporate social responsibility" is somehow unsuitable for small and medium enterprises. They felt that terms such as social practices, business practices, and environmental practices seem to be more appropriate in this regard. At the time of introduction of the concept of CSR into SMEs they suggest as much attention as possible should be paid to the presentation and promotion of the benefits of existing best practices and creating an environment for

the implementation of these practices and for the integration of CSR and competitive advantage (Murillo and Lozano, 2006).

Spence and Schmidpeter (2003) carried out a comparative study in the UK and Germany (different social and institutional traditions) and identified how SMEs contribute to the common good in different cultural contexts. The authors started from the position that SMEs represent at least 99% of all companies in the economies of the studied countries, and consequently, that investment in entrepreneurship is actually investment in social capital. It is therefore in the interest of companies to take seriously their role in society and participate in the development of society. The authors rely on Putnam's (1993) definition of social capital claiming that features of social organization, such as networks, norms and trust can improve the efficiency of society by facilitating coordinated actions. On the basis of sociological research, Putnam argues that the regions in which social capital is available (more than in other regions) are more successful in terms of economic and democratic self-regulation. In these regions weak links allow efficient transmission of information that leads to effective cooperation structures. Such creation of networks in which companies, social and educational institutions and civil society organizations are involved, create a specific social framework i.e. milieu through which the values and norms are transmitted. It establish social trust which is especially important for today's highly specialized society which has a distinct division of work. Based on the results of their research the authors, therefore, note that "investment in social capital (networks and institution building) seems to have influence both on business success and on society as a whole" (Spence and Schmidpeter, 2003: 107).

## **Discussion**

According to Fitjar (2011), "there are essentially two reasons for companies to engage in CSR work: *because they want to do well and because they want to do business*" (Fitjar, 2011: 32). It follows that economics and ethics can go hand in hand. In this case, entrepreneurs and small business will be voluntarily encouraged on the basis of their good will (*bona fide*) to work well. Consequently, the moral values and virtues of entrepreneur will function as an *important predictor* of the company's social responsible behaviour. If the economy is only one of the subsystems within the socio-system of modern developed Western societies, then it must give its own contribution to the realization of the goal function of the system as a whole. This means that the economy cannot be an aim for itself. This is the reason why the personal, organizational and social values and norms of the socio-system determine the manner in which enterprises, especially SMEs,

understand and practically implement their socially responsible activities. To a certain extent, stresses Fitjar (2011), SMEs engage in CSR activities because "it is the *correct, ethical or normal thing to do*, not because it pays off... intrinsically motivated CSR suggests that businesses are *not always profit-maximising*, contrary to the assumptions of most theories in economics" (Fitjar, 2011: 34).

In confirmation of the theses above there are not only the results of Fitjar's research but also empirical studies of Courrent and Gundolf (2009) conducted in France in 125 micro-enterprises (ME) in all types of economic activity. Both studies show that the size of companies *doesn't play as important a role* as thought by SBSR researchers in the past. Small size does not prevent a company that is *exposed to public scrutiny* indeed, which seems to be one of the *key drivers of CSR activities*. A small enterprise is more depended on and integrated into its environment than a larger one. Therefore, it has to adopt the *ethos* of its environment. In the opposite case, an SME can be eliminated more easily than a large one. In the environment of a local community a small business is exposed to observation by its own competition, which takes care of verification of its activities and the exposing of those which do not match fair-play. The stakeholders of an SME conduct the same socially responsible activities. Morsing and Perrini concluded that their pressure is stronger than proactive CSR engagement at promoting SMEs to improve their "social initiatives" (Morsing and Perrini, 2009).

The above discussion shows that the ethics of local communities play an important role in the decision-making process in an SME context. Their *ethos* as a specific human mode of moral coexistence within particular socio-cultural milieu, force them to act in accordance with it. Such a mode of coexistence is most reflected through the values that entrepreneurs and SMEs implement in everyday business life. We have recently tried to verify this assumption in Slovenia as a relatively new member of the EU (from year 2004). The results of this quantitative empirical study, which, examined private and public sector organisational values on a sample of 400 managers, indicate that the moral value of "responsibility i.e. accountability" was ranked in 12th place by both sectors (out of 20 organizational values set ) (Jelovac et al., 2011: 137). In the Netherlands, representing an "old" EU member, a similar study was previously carried out with the same methodology on a sample of 382 managers from both sectors which indicated that the same value (i.e. accountability) was ranked at the 2nd place in the public and 6th place in the private sector. The organisational value of "sustainability" fared even worse with Slovenian manager, in the private sector it is ranked to 14th place and in the public sector it reaches 16th

place (Jelovac et al., 2011: 137). This shows that a manager in Slovenian business is less likely to behave responsibly on the basis of their moral motives than their Dutch colleagues. In the future it seems to be necessary to pay more attention to the moral development of entrepreneurs and managers in post-socialist transition countries, in order to achieve a level of moral integrity similar to their colleagues in the founding countries of the EU. It's hard to believe that the managers will voluntarily engage in CSR initiatives and implement good practice if they do not stick too much about *moral responsibility* in their own system of values and patterns of business conduct. Therefore, we consider the urgent need for further research in this field, which is obviously neglected, and relates to the impact of the moral responsibility of individuals (entrepreneurs, managers, etc.) on a company's social responsibility.

## Conclusion

As previously stated, CSR has grown in the last few decades, from a narrow and often marginalized field to a complex and multi-layered concept that has become important in the decision-making process of a large number of companies. In Europe, more and more companies in their reports disclose social and environmental information, thus informing all stakeholders about their SCR activities. According to the data of Corporate Register 9,027 different companies from 163 countries around the world sent 39,886 reports about the social responsibility and sustainable development with the EU currently in first place in the world. This is only a small percentage as over 19 million SMEs (Schmiemann, 2008) and around 42,000 large companies operated outside of the financial sector in Europe in 2005. As reporting on social responsibility represents an important medium and long-term goal to the European Commission, it will soon present a legislative proposal on the transparency of social and environmental information disclosed by companies in all sectors. "An impact assessment of possible options for this proposal, which will also include a competitiveness proofing and SME test, is currently ongoing. The Commission is also developing a policy to encourage companies to measure and benchmark their environmental performance using a common lifecycle based methodology that could also be used for disclosure purposes" (European Commission, 2011: 12). In its policy, the Commission encourages companies to measure and benchmark the environmental performance of the method based on the total life cycle, which could also be used for the purposes of disclosure of companies about CSR. Therefore, today, entrepreneurs and managers can no longer decide either to do business in a socially responsible way or not, since guidelines and rules relating to the area of social responsibility are

becoming more and more important. They guide the company through various policies, regulatory framework, standards and codes, and through advice and guidelines motivate them to be morally autonomous, i.e. act socially responsible and seek sustainable development through their own volition.

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