

# Baseline study on CSR in Serbia

## By UNDP and Center for Monitoring and Evaluation

### 1. Executive Summary

The CSR concept was formally introduced into Serbian companies for the first time 4 years ago. Nowadays, the business community often lacks comprehensive knowledge on this issue, but it can certainly be said that the concept itself is known and well promoted in Serbia. Currently, it is recognized as one of the most popular business related topics. In Serbia, as in the wider region, new business trends often originate from foreign companies with a local presence, meaning they can be characterized as leaders in terms of changes in the business and economic climate. As soon as they adopt and implement a new tool, local companies try to copy best practices. Initially, they did it their own way, relying on their own human capital and other resources.

At present, CSR in Serbia is mostly recognized as a marketing tool and/or a concept that makes companies more respectable in the eyes of external stakeholders, often meaning the media, government and, finally, but certainly not least importantly, business partners and consumers. Issues such as the improvement of working conditions, employees' standards and rights, and improvement of their skills, improvement of communication and cooperation with consumers, suppliers, trade unions etc. are still not on the table. Nonetheless, over the last few years, companies have begun to recognize the importance of the CSR concept for their business operations sustainability. The biggest improvement has been noticed in governance and public disclosure, since CSR assurance and performance management are the areas with the purest practice.

The government is slowly growing to recognize the importance of the CSR concept, but considering the unstable political situation, they have yet to start supporting CSR widely. However, one must mention the strong support of **Mr Radovan Jelasic, National Bank of Serbia<sup>1</sup> Governor** with its work on the foundation of the **UN Global Compact in Serbia<sup>2</sup>** in December 2007. The CSR concept also became an integral part of the newly adopted **National Strategy for Sustainable Development<sup>3</sup>**. Other stakeholders such as the media or universities still lack CSR knowledge. NGOs' and CSOs' are very interested in CSR development, but only a few of them have developed and implemented CSR programs, or established cooperation with other relevant stakeholders in the country, region and international community.

Nevertheless, several joint initiatives have been launched. The most important one is the **UN Global Compact Serbia** (founded in November 2007) which approximately 30 companies and CSO's have joined. At the beginning of Jun 2008, 14 companies lead by *Smart Kolektiv<sup>4</sup>*, with the support of *Business in the community<sup>5</sup>*, launched the Serbian **Business Leaders Forum**. Other CSR initiatives are still not recognized in the business community – especially, the lack of a strong multi-sectoral project is evident.

The CSR activities of domestic companies mostly take the form of charitable giving. Bearing in mind the **CSR monitor<sup>6</sup>** research results from April 2007; only a few companies developed a strategic approach to CSR practice, but the interest in CSR events when they are organized has increased. The conclusion could be that large multinational companies are the leaders in the field of CSR promotion and development in Serbia, since domestic companies still need to learn more and try to position themselves on this issue.

Bearing in mind the strongly expressed views about improvement of CSR knowledge (as many as 70% of the respondents are willing to attend CSR trainings), there is little doubt that CSR in Serbia will soon become much more highly developed.

The national government should put their efforts into overall CSR practice development. In the first place the National Strategy on CSR should be developed and implemented, mainly focusing on raising professional audiences' awareness of CSR issues, strengthening capacities of all CSR stakeholders, especially trade unions and consumer protection associations, certified companies register development, CSR higher education development and Intensive multi-sectoral cooperation. CSR stakeholders should seriously consider the high level of readiness in companies for CSR education, and develop quality CSR educational programs. Also, they should put more efforts into CSR promotion and, as an active partner, help the companies to develop their CSR

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<sup>1</sup> <http://www.nbs.yu/>

<sup>2</sup> [www.unglobalcompact.org/](http://www.unglobalcompact.org/)

<sup>3</sup> [www.odrzivi-razvoj.sr.gov.yu](http://www.odrzivi-razvoj.sr.gov.yu)

<sup>4</sup> <http://smartkolektiv.org>

<sup>5</sup> <http://www.bitc.org.uk/>

<sup>6</sup>The research on CSR media monitoring *How does the Serbian media report on CSR?* was conducted for the conference *CSR and PR*, organised by the Center for monitoring and evaluation through the programme CSR Monitor. More info <http://www.csr-online.info>



practice, especially CSR assurance and CSR performance management. Integration of the CSR concept into business strategy, certification practice improvement, CSR reporting and auditing practice development, and linking with international CSR experts are some of the tasks which lie before the companies in the next stage.

## 2. Introduction

*CSR is a concept whereby companies integrate social and environmental concerns into their business operations and in their interaction with their stakeholders on a voluntary basis*<sup>7</sup>.

Corporate social responsibility currently represents one of the most dynamic concepts of the international business community. CSR strategies development and their successful, creative implementation are the main challenge for private companies today, bearing in mind the fact that in developed international markets, this issue is *the* one that makes a change, makes the difference between good and excellent companies or most preferable business partners.

The goods and services offered by a huge number of companies can easily be found and obtained on the global market. This leads to fierce competition in terms of excellence, because the goods and services offered are no longer unique. However, as multinational companies grow in influence to rival many sovereign states, their management has begun to take greater interest in becoming equal partners in developing better policies and conditions, both in macro and micro surroundings.

An answer to these challenges was found through the development of the CSR concept in the late eighties. CSR quickly became one of the most progressive business idea that makes a difference. As expected, developed countries and their companies were leaders in its development and evolution. Nowadays, most of them have included CSR as an integral part of their business strategies. Annual CSR reports, along with financial ones, are common practice in this part of the World.

The Republic of Serbia, as a part and the legal successor of former Socialist Federal Republic of Yugoslavia, was founded on June 5<sup>th</sup> 2006, after Montenegro (constitutive republic of the State Union of Serbia and Montenegro, previously a Federal Republic of Yugoslavia) declared independence. Serbia is a transitioning country in the process of belated privatization of public companies, where multinational and regional business has yet to make major investments. The number of grassroots business initiatives is not great but the climate for these is rapidly improving. Bearing in mind all of the above mentioned, CSR principles are slowly being integrated into the business operations of domestic companies, mostly under the influence of foreign investors.

It is very important to emphasize that the development of CSR and its implementation, with the strengthening of multi-sectoral cooperation, is a priority issue in transitioning countries such as Serbia and other countries in the region of the West Balkans, bearing in mind the weak government sector, poor legislation practice, and impoverished economy and the large number of people living under the poverty line.

### 2.1. Purpose of study

CSR in the West Balkans is a baseline survey initiated by the UNDP office and was carried out from 31<sup>st</sup> of March through to 15<sup>th</sup> of May 2008 in Serbia, Montenegro, Bosnia and Herzegovina, Kosovo and Albania. The main purpose was to accelerate implementation of CSR activities and practices in the mentioned states. This initiative rests on the previous one, *Accelerating CSR practices in the new EU member states and candidate countries as a vehicle for harmonization, competitiveness and social cohesion in the EU*, with the same objectives of accelerating implementation of CSR practices, straightening the existing and initializing future CSR initiatives by mapping out CSR activities and actors, identifying problems and exchanging experiences and best practices, as well as raising awareness and capacity building among local stakeholders. It is important to mention that the target countries are at different stages of the EU integration process, so this survey could also be understood as a catalyst for social and economic regional harmonization in order to reduce differences between the neighbouring countries.

### 2.2. Methodology

The methodology for this survey was developed by UNDP consultants, based on the experiences of the previously realized *Accelerating CSR practices in the new EU member states and candidate countries as a*

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<sup>7</sup> EU definition



vehicle for harmonization, competitiveness and social cohesion in the EU (carried out in 2006/7), and in consultation with the national teams' representatives. It included qualitative, as well as quantitative research methods based on primary and secondary sources of data.

In the first phase, the national teams carried out a qualitative desktop analysis, synthetic secondary data collection and analysis in order to review the existing documentation related to CSR issues, to identify relevant stakeholder organizations and find examples of good company practices. In the second phase, primary data were gathered via quantitative semi-structured face-to-face interviews with a) companies and b) stakeholder organizations.

As an addition to the methodological approach, and for reasons of comparability with the previous UNDP regional research project Accelerating CSR<sup>8</sup>, survey data were analyzed using a modified methodology of Accountability rating TM<sup>9</sup> (6 instead of 4 indicators – strategy, stakeholders engagement, assurance, public disclosure, performance management, governance), which may be appropriate for regional qualitative analysis, but is less effective for Serbian underdeveloped market conditions.

However, the Rating for each domain will have three values: 1) Little/No evidence, 2) On the Way, 3) Good practice. Below is the description of the ratings:

### Strategy

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

### Stakeholder Engagement

- No / little evidence: there is no / very limited interaction with stakeholders, stakeholders are not clearly defined, stakeholder relations are not managed.
- On the way: there is ad hoc interaction with stakeholders, communication of stakeholder concerns regarding CSR is reactive; companies feel pressure from stakeholders, but stakeholder priorities are not identified
- Good practice: there are existing processes for managing stakeholder relations and conducting stakeholder dialogues; point of view of stakeholders; issues are prioritized and are taken account of in the business strategy.

### Governance

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

### Performance Management

- No / little evidence: there are no management systems relevant to CSR; performance improvements on CSR issues are not quantified; there are no set/specific goals, objectives and targets to drive improvement; CSR issues are not managed in supplier relations.

<sup>8</sup> Accelerating CSR practices in the new EU member states and candidate countries as a vehicle for harmonization, competitiveness, and social cohesion in the EU". For more information, please visit <http://www.acceleratingCSR.eu>.

<sup>9</sup> The Accountability Rating is a tool for measuring the extent to which companies have built responsible practices into the way they do business. The Rating was developed by the leading CSR consultancy [csrnetwork](http://www.csrnetwork.org) and international think-tank [AccountAbility](http://www.accountabilityrating.com/), and first applied in 2004. <http://www.accountabilityrating.com/>



- On the way: there are several management systems that are relevant to CSR; there is some quantification of performance improvements on CSR issues.
- **Good practice: there are management systems that are relevant to CSR; performance improvements on CSR issues are quantified; there are set/specific goals, objectives, targets to drive improvement; CSR issues are managed in supplier relations; environmental, social or fair-trade labels are used on products.**

### Public Disclosure

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

### Assurance

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

#### 2.2.1. Sample size

The sample size (55) for primary data collection was defined by UNDP consultants. A random sample of 55 companies was selected based on the following criteria: 1) company size (small – up to 50 employees, medium – from 50-250 and large – more than 250 employees), 2) ownership (national/multinational), 3) geographical location (from all regions of the country) and 4) sector:

1. Agriculture, hunting and forestry
2. Fishing
3. Mining and Quarrying
4. Manufacturing
5. Electricity, gas and water supply
6. Construction
7. Wholesale and retail trade, motor repair
8. Hotels and restaurants
9. Transport, storage and communications
10. Financial intermediation
11. Real estate, renting & business activities e.g. computing
12. Public administration and defence
13. Education: private universities
14. Health and Social Work
15. Other community, social and personal service

Bearing in mind the fact that Serbia lacks exact statistical data or registers on many important issues, for the purpose of this research, the Serbian companies' database from the *National market of goods and services*<sup>10</sup> register was used, as well as the *Top 300 companies in Serbia* list of the Serbian Economist magazine<sup>11</sup>, for the purpose of selecting large companies.

The total number of interviewed companies was 40 - 8 small, 15 medium sized and 17 large companies. The sample is predefined, random and national, having in mind the fact that more than 99% of Serbian companies are small and medium sized enterprises. However, the UNDP consultants after the consultations with national teams, decided to define this sampling in order to gather relevant data according to the research goals and objectives.

<sup>10</sup> The *National market of goods and services* is a national project initiated and supported by the Serbian ministry of economics and regional development. For more information, please visit <http://www.trzistesrbije.com>

<sup>11</sup> <http://emportal.co.yu>



The survey was also strengthened by the involvement of 15 stakeholders from local and national government institutions, NGOs/CSOs, international organizations, the media and universities that were interviewed using a different questionnaire, especially developed for these target audiences. The type of stakeholder was previously defined by UNDP experts. They were identified based on the analysis of CSR Monitor<sup>12</sup> media clipping and randomly selected for the purpose of this research.

Time period

The CSR baseline survey was carried out between 31<sup>st</sup> of March and 15<sup>th</sup> of May.

One should be aware that methodology used in this research has some limitations. The sample size was relatively small and perhaps does not allow extensive analysis of the CSR attitudes and behaviours of the business sector in Serbia overall.). However, the conclusions and recommendations offered represent a good basis for further research, and development projects and other activities on this issue.

2.2.2. Deviations away from the common methodology

Finally, the National team has to emphasize the fact that the fieldwork for quantitative research was carried out in a turbulent period for Serbia, during the finals of an important electoral campaign<sup>13</sup>, as well as *Orthodox Easter and First of May holidays*, so the response rate was very low – every fourth respondent refused to participate in the survey. State-owned companies were usually “afraid” to answer any questions or give information before the elections, so many of them refused to participate in the research. Those who agreed to participate often refused to give complete answers to the questionnaire.

It can also be noticed that respondents answered more honestly to questions that were asked indirectly (is, in your sector, in your country etc.) than to direct ones (Are you, do you, etc.). Nonetheless, the research results give the basics for applied surveys to be carried in the future.

3. Country Background

3.1. Distribution of businesses by size and sector

Most companies in Serbia are small and medium sized (99.1% in 2006)<sup>14</sup>. In the following tables, micro enterprises are not listed (agencies, stores etc. that are treated differently by the law). There are over 200,000 micro enterprises in Serbia, according to Serbian Chamber of Commerce research<sup>15</sup>.

According to the Foreign Investors Council, there are over 115 foreign investors in Serbia, mostly multinationals, with a different scale of business at the national level.

It is noticeable that the share of large enterprises has decreased during the presented period, as well as that of medium sized companies.

Number of enterprises by size, 1999-2006

Year	Small		Medium		Large		Total	
	Number	%	Number	%	Number	%	Number	%

<sup>12</sup> CSR Monitor is the programme of Center for Monitoring and Evaluation founded under the motto *Positive examples to good practice*. It monitors complete media clipping in Serbia bearing in mind the topics related to CSR and publishes the examples of good practices monthly via the website <http://www.csr-online.info>. It was recognized by the companies as a good CSR tool in Serbia. Unfortunately, it is only published in Serbian.

<sup>13</sup> The electoral campaign started in April after the fall of 10 months lasting Serbian government in the moment when the National Parliament and the Government should adopt the SAA (Stabilization and Association) Agreement with European Union. The parties divided in two blocks: one, so called democratic, gathered around the *Democratic party* (DS), and the other, nationalistic, gathered around *Democratic party of Serbia* (DSS) and *Serbian Radical party* (SRS). These elections were presented to citizens by both blocks as a referendum for and contra the EU, European future or the country isolation and pro and contra Serbian independence and sovereignty, so 62% of the people decided to get out and vote. In addition to the importance of the 11<sup>th</sup> of May elections, we could say that till the moment of writing this study, almost the month after the elections, neither National nor Provincial Parliament or Government were constituted. For more information, please visit <http://www.bbc.co.uk/serbian/> or <http://www.b92.net/eng/>.

<sup>14</sup> By the Serbian Law on Enterprises, a small company has up to 50 employees, revenue up to 2.5 million euros and total assets up to 1 million euros. A medium sized company has 51-250 employees, revenue in range of 2.5 million to 10 million euros and total assets of more than 1 but less than 5 million euros. Large companies have over 250 employees, revenues over 10 million euros and total assets valued at over 5 million euros. It should be emphasized that two of the three criteria should be fulfilled to be classified in one of these groups.

<sup>15</sup> The micro enterprise has a different legal status than other enterprises, has no or very few employees and does not have the obligation for official financial reporting at the end of the year. Also, these enterprises have different fiscal obligations in comparison with other economic legal entities

1999	58,662	94.8	2,359	3.8	879	1.4	61,870	100
2000	59,106	94.3	2,616	4.2	973	1.5	62,695	100
2002	63,995	95,6	2,223	3.3	742	1,1	66,960	100
2003	65,547	95.8	2,181	3.2	663	1,0	68,391	100
2004	66,989	96.9	1,515	2.2	605	0,9	69,109	100
2005	68,309	95.8	2,292	3.2	702	1,0	71,303	100
2006	73,382	96.00	2,347	3.1	665	0,9	75,394	100

Source: Serbian Chamber of Commerce Web Portal

It is also very visible that 300 of the largest enterprises in Serbia<sup>16</sup> participate with about 50% in total revenues of the business sector. The largest number of employees work in large enterprises (about 514,000 employees in 2005)<sup>17</sup>, but that number will significantly decrease during further reconstruction and privatisation.

Industrial production in 2007 increased by 4.7%, compared to a 5.5% increase in 2006. The main share in industrial production goes to the processing industry, agriculture, transportation, trade and construction. In the period 2000-2005, industrial structure changed in favour of transportation, trade and agriculture, whilst processing industry fell to 27.1%. The biggest shares of Serbian industrial structure are those of processing industry, agriculture, transportation and trade.

Table 9: Industrial structure in Serbia, 2000-2005 (%), monetary income<sup>18</sup>

Year	2000	2001	2002	2003	2004	2005
<b>Agriculture</b>	22.9	25.7	25	24.6	24.6	25.1
<b>Mining</b>	3.3	2.8	2.8	2.6	2.7	2.6
<b>Electricity and gas manufacture</b>	6.4	6.1	6.1	6.3	5.6	5.5
<b>Processing industry</b>	35	32.4	31.5	29.7	28.7	27.1
<b>Transportation</b>	11.8	13.2	13.5	14.9	15.3	17.5
<b>Trade</b>	11.2	11.7	13.5	15.1	15.7	16
<b>Construction</b>	7.5	6.1	5.7	6.3	5.8	5.6
<b>Tourism</b>	1.9	1.8	1.9	0.5	1.6	0.6
<b>Total</b>	100,0	100,0	100,0	100,0	100,0	100,0

### 3.2. Key macroeconomic indicators

After reaching \$4.5 billion of foreign direct investments (FDI) in 2006, FDI in Serbia decreased to \$3 billion in 2007. This was the result of the slow-down in privatization due to the parliamentary elections in 2007, followed by a six-month delay in forming the government. FDI could be compared to 10% of Serbia's GDP in 2007<sup>19</sup>.

Serbia's trade deficit increased by 41.2% in 2007 from the previous year to \$9.52 billion, with exports rising by 37.3% to \$8.82 billion and imports growing by 39.3% to \$18.3 billion. The growth in exports was a result of privatizations and restructurings of companies, the implementation of the Central European Free Trade

<sup>16</sup> by sales revenues

<sup>17</sup> Serbian Chamber of Commerce Portal

<sup>18</sup> Dragana Gnjatovic (2007), *Capacities for Serbian foreign debt financing*, Economic financial relations of Serbia with abroad, Faculty of Economics in Belgrade, Belgrade, page 77

<sup>19</sup> Doing business in Serbia, [www.buyusa.gov/serbia/en/doing\\_business.html](http://www.buyusa.gov/serbia/en/doing_business.html)



Agreement (CEFTA), agricultural surpluses and preferential treatment of Serbian textiles in the EU. The biggest importers of Serbian goods were Italy, Bosnia-Herzegovina and Montenegro, and the largest exporters to Serbia were Russia, Germany and Italy. Commerce with EU member countries accounted for more than half of Serbia's overall foreign trade last year<sup>20</sup>.

The foreign exchange policy is based on a flexible exchange rate, although the National Bank of Serbia applies restrictive monetary policy and intervenes in the foreign exchange market to stop RSD (dinar) depreciation, to make foreign exchange rate stable and slow down inflation. Inflation was about 10.1% by 2007<sup>21</sup> year end, which was higher than the projected inflation (8%).

The unemployment rate is about 18.8%, which indicates serious social problems in Serbia. 6.6% of the population is below the poverty line (2007)<sup>22</sup>, but some experts emphasize that the real number of poor citizens is much higher<sup>23</sup>.

### 3.3. Country context

During the 1990s Serbia went through serious social and economic challenges: Slobodan Milosevic's rule, civil war, an economic embargo, enormous inflation and overall social instability. After the political changes in October 2000, the country embarked on dynamic economic and social reform. Nevertheless, after the assassination of the Serbian prime minister in 2003, the reforms were slower and political instability, as well as frequent elections, became an issue.

The privatization process is delayed because of political instability. The biggest state owned companies (National Oil Industry, Airport Nikola Tesla, Yugoslav Airport Transport, Telekom, National Power Supplier – EPS, National Pharmaceutical company - Galenika) are still not privatized and this issue is a topic of serious debate at national level – to whom it should be sold to and what the right price should be. Completing privatisation will add new energy to Serbian economic growth and FDI as well as free market institutions development.

Along with political instability, the Government is under pressure from state owned companies, especially the large ones that are not restructured or privatized yet. The main pressure from such companies is the workers' demands to have their delayed salaries paid or their low salaries raised. Except for several exceptions, the Government is not taking steps to create a good business environment.

In the socialism system, corporate governance was undeveloped in the sense of modern business trends. The main reason for this was self-managerial practice. During the 1990s, most of the entrepreneurs usually managed enterprises themselves, because of the market and political instability. International companies have entered Serbian market during the past ten years and introduced corporate governance culture to Serbian business practice, although at a pace that has not been fast enough. Additionally, financial and real market development made the climate more favourable for local enterprises to apply the principles of corporate governance in their organizations. Enterprise owners do not necessarily manage their enterprises, although that is still quite common, not only in small and medium sized domestic companies, but also in large ones<sup>24</sup>.

Corruption in Serbia ranges from the expectation that gifts are usual as a stimulator of business transactions to money laundering and attempts at different kinds of rent seeking by politically linked "tycoons" and organized crime groups. In 2006, the Corruption Perception Index survey compiled by Transparency International (TI), gave Serbia an index score of 3.0 out of 10 (10 indicating being "highly clean"), a slight improvement from 2.8 in

<sup>20</sup> Doing business in Serbia, [www.buyusa.gov/serbia/en/doing\\_business.html](http://www.buyusa.gov/serbia/en/doing_business.html)

<sup>21</sup> Doing Business in Serbia, [www.buyusa.gov/serbia/en/doing\\_business.html](http://www.buyusa.gov/serbia/en/doing_business.html)

<sup>22</sup> Data given by Poverty Reduction Strategy office in Serbia

<sup>23</sup> The Poverty Reduction Strategy paper for Serbia (PRSp) defines poverty as a multidimensional phenomenon which, apart from the insufficient income for covering basic life needs, also entails the lack of access to employment, inappropriate residential conditions and inadequate access to social protection, health, education and public utility services. Other key aspects of poverty also include the lack of access to healthy environment and natural resources, primarily clean water and air. Poverty line is set on 2.4 US dollars per consumption unit on daily level.

<sup>24</sup> One local saying is very popular: "the boss should be asked about everything" (it doesn't matter if it is a local store, private university or a bank, for example; if it is a question about an annual budget or commercial in the daily newspapers).



2005. The result could be compared to neighbouring countries' scores (Croatia, 3.4; Romania, 3.1; Bosnia and Herzegovina, 2.9; Macedonia, 2.7; Albania, 2.6<sup>25</sup>). For current and potential foreign investors, this is one of the indicators of how safe their investments will be in the country.

The popularity of corporate social responsibility, mostly promoted by NGOs and foreign companies, increases daily. Donations for vulnerable groups and social development are becoming a powerful means for companies and enterprises to promote themselves. Nevertheless, the essential elements of CSR, such as ethical market behaviour, respect for employees' rights and customer protection, are rarely on the agenda. One of the reasons for this lies in the relevant regulations (Law on Competition protection, Law on Customer Rights protection, Labour Law etc) that are not properly implemented. CSR awareness that goes beyond the formal regulation limits is in the process of improving, but the pace is still too slow.

### 3.3.1. Overall understanding of CSR

CSR in Serbia is still commonly recognized as charity. Surveys carried out in 2005 and 2006 by Smart Kolektiv and Strategic Marketing show that most of the business respondents emphasized donations and sponsorships as their CSR activities. This is related to current understanding of the CSR concept, but also characteristic of our national culture matrix and tradition oriented towards charity and community development. Also, some of the companies-respondents see CSR as ethical behaviour in business activities, respect of law and regulations, business transparency, environmental protection and care for stakeholders.

According to the UNDP CSR Baseline Survey in multiple choice, the majority of respondents showed a high level of understanding of CSR. As many as 87.5% think that CSR is about environmental protection which is possibly the result of many ecological incidents that occurred in Serbia in the last few years and intensive media coverage on this issue. Also, a very high percentage of respondents consider charitable giving as CSR. Media activity in this area could again be one of the main reasons for it, but also the PR activities of the domestic and foreign companies. CSR is understood as a powerful PR tool. For the example, the opening of a new sales outlet is usually followed by a donation to a school or investment in renovation of playgrounds. That is the way that event becomes more attractive for the media and overall public attention. It is interesting that a considerable number of respondents said they think that economic benefits for all are a CSR area, despite monopoly in many industries, the serious political background of most of the businesses, undeveloped trade unions and consumer protection organizations. Bringing all this together and allowing for more answers, it seems clear that the respondents usually gave a socially acceptable answer to this question, which may explain why the percentage of CSR understanding in this sense is so high. In this context, almost 3/4 said that CSR is about Anti-corruption/transparency, although 2/3 of respondents said that giving informal gifts is, with the aim of making new business contacts, a necessary part of everyday business. The reason for this inconsistency lies in the indirect way the second question was posed. It is a much more appropriate way of asking questions in Serbia (and in the region), having in mind the cultural characteristics, especially a high level of collectivism, where people set great store by group acceptance.

As far as CSR understanding is concerned, the question of terms used for CSR in Serbia also arises. The terms that are mostly frequently used for corporate social responsibility in Serbia are the following:

- ◆ **CSR** (in its original form) is often used as a term. This acronym has become widely accepted in professional circles, after a few unsuccessful attempts to promote domestic acronyms (given below). In front of this acronym or after it an explanation is usually given in Serbian, at least once in a speech or analysis, to explain to the people that are not familiar with the English term.
- ◆ ***Drustvena odgovornost preduzeca (DOP)*** - social responsibility of an enterprise (firm). DOP is also a slang word for drugs, so some stakeholders do not encourage the use of this term. On the other hand, some people do use the term anyway.
- ◆ ***Društveno odgovorno poslovanje*** – *socially responsible business*
- ◆ ***Drustvena odgovornost kompanija*** – *corporate social responsibility*

<sup>25</sup> Transparency in Serbia (2006), Corruption Report, Belgrade, page 36-39



- ◆ **Korporativna društvena odgovornost (KDO)** – Corporate Social Responsibility. This could be a good solution, but it is not recognizable internationally, so it is not good for further CSR development and experience and knowledge exchange with other countries.
- ◆ **Korporativna odgovornost** – Corporate responsibility

One of the most important words related to the CSR concept is “stakeholders”. The business sector often uses the original word in English (with similar pronunciation, but transcribed, “stejkholder”). It is already a widely acceptable term and used in the business sector, as well as in government, academia and other stakeholder audiences.

Relevant Serbian audiences also use the term “interesne grupe” (interest groups), so it is about all organizations and groups that have some interest in particular business. Finally, one of the most appropriate terms is “zainteresovane grupe” (interested groups), because it indicates that these are people who are interested in the work of a company, instead of only having a direct interest in some area of business.

### 3.3.2. Factors driving involvement in CSR

As mentioned earlier, CSR activities are influenced by the characteristics of the Serbian national culture matrix and tradition oriented towards charity and community development with a powerful need for social acceptance and recognition. In collectivism culture, it is important to be recognized “as a good citizen”, so the motto “one should give to the sick and poor if one can” is understandable. That is one of the main reasons why charitable giving and donations are so popular. Also, the poverty rate is high and the help of the business sector is of essential importance for community development, and sometimes even basic survival. It is interesting that in smaller social environments, where collectivism is strongest, charitable giving and overall hospitality is normal behaviour, that is the way “good people and citizens” are distinguished from “bad people” and even “unlikable citizens”.

Social values such as “honesty and generosity” are among the most important cultural values in local communities. “A good name and trustworthiness” are the ticket to some formal and informal social networks, that assure success in different social areas, business is only one of these.

**NGOs and international organizations** are a strong factor in CSR practice development in Serbia. The number of organizations involved in CSR support is increasing on a daily basis, since other organizations found their clear interest in cooperation with the business sector. International organizations, through funding and other activities represent institutional support to CSR development and good sources of knowledge on international CSR practice. The domestic NGO sector recognizes cooperation with businesses as a new source of funding, but also as a chance to make real social synergy for solving many serious social problems. The reason most of the companies do not recognize the NGO role in CSR development (the worst rank in all given business case factors for CSR implementation), could be found in a fact that most of the NGOs oriented to CSR promotion are focused on large, mostly international companies. This is one more indicator of the relatively early phase of CSR development in Serbia. Also, companies perceive most of CSOs/NGOs as not prepared enough, with insufficient capacities, especially without enough creativity and social entrepreneurial ability to strategically, as a reliable partner, cooperate with the business sector on CSR issues. In the future, serious focus should be put on NGO partnership capacities development, in terms of CSR.

The Serbian government, through the **Poverty Reduction Strategy Paper** and **Strategy for sustainable development**, perceives the important role of the business sector in its implementation. This is the reason why the government intends to work strategically on CSR awareness and practice in the future. The May 2008 parliamentary elections, and establishment of a new government could influence this policy in the future. Anyway, the government is still making the first steps in this area and most of stakeholders do not recognize that government understand CSR in terms of the Serbian economy and international competitiveness development. On the other side, companies rank governance incentives as a factor of CSR involvement relatively low, as opposed to stakeholders who ranked it second of all given factors of business case CSR involvement.

Finally, the **newly established CSR awards** in Serbia (Virtus, established by the Balkan Community Initiative Fund and the CSR award established by the Serbian Chamber of Commerce) represent strong social recognition of the responsible activities of companies. To say more, most of the companies that apply for these awards are foreign and large domestic companies. Some of them place serious pressure on the stakeholders to win the awards, or seriously question if it was the “right choice” after the award is a given to a particular company, trying to give it a “political background”. Development of CSR assurance stakeholders will change this practice.



According to the UNDP CSR Baseline Survey, the most important factors for CSR implementation are, from the business respondents point of view, *reputation enhancement, environmental protection and management request*. These are followed by local/international competition and market trade expansion which indicates the strong marketing orientation of the CSR concept. If we link these results to research on CSR media reporting carried out by the Center for Monitoring and Evaluation in 2007, CSR was mostly connected to “visible results” and focused on CSR activities that quickly improve company reputation. On the other hand, business respondents expressed a strong belief that the main role in CSR implementation is that of management and managers’ CSR awareness, since consumers, employees and shareholders are not that important in this process. It could also indicate long term CSR orientation to results controlled by management.

As mentioned above, the companies rated international organizations’ pressure and NGO pressure as the least important in this respect, but this should be changed in the future, through the process of CSR development, public pressure and CSR assurance implementation.

Please rank the importance of the following factors in your company decision to be involved in CSR activities? <sup>26</sup> (companies respondents)		
rank	Factor	Average importance of the factor
1	Reputation Enhancement	4.21
2	Management request	4.17
3	Environmental protection	4.03
4	Market trade expansion	3.93
5	Local/International Competition	3.90
6	Consumer requirement	3.88
7	Attract best and brightest employees	3.60
8	Government Legislation/requirement	3.46
9	Shareholder or parent company pressure	3.43
10	Risk management	3.38
11	Government Financial Incentives	3.24
12	Cost saving	3.07
13	International organization's pressure	2.75
14	NGO pressure	2.58

The stakeholders also feel that *reputation enhancement* is the most powerful motivation factor for CSR implementation, but consider government financial incentives, environmental protection and government legislation to be important too. Companies and stakeholders gave similar opinions about the importance of government legislation, but government financial incentives were evaluated as more important by stakeholders. The reason for this may lie in stakeholders better overview of the possible financial incentives for increased CSR involvement, but may also be because they overrate the existence and attractiveness of government financial incentives.

Other marketing factors, evaluated by stakeholders, were also emphasized, which supports the previous conclusions on the marketing and PR orientation of socially responsible business activities. It is interesting to note that consumer requirement is ranked as least important, since it ranked much higher among companies. Consumer pressure is probably understood differently. Companies perceive it from a PR point of view; intensive PR activities, following a CSR project or activity, increase the popularity of the company and its products, as well as consumer readiness to buy those products. The stakeholders concluded that consumer rights are not well institutionalized, so companies have plenty of space for opportunistic behaviour. *Cost savings* ranked very low, even lower than in the company respondents’ case. This shows that companies, as well as stakeholders, are not aware enough of the business benefits and cost saving opportunities that strategically implemented CSR practice brings.

Finally, it is important to mention that most of the stakeholders believe CSR will be very important for their future, which could indicate that the role of these organizations and institutions in CSR development will increase, and their reputation with the business community will improve.

#### Table: Importance of business case factors for CSR awareness

<sup>26</sup> The range of rankings is 5-1, where 5 means Extremely important and 1 means Not important at all.



In your interactions with businesses, which of the following "business case" factors are influential in making them take CSR seriously? <sup>27</sup> (stakeholders respondents)		
rank	Factor	Mean
1	Reputation enhancement	4.22
2	Government financial incentives	3.88
3	Environmental protection	3.77
4	Government legislation/requirement	3.55
5	Shareholder or parent company pressure	3.44
6	local/international competition	3.44
7	Market trade expansion	3.44
8	Attract best and brightest employees	3.11
9	Anti-corruption	3.00
10	Risk management	2.77
11	Cost saving	2.88
12	Supply chain improvement	2.55
13	Consumer requirement	2.55

Source: UNDP CSR Baseline Survey in Serbia

#### 4. CSR Implementation

##### 4.1. Good practices of implementation

CSR practice is mostly developed in branches of multinational companies, which are followed by some privatized Serbian companies, and other large and medium sized domestic companies.

However, some examples of good practice were identified and accentuated by the respondents:

**B92** – Serbian private Broadcasting Corporation that, under Milosevic's regime, fought for protection of human rights and has developed its own CSR program since 2000, in order to improve the social and economic standing of vulnerable groups. Initiated by the national CSO, they strongly supported the foundation of Safe Houses for women victims of domestic violence. Their campaign and lobbying activities carried out by employees on a voluntary basis succeeded in raising funds, necessary material and space for building a completely new building to accommodate 20 women. Afterwards, several other companies donated in-kind contributions for this vulnerable group. The initiative continued, and another three Safe houses are planned in different parts of Serbia. B92 also initiated a campaign for blood donation and that program is still in progress. Along with that, this company is developing a new program to protect the cultural heritage of other nations in Serbia. It is important to say that B92, from its foundation, has tended to help socially responsible and development initiatives. Some of the main areas of their focus are: public health, vulnerable groups, youth and education, ecology, CSR events media coverage. The company has founded the B92 foundation that supports its CSR activities. (<http://www.b92.net>)

**Coca-Cola HBC Serbia** puts most of their CSR effort in following areas: young people, employee's volunteerism and ecology, as well as different charitable giving for culture and social development initiatives. About 10% of their employees are members of the Coca-Cola Volunteer Club, who participate in different social community projects and activities. One of the projects this company emphasizes is the Coca-Cola Talents program, where annually 3-7 students are selected to be Coca-Cola talents. These students are evaluated as perspective business leaders and attend comprehensive education in the company, as well as an internship. Furthermore, the company financially supports the students. Coca-Cola HBC also promotes its Graduate Trainee Program made for perspective graduates without work experience. The company is a member of Initiative for responsible package waste management named "Sekopak". (<http://coca-cola.co.yu>).

**DIN Philip Morris** – After the privatization of the public company DIN (Duvanska industrija Nis), Philip Morris developed and implemented a CSR strategy mainly focused on the city of Nis. In no less than three years time, they have managed to address the city's needs, improve the quality of life in one of the poorest regions in Serbia and become a preferable partner of citizens, youth, institutions and CSOs in Nis, as well as in the whole country. Their strategy is to invest in local development and the overall life quality of their employees in different areas. This company looks forward to developing sustainable projects which usually involve local citizens and

<sup>27</sup> The range of marks is 5-1, where 5 means Extremely important and 1 means Not important at all.



always have some follow-up activity, financed from the previous project. Also, Phillip Morris tends to be a reliable partner of most of the stakeholders: suppliers, local government, local NGOs, academia, media. The company supports the cultural institutions of the city, provides 40 student scholarships at an annual level and helps local farmers to develop their production performance. (<http://www.din.co.yu>)

**Delta Holding *Fund for Future*** – Delta Holding is one of the largest companies in Serbia and the Western Balkans region. Six months ago, they became a first CSR Europe member from Eastern Europe, and almost three years ago they founded the *Fund for future* – to support children without parental care from public institutions. This is one of the most vulnerable groups in Serbia, bearing in mind the fact that these children must leave the institutions after they turn 18 (legal age in Serbia) and there are no institutionalized mechanisms to support these young people. Delta holding developed the program to support them in their education while they attend primary and secondary schools, encourages them to finish university courses and eventually – find employment within Delta holding. Besides this project, the company provides charitable giving in different areas of social development. (<http://www.deltayu.com>).

**EFG Euro Bank in Serbia** has also publicized its areas of ethical commitment – education, environmental protection, healthcare, equity for all and community development. The company signed a 3 million euro strategic contract with the Serbian Government for donations in three areas – education, environmental protection and public healthcare, although the bank also invested more in these areas. Currently, they are developing a new focal area of CSR activities, which is supporting persons with disabilities. (<http://www.eurobankefg.co.yu>)

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

**Hemofarm** – this company has posted its core values and the CSR areas it focuses on its website. These include four areas of company commitment – sick people and marginalized groups; employees, environment and “healthy life values” (sports, culture, art, healthy food etc). This company have developed a strong connection to the local community it operates in. The company supports most of the events organized in Vršac. Also, the company strategically takes care about its employees, even after they retire, organising numerous events and giving needed help. All information about Hemofarm CSR activities can be found on the website (<http://www.hemofarm.co.yu>).

**Soko Stark**, a Serbian candy manufacturer offered employment to women in the Safe House and gave essential support to the social reintegration of these women. Beside that, this company presents its CSR activities in four main areas: employees, safety and health protection, environmental protection and sponsorships and donations. All the activities are connected to their core business. (<http://www.stark.co.yu>)

**Telenor** is the first company on the Dow Johns Sustainability Index list for telecommunication companies and carries out CSR activities in Serbia through the Telenor foundation. Areas of their CSR commitments are – youth and education, socially marginalized groups, culture and the arts. On the other hand, Telenor promotes strong employee development politics and wants to become the most preferable employer in Serbia. The company follows international Telenor CSR politics, but has a sense for local needs. One of the projects supported by Telenor and emphasized by questioned stakeholders is the Center for students with disabilities in the Belgrade University Library Svetozar Marković. (<http://www.telenor.co.yu>)

#### 4.2. Barriers toward implementation

Based on the survey findings, it could be said that there is no legal support toward improving CSR initiatives In Serbia. Companies do not have any tax breaks or the possibility to distribute part of their income to humanitarian organizations or funds. There are no financial instruments related to rewarding socially responsible companies. Nevertheless, one should mention that donations tax was decreased from 5% to 2.5% in 2006. On the other hand, for in-kind donations, companies have to pay VAT (18%), even though they are not actually selling any goods or services.

2/3 of CSR stakeholders from this research think that the Serbian government considers CSR an extremely unimportant tool for improving the national business or economic climate in the country. Moreover, 2/5 of the



respondents see government support and financial incentives as the most important factors for CSR development in Serbia.

Along with **minor government support, lack of understanding of the CSR concept** among Serbian companies has also been identified. As much 75% of the sample answered that CSR will be very important for their business in the future, and slightly more of them say that their company is very actively engaged in CSR activities. It is noticeable that the companies' decision to be involved in CSR is mostly understood from the marketing angle. Reputation enhancement and consumer requirements, together with management requests, are key factors in making decisions to implement CSR activities. Environmental issues are major in the business sector today, so it is not surprising that this ranked very high, but the situation is very different in practice.

**Developing a market economy** with an insufficient level of foreign investments, grassroot initiatives and uncompleted privatization of public companies confronts Serbian companies with new challenges every day. Along with that, several important laws must be adopted in order to increase the competitiveness of the Serbian market, products and services in the regional and the European market. Bearing in mind all of the above mentioned, a Serbian company must constantly struggle with the economic and financial system, as well as with a politically unstable situation in the country. CSR, perceived as a voluntary concept, is not established as a top business issue on this market.

**Lack of CSR promotional and educational activities.** There are only a few stakeholders promoting the CSR concept in Serbia, and almost all of them in Belgrade. A few conferences, seminars or trainings a year are organized mostly (again) in Belgrade and are not enough, bearing in mind everything that was said earlier. It is, therefore, not much of a surprise that as many as 70% of the companies answered that they would like to participate in CSR trainings, even though only 22.5% have a budget allocated for it.

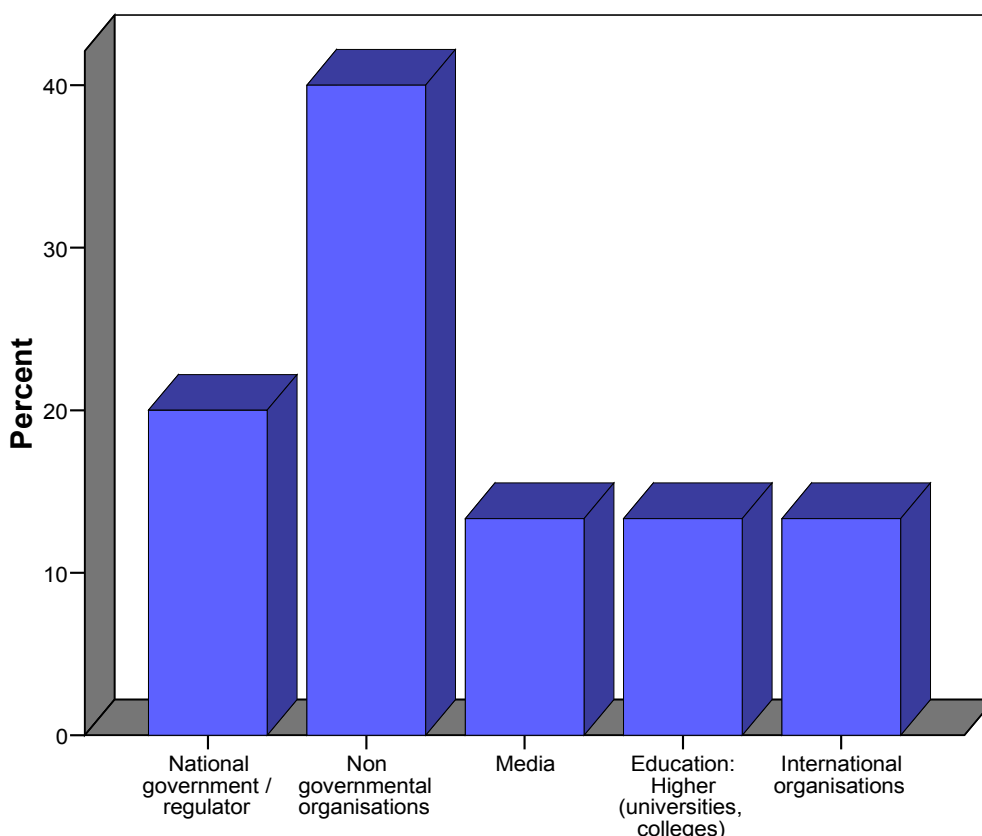
**Lack of multisectoral communication and cooperation.** Generally speaking, joint efforts of different stakeholders focused on CSR activities could multiply their effects on society. In Serbia, a small transition country lacking resources, the idea of establishing mechanisms for multisectoral cooperation has to be a priority issue. The situation, however, is somewhat different, because there is still a huge misunderstanding in communication between sectors of Serbian society. Some steps have been made and successful cooperation was established in several cases, mostly between companies and CSOs, or between companies and the government, but these cases could be seen as an exception, rather than practice.

## 5. Actors Involved in CSR Promotion

Stakeholders are defined as persons, groups, or organizations that have a direct or indirect stake in an organization because it can affect or be affected by the organization's actions, objectives, and policies. Key stakeholders in a business organization include creditors, customers, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, and the community from which the business draws its resources<sup>28</sup>.

### 5.1. Description of sample

The survey was also strengthened by 15 stakeholders from local and national government institutions, NGOs/CSOs, international organizations, the media and universities that were interviewed using a different questionnaire, especially developed for these target audiences. The type of the stakeholders was previously defined by UNDP experts. A database, register or list of CSR stakeholders does not exist, and no public information is available. Under these conditions, the research team decided to carry out secondary analysis of CSR, monitor annual edition media clipping and identify the list of key stakeholders promoting CSR in Serbia. After that, the sample was developed using the random source of the list.



<sup>28</sup> <http://www.businessdictionary.com/definition/stakeholder.html>

## 5.2. Governments

### 5.2.1. National

The Serbian government is slowly becoming aware of the importance of partnership with businesses in solving serious national social and economic problems. This is mostly related to the Sustainable Development Strategy and Poverty Reduction Strategy. It is also important to emphasize the role of international institutions in this process, pressuring government institutions to modernize and apply new policies.

**The Project National Sustainable Development Strategy Paper** of Serbia (<http://www.odrzivirazvoj.sr.gov.yu>) was initiated by Swedish SIDA and the UNDP. It was adopted as **Serbian Sustainable Development Strategy** by Serbian government during CSR Baseline Research in Serbia fieldwork. With the awareness of requirements for this project to be in line with the National Strategy of Serbia for the Accession of Serbia to the European Union, it is fully harmonized with the objectives of that Strategy and since December 2005 the coordination of the Strategy implementation is under the supervision of Government deputy Prime Minister in charge of European integration. This program is carried out in close partnership with companies and other stakeholders. It would be useful to quote the Sustainable Development Vision of Serbia:

*The Republic of Serbia is an institutionally and economically developed country with adequate infrastructure, compatible with EU standards, an economy based on knowledge, efficient use of natural and other resources, higher work efficiency and productivity, rich in educated people, with a protected environment, with a rich historic and cultural heritage, a country where partnership exists among public, private and civil sectors, a country that offers equal opportunities to all its citizens<sup>29</sup>.*

Analyzing this statement, one can conclude that Serbia will be clearly oriented to cooperation with business and the civil sector and count on these as essentially important stakeholders for overall social and economic development. Also, in the chapter *Economy of Republic of Serbia – development and sustainability*, one of the most important tasks defined is: *to develop a system of business sector social responsibility, related to companies, enterprises and institutions, mainly through corporate social responsibility promotion, related to environmental protection, as well as in the sense of humanization and work culture<sup>30</sup>*. Thus it appears that the country has clearly indicated its position on CSR development at the national level and the main areas of planned promotion. Later in the document, different areas of CSR are also mentioned as priorities of future national policy (sustainable procurement and consumption, energy efficiency, consumer rights protection, life-long education, equal opportunities for all, overall citizens life quality improvement etc). The role of the companies according to this strategy should be financial support and consultancy for Strategy implementation, but it will be more precise after the National Sustainable Development Strategy Action Plan which is currently under development.

The development of **the Poverty Reduction Strategy Paper** (<http://www.prsp.sr.gov.yu>) was initially supported by the UNDP Office in and Catholic Relief Services in Serbia. It presents a middle term strategic frame focused on the main poverty issues in Serbia. The final paper was adopted in 2003 by the Serbian Government. The Poverty Reduction Strategy Paper Office is coordinating implementation of **the Deputy Prime Minister's Poverty Reduction Strategy Implementation Focal Point** (PRS IFP) and cooperates with different stakeholders (including the business sector) on the poverty reduction issues. In cooperation with BCIF they are currently developing a database of NGO projects and capacities. This database should be useful for the business sector to recognize good ideas and reliable partners for social development projects. Also, the mentioned office in cooperation with **Serbian Investment and Export Promotion Agency** (<http://www.siepa.sr.gov.yu>) is developing a database of companies' socially responsible initiatives in Serbia. That is one way stakeholders could recognize reliable business partners with the appropriate main focus on CSR activities.

Nevertheless, there is no specific ministry or department in charge of CSR in Serbia. Also, there are no specific laws or regulations directly related to CSR, but a set of different documents that regulate this area.

<sup>29</sup> National Sustainable Development Strategy Paper, Republic of Serbia, page 13-14

<sup>30</sup> National Sustainable Development Strategy Paper, Republic of Serbia, page 29



Related to Serbian legislation and regulations, most of the important laws on CSR issues exist, but most of them are not properly implemented.

According to **Serbian Criminal Law**, companies cannot be held responsible, but each company (according to the Law of companies) must have a so-called responsible person for company business, who can be convicted of committing an offence. In case of conviction, the responsible person can be incarcerated, whereas the company in question can be fined. Serbian Criminal Law treats only individuals.

Nonetheless, according to the Law on Money Laundering, Law on Finances, and some specific laws, such as the Law on Environmental Protection, companies can even be temporarily or even permanently shut down if they fail to comply.

According to the **Labour Law**, every employee must sign an employment contract with the company. Every employee must have a salary, social, health and pension security. Other benefits are not a legal obligation of the company, unless otherwise agreed upon through annexes of the employment contract.

Several social security payments relating to illness are provided. If the illness is temporary, an employee has the right to sick leave (with 60-80% of the salary), and if a condition or accident caused permanent disability, the employee has the right to a so-called disability pension. Also, some health security payments are provided for depending on the level of disability.

Even though they are not yet addressed in a separate law, some articles of the Labour Law protect women and persons with disabilities. The Law prohibits any kind of discrimination (by gender, race, nation, place of birth, language, colour of skin, age, pregnancy, disability, health, religion, marital status, family obligations, social status, sexual, political or union orientation etc.). The draft Law on Professional Rehabilitation and Employment of Persons with Disabilities is before the Parliament, awaiting adoption.

The Serbian constitution prohibits **child labour**. In terms of this issue, Serbian national culture has a strong influence on most of the population. There are some cases of family work among the Roma (around 500,000 people), where children help their parents, or are even forced to work, but this should be considered and analysed in terms of government social policy, since it is not related to company behaviour.

**Law on Environmental Protection** was adopted in 2004 and was developed on the basis of the UN Convention on Environmental Protection. Along with this one, another three laws were adopted: the **Law on Strategic Estimation of the Influence on the Environment, the Law on the Estimation of Influence on the Environment and the Law on Integrated Suppression and Pollution Control**. Some articles of the said laws address recycling, but a separate law has not been adopted, even though the Ministry of Environmental Protection planned it.

According to the Law on Environmental Protection (adopted in 2004), each company must have regulations on environmental protection and regular checks of ecological status. Along with this, the institution of Environmental Inspector with a wide and precise mandate has been established at both republic and local levels. They monitor the ecological status and company attitudes towards environmental protection and can order mandatory fines for environmental damage and disturbance. Fines range from 100,000 to 3,000,000 RSD (approximately 1.500 to 40.000 Euros).

In 2007, three domestic companies paid fines for polluting rivers, and the biggest fine was paid by one Serbian state-owned petrochemical company for continuous air pollution. Their factory was even closed down for some time by the Republic Environmental Inspector. 2008 was also marked by ecology incidents caused by different companies.

There is also a set of four **anti corruption laws** – the **Law on Conflict of Interest, the Law on Financing Political Parties, the Law on Free Access to Information of Public Interest, the Law on Public Procurements**. Civil society organizations are urging the Parliament to adopt the law on monopoly and the law on the foundation of the Agency for the Struggle against Corruption. The former Prime Minister of the Serbian Government has founded the Council for the Struggle against Corruption responsible to Parliament (<http://www.antikorupcija-savet.sr.gov.yu>), as an advisory institution. Nowadays, the Council is under strong political pressure and even faces obstruction.

The new **Labour Law and Law on Labour Safety and Health** were adopted in 2004/5 and are based on UN and EU policies.

Cases of litigation or fines relating to Health and Safety practices are very rare. Bearing in mind that the legislation is very good and legal measures very precise, most court procedures often end with a positive



verdict for the employee(s) whose rights were breached. There were a number of cases of companies that dismissed women during pregnancy (explicitly prohibited by the Labour Law) and employees that were injured during work and later dismissed with the explanation that management could not find a position for the employee who could no longer perform the tasks they had performed prior to injury (mostly small and medium sized domestic companies). In each of these cases, the court ruled against the companies in question and ordered them to put the employee back to work and pay penalties.

According to statements in the **Serbian Law on Accountancy**, our accountancy is in line with European financial standards: International Accounting Standards – IAS, International Financial Reporting Standards – IFRS, International Standards on Auditing – ISA and Code of Ethics for Professional Accountants, but some country specifics do exist. Regardless of these, there is an obligation to produce properly certified financial reports for medium and large companies (that have their audits performed annually by certified auditors). Small companies are also obliged to provide certified financial reports, but are not audited. Micro companies (mentioned earlier in the text), are not obliged to make certified financial reports.

There was some pressure towards enforcing the **Law on Competition Protection**, related to the monopoly issue in the retail sector, but the informal business lobby was stronger in that particular case. Also, the Council for the Fight against Corruption is exerting constant pressure towards resolving certain cases in the business sector, especially those connected to improper privatization, but this has not yielded any specific positive results yet.

### 5.2.2. Local

Municipalities support particular CSR activities and initiatives in their territories, but usually not as initiators. Already, numerous municipalities have a strategy for local sustainable development, but without any strategy to work with companies on the strategy realization. This exposes a distinct lack of awareness of the potential for cooperation between the public and private sector. Plans for SME development and FDI promotion could not be understood in the sense of CSR activities and promotion. There are municipalities that support some CSR projects, but usually it is not their own initiative.

The Municipality of Novi Beograd supported a conference on CSR and PR held in April 2007, organized by the Center for Monitoring and Evaluation and is ready to help with a CSR and Environmental Protection Conference organization. The Municipality of Novi Beograd also has a strategic partnerships with eminent NGOs in various fields with the goal to develop the municipality and improve overall quality of life of the citizens.

Also, the Municipality of Bač participates in the Sustainable Cities Program at European level.

Finally, when companies initiate cooperation on CSR activities, municipalities are valuable partners and ready to help.

Local municipalities are completely free to develop CSR activities independently. It is up to them to decide on the extent of those activities. They have a great potential to contribute to the CSR development process and probably this stakeholder could become one of the biggest supporters for CSR development in Serbia. Quality educational programs on CSR for municipality administration staff could help greatly in fulfilling this potential.

## 5.3. Local civil society

### 5.3.1. Academia

Academic institutions are still not involved in CSR promotion and there are almost no relevant courses in this area. The academic audience is slowly becoming aware of CSR potential and the importance of educating young people on this issue. A review of courses on Business Ethics and CSR is given below:

- University of Belgrade, Faculty of Law has a course on Business Ethics, within the EU Integrations MSc program. The good thing is that students are encouraged to write MSc thesis in the CSR area.
- University of Belgrade, Faculty of Organizational Sciences has a course named Business Ethics, an optional course for fourth year undergraduate studies.
- Singidunum University in Belgrade has a course named Business Ethics and Communication in three of its faculties (Faculty of Business in Belgrade, Faculty of Informatics and Management and Faculty of Tourism and Hospitality Management) as part of the fourth year of undergraduate studies.
- Megatrend University in Belgrade, Faculty for Business Studies, course Business Ethics, in the fourth year of undergraduate studies.
- University Academy of Economics in Novi Sad, Faculty of Management and Faculty of Law, course named Business Ethics and Aesthetics in the Media, fourth year of undergraduate studies.



- Braća Karić University in Belgrade, Faculty of Management, Faculty of Entrepreneurial Management and Faculty for Trade and Banking, course named Business Ethics, fourth year of undergraduate studies.
- Faculty of Business in Service in Novi Sad, course named Business Ethics and Communication Skills, first year of undergraduate studies.
- Faculty of Real Estate Management, in Belgrade, course named Business Ethics, first year of undergraduate studies.

As can be seen, almost all of the Business Ethics courses available are taught at private universities and faculties. No MSc courses or programs on this subject are available, except at the Faculty of Law in Belgrade University. No CSR courses are available in this moment.

Finally, it should be mentioned that a course, Ethics is taught at faculties of social sciences and medicine in all state Universities in Serbia. Students who studied this course should have a good basis to understand the practical implications of business ethics, which is a kind of applied ethics and strongly connected to CSR issues.

### 5.3.2.CSOs and NGOs

The NGO sector is very influential on social issues in Serbia. Since the 1990s, these organizations have developed fast, both in number and in the issues they are involved in. From general human rights, which was the focus during the period of Milosevic's regime, their interest has moved forward to specific issues of modern civil society development.

NGOs/CSOs in Serbia are some of the main CSR promoters, although it is a relatively new area of their involvement. Most of these organizations are financed based on projects, mostly by international and national funds, since only a few of them are co-financed by companies.

**The Center for Monitoring and Evaluation** publishes news on CSR from Serbian media on a monthly basis through its CSR Monitor magazine and promotes positive examples of CSR practice. CME organized a conference on CSR and PR in cooperation with Delta Holding, a current member of CSR Europe, and carried out a CSR info seminar for business leaders in cooperation with the Serbian Chamber of Commerce. CME is also preparing several national and regional CSR events for this year. The organization has four main programs: Professional education for youth, **CSR monitor**, Empowerment of persons with disabilities and Monitoring and evaluation of programs and projects. In the CSR area their main activities were: "CSR Monitor" monthly magazine, media monitoring on CSR, organization of CSR educational events for broader audiences (the conference CSR and PR organized in April of 2007 with Delta Holding, the conference CSR and Education in April 2008 with local municipality Novi Beograd and a CSR Info seminar with the Serbian Chamber of Commerce in December 2007 were very visible), as well as monitoring and evaluation of CSR programs.

**SMART KOLEKTIV** has three main areas of activities: CSR, Partnerships and Communications. In the year 2004 they introduced the concept Responsible Business Initiative, in cooperation with the Fund for Open Society in Serbia (FOSS) and the Serbian Chamber of Commerce. They also announced The Best Practices Knowledge Base which will focus on five crucial CSR topics: **The Local and National Community, Corporate management, Workplace, Environment and Market**. Smart Kolektiv carried out two research projects on CSR in cooperation with Strategic Marketing Company. This NGO publishes the Business Responsible Initiative (BRI) newsletters on a quarterly basis. **Smart Kolektiv** promotes cooperation of three sectors (State, companies, NGO) on CSR activities and organizes presentations and short conferences about CSR experience in other countries. Finally, this organization is the administrator of the Business Leaders Forum in Serbia.

**The Balkan Community Initiatives Fund** is a domestic public benefit fund that supports people to take an active part in improving life in their communities. At least 8 good actions were recorded in towns around Serbia.

**BCIF** is the first domestic foundation for local development projects and is quite well-known. This organization launched the programme **Corporate Philanthropy** and in 2007 awarded the first prize for corporate philanthropy in Serbia, named Virtus. Companies that were awarded are: Broadcasting corporation B92 (as responsible media company), Holcim Serbia a.d. Popovac (for the greatest contribution to local community it operates in), **ALFA-PLAST d.o.o. Temerin** (as the most responsible SME) and Erste Bank a.d. Novi Sad (for the most innovative project support, project named: "Avantura cooltura").

**AIESEC** in Serbia is a student-led organization focusing on its members' professional development and student exchange. AIESEC educates students at the faculties it operates at, about the CSR concept and areas connected to CSR. It organized brief seminars for students on CSR and carried out a project "CSR – a Safe Future", involving students, companies and the media, which ended with a conference in December 2007. The organization carried out more projects in this area.



**Hajde da...** is an NGO specialized in training for the NGO sector. Currently, they carry out training programs entitled CSR and Youth Activism Strengthening in a number of Serbian cities.

Most NGOs involved in CSR cooperate with other stakeholders: CME with the Serbian Chamber of Commerce, companies and City Municipality Novi Beograd (second highest ranked municipality by amount of investments), SMART Kolektiv with the Serbian Chamber of Commerce, different companies and Foreign investors' council in organizing events and awards activities.

**Consumer Protection Associations** are not highly developed, their activities are mainly focused on customer and consumer education, but they still do not do much on protecting the rights of their stakeholders.

The Consumer Association of Vojvodina sent a request to the Ministry of Trade, Tourism and Services in January 2006 to take legal action against a cable TV and Internet services provider. Their market share at that point was over 50% and they had some points in standardized contracts that were not in accordance with the Law on Consumer Protection. The **National Consumer Protection Organization** was founded on December 10th, 2008 by 11 local consumer organizations from different parts of Serbia. Since, it has gathered 35 local organizations but besides their internal meetings, periodic actions and media announcements, they have yet to make a larger social impact.

**The Law on Consumer protection** has been adopted but not implemented properly and it is expected that public advocacy in this field will be one of the main areas of consumer protection organizations activity in the future.

**Certification institutions** do not have a legislative obligation to inform any public agency about the number of certificates they approved. A few years ago, these institutions and organizations signed an agreement stating that they would send relevant data to the Centre for Quality (within the Serbian Chamber of Commerce), but this is on a voluntary basis. The Centre for Quality has some information, but its accuracy depends on the certification bodies' good will to provide information about certified organizations on a regular basis.

Certification institutions have some data on their websites, but their accuracy is also questionable.

### 5.3.3. Trade Unions

Trade unions do not promote CSR practices yet. These organizations usually do not have strong capacities to be a reliable partner in CSR promotion and implementation. After the weakening of their influence during Slobodan Milosevic's regime, certain investments were made in their capacities after the political changes in 2000. However, most trade unions have exhibited relatively strong resistance to change, preserving their old management structure with the obvious influence of different political interest groups. There is a noticeable difference between old trade unions and newly established ones with strong vision, as it is a case of the Telenor trade union in Serbia, which has done a lot for workers' standards in the past year and a half.

In the newspapers, citizens can often read stories of trade unions pressuring companies (mostly state-owned) to give employees better salaries or working conditions, but most of their pressure and strikes yield little results. The latest examples were the strike of administrative workers in local and republic government (which ended because of the presidential elections) and strike of the railway union (which ended with the Serbian railways obligation to increase salaries and working conditions). It is important to mention that some of the private companies do not have trade unions, although this right is given to employees by the Serbian Constitution and Labour Law.

The General Collective Labour Act was signed during the fieldwork of this research. The new Labour Law was adopted in 2004 and before that, Serbia didn't have this document.

The fact that, according to the survey, only 22.5% of the questioned companies stated that they have trade unions inside their companies, could be one more indicator that trade unions presence and practice is not on the level it is in countries with a high level of awareness on worker's rights and developed CSR practice.

### 5.3.4. Business organizations/associations

Business associations in Serbia are relatively active in this area, mainly providing information and general knowledge on CSR issues for its members, but also initiating joint initiatives with the aim of solving some foreseen social problems. Finally, some of these organizations help their members to develop and implement codes of conduct. Some of the biggest business associations and their activities will be mentioned here.

**The Serbian Chamber of Commerce** has started implementation of the Program: "*Establishing Corporate Social Responsibility in South Eastern Europe*", in the part that relates to Serbia. The Program is supported by



the Federal Ministry of Economic Cooperation and Development of Germany and the German agency for technical support GTZ. In each SEE country, 400 enterprises are included in the Program. The important components of the Project are the CSR Award and CSR Index. Based on the findings and reports of the independent Commission, the jury will award the Award for Corporate Social Responsibility (CSR Award). The objective is to make this award a tradition. Awarded companies for 2008 are: Tigar a.d. Pirot (large companies category) and Bivoda d.o.o. Bujanovac (SMEs category).

**Serbian Association of Managers (SAM)** - The mission of the Serbian Association of Managers (SAM) is to promote the interests of the profession by establishing codes of ethics and professional conduct, and defining the social impact of the members of the community of experts involved in corporate governance in the Republic of Serbia. On December 26, 2007, Ms. Ana B. Bovan, executive vice-president of SAM, opened the conference on CSR organized by the AIESEC student organization.

**American Chamber of Commerce** in Serbia has a strategic plan to work on CSR issues. On April 24<sup>th</sup>, AmCham organized a Business Breakfast: "Local Governments and the Business Community: Building Partnerships" aiming to connect local municipal authorities with AmCham members, to share their knowledge and experience and to develop some joint initiatives in the area of local community development. Also, the American Chamber of Commerce in Belgrade organized an event where their members had an opportunity to meet Mr. Jerry Greenfield, a cofounder of the USA Company "Ben and Jerry Homemade", that is famous for its traditional dedication to community development and other CSR activities.

**Foreign Investors Council - FIC** is a business association set up to assist Serbia in fully accepting and nurturing the market economy and introducing the system of European values and standards<sup>31</sup>. The Corporate Social Responsibility Committee is a part of this organization and now has 16 members. It tends to be engaged in most of CSR events that happen in Serbia. In short, their main activities are: 1. Contribute and co-initiate the National CSR Platform with the Government. NGOs, Universities; 2. Exchange experience between members in order to learn from each other; 3. Communicate on CSR activities of FIC members and jointly support various campaigns.

**Business Leaders Forum** is established in Serbia in June 2008 and now has 14 members. These are some of the planned activities of BLF: consulting and education services for its members, networking, CSR events, a CSR resource center. The administrator of this network is Smart Kolektiv.

### 5.3.5. Media

A number of national media deal with CSR problems. Examples of bad practices such as huge pollution, corruption etc. top the list of subjects the media are interested in. Those cases are covered by all the media. Only "serious" media deal with real CSR issues, such as the Serbian *Ekonomist* weekly, daily newspapers *Danas*, *Politika* and several national coverage TV stations. Radio, which is an important media in Serbia outside Belgrade, rarely broaches the subject. The articles on CSR normally cover three components - social, environmental and economic. Mostly editors-in-chief focus on this issue, and their practice is to use specialists in CSR for writing the articles or interviews relating to it - however, there are very few journalists in Serbia who are competent in this area. The most prominent media promoters of CSR in Serbia are media with an economic profile. The **Center for Monitoring and Evaluation** has a database with all articles published on CSR in the past two years, using Pristop news clipping as a source of over 15,000 articles on relevant issues. There is also a private company EBART Consulting, with up-to-date, complete archives of articles and TV programs in the past 5 years in Serbia that could be used commercially (this database is general, not specifically focused on CSR). A good example of media engagement in CSR activities is the **Broadcast Corporation B92**, already mentioned in the previous analysis.

**Ekonomist magazin** is the media partner of chambers of commerce and other stakeholders in a number of CSR activities, promoting CSR through a number of articles and interviews. This company carried out an international CSR conference in Serbia.

**E Magazin** dedicated one weekly edition to CSR promotion articles. In addition, this media publishes particular articles on CSR promotion on a regular basis.

**CSR Monitor** is an online media that gives an overview of CSR articles published in the Serbian media in the previous month. It also publishes CSR articles available in international media and on CSR organizations websites, but also stories on development projects and social issues Serbian companies could be involved in. Its aim is, through publishing CSR articles and media monitoring, to improve practice in both the media and companies in this area. The motto of the CSR Monitor "Good example to responsible practice" indicates that

<sup>31</sup> <http://www.fic.org.yu/cms/item/about/en.html>



this media is focused on positive examples of CSR practice but also reports on important social problems that have to be solved.

#### 5.4. International Organizations

International organizations in Serbia mostly perceive their role in CSR practice improvement as a partner that promotes good international practice in this area, provides institutional solutions and supports local initiatives and stakeholders' capacity development.

**UNDP**, according to its Millennium Goals, carries out CSR projects and programs in Serbia. The **UN Global Compact in Serbia** was launched with the support of the National Bank of Serbia, its governor Mr Radovan Jelašić and the UNDP country office on December 6th 2007. On Thursday 7 February 2008, members of the UN Global Compact held their first working meeting at the National Bank of Serbia to discuss corporate social responsibility activities taken so far in Serbia. It was agreed that until the next meeting, all members should engage in elaboration of joint projects, which should represent examples of good business practice. An agreement was also reached to speed up preparations for the development of a website providing online information on the Global Compact in Serbia, its members and joint projects. Up to now, over 30 companies and organizations have signed the UN Global Compact principles. The UNDP and UN Global Compact, after the national conference, CSR and Persons with disabilities, held on June 9<sup>th</sup> 2008, announced a two-year long campaign on for the rights of persons with disabilities, which will be one of the main focuses of their activities in the future<sup>32</sup>.

**UNICEF** initiated the project "School without Violence" with the aim of stopping growing violence at school. This project gained much publicity and many companies supported it (Public Enterprise "Electric power industry of Serbia" Banca Intesa, Serbian Oil Industry (NIS), Al Grosso, Telekom Serbia etc). There are two ways for companies to support this project and SMEs are specially encouraged to participate. Companies can "adopt a school", which means providing financial support for complete project realization in one school. Another way is to work as a UNICEF volunteer for the project.

#### 5.5. Summary of findings

Most of our stakeholders-respondents connect their mission to education improvement, environmental protection and equal opportunities for all. These issues and the projects connected with them were the focus in the Serbian public and civil sector due to the wars, social insecurity, economic instability and political changes. Reforms after 2000 have focused on communication of civil society values, increasing awareness of transitional issues and EU integration related topics. However, the least debated issues were consumer rights, working standards and general industrial/national competitiveness. It has already been mentioned that trade unions and consumer associations were the least active in fulfilling their role in the transitional process and also are the least involved in CSR activities, which is shown in the desktop survey results.

Speaking about their "clients", most of our respondents cooperate with Government, media, environmentalists and international organizations, compared with other legal entities where the developed services and cooperation is on a much lower level – consumer protection organizations and trade unions. In the process of transition, many national and international funds are available for public and civil institutions development, since ecology issues are also a "hot topic", because of the ecological incidents mentioned in the previous text. Much international funding of development programs is implemented through government institutions. Also, the everyday work of most of the questioned stakeholders is connected to government operations – either through funding (government agencies, universities, some NGOs and the national media), or as a partner in specific policymaking and its implementation. On the other hand, the unwillingness for essential trade union reform, the lack of awareness of consumer rights and related laws implementation side-line these two groups of stakeholders to some extent.

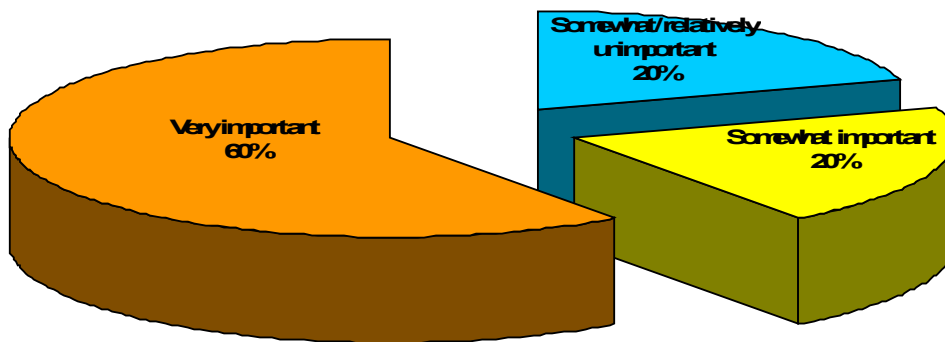
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<sup>32</sup> Members of the UN Global Compact at this moment are: Deloitte, BFC Lafarge, Holcim, Cisco Systems, EFG Eurobank, Piraeus Banka, Societe Generale Banka, Credit Agricole – Meridian Banka, SmartKolektiv, Hauska & Partner, Intl Communications, Delta Holding, Center for Democracy, Balkan Community Initiatives Fund, Hypo Alpe Adria, Banca Intesa, Komercijalna banka i Jubmes Banka, Center for Monitoring and Evaluation, KPMG, Coca Cola Hellenic, Broadcast Corporation B92 and Serbian Chamber of Commerce



More than half the questioned stakeholders said that they provide information on some international standards and guidelines. It is important to say that they do not provide a certification service, but only can advise at the request of the client. It is possible that the results of this question would be considerably different if the stakeholders had been asked what some of the CSR related standards are about.

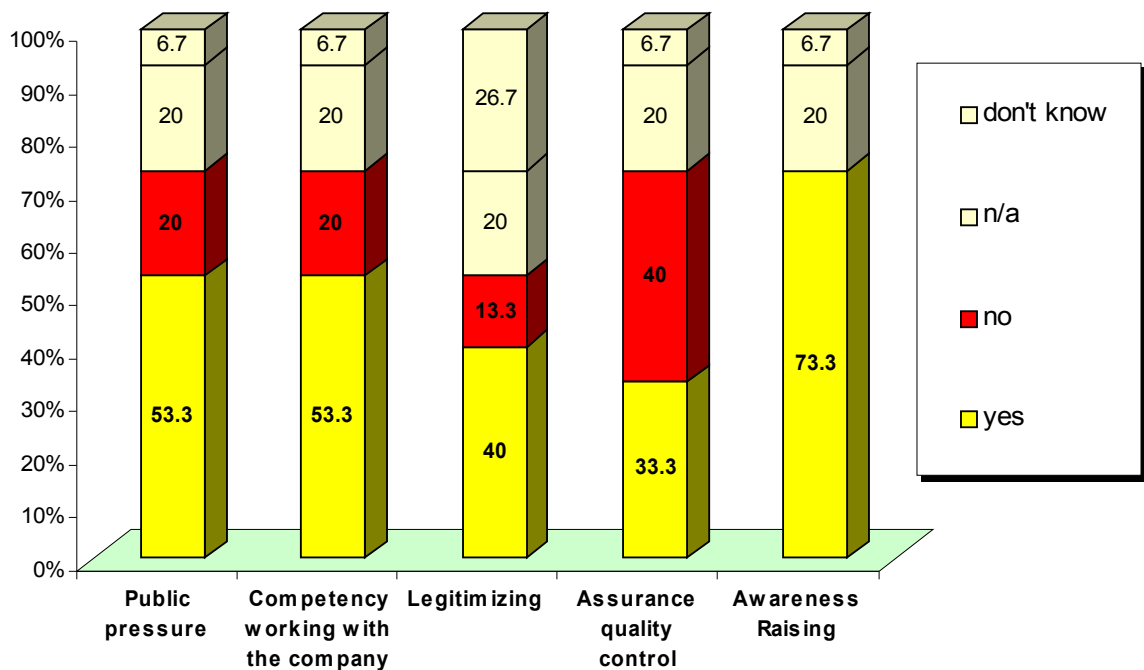
**1. How important do you think CSR will be for your country in the future?**



Based on the survey results, most of our stakeholders confirmed that they consider CSR in Serbia to be a very important issue in the future. Also, most of them said that they are active in CSR promotion, both locally and nationally, and almost half the respondents answered that they can connect their CSR activities to the international level. Although some of these stakeholders do not directly cooperate with companies, they consider their mission and activities of importance for CSR promotion. This shows its huge action potential, as well as development potential, especially if we connect it to the statement of over half the respondents that they have improved their CSR activities in the last two years, although they usually do not use the services of CSR experts to support them.

When they want to promote their CSR related activities to their clients, stakeholders usually use their own publications, booklets and manuals (53.3%), the Internet – a little less than half the respondents use a website for regular communication with stakeholders. The smallest number of respondents, in this sense, carry out educational programs with business associations and companies. Thus, and bearing in mind international experience, we can conclude that there is plenty of room for stakeholder activities and capacity development. This data confirms the occasional nature of the CSR training and programs available for the business sector, which is already emphasized in this paper. Stakeholders should use all channels available to promote CSR issues. In this sense, stakeholders should improve their websites, update and use more public events to promote their CSR messages and results. It is interesting to mention that only every third stakeholder questioned uses trade fairs to communicate their CSR related activities, which indicates the relative lack of public CSR communication from stakeholders.

Question: How do you influence business in the area of CSR? Through...



Stakeholders achieve most of their influence through awareness raising, which is followed by equally evaluated public pressure and competency working with the company. These results were expected, bearing in mind the phase of CSR development and the most popular area on CSR promotion explained in this study. Legitimizing - conferring legitimacy for performance achieved and assurance quality control are less relevant in this sense. Furthermore, a serious number of the respondents couldn't clearly define their role and influence, not answering the question. This could indicate the lack of a clear mission, strategic planning and monitoring organizational activities and performance. However, bearing in mind the previous analyses, these results are understandable, since stakeholders' capacities are not fully developed for cooperation with companies with CSR issues, if compared with stakeholders in countries with developed CSR practice.

In the stakeholders' perception, the CSR areas that gained the most public attention in Serbia over the past two years are the protection of vulnerable groups and environmental protection, which is normal in this phase of CSR development. As has already been said, transitional processes, followed by social and economic instability put the problems of vulnerable groups in focus, which makes it interesting for NGOs and other stakeholders' activities. In addition, successes in these areas are visible, especially in the media, which is attractive PR for companies. Environmental issues are also very visible in Serbian society, and are thus attractive for similar reasons. These CSR areas are followed by anticorruption, general human rights and educational improvement. It is interesting that stakeholders have put educational improvement in relatively second focus, although they consider it very important for their mission. They probably consider these activities to be "regular" and continuous, and not as interesting for the public as vulnerable groups and environmental issues. Finally, consumer protection gained the least public attention again and this time industrial/national competitiveness.

Stakeholders consider businesses, the media and NGOs/CSOs as key actors in CSR promotion in Serbia with relatively equal efforts made in this sense. In their opinion, these three groups of CSR promoters are equal partners in the Serbian case of CSR development. *The natural conclusion would be that they have the strongest potential for joint activities on CSR development*, which is proven in practice. Also, most of CSR activities in Serbia are carried out by these stakeholders or as part of joint projects in which they are involved. International organizations, Government and Environmentalists are also believed to be very active in CSR promotion, and are considered reliable stakeholders for joint CSR projects. Finally, trade unions and consumer protection organizations are yet again seen as least relevant, which again strongly indicates a lack of initiatives, operational and partnership capacity in the said organizations.

Of the said partners, stakeholders mostly communicate on CSR issues with businesses and the media, which are also their most preferable partners in the realization of CSR projects. Also very preferable for relevant communication and cooperation are government, business associations and NGOs, which could also be concluded from the previous analyses. These partners are already aware of some CSR issues in Serbia and



abroad, so they are ready to learn more and work seriously on this issue. The interviewed stakeholders have worked the most with: Ekonomist Media Group, eKapija, Danas, Serbian private broadcasting corporation B92, Erste Bank, Smart Kolektiv etc. Most of these companies and stakeholders have been further analyzed in this study.

Most of the respondents are involved in some of the networks through which they cooperate with companies and promote CSR. This networking is mostly carried out through informal meetings and groups (over half of respondents), followed by less interest in business formal groups (about 46%), and business associations, where every third stakeholder-respondent participated in networking.

Although government is seen as a preferable partner, stakeholders think that government bodies, if not directly engaged, usually do not react to CSR messages promoted by stakeholder respondents, because only 13.3% of respondents said that government responded to their CSR promotional activities with great interest, and more than 20% of respondents said that government bodies are not interested for their CSR messages. Due to the evident political instability in Serbia during the past years, one of the reasons is also the short-term orientation of Serbian government bodies and focus on their own activities. It is possible that the broader public is not fully informed on overall government CSR efforts, and that respondents do not always use effective channels for communication with all stakeholders. Finally, many stakeholders didn't want to answer this question, which could be explained by the "hot pre-election atmosphere" which was relevant during the fieldwork of this research. Bearing in mind the strong polarization on Europe oriented/non-Europe oriented (nationalistic) parties, and the ambiguity of results and future government strategic orientation, the low response rate was expected in some cases.

Connected to the previous, to the question to what extent national government considers CSR to be an instrument of business climate improvement at the national level, almost half the respondents gave no answer, and 20% of respondents said that they didn't have a defined opinion on this issue. On the basis of what has already been said, and bearing in mind the percentage of non-respondents, the conclusion can be made that the government does not take CSR seriously as a factor in business climate improvement and FDI increase, or that it is failing to communicate its interest effectively. The stakeholders expressed similar attitudes in relation to regulations and laws on CSR issues. The only exemptions are areas of General Human rights, Labour Standards and Protection for specific groups, where, in the respondents' opinion, there is relevant legislation at the state level. Issues of Equal economic opportunities, Consumer protection, Philanthropy and Volunteerism are not properly regulated. The response rate was low again, with over two thirds of respondents refusing to answer or not having an opinion on government involvement in CSR activities.

In conclusion, the results of this survey indicate that stakeholders have strong potential for CSR development in Serbia, but have yet to develop constant and essential cooperation with companies. capacity development among stakeholders, especially trade unions and consumer protection organizations, should be one of the man focuses in further CSR development in Serbia.

6. Company Engagement in CSR.

6.1. Description of sample

**Size of the companies**

According to the State statistical office, in the year 2006 out of 76,548 companies in Serbia that disclosed an annual financial report, 678 or 0.9% were large enterprises, 2,412 or 3.1% medium enterprises and 73,418 or 96% were small enterprises.

Small	96%
Medium	3.1%
Large	0.9%

Our sample could not follow such a breakdown of companies as most of the small companies are micro companies with one or two employees and are not even informed on CSR. In fact, the sample is not representative of the distribution of companies in Serbia. The CSR concept is only gaining ground in Serbia and the sample had to be modified accordingly. The idea was to contact all three groups of companies that are or should be aware of CSR policy. The following structure was chosen: around 40% large and medium enterprises and 20% of small enterprises. Such a sample portrayed the starting phase of CSR in Serbia.

## Size of the company

	Percent
small enterprise 5 to 49 employees	22.5
medium enterprises 50 to 249 employees	40.0
large enterprises more than 250 employees	37.5

Industrial sector where company operates	Percent
Manufacturing	20.0
Electricity, gas and water supply	2.5
Construction	2.5
Wholesale and retail trade, motor repair	12.5
Hotels and restaurants	7.5
Transport, storage and communications	2.5
Financial intermediation	10.0
Real estate, renting & business activities e.g. computing	2.5
Education: private universities	10.0
Health and Social Work	2.5
Other community, social and personal service	27.5

The sample covered a large number of economic sectors, most of the respondents being from industry and trade, the two largest sectors in Serbian economy. Financial intermediary and educational institutions were also covered, because they are the leaders in CSR practice in Serbia. The given categorization on industry sectors is almost not applicable in the Serbian case. Some companies are categorized approximately, but most of them have been put in the last category because of its flexibility. That way it looks like the sample, according to these criteria is not randomly selected. On the contrary, the questioned companies were selected from different industry sectors equally, according to the relative share of companies in a particular sector in the total number of companies in Serbia.

## 6.2. General responses

The research done clearly shows that the CSR concept is gaining ground in Serbia. Considering the number of initiatives undertaken, mostly with the positive input and cooperation of a couple of CSO's and mostly large companies; some of these gained relatively good media support. Obviously, large companies are the primary business leaders in social and environmental responsibility promotion. Most of the branches of international companies present in Serbia implemented their own CSR international strategies as soon as they entered the Serbian market.

However, the heritage of the previous social environment, slow transition and slow trend of market considerations in business, parallel to the slow withdrawal of the state from the economy are main reasons for relatively modest CSR practice in Serbia. The incentives are not strong yet for extended CSR development: neither market nor state are mature enough to push for rapid CSR development. Other stakeholders give a somewhat different picture.

On the level of companies, CSR is present in those that are more developed, more market dependent or have good contacts with government (state or local). Their CSR performances are relatively good and are becoming more and more an integral part of business politics and strategy. Unfortunately the number of such companies is a small percentage of the total number of companies in Serbia. Since 96% of Serbian companies are small, there is no real ground to develop CSR behaviour. The difficult economic situation in Serbia makes survival the primary concern of these companies and often the only goal of their business strategy and behaviour. Lack of cooperation with stakeholders is evident and can be explained by the ambiguity or insecurity of doing business in Serbia. This is especially relevant for small enterprises which tend to behave reactively – cooperating with stakeholders only when obliged to since list of these is very long. Dealing with the everyday struggle for survival, usually under attack from powerful and often unfair market competition, difficult administration and lack of quality sources of finance, most of these enterprises have neither the opportunity nor the time to develop awareness of their own social impact and the possibilities for its improvement. Also, they do not have time to

identify and develop meaningful partnership relations with their main stakeholders, especially external ones.

### 6.2.1.Ethics

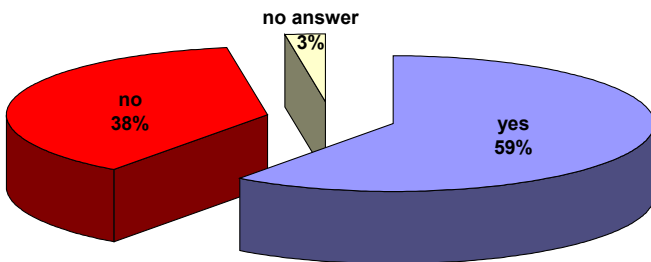
Companies in Serbia have not yet established a solid corporate culture or codes of ethics adapted to the needs of a serious market approach, even though our respondents said that almost 3/5 have a code of ethics. One must bear in mind that during the socialist period, every company had to have an ethical code and statement of values, as an integral part of their business strategies. This was a promotional tool for working class influence towards socialistic ideas of brotherhood and unity (*fratellité et égalité*). Most such codes were never successfully implemented, and furthermore, a great number of public companies from that time, which survived the turbulent times during the 1990s have never exhibited a will to develop modern business values. It is important to mention that after the democratic changes in Serbia in 2000, several CSO/NGOs', with the strong support of international organisations, launched a huge campaign to fight corruption, so many institutions and public enterprises and professional associations modernised or developed for the first time. The final result of these activities can be seen in the establishment of State Council for fighting corruption, which brought together prominent Serbian experts with spotless reputations.

Also, bearing in mind that the question could be interpreted widely, from having a value statement of a few sentences to a strategic document (the term value statement was also included in the original question), the result that numerous companies have some form of value statement, is easily understood. Connected to this, half the respondents train their managers, as well as their employees, in company values. These values are related to professional and moral behaviour, but are also often related to the company's business mission, where the value statement and training help to communicate company's strategic orientation.

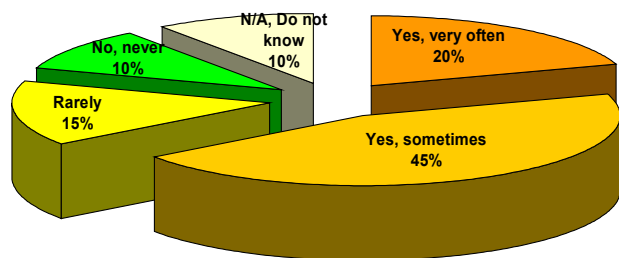
So it seems strange that, on the other hand, 2/3 answered that the giving of unreported gifts (financial or otherwise) to obtain business contracts is a necessary part of business life.

The introduction of modern ethics codes has started in better companies but there is still a huge need to extend such practice and especially to encourage businesses to make them publicly available, bearing in mind that only one half of the companies with ethical codes publicize them.

Do you have a written code of ethics for your company (this can also be a code of business behaviour or a set of company values)



In your country, is the giving of unreported gifts (financial or otherwise) to obtain business contracts a necessary part of business life?



The fact that most of the companies covered already have a code of ethics could be considered a very good starting point for further implementation of CSR practice.

The publicly available Code of Ethics is an area where public awareness should be increased. It is a challenge for stakeholders promoting CSR in Serbia. All the more so, for companies are not required by law to have their Code of Ethics publicized. Interestingly enough, most of the respondents know that this is not a legal obligation. Therefore, the use of written codes in Serbia is not widespread and should be improved, together with insisting on the introduction of Codes in company practice, equal efforts should be invested in making them public.

Cases of application of companies' codes of ethics to its products and services are still mostly connected to foreign companies and products and the franchises these imported. For example, HP is doing much to make its products energy efficient and adjusting the products to modern and quality educational needs. This touches two main areas of their CSR activities – environmental protection and education quality improvement. HP pursues these activities at a global level and has imported them into Serbia. The situation is similar with Holcim and their investments in sustainable construction.

#### 6.2.1.1.

#### Anti-Corruption



Bearing in mind the above, about 2/3 of respondents agree the giving of unreported gifts (financial or otherwise) to obtain business contracts a necessary part of business life. It shows that in Serbia companies are aware of corruption that is extended in the country and understand the importance of anticorruption for the long-term image of the company. On the other hand, most of them agree that unreported gifts are a core part of business practice. Only 10% of respondents are strict believers that there is no corruption in the country. But the respondents are not clear on the importance of anti-corruption as their own "Business case" factor. Such answers are logical, since each business case calls for a specific approach and it is difficult to make general statements. Most of them don't assign great importance to anti-corruption in their interaction with businesses.

### 6.2.2. Environmental awareness

Environmental protection is one of the main areas of CSR activity in Serbia, and protection of the natural environment is considered by half of the companies to be the main drive for spreading CSR in Serbia.

However, environmental awareness is truly developed in only every fifth company questioned. That is actually the number of companies that have developed some environmentally friendly products or methods, adopting solutions such as usage of energy saving bulbs, water saving systems, recycling paper, replacing plastic with paper packaging, computer recycling, environmental or eco labels etc. One company in three was active in putting pressure on local and national government to make positive changes to their environmental policy.

Lack of cooperation with external stakeholders is evident, although it is better than on some other CSR issues (human rights, work standards and anticorruption). The reasons for this situation could be found in low cooperation capacity level, both among companies and stakeholders. This begins to look even more serious when it is known that environmental protection is a legal obligation<sup>33</sup>. The failure to implement the relevant legislation, combined with low environmental awareness and stakeholder capacity, will make this issue one of the most important in future CSR development, but it is also the responsibility of big government institutions to actively solve these problems.

Most of the companies tend to save and try to use their material resources efficiently, but much less of them try to reduce potential pollution from their business activity. Measures such as removing production from towns to industrial zones, introducing modern air filters, purchasing hybrid vehicles, usage of bio-diesel, applying ISO standards, changing filters in air-conditioners and usage of natural gas should be widely promoted by relevant stakeholders and companies with good practice in this field. It is important to add that recycling is still rare, so every third company said they recycle some of their used materials (paper, cardboard, glass/plastic recycling etc). For example, only two companies in Serbia, Holcim and Lafarge, use old tires as an alternative source of energy for their business operations. Even in these cases, they face limitations, because government institutions have allowed them to use a maximum 12% of this source in their total energy spending, since this method is still not tested in Serbia (although it is tested in EU countries and many companies use it for up to 90% of their total energy spending).

There are not many proper and effective channels for raising doubts, and making suggestions or complaints about environmentally detrimental activities such as local air pollution or water pollution. Even though there are several dozen environmental NGOs, they are very weak and poorly organized. Complaints are only made (by citizens or environmental NGOs; mostly by the media) in the aftermath of huge ecological incidents, which are not rare, as mentioned above.

Education on environmental protection at schools (primary and secondary) is mainly organized by environmental NGOs. As far as higher education is concerned, this subject is taught at departments of environmental protection at the Belgrade University and Novi Sad University (state-owned), as well as at the newly founded Faculty for Applied Ecology at Singidunum University (private). It is interesting that in 2007, a course on Environmental protection was developed in a few secondary schools in Serbia, that educated young people for the qualification of environmental technician. This course became extremely popular, maybe even more popular than the Banking officer, which has held top position for attractiveness among the school population over the last few years.

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<sup>33</sup> See legal references in chapter Government

### 6.2.3. Support for local economic development

Support for local development is a way of building healthy relations with many direct stakeholders – previous, current and future employees, suppliers, local authorities and the local community. Investing in them, a company provides itself stable business operations and preconditions for constant growth. As Mr Eugenio Sidoli, former CEO of Phillip Morris in Serbia said for CSR Monitor: “Everything is good when your business is going well. Then, it looks like you do not need anyone to be beside you. But when business problems occur, you really need all your stakeholders to support you in difficult times. That is why a company needs constantly to invest in its main stakeholders and local development”. Usually, the main stakeholders are also the closest ones. That is why investments in local economic development and community are more or less crucial for a company’s sustainability.

CSR activities that support local development are not rare. As many as half the companies interviewed have developed programs or policies to create jobs locally. It is not uncommon since they need to access long-term sources of raw, processed and office materials for their business operations, maintain a stable labour market as a source of future employees, develop the local market for its products and services, and improve the overall life quality of their current employees. It is not surprising therefore, that 80% of companies stated that they always or sometimes intentionally buy locally by choosing local suppliers. Serbian companies have a tradition of cooperation and investment in the local community. In the culture of a high level of collectivism, it is important to be respectable in the local community. Even now, large medium and some of the small companies tend to support local institutions and community. In socialism, this support was mainly institutionally based, but now most of them are ready to support single initiatives and local community needs.

International companies support this tradition of investing in the local economy and community and there are already numerous examples of foreign companies programs of strategic investment in the economic environment and local community they operate in.

Businesses hire local staff if the skills needed are available, but companies often do not have a policy of hiring mostly local staff. Serbia is a relatively small country and along with the lack of communication between higher educational institutions and companies, the national labour market has a serious deficit in some professional profiles. Usually, for managing positions in large companies, they can bring staff from the larger cities or even from abroad. Along with this, local employees are usually educated and trained to gain the knowledge and skills needed for companies’ development. Recently the trend has become evident that companies tend to train local staff for middle management and senior positions.

Finally, speaking about philanthropy, as many as nine out of ten questioned companies often or occasionally donate money to local charities. Their support goes to local schools, sports clubs and arts activities. Companies already understand that good communication with local society is the core of successful CSR policy. In Serbia, as already mentioned, “Being a good citizen” is very important, sometimes equally important as quality of product or price.

### 6.2.4. Public involvement and advocacy

Companies do not completely understand their role in social and economic issues, so in the answers they showed a lower level of cooperation with stakeholders than they are really involved in, in practice, according to other research sources. The reasons for this situation should be looked for in a lack of strategic planning and monitoring of the company’s economic, social and environmental impact assessment. When discussing external stakeholders, companies mostly communicate and work with them on environmental issues, since when speaking about internal stakeholders, working standards are in focus of their joint promotion. Companies, especially large and middle sized, are still not much involved in anticorruption and human rights issues promotion and they should promote these more, both with their internal and external stakeholders.

	Human rights	Labour stds	Environment	Anti-corruption
Owners	20	30	27.5	17.5
Shareholders	17.5	25	17.5	20
Directors	20	40	32.5	27.5
Management	22.5	42.5	32.5	27.5
Employees	22.5	45	40	22.5

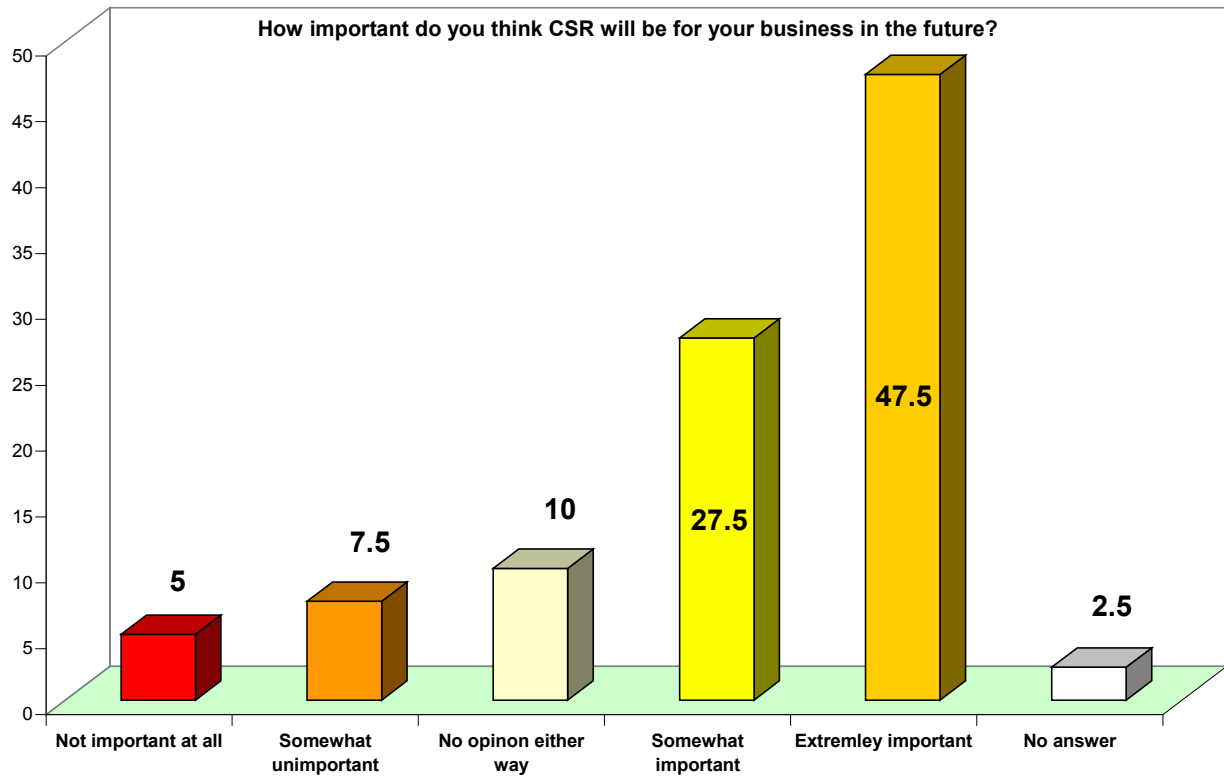


<i>Customers</i>	10	15	22.5	15
<i>Suppliers</i>	12.5	17.5	20	17.5
<i>The natural environment or environmental interests</i>	5	5	22.5	5
<i>Local community</i>	20	17.5	25	12.5
<i>Money suppliers / investors</i>	2.5	10	2.5	7.5
<i>National government</i>	15	15	17.5	12.5
<i>Local government</i>	7.5	15	22.5	10

One third of respondents believe that national government considers CSR to be a tool for improving the national economy, which is a consequence of strong Government activity on sustainable development promotion in the past year. An extremely small number of respondents (four of them) are aware of pending or existing laws or governmental initiatives to protect human rights, protect specific groups, promote labour standards, introduce anticorruption initiatives, force equal economic opportunities, improve education, consumer protection, push volunteerism and philanthropy etc. On the other hand more than one third agreed that the national government has in the past two years worked with businesses on promoting most of the said issues. The conclusion is that Government has been involved in supporting businesses to follow CSR principles, but most of the respondents were not involved in those efforts and therefore were not adequately informed. Tax incentives were listed as possible means of potential government financial support for businesses involved in CSR.

#### 6.2.5. Attitudes toward CSR

Most of the respondents recognize the future importance and role of CSR. Almost half of interviewed companies emphasized that CSR will be extremely important in the future. It shows that new influence from the global market is coming to the Serbian economy and that market competition is forcing companies to strategically evaluate their economic, social and environmental impact. From this point of view, CSR practice will have a bright future in Serbia.

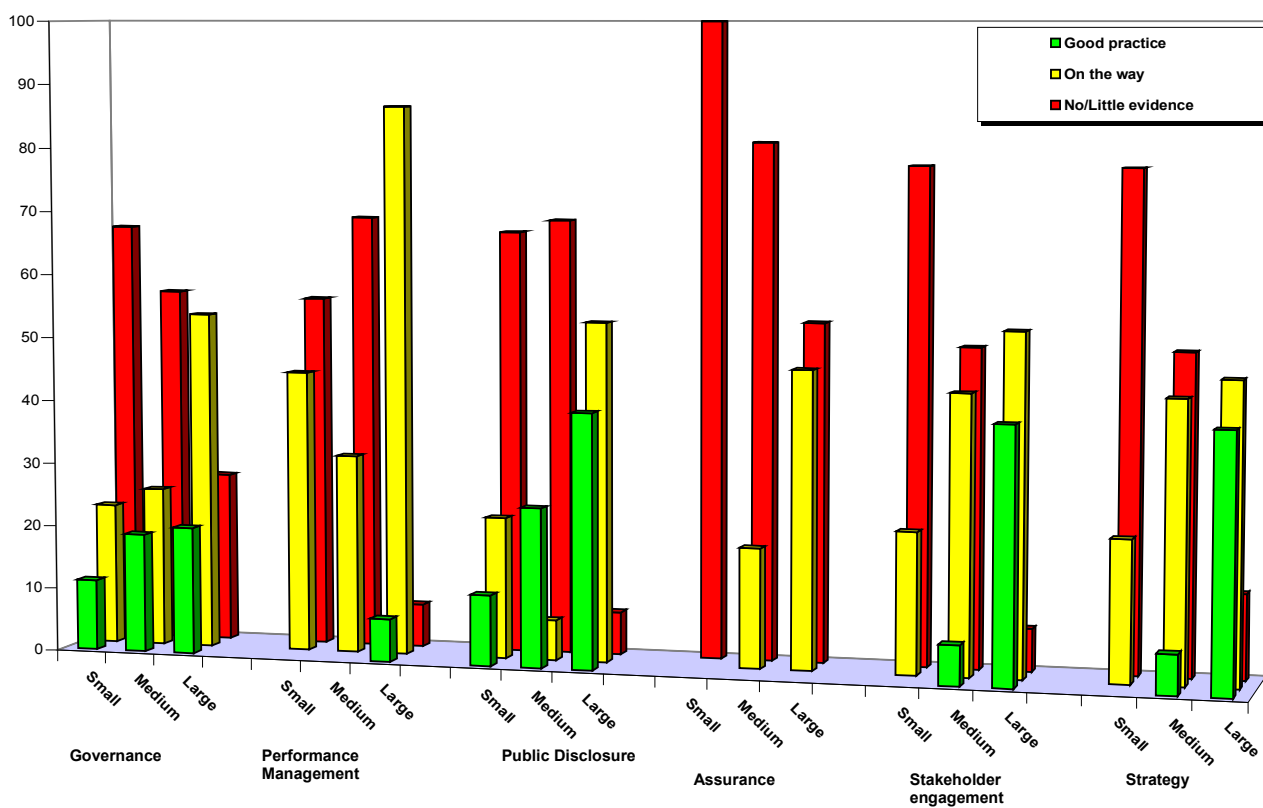


### 6.3. Implementation of CSR

The accountability Rating TM, since it shows to what degree companies have successfully implemented CSR principles in particular “key areas”, indicates the development perspective of companies’ CSR practice.

Also, these data undoubtedly show that, for almost half of the questioned companies, their business operations are not based on CSR principles and they do not make efforts to implement CSR strategy and policies in their businesses. This is especially true, related to small and partly middle-sized enterprises, whose ultimate priority is to survive on the market, since the CSR concept is something they do not have either money or HR capacities for.

The rest of the interviewed companies were the large domestic and all international companies that implement or already have a CSR concept integrated into their business strategy. Setting aside data for Assurance (by the results, there are no companies in Serbia that fulfill all CSR assurance conditions) one fifth of the companies do business according to CSR principles, and base their business strategy and internal organization on the CSR policy. The other two fifths of the companies at varying speeds, are implementing CSR in their businesses, putting CSR objectives on their short term and long term agenda.



Accountability Rating by company size

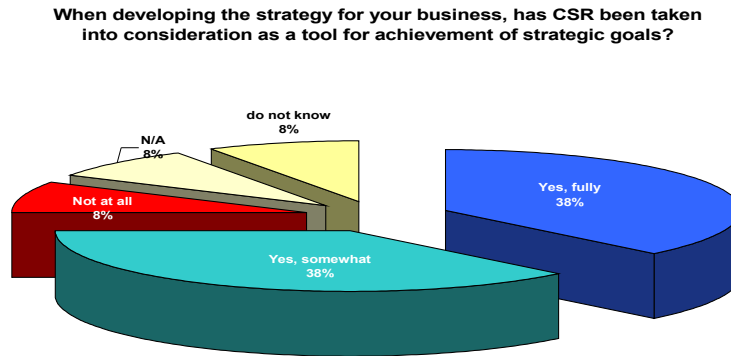
If we compare the different key areas of Accountability Rating, it can be concluded that most is done in the field of public disclosure but it is mainly related to media reporting on companies’ CSR activities and companies’ PR efforts (CSR as a PR tool), and less on regularly based and systematic reporting, which actually indicates a CSR concept. Stakeholder engagement is also relatively well developed, but leaves plenty of space for further improvement, especially in the fields of human rights and anticorruption.

#### 6.3.1.Strategy

Less than 20% of the companies see CSR related activities as an integral part of their business strategy. Twice more see CSR as a contribution to society, but not as an integral part of company business. This is a satisfactory result showing some companies which are starting CSR activities recognize the CSR



concept as an integral part of company strategy. Behind those 17.5%, there are another 2/5 of companies that are not CSR active, but are willing to get familiar with the concept and start implementing it.



When developing a business strategy, CSR has been taken into consideration as a tool for achievement of strategic goals in almost half of the companies. Every third company is aware of the existence of toolkits, good practices, or initiatives that could help with implementing CSR into business strategy. Most frequently mentioned were the Serbian Chamber of commerce, the Balkan community initiatives fund, the Centre for monitoring and evaluation, the CSR monitor<sup>34</sup> (separately), SMART Kolektiv, CSR Europe, UN Global Compact, Foreign investors council and AmCham. Government guidelines were used in 10% of cases (Law on Labour, Law on Discrimination against Persons with Disabilities).

CSR business leaders emphasize reputation enhancement as the most important factor in a company decision to get involved in CSR activities, which is expected bearing in mind the underdeveloped market. The companies are still positioning themselves on it, so every new concept/method/approach adopted is often used as a tool for improving reputation and achieving better business performance.

Management request and local or international competition pressure are also very important, sometimes more than reputation improvement. Corporate governance has only recently been introduced into Serbian companies, so it is quite usual, even in the large native companies, that the owner also acts as the general manager or CEO, as well as major company spokesman, HR director etc.

International organization's and NGO pressure are less influential. Communication between social sectors was suppressed during the Milosevic's regime. NGOs' were often characterized as *foreign spies and domestic traitors* and business was controlled by the State. Bearing this in mind, one can conclude that proper communication is in the phase of introduction. Some companies, mostly local branches of international ones, established contact and even joint projects with some NGOs', but it is just the beginning. Those initiatives are still not so visible and even when they are communicating with the audiences, most of the citizens recognize NGO partners as the companies or institutions.

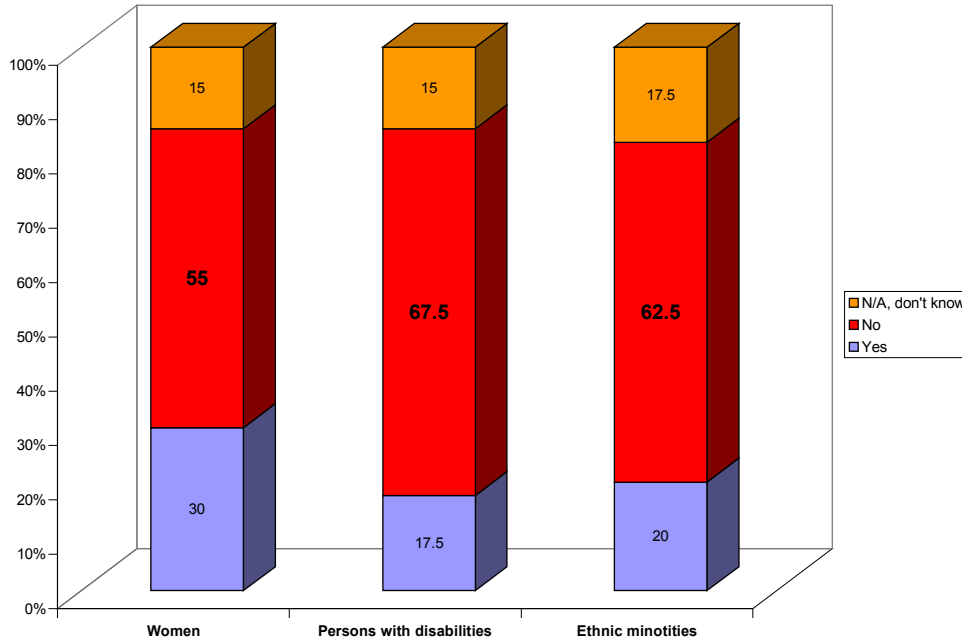
At the end, it is very important to notice that most of the companies never have developed an employment policy toward women, ethnic minorities or persons with disabilities. This is very important bearing in mind that after huge efforts and several successful campaigns launched by NGO's after 2000 for equal involvement of the mentioned vulnerable groups in Serbian society, some political structures started, with the support of local and international experts and international organizations, the process of improvement of the legal framework and foundation of governmental institutions for protection of their rights, such as: the Parliament body for gender equality, the department for ethnic minorities and the department for protection of the rights of persons with disabilities within the ministries for social affairs etc. The Law against discrimination of PwD's has been adopted and the Law for professional rehabilitation and employment of PwD's is in the parliament procedure. However, the companies still haven't recognized these initiatives, and only the local branches of multinational companies present in Serbia "imported" their own business behaviour implemented in the company policy, such as the policy of equal employment opportunities or policy of gender equality etc. Having in mind that these companies are the business leaders in Serbia and those to whom local companies are looking up, it could be expected that the principles of equality will soon be customary in the Serbian market community. Business leaders and most of the large companies are watching the process of adoption of Law on professional rehabilitation and employment of PwD's very carefully and some of them even started to develop possibilities for effective employment of those target groups. It is also important to emphasize that the UNDP has recently launched a

<sup>34</sup> As above mentioned, CSR Monitor is the programme of Center for monitoring and evaluation, but some companies recognize CSR monitor as a media (monthly review) for CSR promotion in Serbia, or a separate brand.



two-year campaign for the improvement of rights of PwD's in Serbia. Also, the UN Global compact in Serbia is in the process of establishment of a working group for employment of PwD's, so it is very reasonable to expect that this dramatic situation will soon be overcome.

Do you have an employment policy in place that addresses the needs of?

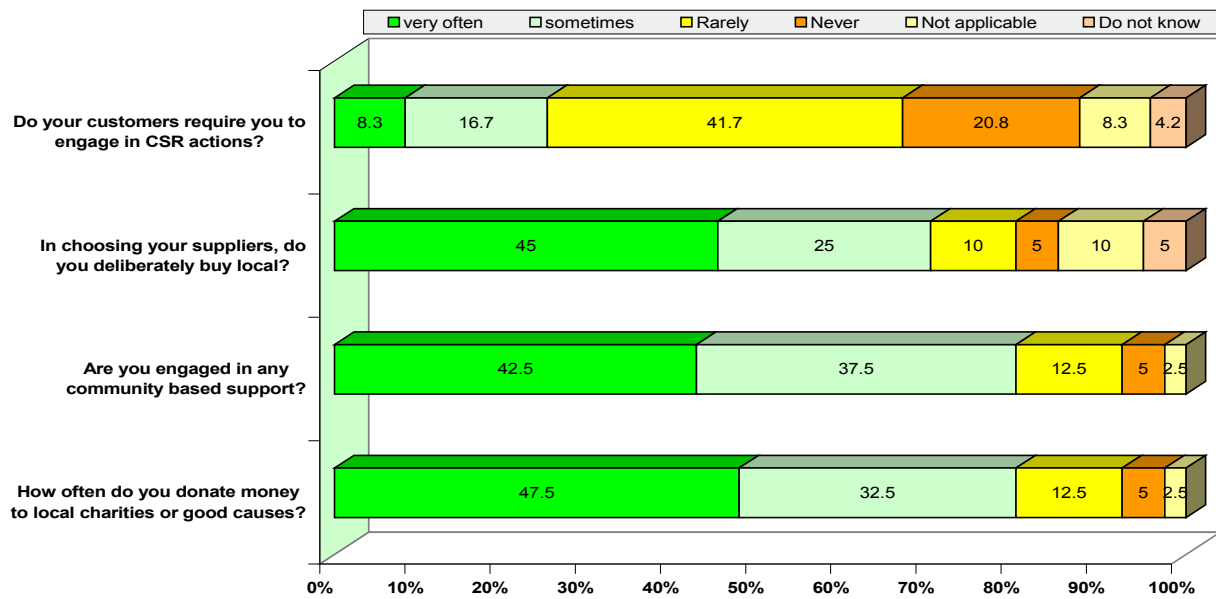


### 6.3.2. Stakeholder engagement

The engagement of stakeholders is modest – up to one fifth of companies experienced stakeholders' engagement. In promoting human rights, employees and management are the most active, followed by directors, local communities, owners and shareholders. Human rights promotion is not very popular in the business community, bearing in mind two major issues: one is the huge NGO campaign during the nineties for introducing human rights to a general audience, as well as the fight against human rights repression; the other important issue is the companies' lack of interest in development of better labour conditions, bearing in mind the huge unemployment – if the employee tries to fight for their rights, even if they are guaranteed by the law, the employer can fire them and easily hire new staff. The biggest promoters of labour standards are, which is absolutely expected, trade unions and stakeholders. Labour rights are one of the most undeveloped economic issues in Serbia. Even though the new Law on Labour was adopted four years ago, with the obligation of the State to start social dialogue with the trade unions and sign the General Collective Labour Act, regulating labour rights and obligations, it has only recently begun to happen, symptomatically - during the election campaign!

In terms of promoting environmental issues, the leaders are employees, management, directors, owners and local communities, while investors are at the bottom of the scale. The companies that are producing goods have the obligation to protect the environment, monitor the level of dangerous materials emission and storage and to produce an ecological report annually. From the other side, ecology and environmental protection are very popular among the business community, bearing in mind the series of ecological incidents in recent years, the establishment of a Ministry for environmental protection, and global ecological trends: global warming, lack of energy resources etc.

The biggest promoters of anti corruption are directors and managers, followed by employees, shareholders, suppliers and owners. The least involved are national and local governments, investors, and environmentalists. As earlier mentioned, 2/3 of respondents say companies use corruption as a necessary part of business life, but the local and national governments that are supposed to be the most preferable partners on this issue, are at the bottom of the list of anti corruption promoters. So, one can easily come up with the conclusion that companies' *unreported gifts* finished in the possession of local or national governmental officers.



The exact percentage of company's overall expenditure allocated to CSR actions was not supplied by any company. Most of the companies estimate this amount at between 0% and 10% (over 40% of companies). This is an indication that the CSR concept is still in its initial phase.

### 6.3.3. Governance

As expected, each company that has systematic internal information on CSR activities has its own and specific way of information dissemination. The dissemination channels are: magazines (dailies, weeklies...), internal billboards, e-mail, volunteer's clubs, info magazines, web sites, catalogues, intranet, internal magazines, meetings, PR activities, special flyers on internal meetings and the involvement of employees in CSR activities. The data shows that companies that have developed CSR activities devote considerable efforts to informing their employees on their own CSR activities. At the same time, this means they have a responsible approach to CSR which has total transparency as the core of its philosophy. The majority, which lack CSR practice, have seldom developed an informational method toward proper dissemination of company news to employees, allowing one to draw the conclusion that transparent business behaviour is not customary among Serbian companies. The reasons lie in the socialist background, underdeveloped market conditions, lack of modern know-how and skills, the closed market with attempts at monopolization, and huge discrepancies between the large native companies compared to the small and middle sized ones. Every fifth respondent has a trade union in its company and no communication or cooperation with consumers associations.

However, among the companies that have implemented the CSR concept as an integral part of its business strategies, most have a manager responsible for CSR programmes development and implementation. This is often a PR, HR or marketing manager. Recently, a few companies have founded CSR departments.

### 6.3.4. Performance management

Performance management is of essential importance for CSR activities improvement. It is a system that helps the company to control its business processes and relations with most of their stakeholders. Indicators of performance management in this sense are standards in use, employee participation incentives, interactions with unions, environmental activities, interactions with suppliers etc.

Only a very small number of companies have good practice in performance management, and all of these companies are large international companies. One good symptom is that many companies are on the way of good practice development, which should be promoted further since there is great potential of different



stakeholders cooperation in this area.

Meeting international standards is crucially important, not only for CSR practice but also for national competitiveness. Unfortunately, international standards are used by only one fifth of the companies in implementation of their CSR strategy, with **ISO 14001** and **Global Compact** being the most frequently used, followed by **Global Reporting Initiative**, **SA8000** and **EMAS**. **HACCP** is used in large production companies. Many of the standards related to CSR issues are also an obligation for export to the EU and other developed countries markets. Lack of standards implementation shows that the Serbian market is relatively closed. By further market opening and EU integrations, this issue should be solved. Nonetheless, certification organizations should work intensively on education programs and cooperation with other organizations involved in CSR promotion projects, so they can develop joint initiatives in this field.

38% of interviewed companies said that they support their employees to volunteer in the local community and 35% of companies encourage their employees to give suggestions and initiatives for CSR practice improvement. It is believed that this percentage is even lower, so practice should be improved since employees are internal stakeholders and the intellectual capital of the company, and should be the main driver of a company's CSR development.

Two thirds of companies introduced systems/mechanisms to deal with customer/stakeholder problems such as: establishing a specific company department, direct correspondence via the internet, managers responsible for clients/customer relations, no obligation of the client to pay for unsatisfactory services. Searching for the reason why they have this system introduced, it is concluded that most of the companies have imported this practice which they use as a marketing and sales improvement tool, rather than as a response to public pressure made by consumer associations organizations and other stakeholders. On the other side, all companies, especially those in the service sector, in the last few years are obliged to have a so-called book of impressions where consumers are free to make complaints and suggestions. This government measure yielded good results, helping companies to improve their relations with costumers.

Only 30% of the interviewed companies have trade unions and even some of them are only formally founded. By Labour law all employees are free to be members of trade unions. Since the General Collective Labour Agreement has just been signed, this practice is expected to be improved in the future.

There are no Fair-trade labelled products such as food. e.g. coffee and clothing available on the market. This is why such labels are not popular and there is no public pressure to implement them. The only example is that of the Zrenjanin Regional Chamber of Commerce which did a feasibility study for a fair-trade labelled products launch, which was financed by EU institutions. These fair-trade labelled products would be made by persons with disabilities.

Every fifth company uses some eco labelled product, which indicates the lack of a performance management system and also a lack of consumer CSR awareness. CSR involved stakeholders should work both with companies and consumers on this issue.

Companies in Serbia still do not think much about their suppliers CSR activities. Only three of all questioned companies give priority to suppliers with a proven track record on CSR activities and just one company stated it helps its suppliers to improve their CSR practice. In the sense of value chain CSR management, this issue should be considered and it is expected that, along with CSR assurance practice development, it will be improved in the near future.

Finally, 10% of companies said they use the help of external CSR experts and these are mostly NGOs involved in CSR promotion or international CSR experts engaged by the headquarters of international companies, so they work on a global strategy and educate staff from different countries at internal seminars.

### 6.3.5. Public disclosure

Communication with the public and public involvement in companies' CSR activities is at a rudimentary stage in Serbia. Around half of the questioned companies tend to publicize their activities through different media, mostly through web sites and print media. On the other hand, public attention of CSR actions performed by the companies is mainly sporadic. The reason lies mostly in the media which are not properly educated to report on CSR. On the other side, some companies have a policy not to publicly communicate their community involvement.

The public awareness on CSR has been growing rapidly in recent years, but it remains one of the main tasks



for further development. The advocacy that was mainly pushed through round tables and conferences should be further extended to more forms and the use of the media is an area of high potential. Some of the media themselves are aware of the importance of CSR and have a need for courses for journalists on CSR reporting.

During the past two years, according to stakeholders, four CSR areas received the greatest public attention: **protection of vulnerable groups, environmental protection, philanthropy and educational improvement**. This is in line with examples of best practice given by respondents. Lagging behind, but still important, CSR topics were **anticorruption, equal economic opportunities, volunteerism and general human rights**. The least attention was attracted by **consumer protection**. These results are completely in line with general development in Serbian society where political and social problems were much higher on the agenda compared to economic development and economic problems. Such development which tends to become a long term trend is a challenge for future economic players including CSR promoters who should force economic issues such as **labour standards, national competitiveness and consumer protection**.

Related to publicly available documents, companies publish two groups of reports: those provided for by law and those that companies consider useful for their interests. In Serbia, the regulations require financial report publishing for small, middle sized and large companies, but micro enterprises do not have this obligation. Medium and large companies are also controlled by external financial auditing companies. Environmental report publishing is an obligation for companies involved in production. Two years ago a database of environmental polluters was developed at the national level to help in strategically solving this important issue. Research proved that companies are not completely aware which reports are an obligation and which not. For example most of respondents treat the Statement of value as obligatory but some of them think it is not a legal obligation. The reasons for this are given in the chapter *Ethics*.

Although 30% of the companies said they have some kind of CSR report, only a few make it publicly available. Some of the questioned companies who answered positively to this question explained that they have some kind of internal report on their social and ecological activities, which could be made available to the public on request. Also, some of the companies mentioned that they publicise a CSR report at the global level (although there is no report published in Serbia).

The majority of companies publish only the reports they have to. One of the main tasks of CSR educational programs in the future should be to raise the awareness of the companies of the importance of public reporting.

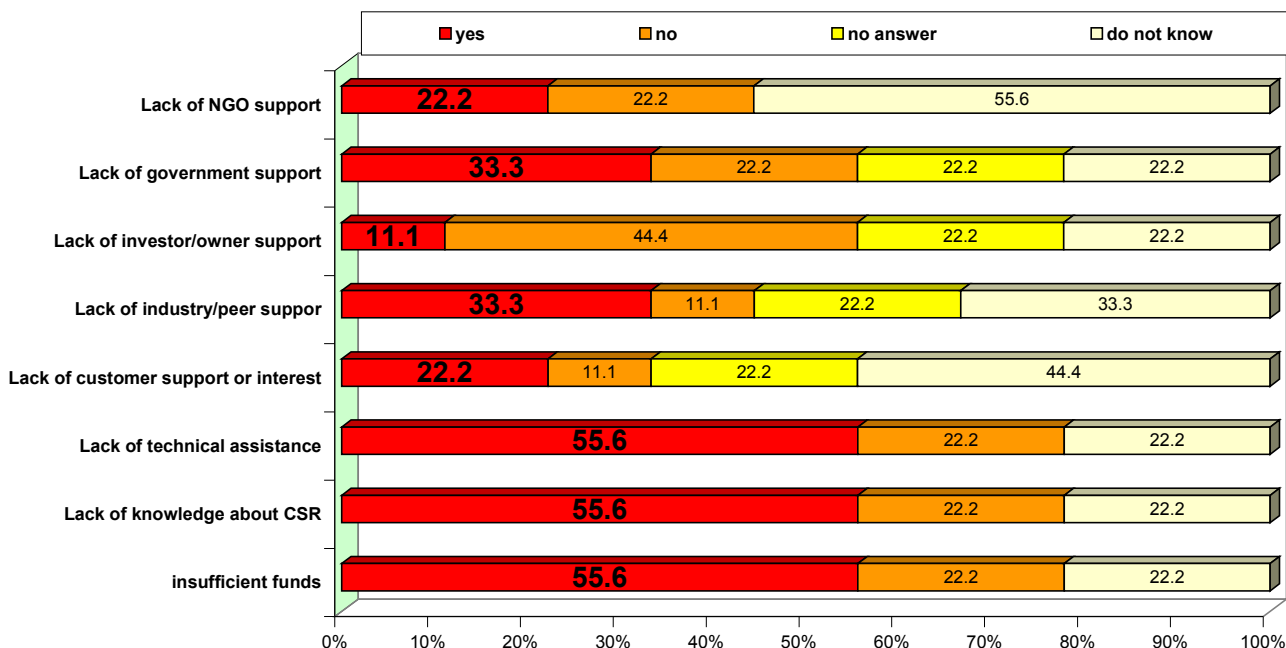
#### 6.3.6. Assurance

Independent evaluation of CSR performance has not gained much ground yet. This will be a challenging areas for CSR promoters. The reasons lie on both sides: companies still rely on their own assessments, not being ready to fully open their activities and results to external auditors, but there are also no specialized institutions with good references to do the job for them. Finally, many companies show suspicion for auditing in this area and real “going public” with all information about their business and corporate social responsibility practice. Some international companies’ branches are monitored by social auditors hired by its headquarters abroad, but these are in a large minority.

UN Global Compact Serbia members will become obliged within two years to publish their CSR reports, which should be externally audited, so assurance practice is expected to be developed in the next period. Joint initiatives of business, certification companies and organizations as well as the civil sector could develop CSR assurance practice.

#### 6.4. Reasons for not being involved in CSR

The respondents that are not involved in CSR activities cite lack of knowledge, lack of sufficient funds and lack of technical assistance as the main reasons for it. All of these indicate a low level of CSR concept awareness, lack of a strategic approach on the long-term impact of their operations, as well as a lack of tools to develop successful CSR practice. A good side of these results is that these companies understand that most of the reasons for a lack of CSR activities is the consequence of internal factors. On the other side, they think that not enough external “know-how” support is available, which is also a fact, according to the rest of the study.



Reasons why companies are not engaged in CSR

It is interesting to mention that every third company thinks that the main problem is related to lack of industry or government support. It is evident that CSR initiatives on industry level still have not been implemented, which gives one more idea for Serbian CSR practice improvement. Finally, government should strategically define its role in CSR practice development and reinforce its CSR role by improving legislative implementation and promoting dialogue on important social development issues among companies and different groups of stakeholders. Finally, the government and international organizations should give support to stakeholders and CSR cooperation capacity building, and communicate more on its successful activities in this area.

### 6.5. Interest in training

Most of the companies stated that their managers and employees are trained in company values. It is interesting that 2/3 of the interviewed companies are willing to participate in CSR training - 70%. This shows the large potential for CSR education market development. However, only every fifth company has funds for CSR training included in their budget. This indicates that essential awareness of the importance of CSR education for strategic CSR practice development is still under-developed.

On the other side, the lack of CSR training available for the business sector is evident. The service and its market are still relatively undeveloped, since only a few companies and organizations offer this service. **MBC Company**, which specializes in professional education for managers, announced an introductory seminar on CSR held in late March 2008 (21<sup>st</sup> of March).

**The Center for Monitoring and Evaluation** held a free CSR seminar for company representatives in December 2007, in cooperation with the Serbian Chamber of Commerce. This year, CME is planning to offer a set of seminars and trainings in different CSR areas for companies.

Although it is not business oriented, the **NGO "Hajde da..."** is carrying out a project that consists of seminars named "CSR in Service of Youth Activism" which are being held in a number of Serbian cities. These are widely promoted and free of charge for selected participants.



Conferences and free of charge seminars are carried out by a few NGOs, but these usually offer general knowledge on CSR issues. Also, since almost the same companies' representatives visit these events, it is questionable if this education is always effective for general improvement in CSR practice.

The conclusion related to this issue is that both the supply and demand side of CSR education and consulting services have to be developed in the next period. Education should be focused on companies that do not have developed CSR practice, especially SMEs, but also on employees outside of CSR, marketing and HR sectors in companies that are successfully developing their CSR strategy and relevant activities.

## 6.6. Conclusions

CSR is a perspective concept gaining ground in Serbia. As the large companies, especially international ones, are actually the leaders in promotion and successful implementation of modern business concepts, skills and know-how, one could expect that development of CSR and its successful implementation in Serbia will soon be accepted as a exciting and innovative method of *making the change* and leading the country to sustainability – economic, as well as the social, human and environmental.

Since Serbia is a developing country in the transitioning process, still dealing with free market institutions development, privatization of large state-owned business systems, a balance of payments deficit, low technology products export, poor legislative implementation, a relatively high level of corruption and relatively undeveloped corporate governance, it is evident that overall CSR concept implementation will face many challenges.

However, CSR is recognized and implemented in more and more companies in Serbia. Although it is still mostly understood as charitable giving, companies are implementing other areas of business behaviour into their CSR activities – attitudes toward internal and external stakeholders, anti-corruption, environmental awareness etc.

The main factors driving involvement in CSR in Serbia are: reputation enhancement, management request, market expansion and environmental awareness. Although most of these are market oriented, management awareness of CSR importance is very valuable for future CSR practice development. Related to that, many positive examples of CSR activities already carried out by companies in Serbia can be mentioned, that are good examples for other companies. The barriers toward implementation of CSR practice remain insufficient government support and lack of understanding of the CSR concept, the already mentioned problems of a developing country, the lack of CSR promotional and educational activities and the lack of multi-sectoral communication and cooperation.

The main actors involved in CSR promotion in Serbia are NGOs and the media, followed by international organizations and business associations. The least active in this term are, according all the used criteria, trade unions and consumer protection organizations which, at this moment are not reliable partners for CSR initiatives, and also do not adequately protect the interests of their “clients” (consumers and employees). Furthermore, stakeholder’s capacities are not fully developed for cooperation with companies on CSR issues. Cooperation capacity development of all, especially the last two mentioned stakeholders is one of the main priorities for future CSR development. Finally, it is important to mention that most of the actors involved in CSR promotion stated that the CSR concept will be a very important issue in the future, which shows potential for their capacity development and readiness to take an active role in further CSR promotion and development.

The Government has included companies as one of the relevant implementation stakeholders in the National Sustainable Development Strategy Paper and Poverty Reduction Strategy Paper, although there is no strategic approach on CSR importance and development both at the national and local government level. There is no specific law that regulates CSR issues. Nonetheless, Serbia has relatively good legislation that regulates most of the CSR issues separately; the challenge is in poor legislative implementation and relatively low fines.

Companies in Serbia have not yet established a solid corporate culture or ethics codes adapted to the needs of a serious market approach, although most of the company respondents stated that they have some kind of code of ethics or value statement. Also, companies believe corruption to be a very serious issue that has gained a strong foothold in the business sector in Serbia. Environmental awareness is still not at the desired level but is becoming popular as a CSR area, so this practice is improving. Better cooperation with external stakeholders, but also public pressure from environmental organizations would further improve the environmental practice of companies in Serbia.

Support for local economic development is relatively well developed, since most of the companies orient their CSR activities locally. On the other hand, lack of cooperation with relevant stakeholders on different CSR issues, bearing in mind mostly public involvement and advocacy, is at a low level and should be much improved in the future, in the first place, by strategic planning and monitoring of companies economic, social and environmental impact assessment, as well as defining the active role of relevant internal and external stakeholders.



However, most companies in Serbia consider CSR concept as very important for their future business, and comparing it with similar attitudes of actors involved in CSR promotion, it can be concluded that the CSR concept will be much more developed and popular in the future.

The CSR concept is usually not integrated into the business strategies of companies in Serbia. Besides the evident lack of stakeholder engagement and performance management, companies should work much more on the transparency of their business operations and public disclosure. Finally, it is very important to emphasize that CSR assurance mechanisms are not available in Serbian companies.

Considering the reasons companies gave for not being involved in CSR, lack of knowledge and lack of technical assistance predominated. Since an evident majority are interested in CSR training, and since there is an evident lack of CSR training and relevant consulting services for all CSR target audiences, there is ample space for the civil and business sector to develop quality services in this area.

The Serbian business community is “ripe” for extended CSR promotion and introduction. The greatest impetus to Serbian companies will be given by further development, especially open market competition that is already forcing more and more companies to adopt CSR. Bearing in mind that CSR practice is less developed in small and medium sized enterprises than in large business systems, special attention should be given to SMEs CSR activities development.

## 7. Recommendations

Bearing in mind the previous analysis, it can be noticed that Serbia is not at the beginning of the CSR concept development. Foreign companies, though their corporate cultures, brought new business standards to the country. Some domestic companies also understand that the times of closed market and unlimited discretion are passing away. Government and other business stakeholders perceive companies as a factor of economic and social stability, as well as of prosperity, and have every intention of strategically working on their partnership with the business sector. In spite of this, many companies and other organizations are still not aware of the CSR concept and its benefits to social welfare.

### General recommendations

In general, the governmental institutions will have to force development and improvement of the legal economic and anticorruption framework in order to implement strong systematic mechanisms for creating a modern competitive market in Serbia. The fight against the grey economy, unethical business behaviour, disrespect of labour standards and rights, corruption and discrimination against vulnerable groups will have to be in focus of the institutions with the aim of Serbia becoming a respected partner of the international community. Bearing in mind the pro-European orientation of the majority of decision makers (political and business, as well as civil), it is very important to develop capacities for the efficient and effective implementation of the CSR concept in Serbia, since it represents a natural catalyst for the establishment of synergy on economic, social and environmental improvement.

Global CSR standards should be more visible to companies. Education should also cover stakeholders, as all of them can profit from good CSR practice among the business community. A separate, individually tailored approach should be proposed to different stakeholders. CSR promoting institutions should adapt their strategies to individual stakeholder groups' needs.

Finally, the government should give support to stakeholders CSR cooperation capacity building and communicate more on its successful activities in this area.

In the near future, several issues should be taken into consideration, with the aim of developing the CSR concept in accordance with international best practices:

- ◆ Development of National Strategy on CSR that will demonstrate a strong orientation toward CSR development and a clear position of the companies as reliable stakeholders in social and economic development
- ◆ Improvement of overall national CSR awareness, oriented to companies, actors involved in CSR promotion and citizens. This can be conducted through a serious national campaign
- ◆ Improvement of national legislation, in the first place speaking about implementation of the law



- ◆ Consumer organizations and trade unions strengthening
- ◆ Certified companies register development
- ◆ Development of educational programs for journalists reporting on CSR issues
- ◆ Promotion of intensive multi-sectoral cooperation
- ◆ CSR higher education development
- ◆ CSR promotion in SMEs
- ◆ Institutional support to organization of international and regional CSR development events

### Recommendations for companies

Companies should understand the importance of a systematic approach to CSR as well as to evaluate their real economic, social and environmental impact in the community. In this way, they will make their business operations more stable and predictable, but also create better conditions for further social and economic development, and participate in improving the overall investment climate in Serbia. Companies should intensively communicate and cooperate, both with their internal and their external stakeholders in order to speed up the integration of Serbia into the international community. On that road, companies are the most preferable partner recognized both by the government and civil society.

Thus, the recommendations for the companies based on the previous analyses could be formulated as given below:

- ◆ Integration of CSR concept into the business strategy
- ◆ Increasing cooperation with other sectors
- ◆ Improvement of communication with customers and consumers
- ◆ Foundation and/or strengthening of trade unions within companies
- ◆ CSR education through training and seminars for employees, as well as management
- ◆ Strengthening or establishment of the CSR sector within the companies
- ◆ Implementation of various CSR related standards
- ◆ Networking with CSR related business and other associations
- ◆ CSR reporting and auditing practice development
- ◆ Launching joint CSR initiatives with other companies and stakeholders

### Recommendations for external stakeholders

External stakeholders will have a crucial role in further CSR promotion. That is the reason they have to build their own capacities for being reliable partners to the business sector in the process of CSR practice implementation. Also there are many service companies that will be needed in this way and stakeholders are there to provide the needed support. Also their natural role lies in project based linking the CSR concept with the National Sustainable Development Strategy and other related policy papers (Poverty Reduction Strategy Paper, Youth Policy, the UN Convention on the rights of persons with disabilities, the Law on professional rehabilitation and employment of persons with disabilities etc). In other words, they can be a very effective link between national policies and company practice.

Finally, several recommendations for external stakeholders came up:

- ◆ NGOs partnership capacity development
- ◆ Establishing a network of CSR actors in the country



- ◆ Strengthening communication and cooperation with trade unions, environmental protection organizations and consumer protection organization in particular
- ◆ Developing tools for know how exchange
- ◆ CSR consulting and education development
- ◆ Developing training programs, as well as seminars and conferences, on different CSR issues for companies, stakeholders and especially the media
- ◆ Improving cooperation with international CSR organizations
- ◆ Linking with international CSR experts
- ◆ Establishing long-term communication with the Government
- ◆ Lobbying for improvement of legislation implementation
- ◆ Establishing strong watchdog mechanisms and regular reporting



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## ACRONYMS

**AA1000** - AccountAbility 1000  
**CEFTA** - Central European Free Trade Agreement  
**CEO** - Chef Executive Officer  
**CIA** – Central Intelligence Agency  
**CSO** – Civil Society Organization  
**CSR** - Corporate Social Responsibility  
**DS** – Democratic Party  
**DSS** – Democratic party of Serbia  
**EBRD** - European Bank for Reconstruction and Development  
**EC** - European Commission  
**EFQM** - European foundation for Quality Management  
**EMAS** - Eco-Management and Audit Scheme  
**EMS** - Environmental Management System  
**EU** - European Union  
**GC** - United Nations Global Compact  
**GDP** - Gross Domestic Product  
**GRI** - Global Reporting Initiative  
**HACCP** - Hazard Analysis and Critical Control Points  
**HR** – Human Resource  
**ICT** - Information and Communication Technologies  
**IFC** - International Finance Corporation  
**ILO** - International Labor Organization  
**IPPC** - Integrated Pollution Prevention Control  
**ISC**- Institute for Sustainable Communities  
**ISO** - International Organization for Standardization  
**MNC** - Multi-National Corporation  
**NBS** – National Bank of Serbia  
**NECC** - National Entrepreneurship and Competitiveness Council  
**NGO** - Non-governmental organization  
**OECD** - Organization for Economic Co-operation and Development  
**OHSAS** - Occupational Health & Safety Assessment Series  
**PR** – Public Relations  
**PWD** – Persons with disabilities  
**RSD** – Republic of Serbia Dinar  
**SA8000** - Social Accountability 8000 Standard  
**SAA** - Stabilization and Association Agreement (with European Union)  
**SME** - Small and Medium-sized Enterprise  
**SRS** – Serbian Radical Party  
**TI** – Transparency International  
**UN** - United Nations  
**UNDP** - United Nations Development Programme  
**UNGC** - United Nations Global Compact  
**USAID** - US Agency for International Development