

Achieving Sustainable Development Through Corporate Social Responsibility

Occupational Health & Safety

Environmental Sustainability

Human Resources Management, Human Rights

CSR Supply Chain Management

Business Ethics

Corporate Citizenship Activities



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Introduction

All over the world, corporate social responsibility (CSR) has become more and more popular in the business community. In many developed countries, CSR has taken on the character of strategically planned actions that benefit all levels of society, and it has grown from entrepreneurial initiatives to state policy. In many developed countries, CSR now provides benefits for stakeholders' communities as well as for the government. CSR allows a business to respond quickly to the emerging needs of a society, whether they are economic, environmental, or social problems. The government is a secondary beneficiary, as successful corporate responsibility practices reduce the government's burden for responding to a wide range of issues. In addition, companies that engage in CSR have a chance to establish a positive image for themselves in the eyes of society, which helps advertise their products. Yet in spite of all the benefits that CSR might bring, it demands coordinated action from all stakeholders and non-governmental organizations in order to achieve sustainable results.

In spite of these globally positive trends in this field, the development of corporate social responsibility in Azerbaijan is fragmented. In recent years philanthropy activities among companies in Azerbaijan have become popular, yet few companies have a strategically planned approach to CSR. The development of CSR in Azerbaijan faces numerous challenges on various levels, from the public sector to civil society.


The subject of this report is to give a comprehensive analysis of the current state of CSR in Azerbaijan, and the way how to make its development more effective. The main tasks of the current study are as follows:

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- To define the main components of the concept of corporate social responsibility;
 - To compare foreign experiences in the field of corporate social responsibility and to highlight positive trends that may serve as role models;
 - To study the history of corporate social responsibility in Azerbaijan;
 - To describe the standing of corporate social responsibility in Azerbaijan in terms of legislation and public perception;
 - To analyze stakeholders' interests in corporate social responsibility as it relates to governmental and non-governmental agencies;
 - To summarize and to give recommendations on how to institutionalize elements of corporate social responsibility in Azerbaijan.

The development of CSR in Azerbaijan is in a nearly stage; therefore very few studies have been made in this field. The relevance of this report is to propose recommendations and to define a role model for Azerbaijan in order to strengthen social dialogue among all levels of society, to increase public awareness on CSR issues, and as a result, to increase the practice of CSR in Azerbaijan.

The following methods were used in conducting this analysis:

- Systematic analysis and synthesis of information from various studies;
- Comparative analysis of foreign experiences in this field;
- Content analysis of the collected data drawn from the State Statistical Committee of the Republic of Azerbaijan, from news agencies, and from press releases;
- Content analysis of expert interviews.



Developing a CSR strategy for Azerbaijan based on cooperation between private and public sectors as well as civil society will create win-win opportunities for all interest groups, and it will strongly benefit society by helping to resolve essential issues of social, environmental and economic concern.




What is corporate social responsibility?

Defining corporate social responsibility is one of the major challenges to the field for both the corporate and academic worlds. The confusion is rooted in the facts that CSR requires multifaceted approach, and that the terms themselves lack intrinsic definitions.

Due to the indefinite nature of CSR, in many cases it can be confused with philanthropy, yet the terms are far from being synonyms. To illustrate, numerous companies in Azerbaijan have announced publicly their adherence to the principle of responsibility, when in reality their actions are limited to two or three discrete charitable activities. According to the Oxford English Dictionary, philanthropy is the desire to promote the welfare of others, expressed especially by the generous donation of money to good causes. Basically, it means giving a certain amount to charitable causes without receiving any benefit from it. Philanthropy does help to create a positive reputation for company just as CSR does; however, the former has a much narrower scope. The limitation of philanthropy is that it is purely charitable, without any element of either sustainability or direct benefit to the company. CSR encompasses and goes beyond philanthropy.

Several attempts have been made in order to formulate a clear and precise definition of corporate social responsibility. Various methodological approaches such as reviewing the historical development, conducting interviews, and con-



structuring a definition through theoretical reasoning have been used in order to establish a better definition of CSR.

Alexander Dahlsrud, PhD of Norwegian University of Science and Technology has analyzed various definitions of CSR in order to identify the dimensions that define CSR. He identified five key dimensions: environmental, social, economic, stakeholder (meaning those parties that have a stake in how the company operates), and voluntariness (meaning the actions are not prescribed by law). According to Dahlsrud, these were the five dimensions shared across the multiple definitions that he analyzed.¹ (Table 1)


These five basic dimensions describe CSR, but their usage is not consistent in the definitions given by leading organizations, which sometimes omit one or several of them. For example, the definition given by the World Business Council for Sustainable Development states, "Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large."² Obviously, this definition covers only three of the five dimensions--stakeholder, social, and economic. All five dimensions can be found in the definition of the European Union Green Paper: "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."³

Economic, social, and environmental dimensions are objects or problems that need to be resolved. The voluntariness dimension refers to the character of the

¹Dalthrud Alexander "How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions" John Wiley & Sons, Ltd and ERP Environment, 2006, PDF file

² World Business Council for Sustainable Development, <http://www.wbcsd.org/work-program/business-role/previous-work/corporate-social-responsibility.aspx>

³The European Commission, Promoting a European Framework for Corporate Social Responsibility, European Union Green Paper (July 2001)



action that should be implemented. Phillip Kotler, Professor of International Marketing at Kellogg School of Management at Northwestern University, has suggested his own definition: “a free choice commitment to improve community well being through discretionary business practices and contributions of corporate resources.” Clearly the phrase “a free choice” refers to the voluntary initiative of accompany. The interested parties will be discussed in later sections of the current report. The interested parties are:

- Government Bodies, including but not limited to:
 - Ministry of Labor and Social Protection,
 - Ministry of Economic Development,
 - Ministry of Ecology and Natural Resources,
 - State Committee of Family, Women and Children
- International Financial and Development Institutions involved in development of CSR in Azerbaijan,
 - International Finance Corporation;
- All parties having interests in development of private sector;
- Civil Society Organizations and others.

CSR can also be defined based on whether external or internal responsibilities are covered. Internal responsibilities here would refer to workplace safety, providing social insurance, developing human resources, and similar issues, while external responsibilities would refer to the impact on the community in which the business operates.

Summarizing the above, it clear that the concept of CSR is not limited to charitable activities. In this report CSR will be defined as a companies’ voluntary action to improve social welfare, economic condition, and the environment through strategically planned projects that ensure sustainable benefits for stakeholders and the community.




Social Accountability

Social accountability is the establishment of transparency incorporates activity, strengthening the public image of a company, identification of future strategies for the company in corporate responsibility. Social accountability can be achieved through both qualitative and quantitative methods, and in most cases it goes beyond the financial report. Although social accountability mainly refers to CSR for businesses, NGOs, government agencies, and any other organization can also report on their social accountability.

A social accountability report informs shareholders, employees, customers, and society at large about the development and fulfillment of a company's strategic CSR goals for social, environmental, and economic issues. In the last two decades, social accountability encompassing issues of social justice, corporate citizenship, and sustainable development based on stakeholders' interests has become a subject of intensive study on a global scale. Nonetheless, just as there is no clear generally accepted definition of CSR, there are no generally agreed dimensions for measuring CSR. This makes achieving social accountability quite challenging for companies that decide to report on their CSR performance. As a result, different types of social accountability reports are prepared by different companies depending on their policies.

Social accountability reports can be free-form, meaning booklets, newsletters, and press releases. Free-form reports are not considered social audits, are targeted to a wide audience, and aim to inform society about the policy of accompany on CSR or about the company's CSR projects. Gradually, the wide variety of forms of social accountability reports have started changing towards more standardized and internationally accepted frameworks. Although these stan-



dards are complex and differ from each other in terms of specific criteria and data points, they have in common a number of general principles:

- Transparent disclosure and preparation of indicators of non-financial activity;
- Existence of an integrated development strategy, which includes economic, social, and environmental components;
- Promoting dialogue with all stakeholders, taking into consideration their interests and comments, and presenting the results of the work to them;
- Integration of social accountability into private enterprise.


By preparing a report in accordance with internationally recognized standards a company can enhance its credibility. At the international level the most widely used standards or methods for social accountability are as follows:

- **AA1000 (Assurance Standard 1000)** mainly covers the issues of stakeholders' engagement. It "provides a forward-looking approach that indicates how able an organization is to carry out stated policies and goals, as well as to meet future standards and expectations."⁴ Assurance Standard requires an independent audit by a third party, and it is based on three principles: materiality (requiring inclusion of sustainability performance information for stakeholders), completeness (requiring evaluation of the extent to which the reporting organization can identify and understand material aspects of its sustainability performance⁵), and responsiveness (requiring evaluation of whether the reporting organization meets the expectations of stakeholders).

- **GRI Reporting Framework** has been developed by the Global Reporting Initiative to report on sustainable development and to provide guidelines

⁴Account Ability, Assurance Standard Institute of Social and Ethical Accountability, p.6, London, 2003, PDF file.

⁵Ibid. p.17



for disclosing economic, environmental, and social as well as management performance. GRI introduced three institutional innovations: a multi-stakeholder process for developing reporting guidelines, institutionalizing the process for producing successive generations of the guidelines, and creating an organization to serve as the steward of the guidelines and of the process.⁶The GRI Reporting Framework is the most popular standard, used by more than 4,600 enterprises in 60 countries worldwide.


-**SA 8000 (Social Accountability 8000)** spans industry and corporate code to create a common language for measuring social compliance, and aims to promote the basic human rights of workers.⁷ The standard is based on the principles of the United Nations Convention on the Right of the Child, the Universal Declaration of Human Rights, the Convention on the Elimination of All Forms of Discrimination against Women, and fourteen Conventions of the International Labor Organization. SA is a standard based on international human rights norms and national labor law that will protect and empower all within a company's scope of control and influence who produce a product or provide services for that company, including personnel employed by the company itself as well as by its suppliers/ subcontractors, sub-suppliers and home workers.⁸

- **ISO14000** is a series of standards on environmental protection and compliance with natural resources laws and regulations that guides companies towards continual improvement in these areas. ISO14000 is also a family of standards related to environmental management, consisting of 16 series of Standards (ISO14001, ISO14004, ISO14004, ISO14015, ISO14020, ISO14025, ISO14030, ISO14031, ISO14040, ISO14049, ISO14050, ISO14062,

⁶Brown, S. Halina "The Rise of the Global Reporting Initiative(GRI) as a case of institutional Entrepreneurship" Working paper, May 2007

⁷Social Accountability International <http://sa-intl.org>

⁸Social Accountability 8000 report ,Social Accountability International, 2008, PDF file



ISO14063,ISO14064, ISO19011).All of these standards aim to minimize the negative effect companies' activities have on the environment and to comply with existing laws and regulations in order to improve the former. ISO14000 series standards are considered a part of the European Union's Eco Management and Audit Scheme (EMAS).⁹

- **Sunshine Standard** promotes disclosure of critical information to stakeholders and interest groups on issues such as environment impact, equal opportunity employment analyses, workplace, health, and safety statistics, compliance with regulations, industry standards, consumer product safety, and community impact assessment. Developed by the Stakeholder Alliance,¹⁰ the Sunshine Standard aims to provide direction for corporate reporting to stakeholders, including employers' customers, communities, and others.

All of these standards help companies or organizations measure and manage the sustainability of their performance. They reflect a wide range of issues and interest of stakeholders in increasing the effectiveness of their performance and decision-making.

Summarizing the above, the five principles that characterize social accountability are the following:

- Responsibility of business to consumer (fair pricing and competition, quality of products and services, consumer safety, and business ethics);
- Social protection of workers (labor rights, fair wages, labor protection, health care, and staff support);

⁹European Commission, Key element of EMAS
http://ec.europa.eu/environment/emas/about/summary_en.htm

¹⁰The Stakeholder Alliance, The Sunshine Standard, <http://capponline.org/sunstds.html>

- Attitude towards the environment (environmental safety, safe and effective use of natural resources, and waste reduction);
 - Cooperation with government and local communities (social and cultural development programs, community initiatives);
 - Attitude towards human rights.


Social accountability is important for establishing transparency in performing CSR activities, for assessing companies' performance and future expectations for CSR, as well as for building up a positive reputation for companies.

Debates about CSR

Corporate social responsibility principles require companies to expand their commitments beyond making profit and obeying the law to increasing the social and environmental sustainability of the community in which they operate. Many debates concern whether CSR provides a genuine benefit to a company given that CSR is unlikely to generate revenue for a company.

On one side, Milton Friedman, a prominent economist, has pointed out that the goal of a business is to maximize profit, and that pursuing CSR limits business opportunities by generating additional and useless expenses. "Businessmen who talk this way [about CSR] are unwitting puppets of intellectual forces that have been undermining the basis of a free society these past decades."¹¹ According to Friedman, corporate responsibility runs against the nature of the free market and capitalism, and those who urge corporate responsibility are "preaching pure and unadulterated socialism."

¹¹Friedman Milton "The Social Responsibility of Business is to Increase Its Profits", New York Times Magazine, 13 September, 1970



Despite Friedman and other critics of CSR, there are a number of positive aspects to the practice from a business perspective. CSR provides value to a company in ways that are intangible but valuable nonetheless, such as an improved image and business reputation, retention of good personnel, and enhanced decision-making process. The most obvious reason for following a CSR policy is to create a positive image of the company. A positive image has a positive effect on sales, and on the quality of interactions with business partners and representatives of other stakeholders. According to the Better Business Journal of the UK Small Business Consortium, "Eighty-eight percent of consumers said they were more likely to buy from a company that supports and engages in activities to improve society."¹² CSR makes companies more competitive, which opens new avenues for market development. Another advantage is that by following CSR principles, a company creates favorable working conditions. A positive corporate culture, based on shared values and respect for employees, allows companies to attract and retain qualified workers as well as increasing their loyalty and motivation. Furthermore, integration of environmental and social aspects in decision-making allows the company to expand its horizons and consider the long-term development of the business. Therefore, CSR is oriented towards creating more benefits for all of a company's stakeholders, which although it does not necessarily generate revenue, may have financial benefits. (Table 2.)

¹² Simply CSR, The Benefits of Corporate Social Responsibility
<http://www.simplycsr.co.uk/the-benefits-of-csr.html>



International Experience

As interest in corporate social responsibility has increased over the last few decades, it has come to be defined as an important business concept. Comparative studies of the implementation of CSR in various countries demonstrate its heterogeneous nature. Different understandings of CSR as corporate philanthropy, as risk management, or as value creation result in different countries and different companies pursuing various strategies. In most cases, the understanding of CSR is demonstrated by the social priorities or particular conditions set for each specific context or area.


In spite of this diversity of approaches, some common points between countries with underdeveloped economies and low Human Development Index measures on the one hand and those with advanced economies and high Human Development Index measures on the other hand can be observed. For convenience, these countries will be addressed as developing and developed respectively, although there is no established convention for using these terms.¹³

Developing and developed nations have different sets of CSR priorities on their agenda. In Archie Carroll's classical study of CSR¹⁴, it encompasses the following types of social responsibilities:

- Economic responsibilities provide investment, create workplaces, and pay taxes;
- Legal responsibilities ensure good relations with government officials;
- Philanthropic responsibilities set aside resources for community projects;
- Ethical responsibilities adopt voluntary codes of government ethics.

¹³United Nations Statistic Division <http://unstats.un.org/unsd/methods/m49/m49regin.htm#developed>

¹⁴Carroll Archie B., The pyramid of Corporate Social Responsibility: Towards the Moral Management of Organizational Stakeholders, Business Horizons, August 1991.




The prioritization of these different responsibilities is different in developing and developed countries. (Table 3) Economic responsibilities are the top priority both in developed and in developing countries, but particularly in developing countries, which suffer from wide unemployment and inadequacy of direct foreign investment, the economic contribution of companies has special significance, and they are highly praised by government and community.

The position of legal responsibilities is ambiguous. In developed countries the relation between companies and government is highly regulated by legislation. For example, Denmark (a developed country with a Human Development Index of 16), has adopted a law requiring the largest companies in the country to report on social responsibility.¹⁵ In contrast, legal responsibilities in developing countries are not promoted very well. In addition, many developing countries are far behind in incorporating social issues such as human rights into legislation.

Philanthropic responsibilities are on the lowest level in Carroll's hierarchy, while in developing countries it is second in importance.¹⁶ This is due to the strong tradition of philanthropy in many developing countries, and also the immaturity of CSR as a concept in these countries. The widespread equivalency between CSR and philanthropy results in limited strategic and operational impact and short-term benefits to society. In developed countries, CSR concept goes far beyond philanthropy, and it encompasses a fundamental strategic plan on CSR, the incorporation of it into company policy, and promotion of a sustainable business model.

¹⁵United Nations Global Compact http://www.unglobalcompact.org/newsandevents/news_archives/2008_12_17.html

¹⁶Crane Andrew, McWilliams Abigail et al. The Oxford Handbook of Corporate Social Responsibility, p. 473-479 Oxford University Press, 2008.



The last dimension is ethical responsibilities, which “embrace those activities and practices that are expected or prohibited by societal members even though they are not codified into law.”¹⁷In comparison with developed countries, ethical responsibilities have lower significance in developing countries.

Furthermore, the level of stakeholder participation is also an important dimension in assessing different conceptions of CSR in developed and developing countries. Although the government does not interfere in companies’ internal CSR policy in most cases, the development of CSR and the orientation of the social policy chosen by companies depend on the activism of stakeholders, which can vary in developed and developing countries.

The business opportunities created by CSR can also move the CSR agenda forward both in developed and developing countries. In the majority of Western European countries CSR came from the companies, and they were reinforced both by their governments and European Union policy. The pressure from civil society defines the direction of social responsibility in these countries. In developing countries or countries with transitional economies, companies, small and medium enterprises, and other organizations are passive on CSR, and have little concern on environmental, social, or other issues except financial gain. In these countries, government is expected to play the catalyzing role.

In sum, differences in CSR between developed and developing countries depend on many factors that are embedded in the context of the countries. In the following part we will analyze the experience of various regions and countries, their differences, and their shared features in terms of CSR.

¹⁷Carroll Archie B., The pyramid of Corporate Social Responsibility: Towards the Moral Management of Organizational Stakeholders, Business Horizons, August 1991




Overview of CSR in Europe

In the second half of the 20th century, governments in Europe were responsible for social welfare, and companies' obligations were limited to complying with the law by paying taxes and maintaining safe workplace. However, in recent decades, economic and socio-political factors have redefined the role of the public as well as private sectors and the interrelation between them. Although the majority of businesses respond to the needs of their owners, shareholders, and local communities, the interest in a more structured and holistic approach to CSR has grown gradually.

The development of CSR is varied between European countries, in particular between Central/Eastern Europe and Western Europe. The European Union countries have made significant progress on CSR policy, but 15 countries included in the Union still do not have concerted actions on this matter.¹⁸ For example, CSR reporting requirements vary among EU countries, with some of them (e.g., Denmark, France) requiring companies to report on corporate responsibility performance, while others allow for purely voluntary reporting.

Traditionally, large companies and corporations have been the most active about pursuing CSR policies. One important task remaining in Europe is gaining the involvement of small and medium enterprises (SMEs) in this process as well. The level of involvement of SMEs in CSR is varied, with differences between Southern and Northern Europe. The Nordic countries (Finland, Denmark, Iceland, Norway) as well certain Central European countries (Austria and Liechtenstein) have a high level of CSR development. Germany, the Netherlands,

¹⁸ Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions, A renewed EU strategy 2011-14 for Corporate Social Responsibility ,European Commission, Brussels, October 2011.



Sweden, Ireland, Portugal, Belgium, Luxembourg and Switzerland have a medium level of development of SME involvement in CSR. SMEs in Southern European countries such as Spain, Italy, and Greece lag behind in this area compared to the rest of Europe. France and the United Kingdom are also laggards. The main reasons for these differences are differing cultural traditions, levels of social participation, and expectations towards companies.

Since 2000, EU officials have organized meetings on various levels to appeal to businesses to adopt a more sustainable approach to their activities. In 2001, the European Commission approved the green paper “Promoting a European framework for Corporate Social Responsibility.”¹⁹ The document provides guidance on important issues of human resource management, health and safety at work, human rights, global environmental concerns, and social auditing issues. The Green Paper on CSR plays an essential role in promoting corporate responsibility and reinforcing transparency practices in EU countries.



The Experience of Germany

Interest in CSR in Germany increased in 2001 after the adoption by the European Commission of the Green Paper on CSR. Public unions and NGOs as well as German companies have participated in shaping the UN Global Compact. The UN Global Compact UNGC is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. By doing so, business, as a primary driver of globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere. In addition, Germany also actively participated in Agenda 21, is a non-binding, voluntarily implemented action plan

¹⁹Green Paper, Promoting a European framework for Corporate Social Responsibility, Commission of European Communities, Brussels, July 2001.




of the United Nations with regard to sustainable development²⁰. Currently, CSR in Germany embraces a wide range of field with an emphasis on market concerns. In order to support the development and diversification of CSR, various projects and programs such as “Initiative für Beschäftigung” (Initiative for Employment), “Unternehmen Partner der Jugend”(Companies: Partners of Youth), “Initiative Neue Qualität der Arbeit” (Initiative New Quality of Work), “Soziale Stadt” (Social City) and many others supported by NGOs, companies, and governments are being implemented in Germany.

One of the specifics of corporate responsibility in Germany is the tradition of “participation.” Traditional German participation involves strong social dialogue among managers and employees, labor unions, and trade councils, as well as civil society. Participation is also known as joint decision-making, and it includes shareholders, employees, representatives of public institutions. Members of the companies with Supervisory Board ensure the “participatory” principle in the democratic decision-making process within the company. In contrast to the traditional company-weighted approach to CSR, participation encourages cooperation among interest groups. This voluntary cooperation benefits all interest groups in the private sector, government, and civil society. The shared efforts between state agencies and non-governmental organizations seem to be a new norm. As can be expected, these types of co-operation have generated increasing interest in CSR in Germany.

The level of SMEs participation in CSR in Germany considered being medium. According to the evaluation of the German Institute for SME, 82% of the income of SME money was spent on social events, products, and services in 2001. More than 50% of enterprises gave time for employees to volunteer. The

²⁰Local Government for Sustainability in the USA <http://www.icleiusa.org/about-iclei/faqs/faq-iclei-the-united-nations-and-agenda-21#what-is-agenda-21>



EU found that 54 % of German SMEs are socially responsible. The SMEs in Germany spent 0.07% from their annual budgets on CSR. SMEs in Germany carried out 13% of total CSR initiatives.


Trans-national corporations (TNCs) in Germany comply with CSR practices very well compared to their peers. In February 2005, *Manager Magazine* evaluated the social participation of the largest European companies. German companies were highly estimated in this evaluation, with Deutsche Post World NET receiving the highest score in all of Europe. According to the annual All-Star list in *Fortunemagazine*, the German chemical company BASF was considered the number-one company in this field in 2010. German TNCs' investments and sponsorships have included educational programs, cultural activities, as well as supporting projects on sustainable cooperation between government and civil society.



The experience of the United States

In the 1960s and 1970s, concern in the United States over social and environmental issues led to adoption of legislation to address these issues, including regarding pollution and hazardous waste control (e.g. Federal Water Pollution Control Act, The Clean Air Act Amendments of 1977), the workplace (e.g. The Occupational Safety and Health Act of 1970, The Equal Employment Opportunity Act of 1972), and consumer protection (e.g. The Consumer Product Safety Act, The Federal Hazardous Substances Act).²¹ Since the 1990s, a growing number of American businesspeople have realized that investments in educa-

²¹Hess David Regulating Corporate Social Performance, pp.307-330 vol.2, issue 2 Business Ethics Quarterly, 2001 cited in Tschopp Daniel Corporate Social Responsibility: A Comparison Between the United States and the European Union, 2005 John Wiley & Sons, Ltd and ERP Environment, 12 November 2003.




tion, sports, and the social welfare system contribute to the development of qualified staff and ultimately increase the competitiveness of the national economy. Today, the corporate responsibility platform, which comes from more of an ethical choice rather than required action, goes beyond legal or workplace issues to address issues that best fit on the company's mission and reputation. There are no widely accepted principles or characteristics defining CSR in the United States; however, certain characteristics of corporate responsibility in the U.S. distinguish it from other developed countries.

For many years the social programs of American companies were implemented through charitable foundations,²² while in Europe a lot of attention was paid to public social programs and business projects. Although the activities of private charitable foundations in the U.S. do not fit the accepted definition of CSR, which goes beyond philanthropy, the enormous role of foundations must be taken into account in assessing American CSR. The largest foundation endowment in the United States is that of the Bill and Melinda Gates Foundation, with USD 36.2 billion in assets.²³

The convergence of private, public, and non-profit sectors in the USA in recent years has become a key mechanism for addressing important issues in society. Collaboration at various levels is a result of an expectation from civil society that businesses will participate in social responsibility. According to the Ethical Corporation, Public Strategies' 2010 Trust Monitor survey shows that 91% of the US public wants to see corporations involved in helping solve the problems

²² Foundation Center, Top 100 U.S. Foundations by Asset Size
<http://foundationcenter.org/findfunders/topfunders/top100assets.html>

²³ Bill & Melinda Gates Foundation, Foundation Fact Sheet <http://www.gatesfoundation.org/about/Pages/foundation-fact-sheet.aspx>




the country faces.²⁴ Furthermore, the federal government has expressed interest in companies increasing their socially responsible practices. Despite the lack of any specific federal regulation, a 2005 report from the US Government Accountability Office (GAO) found that there are 12 federal agencies that employ more than 50 programs, policies, and activities that either endorse, facilitate, partner, or mandate corporate responsibility activities.²⁵ These programs initiated by the government play the role of facilitators, although never the regulator, of CSR development. In this manner the public, private, and non-profit sectors all move the corporate responsibility agenda forward.

Another distinguishing characteristic of the development of corporate responsibility in the United States is the active role of civil society in pressing companies to behave responsibly. One good example is the “Making Change at Walmart” campaign, raises concerns about Walmart’s business practices not only in the U.S., but also in China and Bangladesh. The campaign has its own website (<http://makingchangeatwalmart.org/>), and also actively raises awareness of its positions through Facebook and Twitter. The campaign represents civil society demanding responses on the issues it cares about through campaigning that includes the effective use of social media.

In the U.S., business success stories in using CSR have also catalyzed other businesses to become more active in the field. For example, “Chipotle Mexican Grill, a US chain of quick-serve Mexican-style food, set out in 2001 to demonstrate that sustainably and responsibly sourced food could be provided in a low-cost, fast-food environment. Today, Chipotle serves more naturally raised

²⁴Ethical Corporation, United States Briefing Part 1: United States of America - Free to be responsible
<http://www.ethicalcorp.com/stakeholder-engagement/united-states-briefing-part-1-united-states-america-free-be-responsible>

²⁵ Ethical Corporation United States Briefing Part 3: External influence - Relaxed regulation tightens
<http://www.ethicalcorp.com/stakeholder-engagement/united-states-briefing-part-3-external-influence-relaxed-regulation-tightens>



meat than any restaurant in the world, and was the first national US chain to serve dairy products from animals treated without recombinant bovine growth hormone. Customers responded. Although Chipotle raised prices on some products following the switch to naturally raised meat products, sales for them doubled. Chipotle has produced double-digit profit gains in each of the past nine years, unlike many within the competitive quick-service restaurant industry.”²⁶

The activities of private foundations, collaboration across sectors, and the active role of civil society in pressing companies to act responsibly distinguish the development of CSR in the U.S. from that in other developed countries.



The Experience of Norway

Norway’s CSR model, the Nordic Model of CSR, is built on national tradition and co-operation. In Norway CSR stakeholders largely benefit from well-defined scope of the CSR activities and framework.²⁷ As part of this framework in 2009, the Norwegian government published the whitepaper *Corporate Social Responsibility in a Global Economy*. The purpose of the white paper is to raise awareness about social responsibility in both the private and the public sectors. In it, the government expressed positive aspirations for Norwegian companies’ ability and willingness to contribute in this area, and the white paper was intended to strengthen this commitment.

²⁶Ethical Corporation, <http://www.ethicalcorp.com/supply-chains/united-states-briefing-part-2-responsible-business-trends-engaging-success>

²⁷<http://www.fafo.no/pub/rapp/20052/20052.pdf>



Corporate Social Responsibility in a Global Economy expresses the government's support for the UN Global Compact as an important global framework for CSR, and expresses the government's continued commitment to supporting the initiative. Currently, the Global Compact includes 36 Norwegian participants. Following the Global Compact's launch in 2000, companies in Norway, Sweden, Denmark, Finland and Iceland formed the Nordic Network, which meets twice a year to share practices and discuss challenges related to CSR.

The whitepaper begins by noting how profitable companies make important contributions to society. They create jobs and help finance the general welfare of the population. The main task of companies is to create value and generate financial results within the legislative framework of the society in which they operate. But companies are not just operating in a market. They are also operating within a culture, a local community, and a political system. The debate surrounding CSR is concerned with the role companies play in this broader social context.

The report emphasizes that CSR has become increasingly important internationally, with growing focus from the UN, the EU, and national authorities. In attempting to describe why CSR as an international leadership phenomenon has remained relatively neglected by Norwegian executives, the report highlights several factors. The most important factor is that, traditionally, a sense of duty and societal responsibility has existed, and that this sense of duty has colored executives' community spirit. However, this duty and responsibility has been implicit, rather than formalized as a CSR strategy.




The Experience of Russia

The direction of Russia's development changed radically following the collapse of the Soviet Union. One of the unique features of the transition period was that it released economic entities from all kinds of "social burdens." Early capitalism in the country was therefore characterized by a lack of social responsibility. Even once the economic situation stabilized, companies still paid no attention to CSR. Practices such as delaying monthly salaries, unjustified dismissals after probation period, and paying only half of salaries continued. However, social responsibility has gradually become a significant factor in stabilizing the economy. The most progressive businesses in Russia have begun to value CSR as part of a sustainable development strategy, risk-management system, and as a means for increasing its position in world financial markets. In recent years, Russian interest in CSR has increased and is found especially among oil, gas, and metallurgy companies²⁸.

Former Finance Minister Aleksey Kudrin has defined the principles of CSR in Russia as first paying taxes, then engaging in philanthropy.

Since the 1990s, a large number of professional ethical codes were adopted in Russia such as the "Banker Code of Honor" (1992), "Fair Rules for Professional Members of the Stock Exchange" (1994), "Code of Honor for Members of Russian Estate Agencies' Guild" (1994), and "Code of Ethics for the Members of the Russian Society of Appraisers" (1994). In 2004, the Russian Union of Industrialists and Entrepreneurs adopted the "Social Charter of Russian Business." This charter presented the mission of corporate responsibility, its public role, and its values. It also encompassed financial sustainability, human rights, product

²⁸Иванова Вера, *Особенности формирования моделей корпоративной социальной ответственности в зарубежных странах и России*, "Человек и труд", 10/2009



quality, customer service, development of local communities, and environmental issues. This “Social Charter” exhibits the adherence of Russian businesspeople to the principles of social responsibility. In 2007, more than 190 companies, which employ almost 5 million people, joined this charter.

One of the positive trends in recent years is government encouragement of CSR in Russia through ranking and providing prizes to companies with the most successful CSR projects. According to the information portal CSR WeltWeit, in 2006 “a competition “Rating the social responsibility of business” was held under the umbrella of the government...[and] the most socially responsible companies were awarded prizes. The criterion for determining social responsibility is the frequency of mention of a company or a person in the media in connection with social involvement.”²⁹


The development of CSR principles in Russia has become an irreversible process in recent years. However, there are still many obstacles to overcome in developing CSR in Russia. The main challenges in implementation of CSR in Russia are companies’ attempts to chase short-term profit, a lack of stable institutional conditions that provide health insurance, and reliable working conditions. These all limit the capacity of companies to invest in social projects.



The Experience of Ukraine

The economic downturn in the 1990s had very negative consequences across the former Soviet Union, including Ukraine. Only in recent years did international companies operating in Ukraine, and later also Ukrainian companies, be-

²⁹CSR-Weltweit, Russia: the role of CSR
<http://www.csr-weltweit.de/en/laenderprofile/profil/russische-foederation/index.nc.html>



gin engaging in CSR. Today, the main CSR initiatives in Ukraine are labor issues (human resource development and workplace safety) and protection of consumer health.


According to the Ukrainian initiative UNITER's CSR Development Center, 76.3% of companies in Ukraine are aware of basic CSR principles. CSR is understood as charity, fair business practices, and protection of human rights³⁰. In addition, CSR is a management strategy for companies like DTEK, Metinvest, Kyivstar and others.

The majority of companies in Ukraine consider charitable assistance to the community as an aspect of CSR. However, according to *Corporate Social Responsibility 2005-2010: status and development perspectives*, only one-third of companies (37.5%) actually invest in social projects. Moreover, in many cases, health and education are prioritized in the social investments made by large companies.

A distinguishing factor of public awareness of CSR in Ukraine is that corporate responsibility is taught in more than 30 universities all over Ukraine, as part of a program developed by the Association of Management and Business-Education and UN Global Compact. Under the project, summer and winter schools for university professors were organized to improve their knowledge in the field of CSR. In addition, with the support of the Inter pipe Center, a leading company in producing pipelines, a new textbook *The Development of CSR* was prepared for the university course.

In 2011, 19 companies in Ukraine signed a declaration on "Responsible partnership," and one of the topics touched upon in the document was the role of

³⁰Zinchenko A.G., Saprykina M.A. Corporate social responsibility 2005-2010: status and development perspective. "Farbovaniylst", 2010



businesses in fighting corruption. These companies also initiated research on the topic “Corruption in Ukraine: the role of Business.”³¹

There are no laws or other legal acts on CSR in Ukraine. However, a number of adopted laws and codes such as the Labor Code and the Law on Consumer and Environmental Protection of the Laws regulate some aspects of CSR. Furthermore, the National Corporate Social Responsibility Strategy Concept has been developed under the initiative of the CSR Development Center with the support of the Global Compact Network in Ukraine, some private companies, and universities. After public discussion, the project was sent to the Presidential Administration in Ukraine. The document can play an important role in the future development of CSR policy.




CSR in Azerbaijan

History of CSR in Azerbaijan

The early development of corporate responsibility in Azerbaijan was primarily in the framework of philanthropic activities. The oil boom in Baku at the end of the 19th century resulted in a great number of people who made a fortune in the field. Inspired by Islamic principles to help the poor, some shareholders and oil magnates such as Haji Zeynalabdin Tagiyev, Murtuza Mukhtarov, and Aghamusa Nagiyev engaged in philanthropy by setting aside money for the public good.³²

³¹Дело, Тенденции: что движет, а что тормозит КСОВ в Украине, <http://delo.ua/business/tendencii-cto-dvizhet-a-cto-tormozit-kso-v-ukraine-173200/>


³²Manaf Süleymanov. Eşitdiklərim, Oxuduqlarım, Gördüklərim, Azər nəşr, 1987



Haji Zeynalabdin Tagiyev's charitable activities focused on addressing social problems in various fields. He contributed substantial sums to Russian, Armenian, and Jewish charitable funds; the "Muslim charity," "Publication and education," and "Nijat" societies are also all associated with Tagiyev's name. He also sponsored the construction of uniquely design buildings in Baku and the Shollar water pipeline. Because it was hard for relatives to visit prisoners held on Nargin Island, Tagiyev built a prison between Fuzuli Square and Komurchu Square (now a candy factory). Moreover, Tagiyev made a huge contribution to spreading literacy and education, building the first school for girls in the South Caucasus, funding educational and cultural development by establishing charitable societies and publishing newspapers and magazines, and sending young people to Europe for education at his own expense on a regular basis.

Alongwith Haji Zeynalabdin Tagiyev, the oil magnate Murtuza Mukhtarov also allocated considerable resources to public needs. An honorary member of the Muslim Charity Society, he made a huge contribution to the development of education by founding the Real School in Baku, the Temirkhan-Shurin women's gymnasium, and creating 40 scholarships for students from families in need. He sponsored the publication of the "Tereqqi" ("Progress") newspaper and a society for the spread of literacy among the Daglilar ethnic group. He was also concerned about his workers, as he built a three-story residential building close to his drilling equipment factory in Bibiheybat.

Aga Musa Nagiyev also supported education and public welfare and other charity activities. He sponsored the construction of hospitals(there is still an ambulance named after M.Naghiyev) and the "Ismailiyye" charity center in Baku. He paid for the construction of the unfinished third floor of the Real School, and later took the school under his custody. He insisted on admission of an addi-



tional²⁵ Muslim students in that school, bringing the Muslim population at the school to fifty percent of students.


Altogether, oil magnates and millionaires contributed substantially to the development of a national press, education, public welfare, and architecture in Azerbaijan. Although their activities do not meet the modern definition of corporate social responsibility, in a certain sense they represent the first steps taken in this field in Azerbaijan.

Philanthropy lost its importance after the establishment of the Soviet government, as private property was abolished. The command economy made it impossible for entrepreneurship to develop, much less for entrepreneurs to engage in CSR. Only after 1991, when Azerbaijan restored its independence, did collective and state property give way to private businesses.



The current situation in Azerbaijan

CSR is at an early stage of development in Azerbaijan. Despite the historical precedent for charitable activities, the term corporate social responsibility is new to Azerbaijan. A lack of conceptual studies and information in the field lower both public perception and commitments towards it. In the private and non-profit sectors, the perception of CSR differs from that in European countries, as most companies with the exception of banks, telecommunications, and oil companies consider CSR to be philanthropy. This perception creates misunderstanding and limits corporate responsibility principles to occasional charity activities by local organizations, government bodies, and a very few representatives of private sector. These activities do not follow a premeditated CSR strategy, and they are not reported on a regular basis.



The experience of various countries as described above in CSR shows that numerous factors should be considered when developing the concept in practice. CSR requires not only powerful corporations, but also stable economic growth, the existence of favorable legislation, willingness to join international initiatives and most importantly, the readiness of stakeholders and pressure groups to create system of social accountability.




Legislation on CSR in Azerbaijan

There is no special law in Azerbaijan on corporate social responsibility, and according to official sources, the adoption of such a law is not on the agenda right now. However, some aspects of CSR-related issues are regulated by various documents, including but not limited to the following:

The Law on Civil Service regulates workplace ethics, employee social security, and employment regulation issues.

The Environmental Protection Law regulates environmental audits and a list of environmentally dangerous activities; imposes special rules for their implementation; defines administrative and judicial punishment for environmentally harmful enterprises; limits construction and facilities that negatively impact the environment; confines environmentally harmful households; and requires enterprises to report to the executive authority.

The Labor Code of the Republic of Azerbaijan regulates relations between employees and employers, as well as with the relevant state authorities, and also addresses other aspects deriving from relations of juridical side between employees and employers.



The Tax Code requires financial statements that may be audited at the request of government authorities.

It should also be noted that social security, health insurance, environmental cleanup, environmental protection, and many other issues that could be considered the internal responsibilities of companies are regulated by law and are supervised by executive agencies. Although the government has authority over these issues, companies can evade their responsibilities. Because not all employees sign employment contracts, the legal issues in those cases remain unregulated. In other words, not signing employment contracts with employee leads to abusing social security issues in the future. Implementation of internal social responsibility commitments is also unsatisfactory. Although in some companies employment contracts are signed and the social welfare of employees is ensured, health and other insurances seem to be ignored.


According to government representatives, adoption of a law creating government regulation of CSR could depress business development in Azerbaijan. Thus the government considers the above laws and legislative acts that regulate certain internal areas of companies' operations to be adequate.



Joining international initiatives

In order to encourage businesses worldwide to adopt sustainable and socially responsible policies, UN has promoted Global Compact(UNGC)), the largest corporate global initiative in the world. Since its official launch on 26 July 2000, the initiative has grown to include more than 10,000 participants, including over 7,000 businesses in 145 countries around the world.³³GC is a completely

³³United Nations Global Compact, <http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html>



voluntary initiative, based on principles of cooperation, with UNGC playing a role more as an observer rather than as a supervisor. However, the Compact requires some commitments, such as preparing an “Information on Development” report. If a member of the Compact doesn’t submit reports annually, its “Active” Status will be canceled. A company that does not send a report for two years will be removed from Compact list. Organizations that join UNGC profess their adherence to the 10 main principles of the Compact (Table 6), which are human rights, labor rights, anti-corruption, and environmental principles.

A local network of the GC was created by the initiative of Azerbaijan’s local UN mission in November 2011.³⁴ That certain business associations, local NGOs, and small and medium-sized enterprises (SMEs) have joined the GC is a positive step towards CSR development in Azerbaijan (Table 5). The names of Azerbaijani signatories are also placed on the GC official website. Only 9 of a total 18 members of the Compact are commercial companies; others are business associations and non-governmental organizations. Of these 9, only 4 companies prepare reports on annual basis. Below is a list of the participants:

1. Partnership for Economic and Social Initiatives(NGO; Local Status; joined 2013)
2. International Eurasia Press Fund(NGO; Global Status; joined in 2013)
3. Architecture, Constriction and Design Public Union (NGO; Local Status; joined in 2012)
4. Trade Union Republican Committee of the Azerbaijan Employees of Water Economy (Labor; Local status; joined in 2012)

³⁴UN Global Compact, Global Compact Launches Local Network in Azerbaijan <http://www.unglobalcompact.org/news/171-11-30-2011>

5. National Confederation of Entrepreneurs (Employers') Organizations of the Republic of Azerbaijan (Business Association; Local status; joined 2012)
6. Azerbaijan Tafakkur Youth Association, ATYA (NGO; Local Status; joined 2011)
7. Studying for Economic Recourses Public Union(NGO; Local Status; joined in 2011)
8. Khazar University's Center for Economic Policy and Development(Academic status; joined 2010)
9. Caspian Technology Company (SME status; joined 2010)
10. Pasha Insurance (SME status; joined 2009)
11. R.I.S.K. Company (SME status; joined 2009)
12. Azerbaijan Micro-Finance Association (Business Association; Local status; joined 2009)
13. Azerbaijan-Turkey Business Association(Business Association; Local status; joined 2008)
14. NGO Partnership Alliance(NGO;Local status; joined 2008)
15. Access Bank (Company status; joined 2008)
16. Garant Insurance (SME status; joined 2008)
17. Global Economic Researchers Center (NGO; Local status; joined 2008)
18. Azerbaijan Marketing Society(Business Association; Local status; joined in 2006)

The majority of the signatories of the agreement are small enterprises. For example, the Caspian Technology Company has a total of 15 employees. The only company represented in this list is Access Bank with 850 total employees. Other than Access Bank, large-scale enterprises and companies operating in the country are absent from the list. Some companies and NGOs such as the

Workers' National Committee for Water Economy, Tafakkur Youth Association, Baku Nut Factory, Holcim Azerbaijan –Garadagh Cement, and At a Holding have been removed from the list, as they did not submit any reports on their work under the compact.

Stakeholder and Pressure Group Analysis

CSR and the public sector


Government is essential to defining a national strategic framework of action for promoting CSR. Although corporate responsibility is mostly business-driven, government has an important role in encouraging its development. According to *Business Ethics: A European Review*,³⁵ "The challenge for government is to find a way to design and implement public policy that will generate leadership and partnership-based innovation, seeking to maximize the benefits of these innovations by ensuring their systematic acceptance and application among the wider business community."

The participation of government agencies in the promotion of CSR in Azerbaijan involves various levels of engagement from the ministerial to various governmental agencies. The promotion of CSR in Azerbaijan by the government was reflected in the development concept "Azerbaijan 2020: Future Vision"³⁶ approved in 2012 by the President of the Republic of Azerbaijan, Ilham Aliyev.

The Ministry of Labor and Social Protection (MLSP), the Ministry of Economic Development (MED), the Ministry of Ecology and Natural Resources, and the

³⁵Laura Albareda, The changing role of governments in corporate social responsibility: drivers and responses, *Business Ethics: A European Review*, Volume 17 Number 4, Oxford, Blackwell Publishing Ltd. 2008

³⁶ "Azərbaycan 2020: Gələcəyə Baxış" İnkişaf Konsepsiyası, 2012-ci il 29 dekabr




State Committee of Family, Women and Children all have roles to play in promoting CSR. The level of actual involvement of these ministries and committees in the development of CSR in Azerbaijan varies. To date, the Ministry of Economic Development is the most active in promotion of CSR principles.³⁷

In recent years the interest of government in promotion of CSR has increased. The first serious step was made in 2008, when the Ministry of Economic Development, in cooperation with International Finance Corporation (IFC) and the Swiss State Secretariat for Economic Affairs, organized a project entitled "Corporate Governance in Azerbaijan." Within the framework of the project the draft of Code of Corporate Ethics was prepared by a specially assigned Corporate Governance working group, which included representatives from the Ministry of Economic Development, the National Bank, the State Security Commission, the Ministry of Justice of the Republic of Azerbaijan, the Azerbaijan Investment Company, and the International Finance Corporation. The Ministry of Economic Development placed comprehensive information about the code and corporate governance on its official website (www.economy.gov.az). The experiences of leading companies from developed countries were considered while preparing the report.

According to the Ministry, the Code of Corporate Governance of the Republic of Azerbaijan was prepared in compliance with the principles adopted by the Ministry of Economic Development in 1999 and improved by the Corporate Governance Principles of 2004. The code promotes values such as respect for the rights of employees, encouragement of professionalism, cultivation of experience, and encouragement of efforts to develop the company. Moreover, the code describes both the code of conduct with partners and its responsibility to

³⁷Azərbaycan respublikasının İqtisadi İnkişaf Nazirliyi <http://economy.gov.az/index.php/az/economy/coperate-governance>



the community: "The company should support the improvement of welfare, protection of the environment, and other socially important projects both in the country and in the place of its activity; the company should also cooperate with universities for recruiting new cadres and work to reduce unemployment and poverty.

"In order to hire highly professional personnel, the company should select cadres from high school and assist in their university studies; the company should also follow transparency and accountability principles in its social projects. Selecting candidates for projects should be based on clear and unambiguous criteria."

The code also addresses the relationship between the government and companies. It has been noted that companies are obligated to pay charges as well as taxes in a timely manner and should not participate in anti-governmental projects. The companies that have adopted the code should provide industrial safety and environmental protection. The Ministry encourages companies to voluntarily join to the code and pursues a policy of "follow or explain." The essence of this principle is that companies must comply with the code or otherwise explain their non-participation. In contrast to legislative acts, one of the advantages of the code is that it is open to amendment. Also, in comparison to required minimum legal standards, the code promotes the rights of shareholders, public information-gathering procedures, financial reporting, and other issues. The Ministry of Economic Development states that not only government, but also non-governmental organizations and groups should be involved in formulating principles of corporate governance. It also emphasizes that successful implementation of the Code of Corporate Ethics will assist companies in achieving reliability, in protecting companies from the unethical behavior of employees and partners, in achieving professional operations, high productivity

and competitive advantages, as well as recognition at the international level. Yet although the code was prepared a long time ago, the official presentation has not been conducted yet.


The functions and responsibilities of other ministries and committees have been described in the chart below. It should be noted that the level of activity of the ministries are different, as their involvement in the promotion of corporate responsibility are not the same. The Ministry of Economic Development deals directly with CSR, so it has prepared the Code of Corporate Ethics. In contrast, the Ministry of Labor and Social Protection, the State Committee on Women, Children and Family, and the Ministry of Ecology and Natural Science work on particular aspects that touches on corporate responsibility rather than promoting it in the private sector as a single policy. For example, one of the responsibilities of the Ministry of Labor and Social Protection is to examine working condition, which can be considered part of internal corporate responsibility. However, the Ministry does not have any specific activity on the corporate responsibility, nor does it promote any activity as a part of CSR.

Relevant governmental bodies in the field of CSR

Name of Ministry	Functions	Main Responsibilities / Activities in CSR
Ministry of Economic Development	The government agency that is responsible for supporting economic development and protection of entrepreneurship	Contacting entrepreneurship entities, entrepreneurship development, identifying general CSR strategy in country http://www.economy.gov.az/

Ministry of Labor and Social Protection	The main government agency that is responsible for labor and social protection of the population	Controlling conformity of labor and employment practices to national standards, appropriateness of working conditions, social security issues, and defining and pursuing social protection policy http://www.mlsp.gov.az/
State Committee on Women, Children and Family	The government agency that deals with Family, Women, and Children's Affairs,	Leaning on the initiatives of corporate programs and business, works with social groups in need http://www.scfwca.gov.az/
Ministry of Ecology and Natural Science	The government body that is responsible for ecological balance and environmental protection	Organizes environmental protection programs, ensuring conformity of large industrial and oil companies to environmental standards. http://www.eco.gov.az/

Because the main part of Azerbaijan's economy is the oil industry, the public expects oil companies to be actively involved in CSR. In addition to the ministries another governmental contributor to the development of corporate responsibility is the State Oil Company of the Republic of Azerbaijan (SOCAR). As SOCAR's official website claims, corporate social responsibility "is much more



than marketing or public relations issue, it is part of the very legacy and nature of the company.” Although SOCAR provides no document on its CSR strategy and future expectations, the company has a special section of its official website that provides information on the projects that SOCAR has done so far. The “Social Responsibility” section³⁸ is divided into five webpage on culture and recreation, regional projects, social development, social support, and sport. The company has a separate section on “Environmental Safety” that is separate from the “Social Responsibility” section.³⁹ Each page gives information about or lists projects that have already been done. For example, according to the website the Social Development Department provides recreational services for oil workers and their families, and SOCAR has drilled five artesian wells in the Balaken region, four in Zagatala, and seven in Agsu. One recent project is the construction of a British school for special talented children in Bibiheybet. The school, which will meet British standards, will have a kindergarten and dorms. Expected to open in September 2012, the school will be free of charge.⁴⁰

Although efforts to promote CSR strategy and priorities have been made on various levels in government agencies, it seems nonetheless that the development of corporate responsibility is moving slowly in Azerbaijan. One neglected area so far is the use of tax incentives to encourage CSR. Azerbaijani government officials have not made any official statement on the use of such incentives. Experts believe that in order to encourage CSR, concessions such as tax incentives and tax credits should be considered. While reviewing the experience of, USA and Germany on CSR, it becomes obvious that tax incentives increase the willingness of companies to participate in corporate social policy.

³⁸SOCAR, Social Responsibility


<http://new.socar.az/socar/en/social-responsibility/culture-and-recreation/recreation>

³⁹SOCAR Environmental Safety

<http://new.socar.az/socar/en/environment-and-safety/menu/alternative-energy-use>

⁴⁰SOCAR plus, SOCAR is building a school for especially talented children

<http://www.socarplus.az/en/article/213/socar-is-building-a-school-for-especially-talented-children>




Public policy is critical to promoting and encouraging a corporate responsibility among businesses and in society. The relations between the public, private, and non-profit sectors provide a solid basis for the successful development of CSR in Azerbaijan. Yet although there are some positive tendencies in this area, the overall picture remains unsatisfactory and interest in CSR appears quite low.



CSR and the private sector

Even as successful CSR requires mediation and promotion on the part of the State, in order to be effective, businesses must become actors driving corporate responsibility. Previously prevailing views of business's goal as being purely commercial, i.e., to make money, have given way to public attitudes that businesses are required to take a position for the mutual benefit both for society and for them. The experience of countries where CSR is highly developed shows that the main factor for increasing social accountability is the existence of developed private and banking sector in the country. As previously described, some positive steps have been taken towards the formation of CSR in Azerbaijan, primarily by local branches of oil, telecommunication, and accounting firms, as well as some private and state banks. Yet the majority of SMEs (which make up 79.6% of total business entities in the country) are very passive in taking up CSR.


In a 2008 study supported by the Council of State Support for NGOs, the Center for Economic Research closely examined the level of development of CSR in Azerbaijan, and the center published the results in the local economic journal



*Expert.*⁴¹The research was unable to assess the situation completely, as only 38 of the 100 companies surveyed agreed to answer the questions. A large majority of companies surveyed (81.1 %) had social investment programs and only 8.1 % of respondents said they did not participate in social programs. Yet the survey found that companies were not publishing social reports; 74.1 % of the respondents said that their companies did not publish (non-financial) reports on social investments and sustainable developments on a regular basis. In fact, only 25.9 % of respondents published reports regularly. One of the questions in the survey addressed the existence of a code of corporate ethics in the company, finding that 81.1 % of respondents said that their company had a corporate code of ethics. Respondents considered legal barriers to be the main obstacle in implementation of social policy: in a non-exclusive choice of answers, 21 companies said legal barriers were the main obstacle; 8 companies, institutional problems; 7 companies, social barriers; 5 companies, economic barriers; and two emphasized political problems. Eighteen respondents chose "other". The last question of the questionnaire was: "Which incentive measures should be taken in order to develop corporate social investments?" Almost three-quarters of the respondents thought that funds allocated for this purpose should be exempt from all taxes; 20% answered that some tax incentives should be applied; 5.7 % chose "other" with no further explanation (Table 7).

According to the study, transnational corporations were the primary actors pursuing corporate social policies in Azerbaijan. In particular, large international companies operating in the country had implemented several projects in environmental protection, or had implemented projects for refining soil, vegetating plants.

⁴¹Ekspert jurnalı, 2009



In order to update this evaluation of the level of development of CSR in Azerbaijan, in 2012 CESD conducted a survey among local banks, companies, and SMEs. However, the results were not substantive enough for publication, as the great majority of surveyed companies did not respond.

Clearly a number of challenges remain for the development of corporate responsibility in Azerbaijan. The survey conducted by the Center for Economic Research, and the information presented earlier, show that a lack of information about CSR, absence of awareness of international experience in the field, indifference to impact on communities, and inadequacy of government incentives are the primary reasons for the underdevelopment of corporate responsibility in Azerbaijan. Sporadic actions taken to promote CSR among local companies are ineffective.

In recent years, the Central Bank has carried out promotional activities among banks in order to spread the principles of social accountability. In 2010, the Central Bank in cooperation with Eurasia Partnership Foundation (EPF) organized trainings for bank managers on marketing, public relations, and CSR.⁴² According to Central Bank Vice President Aftandil Babayev, CSR plays an important role in strengthening public confidence not only in the Central Bank but also the whole banking system. One of the main objectives of the Central Bank's new communications strategy is to promote the principles of CSR and to encourage banks to invest in the development of society.

A similar training was organized in 2009 by the mobile operator Azercell mobile operator in cooperation with Global Reporting Initiative (GRI). Businesses were

⁴²Mərkəzi Bankda Azərbaycan bankları üçün KSM-ə dair trening keçirildi, http://mak.az/articles.php?item_id=20100610070756357&sec_id=2

called upon to operate in a socially responsible manner, and they were also advised to gradually apply GRI principles to their activities.⁴³


Yet despite these measures, the majority of businesses in Azerbaijan does not have CSR strategies, or simply does not follow one. For example, Amrah bank claims to adhere to corporate responsibility principles on their official website;⁴⁴ however, close examination of the bank's activities shows that "corporate responsibility" activities are limited to a single charity event, a visit to Children's Orphanage 2 during Ramazan. Amrahbank was among the companies that did not respond to CESD's survey on CSR. Another example is Accord, a leading company in the engineering sector, which also claims to follow CSR principles;⁴⁵ yet no report on the activities of the company in this field can be found.

It is important to examine what the obstacle may be for development of CSR in Azerbaijan. Many companies that implement projects do not disclose them publicly, and are not interested in spreading information about their activities. For this reason, some activities that could be considered CSR may be hidden or unexplained to the public. For instance, local authorities both in the capital and in the regions entangle businesses to allocate money for construction or other social projects. In most cases, the companies provide the required amount of money and receive a verbal guarantee to continue to conduct business as usual. Many companies also help their employees in hard times or support their studies, without taking these activities into account as CSR.

⁴³Eurasia Foundation, AZERCELL Telecom LLC and Eurasia Partnership Foundation held an evening reception <http://www.epfound.az/english/whats-new/press-releases/telecom-llc-and-eurasia-partnership-foundation-held-an-evening-reception-on-june-22-2009.html> <http://www.epfound.az/english/whats-new/press-releases/telecom-llc-and-eurasia-partnership-foundation-held-an-evening-reception-on-june-22-2009.html>

⁴⁴Amrahbank, Corporate Social Responsibility <http://www.amrahbank.com/index.php?menu=15&lang=en>

⁴⁵Akkord, Corporate Social Responsibility Policy <http://www.akkord.az/index.php?option=content&id=46&actions=root>



There are several reasons why companies in Azerbaijan may conceal social investments. For one, companies do not want to draw the attention of tax departments and other government agencies for any reason, and companies that raise their profile on social issues may draw questioning.


Another reason companies may be “silent” about CSR is that they continue non-transparent practices in CSR that are common elsewhere in their businesses. For instance, instead of allocating money for social projects through tenders, large companies may assign them to favored contractors or individuals. For obvious reasons, this kind of practice is something that companies prefer to remain hidden from view.

To sum up, although there have been some initiatives in the field of corporate responsibility in Azerbaijan; the overall involvement of the private sector in CSR is very low.



CSR and civil society

The activities of civil society through non-governmental organizations, public unions, professional associations, and social support centers provide strong stimulus for the development of corporate responsibility. Civil society organizations play the role of a mediator, channeling the concerns and needs of the wider community. Civil society’s cooperation with the private sector can become a mechanism for the development of CSR in Azerbaijan. Yet despite some positive trends in civil society’s engagement on CSR, there are numerous gaps in this area well.




One positive trend is the effort of the Council of State Support to NGOs under the President of the Republic of Azerbaijan to strengthen relations between businesses and NGOs. Several conferences have been organized with the participation of business, media, and NGO representatives.⁴⁶The Council of State Support to NGOs under the President of the Republic of Azerbaijan has suggested preparing a draft of a law on “Corporate Social Responsibility” to promote cooperation between NGOs, government, and the private sector. The attitude by all stakeholders towards the draft law was ambiguous during public discussion in December 2011, following which the law was to be submitted to parliament. Some NGO representatives, however, as well as a member of parliament said that global practice shows that laws on CSR do not exist. Ziyad Samadzade, the chairman of the Economic Policy Commission in the parliament, suggested that the document should be presented as a charter, and there was no need for such a law.

One of the civil society organizations that actively participate in preparation of the law was “Hope” Social Support Center.⁴⁷This organization prepared the draft law for public discussion at the request of the Council of State Support to NGOs. The document consists of thirteen pages and outlines the purpose, principles, effectiveness, perspectives, and other issues of CSR. The document states that the government considers its obligations in the sphere of CSR as a priority. “The government takes the following measures: 1) developing a strategy and public programs for corporate social responsibility; 2) promoting activities in this field; and 3) making necessary improvements in legislation. Taking into consideration commercial and non-commercial organizations, the govern-

⁴⁶The Council of State Support to Non-Governmental Organizations under the President of the Republic of Azerbaijan ,http://www.cssn.gov.az/az/index.php?option=com_content&task=view&id=353&Itemid=119


⁴⁷“Umid ” Support to Social Development Public Union, Public Discussion of new bills developed by Council of State Support to Non-Governmental Organizations near the President of the Azerbaijan Republic <http://www.umid-hsdm.com/en/events/367.html>



ment promotes the best world practice in the field of corporate social responsibility. "This document, which the Council of State Support to NGOs would like to accept as a charter, is less comprehensive document in comparison with the Corporate Ethics Code prepared by the Ministry of Economic Development, as it does not reflect the social responsibilities of the companies or their voluntary commitments.

Another positive trend in this field is the establishment of Azerbaijan's first social company on CSR. "CSR Azerbaijan" (www.csraz.com) was established in February 2012, with the main mission of "supporting the development of society by promoting social, economical and ecological responsibility concepts among companies." In conversation, representatives from CSR Azerbaijan stated that its activities include promoting CSR principles among businesses, presenting professional services on CSR, and contributing to sustainable development in this field in Azerbaijan. In this regard, the company is planning to organize seminars, prepare research, and provide consulting services on CSR. The company has started cooperating with a number of banks and large state-owned enterprises (for example, Aztelekom) in order to develop their strategy on corporate ethics. According to Kamran Mamadzade, the project manager of "CSR Azerbaijan", the main obstacles that the organization has encountered so far are the lack of awareness among the majority of local companies and SMEs regarding the principles of CSR, and an over all indifference to corporate responsibility.

Despite some positive steps in connecting private sector and civil society, there are a lot of factors that hinder development of this critical relationship. Partnerships between businesses and NGOs can provide a means through which CSR can be effectively articulated, but cooperation between businesses and non-governmental organizations is not well developed in Azerbaijan. As the annual




USAID NGO Sustainability Index notes, business-NGOs partnerships are not widespread in Azerbaijan.⁴⁸ The few examples of such cooperation include a partnership between Garadagh Cement company with the Rehabilitation Center for Disabled Children, Azercell and the-NGO Alliance for Children's Rights, and BP and "Hope" Social Support Center. The 2011 report states that the concept of CSR is not fully understood. "Companies do not allocate substantial sums of money for NGOs. They show very little interest in cooperation with the third sector. Tax policy limits philanthropic activities. In addition, oil companies should allocate 4-5 % of its income for social investments. Although specific research has not been done in this sphere, it is assumed that companies allocate a much smaller amount. In most cases these allocations are not transparent, and they do not meet the needs of the communities."⁴⁹

Azerbaijan's professional associations are also very passive in terms of building ties with private sector for joint projects that would have community benefits. For example, the Association of Entrepreneurs of Azerbaijan, which has existed since 1999, has never had a CSR project. Mohammad Efendiyev, the Secretary General of the Association, has confirmed that it also has not had many initiatives or cooperation in CSR. Moreover, he noted that the Association has not been involved in preparation of codes of conduct or rules in the field of corporate responsibility.

One of the reasons for poor cooperation between NGOs and businesses is low public confidence in NGOs. This limits their opportunities to attract companies to support social projects. NGO representatives state that they have a strong responsibility to develop corporate social responsibility. NGOs should provide

⁴⁸USAID, http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex/2010/complete_document.pdf#page=48

⁴⁹2011 CSO SUSTAINABILITY INDEX, U.S. Agency for International Development, http://transition.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex/reports/2011/2011CSOSI_Index_complete.pdf#page=37



necessary information to the companies they are working with, prepare agreements and concepts, and create associations for intensive cooperation.


NGO representatives believe that a large-scale, effective mechanism for cooperation between NGOs and businesses should be created. Today, there are enough businessmen in Azerbaijan. If government agencies are deputized as national donors, then together with the representatives of NGOs they will be able to support the solution of many problems.



Results and Recommendations

Corporate Social Responsibility is an effective policy for business decision-makers to participate in solving social, environmental, and economic problems. CSR is about the active cooperation of public, private, and non-profit sectors; effective management of corporate responsibility requires not only the participation of businesses, also the engagement of civil society and the encouragement of government.

This assessment of CSR provides a baseline for future development of corporate responsibility in Azerbaijan. As has been shown, neither government nor business has a CSR strategy, and the position of civil society in promoting its concerns are also very weak. In most cases, CSR is understood as being limited to occasional charity events, which limits its impact. Ineffective work has been done in institutionalizing stakeholders, raising public awareness, and evaluating state policy. Cooperation between different sectors (NGOs, businesses, government agencies, and trade unions, among others) is poorly developed.




Few entrepreneurs pursue social initiatives. In many cases, entrepreneurs say that they expect initiatives from non-governmental organizations, and they are willing to support successful NGO projects. A number of studies have shown that some large companies in banking, communications, food, and energy and cement production grasp the principles of CSR, and many have made strategic plans available on their websites. This does not mean that all of them approach the issue seriously, however. Although some companies speak loudly about CSR, they do not support their words with real actions. This type of company neither conducts social projects nor prepares reports on their activities in the field. Meanwhile, few small or mid-sized businesses try to show their adherence to business ethics. This is not the only example of a haphazard approach to CSR.

Some actors have suggested that a special law on CSR is needed for promotion and reinforcing a sense of social responsibility. For example, the Economic Research Center has recommended adopting such a law to the Council of State Support to NGOs.


As a result of our research, the following recommendations for the development of CSR in Azerbaijan are suggested:

- *To increase public awareness of corporate social responsibility, including through publications on CSR in the Azeri.* Raising awareness of the core values of CSR and its benefits to stakeholders is necessary to build support for corporate responsibility among businesses and the wider public. This goal can be achieved in several ways, though the most effective one is disseminating information on corporate responsibility through the media, as organizing round-table discussions on talk shows and covering success stories can be very effective in reaching all level of society. At



present in Azerbaijan customers pay more attention to the quality and price of the product when consuming. Hopefully, with increasing awareness of CSR, customers will pay more attention to the business ethics of companies as well.

- *To develop and teach a course on CSR in the economic departments at universities.* This process requires some preliminary preparation to develop the curriculum for such a class, to prepare appropriate textbooks, and to train professors who will offer instruction. The experience of Ukraine in developing and teaching a course on CSR in universities is a good role model for Azerbaijan.
- *To promote effective cooperation among government, business, and civil society.* Effective CSR programs can only be implemented where there is broad collaboration among all sectors of society. Initiatives for social or environmental projects should come from civil society, acting in its role as a channel for social concerns, and be implemented with the support of private sector. Azerbaijan can learn from the experience of the United States, where strong pressure groups demand that social and environmental issues be taken into account, creating incentives for business to take action.
- *To set annual priorities for governmental agencies and local municipalities on CSR.* Some work in this area has already done by the Ministry of Economic Development, but more effort is needed from other government agencies as well as local municipalities. The role of government should not go beyond providing recommendations or encouragement, however in order to avoid interference in the private sector.

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- *To undertake stimulating measures such as tax exemptions for the development of CSR.* Another role that government can play in promoting corporate responsibility is to create incentives for companies to develop their CSR strategies. Tax incentives help make social responsibility more attractive to companies.
 - *To encourage companies to increase their social accountability and social responsibility standards.* Companies need to report on their activities on corporate responsibility issues both for the sake of transparency and in order to build a positive reputation among customers. In most countries social accountability is purely voluntary. Some countries, however, such as Denmark, require companies operating in the country report on the systems and procedures that the company will implement in carrying out a policy of social responsibility, including on results of actions taken and future perspectives. Such an effort might have unfavorable consequences in Azerbaijan; social accountability should remain voluntary here.
 - *To encourage local companies to join international initiatives on the field of Corporate Responsibility.*
 - *For companies to plan their CSR strategies.* Each company should have a consistent strategy and specific annual budget amounts for CSR projects. Corporate responsibility should be the product of a planned strategy, rather than consisting of occasional charitable activities.

Appendix

Table1.

Dalthrud's five dimensions of CSR, including how the coding scheme was applied and sample phrases

Dimensions	The definition is coded to the dimension if it refers to	Example phrases
The environmental dimension	The natural environment	'a cleaner environment' 'environmental stewardship' 'environmental concerns in business operations'
The social dimension	The relationship between business and society	'contribute to a better society' 'integrate social concerns in their business operations' 'consider the full scope of their impact on communities'
The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation	'contribute to economic development' 'preserving the profitability' 'business operations'
The stakeholder dimension	Stakeholders or stakeholder groups	'interaction with their stakeholders' 'how organizations interact with their employees, suppliers, customers and communities' 'treating the stakeholders of the firm'
The voluntariness dimension	Actions not prescribed by law	'based on ethical values' 'beyond legal obligations' 'voluntary'

Source: Dalthrud Alexander "How Corporate Social Responsibility is Defined: an Analysis of 37 Definitions" John Wiley & Sons, Ltd and ERP Environment, 2006, PDF file

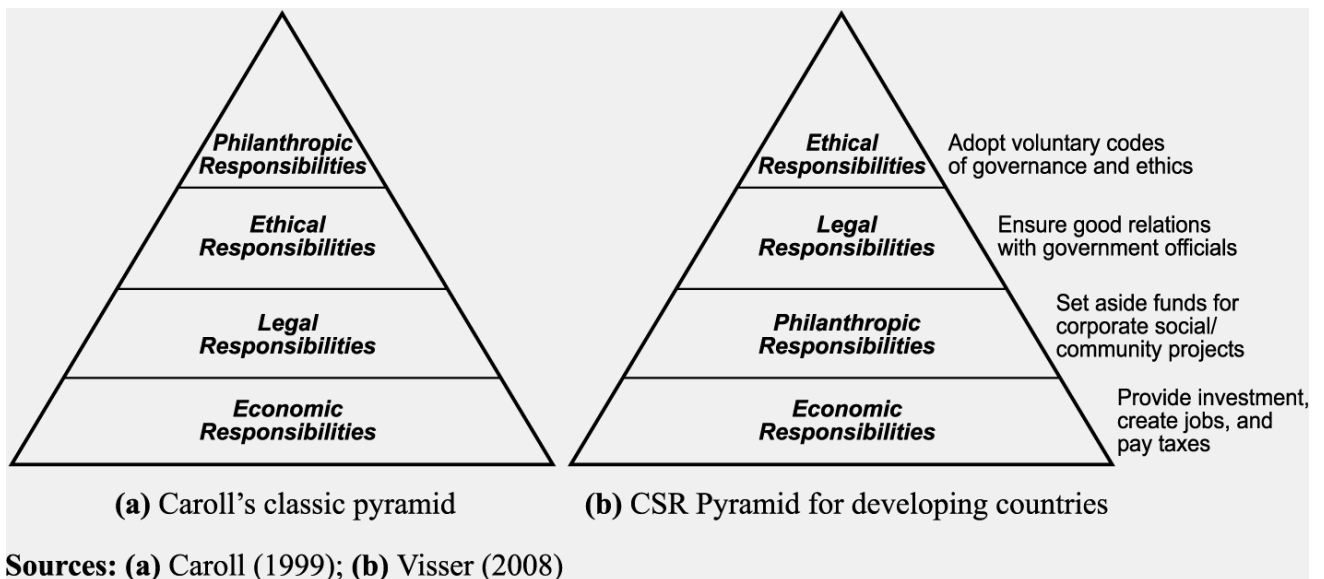
Table2. CSR landscape

Source: McElhaney Kellie, Just Good Business, Berrett-Koehler, November 1, 2008

WORLD	Transform multiple industries.			
INDUSTRY	Transform an industry.			Take responsibility for our full impact (social, environmental, economic).
INDUSTRY	Be a beacon to others.		Develop codes of conduct for the industry.	
COMMUNITY	Be a good neighbor.		Innovate and demonstrate restorative business practices. Influence the industry indirectly, by example.	Take responsibility for adjacent industries.
COMMUNITY	Give something back.			Build strong coalitions to effect and enforce them.
COMPANY	Run a good business	Provide access to tools/product. Disaster relief.	Support local communities (philanthropy, direct programs, employee matching & volunteering.) Reduce waste, consumption and emissions.	
	COMPANY	COMMUNITY	INDUSTRY	WORLD

Table 3.

Carroll's classic pyramid on Corporate Social Responsibility & CSR Pyramid for developing countries



Source: Nicolas J.F. Ragodoo, (2009) "CSR as a tool to fight against poverty: the case of Mauritius", Social Responsibility Journal, Vol. 5 Iss: 1, pp.19 – 33

Table 4.

The share of private sector in GDP, in % in 2012.

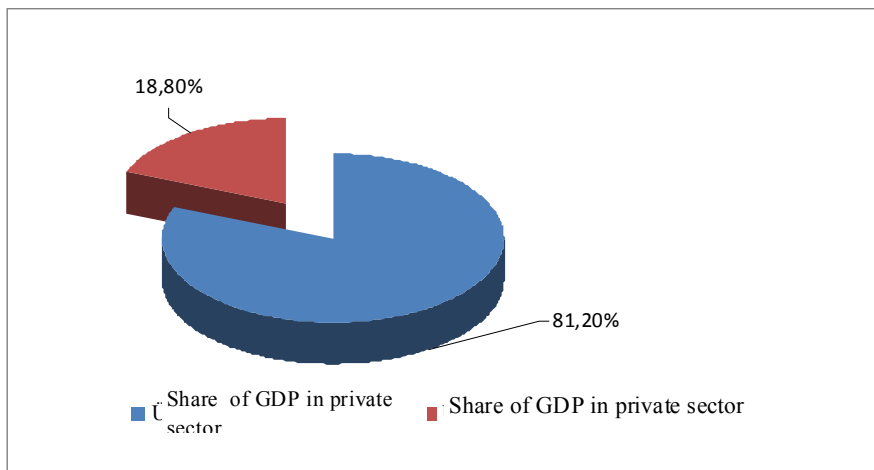
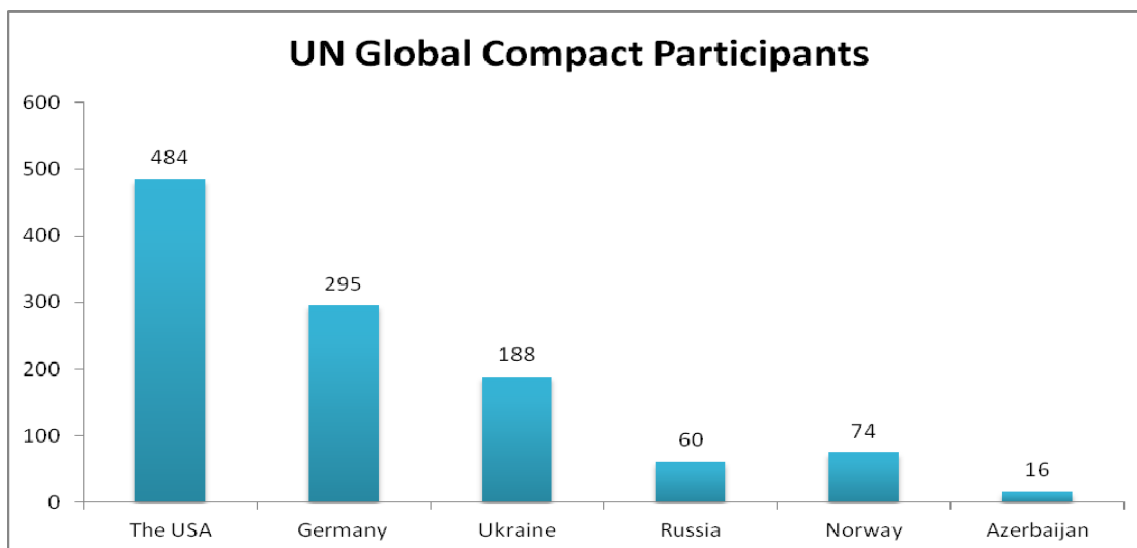


Table 5.

UN Global Compact: Number of Participants & Stakeholders by Countries



Source: UN Global Compact

<http://www.unglobalcompact.org/participants/search>

Table6.

10 Principles of the UN Global Compact

10 Principles of the UN Global Compact		
	Human Rights	Principle 1: Businesses should support and respect internationally proclaimed human rights; and Principle 2: ensure that they are not complicit in human rights abuses.
	Labour	Principle 3: Businesses should uphold the freedom of association and recognize effectively the right to collective bargaining; Principle 4: eliminate all forms of forced and compulsory labour; Principle 5: effectively abolish child labour; and Principle 6: eliminate discrimination in respect of employment and occupation.
	Environment	Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies.
	Anti-Corruption	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

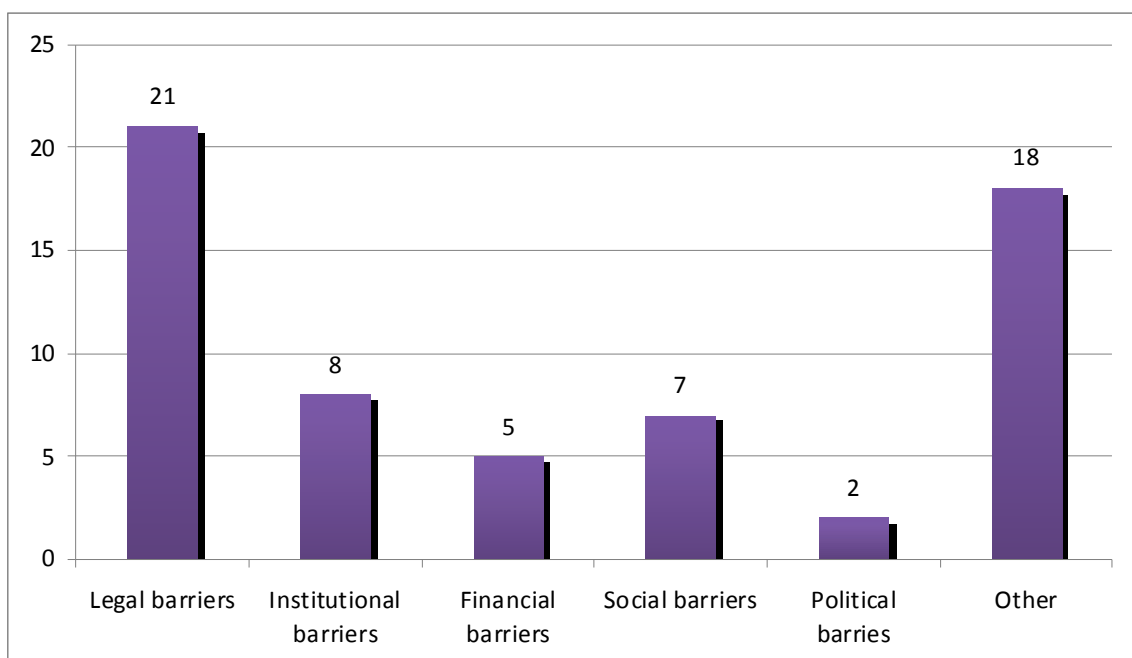
Source: Fuji Xerox, Participation in the UN Global Compact and Practical Implementation

<http://www.fujixerox.com/eng/company/sr/2012/continue/gc.html>

Table 7.

Economic Research Center survey question:

Which barriers do the companies face while making corporate social investments?



Source: Ekspert, 2009

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