



# **THE SOCIAL RESPONSIBILITY OF THE UKRAINIAN BUSINESS**

**Kyiv 2005**



THE EURASIA  
FOUNDATION



**SOCIAL  
RESPONSIBILITY  
OF UKRAINIAN BUSINESS  
RESEARCH RESULTS**

**KYIV 2005**

## 1. Introduction

As the country moves to a market economy and democratic society, Ukraine has to build a platform of dialogue between the government, business and civil society. Corporate social responsibility is a key factor for building such a dialogue. Development of corporate social responsibility reflects the level of partnership between companies, government and main actors of civil society to tackle social problems and foster community development.

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

Our report analyses how the concept of CSR is understood and practiced by the Ukrainian companies, and how Ukrainian managers perceive the major incentives and obstacles for promoting CSR. The report intends to provide a platform for a discussion of CSR issues by policymakers, the corporate sector and civil society in order to enhance the development of new policies that promote best CSR practices among Ukrainian companies.

Four survey reports of empirical studies of CSR in Ukraine are worthy of mention so far. The first one was done by the Charitable Fund "Intellectualna Perspektiva" at the request of the UNICEF Office in Ukraine in July 2002. It addressed the charitable activities of Ukrainian companies in eight regions. The second report was prepared by the Association of Managers in Russia in November 2002, and studied public attitudes towards CSR in Russia, Hungary, the Czech Republic, Poland and Ukraine. The third study was conducted by the Consortium for Enhancement of Ukrainian Management Education in cooperation with the Ukrainian Women's Fund and Innovation and Development Centre in July 2004. It investigated the corporate charity policies of Ukrainian companies. Finally, the study conducted by the Carpathian Foundation in Ukraine addressed the issues of incentives and obstacles of CSR activities.

Our report has benefited from the methodological approaches and research ideas of previous studies. At the same time, it offers a deeper insight to CSR awareness and understanding by the Ukrainian companies compared to previous studies. Our report provides a detailed analysis of internal and external forms of CSR activities of Ukrainian companies with a reference to worldwide declarations of CSR principles. It helps to redirect CSR analysis from a traditional focus on charity toward studying internal social programs of the companies and CSR activities related to customers and business partners. Our report analyses constraints and incentives for CSR activities in Ukraine across firms of different size, sectors and regions, thus creating a broad picture of challenges to be addressed while promoting CSR.

The CSR survey and this report is an initiative of United Nations system in Ukraine in order to provide an empirical study on the latest CSR trend and to use the results as a

baseline for the development of activities to strengthen CSR in the Ukrainian marketplace.

### **Acknowledgments:**

This report is based on the results of the survey of 1221 Ukrainian companies that was conducted for the United Nations Resident Coordinator's Office in Ukraine by Ukrainian Marketing Group.

The report was drafted by the UNDP in Ukraine - Blue Ribbon Analytical and Advisory Centre (BRAAC) staff, Iryna Akimova, Elena Osinkina, and Anna Martsinkiv. The report was edited by Iryna Akimova. The support provided by all members of the UNDP – BRAAC and United Nations Resident Coordinator Office is gratefully acknowledged.

The financial support provided by the United Nations Resident Coordinator Office, UNDP in Ukraine, UNICEF in Ukraine, Ukrainian Mobile Communications, Eurasia Foundation in Ukraine, System Capital Management, ISC-Ukrainian Citizen Action Network and Gestalt Consulting is gratefully acknowledged.

## **2. Survey methodology and sample design**

This report presents the results of a survey of 1221 top managers of Ukrainian companies conducted in October-November 2005 in the six largest cities and oblasts of Ukraine (namely Kyiv, Kharkiv, Lviv, Dnipropetrovs'k, Donetsk, and Odessa) by personal interview. The survey was preceded by 10 in-depth interviews that helped to make necessary adjustments to the research methodology.

To allow meaningful statistical estimates of the main CSR indicators across the enterprises of different size and types of ownership as well as in different sectors we used quote sample as opposed to random sample<sup>1</sup>. Therefore certain groups of enterprises (e.g. large enterprises, firms in banking sector) were significantly over-sampled (see Tables 2). The sample was selected by the following criteria:

1. city (or oblast for agricultural industry) – 6 cities
2. industry type - 10 industries
3. company size – 3 size groups, i.e. small, medium-sized and large companies.

The distribution of enterprises across the regions and sectors in our sample generally corresponds to their distribution in the population of 2004. Within each sector the total number of enterprises is equally divided into 3 size groups (small, medium-sized and large). 92% of companies in the sample are private and 8% of the firms belong to the state sector. The sample characteristics are presented in table 2.1

---

<sup>1</sup> In the representative sample we would survey only 10 banks or financial business companies (using statistics from the year 2004). Analyzing these 10 companies gives us data with 30.9% sample error. This sample does not allow statistically valid analysis of such small groups of companies. Using quoted sample we surveyed 100 banks or financial business companies, which allows analysis with 9.8% of sample error

**Table 2.1 Sample characteristics**

<b>Enterprise size</b>	<b>Percent in total sample</b>
To 50 people	37.0
From 50 to 250 people	33.3
From 251 to 500 people	20.1
More than 500 people	9.7
<b>Industry type</b>	
Farming industry	8.1
Consumer goods production	12.3
Industrial goods production	8.8
Construction	8.5
Finance services, banking services	8.6
Trade, commerce	17.3
Transport	7.6
Communication	7.7
Personal services and public utilities	12.0
Other services (the mass media, consulting, legal services,	9.0
<b>Region</b>	
1 Kiev	21.5
2 Lvov	14.5
3 Dnepropetrovsk	13.3
4 Donetsk	19.7
5 Odessa	15.0
6 Kharkiv	16.0
<b>Ownership type</b>	
State	9.3
Private , one owner	36.4
Private, several owners	28.9
Stock company	25.5

**Enterprise selection and identification of respondents**

The enterprises were selected randomly from the list of companies in the Ukrainian Yellow Pages using selection criteria developed for each oblast.

For appropriate selection of respondents the questionnaire contains a screener with the list of managerial positions for respondents eligible for the interview (top management of companies or heads of appropriate departments). The potential respondent was required to be competent (at least at the level of 70%) on the

environmental issues (if applicable to the company), public relations (if applicable to the company), internal relations with employees (obligatory) and policy towards clients and business partners (obligatory).

### **Response rate**

Response rate is about 46%, i.e. 2654 companies were contacted in order to receive 1221 answers. This is an acceptable response rate for business research.

### **Sample criteria**

#### **a) Region**

The six most industrialized regions of Ukraine (Kyiv, Kharkiv, Lviv, Dnipropetrovs'k, Donetsk, and Odessa) were chosen for interviews. These regions represent 51% of Ukrainian enterprises, producing two thirds of the national GDP, and therefore might be referred to as "Industrial Ukraine". The choice of regions was driven by the fact that CSR is a new phenomenon for the Ukrainian corporate environment; therefore it is more likely that CSR practices are concentrated in economically advanced areas of Ukraine.

#### **b) Sectoral distribution (industries)**

We used the following aggregated sectors

- Agriculture
- Industrial production of consumer goods
- Industrial production of industrial goods
- Construction
- Finance and banks
- Commerce
- Transport
- Communication
- Personal services
- Other services (consulting, restaurants, advertising etc.)

#### **c) Size**

Size groups were defined using the number of employees as a basic criterion, i.e. small enterprises that employ less than 50 employees, medium-size firms with 50-250 employees, and large enterprises with more than 250 employees. In the report, we sometimes distinguish between two categories of large enterprises (with 251-500 vs. more than 500 employees) in order to provide deeper insight of variations across the size groups.

### **Sample errors and limitations**

A limitation of this research (bias) comes from the sample design. Firstly, it captures only the 6 most industrialized cities and oblasts of Ukraine, and we can only speculate

about the CSR situation in the less industrialized parts of the country. Secondly, a quota sample by its nature is not representative for its general totality of 6 oblasts; representation of data is gained only after weighting; representative weighted data limits the possibilities of analysis because of the small number of cases in some categories (e.g. banking services). Also quotas by themselves only reflect quotas of general totality, but they are not representative of them. The sample error for the representative sample (6 cities) of 1200 respondents, received after data weighting, is about 2.82%. Sample error is not calculated for the quoted sample, as it is a non-random sample.

### Data analysis

Data analysis in this report was done using a weighed data set. In the questionnaire we had a lot of multiple response questions; therefore the percentage totals occasionally exceed 100% in the text of this report.

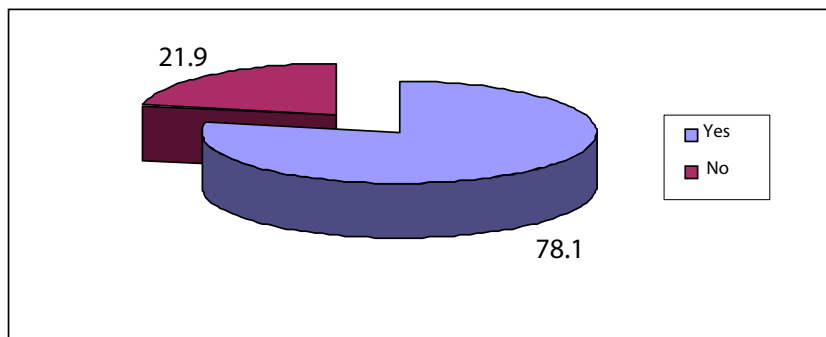
## 3. Understanding and attitude of Ukrainian companies to CSR

### 3.1 Awareness about CSR concept

The majority of surveyed Ukrainian companies (78.1%) know about CSR in business (see Graph 3.1). Even though above mentioned level is relatively high, we cannot infer that CSR practices are widely known in Ukraine, as every fifth enterprise in Ukraine is not aware about this widely known world practice.

As demonstrated, research results awareness about the notion of CSR does not correlate to company size. A similar number of large, medium and small enterprises responded positively to the question “Have you heard about the concept of business social responsibility?” (79.2%, 78.5% and 78.1% respectively). Company’s awareness of CSR is not correlated with ownership either. Stock companies are slightly ahead of state companies, private with several owners and private with one owner (91.5%, 88%, 78.5% and 74.8% respectively).

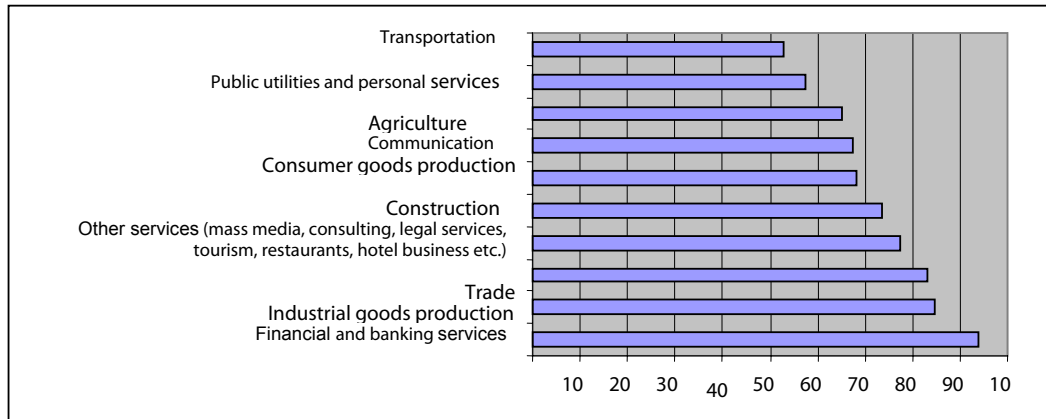
Graph 3.1 Awareness about CSR concept, (% of enterprises)



Less awareness about social responsibility of business is typical for such industries as transport and personal services and public utilities – 52.9% and 57.5% respectively.

Greatest awareness of the CSR concept is seen in companies in the financial sector (94%), industrial goods production (84.5%) and trade (83.2%) (see Graph 3.2.).

**Graph 3.2 Awareness about CSR concept by industry (% of enterprises)**



Considerable differences are observed in the regional breakdown (see Table 3.1.). Compare Kyiv, where awareness about social responsibility was indicated by 90.7% of surveyed companies, to Lviv and Donetsk, where only 62.9% and 61.5% respectively were aware of CSR.

**Table 3.1 Awareness about CSR concept by region (% of enterprises)**

	Kyiv and oblast	Lviv and oblast	Dnipropetrovs 'k and oblast	Donetsk and oblast	Odessa and oblast	Kharkiv and oblast
<b>Heard about CSR concept</b>	90.7	62.9	77.1	61.5	72.6	73.6

It worth mentioning that lack of awareness about CSR does not mean that a company does not carry out any CSR activities. Correspondence between awareness level and actual CSR activities carried out by the company is analysed in greater detail in chapter 4.

### 3.2 Understanding of CSR by Ukrainian companies

What is the understanding of CSR by Ukrainian companies? To answer this question, respondents were offered a choice of fifteen assertions about CSR. The highest figures among responses about companies' understanding of CSR were: introduction of social programs aimed at improving the labour conditions for employees (65.5%), staff development and training (63.2%), charity help to community (56%), and ethical dealings with customers (49.5%) (see Table 3.2.).

This research data does not correspond to existing public opinion that CSR is mainly charity. This change of accents towards internal social programs directed on employees can be considered as peculiarity of CSR development in Ukraine. As a form of business social responsibility it was recognized by 786 companies out of total 1221 surveyed companies. One of the possible explanations of this situation can be the high dependency of Ukrainian companies' success on the efficiency of their employees and their loyalty to their companies. In spite of the unemployment in Ukraine, companies have great need in qualified and professional work forces.

**Table 3.2 Components of CSR concept (% enterprises)**

<b>CSR forms</b>	<b>%</b>
<b>Introduction of social programs aimed at improvement of labour conditions for employees</b>	65.5
<b>Staff development and training</b>	53.2
<b>Charity</b>	56.0
<b>Ethical attitude to customers</b>	49.5
<b>Participation in regional development programs</b>	32.3
<b>Realization of ecological projects</b>	29.8
<b>Policies of stakeholders rights observance</b>	20.8
<b>Accessibility of information about companies' activities to the public</b>	18.7

About one third of all surveyed companies consider CSR participation in the regional development programs and carrying out ecological projects. Interestingly, one fifth of surveyed companies regard accessibility of information about companies' activities to the public as CSR activity. Moreover, this opinion is held mostly by the large companies (21.8%). However, this is rather small indicator taking into account that among large companies majority are open stock companies whose disclosure of information has to be the business practice.

A responsible attitude to the environment did not become a well recognized necessity in the system of company's social policy either. Less than one third of all companies (29.8%) mentioned realization of ecological projects as a form of social responsibility. This is indirect evidence that in the majority companies do not feel socially responsible for solving ecological problems.

A considerable number of companies in Kyiv, Lviv and Dnipropetrovs'k understand social responsibility as an improvement of labour conditions for employees, introduction of social programs for employees, development of workers and practicing principles of ethical and responsible attitude to customers (see Table 3.3.). Business structures in Kyiv demonstrated somewhat higher awareness about possible forms of social responsibility compared to enterprises in other regions. Nevertheless in

Dnipropetrovs'k and oblast 28.8% of companies consider accessibility of information about company's activity to the public to be a form of responsibility of business. In this very oblast 38.9% of companies consider participation in regional development programs to be CSR. Therefore, we can conclude that in Dnipropetrovs'k city and oblast companies share the idea about the importance of business participation in social-economic wellbeing of the region.

**Table 3.3 Components of CSR concept by regions (% enterprises)**

	<b>Kyiv and oblast</b>	<b>Lviv and oblast</b>	<b>Dnipropetrovs'k and oblast</b>	<b>Donetsk and oblast</b>	<b>Odessa and oblast</b>	<b>Kharkiv and oblast</b>
<b>Introduction of social programs aimed at improvement of labour conditions for employees</b>	71.5	66.0	63.0	49.4	64.6	66.5
<b>Staff development and training</b>	76.3	62.8	63.4	40.6	49.1	54.9
<b>Charity</b>	65.6	57.2	46.2	57.8	45.4	37.9
<b>Ethical attitude to customers</b>	60.6	47.8	44.3	25.4	46.6	49.1
<b>Participation in regional development programs</b>	36.4	20.2	38.9	29.4	21.8	33.6
<b>Realization of ecological projects</b>	32.3	36.8	43.2	16.6	17	25.0
<b>Policies of stakeholders rights observance</b>	26.5	20.1	21.8	10.8	15.2	16.2
<b>Accessibility of information about companies' activities to the public</b>	23.1	21.7	28.8	5.2	8.5	13.3

There were no considerable differences observed with regard to what is business social responsibility between enterprises of different ownership types (see Table 3.4.). Among state companies percentage of those which consider accessibility of information about companies' activities to the public was smaller (15%) comparing to enterprises of other ownership types. On the contrary, a considerably higher number of state enterprises believe that realization of ecological projects is CSR. This number – 78.2% - is substantially different from the indicator of companies with several owners (33.0%), of stock companies (28.5%) and companies with one owner (25.4%). Such obvious discrepancies demonstrate that taking care of the environment in Ukrainian society mostly rests 'on the state's shoulders'.

**Table 3.4 Components of CSR concept by ownership type (% enterprises)**

	State	Private, one owner	Private, several owners	Stock companies
Introduction of social programs aimed at improvement of labour conditions for employees	76.9	62.7	71.4	59.2
Staff development and training	78.8	61.7	65.8	58.2
Charity	62.4	62.6	42.7	57.5
Ethical attitude to customers	35.2	47.2	60.3	34.6
Participation in regional development programs	59.1	29.4	32.5	39.1
Realization of ecological projects	78.2	25.4	33.0	28.5
Policies of stakeholders rights observance	29.3	13.8	23.7	47.5
Accessibility of information about companies' activities to the public	15	18.8	16.5	26.4

Large companies with more than employees mention improvement of labour conditions for employees much more often than small and medium companies (83.7% and 65.5% respectively, Table 3.5.).

**Table 3.5 Components of CSR concept by enterprise type (% enterprises)**

	Less than 50 people	between 50 to 250 people	between 251 to 500 people	above 500 people
Introduction of social programs aimed at improvement of labour conditions for employees	65.6	63.5	60.6	83.7
Staff development and training	63.7	55.4	58.8	63.3
Charity	55.9	56.8	59.3	61.8
Ethical attitude to customers	50.0	43	45.7	49.6
Participation in regional development programs	31.8	37.2	41.8	64.0
Realization of ecological projects	28.9	39.5	42.9	55.5
Policies of stakeholders rights observance	20.2	26.4	29.9	41.4
Accessibility of information about companies' activities to the public	18.9	14.3	22.3	20.4

### 3.3 Attitude of Ukrainian companies to CSR

#### Does business have to take part in solving social and ecological problems or is this purely a State function?

Classic formulation of CSR problems, which clarifies company's attitudes to participation in solving social issues, demonstrated that Ukrainian companies are more inclined to put responsibility for society on the state. 48.8% of companies agreed with the statement that solving Social problems is a State institutions function and business has only to provide stockholders with profit and pay taxes. Among them 17.2% absolutely agree and 31.6% rather agree. This is higher than the percentage of those who do not agree with such a statement. Only 32.7% of companies think that business has to take part in solving the social and ecological problems of society (only 11.8% of companies absolutely agree). On the one hand this can reflect resentment in the society (particularly in the business environment) with the fact that state services do not correspond to the expectations in solving social and ecological problems. On the other hand this can be evidence that the CSR concept is not as recognized and popular in Ukraine as it is in the countries with a developed market economy, and CSR itself has not become recognized and a conscious business practice yet.

The highest figures for the number of advocates of the view that social problems are the State's responsibility are in Kharkiv, Lviv and Dnipropetrovs'k (see Table 3.6). More businesses in Lviv (30.5%) are convinced that businesses have to pay taxes and increase income for their stakeholders. This is higher than in Kyiv by 15.8%. Table 3.6 demonstrates that over half (50.1%) of respondents for Lviv and oblast 'Completely agree' and 'Rather agree'. For Dnipropetrovs'k this total indicator is 46.1% and for Kharkiv - 69.9% (see Table 3.6.).

**Table 3.6 Attitude to CSR by regions (% enterprises)**

Response categories	Social problems solution is a State institutions function and business has only to provide stockholders with profit and pay taxes					
	Kyiv and oblast	Lviv and oblast	Dnipropetrovs'k and oblast	Donetsk and oblast	Odessa and oblast	Kharkiv and oblast
<b>Rather agree</b>	27	19.6	19.2	44.1	46.2	46.0
<b>Completely agree</b>	14.7	30.5	26.9	7.3	5.1	23.9
<b>Not sure</b>	21.8	20.1	15.1	15.7	11.7	17.9
<b>Rather disagree</b>	27.8	17.8	17.2	17.9	17.8	9.6
<b>Completely disagree</b>	8.6	12.0	21.6	14.9	19.2	2.6

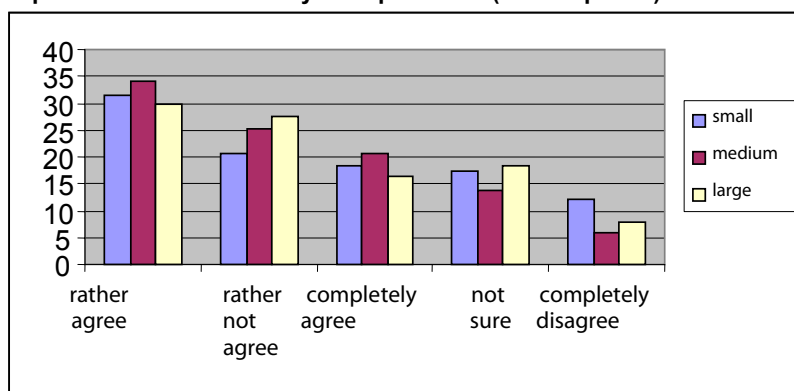
It worth mentioning that the number of enterprises which think that business has to take a part in solving the social and ecological problems of society is much higher among companies of state ownership compared to private enterprises (Table 3.7).

**Table 3.7 Attitude to CSR by type of ownership (% enterprises)**

	Social problems solution is a State institutions function and business has only to provide stockholders with profit and pay taxes				
	State	Private, one owner	Private, several owners	Stock companies	Total
<b>Rather agree</b>	8.7	36.8	25.6	28.0	31.6
<b>Rather disagree</b>	4.2	21.1	23.8	16.2	20.9
<b>Completely agree</b>	5.5	15.5	25.7	18.3	18.6
<b>Not sure</b>	25.2	14.9	16.5	29.6	17.2
<b>Completely disagree</b>	56.4	11.6	8.4	8	11.8

The view that solving Social problems is a State institutions function is equally typical for large and small enterprises. In Graph 3.3 we see almost the same attitude to this problem by enterprises of different size.

**Graph 3.3 Attitude to CSR by enterprise size (% enterprises)**



**To what degree is it necessary for the company to be engaged in solving social and ecological problems, i.e. to be socially responsible?**

53.9% of respondents think that every company has to take part in such activities (Table 3.7.). About 42% of companies consider that programs of social and ecological responsibility are optional. Only about 4.4% of enterprises think that it is not necessary for companies to carry out any CSR activities at all.

This demonstrates the degree of concern businesses have for solving social problems in the society, and the degree to which they recognise the purpose of participating in

solving these problems. Despite the fact that 48.8% of companies think that solving Social problems is solely a State institutions function, only 4.4% of enterprises expressed the opinion that business participation in solving social problems does not make any sense. We can infer that business would prefer the State to play the significant role in solving social problems, but after taking into account the situation of the Ukrainian economy and derivative problems of budget financing, companies understand the importance of their role in overcoming obstacles of social character by way of society development.

In all surveyed regions considerable differences were observed in the number of those companies which consider that CSR is the responsibility of every company and those which perceive CSR as an activity that does not have any purpose. The biggest difference was observed in Kyiv – 58.4% and 3.3% respectively. The smallest difference was in Kharkiv - 38% and 3.5%. There were no considerable regional differences in the ratio of companies which think that CSR is responsibility of everybody and those who think that CSR activities are purely voluntary. Kharkiv was the only city where the number of companies which think that CSR activity needs to be carried out only by those who want to do it outweighed those who think that CSR is responsibility of every company.

The results for this question are similar among companies of different sizes. It is worth mentioning that among large enterprises with more than 500 employees the percentage of enterprises which think that CSR is responsibility of every company is higher (73.7%) than the average value among all surveyed companies (53.9%). This is related to the fact that the CSR concept occupies an important place in the segment of representatives of big business.

The majority (90.6%) of state-owned enterprises consider that CSR activity has to be carried out by each company (see Table 3.8.). This indicator is much higher than the same for private enterprises (52.3%).

**Table 3.8 Attitude of companies to the idea of taking part in solving social and ecological problems by ownership types (% enterprises)**

	State	Private, one owner	Private, several owners	Stock companies	Total
<b>Socially responsible activities have to be carried out by each company</b>	90.6	52.3	50.2	62.1	53.9
<b>Socially responsible activities are only for those companies which want to be engaged in such activities</b>	8	43.8	43.4	36.1	41.7
<b>There is no sense in solving social and ecological problems by business at all</b>	1.4	3.9	6.4	1.8	4.4

## Summary

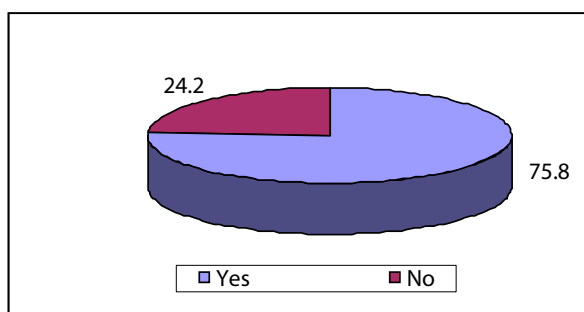
- The majority of surveyed Ukrainian companies know about the social responsibilities of business.
- The largest share of companies consider CSR to be the introduction of social programs aimed at improving labour conditions for employees, staff development and training, charity help, and an ethical attitude to customers. These results do not agree with the existing public view that CSR is associated first of all with charity. While developing a CSR concept in Ukraine there is a tendency to pay more attention to internal social programs directed to employees.
- Almost half of Ukrainian companies think that solving Social problems is a State institution's function and business should provide stockholders with profits, and pay taxes. This reflects the resentment in society (particularly in the business environment) on how state services carry out their duties regarding social development. Also this is evidence that the CSR concept is neither well recognized nor popular in Ukraine yet.
- Despite high expectations regarding the state carrying out its social responsibilities, the majority of enterprises think that it is necessary to solve social problems in society and realize the importance of taking a role.

## 4. CSR practice in Ukraine

### 4.1 Do Ukrainian companies carry out CSR activities?

Three quarters of companies reported practicing CSR activities (we will refer to them as doers) and one quarter reported not doing so (we will refer to them as non-doers) (Graph 4.1).

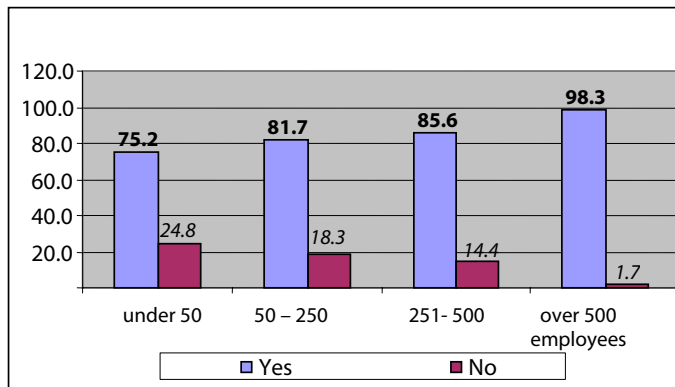
Graph 4.1 Practicing CSR activities (% of companies)



Enterprise size is the best predictor of whether the enterprise practices CSR: the more employees work at the enterprise the more likely that company is to practice CSR (Graph 4.2). Thus, almost all enterprises (98.3%) with more than 500 employees

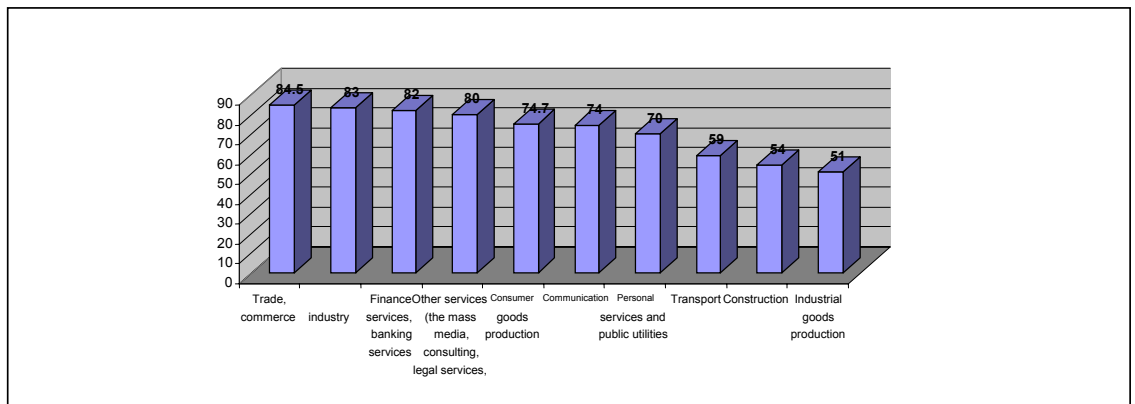
practice CSR comparing to 75.2% of enterprises with less than 50 employees. Correspondingly, only 1.7% of large enterprises do not practice CSR comparing to a quarter of small enterprises (24.8%) (Graph 6.2).

**Graph 4.2 Practicing CSR activities across enterprise size (% of companies)**



In the industry breakdown we can see that highest percentage of companies practice CSR in the trade and commerce (84.5%), farming industry (83%), and financial services and banking (82%) (see Graph 4.3). The lowest percentage of enterprises practicing CSR is in the construction and industrial goods production sectors.

**Graph 4.3 Practicing CSR activities across industries (% of companies)**



Comparing companies by region the differences are not so great. The highest percentage of companies reported having CSR activities in Lviv 82.2% of companies and Kyiv 78.3%. The smallest percentage of companies practicing CSR is in Dnipropetrovs'k 68.2%.

Enterprises-doers are on average three years older than non-doers (mean age 9.7 years old compared to mean age 7 years old), indicating that experience may drive companies toward CSR.

All companies (99.7%) irrespectively of whether they answered yes (75.8%) or no (24.2%) to the question “Does your company practice activities that could be referred to as socially responsible?” (see Graph 4.1) in the further detailed questions specified particular CSR activities (see Table 4.1). This means that virtually 24.2% of companies undertake CSR activities without being aware that these activities constitute CSR. The same is true about companies that demonstrated lack of knowledge about CSR (please see part 3), but in reality practice CSR as well. This means that real level of understanding of the concept of CSR is far from being as high as companies declare.

To evaluate the intensity of practicing CSR we introduced a general index of the number of CSR activities, which is the sum of four indexes (each of them was calculated by adding up the activities of companies in each of four CSR directions respectively): index of community CSR activities, index of workplace (employees) CSR, environmental CSR activities, and marketplace CSR activities. Descriptive statistics of all indexes is provided in the Table 4.1. Values in the general index range from 1 to 27. The mean equals 7.5, which demonstrates that the intensity of CSR activities on average is not very high.

**Table 4.1 Descriptive characteristics of general index of number of CSR activities and four composing indexes, % of enterprises, which carry out CSR activities by each index**

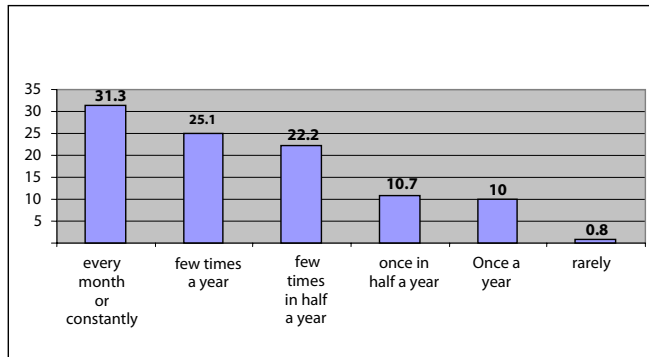
	Mean	Minimum	Maximum	N	% companies
<b>General index of number of CSR activities</b>	7.5	1	27	1196	99.7
<b>Index of community CSR activities</b>	2.0	1	8	800	66.7
<b>Index of workplace CSR activities</b>	4.3	1	11	1170	97.5
<b>Index of environmental CSR activities</b>	1.3	1	4	619	51.6
<b>Index of marketplace CSR activities</b>	1.5	1	4	1084	90.3

Interestingly, the mean difference between “doers” (those who declare practicing CSR activities) and “non-doers” (those who declare that they do not practice CSR activities) is less than a factor of 2 (8.38 and 4.74 respectively).

**What is the frequency of CSR activities?**

It appears that about 78% of companies carry out CSR activities at least a few times a year. One third of companies carry out CSR activities constantly, one fifth (22.2%) of all companies undertake CSR activities a few times in each six-month period, and a quarter (25.1%) of all companies carry out such activities a few times a year (see Graph 4.4).

**Graph 4.4 Frequency of CSR activities (% of enterprises)**



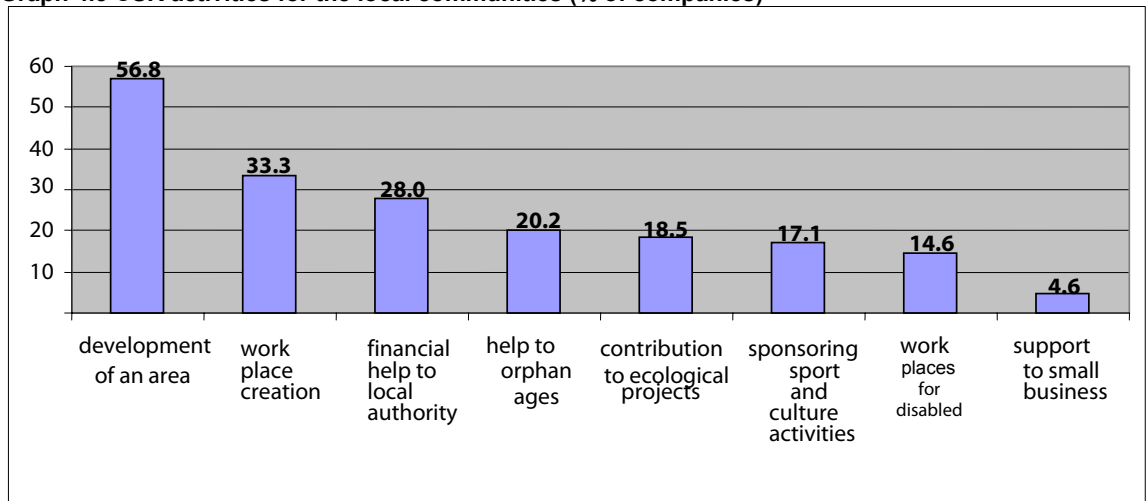
Let's look in greater detail at CSR activities in all four directions: responsibility in the community (charity), CSR at the workplace, CSR environmental activities, and CSR at the marketplace.

#### **4.2 CSR activities in the community**

More than half (66.7%) of all companies help their local community to develop, and on average carry out 2 activities per company (see Table 4.1). Among those companies that now help local the community, the majority do so through developing an area (56.8%), work place creation (33.3%), or through financial help to the local authorities in solving various social problems (28%). The least popular form of help is creating workplaces for the disabled (14.6%) and support to small businesses (4.6%) (see Graph 4.5). Contributions to ecological projects and sponsoring culture and sport activities (18.5% and 17.1% respectively) are relatively insignificant. An insignificant number of companies (less than one percent) named other SCR activities in the community, which were not included in the questionnaire.

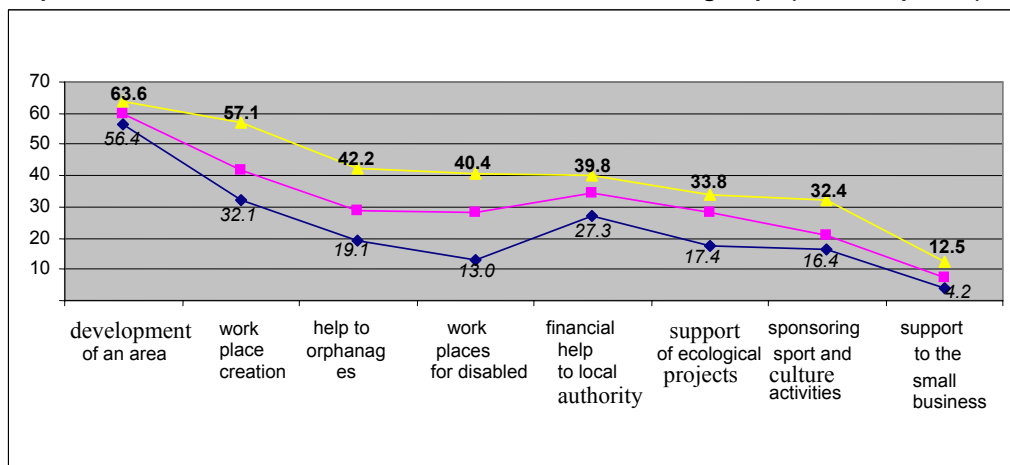
Considerable differences are found in the level of participation among companies of different sizes in developing their local communities. Large companies are two to three times more active, compared to the small companies which are engaged in developing their local communities (see Graph 4.6.). This is not surprising as large companies have more financial resources available. On average, large enterprises carry out 3.3 activities, compared to 2.5 for medium and 1.9 for small.

**Graph 4.5 CSR activities for the local communities (% of companies)**



By industry, the largest percentage of companies that help local community is in agriculture (81.8%). Least active are transport companies, 55.4% of which do not help their communities. Among industries the largest share of enterprises carry out the following CSR activities in agriculture: financial help to local authority (47.9%), provide working places for disabled (31.3%), sponsor sport and culture activities (35.1%), and support ecological projects (38.7%).

**Graph 4.6 CSR activities for the local communities across size groups (% of companies)**



The largest share of enterprises is active in the area of development in manufacturing consumer goods (88.5%) and help to orphanages (46.6%). The financial sector is most active at work place creation (54.9%) and in support of small business (35.4%). The largest average number of CSR activities per enterprise is observed in agriculture

(2.7) and in manufacturing consumer goods (2.6), the smallest number of activities per enterprise is in industrial goods production (1.5) (see Table 4.2).

**Table 4.2 Mean Index of CSR activities in the community by industry (% companies)**

Branches of economy	Mean
Agriculture	2.7
Manufacturing of consumer goods	2.6
Public utilities and personal services	2.3
Transport	2.0
Other services (mass media, consulting, legal services, tourism, restaurants, hotel business etc.)	2.0
Construction	1.9
Trade, commerce	1.9
Communication	1.8
Financial and banking services	1.8
Manufacturing of industrial goods	1.5

Comparing enterprises by region, Donetsk (76.5%) has the most active companies helping in the development of their local communities, while Kharkiv has the least active enterprises, where 60.5% of enterprises do not take part in realization of regional projects. Thus, Odessa is leading in area development (72.6% of enterprises) and help to orphanages (39.2%) (Table 4.3); Kyiv (40.8%) and Kharkiv (41.4%) are number one in work place creation, and Donetsk has the highest number of enterprises cooperate with local authorities in solving social programs (39.4%) and Dnipropetrovs'k (38%) is almost as high; Lviv has the most enterprises sponsoring sport and cultural activities (30.2%).

**Table 4.3 CSR activities in the community by regions (% enterprises)**

	Kyiv and oblast	Lviv and oblast	Dnipropetrovs'k and oblast	Donetsk and oblast	Odessa and oblast	Kharkiv and oblast
Financial help to local authority	31.3	9.9	38.0	39.4	10.5	14.4
Work place creation	40.8	13.7	26.2	30.9	26.5	41.4
Work places for disabled	13.1	5.3	28.5	10.1	18.9	17.0
Support of ecological projects	17.5	14.4	23.9	20.4	10.0	28.3
Sponsoring sport and culture activities	14.5	30.2	16.6	12.3	20.9	20.7
Development of an area	58.2	65.2	36.8	56.1	72.6	52.4
Help to orphanages	28.7	2.8	15.3	6.1	39.2	7.3
Support to the small business	4.6	5.6	5.4	0.8	2.3	12.5
Average number of activities	2.1	1.5	1.9	1.8	2.1	1.9

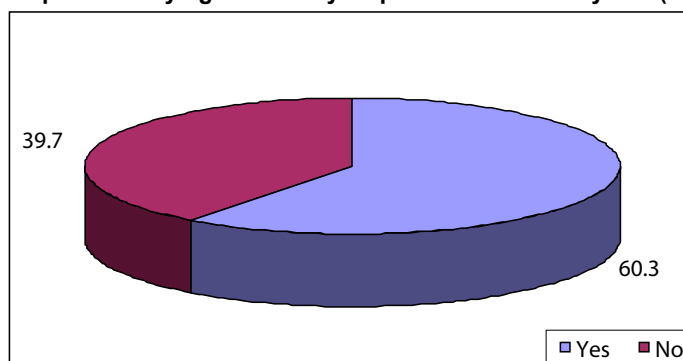
The highest number of CSR activities per enterprise is carried out in Kyiv (2.1) and Odessa (2.1), while the smallest number of CSR activities occurs in Lviv (1.5). Differences are also observed between enterprises of different ownership types. This is mostly true about financial help to local authorities in realization of social programs,

in which state enterprises are involved twice as much compared to enterprises of other ownership types (64.2%).

### 4.3 Charity help

For the last three years charity help was provided by 60.3% of the total number of companies (see Graph 4.7.). Large enterprises are most active in providing charity help (83.1%), although medium and small enterprises also participate quite actively (73.4% and 59.1% of enterprises respectively). The regions most actively engaged in charity activities are Lviv (75.9%) and Odessa (73.5%). The volume of charity help grew for the last three years for 37.9% of companies, did not change for 58.3% of companies, and decreased for 3.7% companies. The volume of charity help increased mostly in large enterprises (55.5%), and somewhat less in small enterprises (47.7%).

**Graph 4.7 Carrying out charity help for the last three years (% enterprises)**



Help to children is considered the most important sphere of charity help (21.5%), the second most important is health care (23.2%) and the third is help to the disabled, elderly, and miserable. Science and culture are at the bottom of the list (Table 4.4).

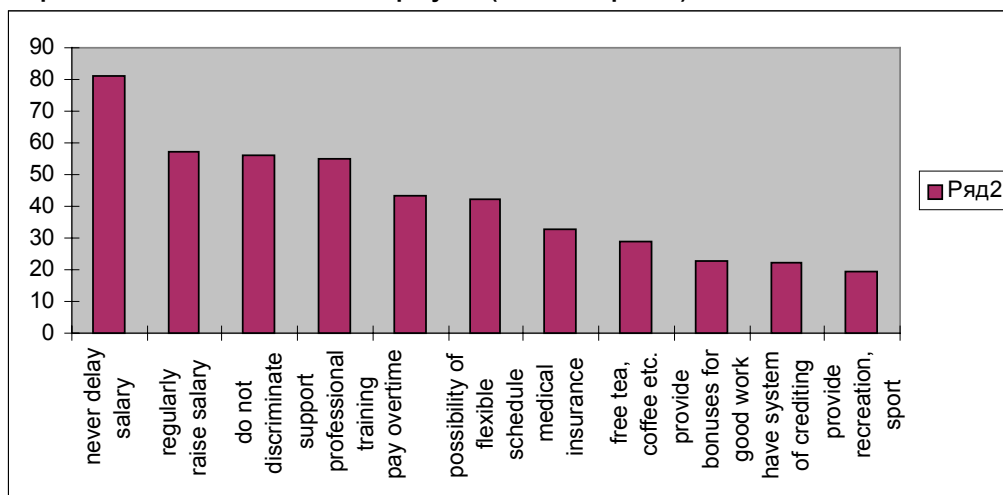
**Table 4.4 Most important spheres of charity help (1, 2 and 3 places, % of enterprises)**

	1 place	2 place	3 place
Help to children	21.5	23	15.4
Healthcare	19.9	23.2	20.1
Help to disabled, elderly, miserable	19.1	20	15
Ecology	11.3	10.2	13.7
Education	8.2	10.2	9.8
Human rights defence	7.2	4.6	8.2
Spirituality / religion	5.6	2.2	4.8
Culture, art	4.1	3.5	7.7
Science	3.1	3.2	5.5

#### 4.4 CSR activities at the workplace (employees)

97.5% of companies carry out on average 4.3 activities towards their employees (see Table 4.1.). Among those who carry out such activities, 81.2% of companies never delay salary, 57.5% regularly raise salary and pay bonuses, 55.9% of enterprises do not discriminate by sex, age, and religious or political views when they employ or promote workers, 55.1% carry out and support professional training of employees (see Graph 4.8.). Less than half of companies pay overtime (43.2%), provide possibility of flexible schedule (42.4%), provide medical insurance and pay in full or partially for health invigoration for their employees (33%).

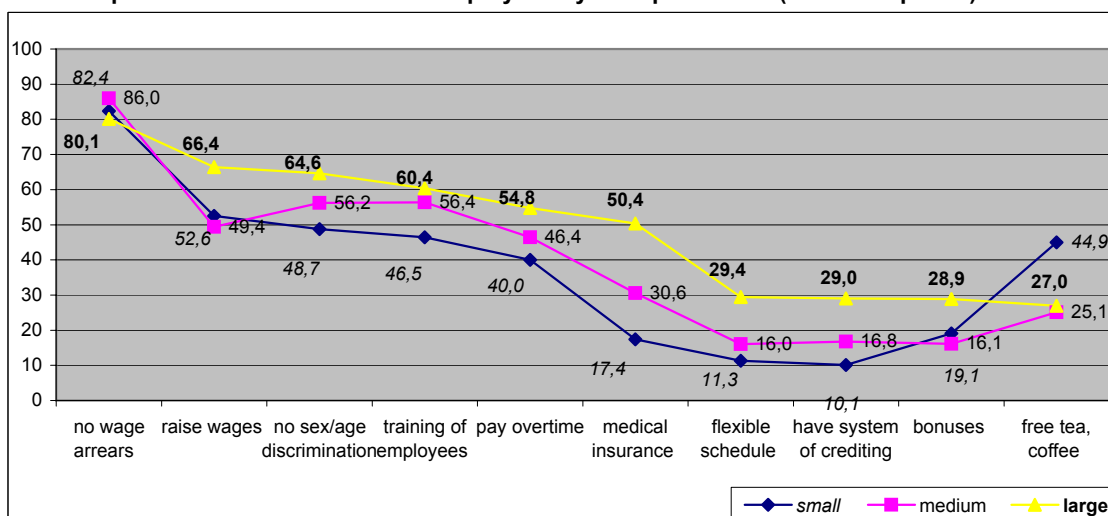
Graph 4.8 CSR activities toward employees (% of enterprises)



As we can see from Graph 4.9 the number of enterprises engaged in CSR activities toward employees differs considerably between enterprise size groups. Compared to small enterprises, large enterprises practice all CSR activities toward employees much more often, with the exception of not delaying salary and free tea and coffee. Large enterprises have on average 5.4 CSR activities compared to medium (4.4) and small (4.2) enterprises.

In a break-down by industry: in the communication industry 72.8% of enterprises raise salaries; in enterprises manufacturing consumer goods 88.4% do not delay salaries, 55.5% pay overtime and 59.3% provide free tea and coffee; more financial services than other industries (40%) have a system of crediting and 68.9% provide professional/career education; agriculture enterprises most often provide medical insurance, and pay in full or partially for health invigoration for their employees (41.9%); least discrimination in employment and career promotion is in finance (59.2%) and construction (58%).

**Graph 4.9 CSR activities toward employees by enterprises size (% of enterprises)**



Taking into account the average number of CSR activities toward employees finance services is in first place (5.2), communication (4.8) and other services (4.7). Manufacturing of industrial goods (3.5), agriculture (3.7) and construction (3.8) have the least number of CSR activities for their employees (see Table 4.5).

**Table 4.5 Mean Index of CSR activities toward employees by industries (% enterprises)**

Industry	Mean
Finance services, banking services	5.2
Communication	4.8
Other services (the mass media, consulting, legal services, etc.)	4.7
Trade, commerce	4.3
Personal services and public utilities	4.3
Consumer goods production	4.1
Transport	3.9
Construction	3.8
Agriculture	3.7
Industrial goods production	3.5

Looking at the results by region, the greatest number of enterprises pay salaries on time in Odessa (93.3%) and Donetsk (92.3%), most frequent salary increases are in Odessa (65.4%), overtime is paid most often in Kyiv (50.7%), and the greatest number of enterprises encouraging professional/career education are in Kharkiv (59.8%) and Dnipropetrovs'k (55.2%) (see Table 4.6). For the average number of CSR activities toward employees, Dnipropetrovs'k is in first place (4.6 activities), followed by Kyiv and Odessa (both 4.5 activities).

**Table 4.6 CSR activities toward employees by regions (% of enterprises)**

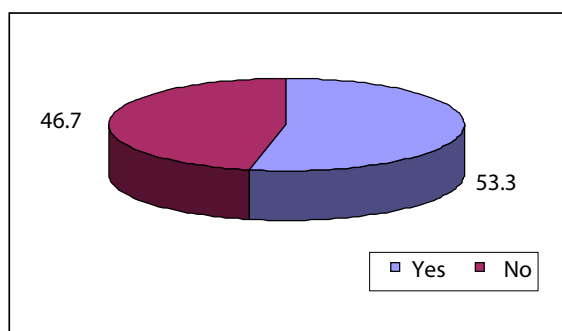
	Kyiv and oblast	Lviv and oblast	Dnipropetrovs'k and oblast	Donetsk and oblast	Odessa and oblast	Kharkiv and oblast
Raise salary regularly and pay bonuses	50.4	50.6	56.3	51.3	65.4	49.8
Never delay salary	78.8	78.5	86.1	92.3	93.3	76.3
Pay overtimes	50.7	25.4	38.5	29.0	45.5	30.3
Opportunity of flexible working hours	13.2	11.1	16.3	4.0	4.1	17.7
Free tea, coffee, etc.	53.0	23.2	50.5	38.5	42.7	26.7
Have system of crediting, money help	10.6	4.7	9.4	13.1	19.0	9.3
Medical insurance	13.8	24.9	26.6	31.0	15.3	9.8
No discrimination by sex, age etc.	52.1	41.8	56.0	30.8	62.1	51.4
Provide professional/ career education of employees	48.6	58.1	55.2	26.2	32.1	59.8
Give extra rewards to good employees	20.3	14.9	22.5	21.8	15.0	14.2
Average number of activities	4.5	3.7	4.6	3.9	4.5	3.8

#### 4.5 CSR environmental activities

Activities of more than half of enterprises (53.3%) are regulated directly by norms of ecological legislature (see Graph 4.10.). This is mostly large (79.8%) and medium (70.8%) enterprises comparing to 51.8% of small. In the industry dimension it is agriculture (78.8%) and industrial goods production (70.5%). In the regional dimension biggest number of such enterprises is in Lviv oblast (67.6%), Dnipropetrovs'k (59.3%) and Kyiv 58.8%.

Those enterprises whose activities are regulated by ecological law are more responsible to environment (advantage of regulatory approach). In retrospective (2002) only 73.1% of companies were responsible to environment comparing to 85.3% in 2005 (see Table 4.7.). Even though this indicator demonstrates some progress it is subjective and therefore can overestimate real level of environmental responsibility.

**Graph 4.10 Companies whose activities are regulated by ecological law (% enterprises)**



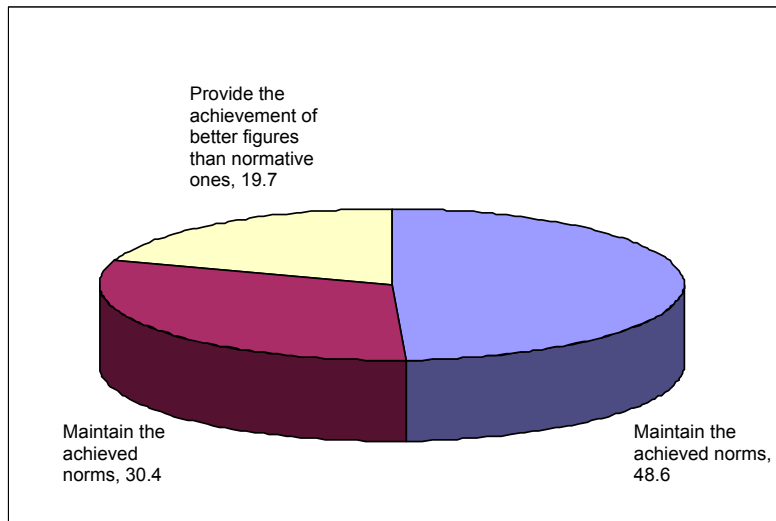
**Table 4.7 Do you consider your company ecologically responsible in the years 2002 and 2005? (% companies)**

	2005 (total)	2005 (those, which are regulated by law)	2002 (total)	2002 (those, which are regulated by law)
<b>Yes</b>	85.3	91.0	73.1	82.8
<b>Difficult to say</b>	11.3	1.7	24.3	1.8
<b>No</b>	3.4	7.3	2.6	7.5

There are no considerable differences in environmentally responsible behaviour between enterprises of different sizes observed. Those industries whose activity is least regulated by ecological law (financial services (94.1%) and other services (93.3%)) consider themselves most responsible. The highest number of enterprises consider themselves ecologically responsible in agriculture (88.9%) and in industrial goods production (77.5%). Comparing activity by region, ecological activities are carried out most often in Lviv (94.7% of enterprises) and Donetsk (91.6 %).

Among enterprises whose activities are regulated by ecological laws only 19.7% aim to reach indicators better than ecological norms, while the rest plan to stay within existing norms (see Graph 4.11.). Agriculture more than other industries plans to aim for indicators better than the norm in the protection of the environment (33.8%). By regional comparison, enterprises aspire to better their ecological indicators in Kharkiv (34.2%) and Kyiv (30.3%) more often than in the other regions.

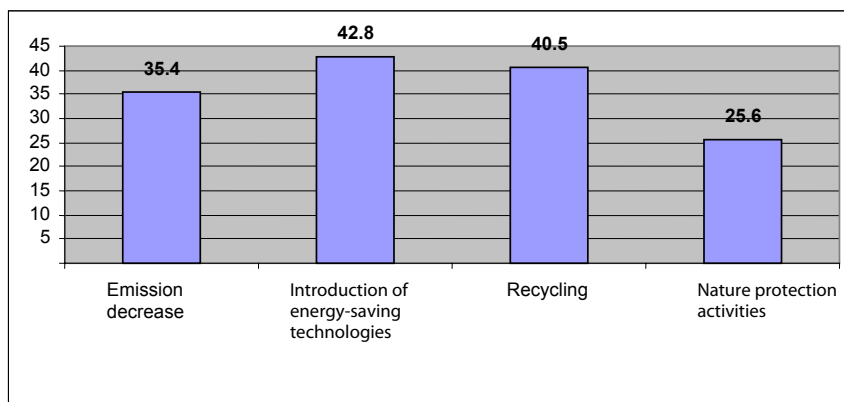
**Graph 4.11 Company's aim in reaching ecological norms (% of companies)**



The figures show that 52% of companies carry out ecological socially responsible activities at an average of 1.3 activities per company. Among companies which carry out ecological activities, most often they introduce energy-saving technologies 42.8% (let's not forget the very expensive prices of energy), and recycling (40.5%), while nature protection activities are least frequently practiced 25.6% (Graph 4.12.).

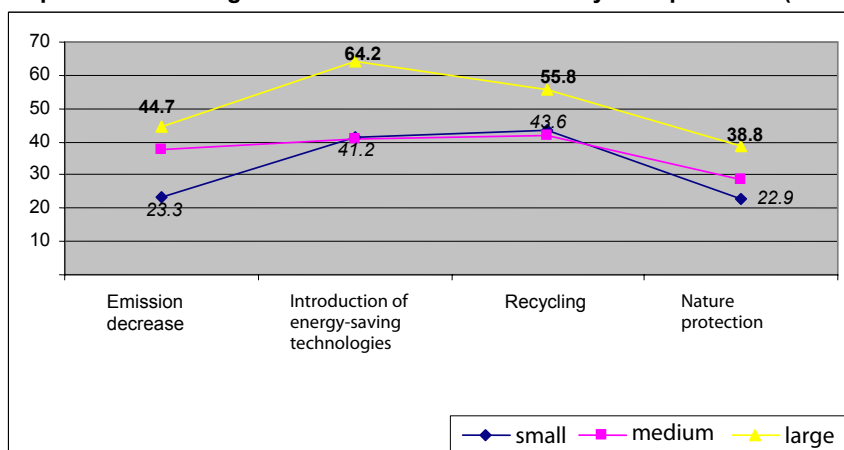
Large enterprises carry out ecological activities more often (see Graph 4.13) than medium and small (on average 2.1, 1.5 and 1.3 respectively). Emission decrease is the biggest concern for the transport industry (81%) and industrial goods production sector (58.1%). Introduction of energy saving technologies is mostly relevant for enterprises producing industrial goods (81.2%) and communication enterprises (66.3%). Recycling is mostly typical for public utilities and personal services (68.5%). Nature protection activities are mostly practiced in the agricultural sector (70.1%). The highest number of environmental CSR activities per enterprise is carried out by industrial goods producers (mean 1.9), public utilities and personal services (1.6) and agriculture (1.6).

**Graph 4.12 Practicing environmental CSR activities (% of enterprises)**



Comparing ecological activities by region, the highest number of enterprises recycle (65.8%) and carry out nature protection activities (49.4%) in Donetsk, while introduction of energy-savings technologies is most popular in Lviv (78%) and Kharkiv (74.1%). The highest number of activities per enterprise are carried out in Kharkiv and Odessa (1.6).

**Graph 4.13 Practicing environmental CSR activities by enterprise size (% of enterprises)**



If a company's product or production process has an undesirable effect on the environment which is not controlled under today's legislation, only 62.3% of companies will invest money to remedy such effect. The percentage of such companies is highest in agriculture (79.3%), followed very closely by industrial goods production (78.2%). Comparing regions, the highest number of such enterprises are registered in Kyiv (72.2%) and Odessa (71%), the smallest number in Kharkiv (34.4%) (see Table 4.8).

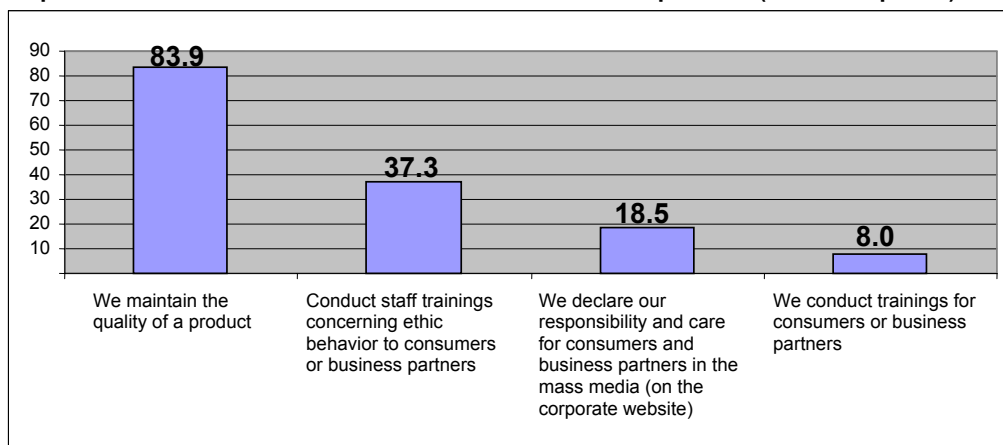
**Table 4.8 Percentage of enterprises that will invest money to remove undesirable effect for environment that is not under today's legislation control caused, by company's product or production process**

	Kyiv and oblast	Lviv and oblast	Dnipropetrovs'k and oblast	Donetsk and oblast	Odessa and oblast	Kharkiv and oblast
<b>Invest money</b>	72.2	56.0	58.5	60.0	71.0	34.4

#### 4.6 CSR activities at the marketplace (customers, business partners)

90.3% of companies carried out CSR activities towards clients and business partners during 2005 (on average 1.5 per enterprise) (see Table 4.1.). Of the surveyed companies 11.8% very often, 32.6% often and 42.9% sometimes paid attention to social responsibility toward clients and business partners. The most popular form of CSR toward customers and business partners is maintaining quality of the product (83.9% of companies), followed by staff trainings in ethics behaviour (37.3%) (see Graph 4.14.).

**Graph 4.14 CSR activities toward customers and business partners (% of enterprises)**



Large companies declare their responsibility and care for customers and business partners more than small companies (31.2% and 18.1% respectively) and carry out training for customers and business partners (16.6% and 7.8% respectively). Additionally, large companies carry out on average more activities per company (1.7) compared to small and medium companies (1.5).

By industry, the financial sector conducts training in ethic behaviour most often (53.8%) and are closely followed by trade (51.5%). Quality of product is the biggest concern for consumer goods producers (95%), companies in agriculture (94.9%) and construction (87%), and least concerned about it are enterprises in the financial sector (39.9%). On average the biggest number of activities per one enterprise is carried out in trade (1.6). The non-financial sector, communication, public utilities and personal services, agriculture and consumer goods producers on average each carry out 1.5 CSR activities.

Companies in Odessa take care about quality of the product and staff ethical behaviour (92.3% and 49.8% respectively), while companies in Kharkiv take least care (62% and 50.4%). The highest average numbers of activities per one enterprise by regions are in Lviv (1.7), Odessa (1.6), and Kyiv (1.5).

## **Summary**

- Despite the fact that almost one quarter of companies think that they do not carry out CSR activities, in the reality almost all companies carry out some CSR activities. A lot of companies carry out CSR activities without being aware of it, which shows that level of CSR understanding is not as high as it is declared by the companies, and that CSR activities are carried out rather randomly as opposed to by a planned strategy. The intensity of CSR activity on average is not high.
- Two thirds of companies help in the development of their local communities. The most popular activities are development of an area, work place creation and financial help to local authorities in solving different social problems. Large companies are two, and sometime three times more likely than small companies to be involved in the development of their regions.
- Almost all companies carry out CSR activities toward their employees. Large companies practice almost all CSR activities toward their employees much more often than small companies. The highest average numbers of CSR activities towards employees are in finance services, communication and other service companies. The most frequently practiced activities are timely payment of salary, raising salaries and payment of bonuses, no discrimination at employment and career growth by sex, age, religious and political views, as well as professional training.
- Half of all companies carry out environmental CSR activities. Most often this is introduction of energy-saving technologies and recycling. Ecological responsibility is perceived by companies rather as maintaining ecological norms

- as opposed to reaching indicators better than normative. Large enterprises carry out ecological activities more often than medium and small enterprises.
- Almost all companies carry out CSR activities toward clients and business partners. The most popular form of CSR toward customers and business partners is maintaining quality of the product, and secondly personnel training in ethical behaviour. Large companies declare more responsibility and care for customers and carry out more training for customers and business partners than small companies.

## **5. CSR as a business strategy**

### **5.1 CSR strategy development**

To make the CSR a every-day business practice it is necessary to have a socially oriented strategy. In this analysis we tried to find out to what extent the CSR activities are transmitted or transferred into managerial practice. Therefore the companies were asked whether they have a strategy for the social activity of the company.

According to the research data on CSR activities only 36.9% of interviewed companies have strategic plans. This is 11.2% more than it was three years ago (25.7 % in 2002). At the same time this number indicates that two thirds of Ukrainian companies situated in industrially developed districts have CSR activities which are not systematic and not a part of their business strategies. The humble growth over three years of the number of companies that implement CSR as a business strategy testifies to a rather slow dissemination of this phenomenon in the managerial practice of companies. This also testifies that in spite of a transition of the Ukrainian economy to a market type, and acceptance of western behaviour in the market by Ukrainian businessmen, the CSR concept is not widely adopted in Ukraine.

Large companies with more than 500 employees have, to a great degree, strategic programmes of social activities (84.6%). The number of such companies has increased to 15.1 % between 2002 and 2005. We assume that a highly competitive environment is a necessity for strategic planning, and the tasks of long-term stability are the factors that have influenced the market.

At the same time an unexpectedly high index of CSR strategic planning has been demonstrated by small enterprises with up to 50 employees. When asked whether they had strategic plans of social activities for 2005, more than two-thirds (35.6%) of small enterprises answered in the affirmative. The strategic planning practice of these enterprises has developed unimpressively compared to 2002. The increase in the number of companies that had strategic social programmes is only 11.3%. In spite of that, the data on small enterprises together with data on medium enterprises (where 49.3% of all interviewed medium companies provide strategic social programmes) in 2005 are rather important and demonstrate the common practice of strategic planning

in the SME environment (see Table 5.1). These data deny the notion that CSR is the prerogative of big business.

In the state enterprises sector 81.1% of respondents stated that their enterprises have strategic programmes for CSR activities for 2005 (see table 5.2).

**Table 5.1 Strategic plan of CSR activities availability at the companies according to their size. (% of enterprises)**

	2005				2002			
	Up to 50	50 - 250	251 - 500	More than 500 employees	Up to 50	50 - 250	251 - 500	More than 500 employees
	employees	employees	employees	500 employees	employees	employees	employees	500 employees
<b>Company had strategic plan of CSR activities</b>	35.6	49.3	62.2	84.6	24.3	38.9	55.8	69.5

**What is the reason for such a high level of development of the strategic programmes on CSR activities in state sector?**

First of all, it may originate from the historical traditions of social activities planning inherited from the socialist times in the state sector. However this cannot explain the fact that there was an increase of 14.6% in the number of state enterprises providing social strategies from 2002 to 2005. It is higher than the sample average. Another explanation is the desire of the state to shift a part of its obligations on social problem-solving to business. It is easier to oblige the state enterprises to plan defined types of social activities.

**Table 5.2 Availability of strategic plan of CSR activities at the enterprises of different forms of property in 2002 and 2005 (% of enterprises)**

	State	Private, one owner	Private, several owners	Join-stock companies	Total
<b>2005</b>	81.1	33.4	28	68.2	36.9
<b>2002</b>	66.5	20.4	21.1	55.3	25.7

Financial services enterprises and banks stand out for strategic activity. In 2005 65.6% of these enterprises had strategic social programmes compared with 30.2% of transport enterprises and 30.4% of building companies. In international business practice financial business was always a source of progressive ideas. During the period 2002-2005 there was a marked increase (up to 26.2%) in the number of enterprises having social programmes as a strategy. A similar trend is observed amongst the trade enterprises, the number of those developing strategic social

programmes has doubled (from 18% in 2002 to 36.8% in 2005). This can be explained by the growth of consumer demand in the Ukrainian market, and in connection with this high dependence of trade and commercial structures on the loyalty of consumers and the acceptance of their image.

Compared by region, the enterprises which could be described as 'leading CSR strategists' are situated mainly in the Dnipropetrovs'k region. Both in 2002 and 2005 this region had the highest percentage of those developing CSR strategies (33.8% and 49.8%) amongst the interviewed enterprises. The situation in Lviv and Kharkiv has notably improved. In 2002 the 20.8% and 22.3% of the companies in these regions demonstrated the development of social programmes, while in 2005 the indicators have risen to 38.2% and 43.2% respectively.

## **5.2 Organizational framework for CSR**

The CSR organizational framework explains to what extent CSR has been put into shape. The overwhelming majority of the companies (75.5%) have answered that these issues are under the direct control of the top manager. 23.5% of the companies have indicated these issues are within the competence of the deputy top managers and managers responsible for different business directions. Only a few of the interviewed companies have demonstrated that they have specially employed people (3.7%) or created departments of social programmes (2.8%).

This is typical for the small enterprises, where the social programmes are being developed directly by the top managers (76.7%). This position is totally justified by the small number of workers. In large companies there are 51.4% of key managers responsible for the development of the strategic social programmes and 46.1% of the managers are responsible for business directions.

An essential indicator (17.8%) of establishment of the CSR departments in the company was observed amongst the agricultural companies. Communication enterprises take the second place (7.9%). For the rest of the sectors this indicator is not over 2%.

It is necessary to point out that in the Dnipropetrovs'k region 8.8% of enterprises have created departments of social programme control. Odessa region takes second place with 3.6%. Only 0.2% of enterprises in Lviv have CSR departments.

More or less the same amount of state enterprises have created special departments and enterprises where the CSR programmes development is provided by top manager (45.7% and 44.7%). Joint-stock type companies provide social programmes development at the board of director's level (60.3%). The indicator for these companies is the highest amongst all possible organizational forms of social programmes development. In these companies the development of CSR direction has taken place in their marketing and PR departments.

It is obvious that the formation of separate functional departments for CSR strategic planning is still a matter for the future.

### 5.3 CSR budgeting

Budget planning is a part of social strategies elaboration and it may testify to what extent the work of company in social directions is regular and efficient. In 2005 27.4% of respondents have special CSR budgeting (compared with 18% in 2002).

The possibility of CSR budget availability increases (See Table 5.3) The number of large companies having special CSR budget is three times higher (82.4%) than that of medium size enterprises (26.1%).

**Table 5.3 CSR budget availability at the enterprises of different size in 2005 (% of respondents)**

	<b>Up to 50 employees</b>	<b>50 - 250 of employees</b>	<b>251 - 500 employees</b>	<b>More than 500 employees</b>
<b>Have budget</b>	26.1	38.9	55.2	82.4

The fact that 84.6% of the companies with more than 500 employees develop social strategies, and 82.4% of them have special budgets, testifies to social measures being every-day practice in the big business sector.

Large companies are the CSR leaders in Ukraine. This leadership is defined not by the amount of charity measures but the fact that CSR programmes promotion is one of business activity forms for these companies in Ukraine.

52.8% of financial sector companies have CSR budgeting compared to 23% to 26% in most other sectors. Transport enterprises that have the lowest indicator, of only 15.7%. In 2005 in all sectors the majority of the companies had CSR budgeting but there was nothing similar in 2002.

Comparison at the regional level does not demonstrate a crucial difference between the indicators. It is worth noting that in some regions the CSR budgeting situation has been improved. E.g., 33.1% of enterprises in Kharkiv had CSR budgeting in 2005 while only 12.6% had budgets for CSR in 2002.

The growth of spending on social measures may serve as an indicator of companies' social activity growth. The increase of CSR budgeting for the last three years was observed in enterprises of all sizes. 18.1% of respondents have confirmed this fact (see Table 5.4), but it was more typical for the large companies (46.1%). When comparing, one can see that only 17% of small enterprises with up to 50 employees

have noted that their budgets planned for social programmes have increased for the last three years.

**Table 5.4 The changes in CSR budgeting for the last three years (% of the companies)**

The changes in CSR budgeting	Size of the companies			
	Up to 50 employees	50 - 250 employees	251 - 500 employees	More than 500 employees
Haven't been changed	44.2	37.3	34.9	33.1
Have increased	17	29.8	37.5	46.1
Hard to say	32.4	28.6	21	15.9
Have decreased	3.4	3.3	4.3	4.8

The active increase of spending on social measures for 2002-2005 is observed in the banking sector and financial services sector (41.8% of the companies). Essential growth of financing took place amongst the producers of consumer goods (29.4%) (see Table 5.5). Slower growth has been demonstrated by the commercial (21.5%) and communication enterprises (19.6%).

**Table 5.5 CSR budgeting growth (items in the budget) for the last three years (% of enterprises)**

	Agriculture	Industrial production	Building	Banking and financial services	Commerce	Transport	Communication	Public Utilities	Other
Budgets have increased	29.4	17	16.5	41.8	21.5	12.4	19.6	15.3	11.2

The highest indicators of increases in social measure allocation for the last three years were observed in Kharkiv (27.9%) and Kyiv (21.1%).

In total, 50.3% of companies spend no more than 20% of their income on social programmes. In 2002, 41.9% of respondents were spending up to 20% of their income on social programmes. There was no significant number of companies spending more than 20% of their income on social measures, although a small number spend from 60 to 80% of their income on social programmes. The percentage of such companies in Ukraine is 1.8% in 2005.

#### 5.4 CSR activities efficiency

**How do the managers assess the influence of their CSR activities on society and company itself?**

Table 5.6 shows how companies assess the efficiency of their CSR activities.

Two thirds of companies (75.1%) have indicated that their CSR policy has promoted the improvement of employees' attitudes to the company. A significant percentage of the companies (63.6%) see the general benefit for the society.

**Table 5.6 Companies' assessment of CSR activities efficiency (% of enterprises)**

	<b>Benefit for the society</b>	<b>Improvement of employees' attitude</b>	<b>Economic indicators of the company improvement</b>
<b>Small</b>	63,0	74,3	54,6
<b>Medium</b>	70,2	83,9	59,2
<b>Large</b>	78,0	86,2	66,7
<b>Including those with more than 500 employees</b>	88,4%	94,2	69,1
<b>Total</b>	63.6	75.1	55

More than half of the companies think CSR activity may improve business indicators. Positive assessment of CSR activities efficiency was made mainly by large companies, e.g., 69% of large enterprises are sure that CSR activities stimulate the increase of economic indicators of the company. 94.2 % of large firms indicate the positive influence of CSR activities on employees' attitude to their company. The last number once again demonstrates the already mentioned peculiarity of CSR development in Ukraine – it is being concentrated on internal social programmes.

When comparing sectors it is necessary to note that only building companies think social activities are not efficient (30.7%). These, together with the 33.9% who are not saying anything on this issue, make 63.6% of all respondents. But more than a half of building companies (56.8%) are sure that CSR activities improve employees' attitude to the company. Quite a large number of banking and financial companies (89.1%) have indicated an improvement of employees' attitude to their company as an effect of CSR programmes.

The majority of enterprises in Kyiv and Odessa have replied that CSR programmes improve economic indicators (64% and 63.3%). Kharkiv has the highest percentage of enterprises admitting the improvement of employees' attitude to the company as an effect from CSR programmes.

### **5.5 Do the companies monitor the use of finances by the beneficiaries?**

The percentage of the small firms not monitoring the use of finances by the beneficiaries is bigger than that of large companies (47.4% and 25%). In total, from the sample, 47.1% of the companies are not concerned about the amount of money spent, 17.3% of the enterprises rarely monitor this issue, and only 19.8% of respondents regularly monitor the use of finances.

The situation is similar with monitoring of the social and economic programmes results. 49.1% of the companies do not monitor at all. Rare checks are being organized by the 29.4% of the companies. Only 5.3% of the companies have a system of indicators of efficiency of their social policy. Use of a system of indicators is more typical for the large enterprises (over 500 employees) - 14.2%. Only 5.3% of small companies and 4.5 % of the companies with 50-250 employees use a system of monitors. 6.8% of the companies with 250-500 employees have an efficient system of management and control for their social activity.

The most frequently used indicators are the adopted requirements (e.g., ecological requirements). Other indicators being used are programmes of staff motivation, improvement of relations with public society and counteragents, improvement of atmosphere within the team and stability of business.

The existence of the system of indicators to control the company social policy results means an availability of an efficient mechanism to monitor the social strategy and effective management in this sphere of the company's activity.

## **5.6 CSR reporting**

CSR reporting practices typical for countries with developed economies haven't been reflected in Ukraine yet. According to the data of our research 74.1 % of the companies have neither prepared a separate CSR report, nor included CSR as part of a general report.

In stark contrast to the overall figure, amongst the large companies (more than 500 employees) 78% of them have reported so. This fact confirms that big business is a guide and a pioneer of CSR ideas and practices. Looking at the type of ownership it is worth noting that the majority of the state companies report on social and ecological measures (79.3%). This same indicator for the joint ventures is 55.0%. The state and society pressure is typical for both, and it is obvious that they practice social reporting now as a continuation of a long practice of regular reporting.

The positive fact is that the social strategies development, CSR organizational framework and CSR reporting have a place in the business environment. These main forms of CSR development are being provided in the business practice of Ukrainian companies. At the same time they are being provided on both levels - large and SM enterprises that also play an essential role in the Ukrainian economy's stability and development of the society.

## **5.7 Company's informational transparency**

Only 49.7% of interviewed companies have adopted a code of conduct/behaviour (mission, code of ethics and pronounced values). 32.9% of interviewed companies plan to have them. In general this is not a high indicator for business structures working in market economy conditions. From the view of the CSR concept being

promoted in Ukrainian society this can testify on an absence of understanding by the companies of their connection with the society. The highest percentages of enterprises in Odessa and Kyiv (59.2%) have indicated that they have adopted principles of ethical behaviour. In the Kharkiv region this percentage was 36.3% and it was the lowest amongst the regional indicators.

65.7% of the large companies (over 500 employees) have formulated missions or codes of conduct/behaviour. This is not much more than amongst the small enterprises where 49.3% of companies have a mission.

The financial sector is the leader in this direction and it has up to 68.3% of the companies with adopted mission. Only 19.7% of consumer goods producers have indicated that they have code of conduct or a mission. This is an unsatisfactory indicator for enterprises that have direct relations with the consumers and it testifies to an underdevelopment of CSR policies.

State enterprises have demonstrated again essential leadership regarding this indicator. 88.2% of the enterprises have their mission though the formulation of the mission is not obligatory or regulated by the state process.

The company's transparency remains one of the directions of the growth of the Ukrainian business in the future. 40.6% of the companies have claimed that their information is only for internal use. The sources of information about the companies are indicated in the Table 5.7. As one can see only 29.9% of the companies publish the information about themselves. The information about the company (important news, changes in structures, vacancies, plans on enlargement, changes of production, etc.) is provided for external use by only a small number of firms interviewed.

Being transparent is more typical for the large companies. In this sector the companies publish press-releases, articles in mass-media, put the information of their sites and even have their own editions.

The highest percentage of the enterprises that replied that their information is for internal use only is in Kharkiv (60.9%) and the lowest (14.8%) – in Lviv.

**Table 5.7 Sources of information about the companies**

<b>Answers</b>	<b>% of enterprises</b>
<b>This information is only for internal use</b>	40.6
<b>In published sources of the companies, press-releases</b>	29.9
<b>We have constantly updated site with the company's news</b>	21.2
<b>We provide the information on our activity through the professional mass-media</b>	17.1

<b>It's hard to answer</b>	11.7
<b>We organize press-conference, meet with public society</b>	4.8
<b>We participate in TV shows</b>	2.9
<b>Yellow pages</b>	0.7
<b>Web-site</b>	0.6
<b>Advertisement</b>	0.4
<b>Employment centre</b>	0.2
<b>External advertisement</b>	0.1
<b>No information</b>	0.1
<b>In the company</b>	0.1
<b>Site of the company is under reconstruction</b>	0.1

## Summary

- Only one third of the companies have strategic plans of CSR activities what means that CSR is not a part of the strategic management of Ukrainian enterprises yet.
- Creation of separate functional departments for strategic planning of CSR activities remains a matter of future. Development of CSR programmes is provided mainly by the top manager, deputy director and marketing or PR departments.
- Companies do not have an efficient CSR management; they do not control the promotion of CSR programmes. Monitoring both efficiency and the use of finances by the beneficiaries of CSR programmes are rare.
- Less than one third of the companies do not have CSR budget. This testifies to the fact that CSR activity has not become an obligatory element of company development strategy.
- Insignificant growth of social activities testifies to slow growth of CSR activities in companies for the last three years. Although the increase of CSR budget has been observed for the last three years at the enterprises of all sizes it was particularly characteristic for the large businesses.
- In total, the majority of the companies think their CSR policy has improved the employees' attitude to their company for the last three years. The essential part of the enterprises admits the general social effect (benefit for the society). Almost half of the companies have noted that CSR activity has influenced the improvement of economic indicators.
- Business does not practice CSR reporting. The essential part of Ukrainian enterprises has never made neither separate report nor a part of general one.

- Company's financial transparency is one of potential directions of Ukrainian business growth. The information on company's activity is provided for the external use by a small amount of Ukrainian firms.

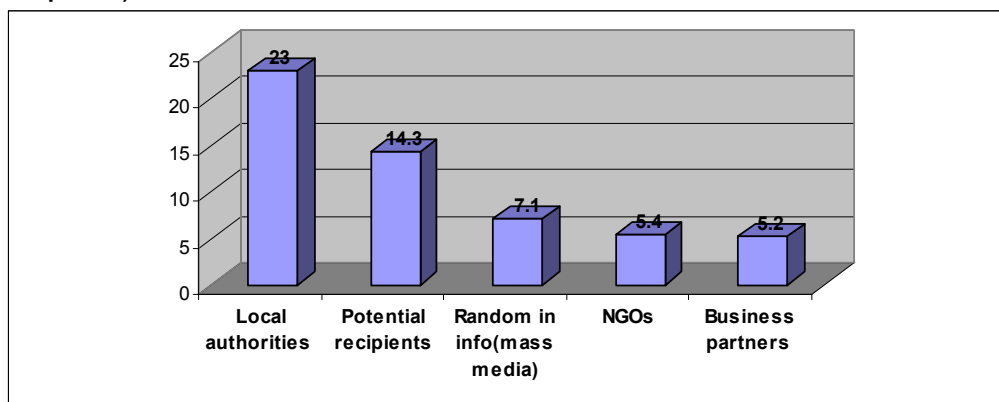
## 6. Main partners in development CSR activities

### 6.1 Who are the main partners of the companies in CSR-related activities?

In order to answer this question we use a sub-sample of companies that reported conducting CSR-related activities (75.8% of the total sample), and analyse companies' responses across two dimensions: 1) main external sources of CSR ideas for the company and 2) main external partners in the development of CSR programs. Local authorities are most popular external source of ideas for CSR activities (23% of firms) (Graph 6.1). Potential recipients of CSR help provide CSR ideas for 14.3% of companies. Occasional information (from mass media, etc.) is the source of ideas for 7.1% of the firms, NGOs and business partners generate the CSR ideas for 5.4% and 5.2% of the companies respectively.

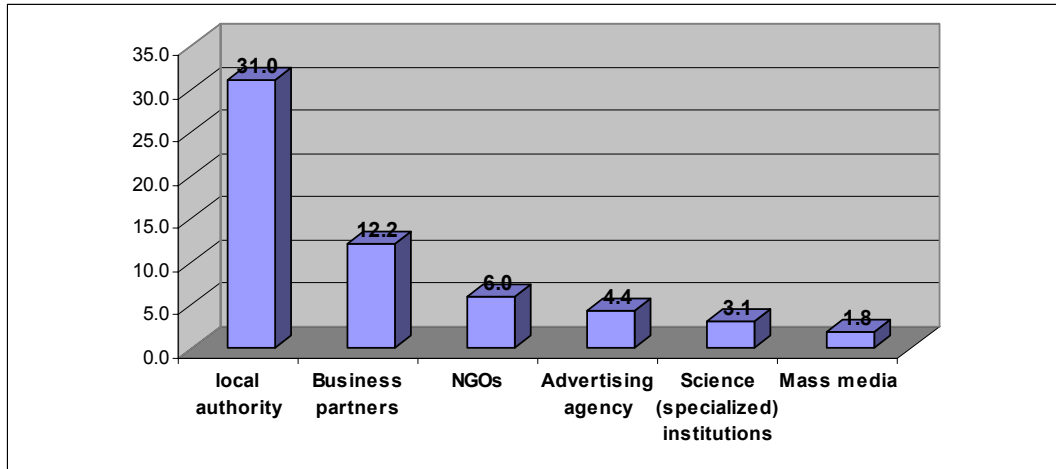
Partnership in development of CSR programs is strongly correlated with the sources of CSR ideas, i.e. companies tend to develop CSR plans with those who provide them with CSR ideas.

**Graph 6.1 External sources of ideas for CSR activities (% of companies)**



Thus 31.0% of the firms in our sub-sample (Graph 6.2) cooperate with local authorities in developing social programs. 12.2% of the companies cooperate with their business partners in developing CSR plans, another 6% cooperate with NGOs, 4.4% with advertising agencies, 3.1% with scientific institutes, and 1.8% with mass media.

**Graph 6.2 External partners in development CSR programs (% of companies)**



## **6.2 Cooperation with local authorities in designing CSR programs**

Local authority is the major external partner of the firms in the development of their CSR programs, leaving NGOs, mass media and other organizations and agencies far behind (Graphs 6.2, 6.1). The picture varies across the size groups: while almost half the large companies (49.1%) cooperate with the local authorities, medium-sized and small enterprises show a lower frequency of such cooperation (43.7% and 29.8% respectively) (see Table 6.1).

For 23% of the enterprises local authorities are the source of ideas for developing their CSR plans (Graph 6.1). It is more often the case for large firms (42%) than for medium-sized and small ones (33.8% and 22% respectively) (Table 6.1). Direct requests to local authorities constitute an important incentive for being involved in CSR activities for more than one-fifth of the companies. Again, there is a significant difference across the size groups: large companies report it 1.5 times more frequently than medium-sized and small firms (see Table 6.1).

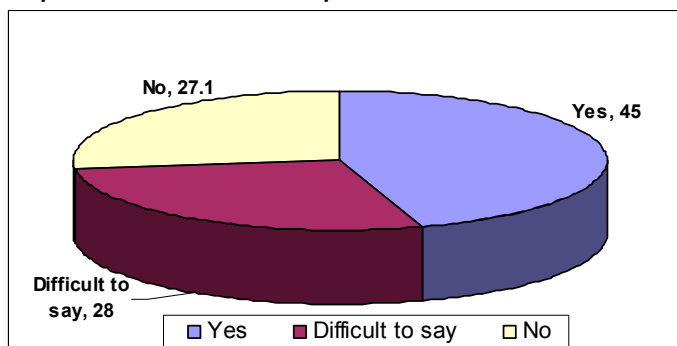
All three indicators of cooperation between local authorities and the companies with respect to CSR activities show a lower level of cooperation for small enterprises compared to their medium-sized and large counterparts. One possible explanation is that small companies experience a higher level of “forced cooperation” with the local authorities (i.e. non-voluntarily conducting CSR activities at the requests of local authorities) than large and medium-sized companies, and therefore try to minimize their voluntary cooperation. We asked the companies whether they are aware of cases of “forced cooperation” that happen to the firms similar to them in terms of size and sector. The results give some ground for our conjecture: while, on the average, about 45% of the companies report “forced cooperation” (Graph 6.1), for small enterprises this indicator is higher than for medium-sized and large firms (45.9% vs. 31% and 38.9% respectively).

**Table 6.1 Cooperation with local authorities in designing companies' CSR programs, across the size groups (% of enterprises)**

	small	medium	large	Total
Cooperation with local authority in development CSR activities	29.8	43.7	49.1	31
Local authority source of ideas for CSR activities	22	33.8	42.0	23
Requests from local authority as incentive for doing CSR by the company	20.8	19.7	36.1	21
companies that are aware of cases of "forced cooperation"	45.9	31.2	38.9	45

"Forced cooperation" with local authorities is most frequently reported in service sector: 63.8% of the firms in mass media/ consulting/ tourism, 47.8% of the firms in personal services, and 45.5% of the firms in financial services.

**Graph 6.3 Awareness of companies about cases of "forced cooperation" (% of enterprises)**



Cooperation between business and local authorities in CSR differs across the regions of "Industrial Ukraine": It is higher than average in Kiev and Dnepropetrovsk region, and lower than average in Kharkiv and Donetsk (see Table 6.2). In Dnepropetrovsk, local authorities are reported as a source of CSR ideas more often than in other regions. In addition, here the frequency of requests from the local authorities to the firms for participation in CSR activities is the highest (43.2%). An interesting situation occurred in Lviv: while less than 1% of the firms report receiving the requests from the local authorities, almost 30% of the enterprises cooperate with local authorities in designing their CSR plans. The level of "forced cooperation" also varies across the

regions with Kharkiv (58.3%) and Donetsk (58%) being the highest and Lviv (39.2%) the lowest.

As for sector distribution, only three sectors rise above the average in cooperating with local authorities, namely personal services and public utilities, agriculture, and other services (55%, 46.7% and 43% of the firms respectively).

**Table 6.2 Enterprise cooperation with local authority in development CSR programs by region (% of enterprises)**

	Kiev city and region	Lviv city and region	Dnepropetrovsk city and region	Donetsk city and region	Odessa city and region	Kharkiv city and region
Cooperation with local authority in development CSR activities	36.3	<b>29.4</b>	33.0	25.5	30.6	18.5
Local authority source of ideas for CSR activities	20.8	18.3	39.8	24.2	24.5	14.2
requests from local authority as incentive for doing CSR by the company	23.8	<b>0.8</b>	43.2	19.8	17.7	13.8
companies that are aware of cases of "forced cooperation"	45.3	15.6	48.2	58.0	37.5	58.3

### 6.3 Cooperation with business partners

Business partners are the second most popular external partner for development of CSR programs (12.2% of companies, see Graph 6.2). They provide CSR ideas for 5.2% of companies (see Graph 6.1). There is no significant difference across the size groups. Across the regions, cooperation with business partners in CSR activities is most frequently observed in Lviv (17.1% of companies) and Kyiv (16.8%) , and least frequently - in Odessa (0.8%) and Donetsk (2.2%) (see Table 6.3). The role of business partners as a source of CSR ideas is most frequently reported in Kiev and Dnepropetrovsk.

**Table 6.3 Enterprise cooperation with local authority in development CSR programs by region (% of enterprises)**

	Kiev city and region	Lviv city and region	Dnepropetrovsk city and region	Donetsk city and region	Odessa city and region	Kharkiv city and region
Cooperation with business partners in development CSR activities	16.8	17.1	13.3	2.2	0.8	8.4
Business partners as a source of ideas for CSR activities	7.6	4.6	8.2	0.3	0.7	3.7

Across industries, the most intensive cooperation with business partners in CSR planning is recorded for communication (24.4%), production of consumer goods (19.6%), production of industrial goods (18.4%), and transport (18%). With regard to using business partners as a source of CSR ideas, financial services (15%), communication (11.5%), and transport (11.2%) are at the top of the list .

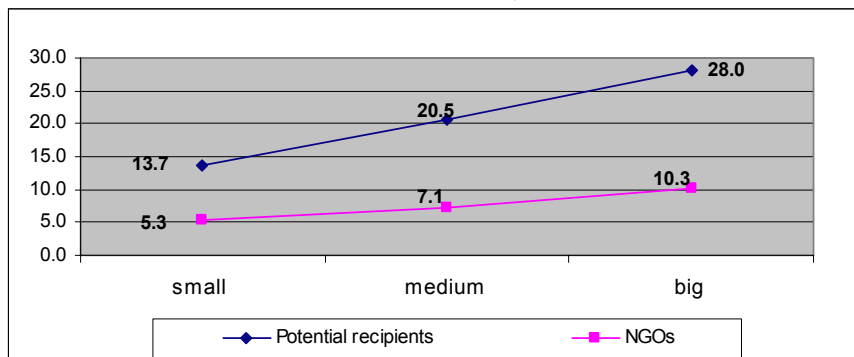
#### 6.4 Cooperation with NGOs, mass media and other organizations

Presently, NGOs and other non-state organizations are not very important partners of the enterprises in developing CSR activities: only 6% of the firms cooperate with NGOs (see Graph 6.2). The share of companies cooperating with scientific institutions, advertising agencies and charitable organizations is even lower. This might reflect a relatively low level of CSR culture in Ukraine, as well as underdevelopment of non-governmental institutions that provide business firms with CSR-related services.

The same situation is observed with respect to using NGOs and other organizations as a source of ideas for CSR activities: NGOs provide CSR ideas for 5.4% companies, potential recipients of CSR help- for 14.3% of companies; occasional information (from mass media, etc.) is the source of ideas for 7.1% of the firms (Graph 6.1).

Large enterprises use CSR ideas from potential recipients and NGOs more often than medium and small (see Graph 6.4)

**Graph 6.4 Source of ideas for CSR activities by enterprise size (% of enterprises)**



Cooperation with NGOs in development CSR programs varies significantly across the size groups: it is more pronounced for large firms than for small and medium-sized enterprises (see Table 6.4 and Graph 6.4)

**Table 6.4 Partners in designing CSR programs, across the size groups (% of enterprises)**

	small	medium	large
<b>Non-governmental (non -profitable) organizations</b>	5,7	7,9	14.0
<b>Scientific (specialized) institutions</b>	2,7	7.8	9.3
<b>Advertising agency</b>	4,2	6,5	5,6
<b>Charitable organizations</b>	1,3	0,1	0,3

Cooperation with NGOs is reported in Kharkiv more frequently (11.6%) and Lviv (10.5%) (see Table 6.5). Across the sectors, it is farming (21.8%), financial services (20.5%) and construction (17.4%) that rise above the average in terms of cooperation with NGOs.

**Table 6.5 Partners in designing CSR programs, across the regions (% of enterprises)**

	Kiev city and region	Lviv city and region	Dnepropetrovsk city and region	Donetsk city and region	Odessa city and region	Kharkiv city and region
<b>Non-governmental (non-profitable) organizations</b>	4,6	10.5	3,2	4,9	3,8	11.6
<b>Advertising agency</b>	5.8	7.2	6.9	0,6	1,1	0,4

Only 1.8% of enterprises cooperate with mass media in developing CSR activities. Mass media is a partner in developing CSR activities for 10.8% of large businesses, 8.4% of medium and only 1.2% of small businesses (Table 6.6). In communication (10%) and transport (9%) the enterprises cooperate with media most actively.

**Table 6.6 Cooperation with mass media in designing companies' CSR programs, across the size groups (% of enterprises)**

	small	medium	large	total
<b>Cooperation with mass media in development CSR activities</b>	1,2	8.4	10.8	1.8
<b>Occasional information (mass media) as source of ideas for CSR activities</b>	7.2	5.3	5.6	7.1

**Summary:**

- Local authority is the most popular external partner of the companies in development of their CSR programs, leaving the sectors of civil society (NGOs, mass media and other organizations and agencies) far behind.
- The level of cooperation with local authorities in designing CSR activities is positively correlated with the firms' size: the larger the firm, the higher the level of cooperation. There is some evidence that a relatively low level of

cooperation of small firms with local authorities might be related to a higher pressure of “involuntary cooperation” experienced by the small firms.

- NGOs as well as other organizations of civil society play a marginal role as partners for developing CSR activities of the firms. This might reflect an underdevelopment of appropriate infrastructure for providing CSR-related services to the companies.

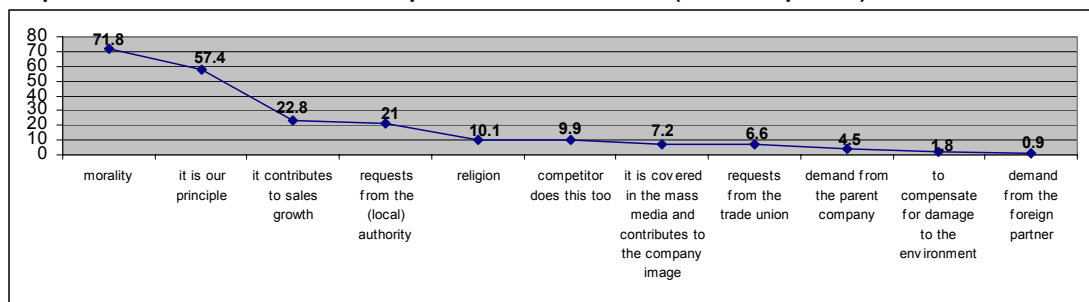
## 7. Incentives, barriers, perspectives of development of CSR concept in Ukraine

### 7.1 Incentives

We present survey results on the motives for the companies to be engaged in CRS activities, as well as on their perceptions concerning the influence of CSR on business operations considering the latter as an additional proxy for CSR motivation.

At the top of the list of factors that motivate the company to conduct CSR activities are two items, namely “moral reasons” (71.8% of the firms), and “CSR being a core principle of company’s activity” (57.4%). Another two factors - CSR contribution to sales growth and requests from the local authorities – are mentioned almost three times less (22.8% and 21% of companies respectively). The remaining factors are reported by less than 10% of companies and seem to play a rather insignificant role as motivators for CSR.

**Graph 7.1 Factors that motivate companies to conduct CSR (% of companies)**



It is interesting that moral reason is more motivating for small companies (72.4%) than for large ones (63.6%) (see Table 7.1). CSR contribution to the sale’s growth is equally motivating for the companies of all sizes. Contribution of CSR to firm’s image is more important for large enterprises (25.5%) compared to medium (15%) and small ones (6.3%). Not surprisingly, trade unions motivate CSR activities mostly in large companies (28.8% vs. 12.7% of medium and 5.7% of small companies). Competitor’s

involvement in CSR is also more decisive for CSR activities of large companies than medium and small ones.

**Table 7.1 Factors that motivate company to conduct CSR across size groups (% of companies)**

	small	medium	large
<b>For reasons of morality</b>	72,4	65	63,6
<b>CSR is our principle, internal motive</b>	57,1	62,2	59
<b>Requests from the (local) authority</b>	20,8	19,7	36.1
<b>CSR contributes to our sales growth</b>	22,6	26,1	22,8
<b>Requests from the trade union</b>	5,7	12,7	28.8
<b>CSR is widely covered in the mass media and contributes to the company image</b>	6,3	15.0	25.5
<b>A competitor does this too</b>	9,8	9,3	15.2
<b>For reasons of religion</b>	10,2	9,6	6,7
<b>Because it is needed to pay damage which was done to the environment with company activity (product)</b>	1,4	5.8	9.8
<b>It is a demand from the parent company</b>	4,6	2,9	5,2
<b>It is a demand from the foreign partner</b>	0,8	2,8	2,4

Across the regions, moral reason as a motivator for CSR is most frequently reported in Odessa (86.5%), Kyiv (77.9%) and Lviv (75.1%), and the lowest is in Kharkiv (55.6%) (see Table 7.2). The same concerns the motivation related to CSR being the principle activity of companies. On the contrary, business motives ('CSR as a contributor to the sales growth') are most important in Kharkiv (35.3%) and least important in Odessa (4%).

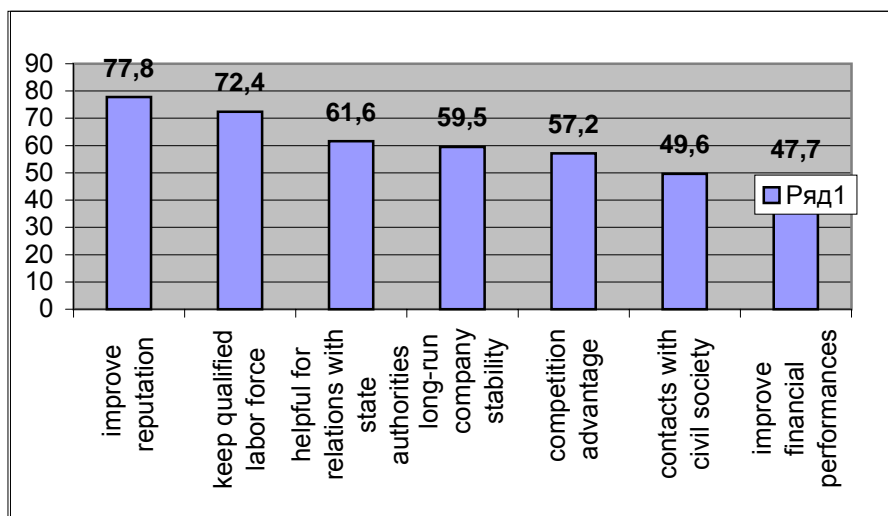
**Table 7.2 Factors that motivate company to conduct CSR, regional distribution (% of companies)**

	Kiev	Lvov	Dnepropetrovsk	Donetsk	Odessa	Kharkiv
<b>For reasons of morality</b>	77.9	75.1	58,3	65,9	86.5	55,6
<b>Because it is our principle, internal motive</b>	65.2	49,7	50	50,2	69.1	44,4
<b>This contributes our sales growth</b>	27.2	22,6	20.4	11.9	4	35.3
<b>Because there are demands from the (local) authority</b>	23.8	0,8	43.2	19.8	17.7	13.8
<b>A competitor does this too</b>	8.9	12.0	16.8	0,9	14.7	11.1
<b>For reasons of religion</b>	11.1	16.2	9.0	8.4 f	10.1	3,1

Across industries, moral motives are most frequently reported by the companies in the non-financial services (81.5%) and production of consumer goods (81.2%). Business motives seem to be more important for the companies in financial services (33.1%), communication (32.9%), agriculture (30.7%) and trade (30.5%). Media coverage and contribution to the company image was mentioned by the highest percentage of companies in farming industry (26.7%) and finance services (20.4%).

Graph 7.2 shows managers' perceptions concerning the effects of CSR on companies' operations. All in all, CSR is considered to have a positive impact on companies' operations by at least two thirds of the firms. The list of positive effects starts with "positive image/improved reputation (77.8% of the firms). The next two effects deserve special attention: 72.4% of the companies consider CSR important for finding and keeping a highly-qualified labour force. This reflects (though indirectly), firstly, that a highly qualified labour force is considered a crucial factor of success in Ukrainian companies, and secondly, that not only financial incentives (salary level), but also reputation of the company (developed through good CSR performance) plays a significant role for hiring and keeping highly qualified employees. The positive effect of CSR on establishing relations between businesses and state authorities comes third on the list. This might reflect the high importance of relations between the firms and state authorities for the general success of companies.

**Graph 7.2 Impact of CSR activities on company's operations (% of companies)**



Across the size groups, significant differences have been observed only with respect to three indicators, namely "positive image/improved reputation", "increased investment attractiveness" and "help to establish contacts with local civil society and NGOs": these three effects are more pronounced for large companies than for other size groups.

Across industries, "positive image and improved reputation" is more important for producers of consumer goods production (91.2% of firms) and for financial services (89%); "hiring and keeping highly qualified employees" is more frequently mentioned in financial services (85.9%), trade (81.7%), and consumer goods production (81.3%), "advantage over competitor" is more important in financial services and banking (71.8%).

As for the regional differences, "hiring and keeping well-qualified employees" is more frequently reported in Kharkiv (79.1%) and Kyiv (77.9%); while "promoting long-term stability of the company" is most pronounced in Donetsk (70.3%), Kharkiv (68.7%) and Kyiv (66.9%). No significant differences have been observed across the regions with respect to indicators of CSR effects on companies' operations.

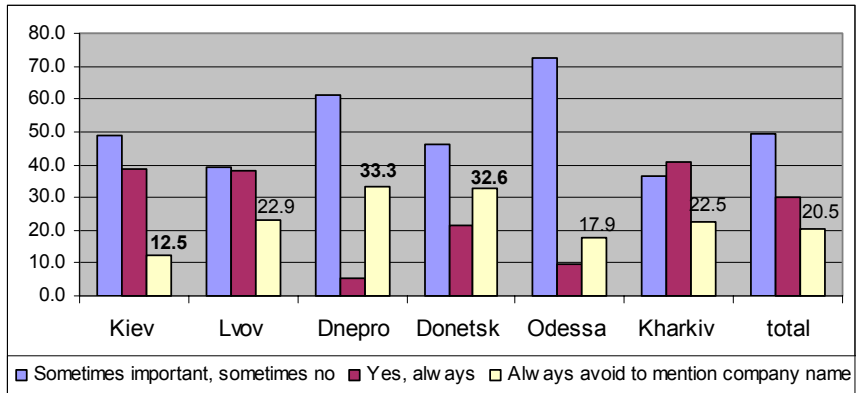
There is an interesting discrepancy between responses of the companies on two questions about motives of CSR and positive effects of CSR on companies' operations. Only 7.2% of companies reported coverage in media and contribution to company's image as CSR motive (Graph 7.1). At the same time, more than 77.8% of the firms highly appreciate CSR impact on their image (Graph 7.4). It seems that companies are reluctant to admit openly that they conduct CSR activities not only for moral reasons, but also in order to improve their image among potential partners and customers, i.e. for business motives.

### **Is it so?**

In order to find out whether companies use their CSR activities for "self-promotion", we asked managers whether they require their name to be mentioned to the public when carrying CSR activities (providing help). About 30% of the firms confirm that publicity while doing CSR (providing help) is always important to them, another 50% of the companies report it is sometimes important to them, only 20% of firms avoid mentioning their name to the public in CSR context (total on Graph 7.5). From our point of view, this situation might be related to two factors. Firstly, it might reflect a negative image of business as such in the Ukrainian society ("businessmen are rich and therefore bad"). Thus, companies try to avoid an open declaration of uniting their moral and business motives in performing CSR activities. Secondly, conducting CSR activities might be considered as a sign of high hidden profits. Consequently, the companies try to avoid publicizing their CSR activities in order not to attract the attention of tax authorities or local state authorities, who might be interested in increasing non-voluntary companies' involvement in solving social problems of their localities. Both conjectures receive some evidence in the survey, among 20% of those companies that always avoid mentioning their name to the public while providing help (doing CSR): 64.6% of companies consider using CSR activities for PR purposes inappropriate, for 21.2% of firms it is a question of company's policy, and 12.7% admit avoiding media coverage for the reasons of financial safety.

An "unselfish" approach to CSR activities is more pronounced for small enterprises than for their medium-sized and large counterparts (21.2% versus 13.1% and 11.7% respectively). Across the regions, the highest percentages of companies conducting "unselfish" CSR activities are registered in Dnipropetrovs'k (33.3%) and Donetsk (32.6%). At the same time, the percentages of companies conducting "selfish" CSR activities is higher in Kharkiv (40.9%), Kyiv (38.4%) and Lviv (38%) (see Graph 7.3)

**Graph 7.3 Importance of mentioning company's name to society while providing help (charity) by regions (% of enterprises)**



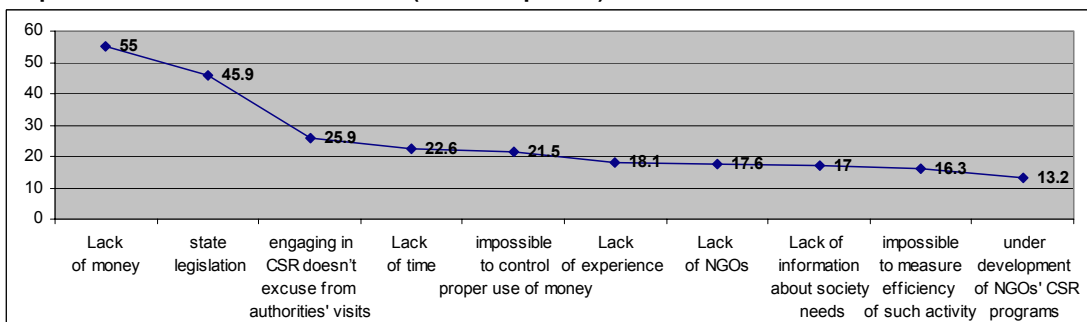
### 7.3 Barriers to CSR

A lack of financial resources and the lack of CSR-promoting legislation are the two most frequently reported barriers to conducting CSR activities (55% and 45.9% of firms, respectively) (see Graph 7.4).

Difficulties in controlling the targeted use of CSR-related finance and lack of appropriate implementation mechanisms are reported half as frequently compared to the first two barriers (see Graph 7.4). About 17% of the firms complain about the lack of CSR-supporting institutions in civil society and scarce information about the actual social needs.

Underdeveloped CSR-promoting legislation is on the top of the list of barriers for the large firms, while for small enterprises it is the lack of financial resources (Table 7.3)

**Graph 7.4 Barriers for CSR activities (% of companies)**



**Table 7.3 Barriers for CSR activities across size groups (% of companies)**

	small	medium	large
Lack of CSR-promoting legislation	45,2	54,3	55,5
Lack of financial resources	55,3	55,1	39,8
CSR-related activities do not prevent from excessive checks by the state authorities	25,4	32,2	30,7
It is impossible to control targeted use of funds by the recipients	21,6	19,7	20
Lack of time	23,0	16,1	21,9
Lack of governmental and non-governmental organizations that support CSR activities	17,5	18,2	21,5
Lack of experience and CSR-related implementation mechanisms	18,1	17,5	18,8
It is impossible to measure efficiency of such activity	16,1	17,8	20,2
We don't have enough information about society needs	16,9	17,9	16,8
Charitable social activities programs, which are hold with state and private non-profit organizations, are not enough developed	13,1	14,1	17,1
Have no barriers	0,9	0	2,1

The importance of various barriers differs across the regions. Lack of finance is most frequently reported in Kharkiv (78.4%) and Lviv (71.2%) (see Table 7.4). Undeveloped CSR-promoting legislation is the major barrier for CSR activities of the firms in Dnipropetrovs'k (52.4%). Inadequate information about the social needs to be addressed by CSR activities is reported by 41% of the firms in Lviv. In Kyiv and Donetsk, almost a quarter of the firms mentioned lack of mediators that could provide CSR-related services. There are no significant differences across the industries, except for a lack of financial resources that is most frequently reported in construction (68.8% of firms).

**Table 7.4 Barriers for CSR activities across regions (% of companies)**

	Kiev	Lvov	Dnepropetrovsk	Donetsk	Odessa	Kharkiv
Lack of cash assets	60,6	71,2	42,4	33,4	29,1	78,4
The state legislation is not complete and doesn't assist such activity	48,8	38,5	52,4	39,8	43,8	44,8
Social and ecological activities realization doesn't excuse from "over frequent" controlling units visits	26,3	11,9	25,0	27,7	50,8	17,9
It is impossible to control usage of given cash assets	23,1	21,3	27,3	20,7	14,7	15,6

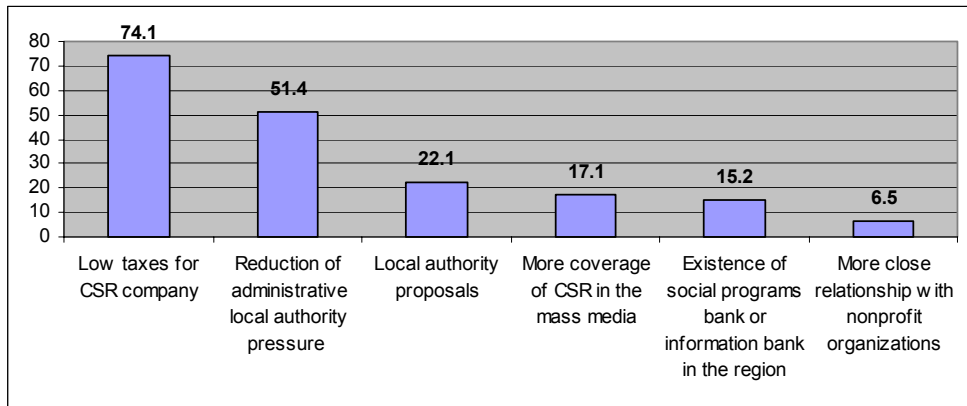
<b>Our own experience is not enough and the “mechanism” of giving social help isn’t perfect</b>	12,8	41,6	12,5	28,6	16,7	9,3
<b>Lack of time</b>	33,4	12,9	9	11,8	8,8	31,5
<b>Lack of state and private organizations, which could be helpful in this sphere</b>	23,0	14,6	5,2	23,3	9,6	14,3
<b>It is impossible to measure an efficiency of such activity</b>	20,1	1,5	31,7	8,2	20,1	7,1
<b>We don’t have enough information about society needs</b>	23,0	14,6	6,1	21,2	4,8	14,0

### 7.3 Perspectives

We have asked managers about the incentives that might promote CSR activities of their companies. About three quarters of the firms (74.1%) consider low taxes for CSR-related activities to be a main potential incentive (Table 7.5). The second major incentive is the reduction of regulatory pressure from state authorities (51.4%). This shows that reduction of regulatory and administrative pressure on business might promote not only its commercial success, but also CSR-related activities (Table 7.5). At the same time, CSR-related proposals from local authorities constitute an incentive for 22% of the firms (see Graph 7.5). Another 15% feel the need for a regional or local bank of CSR-related ideas. The latter reflects a considerable potential for improving cooperation between business and local authorities in conducting CSR-related regional and local programs as well as the niche for CSR-supporting institutions

Medium-sized enterprises more frequently report low taxes and the reduction of the regulatory and administrative burden as incentives for CSR compared to small and large firms (see Table 7.5). Large business seems to be the most receptive with respect to the initiatives of local authorities (see Table 7.5).

**Graph 7.5 Possible CSR stimulates (% of companies)**



**Table 7.5 Possible CSR stimulates by company size (% of companies)**

	small	medium	large
Low taxation for company, which applies social responsibility	73,7	80,2	73,5
Reduction of administrative local authority pressure (e.g. number of fire service visits and health service)	51,2	56,7	48,4
Local authority proposals regarding region social programs development	21,6	25,6	37,0
Existence of social programs bank or information bank in the region	14,9	18,1	17,9
More coverage of social responsibility practice in the mass media	17,2	14,5	15,7
More close relationship with non-profit organizations	6,6	4,6	6,2

Across the regions, the highest percentage of companies which vote for low taxes on CSR related activities is observed in Odessa (91.9%). It is followed by Lviv (80.9%). Reduction of regulatory and administrative pressure is especially relevant for promoting CST activities in Donetsk, Kharkiv and Odessa. Finally, in Kiev companies seek interesting proposals from the local authorities and media coverage of CSR activities more frequently than in other regions

Across industries, low taxation as a strong incentive for CSR programs is most frequently reported in agriculture (85.2%), transport (83.6%), and communication (82.9%). Reduction of regulatory/administrative pressure seems to be especially important for the firms in services and trade (56.3% and 54.4% respectively).

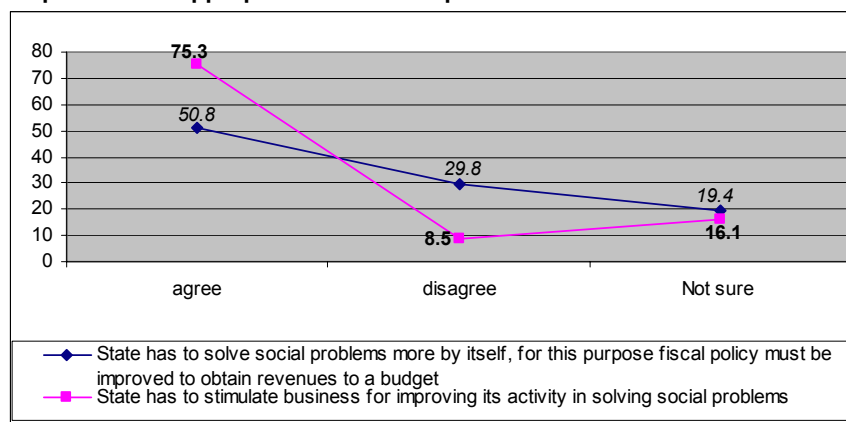
**Table 7.6 Possible CSR stimulates by regions (% of companies)**

	Kiev	Lvov	Dnepropetrovsk	Donetsk	Odessa	Kharkiv
Low taxation for company, which applies social responsibility	71,5	80.9	68,2	77.4	91.9	65,8
Reduction of administrative local authority pressure (e.g. number of fire service visits and health service)	50,1	41	45	60.0	58.0	58.0
Local authority proposals regarding region social programs development	26.1	23.7	20.8	18.4	10,6	20.9
More coverage of social responsibility practice in the mass media	24.5	14.8	9,8	7,8	15.3	13,5
Existence of social programs bank or information bank in the region	20.2	22.3	10.1	8.7	3,7	12.6
More close relationship with non-profit organizations	9.8	1,1	1,8	6.9	2,8	7.4

We have asked the firms to evaluate two types of strategies the state can use in order to meet social needs. “Fiscal” strategy implies that the state is expected to ensure tax discipline in order to collect enough revenues and meet major social needs from budget. Half of the firms voted for this approach (Graph 7.6).

“Motivation” strategy implies providing business with strong incentives for conducting CSR activities and contributing to meeting social needs. This strategy is appreciated by three quarters of the firms. There are no significant differences across the size groups. Across the regions, “motivation” strategy is more popular in Kyiv (82.1% of firms) while “fiscal” approach seems to dominate in Lviv (72.6%). Across the sectors, “fiscal” strategy is popular among producers of industrial goods (73.1% of firms) that are not very active in CSR, while “motivation” strategy dominates among CSR champions, i.e.(services (80.9%), consumer goods production (80.4%), and trade (77.7%).

**Graph 7.6 Most appropriate CSR development in Ukraine in the nearest future (% of companies)**



## Summary

- Moral reasons and CSR as a principle of companies' philosophy are reported as the main motivator for conducting CSR activities.
- The most important areas where CSR impacts on companies' operations are the creation of a positive image and improved reputation of the company which contributes to hiring and keeping highly-qualified employees, and establishing relations with state authority.
- Only 20% of the firms conduct CSR activities without making their name known to the public, the rest of the firms use CSR for PR purposes.
- Lack of finance and underdeveloped CSR-promoting legislation are considered to be the most important barriers for CSR activities of the companies.
- Tax preferences for CSR activities and reduction of administrative and regulatory pressure are on the top of the list of incentives for CSR activities. There is evidence about an emerging need for local CSR mediators that are expected to collect CSR ideas and provide CSR-related services to the companies.
- Three quarters of the surveyed companies believe that state is expected to motivate their involvement in meeting social needs via motivation of CSR activities.

## 8. Main characteristics of the enterprises – leaders of CSR

We have divided our sample into four approximately equal parts (quartiles) by general index of the number of CSR activities (ranging from 1 to 27). The best enterprises were defined as those belonging to the highest, fourth quartile, i.e. those which carry out more activities than 75% of enterprises from the first, second and third quartiles. Thus, the best enterprises carry out on average 12.2 activities, which is almost twice more than average enterprise in our sample (see Table 8.1.).

**Table 8.1 Main characteristics of quartiles by general index of number of CSR activities**

Quartiles	Mean	Minimum	Maximum	N	Standard deviation
1	3.1	1	4	270	0.95
2	5.9	5	7	351	0.78
3	8.4	8	9	251	0.50
4	12.2	10	27	324	2.51
<b>Total</b>	7.5	1	27	1196	3.66

In table 8.2 we have summarized some characteristics of enterprises CSR leaders, i.e. those enterprises which belong to the fourth quartile.

Enterprise size is a main factor which defines the intensity of CSR activity. There are three and a half times more 'best enterprises' among large than among small enterprises, and almost twice as many as among medium enterprises.

In a break-down by industry, the leaders are agriculture, public utilities and personal services, and financial services. In a break-down by region, Odessa and Kyiv have the highest figures.

The leaders dramatically differ from the rest because they disagree more than others with the idea that solving Social problems solution is a State function, and business has only to provide stockholders with profit and pay taxes. In this they demonstrate a European-like, conscious understanding of business' role in society.

The best enterprises are profitable, as a result of their economic activity (such as labour productivity, gross output, net profit, profitability) improving during the last three years.

CSR leaders encounter high competition in the market with Ukrainian and international competitors much more often than the rest.

**Table 8.2. Characteristics of best enterprises**

<b>Indicator</b>	<b>Value</b>
<b>Enterprise size (number of employees)</b>	Large (more than 250 employees)*
<b>Industry</b>	Agriculture*
	Public utilities and personal services
	Finance services
<b>Idea about business role in the life of society</b>	Business has to participate in solving social and ecological problems of society
<b>Age (from the moment of creation)</b>	On average 11.4 years (two years older than average enterprise in the sample)
<b>Changes in company's economic indicators for the last three years (labour productivity, gross output, net profit)</b>	Rather increased
<b>Competition level</b>	Rather very high with Ukrainian, developed and other countries producers of the world
<b>Expert activities outside CIS</b>	Rather yes

\*star marks statistically significant relationships ( $p < 0.05$ )

## 9. CONCLUSIONS

### Understanding of the Corporate Social Responsibility

- Awareness about social responsibility of businesses is growing in Ukraine. Almost three quarters of the Ukrainian companies surveyed have some knowledge about CSR. The majority regard CSR as
  - a) The implementation of social programmes to improve work conditions for employees and their development,
  - b) Charity aimed at the society, and
  - c) Ethical attitudes towards their customers. That is, **understanding** the CSR concept in Ukraine is mainly by attention to **internal** social programmes, aimed at employees. These results do not correlate with the wide-spread idea that CSR in the society is primarily associated with charity.
- Almost one half of the Ukrainian companies believe that resolution of social problems is the function of state agencies, and businesses must only generate profits for their owners and pay taxes to the state. This reflects the dissatisfaction existing in the society (specifically, in the business milieu) by the way the state fulfils its responsibilities in social development. Irrespective of that dissatisfaction, **large, small and medium enterprises are all concerned with the state of resolving social problems in the society and realise the usefulness of their participation in their resolution.**

### CSR Practices

- Almost all companies surveyed **do practice** some CSR events. Almost a quarter, however, carries out their CSR activities without realising it, and sporadically rather than within any planned strategy. Their CSR activities, on the average, are not very intensive.
- Two thirds of the companies help with development of their territorial communities. The most popular events are local amenities development and improvement, and financial assistance to local authorities in resolution of various social issues.
- Almost all companies take social responsibility measures regarding their employees. The most wide-spread are timely payment of salaries, regular wage raises and payment of bonuses, absence of discriminatory practices on the basis of gender, age, religion and political convictions at hiring and in the course of career growth, and skills upgrading.
- One half of the companies carry out environment-related events of social responsibility, most often, in the form of implementation of power-saving technologies and waste re-processing. Environmental responsibility is perceived by the companies rather as compliance with environmental standards than attempts to reach performance that exceeds the regulatory norms.

- Almost all companies carry out social responsibility measures aimed at their clients or business partners. The most widely spread CSR form as regards consumers and partners is product quality assurance, followed by ethical conduct training for employees.
- In contrast the situation with understanding of CSR, **large companies lead CSR implementation in all directions**. Large companies, much more often than small and medium enterprises, take part in regional programmes, take environment-related measures and carry out CSR events aimed at their employees. At the same time, no significant differences concerning product quality assurance exist among different size enterprises.

#### **Principal partners in CSR activities development**

- **Local authorities are the companies' principal partner in development of CSR programmes**, leaving organisations representing the civil society (NGOs, mass media and other organisations and agencies) far behind.
- The level of cooperation with local authorities in development of CSR activities is directly proportional to the size of the enterprise: the larger the enterprise is, the higher the cooperation level. A relatively low level of cooperation between small enterprises and local authorities is apparently related to a higher degree of vulnerability to pressure on part of local authorities (“involuntary cooperation”), with the small enterprises having the richest experience in that.
- NGOs, as well as the civil society organisations, play an insignificant role as companies' partners in the process of CSR activities development. This reflects the inadequate level of development of the infrastructure intended to provide CSR services to companies.

#### **Socially responsible activities as the companies' strategy**

- Only one third of the companies have strategic plans for CSR measures, that is, CSR at present has not become a part of Ukrainian enterprises' strategic management. The above-average share of small and medium enterprises among those that have strategic plans testifies to proliferation of strategic social planning practices in that sector.
- Formation of special functional units for strategic planning of CSR events is so far a matter for the future. Development of a socially responsible direction is most often carried out by the company director, deputy directors or marketing and PR departments.
- Companies do not have a well-developed CSR management; the monitoring functions for social programme implementation are not effective. Monitoring the results of the implementation of social programmes is as rare as the monitoring of proper funds utilisation
- Less than one third of companies have a special social budget. This testifies to the fact that CSR activities have not yet become an essential component in the company development strategy.

- The increase of expenditures on social measures testifies to slow growth of the companies' social activity over the last three years. Although growth of budgets for social programmes has been observed at enterprises of any size, it has been characteristic primarily of large businesses.
- On the whole, the majority of companies believe that their socially responsible policies over the last three years have promoted improvement of their employees' attitudes towards the company. A large part of the enterprises acknowledge the overall social effect (benefits for the society). Almost one half of the companies indicated that the CSR activities influenced improvement of economic performance.
- Businesses do not practice social reporting. The majority of the Ukrainian enterprises have never prepared such a report, either as a separate document or as a part of the company's comprehensive reports.
- The companies' disclosure by of information about themselves remains another potential direction in which Ukrainian businesses can become more mature. Only a small percentage of Ukrainian companies provide information about their activities to external channels.

#### **Incentives, obstacles and prospects CSR programmes development in Ukraine.**

- The majority of Ukrainian companies believe that the principal motivators for CSR activities are moral reasons and the perception of CSR is as a paramount component of the company's strategy. This indicates that the idea of **inseparability of CSR activities from companies' commercial interests is not popular in the Ukrainian society.**
- At the same time, the survey results provide reasons to assume that companies do not wish to declare openly that they engage in CSR not only for moral reasons, but also in order to improve their image with partners and consumers, as well as for purely business-related reasons. In our opinion, that situation emerged for two reasons. Firstly, it reflects the average citizens' generally negative attitudes towards business in the Ukrainian society. Secondly, CSR activities may be regarded as an indicator that companies conceal their real profits. Proceeding from that, companies try to hide their CSR activities in order to avoid attracting the attention of taxation authorities or bodies of local power that may be interested in compelling companies to contribute to the resolution of social problems in their area.
- **The Ukrainian companies believe that CSR activities produce positive impacts on the results of their economic operations** primarily because they improve the companies' reputation, facilitate finding and retaining highly qualified employees, as well as helping to establish contacts with bodies of power. Among other matters, this reflects an important role played by non-financial incentives for the retention of qualified employees, and also the high importance of relations with bodies of power for overall successful business.
- Every fifth company conducts its CSR activities without highlighting its name before the public, while others use CSR events for the purposes of PR.

- Among the greatest **obstacles** to CSR activities, companies cite **the lack of funds, and insufficient legislative incentives for CSR events (including absence of taxation preferences)**.
- In the companies' opinion, cut-rate taxation of CSR activities and mitigation of regulatory and administrative pressure are the most important stimuli for development of CSR programmes. Large business also expects a greater share of cooperation in CSR activities on part of local authorities. Apart from that, there appears a demand growth for (local) organisations that could collect ideas for CSR and provide services to companies in implementation of CSR events.
- **Three quarters of the companies surveyed give preference to the “motivational” strategy of the State in engagement of business to resolution of social issues**, i.e. they believe that the State must both ensure the taxation discipline in order to collect sufficient tax amounts to resolve social issues at the budget cost, but it should also offer incentives to business to carry out CSR events and participate in providing for social needs.

Надруковано ТОВ "Твіса ЛТД" 02002 м. Київ, вул. Каховська, 64 а, 15  
04050 м. Київ, вул. Артема 77, оф.722  
тел: +38 (044) 455-94-93; 455-94-96

Свідоцтво про внесення суб'єкта видавничої справи  
до Державного реєстру видавців, виготовників і розповсюджувачів видавничої продукції.  
Серія ДК №2391 від 26.12.2005 р.

Цей звіт було підготовлено Аналітично дорадчим Центром Блакитної Стрічки ПРООН в Україні

Наклад 50 примірників

**ISBN 966-96629-0-7**

Printed: "Tvisa LTD", 64A, Kahovska Str., apt. 15, Kyiv, 02002  
77, Artema Str., apt. 722, Kyiv, 04050  
Tel: +38 (044) 455-94-93; 455-94-96

Sertificate of registration in the State registry of publishers and distributors of publishing product  
DK №2391 of 26.12.2005

The report was drafted by the UNDP in Ukraine - Blue Ribbon Analytical and Advisory Centre (BRAAC)

Circulation 50 copies

