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2008

Online at <http://mpra.ub.uni-muenchen.de/15043/>  
MPRA Paper No. 15043, posted 05. May 2009 / 22:04

# HOW MUCH (E)S IN CSR?\*

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FIRST VERSION: JUNE 2008

THIS VERSION: AUGUST, 2008

SUBSTANTIALLY REVISED

## Abstract

This paper approaches the problem of CSR in the context of social economy development in New Member States at the example of Poland. We explore the opportunities for companies to engage into socially beneficial undertakings with direct rather than indirect economic advantages. Namely, we demonstrate to what extent currently existing legal regulations enable bridging the world of civil society institutions with corporate world. We suggest that even without specialized instruments adopted and implemented by CEECs governments, innovative inclusion solutions developed by civil society organizations may actually provide sufficient incentives for companies in new member states to develop CSR.

We suggest that for instance standard handicapped rehabilitation legislation not only enables CSR through social inclusion, but actually provides strong financial incentives. We furthermore raise the issue of how legal regulations regarding the labour market situation of other groups endangered by exclusion may lead to unfair competition between the groups of excluded. Finally, we suggest a mechanism for fostering CSR *via* social enterprises.

**Key words:** social economy, social enterprise, levy-quota system, corporate social responsibility

**JEL Codes:** A13, M14, D71

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\*Authors thank Kuba Wygnański and Marek Łukomski as well as participants of 3rd CORE conference at International Centre for Corporate Social Responsibility of Nottingham University for valuable suggestions. Usual disclaimer applies.

## Introduction

Social economy (fr. *économie solidaire*) has seen its giant resurrection in CEECs subsequent to the EU accession, the onset of which made CI EQUAL resources available to civil society organizations in these countries. Over 100 development partnerships in Poland alone have attempted implementation of diversified and innovative solutions aiming at social inclusion. Vast majority of these undertakings involved creating either transitory or long term employment opportunities, while only approximately a half of them named public administration to be their main client. In other words, for over fifty entities targeted fully commercial companies in marketing their products, thus aiming at effectively creating sustainable jobs in actually quasi-corporate segments of the goods market.

This paper approaches the problem of CSR in the context of social economy development in New Member States at the example of Poland. We explore the opportunities for companies to engage into socially beneficial undertakings with direct rather than indirect economic advantages. Namely, we demonstrate to what extent currently existing legal regulations enable bridging the world of civil society institutions with corporate world. We suggest that even without specialized instruments adopted and implemented by CEECs governments, innovative inclusion solutions developed by civil society organizations may actually provide sufficient incentives for companies in new member states to develop CSR.

There are considerable differences in the way social economy evolves in European countries. Traditionally, the British tradition of a social enterprise focuses on creating value added to the society, while for example French and Italian legal regulations gear the evolution of social economy towards employment creation and social inclusion. Transition economies - despite long tradition of cooperatives prior to the outburst of the WW2 - are facing now the challenge of shaping the evolution of their local social economy model. For a number of reasons, the renewal of this trend resorts to the resources and innovative potential of the non-governmental organisations and civil society institutions.

In building the argument we use the data collected by one of the CI EQUAL partnerships, whose principle aspiration was to observe and understand the development of the Polish social economy model. We resort to a number of case studies including undertakings, who targeted (i) mentally disabled, (ii) mentally sick (iii) long term unemployed and (iv) Roma. We demonstrate how standard regulations enable creating lasting economic value for both client-corporations and provider-NGOs.

We suggest that for instance standard handicapped rehabilitation legislation not only enables CSR through social inclusion, but actually provides strong financial incentives. We furthermore raise the issue of how legal regulations regarding the labour market situation of other groups endangered by exclusion may lead to unfair competition between the groups of excluded. Finally, we suggest a mechanism for fostering CSR *via* social enterprises.

This paper is structured as follows. Next section presents a theoretical model describing the framework in which social economy can actually serve both as an instrument for social integration and corporate social responsibility. This model mimics the essential assumption of many legal frameworks in Europe. Further, we discuss the model applicability. We then present cases of success stories and potential success stories. Finally, we proceed to policy implications of these findings in the concluding section.

## 1 Model for social inclusion through CSR

It has been frequently argued that CSR needs to create benefits to corporations in order to maintain sustainability of particular solutions (cfr. Preston (1988)). However, as some studies demonstrate, these benefits may well be intangible, by creating the "sense of cause" among employees as well as positively affecting company's public image. For example, Muthuri, Moon and Matten (2006) analysed the cases of employee volunteering and found that people engage in locally beneficial initiatives in the framework of CSR because they actually believe in them. Thus, similar as Adam Smith has put it years ago, either the (direct) benefit or the benevolence can be important stimuli for CSR emergence.

Nonetheless, most corporate representatives would argue that without long-term benefits horizon, management engagement in CSR would be limited to actions rather than sustainable strategies. Since social inclusion is the area, where sustainability is especially viable, we tried to construct a framework in this vain.

### 1.1 Model setup

In order to present a framework through which CSR may actually serve the purpose of social inclusion we suggest the following model. Consider an economy with two sectors of production: intermediary ( $x_i$ ) and final ( $y$ ) goods. The final goods sector uses labour ( $l_j$ ) and intermediary products in its technology with the following production function:

$$y = (\sum x_i)^\alpha l_i^\beta, \quad (1)$$

with  $\alpha < \beta$  and  $\alpha + \beta \geq 1$ . The first property assures that labour brings more value than the intermediary products to the producer (it mimics high value-added sectors), while the latter allows increasing returns to scale in the final good sector. For simplicity of derivation, we further assume intermediary sector to employ only labour with the following technology:

$$x_i = l, \quad \text{if } l = l_1 \quad (2)$$

$$= l^\gamma, \quad \text{if } l = l_2 \quad \text{with } \gamma < 1. \quad (3)$$

More explicitly, intermediary sector can employ type one labour force ( $l_1$ ) that is regular workers. Alternatively, intermediary sector may serve to employ otherwise less employable workers (e.g.

handicapped, people with very low or without skills, other groups defavourised on the labour market). In order to make this model as hostile as possible to creating jobs for less employable workers, we assume them to be less productive (in the model accounted for by  $\gamma < 1$ ).

Assume further that the cost function in either sector of the economy needs to account for wages and for a payroll tax paid by all those employers who refuse to offer jobs to less employable workers. This form of punishment is frequent in most European countries. First of all, most European countries implemented a levy and quota system in the case of handicapped employment, which imposes a penalty payroll tax if minimum share of handicapped is not met. Also in most countries companies provide a contribution to employment funds (as in the previous case, relative to payroll) either explicitly in the form of unemployment insurance (e.g. Germany) or in the form of passive and active labour market policies contribution (e.g. Poland). Therefore, the cost function in the intermediary sector will be given by:

$$\begin{aligned} TC(x_i) &= w(1+t) \cdot l, & \text{if } l = l_1 \\ TC(x_i) &= l, & \text{if } l = l_2 \end{aligned} \quad (4)$$

where the wage in of the less employable workers is normalised to unity for simplicity. In the final goods sector the cost function is then given by the following equation (for simplicity again we normalise the price of intermediary goods to unity):

$$TC(y) = \sum x_i + w(1+t)l. \quad (5)$$

Obviously, this set-up allows for any combination of type 1 and type 2 workers employment. Importantly, as it will be demonstrated below - under these assumptions the main benefit of employing type 2 workers comes from the redemption of the payroll tax imposed superficially by the states. In other words, CSR through social inclusion will not be an economically efficient solution *per se*, but only the best one in the institutional framework of levy and quota type of systems. Still, this highly stylised framework is designed to demonstrate that it is not only employment substitution that will be the outcome of the punishing tax, but also general employment creation. We aim to demonstrate that with CSR through social inclusion one actually creates jobs for type 1 workers too.

In this setup one should consider four most distinguishable cases:

- **Case 1.** Final goods producers employ only type 1 workers and intermediary sector employs only type 1 workers

$$\begin{aligned} x &= l_1 \quad \text{and} \quad y = x^\alpha l_1^\beta = l_1^{\alpha+\beta} \\ TC(y) &= w(1+t) \cdot l_1 \\ \max \Pi(l_1) &= \max\{\sum x_i^\alpha l_1^\beta - w(1+t)l_1\} = \max\{l_1^{\alpha+\beta} - w(1+t)l_1\} \end{aligned}$$

- **Case 2.** Both sectors employ both types of workers, so none of them pays the punishment payroll tax

$$\begin{aligned}
x &= \sigma l_2^\gamma + (1 - \sigma)l_1 \quad \text{and} \quad y = (\sigma l_2^\gamma + (1 - \sigma)l_1)^\alpha \cdot (\sigma l_2 + (1 - \sigma)l_1)^\beta \\
TC(y) &= l_2 + w \cdot l_1 \\
\max \Pi(l_1, l_2) &= \max\{(\sigma l_2^\gamma + (1 - \sigma)l_1)^\alpha \cdot \sigma l_1^\beta \cdot (1 - \sigma)l_2^\beta - l_2 - w \cdot l_1\}
\end{aligned}$$

- **Case 3.** Final goods sector employs type 1 workers and intermediary sector employs only type 2 workers, but due to the benefits of levy quota system he may provide a payroll tax discount to the final goods producers

$$\begin{aligned}
x &= l_2^\gamma \quad \text{and} \quad y = (l_2^\gamma)^\alpha l_1^\beta \\
TC(y) &= l_2 + w \cdot l_1 \\
\max \Pi(l_1, l_2) &= \max\{(l_2^\gamma)^\alpha l_1^\beta - l_2 - w \cdot (1 - t) \cdot l_1\}
\end{aligned}$$

- **Case 4.** Final goods sector employs type 1 workers and intermediary sector employs both types of workers (which effectively disables them to provide payroll tax discounts, but they are not expected to pay the fine themselves)

$$\begin{aligned}
x &= \sigma l_2^\gamma + (1 - \sigma)l_1 \quad \text{and} \quad y = (\sigma l_2^\gamma + (1 - \sigma)l_1)^\alpha l_1^\beta \\
TC(y) &= l_2 + w(1 + t) \cdot l_1 \\
\max \Pi(l_1, l_2) &= \max\{(\sigma l_2^\gamma + (1 - \sigma)l_1)^\alpha l_1^\beta - l_2 - w(1 + t) \cdot l_1\}
\end{aligned}$$

Analytical solutions for these four cases are difficult for comparisons. Therefore, based on the same assumptions about the parameters in each case, we have simulated the model with the optimisation algorithm. The only additional assumption necessary for this procedure was to impose a demand function (otherwise profit function was not concave), which was done by assuming  $P(y) = A - y$ . In other words, demand for final goods is considered linear, while the marginal value  $A$  was chosen so as to assure positive profits (this value is the same for all four cases analysed). The results of the simulations are depicted in Figure (1).

An important remark should be made about the creation of jobs for "type 2" workers. Namely, analytical specifications presented above suggest that actually intermediary sector will have so to say infinite demand for  $l_2$ . This would not be a realistic assumption so the optimisation algorithm has been constrained with the fixed proportion of  $l_1/l_2$  following from legal regulations. We allowed some confidence band around this imposed floor.

The main variable of interest here is total employment counted as a sum of  $l_1$  and  $l_2$ . As may be observed from the graphs, the highest job demand is generated in case 3. The "close second" of case 2 corresponds to an unrealistic scenario in which all types producers employ both types of workers

- although the experience of some countries could suggest optimism, in most European economies employers are reluctant about hiring workers with social or health handicaps. Higher values of total employment in this simulation are associated with job creation for both targeted ( $l_2$ ) and non-targeted ( $l_1$ ) workers. The difference between the cases is indeed considerable: approximately 10 in case 1 to approximately 25 in Case 2 and 3. The main vehicle here is general cost reduction, allowing to lower the price of final product too. This simulation confirms our prediction, that actually through outsourcing to specialised suppliers with the benefits of levy-quota system job creation occurs actually for all types of workers.

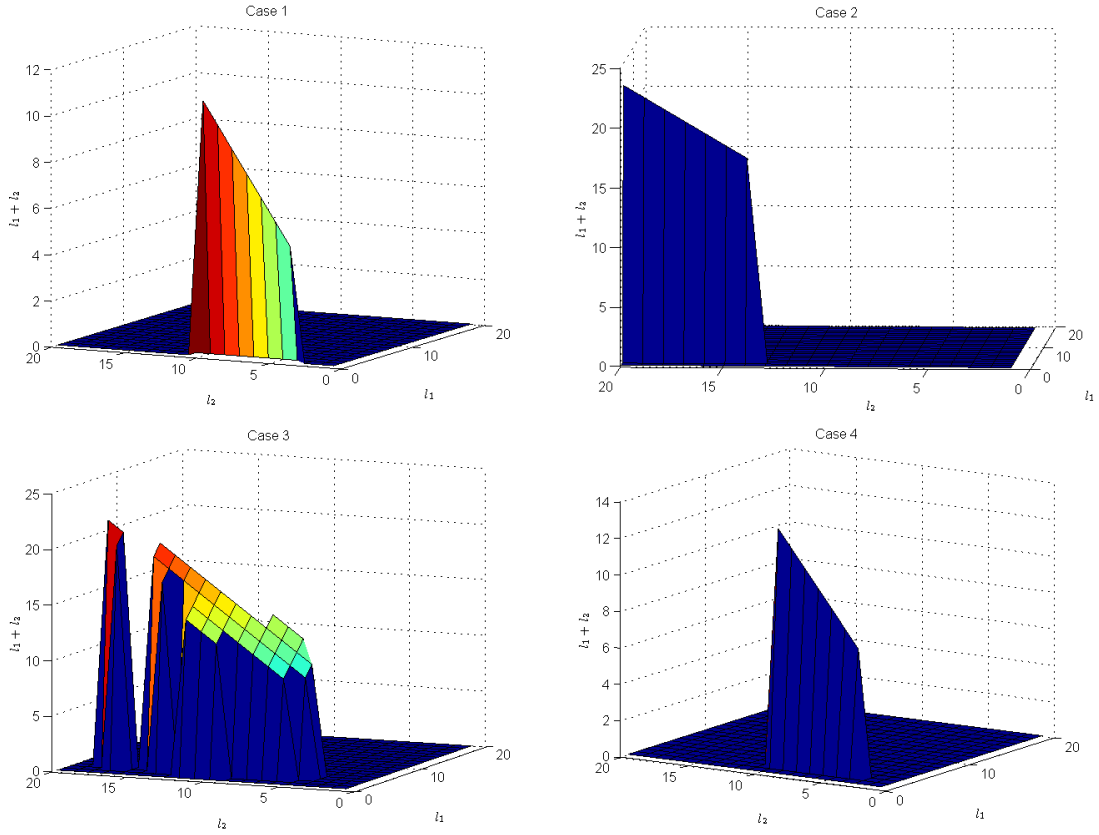


Figure 1: Simulation results

*Notes:* Simulation under the assumption of  $t = 3\%$ ,  $\sigma = 6\%$ ,  $\alpha$  distributed over 0.3 and 0.7,  $\beta$  distributed over 0.7 and 1 and  $\gamma$  distributed over 0.5 to 1. The value for  $A$  assuring positive profits identical in each simulation.

## 2 Model applicability

Since the case of social inclusion through CSR strictly dominates the remaining ones in terms of profitability to the corporate sector (as well as employment creation), two important questions may arise. First, rather obvious, would concern the observation that we only observe little research work on initiatives similar to the described framework - why? Secondly, why should it be considered

CSR, if corporations actually derive higher profits from its implementation? We will address these questions in this section.

## 2.1 How CSR this model is?

As noted by Jonker and van Pijkeren (2006), CSR raises "three organisational challenges: (i) how to get things organised internally, (ii) how to organise the interface and finally (iii) the nature of partnerships needed to address specific issues. A strategy for CSR is all about intentionally creating value for a wide(r) range of stakeholders". However, research concludes that CSR models that are supposed to define the construct failed in bringing a model to analyze and assess it (cfr. Clarkson (1995) and Husted (2000)). The view that early research on CSR was restricted in drawing conclusions based on respondent perceptions rather than data on actual behaviors of firms (Thompson and Smith 1991) point to the problems with assessment.

It cannot be denied that the subjective nature of CSR concept worked to increase the delay in translating ideas to behaviors. More recently Mikkila (2003) also pointed to the need for further research in making corporate responsibilities operational after observing the great flexibility with which CSR is practiced. One main accomplishment to this end is Preston's (1988) definition of CSR which suggests posture toward corporate social responsibility, corporate social responsiveness and social performance as three dimensions to be considered. Actually, the definition of Preston implicitly identifies stages of CSR implementation as (i) development of awareness and recognition of social issues, (ii) analysis and planning, (iii) showing response in terms of policy development and (iv) implementation.

Jonker and van Pijkeren (2006) suggest that a viable CSR strategy is grounded in the awareness that the contemporary environment requires an organisation to manage a broad compilation of assets in order to create economic, human, social and ecological value for all relevant stakeholders. Their division between the outside-in and inside-out strategy looks at the (external) orientation of an organisation. An outside-in strategy is grounded in a risk orientation and is shaped through issue-based management. The needs and expectations of relevant and legitimate stakeholders are perceived and lead to specific managerial actions. Those actions are focused on minimising and mitigating risks and accompanying costs of especially reputation damage. The inside-out strategy is not based on actions derived from environmental expectations and risks but grounded the identity and underlying values of the organisation.

Indeed, a suggested model is a mixture of the two. It stems from issue-based management, since intermediary sector producers are actually suppliers integrated in a business process of final goods producers. Thus, it is an exemplification of an outside-in strategy. At the same time, it is also inside-out, because it has to start at acknowledging the needs of the society to promote social inclusion and secure employment opportunities for everybody.

At the same time, it is worth noting, that one cannot consider commercial contracting to



”inclusive enterprises” without necessary contexts, which actually provides the strongest argument for putting the CSR notion in this model. Firstly, shifting contracts from ”standard” providers to ”inclusive providers” actually contributes to employment destruction among the former (argument is quite similar in the case of outsourcing implementation). Therefore, such initiatives always need to be considered in the broader context, taking into account transition periods and considering opportunities for change accommodation for type 1 workers and their employers.

Secondly, this type of contracting may actually require more effort from the side of buyer - ”inclusive providers” are more experienced in what they consider to be their core activity (inclusion and reintegration), possibly lacking some important business skills. This may have negative impact on delivery times and overall reliability of these business relations.

Finally, for the reasons mentioned above, ”inclusive providers” may find it necessary to receive some training and general support. It is widely recognised that within business networks even without ownership integration, know-how and technological advancements are transmitted sometimes asymmetrically for the mutual benefit. In the case of contracting to ”inclusive providers” this may indeed be indispensable. Potentially, this may lead to concentrating these enterprises in lower value-added segments for successful partnerships, but may also constitute an important hindering factor in the kick-off stage.

Therefore, there are some elements of business process practices that this model does not comprise for the reasons of simplicity. At the same time, these are exactly the factors that provide ”social responsibility” justification to otherwise business-wise strategy.

## **2.2 Do we observe this type of initiatives?**

Analysing the evolution of the co-operatives in Italy, one can state that their popularity and applicability has increased with the legislation of 1988 and subsequently in 1991. It allowed regular enterprises - employing only ”good” workers - to buy the legally required quota of ”bad” workers in even unrelated enterprises. The frequently evoked framework of so-called multi-stakeholder co-operatives is one of the responses of social enterprises, commercial enterprises and local authorities to the intensifying challenges of social inclusion. However, the whole area of social entrepreneurship may be to a large extent fitted into this framework. According to Dees (2006), social entrepreneurship combines the discipline, accountability with Say’s ideas of value creation, Schumpeterian concept of innovation through the agents of change as well as Druckerian resourcefulness and Stevensonian sense of taking each opportunity. Social entrepreneurs play the role of social change leaders by:

- accepting and sustaining the mission of value creation - both commercial and social;
- seeking and taking unbounded advantage of arriving opportunities in the process of mission implementation;

- engaging in the process of continuous innovation, adaptation and learning;
- daring to aim at things unavailable with current resources;
- and finally, assuring transparency to citizens and in as far as outcomes are concerned.

Even if we consider this definition to be of idealistic nature, the same is true for the ideas of Say, Schumpeter, Drucker, Stevenson and others with respect to regular, commercial enterprises. The most innovative usually set pace while the others assure supply of intermediary products and demand for the final ones. Similar to this case, existing social enterprises - under various national legislations and frequently with country-specific inclusion objectives - provide opportunities for "regular" commercial enterprises in their social responsibility efforts. Depending of the level of commitment of a particular firm and a level of sophistication of its social partner, particular solutions may actually fulfill the idealistic expectations of the above definition.

CSR has so far exhibited in a number of ways. In some regions of Italy food processing companies engage into partnerships with local social enterprises in the area of food production and pre-processing. This way they also buy the legally required share of specific groups employment instead of providing jobs to these groups themselves. They are also successful in building the image of local company, which is then widely exploited in brand creation. Also in Italy, many of the hotels and restaurants fostered the development of small local enterprises who could provide products like candles, flowers, towels, etc. This has enabled them to more flexibly adjust employment (in high-season periods they have outsourced some workers from suppliers) while they also coupled this with the purchases processes (some orders concentrated in low-season to assure work for everybody throughout the whole year). Explicitly, they have targeted integration of long-term unemployed and women returning to the labour market after long periods of inactivity.

In some regions of suburban France, social enterprises creating transitional employment for former addicts provide door-to-door service of fresh vegetables and fruits on a regular basis. This therapeutical programme comprises food production and distribution as means of reintegration and parts of social-retraining. Local shops - even franchised networks - take a non-competitive position actually advertising the alternative ways of fruits and vegetables provision to their clients. They also financially support the existence of these temporary jobs. By the time these workers complete their therapeutic programme, they are already known to the potentials employers as well as clients, which makes them more employable.

In Hungary and Romania the cases of successful social inclusion of Roma population have served as comparative advantage in building the attractiveness of particular tourist locations. Intensive external investments in hotel infrastructure were coupled with the development of local brands for artisan products as well as restaurants.

In Germany one of the biggest consulting and training companies has outsourced the process of handouts and furnishing publications to a social enterprise focused on creating jobs to the highly

handicapped. They receive the materials in the electronic version and prepare the ready printouts along the corporate guidelines, mantling them in a form designed to a particular event (report enouncement, training, etc.). Company stresses that their own highly skilled employees - right now released of this obligation - have actually increased productivity in other areas, while handicapped are in fact more efficient in their part of the job than was observed without this outsourcing.

These examples are actually only few of hundreds of initiatives developed and implemented throughout Europe. Most of them emerged as specific phenomena, where an idealistic idea for social inclusion was matched with the responsible commercial partner. Rarely were they induced by central or local authorities. However, naturally governments may provide incentives - like the payroll tax redemption in the levy quota system - to foster their development.

Importantly, this form of CSR creates very wide - if not wider - opportunities for SMEs. Usually CSR campaigns as well as scientific efforts focus on large, multinational companies. This particular model actually works and evolves best in the local context, frequently when it comes to the products for the local needs and only potentially participating in a global production chain.

### **3 Success stories on social inclusion through CSR in Poland**

In this section we describe three case studies of social inclusion based on cooperation with corporate sector (cases are described anonymously). All cases come from a research programme "In the Search for Polish Social Economy Model" realised over 2004-2008 time span.

#### **3.1 Case study 1.**

This institution focused on creating employment opportunities to handicapped (mentally sick people are the primary target). The founders - former therapists - commenced their activities in 2003, but were largely unsuccessful in job placements. Potential employers were reluctant to offering even temporary employment to people with mental institution history. Therefore, the organisation decided to create jobs themselves. Responding to the changing ecological legislation, they commenced the collection and sorting of paper, plastic, glass and metal wastes. After sorting, waste is collected by a partner recycling company for further technological processing.

All employees of this organisation perform all obligations (collecting and sorting) under a shift routine, providing also necessary time for contact with a therapist and/or treatment within working time. The costs of employment are partly refunded under the current legislation, which allows to cover the emerging productivity gap. Collecting the waste occurs on a door-to-door basis - employees provide inhabitants with special garbage bags, which are subsequently collected after an agreed period of time, replacing it with a new one. Employees have, thus, constant with clients, who respond positively and friendly. Only few duties (driving cars and administration) are performed by non-handicapped workers.

According to the therapists, working significantly contributes to their patients recovery and stabilisation. Furthermore, since this is ecological work, patients consider themselves to work for the benefit of others rather than performing otherwise "secondary" activities. At the same time, employees are very reluctant to use their vacation period (under Polish legislation, time off for the handicapped is longer than for "regular" workers, in addition there is a rehabilitation leave of two weeks per year) - they consider this to be a destabilising element<sup>1</sup>.

This organisation currently employs approximately 850 people with approximately 10% of annual turnover (organisation aims at creating 200 new jobs each year). They serve 60 000 households (180 000 citizens) of Warsaw. Annually, they contribute to approximately 25% of the waste sorting in Warsaw (not all of the waste is being sorted and recycled). The organisation and its partners implemented ISO 9001 norm. Education of citizens (*via* the bags and the instructions provided to the clients) is an area where this organisation is currently intensifying efforts. They cooperate with two fully commercial utilising companies, who collect sorted wastes for further processing. These are business-based relations, but these companies too take efforts to propagate this model of social inclusion. These companies provided the necessary equipment for sorting as well as liquidity to cover payroll expenses in the first few months of the project implementation. In the words of the founders, crucial financing they were not able to obtain from public institutions was provided by commercial enterprises convinced this project will provide social benefits.

The founders of the organisation estimate that they reduce the expenses for handicapped benefits by more than 70% (the subsidy for each employed worker amounts to 70% of the benefit, to which the handicapped would have been otherwise eligible). Importantly, clients do not pay for the waste collection - this leads to significant reductions of the waste expenses among these households, while the organisation records revenues only from selling the sorted waste for further recycling. Therefore, the founders assess that waste expense reduction for the clients amounts to approximately 50%, while the only waste they leave unaddressed - the organic waste collected by other waste companies and not sorted in any way - is the one most easily absorbed by nature<sup>2</sup>.

Currently, the organisation commences cooperation with a large, multinational furniture retailer. Organisation will intermediate in the collection of paper and plastic waste from the retailer to the processing companies. The main area of cooperation, however, will be the collection and renovation of exhibition furniture. Subsequently, this furniture will be bought by the retailer and offered either to the retailer clients or *pro bono*. In addition, the organisation will probably be also providing cleaning services to the retailer (retailer is currently expanding in Poland, so they plan

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<sup>1</sup>This actually provides another argument in favour of specifying  $\gamma < 1$  in the theoretical model. Namely, regardless of individual potential, legislation imposes that per person employed, annual number of days to be productive is lower in the case of handicapped.

<sup>2</sup>Three times a year this organisation collects also so-called "large-waste" (e.g. furniture). This is announced year ahead. Organisation currently develops a programme that will enable them to expand activities into renovation or utilising these wastes too.

to relocate current cleaning staff to other warehouses, no employment reductions are planned).

In addition, some of the employees are transferred from sorting and collecting teams to teaching teams. These groups provide trainings about ecology in communities, schools, etc. This way organisation organisation not only recruits new "clients" and increases the level of ecological awareness among the citizens, but also improves social image of the handicapped. Transfer to teaching teams is subject to therapeutic progress and personal abilities (former education, psychological ability to perform publically, etc.).

Finally, all commercial clients of the organisation may benefit from a payroll discount, as suggested by the theoretical model. Organisation, having extremely high handicapped head count, can distribute approximately 70% of its monthly payroll (without subsidies) to client companies in the form of handicapped contribution tax.

### **3.2 Case 2.**

This organisation focuses on reintegration of homeless and long term unemployed. They provide shelter and therapy for the period of 12 months, over which beneficiaries are expected to get engaged into the activities of the organisation's business partners. Namely, they are in partnership with local enterprises providing cleaning services to the offices in one of Polish cities. With the improvement of labour market situation in Poland, these enterprises struggled with finding committed and responsible workers.

Partner enterprises serve all local authorities offices (as well as their subordinate institutions) and some commercial office buildings. To avoid "crowding out" of regular workers with the beneficiaries of the organisation, all partners have taken the effort to increase the base of clients and thus demand for their services. In addition, regular workers were leaving for better employment opportunities, leaving these positions available to the beneficiaries.

Currently over 300 people is employed (out of which all were without employment for at least few years and approximately 20 are successfully reintegrated homeless). Employment is temporary by definition (may not exceed a period of two years) and there are no public subsidies. Throughout this period employees may receive additional training (basic training is provided to everybody) as well as psychological support. To foster stabilisation of the beneficiaries, they draft life plans and discuss them in group meetings as well as directly with personal advisors. Since office cleaning is afternoon and night employment, there is natural time space for integrating meetings in the mornings. Also, beneficiaries may participate in education (complete high school diploma for example).

### **3.3 Case 3.**

This organisation too focuses on long term unemployed and homeless. Organisation is community based with the main principle that one is never too poor to help. All beneficiaries are members

of the community. In addition, this organisation favours the self-sustainability principle, which means they have no external sources of financing.

The main area of activity is collecting no longer operational home appliances, audio equipment, furniture, cloths and books. These are collected either directly from the owners or during the trading days organised few times a year. Collected things are subsequently repaired and either sold (during the trading days) or given to the needing ones. Selling equipment is the only source of income of the community. Occasionally, they receive food donations from local entrepreneurs, but it is something they do not seek to acquire.

Currently, the community comprises nearly 150 members and everyone has to work for the community. However, there is no formal employment contract between the members and the community. Community provides shelter, food (prepared by the community members) and a monthly stipend within the tax free boundaries. With the principle of reciprocity, community members are expected to advance their own development and contribute to the community. Everyone's participation and commitment is evaluated by the rest of members on a regular basis. All these rules are elements of therapy and reintegration programme.

Over the past years local enterprises were engaged into a number of initiatives with the use of community. One principle activity is to collect books from the school libraries and from the graduating pupils and repair them. The books are sold during the educational fairs in the form of licitation and subsequently given back to the schools or newly arriving pupils. Money raised finances new books purchases and the organisation, while this is the buyer who decides how his price is split between the two.

Some of the fairs are organised by local enterprises in the framework of their employee integrating activities. More and more frequently, businesses consider this community to be a good channel for doing good. For example, they organise dedicated fairs to a social cause - employees and other invited guests purchase the products provided by the community, but part of the revenues is then redirected to a social cause. For example, since most community members struggle with alcoholism, they do participate in activities supporting family violence victims or children abused by the parents. With this growing interest the community observes over 20% revenue growth each year, while their client base has changed from the needing ones to regular clients. This way also the skills of the community members needed to be improved (different target groups implied different products), which created more sustainable base for their future independent employment.

### **3.4 Common practice of the analysed cases**

In the above sections we described only three cases of NGOs representatives efforts to trigger social inclusion with the great role of commercial enterprises. In all analysed cases, these were medium size companies (SMEs) who put their own financing or efforts into developing institutional framework for social inclusion. Although we only presented three cases, in fact this type of model

was found to be the major success factor in the project analysing 50 social entrepreneurship initiatives.

Projects like these are predominantly instigated by NGOs, whose role in dealing with the problem of unemployment and exclusion in Poland is indeed remarkable. According to Rogaczewska and Tyrowicz (2006) this is especially visible when one considers the problems of high-risk groups. One should not conclude, however, that NGOs are only good for some marginal target groups of beneficiaries. The cases we described provide evidence of essentially "mass" character of created employment opportunities. Secondly, while working with these groups, NGOs were able to gain unique experience and universal competences in labour market services. They succeed in implementing quality standards, they launch innovative solutions, and they effectively empower their beneficiaries, thus giving them life-skills and the instruments to fight for their own interests in the society.

In the attempt to overcome these problems, some NGOs have also developed extremely valuable competences of creating bonds not only within the society, but also with the administration representatives and businesses. The ability to involve essentially uninterested officials or businessmen with the actual change in the process of "making the difference" is one of the key indicators of NGOs maturity and ability to create strong social bonds, thus increasing the level of social capital.

Innovations in therapeutic and activation techniques can only be successfully spread and disseminated through social bonds. Unlike in plain business activities, where lack of will can be compensated financially up to the economically effective level, in the domain of social services, mutual involvement of stakeholders is a necessary precondition. This is not to say that economic efficiency criterion must not be applied to social services analysis. However, as much as innovative capital is crucial for the outcome, social capital may be perceived as the sole mode of implementation.

The main advantage of NGOs is their capability to mantle differentiated competences which may seem to be even contradictory. They individualise their services so as to adapt them to each particular case but at the same time, they strive to standardise of the quality of their services. The potential of NGO in the sphere of building social capital in the local environment, mainly through social inclusion and active labour market services is remarkable. Non-governmental activity can also be perceived an indicator of a systemic weakness of public employment services in Poland.

### **3.5 Policy implications**

Importantly, the theoretical model of cooperation we described earlier seems to be operational very frequently. However, only in the case of handicapped the actual payroll discount is allowed under Polish legislation. Every enterprise which falls short of their own handicapped head count requirements, may purchase products from other enterprises employing handicapped and thus

benefit from the payroll tax discount. Although enterprises pay obligatory payroll tax for the unemployed of comparable size (so-called Employment Fund contribution), they cannot receive discounts on this tax from enterprises focused on social reintegration of healthy but otherwise deprived people.

This legislation actually favours job creation for a specific target group instead of general evolution of employment opportunities. However, applying the algorithm that concerns currently only the handicapped payroll tax to the obligatory Employment Fund contribution does not necessarily have to be the right solution. Namely, in the case of handicapped there is a legally required quota of handicapped employed (3% of head count for public administration and 6% for businesses). In order to extend this mechanism to other groups, one would need to impose the quotas of target group employment too. This would inevitably lead to inefficiencies and abuses. Therefore, it seems that the best solution would be to enable reductions (payroll tax redemptions) *via* purchases irrespectively of the own head count and its composition. This solution is in some ways similar to Italian type B cooperatives and seems to be quite successful.

## Conclusions

Corporate Social Responsibility has become an important area of debate over the recent decades. While we still lack a comprehensive framework for CSR, this paper suggests an additional channel. Namely, we demonstrated theoretical model exemplifying how CSR can serve as an instrument for social inclusion. We further presented two case studies which - in different areas - suggested possible benefits and drawbacks of this strategy.

The EU Green paper on CSR defined it as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" as they are increasingly aware that responsible behaviour leads to sustainable business success. McWilliams and Siegel (2001) define CSR as "...actions that appear to further some social good, beyond the interests of the firm and that which is required by law".

In this paper we tried to argue, that CSR can actually be successfully implemented by small and medium size enterprises. The theoretical model suggests a framework for CSR through social inclusion. We demonstrate that by responsible and careful choice of suppliers companies may contribute to social inclusion. Moreover, the effects of such strategies are better than complying with the legally required share of target group employment.

Case studies analysed demonstrate that regular business - with the highest possible commitment on their side - would not be able to provide care comparable to the one organised by NGOs. At the same time, various aspects of this care are actually the key ingredients for successful social inclusion and not just employment creation. The so-called civic society institutions - *via* their innovative solutions and creating social bonds with differentiated stakeholders - provide opportu-



nities for business to "do the right thing". At the same time, they business become one of the local resources blended with others for the mission of social inclusion.

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## 4 A1. Context of CI Equal implementation

For the period 2002-2006 CI Equal allocated approximately E 300 million within the European Social Fund, matched 1:1 with national contributions. Countries which entered the European

Union in 2004 (all of the CEECs Member States) only implemented CI Equal over the last three years. In Poland, there have been 107 partnerships in Phase I of the implementation, with budgets totaling E 175 million. The main principle of CI Equal has been to promote inclusion of defavourised groups.

The situation on the labour market in Poland has been extremely difficult for the past years, with the unemployment rates consistently above 18% thresholds<sup>3</sup>. In the age group 19-25 almost 40% of people able to work remained unemployed, while approximately 1 000 000 of young women has no or negligible work experience. At the same time labour activity in the group 50+ is among the lowest in the whole European Union, while only 10% of handicapped participate in any form in the labour market, most of which constitutes highly subsidised employment in the form of public refunds to employers. Such situation inevitably leads to massive scale social exclusion with unemployed bearing themselves most burdens of their underprivileged situation. Less than 15% of unemployed still retain the right to benefit - the majority can only profit from social assistance.

Low efficiency of public employment services (PES) in ameliorating the situation on local labour markets - resulting itself from shortage of funds and institutional design promoting passivity - creates a vacuum filled by non-public providers of social and employment services. Non-governmental organisations are the main and the most natural partner for public authorities here. Nonetheless, as suggested by field studies (cfr Rogaczewska and Tyrowicz (2006)), the approach of the latter is strongly marked with prejudices and misperceived rivalry for European funds. Thus any provider of the labour market services, if they want to be successful in implementing mission, have to inevitably create bridging capital with various stakeholders - including business sector - where social barriers are strong and persistent.

## **5 A2. The contribution of NGOs to employment promotion in Poland**

### **5.1 How do they do it?**

Most NGO activity in labour market services emerged as a result of two major deficits: insufficient communication between public agencies and their beneficiaries and insufficient impetus to mobilising dispersed local resources. Firstly, some therapists and social workers in the course of their work identify intrinsic problems neglected by administratively established definitions of the unemployed, the excluded and their problems.

They also develop techniques of dealing with these problems. For example, many of the soft labour activation methods are typically neglected by public agencies, while their role in the process of decreasing the distance to the labour market is significant. Similarly, some of the passive

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<sup>3</sup>All data based on registered unemployment official statistics.

and thus not considered as unemployed, may pertain outside the target groups of public agencies despite their potential to actively participate on the labour market and in the society. NGOs redefine the basic conceptualisation of what work with high-risk groups means, thus challenging the officially established definitions.

This innovation of NGOs is only possible to highly creative approach towards the precise diagnosis of the problems. They develop and implement techniques of entry interviews of the beneficiaries, together with them they perform current status analyses, carrier planning and define individualised success indicators. Diagnosis is then continued in interim evaluations of both beneficiaries advancement and performance of the organisation and its representatives.

After the completion of the programmes, most NGOs continue to maintain the close links with the beneficiaries, with two main advantages. Primarily, they are thus able to assess the appropriateness and effectiveness of the programmes in a longer perspective. Secondly, in some of the programmes former beneficiaries become involved in supporting the currently assisted. This latter element strongly reinforces strong bonds between the NGOs and the beneficiaries. While the first deficit originates from adopting communicative rules different from the ones applied by public agencies, the latter trigger of NGOs activity in labour market services bases on a outward orientation of the third sector representatives.

Successful reintegration requires placing the beneficiaries in employment, which is not always and not everywhere possible on the open labour market. Some groups of beneficiaries, like the mentally dysfunctional or the heavily handicapped can never compete for regular positions for a number of reasons, sometimes highly objective. Some other groups of beneficiaries, like former inmates, alcoholics or addicted to drugs require some transitional employment before successful placement on the open labour market becomes feasible. Dominant characteristic here is that NGOs perception exceeds skills required on the labour market, but covers also life-skills, civilisational competences and the ability to self-manage ones life. They raise the value of human capital by trainings but also increasing the capacity to exist independently on the labour market au lieu of the demanding approach. This form of empowerment allows for eliminating dependency in terms of both income and overcoming difficulties in life, by providing access to social networks and increasing the understanding of one's rights and obligations. The key quality here is the one's ability in broad understanding of the term.

Moreover, in the best interest of the beneficiaries, NGOs set up social enterprises actually creating jobs for the unemployed and excluded. As much as this cannot be treated as an ultimate solution due to the scale effects, it allows to raise practical skills as well as to create new services (usually requiring low skills) and new markets (usually local, but economically efficient). These activities typically require initial investment, but if costs of supporting the excluded as well as curing the consequences of family violence and addictions treatment are included, these enterprises are undoubtedly economically viable.

Summarising, NGOs active on a labour market change communicative rules on the local level. They communicate with the beneficiaries differently from the public agencies (thanks to precise diagnostic tools). Moreover, they also communicate differently with all the potential stakeholders, redefining the role of local business, local philanthropists etc. Not only do the NGOs creatively redefine social problems, but are also able to make others internalise these definitions. In this respect they alter the situation in the comparison to public agencies in the role of main local actor, as employment and social assistance offices most frequently follow the administrative definitions (typically poorly suited for local level diagnosis) and impose them. NGOs alter also the self-perception of unemployed and excluded.

## 5.2 What do they achieve?

To what extent social capital helps to diffuse innovative knowledge and competences? Are they better diffused in the competitive environment? How far can the economic competitiveness and rivalry for public funds be sacrificed in the name of co-operative spirit? Our research has shown that social capital acts as a multiplier of innovation in two ways.

First, it stabilizes the innovative way of acting and ensures the reproduction of innovative methods implemented by an NGO. Secondly, it guarantees the real impact of innovation on the biographies of beneficiaries, the local environment and local labour market. Establishing innovation means that because if an NGO dispose of high level of social capital (e.g. it is networked with many stakeholders), it can continue acting innovatively even in situation when public agencies stop their financial support and refuse co-operation. In such a situation, the researched NGOs used to successfully seek, hidden resources, for example mobilising the beneficiaries and their families themselves to support organization, mobilising informal networks of local people, media and so on. The innovative services for high-risk groups, when they cannot be supported by public agencies, can nevertheless function because of permanent commitments on the side of many involved stakeholders.

Secondly, social capital helps to guarantee the real impact of innovative services on the beneficiaries, the local environment and labour market. Specificity of labour market services for high-risk groups lies in the fact that the process of rising the employability of a beneficiary lasts long. It does not end in one defined moment, when the project is finished or after completion of all courses and therapy. A beneficiary, even when already employed, needs constant support, and he himself is also needed by others as a living example of successful rising life-chances. Given the spectacular results of innovative methods of rising the employability and life chances, the permanence of the process of social rehabilitation can only be guaranteed, if an NGO disposes of a bridging social capital - which means, that even if a beneficiary has no family or friends, he or she would never be isolated but would have access to institutions, organizations and networks which, even if they are weak-tied with an NGO, can give the necessary support. This leads to the model of co-opetition

instead of purely competitive or economically immeasurable co-operation.

Some organisations specialise in therapy, while others have more links with business organisations and yet others promote the very idea of social reintegration, thus preventing premature exclusion and enabling earlier reaction to social problems. Yet others specialise in meta-level services, providing administrative, technical and technological support. Partnership based on trust and specialisation allows for efficient allocation of always scarce resources in the pursuit of combating social problems.

Importantly, it is not the attempt to benefit mutually that drives successful partnerships - the trust is the key ingredient. Examples from the research are internally differentiated. One of the organisations, engaged in preventing violence within the families, after 8 years of activity created a network in which participated: local authorities (providing material base as well as some of the operational opportunities) as well as associations of: (1) district attorneys and judges (favouring servicing the punishment to imprisonment in justified cases), (2) lawyers (promoting this approach and providing academic credentials in public discussions), (3) state penitentiaries (commencing labour activation already in the service period), (4) former inmates successfully reintegrated and activated on labour market, (5) their families, (6) victims of family violence, etc. Strategic approach has led this organisation to identifying the core of the problems, hence potential stakeholders, thus suggesting a network. Working within the network for consecutive years allowed to create trust among the members, allowing the eventual emergence of partnership vitally engaged in realising a common aim. Innovations included labour activation of the inmates (usually outside penitentiaries), some therapeutic techniques (including strong emphasis on the syndrome of adult children of alcoholics), but also tools for ex-post diagnosis and social entrepreneurship with new services provided on local markets.