

## IMPLEMENTATION OF THE CAUX ROUND TABLE'S PRINCIPLES FOR BUSINESS IN SMALL AND MEDIUM-SIZED ENTERPRISES

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**Abstract:** The article presents results of a study which employed the criteria matrix developed at the Caux Round Table. The choice of method was driven by the multicultural approach used in the study. The study was conducted in Polish and German small and medium-sized enterprises (SMEs), in line with the preamble of the Caux Round Table's Principles for Business (CRTs). The article attempts to provide answers to the following questions: 1) Are the Caux Round Table's Principles for Business universal enough to be adopted by the small and medium-sized enterprises? 2) Do SMEs from various countries, or from various economic cultures, demonstrate a similar approach to implementing the rules of corporate social responsibility? This article attempts to quantify the Principles for Business developed during the Caux Round Table and to test them at the Polish and German small and medium-sized enterprises. The hypothesis to be verified was that as a result of the intensification of business contacts between German and Polish small and medium-sized enterprises, both business cultures become alike with regard to corporate social responsibility. To verify the hypothesis, an original method developed by the author was applied. The method is based on an assessment of the degree of similarity of selected features using an opinion convergence index (WZO) and the results presentation takes the form of a convergence matrix. The analysis covered the data obtained through an empirical study, conducted by the author of the article in the years 2006-2009 with a scholarship offered within the framework of the Integrated Regional Development Operational Programme.

**Keywords:** economic culture, corporate social responsibility, Caux Round Table Principles for Business, ethical capitalism.

**JEL Classification:** A10, M14, D21

*After many years of functioning of a market economy in Poland I still hear people asking whether business can have moral aspects or what the business ethics means. No direct answers are offered by the economists who accept the theory of human imperfection or, simply put, the human inclination for lies, deception and fraud. This assumption is used to explain why the markets are not perfect and if so, why they are still able to function.*

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### 1. INTRODUCTION

The concept of corporate social responsibility is experiencing a period of rapid development and is increasingly recognised by entrepreneurs. A voluntary adoption of social responsibility is the result of awareness of the possible negative social effects of economic activities and of building the attitudes facilitating the acceptance of this concept. It seems worthwhile in this situation to study the entrepreneurs' attitudes towards adoption of the principles of corporate social responsibility in their own company, as well as their awareness of the corporate social responsibility concept.

So far, mainstream studies have focused on large enterprises, while the state of knowledge on corporate social responsibility in relation to small and medium-sized enterprises remains low. In the generally available professional literature there are no studies on this aspect of SMEs which otherwise play a significant role in the development of modern Polish economy. Their development is one of the main sources of the success of Polish economic transformation. To a large extent it managed to cushion the negative effects of the restructuring processes taking place in large entities. Another argument is the nature of small and

medium-sized enterprises, making them different from large companies. Their special feature is that the owners are also the managers, which simplifies the decision-making process and contributes to the high efficiency of these companies. The liability of an entrepreneur is stronger than that of a hired manager of a large company, as it often encompasses all his private assets in the event that the company fails. Another specific feature may be a family nature of the business, where the family (home) culture affects the business culture. An entrepreneur who is a company owner runs the business with the future generations in mind, intending to hand the business over to his children or grandchildren and trying to pave the way for them to continue its development.

The increasing pace of development in all spheres of life and the changing social, economic and technological environment lead to reflection on the ethical principles of business conduct. The residents of developed countries expect higher and higher living standards, better working conditions, higher wages and decent treatment of employees; their expectations from the businesses operating in today's economy are increasingly demanding. These expectations are the same with regard to small and medium-sized enterprises.

### 2. THE IMPACT OF ECONOMIC CULTURES ON THE SHAPE OF CRT'S PRINCIPLES FOR BUSINESS

The evolution of culture is a process lasting hundreds of years, contributing to the development of civilization and the social and economic development of nations. Between the cultures of specific societies and the organization of the corresponding states there is a definite feedback. Culture

influences the development of social and political systems, and these systems in turn stimulate the development of culture (Borowiecki, 2004). The business, social and political activities are increasingly subject to moral evaluation, and the widely accepted beliefs and values become the proverbial 'invisible hand' governing the economy. The human thought, the moral, intellectual and civic identity or the perception of reality creates a more dynamic society and contributes to the country's economic development. Events occurring in the economy are not the works or decisions of bystanders, but they are driven by the values inherent to the people and reflected in their culture (Gardocka, 2005).

Economic activity consists in free choices made by people who are guided by the emotional, sensory, or intellectual criteria (Klimczak, 2006). Every such choice is considered from various points of view, but the final decision is determined by the objectives that the decision-maker wants to achieve and which are considered particularly important and valuable (Szczepański, 1970). Cultural factors affect the economic choices made by people. On the other hand, for any specific economic choice to be made, there must exist a specific objective as well as a conviction of the righteousness of this choice.

The economic culture evolves under the influence of the people who make such choices. It does not generate its elements by itself, nor does it affect their situation. It is individuals who jointly create the economic culture, modify it and communicate to each other through inter-generational information transfer (Gardocka, 2005). In terms of definition, the term 'economic culture' describes the historically shaped elements of general culture of a society which concern the values, recognized and considered desirable by that society, that relate to the generally accepted principles of management and to the economic system of the respective country. The most important economic cultural behaviours include the awareness of economic choices, the attitudes and behaviours related to such economic choices and the rules of the economic game (Ścibiorska-Kowalczyk, 2013).

Mental structures, such as the CRT's Principles for Business, make people able to calculate, for instance, how the desire to gain a business advantage will affect their behaviours. The CRTs were formulated with the use of a conglomerate of the teachings of Roman Catholicism and

American Protestantism with the secular traditions of servitude and the Japanese beliefs of Buddhism and Shinto. The CRTs include the principle of ethical attitude towards stakeholders, as it was considered consistent with both *kyosei* and human dignity (Young, 2005).

This Caux Round Table self-assessment and improvement process evaluates companies on forty-nine areas drawn from the CRT Principles for Business as they impact the six stakeholder constituencies (Young, 2005). The intermingling of different cultures in business activities facilitates the development of cooperation between different countries as well as the development of ethical principles that are consistent with the values, traditions and religions followed (Ścibiorska-Kowalczyk, 2010).

### 3. IMPLEMENTATION OF THE CRT'S PRINCIPLES FOR BUSINESS BY THE POLISH AND GERMAN SMES

The study was carried out within the Neisse Euroregion on a sample of small and medium-sized enterprises. The sample included 100 Polish companies and 100 German ones, surveyed during the years 2006-2009 within a scholarship programme offered within the framework of Action 2.6, Priority Axis II of the Integrated Regional Development Operational Programme. Within the IRDOP framework, the study was co-financed by the European Union from the European Social Fund (75%) and by the national budget (25%).

The study objective was to find out how entrepreneurs evaluate the implementation of CRT's Principles for Business in relation to the stakeholders in their own companies. The questions in the survey were formulated so that the responses could demonstrate the degree of implementation of a relevant criterion drawn from Table 1 and resulting from the combination of a specific category of activity with a specific group of stakeholders. This made it possible to draw up a criteria matrix in accordance with the Caux Round Table's recommendations. Respondents were asked to provide their assessments using a five-step scale. The adopted synthetic measure of the extent to which each Principle for Business has got implemented for the different stakeholders was the percentage share of the total number of high and very high ratings, assumed to be a clear confirmation of the relevant Principle's implementation.

**Table 1** The evaluation scheme - a criteria matrix

Category	1. Fundamental duties	2. Customers	3. Employees	4. Owners / Investors	5. Suppliers / Partners	6. Competitors	7. Communities
1. Responsibilities of Business	Criterion 1.1	Criterion 1.2	Criterion 1.3	Criterion 1.4	Criterion 1.5	Criterion 1.6	Criterion 1.7
2. Economic and Social Impact of Business	Criterion 2.1	Criterion 2.2	Criterion 2.3	Criterion 2.4	Criterion 2.5	Criterion 2.6	Criterion 2.7
3. Business behaviour	Criterion 3.1	Criterion 3.2	Criterion 3.3	Criterion 3.4	Criterion 3.5	Criterion 3.6	Criterion 3.7
4. Respect for Rules	Criterion 4.1	Criterion 4.2	Criterion 4.3	Criterion 4.4	Criterion 4.5	Criterion 4.6	Criterion 4.7
5. Support for Multilateral Trade	Criterion 5.1	Criterion 5.2	Criterion 5.3	Criterion 5.4	Criterion 5.5	Criterion 5.6	Criterion 5.7
6. Respect for the Environment	Criterion 6.1	Criterion 6.2	Criterion 6.3	Criterion 6.4	Criterion 6.5	Criterion 6.6	Criterion 6.7
7. Avoidance of illicit operations	Criterion 7.1	Criterion 7.2	Criterion 7.3	Criterion 7.4	Criterion 7.5	Criterion 7.6	Criterion 7.7

Source: Young, 2005.

## Implementation of the Caux Round Table's Principles for Business in Small and Medium-sized Enterprises

In order to arrive a clear presentation of the results calculated on the basis of a very extensive research material, the author developed a matrix covering, on the one hand, the basic CRT categories and, on the other, different groups of the company's stakeholders. The matrix cells give the sum of very high and high ratings (as a percentage share in the total number of responses) as a measure of the extent to which the CRTPs have been implemented in a specific category of activities towards the different stakeholder groups. Such a matrix structure allows to determine the level of CRTPs implementation.

For easy interpretation of the matrix, additional colour coding was introduced:

- Green - a high degree of implementation (over 60%)
- Gray - an average degree of implementation (41% to 60%)
- Pink – a low degree of implementation (below 41%)

There are considerable differences in the levels of implementation of the CRT's Principles for Business with

respect to each individual criterion. Both in Poland and in Germany there are large areas where the implementation levels of the CRTPs are apparently low.

The main objective of the study was to identify the degree of similarity between the Polish and the German entrepreneurs in their implementation of the CRTPs. In order to illustrate this parameter, a difference matrix was developed for each of the criteria. This matrix contains data on the difference in self-assessment between the Polish and the German entrepreneurs, shown directly in percentage points. In order to better illustrate the intensity of the phenomenon, the following colour coding was applied:

- Green - higher implementation levels in Poland
- Gray – a very high degree of similarity between the Polish and the German entrepreneurs (difference of less than 10 percentage points)
- Pink - a lower level of implementation in Poland

**Table 2** The evaluation scheme - a criteria matrix

Category	Customers	Employees	Owners / Investors	Suppliers / Partners	Competitors	Communities
Responsibilities of Business	68	69	70	79	63	78
Economic and Social Impact of Business	62	70	48	75	46	37
Business Behaviour	80	56	62	65	41	41
Respect for Rules	62	40	54	54	48	49
Support for Multilateral Trade	21	39	43	40	40	32
Respect for the Environment	41	39	41	38	30	34
Avoidance of Illicit Operations	46	48	51	45	32	39

Source: own collaboration

**Table 3** Implementation of the CRTPs, self-assessed by the German entrepreneurs [%].

Category	Customers	Employees	Owners / Investors	Suppliers / Partners	Competitors	Communities
Responsibilities of Business	77	86	73	69	54	89
Economic and Social Impact of Business	74	69	49	70	46	73
Business Behaviour	62	63	52	50	37	63
Respect for Rules	56	57	31	34	28	52
Support for Multilateral Trade	34	42	32	33	31	47
Respect for the Environment	43	42	32	35	29	40
Avoidance of Illicit Operations	45	41	42	35	27	42

Source: Own collaboration

**Table 4** Differences in the self-assessment of CRTPs implementation level between Poland and Germany [percentage points]

Category	Customers	Employees	Owners / Investors	Suppliers / Partners	Competitors	Communities
Responsibilities of Business	-9	-17	-3	10	9	-11
Economic and Social Impact of Business	-12	1	-1	5	0	-36
Business Behaviour	18	-7	10	15	4	-22
Respect for Rules	6	-17	23	20	20	-3
Support for Multilateral Trade	-13	-3	11	7	9	-15
Respect for the Environment	-2	-3	9	3	1	-6
Avoidance of Illicit Operations	1	7	9	10	5	-3

Source: Own work

This matrix provides qualitative information on the similarities and differences in the implementation of specific criteria and on the comparative differences between the two countries (higher or lower degree of meeting a specific criterion in Poland).

In order to obtain a better quantitative measure of the similarity of self-assessments in both countries while taking into account the varying degrees of implementation of individual criteria, an opinion convergence index (WZO) was introduced. It is defined as a percentage deviation from the average value of assessments given in Poland and in Germany. A positive value indicates a higher level of implementation in Poland in comparison to Germany, while a negative one - a lower one.

$$W_{zo} = \frac{o_P - o_G}{o_P + o_G} \cdot 100\%$$

o\_P - opinions in Poland

o\_G – opinions in Germany

The results are summarized in Table 5, with an additional colour coding:

- Green - higher implementation levels in Poland
- Gray – a very high degree of similarity between the Polish and the German entrepreneurs (deviation from the average value by less than 10 percentage points)
- Pink - a lower level of implementation in Poland

This matrix is the most synthetic approach to the similarities in the implementation of the CRT's Principles for Business by small and medium-sized enterprises operating in the Neisse Euroregion. It provides a qualitative and quantitative description of the difficult-to-handle parameter of similarity of Polish and German entrepreneurs' attitudes to these matters.

#### 4. CONCLUSION

Realisation of the main objective of the article – finding answers to the questions posed in the Introduction - required testing the hypothesis stating that as a result of the development of business contacts in the sector of small and medium-sized enterprises, German and Polish business cultures get more and more similar in their levels of corporate social responsibility. The survey of owners and managers of small and medium-sized enterprises in Poland and Germany concerning the CRTPs implementation allowed identification of the current state of awareness, attitudes and behaviours towards the enterprises' stakeholders and the degree of practical implementation of the Principles for each category. The study results allow the conclusion that both Polish and German small and medium-sized enterprises demonstrate a very high level of convergence of the practical implementation of the Principles in each category with respect to the identified stakeholder groups. This is clearly illustrated in Table 5 above.

**Table 5** Opinion convergence matrix of the implementation levels of CRTPs in Poland and in Germany in relation to particular stakeholder groups [%]

Category	Customers	Employees	Owners / Investors	Suppliers / Partners	Competitors	Communities
Responsibilities of Business	-6	-11	-2	7	8	-7
Economic and Social Impact of Business	-9	1	-1	3	0	-33
Business Behaviour	13	-6	10	13	5	-21
Respect for Rules	5	-18	27	23	26	-3
Support for Multilateral Trade	-24	-4	15	10	13	-19
Respect for the Environment	-2	-4	12	4	2	-8
Avoidance of Illicit Operations	1	8	10	13	8	-4

Source: Own work

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**Table 6** A convergence matrix of the extent of CRTPs implementation in each category with respect to the stakeholder groups identified for the Polish and German SMEs operating within the Neisse Euroregion. The gray colour code indicates a high convergence level while the pink colour marks a non-convergence, measured with a deviation from the average value in excess of 15%.

Category	Customers	Employees	Owners / Investors	Suppliers / Partners	Competitors	Communities
Responsibilities of Business	-6	-11	-2	7	8	-7
Economic and Social Impact of Business	-9	1	-1	3	0	-33
Business Behaviour	13	-6	10	13	5	-21
Respect for Rules	5	-18	27	23	26	-3
Support for Multilateral Trade	-24	-4	15	10	13	-19
Respect for the Environment	-2	-4	12	4	2	-8
Avoidance of Illicit Operations	1	8	10	13	8	-4

Source: Own work

Generally it can be stated that Polish and German entrepreneurs evaluate their stakeholder relations in a manner very similar and sometimes almost identical. Customer relations are perceived as very important and the entrepreneurs are convinced that their activities maximize customer value while ensuring respect for customers' dignity and that they earn the customers' trust in this way.

Another highly rated area is the supplier relations where respondents emphasize the significance of honesty and truthfulness, activities to create stable relationships and to inspire mutual trust. Polish entrepreneurs evaluate their own performance towards suppliers higher, both in terms of ethics (truthfulness, honesty) and legality.

As far as the employee relations are concerned, German entrepreneurs hold a better opinion of their own activities in the field of care for the interests of the employee, human capital development or compliance with international rules of employment, at the same time seeing more clearly their role in the creation of new jobs.

Polish entrepreneurs evaluate in a definitely more positive way the effects of competition, the fact being reflected in their slightly higher assessments of their behaviour towards competitors, especially in the settlement of disputes and complaints and in support of the activities to promote free trade.

Implementation of the CRT's Principles for Business in relations with the local communities is ranked higher by the German entrepreneurs. They are convinced that their companies contribute to the social and economic development of the local community, at the same time showing respect for the local democratic institutions and gaining the trust of important social groups.

Significant differences between the Polish and the German entrepreneurs were found in their assessments of only a few individual phenomena – for instance, while 92% of Polish respondents believe that corruption is a problem and 30% of them have experienced it personally, only 22% of German respondents consider it a problem and personal experiences of this phenomenon were reported by three times fewer people than in Poland. At the same time, the problem of dishonesty on the part of customers affected to

the same, rather high extent both the Polish and the German entrepreneurs – it was reported by over 50% of respondents in both countries.

It is difficult to clearly identify the factors that made the attitudes of Polish and German entrepreneurs so much alike. For many years, both countries remained within the socialist block (on the German side, the study covered an area belonging to the former GDR); however, the transition from a centrally planned economy to a market economy took different courses in Poland and in Germany. The eastern part of Germany received both large financial support and a direct transfer of a market economy model, while in Poland the evolution of SMEs took place spontaneously. It is undisputable that for the last several years the Neisse Euroregion located at the Polish-German border has seen multi-level contacts between the neighbouring populations of the two countries - from everyday shopping through cooperation between local companies to cultural exchange. This was reflected in the survey results - 40% of Polish companies cooperate with German ones and 27% of German companies cooperate with their Polish peers. Also, 78% of Polish companies have customers from Germany and 83% of German companies have customers from Poland. It is believed that these contacts are a key factor leading to the unification of attitudes of entrepreneurs from both countries and giving rise to the similarities in business culture in the process of inculturation. The study identified neither examples of formal cross-border cooperation to promote the idea of applying the CRT's Principles for Business at SMEs nor any structured exchange of experiences in this field.

The study made it possible to obtain partial results on self-assessment of the practical application of CRTPs and corporate social responsibility by the Polish and German entrepreneurs in the Neisse Euroregion. However, the growing uniformity of attitudes, clearly visible in relation to the various categories of corporate social responsibility, can not be equated with advanced implementation of the CRTPs. A high degree of implementation is achieved only with regard to the areas directly related to the economic activity within the scope of responsibility, the economic and social impact of business and general business behaviour. The self-

assessment is definitely much lower when the respondents consider their engagement in matters of a broader scope, going beyond their daily operations – support of multilateral trade, respect for the environment or avoidance of illicit operations.

At the current stage of development, both the Polish and the German entrepreneurs recognize the desirability of sticking to some universal principles of business ethics in their operations. On the basis of personal experience, they perceive the benefits of positive, sincere relations with customers and suppliers, concern for employees and respect for the rules. The entrepreneurs' behaviours do not, however, go beyond the attitude generally described as 'decent'. It cannot be stated that the SMEs of the Neisse Euroregion on both sides of the border implement the CRT's Principles in their daily practice in a planned manner. In both countries, there are large areas with a low level of implementation of these Principles. This situation may be related directly to the fact that among the Polish and German entrepreneurs, the level of theoretical knowledge on the socially responsible business is very similar and relatively low. Only 40% of respondents knew the concept of corporate social responsibility and over 70% of them have never heard of 'ethical capitalism'. Such a low level of theoretical knowledge does not translate directly into poor awareness of corporate social responsibility or into the relationship between a company and its environment. The respondents agree that it is desirable for an entrepreneur to have the

image of a sensitive person ready to help others, and that a company should do more than is required by law, setting high standards of ethical behaviour in the various areas of its business. Thus the general attitude towards the CRT's Principles is apparently an open one.

The uniformity of entrepreneurs' attitudes in both countries coupled with their low knowledge of CSR suggest that to a large extent such transfer of behavioural models as could result from the daily contacts has already occurred. Any implementation of the corporate social responsibility concept to an extent wider than the present one can take place through improving the theoretical knowledge of entrepreneurs. This would require preparation of an action plan and encouraging the entrepreneurs to actively participate. It would be necessary to take into account the specific character of SMEs, a comprehensive presentation of the benefits of applying the CRTPs, conservation of the naturally ethical attitudes and presentation of behavioural models in a version close to the experiences of SMEs. Promoting the CRT's Principles among SMEs is largely facilitated by the fact that a key role in their implementation is played by the business proprietor and any transformation of his awareness level creates a great opportunity for effective implementation of the concept throughout the company. An integral element of the implementation of CRT's Principles through raising the awareness and knowledge of entrepreneurs should be scientific studies on the effectiveness of measures taken and methods employed.

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