

CSR PRACTICE OF SMES IN DEVELOPING ECONOMIES: THE CASE OF AZERBAIJAN

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At the beginning of the 21st century overwhelming majority [if not all] of companies and organizations in post-soviet countries including Azerbaijan were not fully aware of the essence of corporate social responsibility (CSR) - one of the most important factors required for the sustainable development and successfulness of modern business activity. However, for several years, the question of social responsibility of businesses became crucial in this geography and the concept of CSR has been increasingly moved to the forefront.

The main purpose of this research work is to study the current state of CSR practice in modern Azerbaijan with a particular focus on the CSR activity of small and medium-sized enterprises. In this study, we tried to shed light on the current CSR practice of SMEs in Azerbaijan against the backdrop of their constantly growing importance for the country by highlighting the way SMEs use CSR strategy and policy and the shortcomings in this field. The article also highlights government support for sustainable development, the way government can influence and encourage businesses to become more socially responsible. The benefits of CSR and its close interrelation with long-term success and sustainability are also among the issues discussed in this research paper.

Keywords: CSR strategy, socially responsible business, sustainable development, social investments, stakeholder orientation, SMEs.

1. Introduction

21st century entrepreneurship adopted new colours and tendencies becoming more stakeholder-oriented, environmentally friendly, and focused on sustainability. Corporate social responsibility (CSR) in its turn became one of the important components of sustainable development and marketing strategy of large businesses and has been acknowledged as an indicator of the ethicalness of business. As concluded by Spence and Perrini, to some extent the fields of corporate social responsibility and ethics started to exist in parallel (Spence & Perrini, 2009).

Socially responsible entrepreneurship is also traditional for Azerbaijan and commitment to it used to be part of the nation's culture having been deeply rooted in its historical past. The manifestation of philanthropy, which is considered the predecessor of CSR was part of the activity of Azerbaijani entrepreneurs at all times in the form of charity (Suleymanov, 1987; Yilmaz, 2014). In the late 19th and early 20th centuries, Azerbaijan experienced more systematic socially responsible business activity - the traditional Maecenas activity was upgraded into more impressive in size and mature in character social investments made by oil magnates and other rich people of Azerbaijan to healthcare, education and other urgent social needs laying the foundation of responsible and ethical business in Azerbaijan (Gahramanova, 2019; Amrahov & Gafarova, 2012). However, their noble initiatives could last until the establishment of the Soviet system in the country which put an end to the existence of the private sector.

Becoming independent in 1991 Azerbaijan went through a difficult period of political and social transformation and a state-building period extremely complicated by the involvement in the Armenian-Azerbaijani Nagorno-Karabakh conflict and demographic crisis inherited from the soviet era. The poor socio-economic environment had a negative impact on the sustainable approach to business development; entrepreneurs were mainly trying to set up a business to somehow survive and improve their livelihoods (Gahramanova, 2020). As proposed in Maslow's hierarchy of needs, businesses focused on satisfying their basic physiological needs and were not mature enough to think of their stakeholders.

Favourable conditions created for the socio-economic development in Azerbaijan during the years of independence are connected with the name of national leader Heydar Aliyev. After Heydar Aliyev's coming to power in 1993 many important steps were taken in the field of business development. The economic growth in the country was particularly increased with the signing of "The Contract of the Century" in 1994 aimed at using the country's potential resources for its [country's] sustainable development. The outcomes of this brave decision had its effect on all areas of the economy and social life in Azerbaijan.

It is worth noting that 60 years long history of CSR concept and practice shows that the attention to the social responsibility of business increases in parallel to the economic growth of a country or an entire region. This was the case in the United States and in developed countries of Europe and Asia. The same tendency was also observed in Azerbaijan: the situation with CSR activity started to change in parallel to the economic development in the country as the reviving private sector now had the opportunity to think of its social responsibilities and sustainable development.

Now almost 30 years later, we witness a different picture: CSR which was not familiar to the overwhelming majority of newly established business organizations in early post-soviet Azerbaijan, has now been more or less integrated into the strategy of the majority of

large firms while this positive tendency is less visible in the activity of small and medium-sized enterprises (SMEs). Research studies revealed that the CSR activity of SMEs in the country, as well as their focus on sustainable development, is far behind compared to large businesses. To note that the situation with SMEs is different in developed countries - SMEs are becoming the backbone of the economy (Oldham & Spence, 2021; Del Baldo, 2018; Morsin & Perrini, 2009) representing more than 90% of all businesses and providing more than 50% of employment worldwide (World Bank, 2021). For the EU economy, SMEs constitute 99.8% of all EU enterprises employing more than 74 million people (statista.com, 2021; European Commission [EC], 2019; OECD, 2021).

Though SMEs in Azerbaijan are still far from becoming the backbone of the country's economy, their role in economic development and share in GDP is gradually growing. Currently, SMEs representing various business spheres provide 56% of the employment in the country (The State Statistical Committee of the Republic of Azerbaijan [SSCRA], 2022). Growing indicators allow expecting that positive world tendency in terms of SMEs' growing significance and CSR implementation will soon be observed in Azerbaijan too.

This study aims to summarize SMEs growing role in the economy of Azerbaijan, the current situation with their socially responsible behaviour and sustainable development.

2. CSR and its role in the sustainability of businesses

Reviewing the historical background to the CSR concept we see that as a conception CSR has around half-century history of formation and development and its role in the sustainability of businesses has been proved both theoretically and empirically. First introduced by American scientist Howard Bowen in 1953 as a concept necessary for business's relations with society and other stakeholders (Bowen, 1953) this concept later gained popularity and some other significant theories were developed under its umbrella. Among them stakeholder approach proposed by E. Freeman, CSR Pyramid of A. Carroll, Corporate Sustainability and Triple Bottom Line by J. Elkington to name a few.

One of the theoretical approaches developed under the umbrella of CSR theory is the concept of corporate sustainability. Various peer-reviewed articles and other related sources surveyed by the author in an attempt to summarize the interrelation between CSR and sustainable development allowed us to conclude that corporate sustainability refers to an approach that aims to create long-term value through a strategy that encompasses the ethical, social, environmental, cultural and economic aspects of business (Camillieri, 2017; Jansson et al., 2017; Sullivan, 2009).

CSR became particularly popular in the early years of the 21st century which was marked by serious corporate scandals stemming from the unethical behaviour of reputable business giants with respect to society and the environment. The collapse of large companies such as Enron, World Com, Lehman Brothers, Swiss Air and plenty of other business giants was a shock for the entire economy of developed economies such as the United States, Canada, as well as of the developed countries of Europe and Asia. These economic and social "earthquakes" have forced governments and commercial organizations to reconsider their attitude towards the society and environment and adopt more serious and responsible behavioural norms.

In modern economic conditions, the sustainable development of any business is interrelated with the sustainable development and social welfare of the society in which it

operates and there is a close relationship between the CSR activity, reputation and sustainability of an organization (Sullivan, 2009; Porter & Kramer, 2016). 21st century business cannot afford to ignore its social responsibilities and the significance of social responsibility in the sustainable development of business and society has repeatedly been emphasized by practitioners and theorists (Davis, 1960; Freeman, 1984; Elkington, 1994; Carroll, 1999; Sullivan, 2009; Porter & Kramer, 2006).

An excellent empirical study in this connection was contributed by American scientists M. Porter and M. Kremer in their article titled "The Link Between Competitive Advantage and Corporate Social Responsibility" where they described CSR as a strong tool for improving competitiveness of a business. In the example of the world's leading sustainable and competitive business giants such as Volvo, BMW and Whole Foods Market authors proposed effective ways of using CSR policy as an opportunity for public welfare and business' own growth and sustainability (Porter & Kramer, 2006).

3. Materials and Methods

In this research work both primary and secondary sources were utilized to collect necessary data. A wide range of secondary sources such as peer-reviewed journal articles, statistical information, media publications, expert analyses, reports of international organizations, conference materials and sustainability reports of target companies were studied.

In-depth interviews, involving representatives of selected large companies and SMEs were conducted to examine the existence of CSR policy and practice in companies.

Interview questions were prepared to find out whether worldwide CSR practices applied in Azerbaijani companies, to learn about the perception of the CSR concept, drivers of CSR, level of involvement in CSR implementation and challenges faced, CSR policies and strategies developed and used, positive impact of CSR for company performance, application of global CSR standards in non-financial reports, future CSR related plans, etc.

Methods used include logical reasoning based on the analysis of scientific literature, statistical and interview data, analysis of reports of international organizations and publicly available data.

4. Findings

4.1. SME's growing significance in the country's economy

SME's role in Azerbaijan's economy is gradually growing and its impact is becoming important. Along with large companies now, medium and small enterprises make significant contributions to the economic development of the country.

According to the State Committee of Statistics, as of January 2022 there are around 1245000 officially registered SMEs representing various business fields (SSCRA, 2022). Table 1 demonstrates the size classification of SMEs in Azerbaijan which is set by the Decree 555 of the Cabinet of Ministers of Azerbaijan in 2018 taking the global criteria indicators as a foundation.

Table 1.*Size classification of SMEs in Azerbaijan*

Category of Enterprise	Employees	Annual revenue in Azerbaijani manat
Medium-sized	51 – 250	3.000000 – 30.000000
Small	11 – 50	200.000 – 3 000 000
Micro	Up to 10	Up to 200.000

As of January 2021, the share of SMEs in the country's GDP is around 15%. Share of SMEs in non-oil sector GDP is around 25%. Constituting 87% of all registered business entities in Azerbaijan SMEs provide more than 52% of the total employment in the country which is quite impressive while still well behind the indicators of the developed countries. Their share in non-oil exports is also quite significant having around 53% (SMBDA, 2021). From this perspective, it is difficult to overestimate the role of small and medium-sized businesses in the country's economy. However, in Azerbaijan, SMEs are still far from becoming the backbone of the country's economy, as it is the case in the EU and other developed geographies.

Although the share of SMEs in the non-oil sector is close to normal, its share in the total GDP of the country is small having only around 15% share. One of the reasons for this insignificant share is because a large part of Azerbaijan's economy is based on oil revenues. However, there are other problems and at present, this issue is in the focus of the government and serious strategic measures are being taken to increase the share of SMEs in the country's economy up to 40% by 2025. Necessary measures related to increasing the share of SMEs in the country's economy is also underlined in the Decree of the President of the Republic of Azerbaijan on "Socio-economic Development Strategy of the Republic of Azerbaijan in 2022-2026". Mechanisms implemented within the state support programs is aimed to ensure the increase of SME share in the country's economy.

The strategic goal includes to strengthen the role of SMEs in the country's economy by supporting their development, boosting competitiveness, facilitating access to markets through the supply of daily consumer goods, achieving significant increase of SMEs share in the non-oil sector and total national GDP. Providing more employment opportunities with the involvement of SMEs is also among the strategic goals to reach (SMBDA, 2021). Figure 1 demonstrates the current position of SMEs in the country's economy.

4.2. CSR Practice of SMEs in Azerbaijan and its impact on their sustainable development

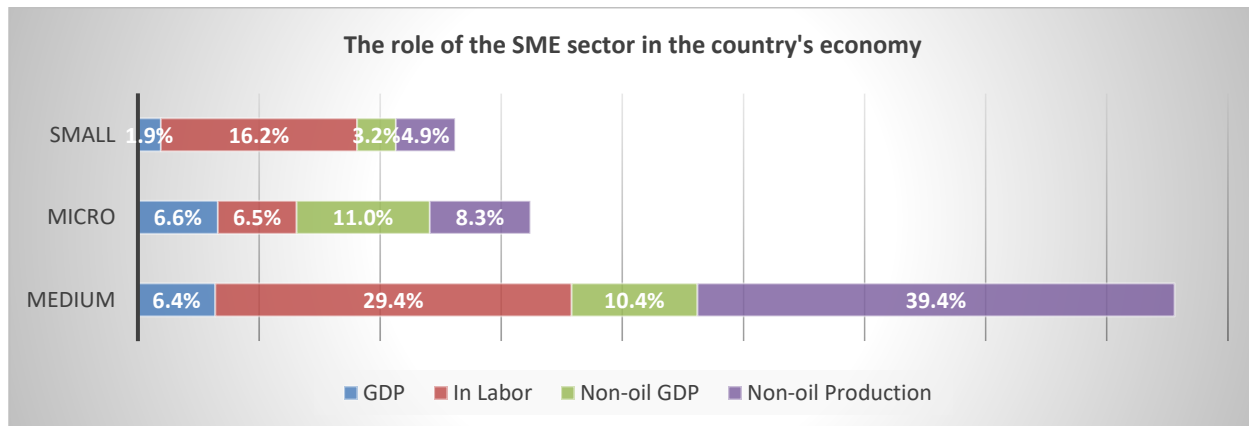
Based on the literature review of CSR related activities of SMEs worldwide certain expectations/assumptions were developed about possible CSR practices of SMEs in Azerbaijan. The assumptions were proved while studying available secondary sources and then during the interviews with the representatives of both SMEs and large businesses.

Perception of CSR. There is a serious misunderstanding related to the perception of CSR concept. Random questioning of people working for SMEs and even in some large companies revealed their unawareness of CSR conception and activity. The term "CSR"

sounds strange to them and they recognize the expressions such as “social responsibility”, “moral responsibility toward society”, “voluntary charity” and in most cases are involved in those initiatives in the way they consider appropriate and affordable to implement.

Figure 1.

The role of the SME sector in the country's economy. Prepared by the author using the available statistics



Source: The Small and Medium Business Development Agency

Level of involvement in CSR related activities. While the result of interviews showed the absence of mechanism for the systematic CSR implementation, answers to the specific questions demonstrated that CSR related activities are taking place all the time. Feedback received from the interviewed SME representatives demonstrated that the majority of them already exhibit socially responsible initiatives and activities similar to what is meant by CSR. In these circumstances, conclusion by D’Andrea and Montanini for the Italian context is applicable also in the Azerbaijani context - CSR practices of SMEs in the country is hidden in the daily behaviours (D’Andrea & Montanini, 2015) and is more a “sunken CSR” (Perrini et al., 2009). The outcomes of this study also proved the conclusion made more than a decade ago by Moore et al for UK context stating that SMEs are engaged in CSR related activities “without necessarily viewing such activity in this way” (Moore et al., 2009).

Drivers of SMEs’ CSR practices in Azerbaijan. It was not possible to clearly identify the drivers of social responsibility initiatives of SMEs while the results of the interviews demonstrated that community focus is dominating for all SMEs and for large business as well. All the interviewed within this study considered social responsibility activities very noble and important engagement that makes them feel morally satisfied. Interview also revealed that the virtue, goodwill and the good citizenship feelings of a particular entrepreneur are the main factors encouraging business for social investments. In other words, if socially responsible behaviour is desired by the its owner then will be translated into the operations of the company (Del Baldo, 2012).

CSR policies and strategies developed and used. Interviews with SME representatives demonstrated that majority of firms do not have CSR policy and strategy or at least a scheme of CSR implementation programs. They do not have neither a CSR unit nor a particular person responsible for coordinating CSR related activities. This reality dictates that managers and employees of private sector need training in order to acquire the

necessary skills and competence to integrate CSR in their day-to-day activities and report on them (Quliyev, 2020).

CSR reporting. Publishing CSR activity and sustainability report is a major problem to be addressed. Currently SMEs do not publicize non-financial reports and they find doing it quite challenging. Unawareness of globally recognized CSR reporting standards negatively affects integration and regular implementation of CSR. From this perspective developing and promoting national non-financial reporting standards based on the globally recognized reporting systems such as GRI (The Global Reporting Initiative), ISO26000, AA1000 (Assurance Standard) and other social reporting mechanisms would be a step forward in promoting CSR activities in the country. However, these standards should be worked and applied in a way not to become a burden for SMEs (Sheehy & Farneti, 2021).

Do SMEs think of any positive impact CSR may bring for their businesses?

Major problem in this regard is that both large businesses and SMEs are mainly oriented for profit-sacrificing CSR and are far from thinking of profit-making CSR (Lee et al., 2015). CSR impact on organizational performance and profitability, talent acquisition and prevention of staff turnover, improved customer loyalty, good relationships with stakeholders, attracting investors and partners, achieving access to international markets and other potential benefits are not yet the part of the strategic thinking of businesses in this geography, particularly of SME's. Borrowing a conclusion from Perrini et al it can be concluded that reducing pollution, improving waste management and implementing practices to minimize environmental impacts act as a reputation signaling exercise, which becomes crucial in terms of opening new markets (Perrini et al., 2009).

5. Conclusion

This study analysed the CSR practices of businesses in Azerbaijan with a particular focus on SMEs. Summarizing the research outcomes, it can be concluded that CSR activity of businesses in Azerbaijan including SMEs is gradually developing though it differs from the practice in developed countries of the West where CSR has been institutionalized for decades. CSR activity is situational and spontaneous while there are positive intentions that need to be directed. Expert support is required to help businesses to develop a CSR strategy that is comprehensive and stakeholder-oriented.

There is unawareness of how a well-developed CSR strategy and improved community image can be linked to better business returns and improved customer and employee loyalty. Entrepreneurs somehow feel obliged to be socially responsible but cannot make a link between corporate social performance (CSP) and corporate financial performance (CFP) and do not use CSR policy in their strategy of growth and development.

The most important conclusion is connected to the importance of recognition of CSR on the governmental level and the necessity of developing national CSR strategy and CSR reporting standards in conformity with internationally recognized standards such as GRI reporting system, Dow Jones Sustainability Indices (DJSI), SA 8000, ISO 26000 while considering and adapting certain cultural and historical specificities. We think that the current positive dynamics in national economic development, the reforms carried out in various fields of the economic, political and social life allows to predict positive changes in CSR field in the near future.

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