

Corporate Social Responsibility in the Czech Banking Sector

Veronika Buckova*

Abstract

Banks, like other business entities, influence their environment – the whole society and nature. The impact of bank activities on the environment may be positive or negative, more or less important. The banks themselves endeavour to guide the impact of their business activities on the environment. They create their corporate social responsibility (CSR) policy; that is the theme of this paper. The goal of this paper is to find out how the banks of the Czech banking sector manage their impact on the environment. The research aims to analyze the principles of their CSR policy and the actions provided under their CSR policy. The results of this research are the part of a wider research that is focused on the measurement and assessment of the impact of the banking sector on the economy, society and environment. The first part of the paper focuses on the theoretical explication of corporate social responsibility and its characteristic features in banking. The main part contains results of a research aiming to explore the actual situation in the field of corporate social responsibility in the Czech banking sector. At the end of the paper, the results are assessed and suggestions or recommendations of the author are formulated.

Keyword: Banking Sector, Corporate Social Responsibility, Economic Prosperity, Social Responsibility, Environmental Protection.

Introduction

Every firm or any other subject operating in the economy influences – intentionally or not – its surroundings, i.e. other subjects in the economy and the environment.

Not exceptionally, this is also the case of banks, which influence many subjects that are in an interaction with banking sector, e.g. customers, employees, competitors, state institutions, communities or the environment. It would be ideal if the influence of the banks was positive, and not negative. It means, if the banks supported the subjects of its surroundings and were beneficial, it would be ideal. In reality, the impact of the bank activities is not so monochromatic. The banks perceive and solve this problem.

For this reason, the banks approach corporate social responsibility (CSR). It is a concept approached by firms due to the fact that a firm and its activities have an impact on the surroundings and in some cases the impact can be negative. It is necessary to ensure that the negative impacts are limited and, on the other hand, the positive impacts are supported.

Banks, similarly to other firms, are expected to behave in a responsible manner. A modern bank should be presented like a bank willing to “do good”. It means to create a minimal negative impact on the surroundings and especially help people and communities that need it (people with any form of an economic, social or health handicap). Philanthropy is a common part of bank activities.

Commercial banks in the Czech Republic are aware of their ability to influence their surroundings. They have created special working groups of employees oriented to banking CSR. The banks seek to manage the influences on their economic prosperity, employees, customers and the whole society and environment. The results of this paper contain a survey of activities in CSR management in the Czech banks.

* College of Logistics, Palackého, Přerov, Czech Republic. Email: veronika.buckova@vslg.cz

Theory Discussion

In the Czech and foreign literature, there can be found many publications related to the concept of corporate social responsibility. However, relatively few of them are limited to CSR in the banking sector. The specific features of banking CSR policy are closely examined in Yeung (2011).

Generally, CSR concept consists of three fields that are influenced by firm's (or specifically bank's) activities. First of all, it is the corporate itself when economic outputs and other economic features of the firm are considered. Then, the impacts on society (competitors, customers and other economic subjects) are taken into account. Effects on the environment and its protection are the last field on which is the CSR concept focused.

The conception of corporate social responsibility varies among authors. Generally, CSR is considered to be a common and desirable part of a company's business. Some authors, on the other hand, argue that CSR is not compatible with capitalism and business. The main objective of every firm is to gain profits. According to Friedman (1962), CSR being pro-charitable in nature should be addressed by individuals rather than firms. In McMahon's opinion, the firm provides the benefits to society based just on its existence and business, i.e. the benefits in the form of higher employment and production. There is no other way in which the firm could be beneficial to society (Kanji and Chopra, 2010). Negative perception of CSR considering CSR as a tool for achieving corporate profits and other advantages can be found in articles of other authors (e.g. Doane, 2005; Wagner, 2010).

Not all authors are so skeptical to corporate social responsibility. Most of them highlight its positive impact on society and recommend every firm to adopt the corporate social responsibility principles. Porter and Kramer (2006), for example, assert that a firm should not be more than social responsible. The firms should reach a higher level of responsibility in the form of "social integration". It means that the firms should get familiarized with the environment and become its natural component.

The skepticism towards the CSR concept flows also from the fact that social responsible behaviour of a firm usually does not bring success in the form of higher profits. This is caused by the egoism of consumers who are not willing to pay higher prices of firm's products or services even if these products and services are offered by a social

responsible firm. Martinčík and Polívka (2012) argue that consumers prefer lower prices from higher prices of products regardless of social responsible behaviour of the producer. According to Martinčík and Polívka, it is not profitable for a firm to behave in CSR manner which leads to higher costs and subsequently to higher prices. On the contrary, some Czech authors conclude that CSR concept can be profitable. For example Kuldová argues that CSR concept can raise profits of a firm in condition of the effective combination of CSR and business strategy or by the transformation of CSR into a competitive advantage (Kuldová, 2011).

Literature Review

Corporate social responsibility is a well-known theme that is in the center of attention of many scientific and professional publications. CSR concept can be found in many publications from national sources all over the world including the Czech ones.

As an example, some of the Czech authors can be mentioned like Kuldová (2011), Kunz (2012) or Martinčík and Polívka (2012). The field of CSR can be found in publications of many non-Czech authors, e. g. Yeung (2011), Kanji and Chopra (2010), Doane (2005) or Wagner (2010). The issue of CSR in the banking is focused in the publications of Jeucken (1999, 2001). Jeucken scientifically studies the specifics of banking CSR and takes a relatively negative attitude towards the banking CSR.

CSR is focused by some special interest organisations and associations, e. g. Business Leaders Forum. This organisation defines the characteristic features of CSR the principles of its management. CSR is the object of interest also of Equator Principles Association.

CSR in the banking area is in the interest of the commercial banks themselves. The banks publish special documents and prospects concerning their CSR.

Importance of the Research

Commercial banks and their activities have many implications for customers, bank employees and also the whole economy, society and the environment. It is necessary to monitor these implications and assess the impact of bank activities on the society, economy and environment.

This article is focused on the Czech banks social responsibility and aims to find out how the banks manage their impact on the society, economy and environment. The results of this analysis are essential for the follow-up research aimed to measure the environmental risk¹ of Czech banking sector. Measuring of bank environmental risk cannot be done without knowing the form and structure of banks' CSR activities and the banks' attitude to CSR management.

Corporate Social Responsibility

Corporate Social Responsibility is a concept that can be characterized as a voluntary commitment of a firm to behave responsibly towards the environment and society, in which the firm operates (Business Leaders Forum²).

CSR can be understood in two respects. A social responsible bank should:

- increase its positive impact on the society (through its philanthropy activities), i.e. be a “good citizen”,
- eliminate its negative impacts of her business activities on the society.

In theory, there are three pillars of corporate social responsibility concept (called as the Triple Bottom-Line), namely:

- Economic prosperity,
- Social responsibility and
- Environmental protection.

Economic prosperity represents corporate governance and ethics, transparency, relations to investors, customers or quality of bank services. The aim is to ensure a sustainable growth of a firm's (bank) market value.

The second pillar embodies the bank's **social responsibility** to communities and people (customers, employees or other). Social responsibility is formed by employment policy, gender policy, human rights, philanthropy or sponsoring.

Environmental protection consists of natural resources protection, investments to ecologic technologies or following various standards (as ISO, EMAS). Even though the banks are not manufacturing companies producing

a huge amount of pollutants, they can significantly influence the pollution of the environment. This can be done via financing manufacturing companies. The bank financing a polluter is (or should be) co-responsible for the pollution of the environment.³

In terms of banking, CSR means that a bank should follow business ethics, offer bank services of a sufficient quality, support communities or protect the environment.

Among the key activities of a bank, following CSR rules can be assigned:

- Economic prosperity
 - following ethical standards,
 - transparent behaviour,
 - no corruption,
 - sufficient service quality,
 - protection of intellectual property,
 - fight against illegal practices,
 - following legislative standards, regulatory rules etc.
- Social responsibility
 - safety and health in working,
 - employees' education,
 - prohibition of discrimination,
 - friendly approach to employees (e.g. flexible working hours, part-time job etc.),
 - support to redundant employees,
 - philanthropy,
 - support to public education,
 - support to citizens life quality etc.
- Environmental protection
 - reducing energy or water consumption,
 - waste sorting,
 - protection of the environment and natural resources,
 - following standards (e.g. ISO) etc.

Kanji and Chopra (2010) define a social responsible bank as a bank that provides these activities:

- follow ethical standards in employment,
- aim to build a social infrastructure,

¹. The environmental risk includes negative impacts on the economy, society and environment.

². See Business Leaders Forum. *What is CSR*. [online]. (6.3.2013). Retrieved from: <<http://www.csr-online.cz/en/what-is-csr/>>.

³. For more information about indirect impacts of banking business on the environment see Jeucken (2001).

- contribute to cleaner and healthier environment, to its protection and sustainability,
- aim to reach an economic prosperity of a bank,
- are interested in creation of local communities and in impacts of its business activities on these communities.

Activities of a social responsible bank should not be provided randomly. It is necessary to develop a social responsible strategy that should be formed in cooperation with stakeholders of a bank.

Each bank forms its own CSR policy. It means that the bank decides what activities of CSR it will provide or what will be the aims of its CSR behaviour.

Stakeholders are a wide group of various subjects which are influenced by the firm business activities or conversely, can influence the firms going. Among the stakeholders, there can be included shareholders, business partners, local communities, customers, employees, state institutions, regulators, unions, media and other institutions.

The group of stakeholders can be divided into two parts, primary and secondary stakeholders (Business Leaders Forum):

- primary stakeholders
 - owners (shareholders) and investors,
 - employees,
 - customers (real or potential),
 - business partners,
 - local communities,
 - non-profit organisations,
- secondary stakeholders
 - public,
 - government and self-government organisations,
 - lobby and pressure groups,
 - competitors,
 - media,
 - civic and business associations.

Methodology of the Research

The aim of the research is to analyze the principles of Czech banks' CSR policy and the activities provided under their CSR policy. For this purpose, the author used

two empirical methods of data collection. First, the author developed a questionnaire that was sent to a group of Czech banks. Second, the author used an analysis of annual reports, statistics and other documents concerning CSR and published by banks. These materials are publicly available.

The questionnaire consisted of 45 questions that were divided into three parts:

- 9 questions of Economic prosperity,
- 16 questions of Social responsibility,
- 20 questions of Environmental protection.

The structure and content of the questionnaire are shown in the Appendix.

The questionnaire was sent to headquarters of 5 selected commercial banks that hold the majority of banking assets of the Czech banking system. The selected group of banks consists of 5 major banks which assets altogether reach 2,840 billion of CZK⁴, which represents about 61 percent of the total banking assets. The selected banks were the following:

- Česká spořitelna,
- Československá obchodní banka,
- Komerční banka,
- Raiffeisenbank,
- UniCredit Bank.

The questioning was held from March to July 2013. Not all of banks were willing to answer the questions. Three of the banks (namely Česká spořitelna, Československá obchodní banka and Raiffeisenbank) sent back completed questionnaires.

For the purpose of this survey, the author analyzed data collected from completed questionnaires and some extra data gathered from publicly available materials, as mentioned above.

The results are anonymous, so as not to influence or cause damage to any of the banks.

Results

This part of the article contains the results of the survey among selected Czech banks. It is in the form of overview of bank activities provided within the CSR management.

⁴. As of the end of 2012.

In case of getting the outputs of the survey together, it can be characterized the general corporate social responsibility policy of the Czech banking sector.

Based on the outputs of the survey, the characteristic features of the Czech banking CSR policy can be summarized as follows:

- economic prosperity
 - banks establish a special kind of mutual funds that invests into securities issued by CSR firms (e.g. firms aiming an environmental protection and others),
 - banks
- social responsibility
 - banks offer various kinds of services or advantages to their employees
 - ◆ various types of working time (part-time work, flexible working hours, work from home),
 - ◆ staff training and education,
 - ◆ reemployment of employees returning from maternity leave,
 - ◆ employment of employees with a disability,
 - ◆ programs for training of young and talented graduates,
 - ◆ cooperation with universities, high schools or student organisations (AIESEC and others),
 - ◆ employee benefits,
 - when communicating with employees or getting the feedback, the banks uses interviews or internal surveys,
 - banks aims to support communities by providing these activities:
 - ◆ engagement in charity (through foundation financing or establishment their own foundation),
 - ◆ support for activities of social significance (sports, culture),
 - ◆ cooperation with universities,
 - ◆ educational projects for public (except educational sphere),
 - ◆ project financing for struggle with addiction (alcoholism, smoking etc.),
- environmental protection
 - banks establish procedures and technologies friendly to the environment,
 - banks strive to reduce paper and energy consumption.

Except these general activities resulting from the CSR policy, there can be find some specific activities or features of CSR policy among the Czech banks.

Economic prosperity

The banks of the sample are concerned about their customer's satisfaction and verify the satisfaction especially by questionnaires. All of them have some quality standards, mainly ISO standards and their internal standards. Thanks to these standards, the banks better their relationship with customers and seek to maintain a certain degree of customer's satisfaction.

Customer's social impacts are very important for the banks, but not all of them. One of the selected banks (i.e. 20 % of the sample) is not interested in customer's impacts on society. Two of the banks verify and assess their impacts and in some cases the negative impacts are the reason for termination of the relationship. Among the customer's activities leading to the relationship termination belong corruption, money laundering or financing of terrorism. By terminating of relationship with these types of customers prevents the possibility of funding unfair activities in the society and harm the society.

Social responsibility

Employees are one of the entities that are affected by the banking activity. When the impact of bank activities is negative, it is hard to ensure the employees's satisfaction. Employees' satisfaction is an important topic for the banks and so they seek to support it by various types of programs. The employees' satisfaction is verified by questionnaires or interviews. The bank employees can usually use a sick-day leave, flexible working hours, part-time job, employee's bank accounts and other benefits. Corporate nursery garden can be used only in some of the banks. This type of benefits is provided by two of the selected banks (40 % of the sample), one of them does not provide it, the rest of the banks refused to answer.

All banks aim for the professional development of their employees (by mentoring, training, shadowing and others) and offer a help to laid-off employees – mostly by job search assistance. These activities also contribute to employees' satisfaction and better job performance.

One of the possibilities how to support weak and needy persons or organisations in the society is foundation financing. In terms of foundation financing, the banks cooperate with existing foundations or create their own foundations. In two cases of the sample, the focus of the foundation financing is partly set by the bank employees. The employees can nominate an arbitrary non-profit organisation. From the nominated organisations, an expert committee (composed of representatives of banks or external experts from the non-profit sector) selects the most appropriated ones and creates a list of them. The bank employees vote for a group of the best non-profit organisations which would be financed.

Non-profit organizations (foundations, public service companies, religious organisations and others) can receive another form of bank support. Three banks of the sample (60 %) offer a special type of current account with relatively low charges, high interest rates and other advantages.

Except of foundation financing, the citizens and organisations in the society can be supported by bank philanthropy activities or bank employee volunteering. One of the most common philanthropy activities is a matching fund program. Bank staff contributes (voluntarily) to a special fund. When all contributions are done, the sum of money is used for financing non-profit organisations voted by bank staff. Typically, the employer adds to the fund a multiple of the sum of staff contributions. Not all of the selected banks were willing to answer the question regarding a matching fund. At least one of them leads a special matching fund program and at least one of them does not lead any fund program of this type.

Bank staff can join a various projects of employee volunteering. Three of the selected banks enable their employees to help in non-profit organisations – in their free time of in working hours.

When the bank customers get to a trouble with loan repayment, they can use advisory services provided by the banks. This is a special kind of bank services (offered by one bank of the sample) that attempt to help the customers and solve their financial problems.

Recent surveys (e.g. STEMMARK, 2010; ING Pojišťovna 2013) show that financial awareness of Czech citizens is very poor. According to ING Pojišťovna international survey, the financial awareness in the Czech Republic is one of the worst in the world. Worst financial awareness had been found only in Mexico and Slovakia. Commercial

banks in the Czech Republic attempt to raise financial awareness of the wide public. They have established various types of projects focused on public financial education. All the banks of the sample cooperate with universities, colleges, high schools and organise lectures for students, young people or wider public. Alongside this, they provide grants to publication activities of students, support them in their school projects or the bank employees give lectures to students.

Solar energy and other forms of “green” energy are a hot topic in Czech Republic during the last years. Banks have run special advisory programs to help the customers to fund their energy projects. In recent years, 60 % of selected banks have created special advisory teams that help customers with realization of energy projects, i.e. energy production from renewable sources (especially solar energy).

Some of the banks assess their impact on the society (including their employees and customers). They feel to be responsible towards the society. In questionnaire survey, two banks (40 % of the sample) answered that they assess their social impacts, but one of them did not. One of them refuses to be in business relationship with certain kinds of customers – especially entrepreneurs – which are considered to harm the society. In the last years, the bank terminated the contractual relationship with entrepreneurs in the arms industry. The bank does not provide funding of customers which may be suspect of conduct illegal practices (especially money laundering) - for example casino – and violate social laws or regulations relating to the environment.

Since 2000, one of the selected banks (20% of the sample) offers to its customers a possibility to invest into socially responsible funds that buy securities emitted by socially responsible companies.

Environmental protection

In the field of environmental protection, the banks have often adopted various standards or principles. Mostly Czech banks have adopted Equator Principles which bound the financial institutions to create a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions.⁵ Some of them have adopted ISO 14000 (14001) or EMAS. One of the analyzed banks is a member of European Savings Banks Group that is a European banking association comprising European savings and retail banks. Members of this association are advised to

adhere to six principles of responsibility related to human resources, public and customers, quality of financial services and the environment. At least three of the selected banks (60 % of the sample) adopted Equator Principles (the rest of the selected banks was not willing to answer).

Czech banks create their Codes of Ethics. The codes define the basic rules of bank behaviour in business and ethic matters.

All banks of the sample (100%) have created systems of reducing paper consumption or energy consumption, waste sorting (paper and plastic). Only two of them have a policy of reducing fuel consumption.

However, the banks do not monitor the impact of their customers' activities on the environment. None of the selected banks that completed the questionnaire monitor this. The banks do not consider the customers environmental impact while building a relationship. The negative environmental impacts are not the reason for termination of the relationship.

Two of the selected banks (40% of the sample) answered that they had created a system of environmental risk management. One of them did not. All the banks replied that their employees are informed about the environmental risk policy of the bank.

Some banks attempt to contribute to sustainable growth and environmental protection by their "green buildings". One of the selected banks (i.e. 20% of the sample) is famous inter alia for its ecological head office building. The workspaces in this building are lighted naturally as much as possible. The building has a heat absorption capacity, special control system (for monitoring status and interrelation of building systems) or economical energy management.

Czech banks usually inform the wide public about their CSR activities and the principles of their CSR policy. All the selected banks publish printed materials and especially electronic documents which can be downloaded from their websites.

Conclusion

Bank's social responsibility is a very critical area as because the bank's activities might have essential impacts

on the economy, society and environment. Czech banks have established systems for CSR risk management and seek to perform activities for influence their environment. According to research, however, by providing these activities the banks pursue mainly their own benefit or their presentation to public. Major focus is on the non-profit sector and philanthropy.

As the results show, Czech banks should implement some steps to lower impacts of their activities on their surroundings (corporate, social or environment). In some ways the Czech banks negatively influences their surroundings and this should be corrected.

Except this, not all the Czech banks monitor their customers' impacts on the environment and do not consider these impacts to be relevant when they establish and maintain their business relationship with their customers.

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Appendix

The questionnaire

<i>Economic Prosperity</i>		
<i>No.</i>	<i>Question</i>	<i>Y/N</i>
1.	Are you concerned about your customer's satisfaction?	
2.	How do you verify your customer's satisfaction?	
	Questionnaires	
	Interview	
	other (fill in, please):	x
3.	Do you have some type of loyalty programs?	
4.	If so, what type? (fill in, please):	x
5.	Do you have some quality standards?	
6.	What quality standards do you have?	
	ISO 9000	
	other (fill in, please):	x
7.	Do you verify and assess social impacts of your customer's activities?	
8.	Are negative social impacts of your customer's activities decisive factors leading to termination of your business relationship with the customer?	
9.	What customer's activities (e.g. business activities) are unacceptable for you and lead to termination of your business relationship with the customer? (fill in, please):	x

<i>Social Responsibility</i>		
<i>No.</i>	<i>Question</i>	<i>Y/N</i>
10.	Do you have some programs to promote your employee's satisfaction?	
11.	How do you communicate with your employees?	
	Intranet	
	Corporate magazines	
	other (fill in, please):	x
12.	Do you verify your employee's satisfaction (by questionnaire, interview etc.)?	
13.	How are you trying to improve the satisfaction of your employees?	
	extra day off	
	sick-day leave	
	corporate nursery garden	
	flexible working hours	
	part-time work	
	contribution to pension scheme	
	employee's bank accounts	
	other (fill in, please):	x
14.	Do you aim for the professional development of your employees?	
15.	If so, how? (fill in, please):	x
16.	Do you offer some kind of help to your laid-off employees?	
17.	If so, what kind of help do you offer to your laid-off employees?	
	job search assistance	
	retraining	
	other (fill in, please):	x
18.	Do you support some local/regional/national projects, events or organisations?	

<i>Social Responsibility</i>		
<i>No.</i>	<i>Question</i>	<i>Y/N</i>
19.	Do you cooperate with high schools, colleges or universities?	
20.	If so, how do you cooperate with them?	
	participation in teaching (lecture)	
	students practice	
	cooperation with laboration students theses (by consultation, advisory etc.)	
	other (fill in, please):	x
21.	Do you organize some charity events for some social groups (with low income, in pension, with some kind of handicap etc.)?	
22.	If so, what kind of events do you organize?	
	cash donation	
	non-cash donation	
	endowment fund	
	matching fund	
	training or education	
	pro bono work	
	long-term employees assistance (work placements)	
	development projects	
	other (fill in, please):	x
23.	Do you provide some kind of regular financial support for public activities and projects (e.g. charitable donations, sponsorship etc.)?	
24.	If so, what type? (fill in, please):	x
25.	Do you verify and assess the impact of your business activities (offered services) on the society (including employees, customers and other people) in terms of economic or psychological impact etc.?	

<i>Environmental Protection</i>		
<i>No.</i>	<i>Question</i>	<i>Y/N</i>
26.	Do you have a control program of water and energy consumption?	
27.	Do you sort waste paper?	
28.	Do you sort waste plastic?	
29.	Do you aim for reduced fuel consumption?	
30.	Is the fuel consumption a decisive factor while purchasing of company cars?	
31.	Do you engage in environmental protection programs (planting of new trees, rehabilitation of damaged landscapes etc.)?	
32.	If so, what programs? (fill in, please):	x
33.	Do you meet some national or international standards?	
	ISO 14000	
	EMAS	
	other (fill in, please):	x
34.	Do you indirectly protect the environment?	
35.	If so, how?	
36.	lending projects to promote and protect the environment?	
	other (fill in, please):	x

37.	Do you monitor your customer's impact on the environment?	
38.	If you know the negative impacts of your customer on the environment, do you terminate the business relationship with the customer?	
39.	Or contrary, if you know the positive impacts of your customer on the environment, do you offer him some favourable conditions of your business relationship (favourable loan conditions etc.)?	
40.	Do you offer some special services leading to environmental protection (e.g. "green" loans)?	
41.	If so, what services? (fill in, please):	x
42.	Do you inform your employees about your environmental policy?	
43.	Do you offer to your employees some training on environmental risks?	
44.	How do you promote and protect the environment? (fill in, please):	x
45.	Do you have a system of environmental risk management?	