

Corporate Social Responsibility and Business Ethics in Controversial Sectors: Analysis of Research Results

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Abstract

Until recently, in business practice, there was a belief that companies were operating solely for the profit of their owners. Few companies have recognized the need to combine their activities with ethics, and in particular with their obligations toward society or the environment. However, the perception of ethical issues has changed radically in business over the last 20 years. If a company wants to be perceived as a reliable business partner and a respected member of the business sector, it should demonstrate a high level of institutionalization of business ethics principles and practices, and it must practice outstanding ethical behavior. This is exceptionally true in some controversial industries. The purpose of our study is to identify the scale and scope of the use of these principles and practices in two Central European countries, i.e., Poland and Hungary, in three controversial sectors of the economy, i.e., pharmaceutical, tobacco and alcohol. The data were achieved on the basis of data gathered through survey methodology. The target subjects included a group of 48 companies (25 Hungarian and 23 Polish ones). Our survey mainly focused on the degree of institutionalization of business ethics (such as the presence of a code of conduct, an employee appointed to deal with ethical issues, ethical training, and so on), the perceived ethical behavior of the firms, and their relationship with their key stakeholders. Our study confirmed that business ethics is regarded as a significant factor which has an influence on business success and the corporate image of companies from the sectors in question. However, it is necessary to emphasize that the scale of this phenomenon varies, across both sectors and countries. The level of institutionalization is somewhat higher at Hungarian firms while preventing and handling corruption cases are more at the forefront of Polish companies. Although it seems that stakeholders from Polish firms have greater ethical expectations, we did not observe significant differences between perceived ethical behavior in the

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two countries. The originality of the paper is the result of the presentation of unique qualitative research related to business ethics in sensitive sectors of the economy in two Central European countries. To the best of our knowledge, such research is relatively rare (due to the sensitive nature of the sectors analyzed) not only in these two countries but also on an international scale.

Keywords: corporate social responsibility, CSR, business ethics, ethical behavior, Central European Economies, controversial industries.

INTRODUCTION

Until recently, in business practice, there was a belief that companies were operating solely for the profit of their owners. Few companies have recognized the need to combine their activities with ethics, and in particular with their obligations toward society or the environment. It is also a reason why the essence of social responsibility and the conflict between real and simulated altruism has been turbulently discussed (Majerova, Krizanova, & Nadanyiova, 2015). A similar standpoint could be found in the literature. Many authors have quoted the views of Milton Friedman, whose well-known response on a company's social responsibility was: "a company's responsibility is to make as much money for the stockholders as possible" (Corporate..., 2017). Over time, however, the views on the role of companies in socio-economic reality, derived from classical economics, have become increasingly less relevant to the current socio-economic reality. Additionally, there have been numerous changes in the sphere of modern business operations. Globalisation, accompanied by rapid technological changes, has given rise to a completely new business environment. Under these new circumstances, the development of a modern company is determined not only by the effective use of resources and applying appropriate strategies but also by taking into account the concept of Corporate Social Responsibility (CSR) and business ethics in management processes. For example, Bhattacharya, Sen and Korschub (2011, pp. 29-30) indicate a fast-changing approach of companies to CSR:

- the concept of CSR is increasingly viewed as a business opportunity, not as an obligation,
- companies are beginning to see the role of other stakeholders such as investors, regulators, employees, nonprofits,
- the concept of CSR is being treated as a strategic, long-term approach, not as a single shot, as a one-off action in the short term.

Therefore, one may state that if a company wishes to be perceived as a reliable partner in business, it should implement elements of this concept, and indeed this concept itself (Sroka & Lórczy, 2015). In other words, companies are forced to maintain profitability and at the same time behave

responsibly (Mohr, Webb, & Harris, 2001). This relates not only to global corporations but also to small and medium-size companies, operating in developed, as well as developing, countries and a variety of sectors functioning within. Given these facts, it is no wonder that many European and American business schools run business ethics programmes (Donaldson & Fafaliou, 2003; Jastrzębski, 2012), and growing interest in ethical issues has opened a market for the services of consultants and trainers (Van Liedekerke & Demuijnck, 2012). Though companies utilize different sets of instruments in order to be regarded as ethical organizations (e.g., codes of ethics, ethical values and norms) business practice shows, however, that these companies often operate in a completely different way (Lőrinczy & Sroka, 2017). Also, one should also remember that social responsibility may only be duly carried out and implemented in the organization on condition of a favorable approach of the management understanding the need for its development (Formánková, Kučerová, & Prísažná, 2016).

The role and importance of CSR and business ethics is especially evident in controversial sectors of the economy. It is expected that firms in controversial sectors exhibit their ethical behavior and engage in corporate responsibility practices very intensively since they seek for organizational legitimacy (Reast, Maon, Lindgreen, & Vanhamme, 2013). There is no universal definition of a controversial sector (which is also called a problematic or sensitive one) as the categories sometimes overlap, and it seems that a continuum of sensitiveness can be created. One claims that the pharmaceutical industry is among the most admired and most criticized of all (Nussbaum, 2009). This view, however, may be strange to some extent. On the one hand, pharmaceutical products can save lives, they make the lives of millions of people a lot easier, and many legendary diseases have been eradicated from the world thanks to the innovations of the industry. On the other hand, the industry faces many criticisms at the same time. The basic source of this paradox is the controversial activities of the large transnational pharmaceutical companies (Kasapi & Mihiotis, 2011). Though they are sometimes praised for their unarguable successes in treating diseases and improving quality of life (DiMasi, Hansen, & Grabowski, 2003), at the same time they are heavily criticized for several reasons (Leisinger, 2005; Radoilska, 2008; Lee & Kohler, 2010). Additionally, these companies are often accused of charging high prices, applying immoral marketing practices, abandoning the poor, doing ethically questionable clinical trials, etc. (Corporate watch..., 2011). Pharmaceutical firms answer these criticisms in many ways and acting as 'socially responsible companies' is one of them. Despite these efforts, some authors like Radoilska (2008) points out that the pharmaceutical industry is no longer considered trustworthy due to the unavailability of

drugs in less-developed countries and the ‘overmedication’ of the developed world at the same time. Morsing and Schultz (2006, p. 323) also claim that “while stakeholders previously primarily attributed negative attention to particular industries (i.e., ‘sin stocks’, including companies producing tobacco, alcohol, weapons, pornography, etc.), today CSR issues have become more unpredictable and changing, and including, for example, child labor, gene-modified organisms (GMOs), hormones, union assembly rights, sweatshops, etc., which in practice are concerns across many if not all industries”.

It is generally acknowledged that Central and Eastern European (CEE) countries represent a fairly unique case regarding business ethics and corporate social responsibility. Societal infrastructure is rather weak, and one can sense a great level of distrust in corruptive public services (Habish–Jonker, 2005). Steurer and Konrad (2009) identify a significant gap between Western-European and CEE countries regarding the understanding and relevance of corporate responsibility issues, while Elms (2006) sees the lack of stakeholder activity as one of the main peculiarities concerning business ethics and corporate responsibility in the CEE region. Some similarities can be explained by the common historical roots of these countries, in that they went through two disastrous world wars and operated under totalitarian regimes (Bohátá, 1997). In examining business ethics and CEE economies, it seems especially relevant to focus on business ethics in the three controversial industries of two key CEE countries, namely Poland and Hungary. Despite similarities, there are significant differences between these countries. Poland’s economy is almost four times larger, while Hungary has a much more open economy, and therefore some significant differences were expected regarding their business ethics principles and practices.

The objectives of the study were achieved on the basis of data gathered through survey methodology. The target subjects included a group of 48 companies operating in these industries (25 Hungarian and 23 Polish ones). Our survey mainly focused on the degree of institutionalization of business ethics (such as the presence of a code of conduct, an employee appointed to deal with ethical issues, ethical training, and so on), the perceived ethical behavior of the firms, and their relationship with their key stakeholders.

LITERATURE REVIEW

Business ethics (also known as corporate ethics) is a form of applied ethics or professional ethics that examines the ethical principles and moral or ethical problems which arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire

organizations. Ethical behavior and CSR can bring significant benefits to a business. For example, they may (Lőrinczy & Sroka, 2015):

- attract customers to the company's products, thereby boosting sales and profits;
- ensure that employees want to stay with the business, reducing labor turnover and therefore increasing productivity;
- attract more employees wanting to work for the business, thus enabling the company to hire the most talented employees;
- attract investors and keep the company's share price high, thereby protecting the business from takeover.

In contrast, unethical behavior or a lack of corporate social responsibility may damage a company's reputation and make it less appealing to shareholders, leading to a fall in profits.

The term 'ethic' comes from Greek (*ethikos* – customary; *ethos* - custom). It can be defined as a theory of morality, which attempts to systematize moral judgments (Paswan, 2015), or moral principles used in decision-making (Salehi, Saeidina, & Aghaei, 2012). In the common sense of the word, ethics means the rules that determine whether behavior is right or wrong. Ethics in business has a long history (Fischer & Lovell, 2009). A series of corruption scandals associated with companies such as Enron or WorldCom has changed the public perception of many entities. As a result of the scandals and abuses revealed, certain expectations relating to putting this theory into practice arose. Therefore, in the twenty-first century, business has been transformed: from the lack of accountability at the beginning, to high levels of ethical responsibility nowadays. It can thus be stated that business ethics is a scientific discipline dealing with the moral context of management and governance.

It is widely believed that business ethics are essential for today's managers. As Jamnik (2011) claims, "managers face ethical issues at work every day. It is rare for their decision not to concern the ethical aspects". There are various definitions of ethics in business in the literature, but the vast majority of them focus on the moral acceptance of the actions undertaken by the managers and employees of the organization (De Cremer, van Dick, Tenbrunsel, Pillutla, & Muringhan, 2011). Generally, it can be stated that business ethics explores and uses moral values, principles and standards that define and control the behavior of participants in business at all levels of economic life.

Business ethics and CSR are often used to refer to the same business activity. If we look carefully, the term "business ethics" comprises two words: "business" and "ethics," which cover the areas of moral principles, beliefs, values, culture, governance issues and a code of conduct for business (Dimitriades, 2007). Therefore, it can be stated that corporate social responsibility operates

on the principle that firms are obliged to meet their responsibilities to their stakeholders and also shareholders (Goel & Ramanathan, 2014).

Though CSR is a widely used concept both in the academic and corporate world, there is no clear and unbiased definition of this concept yet (Dahlsrud, 2006). Moreover, different CSR interpretations often confuse real-world practitioners. Carroll (1999) traces back the origin of the 'modern' CSR construct to the 1950s, but he claims that the concept has continuously evolved over subsequent decades. The European Commission characterizes CSR as a voluntary activity where companies integrate social and environmental concerns in their operations and interactions with their stakeholders (Green Paper..., 2001).

Another definition explains CSR through religion. CSR, as a concept, addresses the fact that profitability from business for some may come at the expense of others (Kraisornsuthasinee, 2012). Therefore companies are forced to maintain profitability and, at the same time, behave responsibly (Mohr et al., 2001). Through CSR, a company may improve its corporate performance by retaining talented employees, earn consumer and brand loyalty, reduce risk and build goodwill (Mullerat, 2010). CSR initiatives may also decrease consumers' will to buy a company's products (Sankar & Bhattacharya, 2001). There is another benefit which is more important, namely the potential impact on executive decision-making and strategy development. CSR can help managers to create more sustainable and value-creating strategies (Steele et al. 2013). Given these facts, the European Union continues to promote the CSR movement, although its implementation is diverse and the movement is not well articulated in Europe, especially in some Mediterranean countries, e.g., in Greece (Donaldson & Fafaliou, 2003). The main factors which influence CSR activities in European countries are corporate features (size, sector), general (legal system, culture, nationality) and internal factors (civil systems) (Černohorská & Putnova, 2012).

It should be emphasized that the importance of business ethics, as well as CSR, will grow (Sroka & Hittmár, 2016, p. 254), of which there can be no doubt. Salehi et al. (2012) even claim that truly global companies need to establish an environment which fosters ethical behavior. Otherwise their profitability will decrease. It is even believed that the company should create a climate conducive to ethical behavior; otherwise profitability will decline (Salehi et al., 2012). If a company wants to be perceived as a reliable business partner and a respected member of the business sector, it should demonstrate a high level of institutionalization of business ethics principles and practices, and it must show outstanding ethical behavior. This is exceptionally true in some controversial industries, such as pharma, alcohol and tobacco. This is mostly due to their nature and influence on human health.

RESEARCH METHODS

The objectives of the study were achieved on the basis of data gathered through online survey methodology. The questionnaires were submitted to a group of 200 companies operating in the pharmaceutical, tobacco and alcohol industries; 100 in each country. We received 48 questionnaires back from the targeted companies which is a 24% response rate (25 Hungarian and 23 Polish firms were included in the sample). All respondents were somehow related to business ethics or corporate social responsibility, but they represented different departments of their organizations. The relatively small size of the sample can be justified by the high level of concentration in these industries, i.e., the pool of the potential target companies is fairly small. Unfortunately, very few tobacco companies sent back the questionnaire (only 7%), but pharmaceutical companies and alcohol producers had almost an equal share in our sample (43% and 50% respectively). Due to the small response rate in the tobacco industry, we decided not to make comparisons across industries, but only across countries.)

In order to explore the business ethics practices and the organizational climate, three levels were investigated: organizational, stakeholder, and personal. Our questionnaire focused on 4 topics: (1) which elements of ethical institutions were created in the organisation, (2) how relationships with certain stakeholder groups are managed, (3) to what extent is ethical behavior supported in the organisation, and (4) we also wanted to explore the personal attitudes of the respondents towards business ethics, and ethical behavior. When studying ethical institutions and practices we relied on the governance / sustainability items detected by Kolk (2008) in her research on multinationals' reporting practices. The list was adjusted and completed with anticorruption measures due to the importance of this issue in the CEE region (Habish–Jonker, 2005).

A 1-5 Likert-scale was used for most questions (where 1 meant I totally disagree, and 5 meant I totally agree). In order to compare means across countries, the Mann-Whitney U test was applied (Mann–Whitney, 1947). It is a non-parametric test that is used to compare two sample means that come from the same population and used to test whether two sample means are equal or not. Unlike ANOVA, Mann-Whitney is a distribution-free method (Nachar, 2008), hence the two key characteristics of our sample – a relatively small amount of observations and the lack of normal distribution of the variables – justified our methodological choice.

ANALYSIS AND STUDY

We categorized ethical institutions based on how widespread these institutions were in the organizations we observed. We usually experienced that firms had clear processes to handle unethical cases, and they also had codes of conduct which regulate these cases more formally in both countries. Significantly fewer companies appointed dedicated staff members to deal with ethical issues, and even fewer firms issue CSR/Sustainability reports (CSR reports might serve as a vehicle to report on ethical cases). Regarding ethical institutions, significant differences were found across countries only in the case of anti-corruption regulations. Polish respondents talked more often about these regulations than their Hungarian counterparts (education about corruption was also more widespread than in Poland, but differences were not statistically significant). The results are presented in Table 1.

Table 1. Ethical institutions in organizations

	Hungary (%)	Poland (%)
Code of conduct	79.2	73.7
Manager/employee responsible for ethics/CSR	59.1	55.6
CSR/Sustainability report	28.6	43.8
CSR/Sustainability is part of strategy	82.6	88.9
Clear processes to handle unethical behavior	87.0	77.8
Rights guaranteed to report abuse cases	86.4	70.6
Clear regulations to avoid corruption*	52.4	78.9
Education about corruption	27.3	47.6

Some questions focused on the importance of ethical behavior within the organizations (Table 2). Our respondents – in both countries – were convinced that ethical behavior supports success, and they do not really agree with the widely-shared assumption that success in these industries can be achieved only through unethical behavior, or at least through some ‘dirty’ compromises. However, many people agreed to a certain extent that fully ethical behavior was not possible in these organizations. These findings may seem to be contradictory, but as regards tendencies, there seems to be a fairly broad consensus that ethical (and socially responsible) behavior is generally beneficial to the members of the organization and to the organization itself as well, and it will become more important in the upcoming years. It is also noteworthy that significant differences across countries were not found.

Table 2. Ethical behavior at the company

	Hungary		Poland	
	Mean	Std. Deviation	Mean	Std. Deviation
Ethical behavior supports success	4.08	0.91	3.76	1.18
Ethical behavior and CSR will be more important in 2 years	3.73	1.20	3.74	1.29
Ethical behavior supports higher sales	3.27	1.43	3.42	1.16
It is almost impossible to work fully ethically	3.17	1.19	2.95	1.16
Unethical behavior is widespread at my company	2.00	1.29	1.76	1.10

Table 3. Ethical expectations and stakeholders

	Hungary		Poland	
	Mean	Std. Deviation	Mean	Std. Deviation
Owners express what ethical behavior is	4.25	0.98	4.40	1.10
Our company considers ethical concerns about marketing	4.17	1.20	4.48	0.81
Our company performs better ethically than competitors**	3.91	0.85	4.47	0.81
Our company sponsors local events, activities	3.86	1.22	3.09	1.61
Suppliers are ethically reliable*	3.71	1.04	4.24	0.94
We consider the ethical performance of suppliers	3.13	1.32	3.67	1.43
Our clients, customers express their ethical expectations	3.04	1.22	2.90	1.58

We raised questions about the ethical performance of and relationship towards certain stakeholder groups (such as owners, suppliers, customers, etc.) in our questionnaire. We did not experience significant differences across the countries (as Table 3 shows) except in the case of competitors and suppliers. Polish firms in problematic industries are more convinced that they are superior to their competitors than their Hungarian counterparts, and they also believe more strongly that their suppliers are ethically reliable. In both countries, owners place equal emphasis on being ethical and primarily define ethical behavior. Firms in these countries also try to apply ethical marketing

initiatives. The relatively low perceived expectations from the customers came as something of a surprise.

Although one may think that in morally questionable industries the meaning of being ethical might be somewhat less clear than in other sectors, we found that for respondents in both countries it is fairly clear what being ethical at work means. However, it seems that in Poland organizational regulations pertaining to ethical behavior are more well-known to the members of the organization. Therefore Hungarian employees might gain this knowledge (i.e., how to behave in critical situations) mainly from other sources (through socialization, role models, or in other informal ways). It is quite apparent in both countries that moral dilemmas exist in the organizations observed, but people in the pharma, tobacco and alcohol industries may not have many more such dilemmas when compared to other employees in other sectors. Basically, no one admits that he or she has behaved in an unethical way recently, which is probably not surprising: even allowing for the use of anonymous questionnaires, this is a highly sensitive question to which people usually respond in a positive way (it is also consistent with what we found at organisational level: most people rejected the idea that unethical behavior is widespread in their organisation). Our Hungarian respondents stated that, when they started working in their organizations, they had strong ethical considerations – in Poland these considerations might be missing (or at least they are less solid).

Table 4. Personal attitudes toward business ethics

	Hungary		Poland	
	Mean	Std. Deviation	Mean	Std. Deviation
It is clear what being ethical means at work	4.64	0.49	4.71	0.56
Ethical considerations were important when starting work**	4.24	1.09	3.14	1.49
I am aware of regulations pertaining to ethical behavior*	3.72	1.43	4.35	1.14
Regularly faced with ethical dilemmas at work	2.76	1.39	3.00	1.38
I have at times behaved unethically	1.52	0.77	1.61	0.86

DISCUSSION

Our study confirmed that business ethics is regarded as a significant factor which has an influence on business success and the corporate image of companies from the sectors in question. Therefore, the results obtained confirm the earlier theses of Chan, Fung and Yau (2009) who drew attention to the increasing awareness and interest in ethical issues in business decision-making, especially in Europe, the positive impact of business ethics (Van Liedekerke & Demuijnck, 2012), as well as the financial performance of firms (Berrone, Surroca, & Tribo, 2007). On the other hand, the respondent's approach suggests that working in a completely ethical manner in virtually every aspect of business is practically impossible.

It is also necessary to emphasize that the scale of this phenomenon varies across the countries analyzed. The level of institutionalization is somewhat higher at Hungarian firms, while preventing and handling corruption cases come to the forefront more within Polish companies. Although it seems that stakeholders have greater ethical expectations from Polish firms, we did not find significant differences between the perceived ethical behavior in the two countries.

CONCLUSION

Over the past 20 years, the perception of ethical issues in Europe has changed substantially. Initially, they were treated more in philosophical terms, and to a certain extent referred to business. At present, ethical research is primarily focused on business issues, and thousands of people are involved in research and training on business ethics (Van Liedekerke & Demuijnck, 2012). Our research conducted in three controversial sectors of the economy, i.e., pharmaceutical, tobacco and alcohol, confirmed the growing importance of CSR and business ethics in contemporary business.

The originality of the paper is the result of the presentation of unique qualitative research related to business ethics in sensitive sectors of the economy in two Central European countries. The countries have been chosen due to significant differences between them as Poland's economy is almost four times larger, while Hungary is a much more open economy. Sectors such as pharma, tobacco and alcohol are often accused of manufacturing questionable products or applying industrywide malpractices; therefore, observing their ethical principles and practices certainly provides significant fresh insights in this field. To the best of our knowledge, such research is relatively rare (due to the sensitive nature of the sectors analyzed) not only in these two countries but also on an international scale.

The results achieved may imply a need for further research on the presented topic. It seems that some form of cyclical research, for example, if conducted every five to ten years, would allow researchers to obtain more valid data and provide some indications as to the direction in which companies from these sectors will evolve. However, this may be difficult because of the apparent unwillingness of respondents to participate in the research, though the vast majority of the companies observed (i.e., those which submitted responses) understand the need for ethical behavior in business.

It is also necessary to point out some limitations of the study. Although it covered a relatively large research sample (200 companies), only 48 completed questionnaires were eventually received. In other words, this data determines the nature of a pilotage study. Further studies should be conducted with more complete participation of representatives from the companies that were surveyed (e.g., direct interviews). Another limitation seems to be sectoral coverage. Research concentrated on selected sectors only; however, the sectors in question are highly sensitive; therefore our research may be regarded as the first step towards further studies on business ethics and CSR in other sectors.

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Abstrakt

Do niedawna w biznesie panowało przekonanie, że firmy działają wyłącznie dla zysku ich właścicieli. Niewiele firm uznawało potrzebę łączenia swoich działań z etyką, w szczególności z obowiązkami wobec społeczeństwa lub środowiska. Jednak postrzeganie kwestii etycznych zmieniło się radykalnie w biznesie w ciągu ostatnich 20 lat. Jeśli firma chce być postrzegana jako wiarygodny partner biznesowy i szanowany członek sektora biznesowego, powinna wykazywać wysoki poziom instytucjonalizacji zasad i praktyk w zakresie etyki biznesowej i musi praktykować wybitne zachowania etyczne. Jest to szczególnie istotne w niektórych kontrowersyjnych sektorach gospodarki. Celem naszego artykułu jest określenie skali i zakresu stosowania tych zasad i praktyk w dwóch krajach Europy Środkowej, tj. Polsce i na Węgrzech, w trzech kontrowersyjnych sektorach: farmaceutycznym, tytoniowym i alkoholowym. Dane zostały uzyskane na podstawie badań bezpośrednich. Próba badawcza liczyła 48 firm (25 węgierskich i 23 polskich). Badanie koncentrowało się głównie na stopniu instytucjonalizacji etyki biznesu (np. posiadanie kodeksu postępowania, pracownika wyznaczonego do zajmowania się kwestiami etycznymi, szkoleń z zakresu etyki itp.), postrzegania etycznego zachowania firm i ich relacji z kluczowymi interesariuszami. Uzyskane wyniki potwierdziły, że etyka biznesu jest uznawana za istotny czynnik, który ma wpływ na sukces biznesowy i wizerunek firmy w danych sektorach. Należy jednak podkreślić, że skala tego zjawiska jest różna w obu sektorach i krajach. Poziom instytucjonalizacji jest nieco wyższy w firmach węgierskich, natomiast w polskich firmach na czoło wysuwa się zapobieganie korupcji i postępowanie w sprawach korupcyjnych. Chociaż wydaje się, że interesariusze polskich firm mają większe oczekiwania etyczne, nie zaobserwowaliśmy istotnych różnic między postrzeganymi zachowaniami etycznymi w obu krajach. Oryginalność artykułu jest wynikiem prezentacji unikatowych badań jakościowych dotyczących etyki biznesu we wrażliwych sektorach gospodarki w dwóch krajach Europy Środkowej. Zgodnie z naszą najlepszą wiedzą takie badania są stosunkowo rzadkie (ze względu na wrażliwy charakter analizowanych sektorów) nie tylko w tych dwóch krajach, ale również w skali międzynarodowej.

Słowa kluczowe: społeczna odpowiedzialność biznesu, CSR, etyka biznesu, zachowania etyczne, gospodarki Europy Środkowej, kontrowersyjne branże

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