УДК 352

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BENEFITS OF CORPORATE SOCIAL RESPONSIBILITY: LITHUANIAN CASE

Abstract

Nowadays managers are not judged only by their financial performance anymore but also by their positive actions towards their stakeholders and the natural environment, which may be called corporate social responsibility, CSR. Many of the issues of CSR have not been thoroughly explored yet, but the most common dilemmas are the returns of investment (ROI). The case of Lithuania is worth of deeper analysis, as situation has significantly changed since Lithuania has become a part of European community.

This paper analyzes returns of investment of CSR programmes. The research confirmed that companies integrating corporate social responsibility in their activities have greater returns of investment. CSR implementation strengthens organization’s reputation, loyalty of employees and customers. Application of social responsibility provides benefits not only for business, but for the community as well, which becomes more cohesive and healthier.

Purpose

As changing global business environment stipulates a need to look for new measures to ensure competitiveness, it is expected that focus on effectiveness of implementation of social programmes could help answering the main query of organizational effectiveness – what are the key factors of organizational effectiveness even if the key object of the comparative analysis (profit) is replaced by the social aspects of organization’s activity.

Design/methodology/approach

The study was conducted using qualitative methodology assessing CSR strategies and implementation in selected Lithuanian companies.

Findings and Originality

The research confirmed that companies integrating corporate social responsibility in their activities have greater returns of investment. CSR implementation strengthens organization’s reputation, loyalty of employees and customers. Application of social responsibility provides benefits not only for business, but for the community as well, which becomes more cohesive and healthier.

Keywords: corporate social responsibility, organizations.
Research type: research paper.
JEL classification: M14 – Corporate Culture; Social Responsibility.

Introduction

The concept of corporate social responsibility

There are different definitions of corporate social responsibility (hereinafter – CSR) in the scientific literature, and there is no single definition of the term so far. Various literature sources offer different CSR concepts: corporate social responsibility, sustainable development, responsible entrepreneurship, corporate social responsibility, corporate social responsibility and so on. Although these terms are identical, this article will use the term corporate social responsibility. There are different interpretations of the CSR term, since it is a broad term encompassing the systematic significance of environmental, social, ethical, and financial integration.

World Commission on Environment and Development and the long-term its leader Gro Harlem Brundlandt notes that sustainable development matches the current needs of population and the needs of future generations, i.e. there is no contradiction between the demands of different generations. John Elkington indicates that sustainable development is associated with the intent to harmonize environmental and social issues with economic and financial issues, and to promote measuring of performance-related side effects.

Baker indicates that two aspects of the activities are important in the CSR: 1. the organization’s management quality, that is to say take into account the needs of workers and their working conditions (internal environment), and 2. the impact on the environment, society and other external organizations (external environment) (see Figure 1).

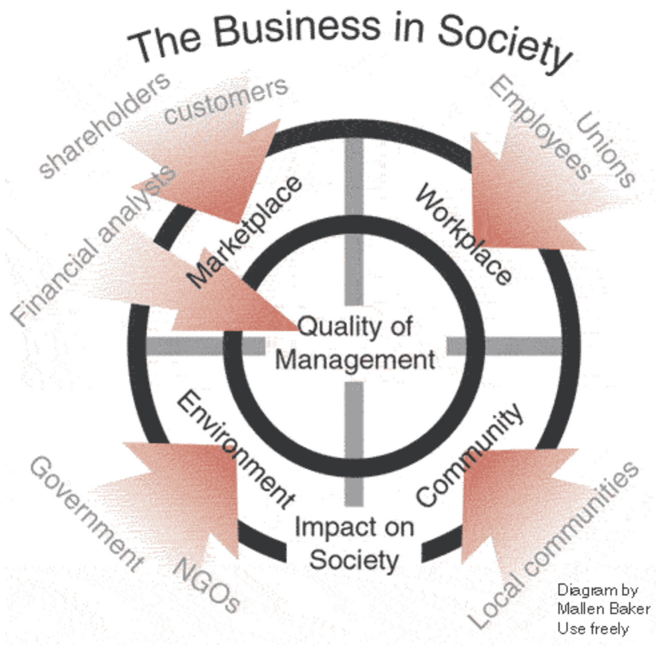

Figure 1. Corporate Social Responsibility – What does it mean?[1]

Many authors note that socially responsible organization takes care of their employees first and decides on investment in intellectual capital, health, safety, and other tasks. It matches up its operations with the principles of sustainable development. In this way, development activities of the organization can ensure its long-term competitive advantage for growth. At the same time the organization is dependent on the local community; social activities can be promoted by outside operating groups: competitors, customers, suppliers, subcontractors. This corporate social responsibility covers the entire supply chain.

Discussions on the CSR topic are not new. CSR beginnings can already be seen in the 19th century, and then it spread rapidly. In the sixties and early seventies the role of business in society and the responsibility to the public have been widely discussed. Such scholars like Carroll A. B., Davis K. (2001) were trying to find out what really CSR means, what is the content of the phenomenon, what could be a formal definition of CSR.

If in the past scientists have tried to figure out the meaning of the theoretical concept of CSR, currently they are trying to find the practical feasibility of this concept and to determine what benefits the organization receives while implementing the principles of social responsibility in their organizations. However, it is obvious that the CSR is no longer the only form of responsibility which companies should accept because of the high external pressures. It has become increasingly managerial concept.

L. N. Rue, L. Byaers et al. (2003) highlights managers' changes in attitude to social responsibility. This is important because the socially responsible behavior depends mainly on the moral of managers of organization. One of the most important management requirements is a social responsibility. Management systems integration in enterprise activities may further improve business processes. If an organization has implemented an integrated management system (including quality management, environmental management, social responsibility management, employee health and safety and other management systems) that meet international standards, it will facilitate the integration of social ownership and management system.

Hart (1995) notes that companies that pay particular attention to nature preservation, and enhance their competitive advantage. Environmental pollution prevention is intended to reduce environmental toxic waste, and to use efficiently natural resources. This includes products used for recycling, "smart" resource acquisition, the optimal production process. This strategy not only reduces the negative impact on the environment, but also reduces costs. In developing the

[1] Source: Mallen Baker// http://www.mallenbaker.net/csr/CSRfiles/definition.html

idea of Hart, Russo and P. Fount (1997) conducted empirical research and found that there is a direct correlation between organization's funds allocated to nature conservation and the positive financial results. This dependence was subsequently confirmed by other researchers (for example, Orlitzky, Shmitd, Rynes, 2003), who analyzed the financial indicators and the costs not only for conservation, but also for other social responsibility programs.

Environmental pollution has a significant negative effect on everyone: an increase in health problems in society, undermining the surrounding environment. Therefore, it is important that business companies would perceive responsibility for pollution. Companies should take the responsibility to restore the environmental damage caused by introducing natural resource-saving technologies, and to promote human health friendly materials (biological substances instead of hazardous chemicals) and manufacturing processes.

Organization's image could be improved by effective use of enterprise resources, protection of the environment, caring for brown field revitalization. Consumers choose production of socially responsible companies producing 'green' products that are suitable for processing, saving energy and other resources. Reducing consumption of resources or the optimal use of the production process significantly reduces the organization's cost of production. In caring for the environment, it is necessary to pay attention to the entire production process, from acquisition of raw materials to recycling of used production.

Corporate social responsibility is not the shortest path to business success; however, it is an investment that pays off in the long run. It provides advantages, such as in terms of staff retention and recruitment, staff development and motivation, customer loyalty and reduced energy costs. In the knowledge economy, it could become a growing source of innovation, and it may facilitate access to information and sharing. The management in more strategic and deliberate way can make better use of these advantages. CSR is associated with the ongoing development and could be described as a modern business improvement model.

Therefore, nowadays managers are not judged only by their financial performance anymore but also by their positive actions towards their stakeholders and the natural environment. Kotler and Lee (2005) have categorized the following initiatives as issues falling within CSR activities: issues that contribute to community health, encourage safety, enhance education, improve employability, enhance the quality of life in the natural environment, enhance community and economic developments, and facilitate the provision of basic human needs and desires. Therefore, CSR can be analyzed from various perspectives. Many of the listed above have not been thoroughly explored yet, but the most common dilemmas are the returns of investment (ROI). The case of Lithuania is worth of deeper analysis, as situation has significantly changed since Lithuania has become a part of European community. As Vasiljeviene indicated in scientific study *CSR across Europe* (Habisch, 2005, p. 184), Lithuanians' expectations of business enterprises were often reduced to the creation of new workplaces: in turn, companies regarded all social problems (unemployment, social security, healthcare etc.) as entirely a concern and responsibility only of the Ministry of Social Security and Labor, and their understanding of responsibility was bound to the creation of jobs for the community and tax payment to the state, while CSR issues were not officially put on the public agenda in all their completeness. A survey of the ethical standards of employees and firms that was conducted by Vilnius University in 2001 reflected that out of 940 respondents a majority gave priority to profit over social responsibility in business; only 17 % of the survey respondents thought that ethical behavior is reasonable in business, the others tend to believe that when faced with the dilemma "profit/benefit or morals" a Lithuanian business person always chooses profit/benefit. The study which was conducted almost ten years ago suggested that Lithuanians seldom relate economic success with the implementation of social responsibility/ethics standards in the organization because they are concerned about survival in the market, and such an approach still sustained the orientation of Lithuanian business towards a quarterly balance but not sustainable development. (Vasiljeviene, 2005, p. 188). Therefore, it is very important to update the information about the approach to CSR in Lithuania, focusing on ROI and organizational effectiveness. Based on the analysis of scientific literature on ROI in different countries, we hypothesized that there will be evidence supporting worth of implementation of the CSR principles. Moreover, the study analyses the effectiveness of value based management as it was indicated by various scholars (Martin, 2009).

Methodology

The study was conducted in 2013. Qualitative methodology assessing CSR strategies and implementation in selected Lithuanian companies (n=10) was applied to get valid results. Statistical analysis was used to count the ROI.

Results

This study uses data of the survey conducted by Ernst&Young Baltic. Three important organizational segments (customers, employees, organizational processes) were evaluated. It included customer satisfaction, sustainability of the activities, business processes optimization, employees motivation and excellence, new technologies and innovations.

In *Picture 1*, there could be observed different areas of CSR and ROI that were identified in this study.

Picture 1. *Returns of Investment in Different CSR areas*

CSR areas		Returns of Investment in Private Sector
Customers	Customer satisfaction	135%
	Client accountability/sustainability of the activities	126%
Employees	Employee Motivation	12%
	Competencies or Excellence Growth / Development	221%
Organizational processes	Business processes optimization	418%
	New technologies / innovations	125%
	Mean:	**173%**

Source: Survey , Ernst&Young Baltic „Implementation of CSR: Long term impact on business", 2013.

The analysis of the results presented above highlights the CSR return of investment differences in various organizational segments. The highest ROI could be observed in area of business processes optimization (418%), employees excellence (221%), customer satisfaction (135%), client accountability (126%), innovations (125%). Therefore, the investment in corporate social responsibility pays off in business, and, in some cases, more than three times. The mean of returns of investment of CSR reach up to 173%.

Conclusions

The study confirms the effectiveness of corporate social responsibility and value based management which was pointed out by many recognized scholars (Martin, 2009; Porter, 2012).

The survey clearly showed that value based management which implements the principles of CSR have more that 1,5 times higher returns of investment.

A general conclusion could be made, that the investment in corporate social responsibility pays off in business, and in some cases, more than three times.

In addition, the survey demonstrated return of investment differences in various organizational segments. This result needs further exploration of possible reasons.

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