

**AWARENESS OF CORPORATE SOCIAL RESPONSIBILITY ASPECTS IN LATVIA
AND THE EUROPEAN UNION**

Gunta Grinberga-Zalite¹, Dr.oec.

Latvia University of Agriculture

Abstract. Both in the European Union and in Latvia, the role of corporate social responsibility issues is increasing and becomes an important factor in the building of company's reputation. In Latvia, mostly the opinion that a company must donate a part of its profit to society, in which it operates, has prevailed so far. However, corporate social responsibility should be perceived much wider – not only as charity but also as company's values that find their expression in company's involvement in tackling environmental and social issues. In modern economy sectors, especially in service industries, human capital becomes more important than the physical capital, thus, comprehensive investors should stop cooperation with partners that fail to reduce such risks.

After Latvia's recovery from the 2008 financial *crisis*, which stemmed from the global financial *crisis* of 2008–2009, the country's welfare level has still a strong impact on the consumers' choice. Consequently, Latvian households pay little interest to the overall behaviour of corporate citizens rather than are interested to obtain the largest possible total utility for every spent monetary unit, regardless of what expense it is provided for customers.

In scope of the present research, the author has analysed Latvian and the EU citizens' awareness of corporate social responsibility issues. The research results revealed that in Latvia, there is still a corporate social responsibility information gap – almost two thirds of Latvian respondents are interested in what companies do to behave in a responsible way, whereas only one third of respondents say they feel informed in this area.

Key words: corporate social responsibility, corporate citizens, consumption.

JEL code: M140

Introduction

Corporate social responsibility (CSR) reflects company's relations with the society. The term "corporate social responsibility" is not a new term, it became popular already in the 1960s and has remained a term used indiscriminately by many to cover legal and moral responsibility more narrowly construed (Wood D., 1991). CSR is titled to aid an organisation's mission as well as a guide to what the company stands for and will uphold to its consumers (Hollensen S., 2011). Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 is the recognised international standard for CSR. Public sector organisations (e.g. the United Nations) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the

¹ Corresponding author. Tel.: + 371 63021041
E-mail address: gunta.grinberga@llu.lv.

Principles for Responsible Investment as guidelines for investing entities. Although there are many followers to the famous economist Milton Friedman viewpoint claiming that there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud (Friedman M., 1970), both in the European Union (EU) and in Latvia, the role of social responsibility issues is increasing and becomes an important factor in the **building of company's reputation. In Latvia, mostly the opinion that a company must donate a part of its profit to society, in which it operates, has prevailed so far. However, CSR should be perceived much wider – not only as external activities of a company (e.g. charity, sponsoring etc.) but also as values of company's shareholders, which find their expression in dealing with supply chain partners, environment problems, and relations with employees. In modern economy sectors, especially in service industries, human capital becomes more important than the physical capital, thus, comprehensive investors stop cooperation with partners that fail to reduce such risks.**

At Latvia level, overall studies regarding customers' awareness of corporate social responsibility aspects have not been performed yet, whereas, in the EU, as a part of the new policy on corporate social responsibility agenda, in 2013 a survey was designed to investigate the views of Europeans about the influence companies have on society. Among many different aspects, the survey investigated:

- levels of interest and information about what companies do to behave responsibly towards society;
- perceptions of the efforts companies in different sectors make to behave in a socially responsible way;
- perceptions of the overall influence of companies on society - is it positive or negative;
- who should take the lead in influencing companies to behave in a more responsible way towards society?

In scope of the present research, the author's aim was to evaluate Latvian and the EU citizens' awareness of corporate social responsibility issues. The aim of the research has set the following tasks:

- 1) compare the levels of interest and information about corporate social responsibility issues in Latvia and the EU;
- 2) identify the **main negative effects of companies on the society in Latvian and the EU consumers' view;**
- 3) **analyse Latvian and EU consumers' opinion on problems of taking responsibility of corporate social responsibility principles.**

In scope of the paper development, the following economic research methods were applied: analysis and synthesis, induction and deduction, monographic method and graphic method. For secondary data analysis, the author has used the publications of the European Commission documents, various Internet sources as well as publications in Latvian and international newspapers.

Research results and discussion

Corporate social responsibility defined by the European Commission as "the responsibility of enterprises for their impacts on society", underpins the Europe 2020 objectives for "smart, sustainable

and inclusive growth" (A Renewed EU Strategy..., 2011). To further the integration of CSR into business practice across the European Union, the Commission published a new policy on corporate social responsibility (CSR) in October 2011. This policy aims to enhance the positive impacts of companies on society, and to prevent or minimise possible negative impacts. The policy also sets out a plan of actions for the period 2011-2014, which includes:

- raising the profile of CSR within the EU and within the Member States and promoting and rewarding responsible business conduct;
- tracking the level of trust citizens have in business;
- improving regulation mechanisms and working towards new legislation around CSR.

In Latvia, Sustainability Index has been applied since 2011, which is a strategic management tool developed on the grounds of global methodology aimed to help Latvian enterprises establish the level of sustainability and corporate responsibility. It also sets objective criteria for the community as well as public and non-governmental organisations. Another purpose of the initiative is to praise and support the enterprises contributing to the long-term sustainability of Latvian economy, environment, and society. The Sustainability Index methodology has been developed by a wide range of Latvian experts based on the best global examples (Dow Jones Sustainability Index and CR Index by Business in the Community) and in line with the corporate responsibility standard SO 26000 and the Global Reporting Initiative (GRI) guidelines. The index has been adapted to the local audience evaluating the local performance of enterprises as regards to economic, social, and environmental issues, taking into consideration global corporate responsibility and sustainability criteria.

Sustainability Index is a great opportunity for managers sharing the following values:

- strategic improvement of the operation;
- understanding the diverse aspects of sustainability and corporate responsibility;
- reliable evaluation of non-financial operation of the enterprise and clear recommendations;
- communicating the results to internal and external stakeholders – employees, suppliers, investors, export markets, sponsors etc.

The results of **Sustainability Index** are reported at the annual closing event. The individual results of the participants (companies) are ranked by four categories (Platinum, Gold, Silver, and Bronze) showing approximate level of their sustainability index score (Sustainability Index, 2013). Nevertheless, despite this initiative, consumers often have rather different considerations regarding their loyalty to companies and brands. In general, the consumption in a country reflects the result of important economic and social dimensions' indicator interaction which is determined by characteristics of the particular economic cycle phase. After the reduction of consumption expenditure amount due to the 2008 **Latvia** financial **crisis**, which stemmed from the global financial **crisis** of 2008–2009, even now, in after crises period, Latvian consumers' revenues have not returned in the before-crisis period level. Consequently, even in after-crisis period, Latvian households are still tended to obtain the largest possible total utility for every spent monetary unit. Therefore, in Latvia functional consumption type still prevails which is also evidenced by the ratings of Latvia top of most loved brands. In 2013, Latvians' most loved brand top, which was composed in collaboration with "DDB Latvia" and the research company "GfK Custom Research Baltic", revealed that the top positions in brand rankings were taken mostly by

those brands that were user friendly and practiced value pricing or everyday low pricing² (Miletako zimolu tops, 2013). However, the tragic events that took place in Latvia on 21 November 2013 due to Riga supermarket "Maxima" roof collapse³ proved that often it takes a crisis to precipitate attention to CSR. Because the collapse occurred during peak shopping hours, it was suspected that at least a hundred people might have been in the store during the collapse. The disaster killed 54 people including three rescue workers; another 39 were injured and received medical attention. This was the worst disaster in Latvia since 1950. Eyewitnesses said that shortly before the collapse, a fire alarm was set off and there were announcements made that the store should be evacuated. The store's security verified that there was no fire and afterwards did not carry out an evacuation, but rather treated it as a false alarm and called a technician to turn it off. After the tragedy, not only Latvian Prime Minister Valdis Dombrovskis resigned from office on 27 November 2013 (Valdis Dombrovskis pazino..., 2013) but the incident even caused some tension between Latvia and Lithuania after the top management of the Lithuanian-owned chain refused to take any responsibility for the incident. In Latvia, "Maxima" stores were boycotted due to the statements expressed by "Maxima" management after the supermarket collapsed, and also due to reports of exploitation of workers and poor product quality (Steinfelde I., 2013). Several employees, including those who worked in the collapsed store, told media that they had received insufficient safety instructions, fire escape doors had been blocked, they had not been allowed to leave work without permission even to visit toilet and would have their pay reduced if they failed to comply. The stores would also keep only few checkout counters open in order to save money causing long lines to form, requiring employees to work long hours, while paying minimum wage. "Maxima" also was criticised for apparently intimidating workers to keep them from reporting discrepancies to authorities, talking to media or joining trade union (Puke I., Brauna A., 2013). In response to the events in Latvia, later there were also protests organised against "Maxima" stores in Lithuania. Since reputation in the community is an ongoing measure to ensure the company's brand visibility (Blumberga H., Ivans U., 2009), "Maxima" brand reliability in Latvia has seriously been undermined by this tragic event. Moreover, "Maxima" tragedy gives evidence that not only wrong management of the companies and inactivity of public authorities are to be blamed in a disaster but often public indifference and low level of awareness of corporate social responsibility issues cause the occurrence of such situations.

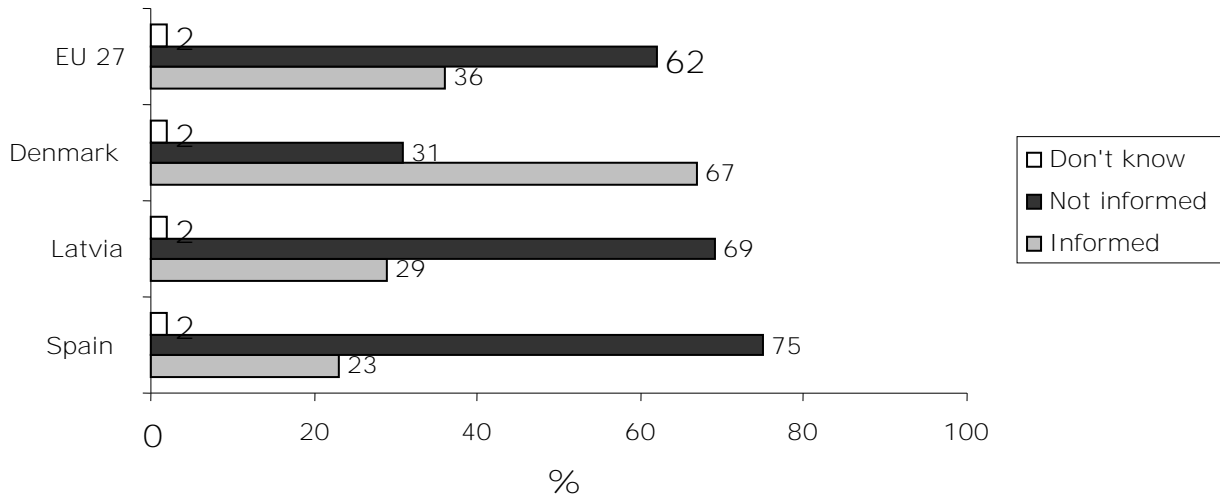
Since corporate citizens nowadays significantly influence not only the business environment but also social environment of countries, in 2013 a survey was designed to investigate the views of Europeans about the influence companies have on society in their countries. The survey conducted in 2013 by TNS Political & Social at the request of the European Commission comprised 25 567 respondents from all the EU-27 Member States who were 15 years old and older, including 1001 respondents from Latvia (TNS Political & Social, 2013).

Firstly, the EU-27 countries' citizens were asked if they feel well informed, not very well informed or not informed at all about what companies do to behave socially responsible. The proportion of

²1st place – GOOGLE; 2nd place – INBOX; 3rd place – NOKIA; 4th place – SKYPE; 5th place – DRAUGIEM; 6th place – SWEDBANK; 7th place – MAXIMA.

³ "Maxima" is a retail chain operating in Lithuania, Latvia, Estonia, Poland and Bulgaria and it is the largest Lithuanian capital company and the largest employer in the Baltic States. "Maxima Group" has 478 stores (as of 2012) in Lithuania, Latvia, Estonia and Bulgaria. The group employs more than 29 500 people.

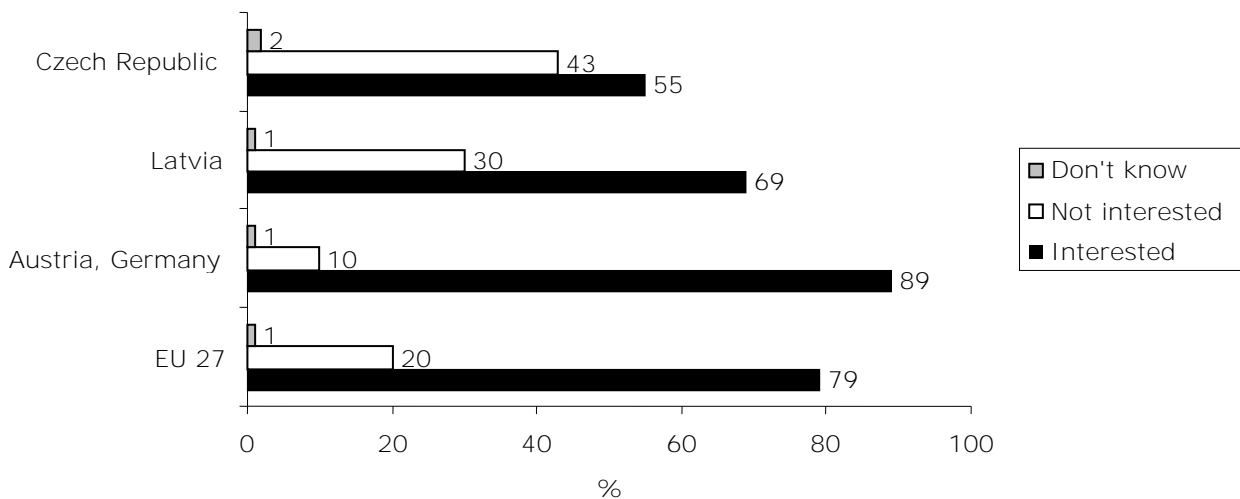
respondents who feel informed about what companies do to behave responsibly towards society varies dramatically across the EU countries. Figure 1 shows that in the EU-27, 36% of citizens on average have claimed that they are well informed.



Source: author's construction based on TNS Political & Social, 2013

Fig. 1. Respondents' awareness of companies' compliance with social responsibility principles towards society in the country, % of consumers

The best result of citizens' awareness of CSR issues was detected in Denmark where 67% of respondents are most likely to say they feel informed in this area and they are much more likely to take an active part in information search and dissemination.



Source: author's construction based on TNS Political & Social, 2013

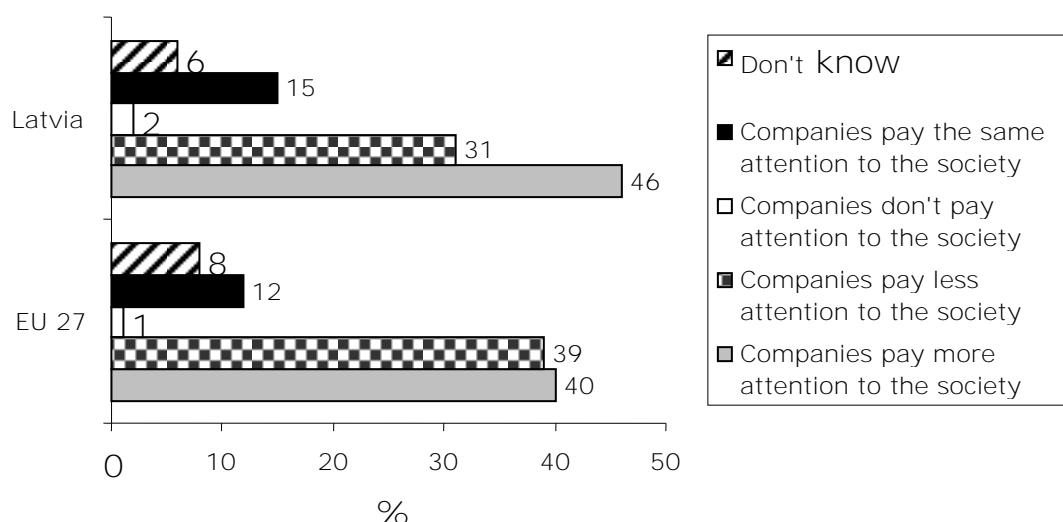
Fig. 2. Respondents' interest in what companies do to behave responsibly towards society, % of consumers

Latvian respondents' awareness level is the second lowest (29%) and is just ahead of Spain, in which only 23% feel informed of companies' socially responsible behaviour.

The second question tried to find out if consumers are interested in what companies do to behave responsibly towards society in their countries (Figure 2).

Turning to the European results, almost all respondents in Germany and Austria (both 89%) say they are interested in what companies do to behave responsibly towards society. Whereas, Latvia again is almost in the last place in the EU-27, it is just ahead of the Czech Republic. Consequently, Latvian consumers themselves pay less interest to the overall behaviour of corporate citizens, rather than are interested to obtain the largest possible total utility for every spent monetary unit. This fact also gives **evidence that the country's welfare level has a strong impact on the consumers' choice**, as the less interest in CRS was detected right in those EU Member States that joined the EU in 2004, i.e. Poland (25%), Slovakia (26%), Lithuania (27%), Estonia (26%), Malta (28%), Latvia (30%), and the Czech Republic (43%).

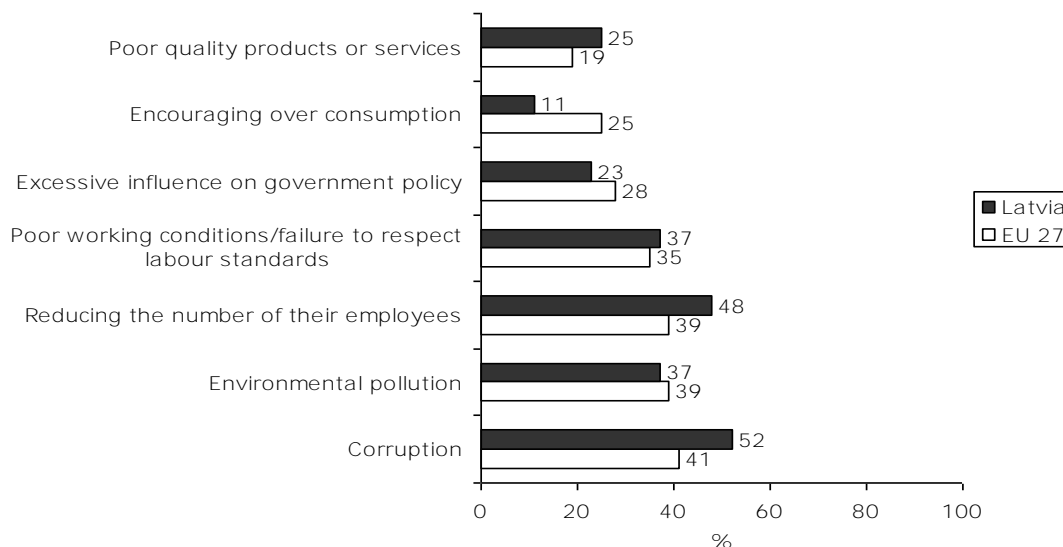
Figure 3 demonstrates that within the EU, 46% of Latvian respondents are more likely than the EU average (40%) to think that companies now pay more attention to their influence on society compared with the situation 10 years ago. The same situation is observed also in the majority of the new EU Member States (except Poland, Hungary, and the Czech Republic) which suggests that after 10 years in the EU implying its policies and regulations the companies have had to assess critically and admit their impact on environment and society which has been noticed by consumers.



Source: author's construction based on TNS Political & Social, 2013

Fig. 3. Citizens' awareness of companies paying attention to their impact on the society compared with 10 years ago, % of consumers

Among many different sectors' companies, Latvians have especially well evaluated the efforts of retail and supermarket companies to behave responsibly towards society, i.e. 72% which is a better result than in the EU on average (67%). This phenomenon again suggests that in Latvian consumers' view, often a responsible market player is regarded the one who enables customer to obtain larger possible total utility for consumers' every spent monetary unit regardless of what expense it is done.

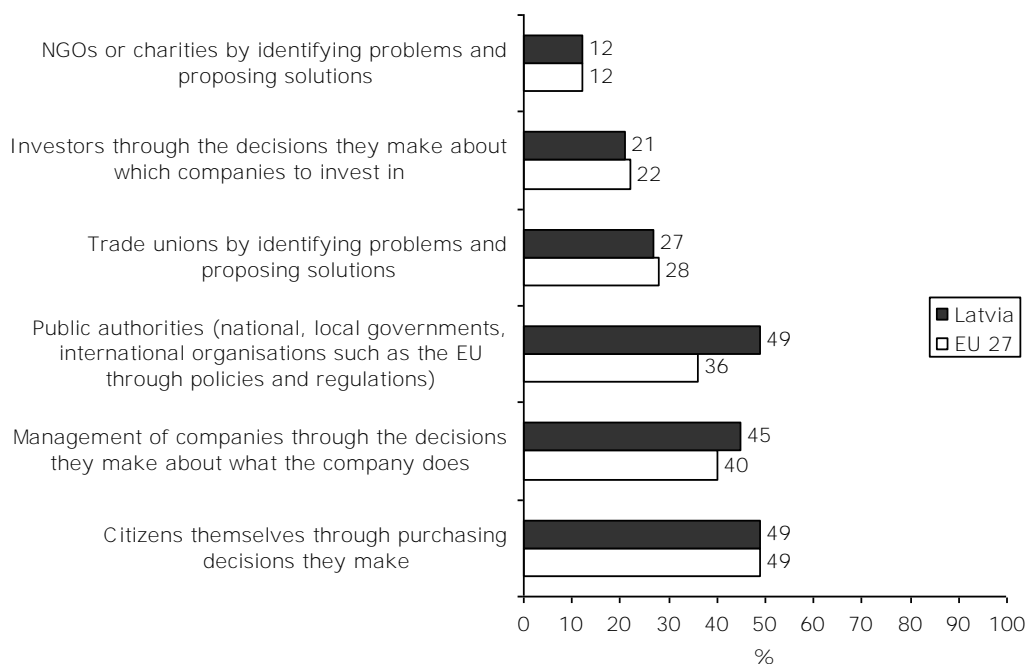


Source: author's construction based on TNS Political & Social, 2013

Fig. 4. Main negative effects of companies on the society in citizens' view, %

In Figure 4, regarding the main negative impacts companies have on the society, 48% of Latvian respondents have clearly mentioned that it is their reducing the number of employees. In the EU-27, the same argument is also topical but not as distinctive as in Latvia (39%). Another problem that Latvian consumers are upset with is **corruption (52%)**. This indicator confirms the results of "Corruption Perceptions Index 2013". In 2013, Latvia scored 49 on the "Corruption Perceptions Index" and of the 177 countries surveyed, Latvia was ranked in the 54th place. This year, Latvia's score is 53 and the country shares 49th spot with Costa Rica and Rwanda (Latvia shares 49th place..., 2013). Consequently, Latvians have reasonable basis for such concerns. Figure 4 also suggests that sustainable consumption issues that are lately topical in the old EU countries (e.g. Belgium – 43%, the Netherlands – 42%) have not yet become of interest in Latvia.

Although, Figure 5 shows that the same rate of Latvians and the EU-27 citizens think that they themselves can influence corporate citizens through their purchasing decisions, it is important to mention that Latvia has indicated the second highest score after the Netherlands (51%) among all the EU-27 countries (49%) in their trust to public authorities' ability to influence companies activities, which conflicts with respondents' answers on the previous question about corruption.



Source: author's construction based on TNS Political & Social, 2013

Fig. 5. **Citizens' opinion about the leading actor influencing companies' actions, %**

Consequently, further CSR studies focusing on leading actors, i.e. opinion leaders, public authorities, and NGO sector participants that would best of all involve both consumers and corporate citizens in reciprocal and constructive dialogues and social marketing campaigns would be advisable at Latvia level.

Conclusions, proposals, recommendations

1. The ratings of Latvia top most loved brands give evidence that top positions to large extent are taken by those brands that are user-friendly and cost-friendly to consumers which shows that functional consumption type prevails in Latvia.
2. There is a CSR information gap in Latvia: although 69% of respondents say they are interested in what companies do to behave in a responsible way, only 29% say they feel informed in this area.
3. In the survey, 46% of Latvian respondents consider that corporate citizens lately pay more attention to their influence on society compared with 10 years ago, which is comparatively higher rate than in the EU-27 on average (40%). This situation suggests that after Latvia's 10-year membership in the EU, implying its policies and regulations, Latvian companies have had to assess critically their impact on environment and society and take some noteworthy measures towards its negative effects which have been appreciated by Latvian consumers.
4. Within different types of businesses, Latvians are especially aware of efforts of retail and supermarket companies to behave responsibly towards society, i.e. 72%, which is higher than in the EU on average (67%). This phenomenon suggests that in Latvian consumers' view, often a responsible market player is regarded the one who enables customer to obtain larger possible total utility for customer's spent monetary unit regardless of what expense it is done.

5. Almost half (49%) of Latvian and the EU-27 respondents are equally aware that they themselves can influence corporate citizens through their purchasing decisions. Whereas, unlike the respondents of other new EU Member States, Latvian respondents have showed a comparatively **solid trust to public authorities' ability to influence companies' activities.**
6. The survey results give evidence that CSR issues in Latvia have not been sufficiently advocated so far. Unfortunately, in Latvia it had to take a crisis to precipitate attention to CSR, which **resulted in "Maxima" stores' boycotts. Therefore, in order to** minimise the occurrence of such incidents **in the future and raise consumers' awareness of CSR issues, the Ministry of Welfare of** the Republic of Latvia in collaboration with NGO sector should develop and implement a comprehensive social marketing campaign on the importance of CSR in modern consumerism environment.

Bibliography

1. A Renewed EU Strategy 2011-14 for Corporate Social Responsibility. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions. Brussels, 25.10.2011. COM European Commission. (2011) 681 final. Retrieved: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF>. Access: 06.01.2014.
2. Blumberga, H., Ivans, U. (2009). Corporate Social Responsibility – the Element to Advance the Company Reputation. Masters Degree Pretenders' Scientific Conference "Development in Diversity Papers, Theses MBA", Jelgava.
3. Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profits. *New York Times Magazine*, September 13, 1970, pp. 122-126.
4. Hollensen, S. (2011). Global Marketing. A Decision-Oriented Approach. Fifth Edition. Pearson Education Limited, London, pp. 123-124.
5. Latvia Shares 49th Place with Costa Rica and Rwanda in "Corruption Perceptions Index 2013". Riga, 3 December 2013. Retrieved: <http://www.baltic-course.com/eng/analytics/?doc=84526>. Access: 06.01.2014.
6. Miletako zimolu tops 2013 (*Most Loved Brand Top 2013*). Retrieved: <http://www.zimolutops.lv/mzt/>. Access: 06.01.2014.
7. Puke, I., Brauna, A. Nevainigais zarks (*Innocent Coffin*). Ir., 28 November 2013. pp. 14–20.
8. Steinfelde, I. "Maximas" veikaliem draud boikots (*"Maxima" Stores Threatened to Boycott*). 27 November 2013. Retrieved: <http://nra.lv/latvija/106758-maximas-veikaliem-draud-boikots.htm>. Access: 06.01.2014.
9. Sustainability Index 2013. Process. Retrieved: <http://www.ilgtspejasindekss.lv/page.php?id=16>. Access: 06.01.2014.
10. TNS Political & Social (2013). Flash Eurobarometer 363. How Companies Influence Our Society: Citizens' View . Report, April 2013, Brussels, p. 134.
11. Valdis Dombrovskis pazino par atkapsanos no amata (*Valdis Dombrovskis Resigned form Office*). 27 November 2013. Retrieved: http://www.tvnet.lv/zinas/latvija/487961-valdis_dombrovskis_pazino_par_atkapsanos_no_amata. Access: 06.01.2014.
12. Wood, D. (1991). Corporate Social Performance Revisited. *Academy of Management Review* 16(4), pp.691–718.