THE INVESTMENTS TO CORPORATE SOCIAL RESPONSIBILITY IN ECONOMIC DOWNTURN

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Currently, the development of socially responsible practices should be a strategic issue in each of advanced enterprises, in response to a variety of environmental problems, which, together with social and economic factors, creates instability. Economic downturn is time that could be characterized by uncertain business environment. Enterprises try to avoid the effect of downturn by remedial actions; such as cutting costs, postponing investments. The classic approach to modeling of enterprises behavior in the economic downturn (crisis) - this is their survival issue (problem). However, studies show that enterprises, energizing their activities, especially if it is related to the investments and capital restructuring, much easier get through economic downturn phases. The investments into socially responsible initiatives have to pay off, that is, generate a positive return on investment even in difficult economic times. Researched the investments of Lithuanian enterprises into corporate social responsibility, the authors found that socially responsible enterprises actively invested in innovation, technology, in improving the quality of life of the workforce and their families and the wellbeing of the community and society at large in economic downturn. Socially responsible investments helped enterprises to survive better the economic downturn, were beneficial not only for enterprises but also for society and became an important factor for enhancing competitiveness of enterprises in difficult economic times.

Keywords: Investments, Enterprise, Corporate social responsibility, Economic downturn, Lithuania.

Introduction

A great interest in corporate social responsibility was obvious before the economic downturn. In pursuit of profitability more and more enterprises gave their attention to the environment in which they carries out its activities. However, many organizations in order to avoid the effects of the recession have taken a range of measures for the reduction of costs and budgets and for postponement of investments.

Main objectives of sustainable development in Lithuania are to coordinate environmental, economic and social development interests, to ensure a clean and healthy environment and efficient use of natural resources, to vouchsafe global economic welfare and social guarantees for the public. Investments in corporate social responsibility, particularly during the period of economic downturn, may be one of the ways providing valuable insight into the partnerships,
which create synergy between the business sector and the public in order to achieve the objectives of sustainable development.

The problem and novelty of the study is that the investment to corporate social responsibility of Lithuanian enterprises in economic downturn has received a little attention in the literature. The economic downturn has influenced the majority of Lithuanian enterprises, at the same time and their ability to invest in socially responsible activities. Although a systematic examination of corporate investments to CSR is complicated, because the majority of Lithuanian enterprises do not declare their investments into environmental and social activities, however, on the basis of the individual examples, the article explores the trend and benefits of socially responsible investments.

The aim of the study is to analyze investments to corporate social responsibility during the economic downturn.

Literature Review

Economic downturn as time of uncertainty in business environment

Fluctuations in the economy go constantly, after the larger booms always follow downturns and it happens regularly. Economic downturns recur more or less at the same frequency. There was no such a decade, during which at least one more important “shock” to the economy system would not have taken place in the last hundred years. As noted Claessens, Kose and Terrones (2008), economic downturns “are characterized by sharp declines in (residential) investment, industrial production, imports, and housing and equity prices, modest declines in consumption and exports, and some decrease in employment rates”. According to Bloom et al. (2012) and Schaal (2012), uncertainty is rising sharply during downturns. “Increased uncertainty makes it optimal for firms to wait, leading to significant falls in hiring, investment and output” (Bloom et al., 2012). Economic downturns bring changes into economic area in all surveyed enterprises. Many of businesses end up filing for bankruptcy or cease their activity. The downturns result in an increasing number of enterprise’s failures, owing to the fact that it affects their effectiveness and competitiveness. The impacts of economic downturns on effectiveness of enterprises are financial, economic and organizational. Enterprises in particular reduce the risks associated with their business. Businesses lessen social and other activities. According to survey of Bernatonyte et al. (2009), in the view of small and medium-sized enterprises in Lithuania, the economic downturn has a negative impact on the implementation of the social responsibility due to the fact that priorities of enterprises are survival and reduction of risk, social activities leaving aside. In view of the fact that enterprises make every effort to survive in financially troubled times, the downturn has a negative impact on the involvement of organizations in social activities. And therefore the enterprises engage less in such activities in time of downturn (Karaibrahimoglu, 2010). Businesses cut down their expenses and “decrease CSR projects because of a financial downturn” (Giannarakis & Theotokas, 2011). But the facts of survey “Economic crisis impact directions concerning corporate social responsibility in Lithuanian SMES” (Bernatonyte et al., 2009) suggest that a fair number of small and medium-sized enterprises perceive the economic downturn as an opportunity to attract new consumers for an offer value added. The involvement in socially responsible activities during the period of downturn has a positive influence and opens up new opportunities for competitive products and services. In addition, hard times
commit businesses to revalue their relationships with the various interest groups, especially with having direct impact on the activities of the organization (Bernatonyte et al., 2009).

Investments to CSR are responsible activities, which unify potentials of nature, society and government. These investments ensure positive changes, where business, politics and society assume more responsibility than is required. Investments in socially responsible activities help to view the well-established methods of work and to carry out projects related to reduction of social tension, rational use of resources and development of innovative projects.

Corporate social responsibility as business opportunity in economic downturn

Businesses are minded to carry out activities, which benefits are tangible. Hard times are a good time for creating the basis for success. It is time to strengthen respect and confidence of employees, to enhance customer loyalty, understanding and solidarity and the desire to consume the goods or services of enterprises, which care about the society’s expectations. As noted Hopkins (2011), “corporate social responsibility is a process to achieve sustainable development in societies”. According to Werther Jr and Chandler (2005), “CSR is about incorporating common sense policies into corporate strategy, culture, and day-to-day decision making to meet stakeholders’ needs, broadly defined. It is about creating strategies that will make firms and their brands more successful in their turbulent environments”. Also Hopkins (2008) highlighted, “that a strategic stakeholder model of engagement with the business environment means that the potential for avoiding disasters and increasing success and innovation can be increased”. Hys and Hawrysz (2013) maintained that “in moments of crisis more attention is paid to efficacy and efficiency of actions - socially responsible activities to some extent seem to satisfy these needs; they have an impact on awareness of decision-makers and draw their attention to the way available resources are used”. “The global crisis has proved that corporate social responsibility isn’t a “nice-to-do”, it’s a necessity” (RasGas magazine, 2009). The implementation of corporate social responsibility, as Hopkins (2008), Souto (2009) pointed out, is business opportunity to overcome the turbulent situations (see Figure 1).
The implementation of corporate social responsibility is time-consuming and expensive process, but the benefits are extremely valuable in the context of long-term profitability and competitiveness. In addition, the development of corporate social responsibility is a key business risk management. Socially responsible practice is an excellent mechanism to deal with the challenges faced by enterprises in economic downturn. During the period of recession the problems, associated with the lack of social responsibility, as if were “cleansed” and more and more on-stream implant long-term socially responsible business principles companies start up (Česyniene & Neverkevič, 2010). The dimensions of corporate social responsibility varied when business-cycle phase change. During the period of economic boom enterprises focused on increasing the market share, raising and maintenance of customer, employee productivity and company’s reputation, as in economic downturn directed their attention on the maintenance of reputation, retention of markets and staff support. Socially responsible enterprises are proactive and in their daily activities found on principles of environment, transparency, employee training and on other democracy-support principles (Navickas & Kontautienė, 2011). Socially irresponsible behavior is very risky, especially depending on the changing expectations of the public and other stakeholders. Businesses must take advantage of the benefits of social responsibility in order to be successful and competitive even in economic downturn.

**Methodology**

There are qualitative and quantitative methods used for answering the aim of the paper. The qualitative method is based more on specific cases and examples, as compared to the quantitative method that is based more on secondary statistical analysis. This paper is focused on the investments to corporate social responsibility in economic downturn. A literature study is
suitable due to the fact that economic downturn as uncertain business environment negatively impact on the involvement of enterprises in social and environmental activities. This paper also deals with benefits of corporate social responsibility for enterprises in recession time. In this literature search the main search criteria were investments, corporate social responsibility and economic downturn, which were searched for solely and combined. To assess the impact of economic downturn on investments to socially responsible activities in Lithuania the secondary statistical analysis has been used. Secondary statistical analysis is commonly done on datasets produced by Lithuanian Statistics. Also specific cases and examples were used to analyze the investments to corporate social responsibility of Lithuanian enterprises in economic downturn.

**Results**

Economic downturn has touched nearly all the Lithuanian business in 2008-2010. The general influence of the economic recession has been a sharp decline in business finance, which translated into falling all enterprises’ investments as investments into socially responsible activities. Corporate investment in environmental protection in 2008, compared with 2007, fell more than 13 percent and amounted to 447 million litas. In 2009 investments of Lithuanian enterprises in environmental protection increased to 654 million litas. The investment growth in 2009 was influenced by Lithuania signed the agreement with the European Investment Bank on the long-term loan of EUR 1.132 million (LTL 3.908 million). By this agreement the Government of the Republic of Lithuania has ensured the resources needed to finance the projects, including environmental, under the 2007-2013 EU Structural Assistance Programme (The Ministry of Finance of the Republic of Lithuania, 2014). Enterprises, taking advantage of the EU contribution, increased investments in environmental projects. However, the economic downturn did the trick and investments in environmental protection had been significantly reduced in 2010. Reduced corporate earnings have influenced their investments in environmental projects. In comparison with 2009, investments in the environment dropped almost 11 percent and amounted to 585 million litas (see Figure 2).

![Figure 2. Investments of Lithuanian enterprises to environment protection by economic activity (NACE 2), million LTL.](image-url)
The purpose of socially responsible business is development of corporate social responsibility by engaging in philanthropy and caring for environment, well-being of employees and the public interest. As pointed Hess et al. (2002), “the practice of corporate philanthropy has evolved significantly over the past several decades and has now become an integral part of corporate strategy”. Charity and support by legal entities of Lithuania decreased more than 30 percent in 2008, compared with 2007, and amounted to 222 million litas. In 2009 philanthropic investments of Lithuanian legal entities slightly increased to 231 million litas, but still were significantly less than in economic boom (see Figure 3).

![Figure 3. Charity and support by legal entities of Lithuania, million LTL.](figure3.png)

Economic downturn had negative effects on investments into socially responsible activities. There was very difficult to remain a socially responsible company, which looked after the welfare of workers, a favorable working environment and environment protection in hard economic period, because for the vast majority of enterprises, perhaps, that was not the most important priority in such time.

Socially responsible business shaped a new society’s approach to business and entrepreneurship, marketing and management. Responsible enterprises endeavored to create socially sympathetic environment for all stakeholders by developing socially responsible approach to the environment, employees and society.

Lithuanian enterprises are involved in different forms of the social responsibility development. They participate in the activities of the Global Compact, implement quality management ISO 9001 and environmental management ISO 14001 systems, occupational health and safety systems OHSAS 18001, social accountability standard SA 8000, and others. Even in economic downturn the number of enterprises, implementing quality management and environmental management systems, occupational health and safety systems and social accountability standard, grew (see Figure 4).
Actually in difficult economic time Lithuanian socially responsible companies have invested in environmental and social initiatives. For example, AB “Lietuvos draudimas” the largest insurance services company, focused on three strategic themes: environment and climate change, safteness and social cohesion. “Lietuvos draudimas” has devoted more than 500 thousand LTL to charity and support of projects of child safety, environmental protection, scientific progress, saffeness and youth programs in 2009-2010 (Lietuvos draudimas, 2014).

AB LESTO, Lithuanian electricity distribution networks operator, has devoted to support of education, culture and health protection projects about 450 thousand LTL. LESTO group spent about 730 thousand LTL for the employee trainings in 2010 (AB LESTO, 2010). TEO LT, AB is the largest integrated telecommunication, IT and television services provider in Lithuania. In 2010 TEO Group invested 5.8 million LTL in the next-generation data centre, which was the first in Central and Eastern Europe to use the Kyotio Cooling technology for server cooling. Following the key directions of TEO support and co-operation established in the Social Partnership Strategy of TEO, the total amount of support allocated by TEO in 2010 was more than 2.363 million LTL (TEO LT, 2010). A telecommunications company “Omnitel” invested in employees training more than 722 thousand LTL in 2010.

Responsible business made a positive impact on dealing with environmental and social problems and, therefore, an important part of this business was the dialogue with the public and investments in CSR initiatives.

Even in economic downturn Lithuanian socially responsible enterprises invested in various responsible projects and their investments were beneficial (see Table 1).

According to the survey “The economic benefits and long-term effects of CSR on business” (Ernst & Young Baltic, 2012), investments in corporate social responsibility pay off, i.e. generating a positive return on investment for an average of 45 percent. The maximum economic benefit from one invested litas to the specific CSR initiative created in areas as reduction of resources consumption by optimizing operational processes and increase of employee competence and efficiency (see Figure 5). This tendency substantiates that an involvement of
employees into CSR initiatives is very important on purpose to increase the economic CSR benefits (Ernst&Young Baltic, 2012). CSR activities make greatest return for the companies in which corporate social responsibility is most closely associated with the overall business strategy and business model.

Table 1. Examples of investments to CSR of Lithuanian enterprises in economic downturn.

<table>
<thead>
<tr>
<th>Company</th>
<th>Investments to CSR</th>
<th>Benefits of socially responsible investments</th>
<th>Sources</th>
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<tbody>
<tr>
<td>UAB “PakMarkas”</td>
<td>Investments in creation of social welfare and reduction of negative impact upon environment</td>
<td>Created new employment places, as well as preserved additional guarantees to the employees. In the category of small and medium enterprises UAB “PakMarkas” was recognized as the “Top Employer 2009” in Lithuania.</td>
<td><a href="http://en.pakmarkas.lt/news/77/2432/UAB-PakMarkas-recognised-as-the-Top-Employer-2009.html">http://en.pakmarkas.lt/news/77/2432/UAB-PakMarkas-recognised-as-the-Top-Employer-2009.html</a></td>
</tr>
<tr>
<td>UAB „Tvirta“.</td>
<td>Investments in reduction of environmental pollution: the reprocessing of building waste to the secondary use building materials</td>
<td>Reduced the cost of raw materials for road construction, reduced quantities of building waste. The total investment benefit was over 310,000 LTL.</td>
<td><a href="http://csrbalic.lt/wp-content/uploads/2013/04/Atsakingasverslas_Nr6.pdf">http://csrbalic.lt/wp-content/uploads/2013/04/Atsakingasverslas_Nr6.pdf</a></td>
</tr>
<tr>
<td>TEO LT, AB</td>
<td>Investments in employee relations</td>
<td>In 2010 over 400 new jobs were created (at TEO Group level). According to TRI<em>M index, TEO is among the 33 per cent of European companies with the highest TRI</em>M index score. More than 60 per cent of TEO Group employees participated in different training programmes in 2010.</td>
<td><a href="http://www.teo.lt/ma/en/node/201">http://www.teo.lt/ma/en/node/201</a></td>
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<table>
<thead>
<tr>
<th>Environment</th>
<th>Employees</th>
<th>Society</th>
</tr>
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<tr>
<td>0.36</td>
<td>0.74</td>
<td>0.48</td>
</tr>
<tr>
<td>1.38</td>
<td>1.13</td>
<td>0.65</td>
</tr>
</tbody>
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Figure 5. Perspectives of environment, employees and society: Return on 1 LTL investment, generated by the CSR initiatives.

Source: Ernst&Young Baltic, 2012

However, it is necessary to take into account that less profitable enterprises were short of funds for implementation of socially responsible activities. Risk of experiencing major losses was too great, so they preferred not to invest in corporate social responsibility. On the contrary, the more profitable enterprises devoted their funds to the realization of socially responsible projects in the hope to overcome the turbulent situations because the development of CSR positively affects brand loyalty and enhance stakeholder confidence and thereby social responsibility initiatives may have an indirect positive impact in economic hard time.

Conclusions

Economic downturn brings uncertainty in business environment. Uncertainty about the future, about liable loss forces enterprises to review their budgets, to limit the use of resources and investments. In that time most companies limit their investments in social and environmental projects for the shortage of financial resources, for the rising burden of taxation or for the shortfall of resources in the future. Economic responsibility of business - to earn profit - is the
company’s official compound of the social contract. This responsibility becomes difficult realized priority at the time of the economic downturn. Most companies make every effort to survive in financially troubled times, and that determines reduction of investments in the environmental and social activities.

The investments to corporate social responsibility offers a guarantee and confidence to investors, so helps in building good reputation and in making better market position. Also, investments to CSR could be assessed as innovation. Investments to environmental and social projects could motivate employees and provide better atmosphere within enterprise, and also helps in building confidence of stakeholders and in minimizing risk. Corporate social responsibility matters a lot to business. Development of corporate social responsibility helps enterprises to survive better crisis times. Investments to corporate social responsibility can be treated as a business opportunity in economic downturn.

There is difficult to assess Lithuanian companies’ investments in certain socially responsible activities and their trends because of a lack of information. Many enterprises do not provide specific information about investments in socially responsible activities. Lithuanian enterprises are involved in different forms of the social responsibility development. On the basis of corporate reports can be maintained that Lithuanian socially responsible enterprises invested in various socially responsible projects and their investments were beneficial even in recession. Social projects have already become part of the strategy of responsible companies. Businesses need governmental and public active support for the development of socially responsible strategies and for the development of the dialogue between business and civil society.

References


