What Does Business Think about Corporate Social Responsibility?

PART I:
ATTITUDES AND PRACTICES IN ESTONIA, LATVIA AND LITHUANIA

Enabling a Better Environment
for CSR in CEE Countries Project

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Table of Contents

Abbreviations and Acronyms

“Small companies” are companies which employ from 1 to 50 people
“Medium companies” are companies which employ from 51 to 250 people
“Large companies” are companies which employ from 251 to 1000 people
“Very large companies” are companies which employ from 1001 to 5000 people
“Regulation” refers to the regulatory and legal framework
“Respondent companies” and “interviewed companies” are used as synonyms
A “public company” is a state owned company
A “semi–public company” is a company partly owned by state

CEE	Central and Eastern Europe
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
EIA	Environmental Impact Assessment
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFDI	Gross Foreign Direct Investment
HR	Human Resources
ILO	International Labor Organization
ISO	International Organization of Standartization
NGO	Nongovernmental Organization
WTO	World Trade Organization

List of Figures

Acknowledgments

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Executive Summary

The World Bank surveyed business leaders in Estonia, Latvia and Lithuania to identify private sector views of corporate social responsibility (CSR)[1] and the ways in which these views are put into practice.

The survey findings indicate that there is a general convergence of views on the most important factors encompassed by the term "CSR"; namely, that CSR involves behaving ethically, assuring environmental protection, addressing stakeholders' concerns, and being transparent. Equally important is the shared attitude concerning what does not constitute CSR; namely correcting social inequalities, public relations, establishing simple stakeholder partnerships, and simply following regulations.

The survey indicates that for company executives the most significant barrier to adopting socially responsible practices is "perceived overall cost". Cultural differences and the resistance of managers and employees to behaving in a more socially responsible manner are not considered significant barriers. Similarly, adopting CSR is not seen as risk to maintaining quality and productivity among workers.

There is a strong convergence of views on the actions that could promote greater adoption of CSR measures by firms, including incentives that help overcome costs, empowering local governments (not national governments) to help address issues, and providing national recognition when good CSR practices are identified.

Taken together, the results of the survey and an understanding of the socio-economic context surrounding the respondents create an image of a corporate sector that sees itself as market-oriented and open to competition. It sees its logical role as one that is economic and rational, not essentially social or altruistic. It believes that it is pre-disposed to act in a socially responsible manner, and may already be doing so, but lacking economic incentives to go further.

It considers that decisions to engage in CSR activities are voluntary, but feels that a more conducive environment could be created by government and other stakeholders to stimulate further engagement.

The adoption of CSR practices in the Baltic countries to date has been mostly spearheaded by private companies, often multinationals that are expanding their operations consistent with their own best strategic interests. Many companies that have

[1] Corporate social responsibility is a commitment of business to contribute to sustainable development working with employees, their families, local communities, and society at large to improve their quality of life that are both good for business and good for development.

been sensitive to their employees', customers' and communities' desires and perceptions have found a compelling business case for accommodating these desires and perceptions, beyond strictly legal and regulatory requirements.

In most cases, governments have generally seen that CSR can serve society's interests, and have been satisfied that lead companies are aligning themselves with business practices under the pressure of the "market". Governments appear to have been satisfied with an implicit policy of remaining aware and sometimes endorsing private-led initiatives while monitoring and enforcing compliance with regulations, without an explicit policy to broaden or promote CSR. This has been a relatively passive or disengaged policy stance, and has served countries with vibrant formal business sectors relatively well to date.

However, it is clear from the survey results that firms would welcome clarity of government policy regarding the promotion of CSR. While it believes that there are not sufficiently clear policies covering CSR, it prefers incentives and relations with local jurisdictions to influence its behavior, rather than regulation, central government participation and/or management, and believes that under these circumstances it would embrace new business models and modes of behavior. So encouraged, adopting CSR would present relatively few risks.

The challenge facing governments in the Baltic countries, therefore, would be to accede to the maximum degree possible to the perceptions of the business sector, and voluntary character of CSR, and build on these, while recognizing that their obligations to meet European environmental and social standards, and dependency on exports as the "economic driver", set demands that may be sometimes contrary to these perceptions.

This would require a new consultative process between business, other stakeholders who businesses themselves have identified as consumers/communities, and national governments. Various modalities can be envisaged to organize and conduct such tripartite consultations, but with a common feature that there be a neutral forum and sponsorship, a commitment to follow-through on actions, and agreement on institutional arrangements that sustain monitoring and verification that agreed measures are being followed.

Introduction

Project Description

The World Bank surveyed business leaders in Estonia, Latvia, and Lithuania to identify private sector views of corporate social responsibility (CSR) and the ways in which these views are put into practice. The principal objective of this survey is to determine how corporate managers in each country perceive CSR and define their companies' roles in society.

Project Commission

The survey is part of a broader World Bank pilot program "Enabling a Better Environment for CSR in Central and Eastern European Countries", generously supported by a grant from the European Commission, Directorate–General Employment. The primary objective of this project is to establish and support new dialogue within CEE countries on the value and means of promoting corporate social responsibility. The principal activity is the generation of information to improve understanding of corporate attitudes and practices that may already be identified with "corporate social responsibility", and the identification of gaps between current CSR practices in CEE and those in the EU and elsewhere. The intended outcome is to inform stakeholders in these countries how to create a better environment for CSR, and to engage them in discussion that could lead to a CSR promotion plan. In countries with sufficient awareness of CSR, the project will help stakeholders to broaden the dialogue and implement ideas.

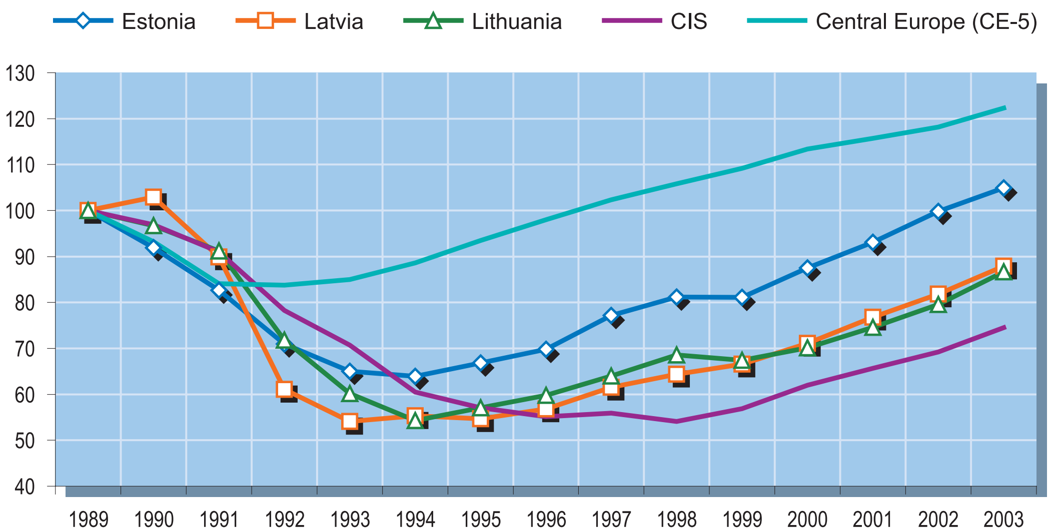
Survey Methodology

Companies were selected from the 300 companies in each country with the highest annual turnover, and/or highest number of employees. Eighty companies were interviewed in Estonia, 83 in Latvia, and 80 in Lithuania. The sample companies represent different economic sectors, ownership structures and sizes. The survey included 36 questions asked during face–to–face interviews with chief executive officers or other senior managers. The interviews took place during the fourth quarter of 2004 and the first quarter of 2005. Questions were predominantly close–ended, but space for written comments was provided where appropriate.

Economic Background[1]

The Baltic countries have experienced high and low points on the journey to membership in the European Union. With small, open economies, they emerged from their transition–induced recession around 1995, and have since grown at a remarkable pace. Real GDP growth in the three countries surpassed that of most other transition economies, and from 1996–2003, the Baltic economies grew by roughly half of their initial level (cumulative growth was 51% for Estonia, 59% for Latvia and 52% for Lithuania). Moreover, the most recent results for 2004 show no signs of a slowdown, and Baltic countries are still experiencing the highest growth rates in Europe, and are among the most rapidly growing economies in the world.

Figure 1 Real GDP dynamics in the Baltic countries, CIS and Central Europe[2] *(1989=100)*



Source: Economic Commission for Europe (2003, 2004)

This "golden" period of growth should be seen against a backdrop of rapid economic reforms, liberalization of markets, intensive inflows of foreign direct investment, and

[1] Based on World Bank EU–8 Quarterly Economic Report January 2005 Part III: The Baltic Growth Acceleration—Is It Sustainable?

[2] CE–5 includes the Visegrad Countries (Poland, the Czech Republic, Slovakia, and Hungary) and Slovenia.

institutional changes. It has also been characterized by a low base, with income levels at the beginning of transition well below those of other Central European countries. The Baltic countries have only recently returned to pre–transition income levels according to official statistics.

Growth in the Baltic countries was driven by rapidly expanding exports followed by booming domestic demand. The latter came mainly from the private sector, with public consumption stagnating due to the strong commitment of governments to maintain fiscal discipline. The surge in domestic demand also triggered a rapid expansion of imports, and while exports continued to do well, current account deficits widened significantly.

At the same time, there was a significant shift in resources (especially labor but also capital) from the initially less productive, tradable goods sectors (dominated by the old heavy industries) to the more productive non–tradable goods sectors. However the reallocation of resources between sectors was not entirely uniform across the three countries. While agriculture declined markedly across the Baltics, the shift from industry to services was much larger in Estonia and Latvia than in Lithuania.

The key service sectors driving growth in Estonia were transport, storage and communication, while in Latvia they were wholesale and retail followed by real estate and related activities. In Lithuania, growth was driven by a combination of rapid expansion of the manufacturing industry and services, mainly trade, transport and real estate.

The economic structure of the Baltic countries, notably Estonia and Latvia, now closely resembles that of Western Europe. Thus, one would expect that growth going forward would be fueled by intra–sector and firm productivity improvements rather than by reallocation of resources across sectors. International evidence suggests that these are the main sources of growth over the longer term.

The Baltic countries are highly open to international trade. During the early 1990s, trade relations with Western Europe were limited, but with trade barriers gradually easing in the context of free trade and pre–accession arrangements, foreign trade expanded rapidly at a rate of around 20 percent per year until 1999. The Russia crisis slowed trade dynamics temporarily as trade was diverted toward Western markets. In 2002, foreign trade turnover ranged from 101 percent of GDP in Latvia to almost 170 percent of GDP in Estonia.

Investment has been another important source of growth for the Baltic countries. All three countries have achieved double–digit growth of Gross Foreign Direct Investment (GFDI) since 1995. However, this dynamic growth of domestic investment, to some extent, reflects the low initial level of capital: In the early to mid–1990s the capital stock inherited from the Soviet system was mostly depreciated and became obsolete. Further, only very limited investments were made in the early 1990s. In 2003, investment rates in the Baltic countries were the highest in the EU8[3], although on average, during the period 1995–2003, rates were more or less in line with other Central European countries.

During the early years of transition, the Baltic countries lagged behind in terms of FDI inflows. The sharp initial drop in economic activity and the small size of the economies

[3] EU8=Estonia, Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia

led potential, large–scale foreign investors to focus initially on the Central European countries. However, as output recovered and reforms—including privatization—accelerated, the countries started attracting more foreign investors. A well–educated labor force, a friendly investment climate, and low labor and other production costs were all increasingly captivating conditions for FDI. Estonia has been the most attractive location in the Baltic region, followed by Latvia and Lithuania. FDI inflows in the Baltic countries have been directed mainly at the service sectors and manufacturing. Services (excluding non–market and construction) have attracted between 60 percent (Lithuania) and 75 percent (Estonia) of all FDI inflows. The main sub–sectors within services have been wholesale and retail trade (especially Lithuania), transport, storage and communication, financial intermediation (in particular Estonia), and real estate (notably Latvia).

Relatively high investment rates and buoyant FDI inflows reflect a generally favorable investment climate in the Baltic countries. The business and investment climate has improved dramatically in the Baltic countries since the beginning of the 1990's. One could hardly tell that less than 20 years ago the private sector and foreign investment were virtually non existent in these countries. The acceleration and catching up on the reform side have resulted in conditions for doing business that are now at least as good as in the more advanced transition economies of Central Europe.

The recent study, "Doing Business in 2005", by the World Bank, ranks Lithuania sixth among the top ten global reformers in 2003, and seventeenth among the top 20 economies in the world for doing business. The Baltic countries generally compare well to other countries in the region on starting and closing a business, registering property, and enforcing contracts, while on the other hand, they have more rigid labor markets. According to European Bank for Reconstruction and Development Transition Indicators, the Baltic countries on the whole compare favorably to other new EU accession countries.

Also, the Baltic countries stand out in the region for their prudent macroeconomic policies, including fiscal policy. Further, relatively low labor costs and corporate income tax rates are attractive for investors. Labor taxes, meanwhile, remain high as in the other countries in the region.

Comparison of Current Attitudes and Practices in Estonia, Latvia and Lithuania

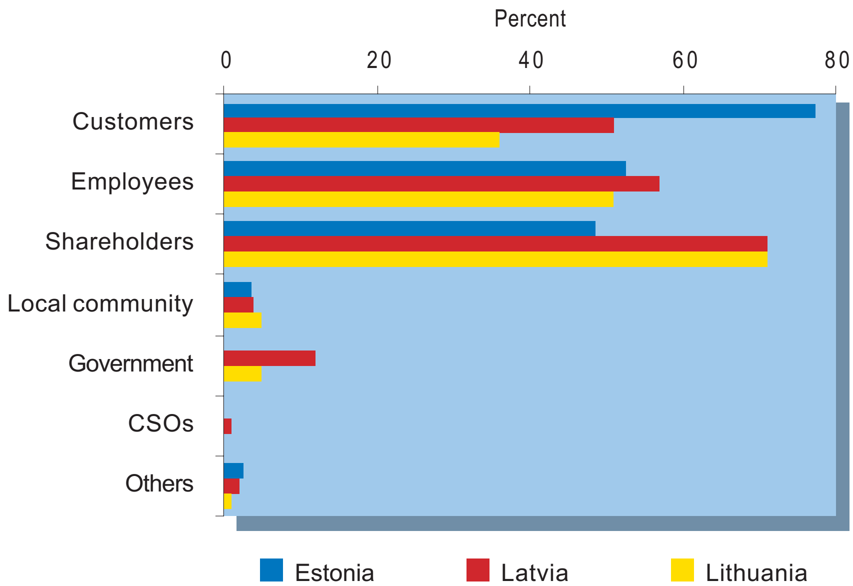
Results of surveys conducted in 243 Estonian, Latvian and Lithuanian companies illustrate private sector attitudes towards CSR and present an overview of CSR practices. Despite their similar historical backgrounds and economic situations, the countries exhibit considerable differences.

Understanding of CSR Concepts

Respondent companies in Estonia, Latvia and Lithuania have quite different perceptions of the concepts of stakeholders.

Estonian respondents tend to have a more liberal and commercial view of the concept of stakeholders, whereas Latvian and Lithuanian respondents have a more institutional view. Civil society organizations are not considered to be main stakeholders in any of the countries analyzed.

Figure 2 Compared – Understanding of Stakeholders



Respondent companies' specific understanding of "socially responsible activities" varies considerably from one country to the other. Although aggregated data shows that they largely share views on the basic meaning of CSR. Estonia and Lithuania link these activities principally to ethical conduct, whereas Latvia believes addressing stakeholders' concerns and protecting the environment are more closely linked to socially responsible activities.

Figure 3 Compared – Understanding of CSR (Activities)

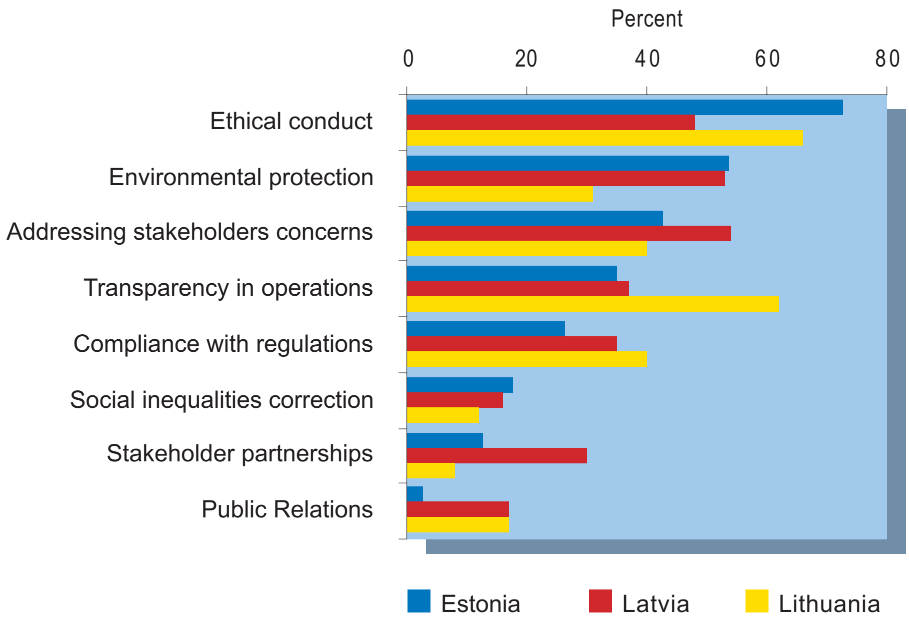
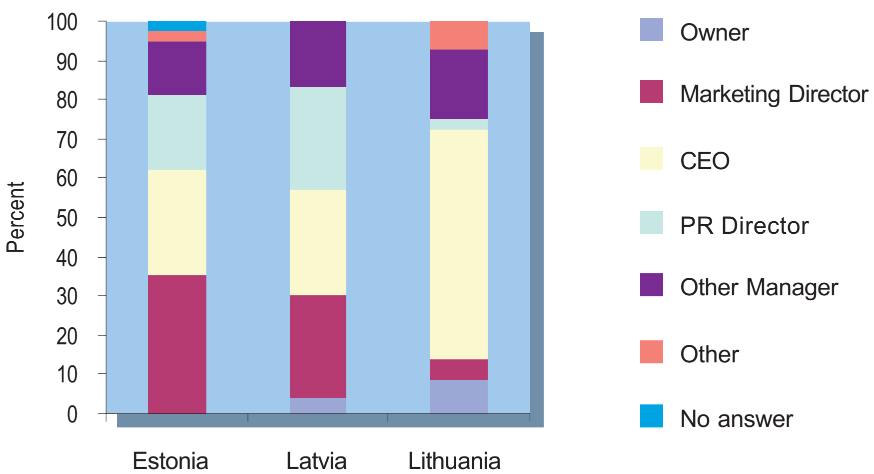
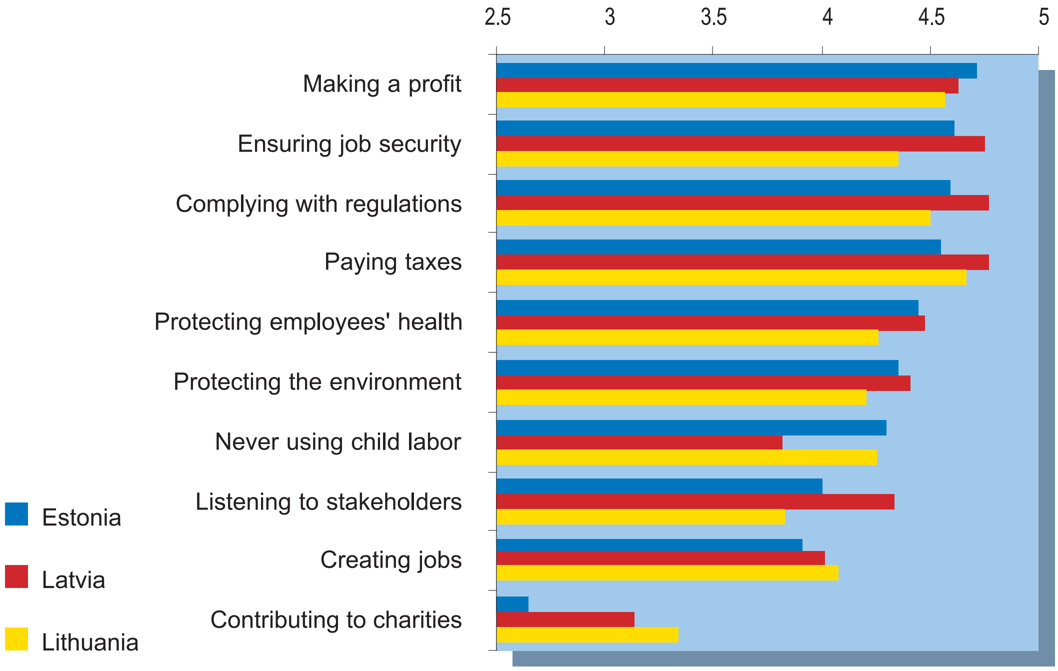


Figure 4 Compared – Understanding of CSR (Position of Interviewees)



Respondents in the three countries tend to have a similar view of their role in society. They considered making a profit, paying taxes, complying with regulations, and ensuring job security to be their main roles in society.

Figure 5 Compared – Understanding of Role of Company in Society (2.5=strongly disagree, 5=strongly agree)



Codes of Conduct and Transparency

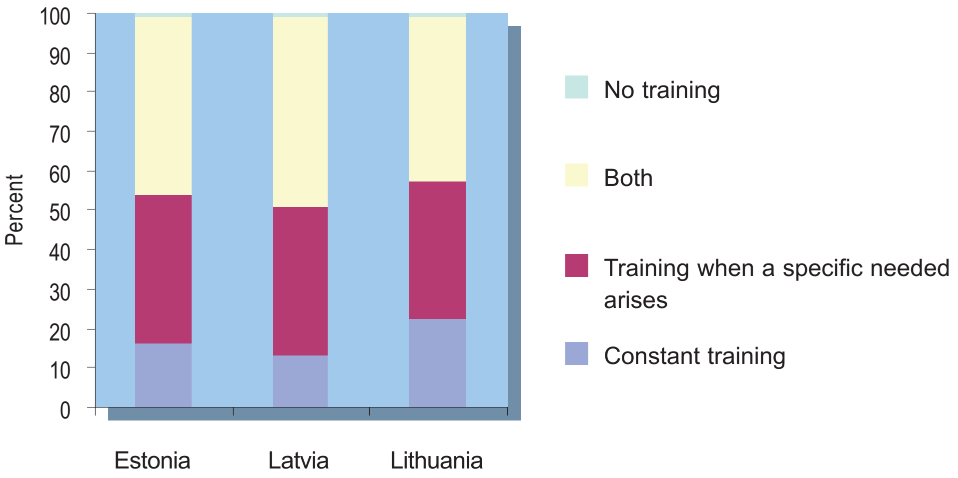
Codes of conduct are most common in Latvia, where more than 80 percent of companies have written codes. Policies on corruption are most widespread in Latvia, where 45 percent of respondents have such a policy. Policies on financing candidates for public positions are most widespread in Lithuania, where 13 percent of respondents have such a policy. It is unlikely that, in any of the surveyed countries, policies on corruption will increase significantly within the next five years. In contrast, social and environmental performance reporting is likely to increase significantly within the next five years. Presently, Lithuania has the highest rate of both environmental and social performance reporting, respectively 31 and 28 percent. Lithuanian respondents most often hold regular consultations with their stakeholders (79 percent).

CSR Projects

Employee Projects

Although there are stark differences in the implementation of ILO labor standards, explicit anti–discrimination policies in personnel recruitment, and employee health protection plans, all three countries agree on the importance of employee training programs.

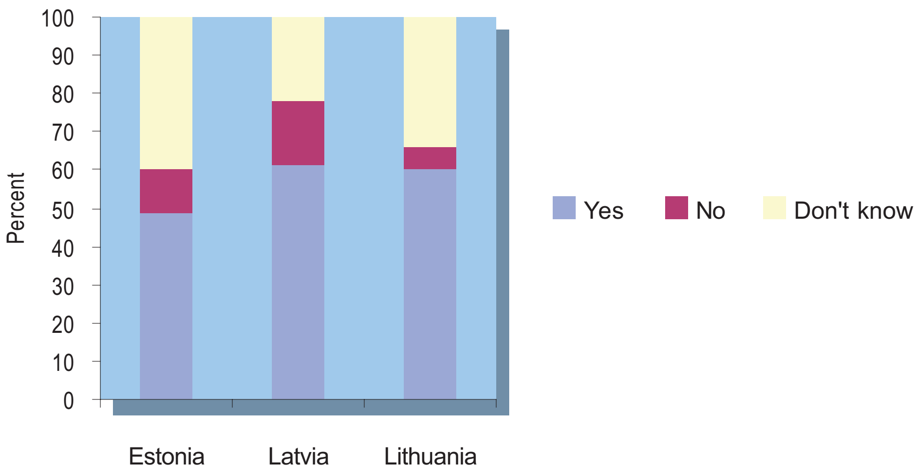
Figure 6 Compared – Employee Training



Social Projects (other than employee–focused)

While Estonian and Latvian companies prefer to engage in education projects, Lithuanian companies prefer health–related social projects. Despite the general planned increase in engagement in social projects, companies tend to be very hesitant to state their plans relating to social projects for the next five years.

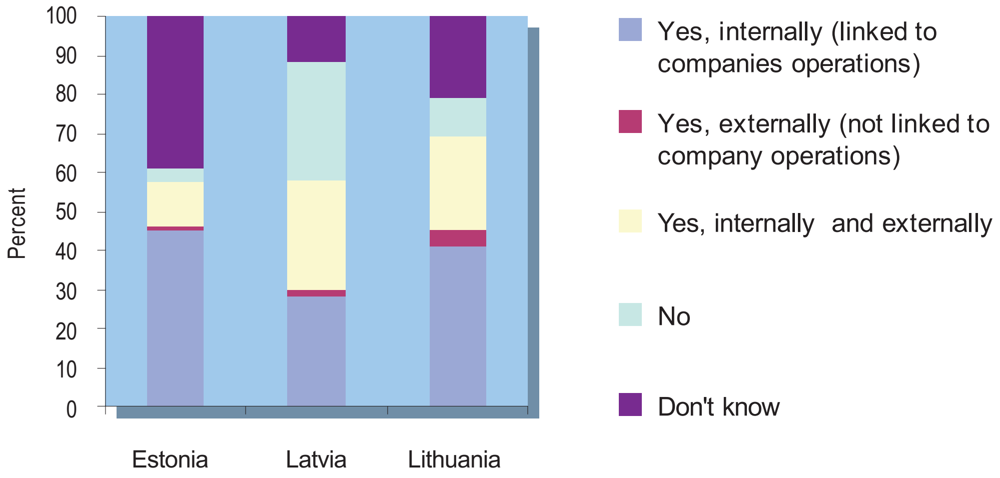
Figure 7 Compared – Future Engagement in Social Projects



Environmental Projects

Estonian companies most often develop environmental educational activities (34 percent). Recycling programs are most widespread in Lithuania, (49 percent). Environmental certification is most widespread in Latvia, (34 percent of companies). The highest rate of environmental impact assessments belongs to Lithuania, (59 percent). The intention to engage in environmental projects within the next five years varies considerably from country to country.

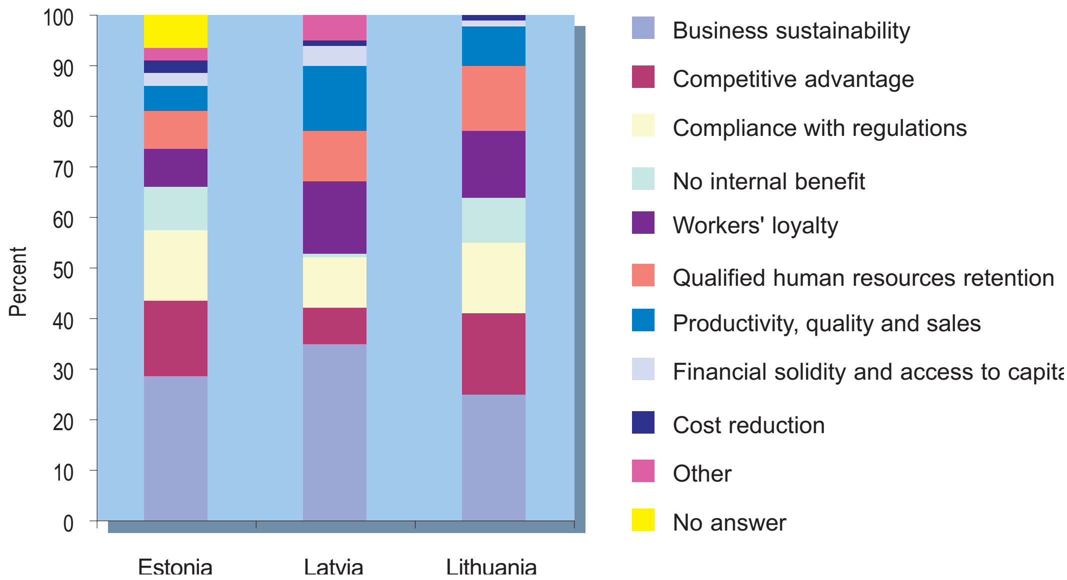
Figure 8 Compared – Future Engagement in Environmental Projects



Benefits, Risks and Barriers involved in Adopting CSR Practices

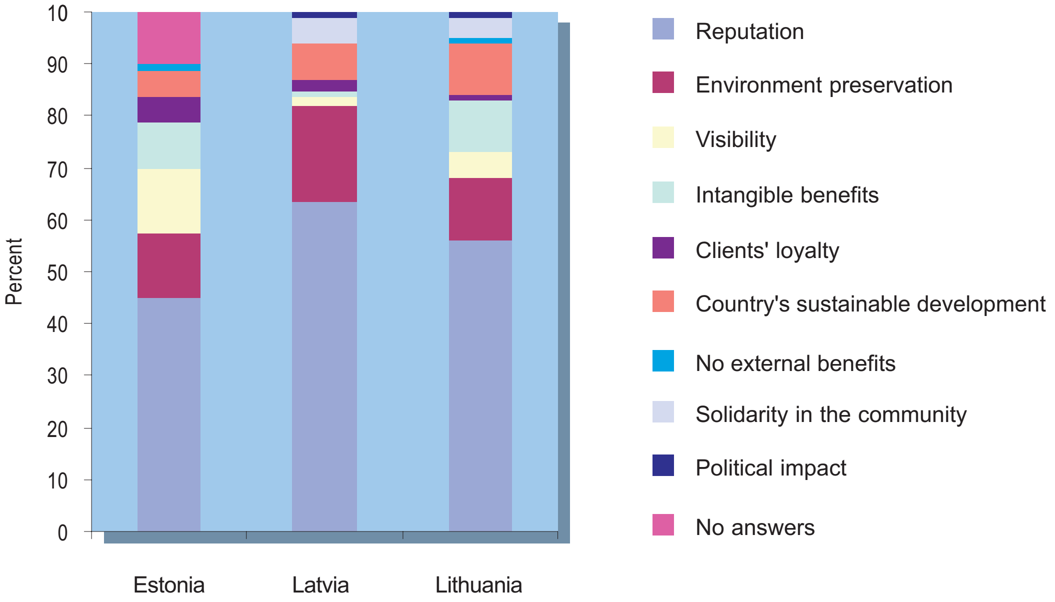
Whereas Estonian and Lithuanian companies' perception of internal benefits deriving from CSR practices is somewhat similar, Latvian companies' view is different and probably more positive.

Figure 9 Compared – Internal Benefits from Adopting CSR Practices



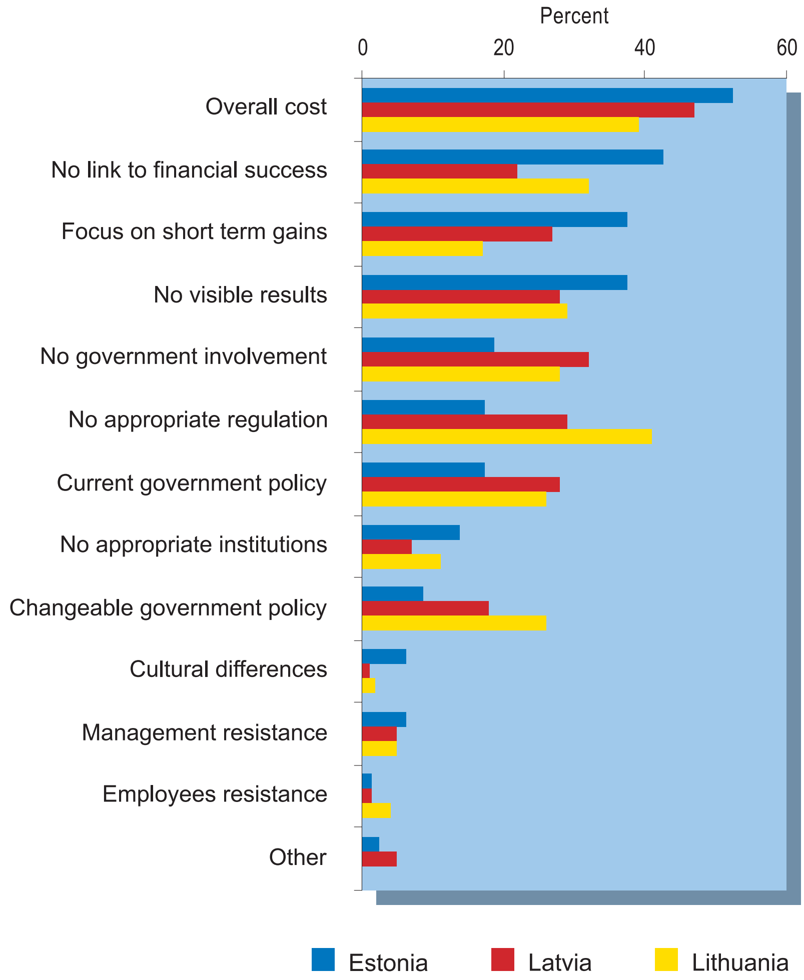
Although the three countries' perceptions of the external benefits derived from CSR practices differ, all three agree that the effect on companies' reputation is the main external benefit of CSR practices.

Figure 10 Compared – External Benefits from Adopting CSR Practices



The main barriers to the broader adoption of CSR practices can be divided into: financial, government and institution–related, and human resource–related. While Estonian and Latvian companies believe that the main barriers are financial in nature (i.e. overall cost), Lithuanian companies believe the main barriers are government and institution–related (i.e. lack of appropriate regulation)

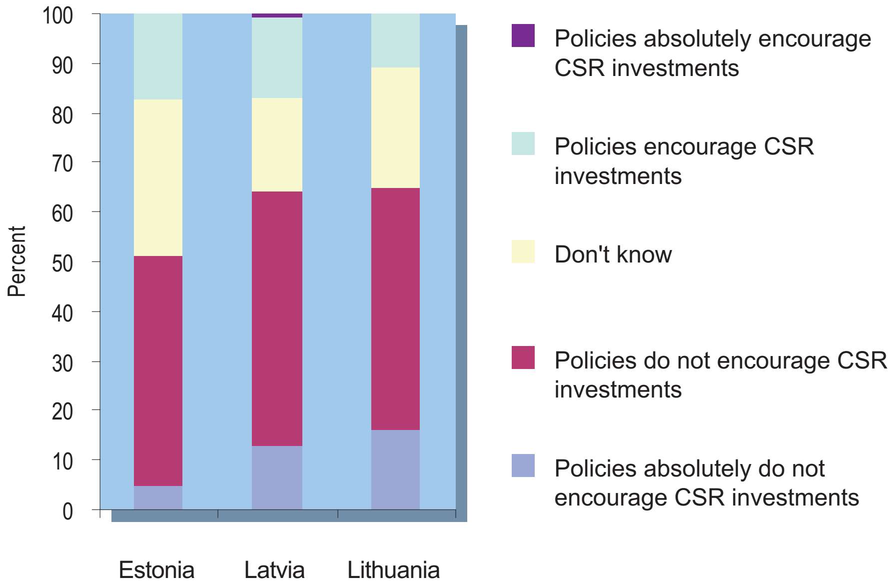
Figure 11 Compared – Barriers to Adopting CSR Practices



Latvian—and in a lesser measure Estonian—companies perceive more risks related to the adoption of CSR practices than Lithuanian companies do.

Notwithstanding a higher percentage of undecided in Estonia, all three countries agree that there is a lack of government policies encouraging CSR investments.

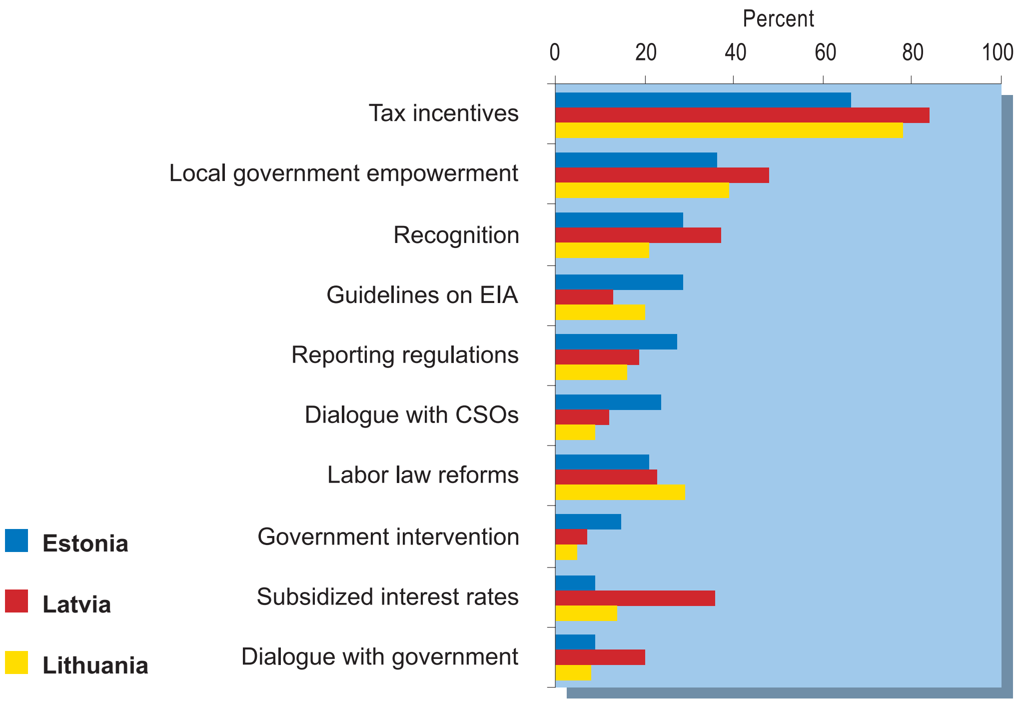
Figure 14 Compared – Government Policies' Impact on Investment in CSR



Improving CSR Practices

Countries' perceptions of actions that could improve CSR practices are fairly similar.

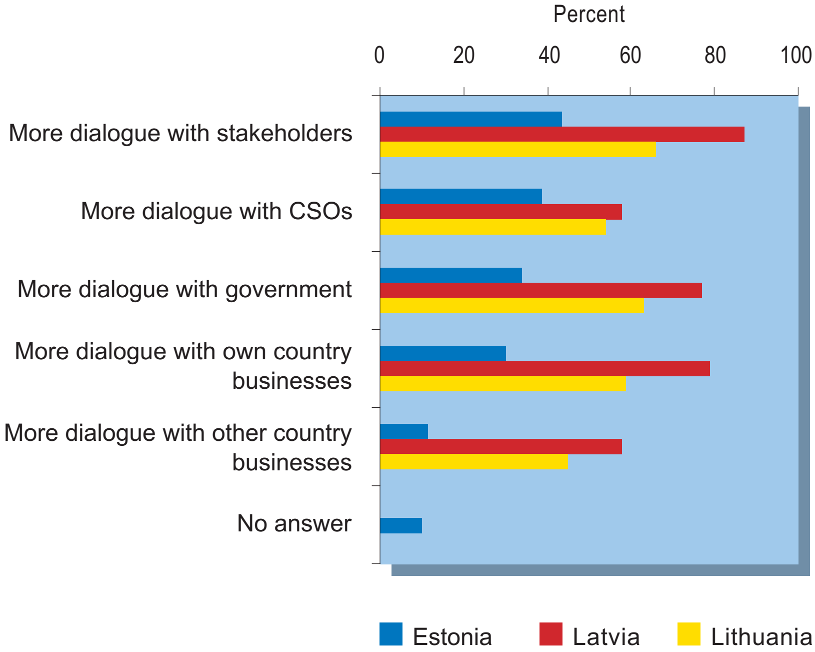
Figure 15 Compared – Actions that Improve CSR Practices



Making CSR Practices More Relevant

The belief that dialogue makes CSR practices more relevant is held most strongly by Latvian companies followed by Lithuanian companies, and then Estonian companies.

Figure 16 Compared – Dialogue that Makes CSR Practices More Relevant



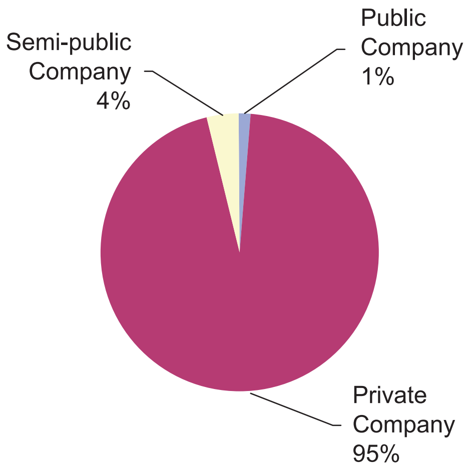
1 Current CSR Attitudes and Practices in Estonia

1.1 Analysis of Survey Respondents

1.1.1 Ownership Structure and Funding of Respondent Companies

Of the 80 companies interviewed, 95 percent are privately owned companies, one percent is owned by the Estonian government (public companies) and the remaining four percent are a mix of private and public ownership (semi–public companies).

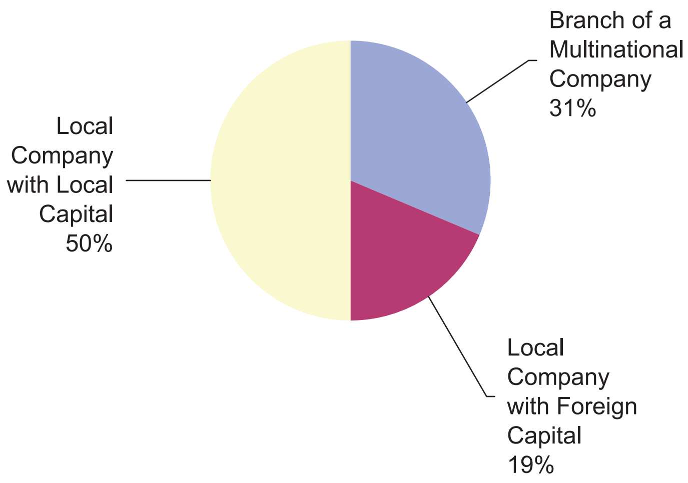
Figure 17 Estonia – Ownership Structure of Respondent Companies



Half of the companies interviewed are local companies funded by Estonian capital. Branches of multinational companies represent 31 percent of the companies interviewed. Foreign–funded local companies make up 19 percent of the companies interviewed. Most of the foreign capital is invested in financial services companies.[4]

[4] 30.3 percent of FDI has been invested in financial intermediation, while only 16.8 percent has been invested in manufacturing. Companies funded by foreign capital account for one third of Estonian GDP and over 50 percent of the country's exports. Sweden tops the list of donor countries with 42 percent of the total, followed by Finland with 25.6 percent and the USA with 4.7 percent. The Netherlands have 3.2 percent share of the foreign direct investment stock. (Source: Estonian Chamber of Commerce and Industry website)

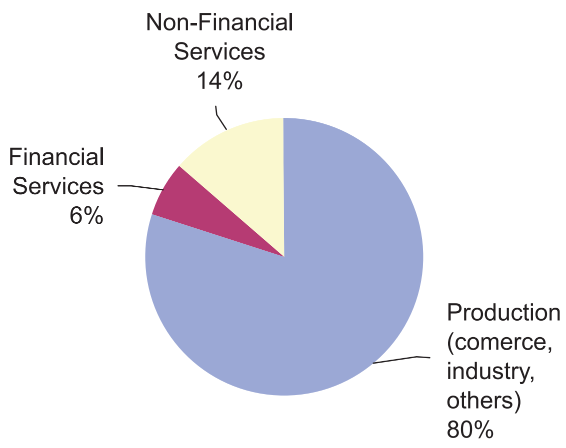
Figure 18 Estonia – Funding of Respondent Companies



1.1.2 Sector of Activity of Respondent Companies

Respondent companies have been divided into three sectors of activity: production, financial services and non–financial services.

Figure 19 Estonia – Sector of Activity of Respondent Companies



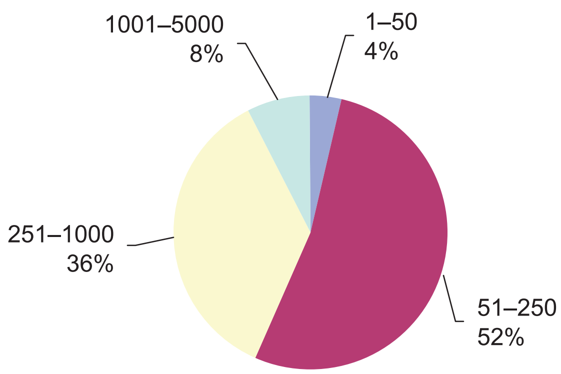
Those involved in production are the vast majority.[5] Companies which offer non–financial services represent 14 percent of respondent companies and those which offer financial services represent 6 percent of respondent companies.

1.1.3 Number of Employees of Respondent Companies

Respondent companies have been subdivided by number of employees as follows: 1 to 50 (small companies), 51 to 250 (medium companies), 251 to 1000 (large companies), and 1001 to 5000 (very large companies).

[5] 80 percent

Figure 20 Estonia – Number of Employees of Respondent Companies

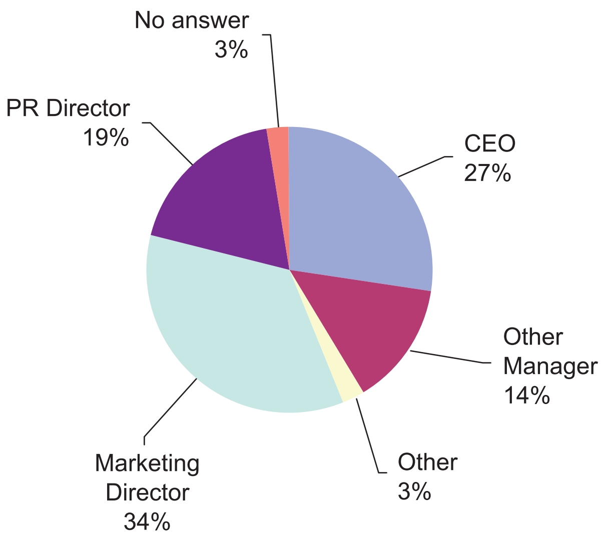


Half of respondent companies are medium companies, 36 percent are large, 8 percent are very large, and 4 percent are small. 89 percent of respondent companies employ between 51 and 1000 employees. The overwhelming majority of privately owned companies are medium to large. The state–owned companies are very large, whereas semi–public companies are evenly spread across the spectrum in terms of size.

1.1.4 Level of Respondents within the Companies

Questionnaires were completed mainly by Marketing Directors[6], CEOs[7], and PR Directors[8].

Figure 21 Estonia – Position of Interviewees



[6] 35 percent
[7] 28 percent
[8] 19 percent

From the data regarding Marketing Directors and Directors of PR Activities, it emerges that questionnaires were handed to Marketing Directors in 80 percent of financial services companies and in 38 percent of medium companies, whereas PR Directors were called to answer the questionnaire in half of the very large companies. As the companies become larger, fewer CEOs respond, leaving the task to Marketing Directors, and PR Directors (shifting from the former to the latter as the companies' employee numbers rise).

1.1.5 Companies' own Financial Situation Rating

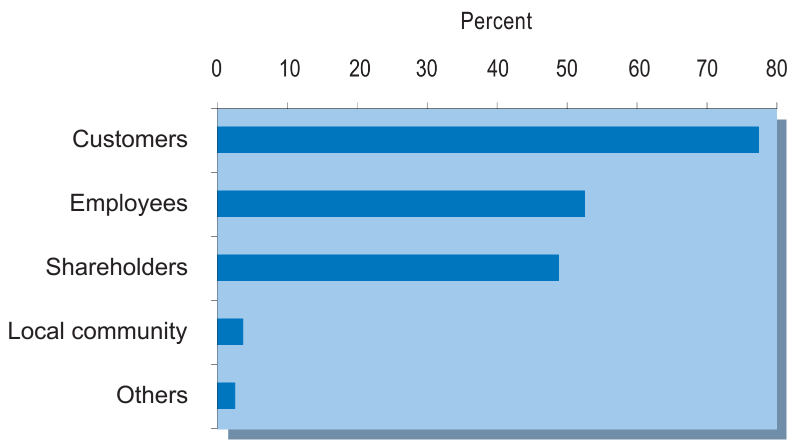
Given a choice between "very good", "good", "tolerable", "bad", and "very bad", 15 percent of respondent companies rated their financial situation as "very good", 35 percent as "good", and 44 percent as "tolerable". Of the companies engaged in financial services, none rated themselves below "good". The large and very large companies seem to be faring relatively better than small and medium companies.[9]

1.2 Analysis of Survey Results

1.2.1 Understanding of Stakeholders

When asked to identify their main stakeholders, 78 percent of respondent companies indicate their customers, 53 percent their employees and 39 percent their shareholders.[10] Only 4 percent of companies[11] identify their local communities as one of their main stakeholders.[12] Surprisingly the government was mentioned by only a few respondents.

Figure 22 Estonia – Understanding of Stakeholders



[9] 59 percent of large companies rate their financial situation "good" or "very good", 67 percent of very large companies rate their financial situation "good" or "very good".

[10] Multiple answers were allowed.

[11] These were all medium private companies involved in production

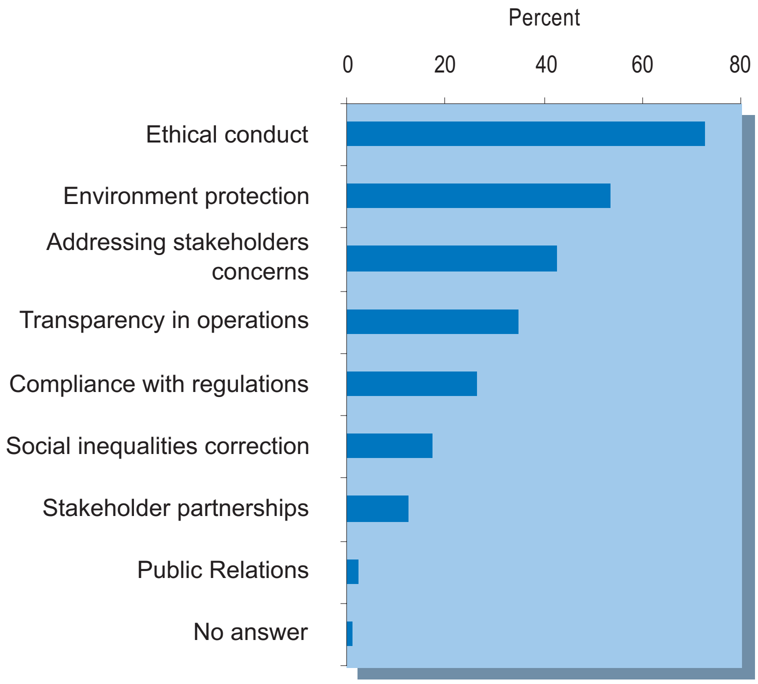
[12] Other main stakeholders mentioned are potential customers and entrepreneurs.

All small companies consider their employees to be among their main stakeholders, whereas larger companies almost unanimously consider their customers to be among their main stakeholders. Financial services companies tend to consider their employees more important stakeholders than their shareholders[13], whereas non–financial services companies have the opposite perception.[14]

1.2.2 Understanding of Corporate Social Responsibility

Respondent companies were asked to define their understanding of "socially responsible activities".[15] Three in four respondent companies link these activities to ethical conduct. More than half of respondent companies associate socially responsible activities with environmentally friendly activities. Addressing stakeholders' concerns is a socially responsible activity for 43 percent of respondent companies; transparency in operations is so for 35 percent of respondents. Correcting social inequalities and establishing stakeholder partnerships are perceived to be socially responsible activities by about one in six companies. Only 3 percent of respondent companies believe CSR is also a PR issue.

Figure 23 Estonia – Understanding of CSR



Financial services companies seem to be much more knowledgeable on the interpretation of CSR. This is probably due to the background of the interviewees

[13] 60 percent employees; 40 percent shareholders

[14] 36 percent employees; 55 percent shareholders

[15] Respondents were asked to select the three most important answers

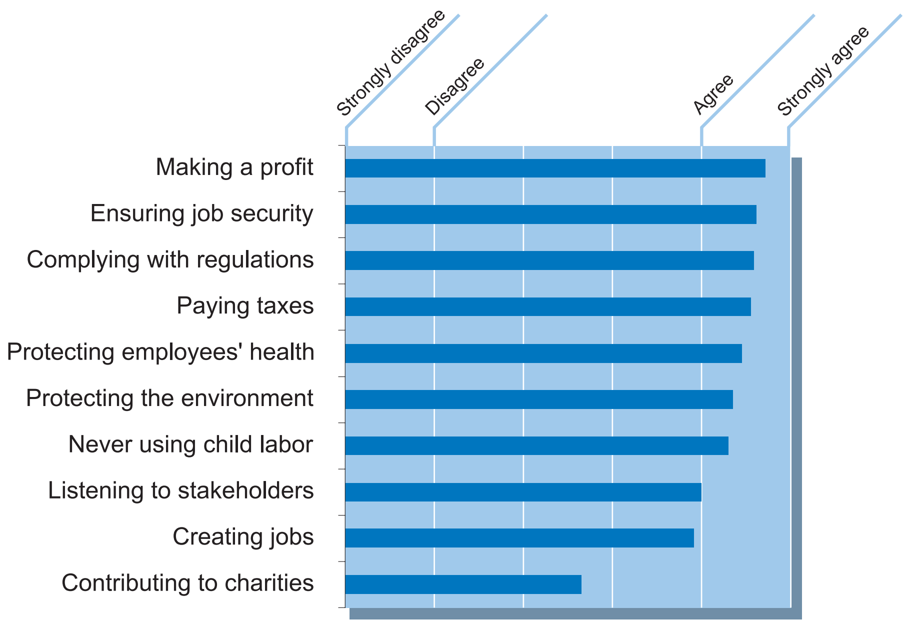
for these companies and to the general awareness due to the amount of FDI in these companies.

Small companies seem to associate socially responsible activities primarily with respect for the environment. Very large companies tend to associate the concept of social responsibility with the correction of social inequalities[16], whereas only one of these very large companies believes that respect for the environment is related to the concept of social responsibility[17].

1.2.3 Perception of Main Role of Company in Society

Respondents were given ten possible main roles of their company in society. Their task was to grade the importance of each role by choosing among "strongly disagree", "disagree", "don't know", "agree", and "strongly agree".

Figure 24 Estonia – Perception of Role of Company in Society



According to the Estonian companies interviewed, making a profit is the most important role of a company in society. Four in five companies strongly agree, very few are undecided or disagree and the rest simply agree. Percentages are consistent across the spectrum of company size, ownership and sector of activity.

Job security seems to be a very high priority for public and semi–public companies, whereas only 70 percent of private companies strongly agree with this being one of their main roles in society. Small companies seem to be more adamant about job security

[16] 50 percent (companies' average is 15 percent)

[17] 57 percent of companies with less than 1000 employees believe environmentally friendly activities are socially responsible activities.

than larger companies. No company strongly disagrees with this being one of its main roles in society.

Every company believes that complying with the existing legal framework is one of its main duties in society. Although 8 percent of companies are undecided, 66 percent strongly agree and 26 percent agree.

Two thirds of respondents strongly believe that paying taxes is one of their main roles as part of society. The 3 percent of companies that disagree with this being one of their main roles are medium, private companies involved in non–financial services. No company strongly disputes that this is one of its main roles in society.

Every company believes that protecting the health of its employees is one of its main duties in society. Although 10 percent of companies are undecided, 55 percent strongly agree and 35 percent agree.

Protecting the environment is considered to be one of the companies' main roles in society by nine out of ten Estonian companies. However, only half of these companies are absolutely convinced about this role. Small and medium companies are more deeply convinced about this role[18] than large and very large companies[19].

The issue of child labor creates an interesting dilemma. While a vast majority[20] of respondents agree or strongly agree that avoiding child labor is one of their main roles in society, 4 percent of companies strongly disagree, 3 percent disagree and 16 percent don't know what their position should be. Even the financial services companies, which in 80 percent of cases strongly agree, have a 20 percent of respondents which are unsure. Although most companies disagree with the use of child labor, in all company sizes, except perhaps, for small companies[21], this issue represents a "gray" area.

Listening to stakeholders is considered a main role by three in four respondents. While 20 percent of respondents are unsure, two percent of companies disagree or strongly disagree. The companies that are fully convinced that one of their main roles in society is to listen to their stakeholders are typically small services companies.

Half of respondents believe that job creation is one of their main roles in society. Another 30 percent strongly believe this is true. Thirteen percent[22] of respondents disagree and nine percent are unsure.

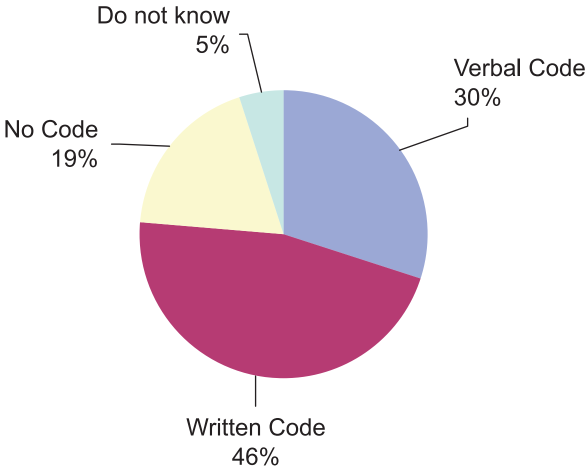
Contributions to charities raise the most diverging views.[23] Interestingly, one in four respondents does not know whether contributing to charities should be one of a company's main roles in society. Private companies are torn, whereas public and semi–public companies tend to disagree. Companies involved in production and in non–financial services are also torn; whereas those active in financial services unanimously agree that one of their main roles should be charitable giving.

[18] Together, 53 percent
[19] Together, 34 percent
[20] 78 percent
[21] all small companies strongly disagree with the use of child labor
[22] mainly medium, private companies active in production and in non–financial services
[23] Companies strongly disagree (15 percent); disagree (33 percent); agree (25 percent); and strongly agree (1 percent).

1.2.4 Codes of Conduct

Written codes of conduct are not the norm in Estonia. Only 45 percent of Estonian companies interviewed have a written code of conduct, 30 percent have a verbal code of conduct and 20 percent have neither[24].

Figure 25 Estonia – Written and Verbal Codes of Conduct



While companies involved in production have percentages matching those described above, non–financial services companies seem to use predominantly written codes[25], whereas verbal codes of conduct are more widespread among financial services companies[26]. The companies which do not have a code of conduct, or do not know whether they have one, represent 33 percent of very large companies, 26 percent of medium companies, and only 24 percent of large companies. The latter are also the companies which have the higher percentage of written codes of conduct[27].

The benefits brought from having a code of conduct were analyzed across thirteen parameters among those companies which have a verbal or written code of conduct.

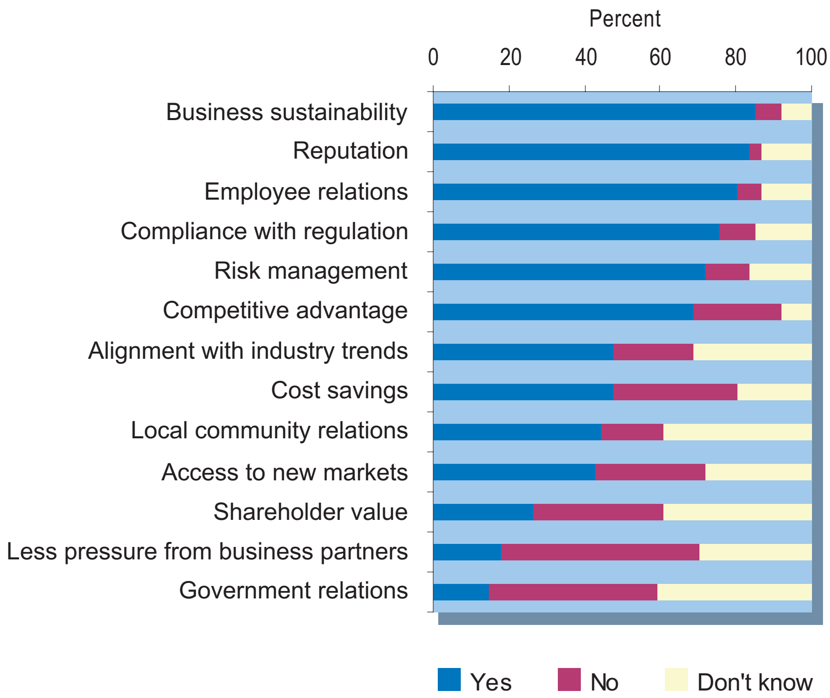
[24] 5 percent of respondents do not know whether their company has a code of conduct. For the purposes of this analysis these companies have been added to those which do not have a code of conduct.

[25] 64 percent

[26] 60 percent

[27] 52 percent

Figure 26 Estonia – Benefits Brought by Codes of Conduct



An overwhelming majority of Estonian companies[28] believe that having a code of conduct contributes to the survival of their business in the long term. The few which do not agree[29] or which are undecided[30] are involved in production or in non–financial services.

According to 84 percent of respondents, a code of conduct helps to improve company reputation. Only 3 percent of companies disagree with this statement, though 13 percent are uncertain about the impact of codes of conduct on reputation.

According to a vast majority of Estonian respondents[31], codes of conduct improve employee relations. Companies in the production sector are more skeptical about this correlation than companies involved in the services sector.

Improved compliance with legislation is one of the benefits of having a code of conduct according to three out of four companies. The number of skeptics is evenly spread across sectors of activity, although none of the companies involved in financial services disagrees. A third of the companies which disagree with this statement are very large companies, and represent half of the respondents in this category.

Risk management is enhanced by codes of conduct according to 72 percent of respondents. Only half of companies active in non–financial services believe this is true. One in four medium companies is undecided about the impact of codes of conduct on risk management.

[28] 85 percent
[29] 7 percent
[30] 8 percent
[31] 80 percent

A large majority of Estonian companies[32] agrees that having a code of conduct gives them a competitive advantage, while 23 percent of companies disagree and 8 percent are not sure. All companies in financial services agree, while three out of four very large companies disagree.

Given that only 45 percent of Estonian companies have codes of conduct, it is understandable that only 48 percent of those that have them consider that codes help companies to align with industry trends. Twenty–one percent of respondents disagree and 31 percent are undecided. It is interesting to note that financial services companies are unanimous in disagreeing, while their counterparties in production and non–financial services disagree only by 15 percent and 11 percent respectively.

The perceived relationship between codes of conduct and cost savings is an interesting one. As many as 48 percent of companies agree that such a relationship exists, while 33 percent of companies disagree, and 20 percent are undecided. There is nothing surprising thus far. What is interesting is that companies that think codes of conduct do not impact or impact negatively on cost savings are the majority of financial services companies, very large companies, and public and semi–public companies.

Local community relations are improved by codes of conduct according to only 44 percent of respondents. Many companies remain undecided[33]. The subgroups which are more positive about the impact of codes of conduct on local community relations are companies in the financial services, and large and very large companies.

Codes of conduct are a factor in accessing new markets for 43 percent of respondents, while 30 percent disagree and 28 percent are undecided. Data is similar across the spectrum of ownership, size and sector, except for financial services companies: None of these companies thinks that codes of conduct facilitate the access to new markets.

Only 26 percent of respondents think that codes of conduct increase shareholder value, while 34 percent disagree and 39 percent don't know the answer. Data is similar across the spectrum of ownership, size and sector, except for financial services companies: Although 40 percent of these companies are undecided, none of them thinks that codes of conduct do not increase shareholder value.

The majority of Estonian respondent companies[34] think that these codes have not decreased the pressure applied by their business partners,[35] while 18 percent disagree and 30 percent are unsure about the impact of codes of conduct. Surprisingly, non–financial services companies strongly believe that codes reduce pressure from business partners,[36] while financial services companies are mostly undecided[37].

Probably the most surprising information relating to codes of conduct is that they seem to have very little impact on good government relationships. Codes improve a company's position in the eyes of the Estonian government in the view of only 15

[32] 69 percent

[33] 39 percent

[34] 52 percent

[35] Pressure by business partners is understood to relate primarily to partners further down in the supply chain.

[36] 67 percent

[37] 60 percent

percent of respondents, while 44 percent disagree, and 41 percent don't know whether codes have an impact on relationships with the government or what this impact is. This breakdown of responses is consistent throughout the respondent subgroups.

1.2.5 Transparency – Policies, Annual Reports and Consultations

Policies

The survey tests attitudes toward policies on corruption and on financing candidates for public positions.

Only 28 percent of respondents currently have an explicit anti–corruption policy, and 31 percent plan to introduce one within the next 5 years. Interestingly, fewer companies in the financial services and in very large companies plan to introduce such a policy than those that actually have it.

As few as 5 percent of the companies currently have or plan to have a policy for financing candidates for public positions. Of these, 75 percent are private and 25 percent are semi–public; half are large and half are very large.

Annual Reports

A large majority of interviewed companies publish an annual report[38] and 3 percent more plan to do so in the next five years[39]. Conversely, one third of the very large companies plan to stop publishing their annual report.

Annual reports which present environmental performance are published by only 13 percent of respondents. Larger firms tend to publish more than smaller firms, while financial services companies do not publish annual environmental reports. Within the next five years, 24 percent of respondents plan to publish reports on environmental performance. This represents an 85 percent increase.[40]

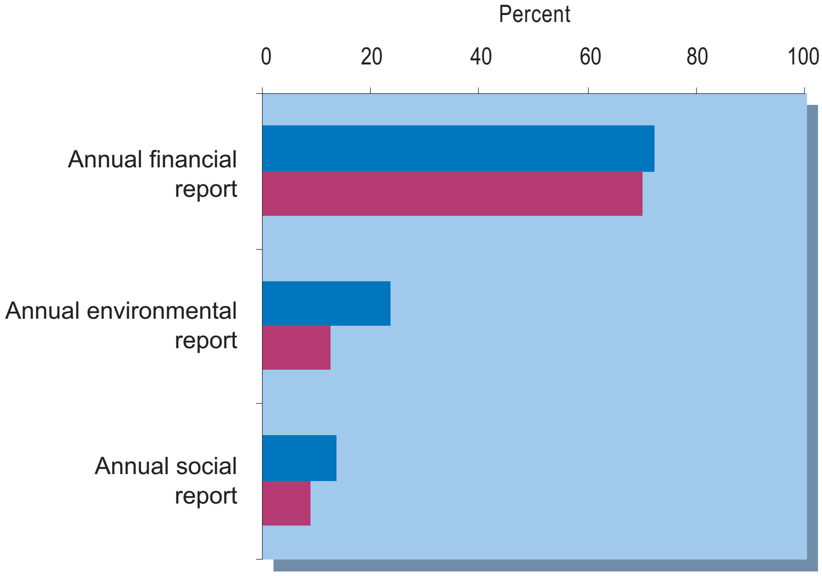
As few as 9 percent of respondents currently publish annual reports presenting social performance. Again, larger firms tend to publish these more than smaller firms. Within the next five years, 14 percent of respondents intend to publish such a report. This represents an increase of more than 50 percent. Predictably, the steepest increase concerns large companies.

[38] Percentages for companies involved in production activities are relatively lower than percentages relating to other companies and percentages seem to increase with company's size

[39] From 70 percent to 73 percent

[40] the steepest increase would be in the number of companies in the production sector

Figure 27 Estonia – Social and Environmental Annual Reports



Consultations

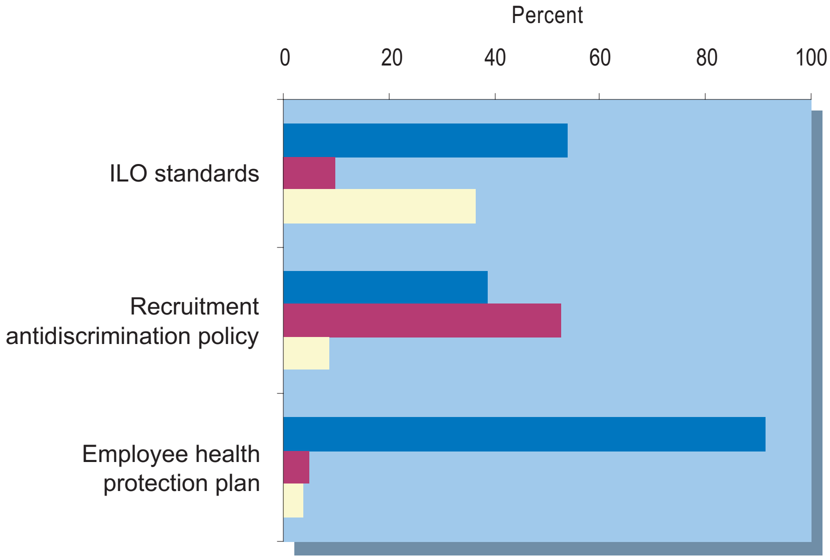
According to this survey, the percentage of companies which consult regularly with their stakeholders is likely to remain unchanged over the next five years[41].

1.2.6 Employee Projects

Respondent companies have been interviewed on implementation of social projects relating to employees, including: core labor standards; explicit anti–discrimination policies; employee health protection plans; and training.

[41] 55 percent consult regularly and 56 percent intend to do so within the next five years

Figure 28 Estonia – Employee Projects



The majority of Estonian respondent companies[42] implement core labor standards adopted by the International Labor Organization (ILO), 10 percent do not, and 36 percent of respondents do not know whether their company does. This high level of unawareness could be due to the acceptance of other labor standards in Estonia; or, if ILO standards are accepted, they may not have been properly publicized. All public or semi–public companies and all companies involved in financial services seem to have adopted ILO standards. The percentage of companies adopting ILO standards seems to increase with company size.

Explicit anti–discrimination policy in personnel recruitment is not the norm in Estonia. Only 39 percent of respondent have such a policy, while 53 percent do not have explicit anti–discrimination policies, and the rest does not know. However in the services industry, the percentages seem to be reversed[43]. In addition, percentages seem to increase as companies become larger.

Employee health protection plans are the norm in Estonia[44]. Very few respondents do not know whether their company has such a plan.

Employee training is seen as crucial in Estonia, and therefore it is not surprising that nearly all respondent companies[45] provide some form of training to their employees. Training when a specific need arises is provided by 38 percent of companies, whereas 16

[42] 54 percent

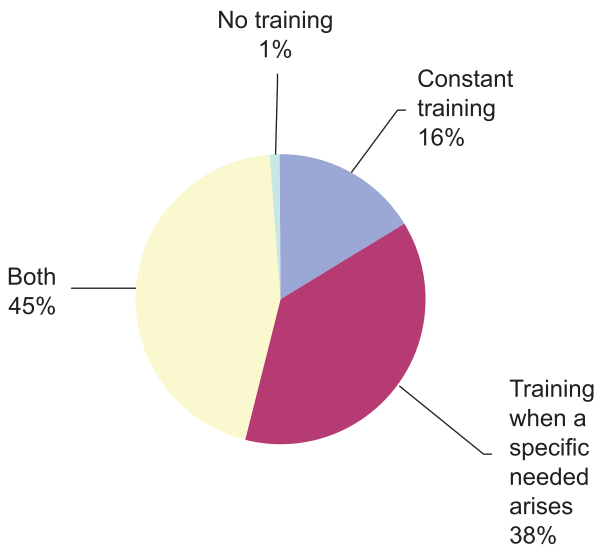
[43] in financial services, 60 percent have a policy versus 40 percent which do not; in non–financial services 45 percent have a policy versus 36 percent which do not

[44] 91 percent of respondent companies have such a plan

[45] 99 percent

percent provide constant training. Almost half of respondents[46] provide both ad hoc and constant training. Medium companies tend to make the largest use of ad hoc training.

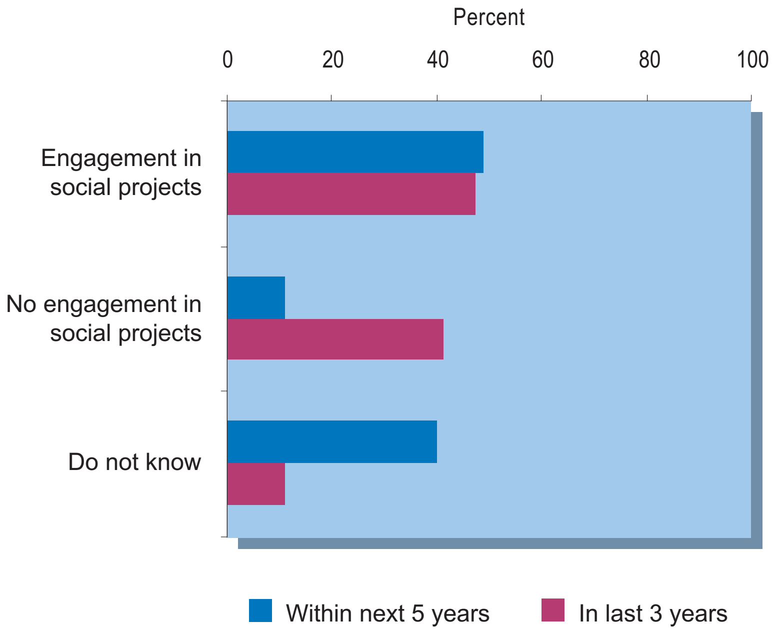
Figure 29 Estonia – Employee Training



1.2.7 Social Projects (other than focused on employees)

During the last three years, 48 percent of respondents engaged in social projects, 41 percent did not, and 11 percent do not know.

Figure 30 Estonia – Present and Future Engagement in Social Projects



[46] 45 percent

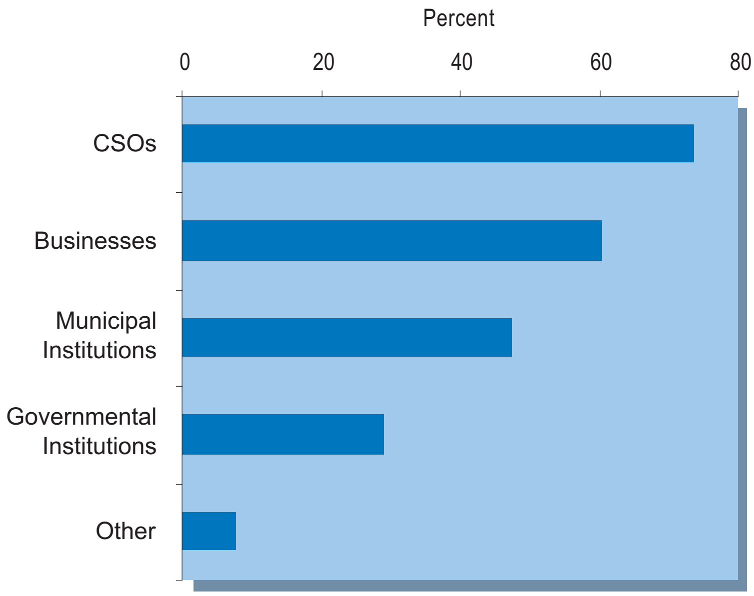
All companies active in financial services are engaged in social projects, compared to 73 percent of non–financial services companies and 39 percent of production companies. It appears that small companies do not tend to engage in social projects. The percentage of socially involved companies tends to increase as companies become larger.

Companies appear very hesitant to state their plans relating to social projects for the next five years. The number of companies which plan to engage in social projects remains fundamentally unchanged.[47]

Estonian companies cite the main reasons for engaging in social projects as follows: better reputation; survival of business in the long term; better local community relations; and building of global corporate brand. Opinions are divided over other reasons, such as better employee relations; increased competitive advantage; access to new markets; and pressure from business partners. The majority of Estonian companies believe that the following factors do not play a role in the decision of companies to engage in social projects: improved management of risk; costs savings; and alignment with industry trends.

In order to implement their social projects, companies collaborate with a number of institutions that can be categorized as follows: CSOs, governmental institutions, municipal institutions, and other businesses. Respondents also add to this list educational institutions, and children homes.

Figure 31 Estonia – Collaborating Institutions in Social Projects



The following percentages are based on the number of companies which currently engage in social projects.[48]

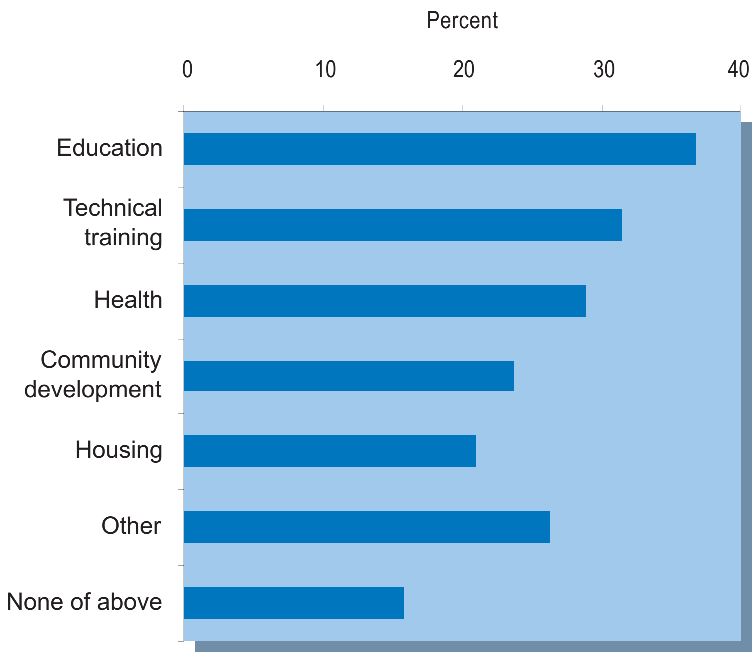
[47] Only one company which currently funds social projects appears to no longer want to do it (non–financial services company).

[48] There are 38 Estonian respondent companies which engage in social projects.

Three quarters of respondent companies collaborate with CSOs. The companies which privilege this type of partner are medium companies and non–financial services companies. A substantial majority of respondents[49] collaborate with other businesses. The companies which prefer this type of partner are public or semi–public companies and companies in financial services. Half of the companies collaborate with municipal institutions. The companies which prefer this type of partner are large companies. One third of companies collaborate with governmental institutions. The companies which prefer this type of partner are non–financial services companies and probably public or semi–public companies and very large companies.

Social projects can be implemented in a variety of areas for a variety of beneficiaries.

Figure 32 Estonia – Social Projects Areas



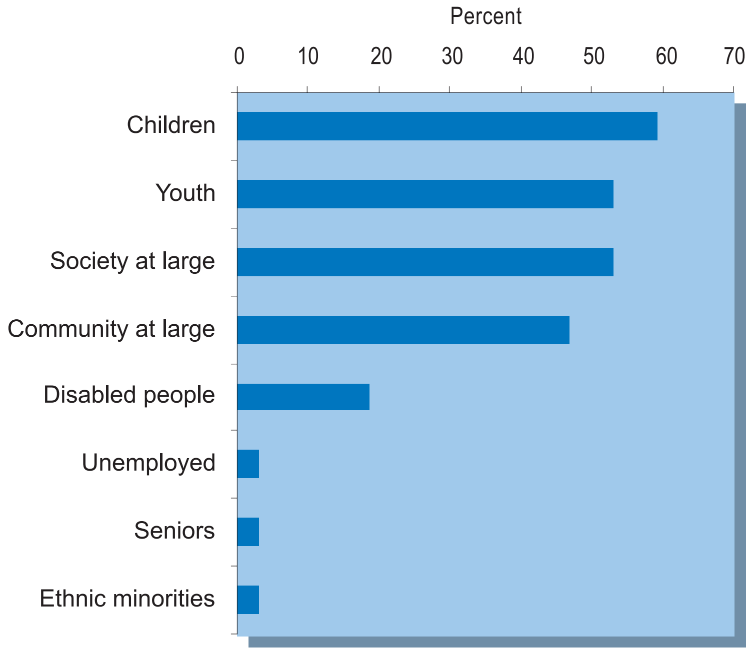
In addition to areas presented in Figure 32, respondents mention areas such as childcare (orphans, handicapped children, families with a large number of children), sports and culture.

Areas such as health, education, technical training, and community development seem to be preferred by public or semi–public companies. Education, technical training, and, to a certain extent, health and community development programs seem to become more popular as company size increases. Services companies are more interested in education projects, whereas production companies are more involved in technical training projects.

[49] 61 percent

Within the next five years, companies indicate that they will give priority to community development and education[50], and to a lesser degree, health and technical training projects., They also indicate that they will invest less in housing projects. Additional areas respondents mention as likely investments within the next five years are: sports; culture; children; safe water; support to ethnic minorities; and violence eradication.[51]

Figure 33 Estonia – Social Projects Beneficiaries



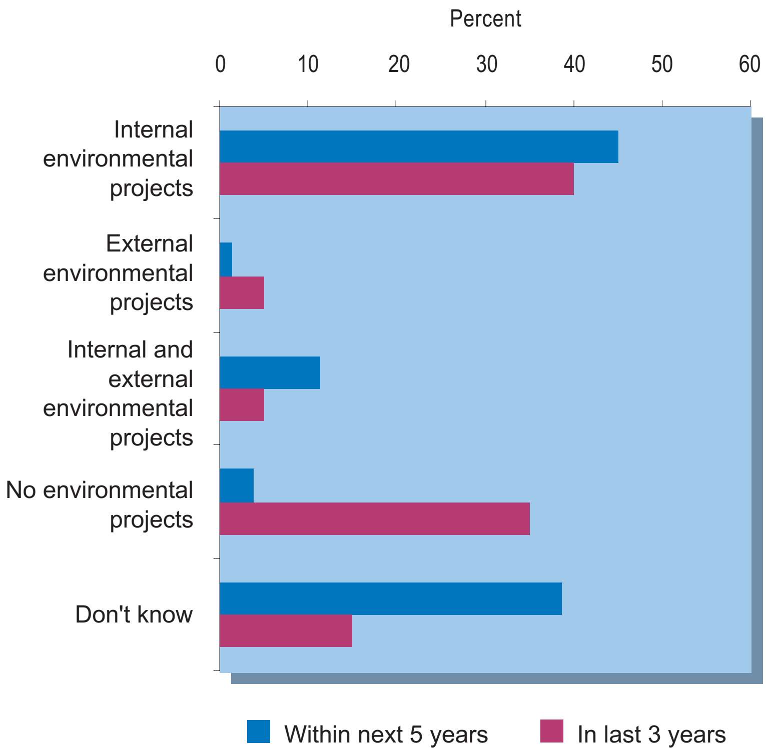
Children are the main beneficiaries of social projects in Estonia[52]. These social projects are preferred by services companies and larger companies. Projects for older youth are second in terms of numbers.[53] Projects which benefit them are undertaken mainly by non–financial services companies. In third place, are projects which benefit the society or the community at large[54], which are usually prioritized by large companies.

1.2.8 Environmental Projects

During the last three years, half of Estonian companies engaged in environmental projects, a third did not, and 15 percent do not know whether they did. Of those which engaged in environmental projects, 80 percent engaged in projects linked to the company's operations (internal), 10 percent engaged in projects not linked to company's operations (external), and 10 percent engaged in both kinds of projects.

[50] 50 percent and 38 percent increase respectively
[51] mentioned by 18, 13, 5, 5, 3, and 3 percent of respondents respectively
[52] Social projects benefiting children were chosen by 59 percent of respondents
[53] Social projects benefiting youth were chosen by 53 percent of respondents
[54] These social projects were chosen by 53 and 47 percent of respondents respectively

Figure 34 Estonia – Present and Future Engagement in Environmental Projects



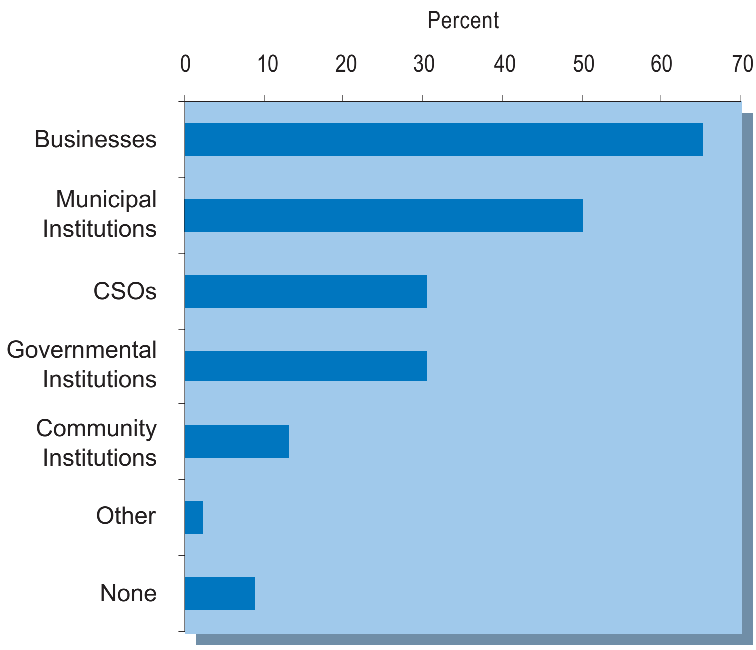
Production companies engaged mainly in internal projects. Financial services companies engaged in external projects, while non–financial services companies engaged, in almost equal measure, in external and internal projects. Very large companies seem to invest relatively more in external projects.

As observed with social projects, respondent companies appear very hesitant about their environmental project plans for the next five years. The number of companies which plan to engage in environmental projects increased from 40 to 46 in the past three years, with a shift from internal to both internal and external projects[55].

In order to implement their environmental projects, most companies collaborate with a number of institutions that can be broken down into: other businesses; municipal institutions; CSOs; governmental institutions; and community institutions.

[55] Companies involved in purely internal projects decreased from 5 percent to 1 percent. Interestingly the only company which appeared to shift from purely internal projects to both internal and external projects is a public company.

Figure 35 Estonia – Collaborating Institutions in Environmental Projects



Activities providing education and information on environmental issues (for example, school programs, community meetings, internal training, etc.) are not very popular in Estonia. The companies that develop these activities[56] address them primarily to their employees[57] and secondarily to management, local communities, and company owners.[58] Institutions, employees' families, and other stakeholders are the participants in 15 percent of these activities

Recycling programs are more widespread, present in almost half of respondent companies.[59] Non–financial services companies and large companies seem to be behind other companies in the adoption of recycling programs.

A large majority of Estonian companies[60] have no environmental certification. Of the 21 percent of companies that have an environmental certification, 86 percent obtained an ISO 14000 certificate. Financial services companies understandably have no environmental certification, and only 14 percent of medium companies are certified.

Environmental impact assessments (EIAs) of companies' operations are relatively widespread in Estonia, conducted in 45 percent of respondent companies.[61]

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[56] 34 percent of respondents develop environmental education activities, 55 do not and 11 percent do not know whether such programs exist.

[57] 93 percent

[58] respectively 33, 19 and 11 percent

[59] 45 percent do, 45 percent do not and 10 percent do not know whether they have EIA programs.

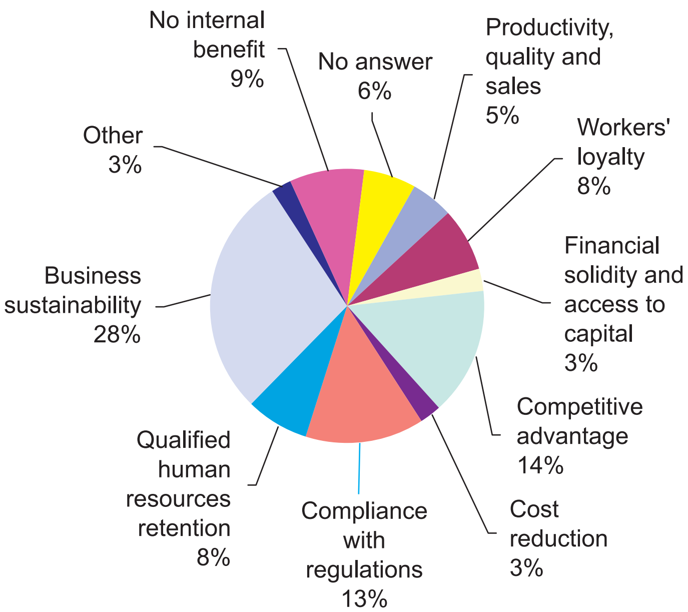
[60] 68 percent

[61] 44 percent do not, and 11 percent do not know whether EIAs are made in their companies.

1.2.9 Benefits of Adopting CSR Practices

Estonian respondents list the greatest internal benefits to their companies deriving from CSR practices as follows: business sustainability; competitive advantage; easier compliance with legislation; attraction and retention of qualified employees; employee loyalty; increased productivity, quality and sales; and financial improvement and access to capital. Nine percent of respondents state that companies derive no internal benefit from CSR practices. Interviewees who either did not answer or expressed cynical views comprise 15 percent of respondents. Subgroups which are particularly cynical about the benefits of CSR practices are non–financial services companies[62] and medium companies.[63] It is interesting to note that the subgroup of financial services and large companies is the strongest advocate of the competitive advantage benefit. It is also interesting to note that for 33 percent of the very large companies, the greatest benefit of CSR practices is the increase in productivity, quality and sales.

Figure 36 Estonia – Internal Benefits from Adopting CSR Practices



Estonian respondent companies cite the greatest external benefits to their companies deriving from CSR practices as follows: improved image and reputation; increased visibility; preservation of the environment; intangible benefits; clients' loyalty; and contribution to Estonia's sustainable development. Only one percent of respondents see no external benefit in CSR practices. Despite this low percentage of cynics, 10 percent

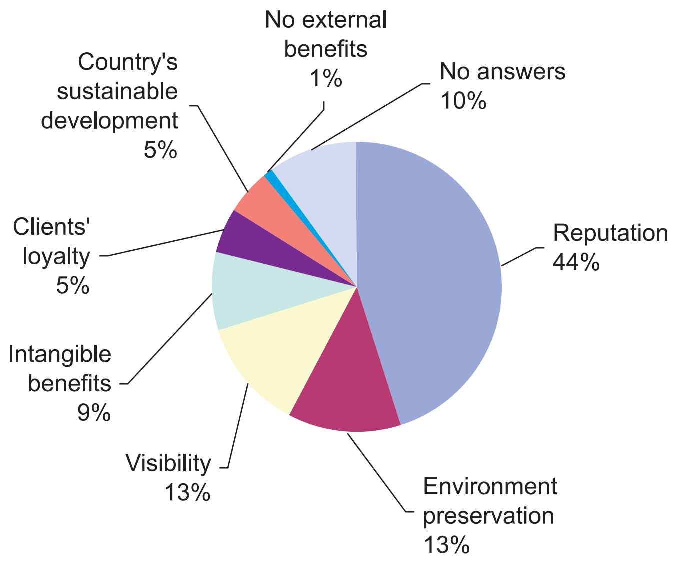
[62] 36 percent of this subgroup sees no benefit or did not answer. Interestingly this subgroup is also the strongest advocate of sustainability as a benefit of CSR practices.

[63] 22 percent of this subgroup sees no benefit or did not answer.

[64] Only 33 percent of medium companies see the improvement of image and reputation as the greatest benefit derived from CSR practices.

of interviewees did not respond. It is interesting to note that medium companies are less enthusiastic than other subgroups about the improvement of image and reputation derived from CSR practices.[64]

Figure 37 Estonia – External Benefits from Adopting CSR Practices

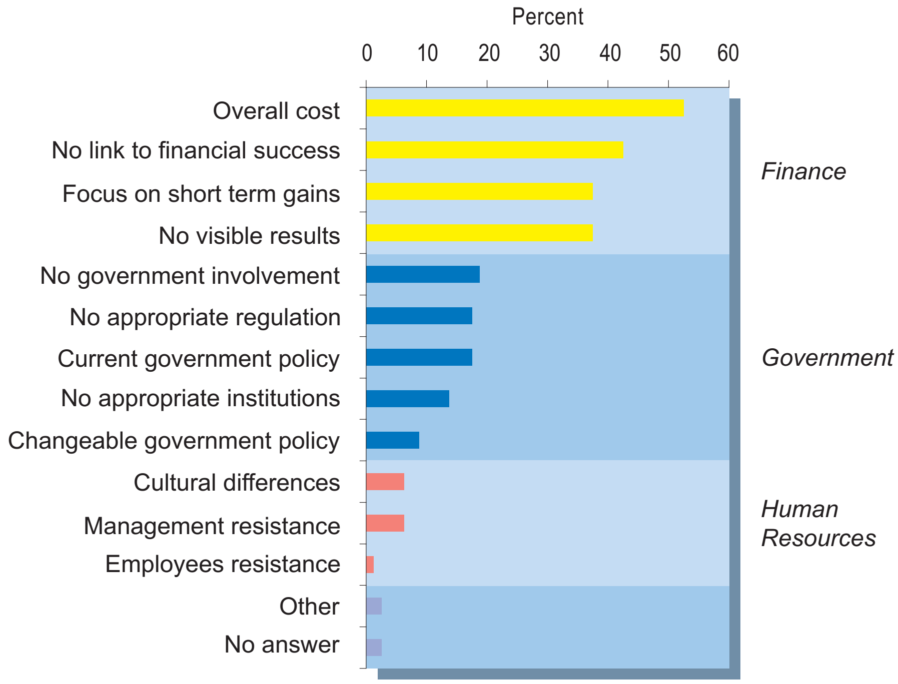


1.2.10 Barriers and Risks in Adopting CSR Practices

Estonian respondents believe there are three main types of obstacles to the adoption of CSR practices. The most formidable practices are believed to be of a financial nature: overall costs of CSR projects; lack of direct impact on financial success; lack of visible results; and excessive focus on short term gains. Government and institutional barriers follow. These are seen to be: lack of government involvement; government policy; lack of appropriate legal framework; lack of appropriate institutions; and apprehension regarding government change of policy. The third type of barrier relates to human resources and involves management and employee resistance and cultural differences. Respondents also cited obstacles such as lack of time, lack of information and lack of tax incentives.

[64] Only 33 percent of medium companies see the improvement of image and reputation as the greatest benefit derived from CSR practices.

Figure 38 Estonia – Barriers to Adopting CSR Practices



By analyzing responses concerning each type of barrier, four interesting points can be observed. Services companies do not appear as concerned as production companies about government and institutional barriers.[65] Financial services companies are more concerned than other kinds of companies about financial obstacles.[66] Small companies seem to be the only ones more concerned about government and institutional barriers than financial barriers.[67] Finally, concern about financial and human resources barriers appear to grow as the companies become larger; whereas the opposite occurs with government and institutional barriers.[68]

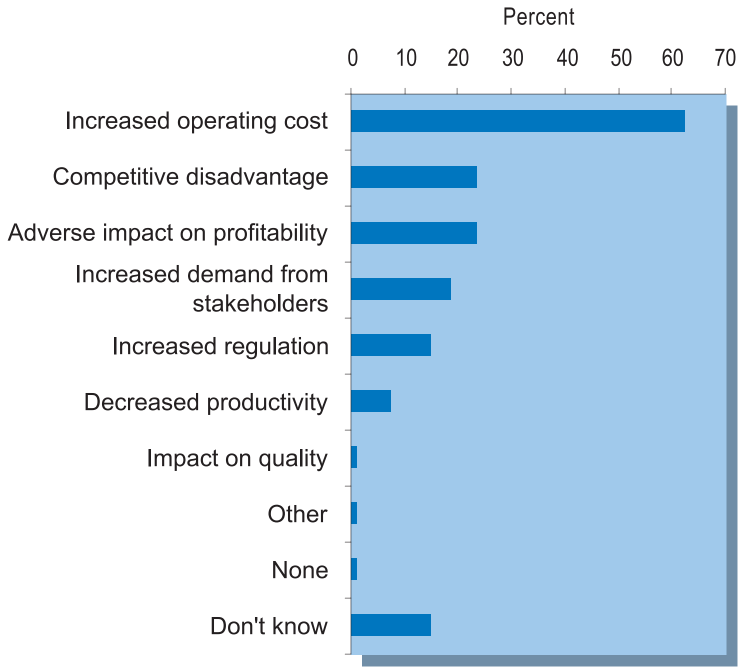
[65] Production companies, 81 percent; services companies, 52 percent (average of non–financial services companies and financial services companies)

[66] 220 percent, compared to the companies' average of 172 percent

[67] Respectively, 167 percent (against the companies' average of 78 percent), and 66 percent (against the companies' average of 172 percent)

[68] Financial trend (companies' average 172 percent): small companies (66 percent); medium companies (164 percent); large companies (182 percent); very large companies (200 percent). Human resources trend (companies' average 13 percent): small companies (0 percent); medium companies (12 percent); large companies (16 percent); very large companies (17 percent). Government and institutions related trend (companies' average 78 percent): small companies (167 percent); medium companies (79 percent); large companies (61 percent); very large companies (83 percent).

Figure 39 Estonia – Risks in Adopting CSR Practices



The main perceived risk in adopting CSR practices is the increase in operating costs. Following this, other perceived risks, in order of magnitude, are: adverse impact on profitability; competitive disadvantage; increased demands from interested stakeholders; increased intervention from regulatory bodies; and decreased productivity. The risk posed by CSR practices to the quality of goods and services appears to be immaterial. Fifteen percent of respondents did not know how to answer and only one percent of respondents believe there are no risks.

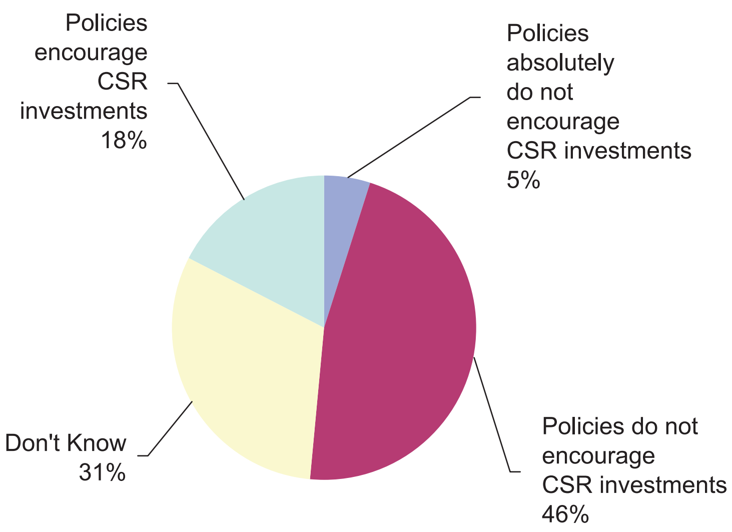
1.2.11 Supporting CSR Practices, Improving them and Making them More Relevant

Support from Governments, CSOs and Others

When asked about the government's role in helping companies meet their social responsibilities, Estonian respondents responded that the government does not provide significant assistance.[69] This is confirmed by data that shows the impact of government policies on investment in CSR.

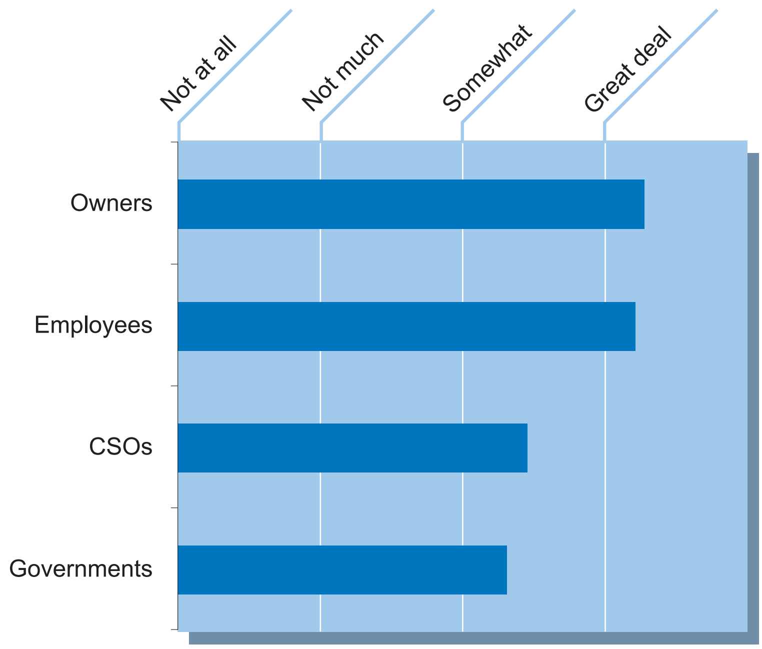
[69] 35 percent believe the government helps somewhat; 15 percent that the government does not help at all; and 5 percent that the government helps a great deal. The most pessimistic about government support are financial services companies, whereas the most optimistic are non–financial services companies.

Figure 40 Estonia – Government Policies' Impact on Investment in CSR



The majority of respondents think that the Estonian government's policies do not encourage companies to invest in socially responsible activities. A third of the respondent companies are unsure about the role of the government's policies. Eighteen percent believe these policies encourage investment in CSR, but none of these companies strongly believes this.

Figure 41 Estonia – Support for CSR from Government, CSOs, Owners and Employees



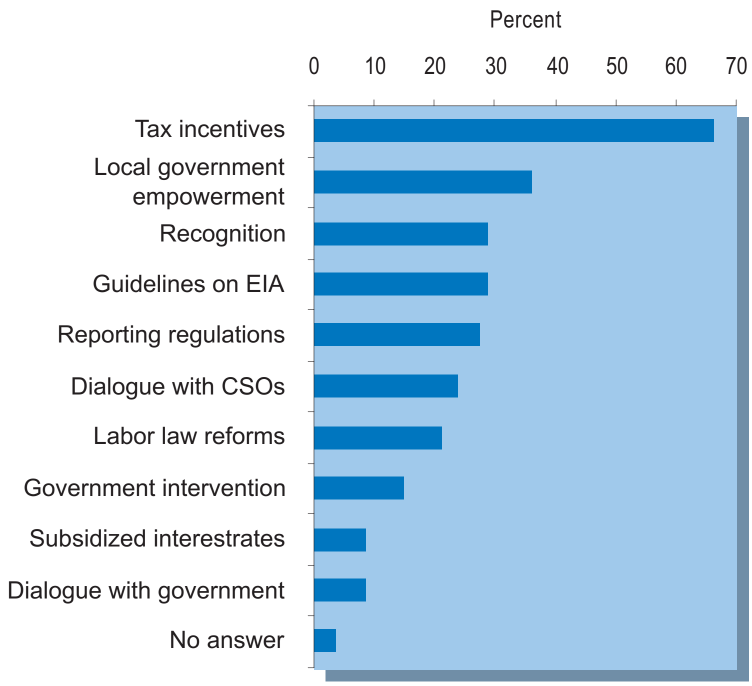
The role of CSOs in the implementation of CSR practices is unclear. Almost half of respondent companies believe CSOs help "somewhat" in implementing company CSR practices, while 43 percent believe CSOs do not help in any significant way.[70] Very large companies seem to be relatively more positive about the contribution of CSOs regarding CSR practices.[71]

Employees and owners are considered the most influential in helping respondent companies meet their social responsibilities. Over half of respondents believe employees are helpful and 35 percent said that they are very helpful.[72] Half of respondents believe that owners are very helpful and 30 percent said that owners are helpful.[73]

Improving CSR Practices

Although the risks and barriers to implementing CSR practices are perceived to be principally of a financial nature, the actions perceived to improve the CSR practices of Estonian companies are also non–financial.

Figure 42 Estonia – Actions that Improve CSR Practices



[70] 6 percent believe they do not help at all, 3 percent that they help a great deal.
[71] 83 percent of very large companies believe CSOs help somewhat (against the 45 percent company average)
[72] Only 11 percent believe employees do not help much.
[73] 18 percent believe that owners are not very helpful and 3 percent that they are not helpful at all.
[74] 66 percent
[75] 36 percent

On the financial front, respondent companies believe tax incentives[74] and, to a lesser extent, empowerment of local governments to determine tax exemptions,[75] are paramount in improving CSR practices.[76] On the non–financial front, respondent companies indicate a need for recognition, guidelines, government intervention and dialogue.

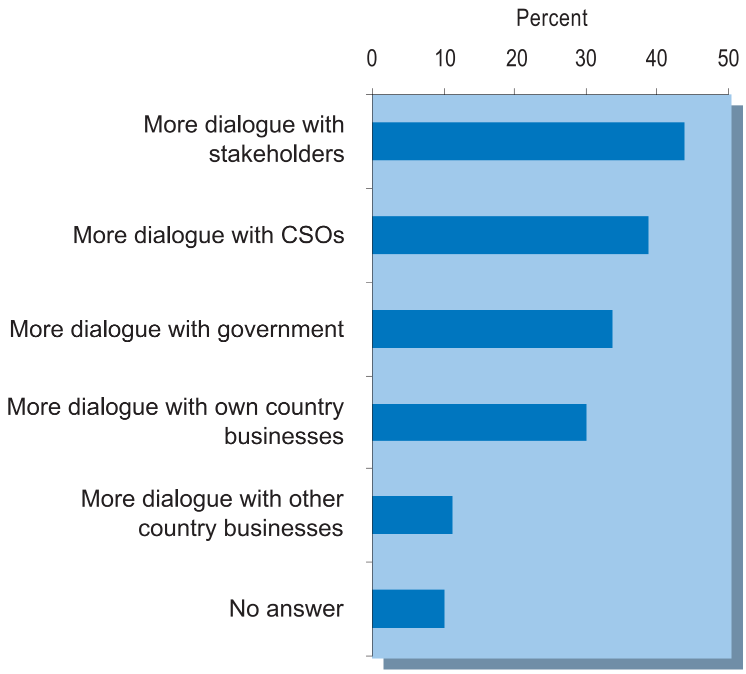
Recognition is thought to be an important element in the improvement of CSR practices by 29 percent of respondents. Guidelines, in terms of both guidelines on EIA and on the presentation of social and environmental performance in annual reports, would improve CSR practices for 29 percent and 28 percent of respondents respectively. Government intervention, also in terms of reforms to labor laws, is considered important by 15 percent and 21 percent of respondents respectively. Finally, dialogue with CSOs and, less significantly[77], with the Estonian government would help improve CSR practices according to 24 percent and 9 percent of respondents respectively.

Making CSR Practices More Relevant

The overwhelming majority of Estonian companies[78] believe that sharing information, discussing, collaborating and negotiating with different stakeholders would make their CSR practices more relevant. Forty–four percent of respondents would like to entertain more dialogue with all stakeholders, 39 percent with CSOs, 34 percent with government, 30 percent with other businesses in Estonia, and 11 percent with businesses in other countries.

[76] Subsidized interest rates (9 percent) are not thought to be as important as fiscal measures.
[77] See paragraph below.
[78] 90 percent

Figure 43 Estonia – Dialogue that Makes CSR Practices More Relevant



It is interesting to note that medium companies are relatively less convinced of the positive impact of increased dialogue on the relevance of their CSR practices, whereas large companies are relatively more convinced.[79] In addition, it can be observed that financial companies seem to be entirely unconvinced of the usefulness of increased dialogue with the government,[80] while non–financial services companies are relatively less convinced of the usefulness of increased dialogue with all stakeholders and with other businesses in Estonia.[81] Only 10 percent of respondents believe that no sort of dialogue would make CSR practices more relevant.

[79] Compared with the cumulative percentage of respondents' average (158 percent), medium companies have a cumulative percentage of 138 and large companies of 186.

[80] 0 percent compared to respondents average of 34 percent

[81] 27 percent and 18 percent respectively compared to respondent average of 44 percent and 30 percent

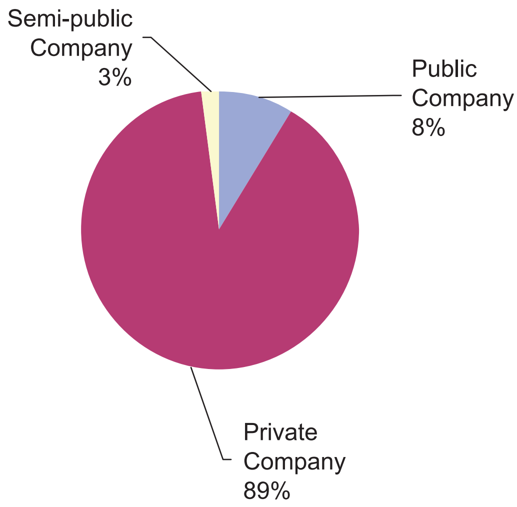
2 Current CSR Attitudes and Practices in Latvia

2.1 Analysis of Survey Respondents

2.1.1 Ownership Structure and Funding of Respondent Companies

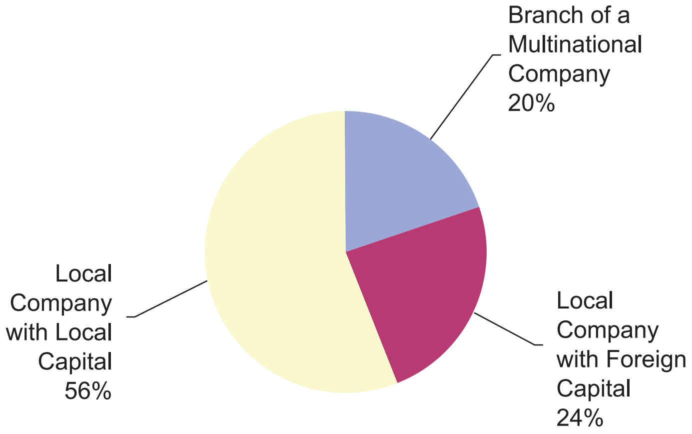
Of the 83 companies interviewed, almost 89 percent are privately owned companies, 8 percent are owned by the Latvian government (public companies) and the remaining 3 percent are a mix of private and public ownership (semi-public companies).

Figure 44 Latvia – Ownership Structure of Respondent Companies



In total, 55 percent of respondent companies are funded with local capital, 24 percent are funded with foreign capital, and 21 percent are branches of multinational companies.

Figure 45 Latvia - Funding of Respondent Companies

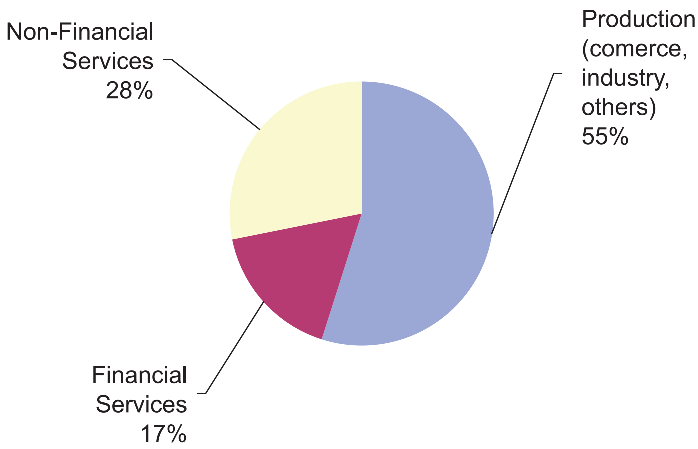


All interviewed public companies are local companies funded with local capital. Half of the semi-public companies are local companies funded with local capital, and the other half are local companies funded with foreign capital. Half of the private companies are local companies funded with local capital, while the remaining half are evenly split between local companies funded with foreign capital and branches of multinationals.

2.1.2 Sector of Activity of Respondent Companies

Respondent companies have been divided into three sectors of activity: production, financial services and non-financial services.

Figure 46 Latvia - Sector of Activity of Respondent Companies



The majority of the companies are involved in production,[82] most of them local and funded with local capital.[83] Twenty-eight percent of respondent companies offer non-financial services while 17 percent offer financial services. An ample majority of

[82] 55 percent

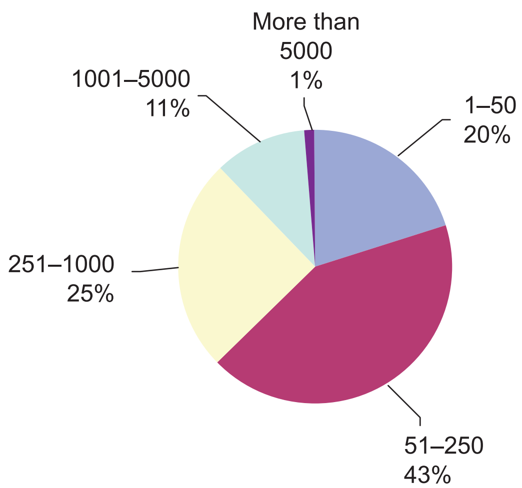
[83] 54 percent

the private companies[84] and half of the semi-public companies are active in production. Almost half of the public companies[85] and 15 percent of private companies are active in financial services. Over half of the public companies, half of the semi-public companies and 24 percent of private companies are active in non-financial services. None of the public companies interviewed operates in production, and none of the semi-public companies interviewed operates in the financial services sector.

2.1.3 Number of Employees of Respondent Companies

Respondent companies have been subdivided by number of employees as follows: 1 to 50 (small companies), 51 to 250 (medium companies), 251 to 1000 (large companies), and 1001 to 5000 (very large companies).[86] Almost half of respondent companies are medium companies[87], 25 percent are large companies, 21 percent are small companies, and 12 percent are very large companies.

Figure 47 Latvia - Number of Employees of Respondent Companies



All of the small companies and an overwhelming majority of both medium and large companies are private, but only half of very large companies are private. The remaining half of the very large companies is evenly split between public and semi-public ownership. The semi-public companies interviewed are all very large. Regarding distribution of company size across sector of activity, roughly half of small, medium and large companies are involved in production, while the remaining half are nearly evenly split between financial and non-financial services. Very large companies have a different sector distribution; half are involved in non-financial services, 40 percent in production and 10 percent in financial services.

[84] 61 percent

[85] 43 percent

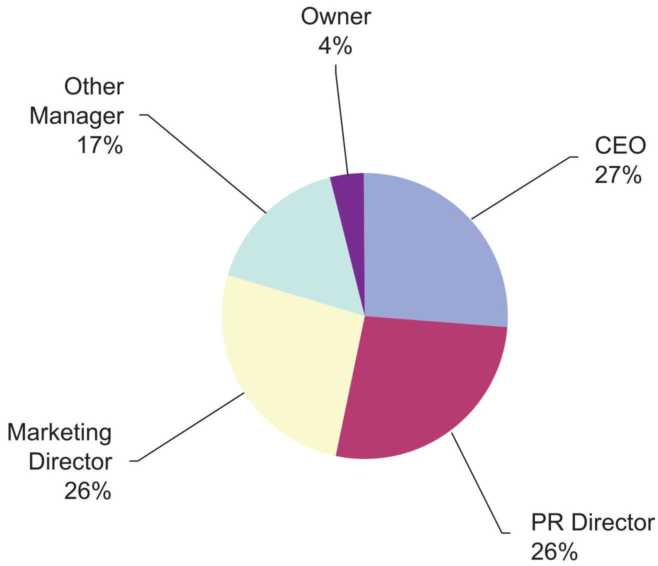
[86] One of the Latvian respondent companies employs more than 5000 people. For the purposes of this analysis this company has been considered as part of the very large companies.

[87] 42 percent

2.1.4 Level of Respondents within the Companies

Questionnaires were completed mainly by CEOs, Marketing Directors, and PR Directors[88].

Figure 48 Latvia – Position of Interviewees



From the data regarding Marketing Directors and PR Directors, it emerges that, as the size of the company increases, questionnaires are handed more to these directors than to CEOs or company owners. Responses from PR and Marketing Directors are prevalent also in financial services companies and, to a greater extent, in non-financial services companies.[89]

2.1.5 Companies own Financial Situation Rating

Given a choice between "very good", "good", "tolerable", "bad", and "very bad", 16 percent of respondent companies rate their financial situation as "very good", 36 percent as "good", 45 percent as "tolerable", 4 percent as "bad" and none as "very bad". Non-financial services companies on average rate their situation better than that of the other subgroups. Medium companies on average rate their situation as substantially worse than that of the other subgroups.

[89] Thirty-nine percent of CEO respondents work in production companies, 14 percent in financial services companies, and 9 percent in non-financial services companies. The decrease in percentage of CEO respondents correlates directly to an increase in percentage of PR and Marketing Directors who answered the questionnaire.

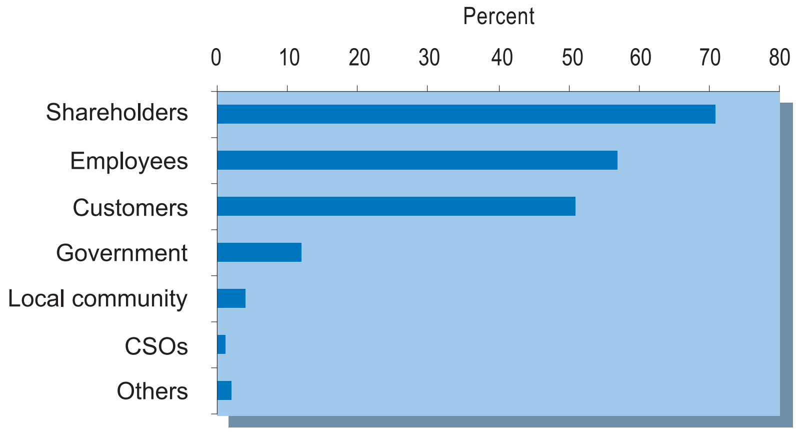
[88] all three categories at 27 percent. Other directors account for 17 percent, and company owners account for 3 percent

2.2 Analysis of Survey Results

2.2.1 Understanding of Stakeholders

When asked to identify their main stakeholders[90], 71 percent of respondent companies indicate their shareholders, 57 percent their employees, and 50 percent their customers. Only 12 percent, 4 percent and 1 percent of respondent companies identify respectively the Latvian government, their local communities, and CSOs, among their main stakeholders.

Figure 49 Latvia – Understanding of Stakeholders



Public companies, understandably, are more likely than other companies to consider the Latvian government a main stakeholder.[91] Non-financial services companies, relatively more than other companies, consider their customers to be main stakeholders; Whereas compared to the companies' average they consider their employees less important stakeholders.[92] Small and medium companies, more than large and very large companies, believe their employees are among their main stakeholders. Interestingly, the belief that the government is a main stakeholder grows with the size of the company.[93] Finally, medium companies are most likely to consider the local community one of their most important stakeholders.

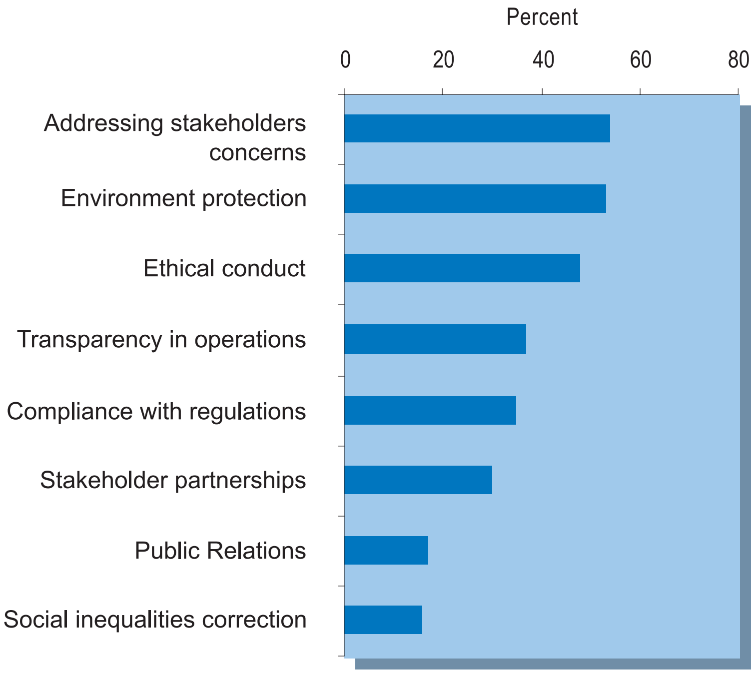
2.2.2 Understanding of Corporate Social Responsibility

Respondent companies have been asked what they understand by "socially responsible activities"[94]. Approximately half of respondents link these activities to ethical conduct,

[90] Multiple answers were allowed.
[91] 71 percent (companies' average is 12 percent)
[92] customers are at 74 percent (customers companies average is 51 percent), while employees are at 35 percent (companies' average is 57 percent)
[93] 0 percent of small companies; 6 percent of medium companies; 19 percent of large companies; and 40 percent of very large companies
[94] Respondents were asked to select the three most important answers

environmentally friendly activities, and addressing stakeholders' concerns. Approximately one third of respondent companies believe transparency in operations, compliance with existing operations, and establishing stakeholder partnerships are socially responsible activities. A smaller but still significant number of respondents believe that correcting social inequalities and public relations activities can be considered socially responsible activities.[95]

Figure 50 Latvia – Understanding of CSR



Public companies are more likely than others to associate transparency in operations with CSR, and do not associate it at all with correction of social inequalities and public relations. Financial services companies are more likely than others to associate transparency in operations with CSR, but think the opposite of environmental friendly activities[96]. Medium companies are the exact mirror image of financial services companies concerning transparency in operations and environmentally friendly activities[97]. The correction of social inequalities is not an attribute of CSR according to small companies. CSR is a relatively more important PR issue for financial services companies and large companies.

[95] Respectively, 16 and 17 percent

[96] This might be due to the nature of their business

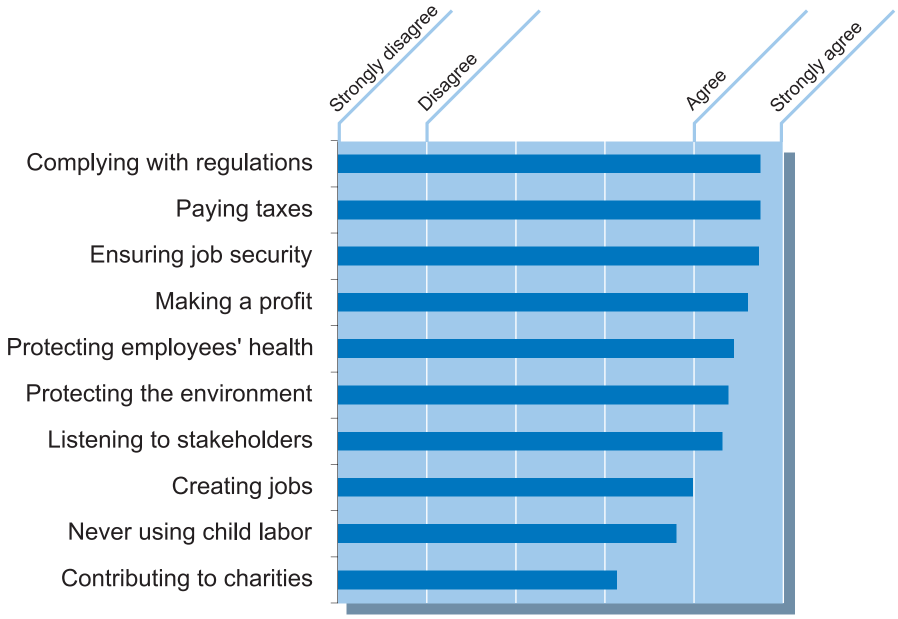
[97] 29 percent transparency in operations (companies' average is 37), and 71 percent environmentally friendly activities (companies' average is 53)

Small companies seem to associate socially responsible activities primarily with respect for the environment. Very large companies tend to associate the concept of social responsibility with the correction of social inequalities[98] more than the other companies[99], whereas only one of these very large companies believes that respect for the environment is related to the concept of social responsibility[100].

2.2.3 Perception of Main Role of Company in Society

Respondents were given ten possible main roles of their company in society. Their task was to grade the importance of each role by choosing among "strongly disagree", "disagree", "don't know", "agree", and "strongly agree".

Figure 51 Latvia – Perception of Role of Company in Society



According to the Latvian companies interviewed, complying with the legal framework and paying taxes are the most important roles of a company in society. Four in five companies strongly agree, one in five agree, 1 percent are undecided, and none disagree. The percentages are consistent across the spectrum of company size, ownership and sector of activity.

Job security is perceived to be the third most important role of Latvian companies in society, with 78 percent of respondents strongly agreeing, and virtually none undecided

[98] 50 percent

[99] Together, approximately 15 percent

[100] 57 percent of companies with up to 1000 employees believe environmentally friendly activities are socially responsible activities.

or disagreeing. Job security is an extremely high priority for production companies[101], but a relatively lower priority for small companies[102].

Three out of four Latvian companies interviewed strongly believe that making a profit is one of their main roles in society. Interestingly, the 5 percent of companies which disagree are public companies in the financial and non-financial sectors. Only half of large companies strongly agree that profit making is one of their main roles in society.

Protecting the health of employees was identified as one of the main duties in society by 95 percent of companies interviewed[103]. Small and medium companies are more deeply convinced about this role[104] than large and very large companies.[105] Together with very large companies, public companies and financial services companies are the least convinced of the importance of the company's role in employee health protection.

Every company believes that protecting the environment is one of its main duties in society. However, only half of these companies are absolutely committed to this role. Small and medium companies are more deeply committed than large and very large companies. Financial and non-financial services companies are less committed than production companies.

Listening to stakeholders is considered a main role of the company in society by 93 percent of respondents[106]. The companies which are relatively more convinced of the importance of this role are public companies, whereas the companies which are relatively less convinced are large companies.

Half of respondents believe that job creation is one of their main roles in society. Another 34 percent strongly believe this is true. Eleven percent[107] of respondents disagree, 4 percent are unsure, and 2 percent strongly disagree. Oddly, small and large companies alike are relatively unconvinced of the importance of this role,[108] whereas medium and very large companies are equally convinced that this role is important[109].

The near majority of respondents strongly agree that avoiding the use of child labor is one of their main roles in society;[110] while equal numbers of respondents agree, do not know, or disagree,[111] and 6 percent of respondents strongly disagree. Although all companies overall disagree with the use of child labor, in all company subgroups this area presents a range of grays. The only exception are small and very large companies in which very few are undecided, disagree or strongly disagree[112].

[101] 89 percent

[102] only 71 percent of small companies strongly agree

[103] 54 percent strongly agree and 41 agree

[104] 53 percent

[105] 34 percent

[106] 42 percent strongly agree, and 51 agree

[107] mainly medium private companies active in production and non-financial services

[108] a mean of 2.4 and 2.3 respectively (compared to total companies' mean of 2)

[109] both have a mean of 1.7 (compared to total companies' mean of 2)

[110] 47 percent

[111] 17 percent each

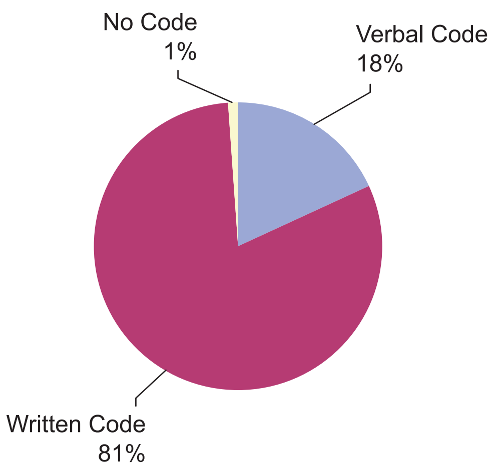
[112] all small companies strongly agree that avoiding the use child labor is one of their main duties

The issue of contributing to charities attracts the most diverging views.[113] Most interestingly, nearly one in four respondents doesn't know whether contributing to charities should be one of the company's main roles in society. Private companies are ambivalent, whereas public and semi-public companies tend to disagree.[114]

2.2.4 Codes of Conduct

Most Latvian companies have a code of conduct. Written codes are the norm, although one in five Latvian companies has a verbal code of conduct[115]. While companies involved in production and in non-financial services fit within the norm, financial services companies are evenly split between those which have written codes of conduct and those which only have verbal codes. Verbal codes of conduct are more widespread among small companies[116].

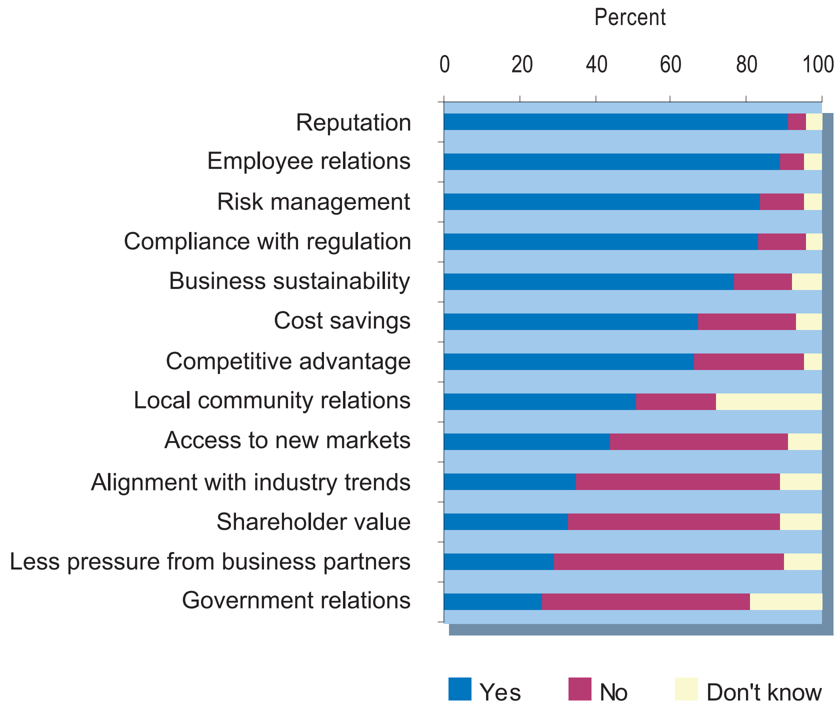
Figure 52 Latvia – Written and Verbal Codes of Conduct



The benefits of having a code of conduct were analyzed across thirteen parameters among those companies which have a verbal or written code of conduct.

[113] Companies strongly disagree (6 percent), disagree (24 percent), agree (43 percent), and strongly agree (4 percent).
[114] Mean of 2.8 and 3.6 compared to total companies' mean of 2.9
[115] 82 percent of respondent companies have a written code, 18 percent have a verbal code, and only one percent do not have a code
[116] 29 percent have verbal codes, while 71 percent have written codes

Figure 53 Latvia – Benefits Brought by Codes of Conduct



The overwhelming majority of respondents[117] believe that having a code of conduct helps to improve company reputation. Only 5 percent of companies disagree with this statement, and 4 percent do not know. Financial and non-financial services companies are more convinced of the benefit than production companies.[118] Very large companies seem to be less convinced of the impact of codes of conduct on reputation than any other subgroup.[119]

According to a vast majority of Latvian respondents[120], codes of conduct improve employee relations. Companies in production are more skeptical of this correlation than companies involved in non-financial services, but are less skeptical than companies involved in financial services.[121]

Risk management is enhanced by codes of conduct according to 84 percent of respondents. More than nine out of ten companies in financial services and 95 percent of large companies believe this is true.

Improved compliance with legislation is one of the benefits of having a code of conduct for 83 percent of interviewees. Financial services companies and small companies are the most skeptical of the impact of codes of conduct on compliance with legislation. Public companies are the least skeptical of all subgroups.

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117 92 percent

118 100 percent and 96 percent respectively, versus 87 percent of production companies

119 80 percent (companies' average is 92 percent)

120 89 percent

121 production, 87 percent; non-financial services, 100 percent; financial services, 79 percent

A substantial majority of Latvian companies[122] believe that having a code of conduct contributes to the survival of their business in the long term. The only exception to this is presented by public companies, of which less than half are convinced that codes of conduct contribute to business sustainability.[123] Small companies comprise the subgroup that is most convinced of the link between codes and sustainability.[124]

A large majority of Latvian companies[125] perceive a relationship between codes of conduct and cost savings, while 26 percent of companies think that this relationship does not exist, and 7 percent are undecided. Public companies and financial services companies are not as adamant as others[126], while very large companies perceive a relatively stronger relationship between codes and cost savings than other subgroups[127]. Large companies are the most ambivalent about this relationship.

As many as 66 percent of Latvian companies believe that a code of conduct gives them a competitive advantage. 30 percent of companies do not agree and 5 percent are not sure. The most negative and indecisive subgroup are public companies.[128]

Local community relations are improved by codes of conduct according to half of respondents. As many as 28 percent of companies remain undecided. The subgroups which are more positive about the impact of codes of conduct on local community relations are non-financial services companies and very large companies[129], whereas small companies are the most negative.[130]

Codes of conduct are a factor in accessing new markets for only 44 percent of respondents. 48 percent disagree and 9 percent are undecided. None of the public companies think that codes of conduct facilitate the access to new markets. Together with public companies, a majority of financial services companies, small and very large companies do not believe that codes of conduct grant better access to new markets.[131]

Only 35 percent of respondents consider that codes help companies to align with industry trends. 54 percent of respondents disagree and 11 percent are undecided. Public companies set themselves apart once again by disagreeing by 85 percent. It is interesting to note that although both large and very large companies have a high percentage of undecided, this does not prevent the companies in these subgroups which are not undecided to take completely opposite stances: a relative majority of large companies agrees on the beneficial impact of codes of conduct on alignment with industry trends while a majority of very large companies disagrees.[132]

---

[122] 77 percent
[123] 43 percent agree and 43 percent disagree.
[124] 94 percent (companies' average is 77 percent)
[125] 67 percent
[126] both 57 percent (companies' average is 67 percent)
[127] 78 percent
[128] 43 percent disagree, and 14 percent are undecided
[129] 61 and 60 percent respectively
[130] 35 percent disagree and 41 percent are undecided
[131] respond negatively 57, 53, and 70 percent respectively
[132] 48 large companies agree; 33 percent do not: 22 very large companies agree, while 60 percent do not.

The majority of Latvian respondents do not think that codes of conduct increase shareholder value, 33 percent think they do and 11 percent don't know the answer. Data is similar across the spectrum of ownership, size and sector, except for financial services companies and large and very large companies which have a very high percentage of undecided companies.

A large majority of respondent companies[133] do not think that these codes decrease the pressure applied by their business partners,[134] 29 percent think they do and 10 percent are unsure about the impact of codes of conduct. The percentage of undecided reaches 30 percent in very large companies.

Probably the most surprising information relating to codes of conduct is that they seem to play no role in improving government relations. Only 26 percent of respondents feel that codes improve a company's position in the eyes of the Latvian government, while 55 percent disagree, and 20 percent are uncertain. Understandably, a large majority of public companies believe codes improve their standing with the Latvian government. At the opposite end of the spectrum are small companies, 77 percent of which do not believe codes have an impact on their relations with the government.

2.2.5 Transparency – Policies, Annual Reports and Consultations

Policies

The survey tests attitudes toward policies on corruption and on financing candidates for public positions.

Explicit anti-corruption policies are quite widespread in Latvia, where 45 percent of respondents currently have one and 48 percent plan to have one within the next 5 years. Interestingly, public companies have more anti-corruption policies than any other subgroup, and plan the most substantial increase in policies within the next five years.[135] Fewer non-financial services companies have anti-corruption policies than any other subgroup.[136]

As few as 4 percent of the companies interviewed currently have a policy for financing candidates for public positions. This percentage is expected to increase to 10 percent within the next five years due, mainly, to an increase in the number of companies in the financial sector, and, to a lesser extent, by the number of large companies which plan to have such a policy within the next five years.[137]

---

[133] 61 percent

[134] Pressure by business partners is understood to relate primarily to partners further down in the supply chain.

[135] 71 percent of public companies currently have an anti-discrimination policy and 86 percent plan to have one within the next five years (an increase of roughly 20 percent)

[136] only 22 percent, increasing within the next five years to a mere 26 percent.

[137] 7 percent of financial services companies have a policy for financing candidates to public positions whereas 29 percent plan to have one; currently no large company has such a policy, whereas 14 percent plan to have one

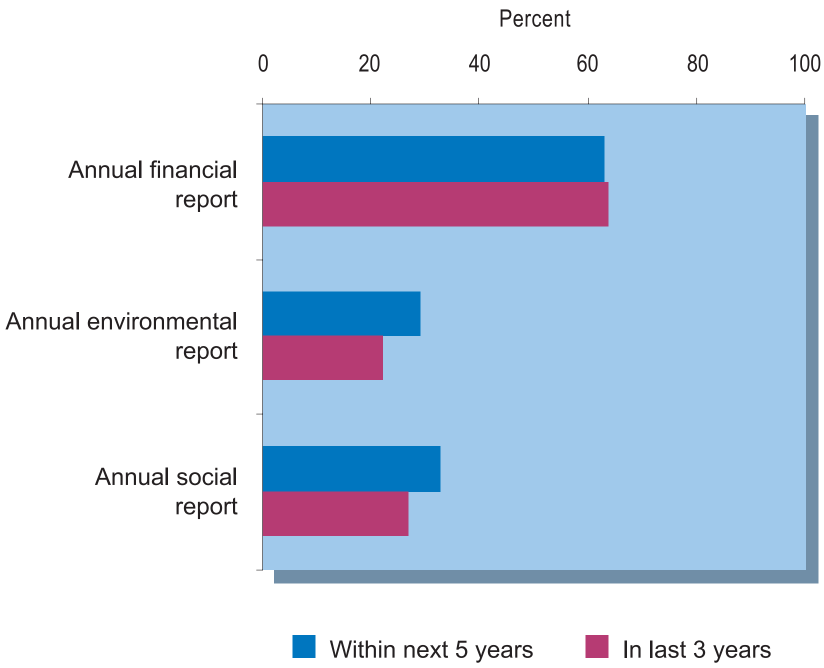
Annual Reports

A large majority of the companies interviewed publish an annual report.[138] The company subgroups which report the most are public companies, companies in financial services and very large companies.[139]

Annual reports presenting environmental performance are published by 22 percent of respondents. Public companies, large companies, and companies in production are most likely to publish their environmental performance,[140] whereas financial services and, to a lesser extent, non-financial services companies, are relatively less likely to do so.[141] Within the next five years, 29 percent of respondents plan to publish environmental performance reports.[142]

As many as 27 percent of respondents currently publish annual reports presenting social performance. Larger firms tend to publish more often than smaller firms.[143] Within the next five years, 33 percent of respondents intend to publish such a report. The steepest increase would come from medium companies,[144] while, surprisingly, the number of large companies which publish social performance would slightly decrease.

Figure 54 Latvia – Social and Environmental Annual Reports



[138] 64 percent
[139] respectively 100, 86 and 80 percent
[140] respectively 29, 30 and 33 percent
[141] respectively 7 and 13 percent
[142] the steepest increase would be in the number of medium companies (70 percent increase)
[143] 18 percent of small companies, 17 percent of medium, 43 percent of large and 40 percent of very large
[144] percentage doubles from 17 to 34 percent

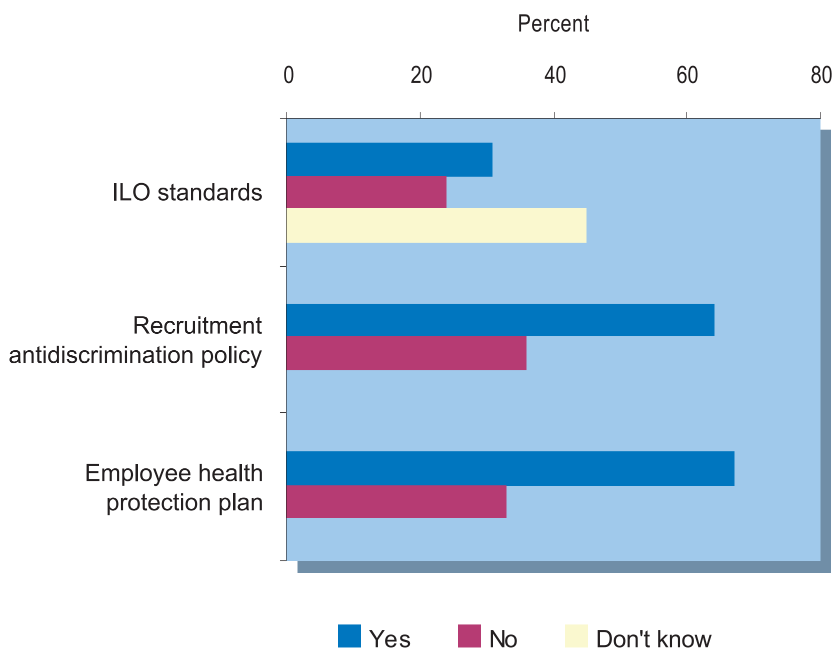
Consultations

According to this survey, 70 percent of companies consult regularly with their stakeholders. Public companies, financial services companies and very large companies consult the most;[145] whereas production companies consult the least.[146] Within the next five years, 74 percent of companies intend to consult regularly with their stakeholders.

2.2.6 Employee Projects

Respondent companies were interviewed about the implementation of social projects relating to employees. These include: setting core labor standards; drafting explicit anti-discrimination policies; establishing employee health protection plans; and providing training.

Figure 55 Latvia – Employee Projects



Only one in three Latvian respondent companies[147] implements core labor standards adopted by the International Labor Organization (ILO), 24 percent do not, and as many as 45 percent of respondents do not know whether their companies meet the ILO standards. This high percentage of uncertainty could be due to alternative labor standards being the accepted standard in Latvia, or because ILO standards are accepted, but have not been properly publicized. These percentages are consistent across the spectrum of companies, with the exception of financial services companies, none of

[145] respectively 100, 93 and 80 percent
[146] 59 percent
[147] 31 percent

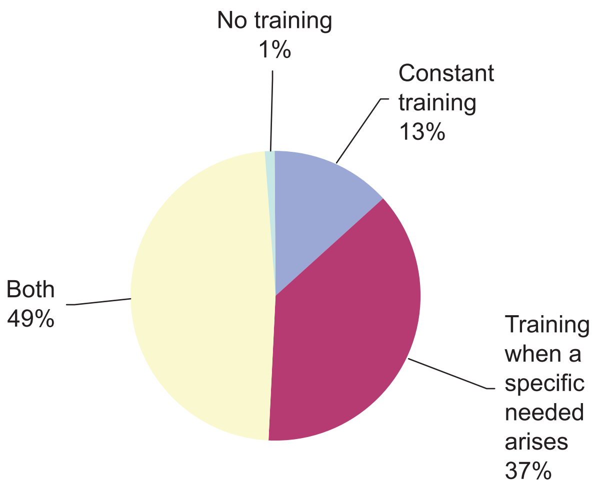
which has adopted ILO standards, and which have a 71 percent unawareness level, and very large companies, which are at the opposite side of the spectrum with an ILO standards implementation rate of 60 percent.

Explicit anti-discrimination policies in personnel recruitment are standard in Latvia.[148] All respondents know whether their company has an anti-discrimination policy, with public companies having the highest implementation rate.[149]

Employee health protection plans are also standard in Latvia[150]. All respondents know whether their company has an employee protection plan. Non-financial services companies have the highest implementation rate, followed by very large companies.[151]

Employee training is seen as crucial in Latvia and therefore it is not surprising that nearly all respondent companies[152] provide some form of training for their employees. Thirty-six percent of companies provide training in response to specific needs as they arise, while 13 percent provide continual training. Almost half of respondents[153] provide both ad hoc and continual training. Medium companies in the production sector tend to make the largest use of exclusively ad hoc training.

Figure 56 Latvia – Employee Training



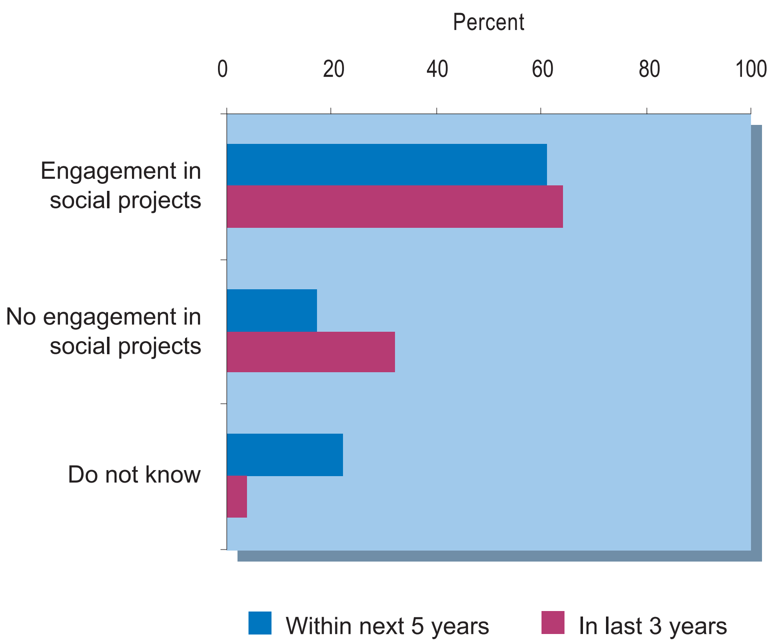
2.2.7 Social Projects (other than focused on employees)

During the last three years, 64 percent of respondents engaged in social projects, 33 percent did not, and 4 percent do not know. Medium companies most often engage in social projects; while public companies are the least likely to do so[154]. Regarding

[148] 64 percent of respondents have such a policy, 36 percent do not
[149] 86 percent of public companies have an anti-discrimination policy
[150] 67 percent of respondents have such a plan, 33 percent do not
[151] 87 and 80 percent respectively
[152] 96 percent
[153] 47 percent
[154] 86 percent of medium companies, and only 29 percent of public companies engage

sectors of activity, non-financial services companies engage more than financial services companies, and production companies engage more than financial services companies.

Figure 57   Latvia – Present and Future Engagement in Social Projects



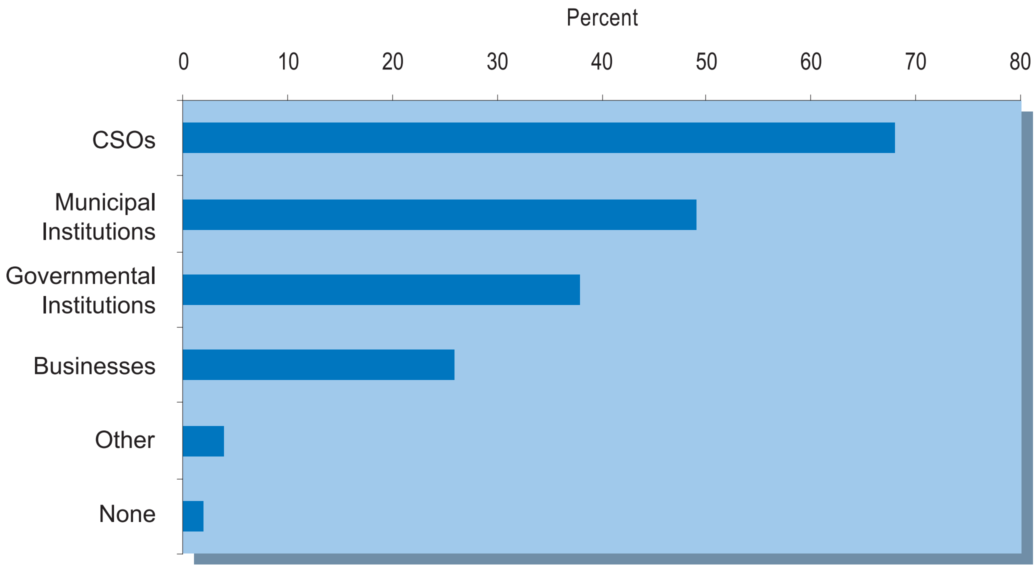
Companies appear very hesitant to state their plans relating to social projects for the next five years. The number of companies which plan to engage in the next five years in social projects remains fundamentally unchanged from the past three years

Latvian companies list the main reasons for engaging in social projects as follows: improved reputation and community relations; building of the global corporate brand; and survival of business in the long term. Opinions are divided over other reasons, such as improved employee relations and increased competitive advantage. The majority of Latvian companies believe that the following factors do not play a role in the decision of companies to engage in social projects: improved standing with government; access to new markets; improved management of risk; compliance with legislation; costs saving; alignment with industry trends; enhanced shareholder value; and pressure from business partners.

In order to implement their social projects, companies collaborate with a number of institutions that can be broken down into: CSOs; governmental institutions; municipal institutions; and other businesses.[155]

[155] Respondents were asked to select "all that apply"

Figure 58 Latvia – Collaborating Institutions in Social Projects

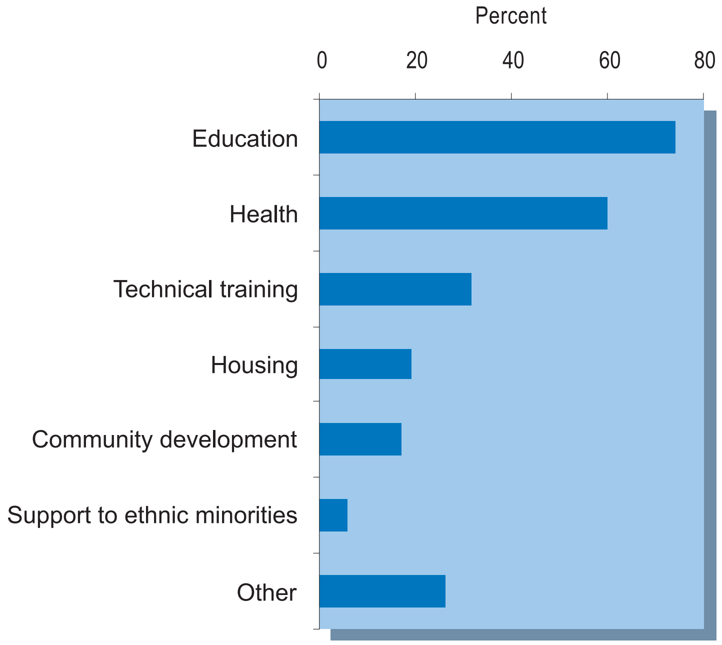


The following percentages are based on the number of companies which currently engage in social projects.

A vast majority of respondent companies, in particular very large companies and non-financial services companies, collaborate with CSOs. Half of the companies, in particular very large companies and public companies, collaborate with municipal institutions. Small companies collaborate less with this partner[156] More than one third of companies, most often financial services companies, very large companies and probably public and semi-public companies, collaborate with governmental institutions. One in four respondents, typically financial services companies and probably public or semi-public companies, collaborates with other businesses. Social projects can be implemented in a variety of areas, and serve a variety of beneficiaries.

[156] 9 percent

Figure 59 Latvia – Social Projects Areas

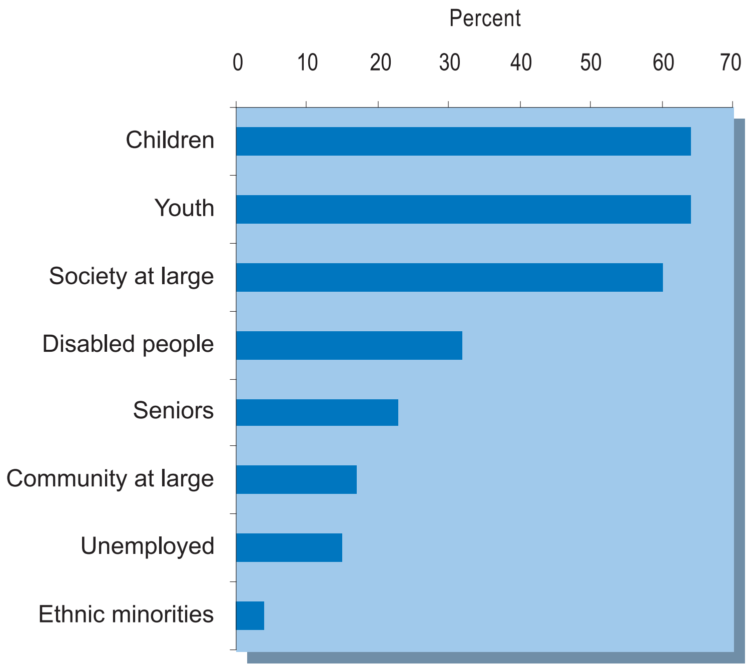


A majority of Latvian respondents are engaged in the education and health area, followed, in order, by technical training, housing, community development, and support to ethnic minorities. In addition to these areas, respondents mention areas such as children (4), sports (4), culture (3), environment (2), charity (2), security (1), social aid (1), and disabled (1).

Percentages are consistent across the spectrum of companies. The most notable exceptions are financial services companies which support more housing and ethnic minority projects than other companies; very large companies, which support more health, education, housing and community development projects; and non-financial services and small companies which support relatively fewer education projects.

Within the next five years, companies indicate that they will emphasize support for community development and technical training, and, following these, support for ethnic minorities. On the other hand, they indicate that they will engage in fewer health and education projects. Additional areas of investment mentioned by respondents regarding the next five years are: sports, culture, children, drinkable water, disabled, security and persons repressed by the communist system.

Figure 60 Latvia – Social Projects Beneficiaries



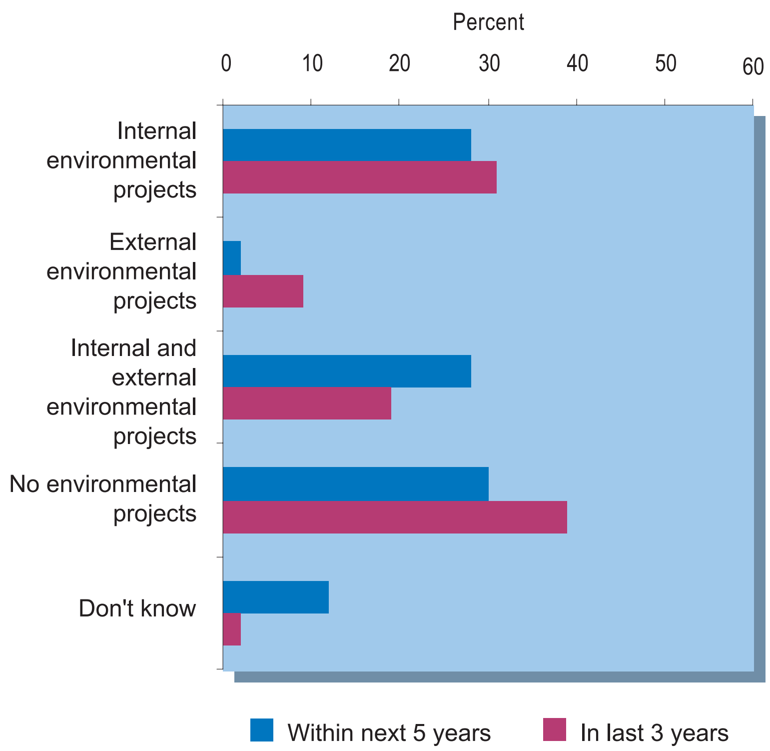
Children and youth are the main beneficiaries of social projects in Latvia, [157] followed, in order, by society at large,[158] disabled people, seniors, the community at large, the unemployed, and ethnical minorities.

2.2.8 Environmental Projects

Over the past three years, 60 percent of Latvian companies engaged in environmental projects.[159] Financial and, to a lesser extent, non-financial services companies, and small companies are least likely to engage in environmental projects. Of those that engage in environmental projects, more than half engage in projects linked to the company's operations (internal), 14 percent engage in projects not linked to the company's operations (external) and 33 percent supported both kinds of projects. No public company engages in both internal end external projects. Very large companies seem to engage relatively more than the others both in internal projects and in external projects.

[157] Social projects benefiting both children and youth were chosen by 64 percent of respondents
[158] 60 percent
[159] for the purposes of this analysis the 2 percent of companies which do not know whether they engage in environmental projects have been assimilated to those companies which do not engage in environmental projects

Figure 61 Latvia – Present and Future Engagement in Environmental Projects



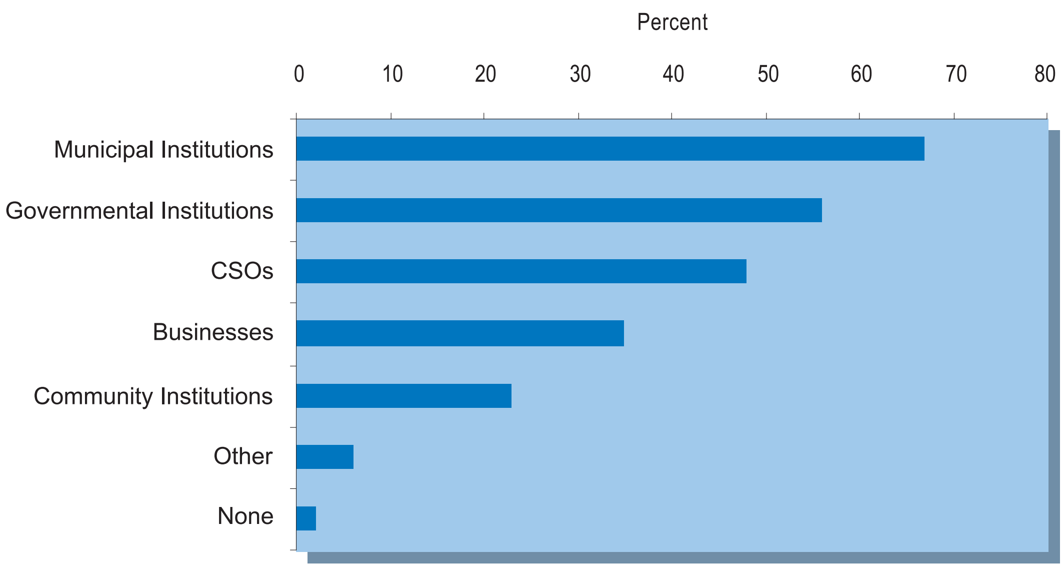
Respondent companies appear rather noncommittal about their plans for environmental projects over the next five years. The number of companies which plan to engage in environmental projects seems poised to remain virtually unchanged, however there would appear to be a future shift from engaging exclusively in internal or external projects to engagement in both. The number of companies which do not engage in environmental projects is expected to decrease,[160] however the number of companies which do not know whether they will be engaging in such projects is expected to increase.[161]

In order to implement their environmental projects, most companies collaborate with a number of institutions that can be categorized as: other businesses; municipal institutions; CSOs; governmental institutions; and community institutions.

[160] from 39 percent to 30 percent.

[161] from 2 percent to 12 percent.

Figure 62 Latvia – Collaborating Institutions in Environmental Projects



Activities providing education and information on environmental issues (for example, school programs, community meetings, internal training, etc.) are not very popular in Latvia.[162] The companies that develop these activities[163] address them primarily to their employees,[164] and secondarily to management, local communities, and company owners[165]. Institutions, employees' families, and other stakeholder are the addressees of these activities in 24 percent of instances.

Recycling programs are not very widespread. Only a third of respondents have one in place. Financial services companies, and, to a lesser extent non-financial services companies, trail others in the adoption of recycling programs.

A large majority of Latvian companies[166] have no environmental certification. Of the 34 percent of companies that have an environmental certification, 36 percent obtained an ISO 14000 certificate. Seven percent of respondents do not know if they have an environmental certification, and 10 percent of respondents have other certificates. Financial services companies understandably have no environmental certification, and only 6 percent of small companies are certified.

Environmental impact assessments (EIAs) of operations are relatively widespread in Latvia, and are conducted by 48 percent of respondent companies.[167]

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[162] except for very large companies, 60 percent of which develop such education activities

[163] 35 percent of respondents develop environmental education activities, 61 percent do not, and 4 percent do not know whether such programs exist.

[164] 79 percent

[165] Respectively, 45, 28 and 21 percent

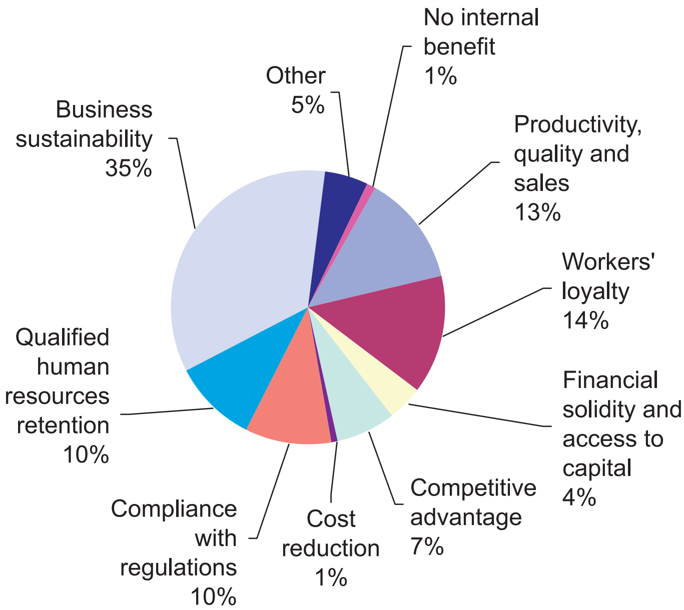
[166] 61 percent

[167] 45 percent do not, and 7 percent do not know whether EIAs are conducted in their companies.

2.2.9 Benefits from Adopting CSR Practices

Latvian respondents list the greatest internal benefits from CSR practices as follows: business sustainability; employee loyalty; increase in productivity, quality and sales; easier compliance with legislation; attraction and retention of qualified employees; competitive advantage; financial improvement and access to capital; and reduction of costs. Virtually none of the respondents state that companies derive no internal benefit from CSR practices. Percentages are consistent across the spectrum of companies.

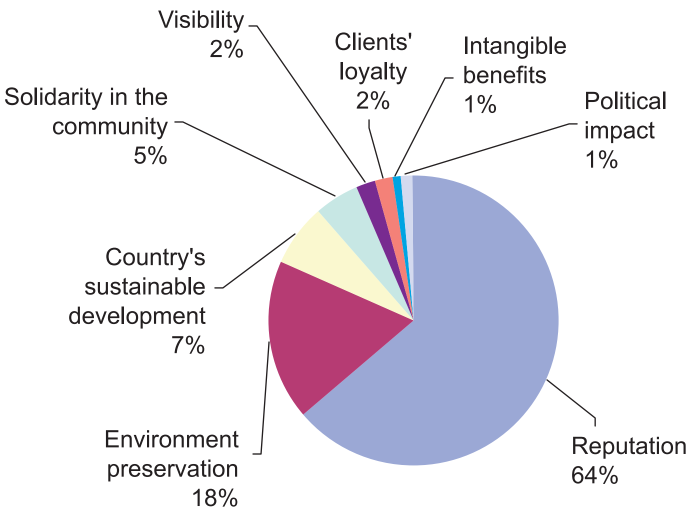
Figure 63 Latvia – Internal Benefits from Adopting CSR Practices



Latvian respondent companies list the greatest external benefits to their companies deriving from CSR practices as follows: improved image and reputation; preservation of the environment; contribution to Latvia's sustainable development; promotion of solidarity in the community; clients' loyalty; increased visibility; political impact (support from authorities and improved relationship); and other intangible benefits. All of the respondents see external benefit in CSR practices, and all answered this question. It is interesting to note that public companies are less enthusiastic than other subgroups about the improvement of image and reputation derived from CSR practices.[168]

[168] Only 43 percent of public companies see the improvement of image and reputation as the greatest benefit derived from CSR practices.

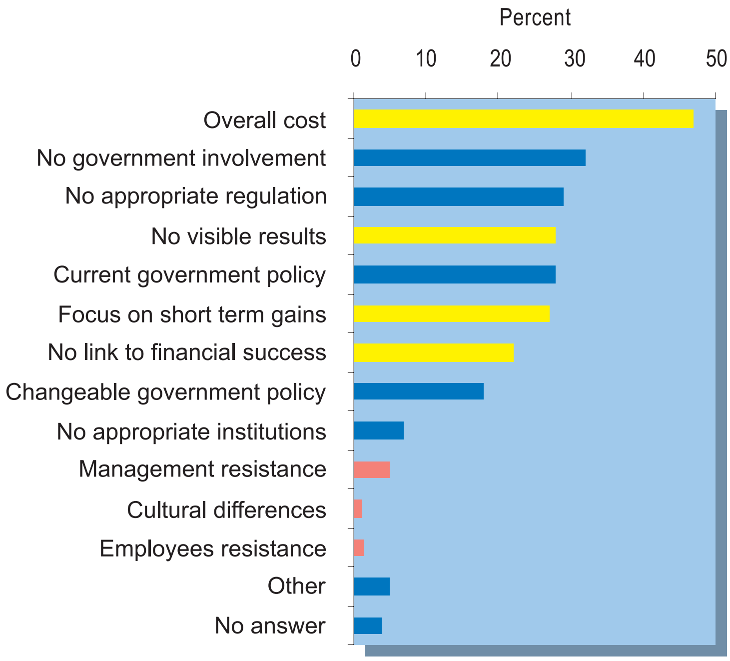
Figure 64 Latvia – External Benefits from Adopting CSR Practices



2.2.10 Barriers and Risks of Adopting CSR Practices

Latvian respondents were asked about the main barriers to the broader adoption of CSR practices. The barriers they cited can be divided into three categories: financial, government and institution-related, and human resources-related. According to Latvian respondents, the most significant barrier is of a financial nature—that is, the overall costs of CSR projects. Following this, they cited a combination of financial and government-related barriers: lack of government involvement; lack of appropriate legal framework; lack of visible results; government policy; excessive focus on short term gains; lack of direct impact on financial success; apprehension regarding government change of policy; and lack of appropriate institutions. Finally, they referred to barriers related to human resources, including: management and employee resistance and cultural differences. In addition to these barriers, respondents mention legislation (reinforcing the lack of appropriate framework); lack of regional governmental institutions (reinforcing the lack of appropriate institutions); and lack of information.

Figure 65 Latvia – Barriers to Adopting CSR Practices



A few observations on barriers can be made. As companies become larger, excessive focus on short term gains becomes a higher barrier to CSR practices.[169] Financial services companies, public companies and, to a lesser extent, large companies consider the government's current policy and the apprehension regarding its change as lower barriers than other subgroups.[170] The lack of visible results is the second highest barrier for small companies.[171] Finally, compared to other subgroups, public companies perceive financial barriers such as overall cost and lack of a link to financial success, as less important.[172]

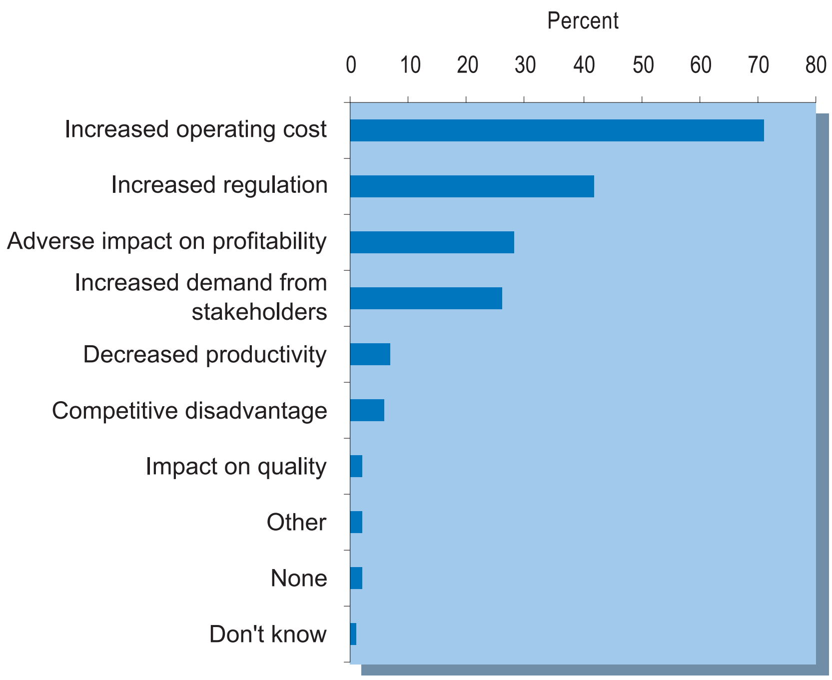
[169] Small companies, 18 percent; medium companies, 20 percent; large companies, 33 percent; and very large companies 50 percent

[170] No public company respondents believe that either pose a barrier, only 14 percent of financial company respondents believe current government policy is a barrier, only 10 percent of large company respondents believe current government policy and the apprehension over its change are a barrier to the adoption of CSR practices.

[171] 53 percent

[172] 14 percent (companies' averages are respectively 47 and 22 percent)

Figure 66 Latvia – Risks in Adopting CSR Practices



The main risk perceived in adopting CSR practices is the increase in operating costs. Others, in order of the magnitude of perceived risk are: increased intervention from regulatory bodies; erosion of profits; increased demands from interested stakeholders; decreased productivity; and competitive disadvantage. The risk posed by CSR practices to the quality of goods and services appears to be immaterial.[173] Only 2 percent of respondents believe there are no risks involved with CSR.

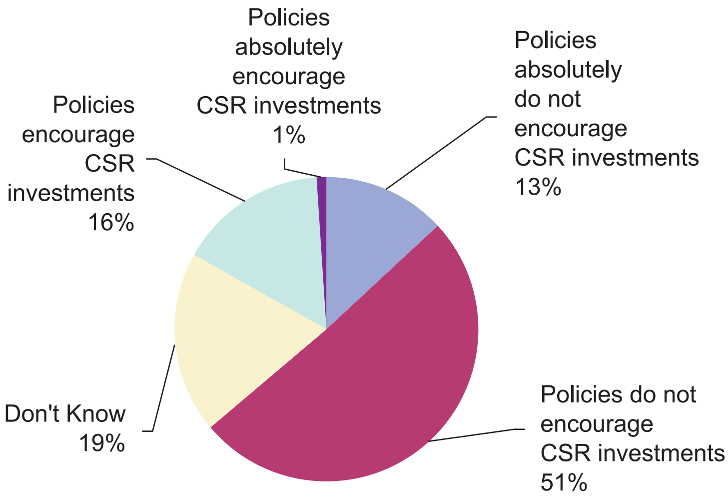
2.2.11 Supporting CSR Practices, Improving them and Making them More Relevant

Support from Governments, CSOs and Others

When asked about the role of the government, Latvian companies stated that the government does not provide them with much help in meeting their social responsibilities. This is confirmed further by the data that shows the impact of government policies on investment in CSR.

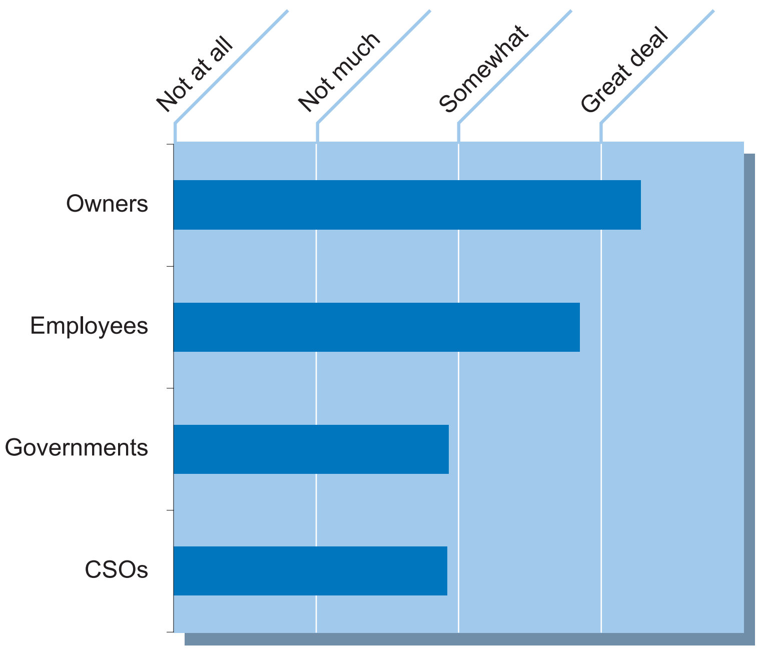
[173] 2 percent

Figure 67 Latvia – Government Policies' Impact on Investment in CSR



The large majority of respondents think that the Latvian government's policies do not encourage companies to invest in socially responsible activities.[174] The remaining 40 percent is evenly split between those respondents which are unsure about the role of government's policies and those which believe these policies encourage investment in CSR[175].

Figure 68 Latvia – Support for CSR from Government, CSOs, Owners and Employees



[174] 64 percent (i.e. 51 percent for which policies do not encourage CSR investments + 13 percent for which policies absolutely do not encourage CRS investments)

[175] only one percent of respondents strongly believe this

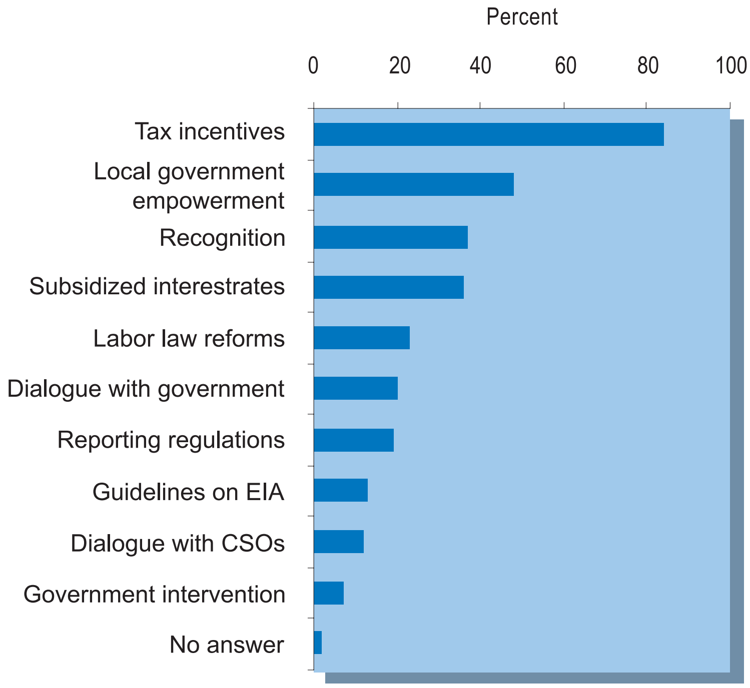
In Latvia the role of CSOs in helping companies implement CSR practices is perceived as even less important than that of government policies. Three in four respondents believe CSOs do not help them implement CSR practices. Public companies and financial services companies are the most optimistic about CSOs' impact on companies' CSR practices.[176]

Owners and employees are perceived as most valuable in helping respondent companies meet their social responsibilities. A third of respondents believe owners are helpful, and half said that they are very helpful.[177] Forty-five percent of respondents believe that employees are helpful, and 22 percent said that employees are very helpful.[178]

Improving CSR Practices

Latvian companies were asked about the actions which would assist them in improving their CSR practices.[179] On the financial front, respondents believe tax incentives[180], empowerment of local governments to decide on tax exemptions,[181] and, to a lesser degree, subsidized interest rates[182] are paramount in improving CSR practices. On the non-financial front, respondent companies indicate a need for recognition, guidelines, government intervention and dialogue.

Figure 69 Latvia – Actions that Improve CSR Practices



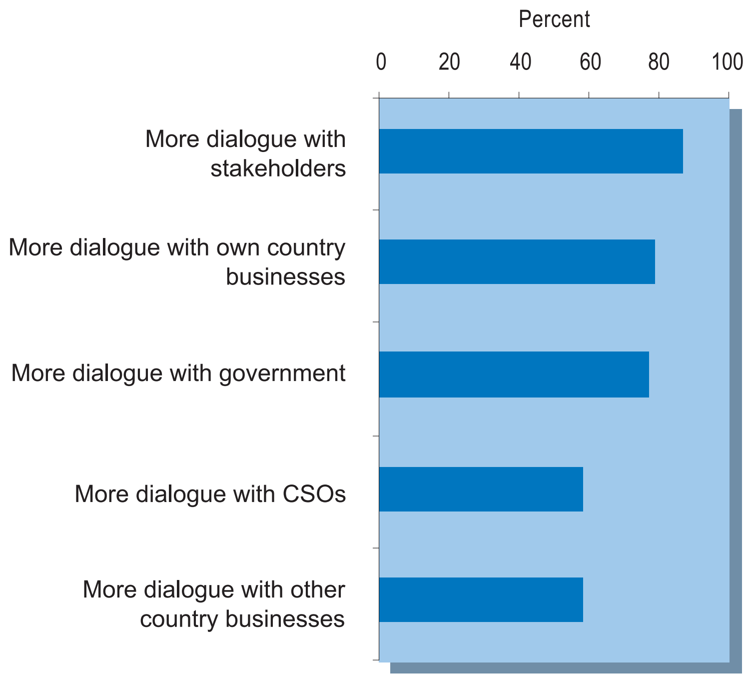
[176] Both groups of companies have a mean of 2.143
[177] Only 18 percent believe owners do not help (much or at all)
[178] 33 percent believe that employees do not help (much or at all)
[179] Companies were asked to select "all that apply"
[180] 84 percent
[181] 48 percent
[182] 36 percent

Receiving recognition is thought to be an important element in the improvement of CSR practices by 37 percent of respondents. Guidelines on EIA or on the presentation of social and environmental performance in annual reports would improve CSR practices for 13 percent and 19 percent of respondents respectively. Government intervention, including labor law reforms, is considered important by 7 percent and 23 percent of respondents respectively. Finally, dialogue with the Latvian government and, less significantly, with CSOs, would help improve CSR practices according to 21 percent and 12 percent of respondents respectively. These percentages are consistent across all subgroups. The only exceptions are public companies, which do not believe as strongly as other subgroups that financial actions would significantly assist in improving CSR practices; small companies, which are extremely skeptical of dialogue[183] and government interventions;[184] and very large companies, which have consistently higher percentages across all actions leading to improve CSR practices.

Making CSR Practices More Relevant

The overwhelming majority of Latvian companies[185] believe that sharing information, discussing, collaborating and negotiating with different stakeholders would make their CSR practices more relevant. Eighty-seven percent of respondents would like to entertain more dialogue with all stakeholders, 80 percent with other businesses in Latvia, 77 percent with the Latvian government, 58 percent with CSOs, and 58 percent with businesses in other countries.

Figure 70 Latvia – Dialogue that Makes CSR Practices More Relevant



[183] Both with the government and with CSOs

[184] respectively 6, 0, and 0 percent

[185] At least 87 percent

It is interesting to note that public companies and very large companies are relatively more convinced of the positive impact of increased dialogue on the relevance of their CSR practices.

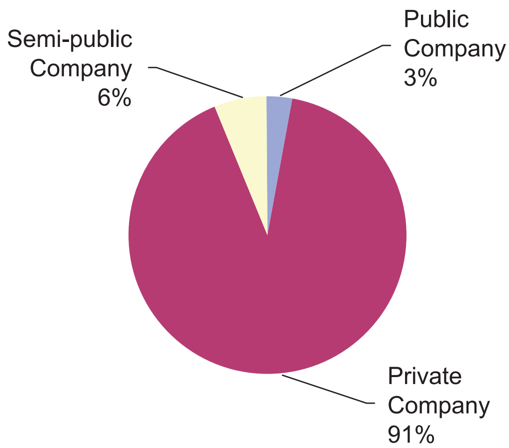
3 Current CSR Attitudes and Practices in Lithuania

3.1 Analysis of Survey Respondents

3.1.1 Ownership Structure and Funding of Respondent Companies

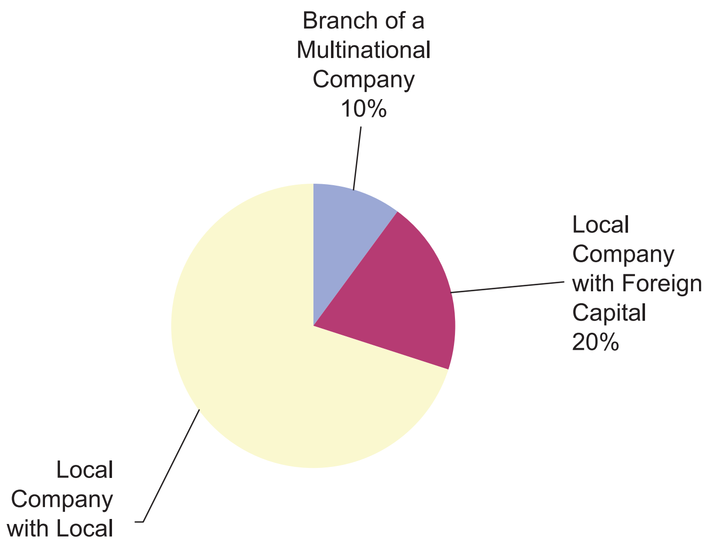
Of the 80 companies interviewed, 91 percent are privately owned companies, 3 percent are owned by the Lithuanian government (public companies), and the remaining 6 percent are a mix of private and public ownership (semi-public companies).

Figure 71 Lithuania - Ownership Structure of Respondent Companies



In total, 70 percent of respondent companies are funded with local capital, 20 percent are funded with foreign capital, and 10 percent are branches of multinational companies.

Figure 72 Lithuania - Funding of Respondent Companies

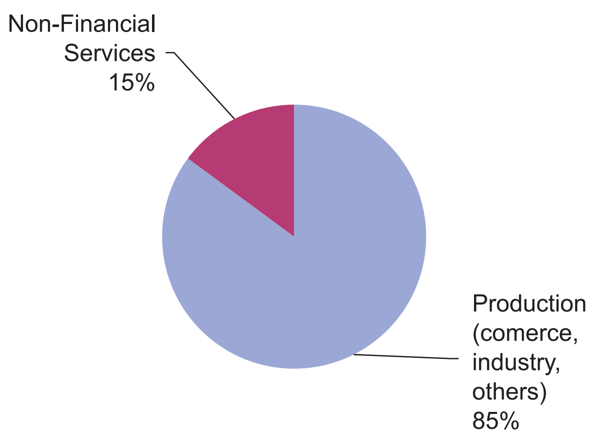


All of the public companies interviewed are local, funded with local capital. Sixty percent of semi-public companies are local, funded with local capital. The remaining 40 percent are evenly split between local companies funded with foreign capital and branches of multinationals. Seventy percent of private companies are local companies funded with local capital, 20 percent are local companies funded with foreign capital, and the remaining 10 percent are branches of multinationals.

3.1.2 Sector of Activity of Respondent Companies

Responses were received from two sectors: production and non-financial services. None of the respondent companies are active in the financial services sector.

Figure 73 Lithuania - Sector of Activity of Respondent Companies

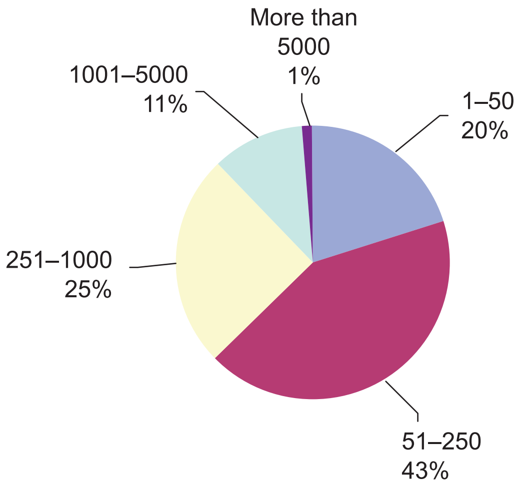


The majority of companies that responded are involved in production.[186] Most of these companies are private[187] and are funded with local capital.[188] Companies which offer non-financial services represent 15 percent of respondent companies and are privately owned in 83 percent of cases.[189] Roughly half of non-financial services companies are local companies funded with local capital, and a third of them are branches of multinationals.[190]

3.1.3 Number of Employees of Respondent Companies

Respondent companies have been subdivided by number of employees as follows: One to 50 (small companies), 51 to 250 (medium companies), 251 to 1000 (large companies), and 1001 to 5000 (very large companies).

Figure 74 Lithuania – Number of Employees of Respondent Companies



All small respondent companies are privately owned. Half of them are funded with foreign capital, while the other half is evenly split between branches of multinationals and local companies funded with local capital. Three quarters of small companies are in the production sector.

Medium companies are overwhelmingly privately owned, with only 3 percent of companies being public. Seventy-eight percent of medium companies are local companies funded with local capital, while only 9 and 13 percent respectively are funded with foreign capital or are branches of multinationals. Three quarters of medium companies are in the production sector.

[186] 85 percent

[187] 93 percent (semi-public and public companies are respectively 6 and 2 percent of production companies)

[188] 72 percent

[189] semi-public and public companies are 8 percent each of non-financial services companies

[190] 58 percent are local companies funded with local capital, 33 percent are branches of multinationals, and 8 percent are local companies funded with foreign capital.

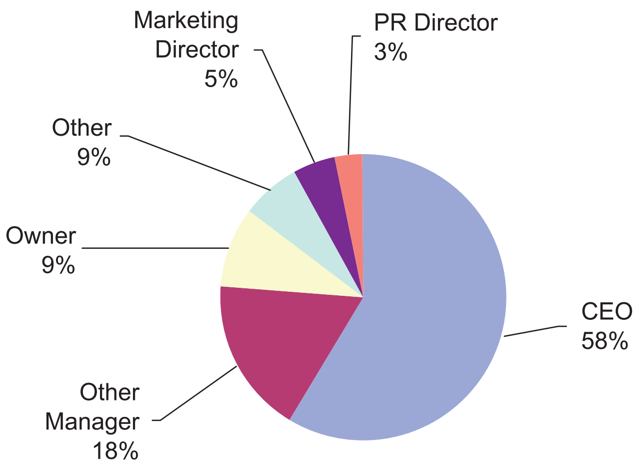
Large companies are privately owned in 87 percent of cases, they are semi-public in 10 percent of cases and public in 3 percent of cases. Eighty percent of medium companies are local companies funded with local capital, while only 7 and 13 percent respectively are funded with foreign capital or are branches of multinationals. Ninety-three percent of large companies are in the production sector.

Four in five very large companies are privately owned, while the rest are semi-public. Half of the very large companies are local with local capital, 40 percent are funded with foreign capital, and 10 percent are branches of multinationals. All of the very large companies are involved in production.

3.1.4 Level of Respondents within the Companies

Most questionnaires were completed mainly by CEOs, followed by other managers, owners, and others.[191] Surprisingly, in Lithuania, marketing directors and PR directors answered only 5 percent and 3 percent of questionnaires respectively.

Figure 75 Lithuania – Position of Interviewees



The highest number of CEO responses came from medium companies, while the highest number of other manager responses came from large companies. It is interesting to note that in the "other manager" category are managers such as a "manager for protection of environment, quality, work security and sustainable development" and a "specialist and ecologist for product preparation for manufacturing".

3.1.5 Companies own Financial Situation Rating

Given a choice between "very good", "good", "tolerable", "bad", and "very bad", 10 percent of respondent companies rate their financial situation as "very good", 46 percent

[191] 18, 9, and 8 percent respectively

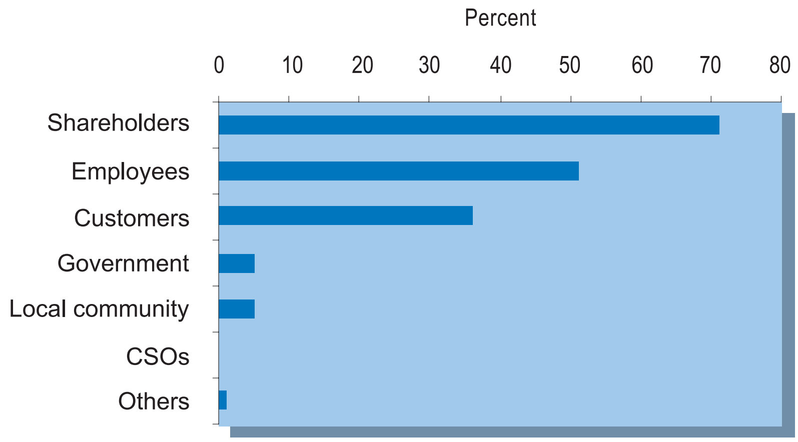
as "good", 43 percent as "tolerable", 1 percent as "bad" and none as "very bad". Non-financial services companies on average rate their own situation higher than production companies do.

3.2 Analysis of Survey Results

3.2.1 Understanding of Stakeholders

When asked to identify their main stakeholders,[192] 71 percent of respondent companies indicate their shareholders, 51 percent their employees, and 36 percent their customers. Only 5 percent of respondent companies identify the Lithuanian government or their local communities as being among their main stakeholders. None of the respondents identifies CSOs as main stakeholders.

Figure 76 Lithuania – Understanding of Stakeholders



Understandably, public and semi-public companies, more than private companies, consider the Lithuanian government a main stakeholder. Public and semi-public companies, less than private companies, consider their employees a main stakeholder.[193] Non-financial services companies, more than production companies, consider the government a main stakeholder; whereas compared to production companies, they consider their employees less important stakeholders.[194] Answers are fairly consistent regardless of the companies' size.

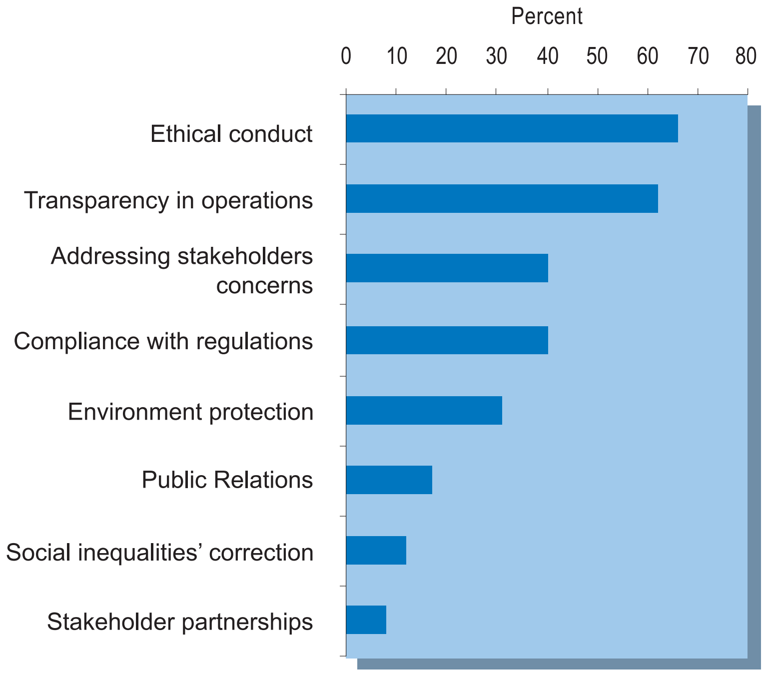
3.2.2 Understanding of Corporate Social Responsibility

Respondent companies have been asked what they understand by "socially responsible activities".[195] An ample majority of respondents link these activities to ethical conduct,

[192] Multiple answers were allowed.
[193] 50 and 40 percent (companies' average is 5 percent)
[194] employees are at 17 percent for non-financial services companies; and at 57 percent for production companies
[195] Respondents were asked to select the three most important answers

and transparency in operations. Approximately one third of respondents believe addressing stakeholders' concerns, complying with existing operations, and protecting the environment are socially responsible activities. A smaller but non negligible number of respondents believe that public relations, correcting social inequalities, and establishing stakeholder partnerships can be considered socially responsible activities.[196]

Figure 77 Lithuania – Understanding of CSR



Percentages are fairly consistent across the spectrum of companies except for divergences related to companies' size. Companies tend to more strongly identify transparency in operations with CSR as they become larger.[197] Compliance with existing regulations is considered a socially responsible activity more often by large companies than by small companies.[198] Small and medium companies, more often than large and very large companies, link ethical conduct to CSR.[199] None of the small companies associate protection of the environment with socially responsible activities.

3.2.3 Perception of Main Role of Company in Society

Respondents were asked to choose from among ten possible main roles of their company in society. Their task was to grade the importance of each role by choosing between "strongly disagree", "disagree", "don't know", "agree", and "strongly agree".

---

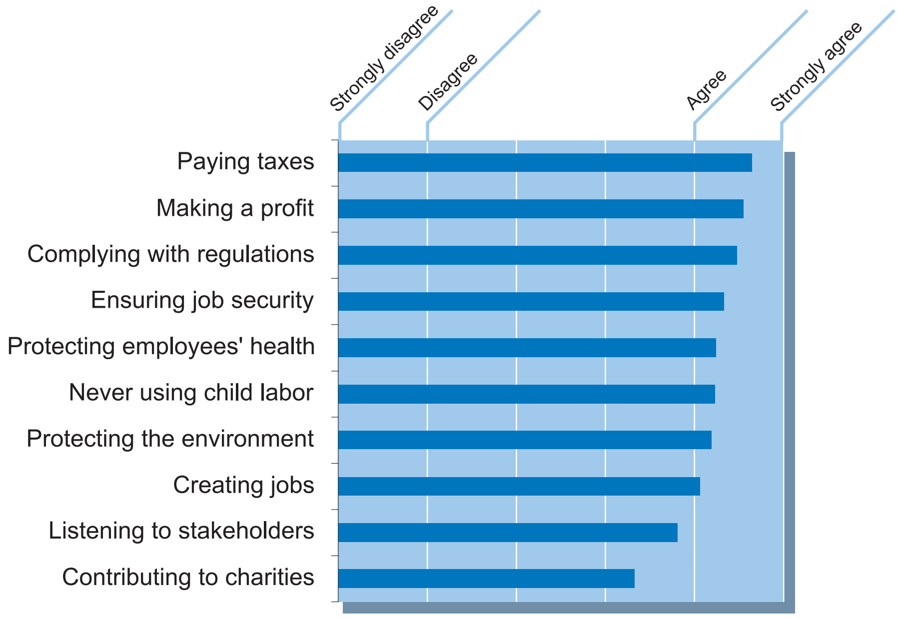
[196] Respectively, 18, 13, and 8 percent

[197] Small companies, 38 percent; medium companies, 59 percent; large companies, 63 percent; very large companies, 90 percent.

[198] Large companies, 53 percent; small companies, 13 percent (companies' average is 40 percent)

[199] 75 and 81 percent compared to 53 and 50 percent

Figure 78 Lithuania – Perception of Role of Company in Society



According to the Lithuanian companies interviewed, paying taxes is the most important role of a company in society. Seventy percent of companies strongly agree, 26 percent agree, 4 percent are undecided, and none disagree. The percentages are consistent across the spectrum of company size, ownership and sector.

Two thirds of the respondents strongly believe making a profit is one of their main roles in society. Small company respondents believe this more strongly than any other subgroup. Interestingly, respondents from one in four companies in non-financial services are undecided compared to the average of one in sixteen.[200]

Complying with the legal framework is considered the main role of companies in society by 91 percent of respondents, 58 percent of which believe this strongly. Percentages are consistent across the spectrum of companies.

Ensuring job security is seen as the fourth highest-ranking role of Lithuanian companies in society, with half of respondents strongly agreeing, and 38 percent agreeing. Job security is a high priority for production companies and an extremely high priority for very large companies.[201] Small companies represent two thirds of the 4 percent of companies which disagree.

Protecting the health of employees is one of the main duties in society for 85 percent of companies interviewed[202]. Non-financial services companies are the least convinced about their company's role in employee health protection.[203]

[200] the average number of respondents who answered "don't know" is 6 percent
[201] Mean of 4.38 and 4.8, respectively
[202] 41 percent strongly agree, and 44 agree
[203] 25 percent are undecided, and only 33 percent strongly agree

While a large majority of respondents strongly agree that avoiding the use of child labor is one of their main roles in society[204], one in four respondents is undecided, and 4 percent of respondents disagree. Percentages are consistent across the spectrum of companies, except for small companies, which believe more strongly than any other subgroup that not using child labor is one of the main roles of companies in society.[205]

Only 39 percent of Lithuanian companies strongly agree on the protection of the environment being one of their main duties in society. Although virtually no company disagrees, 17 percent of respondents are undecided.

Creating jobs is a company's main role in society only for 80 percent of Lithuanian companies.[206] Eleven percent[207] of respondents are unsure, 8 percent disagree, and 1 percent strongly disagrees. Percentages are consistent across the spectrum of companies.

Listening to stakeholders is a main role of the company in society for 73 percent of respondents[208]. Public companies seem relatively more convinced than large companies about the importance of this role.

The issue of contributions to charities raises the most divergent views.[209] Most interestingly, nearly one third of respondents don't know whether contributing to charities should be one of a company's main roles in society. Small companies appear to be the most certain about this role,[210] whereas medium companies are the most indecisive.[211]

3.2.4 Codes of Conduct

Codes of conduct are not the norm in Lithuania, although a substantial majority of Lithuanian companies have one,[212]—half of them written, half of them verbal.[213] Twenty three percent of production companies do not know if they have a code of conduct.

---

[204] 58 percent

[205] 88 percent of small companies strongly agree that avoiding the use child labor is one of their main duties (compared to companies' average is 58 percent)

[206] Roughly half strongly agree, and the other half simply agree

[207] mainly medium, private companies active in production and non-financial services

[208] 20 percent strongly agree, and 53 agree

[209] companies strongly disagree (3 percent), disagree (16 percent), agree (40 percent), and strongly agree (8 percent)

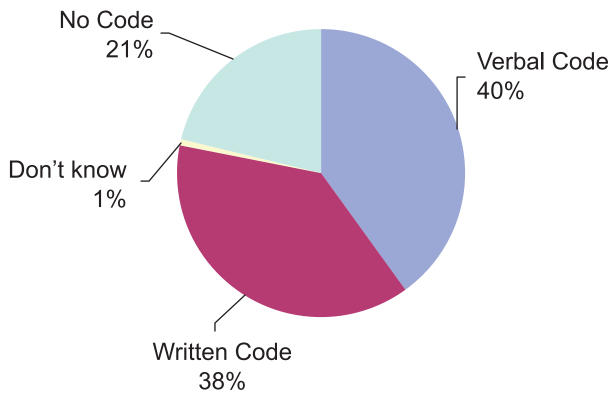
[210] small companies' mean is 4

[211] 41 percent (companies' average is 33)

[212] 78 percent have a code, 21 percent do not, and 1 percent do not know

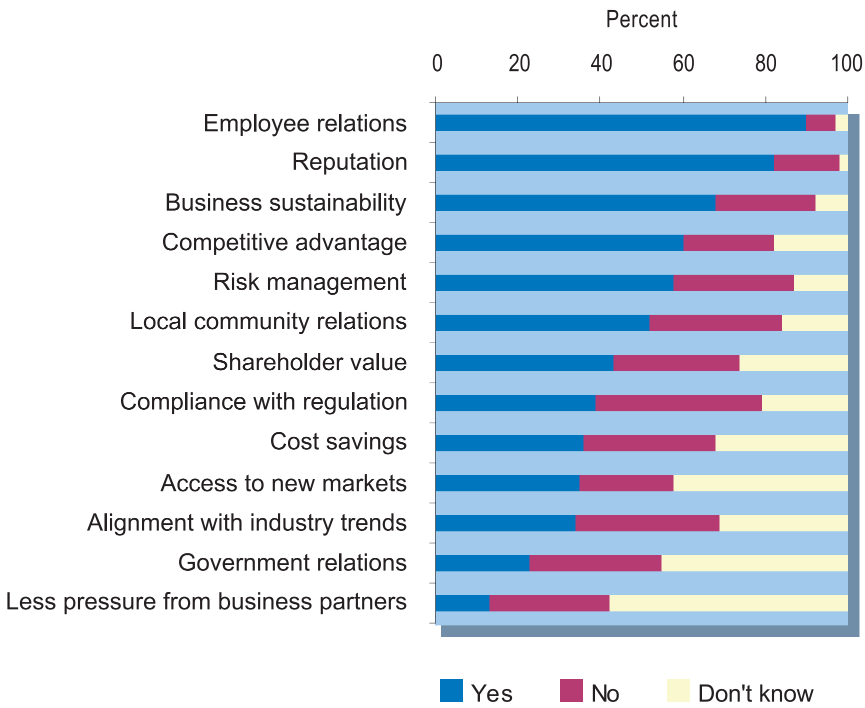
[213] 38 percent of respondent companies have a written code; 40 percent have a verbal code

Figure 79 Lithuania – Written and Verbal Codes of Conduct



The benefits of a code of conduct were analyzed across thirteen parameters among those companies which have a verbal or written code of conduct.

Figure 80 Lithuania – Benefits Brought by Codes of Conduct



The overwhelming majority of Lithuanian respondents believe that having a code of conduct helps to improve employee relations.[214] Only 3 percent of respondents disagree with this statement, and 7 percent do not know.

[214] 90 percent

Four in five respondents believe codes of conduct have an impact on company reputation. Virtually none disagree, but there are a number of respondents which are undecided. Most of these are large companies.

A substantial majority of Lithuanian companies[215] believe that having a code of conduct contributes to the survival of their business in the long term. Small companies seem most convinced about the link between codes and sustainability.[216]

As many as 60 percent of Lithuanian companies believe that having a code of conduct gives them a competitive advantage. Eighteen percent of companies do not agree, and 23 percent are not sure. The most skeptical are non-financial services companies of which only 46 percent agree, while 27 percent are undecided. Public and semi-public companies seem to be rather negative and undecided[217]

Risk management is enhanced by codes of conduct according to 58 percent of respondents. Both non-financial services companies and large companies are extremely ambivalent and agree less than other companies' subgroups.[218]

Local community relations are improved by codes of conduct according to half of respondents. As many as 32 percent of companies remain undecided. Small companies are the most positive about the impact of codes of conduct on local community relations are small companies;[219] while medium companies are the most negative.[220]

Forty-four percent of Lithuanian respondents think that codes of conduct increase shareholder value, 26 percent think they do not, and as many as 31 percent don't know the answer. Data is similar across the spectrum of ownership, size and sector, except for non-financial services companies, which, for the most part, are undecided, with only a small number agreeing.[221]

Improved compliance with legislation is one of the benefits of having a code of conduct for only 39 percent of interviewees. Very large companies are the most skeptical about the impact of codes of conduct on compliance with legislation;[222] whereas small companies are the least skeptical of all subgroups.[223]

A third of Lithuanian companies perceive a relationship between codes of conduct and cost savings, a third think that this relationship does not exist, and a third are undecided. Non-financial services companies and very large companies are the most skeptical;[224] while small companies perceive a relatively stronger relationship between codes and cost savings than other subgroups[225].

---

[215] 68 percent

[216] 86 percent (companies' average is 68 percent)

[217] 100 percent of public companies disagree and 50 percent of semi-public companies don't know.

[218] Non-financial services companies: 55 percent don't know, and 27 percent agree. Large companies: 46 percent don't know, and 41 percent agree.

[219] 71 percent agree

[220] 20 percent disagree and 40 percent are undecided

[221] Respectively, 46 percent and 27 percent

[222] Only 13 percent agree

[223] 71 percent agree

[224] Non-financial companies: 46 percent are undecided and only 27 percent agree. Very large companies: 38 percent are undecided and only 25 percent agree

[225] 57 percent agree

Codes of conduct are a factor in accessing new markets for only 36 percent of respondents. Forty two percent disagree and 23 percent are undecided. Medium and very large companies believe relatively less than other subgroups that codes of conduct grant better access to new markets.[226] Small companies are the most positive about this causality effect.[227]

Only 34 percent of respondents believe that codes help companies to align with industry trends. Thirty-one percent of respondents disagree, and 36 percent are undecided. It is interesting to note that, although a high percentage of respondents in both large and very large companies are undecided, those who are decided often take completely opposite stances: a relative majority of large company respondents agrees on the beneficial impact of codes of conduct on alignment with industry trends, while a relative majority of very large companies disagrees.[228] Again, small companies are the most positive about this causality effect.[229]

Probably the most surprising information relating to codes of conduct is that they seem to play very little role in good government relations. Codes improve a company's position in the eyes of the Lithuanian government only in the view of 23 percent of respondents. Forty-five percent disagree and 32 percent don't know whether codes have an impact on relationships with the government or what this impact is. Very large companies are the most skeptical about the impact of codes on government relationships.[230]

A large majority of respondents[231] do not think that codes of conduct decrease the pressure applied by their business partners,[232] only 13 percent think they do, and 29 percent are unsure about the impact of codes of conduct. Small and medium companies seem to be more skeptical about this decrease of pressure than large or very large companies.[233] The percentage of undecided reaches 55 percent in non-financial services companies.

3.2.5 Transparency - Policies, Annual Reports and Consultations

Policies

The survey tests attitudes toward policies on corruption and on financing candidates to public positions.

Explicit anti-corruption policies are not widespread in Lithuania. Only 24 percent of respondents currently have one, and 30 percent plan to have one within the next 5 years.

[226] Medium companies disagree more (56 percent), while very large companies are more undecided (38 percent)
[227] 71 percent agree
[228] 27 percent of large companies agree; 18 percent do not; 25 percent of very large companies agree, while 38 percent do not.
[229] 71 percent agree
[230] None agree and 63 percent disagree
[231] 58 percent
[232] Pressure by business partners is understood to relate primarily to partners further down in the supply chain.
[233] 71 and 72 percent of "disagree", compared to 41 and 50 percent in large and very large companies respectively

Although the percentage of companies with policies for financing candidates for public positions is relatively high,[234] this is expected to decrease to 8 percent within the next five years. In particular, large and very large companies plan to abolish such policies within the next five years.[235]

Annual Reports

A large majority of the companies publish an annual report,[236] with public and semi-public companies, and very large companies publishing the most.[237]. Oddly, although the total number of companies who intend to publish an annual report in the next five years does not vary sensibly, a few large companies and production companies plan to stop publishing their annual report.

Annual reports presenting environmental performance are published by 31 percent of respondents. Within the next five years, 38 percent of respondents plan to publish environmental performance reports. Percentages are similar across the spectrum of companies.

Twenty-eight percent of respondents currently publish annual reports presenting social performance. Small companies, however, tend to publish the least.[238] Within the next five years, 39 percent of respondents intend to publish such a report.[239] Surprisingly, the number of non-financial companies that publish information on social performance is expected to decrease slightly.

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[234] 13 percent

[235] 13 percent of large companies have a policy for financing candidates for public positions, whereas only 3 percent plan to have one; 30 percent of large companies have such a policy, whereas 20 percent plan to have one

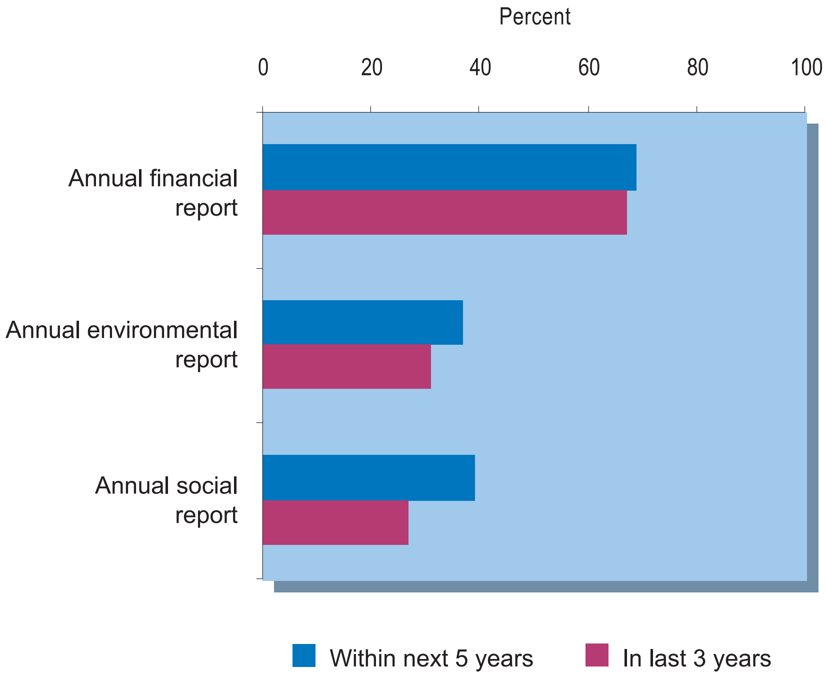
[236] 68 percent

[237] respectively 100, 80 and 90 percent

[238] 13 percent of small companies, compared to companies' average of 28

[239] 39 percent increase

Figure 81 Lithuania – Social and Environmental Annual Reports



Consultations

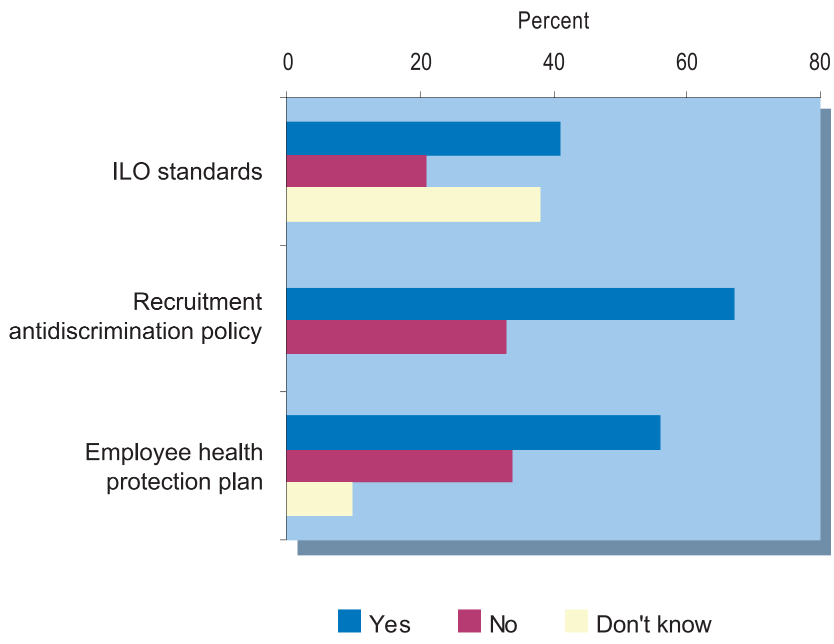
According to this survey, 79 percent of companies consult regularly with their stakeholders. Public and semi-public companies and non-financial services companies tend to consult most often.[240] Within the next five years, fewer companies intend to consult regularly with their stakeholders.[241] All of the subgroups follow this trend except for very large companies, more of which intend to consult regularly,[242] and public, semi-public and medium companies whose numbers are expected to remain unchanged.

3.2.6 Employee Projects

Respondent companies have been interviewed on implementation of social projects relating to employees, such as: core labor standards; explicit anti-discrimination policies; employee health protection plans; and training.

[240] respectively 100, 100 and 92 percent
[241] From 79 percent to 75 percent
[242] From 80 percent to 90 percent

Figure 82 Lithuania – Employee Projects



Only 41 percent of Lithuanian respondent companies implement core labor standards adopted by the International Labor Organization (ILO); twenty-one percent do not; and as many as 38 percent of respondents do not know. This high percentage of unawareness could be due to alternate labor standards being accepted in Lithuania, or on ILO standards having been accepted, but not properly publicized. These percentages are consistent across the spectrum of companies, except very large companies and possibly public and semi-public companies, which have an implementation rate of 60, 100 and 80 percent respectively.

Explicit anti-discrimination policies in personnel recruitment are the norm in Lithuania.[243] Awareness is very high, as all companies know whether they have an anti-discrimination policy. Non-financial services and very large companies have the highest rate of implementation of such policies.[244]

Although a majority of respondents have an employee health protection plan, these plans are not the norm in Lithuania[245]. Small companies have the lowest implementation rate, and the lowest awareness.[246]

[243] 67 percent of respondents have such a policy, 33 percent do not

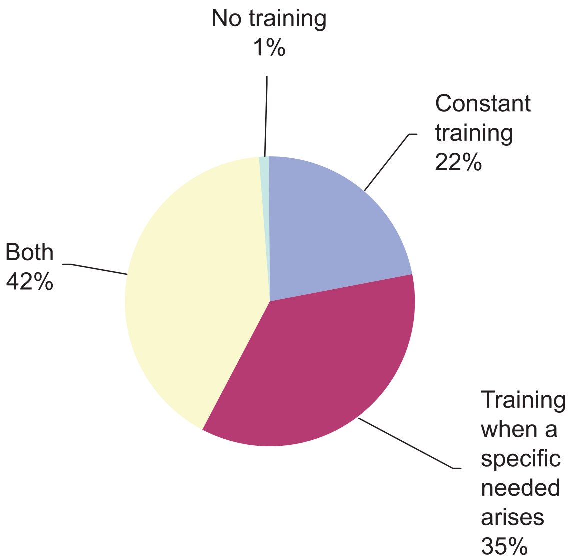
[244] 82 and 100 percent respectively

[245] 56 percent of respondents have such a plan, 34 percent do not, and 10 percent do not know

[246] Only 38 percent of small companies have an employee health protection plan, and 25 percent do not know whether they have such a plan

Employee training is seen as crucial in Lithuania and therefore it is not surprising that nearly all respondent companies[247] provide some form of training to their employees. Training when a specific need arises is provided by 35 percent of companies, whereas 23 percent provide constant training. Forty one percent of companies provide both ad hoc and constant training. Medium companies tend to make the largest use of exclusively ad hoc training;[248] whereas small and very large companies do not provide exclusively ad hoc training.

Figure 83 Lithuania – Employee Training



3.2.7 Social Projects (other than focused on employees)

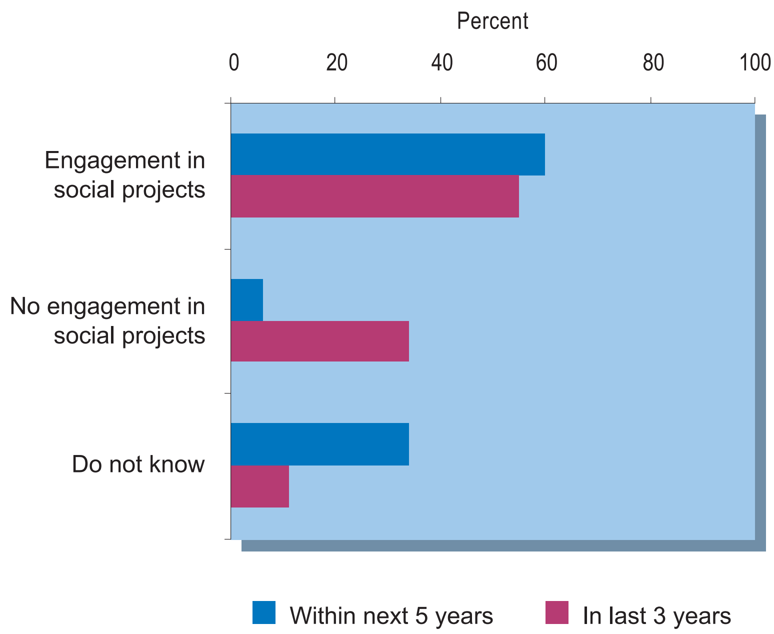
During the last three years, 55 percent of respondents engaged in social projects; 34 percent did not; and 11 percent does not know. Small and very large companies engage more in social projects and exhibit the lowest levels of unawareness.[249]

[247] 99 percent

[248] 59 percent

[249] 75 percent of small companies engage and none are unaware; 80 percent of very large companies engage and none are unaware

Figure 84 Lithuania – Present and Future Engagement in Social Projects



Companies appear very hesitant to state their plans relating to social projects for the next five years. Sixty percent of companies plan to engage in social projects;[250] while the number of companies which currently do not engage in social projects would decrease substantially, the number of those companies whose respondents do not know whether they will be engaging in social projects has increased. This phenomenon is consistent across the companies' spectrum. Despite the general planned increase in engagement in social projects, the number of small companies engaged in social projects is expected to decrease within the next five years.[251]

Lithuanian companies list the main reasons for engaging in social projects as follows: better reputation; better local community relations; survival of business in the long term; and enhanced shareholder value. Opinions are divided on reasons such as increased competitive advantage; and better employee relations. The majority of Lithuanian companies believe that the following factors do not play a role in the decision of companies to engage in social projects: building of corporate brand; compliance with legislation; access to new markets; alignment with industry trends; improved standing with government; improved management of risk; costs savings; and pressure from business partners.

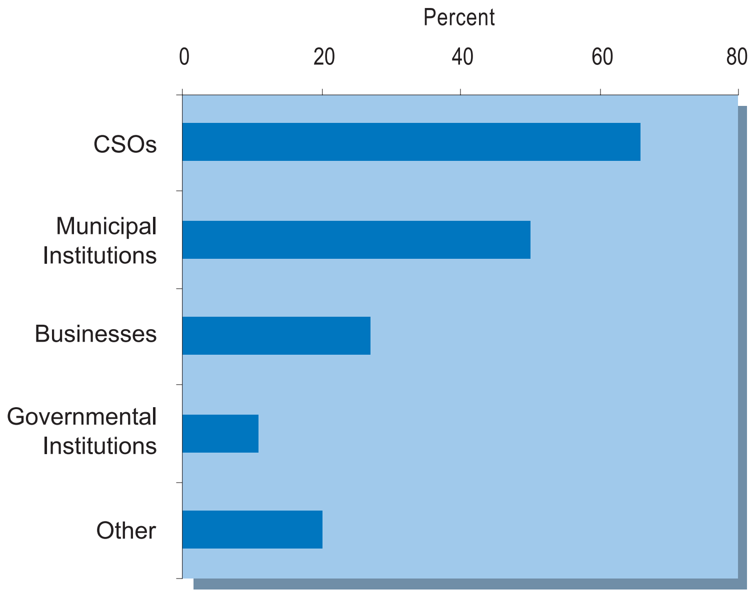
In order to implement their social projects, companies collaborate with a number of institutions that can be categorized as: CSOs; governmental institutions; municipal institutions; and other businesses.[252] Respondents add to this list educational institutions, and embassies.

[250] mere 9 percent increase

[251] From 75 percent to 50 percent

[252] Respondents were asked to select "all that apply"

Figure 85 Lithuania – Collaborating Institutions in Social Projects



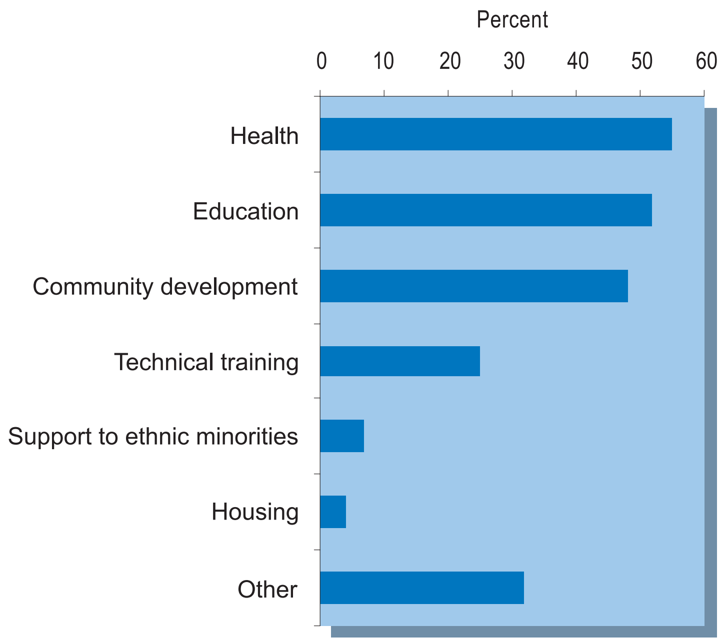
The following percentages are based on the number of companies which currently engage in social projects.

A vast majority of respondent companies collaborate with CSOs. Large companies collaborate the most with this kind of partner. Half of the companies collaborate with municipal institutions. Large companies, and probably public and semi-public; companies are most likely to work with CSOs, while medium companies collaborate less with this partner.[253] One in four respondents collaborates with other businesses. Public and semi-public companies seem most likely to dislike this type of collaboration. Only 11 percent of companies collaborate with governmental institutions.

Social projects can be implemented in a variety of areas, and can serve a variety of beneficiaries.

[253] 14 percent

Figure 86 Lithuania – Social Projects Areas

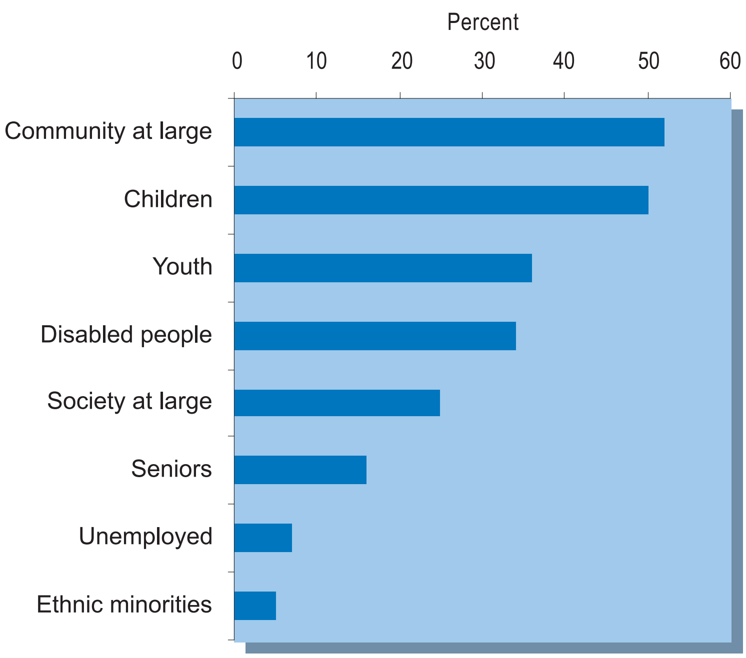


A majority of Lithuanian respondents are engaged in the health and education areas. Almost half of respondents are engaged in community development, followed by technical training, support to ethnic minorities, and housing. In addition to these areas, respondents mention areas such as children (2), sports (5), culture (3), environment (2), church (1), security (1), social aid to disadvantaged people (2), heating (1) and the disabled (1).

Percentages are consistent across the spectrum of companies. The most notable exceptions are small companies, which seem to support health projects relatively less than any other subgroups; non-financial services companies, which in comparison to other companies appear to support more housing projects but less community development projects; and very large companies, which appear to be supporting more technical training projects. Two interesting trends emerge: community development projects increase as companies become larger; and education projects increase as companies become smaller.

Within the next five years, the percentage of companies involved in social projects is expected to increase from 55 to 60 percent. The breakdown among categories of social projects is not expected to vary. The only intended changes worth noting, are an expected increase in small companies' health projects, an increase in education projects by very large companies, and an increase in community development projects by non-financial services companies. Additional areas of investment mentioned by respondents regarding the next five years are: sports (2), culture (2), children (1), drinkable water (2), the disabled (3), and social aid to disadvantaged people (2).

Figure 87 Lithuania – Social Projects Beneficiaries



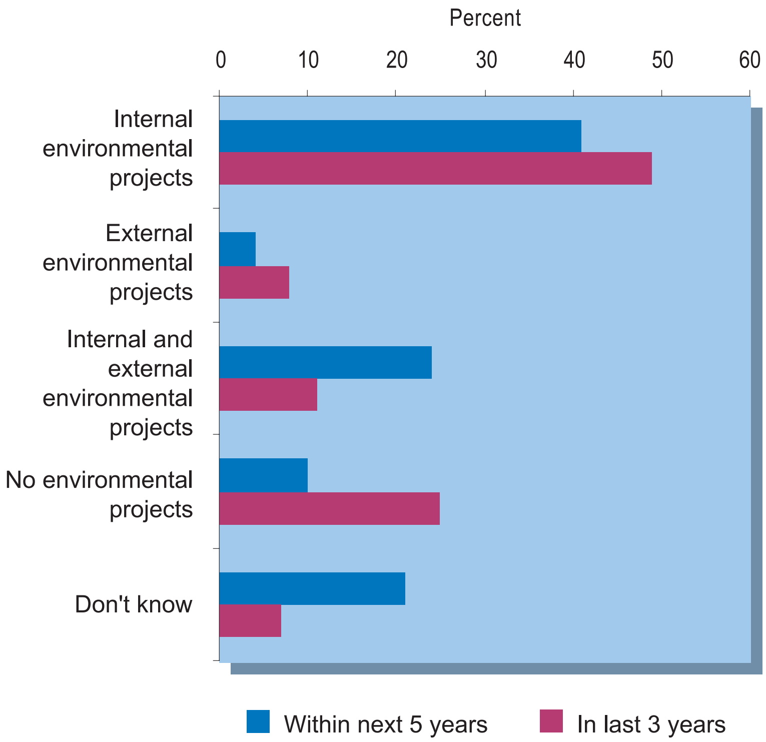
The community at large and children are the main beneficiaries of social projects in Lithuania,[254] followed by projects which benefit the youth and the disabled,[255] And projects which benefit the society at large, seniors, the unemployed, and ethnic minorities.

3.2.8 Environmental Projects

During the last three years, 68 percent of Lithuanian companies engaged in environmental projects, 25 percent did not, and 8 percent do not know. Higher percentages of companies which do not engage in environmental projects are found among small and medium companies and among non-financial services companies. Of those that engage in environmental projects, half engage in projects linked to the company's operations (internal), 8 percent in projects not linked to company's operations (external) and 11 percent in both kinds of projects. Engagement in purely internal projects increases along with a company's size.[256]

[254] 52 and 50 percent respectively
[255] 36 and 34 percent respectively
[256] Small companies, 25 percent; medium companies, 47 percent; large companies, 50 percent; very large companies, 70 percent

Figure 88 Lithuania – Present and Future Engagement in Environmental Projects



Respondent companies appear rather hesitant about their environmental projects plans for the next five years. The number of companies which plan to engage in environmental projects would remain virtually unchanged; however, there is expected to be a shift from engaging in exclusively internal and or external projects, to engagement in both. The percentage of companies which do not engage in environmental projects is expected decrease,[257] while the number of those companies which do not know whether they will be engaging in such projects is expected to increase.[258]

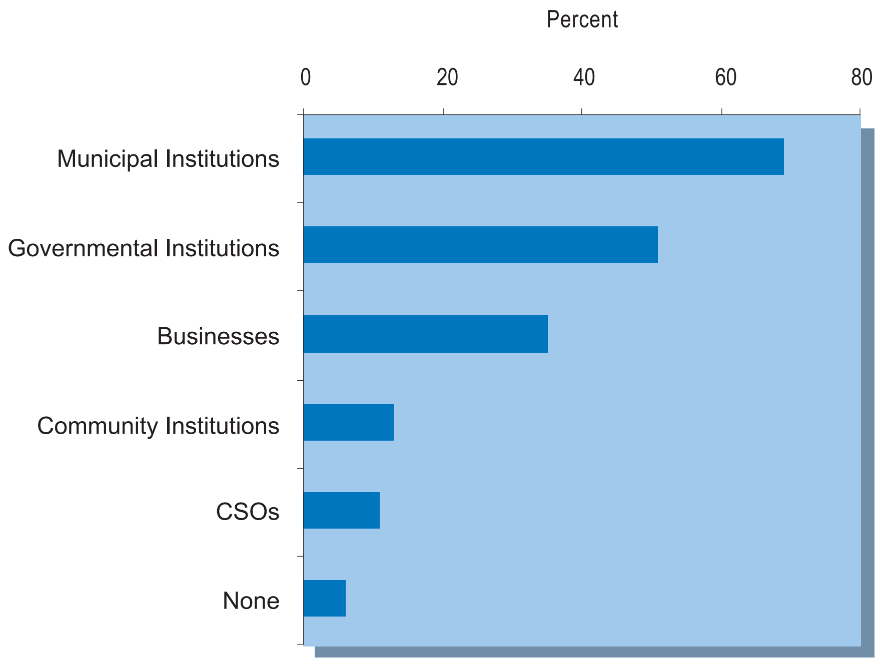
In order to implement their environmental projects, most companies collaborate with a number of institutions that can be categorized as: other businesses; municipal institutions; CSOs; governmental institutions; and community institutions.

A vast majority of respondent companies collaborate with municipal institutions. The companies which prefer this type of partner are large companies, and possibly public and semi-public companies. There is a noticeable trend relating to collaboration with municipal institutions: companies tend to collaborate more as their size increases.[259] Half of the companies collaborate with governmental institutions. Non-financial services,

[257] from 25 percent to 10 percent
[258] from 8 percent to 21 percent
[259] Small companies, 25 percent; medium companies, 55 percent; large companies, 83 percent; very large companies, 88 percent

possibly together with small companies, collaborate with these institutions the most.[260] One fourth of respondents collaborate with other businesses, and only 11 percent of companies collaborate with CSOs.

Figure 89 Lithuania – Collaborating Institutions in Environmental Projects



Activities providing education and information on environmental issues (for example, school programs, community meetings, internal training, etc.) are not very popular in Lithuania.[261] Companies which develop these activities[262] address them primarily to their employees,[263] and secondarily to management, local communities, and company owners.[264] Employees' families are the addressees of 8 percent of these activities.

Recycling programs are relatively widespread. Half of respondents have one in place. Small companies and, to a lesser extent, non-financial services companies, are behind other companies in the adoption of recycling programs. Very large companies are ahead of the other subgroups.

A large majority of Lithuanian companies[265] have no environmental certification. Of the 29 percent of companies that have an environmental certification, 66 percent

[260] 75 percent

[261] except for very large companies, 50 percent of which develop such education activities, and possibly public and semi-public companies

[262] 33 percent of respondents develop environmental education activities, 55 do not, and 13 percent do not know whether such programs exist.

[263] 77 percent

[264] Respectively, 46, 31 and 15 percent

[265] 66 percent do not have an environmental certification, 29 percent do, and 5 percent do not know

obtained an ISO 14000 certificate. The incidence of environmental certification tends to increase with companies' size.[266]

Environmental impact assessments (EIA) of companies' operations are relatively widespread in Lithuania, and are conducted by 59 percent of respondent companies.[267] Non-financial services companies, small, and medium companies conduct fewer than the average number of EIAs. The incidence of EIAs tends to increase with companies' size.[268]

3.2.9 Benefits from Adopting CSR Practices

Lithuanian respondents list the greatest internal benefits deriving from CSR practices as follows: business sustainability; competitive advantage; easier compliance with legislation; employee loyalty; attraction and retention of qualified employees; increase in productivity, quality and sales; financial improvement and access to capital; and reduction of costs. Nine percent of respondents believe that there are no internal benefits to be derived from the adoption of CSR practices. Percentages are consistent across the spectrum of companies. The only exceptions are respondents from very large companies and, to a lesser extent, small companies, which believe more strongly in the value CSR brings in terms of business sustainability;[269] and respondents from non-financial services companies, which are the most skeptical about the sustainability benefit and the most positive about the benefit of attraction and retention of qualified employees.

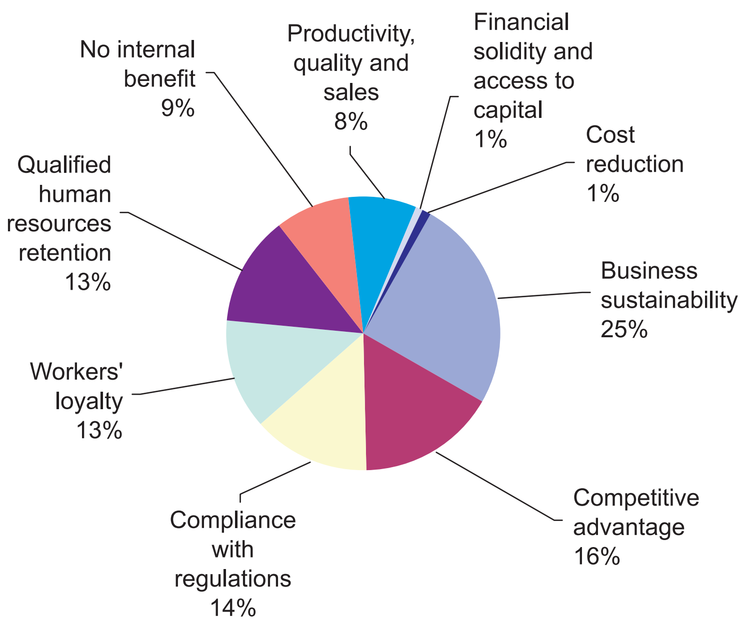
[266] Regarding ISO 14000: small companies, 0 percent; medium companies, 13 percent; large companies, 27 percent; very large companies, 30 percent

[267] 36 percent do not, and 5 percent do not know whether EIAs are conducted in their companies.

[268] small companies, 25 percent; medium companies, 44 percent; large companies, 77 percent; very large companies, 80 percent

[269] 50 and 38 percent respectively (companies' average is 35 percent)

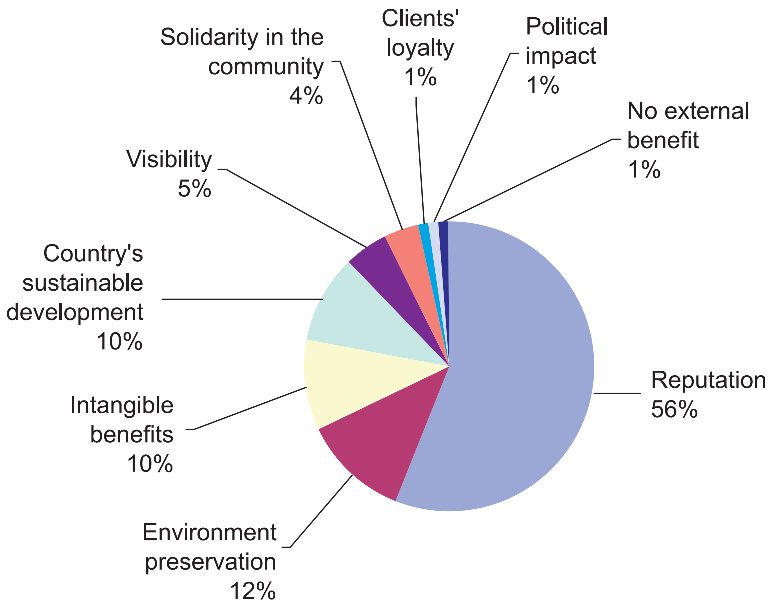
Figure 90 Lithuania – Internal Benefits from Adopting CSR Practices



Lithuanian respondent companies list the greatest external benefits deriving from CSR practices as follows: improved image and reputation; preservation of the environment; intangible benefits; contribution to Lithuania's sustainable development; increased visibility; promotion of solidarity in the community; clients' loyalty; and political impact (support from authorities and relationship). Virtually all respondents see external benefits deriving from CSR practices. It is interesting to note that very large companies are less enthusiastic than other subgroups about the improvement of image and reputation, and the preservation of the environment derived from CSR practices.[270]

[270] Only 30 percent of very large companies see the improvement of image and reputation as the greatest benefit derived from CSR practices. None see the preservation of the environment as a CSR-related benefit.

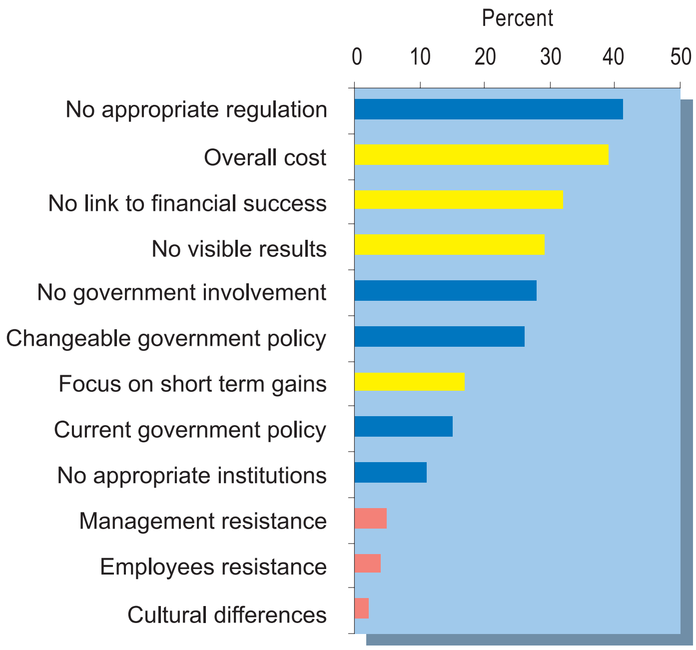
Figure 91 Lithuania – External Benefits from Adopting CSR Practices



3.2.10 Barriers and Risks of Adopting CSR Practices

Lithuanian respondents were asked about the main barriers to the broader adoption of CSR practices. Possible responses can be divided into three main types of barriers to the adoption of CSR practices: financial, government and institutions related, and human resources related.

Figure 92 Lithuania – Barriers to Adopting CSR Practices



According to Lithuanian respondents, the first and highest barrier to CSR practices is of a government related nature—the lack of appropriate regulation—followed a mix of financial and government related barriers, including: overall costs; lack of direct impact on financial success; lack of visible results; lack of government involvement; apprehension regarding government change of policy; excessive focus on short-term gains; current government policy; and lack of appropriate institutions. Barriers related to human resources, such as management resistance, cultural differences and employee resistance, come last. In addition to these barriers, respondents mention that a certain development level is needed before CSR practices can effectively grow, and Lithuania has not reached that level yet; very high taxes and unjustified inspections are an obstacle to CSR practices; there is a contraposition between current government policy (i.e. polluter pays) and the legislative framework which does not encourage the preservation of the environment; and, finally, that everyday economic concerns are an obstacle to the due consideration and implementation of CSR practices.

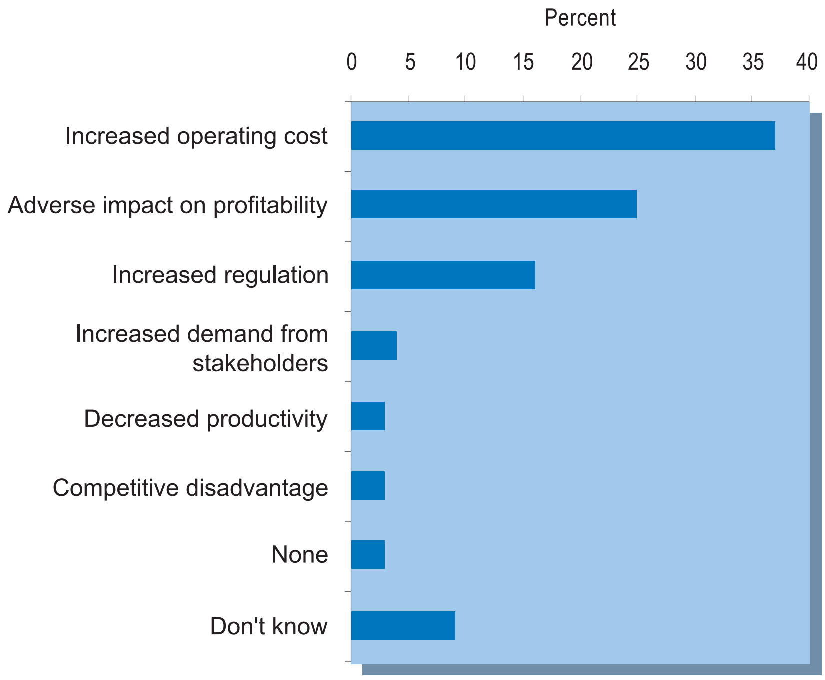
A few observations about barriers can be made. As companies become larger, excessive focus on short term gains becomes a higher barrier to CSR practices,[271] but overall cost becomes a lower barrier.[272] Non-financial services companies, more than other subgroups, consider the lack of government involvement a high barrier.[273]

[271] Small companies, 13 percent; medium companies, 13 percent; large companies, 20 percent; very large companies 30 percent

[272] Small companies, 50 percent; medium companies, 41 percent; large companies, 37 percent; very large companies 30 percent

[273] 42 percent

Figure 93 Lithuania – Risks in Adopting CSR Practices



The main perceived risk in adopting CSR practices is the increase in operating costs, followed in order of magnitude of perceived risk, by: adverse impact on profitability; increased intervention from regulatory bodies; increased demands from interested stakeholders; decreased productivity; and competitive disadvantage. None of the respondents believes that the impact of CSR practices on the quality of goods and services is a main risk. Only 3 percent of respondents believe there are no risks. Percentages are consistent across the spectrum of companies. The main exception relates to small and very large companies which have opposite views on the operating cost risk.[274]

3.2.11 Supporting CSR Practices, Improving them and Making them More Relevant

Support from Governments, CSOs and Others

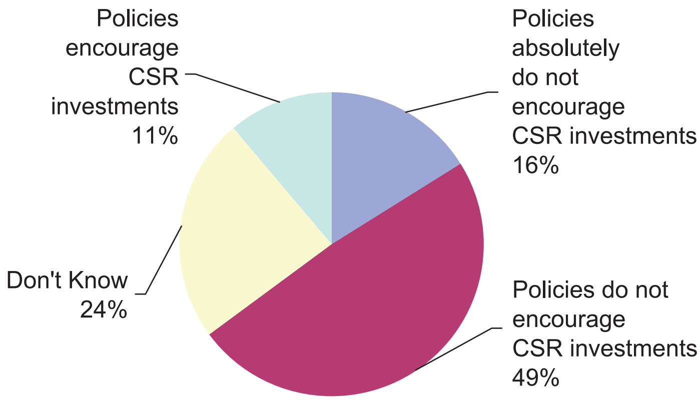
When asked about the government's role in helping companies meet their social responsibilities, the majority of Lithuanian companies respond that the government is helpful.[275] Non-financial services companies, medium companies and possibly public and semi-public companies are the most positive about the government's support to CSR practices.[276] Despite these answers, only 11 percent of respondents believe that government policies encourage CSR practices.

[274] 88 percent of small companies believe the increase of operating costs is the main risk in adopting CSR practices, while only 20 percent of very large companies believe this (companies' average is 38 percent)

[275] 21 percent believe the government helps somewhat; and 46 percent that the government helps a great deal. Only one third of respondents think that the government does not help much or at all

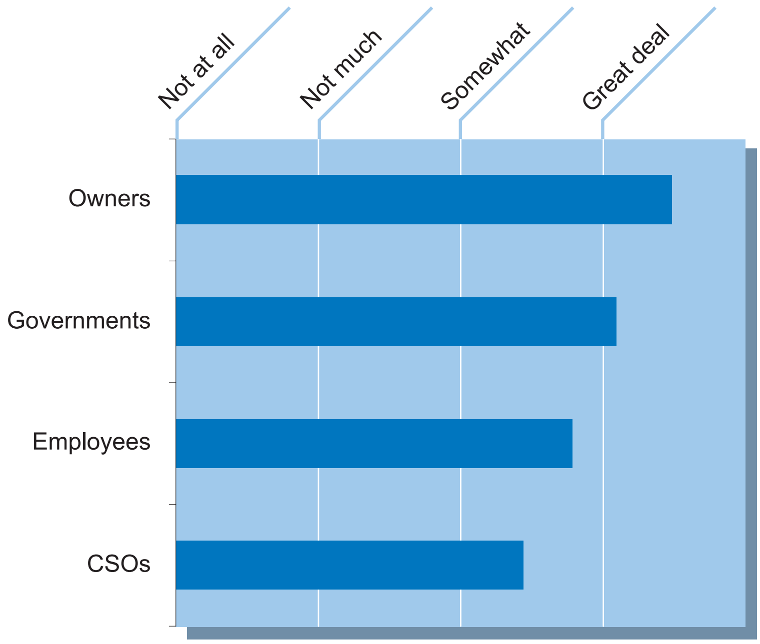
[276] Respectively, 55 , 55, 100 and 100 percent

Figure 94 Lithuania – Government Policies' Impact on Investment in CSR



The large majority of Lithuanian respondents think that the Lithuanian government's policies do not encourage companies to invest in socially responsible activities.[277] One quarter of respondents are unsure about the role of government's policies in investment in CSR, and only 11 percent believe these policies encourage investment in CSR[278]. Percentages are consistent across the spectrum of companies, except for percentages concerning semi-public companies.[279]

Figure 95 Lithuania – Support for CSR from Government, CSOs, Owners and Employees



[277] 65 percent (i.e. 49 percent for which policies do not encourage CSR investments + 16 percent for which policies absolutely do not encourage CRS investments)

[278] no company strongly believes this

[279] 80 percent agree that government policies encourage companies' investments in CSR

Owners are given the most credit for helping respondent companies meet their social responsibilities. A third of respondents believe owners are helpful, and half believe that they are very helpful.[280] Non-financial services are the most positive about owners' role in helping companies implement CSR policies.

After the government, employees are seen as most useful to the implementation of CSR practices. Fifty-six percent of respondents believe employees are helpful; ten percent believe that they are very helpful.[281] Percentages are consistent across the spectrum of companies.

In Lithuania, the role of CSOs in helping companies implement CSR practices is not perceived as very important. Sixty-one percent of respondent companies believe CSOs do not help them implement CSR practices.[282] Percentages are essentially consistent across the spectrum of companies.

Improving CSR Practices

Lithuanian companies were asked about the actions which would assist them in improving their CSR practices.[283] On the financial front, respondents believe tax incentives,[284] and, to a lesser extent, empowerment of local governments to decide on tax exemptions,[285] are paramount to improving CSR practices.[286] On the non-financial front, respondent companies indicate a need for reforms in labor laws, recognition, guidelines, government intervention and dialogue.

[280] only 12 percent believe owners do not help (much or at all)

[281] 35 percent believe that employees do not help (much or at all)

[282] 51 percent not much, and 10 percent not at all

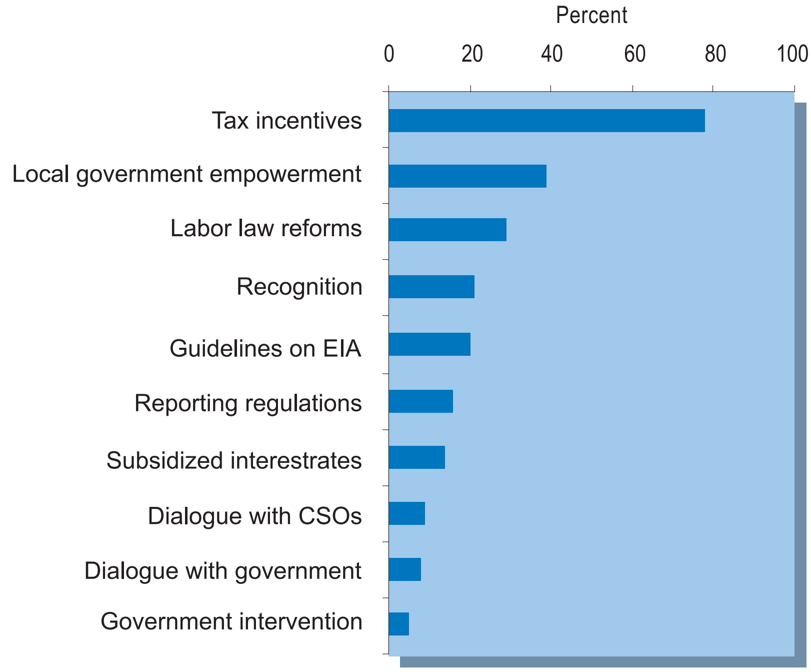
[283] companies were asked to select "all that apply"

[284] 78 percent

[285] 39 percent

[286] the third financial measure (subsidized interest rates) is considered to be significantly less important than the first two

Figure 96 Lithuania – Actions that Improve CSR Practices



Government intervention, in terms of reform of labor laws, is considered an important element in the improvement of CSR practices by 29 percent of respondents. Company recognition is thought to be an important element by 21 percent of respondents. Guidelines on EIA or on the presentation of social and environmental performance in annual reports would improve CSR practices for 20 percent and 16 percent of respondents respectively. Dialogue with CSOs and, less significantly, with the Lithuanian government, would help improve CSR practices according to 9 percent and 8 percent of respondents respectively. Finally, only 5 percent of respondents consider government intervention as important to the improvement of CSR practices.

These percentages are relatively consistent across all subgroups. The only exceptions are small companies which are very hopeful about local government empowerment in helping them improve their CSR practices;[287] and non-financial services companies, which believe more than other companies that tax incentives and recognition would assist in improving CSR practices.[288]

Making CSR Practices More Relevant

A large majority of Lithuanian companies[289] believe that sharing information, discussing, collaborating and negotiating with different stakeholders would make their

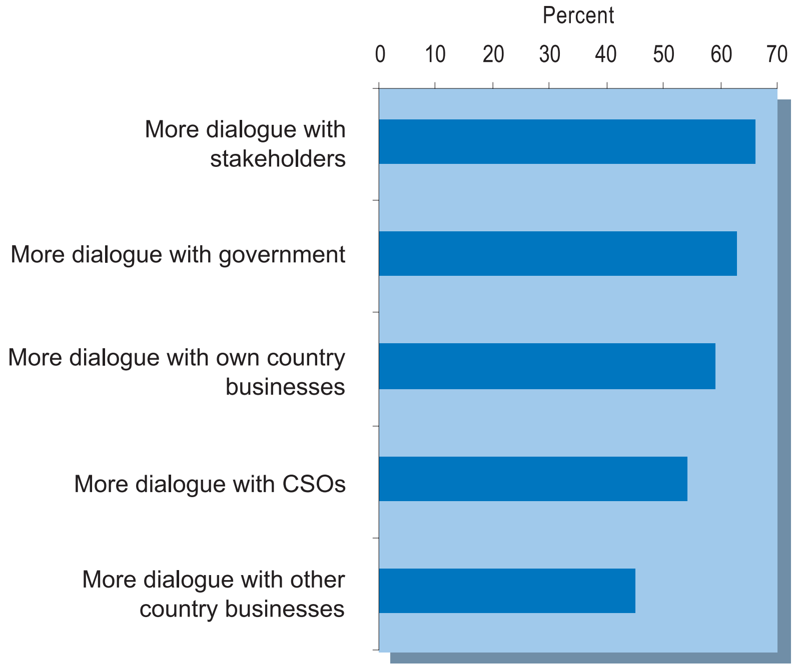
[287] 75 percent (companies' average is 39 percent)

[288] 92 and 42 percent respectively (companies' averages are 78 and 29 percent respectively)

[289] at least 66 percent

CSR practices more relevant. Sixty-six percent of respondents would like to entertain more dialogue with all stakeholders, 63 percent with the Lithuanian government, and 59 percent with other businesses in Lithuania, 54 percent with CSOs, and 45 percent with businesses in other countries.

Figure 97 Lithuania – Dialogue that Makes CSR Practices More Relevant



It is interesting to note that small companies are the most convinced about the positive impact of increased dialogue on the relevance of their CSR practices.

Conclusions

The aggregated results of the country-by-country surveys of firms in the Baltic countries indicate that their attitudes concerning the role of the company in society and the concept of socially responsible behavior are largely similar.

As illustrated by the information in Chapter 1, there is a general convergence of views on the most important factors encompassed by the term "CSR" (as shown in Figure 2); namely, that CSR involves behaving ethically, assuring environmental protection, addressing stakeholders' concerns, and being transparent. Equally important is the shared attitude concerning what does not constitute CSR (correcting social inequalities, public relations, establishing simple stakeholder partnerships, and simply following regulations).

As a corollary, there is a convergence of attitudes concerning the appropriate role of the firm in the society/economy (making profits, providing good jobs and being a good corporate citizen, following regulations and paying taxes; Figure 4) and what **is not** a reasonable role for firms to play (simply contributing to charities, creating jobs for the sake of making more work).

Moreover, while there is some divergence in the perceptions of company executives as to the most important barriers to adopting socially responsible practices (even though its "cost" is a shared first placed barrier; Figures 10 and 11), there is no divergence on the least important impediments. The view appears to be that whatever other impediments exist, cultural differences and the resistance of managers and employees to behaving in a more socially responsible manner are not significant factors.

Similarly, adopting CSR is not seen as risk for maintaining quality and productivity among workers. These are promising results, indicating openness on the part of managers, owners, and employees to learning, two-way communications, and achieving negotiated outcomes.

Finally, there is a strong convergence of views on the actions that could promote greater adoption of CSR measures by firms, (Figure 14) including incentives that help overcome costs, empowering local governments (not national governments) to help address issues, and providing national recognition[290] when good CSR practices are identified.

Equally important, there are shared views on what actions would be of **lower priority** in stimulating the adoption of CSR; namely, monetary policy (interest rate subsidies)

[290] This may include publicity, national labelling, authorized branding, etc.

and direct national government intervention. There is also almost a universally shared view that governments have not had adequate policies for encouraging investments to introduce CSR behaviors (Figure 13).

Table 1 summarizes the findings of the survey as they relate to the meaning of CSR, role of the firm, the impediments to adopting CSR behaviors and business' view on measures to promote CSR.

These attitudes and perceptions are, no doubt, strongly influenced by the social and economic structures of the states themselves. These economies are small, relatively prosperous, and dominated by small and medium enterprises (firms of 250 employees or fewer). Firms are largely financed and owned by national interests and concentrated in the service sectors. This implies that the social distance between the owners of firms, their clients or customers, and their communities (via the labor force) is relatively close.

Table 2 summarizes key features of the Baltic economies.

Taken together, the results of the survey and an understanding of the socio-economic context surrounding the respondents create an image of a corporate sector that sees itself as market-oriented and open to competition. It sees its logical role as one that is economic and rational, not essentially social or altruistic. It believes that it is pre-disposed to act in a socially responsible manner, and may already be doing so, but lacking economic incentives to go further.

It considers that decisions to engage in CSR activities are voluntary, but feels that a more conducive environment could be created by government and other stakeholders to stimulate further engagement.[291] This viewpoint is also common among companies in other countries of the European Union, and North America.

While it believes that there are not sufficiently clear policies covering CSR, it prefers incentives and relations with local jurisdictions to influence its behavior, rather than regulation, central government participation and/or management, and believes that under these circumstances it would embrace new business models and modes of behavior. So encouraged, adopting CSR would present relatively few risks.

[291] Based on the international evidence companies developed a broad array of tools for improving their social and environmental responsibility, the most commonly used are: aspirational principles and codes of practice; guidelines for management systems and certification schemes; rating indices typically used by socially responsible investment agencies; and accountability and reporting frameworks.

Table 1. Meaning and Incentives for CSR[292], Comparison between Baltic countries, and Poland

Area of Focus	Baltic countries (aggregated results)	Poland	Shared Views
I. MEANING OF CSR			
First	Ethical conduct	Ethical conduct	1
First 3	Ethical conduct Environmental protection Addressing stakeholder concerns	Ethical conduct Transparency in operations Compliance with regulations	1
First 5	*First 3 plus* Transparency in operations Compliance with regulations	*First 3 plus* Stakeholder partnership Environmental protection	3
Last 3	Public relations Correcting social inequities Stakeholder partnerships	Addressing stakeholder concerns Public relations Correcting social inequalities	2
II. ROLE OF COMPANY			
First	Making profit	Complying with regulations	0
First 3	Making profit Ensuring job security Complying with regulations	Complying with regulations Never using child labor Making a profit	2
First 5	*First 3 plus* Paying taxes Protecting employees health	*First 3 plus* Paying taxes Protecting the environment	3
Last 3	Contributing to charity Creating jobs Listening to stakeholders	Contributing to charities Ensuring job security Creating jobs	2
III. BARRIER TO ADOPTION			
First	Overall cost	No appropriate regulation	0
First 3	Overall cost No link to financial success Focus on short-term gain	No appropriate regulation Overall cost No link to financial success	1

[292] *Private Sector Perceptions Towards CRS in Latvia, Estonia and Lithuania*; Survey of firms, Estonia, 80, Latvia, 83; Lithuania, 80; consisting of 36 multiple-choice questions; and *Private Sector Perceptions Towards CSR in Poland*, Survey of 150 firms, consisting of same 36 multiple-choice questions.

First 5	*First 3 plus* No visible result No government involvement	*First 3 plus* No government involvement Focus on short-term gains	3
Last 3	Cultural differences Management resistance Employee resistance	Cultural differences Management resistance Employee resistance	3
IV. ACTIONS TO IMPROVE ADOPTION			
First	Tax incentives	Labor law reform	0
First 3	Tax incentives Local government empowerment Recognition	Labor law reform Subsidize interest rates Dialogue with government	0
First 5	*First 3 plus* Guidance on Environmental Impact Assessment Reporting regulations	*First 3 plus* Recognition Local government empowerment	2
Last 3	Government intervention Subsidized interest rates Dialogue with government	Tax incentives Government intervention Guidelines on Environmental Impact Assessment	1

Options for Policy Supporting CSR in the Baltic countries

To date, most of the development and applications of CSR behavior in the Baltic countries have originated with private companies, often multinationals which are expanding their operations, consistent with their own best strategic interests.

Many companies which have been sensitive to their employees', customers' and communities' desires and perceptions have found a compelling business case accommodating these desires and perceptions, beyond strictly legal and regulatory requirements. In most cases, as well, governments have generally seen that CSR can serve societies interests, and have been satisfied that lead companies are aligning themselves with business practices under the pressure of the "market".

Consequently, they appear to have been satisfied with a policy, implicitly, of remaining aware and sometimes endorsing private-led initiatives while monitoring and enforcing compliance with regulations, without an explicit policy to broaden or promote CSR. This has been a relatively passive or disengaged policy stance, and has served countries with vibrant formal business sectors relatively well to date.

However, from the evidence gathered, it is clear that firms in the Baltic countries would welcome clarity of government policy regarding the promotion of CSR. Given the context and the attitudes of firms (attitudes of consumers and other stakeholders are not known at the present time), a **policy for promoting CSR** might be formulated through a "decentralized" approach; that is one of achieving national goals for CSR by focusing on a local and community-based definition of issues, negotiations to find local solutions to essentially local problems, and meeting national goals for CSR by aggregation ("bottom-up" approach).

Implementation of such a policy would require staffing the organization that supports a decentralized approach and configuring regulations to empowered local institutions and agencies to take initiatives, with accountabilities assigned to local institutions and entities. The role of the national government would be, therefore, more as a moderator, facilitator, and guide rather than as a strong leader.

However, as appealing as such an approach might appear, Governments in the Baltic countries will face additional issues as they become more integrated into the EU.

For instance, companies exporting within and to the EU and those whose countries have become EU members have been hard-pressed to comply with an array of European environmental and social norms that are much stricter than those they have typically faced at home. As the leading companies from the Baltic countries become more integrated into the EU they will face this challenge as well.

What elements of CSR could have occurred "naturally" under "social incentives" when small and medium enterprises operated close to their communities and customers, may have to become the subject of regulation when the scale of operations increases, the distance between firm and consumer is greater, and the social distance between business leaders and the communities they serve increases.

Many Baltic countries' enterprises are meeting these standards. However, the governments of Latvia, Lithuania, and Estonia would have to address the question of how companies that have not met the EU standards may be guided to do so, especially as economic and social integration matures.

Governments could be interested, therefore, to modify old institutional arrangements and introduce new ones to promote CSR.[293] Governments apart from traditional tolls such as regulation and enforcement could also consider wider use of approaches such as partnerships with the private sector, and endorsement of good private sector practices or initiatives. Making, when appropriate, the transformation form a strict "regulate and enforce" to a "facilitate and verify" situation would, however, require clarification of policy and expectations of behavior, and the creation of supporting institutional agreements.[294]

[293] Policymakers have access to a vast array of international experience and case studies on the CSR process used by particular industries and firms. Governments could apply this evidence to their CSR policy by considering three closely related questions: In which areas are actions likely to do most serve the public interest?, What type of policy instrument would best promote such actions?, and where policy should be targeted?.

[294] The experience from developed countries both from Europe and North America suggests that public agencies could stimulate this change firstly by providing resources for research, collecting and disseminating information on best practices, and raising awareness. Public bodies could also support appropriate management tools and mechanisms, including for instance voluntary labeling schemes, benchmarks, and guidelines for company management and reporting systems. They could also stimulate the change by creating incentives and by applying their procurement and investment leverage. They could also partner/support private sector initiatives.

Contrasting Case

The policy, which heretofore may have been appropriate for the small Baltic countries with their unique characteristics, might not be fully suitable for larger states. Poland is a good example that illustrates this point.

The Polish economy is many times larger than that of any of the Baltic countries and has an industrial structure that still includes a substantial number of public-owned companies; containing larger-scale enterprises, with a higher percentage of international financial interest and serving largely internal markets.

Table 2. Comparison of Industrial Structure[295]; Baltic countries and Poland

Feature	Estonia	Lithuania	Latvia	Poland
Population (millions)	1.4	3.5	2.3	38.2
GDP/Capita (US$)	5,380	4,500	4,400	5,280
Value Added to GDP by Sector (%)				
Agriculture	4.5	7.3	4.5	3.1
Industry	28.5	33.8	24.4	30.7
Services	67	59	71	66.1
Exports as % of GDP	75	54	47	21

A sample of Polish firms was also surveyed using the same questionnaire as applied in the case of the Baltic countries. Table 1 summarizes the findings for Poland and illustrates similarities and differences with the attitudes of firms in Estonia, Latvia, and Lithuania.

In many respects Polish and Baltic firms appear to share views on the meaning of CSR. Firms in Estonia, Lithuania, Latvia, and Poland identify "ethical conduct" as the cornerstone. Also, they share three of the five main concepts underlying CSR and agree on two of three concepts that **are not** CSR. Although less striking, there is also a harmony of views about what is an appropriate role of firms in acting in a socially responsible manner, as well as what is not required of firms.

In contrast, there is much less agreement on what are impediments to adopting CSR, although there appears to be similar views as to what is not an impediment (the attitudes of managers and employees, and local culture).

Finally there is virtually no agreement on measures that could promote CSR. Where the perceptions in the Baltic countries is that local initiatives motivated by some incentives and recognition would be the most appropriate, Polish firms identify macro- and national-level factors as the most promising (regulatory reform, national dialogue

[295] Sources: World Bank, Country Data Profiles, derived from *World Development Indicators database, April 2005.*

with government, banking measures). The two agree on only two of the five highest priority actions that could be taken. Moreover, there is agreement on only one of the three low-priority actions to be taken; namely that governments should not become heavily or directly involved in managing business issues.

A policy for Poland, and presumably other large states, may depend on macro-level reform, national dialogue, and standardized codes of behavior, among others, as these would be appropriate for the scale and ownership of the industrial sector.

Policy Challenge

The challenge facing governments in the Baltic countries, therefore, would be to accede to the maximum degree possible to the perceptions of the business sector, and voluntary character of CSR, and build on these, while recognizing that their obligations to meet European environmental and social standards, and dependency on exports as the "economic driver" set demands that may be sometimes contrary to these perceptions.

This would require a new consultative process between business, other stakeholders who businesses themselves have identified as consumers/communities, and national governments.[296] Various modalities can be envisaged to organize and conduct such tripartite consultations, but with a common feature that there be a neutral forum and sponsorship, a commitment to follow-through on actions, and agreement on institutional arrangements that sustain monitoring and verification that agreed measures are being followed.

[296] There is no blueprint for such a process to be applicable in all those countries; however there are a number of local initiatives that could serve as an example. One of them is a process of including a CSR component in the Polish National Development Strategy 2006-2013. The Ministry of Economy and Labor, a number of business associations, and civil society organizations (with a leading role of the Responsible Business Forum) decided to jointly come up with a proposal to be included in the strategy. A number of meetings among main stakeholders led to establishing thematic groups that are supposed to provide concrete inputs to the strategy. Another example comes from Lithuania where the government, the local office of UNDP, and the Association of Lithuanian Investors' Forum, with support from the World Bank, started in 2004 a process of promoting CSR standards among local companies.