

Corporate Social Responsibility and Creating Shared Value: Case of Latvia

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Abstract—Creating shared value (CSV) is a newly introduced concept whose essence and expressions, relationship to Corporate social responsibility (CSR) and implications for the business and society is now at the core of management and social responsibility debates of the scientific world. The aim of the paper is to gain clearer understanding of the CSR and CSV concepts, their implementation and role in sustainable development of organizations in Latvia. In this paper the authors discuss and compare the two concepts and, based on the results of Sustainability Index (SI) initiative and analysis of publically available company information, evaluate their implementation in Latvia and draw conclusions on the development trends and potential of these approaches in Latvian market.

Keywords—Corporate Social Responsibility, Creating Shared Value, Sustainability Index.

I. INTRODUCTION

Corporate social responsibility is no longer just a trendy new concept that looks good when attached to the company profile. Over the past decade or so companies worldwide have been recognizing the importance of socially responsible business conduct and the impact it has on their reputation, performance and results. Undoubtedly, the numerous corporate scandals tearing up the business world have contributed to this, but the fact remains – *corporate social responsibility* (CSR) is gaining its clout in the business, and it is here to stay.

More and more companies across the globe are incorporating CSR in their daily activity and also taking on extra-curricular activities to “give back” to the society. Still others build their business around the concept of corporate social responsibility. In either case, CSR has become more than just a section on company’s website or a public relations activity; it is now an integral ingredient in companies’ efforts to ensure sustainable development.

The same is true for Latvia as well. Despite the uneasy economic environment, companies here are constantly increasing their efforts in the domain of social responsibility. In part this can be attributed to the fact that many of the larger organizations in Latvia are subsidiaries of international companies that are simply following the CSR policies of their mother company in every market they operate. However, even smaller local companies are often not indifferent to social responsibility issues.

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Just recently a new approach to socially responsible business practices has been introduced – the concept of *creating shared value* (CSV), which implies creating economical value while simultaneously creating value for the society. It is a new, challenging view on the social and business issues and the connection between the two. Companies worldwide are starting to look into the concept and try to adjust their organization to embrace the idea. Yet the question remains open – how does CSV really differ from CSR? Is it a completely novel idea, as M.E. Porter and M.R. Kramer argue, or is it just a “lemon-flavoured” view on CSR? How do the business concept, attitudes and activities of a ‘CSV company’ differ from those of a ‘CSR company’?

In this paper the authors discuss and compare the concepts of corporate social responsibility and creating shared value and evaluate the understanding and development potential of these concepts in Latvian market as well as their role in sustainable development of a company. The analysis is based on the publically available company data and the results of the *Sustainability Index* (SI) initiative in Latvia.

II. CORPORATE SOCIAL RESPONSIBILITY

The notion of corporate social responsibility entered the world of business around 1960s, when, responding to public criticism, companies started social responsibility programs, defined their values and advertised these programs and the benefits they brought to society.

However, J.J. Asongu, the president of the African Policy Institute, says the notion of CSR has been known to people for longer than that. Evidence of CSR can be found as long ago as around 1700 BC, when King of Ancient Mesopotamia implemented a code of behaviour for builders, innkeepers and farmers, emphasizing their responsibility to respect and not disturb citizens or do any harm by their actions [1].

Over the time, CSR has been described in numerous ways as business ethics, business responsibility, corporate citizenship, manifestation of corporate philanthropy, etc. [1], [2]. Corporate responsibility and social responsibility are other terms often used when speaking of CSR. The scope and meaning of CSR has been rather broad and constantly changing to incorporate new elements and better portray the viewpoints of specific companies. Hence, the understanding and definitions of CSR vary greatly.

To better understand the concept of CSR, it is important to clarify what does “corporation” and “social responsibility” mean. As A. Crane and D. Matten point out, a *corporation* essentially is a separate entity in its own right. This is defined by two attributes – a corporation can exist independently of any individual investors, employees or customers (as long as they can find new ones) and it owns the assets associated with the corporation (i.e., factories, offices, computers, machines and other assets belong to corporation and not the shareholders) [2].

International standard ISO 26000:2010, Guidance on social responsibility, defines *social responsibility* as responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that [3]:

- contributes to sustainable development, including health and welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour; and
- is integrated throughout the organization and practised in its relationships.

Thus, we can speak of social responsibility as attitudes and behaviour that are ethical and sensitive to social, cultural, economic and environmental issues. In the business context this means acting so as to respect and contribute to the needs and welfare of the community in which the company operates [2].

There are many dimensions to CSR – giving rise to different views and interpretations. The most common – and very simplified view of CSR is that of corporate philanthropy, charity and sponsorships [4]. Yet this is a narrow interpretation of the notion, reducing CSR to a transaction level where business is quite literally “paying back” the society. The reasons behind this transaction can range from purely ethical concerns and desire to help society develop to “making it up” for some environmental damage and polishing up company reputation [5].

However, CSR is more than that; philanthropy is just one aspect of it. J.J. Asongu outlines Wikipedia’s definition of CSR as the most successful one, describing CSR as “a concept that organizations, especially (but not only) corporations, have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations” [1]. Similarly, B. Louge and J. Wallace recognize the stakeholder theory as the cornerstone of CSR concept, since “CSR urges companies to identify all their important stakeholder groups and seek to “balance” the priorities and goals of each of these groups” [6]. J. Moon, S. Anastasiadis and F. Viganó consider CSR “a promising concept in this respect, because it is about beyond-compliance contributions of companies to social, environmental and ethical concerns” [7] while A.B. Carroll and A.K. Buchholtz underline the various dimensions of CSR, as it “includes the economic, legal, ethical and philanthropic expectations placed on organizations by society at a given point in time” [8].

D. Minor and J. Morgan put CSR in simpler terms, when outlining the connection of CSR strategy and company reputation. They view the philosophy of CSR as visible “doing good” activities and less visible dimension of CSR as “not doing harm” [9].

There are countless definitions of CSR, but the emphasis of those lies with the consideration of various stakeholder groups and different levels and aspects of corporation’s impact on society. Given this, CSR can be defined as corporation’s voluntary day-to-day activities that are focused on creating a

positive social, environmental, and mutual economic impact while considering the interests of all stakeholder groups. Hence, companies that successfully implement CSR should have a positive effect on their stakeholder groups – along several dimensions. Despite the development of CSR concept over the time, there are still discussions of what really counts as socially responsible activity and makes a company a “CSR company” [4]. As much as some companies would like to, simple donations, sponsorships or supporting a charity is just not enough to call oneself a ‘CSR company’.

Even more heated is the debate regarding the corporate social responsibility of companies producing clearly harmful goods such as tobacco or alcohol. Can they be regarded as CSR companies for, e.g., their efforts to reduce smoking outspread among youth? Or is just plain quitting the business altogether the only way for these companies to be socially responsible?

Still another question open for debate is the motivation behind the organizations embracing CSR. As we already mentioned, the reasons for undertaking CSR activities can vary from pure self-interest (e.g., profits) and self-preservation needs to simple humane desire to do good and help the society. The question remains – what *should* be driving the social responsibility of corporations? Is creating value for the company the main driver, or is it the value created for the society?

This is where shared value creation concept comes into play.

III. CREATING SHARED VALUE

Creating shared value (CSV) is a rather novel concept that argues the societal progress is at the heart of a company’s economic success, and tending to society’s issues holds ample opportunities for improved competitiveness and value creation of the organization.

M.E. Porter and M.R. Kramer first touched upon CSV in 2009, followed up with their 2011 Harvard Business Review article “Creating Shared Value How to reinvent capitalism – and unleash a wave of innovation and growth” [10]. At this time there were already several companies, such as Nestlé and Unilever, who had been successfully incorporating and implementing this approach in their business models. In fact, we might even assume it was the impact of this differentiated approach at Nestlé and other CSV-focused companies that led to the research and development of the concept of creating shared value.

Given the short history of the concept, there is not much research on CSV available, thus the current understanding of the concept is greatly based on the work of M.E. Porter and M.R. Kramer.

According to M.E. Porter and M.R. Kramer, shared value creation is a way of re-connecting a company with the society it is embedded in, through identifying and expanding the connections between societal and economic progress [10]. This means recognizing societal needs not exclusively as a burden on the business that only brings higher costs, but as a way to improve business performance while creating added value for the society as well.

Thus, CSV is a way of doing business that considers the society and environment not just as external settings that a company is operating in, but as an integral part of the business. Thinking of how to improve society's wellbeing becomes a step in thinking of how to achieve better business results.

A "CSV company" no longer thinks of profitability only, but rather focuses on achieving sustainable competitiveness through simultaneously delivering positive impact on society and environment. The activities should thus be based on *long-term* investment in the company competitiveness and social/environmental objectives [10], [11]. Profits become a function of advancing society development and delivering a product required by that same society.

Another key characteristic of the CSV approach is the *creation* of value – it aims to increase the pie rather than simply change the size of slices within the existing pie. M.E. Porter and M.R. Kramer give an example of the profits of farmers – while free trade initiative focuses simply on increasing the amount paid to farmers, the CSV approach would consider ways to help farmers achieve higher productivity and quality of their crops. The farmers would then be paid more because of their larger crops of higher quality, which in turn allow for a higher quality end product – all in all creating more value than before [10]. This way CSV bears similarities with delivering additional quality, which is "the focus of total quality management" [12].

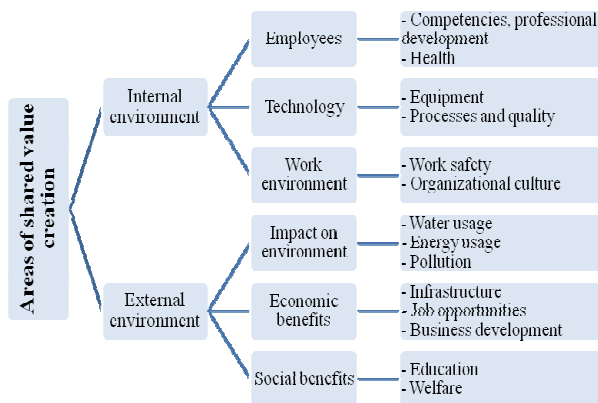


Fig. 1 Company's shared value scope [created by authors]

The ways of creating shared value include re-conceiving products and markets, redefining value chains or strengthening local clusters to create the shared value [10]. This means the scope of shared value creation covers both internal and external environment of a company. The potential areas of shared value creation are depicted in Figure 1.

This list is not exhaustive and can clearly be expanded further, including, for example, personal development of employees. Also, even though here we separate areas of impact into the internal and external environment, the borders are not so strictly cut – e.g., introducing an innovative technology that allows reducing water usage in production processes creates additional value in both the internal and external environments.

Moreover, the relationships between the listed areas and elements do not stop at delivering the value created through CSV initiatives. Each of these areas can also be seen as the source for CSV activities. For example, if company culture supports and encourages socially responsible behaviour [13], employees will more likely search and initiate shared value-creating initiatives which, in turn will benefit the company and employees as well – including enforcing the company culture and increasing motivation for other CSV initiatives.

CSV implies company striving to create shared value in both environments – external and internal, and preferably along several dimensions. Yet tapping into every dimension is not a goal in itself; the aim is to create shared value, even if just along one aspect. The specific areas of impact will depend greatly on the company and its line of business – acting in areas that are most important for its business (or the ones where the company excels) will yield best results.

CSV concept seems to bring around a new look on corporate social responsibility. There are some differences between the two concepts; however, it is still unclear if CSV is a completely novel approach to socially responsible business activities that will replace the "outdated CSR approach" as M.E. Porter and M.R. Kramer position it to be [10], or if it is just a different view on CSR, a new line of thought within the larger concept of CSR.

Either way, CSV still has to prove its viability and superiority over other approaches, if it is to gain widespread recognition and use.

IV. COMPARISON OF CSR AND CSV

Both CSR and CSV focus on societal needs and challenges and urge businesses to attend to those. Yet there are some significant differences between the two approaches.

The most significant one seems to be the perspective the company takes on society and its issues. While both approaches demand the businesses to consider the interests and needs of their communities and environment – along those of shareholders, employees and customers, CSR views this as an externality. It implies doing good for someone or something outside the organization and its own needs; CSR means meeting society's expectations, complying with its requirements and undertaking extra activities to improve societal wellbeing.

CSV, on the other hand, looks at surrounding environment and society as part of the business model; hence doing good for the society is a prerequisite for doing well in business. This distinction drives other points of difference as well.

For a CSR company social responsibility is an agenda forced from outside. The company's primary goal remains profit maximization, and this additional activity is not seen as a way to maximize profits [4]; there is no increasing of the pie in CSR. Instead, CSR activities are consuming a share of company's profits. A CSV company, by contrast, internalizes social responsibility, assumes it as a way of driving productivity and creating profits – and does this in a more efficient way, thus enlarging the total pie.

This is also reflected in the financing – while CSR activities are limited to a specifically allocated budget share, the CSV companies do not assign specific budget to social responsibility causes; instead, it spreads through entire company budget, becoming part of every function, every activity [10].

CSV companies tend to issues that society deems important – regardless of the relation to company's day-to-day activities and needs. The company is simply trying to remain in the good graces of its stakeholders by satisfying various stakeholder needs and demands. A CSV company's primary focus will be on societal issues that are related to its business – and, as a result, it will be more qualified to deal with these well, but at the same time – it might be less capable to act on some global matters, such as human rights or bribery and corruption.

CSV companies demonstrate their being responsible by assuming "socially responsible and sustainable business practices"; by investing in safer, more environment-friendly technologies; undertaking individual society development projects; by supporting selected societal initiatives and announcing their stance on global social issues. As a result, CSV is often seen as an instrument for creating and polishing company image.

CSV strategy is a new, deeper way of moral thinking of the company. CSV companies take a holistic view on the sustainability problems inside and outside the company. They pay attention to the value of the profit. "CSV generates economic value by contributing to the prosperity of the wider society as well as the company, rather than doling out philanthropy in order to add a glossy sheen to the company's reputation" [9].

As is evident, the differences between the two concepts fall along several dimensions. Five key aspects and the transition from CSR to CSV mind-set in those is depicted in Figure 2.

With CSV, the CSR value of "doing good" transforms into that of "economic and societal benefits relative to cost" [15]. The CSR idea of citizenship, philanthropy, and sustainability is taken to the next level of joint company and community value creation. And, while CSR is often used as an additional way of protecting the positions in the market and with society, CSV is an integral part of the competitiveness strategy [10], [14].

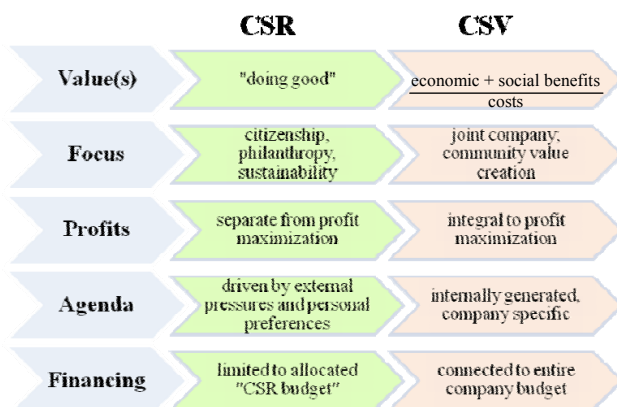


Fig. 2 CSR transition to CSV (adapted from [10], [14])

M.E. Porter and M.R. Kramer argue that CSV is better than CSR – and will eventually replace it. This is because CSV offers not only a completely different view on social responsibility, but also a new way of understanding customers, productivity and external influences on corporate success [10]. It internalizes social responsibility as an in-house agenda, own choice and not an external pressure. Thus, CSV is a more sustainable approach from the viewpoint of both the businesses and society.

As the authors mentioned earlier, CSV still has to prove itself. CSV itself is not a long-established concept in business and has only recently been gaining stable foothold and presence. Therefore it is unlikely that companies will now suddenly switch from CSR to CSV; rather we can expect the co-existence of these two approaches with CSV dominating for still some time.

V. CSV AND CSV IN LATVIA

CSV being a newly introduced concept, the scientific world is now debating its essence and manifestations, relationship to CSR and implications for the business and society. To understand better these aspects and the development potential of CSV, a research on real-life application of both CSR and CSV needs to be conducted. Such a research should be based on in-depth analysis of the social activities of companies, including evaluation of the motivations behind the social activities and their characteristics along the key differentiating aspects between the CSR and CSV, and interviews of company representatives on expected future developments.

However, for the purposes of this paper, the authors conducted a more generic investigation on CSR/CSV implementation in Latvia. Bearing in mind the major differences between the two concepts, the authors believe it is also possible to extend a generic judgment on the implementation of CSR or CSV by looking at the publicly available information on social activities undertaken by various companies.

Thus, for the purposes of this paper, the authors looked at the approach to social responsibility of several companies and their performance along the key activity areas of a socially responsible company (such as community, environment, marketplace, employees, governance and others). Only publicly available information, including company websites, recent media publications and the results of *Sustainability Index* initiative were used.

The companies selected included a global CSV company (Nestlé [16]), a global and somewhat controversial CSR company (Japan Tobacco [17]) and several companies operating in Latvian market – a fully-owned Latvian manufacturing company (Balticovo [18]), a government-owned service company (LatLoto [19]), a fully-owned subsidiary of international service company (Swedbank Latvia [20]) and a manufacturing company, part of international corporation (Aldaris [21]). All the companies picked in Latvian market are taking part in the *Sustainability Index* [22] – a strategic management tool developed by a number of Latvian experts in order to help Latvian enterprises establish the level of sustainability and corporate responsibility, as well as recognize and support enterprises contributing to the

long-term sustainability of Latvian economy, environment, and society. Aldaris is also one of the companies in Latvia that has joined the UN Global Compact.

The methodology of *Sustainability Index* initiative is based on Dow Jones Sustainability Index and Corporate Responsibility Index (CRI) by Business in the Community, and is in line with the guidelines of corporate responsibility standard ISO 26000 and the Global Reporting Initiative (GRI). SI has been adapted to ensure more appropriate evaluation of performance of local organizations on economic, social and environmental issues, while still considering global corporate responsibility and sustainability criteria. This initiative is focused on evaluating achievements in CSR, yet the areas covered relate to CSV as well, allowing for general conclusions in this aspect, too.

The authors acknowledge the limitations of such an analysis; yet it still displays well the trends in CSR/CSV implementation in Latvia.

As expected, CSR is a much more common approach to social responsibility with only one company in our selection – a global multinational – Nestlé having adopted CSV. The authors attribute this not only to the novelty of CSV approach, but also to the recent entrance and mixed understanding of CSR in Latvian market. Yet the growing interest of and participation rate in the SI initiative as well as the analysis of the publically available information clearly show the improvement in organizations' understanding of CSR. Companies are more and more interested in performing internal assessment and obtaining external expert opinions so as to ensure sustainable development.

The peculiarity of CSR/CSV cases in Latvia is that majority is found in service companies, even though one could expect manufacturing companies to be leading in CSR, given the emphasis on aspects traditionally associated with manufacturing – such as environmental impact, supply chain or workplace issues. However, this does not mean manufacturing companies do not practice CSR. The trend can well be explained by the composition of Latvia's economy, where service sector comprises 72% of country's GDP [23].

The authors deem findings in Latvian market representative of the overall understanding and expressions of social responsibility in business. First of all, it was rather challenging to find a small enterprise that implements CSR or CSV and is known for it. This can be explained by the rough economy of the state: smaller companies are focusing all their efforts on surviving and have little time or resources to spare for deliberate social activities.

However, the authors believe this might be a significant factor in moving towards CSV – lack of excess resources forces smaller companies to find innovative ways to perform better and deliver products that society desires. This, combined with growing society's social and environmental consciousness regarding businesses, creates fertile ground for "unconscious" implementation of CSV.

In the meantime, the companies forming the CSR/CSV landscape in Latvia are the larger ones with sufficient resources to support social initiatives, or the ones having the

corporate guidelines of the mother company that are to be followed in every market the company operates. This provides another opportunity for developing socially conscious business – these companies can set the example and affect public opinions.

The scope of the activities undertaken by the selected organizations varies greatly, and even though there are some signs of business-related activities, it is clear that the dominant approach is that of CSR. Moreover, the companies often state that one of the goals of these social activities is to create a positive company image – which is another indicator of CSR-focused approach.

Another peculiarity of Latvian companies is the extensive focus on charitable activities. Not condemning this, the authors still feel it is distorting the public understanding of the concept and impeding the development towards CSV. Companies responding to this public view and also strongly publicizing their charitable activities are further enforcing the wrongful and incomplete understanding of CSR. To stop this vicious circle, a change in attitudes and behaviour is needed, starting with the organizations.

VI. CONCLUSIONS

The scientific and business worlds are now discussing Creating Shared Value – the new approach to social responsibility proposed by M.E. Porter and M.R. Kramer. While there is no disagreement as to the role and importance of social responsibility in business, there is no unanimous opinion as to how these activities go together with the organizational goals and day-to-day activities, and how extensive they should be. CSV provides some insight into this, strongly linking the social activities to company goals and positioning social responsibility as internal function rather than external obligation to society.

The authors are wary of M.E. Porter and M.R. Kramer's belief that CSV is a very distinct concept from CSR. CSV seems to 'tick' much of the same 'boxes' as CSR does, so the difference is not that clear cut in this aspect. The main difference seems to lie in the thinking and philosophical approach to social responsibility. Therefore, the authors rather see CSV as the next stage of development of the existing CSR concept; a new way of thinking that brings more clarity to CSR and how it fits with business. While CSR puts a pressure on companies to respond to vast array of society's pressing issues, pulling the company in all directions at once, CSV offers a more focused approach to those same issues with companies concentrating their social impact efforts in the areas where they can make the most difference. Thus, the authors see CSV more as bringing structure and focus to CSR choices and decisions, explaining the function of CSR within the business and transforming the business thinking from simply maximizing profits to balancing the system of production and consumption.

Nonetheless, the authors are of the opinion that it is not yet possible to extend a defining judgement on the relationship between the two concepts. In order to do this, a more intense communication and explanation of M.E. Porter and

M.R.Kramer's idea and points of difference between CSR and CSV is required, complemented by a more thorough research on similarities and differences between CSR and CSV.

Despite the benefits and clarifications CSV brings to business about the social responsibility initiatives, the authors are reluctant to predict it replacing the CSR concept, at least not in the near future. This is of course due to the novelty of the concept, but more so because the CSV approach seems to limit the company perspective on social issues. It focuses company's efforts on social activities that benefit the company, but leaves out more global issues tending to which is not related to specific business needs. CSR, on the other hand, covers the widest range of social matters, regardless of the implications on specific businesses.

In authors' opinion, if CSV is to replace CSR, the concept still has to be developed further to include a clear statement on incorporating and addressing global social issues whose potential for impact and value creation is not so clear-cut, such as human rights or corruption.

Current developments both on the global scale and in Latvian market allow concluding that the larger, global multinationals will be the first adapters of CSV approach. Their example will show the viability of the concept; however, the authors think a note of caution should be considered when evaluating the success and adaptability of it. This is mostly due to the resources available to companies for implementing the initiatives – which will be much more limited in smaller companies than multinationals.

Looking at the Latvian market, the authors are convinced that CSV will not enter it still for quite some time. The reason for this is the current state of implementing – and understanding CSR. The current perceptions of CSR are highly distorted; society sees corporate social responsibility as doing charity, financing some specific social projects. Despite companies undertaking other activities as well, financial aid is the current image of CSR. However, as discussed early on, philanthropy and charitable activities are only a small part of CSR. Until the perception of both the businesses and public changes, it is not possible to speak of a full, quality CSR existence in Latvia, leave alone CSV.

In addition, the economic environment is not favourable of extensive focus on CSR/CSV – the majority of companies in Latvia are small enterprises and the recent global downturn has shifted their focus entirely to survival; all their efforts are focused on existential matters, not on solving social issues, creating shared value and being more helpful and useful to society. And this is correct, since the market and society do not benefit from numerous small and weak companies that are not capable of serving the society and helping it develop.

Even though majority of businesses in Latvia are small, the greater financial stability makes larger, oligopolistic and monopolistic companies the ones to set the example in CSR and CSV in Latvian market – both for other businesses and the society. Despite the rather negative opinions of such companies, they are the ones most capable of delivering real impact and improve society's wellbeing and prosperity, and the environmental balance. Thus, it is their CSR or CSV

performance that drives and will continue to drive CSR/CSV diffusion and implementation in Latvia.

The other group of companies to drive CSR/CSV development in Latvia is the foreign companies operating in this market. They have the experience and policies in place from their mother companies, and the market (including consumers – the society) is quite ready to accept and listen to their opinions, and follow their example.

Even though the authors are convinced the CSR/CSV implementation in Latvia should be led by larger, more profitable companies or foreign subsidiaries that have the resources and time to focus on these issues, the role of smaller enterprises in introducing CSV is invaluable. While the larger companies have the resources to operate freely in the social domain, the authors find the smaller companies struggling for survival and market share to be better positioned to seamless integration of CSV. These companies cannot afford expensive social gestures but their business success is already built around delivering extra value to the society through constantly seeking best approaches to doing business – a key premise of CSV.

All in all, CSR is a familiar concept in Latvia as well and it holds significant potential for development – including the shift to CSV. Many companies are already implementing CSR – with varying success. To take it to the next level, a more coherent approach and attitude to social responsibility in – and of business should be instilled, and examples should be set by the major market players.

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