THE INTERACTION BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND COMPETITIVENESS DURING THE ECONOMIC DOWNTURN

Valentinas Navickas¹, Rima Kontautiene²
¹,²Kaunas University of Technology, Lithuania

crossref http://dx.doi.org/10.5755/j01.em.18.1.4005

Abstract

The authors of the article analyze the interaction between corporate social responsibility and competitiveness during the economic downturn. The paper is focused on corporate social responsibility as a factor enhancing the competitiveness of enterprises during the economic downturn. Under the impact of scientific, technological, educational, cultural and economic changes, the concept of competitiveness has assumed a new meaning. The competitiveness of enterprises is increasingly linked to their ability to respond to the needs of society. The paper deals with the impact of economic downturn on competitiveness of Lithuanian enterprises. The economic downturn negatively impacted on the performance of Lithuanian enterprises and so on its competitiveness too. The impacts of economic downturn on competitiveness of enterprises were financial, economic and organizational. Researched the benefit of corporate social responsibility for the competitiveness of enterprises, the authors found that an active development of socially responsible principles and practice helped enterprises to survive better the economic downturn, was beneficial not only for enterprises but also for society and became an important factor for enhancing competitiveness of enterprises in difficult economic times.

The type of the article: Research report.

Keywords: competitiveness, corporate social responsibility, economic downturn, employee motivation, innovation.

JEL Classification: A13, E32, M14, M21.

1. Introduction

Trends in the global economy present new and unexpected challenges for businesses. The economic downturn of 2007-2010 was determined not only by the world economy or/and the financial crisis, but by the crisis of business maturity also. Being an integral part of the public business must not only consider interests of society, but also actively uphold them. The ability to respond to the needs of society, i.e. the inclusion of social, ethical and environmental issues, not only the pursuit of economic profit in the decision-making process ensures the competitiveness of enterprises. The need for the change of businesses particularly increases during the long-term economic downturn.

The problem of the study is that the influence of development of corporate socially responsible on competitiveness of Lithuanian enterprises in economic downturn has received a little attention in the literature. Furthermore, the premise of the study is that competitiveness of enterprises in turbulent economic time is getting new meaning. For enterprises to be competitive is no longer enough to satisfy only the consumers’ needs. Enterprise’s success depends on its ability to generate satisfaction and loyalty among its customers, employees, suppliers, community and etc. The competitiveness of enterprises is increasingly linked to its ability to respond to needs of society.

The aim of the study is to analyze the interaction between corporate social responsibility and competitiveness of enterprises during the economic downturn.
The competitiveness of enterprises as ability to respond to the needs of society

The turbulent start of the new century has brought new challenges for enterprises. Success in such times is demanding new perspectives on competitiveness. According to Hughes (2010), “do not have to be the best at everything to be competitive, but do need to have the right combinations of policies to create the right environment for long term sustainable growth”. Most scientists agree that the competitiveness is complicated and multifaceted phenomenon (Simanavičienė et al., 2007; Sabioniene, 2009) primarily because of the concept’s complexity, of an abundance and the diversity of competitiveness’ factors and of the complication of competitiveness’ process (Snieška & Bruneckiene, 2009). According to Latruffe (2010), “competitiveness has a broad and changing definition depending on the school of thought and on the level of investigation”.

Enterprises are the drives of country’s competitiveness. According to Garelli (2012), economic value is only created by enterprises. The conditions in which enterprises operate are changing continually, and therefore it can be expected that their competitiveness does too. As Porter and Kramer (2002) highlight, enterprises have to change their focus towards the social setting in which they act and interact. Under the impact of economic changes the concept of competitiveness has assuming new meaning. In order to achieve enterprises’ efficiency, development and upgrading, involving the economy in general, the business should respect to the material and spiritual progress of society. As FitzGerald (2010) maintained that “the role of business in society: to innovate and deliver products and services, to use resources efficiently so that value is created and to conduct operations so that they are performed profitably and accepted by society”. According to Li (2009), competitiveness is determined by satisfaction of consumers’ needs. But, as stated Ionita et al. (2009), today is no longer enough to satisfy the consumers’ needs. “The competitiveness of the company is related to how business interacts with the environment, producing a value to the participants in this environment. Business does not act in isolation” (Navickas & Kontautienė, 2012). “The success of organization depends on its ability to generate satisfaction and loyalty among its customers, employees, suppliers, etc” (Susniene & Vanagas, 2006). As Lawder (2013) stated, “businesses are part of society too”. Every enterprise attempts to capitalize on strategic use society - company relationship in prevailing business environment to gain competitiveness. A business company grounded with competitive advantage has an edge over its rivals in attracting society, providing them with the value that fulfilled their expectations, commanding competitive forces and withstanding competitive pressures and strengthen its market position. Given the desired position in the market, enterprises have to respond to the needs of society to gain a long-term competitiveness. According to World Economic Forum (2012), “higher levels of competitiveness produce higher levels of economic growth and therefore prosperity for societies, raising the well-being of citizens, who can consume more available goods and services”. The enterprises with the ability to react quickly to market changes and to respond to society’s needs in the environment may to gain higher level competitiveness.

The impact of the economic downturn on the competitiveness of businesses

The financial crisis started in 2007 caused a global downturn. Economic downturn impacted unlikely on countries, regions and enterprises. It generated contradictory tendencies, for instance, declining aggregate expenditure and falling input prices. Recession presented businesses with a dilemma (Deans et al., 2009). The enterprises experienced pressures to cut costs in order to maintain survival in the short-run at the risk of reducing capacity. Also, businesses faced pressures to maintain greater capacity, and thereby incur higher costs in the short-run, in order to realize opportunities for long-term value creation. According to OECD (2009), “entrepreneurs have suffered a double shock - a drastic drop in demand for goods and services and a tightening in credit terms”. According to Chakrabarti et al. (2006), an economic crisis is a broad, major sudden and unanticipated change in the economic environment. For firms, the economic crisis would often lead to decline in revenues and profits because of the sudden and major disruptions to their businesses. The disruptions came broadly in demand, markets, suppliers, and buyers; rapid increases in
financial costs and risks and heavy fluctuation of exchange rates. The economic downturn negative impacted on profitability and productivity of enterprises, employee’s motivation. The downturn resulted in a more or less strong fall in the financial performance of enterprises. The economic impact resulted in a fall in sales (following the fall of demand and consumption) or a structural fall in turnover, because of the behavioral change of the consumers.

The impacts of economic downturn on effectiveness and competitiveness of enterprises were financial, economic and organizational. A decline of basic measures of competitiveness in 2008-2010 justified the negative impact of economic downturn on competitiveness of enterprises.

**The benefit of corporate social responsibility for the competitiveness of enterprises in economic downturn**

The economic downturn is regarded as an opportunity to implement strategic responsible change in performance and strategies of enterprises. As Hopkins (2008) stated “the lack of responsibility in markets, have led to current financial turmoil and recession in most international markets”. In turbulent environmental conditions, such as economic downturn, was highlighted a greater need for a for responsible, sustainable business practice. “The global crisis has proved that corporate social responsibility isn’t a “nice-to-do”, it’s a necessity” (RasGas magazine, 2009). In conformity with OECD (2011), “corporate responsibility involves the search for an effective "fit" between businesses and the societies in which they operate”. As Little (2006) stated, CSR initiatives can lead to innovation through the use of social, environmental or sustainability drivers to create new ways of working, new products, services, processes and new market space. CSR has the potential to deliver competitiveness by creating a platform and sources for innovation and thus further lead to attracting consumer interest and employees, enhancing the competitiveness of companies. According to Hopkins et al. (2008), it is possible to identify aspects of corporate social responsibility supporting the importance of CSR implementation in difficult economic period. In particular, it relates to the socially responsible approach to employees. The enterprise’s employees are one of the main groups of stakeholders. CSR has a positive impact on the formation of an intangible asset. Its formation is described as one of the key success factors for creating business value, determining the enterprise’s competitiveness. According to “European Competitiveness report 2008”, strategic approach to CSR is increasingly important to the competitiveness of companies (European Commission, 2009). It can bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, and innovation capacity. “CSR gradually becomes a concurrent part of modern companies’ activity, which stimulates a number of factors: an alternation of consumers’ wishes and demand, changes of suppliers’ attitudes and requirements, pressure on legislators and principles, new expectations of employees, changing scale of social values” (Juscius & Snieska, 2008). The increasing business focus on CSR is based primarily on the ability of corporate social responsibility to influence on the efficiency of companies, on sales increase, on the image improvement, on the staff moral education (Fiori, Donato & Izzo, 2007). The implementation of corporate social responsibility is a long-term effect of improving enterprise’s profits. Corporate social responsibility is becoming a very progressive aspect of business and it is gaining importance in key areas such as customer preferences, employee commitment and competitiveness.

**2. Method**

There are several methods used for answering the aim of the paper. In general these methods can be put into two main categories: qualitative and quantitative methods. The qualitative method is based more on specific cases and examples, as compared to the quantitative method that is based more on secondary statistical analysis. This paper is focused on the relationship between the competitiveness of enterprises and corporate social responsibility in economic downturn. A literature study is suitable due to the fact that the concept of competitiveness is still quite complex and complicated. Due to the large amount of literature dealing with concept of competitiveness, an
analysis based on certain criteria has to be used in collecting the literature. In this process, factors that emphasize on the connection between the competitiveness and the ability of enterprises to respond to needs of society will be leading the choice of literature. This paper also deals with the impact of economic downturn on competitiveness of businesses and benefits of corporate social responsibility in recession time. In this literature search the main search criteria were corporate social responsibility, competitiveness and economic downturn, which were searched for solely and combined. To assess the impact of economic downturn on indicators of competitiveness the secondary statistical analysis has been used. There were used statistical indicators of enterprises by NACE 2 (total all NACE branches) for 2005-2011. Secondary statistical analysis is commonly done on datasets produced by Lithuanian Statistics.

32 experts, specialists in economic activity and responsible for CSR projects, from Lithuanian international socially responsible companies and enterprises seeking to become socially responsible were involved in expert’s assessment “The integration of corporate social responsibility into the strategies of international companies in Lithuania”. Also specific cases and examples were used to analyze the benefits of corporate social responsibility for the competitiveness of Lithuanian enterprises in economic downturn. As examples and for case’s studies were chose Lithuanian socially responsible enterprises that are members of National Network of Socially Responsible Business or nominees/ winners of National Responsible Business Award.

3. Results

The impact of the economic downturn on the competitiveness of Lithuanian businesses

Following the global crisis, Lithuanian businesses also got in fragile financial situation. Many enterprises had to decrease their number of staffs, reduce their operating expenses by means of delaying the renovation activities, cutting benefit and etc. The decreases of revenues caused by insufficient demand, unsettled debts of crucial business partners and problems to gain credits and loans were factors that had negative influence on enterprise’s cash-flow and caused the total insolvency of the enterprises. Insufficient demand and financial constrains were the main factors limiting production in times of economic downturn (see Fig. 1).

![Figure 1. Factors limiting production (results rebased at 100%), in percent](image)

Source: Author’s calculation, Statistics Lithuania 2013.

As the downturn took hold on the economy with a reduction in sales (turnover) (see Fig. 2) for most businesses and fixed costs remaining in place (i.e., insurance, rent, utilities), profit of
Lithuanian enterprises receded (see Fig.3). In 2008-2010 total assets turnover index, the measure of the extent generating sales in terms of the total assets, was unsatisfactory, i.e. lower than 1. (A standard norm of 2 (i.e. 200%) of this ratio is considered norm by some authors for an industrial enterprise (Majunder & Rahman, 2011)).

![Figure 2. Ratios of assets utilization (turnover) in enterprises](image)

*Source:* Author’s calculation, Statistics Lithuania 2013.

According to Gorynia (2001), the basic measures of the competitive position of a firm are its market share and financial condition. The worst year for Lithuanian business was 2009, when loss of enterprises was more than 6000 million LTL.

![Figure 3. Profit/loss and net profit/loss of enterprises, in LTL million](image)

*Source:* Author’s calculation, Statistics Lithuania 2013.

Enterprises in Lithuania have been facing a difficult time since 2008. A lot of them experienced a severe drop and fluctuation of profitability (see Fig. 4). As stated Kumar and Chadee (2002), profitability is an ultimate indicator of firm competitiveness in the global market. In 2009, Lithuanian enterprises indexes of profitability were negative. The ratio of profitability of Lithuanian businesses showed that since 2008 under the enterprises’ performance was inefficient.
The drop in demand in times of economic downturn caused a disability to sell enterprises’ production, what triggered of a stock accumulation or an employee surplus. The managements of enterprises had to reduce an amount of the workforce. That was one of the reasons of raised unemployment rate since 2008. However it caused another serious problem for the enterprises’ operation. The management lost with employees key comparative advantages. Ambastha and Momaya (2004) asserted that many scholars have seen productivity as a good surrogate and indicator of long-term competitiveness of an enterprise. As Noe et al. (2010) had it that employees motivation as measure of organizational effectiveness becomes a measure of organizational competitiveness. The labour productivity (see Fig. 5) and also employees’ motivation, creativity and an ability to solve problems were disrupted.

The economic downturn seriously affected business. Many of businesses ended up filing for bankruptcy or ceased their activity. According Statistics Lithuania (2013), number of instituted bankruptcy processes in Lithuania during 2009 increased more than treble compared to 2007: from 606 in 2007 to 1844 in 2009. The downturn resulted in an increasing number of enterprise’s failures, owing to the fact that it affected their effectiveness and competitiveness. The economic downturn negatively impacted on effectiveness and competitiveness of Lithuanian businesses.
The benefit of corporate social responsibility for the competitiveness of Lithuanian enterprises in economic downturn

The concept of corporate social responsibility (CSR) in Lithuania is not new, but the principles of social responsibility are not yet widespread in practice. The confusion of corporate social responsibility with support, not seeing a direct benefit to business often stops enterprises from more extensive implementation of CSR. However, the benefits of CSR practices are tangible both directly and indirectly (Atsakingas verslas, 2012). On the basis of the experts’ assessment “The integration of corporate social responsibility into the strategies of international companies in Lithuania”, the benefits of implementation of corporate social responsibility into companies’ strategies are the increasing employee loyalty, the improving company’s image and reputation, the compliance of obligations, the increasing productivity, high quality and the growth of sales, the increasing customer loyalty and confidence of government and public, the improving financial reliability and availability of capital, the gain of competitive advantage, the reduction of cost and legal risk, new opportunities and new markets (see Fig. 6) (Kontautiené, 2011).

![Figure 6. Distribution of estimations of factors defining the benefits of CSR, in percent](image)

Source: Kontautiené, 2011.

According to the study in enterprises “The economic benefit and long-term impact on business of CSR implementation” (Ernst & Young, 2012), the investments into the CSR initiatives pay off, i.e. generating a positive return on investment for an average of 45 percent. The greatest return on CSR activities is in the companies in which it is most closely associated with the overall business strategy and business model. Many Lithuanian business leaders have already ascertained that an integration of social, transparency and environmental aspects into business processes helps to create new products and services, to improve the quality of products or services, to make economies, to access to the markets of the other European countries and to increase the productivity and efficiency. According to “Atsakingas verslas” (2012), Klaipeda Stevedoring Company “Bega” dealt with challenges of the crisis by creating new jobs and maintaining additional guarantees and wage levels. One of the main decisions of UAB “PakMarkas” that helped this enterprise to overcome the economic downturn is the inclusion of workers (internal stakeholders) in the search of rational solutions. According to the inclusion of stakeholder’s model UAB “PakMarkas” aimed for a high level of employee involvement and therefore the enterprise not only managed to save jobs, but also maintained the existing additional social guarantees for employees, their tangible and intangible incentives. Even in times of crisis UAB “PakMarkas” was able to provide staff training and environmental protection (Atsakingas verslas, 2012). UAB “PricewaterhouseCoopers” managed to prepare for the crisis and to respond quickly to challenges and employee initiatives. Constantly observing, analyzing and assessing enterprise environment executives prepared a risk management scenario in advance and
so they managed to respond quickly and purposefully. None the less it is important that in time of crisis within enterprise environment had ensured coherence: favorable working conditions and good atmosphere in the team. UAB “PricewaterhouseCoopers” created a family-friendly atmosphere in the workplace by joining the initiative “Family Afternoon at Work”, thus expressing their concern not only about employees, but also about their loved ones - this is an evident example of organization’s sociality education (Atsakingas verslas, 2012). Being one of the biggest employers in the Lithuania, TEO LT considers its employees as the biggest asset and success factor. According to TEO Corporate Social Responsibility Reports (2007-2011), in period of 2007-2011 on the average over 70 percent of TEO Group employees every year took part in various educational programs including projects supported by the Republic of Lithuania and co-financed by the Social Fund of the European Union. In 2009 over 400 new jobs were created at TEO Group level. TEO is among the 33 percent of European companies with the highest TRI*M index score (employee commitment index). In time of economic downturn, when a lot of enterprises experienced the drastic drop of profitability, TEO LT indexes of profitability and market value were positive. As maintained Šikšta, General Manager of TEO LT, (2013), “for many years the sustainable development of TEO Group has been based on attending to the needs of our employees, customers, partners and social partners. This becomes a factor that ensures the market value and competitive advantage”.

Economic downturn simply showed that implementation of principles and practice of corporate social responsibility has helped enterprises to survive better the economic crisis and how it can be beneficial not only for business but also for the society. The time of economic downturn has proved that enterprises can treat corporate social responsibility as a factor enhancing competitiveness.

4. Discussion

The research has been undertaken with the broad objective to study the interaction between corporate social responsibility and competitiveness of enterprises during the economic downturn. Very little is known about how corporate social responsibility affected the competitiveness of Lithuanian businesses in economic downturn. The research helps in understanding new meaning of competitiveness of enterprises. The competitiveness of enterprises is increasingly linked to its ability to respond to needs of society. The economic downturn seriously impacted on competitiveness of businesses and showed that implementation of principles and practice of corporate social responsibility has helped enterprises to survive better the economic crisis and how it can be beneficial not only for business but also for all society. Lithuanian enterprises starting to understand that having a credible and productive corporate social responsibility function is not only important, rather it is becoming as a factor of competitiveness in the times of economic downturn. It is also very important to know about the new perspectives of the enterprises during recessionary times.

The results of the study highlight that even in the economic downturn times enterprises are able to benefit from developing of corporate social responsibility. Corporate social responsibility matters a lot to all society. The implementation of corporate social responsibility helps the enterprises in building good reputation, helps in motivating employees and in making better market position and also helps in minimizing risk. The development of corporate social responsibility helped enterprises to survive better crisis times. Corporate social responsibility can be treated as a factor enhancing competitiveness.

The present study can be extended to study the socially responsible practices of Lithuanian businesses before, during and after recession by collecting data from enterprises to get deeper insight into the way companies behave in changing times. The enterprise which is able to take care of its socially responsible practices during recessionary times is the ultimate winner. Primary data can help us in understanding the impact of changing times on competitiveness of Lithuanian enterprises and CSR practices of Lithuanian businesses during such times and can guide the new and other enterprises not performing well to follow their examples.
References


