

**ORIGINAL PAPER**

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**Effect of macroeconomic business environment on the development of corporate social responsibility in Baltic Countries and Slovakia**

**JEL Classification:** M14; O11; O52

**Keywords:** *corporate social responsibility; macroeconomic business environment; economic recession; Baltic countries; Slovakia*

**Abstract**

**Research background:** Fluctuations in economic activity forced companies to change the traditional methods of organization and management and to search for new tools, knowledge, resources and competences in order to strengthen their positions. This has particularly intensified debates on corporate social responsibility (CSR) not only between business people, but also between pieces of research, industry leaders and government representatives. The ongoing global ecologic crisis quickened discussions about how the alternation of macroeconomic business environment influences the development of CSR.

**Purpose of the article:** The aim of this paper is to investigate how the changes in macroeconomic business environment influence the development of socially responsible activities in Baltic Countries and Slovakia.

**Methods:** A statistical analysis of secondary data was used in order to reanalyse the data for the purpose of gaining new insights. The objectives of statistical analysis in this paper were twofold: firstly, to identify the challenges in macroeconomic business environment; secondly, to explore the development of socially responsible activities in different countries. The research period covered the years 2006–2016. The choice of this period is determined by data availability.

**Findings & Value added:** The authors found that economic conditions may diversely affect the development of different dimensions of CSR. Even in unfavourable macroeconomic conditions companies continue to be involved in socially responsible actions because of long-run CSR benefits. The analysis is useful at an international level because it justified the development of socially responsible businesses in Estonia, Latvia, Lithuania and Slovakia, and has provided an opportunity to assess the tendencies of CSR development during the different period of economic cycle.

## Introduction

Corporate Social Responsibility has become increasingly important internationally with increasing focus in the United Nations, the European Union, and national authorities. In the era of globalization businesses are no longer able to conduct destructive and unethical business practices such as unfair labour practices or environmental pollution without receiving negative response from the public. In order to retain in market, the importance of conducting socially responsible business activities has become inevitable demand from civil society, consumers, other companies and governments in general.

Various factors that play a critical role in the development of CSR are government initiatives, globalization and stakeholder's involvement, and an extremely volatile economic business environment. The economic business environment consists of external factors that can influence business decisions and actions. The economic environment is comprised of the microeconomic environment which affects business decision making such as individual actions of companies and consumers and the macroeconomic environment which affects an entire economy and all of its participants. Many economic factors act as external constraints on business activities, which means that businesses have little, if any, control over them. Instability at the macroeconomic level seems to be unfavourable to economic growth of companies. High inflation and high unemployment rate, as well as economic inactivity, are assumed to increase uncertainty and to worsen the economic business environment, and consequently to reduce their growth and decisions to invest in socially responsible activities.

Being a socially responsible company is more and more important in the times of fast-changing business environment. The importance of CSR initiatives for companies and the interaction between macroeconomic factors

and CSR were highlighted by Bernatonyte *et al.* (2009), Campbell (2007), Dagiliene *et al.* (2014), Kovaliov *et al.* (2010), Smith (2010) and Strugatch (2011).

The aim of the article is to analyse how the changes in the macroeconomic environment influence the development of socially responsible activities in Baltic Countries and Slovakia.

An empirical evidence how macroeconomic factors impact on business decisions to invest in socially responsible activities is scarce in literature, and practically absent with respect to the comparison of CSR tendencies in the Baltic countries and Slovakia as countries with open economies, but different in extent.

The results reported are of interest to an international audience, as they explore the development of socially responsible activities in Estonia, Latvia, Lithuania and Slovakia during the different period of economic cycle. This study also constructs new approaches for business to implement CSR in order to get long-run benefits even in the period of instability in macroeconomic business environment.

This research has several limitations. The countries of the research are limited. The analysed period is short because of data availability. Future research could investigate the long-term impact of macroeconomic business environment on CSR development in other Central and Easter European countries. We hope that we can conduct additional observations and research by using primary sources and applying quantitative methods. It would also be beneficial to study how socially responsible companies in different countries were affected by the change of macro-environment.

Apart from the introduction, the article consists of five parts: literature review, research methodology, obtained results, discussion the results in the context of other research and conclusions.

## **Literature review**

### *The essentials of corporate social responsibility*

According to the European Commission (2010), CSR can make a significant contribution towards sustainability and competitiveness, both in Europe and globally. It is part of the Europe 2020 strategy for smart, sustainable and inclusive growth. CSR is “the responsibility of enterprises for their impacts on society” (European Commission, 2011). The goal of CSR is to inculcate the responsibility for the actions of companies and to encourage a positive impact through their activities on the environment and all socie-

ty. CSR facilitated businesses to promote the public interest by encouraging community's growth and development, and voluntarily eliminating the practices that harm the outward environment. CSR does not mean that companies should abandon their primary economic objective, which is to make a profit. It does not mean that socially responsible companies can be more profitable than those that are less responsible. CSR demands that companies coordinate the benefits and achieve them (Navickas & Kontautiene, 2013, pp. 27–34).

“The “business case” for CSR argues that companies that embrace the “triple bottom line” approach will promote environmental and social interests, but will also be financially rewarded for doing so” (Alves, 2009, pp. 1–26). Historically, the main objective of business organization was to maximize wealth of its owners (Friedman, 1970), and thus “the aim of socially responsible activities of companies is to maximize the creation of shared value, which means to create returns on investment for company's shareholders at the same time as ensuring benefits for other stakeholders, and to prevent and to mitigate possible adverse impacts which companies may have on society and environment (Navickas & Kontautiene, 2012, pp. 1010–1015). In general, CSR may be defined as the guarantee of the organization's economic success (Dagiliene *et. al.*, 2014, pp. 54–61). According to Porter and Kramer (2006), CSR involves both inside-out and outside-in dimensions working in tandem. The essential test that should guide whether CSR is worthy is if it presents an opportunity to create a shared value that is a meaningful benefit for society, also valuable to the business. CSR as management tool is useful for development of successful company's strategy (Kozubikova *et. al.*, 2016, pp. 168–182). CSR is a practice that should be included as a part of the strategic antecedences at the base of company and should be consolidated with all aspects of corporate management, including human resource, marketing, production, financial and more especially with strategies of the business.

### *Interaction between macroeconomic factors and corporate social responsibility*

Business organizations operate in the economic environment which shapes and is shaped by their activities. In market-based economies, this environment comprises variables which are dynamic, interactive and mobile and which, in part, are affected by government in pursuit of its various roles in the economy (Worthington & Britton, 2006). The economic environment is the element of macro-environment element (see Fig. 1) which

asserts in particular consistent economics development patterns and trends affecting corporate decisions and actions.

Macroeconomic business environment is linked to the development of a country's and the international economy, and its direction. It includes the economic activity of public structures and varies according to certain consistent patterns (Vojtovic, 2016). There are plenty of macroeconomic factors that either directly or indirectly affect the economies and all of its participants, including business, its decisions and actions. According to Bernatonyte *et al.* (2009, pp. 229–236), Campbell (2007, pp. 946–967), Kovaliov *et al.* (2010, pp. 627–634), Smith (2010, pp. 59–79) and Strugatch (2011, pp. 44–48), several macroeconomic factors that affect the overall state of economy, which, in turn, influences businesses, may impact the development of CSR. As stated Chih *et al.* (2010, pp. 115–135), a favourable macro-environment and stronger levels of legal enforcement contribute to the incorporation of CSR. Political and institutional shareholders endorse the development of CSR because they are interested in enhancing community stakeholders' positive moral capital, on which depends the increase of their wealth. According Garcia-Sanchez *et al.* (2016, pp. 15–35), companies located in societies with a cultural system more oriented to stakeholders, i.e., characterized by high values of collectivism, femininity, uncertainty avoidance and long-term orientation and low power distance, are more strongly involved in CSR development and transparency of CSR disclosures. The identification of the intersection between socio-ecological problems and business behaviour is crucial for CSR development. The more aggressive or negative external environment faced by a business, as stated Becherer and Helms (2014, pp. 1–18), the more environmentally-friendly goals tends to be a part of business goal setting process because that might protect businesses from legal, social, political and other macro-level pressure that could impact them. Campbell (2007, pp. 946–967) argued that companies will be less likely to act in socially responsible ways when they are operating in a relatively unhealthy economic environment, and where the possibility for near-term profitability is limited. An example of this would be circumstances of high inflation, low productivity growth and weak consumer confidence, a situation in which it would seem relatively difficult for companies to achieve healthy near-term profits. Under such circumstances companies would arguably be less likely to behave in socially responsible ways (Campbell, 2007, pp. 946–967). And, similarly, Bernatonyte *et al.* (2009, pp. 229–236) maintained that the effect of economic depression on the development of CSR is most often evaluated negatively. On the other hand, economic conditions are not always uniformly correlated with the development of CSR. For example, by surveying articles in

business periodicals during the recession period in 2008–2009, Strugatch (2011, pp. 44–48) came to the conclusion that CSR programs were still implemented due to the connection with environmentalism and commitments to CSR principles by companies' executives. Economic downturn simply showed that the implementation of principles and practice of CSR has helped companies to survive better crisis, and it can be beneficial not only for business, but also for the society (Navickas & Kontautiene, 2013, pp. 58–67). Further, according to Smith (2010, pp. 59–79), in the times of economic recession, when companies want to reduce costs as well as risk, CSR may be a win-win situation. Even in unfavourable economic conditions, companies continue to be involved in some CSR activities such as installation of climate-friendly technologies that may save costs in the long run (Reinhardt *et al.*, 2008, pp. 219–239). According to Hopkins *et al.* (2008), the aspects of CSR supporting the importance of its implementation are possible to identify in difficult economic period. So it helps company to enter into new markets or to establish a competitive position, if that company provides a higher level of CSR activities on purpose to differentiate itself from others. Also, companies by offering socially beneficial goods and services can retain committed employees and enhance brand reputation through a positive mouth-to-mouth communication, so that they can get benefits that may help survive an economic downturn. Economic conditions may differently affect different dimensions of CSR.

Summarizing the above considerations, it can be concluded that CSR is considered as a proactive business tool during difficult times and the development of socially responsible activities may promote companies' survival. The economic environment as the basic component of the macro-environment affects companies and their activities including CSR development. The interaction between macroeconomic factors and CSR development could be different under varying circumstances.

## **Research methodology**

It is essential that the systemic approach to integrity, functionality and application of the methods, inclusive theoretical and empirical research, are used to evaluate the impact of macroeconomic business environment on the development of CSR in order to get the most precise and objective research data as possible, and on this basis to draw conclusions on the results. The use of qualitative and quantitative research, complementary to one another at individual stages of the study, is necessary for deep analysis of the changes of macroeconomic environment on the development of socially

responsible activities. The use of quantitative research is postulated by the required statistical reasoning of macroeconomic factors impact on the realization of companies CSR activities. The methodology employed by this research consists of statistical analysis of secondary data.

According to Bernatonyte *et al.* (2007, pp. 229–236), Campbell (2007, pp. 946–967), Cormier *et al.* (2005, pp. 3–39), during periods of unhealthy economic growth occasioned by such factors as inflation, rising unemployment and the more especially in times of economic depression, the development of CSR significantly slow down. Therefore, inflation rate (INF), unemployment rate (UR) and real gross domestic product growth rate (GDP) as the economic variables were adopted for evaluation of macroeconomic business environment in sample countries: Estonia, Latvia, Lithuania and Slovakia in 2006–2016.

In conformity with Frolova and Lapina (2015, pp. 260–273), Szczuka (2015, pp. 4800–4807), Kowalska (2016, pp. 653–668), Ghassim (2018, pp. 1–18), Jove-Llopis and Segarra-Blasco (2018, pp. 1–26), quality and environmental management systems same as CSR standards provide a framework for implementing corporate social responsibility. So quality management, environmental management and CSR standards as variables of corporate social responsibility were used for evaluation of socially responsible activities in sample countries.

## **Results**

### *Macroeconomic business environment of Baltic countries and Slovakia in 2006–2016*

The inflation rates were growing in all countries under consideration in 2006–2008. In 2008 particularly high price increases were recorded in Latvia, Lithuania and Estonia. All Baltic countries experienced inflation rates above 10%. The lowest annual rates were observed in Slovakia in 2006–2008 (see Fig. 2). From 2009 till 2011 all countries recorded much lower inflation as compared with period of 2006–2008. In 2010, with subdued economic activity across much of the world, all Baltic countries and Slovakia recorded the lowest inflation rates (compared with the year before). Latvia recorded a negative annual average rate of change (-1.2%) in 2010. From 2012 relatively low level of inflation (1% to 4% annually) was recorded in Lithuania, Latvia and also in Slovakia. In Estonia the annual inflation rate changed from 5.1% in 2011 till 0.8% in 2016 (see Fig. 2). Till 2008 unemployment was on the decrease in all three Baltic countries and

also in Slovakia. However, the trend was reversed in 2009 when the economic downturn resulted in a prolonged deterioration of the labour market (see Fig. 3).

The economic crisis that took hold of the European economy in 2008 first hit the labour market in 2009. This reflects the normal delay in the response of employment to GDP. Since then the unemployment rate has increased in all countries under consideration. An all-time peak was registered in 2010. According to Eurostat (2017), the unemployment rate in Latvia stood at 19.5 %, in Lithuania — at 17.8%, in Estonia — at 16.7%, in Slovakia — at 14.5% in 2010. The national unemployment rates more than trebled as compared with the first quarter of 2008 in Baltic countries. The unemployment rate in Slovakia increased less as compared with Baltic countries. From 2011 the unemployment started to decrease in all countries under consideration.

Before the economic crisis of 2008 the real GDP for the sample countries, i.e. Estonia, Lithuania, Latvia and Slovakia, as a whole grew up, but there were some variations in the growth rate. The less rates of real GDP growth change were recorded by Estonia and Latvia, and the higher-rates were recorded in Lithuania and Slovakia in 2007. This trend was interrupted by the sudden economic slump which started in 2008 and fully hit all countries under investigation in 2009, with the economy shrinking more than -14 % in three Baltic countries and more than -5% in Slovakia. Hardest hit by the crisis was at Baltic countries. The economies of Estonia and Lithuania were growing more than the economy of Latvia in 2010. Latvia was still in recession in 2010. Slow growth was experienced in all four sample countries as a whole during 2011-2016 (see Fig. 4).

Trends of macroeconomic indicators showed some negative and positive tendencies in the Baltic countries and Slovakia during period of 2006–2016. The rate of increase in consumer prices accelerated in all countries under consideration and reached the peak in 2008. In 2009–2010 all countries recorded lowest inflation during the analyzed period. Inflation with some differences went up and down in all countries of the Baltic and Slovakia during the period of 2006–2016. Great unemployment fluctuation was registered during the years under investigation. The unemployment rate has been steadily increasing from 2006 and peaked in 2010. The economic growth of the Baltic countries and Slovakia was approximately 10% in 2007, and was replaced by a dramatic downturn with a decline of 5–14% in 2009. Slow growth with some differences was experienced in all four sample countries from 2011 till 2016. The economic crisis has negatively affected the Latvian, Lithuanian, Estonian and also Slovakian business environment by undermining its macroeconomic stability.



*Trends of socially responsible activities development during macroeconomic instability*

The main motives of Baltic and Slovakian business for CSR activities are the influence of foreign partners and parent companies, as well as high moral standards and the will of business leaders to behave ethically. An implementation of quality management, environmental management and social responsibility standards is the basis for companies to become socially responsible organizations. Even in the period of instability companies of Baltic countries and Slovakia introduced certified management systems. The number of organizations having implemented a certified quality management system according to the ISO 9001 rose significantly between 2006 and 2015 (see Fig. 5). In the times of recession socially responsible companies were focused on customer needs, on continual improvement of management and all business processes.

Companies in the Baltic Countries and Slovakia, as well as their stakeholders, are becoming increasingly aware of the need for environmental management, socially responsible behaviour, and sustainable growth and development. Accordingly, as the proactive management of environmental aspects converges with company risk management, corporate governance, and sound operational and financial practices and performance, the implementation of environmental management system according to ISO 14001 was increasingly important for companies in all countries. The number of organizations having implemented a certified environmental management system almost trebled between 2006 and 2015 (see Fig. 6).

Businesses in the Baltic countries and Slovakia are increasingly integrating social and environmental concerns into their operations and interactions with stakeholders on a voluntary basis. Usually small and medium businesses implement certain socially responsible activities without giving these actions prominence and public utterance. For this reason, it is complicated to evaluate the practicable spread of CSR initiatives in Baltic countries and Slovakia. It is possible to assess the systematic approach to CSR based only on individual examples.

## **Discussion**

The trends of macroeconomic indicators showed some negative and positive tendencies in the Baltic countries and Slovakia during the period of 2006–2015. The economic growth until 2007 was replaced by the dramatic downturn in 2009–2010. Slow growth with some differences was experi-

enced in all four sample countries from 2011 till 2016. The economic recession has negatively affected the Latvian, Lithuanian, Estonian and Slovakian business environment by undermining its macroeconomic stability. An implementation of quality management, environmental management and social responsibility standards into activities of companies of the Baltic countries and Slovakia expanded even in the period of instability in macroeconomic business environment. An assessment of businesses approach to CSR by individual examples revealed that socially responsible companies actively integrate CSR activities. The development of CSR activities is beneficial for companies, society and natural environment. According to Hys and Hawrysh (2013, pp. 27–33), the same tendencies were established in Poland. The implementation of socially responsible activities was gaining more and more recognition in Poland even in the moments of crisis because CSR activities to some extent could help to increase efficacy and efficiency of actions. As Dedina and Dedinova (2013) stated, every year the implementation of socially responsible activities in the Czech Republic is increasing because the development of CSR is related with companies' success in the current competitive environment.

But in accordance with Janssen *et al.* (2015, pp. 183–192), companies have to show that they care for and consider the development of CSR serious especially in crisis situations, because any slip can give a contrasting effect. The development of CSR is particularly important due to its wide range of potential benefits. Socially responsible companies are increasingly active in integrating CSR activities, but the process of integration is still going slowly by the existing management style and the organization culture in all countries under consideration. The awareness and competence of all stakeholders, i.e. shareowners, customers, suppliers, employees, the authorities and local communities, is necessary for more well-run development of CSR principles and practices.

## **Conclusions**

CSR is generally understood as being the way through which company achieves a balance of economic, environmental and social imperatives, while at the same time addressing the expectations of all stakeholders. CSR as management tool is useful for development and implementation of successful company's strategy. The development of CSR activities presents an opportunity to create shared value that is a meaningful benefit for the society, also valuable to the business.

Macroeconomic factors directly or indirectly affect the economies and all of its participants, including business and its decisions or actions. Inflation, unemployment rate, consumer confidence levels, recession and depression are factors of macroeconomic environment which impact business decisions and also their attitude to corporate social responsibility. The impact of macroeconomic factors on development of different social responsible activities is various.

The carried out analysis showed that strong socio-cultural ties, favourable political-legal climate, expansion of technological and scientific innovation have a positive impact on CSR development. Business is increasingly interested to act in a responsible way, to take responsibility for the impact on the society, which it is a part of, at the same time to contribute to the development of favourable and progressive external environment. Climate change and the continuing ecological crisis enforce to involve business in environmental issues. The rising inflation and growing unemployment rate, lost consumer confidence results in a greater emphasis of business on social and economic solutions. On the basis of those results, regardless of the changing macro-environment, economic and non-economic, businesses, like and general public, are more and more actively contributing to the promotion of CSR ideas and practice.

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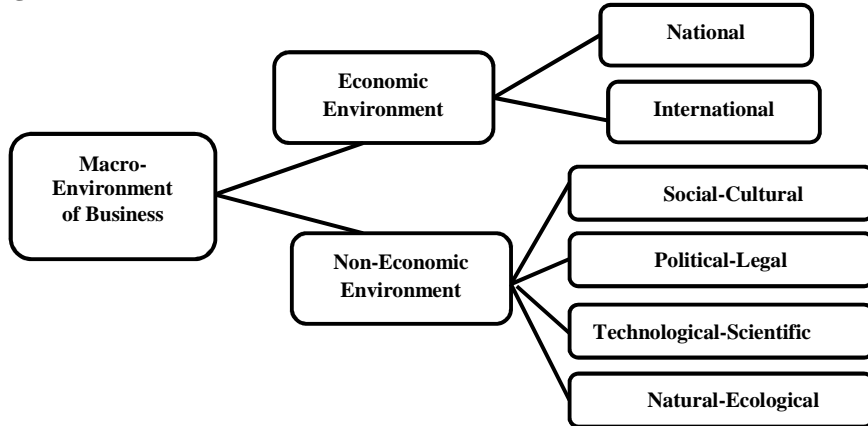
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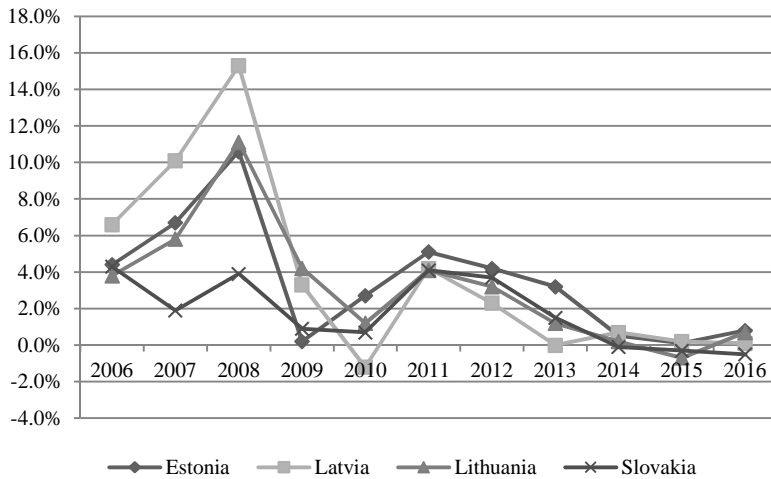
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## Annex

**Figure 1.** Elements of business macro-environment

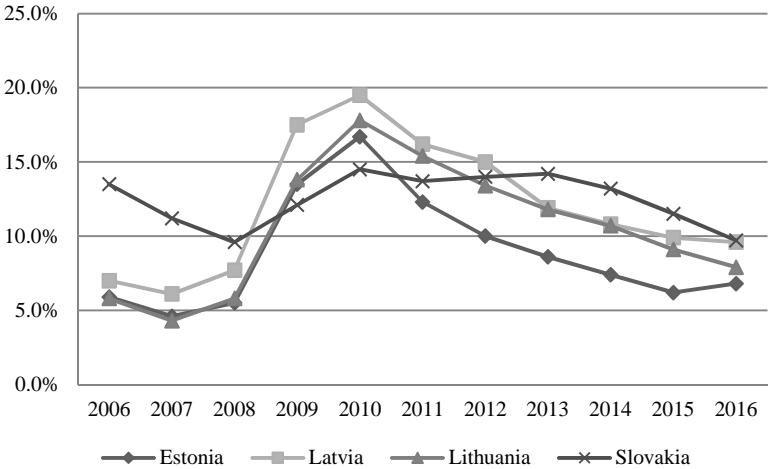


**Figure 2.** HICP-inflation rate, annual average rate of change, in percent



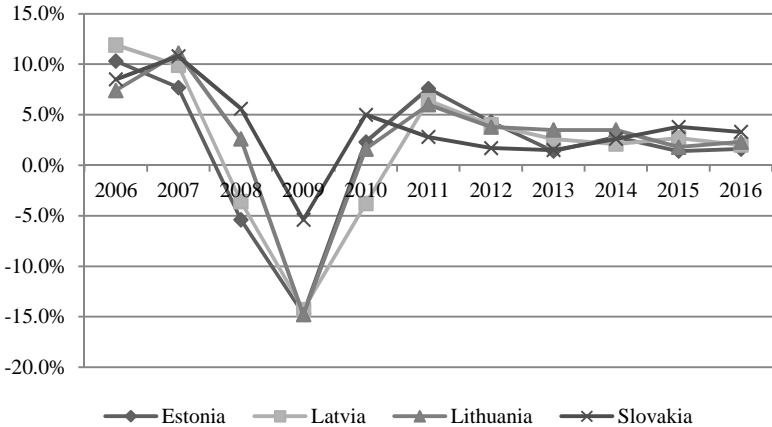
Source: own calculations based on Eurostat (2017).

**Figure 3.** Unemployment-annual average, percentage of active population, in percent



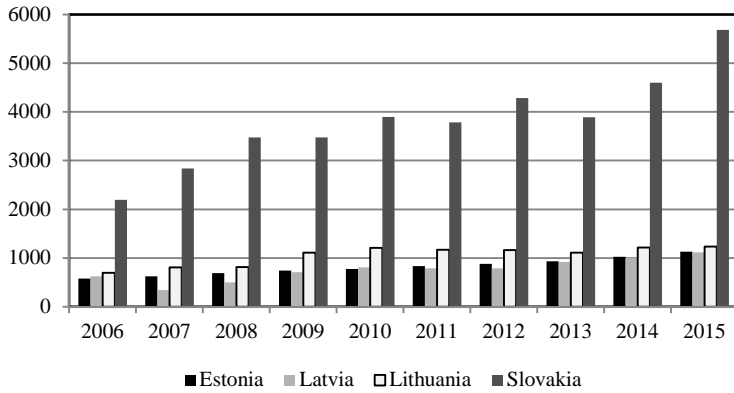
Source: own calculations based on Eurostat (2017).

**Figure 4.** Real GDP growth rate, percentage change on previous year, in percent



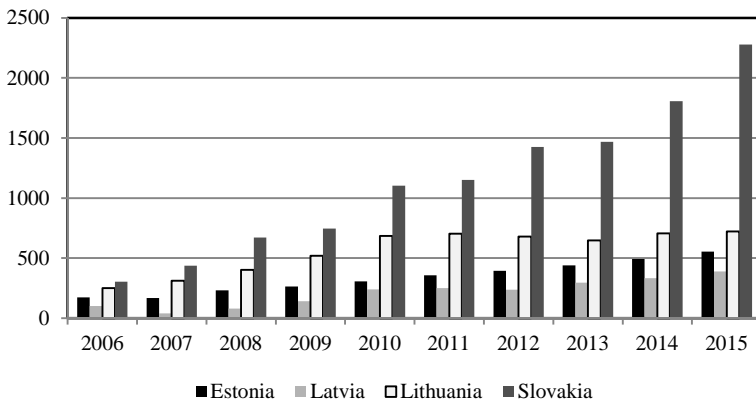
Source: own calculations based on Eurostat (2017).

**Figure 5.** Number of organizations introduced quality management system as per international standard ISO 9001, in units



Source: own calculations based on ISO Survey (2017).

**Figure 6.** Number of organizations introduced quality management system as per international standard ISO 14001, in units



Source: own calculations based on ISO Survey (2017).