

Old traditions revived in the Baltics

By **Sten Luiga**, Senior Partner, Borenium Tallinn
Ieva Azanda, Senior Associate, Borenium Riga
Dr Dalia Foigt, Senior Partner, Borenium Vilnius

The demand for more corporate social responsibility (CSR) is being driven by the realisation that the state cannot do everything alone and corporate responsibility can assist business development and efficiency. Despite the fact that the basis of CSR has been recognised by Western societies since 1960, the principles have only become known in the Baltic countries in the last five years and before that awareness of CSR among firms in the Baltic States was low. Although some elements such as responsibility for the working environment, business ethics and involvement in charities had been part of the Baltic business culture since the first foreign capital arrived, introducing a culture of corporate responsibility to the region's business spheres was different. The demand for CSR itself started to develop only recently. And that demand is on the rise.

Following the fall of the Soviet Union, which brought rapid economic growth along with wide-scale privatisation, it was understandable that at the beginning most companies were more focused on their own survival and did not pay much attention to their responsibilities to society. Hence, the idea of business ethics only started to form after Estonia, Latvia and Lithuania regained their sovereignty in the early 1990s.

Not only are large companies now showing their interest in CSR, but smaller ones are also taking part in such programmes and have created their own principles and even codes for CSR. For example, policies have been adopted relating to environmental protection, health and safety for employees, equal rights for its employees - following

the prohibition of discrimination in respect of age, gender, origin and convictions - and fair competition.

It is important to note that most companies in the Baltic region not only decide their own principles and codes of CSR, but they make evaluations each year as to how these principles are being applied.

From profit making to social outlook

The ideas of the American economist, and founder of *laissez-faire* theory, Milton Friedman were strongly supported, mostly in Estonia, but also in the other Baltic States, and it followed that the most important goal for companies was to make a profit at any cost. Now, with good growth in the last few years in the region's economy, the trends of socially responsible businesses have found a way to business leaders in the three neighbouring countries. It is not only important what business is done, but rather how it is done.

A number of reasons explain why CSR has been introduced to a wider number of businesses in the past five years. By becoming a full member of the European Union (EU) in May 2004, Estonia had to adapt the economic and political traditions and rules of European society. Joining the EU has had similar influences on Latvia and Lithuania. Although the integration of European legislation and cultural aspects is still in progress, Estonian economic and political leaders have gained new ideas and experience of business ethics. Also one cannot overlook the influence of half a century of doing business in a totalitarian regime and transferring corporate responsibility towards society.

Secondly, to be competitive a company requires constant investment and improvement. The loan market is one option for further developments of companies. Not only Estonian but also Latvian and Lithuanian businesses have started to actively apply for loans from European financial institutions like the European Bank for Reconstruction and Development and other structural funds. Companies' social activity is very closely monitored in the process of the loan application whether approved or not. Hence, it is of increasing importance for a company to adopt a high standard of corporate governance, assuring a good working environment and improving the business atmosphere as a tool for economic growth. As a whole this has enhanced the evolution of CSR in the Baltic States.

Last but not least, the arrival of foreign capital left its mark in the expansion of CSR programmes. As the financial sector and the flow of monetary assets carries a significant importance in the Estonian economy at large, the success of the banking sector influences other areas of activities as well. Leading domestic commercial banks, which are mostly foreign capital based, have long-term knowledge in responsible ways of doing business. The pioneer in this field is a subsidiary of the leading Swedish banking group. They operate in Stockholm and in all three Baltic countries and were the first to introduce scholars to successful students and to organise charity funds for sectors in need.

Parallels can be found from the neighbours of Estonia. In Latvia similarities emerge when looking at the business conduct of a major pharmaceuticals firm, which has joined the UN Global Compact, uniting socially responsible businesses from the whole world. Being aware that the best way to support the development of science is via educating the new generation of scientists, this enterprise allocates scholarships to both

well-recognised scientists and also complete newcomers to the arena of scientific research.

Moreover, though not yet members of the OECD, commitment to CSR is also reflected in the fact that all three Baltic states adhere to the OECD Guidelines on Multinational Enterprises.

Legal issues under focus

Laws regulating the implementation of CSR in Estonia do not provide any specific provisions for supporting the field. As the Commercial Code requires from management that business entities should be managed in an economical profitable way, the managers of the companies must have a strong mandate from their shareholders for making donations and supporting charities.

In Estonia, tax legislation regulates the implementation of CSR behaviour. For example, companies may, on their own approval, use 3% of sums subject to social taxes or 10% of the profit earned during the previous financial year for non-governmental organisations (NGO), recognised as such by the government of Estonia. All other donations may cause additional tax liability in case management cannot relate the charity activity to the business of the company.

In Lithuania, there is no obligatory legislation concerning CSR at the moment. The companies may create their own policy of CSR or follow the guidelines of the plan to stimulate social responsibility of enterprises for years 2006-2008 from the Ministry of Social Security and Labour, or maintain the status quo—it is their choice to make.

As for the first option, the creation of their very own CSR policy, the companies are free to choose their own methods following the principle that “everything that is not banned is allowed”.

But these methods should not aim to avoid legal requirements and to increase profits. For example, the enterprise cannot buy new cars or other expensive presents for their workers and pay them smaller salaries in order to avoid tax liabilities, declaring at the same time that they are improving working conditions. Such CSR policy will definitely draw attention of state tax inspectors. So



Dalia Foigt



Sten Luiga



Ieva Azanda

when a company wants to start its activity in the field of CSR, legal requirements regarding taxes should be considered in order to avoid unpleasant encounters with the taxman.

As regards national policy in the field of CSR, in 2005 the Lithuanian Ministry of Social Security and Labour passed a plan aiming to stimulate the social responsibility of companies for the years 2006-2008. This legal act defines CSR and also lists the ways to increase the knowledge of CSR in the business community. One way is public homage of the company that implements social responsibility in their activities. For this purpose awards for National Responsible Businesses for the year 2007 took place in the beginning of 2008. These awards were given for "Socially Responsible Enterprise of the Year 2007", "Workplace of the Year 2007" and "Partner of the Year 2007".

The media has also taken its own initiative to increase the importance of CSR. Its involvement includes: "The Most Respected Companies of Lithuania for the Year 2008" award - the purpose of which was to promote ethical and honourable businesses. This award was arranged by a private newspaper and several companies, and included recognition for the most respected company, the best leadership, and the most responsible enterprise.

Recently the Draft Law on Social Initiative was presented for the consideration of the Lithuanian Government. The term "social initiatives" is defined in the draft law that embodies CSR, and is considered to be the voluntary activity of companies designated to increase the social welfare of employees and other individuals, to promote their loyalty, to secure human rights, to improve public health, to follow environmental standards, to implement clear and ethical business practices, to increase prestige, attractiveness and competitive ability of enterprises and to achieve other societal goals and of socially responsible business. Charity is not considered a social initiative.

In this perspective, Lithuania, compared to Estonia and Latvia, has taken a giant leap towards making a legal framework to follow when talking about CSR.

Not only charity

CSR should not only be associated with charity activities or granting donations, but it should rather reflect a behaviour, the aim of which is to take an interest in politics, family, social status, welfare, health and the well-being of employees and partners. The most basic and initial form of CSR that can be met in the Baltic region is undeniably charitable donations.

Money is commonly donated by firms and businesses to charitable causes. The Baltic economies have developed fast in which at least some industries and employers have started to recognise that their employees require more than a simple wage in exchange for a number of hours worked or projects completed. Thus, another CSR trend could be labelled as "better understanding" and dialogue between the corporations and their employees aimed at achieving the optimum model for both sides. In addition, companies have started to understand that it is in their best interests in the future to support the development of specific professions.

The ways in which law firms are involved in CSR are numerous. There are firms sponsoring moot court petitions organised in Vienna and The Hague. Others are donating money or additions to the library collections of universities while a number of experienced professionals are combining their daily legal work with teaching at various academic institutions where young lawyers are trained. Thereby the practising specialists can integrate themselves with the academic environment, helping to improve the level of university education available in the country and, what cannot be forgotten, the lawyers can spend some time discussing the issues they encounter every day when providing legal assistance with soon-to-be newcomers to the industry.

Change of mindset

The surveys conducted in recent years show that business leaders in Estonia, as well as Lithuania and Latvia, understand CSR as an ethical way of carrying out business and the business entity must act as a part of society caring for its fellow citizens. The business as a subject must act and operate justly as any citizen should. Any firm with developed and

applied CR culture is successful due to motivated employees and the value it earns through a good relationship between personnel and loyal clients.

The trend in Estonia is that CSR adaption in daily business is firstly preceded by economic profitability, which is then transferred to social support and is binding for the company, its partners and employees. The profits earned by Estonian companies in previous years have allowed them to improve the poorer aspects of society and plug holes.

There is still a long way to go as not all Estonian businesses recognise these principles. Many believe that the main focus of business entities should be earning profits for their shareholders, paying taxes and providing people with places to work. In light of this view, CSR has been thought of more as an evolving alternative. The solution for such a standpoint might be a partnership between the company and an NGO, whereby both parties follow their main principles - the company earning its turnover and the NGO helping those in need.

In Latvia, legal businesses have been attempting to widen the concept and address the issues of legal education and handle *pro bono* cases when needed. Recently, other industries have started to show signs of more developed understanding of the concept too. For instance, large supermarket chains have incorporated environmental responsibility in their business and have started offering bags that are biodegradable, to replace their plastic counterparts. Bearing that in mind, it could very well be that the days of pure profit-driven business in Latvia are over.

Any company operating in the 21st century must implement the principles of CSR. The reasons may lie not only in the ethical beliefs but also in the responsibility companies have to their environment and society. Nevertheless, the principles of CSR should comply with the fact that each business is obliged to earn its shareholders a profit and to increase market share. It is important to note that CSR can also be applied as a tool to achieve economic goals and a corporate mission. ●