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## The importance of corporate social responsibility in Lithuania's finance and telecommunication industries

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### Abstract

Companies in Lithuania follow international trends of social responsibility and start to declare their social responsibility to create positive consumer attitude. However, it is not determined if socially responsible activities are noticed by consumers and if they are noticed, are these activities perceived positively. Therefore, the purpose of the article was to identify the Lithuanian population approach to social responsibility declaring companies from telecommunications and financial services sectors. The content analysis of public information from 3 telecommunication companies and 6 finance companies was performed and 6 companies selected for further analysis. The survey of 95 respondents was carried out, which revealed that particularly in telecommunications and financial services sector consumers prefer service quality and consumers satisfaction more than social responsibility, although in general consumers approve socially or environmentally oriented actions by the companies.

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### 1. Introduction

In today's competitive market environment, companies that want to succeed have to find new ways to stay ahead of the competition. Concentrating only on the service or product quality may not be enough. More companies than ever before are trying to leverage the associations that stakeholders have of them in order to gain strategic advantages (Sen, 2006). One of the possible ways to influence corporate associations is corporate social responsibility (CSR).

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Interest in responsible corporate behavior has been increasingly growing. More than a decade ago, Davis (1999) predicted that a corporation's CSR reputation will become increasingly important as the public becomes more aware of and sensitive to positive and negative corporate behavior. Researchers have noticed that advertising with a social dimension was on a rise and many companies started to fund large national ad campaigns promoting their good works (Luo & Bhattacharya, 2006). Now nearly 90% of the Fortune 500 companies have explicit CSR initiatives (Lichtenstein, Drumwright, & Braig, 2004). However, it is still unclear whether socially responsible actions are perceived equally important as environmentally responsible actions and if CSR in general is important in all business sectors.

## 2. Literature review

Potential benefits of CSR initiatives to a company's reputation have been emphasized by academic research. Studies have shown that awareness of a firm's CSR will positively affect stakeholders' associations of the company (Sen, 2006). Luo & Bhattacharya (2006) found that customer satisfaction can also be increased through CSR. Furthermore, consumers who perceive a company as more socially responsible are more likely to trust the company's products (Pivato, Misani, & Tencati, 2007). And consumer groups which consider CSR activities beneficial to their in-group increase their patronage of the company (Russell & Russell, 2009).

Financial benefits of being a socially responsible company have also been noticed. Both, Lee & Shin (2010) and Sen (2006) studies found a positive relationship between consumers' awareness of CSR activities and intention to consume company's products. Latter research has also showed that awareness of a company's CSR will be associated with a greater intention to seek employment with the company and also with a greater intention to invest in the company. While another study stated that CSR increases a firm's long-term financial performance through customer satisfaction (Luo & Bhattacharya, 2006). The same researchers calculated that a one unit CSR ratings increase for a typical company with an average market value of approximately \$48 billion would result in approximately \$17 million more profit on average in subsequent years.

However, CSR concept has been seen mostly as a company's initiative to be environmentally friendly. And while the general definition of CSR allows for many various operationalizations, the corporate record on the environment is one of the most frequently used manifestations of the construct (Klein & Dawar, 2004; Russell & Russell, 2009). Perhaps the reason being that interest in environmental issues has become increasingly mainstream (Lassaad, 2012) and it is relatively easy for companies to do environmental harm, especially in some industries. Such industries are viewed as environmentally sensitive, for example, mining, metallurgy, brewery, textile, pharmacy, etc. Studies have showed that companies which represent these sensitive industries are more likely to disclose information about their responsible behavior (Liu & Anbumozhi, 2009; Patten, 2002).

However, the concept of CSR is much broader than environmentally responsible actions. The European Union defines corporate social responsibility as "the responsibility of enterprises for their impacts on society", meaning that CSR is a comprehensive concept and should not be focused mainly on environmental actions. Murphy, Öberseder, & Laczniak (2013) also view corporate social responsibility in a more "holistic" way. Thus considering environment to be only one of the several corporate responsibility domains, which are: customers, employees, suppliers, local community, stakeholders and society.

Accepting this broader understanding of corporate social responsibility we chose to focus our research on non-sensitive industries, such as finance and telecommunication. The specifics of these sectors are their products – which are non-tangible services, therefore exclude such aspect as production process in the evaluation of CSR activities.

It is not new to analyze the concept of CSR in service industries since the holistic CSR view has become more accepted. Various research involving CSR concept has been done in finance and specifically in the banking sector (Mandhachitara & Poolthong, 2011; Papsolomou & Demetriou, 2005; Pérez & Rodríguez del Bosque, 2011; Poolthong & Mandhachitara, 2009) and in the telecommunication sector as well (He & Li, 2010), indicating growing importance of CSR in the service industry.

The context plays important role when analyzing different countries and especially specific corporations. The concept of corporate social responsibility and most empirical works on this topic originated from Anglo-Saxon countries – mainly the USA and United Kingdom (Lee & Shin, 2010; Maignan, 2001). Given the international scope

of corporate activities today, it is important to know whether corporate social responsibilities are perceived in the same manner for other country context as well.

In Lithuania several authors have researched corporate social responsibility actions, for example Banyte *et al.* (2010) determined that well known manufacturers can expect more positive attitude to their eco-friendly products. While Diskiene *et al.* (2012) found that even in close countries like Lithuania and Belarus the perception of CSR among business representatives differs, again, showing the importance of the analyzed context.

Still, while all the positive CSR effects on a company's reputation and possible financial benefits are quite clear, it is important to note that in order for a corporation to gain these CSR advantages, customers have to be aware of the companies CSR initiatives. Lee & Shin (2010) found that CSR activities in the form of corporate environmental contribution had little effect on consumers purchase intentions as they were less recognized with the possible reasoning that corporate environmental activities were not adequately delivered to customers. Thus, authors emphasized the importance of efficient and effective communication tools.

Sen (2006) in his study also states the importance of customers CSR awareness: "awareness of a company's CSR initiatives among its consumers is a key stumbling block in its quest to reap strategic reward from its CSR activities: consumers' ability to accurately identify the CSR activities of the firms they consume from is, in general, quite low". The same study did an experiment after a Fortune 500 consumer packaged-goods company gave a substantial gift to a large public university in support of an education and development center for underprivileged children living in communities near the university campus. It is stated in the paper that the gift was announced to the community through a number of channels, including e-mails, press releases, announcement at a high-profile sports event, university newspapers and magazines. However, results of the experiment showed that despite all the effort, awareness of the donation amongst the community members was low: out of 590 participants only 98 knew about the company's donation.

Another study specifically designed to indicate consumer awareness of CSR initiatives in the banking industry sector found low awareness levels as well (Pomeroy & Dolnicar, 2008). The study tested both, verbal and graphical recall of real CSR initiatives and discovered that on average respondents stated to be unsure about 13 of 20 verbal stimuli while 40% stated to be unsure with every verbal item. Across 14 graphical recall items, on average respondents stated being unsure about 12. The same research also observed that consumer awareness did not mirror the advertising campaigns that were running on several CSR activities during the fieldwork stage of the project, thus suggesting that targeting CSR activities to clearly defined market segments may be a more effective approach than communicating a CSR activity to the majority of the public through mass media.

Furthermore, it should be noted that while CSR initiatives are important and can truly be beneficial to a corporation, CSR is not the most important factor influencing consumer's opinions. In the context of purchase criteria, CSR has to compete with price, quality, brand, country of origin, or service (Öberseder, Schlegelmilch, & Gruber, 2011). Qualitative studies found that often, when consumers are considering a purchase, CSR has less importance compared to other purchase criteria (Öberseder, Schlegelmilch, & Gruber, 2011). Factors, such as convenience, price and range remain dominant, even among ethically and socially concern shoppers, thus, resulting in a convenience and price trade-off against consumers ethical and social responsibility values (Memery, Megicks, & Williams, 2005). Berens, Riel, & Rekom, (2007) while analyzing the relation between corporate abilities and corporate social responsibilities influence on customers purchase intentions, observed that a good corporate ability is necessary precondition for a positive reaction to occur, meaning that a poor corporate ability cannot be compensated by a good corporate social responsibility.

Finally, talking about the obstacles a company might face when implementing CSR initiatives, it has been also observed that on some occasions positive benefits may not occur. Examples of such situations are consumers belief that if a company invests more in CSR, then the company may compromise its corporate ability development (He & Li, 2010) or that some people assume that products of socially responsible companies are more expensive than possible alternatives (Öberseder, Schlegelmilch, & Gruber, 2011)

Taking everything into consideration, the fact that telecommunication and finance corporations are considered non-sensitive industries in regard to the environmental responsibility, shoppers practical preferences when choosing products and services or that generally consumer awareness of CSR initiatives tends to be low, it is quite clear that CSR is a complicated concept and various factors have to be included into consideration to accurately determine the

effectiveness and possible benefits of CSR activities. Hence, it is likely that corporate social responsibility is not always as effective as it should be in theory.

### 3. Methodology

The study was conducted in the period between the 13th of July and 28th of July in 2013. A total of 100 people participated in the study from various regions of Lithuania. However, five questionnaires were not fully answered and were thus excluded from the study resulting in 95 samples. The average age of respondents was 26 (mean=26, minimum=19, maximum=54) and 56.3% of the participants were female (N = 54).

Corporation sample selection was based on a brief analysis of all major Lithuanian companies operating in telecommunication and finance sectors. Data for the analysis was included from corporate social responsibility reports and information on official web pages. Company's level of social responsibility was indicated by summarizing information focusing on five categories: reporting social responsibility activities, societal responsibility, environmental responsibility, responsibility to employees and donation projects. The CSR reports category was scored by 1 if the company submitted at least one responsibility report and scored by 2 if the company was showing reports for two or more years, meaning that it is more likely that the company has been socially responsible for a longer period of time. The rest of the categories, excluding donation projects, received a score for each different initiative. The donation category, similarly to the CSR reports category, was scored by 1 if there were any donation initiatives and scored by 2 if there were a significantly more initiatives compared across all the companies that were included into the analysis. Reason being that it is more complicated to objectively identify and compare donation activities since an even small financial donation without any "real" involvement from the company's part could be counted as a donation project, thus, making the final scores less objective.

Brief analysis of social responsibility amongst Lithuanian telecommunication and finance companies resulted with "TEO" being in the first place with the final score of 25, "Omnitel" and "Swedbank" sharing the second and third places with an equal score of 22 and "SEB" scoring 18 placing it fourth on the list.

Two corporations with the highest social responsibility score and one with the lowest were chosen for each of the sectors, which resulted in inclusion of these companies from the telecommunication industry: "TEO", "Omnitel", "Tele2" and companies from the finance sector: "Swedbank", "SEB", "DNB".

Table 1. Level of social responsibility in finance and telecommunication sectors

Company's name	CSR reports	Societal responsibility	Environmental responsibility	Responsibility to employees	Donation projects	Final score
<b>TEO</b>	2	7	6	8	2	25
<b>Omnitel</b>	2	5	4	9	2	22
<b>Swedbank</b>	2	5	8	5	2	22
SEB	2	6	4	4	2	18
Danske bank	2	2	5	6	1	16
Šiaulių bankas	2	3	2	4	1	12
Medicinos bankas	1	1	3	4	1	10
<b>DNB</b>	0	3	0	0	2	5
<b>Tele2</b>	0	1	2	0	1	4

It ought to be noted that these results may not be 100% objective since some issues emerged with other categories as it did with the donations analysis mentioned previously. Different views exist on what should be considered as a real socially or environmentally responsible action. Hence, some companies may enclose even the smallest positive actions while others may publicize only major improvements or initiatives. However, on most part, the analysis represents a realistic view of the company's efforts in publicly disclosing information about their socially responsible behavior and initiatives.

For the research instrument, we used a questionnaire aimed at measuring customer-based corporate reputation of a service firm developed by (Walsh & Beatty, 2007). The questionnaire was modified by expanding the corporate social responsibility factor. Thus, the dimension of CSR action approval was included from another scale developed by (Russell & Russell, 2009). Excluding socio demographic characteristics, a five-dimensional scale was used for all the questions with the following dimensions: Customer Orientation, Good Employer, Reliable and Financially Strong Company, Product and Service Quality, and Social and Environmental Responsibility, CSR action approval and Customer satisfaction. Participants had to indicate their level of agreement with a total of 40 statements ranging from 1 (disagree) and 5 (agree).

Conceptual model was developed which aimed and identifying which of the factors has the strongest influence on customer satisfaction in telecommunications and finance sectors: Customer Orientation, Good Employer, Reliable and Financially Strong Company, Product and Service Quality, Social and Environmental Responsibility, or CSR action approval.

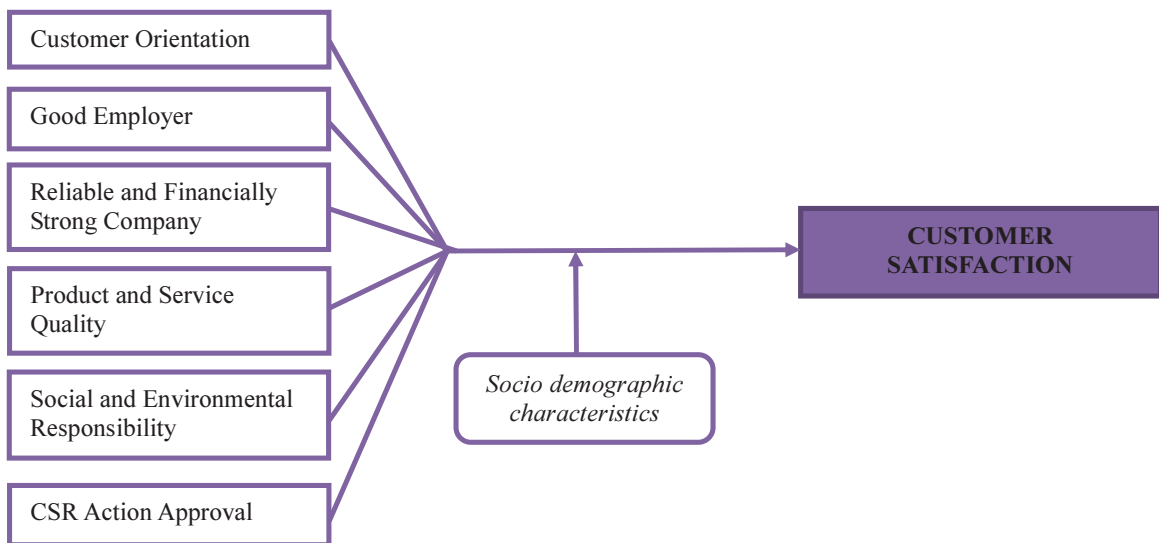


Fig. 1. Conceptual model

#### 4. Results

General results of research factors means are showed in Fig. 2. Product and service quality was the most recognized factor: respondents agreed most with statements from this category (mean=3.58). Customer satisfaction was second in line (mean=3.56) while environmental responsibility approval was third with almost identical result (mean=3.5). Approval of environmental responsibility was also recognized more than approval of social responsibility (mean=3.52). Loyalty factor together with social and environmental responsibility were the two least recognized research dimensions (means 2.78 and 2.89).

It should be noted that research factors determining the approval of social and environmental responsibility were aimed to observe the view of CSR on a general level. In other words, finding do people approve or disapprove more of actions involving social or environmental responsibility. Thus, resulting in considerably different responses compared to social and environmental responsibility dimension in which questions were aimed to determine a more realistic view, i.e. is a particular company seen as responsible towards both, the environment and society.

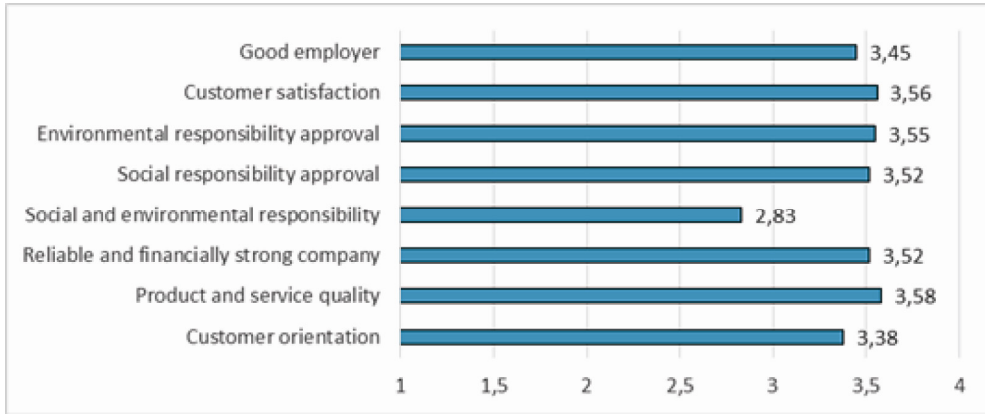


Fig. 2. Means of research factors

Research factor means based on telecommunication industry companies can be seen in Fig. 3. “Tele2” had the best results in most of the categories, excluding approval of environmental responsibility (mean=3.49) and social and environmental responsibility (mean=2.79), in which “TEO” was recognized more often (means 3.57 and 2.85).

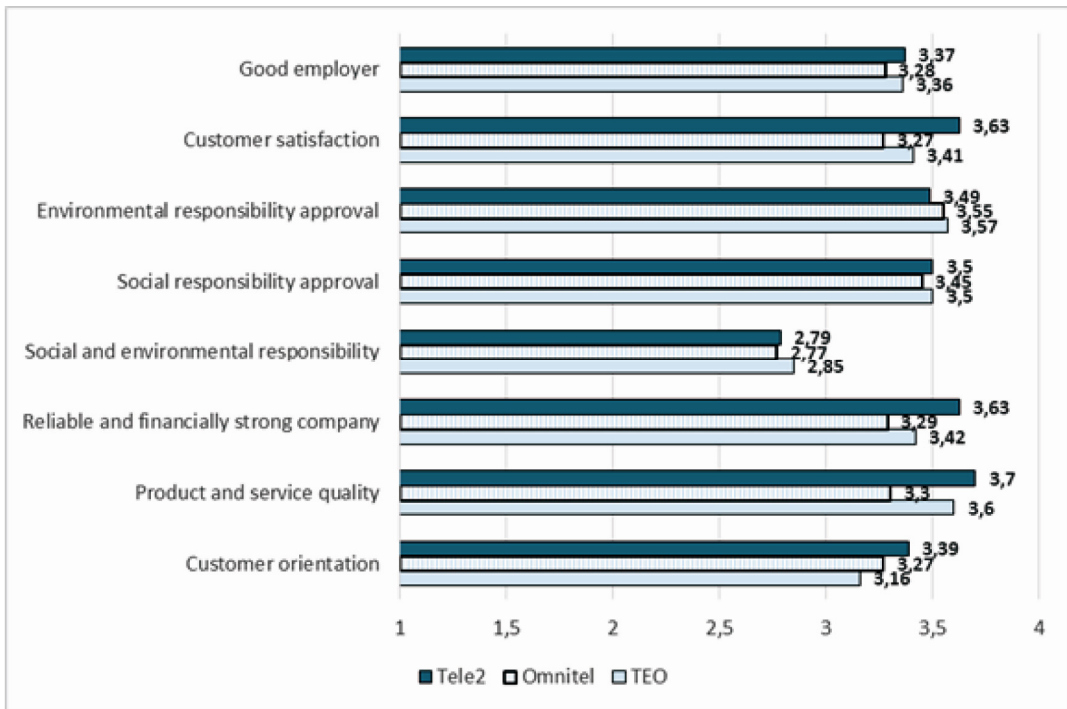


Fig. 3. Means of research factors in telecommunications sector

Factor means based on finance industry are showed in Fig. 4. “Swedbank” scored highest in the finance industry: respondents agreed most with statements about “Swedbank” in all categories but one. Product and service quality were recognized more while responding about “SEB” and “DNB” corporations, which both had identical result (mean=3.7).



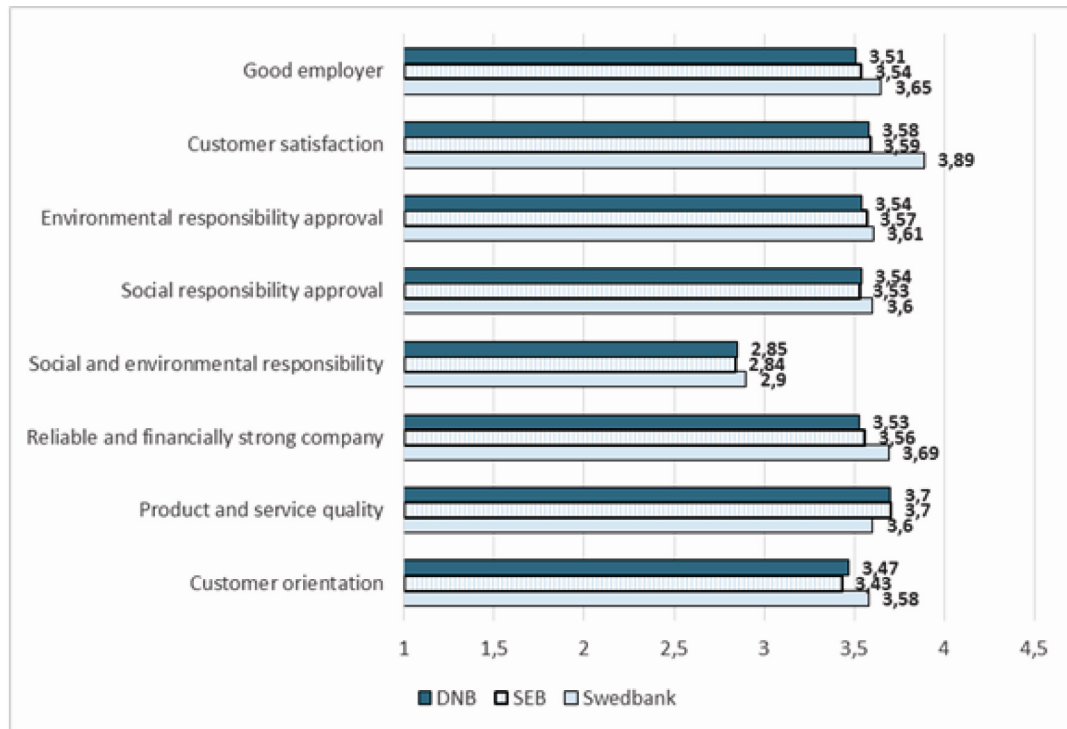


Fig. 4. Means of research factors in finance sector

No significantly different tendencies were seen between general factor means and means based on different industries. Product and service quality together with customer satisfaction were the most recognized dimensions while loyalty and social and environmental responsibility categories were least recognized by the respondents. Although, comparing the results between both industries, there is a difference in overall reputation: respondents seem to have a more positive view on the finance sector companies.

Also, it should be noted that in essence, the differences between research dimensions or the differences between industries were not large. Excluding both categories which were recognized least (loyalty and social and environmental responsibility), all other research factors were not that different and had a mean between 3 or 4 which, in speaking terms, means that respondents were more likely to agree with statements in these categories.

Comparison of the Lithuanian service sector CSR level analysis (see Table 1) and the research results showed that there was no significant relationship between the actual level of company's publicized social responsibility and society's perception of the company's social responsibility.

## 5. Discussion and conclusions

While CSR initiatives potentially may benefit a corporation in various ways, there is no guarantee that these beneficial outcomes will be achieved just by being involved in socially responsible activities. Various factors, including country and industry contexts, play an important role in determining the effectiveness of CSR. This study addresses this issue by investigating the importance of corporate social responsibility in Lithuania's finance and telecommunication industries.

This research results are consistent with previous studies addressing the importance of other factors that influence consumer decision making (Öberseder, Schlegelmilch, & Gruber, 2011; Memery, Megicks, & Williams, 2005). Product and service quality is the most regarded corporate aspect in Lithuania, while ethical and social values are relatively less recognized. Possible reason being that an average Lithuanian person might not have the financial resources available to them to favor socially responsible companies as the country's economy is not advanced as

some other European countries: 2013 “Eurostat” data shows that Lithuania’s GDP per capita is lower than the average of European Union. Antil (1984) observed that an average socially responsible consumer is more satisfied with his job and also believes that his family income is high enough to satisfy nearly all important desires which indicate a link between CSR importance to an individual and his perceived wealth. Considering all things, it is reasonable to suggest that consumer financial well-being has a significant impact on the actual importance of corporate responsibility. Thus, resulting in the significance of other corporate aspects in Lithuania’s service industry, such as product and service quality.

Most importantly, this study found that not only is the CSR in Lithuania’s service sector less important than other factors, such as product and service quality, but also that CSR is the least regarded aspect of corporate reputation. To our surprise, the amount of CSR initiatives does not significantly impact people’s opinion and belief if the company is or is not socially responsible. For example, company “Tele2” in the official website states that their main aim is to consistently provide inexpensive telecommunication services and that this company does not seek to be widely involved in CSR initiatives. This aim is reflected well in our analysis of CSR levels among Lithuanian companies: “Tele2” had the lowest score and placed last. However, people did not view “Tele2” as the least socially responsible company. The same applies to “TEO” as it was not seen as the most socially responsible company despite being first in our analysis of socially responsible initiatives.

These results imply that for Lithuanian companies working in non-sensitive industries, such as finance and telecommunication, which provide non-tangible products and services and, thus, do not significantly harm the environment in any way, it is not necessary to be involved in socially and environmentally responsible initiatives. Financial and labor costs may not outweigh the possible benefits since consumers are usually not aware of these CSR efforts.

Nonetheless, it would be wrong to imply that Lithuanian people do not care about corporate environmental and societal responsibilities. The approval of both, social and environmental responsibility was relatively high, implying that individuals understand the importance of CSR initiatives and agree with such actions. However, the reality is that this view does not have a major influence on the way people perceive a corporation, at least in Lithuania’s service industry.

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