

## **THE DEVELOPMENT OF CORPORATE SOCIAL RESPONSIBILITY IN LITHUANIAN FOOD INDUSTRY**

**Valentinas Navickas**

Kaunas University of Technology

Professor

E-mail:

valentinas.navickas@ktu.lt

**Rima Kontautienė**

Kaunas University of Technology

PhD student

E-mail:

rima.kontautiene@stud.ktu.lt

### **—Abstract —**

The authors of the article analyze the development of corporate social responsibility in Lithuanian food industry. By emphasize the importance of food industry as one of the largest manufacturing group in Lithuania and its strong impact and high dependence on the economy, the environment and on society, implementation of principles and practice of corporate social responsibility is of high relevance for this sector. The paper deals with the main indicators of Lithuanian food industry in 2006-2012 and the features of enterprises of Lithuanian food sector in the context of sustainable development. Researched the features of Lithuanian food sector the authors found that development of principles of corporate social responsibility is still not very common in practice in this sector and that an active development of socially responsible principles and practice could be one of the most effective forms of Lithuanian business responses to the challenges of the sustainable development.

**Key Words:** *Corporate social responsibility, Sustainable development, Food industry, Lithuania*

**JEL Classification:** M14, L66, Q01

## 1. INTRODUCTION

One of the most effective forms of business response to the challenges of sustainable development is corporate social responsibility (CSR). According to the European Commission's definition (2011), "to fully meet their corporate social responsibility, companies should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders..." (European Commission, 2011: 6). The concept of corporate social responsibility has changed today to being more relevant in the decision making of enterprises, due to factors such as information development that has made consumers and other stakeholders more aware of how companies behave and take responsibility. "CSR gradually becomes a concurrent part of modern companies' activity" (Juscus and Snieska 2008: 34). Also consumers are increasingly interested in sustainable and responsible food production and consumption. In this view, the development of CSR in the food industry is particularly important.

While the development of CSR principles and practice in Lithuanian food industry which suggest responding to challenges facing industry throughout production chain according to sustainable development has received a little attention in the literature, this study is significant and topical in term of novelty.

The object of the study is development of corporate social responsibility.

The aim of the study is to analyze the development of corporate social responsibility in Lithuanian food industry.

The tasks of the study are:

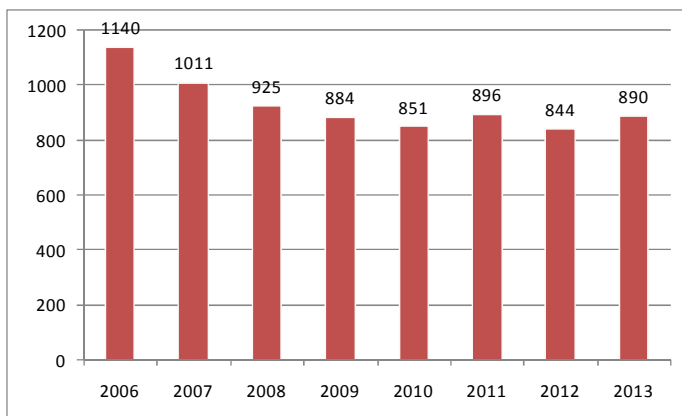
- To highlight key indicators of Lithuanian food industry in 2006-2012.
- To disclose the main challenges facing Lithuanian food industry.
- To explore the features of development of corporate social responsibility in Lithuanian food industry.

Methods of the scientific research that have been employed in the paper are systematic, logical and comparative analysis of scientific literature, synthesis and secondary statistical analysis. The paper is organized as follows: the first part reveals key indicators of Lithuanian food industry in 2006-2012. The second part provides an overview of main challenges facing Lithuanian food industry throughout the production chain in the context of sustainable development. The features of CSR development in Lithuanian food industry are presented in the third part.

## 2. KEY INDICATORS OF LITHUANIAN FOOD INDUSTRY

The food industry is one of the largest manufacturing industries in Lithuania. This industry is one of the most integrated into the global economy (Pekarskienė and Susnienė, 2012: 549). In 2012 this sector accounted for 18% of the sold manufacturing production. This industry is made up of 9 subsectors (meat, fish, fruit and vegetables, fats and oils, dairy, grain, feed, other foods, drinks), which have a poor interface and support only fragmentary cooperation (Jucevičius et al., 2012: 68). 890 companies have operated in Lithuanian manufacture of food products and beverages at the beginning of 2013. For the 2006-2013 period the number of enterprises in this sector decreased from 1140 enterprise in 2006 to 890 companies in 2013 (see Figure-1). A concentration in Lithuanian food and drink industry most influenced following developments in recent years (Rutkauskaitė, 2013). Small and medium-sized enterprises make up of 91% of all enterprises in the sector. The turnover of food and beverages manufacture has been growing in recent years and amounted to 12, 6 billion LTL in 2011. In relation to the total turnover of the companies in the country, the turnover of the enterprises in the sector come to 5, 94%. Manufacture of food products, beverages, tobacco has a sufficiently high level of labour productivity (Sabonienė and Karazijienė, 2012: 563). An increased labour productivity had a positive impact on the development of Lithuanian industry, including food and beverage sector, last year (Government of the Republic of Lithuania, 13: 5).

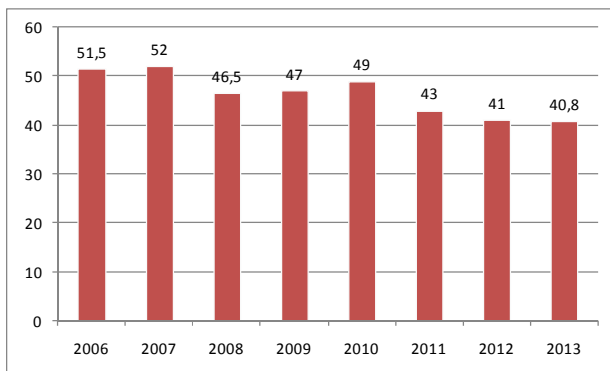
**Figure-1:** Number of economic entities of Lithuanian food products and beverages manufacture in operation at the beginning of the year in 2006 – 2013 (in units)



Source: Statistics Lithuania: 2013.

In 2011 productivity in the food and beverage industry one employee of Lithuanian food, beverage and tobacco manufacturing company actually worked in food, beverage and tobacco enterprises was 47, 3 LTL. Despite the recent increased productivity in the food and beverage industry one employee of Lithuanian food, beverage and tobacco manufacturing company over the year has developed several times less added value than the average in EU countries. This indicates that it is necessary to introduce new technologies, innovation, activate the search of new markets in the food and in the industrial sector (Jucevičius et al., 2012: 68). At the beginning of 2013 in the food and beverage manufacture worked 40, 8 thousands employees (see Figure-2), who accounted for about 5% of all Lithuanian employed. According to the volume of exports the sector of food and beverage is one of the leading manufacturing industries, so it can be said that this sector is competitive internationally.

**Figure-2: Number of employees of food and beverages manufacture enterprises in operation (in thousands)**



Source: Statistics Lithuania: 2013.

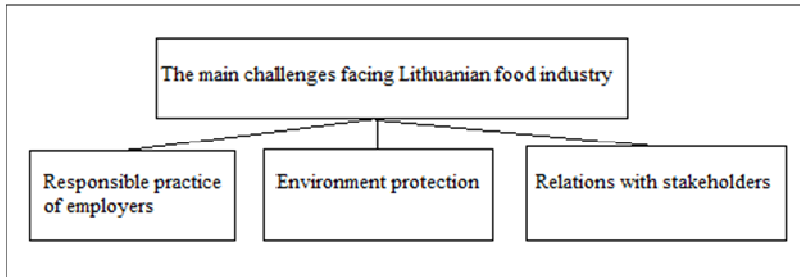
The food industry all time took up and currently holds quite a stable significant place in Lithuanian manufacturing. The sector flourished over the years, but now is facing new risks and challenges.

### **3. THE MAIN CHALLENGES FACING LITHUANIAN FOOD INDUSTRY**

Food industry meets with challenges relating to the responsible practice of labour relations, environment protection, relations with stakeholders (see Figure-3). The

legality of labour relations, i.e. an observance of legislative requirements, is a prerequisite for ensuring the quality of the workplace. According to State labour inspectorate of the Republic of Lithuania (2013), the violations of labour law and occupational health and safety, the misuse of tax obligations are often established in Lithuania (Valstybinė darbo inspekcija, 2013: 5).

**Figure-3: The main challenges facing Lithuanian food industry**



In 2011 the most violations of the occupational safety and health in the manufacturing were established in the wood (22, 1%), food (15, 3%) and textiles (12, 4%) sectors (Valstybinė darbo inspekcija, 2012: 19). So there is often confronted with the workers' dissatisfaction, which has a negative impact on the quality and efficiency of work. Dissatisfied workers are more likely to seek other employment or change jobs (Orisatoki and Oguntibeju, 2010: 1437). With the growing migration of skilled workers (Kirch and Mezentsev, 2012: 114, OECD, 2013: 272) the quality of the work in the industry declines and the search for new employees demands additional administration costs. The low motivation of employees is one of the reasons for ethical misconduct, and this is the additional cost and risk. As well as unsatisfactory working conditions encourage workers to demand higher wages.

The second group of challenges related to environmental protection. According Eurostat (2013), Lithuanian manufacture of food products, beverages and tobacco generated 162 thousand tons waste in 2010, that amounts 6, 1% of total manufacturing waste. According to Jayathilakan et al. (2012: 278), waste in the food industry is characterized by a high ratio of product specific waste not only does this mean that the generation of this waste is unavoidable, but also that the amount and kind of waste product which consists primarily of the organic residue of processed raw materials, can scarcely be altered if the quality of the finished

product is to remain consistent. Also the unused raw materials and waste mean the loss of income and an inefficient use of resources. In addition, with the increase in the quantity of waste widely grows the cost of their disposal, also increases dependence on changes in the law and on the waste-management business pricing. The use of environmentally friendly packaging is another environmentally related niche. Certain types of packaging may be harmful to the consumer.

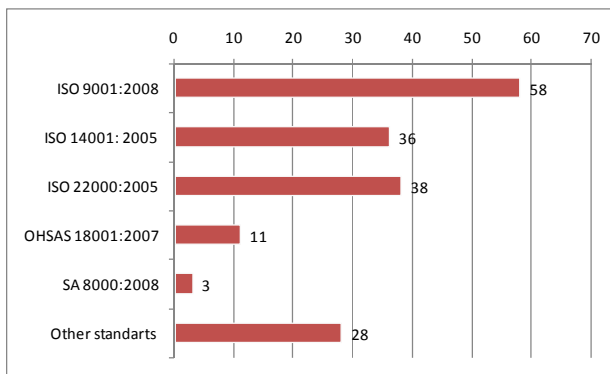
The relationship with the stakeholders is third group of challenges the food industry meets with. According to Post et al. (2002: 25), stakeholders are essential to the successful functioning of a company because they provide resources to company, form the industry structure and make up the socio-political arena. Company creates its relationship with stakeholders by taking into account concerns and interests of stakeholders (Navickas and Kontautienė, 2012: 1011). To ensure the delivery of usable (for example, unpolluted and not dated) products to the customer is the first concern of the producer, but given a significant competition and difficult economic conditions the most common tool to ensure production buying is attractive price. Unfortunately, all this encourages manufacturers in a variety of ways to reduce costs with reducing the quality of the production. The often practiced in Lithuanian food industry fault is an unsatisfactory consumer' information in labeling of packages. An interesting trend had been viewable recently - a growing number of products, in which labels and titles was written Lithuanian origin, but actually products were not produced in Lithuania (SEB bankas, 2013: 9). There are several reasons: high competition, the pursuit of profit, the less useful production and so on, that force the producers to give an impression that the goods produced in the country. However, it makes a number of threats. There is a lack of responsibility of producers in point of suppliers and a disincentive of local raw material use in Lithuanian food products manufacture (Jucevičius et al., 2009: 74). As well as the choice of irresponsible suppliers is frequent. It's at a serious threat to the business. All this results a negative reputation risk. The Lithuanian food industry is facing a number of challenges throughout the production chain which needs to solve.

#### **4. THE FEATURES OF DEVELOPMENT OF CORPORATE SOCIAL RESPONSIBILITY IN LITHUANIAN FOOD INDUSTRY**

The main motives of the Lithuanian business for CSR initiatives are the influence of foreign partners and parent companies, as well as high moral standards and the

will of business leaders to behave ethically. A significant part of the Lithuanian enterprises still stops short at offering of charity and support. An implementation of quality management, environmental management, food safety management and social responsibility standards, which is the basis for enterprise to become a socially responsible organization, into activities of businesses is very important for the integration of CSR principles. Only 174 of Lithuanian food industry's enterprises introduced certified management systems (see Figure-4). Small and medium businesses often implement certain socially responsible activities without giving these actions prominence and public utterance.

**Figure-4: Number of enterprises in Lithuanian manufacture of food products and beverages introduced management systems as per international standarts (in units)**



Source: Lithuanian Standards Board: 2013.

**Table 1: Examples of socially responsible initiatives of Lithuanian food enterprises**

Company	Socially responsible initiatives	Benefits of socially responsible initiatives	Sources
UAB "Arvi kalakutai"	Protection of the environment throughout production cycle: offal of one enterprise's is used in production by other enterprise.	Lower the cost of growing the turkeys; less negative impact on the environment; reduced costs of processed waste disposal; higher quality of production; improved image of the enterprise.	<a href="http://www.arvi.lt/karjera/">http://www.arvi.lt/karjera/</a>
UAB "DuMedu"	Eco product development: organic bread, pies, cookies, biscuits made from natural raw stuff without synthetic additives	Consumer confidence and the maintenance of competitiveness in the market	<a href="http://www.dumedu.lt">http://www.dumedu.lt</a>

	and preservatives		
UAB “Marijampolės pieno konservai”	Environment friendly food packaging: eco design of tin can	The decrease of manufacturing , recycling and transportation stages, increased competitiveness of the manufactured production in many export markets	<a href="http://www.spin-project.eu/index.php?node_id=Environment-friendly-food-packaging--ecode;58.250&amp;lang_id=1">http://www.spin-project.eu/index.php?node_id=Environment-friendly-food-packaging--ecode;58.250&amp;lang_id=1</a>
UAB „Švyturys-Utenos alus“	Waste recycling: the set up of Eco stops – a special garbage sorting centers	Noticeably reduced pollution: almost 2 500 cubic meters of garbage during the four months in 2011 was shipped out of six Eco stops garbage sorting centers	<a href="http://www.utenosalus.lt/">http://www.utenosalus.lt/</a>
UAB “RIMI Lietuva”	Anti corruption activities: a transparent pay policy, transparent tenders (public procurement)	The favorable public opinion, qualified and motivated employees, loyal consumers, and increased trust from investors and financial institutions	<a href="http://www.baltoji banga.lt/our-mission.html">http://www.baltoji banga.lt/our-mission.html</a>
AB “Nordic Sugar Kedainiai“	Training programs: retraining courses, offer additional training	Reduction in costs (e. g. smaller employee turnover, and increased employee performance).	<a href="http://www.undp.lt/uploads/Publications%20LT/ISA%20diegimas%20Lietuvos%20maisto%20pramoneje.pdf">http://www.undp.lt/uploads/Publications%20LT/ISA%20diegimas%20Lietuvos%20maisto%20pramoneje.pdf</a>
AB „Kraft Foods Lietuva“	Focusing on the social dimension segments of market: responsible marketing: the change of food and beverage advertising to children under the age of twelve	The growing trust of company’s consumers (parents) and loyalty to the company, better management of business risks	<a href="http://www.undp.lt/uploads/Publications%20LT/ISA%20diegimas%20Lietuvos%20maisto%20pramoneje.pd">http://www.undp.lt/uploads/Publications%20LT/ISA%20diegimas%20Lietuvos%20maisto%20pramoneje.pd</a>

For this reason, there is complicated to evaluate the practicable spread of CSR initiatives in Lithuanian food industry. It is possible to assess the systematic approach to social responsibility in the food and beverages sector only by individual examples (see Table-1). The production of healthier product line



becomes a long term strategy for the development of Lithuanian trademarks. This promotes a positive attitude not only of the consumers and the authorities but also the satisfaction and loyalty of employees. Waste minimization undoubtedly needs to be a central element of corporate social responsibility, but sustainable consumption will also require considerable shifts in perception and behavior among consumers (Staniškis, 2005: 45). The development of CSR practices can help not only to solve the challenges, but also can conduce to gain an advantage over other employers in attracting and retaining qualified personnel. CSR in the food industry is particularly important due to its wide range of potential benefits. Lithuanian food industry is increasingly active in integrating CSR into their activities, but the process of integration of CSR initiatives is still going slowly by the existing management style and the organization culture. For more well-run development of CSR principles and practices need the awareness and the competence of all stakeholders: shareowners, customers, suppliers, employees, the authorities and local communities.

## **5. CONCLUSION**

In 2006-2012 the food industry had the greatest comparative value in the structure of the manufacturing industry – it had to be the largest contributor to manufacturing by a common added value. 13% of all manufacturing enterprises operated in food industry. About one-fifth of all workers of the manufacturing industry worked in this sector. In 2006 – 2012 about one-fifth of the investment material value (22% on average) fell to manufacture of food products and beverage. In addition, it is the second sector in manufacturing in the area in accordance with the scale of foreign direct investment. Food industry is very important for Lithuania's economy, increasingly specialising in international markets in the production of competitive goods and exports.

Some of the main challenges facing Lithuanian food industry relate to responsible practice of employers. The legality of the employment relationship and attraction of working conditions are prerequisites for ensuring the quality of the workplace. The second group of challenges is environmental protection. First of all, the enterprises of Lithuanian food industry have to draw more attention to the surrounding environment during the whole production cycle. The main areas, to which should be paid attention, are the raw materials used in the manufacture, their source and supply, the possibility of reducing necessary resources and the

amount of waste, packaging of production, distribution logistics and reclamation of outdated products. The choice and maintaining of trusted partners is one more prerequisite for the cost reduction and the increase of the operational efficiency. The enterprises of Lithuanian food industry increasingly integrate CSR into their activities, but part of enterprises still stops short at offering of charity and support. Only one-fifth of Lithuanian food industry's enterprises introduced certified management systems. Small and medium businesses often carry on certain socially responsible activities without giving publicity to it. Corporate social responsibility is becoming a very progressive aspect of Lithuanian food and beverage manufacture and it is gaining importance in key areas such as customer preferences, employee commitment, environment protection and relationship with stakeholders.

### **BIBLIOGRAPHY**

- European Commission (2011), *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions: A renewed EU strategy 2011-14 for Corporate Social Responsibility*. COM (2011) 681 final Brussels 25.10.2011, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0681:FIN:EN:PDF>, [Accessed 1.07.2013]
- Eurostat (2013), *Generation of waste*, [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env\\_wasgen&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env_wasgen&lang=en), [Accessed 28.07.2013]
- Government of the Republic of Lithuania (2013), *Lithuanian convergent programme 2013*, [http://ec.europa.eu/europe2020/pdf/nd/cp2013\\_lithuania\\_lt.pdf](http://ec.europa.eu/europe2020/pdf/nd/cp2013_lithuania_lt.pdf), [Accessed 31.06.2013]
- Jayathilakan, K, Khudisia Sultana, Radhakrishna, K. and Bawa, A. S. (2012), "Utilization of byproducts and waste materials from meat, poultry and fish processing industries: a review", *Journal of Food Science and Technology*, Vol. 49, No. 3, pp. 278-293.
- Jucevičius, R., Vitunskienė, V. and Šajeve, S. (2009), *Lietuvos maisto produktų gamybos pramonės konkurencingumo studija*, [http://www.ukmin.lt/uploads/documents/imported/lt/veikla/veiklos\\_sritys/pramone\\_ir\\_verslas/pramone/analize/maisto\\_pramones\\_studija.pdf](http://www.ukmin.lt/uploads/documents/imported/lt/veikla/veiklos_sritys/pramone_ir_verslas/pramone/analize/maisto_pramones_studija.pdf), [Accessed 28.07.2013]

- Juscius, V. and Snieska, V. (2008), "Influence of Corporate Social Responsibility on Competitive Abilities of Corporations", *Engineering Economics*, Vol. 58, No. 3, pp. 34-44.
- Kirch, A. and Mezentsev, V. (2012), "Migration of 'Knowledge Workers' in the Baltic Sea Macro-region countries", *Baltic Journal of European Studies*, Vol. 2, No. 2, pp. 109-123.
- Navickas, V. and Kontautienė, R. (2012), "The influence of stakeholder-company relationship on competitiveness of company", *Economics and management*, Vol. 17, No. 3, pp. 1010-1015.
- Lietuvos Standartizacijos Departamentas (2013), *Sertifikavimas*, [http://www.lsd.lt/typo\\_new/index.php?id=159](http://www.lsd.lt/typo_new/index.php?id=159), [Accessed 28.07. 2013]
- OECD (2013), *International Migration Outlook 2013*, OECD Publishing.
- Orisatoki, R. O., and Oguntibeju, O. O. (2010), "Job satisfaction among selected workers in St Lucia, West Indies", *Scientific Research and Essays*, Vol. 5, No. 12, pp. 1436-1441.
- Pekarskienė, I. and Susnienė, R. (2012), "Baltijos šalių atskirų ūkio šakų globalizacijos lygio vertinimas", *Economics and Management*, Vol. 17, No. 2, pp. 547-553.
- Post, J. E., Preston, L. E., and Sachs, S. (2002), "Managing the Extended Enterprise: The New Stakeholder View", *California Management Review*, Vol. 45, No. 1, pp. 6-28.
- Rutkauskaitė, R. (2013), „Pramonės šuolis: nuo 361 mln. rublių iki 62 milijardų litų“, *Verslo žinios*, <http://vz.lt/article/2013/1/23/pramones-suolis-nuo-361-mln-rubliu-iki-62-milijardu-litu#ixzz2a4nVoZ4U>, [Accessed 31.06. 2013]
- SEB bankas (2013), *Lietuvos makroekonomikos apžvalga*, Nr. 51, Vilnius: TEV.
- Sabonienė, A. and Karazijienė, Ž. (2012), "Productivity dynamics in Lithuanian manufacturing industry", *Economics and Management*, Vol. 17, No. 2, pp. 560-566.
- Staniškis, J. (2005), "Integrated Waste Management: Concept and Implementation", *Environmental research, engineering and management*, Vol. 33, No. 3, pp. 40-46.
- Statistics Lithuania (2013), *M4032005: Structure of business statistics by economic activity (NACE 2)*, <http://db1.stat.gov.lt/statbank/default.asp?w=1366>, [Accessed 31.06. 2013]

Valstybinė darbo inspekcija (2012), *Ataskaita apie darbuotojų saugos ir sveikatos būklę bei darbo įstatymų vykdymą Lietuvos Respublikos įmonėse ir organizacijose 2011 metais*, <http://www.vdi.lt/PdfUploads/Ataskaita2011.pdf>, [Accessed 31.06. 2013]

Valstybinė darbo inspekcija (2013), *Lietuvos Respublikos darbuotojų saugos ir sveikatos būklės, darbo santykius reglamentuojančių teisės aktų vykdymo apžvalga už 2012 metus*, [http://www.lpsk.lt/docs/2012\\_metu\\_apzvalga-VDI.pdf](http://www.lpsk.lt/docs/2012_metu_apzvalga-VDI.pdf), [Accessed 31.06. 2013]