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in Latvia

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# Corporate Social Responsibility – Assessment of Facilitating and Impeding Factors for Small and Medium-sized Enterprises in Latvia

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## Abstract

Small and medium-sized enterprises (SMEs) make up for ~99% of all companies in both Latvia and the European Union (EU), they are a significant contributor to national economies and should not be disregarded when discussing corporate social responsibility (CSR). SMEs are not smaller-scale versions of corporations and differ greatly in terms of managerial structure, revenues, resource availability and allocation, market reach, product and service lines, as well as available manpower. Given that a CSR strategy often necessitates additional investment, many SMEs might not anticipate it to increase the bottom line, however, a large part of consumers are willing to pay more for goods and services from a socially responsible company, and CSR can facilitate higher employee attraction and retention rates. This sets up the aim of this study, to analyse CSR initiatives deployment, and facilitating and impeding factors for SMEs in Latvia, a country that is considered to be in the transition process to a market economy. To classify important CSR facilitating and impeding factors, analysis and generalisation of multiple academic sources were used. Analysis of the regulatory framework, fundamental planning documents, international CSR, ESG and other indices, as well as a collateral examination of empirical CSR research in the EU member states and Latvia, was carried out to identify possible CSR development issues for SMEs in Latvia. The study shows that while CSR awareness is increasing in Latvia, the implementation of CSR by SMEs is limited, and there is a need for more guidance and support to promote CSR practices. The study identifies several facilitating factors, such as policy-regulatory support, social pressure, ethical considerations, and impeding factors, such as lack of resources, limited knowledge, and perceived low relevance of CSR for business, as well as the excessively bureaucratic approach in the public sector. The study highlights the importance of private and NGO stakeholder engagement with the public sector in the collaboration and promotion of CSR practices among SMEs in Latvia. Policymakers, business executives, and other stakeholders interested in encouraging CSR practices among SMEs could benefit from the findings of this study.

**KEYWORDS:** corporate social responsibility, small and medium enterprises, Latvia, transition economy.

## Introduction

CSR has long been recognized by large corporations as a strategic tool that can be used not only to enhance their brand image but also to enhance attractiveness to other stakeholders - customers, employees, and investors; and to improve overall company success. CSR reporting, and later suitability reporting, has become the main communication tool between corporate agents and a variety of stakeholders, including the wider society. As societies are becoming more conscious about sustainability issues and the impact the companies are creating, corporate citizens are experiencing even more pressure to act in an accountable way and report this behaviour to all the relevant stakeholders, especially SMEs, as they are closely tied to the local communities. Models and strategies of CSR vary greatly from company to company, but



one aspect remains the same - such policies assist in educating the general public about the company's values and goals. Environment, social, and governance (ESG) is another approach to sustainability, which offers more quantifiable metrics for companies in the assessment of their sustainability and overall performance. CSR initiatives are typically self-regulatory, at times are difficult to define and offer a more qualitative approach. CSR initiatives emphasize corporate accountability - philanthropy, reducing carbon emissions, investing in local societies and communities, and promoting sustainable ways of operations; while ESG offers more precise indicators of sustainability - CSR works around the company culture; while through ESG the company can carry out audits and establish quantifiable objectives. The four pillars of CSR traditionally include philanthropic goodwill, ethical responsibility, legal obligations, and economic responsibility (Carroll, 2021), and include voluntary activities of corporate agents for the improvement of public welfare and the environment in cooperation with stakeholders. Perhaps it is in the name of corporate social responsibility, suggesting that it is aimed mainly at corporations concerned with positive brand perception, having access to larger funding and resources, and whose impact on the environment and societies is considerably more critical than one of the SMEs.

SMEs should engage in CSR activities just like larger companies, even though they might not have access to the same resources and expertise as larger companies, SMEs can nevertheless have a big impact by engaging in CSR. Although different instruments and approaches are being utilised by SMEs, since the organizational structure differs greatly from the large corporations. According to the CSB provisional data of 2022, SMEs account for ~99% of all businesses in Latvia, making up a sizeable share of the nation's economy. A total of 108 160 firms, including 106 182 SMEs, with an approximate distribution of economically active SMEs in Latvia: micro enterprises ~ 90%; small enterprises ~ 9%; medium enterprises ~ 1% (Ministry of Economics of the Republic of Latvia, 2023). CSRHub report published in 2023, lists Latvia with 13 companies and a rating of 63, Lithuania with 29 companies and a rating of 56, and Estonia with 18 companies and a rating of 53. CSRHub ratings of CSR performance are offered for as broad a range of companies as possible, but the majority of the companies listed are large or multinational enterprises (CSRHub, 2023).

This study aims to review the scholarly and regulatory literature on CSR and SMEs, empirical studies, long-term, medium-term and short-term policy planning documents and spatial planning documents of Latvia and the EU; to analyse perceived benefits, existing obstacles and integration challenges, as well as to assess additional facilitating and impeding factors for SMEs. A literature framework is developed to analyse these factors by reviewing various scholarly literature sources, empirical CSR studies in EU member states, online databases, fundamental planning documents and policies, as well as statistical data. According to the author's knowledge, no such study has been carried out for SMEs' CSR facilitating and hindering factors in Latvia, but a similar design study was carried out in Lithuania for all types of companies, with results indicating that despite the vision and goals for Lithuania's CSR development, the main issues originate from a lack of CSR knowledge and systematic approach to implementing CSR (Lankauskiene, 2011). This present study partially mirrors the approach and design of the 2011 study for Lithuania, but focuses on the assessment of CSR facilitating and impeding factors in Latvia focusing explicitly on SMEs. The findings contribute to an ongoing conversation in the business and academic community, presenting a literature review and assessment framework of impeding and facilitating factors for CSR deployment in Latvian SMEs; with findings presenting significant importance for the governmental sector and policymakers, NGOs, SMEs and other stakeholders at micro, meso, and macro levels.

## CSR Concepts and Developments

CSR has been a topic of discussion in the business world for many years, the 1960s and 1970s saw a significant increase in its popularity. (Carroll, 1991). In the 1980s and 1990s, the emphasis on CSR expanded to include aspects like supply chain management, human rights, and ethical business practices. According to Carroll's definition of CSR, a company's discretionary obligations are those voluntary social involvements that are not prohibited or demanded by economic, legal, or ethical responsibilities (Carroll, 1979). Carroll identified three ethical approaches to management: immoral, amoral, and moral. Each orientation is closely related to individual moral philosophies, which define management (Carroll, 1991). The amoral and immoral approaches separate business operations from private life ethical considerations, while the moral approach also separates business operations from private life ethical issues, but for different reasons. In moral systems, commercial activities are isolated from private life ethical concerns, and hence such considerations have no bearing on the business environment. Carroll argues that the majority of managers act "immorally" or "amorally", implying that they do not consider beyond themselves. This multifaceted perspective is critical since no manager can be aware of every single stakeholder who may be impacted by a decision, especially in SMEs, where the decision-making is usually relegated to a limited number of people, in the majority of cases, to one person – owner-manager of an SME. The ethical and individual moral philosophies of an owner-manager will greatly influence the majority of the decisions in an SME.

During the 2000s scholars began to relate innovation to CSR, considering positive externalities associated with innovative activity, where innovation is considered to be an example of a positive externality, although innovation can yield substantial private benefits to a company, the societal benefits of innovation, which include the development of novel or enhanced products and processes, could be considerably higher (McWilliams et al., 2006). Bagnoli and Watts (2003) argue that the degree of market competition and the willingness of consumers to pay more for socially responsible goods are two elements that influence a company's tendency to engage in strategic CSR. Hillman and Keim (2001) assess the relationship between shareholder value, stakeholder management, and social issue participation, stating that managing stakeholders effectively can result in better value for shareholders, whereas getting involved in social issues is linked to a decline in shareholder value. Some authors contend that the existing and frequently rigid definitions of CSR allow corporations to make false claims and brand themselves as socially responsible, whereas, factually, there are not many instances of enterprises successfully implementing CSR (Glavas & Piderit, 2009; Karnani, 2010). Argandona and Hoivik (2009) argue that CSR is an ethical concept, and CSR dimensions evolve in response to historical, cultural, political, and socioeconomic factors; claiming that one universally-accepted and applicable CSR definition or model cannot be synthesised. Boeger et. al. (2008) additionally outline that CSR models and definitions are imperfect and the whole CSR phenomenon is a mere desire to conform to either the highest standard of conduct or the morally appropriate conduct. Aras and Crowther (2008) conclude that organizations with a better understanding of both sustainability and corporate governance will address related issues more effectively and a better comprehension of the connections between different elements will result in improved corporate governance. The definitions of CSR in the 2000s reflected the idea that corporate agents have a new social responsibility to respond to - social expectations and be driven by the pursuit of sustainability, creating shared value, which requires them to make long-term strategic choices (Werther & Chandler, 2005; Husted & Allen 2007; Porter & Kramer, 2011). Reviewing CSR developments in the last 20 years, it can be concluded that 2000's designated a new overall era and a new outlook on CSR as the strategic tool that should be incorporated into

the core business strategies - it becomes a crucial corporate choice that impacts stakeholders and sustainability (Dahlsrud, 2006). At the very beginning of the new millennium Hopkins (2003) suggests that a thorough understanding of CSR must take into account all stakeholders, including everyone and everything impacted by particular organizations; the economies, the people and the environment - the overarching objective of social responsibility is to maintain the corporation's profitability while promoting better living conditions for individuals both inside and outside the company. Similarities between the TBL concept stating that instead of one bottom line, there should be three: profit, people, and the planet (Elkington, 2017), and this new outlook on stakeholders, including economies, people and environment, are striking. CSR is proving to be a strategic tool; therefore, managers should incorporate it strategically to have the biggest impact, which would be an increase in financial performance (Orlitzky et al., 2011). Carroll's CSR theory (1979, 1991, 1999) is being reassessed from four layers economic, legal, ethical, and discretionary to a three-domain framework, namely, economic, legal, and ethical (Schwartz & Carroll, 2003). Heslin and Ochoa (2008) contend that the strategic CSR approaches of the chosen organisations are guided by seven common principles: develop the necessary skills, create new markets, safeguard labour welfare, lessen the environmental impact, benefit from by-products, include customers, and make the supply chain sustainable. For SMEs the mechanisms behind CSR initiatives differ, and the challenge is to inform both internal and external stakeholders of their best practises, to demonstrate the connections that SMEs establish between responsible practises, increased competitiveness, and economic results - the role that the founding director's values play in the implementation of CSR programmes is crucial (Murillo & Lozano, 2006). Hillestad et al. (2010) claim that a company's founder's dedication to CSR builds stakeholder confidence by displaying the organization's sincere concern for sustainability and environmental challenges, which is crucial for SMEs. Hameed et al. (2016) confirm that internal and external CSR are mediated by various processes, and, more intriguingly, that employees' calling orientation significantly modifies these interactions, thus positively influence employees' organizational identification.

According to the World Business Council for Sustainable Development (WBCSD), CSR is the ongoing commitment made by businesses to act morally, promote economic growth, and improve the quality of life for employees, their families, the local community, and society at large (Dahlsrud, 2006). CSR is defined as a company's commitment to long-term growth that benefits stakeholders, delivers economic advantages, and gives it a competitive edge while simultaneously meeting social and environmental needs (OECD, 2001). The International Labour Organization (ILO) defines CSR as a management approach where businesses voluntarily incorporate social and environmental issues into their operations and interactions with stakeholders (ILO, 2010). United Nations Educational, Scientific and Cultural Organization (UNESCO) has defined four dimensions of sustainable development "*society, environment, culture and economy – which are intertwined, not separate*" (UNESCO, 2019). CSR is defined by the European Commission (EC) as an organization's accountability for social impacts. The European Commission (EC) defines CSR as a concept where businesses voluntarily incorporate social and environmental issues into their daily operations and interactions with stakeholders (EC, 2018).

### **CSR Formal Framework and Initiatives in the EU**

Over the past four decades, CSR has become a rising movement in Europe as more businesses and organisations have realised the value of social and environmental responsibility. See [Figure 1](#) for the timeline of significant CSR-related events and advancements in the EU.

**Table 1**

CSR-related Formal  
Framework and Initiatives  
Developments in the EU

Year	Major events and developments
1968	The Club of Rome is founded, a global think tank focused on sustainable development and environmental protection.
1970	The first Earth Day is celebrated in the United States, sparking a growing environmental movement around the world, including in the EU.
1972	The United Nations Conference on the Human Environment is held in Stockholm, Sweden, leading to the creation of the United Nations Environment Programme (UNEP) and increased global attention to environmental issues.
1987	The Brundtland Commission publishes "Our Common Future", which defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".
1993	The EU establishes the "European Eco-Management and Audit Scheme" (EMAS) to encourage companies to adopt environmentally sustainable practices.
1997	The Global Reporting Initiative (GRI) is founded to develop a framework for corporate sustainability reporting, providing guidelines for companies to disclose their social and environmental impacts.
2000	The UN Global Compact is launched, a voluntary initiative for companies to commit to ten principles related to human rights, labour standards, environmental protection, and anti-corruption.
2001	The EU launches the "Green Paper on Corporate Social Responsibility", calling on companies to voluntarily adopt responsible business practices and develop CSR strategies.
2002	The EU Multi-Stakeholder Forum on Corporate Social Responsibility was set up in October 2002 (EU0211205F). The forum's brief was to create a common understanding of CSR and enhance its credibility and effectiveness in helping to achieve EU economic, social and environmental aims.
2002	The EU publishes the "Communication on Corporate Social Responsibility", outlining a framework for promoting CSR in Europe and encouraging companies to integrate social and environmental considerations into their operations.
2011	The EU adopts the new "European Strategy for Corporate Social Responsibility", which sets out a roadmap for promoting CSR among European companies and encourages the development of CSR reporting frameworks.
2014	The EU introduces a directive requiring large companies to report on their social and environmental impacts, known as the "Non-Financial Reporting Directive".
2015	The UN adopts the Sustainable Development Goals (SDGs), a set of 17 global goals for sustainable development, which provide a framework for companies to align their CSR strategies with broader societal goals.
2019	The European Green Deal, which the European Commission adopted in 2020, is a package of legislative proposals with the overarching goal of making the EU climate neutral by the year 2050.
2021	The EU launches a public consultation on the future of CSR in Europe, seeking input from stakeholders on how to further promote and incentivize responsible business practices.

Source: Author

Besides the beforementioned developments, it is worth reviewing the proposed Corporate Sustainability Reporting Directive (CSRD), which would oblige businesses to publish more specific information on their environmental and social impacts, which is an upgrade to the current EU Non-Financial Reporting Directive. To increase the consistency and comparability of corporate sustainability reporting, the CSRD also contains procedures for independent assurance of sub-

mitted information. By July 6, 2024, all EU Member States must adhere to the CSRD. For financial years beginning on or after January 1, 2024, CSRD Article 4 of the Directive will take effect. Companies will follow the same ESG reporting cycle 2025 for the 2025 fiscal year (EC, 2022). CSRD will affect 11,000 enterprises in the EU that are listed companies and have more than 500 workers and all listed companies and large enterprises that surpass two-thirds of the following: Net revenue: > EUR 40M; balance sheet total: > EUR 20M; average employee size: > 250 throughout the FY; that would equal to ~ 50,000 enterprises in the EU (Deloitte, 2022). CSRD is aimed at large corporations and listed companies, this directive will not affect SMEs. As part of a comprehensive plan to make the region a climate-neutral continent by 2050, the EU launched the European Green Deal in 2019. The Green Deal includes a wide range of initiatives and activities, such as investments in renewable energy, carbon pricing, and eco-friendly transportation, to lower greenhouse gas emissions, protect biodiversity, and promote sustainable development. For the EU to fulfil its commitments under the Paris Climate Agreement and address the urgent problem of global warming, the Green Deal is seen as an essential plan of action (EC, 2019; CSR Europe, 2022).

The EU urges businesses to incorporate social, environmental, and ethical factors into their primary business objectives (Idowu, 2013). The EU aims to encourage ethical business practices and assist businesses in implementing sustainable business models through several initiatives and programmes, including the EU Green Deal and the Sustainable Finance Action Plan of the EU. Although many of the listed initiatives cannot be adopted by SMEs, still SMEs as well as larger corporations are the target of EU CSR efforts. The EU is aware that SMEs are significant contributors to the European economy and that they confront unique difficulties in putting CSR practises into practice due to a lack of resources and knowledge. The EU has created numerous initiatives and programmes to help SMEs integrate CSR into their operational processes. For instance, the EU helps SMEs by offering assistance and networking opportunities through its Enterprise Europe Network (EEN) (EEN, 2023). In addition, the EU created the European CSR Award for SMEs to honour small and medium-sized businesses that exhibit outstanding CSR practices. Through the European Social Fund and the European Investment Bank (EIB), for example, the EU also offers cash and other resources to assist SMEs in putting CSR practices into practice (EIB, 2023). The EU CSR initiatives connect with stakeholders and promote CSR practices using a variety of communication platforms, including social media, websites, publications, and events.

### **Assessment of CSR Facilitating and Impeding Factors**

The EU Multi-Stakeholder Forum on CSR serves as a platform for the discussion and collaboration of topics about corporate social responsibility. Participants may include enterprises, civil society organisations, government agencies, and others (EC, 2015). The forum has the following objectives:

- 1 Promoting the greatest corporate social responsibility practises;
- 2 Persuading companies to include social and environmental considerations into their operations;
- 3 Increasing stakeholder participation in business decision-making and encouraging business and other stakeholders' cooperation in tackling social and environmental concerns (EC, 2015).

The forum members declare that CSR can benefit SMEs in the following ways:

- 1 CSR is an investment that can pay dividends in the long run rather than a quick fix for corporate success;
- 2 Enterprises can more effectively benefit from these benefits by adopting CSR strategically and deliberately;
- 3 In particular for SMEs, CSR should be viewed as a component of the contemporary concept of business excellence because it is about constant improvement.

The lives of people in the EU and around the world are significantly impacted by the actions of businesses; not only in terms of the goods and services they provide, the employment opportunities they produce, or the jobs they create, but also in terms of the workplace atmosphere, human rights, health, the environment, innovation, education, and training. In support of the single market economy, CSR and responsible business conduct (RBC), the European Commission (EC) has adopted a combination of voluntary and required measures over the past few years to promote CSR/RBC, execute the UN 2030 agenda for sustainable development, and uphold the UN guiding principles on business and human rights (UNGPs). In the EU, SMEs are the most prevalent business model – making up in total for more than 99%. The method through which the majority of SMEs achieve their social responsibility objectives is likely to remain informal and intuitive. Nevertheless, by creating CSR handbooks and manuals, EC encourages CSR/RBC among SMEs (EC, 2020). OECD Due Diligence Guidance for Responsible Business Conduct is a set of recommendations and guidelines for businesses to be responsible and sustainable and can be used as a part of their CSR initiatives. The conduct states six steps that companies should undertake to identify, prevent, mitigate, and account for the adverse impacts of their operations that are based on the principles of human rights, labour rights, environmental protection, and anti-corruption:

- 1 Integrate RBC into management and policy processes;
- 2 Determine and evaluate both current and potential negative effects;
- 3 Cease, prevent and mitigate adverse impacts;
- 4 Monitor implementation and outcomes;
- 5 Seek to prevent or mitigate adverse impacts;
- 6 Provide for or cooperate in remediation (OECD, 2018).

EC guidelines, The EU Multi-Stakeholder Forum on CSR, and OECD Due Diligence Guidance for RBC assess some critical facilitating and hindering factors for companies to adopt responsible business practices, arguing that “*CSR can create real advantages for SMEs: CSR is not a shortcut to business success, but an investment that can pay off in the longer term*” (EC, 2015); see the factors grouped and assessed in [Table 2](#).

Factors presented in [Table 2](#) are not universally applicable to all companies, as there is no “*one-fits-all*” model when it comes to CSR and RBC. The crucial point is that depending on the size, age, ownership, and activity of the organisation as well as its geographic, political, and cultural setting, the applicability of these determining factors may change significantly (Morsing & Perri, 2009). In the case of SMEs, it is important to understand, that SMEs are not smaller-scaled versions of corporations and their processes’ design, as well as business models, differ greatly from company to company. Therefore, some of the factors listed in the [Table 2](#) can migrate from facilitating to impeding category and vice versa, as SME operations are critically affected by owners-managers and their subjective perception of the importance of the value of each factor. When assessing the impeding factors, the most critical in the internal category possibly are increased bureaucracy; limited resources or capacity to deploy CSR initiatives; resistance or lack of support from key stakeholders, including suppliers, managers, investors, and employees; and lack of knowledge and expertise in SMEs. The most critical factors in the external category possibly are a lack of a culture of partnership with the governmental sector; asymmetry of information – failure to provide SMEs with advice and information; challenges to get support from other organizations; and lack of clear national CSR strategies and suitable tools and instruments for CSR deployment for SMEs.

	Facilitating factors	Impeding factors
Internal	<ul style="list-style-type: none"> <li>• Improved reputation</li> <li>• Reduction of costs through CSR initiatives – especially environmental</li> <li>• Productivity, quality and sales – through improved morale and ethics</li> <li>• Employee loyalty and retention</li> <li>• CSR can provide an impetus for innovation</li> <li>• Achieved sustainable competitive advantage</li> <li>• It boosts transparency and sparks a dialogue with key stakeholders.</li> <li>• Compliance with environmental regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Increased administrative burdens/bureaucracy</li> <li>• Limited resources or capacity to implement due diligence processes, particularly for SMEs</li> <li>• Resistance or lack of support from key stakeholders, including suppliers, managers, investors, employees</li> <li>• Lack of knowledge and expertise in SMEs</li> <li>• Poor alignment with the values and goals of businesses and poor local culture of social responsibility</li> <li>• Poor alignment of local SMEs with the global development agenda</li> <li>• Considering CSR as a compliance issue rather than as a long-term strategy</li> </ul>
External	<ul style="list-style-type: none"> <li>• Improved cooperation with external stakeholders – customers, investors, supply chain, NGOs, governmental bodies, other companies etc.</li> <li>• Greater EC support for the development of innovative sustainable products and services</li> <li>• Social recognition of CSR through a CSR awards scheme for SMEs</li> <li>• Support from the EU for developing and implementing CSR in SMEs</li> </ul>	<ul style="list-style-type: none"> <li>• Challenges to getting support from other organizations</li> <li>• Lack of a culture of partnership with the governmental sector</li> <li>• Lack of clear national CSR strategies and suitable tools and instruments for CSR deployment for SMEs</li> <li>• Asymmetry of information – failure to provide SMEs with advice and information</li> <li>• Too prescriptive legislation that restricts innovation and CSR deployment</li> <li>• Unclear messages about what SMEs can do to solve social challenges</li> <li>• Lack of trust within local communities and underdeveloped local stakeholder capacity</li> <li>• Short-term interests of investors, consumers and other stakeholders</li> </ul>

**Table 2**

CSR and RBC  
Facilitating and  
Impeding Factor Matrix

Source: Created by the author from EC guidelines on Corporate social responsibility & Responsible business conduct (2020), Multi-Stakeholder Forum on CSR (2015), OECD Due Diligence Guidance for RBC (2018)

**Facilitating factors**, such as awareness and education, can assist businesses comprehend the advantages of CSR, which can encourage businesses to adopt CSR practises willingly rather than being compelled to do so by rules. These factors can play a significant role in enhancing the deployment of CSR in businesses. Companies are more willing to invest in and take CSR seriously when they are aware of its potential advantages. Companies can identify their stakeholders and comprehend their expectations with the aid of stakeholder engagement. This can assist businesses in matching their CSR initiatives with stakeholder expectations, which can strengthen bonds and foster trust. Involving stakeholders in the implementation of CSR practices can help businesses achieve more effective and long-lasting results. Additionally, having access to resources like funding, technical assistance, and training can aid businesses in putting CSR practices into practice more successfully. Access to resources can help businesses execute CSR practises more successfully and efficiently, which benefits society as a whole. The incorporation of CSR into business strategy can assist organisations in connecting their CSR initiatives with



their primary corporate goals and objectives, which can improve implementation, open up new commercial opportunities, and lower risks. Companies that successfully apply CSR practices, and SMEs in particular can be awarded with prizes, certifications, and other forms of recognition. Companies may be encouraged to employ CSR practices more successfully by incentives like tax breaks or customer preference. The implementation of CSR initiatives among SMEs might also rely on social capital; as close-knit communities where social ties are essential to commercial success is where SMEs frequently operate. Social capital can assist SMEs in developing trust with their stakeholders, including clients, vendors, and staff, which is crucial for the implementation of CSR programmes.

**Impeding factors**, on the other hand, can have a negative impact on the deployment of CSR initiatives in companies by limiting their ability to implement CSR practices effectively. As discussed previously, lack of resources, lack of knowledge and awareness, the complexity of standards, short-term thinking and planning, and lack of commitment from the key stakeholders, are critical negative factors that can affect CSR deployment, especially in SMEs. Some of these factors may be addressed to lessen their detrimental effects on results. By providing businesses, and especially SMEs, access to resources like grants, training programmes, and technical assistance, governments, NGOs, and other stakeholders may support businesses and aid them in overcoming resource limitations. The same stakeholders can be involved in educating SMEs about CSR activities, increasing public awareness of problems, and offering companies workshops, training sessions, and other educational materials to help them become more knowledgeable about CSR practices. The complexity of international CSR standards and regulations can hinder the deployment of CSR in companies, especially in SMEs. This can be addressed by simplifying the standards and regulations for SMEs or developing clear national CSR standards and strategies, and suitable tools for CSR deployment for SMEs. Leadership and commitment of critical stakeholders play a critical role in driving CSR initiatives in SMEs. This can be addressed by promoting a culture of CSR within the organization and ensuring that CSR is integrated into the company's values and mission; owners-managers of SMEs can also set an example by demonstrating their commitment to CSR and prioritizing it in their decision-making processes.

### **CSR in Latvia - SMEs and Challenges of Transitional Economy**

CSR has been growing steadily in Latvia ever since it gained independence from the Soviet Union in the 1990s. The Soviet Union's annexation of Latvia had a substantial impact on the country's economy. Due to the relatively superior efficiency of its economy, Latvia had one of the highest standards of living among the former Soviet Union countries, as shown by a per capita income that was 30% higher than the Union average. But over time, real economic growth slowed down, just as it did elsewhere in the former Soviet Union. The central planning method was abandoned in the latter half of the 1980s, but the economic deterioration persisted. Instead, the growing political unrest and economic unrest exacerbated macroeconomic imbalances and brought the whole Soviet economy to a standstill. Latvia is now in complete control of its own economic policies and has entered a transitional stage to a full market economy (The World Bank, 2010).

Petersons and King (2009), claimed that deployment of CSR in Latvia was in the earliest stages of development. The majority of respondents in their research were unaware of the minimization of external social costs, and traditional attitudes in conflict with remnants of collectivist norms impede conceptual understanding of CSR. Larger companies actively engage in CSR. CSR facilitating factors mentioned by the authors are - *education and knowledge, interpersonal and public communication, as well as the institutional environment and the personal values of business managers or owners*. With a Gross National Income (GNI) per capita of US\$33,580, Latvia is

currently categorised as an upper middle-income country by The World Bank (2023); to eradicate poverty and inequality, increase access to healthcare and education, and promote long-term economic success, the country has made significant progress (Ministry of Welfare of the Republic of Latvia, 2020). However, issues like income inequality, corruption, and social exclusion continue to be a problem for Latvia (Corruption Prevention and Combating Bureau of Latvia, 2022).

In Latvia, just a small number of SMEs engage in CSR (Lu et al., 2020), there are currently no coordinated efforts at the national level, thus there is only an early awareness of the significance of CSR from SMEs. Currently, the Sustainable Development Strategy of Latvia until 2030 and all CSR-related activities are being coordinated by the Cross-Sectoral Coordination Centre (CSCC) of the Republic of Latvia and the Government of the Republic of Latvia, with little dialogue with relevant stockholders or SMEs and NGOs, lack of a culture of partnership between governmental and private sectors, asymmetry of information – failure to provide SMEs with advice and information, and too prescriptive legislation that restricts innovation and CSR deployment in SMEs. See [Table 3](#) for the timeline of CSR developments in Latvia.

Year	Major events and developments
1991	Latvia declares independence from the Soviet Union and begins transitioning to a market economy.
1999	The Latvian Association of Local and Regional Governments (LALRG) establishes a working group on sustainable development and social responsibility among local governments and their suppliers.
2004	Latvia joins the EU, which has a strong focus on CSR and sustainable development.
2006	The Ministry of Economy of Latvia publishes guidelines for sustainability reporting, encouraging companies to disclose their social and environmental impacts.
2010	CSR memorandum is launched by the Employers' Confederation of Latvia (LDDK), providing a framework for companies to voluntarily commit to socially responsible practices.
2010	Latvian Corporate Governance Code. The code is a set of guidelines and best practices for corporate governance, including issues related to social responsibility and sustainable development.
2011	The association "Institute of Corporate Sustainability and Responsibility" is founded to promote CSR among Latvian companies and provide training and support for sustainable development initiatives by educating the public, raising its awareness of responsible behaviour, as well as promoting the development of civil society.
2013	The association "Latvian Corporate Social Responsibility Platform" ("CSR Latvia" NGO) was founded to bridge private companies, governmental and non-governmental organizations and institutions, as well as experts.
2014	National Development Plan of Latvia for 2014–2020 (NDP2020), which aims to promote and encourage CSR practices among Latvian businesses.
2019	The Latvian government adopts the "National Sustainable Development Strategy – Latvia 2030", which includes goals and targets related to CSR and sustainable development of the UN's Agenda 2030 on the Sustainable Development Goals (SDGs).
2020	The National Development Plan for 2021–2027 (NDP2027) was developed by conducting a deep analysis of the mid-term results of the previous NDP2020, taking into account the Sustainable Development Strategy of Latvia 2030 and UN's Agenda 2030 on the Sustainable Development Goals (SDGs).

**Table 3**

CSR-related Formal Framework and Initiatives Developments in Latvia

Source: Created by the author from Ministry of Welfare of the Republic of Latvia (2020); Cross-Sectoral Coordination Centre of the Republic of Latvia (2022); Ministry of Environmental Protection and Regional Development of the Republic of Latvia (2020); Government of the Republic of Latvia (2023); Employers' Confederation of Latvia (2023)

CSR has become increasingly important in Latvia over the past few decades as can be seen in [Table 3](#), with a growing number of associations, NGOs and governmental bodies recognizing the importance of social and environmental responsibility. Latvia is a participant in the Open Government Partnership (OGP), an international effort to advance openness, accountability, and citizen involvement in politics. As one of the founding members of the OGP, Latvia joined in 2011 (OGP, 2022). Six commitments are included in the Fifth National Open Government Partnership Action Plan of Latvia 2022–2025, that seek to tackle low trust in public institutions through increasing transparency:

- » **Commitment 1:** Increasing public knowledge of a successful participatory process and fortifying the basis for it.
- » **Commitment 2:** Fostering possibilities for citizen involvement, particularly NGOs and young adults.
- » **Commitment 3:** Improving how society is portrayed and how it interacts with decision-makers across all industries.
- » **Commitment 4:** Clear and concise communication between the government and the general public; elucidation of choices and difficult subjects by emphasising the advantages.
- » **Commitment 5:** Encouragement of data accessibility and clarity, expansion of public usage opportunities, and development of data-based solutions.
- » **Commitment 6:** Encourage public participation and involvement in local government.

CSR is not specifically included in Latvia's National OGP Action Plan 2022–2025. The OGP pledges and CSR principles do, however, have some common ground in that they both seek to advance openness, accountability, and citizen participation in politics and business (OGP, 2022). The OGP commitment of Latvia to enhancing public participation in decision-making can support CSR by giving enterprises the chance to interact with the government and civil society organisations on matters about sustainability, social responsibility, and ethical business practices.

Latvia established a National Contact Point (NCP) for the OECD Guidelines for multinational enterprises (MNEs) in 2004, as all countries that have acceded to the OECD declaration have established NCP government-supported offices (Ministry of Foreign Affairs of the Republic of Latvia, 2023). The Latvian NCP is a resource for conflict resolution and mediation that can help multinational businesses and stakeholders when problems with responsible business conduct may occur during a company's operations. OECD guidelines are voluntary and are designed for MNEs; large MNEs participate in these platforms in the majority of the economies, but national governments should consider extending communication channels to other types of companies, including SMEs (OECD, 2018). Therefore, it might be assumed that this platform cannot be utilised and guidelines cannot be fully or ever implemented by SMEs, as the guidelines are complex, not flexible enough for SMEs, too prescriptive for CSR deployment in SMEs, and finally, the coordinating bodies listed above are not considering extending dialogue to SMEs through the Latvian NCP. CSR memorandum and CSR platform, established by the Employers' Confederation of Latvia (LDDK) in 2010, provide a framework for companies to voluntarily commit to socially responsible practices. For example, to increase the number of companies reporting their good practices at the national level through the company's Sustainability Index, or by joining, for example, the UN Global Compact movement at the international level to certify the sustainability of the company (LDDK, 2023). Supporters of the CSR memorandum are governmental organizations, main policymakers, associations and NGOs. The CSR memorandum remains unchanged since 2010 and some of its clauses might sound outdated and counterintuitive, especially for CSR deployment in SMEs. For example: *"According to the views of the CSR platform, CSR should be brought to a*

self-regulating position, which would be managed by professional business organizations. If it was determined by some external standards or regulation, the practical development of CSR would be hindered” (LDDK, 2023). It is suggested to have clear national guidelines and framework established, that would extend dialogue with SMEs, providing necessary knowledge and resources and help them to deploy CSR initiatives.

SMEs account for ~99% of all businesses in Latvia, making up a sizeable share of the nation’s economy. A total of 108 160 enterprises, including 106 182 SMEs, were registered in Latvia as of 2022, according to data from the Latvian Central Statistical Bureau (Ministry of Economics of the Republic of Latvia, 2023). Approximate distribution of economically active SMEs in Latvia: micro enterprises ~ 90%; small enterprises ~ 9%; medium enterprises ~ 1% (see Figure 1).

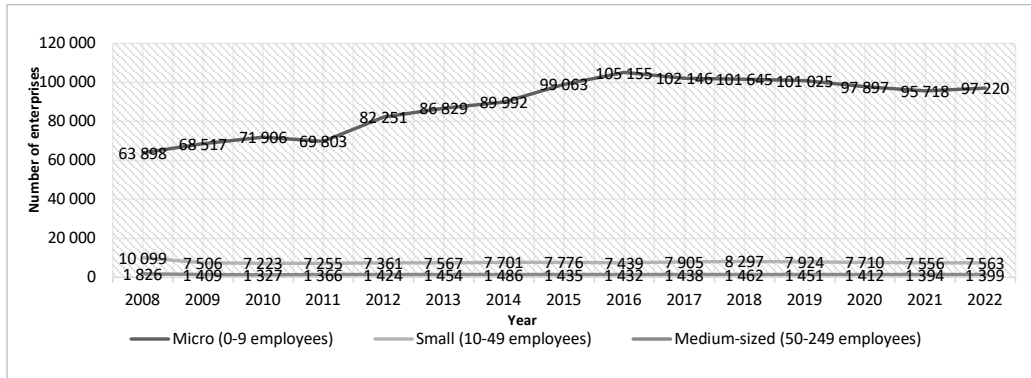


Figure 1

Number of SMEs in Latvia from 2008 to 2022, by size (created by the author, Ministry of Economics of the Republic of Latvia, 2023)

In Latvia, as in the rest of the EU, SMEs account for a sizable portion of the economy and are crucial to the growth of both employment and GDP (Ministry of Economics of the Republic of Latvia, 2023). Even though they might not have the same resources and capabilities as larger organisations, Morsing and Perrini (2009) argue that SMEs have a key role to play in promoting ethical and sustainable business practices. Ownership structure, size, and the sectors in which SMEs operate are all factors that affect their participation in CSR. They contend that family-owned or run SMEs, for instance, may prioritise social and environmental concerns more frequently because they are frequently ingrained in their local communities and have a long-term perspective on their business operations. Bikefe et al. (2020) identify key themes and trends in the literature, including the drivers of CSR in SMEs, the barriers to CSR implementation, and the outcomes of CSR activities. SMEs engage in CSR for a variety of reasons, including enhancing their reputation, caving in to pressure from stakeholders, and preserving the principles of their owners and managers. Additionally, the authors identified several challenges to implementing CSR in SMEs, including a lack of resources, a lack of knowledge and awareness of CSR, and difficulties determining the outcomes of CSR initiatives.

CSRHub gives users access to a sizable database of CSR ratings and details on more than 20,000 global businesses. To give consumers a complete picture of a company’s performance in terms of sustainability and social responsibility, the website compiles information from over 700 sources, including NGOs, government organisations, and ESG data suppliers (CSRHub, 2023). CSRHub ranking for Baltic countries (see Table 4).

Country	Companies	CSRHub Ranking
Estonia	18	54
Lithuania	29	55
Latvia	13	63

Table 4

ESG Performance of Baltic States Rated by CSRHub

Source: Created by the author from CSRHub (2023)

CSRHub rating system measures ESG performance, but not CSR deployment rates. CSR refers to sustainability strategies businesses employ to ensure that the company is being operated ethically, in contrast, ESG is the criteria used to measure a company's overall sustainability. Each ESG dimension is given weight in the CSRHub rating system depending on how significant it is in determining the overall CSR performance of a company. For instance, corporations in sectors with major environmental effects may give greater weight to the environmental component, whereas businesses with a sizable workforce or a significant presence in the community may give more weight to the social dimension. The result indicates that Latvia is leading the list with the highest score out of Baltic states, followed by Lithuania and then Estonia, although with fewer companies – Latvia 13, Estonia 18, and Lithuania 29 companies reporting their ESG performance (CSRHub, 2023). After a detailed assessment of the Latvian companies listed, it is unclear how the total index of 63 has been aggregated, as only six companies are available for detailed review and none of them have ESG scores displayed. Lu, *et. al.* (2020) in their assessment of CSR performance and state promotion policies for Baltic states, debate that Estonia has the best overall grade for CSR performance due to its CSR regulations and guidelines are being in force and the progress Estonia has made in implementing CSR policy recommendations. However, in all of the Baltic States, there are significant gaps in CSR performance, particularly in the area of public policies to promote CSR; these gaps can be closed by creating effective public policies to support CSR initiatives. All of the stated key areas of CSR activities in the EU must be covered by the promotional policies.

Assessment of the political-regulatory, economic and social (PES) environment of the Baltic states, according to the venture capital and private equity country attractiveness (VCPECA) ranking 2021 (Groh, *et. al.*, 2022), indicates that *Estonia is ranked 38* with a score of 61.0; *Lithuania is ranked 45* with a score of 57.3; *Latvia is ranked 64* with a score of 50.2, out of 125 countries on the list. It should be noted that the ranking of the Country Attractiveness Index 2021 is based on aggregated socioeconomic data that is widely accessible, transparent, and describes relevant features for investors. The results can be reconciled since they can be followed down to the level of the individual data series. A “probability for success” is evaluated using the institutional and socioeconomic VCPECA index. Regarding the factors that promote and hinder CSR, the VCPECA index focuses on six key areas:

- 1 Economic activity;
- 2 Depth of capital market;
- 3 Taxation;
- 4 Corporate governance /and investor protection;
- 5 Human and social environment;
- 6 Entrepreneurial opportunities.

When it comes to every PES criterion except “Taxation”, Latvia received the lowest ranking, also Latvia has experienced a drop in the ranking and score, while Lithuania and Estonia have experienced growth in comparison to the 2016 index. See the assessment of the per group in [Table 5](#).

**Table 5**

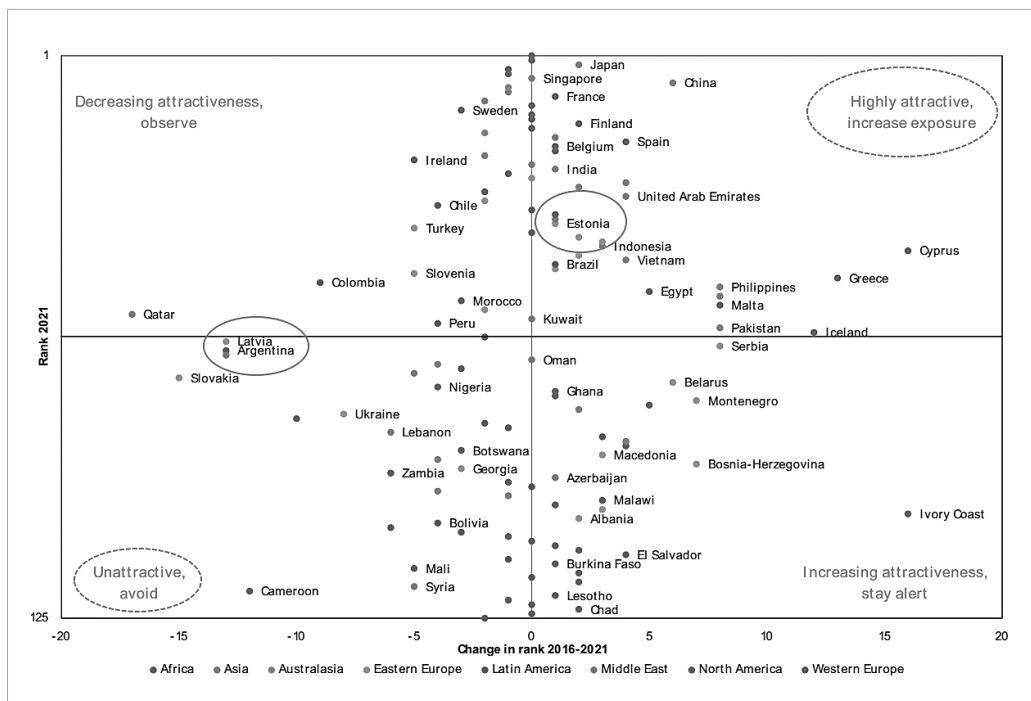
Peer Group Comparison  
According to the VCPECA  
Index 2021

Regional Peers	Economic Activity	Depth of Capital Market	Taxation	Corporate Governance / Investor Protection	Human and Social Environment	Entrepreneurial Opportunities
Estonia	67.5	52.1	98.2	87.7	44.7	61.1
Lithuania	70.3	49.5	99.1	81.8	36.5	57.3
Latvia	65.1	33.7	102.8	83.0	36.1	53.9

Source: Created by the author from VCPECA Index report 2021

In the past, Latvia had trouble attracting venture capital and private equity investments, which might affect where it ranks in such an index. The business climate in Latvia has also seen significant difficulties in the areas of regulatory complexity, corruption, and administrative roadblocks, which can make it challenging for investors to operate and see returns. But the Latvian government has made efforts to encourage innovation and entrepreneurship after realising the value of creating a thriving start-up ecosystem (Groh, et. al., 2022). The administration has also put in place several initiatives to enhance the business climate, including streamlining regulations and cutting back on bureaucracy. Despite these efforts, Latvia still has some difficulty attracting venture capital and private equity investments.

While CSR activities may not be directly correlated to the nation's attractiveness for the investments in question, however CSR initiatives can contribute to improving reputation and competitiveness of the companies of the particular nation, which in turn can draw in more investments. Investors, especially those who are interested in making sustainable and ethical investments, may take a country's CSR practices into account when evaluating a potential investment. These investors may have a more favourable opinion of a nation if it has strong CSR policies and practises, such as encouraging environmental sustainability, upholding human rights, and supporting social and community development. Although CSR practises might not be specifically mentioned in these indexes, they can have an impact on some of the factors that are, including the general business environment, the legal and regulatory environment, and social and environmental sustainability. It comes very efficient to use the following visualization of the differences in scoring in the ranking of the peer group of Baltic states Estonia is ranked 38 with a score of 61.0, and Latvia is ranked 64 with a score of 50.2; see Figure 2. From the comparison of the current ranks and rank changes between index version 2016 and 2021, and reading detailed analyses in the report, it can be concluded that Latvia is moving down on the ranking list from the decreasing attractiveness/observe category, to the unattractive/avoid category. Given that both aspects can be influenced by comparable underlying conditions and regulations, there may be some correlations



**Figure 2**  
Current Ranks and Rank Changes between Index Version 2016 and 2021 (Groh, et. al., 2022)

between venture capital and private equity in Latvia's attractiveness indexes and CSR practices; and perhaps the low involvement of Latvian companies in CSR practices can be explained by these comparable underlying conditions and regulations and overall market condition, bureaucracy, the economic performance of companies and corporate governance, as well as human and social environment challenges.

The National Development Plan of Latvia for 2021–2027 (NDP2027), the National Development Plan of Latvia for 2014–2020 (NDP2020), and the Sustainable Development Strategy of Latvia until 2030 (Latvia 2030) - as well as the implementation of national development planning documents about the EU – are all under the purview of the CSCC (CSCC, 2022). Sustainable development can be achieved in Latvia by putting CSR concepts into practice, according to the country's 2021-adopted NAP. CSR deployment rate in SMEs depends on if the government can foster an environment that is conducive to the growth of CSR efforts, it is expected that businesses will conduct themselves in a socially responsible manner. Government laws might stipulate that CSR activities can offer several advantages for corporate growth and competitive advantages even in the absence of legal enforcement. Latvia's NDP2027 strategic objectives are:

- 1 Equal opportunities;
- 2 Productivity and income;
- 3 Social trust;
- 4 Regional development.

While CSR and SMEs are not explicitly discussed in the plan, the promotion of CSR reporting, sustainable public procurement, and promotion of CSR in SMEs can be seen as a positive externality of the implementation of the NAP's strategic objectives. The NDP2027 implicitly urges Latvian businesses to adopt CSR strategies, especially in the areas of social responsibility, environmental sustainability, and ethical business practices. It also highlights how crucial it is for the corporate sector, civic society, and government to work together to support sustainable development. Key actions on the implementation of the Sustainable Development Goals – 2022 include:

- 1 The Action Plan for the transition to a circular economy by 2027 was adopted by the government;
- 2 Environmental and corporate social responsibility objectives have been added to the medium-term operational strategy guidelines for state-owned enterprises, and non-financial reports are now expected of SOEs;
- 3 Green procurement rules and new public procurement policies were adopted;
- 4 The introduction of a packaging deposit system (CSCC, 2022).

Additionally, the NDP2027 outlines specific actions to advance CSR practises in Latvia, including creating standards and guidelines for ethical business conduct, training businesses on how to implement CSR practices, and encouraging openness and accountability in corporate reporting.

The transition to a climate-neutral economy will necessitate a large public investment, but only if the private sector also reallocates its resources to sustainable investment will this change be successful. The 2018 Voluntary National Review (VNR) for Latvia details the country's stakeholders' initial efforts in sustainable financing, including state-owned enterprise green bonds, CSR initiatives in the private sector, and green public procurement. As an example, the Finance Latvia Association, which represents banks and other financial sector providers and businesses, had begun working on sustainable financing three years prior, and the Centre for Sustainable Business at the business school SSE Riga was hosting educational events and discussions on the subject (United Nations Department of Economic and Social Affairs (UNDESA), 2018). The Sustainable Development Strategy of Latvia until 2030, which was adopted in 2018, does men-

tion CSR. The strategy emphasises the significance of ethical and sustainable business conduct in achieving sustainable development objectives. It highlights how CSR may help businesses increase their long-term economic performance while simultaneously making a positive impact on social and environmental sustainability. Latvia's 2030 strategy recognises the considerable contribution that SMEs make to Latvia's economy and highlights their significant potential to support sustainable development. It highlights the need to promote SMEs' expansion and development while also enhancing their competitiveness and ability for innovation. The strategy suggests several methods to assist SMEs in achieving these goals, such as enhancing access to financing, enhancing the capability of SME support organisations, fostering innovation and entrepreneurship, and supporting the growth of green and sustainable enterprises (CSCC, 2022). Latvia's 2030 strategy also emphasises the significance of encouraging ethical, sustainable, and socially conscious business practices among SMEs; this includes categories like environmental sustainability, social responsibility, and business ethics.

The analysis of facilitating and hindering factors for CSR deployment in SMEs in Latvia has highlighted that there are significant political-regulatory, economic, and social barriers. The lack of appropriate state incentives for SMEs to implement CSR can be cited as the key deterrent or barrier. While there are long-term, medium-term and short-term policy planning documents, spatial planning documents, and political guidance documents, such as the Sustainable Development Strategy of Latvia until 2030 (Latvia 2030), the National Development Plan for 2021-2027 (NDP2027), the Fifth National Open Government Partnership Action Plan of Latvia 2022–2025, Declaration of the Intended Activities of the Cabinet of Ministers, coordinated by the Cross-sectoral Coordination Centre (CSCC); none of these documents does focus exclusively or explicitly on CSR promotion amongst SMEs. CSR deployment in SMEs might be seen as a positive externality of achieving sustainability goals and strategic objectives listed in the mentioned planning documents. Additional analysis of CSCC activities discovered that the state-owned companies (SOEs) that are part of a partially centralised SOEs governance coordination model have their corporate governance coordinated by the CSCC, while sectoral ministries retain the authority to directly control SOEs. This might lead to the conclusion that CSCC is not a suitable platform for extending dialogue to SMEs on CSR deployment, as it is mostly aimed at coordinating national-level planning documents and SOEs.

The adoption of CSR practises by SMEs in Latvia may be impacted by several facilitating and impeding factors, that might be similar to other European nations, as concluded from the analysis of the EC guidelines on Corporate social responsibility & Responsible business conduct, The EU Multi-Stakeholder Forum on CSR, and OECD Due Diligence Guidance for RBC. To continue with the previous argument on the lack of state incentives to support SMEs, the regulatory environment can be mentioned as the other impeding factor. Because SMEs might view implementing CSR practices as an additional burden or expense, they may be discouraged by the lack of clear legislation, guidelines, and framework in Latvia. The other important factors might include:

- 1 Limited resources, as many SMEs in Latvia struggle to make ends meet and might not have the finance or personnel to devote to CSR initiatives;
- 2 Lack of awareness and knowledge, as some SMEs might not be aware of the advantages of CSR or might not have the skills and knowledge necessary to properly adopt CSR practises;
- 3 Lack of demand or pressure, as SMEs occasionally might not observe a sizable demand or pressure for CSR practises from their stakeholders, suppliers, or customers;
- 4 Excessive bureaucracy might make it difficult for SMEs to implement CSR practises, the perception that CSR is too expensive and time-consuming may discourage SMEs.

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## Conclusions



Among the facilitating factors for implementing CSR practices in Latvian SMEs the following can be mentioned:

- 1 Increased access to knowledge and assistance for SMEs in understanding the benefits of CSR and the practical steps they can take to implement CSR practises;
- 2 Improving collaboration and networking with other SMEs, NGOs, and government agencies can assist SMEs in sharing experience and resources as well as finding suitable partners for CSR activities;
- 3 In some cases, there may be an increase in demand for CSR practises, which may motivate SMEs to use CSR as a strategy to improve their reputation and competitiveness;
- 4 In some cases, government laws and activities that support the CSR initiatives for SMEs might help to create a climate favourable to the adoption of CSR practises, such as disseminating information and public campaigns.

A *supportive and effective bureaucracy*, on the other hand, can help to facilitate CSR practises for SMEs by providing a clear and anticipated regulatory framework within which enterprises can function. The government, businesses, and other stakeholders may become more trustworthy as a result of this cooperation.

Despite the development of the vision and objectives of sustainable achievements, the analysis of the legal CSR framework and support issues in Latvia reveals that there is an important gap in the area of public policies to promote CSR among SMEs. The primary adopters of CSR in Latvia are large multinational companies and SOEs, as a result, extended dialogue on CSR deployment for SMEs is required between the public bodies and other stakeholders, as SMEs make up ~99% of all the enterprises in Latvia and a significant part of the state economy. Latvia moving in the right direction, but it is vital to emphasise that public policies in some crucial CSR areas still need to be created to remove significant political, economic, and social impediments to CSR deployment for SMEs. The fundamental issues impeding the implementation of CSR initiatives in Latvian SMEs include the absence of interinstitutional cooperation and coordination, insufficient institutional capacity, a lack of a CSR management framework for deployment and coordination, excessive insufficient bureaucracy, as well as a lack of a culture of partnership between private and governmental sectors.

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