

# THE ROLE OF PUBLIC SECTOR IN CORPORATE SOCIAL RESPONSIBILITY DEVELOPMENT IN LITHUANIA

## Dalia Štreimikienė

Dr. of Social Sciences, Professor  
Vilnius University  
Kaunas Faculty of Humanities  
Muitinės g. 8, LT-44280 Kaunas, Lithuania  
E-mail: dalia@mail.lei.lt

## Rasa Pušinaitė

Dr. of Social Sciences,  
Vilnius University  
Kaunas Faculty of Humanities  
Muitinės g. 8, LT-44280 Kaunas, Lithuania  
E-mail: rasa.pusinaite@vukhf.lt

**Abstract.** *In implementing sustainable development policy, corporate social responsibility and other voluntary business initiatives plays the crucial role. Business plays the central role in economy and its voluntary initiatives such as signing the Global Compact and developing corporate social responsibility (CSR) are the main tools for implementing sustainable development on local, regional and global levels. However, also the public sector plays an important role in enhancing CSR development in the country. There exist several studies on CSR development in the Lithuanian private sector; however, the role of the public sector has not yet been investigated.*

*The aim of the work was to investigate the development of CSR in the Lithuanian public sector. The main goals of the article are to analyse the concept of corporate social responsibility and to identify the main driving forces of CSR development in the public sector, its main barriers and means of overcoming these barriers.*

*The article summarizes the results of a survey conducted in the Lithuanian public sector. The survey has shown that corporate social responsibility is not widely spread among public administration bodies at the local level. The main factors having a negative impact on social responsibility development in the public sector are the lack of information, of human and other resources.*

**Keywords:** *corporate social responsibility, public sector.*

## Introduction

In Lithuania, corporate social responsibility ideas gained a new pace in 2004 when the National network of socially responsible enterprises was created. The Global Compact's operational phase was launched at the UN Headquarters in New York on 26 July 2000. Today, many hundreds of companies from all regions of the world, international

labour and civil society organizations are engaged in the Global Compact, working to advance ten universal principles in the areas of human rights, labour, the environment and anti-corruption. Through the power of collective action, the Global Compact seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation. In this way, the private sector – in partnership with

other social actors – can help realize the Secretary-General’s vision: a more sustainable and inclusive global economy.

The National Network of Responsible Business in Lithuania currently comprises more than 50 companies, members of the UN Global Compact Initiative. The Network of Social Responsible Business was officially launched in April 2005 by the Group of Initiative which was formed during the first international conference on the United Nations Global Compact and the Corporate Social Responsibility (CSR) concept in November 2004. At its launching date the Network comprised some 11 companies and business associations, as well as the United Nations Development Programme in Lithuania (further – UNDP). The purpose of the National Network is to exchange knowledge, experience and innovations, organize joint learning forums, thereby improving business strategies and implementing joint projects for the benefit of society. The Network operates as an entirely voluntary initiative. Though there are some CSR initiatives started in Lithuania, the most active companies in the field of CSR are big enterprises which are mainly based on foreign capital. Small and medium enterprises are not active in this field. Another important issue is related with the role of public sector in promoting CSR development in Lithuania.

The aim of the work was to analyse corporate social responsibility development in Lithuania and to identify the role of the public sector in promoting CSR development. There are no public bodies included in the National corporate social responsibility network. Therefore, a successful develop-

ment of corporate social responsibility ideas needs a larger involvement of the public sector, and the focus in disseminating information and rising awareness shall also be on the public sector in Lithuania because in other countries this sector plays a very important role in promoting CSR.

The main targets of the article are as follows:

- to discuss the concept of corporate social responsibility and its role in implementing sustainable development principles in the country;
- to analyse the policy of corporate social responsibility enhancement in Lithuania;
- to summarize the results of a survey of the Lithuanian local administration bodies;
- to develop recommendations for enhancing corporate social responsibility development in the public sector of Lithuania.

### **Corporate social responsibility**

There is a wide consensus among public and private institutions that the concept of corporate social responsibility (CSR) is based on a company attaining a balance between the interests of all its stakeholders within its strategic planning and operations (Auperle et al., 1985). Over the past decade, numerous debates have emerged around the question of whether or not such ‘responsibilities’ should be voluntary, especially regarding growing environmental challenges in areas such as climate change, as well as regarding the enforcement of labour standards and basic human rights. Other critics have pointed out that the role of

the private sector is defined purely through production and profit maximisation, generally assuming that only government should take care of social and environmental issues through efficient policy frameworks and mechanisms. Furthermore, concerns have been raised that the almost total exclusion of SMEs (especially in developing countries) from conceptual discussions on CSR could lead to a purely 'northern agenda' for multinational companies. It should be also noted that CSR has frequently been misleadingly equated simply with 'corporate philanthropy' and 'charitable giving', which in turn are often separated from their core business and have no underlying strategic plan behind them.

Today, CSR is widely seen as a management strategy option. The growing number of successful examples have demonstrated that respecting CSR in strategic planning, and following these through plans in operations, either leads to increased economic output, or at least is (in the short run) neutral in its effect on company profits. Furthermore, a growing number of large companies (and an increasing number of SMEs) have recognised the need to improve their social and environmental risk management strategies, grasp opportunities in innovative technology development and knowledge creation, and engage more proactively with their stakeholders (Baron, 2001).

While there is a growing conceptual clarity around CSR, technical assistance activities in this field are still scarce. One of the problems is that SMEs, notably in developing countries, often lack the capacities and opportunities to learn about a possible CSR approach in their management plan-

ning and daily operations. These companies are therefore either caught by surprise by sudden 'CSR-requirements' from their (normally northern) customers and counterparts, often in the form of complicated codes of conduct, or they face increasing difficulties in accessing global supply chains (Bagnoli, Watts, 2003).

This growing knowledge gap could have serious consequences for the development of SMEs, especially in developing countries, but it seems to be avoidable: the basic business concept of CSR, the inclusion of environmental and social concerns into the company's strategy, is also valid and feasible for small, even micro-enterprises, and does not depend on their location. Practically, this means that, through CSR, companies can detect and overcome inefficiencies in their production process, continuously upgrade the quality of their products and gradually develop their expertise in marketing and sales in an ever-wider market place. By doing so, they eventually improve their environmental and social performance and, thereby, their overall competitiveness (Aaronson, Reeves, 2002).

A UN initiative for mainstreaming the understanding of CSR is the Global Compact promoting ten principles of good corporate behaviour. The Global Compact's operational phase was launched at UN Headquarters in New York on 26 July 2000. Today, many hundreds of companies from all regions of the world, international labour and civil society organizations are engaged in the Global Compact, working to advance ten universal principles in the areas of human rights, labour, the environment and anti-corruption. Through the power of collective action, the

Global Compact seeks to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalisation. In this way, the private sector – in partnership with other social actors – can help realize the Secretary-General’s vision: a more sustainable and inclusive global economy. The Global Compact is a purely voluntary initiative with two objectives: to mainstream the ten principles in business activities around the world and catalyse actions in support of UN goals. To achieve these objectives, the Global Compact offers facilitation and engagement through several mechanisms: Policy Dialogues, Learning, Country/Regional Networks, and Projects (Doh, Guay, 2006).

The Global Compact is not a regulatory instrument – it does not “police”, enforce or measure the behaviour or actions of companies. Rather, the Global Compact relies on public accountability, transparency and the enlightened self-interest of companies, labour and civil society to initiate and share substantive action in pursuing the principles upon which the Global Compact is based. The Global Compact is a network. At its core are the Global Compact Office and six UN agencies: Office of the High Commissioner for Human Rights; United Nations Environment Programme; International Labour Organization; United Nations Development Programme; United Nations Industrial Development Organization and United Nations Office on Drugs and Crime (Štreimikienė, Kovaliov, 2007a).

The Global Compact involves all the relevant social actors: governments, who defined the principles on which the initiative is based; companies, whose actions it seeks

to influence; labour, in whose hands the concrete process of global production takes place; civil society organizations, representing the wider community of stakeholders; and the United Nations. There are numerous benefits to participating in the Global Compact. These include: demonstrating leadership by advancing responsible corporate citizenship; producing practical solutions to contemporary problems related to globalization, sustainable development and corporate responsibility in a multi-stakeholder context; managing risks by taking a proactive stance on critical issues; convening power with governments, business, civil society and other stakeholders; sharing good practices and learnings; accessing the UN’s broad knowledge in development issues and improving corporate/brand management, employees’ morale and productivity, and operational efficiencies (Drūteikienė, 2003; Ruževičius, 2003).

It is recognized that the new international standard developed by the International Standardisation Organisation (ISO) on social responsibility (ISO 26000) could have a profound impact on the way CSR develops globally. Already, the standard has given a powerful support to the voluntary character of CSR by the ISO membership making it clear that the standard will be purely voluntary in character, so voluntary that it will not be a certifiable standard, and the list of good practice cases that will be included in the new standard could drive CSR globally in preferred directions (Cho, Pucik, 2005).

In general, it can be stated that implementation of CSR principles allows to increase competitiveness of an enterprise through

increasing its reputation and the public acceptance of this enterprise (Štreimikienė, Vasiljevienė, 2004). CSR guarantees an active participation of a company in ensuring social development in the region, improving the social cohesion and sustainable development of the region. Implementation of CSR allows maintaining successful business and at the same time making a valuable input into the social development of a community and creating favourable conditions for successful business development in this region (Jusčius, 2007). Involvement of socially responsible companies in financing the infrastructure projects of local communities is an example of successful results of implementing CSR (Ulrich, Mak, 2000). However, social aims should be achieved without making harm to economic targets of the company. Harmonization of capital and labour relationships is the main precondition of successful CRS practices (Rinkevičius, 2000). In the following chapter, the role of government in enhancing CRS practices in Lithuania will be overviewed.

### **Policy for CRP initiatives enhancement in Lithuania**

The Ministry of Social Protection and Labour is the main institution responsible for the state policy development in the field of corporate social responsibility. CRS development in Lithuania is necessary seeking to implement the Lisbon strategy targets set for employment and competitiveness enhancement and for sustainable development of society. However, it is necessary to stress that CRP ideas are popular among big enterprises (mainly foreign capital enterprises), and there are just a few such companies

acting in Lithuanian markets; therefore, dialogue on CSR is necessary between Government and other partners seeking to have more contributions from business in implementing priority state policy targets (Čiegis, 2002; Čiegis, Grunda, 2006).

Government of the Republic of Lithuania, Minister of Social Security and Labour in December 22, 2005 issued the order No. A1-337 “Endorsement of means to encourage Corporate Social Responsibility in 2006–2008” (State News, 2006, No. 2-28). The vision of CSR development in Lithuania developed in this order encompasses:

- competitive companies that change according conditions in global economies;
- the safe, clean environment;
- strong social cohesion;
- transparent and ethical business practices.

The priority of the country in CSR set by this order is to encourage the development of corporate social responsibility while cooperating with economic, social and international partners. The main goals set in the order are:

- to stimulate a better understanding of CSR and social consciousness in business;
- to spread the methodology of CSR in business;
- to organize consultations on CSR implementation and sharing good case practices;
- to execute events that encourage the implementation of CSR.
- to improve the capabilities of companies and specialists to implement CSR principles in business;

- to prepare educational programs for getting knowledge on CSR;
- to organize research on CSR;
- to increase the transparency, trust and effectiveness of CSR practices, methods and means and improve its legal base;
- to prepare means that encourage observation of CSR practices, methods and means;
- to improve the legal environment for the development of CSR principles.

Research on CSR situation in Lithuania has shown that usually means that stimulate CSR are fragmentary and involve various problems not related to CSR. There is a lack of coordination and communication among the institutions; no CSR departments, no united administration of CSR have been created.

The purpose of the newly adopted national program for 2009–2013 is to create a friendly environment for the development of CSR in Lithuania and to encourage companies to implement these principles in their activities.

Corporate social responsibility is the policy and practice of companies and organizations when they not only follow the laws, international agreements and behaviour standards, but also integrate social, environmental and transparent business principles into their internal and external relations on a voluntary basis and, together with their social and governmental partners, take part in developing innovative solutions for social, environmental and economic challenges. The first goal in this programme is to create a prosperous juridical and institutional environment for the development of corporate social responsibility. The main

tasks in achieving this goal are to prepare modifications of laws that would encourage the development of CSR; to create the administration of governmental institutions that would secure the development of CSR and an effective communication among institutions in encouraging CSR. The main target activities relevant to this goal and related tasks include the development and improvements of laws on public purchasing, financial accountability and investment, establishing requirements of implementing and reporting on CSR principles for state-governed companies, CSR coordinative departments, increasing the competence of staff appointed to deal with CSR issues.

The second goal of the CSR programme is to encourage a better understanding of CSR as well as its social and environmental perception. To achieve this goal, the main tasks are: recognizing companies that are active in CSR on the national level; increasing the transparency and reliability of CSR activities; encouraging civil society organizations to work in the field of CSR, encouraging responsible consumption. The main target activities to achieve these tasks are: to improve the system of national awards for responsible business, to create a framework for CSR observation and voluntary evaluation of the influence of integrated CSR tools, to encourage the accountability of governmental institutions on responsible practices, support of NGOs that represent interests of consumers, carry out informative campaigns.

The third goal of the National CSR programme is to increase the competence of companies and other interested parties in the field of CSR. To achieve this goal, the

main tasks are to prepare methodical tools concerning the implementation of CSR principles and to ensure their spreading as well as sharing good case practices, and to encourage formal and informal education and research as well as self-education on CSR. Here, the main target activities are: development and support for the national network of responsible business, publishing of good case practices in CSR, spreading information in the Internet; organizing seminars and conferences; training of CSR consultants, support of scientific activities in the field of CSR; preparation and implementation of CSR study program, etc.

The Government of the Republic of Lithuania with the National CSR program admits that socially responsible business meets the welfare expectations of society and is beneficial for the social and economic development, and it is expected that by 2013 the three main goals set in the programme will be achieved. However, there is no emphasis on the role of the public sector in promoting CSR ideas among society members; therefore, it is important to analyse CSR achievements in this sector.

### **The role of public sector in CSR development**

The public sector plays a crucial role in CSR development in the country. Based on various literature (World Bank, 2002; Doh, Guay, 2006), four principal roles of the public sector reflect the overall range of initiatives that can be identified: mandating, facilitating, partnering, and endorsing. In their “mandating” role, governments at different levels must define minimum standards for business performance, embedded

within the legal framework. Examples include establishment of emission limit values for particular categories of industrial installations, or requirements for company directors to take particular factors into account in their decision-making. Even “mandating” activity can drive industrial innovation and best practice. For example, the familiar notions that enterprises should apply the best available techniques, best available technology, or the best practicable environmental options to manage industrial emissions allow for the fact that what is “best” will change over time with technological innovation and technology transfer.

In their “facilitating” role, public sector agencies enable companies to engage with the CSR agenda or to drive social and environmental improvements. The public sector can play a catalytic, secondary, or supporting role. For example, in Great Britain an amendment to the 1995 Pensions Act requires pension funds to disclose whether they take social, environmental, and ethical issues into account, but stops short of requiring fund managers to adopt any particular policy. In their role as facilitators, public sector bodies can stimulate the engagement of key actors in the CSR agenda (for example, by providing funding for research or by leading campaigns, information collation and dissemination, training, or awareness raising). Public sector bodies can also develop or support appropriate CSR management tools and mechanisms, including voluntary product labelling schemes, awards, bench marks, and guidelines for company management systems or reporting. They can stimulate pro-CSR markets by creating fiscal incentives and by

applying its public procurement and investment leverage.

The notion of “partnership” is central to the CSR agenda. Strategic partnerships can bring the complementary skills and inputs of the public sector, the private sector, and civil society in tackling complex social and environmental problems.

Political support and public sector endorsement of the concept of CSR and in particular of CSR-related initiatives reflect the fourth role of the public sector in our typology. Endorsement can take various forms, including through policy documents, the “demonstration” effect of public procurement or public sector management practices, or direct recognition of the efforts of individual enterprises through award schemes or “honourable mentions” in Ministerial speeches.

There are often no clear lines among these four roles. For example, there may be cases where government acts as a partner, but the incentive for partnership derives from the possibility (explicit or implied) that legislation may follow if a partnership is unsuccessful. Equally, the lines among “facilitating”, “partnering” and “endorsing” are not always clear. For example, the U.S. and U.K. Voluntary Principles on Security and Human Rights initiative have combined a partnership process of stakeholder engagement with a facilitating role and implicit government endorsement of the outcomes.

The challenge for public sector bodies is to identify the priorities and incentives that are meaningful in the local and national context and to build on existing initiatives and capacities. There is a

significant opportunity for public sector bodies in transition economy countries to harness the current enthusiasm for CSR delivery against public policy goals and priorities. First of all public bodies need to be propagators of CSR benefits to business, community and all society and to show on their own experience these benefits and encourage other companies to follow good case examples. However, the current situation in private public partnership in Lithuania was not very successful. There were several concession agreements between municipalities and private companies established in the energy sector; however, some concessions were unsuccessful because of the weak legislation, bad opinion of society on public and private partnership and lack of experience. The analysis of CSR in the public sector of Lithuania can provide useful information on the main barriers and weak points of CSR development in this sector.

### **Survey of Lithuanian local administration bodies and their role in CSR development**

The main aim of the survey conducted in the Lithuanian public sector was to reveal the understanding and awareness of CSR in public bodies and evaluate their understanding of CSR benefits to business and community, and also to define their opinion about the main barriers of CSR development in Lithuania and the possible measures to overcome these barriers. The role of public bodies in mandating, facilitating, endorsing CSR and partnering was also investigated in this survey. The survey was conducted in municipalities of Lithuania so as to cover

all Lithuanian territory and to survey local government representatives whose role is crucial in promoting CSR ideas on the local level.

The number of respondents was selected according to Panniott's formula (Kardelis, 1997):

$$n = \frac{1}{\Delta^2 + \frac{1}{N}},$$

here  $n$  is the number of surveyed municipalities;

$\Delta$  is the uncertainty range,  $\Delta = 0.1$ ;

$N$  is the total number of local administration bodies in Lithuania ( $N = 639$ ) (Lietuvos įmonių katalogas, 2007).

Therefore, the number of surveyed local administration bodies  $n = 91$ .

The survey was conducted in August–September 2007. Resources of the EU Structural Funds under project No 2004/2.5.0-K01-021/SUT-167 were used for this purpose. Master programme students of the Kaunas Technological University conducted the survey.

The questionnaire was sent in electronic form using the main address of municipalities. Therefore, 91 electronic questionnaires were sent out, and 64 questionnaires (70.3%) were returned with answers. The uncertainty  $\Delta$  was evaluated based on the same Panniott formula, replacing  $n$  with 64. The evaluated uncertainty  $\Delta = 0.12$  is sufficient for our survey (Kardelis, 1997).

The questionnaire was prepared for the survey based on the main assumptions about the role of the public sector in promoting CSR and revealing the mandating, facilitating, partnering, and endorsing role of

local governments in CSR development in Lithuania. Also, questions related to the main barriers of CSR development and measures to overcome these barriers were incorporated in the survey.

There were five groups of questions in the questionnaire. The questions were selected to reveal the opinion of respondents on CSR, the benefits of CSR to society, business and to local sustainable development. Respondents were also asked to reveal the role of local government as a mandatory, facilitating, partner and endorsing body in CSR development.

The first part of the questions was related with the main characteristics (public body, working experience, position, education, etc.).

Based on the answers to the first group of questions, it is possible to summarize the main characteristics of respondents. The respondents were mainly from administration of municipalities (70%); 90% of respondents had a higher education and the position of senior officers; 54% of respondents were working in administration for 2 to 6 years, 20% for 6–10 years, 16% for more than 10 years and 10% for less than 2 years.

The second part of the questions was aimed to elucidate the awareness of CSR ideas by local public bodies. The questions were selected so as to reveal the extent of implementation of certain CSR principles in public administration structure. More than 60% of respondents were aware of CSR principles and were even able to define the main fields of CSR and to evaluate to which extent these fields of CSR are covered in their workplace; 70% of respondents have

indicated that improvement of working conditions and safe working environment are the main fields in which the ideas of CSR are reflected in their workplace. Active involvement in community life was mentioned just by 25% of respondents. Environmental protection as the main field of CSR at their workplace was identified by almost 30% of respondents.

The third group of questions was aimed to reveal the role of public bodies in mandating, facilitating, partnering, and endorsing CSR at a local level. The questions and the distribution of answers are presented in Table 1.

As one can see from the distribution of answers presented in Table 1, local bodies play the most active role in partnering with the private sector; however, as mentioned above, the experience of public private partnership in Lithuania cannot be treated as successful. The role of public bodies in endorsing, mandating and facilitating of CSR is minor in Lithuania. Quite a large

part of respondents didn't have any opinion on this issue, and the rest were convinced that their institution plays a minor role, if any, in this field.

The fourth group of questions were selected so as to reveal the opinion of respondents on CSR benefits to business and society. Some of respondents (30%) didn't have information about CSR and were unable to answer this group of questions; 58% of respondents that had information about CSR were convinced that CSR has a positive effect on the competitiveness of a company and provides benefits to all society members. Only a few (12%) respondents were convinced that CSR has no positive effect on business competitiveness; 10% of respondents were not sure about the positive effect of CSR on all society members and on sustainable development; 20% of respondents were convinced that CSR has a positive effect on the competitiveness of enterprises under certain specific conditions which include the costs of implementing

*Table 1. The role of local public body in CSR development, %*

<b>Question</b>	<b>Institution plays important role in this field</b>	<b>Institution plays moderate role in this field</b>	<b>Institution plays minor role in this field</b>	<b>Institution does not play any role in this field</b>	<b>No idea</b>
What is the role of your institution in mandating CSR at local level?			36	14	50
What is the role of your institution in facilitating CSR at local level?		6	20	14	54
What is the role of your institution in partnering at local level?	3	13	40	14	30
What is the role of your institution in endorsing CSR at local level?			40	10	50

CSR, the income level of the population, the public opinion of the population about CSR, the quality of products and services provided by socially responsible enterprises, the reputation of responsible firm which is related with other issues, the ratio of quality of products and prices, etc.

The last fifth group of questions were selected so as to reveal the main barriers of CSR development in the country and the possible means to overcome them. 60% of respondents were convinced that the main barrier for CSR in the country is the lack of information and knowledge, 34% of respondents believed the main barrier to be the lack of financial resources, and 6% of respondents were convinced that the lack of benefits from CSR is the main barrier for CSR development in Lithuania.

The main measures to overcome barriers for CSR development in Lithuania, indicated by respondents, are the following: 60% of respondents were convinced that education, tutorial materials, workshops, etc. are able to help to overcome barriers of CSR development in Lithuania; 30% of respondents were convinced that the best measures to enhance CSR development in Lithuania is dissemination of information about CSR benefits. Only 5% of respondents believed that detailed recommendations are the best measures, and 5% of respondents didn't indicate any measures able to help enhancing CSR in Lithuania.

In general, the main conclusion of the survey is that in Lithuania local bodies play a minor role in partnering, mandating, facilitating and endorsing CSR in the country. The main weakness of the public sector in Lithuania in promoting CSR is the lack

of information, of human capacities and resources to be active leaders in promoting the ideas of CSR in society.

## Conclusions

Corporate Social Responsibility is the policy and practice of companies and organizations when they not only follow the laws, international agreements and behaviour standards, but also integrate social, environmental and transparent business principles into their internal and external relations on voluntary basis and together with social and governmental partners take part in developing innovative solutions for social, environmental and economic challenges.

There are four principal roles of the public sector in CSR development: mandating, facilitating, partnering, and endorsing. In their "mandating" role, governments at different levels must define minimum standards for business performance, embedded within the legal framework. The public sector can play a catalytic, secondary, or supporting role as CSR facilitator. Endorsement can take various forms, including through policy documents, the "demonstration" effect of public procurement or public sector management practices, or direct recognition of the efforts of individual enterprises through award schemes. In conclusion, the "partnership" is central to the CSR agenda. Strategic partnerships can bring the complementary skills and inputs of the public sector, the private sector, and civil society in tackling complex social and environmental problems.

Though Lithuania has legislation and institutions in place aiming to create fa-

avourable political conditions for CSR development and there are more than 50 companies, members of the UN Global Compact Initiative in Lithuania, there are no public bodies included in the National corporate social responsibility network. Therefore, the successful development of corporate social responsibility ideas needs a larger involvement of the public sector, and attention to disseminating information and rising awareness shall also be targeted to the public sector in Lithuania because this sector plays a very important role in promoting CSR in other countries.

The survey of local public bodies has revealed that Lithuanian local administration bodies play the minor role in partnering,

mandating, facilitating and endorsing CSR in the country. The main weakness of the public sector in Lithuania in promoting CSR is related to the lack of information on CSR, its benefits to society and business, the lack of human capacities and resources in local administration bodies to raise active leaders in promoting the ideas of CSR in society.

The main recommendation that follows from the survey is to ensure a wide dissemination of information, to organise workshops and training, to prepare tutorial and other materials seeking to increase the awareness of CSR benefits in society, and especially to strengthen the role of public bodies in enchaining CSR development in the country.

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