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## **Integrating Corporate Social Responsibilities in the Energy Industry that Raises Living Standards and Stimulates SME's Development**

### **Integracja przedsiębiorstw sektora energetycznego w społecznej odpowiedzialności w podniesieniu i stymulowaniu poziomu rozwoju MŚP**

**Abstract:** The situation in the World is changing rapidly and the energy industry is not an exception. Limited natural resources, alternative resources, EU regulations are new technology development which are just a few factors that modern society and different countries are facing. There are many challenges that are coming in the near future. The article starts the discussion about the present situation and compares the energy sector in different countries, highlights the main challenges countries are facing and proposes a possible solution for improving the situation. The article will focus on three main parties involved in the energy industry and their interaction: 'government and the public may be considered as the key players but equally important are enterprises.' In addition: Corporate Social Responsibility will be discussed as an effective tool to accomplish a harmonic coexistence between local community, enterprises and the public. The article presents secondary data research using literature review and presents an analytical type of research.

**Keywords:** Corporate Social Responsibility, sustainability, energy sector, energy consumption, utility tariffs, Gini coefficient, SME

**Streszczenie:** Sytuacja na świecie zmienia się bardzo szybko, a sektor energetyczny nie jest wyjątkiem. Ograniczone zasoby naturalne, alternatywne środki, regulacje unijne oraz rozwój nowych technologii, to tylko kilka czynników, które współczesne społeczeństwo i różne kraje uwzględniają i stosują. Istnieje wiele wyzwań, które nadchodzą, i w najbliższej przyszłości należy się z nimi zmierzyć. Artykuł rozpoczyna dyskusję na temat obecnej sytuacji i porównania sektora energetycznego w różnych krajach, podkreśla główne problemy, z jakimi borykają się kraje i proponuje rozwiązania dla poprawy sytuacji. Artykuł koncentruje się na trzech głównych stronach, zaangażowanych w branżę energetyczną i ich interakcji: „rząd i jednostki samorządowe mogą być uznane za kluczowych graczy, ale równie ważne są przedsiębiorstwa”. Ponadto: społeczna odpowiedzialność biznesu zostaną omówione jako skuteczne narzędzia dla osiągnięcia harmonijnej koegzystencji lokalnej społeczności, przedsiębiorstw i społeczeństwa. Artykuł prezentuje badania danych przy użyciu wtórnego przeglądu literatury i przedstawia typ analityczny badań.

**Słowa kluczowe:** społeczna odpowiedzialność biznesu, sustainability, sektor energii, zużycie energii, stosowane taryfy, współczynnik Giniego, małe i średnie przedsiębiorstwa

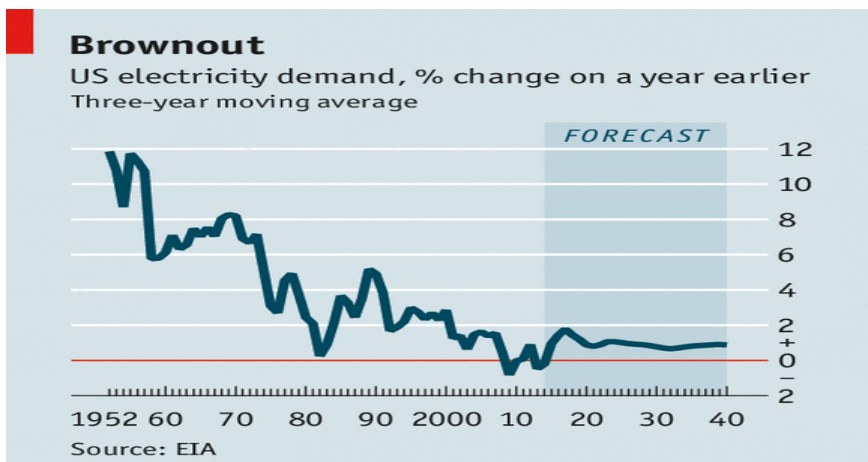
## Introduction

We would like to start the article with some facts from the report 'Sustainable Development Strategy of Latvia until 2030': 'Energy consumption continues its increase both in the rest of world and Latvia, and it is most likely that it will also continue to grow during the period up to 2030'. It is anticipated that, without performing any measures, by 2050 global energy consumption could increase by even 3.5 times according to "Eurostat". Moreover, the report suggests that all regions of the world, including the EU and Latvia, will feel it, not only as an exhaustion of fossil energy resources and an increasing rise in energy prices, but also as climate change and its impact on the national economy and ecosystems.

This is a strong statement that highlights the increase in demand and use of electricity in the World and possible consequences that this rapid increase of electricity usage will bring. However, not that long ago there was an article in 'The Economist' that suggested that the present situation is rather different and contrasts from the previous report.

On 4th of October 'The Economist' published an interesting analysis about electricity demand in the United States of America. It shows that last year, Americans used 2% less electricity than in 2007. The government's Energy Information Administration believes that demand will grow by less than 1% a year between now and 2040.

It is rather surprising considering the fact that consumers are buying more electric devices than ever, but the power these machines use is decreasing. Our every day life is unimaginable without usage of new technologies that are becoming so vital for improving our every day productivity, nevertheless technologies are developing so rapidly they become not only more powerful, but also more energy efficient. The article also introduces a new term 'death spiral' that has become the most common phrase in America's electricity industry these days (fig. 1).



**Fig. 1. US electricity demand**

Source: EIA 2013.

It might be good news for consumers as they demand less electricity, however, it is not good news for electricity producers. With the decrease in demand they will still have to cover their expenses. The utilities are required to guarantee continuity of the electricity supply, which means they must keep spending on infrastructure and maintenance even as customers build their own power sources.

The author of the article suggests that: what the industry needs is a new business model. He continues with an expert opinion: 'The best prospect, suggests Elias Hinckley, an energy-finance specialist at Sullivan and Worcester, a law firm, is plug-in electric vehicles. Today, Americans' daily spending on energy can be split into two large chunks: about \$1 billion on electricity and \$1.4 billion on fuel for their vehicles. In the past, electricity providers had no way to exploit the latter market. Plug-in cars should change that'.

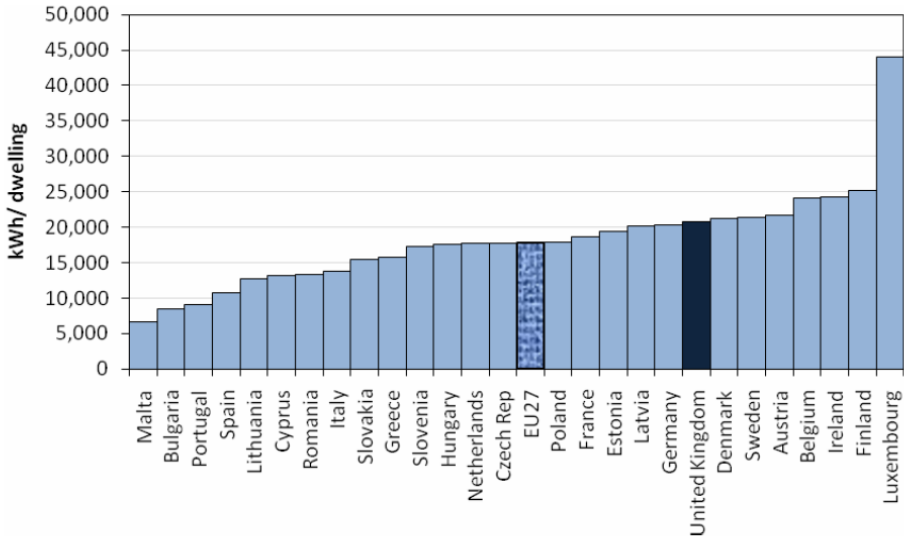
### **The situation in Latvia**

We continue with the situation analysis in Latvia. The situation in Latvia is not that clear. Despite the statement from Ivita Bidere the representative from AS 'Latvenergo' who suggests that last year energy consumption has grown by 8,2% in comparison with the year 2012. That is one of the largest energy usage growths for Latvia in past decades. Furthermore in the publication "LATVIA after 10 years of the European Union - OTHER LATVIA?" Describes the changes in Latvia from 2004 to 2014 in different areas. Researchers on the energy industry writes: "... the reduction of thermal energy consumption in households ... Latvia is still far behind the EU average." The researcher has not emphasized the most important achievements of Latvian energy (generating sources, networking and consumer infrastructure development, etc.), as well as providing false information.

By looking at another document, the British peer analysis of the energy consumption of Latvian households (from that heat consumption – 27%) of climate adjustment in 2008 was 15.1 MWh / housing, which is relatively less energy consumption than the EU-27 average (17.8 MWh / housing). Within the climate correction we have the best 10 in the EU-27 (Fig.3).

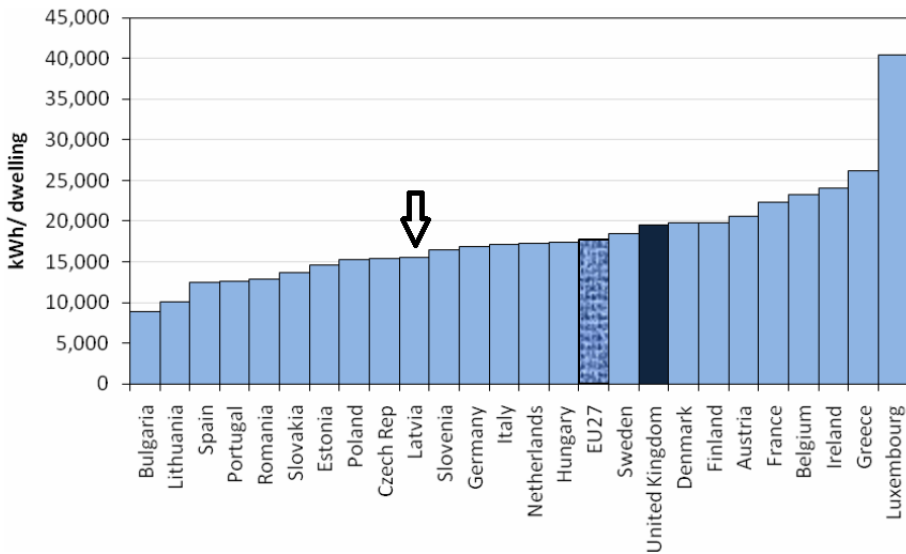
Although Latvia has considerable potential for improving energy efficiency of buildings it cannot be said about its backwardness compared to the EU-27. Perhaps even a more detailed analysis would also consider the impact of the uninhabited housing on the national average.

According to the Latvian energy audits and other data of the CSB, in 2013 there were 823.3 thousand households in total that consumed energy by 53,066 TJ amount (including fuelwood – 24105 TJ; heat – TJ 15419; electricity – 6419 TJ etc.). One medium Latvian household or residential energy consumption without climate corrections to the EU average in 2013 was 17.9 MWh, which is not less than in 2008 (19.6 MWh / housing).



**Fig. 2. Household energy consumption in an average home in 2008 WITHOUT climate correction**

Source: ETA 2013.



**Fig. 3. Household energy consumption in an average home in 2008 with climate adjustment**

Source: ETA 2013.

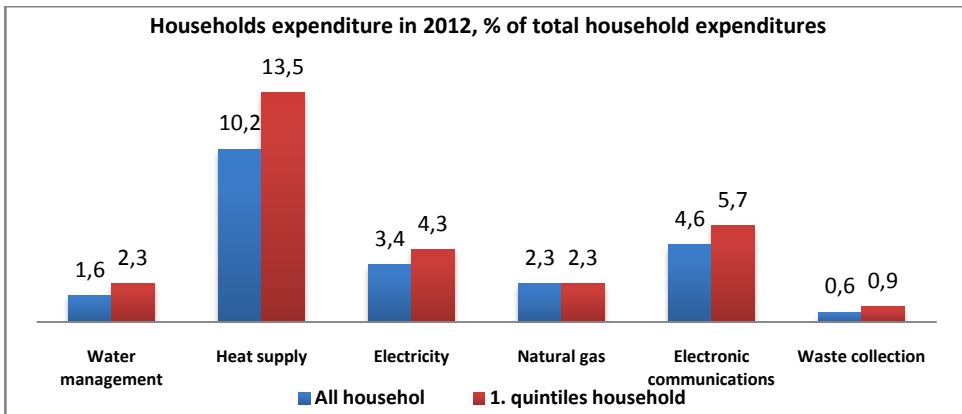
There are no clear signs that demand for energy and consumption of energy is increasing. There are no major new production factories that would use

a lot of energy and increase the overall energy usage in the past decade. Additionally demographic changes, the population is decreasing, so it also has to influence the energy amount that has been used recently. And finally new technologies that are energy efficient are frequently integrated into everyday processes. However, one thing is for sure: electricity tariffs are continuing to grow.

**So how much money do we spend on utilities?**

Steve Hawks in his article in 'The Telegraph' (7th of November 2013) suggests that more than a quarter of household spending goes on energy bills, water rates and housing costs - double the level of 50 years ago in the United Kingdom. Furthermore PricewaterhouseCoopers, the accountants, warn that the amount set aside for housing and utility bills will rise further, reaching 30 per cent by 2030. PwC, one of the City's biggest accountancy firms, said more than £250billion a year was being spent on housing and utility bills in the UK, with gas and electricity making up £33billion of that figure. In a recent published report. PwC says: "The share of spending on housing and utilities rose from 21 per cent in 2007 to 26 per cent in 2012. "This reflects sharp rises in real rent levels and utility bills, which have squeezed spending in other discretionary areas."

If we look back at the situation in Latvia we can see that fig. 4 illustrates the total amount of household expenditures. Energy prices are very important for successful development. For organizations, energy costs are a factor to be considered, especially for SMEs and households. Costs for heating and lighting make up a significant part of any household's budget.



**Fig. 4. Households expenditure in 2012**  
 Source: Sabiedrisko Pakalpojumu Regulēšanas Komisija.

The growth of energy tariffs will effect, not only production costs for manufacturers, but also have a significant impact on households. The burden from energy bills and housing costs - with rents at an all-time high - means that families have been spending far less on eating out, recreation, culture and furnishings. In addition Kevin Peachey adds that The average annual dual-fuel bill

– covering gas and electricity – is about £1,264 per household in the UK. It is one of the largest regular bills that a household has to pay, after mortgage or rent, and council tax. Transport accounts for a further 14 per cent of spending. What change electric cars could bring in near future requires further analysis and research.

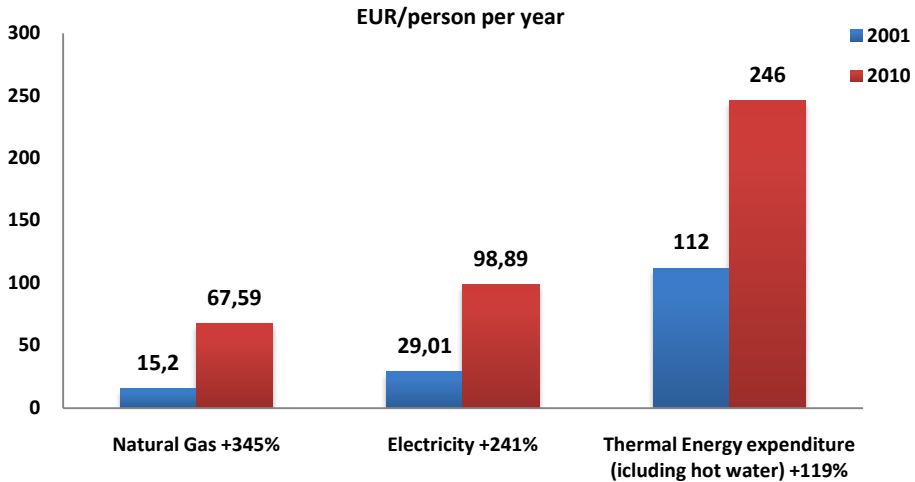
As the information above shows that the utility price has grown and is predicted to increase further in Latvia and other European countries, the question is: could the income of the SME and households keep up with the increase of utility tariffs?

On 17th of September Financenet presented data analysis that showed the fact that in Latvia 64 400 inhabitants have a monthly income less than 50 euros. The Ministry of Welfare is currently working on a project to establish a minimum level of income of 129 euros. During the last 20 years socio-economic inequality in Latvia has progressed rather rapidly. According to A Human Development Report in 2007 the Gini coefficient for Latvia was 35.6, which is one of the highest indicators in Europe and is significantly different from indicators of the neighboring Nordic countries (below 30). The Central Statistical Bureau affirms that Latvia had the highest proportion of inhabitants subjected to the risk of poverty and social exclusion in the EU – 21% of state inhabitants in 2007. Such a situation is not surprising, taking into account that, from all EU countries, Latvia is spending the lowest amount of money for social protection (pensions, social benefits, administration of social assistance institutions etc.), and this tendency is not improving.

There are many discussions about the situation in the energy sector; there are talks that countries have to focus on renewable, green, independent energy and energy security that countries have to obtain sustainable strategies for effective and efficient development of the energy industry. However, all these changes come with a high price. There is a new directive from the European Union that claims that energy efficiency is an effective means to reduce dependence on energy imports, improve energy security, mitigate climate change and overcome the economic crisis. In order to achieve the EU headline target for energy efficiency, Energy Efficiency Directive EED dictates that all Member States in the period from 2014 to 2020 are required to achieve a cumulative end-use energy savings target. In the Economic Ministry developed Concept the aim of Latvia for a cumulative end-user energy savings are 9,896 GWh or 9.9 TWh. In other words energy-efficiency is described as the goal to reduce the amount of energy required to provide products and services.

Many experts predict that energy prices will grow. According to LSUA estimates EED planned implementation measures will lead to an increase in the thermal energy tariff ranging from 5% to 25% for the end-user. It is dramatic increase in addition to the years unresolved debt issue: approximately 70 millions EURO is the debt for thermal energy in Latvia. Electricity prices are also predicted to grow 5-10% in the near future. The price for energy in the past decade has increased on average by 235%, see the tendency in fig. 5. With the increase in energy prices and in addition with the existing debt many experts suggest that Latvia is heading towards energy poverty. That means that the

status quo is not an option any more. The government with major energy companies has to take action and think about changing the existing business model.



**Fig. 5. EUR/person per year**

Source: Ernest & Young.

The present situation requires a sustainable solution. Change is a complicated process. To get the best possible result it is vital to have good communication between all the parties involved. Three main parties could be identified as following: Society, Government and Energy production companies. There are possibilities to change the present situation with all the parties involved, yet the highest expectations are from the government, however, they are somewhat uncertain. To change the situation, increase the welfare of society and stimulate new businesses, government has to move from their comfort zone. Corporate social responsibility (CSR) plays a major role in this process of change. The meaning of CSR encompasses various principles, like sustainable development, human rights, poverty, ethics etc. According to Falck (2007) these ideas on CSR started to make business people realize that companies had a responsibility to society that went beyond, or worked in parallel with their efforts to make profit. The government is the owner of 'Latvenergo'. And 'Latvenergo' is the country's public electricity utility. It is responsible for almost the entire electricity production (90%), electricity distribution, as well as district heating. The company has shown stable profit for many years. However, all the profits were redirected to the country's budget for multiple needs. Without investing in social needs such as decreasing energy tariffs and stimulating new business and investments in the region.

## **Possible Solutions: Three parties involved**

A social policy should be created within the intersectoral framework. In order to increase the possibilities of people or certain companies who have gotten into the energy poverty risk zone to improve their welfare, social groups which are most subjected to the energy poverty risk should be identified and social security mechanisms suitable for them should be developed. One of the important preconditions for the reduction of poverty risk is an efficient system of social services, social assistance and social security.

Many experts suggest that the main criteria for success of the energy efficiency measures are reduced heat and electricity consumption and more efficient use of energy resources both in the private and public sectors. One of the possible solutions suggested by the experts is a new sustainable model. Within the scope of the sustainability model, the only possibility of a successful response to global challenges is to create such a development policy where there is a balance between the necessity to promote economic growth and to improve the quality of life of each member of the society, the necessity to ensure social unity and safety, as well as the necessity to preserve the ecological environment for future generations. Environmental, social and economic issues are closely interrelated and should be solved jointly, not separately.

Another solution is the increase and regionalization of energy supply capacities. Experts propose that the possibilities for a generation of additional capacities and energy resources in Latvia should be evaluated, linking the arrangement of new capacities with regional and economic development planning. Amounts of electricity generating capacities in regions should be increased, if necessary, reviewing the quota system of renewable energy resources.

Furthermore, production of dispersed and micro-level energy is another alternative. In order to use, as much as possible, the natural and human resources already at our disposal for production of the needed energy, production of dispersed and micro-level energy from renewable energy resources should also be developed in the private sector. Mainly, it could be using solar energy for water heating and production of electricity.

And finally there is also the possibility from the government to influence the current processes in the energy sector by 'freezing' the energy tariffs for certain period of time. As it was proposed in the United Kingdom where Labour leader Ed Miliband pledged that gas and electricity bills will not increase for 20 months if Labour wins the 2015 election. Furthermore, Prime Minister David Cameron made changes that cut the amount of green levies, which, in turn, brought a reduction in consumer's bills. It just shows that there are different possible ways to influence the energy tariffs.

## **Conclusions**

Corporate social responsibility can play a crucial role for the energy sector since the sector can contribute to economic and social development and its simultaneous potential for reducing the impact on the environment and communities.



The energy industry is a more monopolistic market and for consumers not easy to switch between different energy providers, mainly because of the necessary infrastructure. Next year (2015) Latvia will open an electricity market. New companies will appear and will be available for electricity consumers. Many experts already predict that electricity prices will increase. Nevertheless there are possible solutions for improving the present situation in the energy industry. This article presented several possible solutions on how to improve the situation and how to make the energy industry not only available for end-users but also affordable. Further research requires identifying a better link between the three parties involved: government, society and business, as well as, a new business model with an effective and efficient strategic management specifically developed for the energy industry.

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