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SCHOOL OF ECONOMICS AND BUSINESS

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**ECONOMIC AND REPORTING ASPECTS OF CORPORATE
SOCIAL RESPONSIBILITY**

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EKONOMSKI IN POROČEVALSKI VIDIKI DRUŽBENE ODGOVORNOSTI PODJETIJ

Povzetek

Doktorska disertacija dopolnjuje tekoče razprave o ekonomskih in poročevalskih vidikih družbene odgovornosti podjetij. Raziskava, predstavljena v disertaciji, vključuje pregled različnih metod operacionalizacije in merjenja povezave med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo, uporabljenih v prejšnjih raziskavah, analizo obojestranskih vplivov med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo, analizo tovrstnih vplivov na ravni splošne družbene odgovornosti podjetja in ločeno za vsako izmed sedem proučevanih skupin deležnikov ter raziskavo praks prostovoljnega poročanja o družbeni odgovornosti podjetij.

V prvem poglavju je predstavljen pregled različnih metod operacionalizacije in merjenja družbene odgovornosti podjetij in njihove finančne uspešnosti, uporabljenih v empirični literaturi o povezavi med tema dvema pojmom. Glavni cilj tega pregleda je bil določiti prednosti in slabosti najpogosteje uporabljenih merskih metod. Različne operacionalizacije večdimenzionalnega konstrukta družbene odgovornosti podjetij vključujejo kazalnike ugleda, analize vsebine, anketne vprašalnike in enodimenzionalne mere. Finančna uspešnost podjetij pa se po navadi meri z različnimi koeficienti donosnosti, ki se izračunajo na podlagi podatkov iz računovodskih izkazov ali s trga ter vključujejo računovodske in tržne kazalnike ali kombinacijo obeh. Pregled je pokazal, da ni idealne metode za merjenje družbene odgovornosti podjetij in njihove finančne uspešnosti, saj imajo vse določene slabosti. Kljub temu je izbira ustrezne metode pri konstruktu družbene odgovornosti podjetij bolj problematična, saj ima finančno poročanje že dolgo zgodovino in je večinoma standardizirano, medtem ko se je poročanje o družbeni odgovornosti podjetij začelo razvijati šele pred kratkim, zanj pa je značilna nizka stopnja standardizacije. Raziskovalčeva subjektivnost in pristranska izbira sta se izkazali za splošno slabost večine (če ne vseh) metod. Poleg tega je lahko tudi uporaba kazalnikov ugleda, analiz vsebin in anketnih vprašalnikov pristransko usmerjena k odkrivanju pozitivnih povezav. Velik del slabosti merskih metod bi lahko rešili z dodatno standardizacijo poročanja o družbeni odgovornosti podjetij in uzakonjenjem obveznega poročanja. Standardizirana poročila bi odpravila problem raziskovalčeve subjektivnosti, obvezno razkritje pa bi rešilo problem pristranskosti odgovorov.

V drugem poglavju so predstavljeni izsledki analize obojestranske povezave med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo na ravni splošne odgovornosti podjetja ter ločeno za vsako izmed osmih proučevanih skupin deležnikov na vzorcu srednje velikih in velikih hrvaških podjetij. Izsledki kvantitativne analize so pokazali, da trenutne družbeno odgovorne dejavnosti pozitivno vplivajo na prihodnjo donosnost podjetja. Družbena odgovornost se torej splača z vidika donosnosti, saj so stroški družbeno odgovornih dejavnosti nižji od njihovih finančnih koristi. Po drugi strani izsledki niso

potrdili, da pretekla donosnost pozitivno vpliva na trenutno družbeno odgovornost podjetij. Trenutne družbeno odgovorne dejavnosti torej vplivajo na prihodnjo donosnost, pretekla donosnost pa ne vpliva na trenutno družbeno odgovornost podjetij. V nasprotju z izsledki kvantitativne analize so intervjuji s predstavniki podjetij pokazali, da donosnost pozitivno vpliva na družbeno odgovornost podjetij. Na ravni deležniških skupin so izsledki pričakovano pokazali pozitiven vpliv družbeno odgovornih dejavnosti, usmerjenih k transakcijskim deležnikom (zaposlenim, strankam in konkurenci) in naravnemu okolju in prihodnje generacije. Hkrati so v nasprotju s pričakovanji pokazali pozitivne vplive tudi za netransakcijske deležnike (nevladne organizacije in družb). Dejavnosti, usmerjene k netransakcijskim deležnikom, očitno upoštevajo tudi transakcijski deležniki in jih vključujejo v svoje odločitve, zaradi česar prihaja do pozitivnega učinka. Raziskava je pokazala tudi, da pritiski deležnikov pozitivno vplivajo na družbeno odgovorne dejavnosti, skupaj in za vsako skupino deležnikov posebej.

V tretjem poglavju so analizirane prakse prostovoljnega poročanja o družbeni odgovornosti podjetij. Značilnosti prostovoljnega poročanja, vsebina poročil, razlogi za poročanje in njegovi izzivi so proučeni na vzorcu 94 podjetij iz Hrvaške, Slovenije in Srbije, ki so se prostovoljno odločila za tovrstno poročanje. Izsledki kažejo, da večja podjetja pogosteje razkrivajo poročila o družbeni odgovornosti, saj lahko vplivajo na večjo skupino deležnikov in obratno, tudi nanje lahko vpliva večja skupina deležnikov. V industrijskem sektorju o družbeni odgovornosti najpogosteje poročajo podjetja, ki se ukvarjajo s proizvodno in finančno dejavnostjo. Analiza vsebine je pokazala, da so zaposleni, stranke, družba (skupnost), naravno okolje in dobavitelji najpomembnejši deležniki za podjetja, saj se najpogosteje pojavljajo v poročilih o družbeni odgovornosti. Vsi ti deležniki so pomembni za podjetje in brez njihovega upoštevanja pri vodenju podjetja je lahko prihodnost podjetja vprašljiva. Analiza vsebine je prav tako pokazala, da vsebino poročil lahko določajo smernice in standardi, ki jih podjetja uporabljajo za pripravo poročil. Glavni razlogi za prostovoljno poročanje so vzpostavljanje zaupanja ter obveščanje deležnikov o ekonomski, družbeni in okoljski uspešnosti podjetja in doseženem napredku. Zbiranje podatkov (vključno s preverjanjem podatkov, s tem povezanimi stroški, pridobivanjem podatkov od različnih deležnikov itd.) je glavni izziv, s katerim se podjetja soočajo pri pripravi poročil o družbeni odgovornosti. Podatki o družbeni odgovornosti podjetij so večinoma nefinančni, zaradi česar jih je težje zbrati in analizirati.

Izsledki opravljene analize so pokazali, da imajo podjetja interes za izvajanje družbeno odgovornih dejavnosti, saj vplivajo na njihovo finančno uspešnost. Za pravilno upravljanje tovrstnih dejavnosti bi bilo treba poročanje o družbeni dejavnosti podjetij standardizirati in ga narediti zakonsko obveznega, kar bi izboljšalo kakovost podatkov. Zakonsko obvezno poročanje postaja vse pogostejše, in to bi se moralo nadaljevati tudi v prihodnje.

KLJUČNE BESEDE: družbeno odgovornost podjetij, deležniki, teorija deležnikov, finančna uspešnost, poročanje o družbeni odgovornosti

ECONOMIC AND REPORTING ASPECTS OF CORPORATE SOCIAL RESPONSIBILITY

Summary

This dissertation aims to contribute to an ongoing discussion about the economic and reporting aspects of corporate social responsibility (CSR). The study includes three themes: (1) a review of different operationalisation and measurement approaches previously used in literature for determining the relationship between CSR and corporate financial performance (CFP), (2) an analysis of bidirectional effects between CSR and CFP at the level of overall CSR and separately for seven stakeholder groups and (3) an exploratory investigation research of voluntary CSR reporting practises.

Chapter 1 includes the review of alternative operationalisations and measurement approaches for the CSR and CFP concepts that have been deployed in empirical literature concerned with the CSR–CFP relationship. The main objective of this review was to identify the advantages and drawbacks of these approaches. Alternative operationalisations of multidimensional construct CSR include: reputation indices, content analyses, questionnaire-based surveys and one-dimensional measures. As for CFP measures, they are measured using accounting-based measures, market-based measures or a combination of the two. The review has shown that there is no perfect measure of CSR and CFP since drawbacks have been identified for all measures. However, the problem of an adequate measurement approach is more evident for CSR construct since financial reporting has a long history and is largely standardized, while the development of CSR reports started more recently with a low level of standardization. Subjectivity of the researcher and selection bias have been identified as a common problem of most (if not all) approaches. Additionally, the use of reputation indices, content analysis and questionnaire-based surveys can be biased toward detecting a positive relationship. A potential solution for a significant part of drawbacks of CSR measurement approaches could be resolved with further CSR reporting standardization and making CSR reporting mandatory by law. Standardized CSR reports would resolve the problem of subjectivity in research, while mandatory disclosure would resolve the problem related to response bias.

In chapter 2, the results of testing bidirectional effects between CSR and CFP at the level of overall CSR and separately for seven stakeholder groups on a sample of Croatian medium-sized and large-sized companies are presented. The results of quantitative analysis have shown that current CSR activities have positive effect on future profitability. Therefore, being socially responsible pays off in terms of profitability and costs of being socially responsible are lower than financial benefits of CSR. On the other side, results failed to confirm the posited positive effects of past profitability on current CSR. Therefore, current CSR is a driver of future profitability, but past profitability is not a driver of current CSR. Contrary to the results of quantitative analysis, interviews with company representatives indicated that profitability has a positive effect on CSR. At the stakeholder group level,

results have shown positive effects of CSR activities toward transacting stakeholders (employees, customers, competitors) and natural environment and future generation as expected. However, positive effects for non-transacting stakeholders (NGOs and society) were also found although negative effects were expected. It looks like the activities toward non-transacting stakeholders are recognized by and incorporated into decisions of transacting stakeholders and in this way positive effects are realized. Another outcome of this research is the positive effect of stakeholder pressure on CSR activities toward all stakeholders taken together and on CSR activities toward all stakeholders separately.

In chapter 3, voluntary CSR reporting practises have been investigated. Contingences of voluntary CSR reporting, content of reports, motives and challenges of CSR reporting have been investigated on a sample consisting of 94 voluntary reporting companies from Croatia, Slovenia and Serbia. Results indicate that larger companies are more prone to disclose CSR reports since such companies have the potential to affect, and be affected by a larger group of stakeholders. As for industry sector, companies operating in the manufacturing sector and financial and insurance activities sector are leading in CSR reporting. As for what is being reported, content analysis revealed that employees, customers, society (community), natural environment and suppliers are the most important stakeholders for companies since they are mostly represented in CSR reports. These stakeholders are all important for a company and without considering them while running a business the company's future would be questionable. Content analysis also revealed that the content of reports could be determined by guidelines/standards implemented for CSR reports preparation. As for the motives for voluntary CSR reporting, building trust and informing stakeholders about the economic, social and environmental performance of the company and progress made are the most important. The main challenges that companies face while preparing CSR reports are related to data collection issues (including data verification, associated costs, collecting data from different stakeholders, etc.). Data on CSR issues are mostly non-financial, which makes them harder to collect and analyse.

Overall, the study shows that CSR activities are beneficial also to the bottom line as CSR is positively related to financial performance. In order to manage CSR activities properly, companies need to dispose with relevant CSR information. It was observed that many companies report voluntarily but note issues related to low standardization of CSR reporting. The current trend towards CSR reporting standardization and instating it as mandatory is likely to continue in the future.

KEYWORDS: corporate social responsibility (CSR), stakeholders, stakeholder theory, financial performance, CSR reporting

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LIST OF ABBREVIATIONS

AVE: Average Variance Extracted,
CFP: Corporate financial performance,
COM: Competitors,
COP: Communication on progress,
CSR: Corporate social responsibility,
CUS: Customers,
EMP: Employees,
FG: Future generations,
GOV: Governments,
GRI: Global Reporting Initiative,
HR: Human resources,
HTMT: Heterotrait-Monotrait Ratio,
IIRC: International Integrated Reporting Council,
ISO: International Organization for Standardization,
KPI: Key Performance indicators,
LEV: Leverage ratio,
NE: Natural environment,
OECD: The Organisation for Economic Co-operation and Development,
R&D: Research and development,
ROE: Return on equity,
SOC: Society,
ST_P: Stakeholder pressure,
UN: United Nations

INTRODUCTION

Description of research topic

The classic economists argue that the only responsibility of a company is to preserve and increase the company's value for its owners (shareholders). In line with this, Milton Friedman (1970s) argues that the only "social responsibility of business" is to "increase its profits" whilst staying "within the rules of the game" (Porter and Kramer, 2002). He claimed that investments in corporate social responsibility (CSR) decrease the company's profits. In contrast to classic economic theory, Freeman (1984) introduced the stakeholder theory in which he claimed that company and business executives should "take into account all individuals and groups with a "stake" in or claim on the company" (Melé, 2009, p. 62). Accordingly, managers can no longer be held responsible for maximizing returns to shareholders at the expense of other stakeholders. Instead, managers are accountable for fulfilling the company's responsibilities to its stakeholder groups (Clarkson, 1995) as well.

Stakeholders include individuals, organizations and companies "with legitimate interests in procedural and/or substantive aspects of corporate activity" (Donaldson and Preston, 1995). Although different stakeholders can be found in the literature, they typically include: employees, customers, suppliers, society (community), government, NGOs, competitors, shareholders, natural environment, future generations, etc. The effects of corporate actions on these stakeholders need to be considered while running a business and making decisions and they should be satisfied with the company's behaviour. A dissatisfied stakeholder could withdraw from the corporate system which would have negative consequences on the company's future (Clarkson, 1995). It is very hard to rebuild the once lost confidence. Thus, maintaining good and fair relations with stakeholders is crucial for the long-run survival of a company.

Corporate social responsibility (CSR) can be defined in a different way. For example, Dahlsrud (2008) identified 37 different definitions of CSR covering five key dimensions: environmental, social, economic, stakeholders and voluntariness. The environmental dimension implies minimisation of the company's ecological effect, the social dimension calls for taking care of the society within which the company operates and being a good citizen. The stakeholders dimension means that a larger number of individuals and groups should be considered while running a business, while voluntariness implies that these activities are conducted in addition to legal requirement (Dahlsrud, 2008). The economic dimension calls for good business results which are required to be socially responsible in other dimensions. Considering these dimensions, CSR could be defined as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2002).

Considering the focus on larger groups of stakeholders, instead of focusing only on maximizing shareholder value, the effects of conducting CSR activities on the company's financial performance (CFP) should be determined. The relationship between CSR and CFP has been in the focus of numerous studies (Lu, Chau, Wang and Pan, 2014; Margolis and Walsh, 2001; Orlitzky, Schmind and Rynes 2003; Van Beurden and Gössling, 2008; Wu, 2006); however, the results are different and opposing; positive, negative, no relationship and/or mixed.

A positive relationship implies that CSR activities improve company's profitability; therefore, conducting CSR activities is of interest to a company. On the contrary, a negative relationship means that the costs of conducting CSR activities are higher than benefits obtained, i.e. CSR activities decrease a company's profitability. Between these two extremes there is a neutral relationship which suggests that CSR activities do not result in increased profitability, but at the same time they do not deteriorate it. The last identified relationship is the mixed one (U-shaped and inverted U-shaped), which implies that for some companies CSR activities increase profitability, while for the others they do not. Regardless of this diversity in results, based on their meta-analyses, Margolis, Elfenbein and Walsh (2007) and Orlitzky, Schmind and Rynes (2003) conclude that a positive relationship dominates.

In order to manage CSR activities, adequate information are needed. Such data are partly financial, but mostly non-financial, meaning they are mostly qualitative. Traditional accounting systems (mostly oriented to financial reporting) cannot provide such data. Due to that, corporate social accounting has emerged. By definition, corporate social accounting represents "the process of selecting company-level social performance variables, measures and measurement procedures; systematically developing information useful for evaluating the company's social performance; and communicating such information to concerned social groups, both within and outside the company" (Ramanathan, 1976, p. 519). Besides managers, CSR information are also required by stakeholders who seek information about the economic, but also social and environmental issues. Providing stakeholders with adequate information is a part of fulfilling their needs and keeping them satisfied.

Research questions

Various explanations of different and opposing results on the relationship between CSR and CFP can be found in the literature, and one of them is connected with the lack of consensus concerning the meaning of CSR concept (37 definitions of CSR identified by Dahlsrud, 2008). This resulted in alternative operationalisation of the CSR concept. In addition to the use of different proxies for CSR, in previous studies different measures of CFP have been used, which could also have effects on the obtained results. Alternative operationalisation of multidimensional construct of CSR (Carroll, 1979) includes: reputation indices, content analyses, questionnaire-based surveys and one-dimensional measures. Reputation indices are the most commonly used measure of CSR while analysing its relationship with CFP.

They take into account the multidimensions of CSR concept and they are mostly managed by private companies. Content analysis refers to using different corporate communications in determining the CSR constructs by codifying qualitative information to derive quantitative scales. Questionnaire-based surveys are used when reputational indices are not available and corporate reports containing CSR information are not available. In such cases, questionnaires are developed and sent to respondents in order to collect CSR data. One-dimensional measures focus only on one dimension of CSR construct such as environmental management or philanthropy. As for CFP construct, it is measured using different performance indicators calculated by using data from financial statements or the market. Therefore, CFP measures include accounting-based measures, market-based measures or a combination of those two. Considering alternatives in accessing CSR and CFP constructs, the first objective of this dissertation is to provide a review of CSR and CFP conceptualizations, operationalisation and measures that have been deployed in prior research and to identify the advantages and drawbacks of each approach. Therefore, the first research question can be formalised as follows: *(RQ 1) What operationalisations and measurement approaches have been deployed to appraise CSR and CFP and what are the advantages and drawbacks of alternative measurement approaches?*

As a consequence of conducting CSR activities, additional costs could result in negative effects on profitability. However, CSR activities could lead to financial benefits as well, and then profitability could be improved. Stakeholder and shareholder value maximization could be considered as opposing goals, but also as complementing goals. Therefore, an interesting question is which scenario will prevail. As mentioned previously, in the literature four alternative relationships between CSR and CFP have been reported: positive relationship (e.g. Burnett and Hansen, 2008; Becchetti and Trovato, 2011; Erhemjamts, Li and Venkateswaran, 2013; Rodgers, Choy and Guiral, 2013), negative relationship (e.g. Peng and Yang, 2014), no relationship (e.g. Aupperle, Carroll and Hatfield, 1985; Soana, 2014; Sun, Salama, Hussainey and Habbash, 2010; McWilliams and Siegel, 2000), and mixed relationship (e.g. Barnett and Salomon, 2012). Although a lot of research has been done on this issue, CSR–CFP relationship is controversial and additional research should be done. Determining a much clearer link is an important issue for corporate management (Cochran and Wood, 1984). While discussing CSR–CFP relationship, it should be kept in mind that CSR can be regarded as a driver of financial performance, but also CSR can be driven by financial performance. An adequate level of profitability could be a precondition for conducting CSR activities. While considering the CSR–CFP relationship, the heterogeneity of stakeholder groups appealed by CSR should be considered since CSR activities are directed toward different stakeholders. CSR activities toward different stakeholders could have different effects on the company's financial profitability. CSR activities towards transacting stakeholders (e.g. customers, employees) have greater potential to influence profitability than CSR activities towards non-transacting stakeholders (e.g. NGOs, society). The second objective of this dissertation is to analyse the bidirectional relationship between CSR and CFP by the considering multi-stakeholder perspective. Therefore, the second

research question can be defined as following: **(RQ 2)** *What is the direction and causality of the relationship between CSR and CFP?*

The importance of keeping stakeholders satisfied has already been emphasized and this includes keeping them informed as well. They seek different information about financial, environmental and social performance. Financial information are provided through traditional compulsory financial statements, while the information on environmental and social performance can be provided in CSR report (non-financial report, sustainability report, sustainable development report, social report, corporate citizenship report, environmental and social report, triple bottom line reporting, people-planet-profit report). Despite the trend of making CSR reporting mandatory by law, for the majority of the world's companies it will remain voluntary in the future as well. Considering the voluntariness of CSR reporting, several interesting questions arise: who discloses voluntary CSR reports, what is being disclosed and why companies disclose voluntary CSR reports? These questions lead to a third group of dissertation objectives: identifying the contingencies of voluntary reporting companies (who is reporting), analyzing the content of CSR reports (what is being reported), exploring the motives for voluntary CSR reporting, and detecting the challenges met while preparing a CSR report (why companies engage in voluntary reporting). Therefore, an attempt to answer the following set of research questions is made: **(RQ 3.1)** *Who is voluntarily reporting on CSR?*, **(RQ 3.2)** *What is being reported in voluntary CSR report?* and **(RQ 3.3)** *Why are companies voluntarily reporting on CSR?*

Research methodology

In order to answer the first research question (RQ 1), an intensive literature review was conducted. Based on literature review, different CSR and CFP conceptualizations, operationalisation and measures are identified. Alternative measures are analysed and their advantages and drawbacks were deployed. Finally, suggestions for future pathways for measuring CSR are provided. The primary method used in identifying and analysing CSR and CFP measures is literature review.

The bidirectional relationship between CSR and CFP was investigated at the corporate level, but also at the stakeholder group level. For the purpose of data collection and analysis needed to provide an answer to the second research question (RQ 2), quantitative and qualitative methods were combined. The quantitative analysis included the statistical analysis of survey and historical data for 124 Croatian medium-sized and large companies, while qualitative analysis included the collection and analysis of interview data for six Croatian companies.

For the purpose of providing an answer to the third set of research questions (RQ 3), 94 voluntary reporting companies from Croatia, Slovenia and Serbia have been considered. Content analysis and questionnaire-based survey have been used for data collection and data

have been analysed using descriptive statistics. Based on the conducted research, an attempt is made to provide responses to questions *who*, *why* and *what* is disclosed.

Contribution of dissertation

There are several contributions of this dissertation. Firstly, the dissertation provides a systematic synthesis of the advantages and drawbacks of different operationalisations and measurement approaches for CSR and CFP used in the existing literature. Research has shown that each approach for CSR has its advantages and disadvantages, and choosing a particular measure may potentially influence the detection of CSR–CFP relationship. Researcher subjectivity and selection bias have been identified as common problems of most (if not all) approaches. As for the measures of CFP, they are more developed, but not without limitations. Additionally, potential future pathways for measuring CSR are suggested which include standardisation and greater disclosure of CSR information. The second contribution of this dissertation is determining the relationship between CSR and CFP on corporate level, and on the level of different stakeholder groups. Results have shown that there is a positive significant relationship between overall CSR and CFP, but not vice versa. At the stakeholder group level, results have shown positive effects of CSR activities toward employees, customers, competitors, NGOs, society, natural environment and future generations on CFP. Although past profitability does not have effects on current CSR, results have shown that current profitability has positive effects on CSR.

The third contribution is related to CSR reporting. By responding to the questions who voluntarily reports, what is being reported and why do companies report, this dissertation provides a unique and systematic examination of contingencies, content, motives and challenges of CSR reporting. In line with the obtained results, large companies and manufacturing and financial activities sector companies are taking the lead in CSR reporting. Issues related to employees, customers, society, the natural environment and suppliers prevail in CSR reports. As for why the companies engage in voluntary reporting, the leading motives relate to building trust and informing stakeholders, while the main challenge of preparing CSR reports is related to data collection.

Additionally, this dissertation represents one of the first studies dealing with the economic and reporting issues of CSR for Southeastern European countries. Countries considered by this dissertation are former socialist countries, with limited experience in capitalism. Compared to Western European countries with a longer experience in capitalism, for former socialist countries it could be expected to have higher levels of social inclusion. The results of this dissertation have shown that it pays to be socially responsible, even in a capitalist environment. Companies from Southern European countries tend to prepare a CSR report mostly due to motives related to corporate citizenship, while for pure capitalistic companies it would be reasonable to expect that economic motives of preparing such reports would prevail.

Dissertation structure

This dissertation is organized as following. The first chapter includes a review of different CSR and CFP conceptualizations, operationalisations and measures that have been used in previous studies dealing with CSR–CFP relationships. The second chapter includes qualitative and quantitative analysis of CSR–CFP relationship (corporate and stakeholder group level) on a sample of Croatian medium and large-sized companies. The third chapter is about CSR reporting and determining who performs voluntary reporting, what is being reported and why some companies voluntarily report. Lastly, a comprehensive conclusion chapter is provided with emphasis on the main outcomes of the conducted research, contribution, implications and directions for future research.

1 CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE: A REVIEW OF MEASUREMENT APPROACHES¹

Abstract

The relationship between corporate social responsibility (CSR) and financial performance (CFP) has been the subject of extensive empirical enquiry. Yet the body of evidence that has accumulated about the nature of the relationship is equivocal. A commonly identified reason for the diverse and contradictory results is measurement issues pertaining to both concepts of interest. This paper aims to review alternative operationalisations and measurement approaches for the CSR and CFP concepts that have been deployed in empirical literature concerned with the CSR–CFP relationship. Several findings emanate from our study. Firstly, CSR operationalisations in empirical literature range from multidimensional to one-dimensional. Secondly, CSR measurement approaches include reputation indices, content analyses, questionnaire-based surveys and one-dimensional measures, whereas CFP measurement approaches include accounting-based measures, market-based measures and combined measures. Thirdly, no CSR measurement approach is without drawbacks. In addition to approach specific drawbacks, two problems inherent in most approaches are researcher subjectivity and selection bias that may influence the nature of CSR–CFP relationship detected in empirical literature. Finally, potential pathways to remedy these drawbacks are suggested.

Keywords: corporate social responsibility, financial performance, stakeholders, corporate social accounting, CSR measurement

JEL classification: M41, M14, Q56

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1.1 Introduction

Classical economists argue that a company's only responsibility is to increase value for its shareholders (Friedman, 1970). In line with this view, the key objective of most companies, especially in the private sector, is to grow profits. However, achieving this objective should not cause negative side effects for other stakeholders and society as a whole. Businesses make up part of society and depend on it to attain their economic goals (Crane, McWilliams, Matten, Moon and Siegel, 2008).

A recently emerged stakeholder theory argues that the better a company manages its relationships with its stakeholders, the more successful it will be over time (Barnett and Salomon, 2012). Although all stakeholders can potentially affect company performance, the mechanisms differ. Market constituents (e.g. employees, customers, suppliers, creditors) can directly trigger a shortfall in economic rents by making unfavourable economic choices (Delmas and Toffel, 2008). Non-market constituents (e.g. the general public, the media, NGOs) indirectly exert their influences by conveying information (Henriques and Sadorsky, 1999). Despite different transmission mechanisms, the dissatisfaction of any stakeholder group can potentially affect economic rents and even compromise the company's future (Clarkson, 1995). In effect, socially responsible corporate action is increasingly argued to be a prerequisite for protecting the bottom line and boosting shareholder value (Epstein and Rejc-Buhovac, 2014).

The debate on the relationship between corporate social responsibility (CSR) and financial performance (CFP) has been going on for a long time (Alexander and Buchholz, 1978). Yet empirical results concerning the nature of the relationship are equivocal. Some studies detect a positive relationship, while various others find negative, no or even curvilinear (e.g. U-shaped) relationships. Despite this diversity, based on their meta-analyses, Margolis, Elfenbein and Walsh (2007) and Orlitzky, Schmind and Rynes (2003) conclude that a positive relationship is more common than other types.

A commonly identified reason for the equivocal empirical results concerns how the CSR and CFP concepts are operationalised and measured. CFP is typically measured with profitability ratios retrieved from financial statements that are relatively standardised and readily available. However, for several reasons the measurement of CSR is far more problematic. The first challenge is the lack of consensus concerning operationalisation of the CSR concept (Dahlsrud, 2008). The second challenge involves measurement issues. This is because information concerning this concept is mostly non-financial and there is little, if any, reporting standardisation (Tschopp and Nastanski, 2014). The third issue is disclosure. CSR reporting in many jurisdictions is not mandatory.

The paper herein aims to review alternative operationalisation and measurement approaches for the CSR and CFP constructs deployed in empirical literature concerned with the CSR

and CFP relationship. Alternative measurement approaches are identified and analysed. The first contribution of this paper is a systematic synthesis of advantages and drawbacks of alternative approaches deployed in existing empirical literature. Two drawbacks identified that are inherent in most approaches are researcher subjectivity and selection bias. The second contribution is a suggestion of potential future pathways for measuring CSR that would remedy these drawbacks. In particular, the study builds a case for standardization and greater disclosure of CSR information. Such standardization would not only be beneficial for valid testing of the CSR–CFP relationship but also for a range of stakeholders when making their economic decisions.

The structure of the paper is as follows. The paper starts by describing the CSR concept. Next, empirical findings on the relationship between CSR and CFP are presented. This is followed by a critical review of different methods used to measure CSR and CFP. Finally, a discussion and concluding remarks are provided.

1.2 Corporate social responsibility

Corporate social responsibility has been studied for some time now, but a consensus is still missing concerning its definition and its constituent dimensions, constructs and principles (Crane, McWilliams, Matten, Moon and Siegel, 2008).

In a comprehensive literature review, Dahlsrud (2008) identified 37 different definitions of CSR. There is great variation in these CSR perceptions and definitions. For example, Friedman (1970) argues that “the only social responsibility of a company is to increase its profits” whilst staying “within the rules of the game”. Contrary to that, Davis (1973) argues that CSR requires “consideration of issues beyond the narrow economic, technical, and legal requirements of the company” (in Crane, McWilliams, Matten, Moon and Siegel, 2008). These two definitions sit on opposite sides. The first suggests that a company is responsible solely to its shareholders, while the second argues that the interests of other stakeholders, apart from the shareholders, should also be considered.

It is noteworthy that the EU Commission as the highest legislative body in the EU has also proposed a definition of CSR. The Commission defines CSR as “actions by companies over and above their legal obligations towards society and the environment” (European Commission, 2011). The Commission’s definition is in line with Davis’ (1973) definition of CSR as it explicitly includes the interests of stakeholders other than shareholders.

Not surprisingly, due to the wide range of CSR definitions, perceptions of CSR also vary considerably among companies, managers and ordinary people (Lau, Hulpke, To and Kelly, 2007). Yet some consensus appears to be emerging in the CSR literature. One common theme behind CSR writings is that managers should focus on multi-stakeholders’ welfare instead of concentrating only on maximising the wealth of the shareholders (Becchetti and

Trovato, 2011). Stakeholders include “groups or individuals who benefit from or are harmed by corporate action” (Melé, 2008). Therefore, stakeholder groups are wider than shareholder groups, which only include the providers of equity for the company. Another common theme is the key areas of corporate social responsibility. These include the economic, environmental and societal pillar (Cadez and Guilding, 2017; Epstein and Rejc-Buhovac, 2014; Škare and Golja, 2012).

Companies engage in CSR activities for several reasons. These range from pure philanthropy (actions taken for a better world and society without any direct payback) to conformity with institutional pressures from the external environment and explicit return benefits such as financial gains and stronger reputation (Lee and Shin, 2010). Barnett and Salomon (2006) summarised the following benefits for a company of being socially responsible: (1) it is easier to attract resources; (2) it can obtain quality employees; (3) it is easier to market products and services; (4) it can create unforeseen opportunities; and finally (5) it can be an important source of competitive advantage. In a similar way, Weber (2008) also identified five potential benefits of CSR for companies: (1) the positive effects on a company’s image and reputation; (2) a positive effect on employees’ motivation, retention and recruitment; (3) cost savings; (4) increased revenue from higher sales and market share; and (5) a reduction of CSR-related risk.

While the above-mentioned benefits are realised at the company level, CSR also has macro-level effects. Škare and Golja (2014) found that a bigger share of socially responsible companies in an economy is related to higher economic growth. Corporate CSR is thus also a significant determinant of economic growth at the level of an economy.

1.3 Empirical evidence on the corporate social responsibility–financial performance relationship

A vital issue in corporate governance and management is the influence of CSR on companies’ performance, especially financial performance. The conventional view holds that CSR is costly since being socially responsible incurs additional expenses. Examples of socially responsible actions include investments in pollution reduction, employee benefits packages, donations and sponsorships to the community etc. The conventional view maintains that these expenses will deteriorate profitability and lead to “competitive disadvantage” (Alexander and Bucholz, 1978).

An opposite view is promoted by stakeholder theory, first introduced by Freeman in 1984. The dissatisfaction of any stakeholder group can potentially affect economic rents and even compromise the company’s future (Clarkson, 1995). CSR is therefore a prerequisite for protecting the bottom line (Epstein and Rejc-Buhovac, 2014). In line with this theory, managers should take account of all individuals and groups with a “stake” in or claim on the company (Melé, 2009), not just the shareholders (Ruf, Muralidhar, Brown, Janney and Paul,

2001). If managed properly, CSR will not only improve the satisfaction of these stakeholders but also lead to improved financial performance (Aver and Cadez, 2009). For example, satisfied employees will be more motivated to perform effectively, satisfied customers will be more willing to make repeat purchases and recommend the products to others, satisfied suppliers will provide discounts etc.

As evident, theoretical rationale suggests both a potentially negative or positive relationship between CSR and CFP. The question therefore arises as to which effect prevails. It appears reasonable to consult the empirical literature to determine an answer to this question. The main findings of the empirical literature review are summarised in Table 1.

Table 1: The nature of the CSR–CFP relationship identified in empirical literature

Nature of the CSR–CFP relationship	Representative references
Positive	Al-Tuwaijri, Christenses and Hughes, 2004; Burnett and Hansen, 2008; Erhemjamts, Li and Venkateswaran, 2013; Rodgers, Choy and Guiral, 2013
Negative	Brammer, Brooks and Pavelin, 2006; López, Garcia and Rodriguez, 2007; Baird, Geylani and Roberts, 2012; Peng and Yang, 2014
No relationship	Alexander and Buchholz, 1978; Aupperle, Carroll and Hatfield, 1985; Soana, 2011; Sun, Salama, Hussainey and Habbash, 2010; McWilliams and Siegel, 2000
U-shaped/inverted U-shaped	Barnett and Salomon, 2012; Bowman and Haire, 1975

Source: Author's summary based on the literature review.

As evident from the table, some studies identify a positive relationship between CSR and CFP, suggesting that being socially responsible improves profitability. If CSR has a positive effect on CFP, it is also likely that socially responsible investments have a positive rather than a negative effect on shareholder value (Moser and Martin, 2012), meaning that CSR is also favourable for the shareholders.

On the contrary, some studies point to a negative relationship. This finding is consistent with a view that social responsibility incurs costs and deteriorates profitability. In Friedman's view, such behaviour is socially irresponsible because the sole responsibility of companies is profit. However, the negative link between CSR and CFP does not imply the complete abandonment of socially responsible corporate action. Many managers believe it is important to be good corporate citizens even when doing so is at the expense of shareholders (Moser and Martin, 2012). In addition, shareholders can also be ethical and may require CSR activity even at the cost of reduced financial performance (Mackey, Mackey and Barney, 2007).

The third documented relationship is no relationship. Studies within this vein suggest that being socially responsible does not improve profitability, but it also does not deteriorate it. The positive and negative effects of CSR apparently cancel themselves out.

The last detected relationship between CSR and CFP is U-shaped. Barnett and Salomon (2012) found that companies with low CSR performance have high CFP, companies with moderate CSR performance have lower CFP, whereas companies with high CSR performance have the highest CFP. Interestingly, a much earlier study by Bowman and Haire (1975) documented an inverted U-shaped relationship. This means that mediocre CSR is related to the highest financial performance whereas low and high CSR are related to lower financial performance.

Taken together, it is evident that the empirical literature does not provide conclusive evidence on the nature of the CSR–CFP relationship. Possible explanations for such inconclusive findings have been offered by many authors (Surroca, Tribo and Waddock, 2010). These include, among others: (1) the poor theoretical foundation of the CSR concept (Ruf, Muralidhar, Brown, Janney and Paul, 2001); (2) the omission of relevant variables in model specifications (McWilliams and Siegel, 2000); (3) the lack of a clear direction of causality (Waddock and Graves, 1997); (4) measurement issues (Davidson and Worrell, 1990; Griffin and Mahon, 1997), and sampling limitations (Van Beurden and Gosling, 2008).

The study herein is focused on operationalisation and measurement issues. These are explored in more detail in the following sections.

1.4 Review of approaches for measuring corporate social responsibility

CSR measurement is complicated for two reasons. First, as outlined earlier, a consensus is missing on the theoretical meaning of the CSR concept (Dahlsrud, 2008). Second, the concept is multidimensional with relatively heterogeneous dimensions (Carroll, 1979).

Due to the lack of consensus and complexity of the concept, it is not surprising that many different approaches have been used in the literature to measure CSR. Different approaches could be summarised in following groups, ordered here by their frequency of use: (1) reputation indices; (2) content analyses; (3) questionnaire-based surveys and (4) one-dimensional measures. The following sub-sections explore these measurement approaches in greater detail.

1.4.1 Reputation indices

The most common way of measuring CSR is via reputation indices compiled by specialised rating agencies. Major indices include the MSC KLD 400 social index (e.g. Erhemjamts, Li

and Venkateswaran, 2013), Fortune magazine reputation index (e.g. Preston and O'Bannon, 1997), Dow Jones Sustainability Index (e.g. Škare and Golja, 2012) and Vigeo Index (e.g. Girerd-Potin, Jimenez-Garces and Louvet, 2014). In addition to these major indices, there are many national indices like the Index of CFIE-French Corporate Information Centre for French companies (Ducassy, 2013), Respect index for Polish companies (Lech, 2013) and CSR Index for Croatian companies.

Reputation indices typically acknowledge the multidimensional nature of CSR. CSR dimensions appraised by the major indices identified above are shown in Table 2. Despite different number of dimensions, key themes are similar across indices (e.g. natural environment, employees, society, etc). Also noteworthy is a comparison of MSCI KLD and Fortune indices, conducted by Griffin and Mahon (1997), which revealed that they are quite similar to each other.

Table 2: CSR dimensions included in major reputation indices

MSCI KLD 400 social index	Fortune magazine Most admirable	Vigeo index	Dow Jones Sustainability Index
1. Environment 2. Community and Society 3. Employees and Supply Chain 4. Customers 5. Governance and Ethics	1. Innovation 2. People management 3. Use of corporate assets 4. Social responsibility 5. Quality of management 6. Financial soundness 7. Long-term investment value 8. Quality of products/services 9. Global competitiveness	1. Human resources 2. Environment 3. Corporate governance 4. Community involvement 5. Business behaviour 6. Human rights	ECONOMIC DIMENSIONS 1. Corporate governance 2. Risk and crisis management 3. Codes of conduct/ compliance/anti-corruption and bribery 4. Industry-specific criteria ENVIRONMENTAL DIMENSIONS 5. Environmental reporting 6. Industry-specific criteria SOCIAL DIMENSIONS 7. Human-capital development 8. Talent attraction and retention 9. Labour practice indicators 10. Corporate citizenship/philanthropy 11. Social reporting 12. Industry-specific criteria

Source: MSCI, 2011; McGrawe Hill Financial, S&P Dow Jones Indices, 2015; Vigeo, 2015; Fortune, 2015.

Most commonly used index for measuring CSR is MSCI KLD due to its comprehensive and prominent data on stakeholder management (Coombs and Gilley, 2005) and public data availability (Deckop, Merriman and Gupta, 2006). It should be noted however that the comprehensiveness view is disputed by other authors who claim that Fortune most admirable

index is most comprehensive and comparable (McGuire, Sundgren and Schneeweis, 1988; Johnson and Houston, 2000). The Vigeo index is mostly used when appraising European countries (Girerd-Potin, Jimenez-Garces and Louvet, 2014; Van de Velde, Vermeir and Corten, 2005) where other indices often are not available. Dow Jones sustainability index is richest in terms of underlying dimensions (e.g. risk and crisis management) and geographic area covered (see Table 3). Artiach, Leea, Nelsonb and Walkera (2010) also identified Dow Jones sustainability index as the best-in-class due to their coverage of all industry sectors. The debate above suggests that there is no consensus on which reputational index is the best measure of CSR.

The chief advantages of indices are data availability (thus minimising data collection effort) and comparability across companies.

The indices also have many weaknesses. First, they are typically compiled by private companies that have their own agendas and do not necessarily use scientific methods (Graaflan, Eijffinger and SmidJohan, 2004; Unerman, 2000). Related to this, rating agencies often merely provide aggregated CSR scores even though researchers may sometimes be only interested in certain CSR dimensions.

The second major weakness is the rating agencies' limited coverage of companies. In terms of geographic area, many indices simply cover a particular region or country. Table 3 provides information on the geographic coverage of the four main indices presented in Table 2.

Table 3: CSR indices' geographic coverage

Index	Index coverage (sub-indices)
MSCI KLD 400	USA only
Fortune magazine most admirable	<ol style="list-style-type: none"> 1. USA's most admirable companies 2. World's most admirable companies
Dow Jones Sustainability Index (DJSI)	<ol style="list-style-type: none"> 1. DJSI world <ul style="list-style-type: none"> – Dow Jones Sustainability World – Dow Jones Sustainability World Enlarged – Dow Jones Sustainability Emerging Markets 2. DJSI Regions <ul style="list-style-type: none"> – Dow Jones Sustainability Asia/Pacific – Dow Jones Sustainability Europe – Dow Jones Sustainability North America

(table continues)

(continued)

Index	Index coverage (sub-indices)
Dow Jones Sustainability Index (DJSI)	3. DJSI Countries <ul style="list-style-type: none"> – Dow Jones Sustainability Australia – Dow Jones Sustainability Canada Select 25 – Dow Jones Sustainability Korea – Dow Jones Sustainability Korea Capped 25% – Dow Jones Sustainability Chile
Vigeo ratings	1. The Euronext Vigeo Indices <ul style="list-style-type: none"> – Euronext Vigeo World 120, Euronext Vigeo Europe 120, Euronext Vigeo Eurozone 120, Euronext Vigeo EM 70, Euronext Vigeo US 50, Euronext Vigeo France 20, Euronext Vigeo United Kingdom 20 and Euronext Vigeo Benelux 20 2. The Ethibel Sustainability Indices (ESI) <ul style="list-style-type: none"> – ESI Excellence Global and ESI Excellence Europe

Source: MSCI, 2011; RebecoSam, Sustainability investing, 2016; Vigeo; 2015; Fortune, 2015.

Coverage is also limited in terms of the number of companies rated. Typically, indices concentrate on large and publicly listed companies. Some reputation indices like the MSCI KLD index and the Dow Jones Sustainability index exclude companies operating in industries considered non-sustainable like: tobacco, firearms, alcohol, adult entertainment etc. In effect, many socially and environmentally responsible companies may not make it onto the list due to their size, geographic location or industry affiliation (Madhala Adam and Shavit, 2008).

1.4.2 Content analysis

The second common way of measuring CSR is content analysis of corporate communication. Content analysis generally includes determining the constructs of interest, seeking information about these constructs and codifying qualitative information to derive quantitative scales that can be used in subsequent statistical analyses.

Content analyses differ with respect to number of dimensions appraised and coding sophistication. A relatively simple way of coding is counting words or sentences (Aras, Aybars and Kutlu, 2009) in reports and publications on the specific CSR issue under consideration (e.g. CO₂ reduction) and assigning binary variables (“0” and “1”) if a particular issue is mentioned. If several dimensions of CSR are being appraised, a binary score can be assigned to each dimension and then an integrated score can be determined (Abbot and Monsen, 1979).

A more advanced way of coding is pre-specification of CSR dimensions of interest and assigning interval scores similar to Likert scales to each CSR issue under consideration. One of the earliest attempts of pre-specification of dimensions is Social Involvement Disclosure scale (SID) by Abbot and Monsen (1979). Their appraisal included 24 CSR indicators grouped in six categories (environment, equal opportunity, personnel, community involvement, products and other). In a more recent study, Yang, Lin and Chang (2010) rated companies over five different CSR dimensions (employee relations, environment, shareholder relations, product quality and relations with providers and customers, community) on a 0 – 5 rating scale (where 0 indicates fulfillment of no criteria and 5 fulfillment of all criteria). Karagiorgas (2010) and Chen, Feldman and Tang (2015) based their content analysis on GRI reports. More specifically, Karagiorgos (2010) used 26 indicators derived from GRI reports which were divided in two groups (social performance indicators and environment performance indicator) and rated on a scale from 0 – 3 (0 if indicator is not taken into account, 3 indicator is fully taken into account). Similarly, Chen, Feldman and Tang (2015) used the 45 GRI indicators. Each indicator was scored on a 1 – 5 scale (1 – indicator not reported; 5 – indicator fully reported) by multiple raters.

The key advantage of this method is flexibility for the researcher. A researcher can specify CSR dimensions of interest, collect data according to those dimensions and code data numerically for further use in statistical analyses.

The main weaknesses of this approach is researcher subjectivity embedded in all stages of the research process from the selection of CSR dimensions of interest, collection of data, interpretation of data and coding of data.

Another important drawback is reporting bias. CSR reporting is largely voluntary hence many organisations fail to report on their CSR activities even if they do engage in them. Such activities are obviously likely to go undetected by the researcher. Even if the companies do disclose CSR related data, such data needs to be interpreted carefully as companies often immerse in impressions management to create a more favourable image of their company through biased reporting (Cadez and Guilding, 2017; Turker, 2009a). This is difficult to detect unless the researcher is knowledgeable about the companies' socially responsible actions or the report has been externally audited.

1.4.3 Questionnaire-based surveys

A questionnaire-based survey is typically used when a particular company is not rated by a rating agency and corporate reports are unavailable or insufficient for a meaningful content analysis. In such cases, researchers need to collect primary data about CSR by sending questionnaires to knowledgeable respondents or interviewing them.

One of the earliest questionnaire surveys concerned with CSR was conducted by Aupperle, Carroll and Hatfield (1985). The measurement instrument was based on Carroll's (1979) four components of CSR (economic, legal, ethical and discretionary) and included 80 items, organized in 20 sets of statements (each set contained four statements; one for each component of CSR). Respondents were asked to allocate up to 10 points to each set of statements on CSR. For purposes of studying the CSR–CFP link, Rettab, Brik and Mellahi (2009) combined different constructs for collecting data on CSR and CFP using a questionnaire. In a more recent study, Gallardo-Vazques and Sanchez-Hernandez (2014) developed a CSR measurement scale intended to appraise social, economic and environmental dimension of CSR.

This method's main advantage is similar to that of content analysis. It provides great flexibility for the researcher in terms of specifying the dimensions of interest and collecting data about these dimensions.

The likely drawback of this method, in addition to general limitations of survey research, is response bias. The bias occurs at two levels. Selection bias will likely occur as more socially responsible companies are more likely to respond than companies that are less socially responsible (Cadez and Czerny, 2016). Attitude bias is to be expected as respondents may provide socially desirable answers even though their actual behaviour may differ (Epstein and Rejc-Buhovac, 2014). An alternative for overcoming this drawback may be to collect data not only from companies, but also (or solely) from their stakeholders.

1.4.4 One-dimensional measures

One-dimensional constructs focus only on a single dimension of CSR, for example environmental management or philanthropy. Examples of environmental activities include pollution control investment data (Peng and Yang, 2014), deployment of a carbon-reduction strategy (Cadez and Czerny, 2016; Lee, 2012; Liu, 2012; Liu and Liu, 2016), eco-control usage (Henri-Journeault, 2010), the ratio of toxic waste recycled to total toxic waste generated (Al-Tuwaijri, Christenses and Hughes, 2004), adoption of global environmental standard (Dowell, Hart and Yeung, 2000), environmental proactivity (Prime and Cater, 2015), environmental management accounting implementation (Mokhtar, Jusoh and Zulkifli, 2016), environmental sustainability policies (Naranjo-Gil, 2016) etc. Examples of philanthropic activities include donations (Lin, Yang and Liou, 2009), growth in charitable contributions (Lev, Petrovits and Radhakrishnan, 2010) and public health policies (Naranjo-Gil, Sánchez-Expósito and Gómez-Ruiz, 2016).

The primary advantages of one-dimensional indices are data availability (thus minimising data collection effort) and comparability across companies.

Yet the use of one-dimensional constructs is theoretically problematic as the CSR concept

is clearly multidimensional (Carroll, 1979). For example, a particular company may be strongly immersed in one dimension (e.g. employees) while it neglects another dimension (e.g. environmental issues). A multidimensional operationalisation will detect mediocre CSR while a one-dimensional operationalisation will detect either a high or low CSR where both, however, are incorrect.

1.5 Review of approaches for measuring financial performance

CFP is typically measured with accounting-based or market-based indicators. The most frequently used indicators are summarised in Table 4.

Table 4: Commonly used indicators for CFP

Accounting-based	Market-based	Accounting- and market-based
ROA – return on assets ROE – return on equity ROCE – return on capital employed ROS – return on sales Net operating income Net income Zmijewski score	Stock returns Market value of a company Change in stock returns	Tobin's Q MVA – market value added

Source: Author's summary based on the literature review.

Each indicator has positive and negative traits. On the positive side, accounting-based measures are available for all companies and reasonably comparable. The chief advantage of market-based measures is their contemporariness. This means that they reflect changes in CSR faster than accounting-based measures.

As for limitations, accounting-based measures are historical. Furthermore, while total categories (e.g. net profit) fail to take company size into account (Al-Tuwaijri, Christenses and Hughes, 2004) relativised accounting ratios like ROA may be biased if the sample includes companies from different industries (due to the varying age and structure of assets across industries). The biggest limitation of market-based measures is that they are only available for publicly listed companies. In addition, market-based measures inevitably incorporate systematic (not-company-specific) market characteristics (e.g. recession), whereas accounting-based indicators are more sensitive to company specific (unsystematic) perceptions of CSR (McGuire, Sundgren and Schneeweis, 1988).

It is noteworthy that some researchers have combined both types of measures by using indicators such as Tobin's *Q* (market value/total assets) or MVA (market value – book value of equity and debt) (Rodgers, Choy and Guiral, 2013; Garcia-Castro, Ariño and Canela, 2010). Others have also tried to derive a comprehensive measure of financial performance by combining different existing measures to form one integrated index. Peng and Yang

(2014) applied factor analysis to integrate various financial performance measures (ROA, ROE, earnings per share, cash flows to asset) into a single index. Similarly, the financial health of a company (measured using a Zmijewski score – a construct based on the company's profitability, liquidity and leverage ratio) was another measure used as a proxy for accounting-based company profitability (Rodgers, Choy and Guiral, 2013). It appears that recently there has been a tendency to use more than one measure of CFP.

1.6 Discussion and conclusion

The influence of CSR on CFP has long been an important issue for managers (Cochran and Wood, 1984). Despite ample empirical enquiry into the nature of this relationship, the empirical literature fails to provide conclusive evidence in that regard. The paper herein focused on the operationalisation and measurement aspects of research designs in empirical literature concerned with the CSR–CFP relationship that may have contributed to divergent results in empirical literature (Griffin and Mahon, 1997).

Our literature review identified a range of approaches in use for both CSR and CFP concepts and ascertained their advantages and drawbacks. The main advantages and drawbacks of each approach identified in this study are summarised in Table 5.

Table 5: Advantages and drawbacks of alternative measurement approaches

Measurement approach	Advantages	Drawbacks
For CSR		
- indices	data availability & comparability, multidimensionality recognised	non-scientific, limited company coverage (geography, size, industry)
- content analysis	flexibility for researcher	researcher subjectivity, data non-disclosure, impressions management
- questionnaire surveys	flexibility for researcher	researcher subjectivity, measurement error, non-response
- one-dimensional measures	data availability & comparability	theoretical invalidity
For CFP		
- accounting-based indicators	data availability & comparability	historical data
- market-based indicators	contemporaneous data	data only available for listed companies, also include systematic factors

Source: Author's summary based on the literature review

As evident from Table 5, there is no perfect measure for either CSR or CFP. Nevertheless, the measurement issue is more pertinent for CSR because financial reporting has a long history and is largely standardised while CSR reporting is a more recent development where little standardisation has been achieved so far (Tshopp and Nastanski, 2014).

Reputation indices carry the advantage of availability and comparability across companies due to standardized methods to compile them. For these reasons, they are widely used in empirical studies concerned with the nature of the CSR–CFP relationship (Soana, 2011). Nevertheless, indices are far from being ideal measures of CSR. One particular drawback is that they are typically compiled by private companies that have their own agendas and do not necessarily use rigorous methods that are usually expected in scientific research (Graaflan, Eijffinger and SmidJohan, 2004). Another major disadvantage is a limited coverage of companies appraised. Agencies compiling indices typically focus on large, listed and well-known companies. This results in selection bias as these companies are under greater social pressure to be socially responsible and are thus likely to perform better in this regard as less visible companies (Henriques and Sadorsky, 1999).

Content analyses carry the benefit of high flexibility for the researcher. A researcher can self-select the CSR dimensions of interest, collect information concerning these dimensions, and code information in order to generate quantitative scores for potential subsequent quantitative analyses. The main problem of this approach is researcher subjectivity that may compromise the validity and reliability of results. Subjectivity is pertinent to all stages of the research process – selecting dimension of interest, collecting information about these dimensions, interpreting qualitative data and coding qualitative data for subsequent quantitative analyses. Another problem relates to data non-disclosure. Since CSR reporting in most jurisdictions is not mandatory, again there is a potential of selection bias. This is because more socially responsible companies are more likely to report about their achievements than less socially responsible companies (Cadez and Guilding, 2017). Another related issue is that of impression management (Weber, 2008), meaning that what is reported may be different to what is actually being done (reporting bias).

Questionnaire surveys are similar to content analyses in terms of advantages. A researcher can self-select the CSR dimensions of interest, collect information concerning these dimensions and code information in order to generate quantitative scores for potential subsequent quantitative analyses. This approach also allows approaching companies that do not disclose data publicly. The approach however suffers from researcher subjectivity. If the questionnaire is not well designed it is bound to result in measurement error meaning that questionnaire items are not valid and reliable measures of latent concepts that they are supposed to measure (Turker, 2009b). This is particularly pertinent in the case of collecting information about sensitive concepts where some answers are more socially acceptable than other answers (Epstein and Rejc-Buhovac, 2014). Finally, there is a problem of response bias. It is an enduring finding in survey research that better performing companies with

respect to the object of enquiry are more likely to respond than lower performing companies (Cadez and Czerny, 2016).

Finally, one-dimensional measures are often used because they are readily available and comparable across companies (e.g. CO2 emissions). The problem with one-dimensional measure however is theoretical invalidity since CSR concept is clearly multidimensional (Carroll, 1979). In effect, one-dimensional operationalization may easily provide false conclusions since a particular company may be performing high in terms of one CSR dimension and low in terms of another CSR dimension, yet one-dimensional operationalization is unable to detect such incidences.

As evident from the discussion above, the use of any operationalization and measurement approach for CSR is not without problems and may potentially influence the detected relationship between CSR and CFP. Two problems appear to be inherent in most if not all approaches.

The first common problem is researcher subjectivity. Subjectivity is by definition intrinsic in all stages of content analyses and questionnaire surveys approaches but may also influence results in examining the CSR–CFP relationship when reputation indices or one-dimensional measures are used in statistical models. This is because it is the researchers who specify the models, variables that enter the models, and statistical tests to examine relationships, hence conclusions can be invalid even if CSR related data is retrieved from reliable archival sources.

The second mutual challenge is selection bias. Reputation indices typically include only the largest and most successful companies that are under greater social pressure to be socially responsible (Epstein and Rejc-Buhovac, 2014; Henriques and Sadorsky, 1999). Similarly, companies that are more socially responsible are more likely to disclose this type of information which is a prerequisite for conducting content analyses (Abbot and Monsen, 1979). Finally, companies that are more socially responsible are more likely to respond to questionnaire surveys concerning this topic (Cadez and Czerny, 2016). In effect, reputation indices, content analyses and questionnaire surveys all appear to be biased towards detecting a positive relationship between CSR and CFP.

Fortunately, there are also remedies for these problems. A potential solution for researcher subjectivity problem is to standardise CSR reporting. Forty years ago, Ramanathan (1976) called for the implementation of corporate social accounting with the aim of providing systematic information about a company's social performance, yet today we still fall short of generally accepted CSR reporting standards. Nevertheless, several standardization initiatives are underway globally, such as Global Reporting Initiative (GRI), AccountAbility's AA1000 – principles standards, United Nations Global Compact Communication on Progress (COP), and ISO 26000.

A potential solution for the response bias problem is mandatory disclosure of information. Although the number of companies issuing stand-alone CSR reports has increased dramatically (Dhaliwal, Radhakrishnan, Tsang and Yang, 2012), in most jurisdictions CSR reporting is not mandatory (some exceptions include France, Denmark and Sweden) (Tschopp and Nastanski, 2014). In the EU, this is currently changing with the Directive on disclosure of non-financial and diversity information. The Directive, effective from 2017, places requirements on some large companies and groups to disclose information on policies, risks and outcomes regarding environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, and diversity in their board of directors (EU Parliament and Council, 2014).

In conclusion, this review of operationalization and measurement approaches for CSR concept revealed that all approaches deployed in empirical literature suffer from weaknesses that may potentially influence the detected relationship between CSR and CFP. Two problems inherent in most if not all approaches are researcher subjectivity and selection bias. It is argued that a potential solution for the first problem is standardization of CSR reporting, whereas a potential solution for the second problem is mandatory disclosure of CSR information. Standardization and disclosure would not only be beneficial for valid testing of the CSR–CFP relationship but also for many stakeholders when making their economic decisions (Henriques and Sadorsky, 1999; Hillman and Keim, 2001).

2 CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE RELATIONSHIP REVISITED: A MULTI-STAKEHOLDER PERSPECTIVE

Abstract

The relationship between corporate social responsibility (CSR) and financial performance (CFP) is controversial for several reasons. Firstly, empirical results concerning the nature of the relationship range anywhere from positive to negative to non-linear. Secondly, CSR involves appeasing a range of heterogeneous stakeholder groups which evince different potential to affect financial performance. Thirdly, the causality of the relationship is still unclear. This paper examines bidirectional effects between CSR and financial performance at the level of overall CSR and separately for seven stakeholder groups (of these four are transacting are three are not). Analysis is based on a sample of 124 Croatian companies and supplemented with qualitative interviews from 6 companies. At the overall CSR level, it was found that current CSR drives future CFP while current CSR is driven by current rather than past CFP. At the stakeholder group level, a positive significant relationship was noted between stakeholder group-oriented CSR and CFP for three transacting stakeholders (i.e. employees, customers, competitors) but not for governments. Contrary to expectations, a positive significant relationship for all non-transacting stakeholders (i.e. NGOs, society, natural environment and future generations) was also found. This finding is suggestive of spillover effects. Implications of the findings are also discussed.

KEYWORD: corporate social responsibility, financial performance, stakeholders, stakeholder pressures, sustainability, PLS-SEM, Croatia

JEL CLASSIFICATION: M14, G32, M41

2.1 Introduction

For a long time the prevalent view held that the main aim of running a business was to increase the value for shareholders. However, times are changing, and in 1984 Freeman started to argue that interests of a wider group of stakeholders should be taken into account while running a business. As suggested by Freeman (1984), CSR implies care for a larger group of stakeholders other than only shareholders (Becchetti, Solferino and Tessitore, 2014). Thus, stakeholders' needs and interests should be incorporated in the decision-making process of a company. Nevertheless, despite the shift from shareholder wealth to stakeholder value maximization, the ultimate goal in most companies is still the bottom line (Carrol and Shabana, 2010).

The relation between CSR and financial performance is controversial along three perspectives. The first issue is the nature of the relationship between CSR and financial performance. Numerous studies have attempted to answer this question, however, without one unique conclusion. The results are mixed and even contradictory, ranging from positive (e.g. Burnett and Hansen, 2008; Erhemjamts, Li and Venkateswaran, 2013; Rodgers, Choy and Guiral, 2013), negative (e.g. Baird, Geylani and Roberts, 2012; Peng and Yang, 2014), no effect (e.g. Soana, 2011; Sun, Salama, Hussainey and Habbash, 2010), U-shaped (e.g. Barnett and Salomon, 2012), and inverse U-shaped relationship (Bowman and Haire, 1975). Therefore, additional research is required.

The second lingering concern is the causality of the relationship. Although CSR is typically regarded as a driver of financial performance, it is also likely that CSR is driven by financial performance. Since CSR implies "actions by companies over and above their legal obligations towards society and the environment" (European Commission, 2011, p. 3), it is reasonable to assume that only companies with sufficient financial resources can afford to engage in socially responsible action.

The third revolving issue, potentially responsible for the multitude of detected relationships, is the heterogeneity of stakeholder groups appeased by CSR. Not all stakeholders have the ability to effect financial results of a company to the same extent. Thus, CSR activities toward different stakeholders could result in different effects on CFP. For example, CSR activities towards transacting stakeholders (e.g. customers) have greater potential to affect CFP than for example CSR activities towards non-transacting stakeholders (e.g. future generations). Rodgers, Choy and Guiral (2013), for example, found that CSR activities towards customers have positive effect on accounting and market-based indicators of CFP, CSR activities towards employees have significant effect only on accounting-based measures while community-oriented CSR affects only market-based indicator of CFP.

The study reported herein aims to provide a deeper insight into the reciprocal nature of the CSR – CFP relationship by disentangling the perspectives of time (including a related issue of causality) and stakeholder heterogeneity. As for the time perspective, it is argued that past CFP drives current CSR while current CSR drives future CFP. The stakeholder heterogeneity issue is collared by adopting a multi-stakeholder perspective. More specifically, it is proposed that the nature of the CSR – CFP relationship is different for diverse stakeholder groups.

The research was conducted on a sample of Croatian medium-sized and large companies. Croatia represents an interesting idiosyncratic context since it has recently undergone a major social change (Cadez, 2013). Until 1991, Croatia was a socialist country which has radically transformed into a capitalist country in the 1990s, although the remnants of socialism such as social responsibility over profit motive sometimes persist in the region to date (Cadez and Guilding, 2012).

The main contribution of this research is determining the effects of CSR activities towards different stakeholder groups and overall CSR on CFP and vice versa. Since stakeholder demands may be indefinite, identifying these relations is important for managers as they can direct limited resources to those stakeholder groups with the highest potential to increase financial performance. This study was based on larger groups of stakeholders, what allowed making conclusions about the effects of CSR activities toward stakeholders not well represented in the literature (like competitors, governments, future generations, etc.) on CFP, and vice versa. Another contribution is accumulating evidence from an under-researched context, i.e. a small, transitional country with limited experience in capitalism. Therefore, results provided by this study are important for academics and for practitioners as well.

This paper is structured in the following way. Based on theoretical background and literature review, the conceptual model is developed and hypotheses defined. The methodology of the research is presented in the following sections. The research results are presented. The last section includes a discussion on the obtained results and conclusions.

2.2 Theoretical background and literature review

2.2.1 Stakeholder theory

While discussing the business case of CSR, two opposing views can be identified: “shareholder perspective” and “stakeholder perspective” (Castelo Branco and Lima Rodrigues, 2007).

According to “shareholder perspective”, the main purpose and responsibility of business should be to preserve and increase the company’s value for its owners (shareholders). As Milton Friedman (1970s) argues, the only “social responsibility of business” is to “increase

its profits” whilst staying “within the rules of the game” (Porter and Kramer, 2002). Based on Friedman’s view, investments in CSR activities are inappropriate since they require additional resources which results in decrease of shareholder value (company’s profit). The “shareholder perspective” is based on neoclassical economic theory, and often referred to as “classic view” of the role of business in society (Castelo Branco and Lima Rodrigues, 2007).

The opposed view, “stakeholder perspective”, was first introduced by Freeman in 1984 as the stakeholder theory. According to stakeholder theory, company and business executives should “take into account all individuals and groups with a “stake” in or claim on the company” (Melé, 2008, p. 62). Stakeholders make part of the society, where companies take resources from; therefore companies should take care of this society. This definition of stakeholders included only human stakeholders. However, Starik (1995) proposed the extended definition by introducing non-human groups and individuals. In line with this extended definition, stakeholders represent “any naturally occurring entity which affects or is affected by organizational performance” (Starik, 1995). As a result of stakeholder theory implementation, companies should shift their focus from shareholder value maximization to multi-stakeholder value maximization (Becchetti and Trovato, 2011).

Due to different definitions of stakeholders, various typologies of stakeholder groups could be identified in the literature. Freeman (1984) distinguished stakeholders in a “narrow” and in a “wider” sense. According to the narrow sense, stakeholders include those groups that are “vital to the survival and success of the company”, while the wider sense states that stakeholders include “any group or individual who can affect or is affected” by the company (Melé, 2008, p. 64). This typology is in line with Clarkson’s (1995) definition of stakeholder groups. He makes a distinction between two main groups of stakeholders: primary (the ones whose participation in business is essential for survival of the company, i.e. shareholders and investors, employees, customers, suppliers and public stakeholder group) and secondary (the ones that are not included into transactions with the company and are not essential for the company’s survival, i.e. the media and special interest groups) (Clarkson, 1995). Uhlaner and Masurel (2004) distinguish between economic stakeholders (employees, customers, suppliers, competitors, creditors, etc.) and social stakeholders (family members, environment, government, etc.). Wheeler and Sillanpää (1998) grouped stakeholders into four groups: primary social stakeholders (employees and managers, investors, customers, suppliers and business partners, local communities), secondary social stakeholders (government and civil society, social and third world pressure groups and unions, the media and commentators, trade bodies, competitors), primary non-social stakeholders (the natural environment, non-human species, future generations) and secondary non-social stakeholders (environmental pressure groups, animal welfare pressure groups).

A more recent view suggests that stakeholder value maximization and shareholder value maximization should not be seen as alternative, but as complementary business approaches. According to instrumental approach of stakeholder theory, stakeholders’ interests should be

taken into account and managed in a manner consistent with maximizing the shareholders' wealth (Castelo Branco and Lima Rodrigues, 2007). In line with stakeholder theory, only by actively managing stakeholders' relationships companies will be able to achieve financial performance acceptable for shareholders (Baird, Geylani and Roberts, 2012). As noted already by Carroll (1979), the core dimension of social responsibility is economic dimension.

Clarkson (1995) emphasized the importance of maintaining good and fair relationships with stakeholders for the long-term survival on the market. If a primary stakeholder group is dissatisfied with company's behaviour and therefore withdraws from the corporate system, the company's future would be questionable. For example, if customers are dissatisfied, they may decide not to buy the company's products/use its services, which would result in a decrease in company's revenues. This situation would have direct impacts on the company's bottom line, i.e. its profits would decrease. In turn, effective stakeholder management can result in achieving competitive advantage and long-term value creation (Erhemjamts, Li and Venkateswaran, 2013) through developing intangible assets (Hillman and Keim, 2001).

2.2.2 CSR: a multi-stakeholder perspective

A multitude of CSR definitions can be found in the literature. On the basis of content analysis of different CSR definitions, Dahlsrud (2008) identified five key dimensions of CSR: environmental, social, economic, stakeholders and voluntariness. One definition of CSR provided by the European Commission covers all five dimensions: "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2002). As summarized by Torugsa (2013), environmental dimension of CSR includes "innovation, eco-efficiency, pollution prevention and environmental leadership" aiming to minimise the company's ecological effect. Social dimension emphasizes the importance of taking care of employees and being a "good citizen" within the society. Economic dimension refers to the economic viability of a business which is a precondition for being responsible in other dimensions. Stakeholder dimension refers to including a large number of stakeholders in the process of managing a company. Voluntariness dimension of CSR implies that CSR activities are conducted above regulatory requirements (Dahlsrud, 2008).

As the term CSR suggests, socially responsible actions influence the society. CSR is often viewed as an integral element of societal responses to societal problems and uncertainties (e.g. climate change, poverty, etc.) which need to be taken into account while coming up with a business decision (Van Beurden and Gossling, 2008). Furthermore, by performing CSR activities companies contribute to sustainable development, which represents "the development that meets the needs of the present, without compromising the ability of future generations to meet their own needs" (UN, n.d.).

According to Fremman and Velamuri (2006) the main goal of CSR “is to create value for key stakeholders” and to fulfil the company’s responsibilities to them. Therefore, CSR is about taking care of the interests of different groups of stakeholders. In order to maintain satisfactory relationships with stakeholders, companies can introduce stakeholder management. Effective stakeholder management can result in continued participation of stakeholders in the company and can “constitute intangible, socially complex resources that may enhance companies’ ability to outperform competitors for all primary stakeholders” (Hillman and Keim, 127, p. 2001).

Since corporate resources are limited, while stakeholders’ demands may be indefinite and mutually conflicting, balancing multiple claims and interests of different stakeholders is integral for assuring corporate success (Evan and Freeman, 1988). The meritocracy argument posits that socially responsible action towards different stakeholder groups should be based on their relative contribution to the company. In the case of for-profit companies, where financial performance is the ultimate goal, equity is the most appropriate mode of allocating socially responsible action (Phillips, Freeman and Wicks, 2003). In other words, stakeholders that contribute more to the bottom line should receive more socially responsible action.

Seven stakeholder groups examined in this study are presented in Table 6, together with some examples of legally required and socially responsible (beyond legally required) corporate conduct towards these groups.

Table 6: Examples of legally required and socially responsible conduct towards different stakeholder groups

Stakeholder group	Examples of legally required conduct	Examples of socially responsible (beyond required) conduct
Employees	Work safety Non-discrimination On time salary	Child care Work–life balance Training and staff development Open and flexible communication Adopting progressive human resource management programs
Customers	Respecting consumer rights Providing truthful and honest information Allowing consumers to file a complaint and responding to customers’ complaints within legal deadline Avoiding false, misleading and manipulative advertising	Promoting a healthy lifestyle by including safe consumption advices on packaging Loyalty programs Product or service innovation Providing consumer counselling Embodying products with social attributes or characteristics

(table continues)

(continued)

Stakeholder group	Examples of legally required conduct	Examples of socially responsible (beyond required) conduct
Governments	Paying taxes and other duties on time Adhering to all regulations	Collaboration and partnership projects that include social issues Financial and other support out of social actions launched by the governments Active participation in public consultation for new laws
Competitors	Fair market competition such as not abusing the dominant position on the market, not imposing market barriers for the competitors and avoiding promotion campaigns that directly denigrate competitors' products/services Fair price setting	Joint actions with competitors (for example in the field of R&D and innovations) The avoidance of chasing competitors' employees Collaboration with competitors while dealing with sector problems Promotion of fair trade
NGOs	Respecting NGOs work Not interfering with NGOs work without approval	Financial donations supporting NGOs work or providing them a free place to work within companies' premises Consultancy Partnership projects
Society	Avoiding discrimination of society members	Launching activities for the development of society Encouraging employees' participation in society projects Philanthropic activities supporting education and job training programs Direct involvement in society projects and affairs Supporting local and small businesses Solidarity with venerable population (kids and youth, disabled, etc.) Poverty alleviation

(table continues)

(continued)

Stakeholder group	Examples of legally required conduct	Examples of socially responsible (beyond required) conduct
Natural environment & Future generations	Waste selection Avoiding environmental pollution In case of environmental pollution, repairing the damages as soon as possible Use of non-animal testing procedures for cosmetics	Reducing, reusing and recycling materials Energy conservation The use of environmentally friendly technology Pollution abatement Production and promotion of eco-friendly products

Source: Author's summarization based on Vountisjarvi, 2006, Turker, 2009a, Papasolomou-Doukakis, Krambia-Kapardis and Katsioloudes, 2005, Spiller, 2000; Loussaïef, Cacho-Elizondo, Pettersen and Tobiassen, 2014; Anido Freire and Loussaïef, 2018, Newman, Rand, Tarp and Trifkovic, 2018; Sharma, Jeannne, Mohanta and Liza, 2018

2.2.3 CSR – financial performance relationship

Research concerning the CSR–CFP relationship has been going on for a long time (for a review see Galant and Cadez, 2017) yet despite the enduring empirical investigations, it is still unclear whether CSR activities pay off in terms of the bottom line (Barnett, 2007).

Theoretically, two opposing rationales can be found in the literature concerning the CSR–CFP relationship (Preston and O'Bannon, 1997). Trade-off hypothesis builds on an argument that CSR is costly, hence greater CSR results in lower financial performance. In line with trade-off hypothesis, companies that conduct CSR activities are put at disadvantage compared to companies that are less socially active (Marom, 2006). Contrary to that, the social impact hypothesis posits that appeasing stakeholder demands induces their favourable economic choices and thus increases economic rents (Cadez, Czerny and Letmathe, 2019). The underlying expectation is that satisfied stakeholders (as a result of CSR activities) will change or align their behaviour in a manner that will increase financial performance (e.g. satisfied customers may increase their purchases; satisfied employees may increase their productivity).

In reality, these fairly straightforward expectations are shaped by three important intervening variables. The first intervening variable is time. For example, while socially responsible corporate actions typically involve imminent cost outlays (and thus deteriorate current financial performance), favourable stakeholder reactions to these actions may be time-lagged as the changing behaviour is often a long-term journey. In other words, in the short term the effect to CSR on CFP may be negative while in the longer term it may turn into a positive one. The second intervening variable is CSR scale. Some studies report that the relation between CSR and CFP is not linear but U-shaped or inverse U-shaped (Barnett and Salomon, 2012; Wang, Choi and Li, 2008). This suggests not only that the financial returns from CSR

are diminishing/increasing, but may even mean that the relation may be positive within one relevant range and negative within another relevant range. The third intervening variable is stakeholder group level. As noted earlier, balancing multiple stakeholder claims is difficult due to the heterogeneity of stakeholder groups appeased by CSR. It is argued that the ability of stakeholder groups to influence financial performance is contingent upon their transacting status.

Transacting stakeholders are those that engage in economic transactions with the company (e.g. customers, suppliers, employees, investors, competitors). In effect, their favourable or unfavourable economic choices have the power to trigger immediate increase or shortfall of economic rents (Cadez, Czerny and Letmathe, 2019). For example, satisfied customers may increase their purchases while dissatisfied customers may cease their purchases. Non-transacting stakeholders are those that do not engage in economic transactions with the company (e.g. NGOs, society, natural environment, and future generations). They do not have the ability to influence economic rents directly via economic transactions but can be influential indirectly by conveying information (Henriques and Sadorsky, 1999).

In accordance with the different transactional nature of stakeholder groups, one may expect that the social impact hypothesis rationale is more valid for transacting stakeholders who engage in economic transactions with the company while the trade-off hypothesis rationale is more valid for non-transacting stakeholders who do not possess the ability to influence financial performance via their economic choices (Cadez, Czerny and Letmathe, 2019). Contrary effects of CSR activities toward different stakeholders on CSR are in line with Pelozo and Papania (2008, p. 176) proposition that “not all stakeholders have equal capacity to either reward or punish the company based on their evaluations of the company’s activities”.

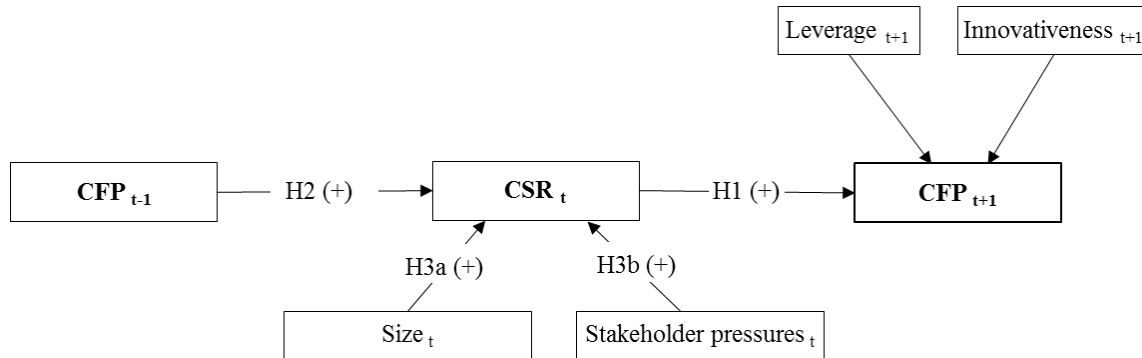
Nevertheless, to complicate matters even more, CSR activity towards one stakeholder group can be observed by other stakeholder groups (spillover effect). For example, environmental pollution is most devastating for the natural environment and future generations; two stakeholder groups that do not have the power to influence economic rents of polluting companies directly. However, corporate eco-friendly behaviour can be viewed favourably by transacting stakeholders as well and may materialize in their favourable economic choices, thus eco-friendly cost outlays may materialize in increased financial performance indirectly via favourable economic choices of third parties.

Therefore, this study considers the time dimension and the multidimensionality of CSR construct by considering multiple groups of stakeholders. Such an approach is in line with Wood and Jones’ (1995) and Pelozo and Papania’s (2008) argument that multiple stakeholders need to be considered while measuring CSR.

2.3 Conceptual model and hypotheses development

The constructs central to this study are CSR and CFP. The proposed model also includes two contingencies that are likely to affect CSR (see Figure 1). The examined contingencies are company size and stakeholder pressures. Additionally, the effects of leverage and innovativeness on future CFP have been controlled.

Figure 1: Conceptual model of the CSR-CFP relationship



Source: Author

The central interest of this study is the relationship between CSR and CFP. It was posited that this relationship is reciprocal (bidirectional), however time-dependent due to lagged effects. In line with the arguments presented in the previous sections, it was posited that past financial performance is a driver of current CSR, while current CSR is a driver of future CFP.

In addition to testing the overall model (overall CSR towards all stakeholders), seven sub-models were also investigated where the relation between CSR and CFP is examined at the level of stakeholder groups. Considering the different transactional nature of these stakeholder groups, both theoretical rationales (social impact hypothesis and trade-off hypothesis) will be considered when deriving the expected relationships. Four transacting stakeholders (customers, employees, governments, competitors) and three non-transacting stakeholders (NGOs, society, natural environment and future generations) were examined.

Among the above identified stakeholder groups, competitors, natural environment and future generations are often neglected in empirical CSR studies, although they meet the basic criteria for stakeholder status, namely they can be harmed or they can benefit from corporate actions (Fassin, 2009). The above criterion holds for competitors who have a claim to fair treatment (Spence, Coles and Harris, 2001). Natural environment is often ignored due to a belief that stakeholder status is limited to humans only (Phillips and Reichart, 2000, Starik, 1995). Nevertheless, Starik (1995) argues that natural environment is an important stakeholder since it has the ability to affect companies' business and can be affected by it. Finally, the importance of future generations as a stakeholder can be identified from the basic

definition of sustainable development: “the development that meets the needs of the present, without compromising the ability of future generations to meet their own needs” (UN, n.d.).

2.3.1 Hypothesis development – overall CSR level

The expected relationship between the overall CSR (i.e. CSR toward all stakeholders) and future CFP builds on a social impact rationale that satisfied stakeholders will behave in a manner consistent with increased financial performance (Kacperczyk, 2009). Satisfied transacting stakeholders are likely to make economic choices consistent with higher financial performance (e.g. satisfied customers may increase their purchases, satisfied employees may increase their job performance, satisfied governments may pass favourable legislation, satisfied competitors may play by the rules of the game), while satisfied non-transacting stakeholders may influence financial performance indirectly by conveying favourable information to transacting stakeholders (Cadez, Czerny and Letmathe, 2019). In accordance with this general rationale, Kurucz, Colbert and Wheeler (2009, p. 93) identified four ways of CSR value creation: (1) cost and risk reduction, (2) building competitive advantage, (3) increased reputation and legitimacy and (4) synergistic value creation. According to Vishwanathana et al (2019) CSR can affect CFP through an enhanced company reputation, stakeholder reciprocation, risk mitigation, and improved innovation capacity. CSR activities could also result in increased sales revenues, a decreased cost of production/provision of services and an increased share price in the future (Varenova and Samy, 2013). In such a way, the company’s profitability could be improved as well. According to Varenova, Samy and Combs (2013), companies use CSR activities while pursuing their commercial interests and consider social responsibility as competitive advantage.

However, it should be noted that competitive trade-off rationale is also often advanced in the literature. This rationale holds that CSR is costly hence greater CSR results in lower financial performance. Even so, Waddock and Graves (1997) argue that such costs are minimal when compared with benefits CSR activities can bring for a company. While acknowledging these contrasting views, former theoretical argument was found more compelling.

The expected positive relationship also rests on empirical support provided by prior studies. Positive relationship between CSR and CFP has been confirmed by several meta-analysis studies and extensive literature review papers (Lu, Chau, Wang and Pan, 2014; Margolis and Walsh, 2001; Orlitzky, Schmind and Rynes 2003; Van Beurden and Gössling, 2008; Wu, 2006). Saeidi, Sofian, Saeidi, Saeidi and Saeidi (2015) found a positive effect of CSR on CFP by means of increasing competitive advantage of a company, as well as its reputation. Similarly, Gregory, Tharyan and Whittaker (2014, p. 645) found that more socially responsible companies experience “higher expected growth rate in their abnormal earnings”.

In the interest of objectivity, it should also be noted that not all studies documented a positive relationship. Some studies documented no relationship (McWilliams and Siegel, 2000;

Soana, 2011) while some even found a negative relationship (Brammer, Brooks and Pavelin, 2006; López, Garcia and Rodriguez, 2007). Nevertheless, in accordance with the theoretical rationale, the following hypothesis was posited:

H1: Current CSR is positively associated with near future CFP.

It is reasonable to assume that more profitable companies have more resources which they can allocate into CSR activities (Soana, 2011). Taking into account Carroll's pyramid of CSR, economic responsibility (i.e. profitability) is the core responsibility of a company (Carroll, 1991). According to Roberts (1992), adequate level of economic performance (measured with ROE) is a precondition for using company resources for meeting social demands. Hence, being profitable is the prerequisite for being socially responsible.

In line with this, Waddock and Graves (1997) found that CSR is positively related with prior financial performance of a company (measured with ROA, ROE and return on sales). Similarly, Erhemjamts, Li and Venkateswaran (2013), using measure of Firm Q (as performance indicator), found that less financially constrained companies are more likely to engage in CSR practices. Based on the theory background and literature review the following hypothesis is proposed:

H2: Past CFP is positively associated with current CSR.

Size is considered as larger companies are more visible hence they are more likely to be under pressure to be socially responsible (Udayasankar, 2008). Additionally, larger companies have more available resources which can be directed into CSR activities (Johnson and Greening, 1999). On the other hand, smaller companies have constrained or inadequate resources, which limits them in appointing resources into CSR activities (Udayasankar, 2008). Smaller companies "often experience immediate cash needs that do not allow them to build up large financial reserves, with a lack of slack financial resources as a result" (Lepoutre and Heene, 2006, p. 264). Larger companies may also have a "degree of discretion in determining their social responsiveness strategy" in comparison with smaller ones (Brammer and Millington, 2006, p. 9). McWilliams and Siegel (2001) also suggested that the presence of scale economies implies that larger companies will be more active in the area of CSR.

In previous studies, the positive effect of size on CSR dominates (e.g. Pava and Krausz, 1996; Stanwick and Stanwick, 1998; Moore, 2001; Godfrey, Merrill and Hansen, 2009). However, no effects of size on CSR have also been documented (e.g. Wu, 2016). Additionally, Udayasankar (2008), considering visibility, resources access and scale of operations, has found a U-shaped relationship between size of a company and CSR participation where small and large companies are most motivated to participate in CSR, while medium-sized companies are the least motivated. Taking into account all the above mentioned reasons and previous empirical evidence, the following hypothesis is made:

H3a: Company size is positively associated with CSR.

One reason why company may engage in CSR activities is to respond to stakeholder pressure. Stakeholder pressure can be defined as “the ability and capacity of stakeholders to affect an organization by influencing its organizational decisions” (Helmig, Spraul and Ingenhoff, 2016, p. 155). Stakeholders can influence or express interest in companies’ practices (Henriques and Sadorsky, 1999) in a form of specific and/or general wants and preferences (Brammer and Millington, 2003). In order to respond to stakeholders’ requests, different CSR activities can be undertaken. In line with institutional theory, passive companies perform CSR activities due to stakeholder pressure (Bondy, Moon and Matten 2012). Higher stakeholder pressure can result in more CSR activities taken by the company.

Yu and Choi (2016) found that stakeholder pressure has a positive influence on the adoption of CSR practises. Similarly, Helmig, Spraul and Ingenhoff (2016) documented the positive effect of primary stakeholders’ pressure on CSR implementation, while failed to confirm such an effect for the secondary stakeholders. Considering only environmental practises, Sarkis, Gonzalez-Torre and Adenso-Diaz (2010) have also found positive effect of stakeholder pressure on environmental practises. Based on the aforementioned, the following hypothesis will be tested:

H3b: Stakeholder pressures are positively associated with CSR.

Innovativeness (R&D expenditures) and leverage are included in the model as a control variable for future CFP. Innovativeness (R&D expenditures) could have positive effects on CFP, since it may result in “enhanced innovativeness capacity and investors' evaluations of the company” (Lou and Bhattacharya, 2006). Therefore, innovativeness is considered to have positive effects on CFP.

The second considered control variable is leverage, since it can affect profitability (Baker, 1973; Gill, Bigger and Mathur, 2011). The discussion about the effects of leverage on profitability is mostly related to the discussion about the optimal capital structure of a company, and positive and negative effects of leverage on profitability have been documented. A positive relationship implies that companies with more debt are more profitable (Gill, Bigger and Mathur, 2011) what can be the result of tax benefits related to interest payment. Contrary to that, a negative relationship implies that companies with more debt have lower profitability (Nunes, Serrasqueiro and Sequeira, 2009). The main argument for a negative relationship is that profitable companies will rely primary on internal findings, and therefore they will have a lower leverage ratio than less profitable companies. Although, positive and negative relationship can be found in literature for purposes of this study the negative relationship was found more convincing and it was expected that leverage has negative effects on profitability.

2.3.2 Hypothesis development – stakeholder group level

This section develops hypotheses for CSR–CFP relationship for each stakeholder group separately.

Employees are the key stakeholder in any organization. By engaging in human resources (HR) oriented CSR programs, companies can benefit from increased job satisfaction, reduced turnover intentions (Du, Bhattacharyz and Sen, 2015), higher organizational commitment (Turker, 2009a), lower absenteeism (Bučiūnienė and Kazlauskaitė, 2012), greater productivity (Huselid, 1995) and higher motivation (Marom, 2006). In effect, HR strategies can be an important source of sustained competitive advantage, since properly developed HR strategies could be seen as “invisible asset” that creates value which may be difficult to imitate by competitors (Becker and Gerhart, 1996). Companies with higher rating in CSR possess more positive reputation and are more attractive to employers, which leads to competitive advantage due to the attraction of more potential employees (Duarte, Gomes and das Neves, 2014; Greening and Turban, 2000) and cost reduction.

Some previous studies have reported positive effect of employees-related CSR activities on CFP. For example, Berman, Wicks, Kotha and Jones (1999) have found that company's actions toward employees have a positive impact on the company's financial performance. Similarly, several studies report that company's CSR engagement with employees results in increased CFP (Jo and Harjoto, 2012; Saleh, Zulkifli and Muhamad, 2011). Therefore, the following hypothesis is made:

H1a: Employees-oriented CSR is positively associated with near future CFP.

Companies collect their revenues by selling products or services to customers on the market hence the customers are crucial for the companies' survival on the market. Customers act as “rewarding and punishing authorities”, since their decisions to buy or not to buy directly affect companies' bottom line (Hansen and Schrader 1997, p. 447). By improving customers' satisfaction, companies can secure superior economic returns in the long run (Anderson, Fornell and Lehmann, 1994) due to their willingness to buy (Homburg, Koschate and Hoyer, 2005), customer retention (Rodgers, Choy and Guiral, 2013) customer loyalty and attracting new customers through word of mouth. An example of CSR activity is the company's promise that for each sold product/service it will donate a defined amount of money for a certain social cause (Nan and Heo, 2007). Based on companies' CSR activities, customers differentiate one company from another, but also tend to choose products or services from socially responsible companies (Gupta and Pirsch, 2006).

Berman, Wicks, Kotha and Jones (1999) have found that customers appreciate safe and quality products and that product safety/quality can help the company to improve its financial performance. Hallowell (1996) reported that customer satisfaction leads to customer loyalty, which results in increased profitability. By means of CSR activities, the

company can increase customer satisfaction and subsequently profitability. Positive effect of CSR activities related to customers has also been found by Gregory, Tharyan and Whittaker (2014). Hillman and Keim (2001) found that product issues (i.e. customer issues) have negative, but insignificant effect on CFP. Similarly, Michelon, Boesso and Kumar (2013) found no association of CSR activities in the area of product (customers) and profitability.

Considering the potential positive effects of CSR activities on increased sales revenues, but also on decrease of some expenditure, the following hypothesis is defined:

H1b: Customer-oriented CSR is positively associated with near future CFP.

Governments (local, regional and state) provide public policy framework, regulations, infrastructure and public goods for the companies. CSR activities towards governments can result in mutually beneficial coexistence. For example, appeased legislators (government) could pass more favourable laws (Marom, 2006) or make infrastructure investments aligned with the needs of particular companies. Another way in which relationships with governments could result in increased profitability via CSR activities is through government contracts requiring certain level of CSR activities. Such contracts might result in increased consumption by governments or by stakeholders they influence (Siegel and McWilliams, 2001) leading to increased sales revenues and subsequently increased profitability.

Taking into account the importance of governments as stakeholder, the following hypothesis is made:

H1c: Government-oriented CSR is positively associated with near future CFP.

Competitors can also be seen as potential business partners, a source of mutual support and even collaboration to ensure survival in the market (Spence, Coles and Harris, 2001). There have been examples of collaboration between competitors especially in the field of research and development and innovation. In such a way, companies have the opportunity of “building new process capabilities and winning new product and technology battles” (Hamel, Doz and Prahalad, 1989). Good relationships with competitors are also important in case of need for lobbying efforts or industry panels for dealing with labour and other problems (Harrison and John, 1996). All these situations could result in financial benefits for a company. In order to be able to benefit from such joint actions with competitors, companies must respect the rights of their competitors above legally required ones. Dissatisfied competitor could release negative information on the company to the environment, which may result in altered behaviour from other stakeholders (Harrison and John, 1996). Additionally, if the company is using unfair practices in its relationships with competitors, it may be considered as unfair market player among customers, resulting with decreased sales. In view of all the above, the following hypothesis can be made:

H1d: Competitor-oriented CSR is positively associated with near future CFP.

The main social purpose of NGOs is to increase the quality of life for the entire community (Arenas, Lozano and Albareda, 2009). In an attempt to do so, they can form different relationships with a company, collaborative or confrontational action (Arenas, Lozano and Albareda, 2009). NGOs as an outside stakeholder group might set up protests, civil lawsuits and letter-writing campaigns in order to fulfil their interests (Eesley and Lenox, 2006). If such actions accrue, direct costs (e.g. legal fees, public relations expenses) for a company affected by NGOs actions could be expected (Eesley and Lenox, 2006). These confrontational actions could cause negative image and reputation of a company, so it is in company's best interest to have collaborative relationships with NGOs. For these reasons, collaborative action is preferred over confrontational. However, collaborative actions towards NGOs require from companies to direct part of their resources (financial and non-financial) into such collaboration. Additional resources needed imply additional costs, so negative effects on short-term profitability could be expected.

On the other hand, companies can also benefit from good relationships with NGOs: (1) by using the NGOs advices and expertise for making decisions and (2) NGOs can defend the company in public in case of negative CSR (Peloza, 2006). However, in short-term it is expected that costs related to collaboration with NGOs would be greater than financial benefits that could result from it. In line with such reasoning, the following hypothesis is defined:

H1e: NGOs-oriented CSR is negatively associated with near future CFP.

Companies can be considered as “corporate citizens whose creation and continued existence are dependent on society”, and due to that, companies are obligated to contribute to society (O'Higgins, 2010 p. 159). Society represents the source of potential employees, customers and all other individuals important for the company's business. Even though society is frequently left out from stakeholder classification, it represents a fundamental stakeholder without whom the stakeholder theory is incomplete (Lépineux, 2005). Companies may actively participate in different activities of society through donations, sponsorships, charity actions, etc. However, all these activities come with direct costs for the company and therefore with negative effect on short-term profitability.

Potential positive effects of CSR activities toward society may be indirect, through effects on decisions and behaviour of other stakeholders (spillover effect). For example, customers may be willing to buy more from companies that are active in the life of society, and employees could be more motivated if they worked for such a company. Indeed, some previous results point to a positive effect of CSR activities toward society on CFP (for example, Gregory, Tharyan and Whittaker (2014) and Hillman and Kiem (2001)). It is also possible that there is no relationship (for example Michelin, Boesso and Kumar (2013)). To complicate this discussion, the effects of CSR activities toward society may differ across industries. For example, Inoue and Lee (2011) documented negative effect in airline industry, but positive effect in hotel and restaurant industries.

Although different views on the effects of CSR activities toward society on profitability are reported, it is expected that in short-term negative effect will prevail due to costs associated with being a good corporate citizen. Therefore, considering society as a stakeholder separately in a short period of time, the following hypothesis is made:

H1f: Society-oriented CSR is negatively associated with near future CFP.

Examples of CSR activities towards the natural environment include: reduction, reuse and recycling materials, waste management, energy conservation (Spiller, 2000), using environment-friendly technology, etc. Traditional view held that CSR activities towards the natural environment are costly for a company, without any direct benefits to the company's financial performance.

Contemporary view, however, views pollution as a result of inefficiencies in production processes (Cadez and Guilding, 2017; Porter and Van der Linde, 1995), hence a carefully crafted environmental strategy that is consistent with the concept of eco-efficiency (Czerny and Letmathe, 2017; Figge and Hahn, 2013) can trigger a double dividend of lower costs and lower pollution (King and Lenox, 2002). By investing in more environmentally friendly resources, companies could avoid penalties but also improve their efficiency of production processes/services providing (e.g. new environmentally friendly equipment could result with decreased cost of energy, products/services of higher quality, reduce working hours, etc.). All of which could have positive effects on profitability either by reducing costs or increasing revenues.

Russo and Fouts (1997, p. 534) found that for a company "it pays to be green", i.e. environmental performance has positive effect on profitability. Similarly, Al-Tuwaijri, Christenses and Hughes (2004) reported that good environmental performance is positively associated with good economic performance. Positive effect has also been documented by Mahoney and Roberts (2007), Montabon, Sroufe and Narasimhan (2007), etc. Hillman and Keim (2001) have found that environmental issues have negative effects but insignificant effect on CFP. Similarly, Berman, Wicks, Kotha and Jones (1999) found no direct effects between natural environment issues and profitability.

As for CSR activities toward future generations, they overlap with CSR activities toward the natural environment. Taking care of the future generation includes the preservation of a natural environment for future generations that are not present today (Dodson, 2015). Therefore, by taking care of the natural environment, companies also take care of future generations i.e. future employees, customers, suppliers, etc.

Considering these opposing rationales, but also previous empirical evidence, the contemporary rationale was seen as more convincing, and the following hypothesis is posited:

H1g: Natural environment and future generation -oriented CSR is positively associated with near future CFP.

2.4 Methodology

Quantitative and qualitative methods have been deployed to collect data to test the developed hypotheses, signifying a degree of data triangulation. The main advantage of quantitative analysis is potential generalisation of conclusions across populations (Hair, Anderson, Tatham and Black, 1998; Hsiao, 2003). This is particularly desirable in this study as corporate social responsibility is a globally pertinent issue. The quantitative analysis has involved an empirical examination of posited hypotheses via statistical analysis of survey and archival data for a sample of large and medium-sized Croatian companies.

The main advantage of qualitative methods is a deeper understanding of complex relations and their interactions (Eisenhardt, 1989; Hoque, Covalleskin and Gooneratne, 2013). The qualitative phase has involved the collection and analysis of interview data in six Croatian companies which have also participated in the survey. Since qualitative analysis suffers from the validity threat of researcher bias (Mertens, 2004), considerable effort was made in order to undertake the analysis objectively by deploying a thematic analysis as themes function as criteria for the systematic comparison of interviews (Boeije, 2002). The key theme examined, as outlined in the hypothesis development section, refers to the causality of the CSR–CFP relationship.

2.4.1 Data and sample

For the purposes of this research, two main quantitative datasets were required: data on CSR and data on CFP. Data on CSR were collected using an on-line survey questionnaire. Survey questionnaire deemed to be the most suitable option, given the lack of useful archival data for the context examined in this study, thus rendering reputational indices and content analysis useless. Although, there is CSR index for Croatian companies, its data are collected on a voluntary basis (cover limited number of companies of all sizes) and results for companies are not disclosed publicly. Therefore, this index is not suitable for the purposes of this research. The survey instrument was adopted from prior study and translated into Croatian. The translations has been performed by the author, a Croatian native speaker. In addition, the questionnaire translation was checked by two economics professors (Croatian native speakers and fluent English speakers) and an English teacher (Croatian native speaker).

The questionnaire was distributed to a total of 912 Croatian companies by e-mail. Target responders were middle and top managers. Sample comprised all large companies, 500 biggest medium-sized companies, banks, insurance companies and publicly listed companies (not included in previous groups). Data were collected from November 2016 to

March 2017. The process of data collection resulted in 125 useful responses, indicating a response rate of 14%. While collecting financial data, one company was excluded from the sample due to unreliable financial data, leading to a final sample of 124 companies.

Regarding the demographic data of the responders; their job position, experience on the current job position, level of education, year of birth and sex have been explored. It should be noted that not all responders provided their demographic data. Based on the responses obtained, managing job positions dominate, the average number of years of experience on a current job position is 7 years. Faculty degrees dominate among responders. Responders are in average 46 years old and female responders dominate.

Data on CFP were collected from companies' financial reports for 2015, 2016 and 2017 (last available years). Financial reports were taken from *Poslovna.hr*, a business portal specialized in providing key data about business (Poslovna.hr, 2018).

As for qualitative data, six interviews were conducted from April 2017 till October 2017. Two interviews have been placed within company's premises, one in public place, while three were performed over the phone. Companies were from different industry sectors: manufacturing, transportation and storage, accommodation and food service activities, administrative and support service activities. Interviewees worked in different positions within the company: financial manager, associate professional in human resources, board member assistant, sustainable development specialist, head of corporate affairs, and associate professional in procurement. Despite different job positions, the interviewees were well acquainted with the company's CSR activities. Not all companies have special persons/departments in charge of CSR activities, so these activities may be incorporated with other job assignments. In addition, all interviewees were familiar with survey questions in advance, which enabled adequate preparation for the interview.

2.4.2 Variable measurement

CSR

CSR was measured using an instrument developed by Turker (2009b). This questionnaire has been found as the best option for gathering data on CSR since it is based on multiple stakeholder approach. The instrument gauges socially responsible action towards the following stakeholders: employees, customers, society, governments, competitors, natural environment, future generations and NGOs. The original instrument includes 42 items, however, for the purposes of this research 3 items were dropped out due to their unsuitability or needlessness, so the final questionnaire included 39 items: 8 for employees (EMP), 6 for customers (CUS), 5 for society (SOC), 3 for competitors (COM), 4 for governments (GOV), 8 for natural environment and future generations (NE&FG), 4 for non-governmental organizations (NGO). Appendix 2 contains the questionnaire (along with the descriptions of

variables). The scale for socially responsible action towards different stakeholders ranged from 1 (*I fully disagree*) to 5 (*I fully agree*).

After the data have been collected, an additional review of the questionnaire has been conducted and some variables have been discharged from further analysis. The main reason for excluding additional indicators from the questionnaire is that they are more related to the legal obligation of companies than to social responsibility activities. The following indicators were excluded from further analysis: EMP1 (*"The employees in our company receive a reasonable salary to maintain an acceptable quality of life"*), EMP2 (*"Our company policies provide a safe and healthy working environment to all its employees"*), CUS2 (*"Our products comply with the national and international standards"*), CUS3 (*"Our company provides full and accurate information about its products to its customers"*), CUS6 (*"Our company is responsive to the complaints of its customers"*), GOV1 (*"Our company always pays its taxes on a regular and continuing basis"*) and GOV4 (*"Our company acts legally on all matters"*).

The main limitations of the used questionnaire include: the coverage of a limited number of stakeholders, problems with the responder's perception and using only one country (Turkey) for the questionnaire assessment (Turker, 2009b). As the author of questionnaire pointed out, such limitation are not critical since the scale represents a balanced combination of various stakeholders, it was assumed that responders provided accurate information and business communities in Turkey are characterized with an increased convergence to a European context. Therefore, the mentioned limitations do not represent an obstacle for using this questionnaire for collecting data on CSR from Croatian companies.

CFP

As identified in the first chapter, the literature provides different ways of measuring financial performance. Financial performance represents the narrowest conception of business performance which uses financial indicators such as sales growth, profitability (ROA, ROE, etc.) earnings per share, etc. to present the achievement of the economic goals of a company (Venkatraman and Ramanujam, 1986).

In this study, company's profitability, measured with return on equity (ROE), has been employed as a measure of financial performance. The data on CSR were collected in 2016 and at the beginning of 2017, past CFP was measured using data for 2015, while future CFP was measured using data for 2017 (also last available year for financial data). CFP for 2016 has been used in additional analysis, considering the effects of current profitability on CSR. ROE was measured as a ratio between net income and the average value of capital and reserves. As evident, accounting-based measures were used to assess the CFP, since they reflect the internal efficiency of a company better (Vitezić, Vuko and Mörec, 2012) and because they are more widely available. Due to financial data availability for future

profitability, short-term profitability (i.e. profitability for just one year) has been used in this study.

Contingency variables

Size was measured with the value of company's total assets in accounting year 2016. Due to high variability of total assets value across companies, the natural logarithm was used. *Leverage* was calculated as a ratio between total liabilities and total assets for year 2017. Expenses for development for the year 2017, a long-term intangible asset item, were used as a measure of Innovativeness (*R&D expenditures*). Data on size, leverage and Innovativeness (*R&D expenditures*) were taken from *Poslovna.hr*'s database (Poslovna.hr, 2018). Data on *stakeholder pressures* were collected through a questionnaire, along with the data on CSR. The statements regarding stakeholder pressure were adopted from Buysse and Verbeke (2003). Respondents were asked to assess the impact of each human stakeholder (employees, customers, governments, competitors, NGOs and society) pressure on decisions related to CSR management (Buysse and Verbeke, 2003) on a 5 – point Likert scale (1 – *no influence at all*, 5 – *a very strong influence*). Non-human stakeholder (natural environment) and future generations were not included due to inability to exert pressures over company.

The descriptive statistics of variables used in research are shown in Table 7. As evident from Table 2, variables used for measuring CSR are negatively skewed with means closer to the highest value (i.e. 5) than to the lowest value (i.e. 1), indicating relatively high levels of CSR activities. Standard deviation for CSR data is quite low, indicating that values are clustered around the mean.

Based on descriptive statistics it can be noted that companies have a high perception of their social responsibility toward different stakeholders. The responders could have provided false response in order to present the company they work for as socially responsible, although it is not. However, it is assumed that responders have provided accurate responses and that the obtained data reflect the real situation. Additionally, it could be that only representatives of socially responsible companies (or the ones that perceive the company to be socially responsible) decided to fulfil the questionnaire and that socially less responsible companies did not fulfil the questionnaire.

The highest values are reported for CSR activities toward governments (GOV3), which could be explained with a close relation to the legal obligations of a company. The lowest values are reported for CSR activities toward NGOs (NGO2 and NGO3). It seems that companies in Croatia do not have strong relationships with NGOs, compared to other stakeholders. This is also evident from indicator NGOs pressure which has the lowest value of all stakeholder pressures variables.

Considering the profitability of companies, at the level of entire sample companies are performing with profit (values of ROE are positive). If profitability is compared through

three years (past, current and future profitability) then the highest profitability is reported for year 2016 (current profitability), followed by the year 2015 (past profitability), while the lowest profitability is reported for the year 2017 (future profitability).

Table 7: Descriptive statistics

Variable	N	Mean	Min	Max	Standard Deviation	Skewness	Kurtosis
Indicators for CSR activities toward employees (EMP) (5 –point Likert scale)							
EMP3	124	3.98	1	5	0.94	-1.14	1.38
EMP4	124	4.02	1	5	0.88	-1.07	1.50
EMP5	124	3.82	1	5	0.87	-0.77	0.84
EMP6	124	3.51	1	5	0.94	-0.35	-0.08
EMP7	124	3.90	1	5	0.91	-0.85	0.73
EMP8	124	3.65	1	5	0.97	-0.60	0.03
Indicators for CSR activities toward customers (CUS) (5 –point Likert scale)							
CUS1	124	4.59	1	5	0.64	-2.06	7.16
CUS4	124	4.27	2	5	0.82	-1.00	0.46
CUS5	124	4.57	1	5	0.70	-2.07	5.78
Indicators for CSR activities toward society (SOC) (5 –point Likert scale)							
SOC1	124	4.36	2	5	0.79	-1.23	1.26
SOC2	124	4.42	1	5	0.80	-1.95	4.99
SOC3	124	4.09	1	5	0.93	-0.86	0.23
SOC4	124	4.12	1	5	0.81	-0.78	0.77
SOC5	124	4.19	1	5	0.87	-1.25	1.92
Indicators for CSR activities toward competitors (COM) (5 –point Likert scale)							
COM1	124	4.36	1	5	0.79	-1.35	2.26
COM2	124	3.65	1	5	0.98	-0.33	-0.45
COM3	124	4.29	1	5	0.77	-1.41	3.08
COM4	124	4.35	2	5	0.75	-0.91	0.13
Indicators for CSR activities toward governments (GOV) (5 –point Likert scale)							
GOV2	124	4.71	1	5	0.63	-2.97	11.42
GOV3	124	4.02	1	5	0.96	-0.71	0.00
Indicators for CSR activities toward natural environment (NE) and future generations (FG) (5 –point Likert scale)							
NE&FG1	124	4.32	1	5	0.79	-1.33	2.41
NE&FG2	124	4.25	1	5	0.87	-1.41	2.43
NE&FG3	124	4.28	1	5	0.79	-1.15	1.78
NE&FG4	124	4.15	1	5	0.93	-1.24	1.74
NE&FG5	124	4.33	1	5	0.88	-1.72	3.63
NE&FG6	124	4.16	1	5	0.93	-1.31	1.91
NE&FG7	124	4.11	1	5	0.86	-0.91	0.72
NE&FG8	124	3.70	1	5	0.99	-0.67	0.42

(table continues)

(continued)

Variable	N	Mean	Min	Max	Standard Deviation	Skewness	Kurtosis
Indicators for CSR activities toward NGOs (non-governmental organizations) (5 –point Likert scale)							
NGO1	124	3.75	1	5	1.01	-0.56	-0.37
NGO2	124	3.34	1	5	1.04	-0.06	-0.60
NGO3	124	3.34	1	5	0.92	-0.05	0.15
NGO4	124	3.39	1	5	0.87	-0.02	0.36
Composite indicators for stakeholder groups							
EMP mean	124	3.81	1	5	0.75	-0.75	1.19
CUS mean	124	4.48	2	5	0.60	-1.28	1.77
SOC mean	124	4.23	1.2	5	0.66	-1.52	4.11
COM mean	124	4.16	2.25	5	0.63	-0.65	0.40
GOV mean	124	4.37	1	5	0.67	-1.51	4.32
NE&FG mean	124	4.16	1	5	0.72	-1.39	2.83
NGO mean	124	3.45	1.75	5	0.74	-0.16	-0.15
Indicators of stakeholder pressure (5 –point Likert scale)							
ST_P EMP	124	3.63	1	5	0.95	-0.29	-0.29
ST_P CUS	124	3.87	1	5	1.01	-0.84	0.45
ST_P SOC	124	3.80	1	5	0.95	-0.78	0.50
ST_P GOV	124	3.53	1	5	1.13	-0.37	-0.71
ST_P COM	124	3.33	1	5	1.09	-0.35	-0.48
ST_P NGO	124	2.90	1	5	1.06	-0.09	-0.54
Measures of contingences and control variables							
Total asset 2016	124	3,624*	3.65*	105,128*	11,774*	6.32	47.55
LN total Asset 2016	124	20.23	15.11	25.38	1.78	0.33	0.40
R&D 2017	109	0.98*	0	68.40*	6.72*	9.41	93.46
Leverage 2017	124	0.58	0.01	5.75	0.55	6.82	63.26
Measures of profitability							
ROE_2015	119	0.07	-1.47	0.80	0.26	-2.42	12.59
ROE_2016	120	0.10	-0.57	0.71	0.17	0.40	4.85
ROE_2017	118	0.05	-3.66	1.10	0.49	-5.88	41.40
* mil HRK (Croatian national currency)							
Abbreviations: EMP: employees, CUS: customers, SOC: society, COM: competitors, GOV: governments, NGOs: non-governmental organizations, NE: natural environment, FG: future generations; ST_P: stakeholder pressure, ROE: return on equity Likert scale: 1 – not important at all, 5 – very important							

Source: Author's calculation

The sample correlation matrix used in this study is presented in Appendix 3. Due to transparency of the matrix, only composite indicators for stakeholders' oriented CSR activities have been presented. There were no significant issues identified with the correlation matrix.

2.4.3 Data analysis

To analyse the proposed model, the PLS path modelling was applied using the software application Smart PLS (Ringle, Wende and Becker, 2015).

For the purposes of testing H1 and H2 (the overall effect of CSR to CFP and vice versa), the overall CSR construct was used. Considering a large group of stakeholders, the partial aggregation approach was implemented to calculate a composite indicator for each stakeholder group (Cadez and Guilding, 2008). Composite indicator for each group was calculated as an average value of original indicators (e.g. 6 indicators for employee group). The resulting variables were used as indicators of the multidimensional CSR construct for the analysis of the conceptual model.

For the purposes of testing H1a - H1g seven sub-models were analysed. Original indicators (collected by questionnaire) were used as indicators for CSR activities directed towards individual stakeholder groups.

Model testing was conducted in two steps: first the measurement model (outer model) was evaluated followed by the structural (inner) model assessment. The evaluation of measurement (outer) model included analysis of internal consistency reliability, convergent and discriminant validity. Single indicator constructs were not included into the measurement model evaluation.

2.5 Results

2.5.1 Results of testing the overall model(s)

The results of measurement (outer) model evaluation are presented in Table 8. As can be seen, internal consistency reliability and convergent validity were established for two latent constructs. Internal consistency reliability indicators (Cronbach's alpha and Composite reliability) are within acceptable levels. All loadings for CSR exceed the recommended value of 0.70. As for stakeholder pressures construct, indicator government pressure was eliminated due to low loading (0.48) and by deleting it AVE (Average Variance Extracted) value is above threshold value. The loading of competitors pressure is also somewhat low, but was retained due to acceptable construct reliability and validity levels (AVE>0.5, composite reliability>0.70). Loadings of other indicators for stakeholder pressure are above 0.70. Discriminant validity was also established: HTMT (Heterotrait-Monotrait Ratio) value

is 0.85, the HTMT confidence interval does not include 1, the Fornell-Larcker criterion was met and no cross-loading were identified.

Table 8: Results of measurement model evaluation

Latent variable	Indicators			Convergent validity & Internal consistency reliability
		Loadings	Indicator reliability	
Overall CSR	Employees CSR	0.85	0.72	AVE=0.67 Composite reliability=0.93 Cronbach's α = 0.92
	Customers CSR	0.78	0.61	
	Governments CSR	0.72	0.52	
	Competitors CSR	0.85	0.72	
	NGOs CSR	0.80	0.64	
	Society CSR	0.86	0.74	
	Natural environment & Future generations CSR	0.86	0.74	
Stakeholder pressures	Employees	0.83	0.69	AVE=0.54 Composite reliability=0.85 Cronbach's α = 0.79
	Customers	0.72	0.52	
	Competitors	0.56	0.31	
	NGOs	0.71	0.50	
	Society	0.81	0.66	

Source: Author's calculation

After evaluating the measurement model and establishing validity and reliability of the model, the structural (inner) model was evaluated. Starting point for structural (inner) model evaluation was examining collinearity in the model. This was conducted by checking each predictor construct's tolerance value (VIF value), which are all higher than 0.20 (and lower than 5). Therefore, collinearity is not a problem in these models.

Results of the evaluation of structural models are presented in Table 9 and Figure 2. The significance of path coefficients was assessed using bootstrapping procedure. Results are presented in Table 9. Path coefficient from overall CSR to ROE_{t+1} is positive (0.19) and statistically significant (significance level=1%). Path coefficient from ROE_{t-1} to CSR is also positive (0.05) but not statistically significant.

Regarding considered CSR contingencies, only stakeholder pressure exhibits a statistically significant relationship with CSR. Although, it was proposed that the effects of size on CSR should be positive, results indicate size to negatively affect CSR (statistically non-significant relationship). Effects of control variables for ROE_{t+1} are as proposed, but statistically non-significant.

Table 9: Results of structural model evaluation

Relationship	Path coefficient
CSR → ROE_2017	0.19*
ROE_2015 → CSR	0.05
Size → CSR	-0.03
Stakeholder pressure → CSR	0.64*
Leverage → ROE_2017	-0.06
Innovativeness → ROE_2017	0.01
Abbreviations: CSR: Corporate social responsibility, ROE: return on equity	

* $p < 0.01$; ** $p < 0.05$; *** $p < 0.1$

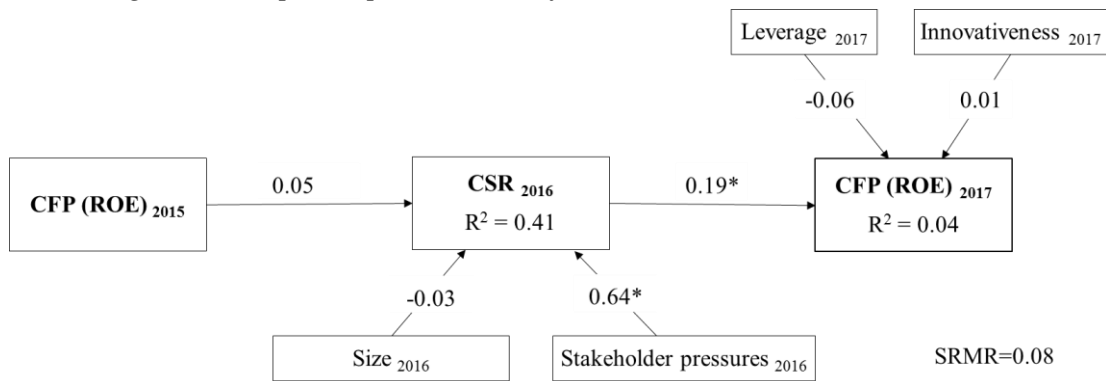
Source: Author's calculation

R^2 values for endogenous constructs are presented in Figure 2. The explained variance (R^2) for CSR construct is strong at 41 %, while the explained variance (R^2) for ROE_{t+1} construct is 4%. It can be noted that R^2 value is higher for CSR construct compared to CFP construct. The effect size f^2 was also examined. Effect size is large for path from stakeholder pressures to CSR ($f^2=0.69$) and small for path from CSR to ROE_{t+1} ($f^2=0.04$). For other relationships values of f^2 are below 0.02, indicating very poor or no effect.

Using blindfolding procedure, the predictive relevance was assessed. Q^2 values are larger than 0, indicating exogenous variables have predictive relevance for endogenous constructs.

Model fit was assessed with SRMR value. SRMR value is below cut-off value of 0.10. Therefore, models have good fit.

Figure 2: Graphical presentation of structural model evaluation results



* $p < 0.01$; ** $p < 0.05$; *** $p < 0.1$

Source: Author's calculation

2.5.2 Results of testing sub-models

In order to test hypothesis regarding the effects of CSR activities towards different stakeholders and CFP (hypothesis H1a – H1g), seven sub-models were tested.

Results of measurement model evaluation are presented in Table 10. As evident, internal consistency reliability was established (Cronbach's alpha and composite reliability higher than 0.70), as well as convergent validity (AVE higher than 0.50). The only exception is Cronbach's alpha for government (GOV) latent variable which is below 0.70. Since Cronbach's alpha is conservative measure of reliability which tends to underestimate the internal consistency reliability (Hair, Hult, Ringle and Sarstedt, 2017) and composite reliability is adequate, there is no problems with internal consistency reliability for government (GOV) latent variable. Indicator reliability was established, since the majority of indicators loadings are above 0.70. Loadings of some indicators are below 0.70 (but higher than 0.40), however, composite reliability and AVE are above threshold values, so there is no need to remove these indicators from the models (Hair, 2017). This was not the case with indicator government pressure in all sub-models (ST_P GOV) which was below 0.70 and its deletion increased AVE value above 0.50 (threshold value). Discriminant validity was established by analysing HTMT criterion (values below 0.85 and confidence intervals of HTMT statistics do not include 1, and cross-loadings (no issues). Additionally, Fornell-Larcker criterion was met.

Table 10: Summary results of measurement model evaluation for eight sub-models

Sub model	Latent variable	Indicator	Loading	Indicator reliability	Convergent validity & Internal consistency reliability
Employees	EMP	EMP3	0.86	0.74	AVE=0.67 Composite reliability=0.92 Cronbach's α = 0.90
		EMP4	0.85	0.72	
		EMP5	0.77	0.59	
		EMP6	0.77	0.59	
		EMP7	0.85	0.72	
		EMP8	0.81	0.66	
	ST_P	EMP	0.84	0.71	AVE=0.54 Composite reliability=0.85 Cronbach's α = 0.79
		CUS	0.73	0.53	
		COM	0.57	0.32	
		NGO	0.70	0.49	
		SOC	0.80	0.64	

(table continues)

(continued)

Sub model	Latent variable	Indicator	Loading	Indicator reliability	Convergent validity & Internal consistency reliability
Customers	CUS	CUS1	0.81	0.66	AVE = 0.69 Composite reliability = 0.87 Cronbach's α = 0.78
		CUS4	0.81	0.66	
		CUS5	0.87	0.76	
	ST_P	EMP	0.83	0.69	AVE = 0.54 Composite reliability = 0.85 Cronbach's α = 0.79
		CUS	0.74	0.55	
		COM	0.57	0.32	
		NGO	0.69	0.48	
		SOC	0.80	0.64	
Government	GOV	GOV2	0.81	0,66	AVE = 0.68 Composite reliability = 0.81 Cronbach's α = 0.54
		GOV3	0.84	0.71	
	ST_P	EMP	0.84	0.71	AVE = 0.53 Composite reliability = 0.85 Cronbach's α = 0.79
		CUS	0.69	0.48	
		COM	0.56	0.31	
		NGO	0.72	0.52	
		SOC	0.81	0.66	
Competitors	COM	COM1	0.81	0.66	AVE = 0.60 Composite reliability = 0.85 Cronbach's α = 0.78
		COM2	0.56	0.31	
		COM3	0.79	0.62	
		COM4	0.89	0.79	
	ST_P	EMP	0.84	0.71	AVE = 0.53 Composite reliability = 0.85 Cronbach's α = 0.79
		CUS	0.73	0.53	
		COM	0.56	0.31	
		NGO	0.69	0.48	
NGOs	NGO	NGO1	0.69	0.48	AVE = 0.59 Composite reliability = 0.85 Cronbach's α = 0.77
		NGO2	0.78	0.61	
		NGO3	0.80	0.64	
		NGO4	0.81	0.66	
	ST_P	EMP	0.82	0.67	AVE = 0.53 Composite reliability = 0.85 Cronbach's α = 0.79
		CUS	0.68	0.46	
		COM	0.52	0.27	
		NGO	0.78	0.61	
		SOC	0.80	0.64	

(table continues)

(continued)

Sub model	Latent variable	Indicator	Loading	Indicator reliability	Convergent validity & Internal consistency reliability
Society	SOC	SOC1	0.67	0.45	AVE = 0.61 Composite reliability = 0.89 Cronbach’s α = 0.84
		SOC2	0.84	0.71	
		SOC3	0.81	0.66	
		SOC4	0.80	0.64	
		SOC5	0.79	0.62	
	ST_P	EMP	0.84	0.71	AVE = 0.53 Composite reliability = 0.85 Cronbach’s α = 0.79
		CUS	0.71	0.50	
		COM	0.54	0.29	
		NGO	0.69	0.48	
		SOC	0.82	0.67	
Natural environment & Future generations	NE & FG	NE&FG1	0.82	0.67	AVE = 0.68 Composite reliability = 0.94 Cronbach’s α = 0.93
		NE&FG2	0.84	0.71	
		NE&FG3	0.73	0.53	
		NE&FG4	0.89	0.79	
		NE&FG5	0.86	0.74	
		NE&FG6	0.87	0.76	
		NE&FG7	0.79	0.62	
		NE&FG8	0.77	0.59	
	ST_P	EMP	0.79	0.62	AVE = 0.54 Composite reliability = 0.85 Cronbach’s α =0.79
		CUS	0.75	0.56	
		COM	0.58	0.34	
		NGO	0.69	0.48	
		SOC	0.83	0.69	
Abbreviations: EMP: employees, CUS: customers, SOC: society, COM: competitors, GOV: governments, NGOs: non-governmental organizations, NE: natural environment, FG: future generations; ST_P: stakeholder pressure, ROE: return on equity; AVE: Average Variance Extracted					

Source: Author's calculation

After establishing construct reliability and validity, structural (inner) models were assessed. As a first step, collinearity was examined. All predictor construct's tolerance values (VIF) are above 0.20 and lower than 5, therefore collinearity does not represent a problem in evaluated sub-models.

The next step included assessing the significance of path coefficients using bootstrapping procedure. CSR activities toward customers and competitors have positive effect on ROE (significance level = 1%), as well as actions toward employees, NGOs, natural environment and future generations (significance level = 5%) and CSR activities toward society (significance level = 10%). In the model considering government stakeholder group path

coefficient is also positive, but not statistically significant. Contrary to some hypotheses, no negative coefficients were detected in any of the models for the CSR – ROE_{t+1} path. The effects of past CFP are statistically non-significant in all models.

As for CSR contingencies, the only effect consistently significant across all sub-models is path from stakeholder pressures to CSR (significance level = 1%). Additionally, size has negative effect on CSR activities toward employees (significance level = 10%) and competitors (significance level = 5%). Leverage and innovativeness do not have statistically significant effect on ROE_{t+1}. Path coefficients and statistical significance are presented in Table 11 and Figure 3.

Results of sub-models testing have been checked for false discovery rate (FDR) using Benjamini-Hochberg test. The conducted test has confirmed the obtained significant relationships, except one. The relationship that should be corrected into non-significant is negative effect of size on CSR activities toward employees.

Table 11: Results of structural model evaluation for seven sub-models

Relationship	Path coefficients and significance						
	Sub-models (stakeholders)						
	EMP	CUS	GOV	COM	NGOs	SOC	NE&FG
CSR → ROE_2017	0.16**	0.17*	0.10	0.16*	0.16**	0.15***	0.22**
ROE_2015 → CSR	0.00	0.11	0.05	0.02	0.05	0.09	0.02
Size → CSR	-0.13***	-0.09	-0.02	-0.18**	0.11	0.06	0.01
Stakeholder pressure → CSR	0.60*	0.47*	0.35*	0.50*	0.64*	0.55*	0.57*
Leverage → ROE_2017	-0.07	-0.07	-0.08	-0.08	-0.08	-0.06	-0.05
Innovativeness → ROE_2017	0.02	-0.01	-0.01	0.01	0.02	0.01	0.00
Abbreviations: CSR: corporate social responsibility, EMP: employees, CUS: customers, SOC: society, COM: competitors, GOV: governments, NGOs: non-governmental organizations, NE: natural environment, FG: future generations; ROE: return on equity							

* p<0.01; ** p<0.05; *** p<0.1

Source: Author's calculation

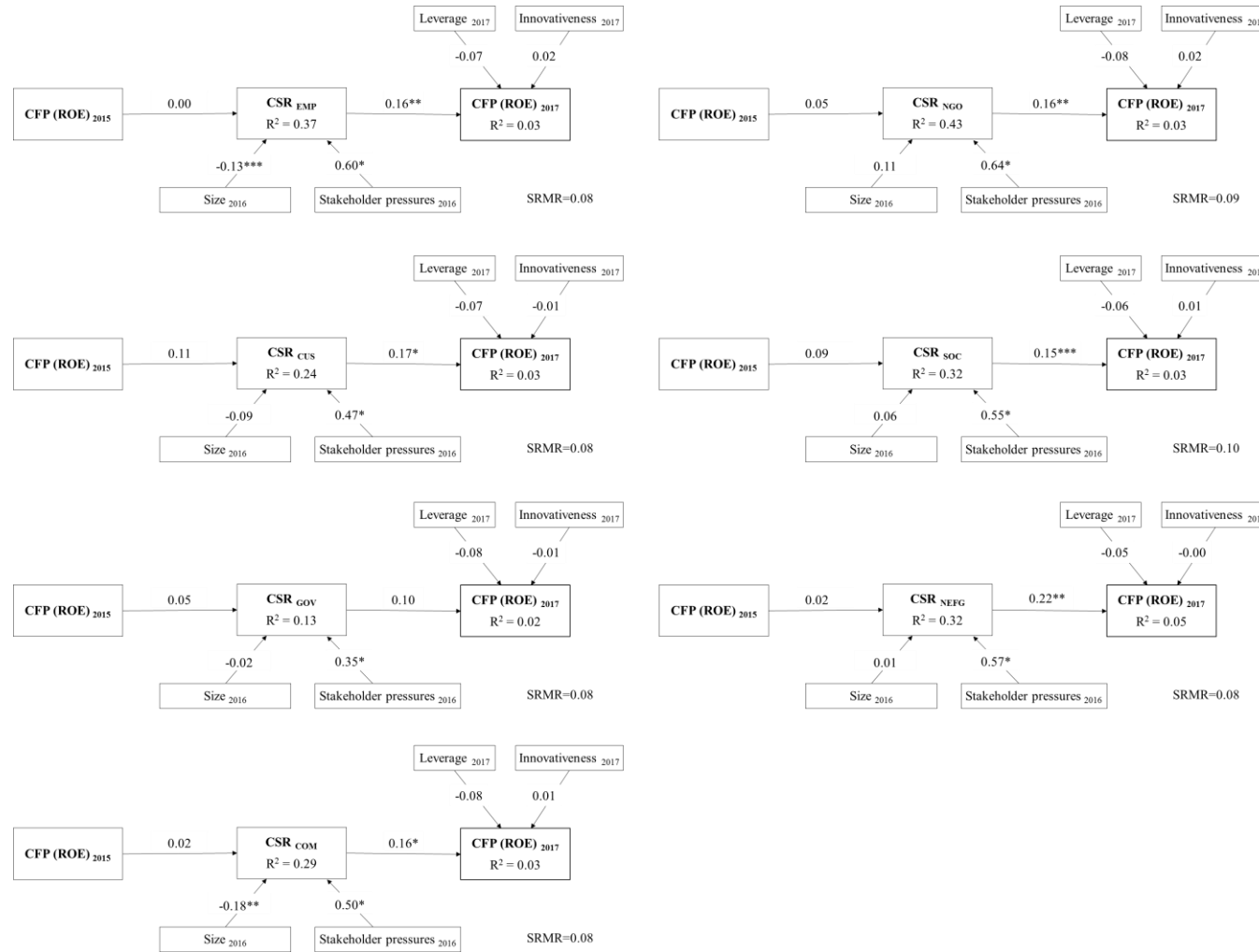
Coefficients of determination (R^2) for endogenous constructs (different stakeholder groups and CFP) are presented in Figure 3. R^2 values range from very weak (0,02 for ROE_2017 latent variable in government sub-model) till moderate (0,43 for NGOs latent variable).

Contribution of different exogenous constructs to an endogenous latent variable's R^2 value was assessed using the effect size (f^2). Large effect size has been identified for stakeholder pressure on CSR activities toward employees, customers, competitors, society, NGOs, natural environment and future generations. Medium effect size has been found for stakeholder pressure on CSR activities toward governments. Small effect size has been identified for the following relationships: CSR activities toward employees, customers, competitors, NGOs, society, natural environment and future generations \rightarrow ROE_2017 and for the relationship from size to CSR activities toward employees, competitors and NGOs. For other relationships values of f^2 are below 0.02, indicating very poor or lack of effect.

The predictive relevance (Q^2) of the exogenous construct on endogenous construct was assessed using blindfolding procedure. Q^2 values of endogenous construct (different stakeholder group and CFP) in all tested sub-models are larger than 0 indicating that exogenous constructs have predictive relevance for endogenous construct (Hair, 2017).

As a measure of approximate model fit SRMR value was evaluated. Models with SRMR value below 0.10 are considered to have good fit. As shown in Figure 3 and Figure 4 the majority of sub-models have SRMR value below 0.10.

Figure 3: Graphical presentation of structural model evaluation results for seven sub-models



* p<0.01; ** p<0.05; *** p<0.1

Source: Author's calculation

2.5.3 Interview results

Key themes examined with qualitative interviews pertain to the nature of CSR–CFP relationship and the causality of this relationship.

Effects of CSR on CFP

As the first question, interviewees were asked about their opinion on whether CSR activities cause better financial results of a company. They all answered ‘yes’ and their arguments are presented below. According to one interviewee,

“CSR activities do not cause better CFP directly, but indirectly through increased trust of stakeholders (employees, customers, etc.)”.

Others also added that reputation and image are channels through which positive effect of CSR on CFP is achieved. Additionally, investments into employees’ education can reduce the expenditures caused by contracting an external expert, and thus increase profitability. CSR activities have been associated with quality management since they include gathering feedback information from different stakeholders and responding to them. The result of responding to stakeholders’ feedback could be improved operations, and consequently improved profitability. For one company, the primary aim of conducting CSR activities is to be recognized as a reliable business partner and desirable employer. In a situation when the company is facing serious problems with adequate employees, CSR activities could contribute to the solutions and indirectly cause improved CFP. One interviewee emphasized the importance of using CSR activities as a promotion tool which indirectly leads to increased profitability. On the other hand, two interviewees said that the company performs CSR activities (e.g. donations to hospitals, sports clubs) without announcing this information to the general public. Moreover, they request that the name of the contributor is kept away from the public. In case of high level competition within the sector, especially in the international market, one interviewee emphasized the importance of consumer satisfaction for achieving profitability:

“CSR activities are more than just promotion tool, due to importance of consumer satisfaction”.

Direct effects have been identified as well. In some industry sectors, natural environment protection is a precondition for contracting new business deals and as such the precondition for survival on the market:

“The lack of natural environment protection (i.e. CSR activities) could result in company’s bankruptcy”.

In this way, CSR activities have a direct impact on CFP. Since this company is obliged to take care of the natural environment as a prerequisite for obtaining international contracts, they try to include similar provisions in the contracts they control. Several respondents stated that CSR causes better financial results, but to a lesser extent than the activities related to

the core business of the company. In addition, several respondents emphasized the long-term effect.

Effects of CFP on CSR

The second question related to reverse causality, i.e. whether better financial results cause CSR activities. Five out of six interviewees answered positively to this question. Their arguments are the following. The precondition for conducting some CSR activity is to have enough financial resources to carry it out. If the company faces with some financial difficulties, the non-obligatory activities (including CSR activities) will first be eliminated. One interviewee stressed out the increased interest of shareholders in company's finance, since the company is publicly listed:

“Due to public listing of company's shares, the shareholders' interest in financial performance is increased, i.e. finances are under close scrutiny”.

Better financial results mean that more financial resources could be allocated to CSR activities. These results are in line with Carroll's (1979) pyramid of CSR according to which economic responsibility (being profitable) is the core responsibility of a company as well as the basis for other responsibilities. One interviewee claimed that available financial resources are only a mean of conducting CSR activities, and because of that, there is no cause of CFP on CSR activities.

Causality between CSR and CFP

Since almost all interviewees responded positively to both previous questions, they were asked to assess the direction of the causality between CSR and CFP and to estimate in which direction the causality is stronger. Five of them stated that the causality running from CFP to CSR is stronger, while only one stated the opposite. The main argument for causality running from CFP to CSR can be summarized with words of one interviewee:

“More available financial resources (i.e. higher profitability), equals more money for CSR activities”.

Based on the results of qualitative analysis, it can be concluded that profitability maximization remains the main objective of running a business, and that CSR activities are considered only if financial performance of the company allows it.

2.5.4 Additional analysis

The focus of this study is on the effects of past profitability (year 2015) on current CSR activities (year 2016) and of the current CSR activities (year 2016) on future profitability (year 2017). Results of this analysis are presented in previous sections. However, while making the decision to allocate financial resources into CSR activities, managers also take into account current profitability since they as internal stakeholder have access to

information on financial results for shorter periods. Therefore, in this additional analysis profitability for 2016 has been considered as current profitability and its effects on current CSR have been analysed.

Results of testing the effects of the overall model considering the effects of current profitability on overall CSR activities are shown in Table 12. As evident, the effects of current profitability (ROE_2016) are positive and statistically significant (significance level = 5%). Positive effects of CSR activities on future profitability have been confirmed.

Table 12: Result of testing the overall models considering the effects of current profitability on CSR activities

Relationship	Path coefficient
CSR → ROE_2017	0.19*
ROE_2016 → CSR	0.14**
Size → CSR	-0.02
Stakeholder pressure → CSR	0.62*
Leverage → ROE_2017	-0.06
Innovativeness → ROE_2017	0.01
Abbreviations: CSR: Corporate social responsibility, ROE: return on equity	

* p<0.01; ** p<0.05; *** p<0.1

Source: Author's calculation

The effects of current profitability on CSR activities have also been tested at the level of sub-models, and the results are presented in Table 13. As can be noted, current profitability has positive effects on CSR activities toward customers and society (significance level = 5%) as well as employees and governments (significance level = 10%).

Table 13: Result of testing the sub-models considering the effects of current profitability on CSR

Relationship	Path coefficients and significance						
	Sub-models (stakeholders)						
	EMP	CUS	GOV	COM	NGOs	SOC	NE&FG
CSR → ROE_2017	0.16**	0.17*	0.10	0.16*	0.17**	0.15***	0.22**
ROE_2016 → CSR	0.13***	0.13**	0.16***	0.10	0.10	0.14**	0.10
Size → CSR	-0.12***	-0.09	-0.01	-0.18*	0.11	0.07	0.02
Stakeholder pressure → CSR	0.58*	0.46*	0.34*	0.49*	0.63*	0.54*	0.56*
Leverage → ROE_2017	-0.07	-0.07	-0.08	-0.08	-0.08	-0.06	-0.05
Innovativeness → ROE_2017	0.02	-0.01	-0.01	0.01	0.02	0.01	-0.00
Abbreviations: CSR: corporate social responsibility, EMP: employees, CUS: customers, SOC: society, COM: competitors, GOV: governments, NGOs: non-governmental organizations, NE: natural environment, FG: future generations; ROE: return on equity							

* p<0.01; ** p<0.05; *** p<0.1

Source: Author's calculation

2.6 Discussion and conclusions

This research aimed to contribute to the lingering debate on the nature of relationship between CSR and CFP by segregating overall CSR to CSR activities towards different stakeholder groups and by assessing the causality between CSR and CFP.

Table 14 contains summarized results of conducted quantitative analysis.

Table 14: Summarized results of testing the relationships between CSR and CFP

Tested effects	Short-term profitability (ROE)
Effect current CSR on near future CFP	Positive
Effect of past CFP on current CSR	-
Results of testing the effects of contingences on CSR activities	
Effects of stakeholder pressures on overall CSR activities	Positive
Effect of company's size on overall CSR activities	-
Results of testing sub models	
Effect of employee-oriented CSR on near future profitability	Positive
Effect of customer-oriented CSR on near future profitability	Positive
Effect of government-oriented CSR on near future profitability	-
Effect of competitor- oriented CSR on near future profitability	Positive
Effect of NGOs-oriented CSR on near future profitability	Positive
Effect of society-oriented CSR on near future profitability	Positive
Effect of natural environment and future generations oriented CSR on near future profitability	Positive
Results of testing the effects of control variables on CFP	
Effects of leverage on future CFP	-
Effects of innovativines on future CFP	-
<i>Note: Results were considered at significance level below 10%</i>	

Source: Author's summarization

At the overall CSR level, a positive effect of overall CSR activities on future CFP was detected. This suggests that being socially responsible pays off in terms of profitability, i.e. financial benefits of CSR outweigh the costs of CSR. Such results, obtained on a sample of Croatian companies, are in line with results for companies operating at global level (e.g. Rodgers, Choy and Guiral, 2013; Erhemjamts, Li and Venkateswaran, 2013; Škare and Golja, 2012) or in most developed countries of the world (e.g. Lin, Yang and Liou, 2009; Rettab, Brik and Mellahi, 2009). Just until thirty years ago, Croatia was part of a socialist state, which was characterized with high level of employees' rights protection, developed social policy and where philanthropic activities of companies were a common practice (Vrdoljak Raguž and Hazdovac, 2014). Considering these historical features, the

commitment of Croatian companies to CSR is not surprising. The important take out from this study however is that now it can be shown that this commitment is also financially beneficial.

Contrary to that, study failed to unanimously identify a positive effect of past CFP on overall CSR. While quantitative analysis does not reveal such a relationship at a statistically significant level, the majority of interviewees claimed that such relationship exists in their company. With such results at hand, it is difficult to conclude that past financial performance of a company in general leads to enhanced CSR, but it would also be premature to conclude that such relationship does not exist.

A possible explanation for this conflicting conjecture (from qualitative and quantitative analysis) may be that CSR activity is influenced more by current than by past financial performance. The re-specified quantitative model including current instead of past profitability indeed revealed a statistically positive relationship between current financial performance and current CSR levels.

The above explanation may also partially illuminate a similarly perplexing observation concerning the causality of the CSR – CFP relationship. While quantitative analysis suggests that current CSR influences future CFP while past CFP does not influence current CSR, the interviewees claim unanimously that causality runs from CFP to CSR. This conflicting observation is partially remedied when current CFP is considered instead of past CFP in the quantitative model. In other words, the causality apparently runs from current CFP to current CSR. It is more difficult to explain the conflicting conjecture concerning CSR–CFP causality. It is however possible that practitioners are not even aware of the benefits CSR activities are bringing to the company's bottom line.

In the overall model, the influence of alternative contingences on CSR was also tested. The only significant relationship has been identified for stakeholders' pressures. This is consistent with the finding made by Cadez, Czerny and Letmathe (2019) that stakeholder pressures are an important determinant of corporate socially responsible action. The other examined variable (size) does not appear to be influential factor for corporate CSR.

At the stakeholder group level, a statistically significant positive relationship between current CSR and future CFP for 6 of the 7 stakeholder groups appraised was identified. The only stakeholder group where a positive relationship has not been established at a statistically significant level is the government. Contrary to expectations, positive relationships have also been established for non-transacting stakeholder groups (NGOs, society) where a negative relationship was posited. Collectively, these findings suggest that CSR does not have an adverse effect on financial performance irrespectively of which stakeholder group is appeased by socially responsible action.

Somewhat surprisingly, the positive effect of current CSR on future CFP is strongest and most robust for the natural environment and future generations stakeholder group. This is surprising because these groups are both unable to influence financial performance directly via their economic choices. This finding suggests the presence of spillover effect, i.e. socially responsible actions toward these stakeholder groups are observed favourably by transacting stakeholders which can influence CFP directly via their favourable economic choices. As some authors argue, an improved environmental performance results with costs savings (e.g. avoiding penalties, reducing energy consumption) and increased sales (due to customers who prefer environmentally friendly products) (Schaltegger and Synnestvedt, 2002). Based on the results of this study, it can also be concluded that traditional point of view on the link between environmental performance and profitability, which suggests that improved environmental performance causes extra costs which at the result with reduced profitability, does not hold. Moreover, environmental management could be used as a tool for increasing profitability.

As it was the case for the overall model, the results of testing the effects of past profitability on CSR activities on the stakeholder level did not show any statistically significant relationship.

In line with the overall model, all sub-models also exhibit a statistically significant relationship between stakeholder pressure and CSR. Interestingly, size was also found to be influential for CSR in one sub model, but in an opposite direction than proposed. Namely, size has been found to negatively affect CSR activities toward competitors. For a smaller company it can be harder to deal with competitors and due to that they can use socially responsible actions to have good relationships with competitors more than larger companies.

Main takeaways of this study could be summarized as the following:

- Being socially responsible contributes positively to a company's financial performance
- The positive relationship between stakeholder group oriented CSR and CFP is most robust for the natural environment and the future generations stakeholder group
- It is current rather than past profitability that influences CSR positively
- The causality between CSR and CFP is still unclear.

Based on the obtained results, several contributions of this research can be identified. Taking into account the time dimension, a positive effect of CSR on CFP has been confirmed. As for the reverse relationship, it has been shown that the managers' decisions about CSR activities are driven by current profitability, and that past profitability is not a relevant driver of CSR activities. Although, quantitative research pointed out that effects of CSR on future profitability are stronger than the ones from past profitability to CSR, practitioners find this to be opposed. Evidently, practitioners are not aware of the contribution of CSR activities on profitability. Additionally, a company's profitability is not decreased by any stakeholder-

oriented CSR activities. Moreover, CSR activities oriented toward six out of seven stakeholders have positive effect on profitability. The strongest contribution to profitability is reported for the natural environment and future generations oriented CSR activities. Additionally, the positive effect on CFP has been reported for competitors and NGOs oriented CSR activities, stakeholders that are not commonly considered in stakeholder literature.

The managerial implication of this study is that socially responsible action is also in the economic interest of the company. Corporate managers are advised to invest resources into CSR activities as these will eventually pay off in terms of financial returns. This finding is consistent with the so-called ‘double dividend’ effect. With socially responsible action, companies contribute not only to the overall wellbeing of the society and to sustainable development, but also improve their financial performance.

The central limitation of this research is related to data. Small sample size can be identified as research limitation. Response bias could also be identified as limitation of this research since company’s representatives were asked to assess different statements regarding CSR, and they could provide incorrect answers in order to present their company as socially responsible, although it is not. Additionally, obtained responses on different CSR activities are quite high what can be due to the responders’ perceptions of CSR activities. The used questionnaire for CSR activities was adopted from previous literature, due to what the limited number of stakeholders was considered and some stakeholders groups have been left out of the model. The use of the questionnaire from previous literature is another limitation of this study. Additionally, the focus of this study was on short-term profitability, so long-term effect should be considered as well. CSR activities toward some stakeholders do not produce effects on short-term profitability since stakeholders could take some time to incorporate them into their decision and therefore to produce effects on profitability. Therefore, future direction of research on this topic should be focused on long-term effects.

3 VOLUNTARY CORPORATE SOCIAL RESPONSIBILITY REPORTING: WHO, WHAT AND WHY?

Abstract

Stakeholders seek information about the company's economic, environmental and social performance. While reporting financial information is mandatory in most jurisdictions, corporate social responsibility (CSR) reporting has been in the past, and for the majority of companies it will also remain in the future – voluntary. The objective of this exploratory research is the analysis of: (1) contingencies of voluntarily reporting companies, (2) content of CSR reports, (3) motives for voluntary CSR reporting, and (4) challenges met when preparing CSR reports. The research sample comprised 94 CSR reporting companies from Southeastern Europe for which a combination of archival and survey data was collected. Main findings are as follows. Concerning contingencies, size and sector matter – large companies and manufacturing companies are taking the lead in CSR reporting. As far as content is concerned, employees, customers, society, natural environment and issues regarding suppliers prevail in CSR reports. Leading motives for CSR reporting are building trust and informing stakeholders, while the main challenge of preparing CSR reports is related to data collection.

KEYWORDS: stakeholder theory, corporate social responsibility (CSR), corporate social responsibility reporting, Croatia, Slovenia, Serbia

JEL classification: M14, M41

3.1 Introduction

Stakeholders seek information about the company's economic, environmental and social performance. Reporting financial information has a long tradition and is mandatory in most jurisdictions. The recent shift from shareholder value maximization to stakeholder value maximization paradigm has also increased demand for environmental and social performance information. This information is often provided in corporate social responsibility (CSR) reports (Galant and Cadez, 2017).

In most jurisdictions, CSR reporting has been and will remain voluntary for the majority of companies. Although in the EU CSR reporting has become mandatory in 2017 with the introduction of Non-financial and Diversity Reporting Directive (2014/95/EU), this directive only holds for a relatively small number of companies. For the majority of companies, CSR reporting will remain voluntary also in the future. Unquestionably, CSR reporting is costly for the reporting companies, yet many companies do it voluntarily. This opens interesting questions regarding who is reporting voluntarily (contingencies), what is being reported (content), and why are they doing it (motives and challenges)?

As for contingencies, prior studies have identified size and sector as influential factors. Large companies are more engaged in CSR reporting (e.g. Tagesson, Blank, Broberg and Collin, 2009; Fortanier, Kolk and Pinkse, 2011; Michelon, Pilonato and Ricceri, 2015; Kiliç, Kuzey and Uyar, 2015) due to higher visibility and higher exposure to public pressure to disclose such information (Fortanier, Kolk and Pinkse, 2011). Concerning sector, Gamerschlag, Möller and Verbeeten (2011) found that companies from "polluting industries" have a higher level of environmental reporting, while Tagesson, Blank, Broberg and Collin (2009) found that "raw materials industry" discloses more social information than others.

Concerning content, voluntariness and a multitude of standards collectively define a low degree of standardization of CSR reports across sectors (e.g. Bonsón and Bednárová, 2015) and countries (e.g. Chen and Bouvain, 2009). Bonsón and Bednárová (2015) found that European companies mostly disclose corporate governance and environmental indicators and very few social indicators. Sweeney and Coughlan (2008) identified key stakeholders represented in CSR reports. These are employees, customers and environment.

As for motives, response to external stakeholder pressures is most widely quoted (Thorne, Mahoney and Manetti, 2014). Branco and Rodrigues (2008), for example, found that companies report to legitimise their behaviours to stakeholders and to influence reputation. Searcy and Buslovich (2014) grouped motives into three groups: "external pressures, internal pressures, and the opportunity to share the company's story". Searcy and Buslovich (2014) also identified challenges in CSR reporting, including data collection, time pressures and striking a balance in reported content.

While prior research has generated a body of knowledge concerning CSR reporting, this knowledge is rather fragmented as very few studies have explored the *who*, *what* and *why* questions in combination. The objective of this exploratory research is fourfold: (1) identification of contingencies of voluntary reporting companies, (2) analysis of the content of CSR reports, (3) exploration of motives for voluntary CSR reporting, and (4) detection of challenges faced with preparing CSR reports.

This research contributes to the existing body of knowledge in two important ways. First of all, it is one of the most holistic enquiries in the area of voluntary CSR reporting due to an integrated examination of contingencies, content, motives and challenges in CSR reporting within a cohesive study. Such enquiry is beneficial for our understanding of the rather complex interplay of different issues related to voluntary CSR reporting. The second contribution is related to a specific idiosyncratic context examined. To our knowledge, this is one of the first studies examining CSR reporting in Southeastern Europe, an interesting context that has recently undergone radical social change from socialist to market system (Cadez and Guilding, 2012).

The paper is organized in the following way. First, the theoretical background and literature review are presented and research questions have been developed on that basis. The next section contains the description of the applied methodology. The research results are presented, followed by a section on discussion and conclusions.

3.2 Theoretical background and literature review

3.2.1 Corporate social responsibility reporting

According to stakeholder theory (Freeman, 1984), “all stakeholders with a “stake” in or claim on the company should be taken into account while running a business” (in Melé, 2009, p. 62). Therefore, the only way for a company to survive in the market and to accomplish its strategic goals is by “creating wealth, value, or satisfaction” for stakeholders (Clarkson, 1995; Roberts, 1992). To do so, among other things, it is crucial to keep stakeholders informed. Such information could be disclosed through a variety of communication channels, including CSR reports. CSR reporting represents the most important tool for communication with stakeholders (Golob and Bartlett, 2007), through which companies present information about customers, community, the environment, employees and other issues (Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez, 2009). Such reports can offer valuable information to a larger group of stakeholders by explaining how a company answers “to the societal call for sustainable business conduct” (Hahn and Kühnen, 2013). Considering a large group of stakeholders interested in disclosed information, CSR reports have a wide range of users, both within the company (e.g. managers, employees), but also externally (e.g. customers, creditors, suppliers, NGOs, governments). While fulfilling information needs of stakeholders, CSR reports could

represent an effective tool to reduce the information asymmetry (Bonsón and Bednárová, 2015). Additionally, CSR reports can be useful for maintaining an appropriate balance between the interests of different stakeholder groups, which is essential for ensuring survival for the company (Shankman, 1999).

The key role in measuring, disclosing and assuring CSR information is on accounting profession (Huang and Watson, 2015) and corporate social (responsibility) accounting. By definition, corporate social accounting represents “the process of selecting companies level social performance variables, measures and measurement procedures; systematically developing information useful for evaluating the company’s social performance; and communicating such information to concerned social groups, both within and outside the companies” (Ramanathan, 1976, p. 519). As such, it represents the extension of traditional accounting reports by including “information about product, employee interests, community activities and environmental impact” (Mathews, 1995, p. 668). Corporate social accounting has been developing over the past decades, resulting in significant increase in the number of issued CSR reports (Dhaliwal, Radhakrishnan, Tsang, and Yang, 2012; Cho, Michelon, Patten and Roberts, 2015).

The CSR reporting is voluntary in most of the world’s countries. However, the trend of making it compulsory in the future is evident. For some companies operating in the EU member states, CSR reporting has already become mandatory by the introduction of the EU Directive on Non-financial and Diversity Reporting (2014/95/EU). In line with directive’s provisions, certain companies should disclose in their management report information on policies, risks and outcomes regarding environmental matters, social and employee aspects, respect for human rights, anti-corruption and bribery issues, and diversity in their board of directors (EU Parliament and Council, 2014). Only large public interest companies, exceeding the average number of employees of 500 are affected by this directive. Therefore, for the majority of companies CSR reporting will remain voluntary, despite the directive. The EU Directive is in force since 2017 and first mandatory reports should have been disclosed in 2018. Some countries like France, Denmark, Sweden, the Netherlands, Norway and the United Kingdom introduced mandatory CSR reporting requirements for some companies (Tschopp & Nastanski, 2014; FEE, 2016) even before the Non-financial Reporting Directive. Evidently, regulators are aware of CSR issues and the importance of its disclosure.

It is important to notice that information on CSR activities are often disclosed under different terms. Thus, CSR report, non-financial report, sustainability report, sustainable development report, social report, corporate citizenship report, environmental and social report, triple bottom line reporting, people-planet-profit report etc. (Perrini, 2006; Vitezić, Vuko and Mörec, 2012; KPMG, 2013) can be considered synonyms, since they all refer to social and/or environmental dimension of doing business. Additionally, Communication on Progress (COP) issued as a result of the company’s participation in the UN Global Compact includes

information on CSR. Additional to presenting CSR information in a separate stand-alone report, companies may, and often do, report these issues as part of their annual report. In that case, companies prepare integrated reports. Integrated report by definition represents “a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term” (IIRC, 2013). For purposes of this research, disclosure of social and environmental issues will be referred to as CSR reporting.

3.2.2 Contingencies of voluntary reporting companies

Considering the voluntariness of CSR reporting, it is interesting to determine who decides to prepare such reports. This could be due to some shared characteristics of companies (contingencies), like size or industry sector participation.

The size of a company can be a determinant of CSR disclosure. Large companies may be more prone to disclose due to larger number of stakeholders they take care of, but also because they have more resources to do so (employees, finance, etc.). Additionally, smaller companies may be able to communicate with their stakeholders more person-to-person, and in that case, they may not need CSR reports. Size has been identified as an important determinant of CSR disclosure in previous studies (e.g. Rao and Tilt, 2016; Gamerschlag, Möller and Verbeeten, 2011).

Additionally, industry sector can be an important determinant of CSR reporting. Within different industry sectors different stakeholders could be identified as important. Based on that, CSR reports will be designed in order to meet stakeholders’ information needs but also as a tool for managing stakeholder relationship. For example, labor-intensive companies may find employees to be the most important stakeholders, while capital-intensive companies will consider capital providers (shareholders, creditors) as the most important stakeholders. Another important issue for CSR disclosure could be public visibility of the industry, potential environmental impact or unfavorable public image. Namely, companies operating in such industries may be more prone to disclose CSR information (Branco and Rodrigues, 2008). In several researches, the industry effect has been identified to effect the disclosure of CSR reports (Holder-Webb, Cohe, Nath and Wood, 2009; Wanderley, Lucian, Farache and de Sousa Filho, 2008). Sweeney and Coughlan (2008) identified key stakeholders for different industry sectors (e.g. customers for the telecommunications industry, the natural environment for the automotive and oil and gas industries), and concluded that companies disclose information in line with the key stakeholders’ expectations. Companies operating in sectors most closely related to environmental concerns prepare high-quality disclosure (Brammer and Pavelin, 2008). These companies are aware of their potential to influence the natural environment and feel obligated to report such issues.

3.2.3 CSR reports content

Considering voluntariness and the low level of standardization, the content of CSR reports may differ since companies decide on their own what to disclose. Such differences may be due to company size (e.g. Reverte, 2009), industry sector (e.g. Bonsón and Bednárová, 2015) or country of origin (e.g. Chen and Bouvain, 2009). Additionally, differences can be a result of reporting standards implementation or participation in some international platforms, developed with the aim to enhance such reporting.

In order to promote CSR reporting, different global initiatives have been developed, in which companies can participate or implement developed guidelines or standards. The most important initiatives of this kind are the Global Reporting Initiative (GRI), the United Nations Global Compact, the ISO 26000, the AccountAbility's AA1000 standard, the OECD Guidelines for Multinational Enterprises and the European Commission's guidelines on non-financial reporting.

Global Reporting Initiative (GRI) is an international organization aiming to promote sustainability/CSR reporting (Global reporting Initiative, n.d.). Through years of operating, they have developed several versions of reporting standards in collaboration with stakeholders. The latest version of standards (launched in 2016) has the goal of integrating economic, environmental and social aspects into one report. The overall GRI standards in their latest version are divided into: universal and topic-specific standards. Universal standards provide guidelines on how to disclose general information, while topic-specific standards include detailed guidelines for disclosing economic, environmental and social issues. Standards are available free of charge.

The UN Global Compact represents “a leadership platform for the development, implementation and disclosure of responsible and sustainable corporate policies and practices” (UN Global Compact, 2015). Participants are required to adjust their operation in line with 10 principles in the area of human rights, labour, environment and anti-corruption. Additionally, participants are obligated to annually report on progress made in a form of report called Communication on Progress (COP), which represents a CSR report.

ISO 26000 represents a standard issued by the International Organization for Standardization intended to provide guidelines on how business can operate in a socially responsible way (ISO, 2018). Although its main aim is to help business address socially responsible issues, it also includes an external reporting and communication component (Tschopp and Nastanski, 2014). Therefore, among other, it encourages companies to report on CSR issues.

AccountAbility's AA1000 standards represent the principles-based standards to help organization “demonstrate leadership and performance in accountability, responsibility and sustainability” (AccountAbility, 2018). It includes series of standards: Principles

Standard (AA1000APS), Assurance Standard (AA1000AS) and Stakeholder Engagement Standard (AAA1000SES). Principles Standard represents the basic standards to identify, prioritise, measure and respond to sustainability challenges. Assurance Standard represents the methodology for evaluating compliance with principles, while Stakeholder Engagement Standard represents the framework to help companies engage with stakeholders.

OECD guidelines for multinational enterprises “provide voluntary principles and standards for responsible business conduct consistent with applicable laws” (OECD, 2008). Among other things, these guidelines encourage companies to implement standards for non-financial reporting (CSR reporting) which should include information on environmental and social issues.

The main purpose of the European Commission Guidelines on non-financial reporting is to provide instructions to companies in order to comply with the provision of Non-financial and Diversity Reporting Directive. Guidelines provide six sets of principles (disclose material information; fair, balanced and understandable; comprehensive but concise; strategic and forward-looking; stakeholder oriented; consistent and coherent) for which examples and KPIs (Key Performance Indicators) are suggested. In addition, guidelines suggest different themes to be considered in the CSR report (environmental matter, social and employee matter, and respect for human rights, anti-corruption and bribery matter, other (supply chain, conflict minerals)). Although these guidelines are developed for the purpose of meeting the requirements of Non-financial and Diversity Reporting Directive, they are non-binding and companies may prepare their non-financial (CSR) report based on some other standards or guidelines.

As evident, some of the previously mentioned initiatives are principles-based (e.g. the UN Global Compact, AccountAbility's AA1000), while some are guidelines-based (e.g. GRI). Tschopp and Nastanski (2014) explored different guidelines/standards/principles and suggested that GRI would represent the best standard solution for CSR reporting.

Considering the difference between such guidelines/principles, it is reasonable to assume the differences in CSR reports prepared by their implementation. Such differences can be manifested in different stakeholders' representation in CSR reports. For example, the last version of GRI standards provides guidelines for disclosing information mostly about the natural environment, investors, suppliers, employees, society and customers. The ten principles of UN Global Compact call for consideration mostly of society, employees and the natural environment. The European Commission Guidelines on non-financial reporting call for consideration of the following stakeholders (as appropriate): investors, employees, consumers, suppliers, customers, local communities, public authorities, vulnerable groups, social partners and civil society (European Commission, 2017). For example, Chen and Bouvain (2009) found that participation in the UN Global Compact Initiative has an impact on CSR reporting, but only in some aspects of it (i.e. environment issues and workers issues).

Apart from depending on the standards/guidelines implemented, the content of CSR reports may depend on stakeholders identified as important and toward which information in CSR report are directed. Different companies find different stakeholders important for their business, i.e. not all stakeholders are equally important for all companies. The more important the stakeholder is for the company, the more effort will the company devote to keeping good relations with that stakeholder (Pérez, López and García-De los Salmones, 2017). The same goes for reporting. As it was previously noted, the importance of stakeholders may differ among industry sectors. Additionally, Jawahar & McLaughlin (2001) showed that the importance of stakeholders depends on the life cycle stage of a company. Depending which stakeholders are important for the given life cycle stage, the CSR reporting should be adequately adjusted. Although a larger group of stakeholders should be represented in the CSR reports preparation and in its content, companies may focus solely on some stakeholders they find important (Manetti and Toccafondi, 2012). In CSR literature, four major themes/stakeholders dominate: the natural environment, employees, community (society) and customers (Kotonen, 2009). Domination of these themes is not surprising since these stakeholders are all considered as primary ones, without whose participation in business activities the future of a company is questionable. Empirical evidence suggests that the representation of stakeholders in CSR reports is related to industry sector and that manufacturing companies emphasize natural environment issues, while service sector concentrates on employees (Kotonen, 2009). According to Arvidsson (2011), employees-related information are in focus of CSR reports nowadays.

3.2.4 Motives of voluntary CSR reporting

Considering the predominant voluntariness of CSR reporting, an important question is why companies prepare such reports, although they are not obligated to do so? One possible answer can be linked to the stakeholder theory claim that one of the main objectives of the company is to balance “the conflicting demands of various stakeholders” (Roberts, 1992, p. 597), and CSR reporting can be a useful tool in this process. In addition, stakeholder theory argues that “corporate disclosure is a management tool for managing the informational needs of the various powerful stakeholder groups” (Reverte, 2009, p. 353). All motives for preparing and disclosing CSR reports directly or indirectly are related to maintaining good relationships with stakeholders, which is essential for business survival on the market.

Based on literature review, Crane and Glozer (2016) summarized the following main purposes of CSR communication/reporting: stakeholder management, image enhancement, legitimacy and accountability, attitude and behavioral change, sense-making, and identity and meaning creation. Branco and Rodrigues (2008) identified three main motivations for companies to engage in CSR activities and disclose it: (1) expectation of good relationships with stakeholders which will lead to increased financial performance through the development of intangible asset; (2) fulfilling the stakeholder norms and expectations about how business operations (constituting a legitimacy instrument) should be performed; (3)

meeting the managers' personal values aligned with CSR values. Based on the research of UK companies, Idowu and Papasolomou (2007) summarized the reasons for issuing CSR report into following groups: corporate reputation, stakeholder pressure, economic performance, genuine concern and broad social/cultural reasons.

As evident, motives could be different, including the ones related to economic performance, managerial characteristics, stakeholder pressure and corporate citizenship.

Motives related to economic performance

Economic motives for CSR disclosure are related to the expectation of positive effects on financial performance. CSR reports could be useful in enhancing employee awareness and engagement, increasing team spirit, drawing visibility to employees' activities, but also to engage new employees (Searcy and Buslovich, 2014). In such a way, employee productivity could increase and financial benefits could be expected. Research by Bartels, Iansen-Rogers and Kuszewski (2008) showed that a majority of readers developed a more positive opinion on the company after reading the sustainability/CSR report and more than 50% of respondents said they wanted to buy a product or service of that company. Therefore, CSR reports could result in increased sales revenues by improving customers' willingness to buy a product/service and by creating a more positive opinion about the company (i.e. improving reputation).

CSR reporting could also improve the competitive advantage of the company. Based on CEO's beliefs, Craighead, Hartwick and Cote (1998) stated that "voluntary disclosure affects the company's competitive advantage by increasing share liquidity and lowering the company's cost of capital". Nikolaeva and Bicho (2011) claim that non-reporting companies "may feel that they would be left at a competitive disadvantage" unless they start preparing CSR reports as their rivals do. Dhaliwal, Radhakrishnan, Tsang and Yang (2012) have shown that companies experience lower costs of capital by initiating CSR disclosure. Having lower costs of capital represents a competitive advantage for a company. While discussing the potential effects of CSR reporting on financial performance, it is important to bear in mind that the process of implementing and developing CSR reporting in a company is not simple and that it represents a multi-step (Contrafatto, 2014), long and arduous process, since multiple stakeholder issues need to be taken into consideration (Tschopp and Nastanski, 2014). Due to that, significant costs may accrue (Nikolaeva and Bicho, 2011). However, these costs should be treated as an investment since CSR reporting could result in a large set of benefits outweighing related costs.

CSR reporting can also be used in an attempt to manage reputation risk (Bebbington, Larrinaga and Moneva, 2008). According to GRI Chief Executive, Michael Meehan, CSR/sustainability reports help companies "identify their risks related to important issues,

like human rights, the environment, labor and other social issues” (Kiron and Kruschwitz, 2015). Being conscious of potential risks on time helps in managing them.

To summarize, CSR reporting can help companies obtain quality and motivated employees, satisfied customers ready to buy the product/service again, decrease cost of capital and manage risks in a better way. All of this could result in economic benefits for reporting companies.

Motives related to managerial characteristics

Regarding the managerial characteristics as a driver of CSR disclosure, top management commitment is essential. Based on longitudinal observation, Campbell (2000) observed variability in social disclosure between chairmen’s terms within company. Therefore, the decision to disclose the CSR report and its content is subjected to top management attitudes. Some companies have special CSR committees in charge of CSR activities and its disclosure. The decision to establish such a committee is usually made by company’s top management. An early study of Cowen, Ferreri and Parker (1987) found that the presence of CSR committee is related to the disclosure of CSR information, but solely those related to employee issues. According to Adams (2002), internal context of a company, including different processes (company chair and board of directors, corporate social reporting committee, corporate structure and government procedures, extent and nature of stakeholder involvement, extent of accountants’ involvement) and attitudes (views on CSR reporting development, reporting bad news, reporting on the future, regulation and verification, perceived costs and benefits, corporate culture) can influence CSR reporting. Perrini (2006) found that companies are using CSR reports as an “opportunity to check corporate strategic positioning, to redefine their mission and values, to evaluate progresses, to reorient corporate action, and to manage relationships with stakeholders”.

Motives related to stakeholder pressure

Stakeholders require additional information other than those contained in financial reports. CSR disclosure represents a key tool for communication with stakeholders and to prove that their expectations are fulfilled (Branco and Rodrigues, 2008). As such, they can pressure the company to issue CSR report but they can also influence its content. This pressure is manifested in the fact that stakeholders are users of CSR reports and they do attempt to influence companies’ reporting practices (Tilt, 1994).

For example, investors interested in CSR investments require access to information which are not provided by the traditional financial statements (Holder-Webb, Cohe, Nath and Wood, 2009). In line with investors’ information needs for CSR information, Jagd (2014) summarized the following characteristics of CSR information meaningful to investors: information must be quantified, information must be standardized, information must be

easily accessible and information must be verifiable and of the same quality as financial information. Furthermore, Teoh and Shiu (1990) stated that the investor would find social responsibility information useful if they were presented in a “quantified, financial form and focused on product improvement and fair business practices”. Therefore, investors or financiers have a critical role in determining the CSR reporting (Chen and Bouvain, 2009). Customers’ awareness and intention to buy a product/service can be influenced by CSR activities, only if they are aware of such activities (Pomeroy and Dolnicar, 2009). Every decision-making process, including decision (not) to buy a product/service, requires information. According to Schuler and Cording (2006), there is a positive connection between the CSR information diffusion and likelihood that this information will reach the existing and potential customers. One way of informing customers about CSR activities is through reporting. Turban and Greening (1997) found that higher score in CSR improves attractiveness of company as employer. Thus, employees can pressure companies to disclose CSR report. Based on information from CSR reports, employees can make the decision to change, or remain at current workplace. This is especially significant in highly labor-intensive industry sectors, such as tourism. Additionally, Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez (2009) found that certain stakeholders (government and creditors) have important effect on the disclosure of a CSR report.

Because of stakeholder pressure, CSR reports of improved quality and transparency could be expected (Fernandez-Feijoo, Romero and Ruiz, 2014). In line with this, Sinclair-Desgagné and Gozlan (2003) have shown that worried stakeholders could force a company to invest more resources into environmental disclosure and disclose such information. Similarly, Liesen, Hoepner, Patten and Figge (2015) found that companies report on GHG emission in order to respond to external stakeholder pressure. Stakeholders are also important for CSR reporting assurance due to their supervisory role in checking information contained in such reports (Manetti and Toccafondi, 2012).

Motives related to corporate citizenship

Companies make part of society, i.e. they can be considered as corporate citizens. Motives for disclosure of CSR reports could be connected with considering companies as “corporate citizens” within society. In a case of social responsibility disaster, an involved company may use CSR activities and CSR reports in an attempt to mitigate negative effects. In line with socially irresponsible behavior, Grougiou, Dedoulis and Leventis (2016) found that so-called “sin” companies (companies operating in alcohol, tobacco, nuclear energy, gambling, and firearm sector) are more likely to disclose CSR reports. They feel that by being active in CSR activities and disclosing it, they compensate for the negative effects they have caused on society with their business activities. CSR disclosure can be a valuable tool for enhancing corporate reputation or returning lost reputation. In line with this, Hahn and Kühnen (2013) claim that CSR reporting could be used as impression management tool to improve company’s reputation by canceling negative activities and issues. According to Branco and

Rodrigues (2008), CSR disclosure influences external perception of company's reputation, which can improve the relationship with stakeholders. Pérez (2015) has found that CSR reporting has a positive effect on corporate reputation. According to Bebbington, Larrinaga and Moneva (2008), "suggestion that CSR reporting could play some role in reputation risk management seems to be plausible, but clearly not generalizable".

3.2.5 Challenges of preparing CSR reports

The process of preparing and disclosing CSR reports in a company is not simple. Moreover, it represents a multi-step (Contrafatto, 2014), long and arduous process, since multiple stakeholder issues need to be taken into consideration (Tschopp and Nastanski, 2014). Entire process requires time and resources (financial, human, organizational, etc.). Additionally, the preparation of CSR reports could overlap with the preparation of obligatory financial reports, the process of data collection could be complex (data need to be verified and some of them collected from external stakeholders), a large pool of data could be collected among which proper information should be chosen for the final reports with limited space, negative information could be obtained and the decision whether or not to disclose them should be made, etc. (Searcy and Buslovich, 2014). All of this represents potential challenges that companies may face while preparing CSR reports.

The process of CSR reports preparation and disclosure could result in some additional costs, but will also require some time. Cost of CSR reporting could include employees costs, costs of data collections and verification, costs of contracting external experts, costs of editing, etc. Therefore, costs can also be considered as one challenge of CSR reporting. Additional costs of adjusting (upgrading) current information system needed to collect and manage CSR data should also be considered. However, both costs and time needed to prepare CSR reports will depend directly on the report's content and length. It is not the same to prepare a report of several pages, covering issues related only to some stakeholders and to prepare reports of more than 100 pages, covering issues of a larger number of stakeholders. Therefore, costs and time should be analysed considering the length of the report.

3.2.6 Research questions

As elaborated in previous sections, it is important to determine the contingencies of companies' voluntary preparing CSR reports (i.e. who is reporting voluntarily), explore its content (i.e. what is being reported) and identify the main motives and challenges of CSR reporting (i.e. why are they reporting). Therefore, in line with the objectives of this paper, an attempt to provide answers to the following research questions will be made:

RQ 1: Who is voluntarily reporting on CSR?

RQ 2: What is being reported in voluntary CSR report?

RQ 2.1: Which stakeholders are most commonly represented in CSR reports?

RQ 2.2: Which reporting standards do companies use for preparing CSR report?

RQ 3: Why do companies voluntarily report on CSR?

RQ 3.1: What are the motives for preparing CSR report?

RQ 3.2: What challenges do companies face while preparing CSR report?

RQ 3.3: How much money and time do companies spend to prepare CSR report?

3.3 Research design

3.3.1 Sample

For purposes of this study, companies reporting on CSR issues have been considered. Research sample included companies from Croatia, Slovenia and Serbia; three small, ex-socialistic European countries. Sources of these reports were GRI database, the UN Global Compact participants search and Croatian Business Council for Sustainable Development (for Croatia). GRI database and the UN Global participants search contain issued CSR reports by country. Croatian Business Council for Sustainable Development contains a list of CSR reports issued by Croatian companies. Mostly, it includes the same reports as GRI database and the UN Global Compact participants search, but also some additional reports not included in these databases. From these databases, companies that issued a CSR report addressing 2010 to 2016 have been identified. Reports addressing CSR issues for 2017 and afterwards were not considered, since for some companies the disclosure of such reports has become mandatory (Non-financial and Diversity Reporting Directive). Companies disclosing reports issued by their parent company overseas were not considered for this research, since they were not directly involved in the process of CSR reports. Additionally, companies taking part in the UN Global Compact and reporting very limited information about progress made (e.g. 3 sentences in total) were excluded from the sample since they cannot be considered as reporting companies. Non-profit companies were also excluded from the sample. Final sample consisted of 94 companies in total, of which 44 are from Croatia, 19 from Slovenia and 31 from Serbia.

Regarding the demographic data of the responders, their job position, level of education and year of birth have been considered. It should be noted that not all responders provided their demographic data. Almost all responders have managerial functions within a company. All responder have at least a faculty degree and the average age of responders is 47.

3.3.2 Method

In order to answer the first research question, i.e. determining who is voluntarily reporting on CSR (contingencies), all companies included into the sample were considered (94). Industry sector and size for all reporting companies were considered. Data were analyzed with descriptive statistics.

Second research questions were assessed with content analysis of the issued report. The main aim of the content analysis was to determine which stakeholders were identified as important by companies and according to which information are disclosed. The first step was to determine which stakeholders would be considered. These were the following: employees, customers, competitors, suppliers, governments, society, natural environment, future generations, NGOs and shareholders. In the next step, reports have been carefully examined to identify what companies are reporting and which stakeholders are represented in the reports. Additionally, implemented guidelines/standards for CSR reporting have been identified. Reports from all companies included in the sample (94 companies in total) were subjected to content analysis. Reports submitted to content analysis were written in English, Croatian, Serbian or Slovenian language. Author who conducted content analysis is Croatian native speaker and fluent English speaker. Croatian and Serbian are similar, so there were no problems for the author to understand Serbian language. Only one report was in Slovenian, for which a native speaker was consulted.

For the needs of the remaining research questions, an online questionnaire was developed and distributed to reporting companies. Based on previous studies (Thorne, Mahoney and Manetti, 2014, GRI initiative, n.d, Deloitte, n.d., Idowu and Papasolomou, 2007; Branco and Rodrigues, 2008), a pool of different motives for disclosing CSR reports has been generated. From the generated pool of motives, 18 of them were selected for the purposes of this research. Respondents were asked to indicate the importance of each one on a 5 point Likert scale (*1 – not important at all, 5 – very important*). Motives for disclosing CSR report are organized in four groups: economic motives, managerial characteristics, stakeholder pressure and corporate citizenship. To determine the main challenges that companies could face while preparing CSR reports, 6 challenges (based on Searcy and Buslovich, 2014) were listed and respondents were asked to indicate the level of significance of each challenge (*1 – not significant at all, 5 – very significant*). In addition to suggested motives and challenges, an open question was included so respondents could give some additional response not previously included. Questionnaire also included questions regarding the length of last report, when the first report was issued, time needed to prepare the report and the estimation of reporting costs. Questionnaire was developed in English and for purposes of data collecting it was translated in Croatian, Slovenian and Serbian. Translation was conducted by author in consultation with native speakers of a particular language. Final translation was also checked by experts fluent in both languages. The full questionnaire can be found in Appendix 4.

The online questionnaire was distributed via e-mail to all companies reporting on CSR (94 in total) during October and December 2017. Several reminders were sent. Data collection resulted in 33 useful responses (2 are partially completed), which represents a response rate of 35%. Collected data were analysed with descriptive statistics. Table 15 contains information on response rate by country.

Table 15: Response rate based on countries included

Country	Total number of companies reporting	Responses	Response rate
Croatia	44	21	48%
Serbia	31	6	19%
Slovenia	19	6	32%
TOTAL	94	33	35%

Source: Author's calculation

Data on motives were obtained from all 33 companies, while data on challenges were obtained from 31 companies. Additionally, useful data on estimated time were obtained from 31 companies and on estimated costs from 29 companies.

3.4 Research results

3.4.1 Results of who is reporting voluntary on CSR

The first objective of this research was to determine the contingencies of companies voluntarily reporting on CSR issues in three selected countries. Sizes of company and industry sector were considered. Regarding the criteria for classification of companies by size in three considered countries, there is no significant difference. Table 16 presents information about the size of reporting companies by country. As evident, the majority of reporting companies are large-sized (70%). The share of medium-sized companies in the total number of reporting companies is 15%, while the share of small companies is 12%. Only 3 micro companies disclose CSR report (3%). There is no evident difference between countries, since large companies dominate in all of them. It is interesting to note that all three micro companies are from Serbia, and that no small or micro company reports on CSR issues in Slovenia. Having these results in mind, it can be concluded that size is an important determinant of CSR reports disclosure.

Table 16: Reporting companies by size and country

Size	Croatia	Serbia	Slovenia	Total
Micro	0	3	0	3
Small	9	2	0	11
Medium-sized	5	7	2	14
Large	30	19	17	66
Total	44	31	19	94

Source: Author's research based on Croatian Chamber of Economy (2017) Agency of the Republic of Slovenia for Public Legal Records and Related Services (2018) and Agency for Business Registers (2018)

If the number of the reporting companies by size is compared with the total number of companies within the size classes, the conclusion that larger companies are more prone to

disclose CSR report is confirmed. The share of micro, small and medium-sized companies in the total number of companies within the corresponding size class is below 1% in all three countries. Despite the low share of large companies in the total number of companies, they are leading in CSR reporting. In Croatia 5,4% of large companies disclosed CSR report, in Slovenia 5% while in Serbia 3.8% (Croatian bureau of statistics, 2017, Statistical office of the Republic of Serbia, 2017, Statistical Office of the Republic of Slovenia, 2019).

The second influential factor of voluntary reporting explored by this research is industry sector. Table 17 contains information on the industry sector of reporting companies by countries. Considering all reporting companies, most of them operate in manufacturing sector (38%), followed by financial and insurance activities (20%). However, situation by countries is a little bit different. Manufacturing sector companies dominate in Croatia and Slovenia, while in Serbia financial and insurance companies dominate. Considering diffusion among sectors, reporting companies in Serbia are distributed in 8 industry sectors, in Croatia in 7, while in Slovenia they are least diffused, since only 5 industry sectors are represented. It can be noted that some industry sectors are not represented at all.

Table 17: Reporting companies by industry sector and country

Sector	Croatia	Serbia	Slovenia	Total
Mining and quarrying	0	1	0	1
Manufacturing	21	7	8	36
Electricity, gas, steam and air conditioning supply	2	0	0	2
Water supply; sewerage, waste management and remediation activities	0	1	0	1
Construction	2	0	0	2
Wholesale and retail trade; repair of motor vehicles and motorcycles	0	1	3	4
Transportation and storage	0	0	2	2
Accommodation and food service activities	2	0	0	2
Information and communication	5	6	1	12
Financial and insurance activities	4	10	5	19
Professional, scientific and technical activities	8	3	0	11
Administrative and support service activities	0	2	0	2
Total	44	31	19	94

Source: Author's research based on Croatian Chamber of Economy (2018) Agency of the Republic of Slovenia for Public Legal Records and Related Services (2018) and Agency for Business Registers (2018)

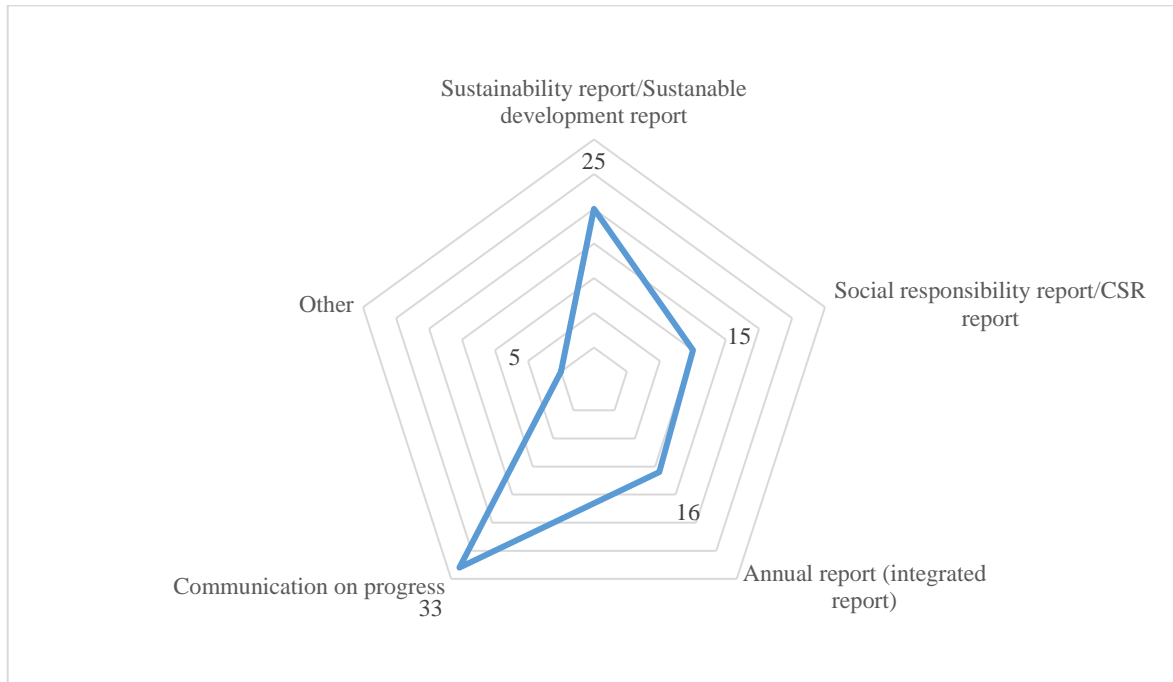
Manufacturing sector is among the biggest sectors (considering the number of companies) in all three countries; therefore it is not surprising that numerous companies coming from this sector disclose CSR reports. Other reason for large number of companies reporting on CSR from manufacturing sector is due to high potential to influence the society and environment, and domination of labor intensity.

If the number of reporting companies by sectors is compared with the total number of companies operating within the sector, results are a little bit different. In almost all industry sectors and in all countries less than 1% of companies discloses CSR report. The only exception is the Financial and insurance activities sector in Serbia where 1.68% of the sector companies is reporting on CSR (Croatian bureau of statistics, 2017, Statistical office of the Republic of Serbia, 2017, Statistical Office of the Republic of Slovenia, 2019). In all the considered countries, the highest percentage of reporting companies is reported for the Financial and insurance activities sector. Interestingly, the Financial and insurance activities sector is not among the biggest sectors in none of the three countries. The high representation of Financial and insurance companies in CSR reporting could be due to the high customers' orientation of the sector and using such reports as a promotion tool.

3.4.2 Results on what is being voluntarily reported in CSR reports

As mentioned before, for the purpose of exploring second research questions, content analysis of 94 CSR reports has been conducted. Due to the low level of standardization of this segment reporting, companies use different titles for their reports. Titles of reports can be grouped in five groups: Social responsibility reports/CSR reports, Sustainability reports/Sustainable development reports, Annual reports (integrated reports), Communication on progress (result of participating in the UN Global Compact) and other. As evident from Figure 4, Communication on progress is most commonly used, followed by Sustainability reports/Sustainable development reports. Observed by country, in Croatia sustainability reports dominate (16 out of 44), in Slovenia integrated annual reports (13 out of 19) and in Serbia communication on progress (16 out of 31).

Figure 4: Titles of reports on CSR issues



Source: Author's calculation

The main aim of content analysis was to determine which stakeholders are identified as important by companies. Based on the amount of information disclosed, the most important stakeholders are employees, natural environment, customers, society (community) and suppliers. At the same time, other stakeholders are represented in smaller extent, or not represented at all. Such results are not surprising given that employees, customers and suppliers are all representatives of primary transacting stakeholders, important for economic rents of a company. Lately, there is a trend of promoting natural environment protection through different laws and campaigns due to its importance for future operations. Therefore, it is not surprising that companies tend to reduce their negative environmental impact and disclose on it. By engaging in and disclosing on CSR issues regarding society, companies can reach a wide audience of current and potential employees, customers and suppliers. Table 18 contains the most frequently disclosed issues, grouped by stakeholders.

Table 18: Most frequently disclosed information in CSR reports by stakeholder group

Stakeholder group	Disclosed information
Employees	<ul style="list-style-type: none"> - Education and training - Workplace safety and health - Non-discrimination, diversity, equal opportunities and decent work - Employees turnover - Employees structure by age, education, sex - Child labour - Collaboration and communication with trade union(s) and the existence of collective agreements - Enabling work-life balance - Financial and non-financial motivation - Additional pension benefits, care of retired employees
Customers	<ul style="list-style-type: none"> - Customer health and safety - Loyalty programs and social events for customers - Mystery shopping research - Customer education - Research on customer satisfaction - Transparency of charging - Marketing communication - Complaints management and information on complaints number - Total product age management - Accessibility of company's premises/products/services for disabled persons
Natural environment	<ul style="list-style-type: none"> - Commitment to natural environment protection - Waste, water, energy and emissions management - Protection of biodiversity - Use of alternative fuels - Reduction of paper use ("paperless accounting program" and "paperless office program") - Remediation of land after exploitation - Investments into new, more environmentally friendly equipment - Reduction of noise and light pollution

(table continues)

(continued)

Stakeholder group	Disclosed information
Society	<ul style="list-style-type: none"> - Structure and the amounts of sponsorships and given donations - Collaboration with schools and the academic community, - Support for youth education (scholarships and practice) - Promotion of volunteerism - Foundations - Open doors days - Complaints management - Local society preferences (local partner, products, employees, etc.) - Support and promotion of (female) entrepreneurship - Organizing winter and summer camps - Assistance for disabled persons - Anti-corruption issues and audit of partners for money laundering and financing of terrorism issues
Suppliers	<ul style="list-style-type: none"> - Procurement practices (tendency to work with local suppliers and local inputs) - Suppliers evaluation in field of compliance with the law, CSR and anti-corruption issues (suppliers audit) - Collaboration with suppliers - Supplier education - Day of suppliers
Governments	<ul style="list-style-type: none"> - Collaboration regarding scholarships and on CSR projects (e.g. helping citizens with financial difficulties) - Consultations with Governments and the EU Commission on different issues
NGOs	<ul style="list-style-type: none"> - Membership in different professional associations - Collaboration through different projects aiming to increase the overall well-being of society - Collaboration in humanitarian actions and in resolving sector issues - Financial support and education
Competitors	<ul style="list-style-type: none"> - Support and promotion of fair market competition - Collaboration on CSR projects and through membership in different NGOs
Shareholders	<ul style="list-style-type: none"> - Investors day - Informing the investors (economic performance and future plans) and communication channels - Equal treatment - Risk management
Future generation	<ul style="list-style-type: none"> - Plans for future activities

Source: Author's summary

As for implemented guidelines for preparing CSR reports, GRI standards are mostly used. The widespread use of GRI standards by Croatian companies may be due to the availability of the most commonly used version of the guidelines (G4) in Croatian language. Considering the similarities of Croatian and Serbian language, the previous notion can be used to explain the adoption of GRI standards by Serbian companies as well. A large number of companies are participating in the UN Global Compact, which requires from companies to disclose certain information but without specifying any standards or guidelines. Compared to GRI guidelines, the UN Global Compact is less demanding (in terms of required disclosures), and therefore it is easier for companies to implement it. Additional to GRI standard and report on the UN Global Compact principles implementation, companies use their own guidelines or the guidelines of their parent company, ISO 26000, EMAS (Eco-Management and Audit Scheme), IIRC (International Integrated reporting Council) framework, Non-financial and Diversity Directive as well as industry specific guidelines. With these results, the claim of Tschoopp and Nastanski (2014) that GRI guidelines would represent the best global standards for CSR reporting is confirmed.

What can also be identified from the content analysis is that CSR reports are shaped in accordance with guidelines used to prepare them. Reports prepared by using GRI standards are more detailed and cover more CSR/sustainability issues (i.e. stakeholders) than COP reports prepared because of the participation in the UN Global Compact platform. The COP reports mostly cover issues related to employees, the natural environment and society (community), which is not surprising since the principles cover the area of human rights, labor, environment and anti-corruption. In addition, some reports are prepared in line with both initiatives covering the requirements defined by GRI and the UN Global Compact.

Related to the content of CSR reports is their verification or assurance. The external verification of CSR reports could lead to benefits for a company, such as: increased recognition, trust and credibility; reduced risk and increased value, improved board and CEO level engagement, strengthened internal reporting and management systems and improved stakeholder communication (Global Reporting Initiative, 2013). However, there are a lot of challenges that need to be resolved in further development of CSR reports assurance, including determining the level of assurance, the role and responsibilities of external expert, relation with financial audit, compliance with national regulations, relevance and materiality of disclosed information and the involvement of external stakeholders into the verification process (Manetti and Becatti, 2009). Therefore, further efforts are required in CSR reports verification. On a global level, the external insurance of CSR reports is mostly provided by major financial auditing companies (the Big Four) (Sethi, Martell and Demir, 2017).

The external verification presence of CSR reports included into the research sample was also conducted. The results have revealed that only a small number of reporting companies in Croatia, Serbia and Slovenia externally verify their CSR reports. More precisely, only 15 companies (9 from Croatia, 5 from Serbia and 1 from Slovenia) have included an external

verification statement into CSR report. The external verification for Croatian companies was conducted by the Management board of Croatian Business Council for Sustainable Development (non-profit organization for promotion of sustainable development in private sector). Additionally, one company provided a verification statement from a University professor and the auditing company Ernst & Young for part of the report. The verification of CSR report for one Slovenian company was carried out by the Slovenian Institute of Quality and Metrology, while the verification of CSR reports for Serbian companies was done by the auditing companies KPMG or Ernst&Young.

3.4.3 Results on motives for CSR reporting

The central focus of this paper is on motives why companies prepare CSR reports and disclose them. As stated earlier, these information were collected through questionnaire and responses from 33 companies were obtained. Table 19 contains the summary results of motives driving companies to disclose CSR reports. Although all results are similar and their mean ranges from 3.69 to 4.73, it is possible to identify the leading motive and the least important motive for preparing and disclosing CSR report.

Table 19: Motives for preparing and disclosing CSR reports

Motive	N	Mean value (min 1, max 5)	
ECONOMIC REASONS			
To improve efficiency and process management	32	4.28	4.22
To manage risk	31	4.42	
To attract quality employees	33	4.15	
To maintain satisfied employees	33	4.18	
Positive effect on company's financial performance	33	3.85	
To improve company's competitive advantage	33	4.45	
MANAGERIAL CHARACTERISTICS			
Top management commitment	33	4.33	4.30
Progressing vision and strategy	33	4.27	
STAKEHOLDER PRESSURE			
To inform stakeholders that the company has a policy of corporate transparency (management that has nothing to hide)	33	4.61	4.41
To signal to stakeholders that the company is interested in social responsibility	33	4.64	
To respond to stakeholder pressure	31	3.84	
To inform stakeholders about company’s economic, social and environmental performance and progress made	33	4.70	
To stay ahead of (potential) future regulatory requirements	32	4.06	
To enhance relationships with stakeholders	32	4.59	

(table continues)

(continued)

Motive	N	Mean value (min 1, max 5)	
CORPORATE CITIZENSHIP			
To mitigate effects associated with company’s social responsibility disaster	32	3.69	4.42
To enhance reputation	33	4.67	
To build trust	33	4.73	
To have all social responsibility information in one place	32	4.59	
Additional response: Use of CSR reports as a benchmarking tool, To manage economic, environmental and social impact of a company, Development of corporate culture, To improve internal processes			

Source: Author's calculation

As evident, the leading motive for disclosing CSR reports is to build trust, followed by informing stakeholders about company's economic, social and environmental performance and progress made. The importance of trust as a leading motive for issuing CSR reports is in line with Pivato, Misani and Tencati's (2008, p. 5) proposition that "the creation of trust is one of the most immediate consequences of a company's social performance" and subsequently the reason why companies disclose information on CSR. By sharing asymmetric information through CSR reports, companies reduce the possibility of managerial opportunism, which results in increased trust towards a company (Pérez 2015). Additionally, informing managers about the economic, social and environmental performance and progress (i.e. overall performance) is likely to evoke strong and positive reaction from stakeholders (Morsing & Schultz, 2006). Therefore, the importance of this motive is not surprising.

The lowest value is reported for mitigating effects associated with a company's social responsibility disaster, followed by to respond to stakeholder pressure and the expectation of positive effects on company's financial performance. Low value for the first motive can be a result of not experiencing such situation and therefore there is no need to use CSR reports to mitigate resulting negative effects. On the other hand, low value for motives associated with stakeholder pressure and financial performance are somehow surprising. It looks like companies do not consider stakeholders pressure in larger degree or stakeholders do not exhibit pressure on companies to disclose CSR report. Although, all included companies are for-profit companies with profit maximization as the leading goal (or one of the leading goals) where all business activities (including CSR activities) are in function of profit maximization it looks like CSR reporting is not conducted with direct aim of improving financial performance.

By looking at the group level, motives related to corporate citizenship are the highest, followed by issues related to stakeholder pressure. All motives related to corporate citizens

are closely linked to corporate reputation, i.e. improving it or returning it. Therefore, by disclosing, companies tend to present themselves as respected members of society and in return they wish to gain trustful stakeholders. Stakeholders can pressure the company to be more socially responsible, and in order to let them know about the actions taken CSR reports are prepared. In a highly competitive market, prompt reaction to stakeholder pressure can also result in positive financial outcomes.

Considering motives at the country level, the results are a bit different. The leading motive for Croatian companies is to inform stakeholders about company's economic, social and environmental performance and progress made (mean value 4.86). For Slovenian companies, three motives have the same value: informing stakeholders that the company has a policy of corporate transparency (management that has nothing to hide), enhancing reputation and building trust (mean value 4.83). And for Serbian companies, the leading motive is to signal stakeholders that the company is interested in social responsibility (mean value 4.67). At the group level, for Croatian companies the leading motives are related to stakeholder pressure issues, while for Slovenian and Serbian companies the issues related to corporate citizenship.

3.4.4 Results on challenges of CSR reporting

In addition to the motives for disclosing CSR reports, respondents were asked to indicate the importance of six possible challenges in preparing such reports. Results are presented in Table 20.

Table 20: Challenges in preparing CSR reports

Challenge	N	Mean value (1 min and 5 max)
The overlapping timelines for CSR report preparation with the preparation of financial reports.	28	2.93
Additional resources (financial, human, organizational, etc.) needed for CSR reports preparation.	31	3.90
Collection of data to be included in CSR reports (including data verification, associated costs, getting data from different stakeholders)	31	4.19
Defining content of the CSR report (limited report length and stakeholders covered)	31	3.84
Final approval of the CSR report (bad news for a company may be disclosed)	27	3.56
Measurement of CSR issues to be included in CSR reports.	29	3.97

Source: Author's calculation

As evident from the table, the main challenge is associated with the collection of data to be included in CSR reports, including data verification, associated costs, and getting data from

different stakeholders. These results are as expected since data collection represents a complex process and data are often qualitative, which makes them harder to analyse. Additionally, data collection is the central phase of preparing CSR reports, which requires certain time, but also resources. The least significant challenge is the overlapping timelines for CSR reports preparing with financial reports preparation. These results are not surprising since CSR reports are mostly not prepared by accounting department. A questionnaire was addressed to persons directly involved in the preparation of CSR reports and there were no respondents from the accounting department (respondents from CSR/sustainability, communication, public relationships and marketing department dominated).

Regarding the approximate time needed to prepare a CSR report (from the day when the decision to prepare the CSR report is made), the majority of reporting companies responded that it takes 2 – 3 months to prepare it (10 companies), followed by 3 – 5 months (8 companies). However, the time needed to prepare the CSR report can depend on the report length; since it is reasonable to assume a positive relationship between the time needed to prepare CSR report and its length. Therefore, the relationship between the time needed to prepare CSR report and the report's length (number of pages) has been tested using regression analysis. The results of the regression analysis are presented in Table 21. It is evident from the results that the number of CSR report pages is one of the variables that can explain the time needed to prepare CSR report.

Table 21: Regression analysis results for relationship between time needed to prepare CSR report and report's length

	Coefficient	Standards error	P value
Constant	2.615	0.554	0.000
CSR reports length (number of pages)	0.015	0.006	0.026
R ²	0.176		

Source: Author's calculation

Respondents were also asked to estimate the costs of disclosing CSR report (including the costs of material, data collection, employees, report design, etc.). These results are somehow contradictory, since the same number of companies (9) has chosen two answers: less than 2,000 EUR and more than 7,000 EUR. However, it is not the same to prepare a report that consists of 10 pages and to prepare a report of 100 or more pages. Due to that, approximate costs have been related to the number of pages in these reports. The results of the regression analysis (presented in Table 22) indicate that CSR reports length is one of the variables that explains the costs of preparing CSR report.

Table 22: Regression analysis results for relationship between costs of preparing CSR reports and its length

	Coefficient	Standards error	P value
Constant	3,483.07	1,012.93	0.002
CSR reports length (number of pages)	26.54	11.16	0.025
R ²	0.185		

Source: Author's calculation

3.5 Discussion and conclusions

Traditional financial statements are no longer sufficient to meet the information needs of a larger group of stakeholders. They seek additional information covering economic, but also social and environmental aspects. As a result of that, new reports have emerged. Such reports have been addressed using different titles including CSR reports, sustainability reports, non-financial reports, social reports, etc. In this research, all these reports are covered by the term CSR report. Different titles are the consequence of the low level of standardization and harmonization of this reporting.

Therefore, besides preparing compulsory financial reports, nowadays it is a trend to prepare CSR reports, with the expectation that integrated reports will be in focus in future time (Lusher, 2012). Based on conducted research on a sample of Croatian, Slovenian and Serbian companies, such timeline can be confirmed. Moreover, some companies go a step further and prepare integrated reports (mostly Slovenian companies and some Croatian companies).

Development of CSR reports is also a result of stakeholder theory dissemination. This theory calls for considering and fulfilling the needs of a larger group of stakeholders (Melé, 2009), including the need for information. Because of the stakeholder theory popularization and implementation, CSR reports have been developed as a tool for communicating with stakeholders. For most companies, this reporting is voluntary, i.e. not obligatory by the law. However, the trend toward making this reporting compulsory by the law is evident. In line with this, the EU Non-financial and Diversity Reporting Directive demands disclosure of environmental, social, anti-corruption issues from certain (mostly larger) companies.

There were several objectives of this study. The first includes determining the contingencies of companies voluntarily disclosing CSR reports, i.e. identifying who is reporting. Considering the low level of standardization of CSR reporting, companies decide on their own what to include in such report. Due to that, the second objective was to identify what companies are disclosing, or more precisely, the information regarding which stakeholders are most commonly disclosed in CSR reports. Additionally, the implementation of the reporting guidelines/standards/principles is explored. Since CSR reporting was and will be voluntary for most of the world's countries, the third objective of this research was to

determine why companies disclose CSR reports, i.e. what motivates them to do so. Finally, the fourth objective is to explore the challenges dealt with by the reporting companies.

Results of this study have shown that larger companies are more prone to disclose CSR reports. Such companies have the potential to affect and be affected by a larger group of stakeholders, meaning the interest of larger groups should be considered. Size can also be linked with corporate visibility, related to media exposure and stakeholder pressure (Hahn and Kühnen, 2013), where larger companies are more visible, more exposed to media and experiencing higher stakeholder pressure. As a response to that, companies use CSR reports to present their corporate actions to wider audience. On the other hand, smaller companies face several challenges, making it difficult for them to prepare CSR reports. In line with this, Borga, Citterio, Noci and Pizzurno (2009) summarized the following reasons for low level of CSR reporting by smaller companies: low level of resources and skills, CSR reporting is a financial investment with limited return in short/medium term, the absence of reporting guidelines design for smaller companies, low level of sensitivity to potential benefits and low level of financial resources available. Considering the importance of SMEs for national economies, current CSR reporting guidelines should be adjusted to their capabilities or new guidelines should be developed by taking into account the characteristics of SMEs. In such a way, more SMEs would disclose CSR reports.

Industry effect has also been reported by this study. Companies operating in manufacturing sector are leading in CSR reporting. By disclosing CSR reports, companies may legitimize their operations in sensitive environmental industries (Fernandez-Feijoo, Romero and Ruiz, 2014). Due to its potential to influence its environment, the manufacturing sector can be considered as sensitive environmental industry. This is especially true for companies within some sectors, such as oil refining, cement production, fruit and vegetable processing, etc. However, these results should be considered while keeping in mind that manufacturing sector is among the biggest sectors in all three countries (in terms of the number of companies). Financial and insurance activities sector are second by the number of CSR reporting companies and first sector if share of reporting companies in total number of companies is considered. Companies operating in this sector are consumer-oriented, and CSR reports can be used to attract new clients and to maintain current ones. Based on this research, it can be concluded that manufacturing companies disclose more CSR information due to high impact on the environment, while financial service companies disclose more CSR information due to high customer orientation.

As pointed out earlier, the level of CSR reporting standardization is quite low. Therefore, the length and content of disclosed reports differs among the companies. Some companies disclose all relevant information on a few pages, while other companies disclose more detailed reports. As a response to research questions on what is being reported, content analysis revealed that employees, customers, society (community), natural environment and suppliers are the most important stakeholders for companies, since they are mostly

represented in CSR reports. These stakeholders are all important for a company and without taking them into consideration while running a business the company's future would be questionable. Content analysis also revealed that the content of reports could be determined by guidelines/standards implemented. Based on the conducted analysis, it can be concluded that reports prepared using GRI guidelines are more detailed (they contain information regarding a larger number of stakeholders) than reports (COPs) prepared as a result of participation in the UN Global Compact platform. Considering the broad application of GRI guidelines, both globally and in countries covered by this research, GRI guidelines could become global standards for CSR reporting, as suggested by Tschopp and Nastanski (2014).

Motives for preparing voluntary CSR report were explored by this study as well. Based on the results, the main motives for preparing CSR reports are to build trust and inform stakeholders about the economic, social and environmental performance of the company and the progress made. By disclosing CSR reports, companies can improve relationships with their stakeholders, which is important for the company's survival on the market. As Clarkson (1995) stated, if any group of primary stakeholders is dissatisfied, and withdraws from corporate system, the company's survival will be questionable. To avoid this situation, it is important to build trust among stakeholders. The second reason emphasized the need to disclose additional information to those contained in financial statements. Companies want their employees, customers, business partners and all other stakeholders to be informed about social and environmental performance and progress made. In highly competitive markets, such information could make difference and result in new business deals. Additionally, disclosure of such information could help attract quality employees, which is useful in situations where companies face problems with (in)adequate workforce.

When deciding to prepare CSR reports, companies should bear in mind that this represents a complex process and some challenges exist. The main challenge companies are facing is related to data collection, including data verification, associated costs, collecting data from different stakeholders, etc. Data on CSR issues are mostly non-financial, which makes them harder to collect and analyse. To deal with the main challenge, further efforts are needed to facilitate CSR data collection.

Taking into account the tendency of making this reporting obligatory by the law (only for certain companies for now), standardization and harmonization of CSR reporting should be put in focus. Considering the broad implementation of GRI guidelines, they could be proposed as global standards. Additionally, such guidelines should be adjusted to the needs of SMEs, or new guidelines should be prepared to make it easier for SMEs to prepare a CSR report.

Considering the results obtained, this study contributes to the existing theoretical discussion on who is voluntarily reporting on CSR, why and what is being reported, by providing an integrated analysis of contingences, content, motives and challenges of CSR reporting.

Additionally, this study is among the first attempts of such integrated analysis in Southeastern Europe. Obtained results could also be of interest to practitioners as the paper reveals the main motives that drive companies to disclose CSR report in an attempt to gain different benefits (e.g. trust). After reading this research, non-reporting companies could also start reporting on CSR issues in an attempt to experience some of the benefits (such as increased trust, or satisfied stakeholders).

The central limitation of this research is related to small sample, therefore, for more general conclusions research should be extended to companies operating in other countries. This would also allow better identification of differences in CSR reporting among countries. Additionally, the source of CSR reports (GRI database and UN Global Compact participant search) could be seen as a research limitation since it could induce bias toward the use of GRI standards. However, GRI database includes reports prepared using GRI standards, but there are also reports not using these standards. Therefore, such bias is reduced.

Future research in this field should focus on standardization and harmonization, aiming to facilitate the dissemination of CSR reporting. The determinants of CSR reports should be explored, more precisely how lack of time, high cost, stakeholder pressure effects report's content. In line with the leading challenge of preparing CSR reports, new methodologies for data collection should be developed. Additional focus should be given to making CSR reporting more applicable to SMEs, since they are crucial for the development of countries.

CONCLUSION

There were several objectives of this dissertation. The debate on the relationship between CSR and CFP has been going on for some time now, however, one unique conclusion on this relationship has yet to be found. Although positive relationship prevails, negative relationship, no relationship and mixed relationship have also been identified (Lu, Chau, Wang and Pan, 2014; Margolis and Walsh, 2001; Orlitzky, Schmind and Rynes 2003; Van Beurden and Gössling, 2008; Wu, 2006). Most commonly identified reasons for different, opposing results are related to operationalization and measurement of CSR and CFP constructs. Therefore, the first objective of this dissertation was the review of alternative operationalisation and measurement approaches for CSR and CFP constructs used in the literature. Based on review, the advantages and drawbacks of most commonly used measures have been identified and suggestions for future development were made. As noted earlier, the relationship between CSR and CFP is still unclear. Therefore, the second objective of this dissertation was the revision of CSR and CFP relationship. This relationship was revisited by considering multiple stakeholders (employees, customers, competitors, governments, NGOs, society, natural environment and future generations). The effects of CSR activities on CFP have been tested, as well as vice versa (effects of CFP on CSR) at the level of overall CSR activities (considering all stakeholders) and at the level of each stakeholder group. The third objective of this dissertation is related to CSR reporting. Considering voluntariness and low level of this segment reporting, in this dissertation, an attempt to identify who is voluntarily reporting on CSR (contingences of reporting companies), what do the companies include in voluntary reporting (which standards/guidelines have been used and which stakeholders are mostly represented in CSR reports) and why do companies engage in voluntary reporting (what motivates the companies to disclose voluntary CSR report and which challenges are faced in that process).

The analysis revealed that CSR construct is operationalized with reputational indices, content analysis, questionnaire-based survey and one-dimensional measures. The main advantages of reputational indices are data availability and comparability (due to standardized methods used to compile them) and they recognised the multidimensionality of CSR construct. However, they are non-scientific (compiled by private companies) and cover limited number of companies (considering geography, size and industry). Content analysis refers to using different corporate communications as source of CSR data. The main advantage of this measurement approach is the flexibility for researchers (the researcher can self-select the CSR dimensions of interest, collect information and code information), while the main drawbacks are related to researcher subjectivity, data non-disclosure (CSR reporting is mostly voluntary) and impression management (reported state may be different from the real one). Questionnaire-based survey also allows flexibility for the researcher as the main advantage of this approach. On the other hand, research subjectivity, measurement error and non-response are the main problems of this approach. The greatest advantage of using one-dimensional measures for assessing CSR construct is data availability and

comparability. However, due to the multidimensional nature of CSR construct (Carroll, 1979); the biggest problem of using one-dimensional measures is theoretical invalidity. From these measures, reputational indices are most commonly used while testing the relationship between CSR and CFP. Companies' profitability is mostly measured by accounting-based measures, market-based measures or a combination of these two. Compared with the measures of CSR, the measures of CFP are more developed, mostly due to higher level of financial statements standardization. Therefore, the main advantage of accounting-based measures is data availability and comparability since financial reports are compulsory by the law and highly standardized. The main drawback of accounting-based measures is that they represent historical data. Market-based indicators are more contemporaneous data, however, available only for listed companies and include systematic (non-company-specific) factors (e.g. recession).

Therefore, it can be concluded that there is no perfect measure of CSR on CFP. However, the problem of adequate measurement approach is more evident for CSR construct since financial reporting has a long history and is largely standardized while the development of CSR reports started more recently with little standardization done so far (Tschopp and Nastanski, 2014). Moreover, the use of any operationalisation and measurement approaches for CSR can influence the relationship between CSR and CFP. Indeed, reputation indices, content analysis and questionnaire-based survey can be biased toward detecting positive relationship.

Potential solution for significant part of drawbacks of CSR measurement approaches could be resolved with further development of CSR reporting. By standardizing CSR reports, researcher subjectivity could be resolved, while making this segment in reporting mandatory by the law would be a solution for response bias. If all companies were to disclose CSR reports in standardized form, such data would be available and comparable.

The relationship between CSR and CFP has been tested on a sample of Croatian medium and large-sized companies. The main takeaway from testing the relationship between CSR and CFP is the positive effect of current CSR on future CFP. Therefore, being socially responsible pays off in terms of profitability and costs of being socially responsible are lower than financial benefits of CSR. On the other side, the results failed to confirm the positive effects of past profitability on current CSR. In line with the results of quantitative analysis, current CSR is the driver of future CFP, but past profitability is not a driver of current CSR. Contrary to the results of quantitative analysis, interviews with company's representatives indicate that profitability has a positive effect on CSR. Contradictory results obtained from qualitative and quantitative analyses could be due to considering past profitability instead of current profitability. Namely, managers in charge of allocating financial resources into CSR activities have information on financial profitability for shorter periods, i.e. they could take current profitability into account. After taking current profitability into account, instead of past profitability, quantitative analysis confirmed the positive effects of profitability on CSR.

The effects of different contingencies (size and stakeholder pressure) on CSR have also been tested, but only stakeholder pressure has been found to positively affect CSR.

As for the effects of CSR activities towards a particular stakeholder group on profitability, the analysis has resulted in positive effects in six out of seven stakeholder groups (employees, customers, competitors, NGOs, society, natural environment and future generations). Positive results for transacting stakeholders (employees, customers and competitors) and natural environment and future generations were as expected. However, positive effects for non-transacting stakeholders (NGOs and society) were contrary to the expected. It looks like these activities are recognized by and incorporated into decisions of transacting stakeholders and in this way positive effects are realized. As it was the case in overall model, stakeholder pressure has been found to positively affect CSR activities towards all stakeholders separately. Interestingly, size has been found to negatively affect CSR activities toward competitors.

While the focus of the first two chapters of this dissertation was on the economic aspects of CSR, the third part is focused on the reporting aspects of it. Considering the voluntariness and the low level of CSR standardization, this dissertation provided answers to the questions: who is voluntarily reporting on CSR, what is being reported, and why some companies report. The analysis was conducted on a sample that included companies from Croatia, Slovenia and Serbia that voluntarily disclose CSR reports. Regarding who voluntarily reports, research has shown that large companies and companies operating in manufacturing sector (considering number of reporting companies) and financial and insurance activities sector (considering share of reporting companies in total number of companies) are more prone to disclose CSR reports than others. Larger companies are more visible, more exposed to media and stakeholder pressure (Hahn and Kühnen, 2013), and as a response to that they disclose CSR reports. Manufacturing companies have higher potential to influence the society and the environment and by disclosing CSR information they can legitimize their operations (Fernandez-Feijoo, Romero and Ruiz, 2014) while financial and insurance companies are mostly oriented to general public as a source of customers and may use CSR reports as marketing tool. Analysis of what companies have been disclosing showed that employees, customers, society, natural environment and suppliers issues are most represented in CSR reports. Majority of these stakeholders are transacting stakeholders, important for the company's success on the market. Therefore, it is not surprising that issues related to these stakeholders prevail in CSR reports. Another outcome of the content analysis is that the GRI initiative is the most widely used standard for CSR reporting. While discussing further standardization of CSR reporting, it should be noted that GRI guidelines would be the best global standard for CSR reporting, as suggested by Tschopp and Nastanski (2014).

Last question explored was why companies disclose voluntary CSR reports. The main motives for disclosing CSR reports include building trust and informing stakeholders about

the economic, social and environmental performance of a company and progress made. Stakeholders are important for the company's survival on the market and having good relationships with them is crucial. By disclosing CSR information, companies can improve such relationships and have faithful stakeholders who will be willing to engage in economic transaction with the company in the future. Additionally, trust is the most immediate consequence of CSR activities (Pivato, Misani and Tencati, 2008) and by disclosing information about these activities, a larger group of stakeholders is aware of them. The second motive indicates that information only about economic performance (contained in financial statements) are not enough anymore, i.e. they need to be supplemented with information about social and environmental performance. By preparing CSR reports (in combination with financial statements), companies present their overall performance to stakeholders. By doing so, companies can gain advantage over competitors, which may result in new business deals and attracting new stakeholders (customers, employees, etc.). When deciding to engage in CSR reporting, companies should bear in mind that it represents a multi-step, long and arduous process (Contrafatto, 2014; Tschopp and Nastanski, 2014) and different challenges may appear. The main challenges companies encounter when preparing CSR reports are related to data collection, including data verification, associated costs, getting data from different stakeholders. To deal with these challenges, new methodologies and databases should be developed.

Results of conducted analysis have shown that CSR activities are of interest to a company, since they contribute to financial performance. In order to manage CSR activities in the right way, information on CSR should be more developed by standardizing and making CSR reporting obligatory by the law. The trend toward making CSR mandatory is evident and it should be continued in the future. GRI guidelines are already commonly used standard for CSR reporting; therefore standardization of CSR reporting could be based on them. Additionally, reporting guidelines should be adjusted to the needs of SMEs due to their importance for national economies all around the world. Having standardized and mandatory information on CSR, it would be easier to compare the results of different companies, but also to keep track of the effects of CSR on CFP.

There are several contributions of this dissertation. Firstly, the review of operationalisation and measurement approaches of CSR and CFP concepts revealed that all approaches have some advantages, but also a drawback of what can potentially influence the detection of the CSR–CFP relationship. Two main problems of measuring CSR are researcher subjectivity and selection bias that could be resolved by making CSR reporting mandatory by the law and by standardizing it. Secondly, this research contributes to ongoing discussion on the relationship between CSR and CFP. By considering multi-stakeholders, the positive effects of current CSR activities on future CFP have been found, but not from past profitability to current CSR. However, considering the current profitability positive effects on CSR have been confirmed. For six (employees, customers, competitors, society, NGOs, the natural environment and future generation) out of seven stakeholder groups, positive effects on

profitability have been found. Apart from contributing to the overall well-being of the society, socially responsible business conduct also pays off for the company. Thirdly, it has been shown that larger companies are more prone to disclose CSR reports, that CSR reports are mostly shaped in line with transacting stakeholders, that building trust among stakeholders is the main motivation for disclosing CSR reports and issues related to data collection represent the main challenge while preparing the CSR report. Additionally, research sample comprised companies operating in Southeastern Europe where CSR–CFP relationship and CSR reporting are not commonly researched topics. Therefore, another contribution of this study is in detecting CSR–CFP relationship and exploring CSR reporting practises in transitional countries with limited experience in capitalism.

Results of this dissertation also have practical implications. Since it has been shown that CSR contributes to the profitability of a company, decisions to invest more resources into such activities could be made. As for CSR reporting, non-reporting companies can get information about what other companies are reporting, which standards are used and what motivates them to report. Reporting companies consider building trust and informing stakeholders about the economic, social and environmental performance and progress made as the most important outcomes of CSR reporting. Non-reporting companies could experience such benefits as well by starting to report.

Although the sample comprised of companies operating in Croatia, Slovenia and Serbia allowed several conclusion about CSR–CFP relationship and CSR reporting in small transitional countries, for more general conclusions companies from other countries should be considered. Part of the data was collected with questionnaires; which leads to the second limitation of this research and that is response bias. Sample size is another limitation, especially in the analysis of CSR reporting practises. Apart from considering the relationship between short-term profitability and CSR, the effects of long-term profitability on CSR should be considered as it may take some time for stakeholders to incorporate conducted CSR activities into their decisions.

The future research should be directed to further development of CSR reporting, mostly by standardizing and making it obligatory by the law. CSR reporting for SMEs should also be explored more in terms of adjusting current or developing new reporting standards/guidelines suitable for them. As for the relationship between CSR and CFP, long-term profitability should be explored.

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APPENDICES

Appendix 1: Summary in Slovenian language / Daljši povzetek disertacije v slovenskem jeziku

EKONOMSKI IN POROČEVALSKI VIDIKI DRUŽBENE ODGOVORNOSTI PODJETIJ

Sodobne poslovne razmere zahtevajo nekatere spremembe pri vodenju podjetij. Ni več dovolj le osredotočanje na povečanje vrednosti za delničarje (lastnike) brez upoštevanja posledic poslovnih dejavnosti za druge deležnike. Zato bi bilo treba pri sprejemanju poslovnih odločitev upoštevati širšo skupino deležnikov. Upoštevanje večje skupine deležnikov in povečevanje njihovega premoženja spada v domeno družbene odgovornosti podjetij (Becchetti in Trovato, 2011). Z izvajanjem družbeno odgovornih dejavnosti lahko podjetja ohranjajo dobre odnose s svojimi deležniki, kar lahko pozitivno vpliva na njihovo donosnost, hkrati pa jim lahko te dejavnosti povzročijo dodatne stroške, zaradi česar lahko tudi negativno vplivajo na donosnost. Glavno vprašanje je, kateri vpliv prevlada oziroma ali družbeno odgovorne dejavnosti podjetij povečajo ali zmanjšajo finančno donosnost. Zaradi premika k povečevanju vrednosti za več deležnikov so potrebni tudi novi podatki za menedžerje in tudi večjo skupino deležnikov. Nekateri izmed njih so predstavljeni v računovodskih izkazih in klasičnih računovodskih sistemih, vendar ne zadoščajo ter jih je treba dopolniti z nefinančnimi in kvalitativnimi podatki. Podatki v zvezi z družbeno odgovornostjo podjetij so lahko podani v poročilih o družbeni odgovornosti podjetij, za katera se pogosto uporabljajo izrazi, kot so nefinančna poročila, trajnostna poročila, poročila o trajnostnem razvoju, družbena poročila, poročila o korporativnem državljanstvu (angl. *corporate citizenship reports*), okoljska in družbena poročila, poročanje na podlagi modela trojnega izida (angl. *Triple Bottom Line Reporting*), poročila o ljudeh, planetu in dobičku (angl. *People, Planet, Profit reports*) itd. (Vitezić idr., 2012; Perrini, 2006; KPMG, 2013). V večjem delu sveta podjetja o družbeni odgovornosti poročajo prostovoljno. Podjetja se torej sama odločijo, ali bodo o tem poročala in kaj natančno bodo poročala. Poleg tega bi bilo zanimivo proučiti, zakaj podjetja ta poročila razkrivajo, čeprav k temu niso zavezana. Ob upoštevanju čedalje večjega pomena družbene odgovornosti podjetij se avtorica v doktorski disertaciji osredotoča na ekonomske in poročevalske vidike družbene odgovornosti podjetij.

Klasični ekonomisti trdijo, da je edina odgovornost podjetja ta, da ohrani in poveča svojo vrednost za lastnike (delničarje). V skladu s tem Milton Friedman (1970s) navaja, da je edina »družbena odgovornost podjetij povečati dobiček«, pri čemer morajo »še vedno slediti pravilom igre« (Porter in Kramer, 2002). Po njegovem mnenju naložbe v družbeno odgovornost zmanjšajo dobiček podjetja. V nasprotju s klasično ekonomsko teorijo je Freeman (1984) vpeljal teorijo deležnikov, pri čemer je trdil, da bi morali vodilni uslužbenci podjetja »upoštevati vse posameznike in skupine, ki imajo 'delež' v podjetju ali kakršne koli zahteve do njega« (Melé, 2009, str. 62). Menedžerji zato ne morejo biti več odgovorni za

večanje donosa delničarjem v škodo drugih deležnikov, saj so odgovorni tudi za to, da podjetje izpolnjuje obveznosti do svojih deležniških skupin (Clarkson, 1995).

Deležniki vključujejo posameznike, organizacije in podjetja »z legitimnimi interesi za postopkovne in/ali vsebinske vidike dejavnosti podjetja« (Donaldson in Preston, 1995). Čeprav literatura navaja različne deležnike, po navadi vključujejo zaposlene, stranke, dobavitelje, družbo (skupnost), vlado, nevladne organizacije, konkurenčna podjetja, delničarje, naravno okolje in prihodnje generacije. Vplive korporacijskih dejanj na te deležnike je treba upoštevati pri vodenju podjetja in odločanju, deležniki pa morajo biti zadovoljni z obnašanjem podjetja. Nezadovoljni deležniki se lahko umaknejo iz podjetja, kar lahko negativno vpliva na njegovo prihodnost (Clarkson, 1995). Izgubljeno zaupanje je zelo težko obnoviti, zato je vzdrževanje dobrih in pravičnih odnosov z deležniki ključno za dolgoročno preživetje podjetja.

Družbeno odgovornost podjetij lahko opredelimo na različne načine. Dahlsrud (2008) je na primer ugotovil, da obstaja 37 različnih opredelitev tega pojma, ki se nanašajo na pet ključnih vidikov: okoljski, družbeni in ekonomski vidik ter vidik deležnikov in vidik prostovoljnosti. Okoljski vidik družbene odgovornosti podjetij vključuje »inovacije, okoljsko učinkovitost, preprečevanje onesnaževanja in okoljsko upravljanje«, katerih namen je zmanjšati vpliv podjetja na okolje (Torugsa, 2013). Vidik deležnikov se nanaša na vključevanje velikega števila deležnikov v postopek vodenja podjetja. Vidik prostovoljnosti se nanaša na to, da se dejavnosti družbene odgovornosti podjetij ne izvajajo samo na podlagi zakonskih zahtev, ampak tudi na prostovoljni osnovi (Dahlsrud, 2008). Ekonomski vidik je povezan z ekonomsko uspešnostjo podjetja, ki je predpogoj za to, da je lahko odgovorno tudi z drugih vidikov. Na podlagi opisanih vidikov je družbeno odgovornost podjetij »koncept, v katerem podjetja v svoje poslovne dejavnosti in odnose s svojimi interesnimi skupinami prostovoljno vključujejo vprašanja glede družbenih in okoljskih zadev« (Evropska komisija, 2002).

Za upravljanje dejavnosti družbene odgovornosti podjetij je treba imeti ustrezne podatke. Tovrstni podatki so deloma finančni, večinoma pa so nefinančni (tj. večinoma kvalitativni). Klasični računovodski sistemi (večinoma usmerjeni v računovodsko poročanje) tovrstnih podatkov ne morejo zagotoviti, zato se je pojavilo družbeno odgovorno poročanje ali družbeno računovodstvo. Po definiciji se družbeno računovodstvo podjetja nanaša na »proces izbire spremenljivk, ukrepov in postopkov merjenja družbeno odgovornega delovanja na ravni podjetja, sistematičen razvoj podatkov, uporabnih za oceno družbeno odgovornega delovanja podjetja, in sporočanje teh podatkov zadevnim družbenim skupinam tako znotraj kot zunaj podjetja« (Ramanathan, 1976, str. 519). Kot tako dopolnjuje klasična računovodska poročila, saj vključuje »podatke o izdelkih, interesih zaposlenih, skupnostnih dejavnosti in vplivu na okolje« (Mathews, 1995, str. 668). Družbeno računovodstvo podjetij se razvija zadnjih nekaj desetletij, zaradi česar se je precej povečalo število izdanih poročil o družbeni odgovornosti podjetij (Dhaliwal idr., 2012; Cho, Michelon, Patten in Roberts,

2015). Poleg menedžerjev podatke o družbeni odgovornosti podjetja potrebujejo tudi deležniki, ki iščejo informacije o ekonomskih, pa tudi socialnih in okoljskih vprašanjih. Z zagotavljanjem ustreznih podatkov deležnikom podjetja zadovoljujejo njihove potrebe in ohranjajo njihovo zadovoljstvo.

Čeprav zaradi potrebnega upoštevanja širše skupine deležnikov večanje donosnosti ni več edini poslovni cilj, bi bilo treba določiti vplive izvajanja družbeno odgovornih dejavnosti na finančno uspešnost podjetja. Raziskave razmerja med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo potekajo že kar nekaj časa, vendar kljub dolgotrajnim empiričnim študijam še vedno ostaja nejasno, ali se družbeno odgovorne dejavnosti splačajo v smislu čistega dobička (Barnett, 2007). Nekatere študije kažejo pozitivno povezavo, druge pa negativno ali celo »ukriviljeno« krivuljo razmerja (npr. v obliki črke U ali narobe obrnjene črke U). Kljub tem razlikam so na podlagi metaanalize in obsežnega pregleda literature Margolis idr. (2007), Orlitzky idr. (2003) ter Van Beurden in Gössling (2008) ugotovili, da je pozitivna povezava običajnejša od drugih vrst povezav.

Pozitivna povezava med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo kaže, da družbena odgovornost izboljša donosnost (Al-Tuwaijri idr., 2004; Burnett in Hansen, 2008; Erhemjamts idr., 2013; Rodgers idr., 2013). Če družbena odgovornost podjetij pozitivno vpliva na njihovo finančno uspešnost, je zelo verjetno, da tudi družbeno odgovorne naložbe bolj pozitivno kot pa negativno vplivajo na ustvarjeno vrednost za delničarje (Moser in Martin, 2012); to pomeni, da družbena odgovornost podjetij blagodejno vpliva tudi na delničarje. Po drugi strani negativna povezava pomeni, da so stroški izvajanja družbeno odgovornih dejavnosti višji od dobljenih koristi (tj. te dejavnosti zmanjšajo donosnost podjetja; Baird idr., 2012; Peng in Yang, 2014). Med tema skrajnostma je nevtralna povezava oziroma povezave sploh ni, kar nakazuje, da družbeno odgovorne dejavnosti ne večajo donosnosti, hkrati pa je tudi ne zmanjšujejo (Alexander in Buchholz, 1978; Aupperle idr., 1985; McWilliams in Siegel, 2000; Sun idr., 2010; Soana, 2011). Pozitivni in negativni vplivi družbene odgovornosti podjetij se očitno medsebojno izničujejo. Zadnja vrsta ugotovljene povezave je mešana povezava (krivulja v obliki črke U ali narobe obrnjene črke U), ki kaže, da pri nekaterih podjetjih družbeno odgovorne dejavnosti večajo donosnost, pri drugih pa ne. Barnett in Salomon (2012) sta ugotovila, da so podjetja z nizko stopnjo družbene odgovornosti finančno uspešna, podjetja z zmerno stopnjo družbene odgovornosti so finančno manj uspešna, podjetja z visoko stopnjo družbene odgovornosti pa so finančno najuspešnejša. Zanimivo je, da sta v eni izmed predhodnih raziskav Bowman in Haire (1975) ugotovila razmerje v obliki narobe obrnjene črke U, kar pomeni, da je povprečna stopnja družbene odgovornosti povezana z največjo finančno uspešnostjo, nizka in visoka stopnja družbene odgovornosti pa s slabšo finančno uspešnostjo.

V literaturi lahko najdemo razlage različnih in nasprotujočih si izsledkov, opisanih zgoraj, ena izmed njih pa je povezana z neenotnimi mnenji glede pomena pojma družbene

odgovornosti podjetij (37 različnih opredelitev, kot jih je določil Dahlsrud, 2008). To je pripeljalo k različnim operacionalizacijam tega pojma. Poleg različnih metod merjenja družbene odgovornosti podjetij so se v preteklih raziskavah uporabljale tudi različne mere za določanje njihove finančne uspešnosti, kar je lahko tudi vplivalo na dobljene rezultate. Različne operacionalizacije konstrukta družbene odgovornosti podjetij (Carroll, 1979) vključujejo kazalnike ugleda, analize vsebine, anketne vprašalnike in enodimenzionalne mere. Kazalniki ugleda so najpogostejše uporabljena mera za analizo povezav med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo. Upoštevajo večdimenzionalnost koncepta družbene odgovornosti podjetij in obravnavajo podobne teme (npr. naravno okolje, zaposlene, družbo itd.). Glavni kazalniki vključujejo MSC KLD 400 Social Index, indeks ugleda ameriške poslovne revije Fortune, indeks trajnostnega razvoja Dow Jones (angl. *Dow Jones Sustainability Index*) in Euronext Vigeo Index. Najpogostejše se uporablja MSC KLD 400 Social Index. Analiza vsebine se nanaša na proučevanje različnih oblik komuniciranja podjetja za določanje konstruktov družbene odgovornosti na podlagi kodiranja kvalitativnih podatkov, s čimer se lahko nato oblikujejo kvantitativne lestvice. Anketni vprašalniki se uporabljajo, ko kazalnikov ugleda in poročil podjetja, ki vsebujejo podatke o njegovi družbeni odgovornosti, ni na razpolago. V tem primeru se sestavijo vprašalniki in pošljejo anketirancem, na podlagi tega pa se zberejo podatki o družbeni odgovornosti podjetja. Enodimenzionalne mere se osredotočajo samo na en vidik ali razsežnost konstrukta družbene odgovornosti podjetij (npr. okoljsko upravljanje in filantropijo). Mere za določanje finančne uspešnosti podjetij uporabljajo različne koeficiente donosnosti, ki se izračunajo na podlagi podatkov iz računovodskih izkazov ali s trga. Vključujejo računovodske kazalnike, kot so donosnost sredstev (angl. *Return on Assets*, *ROA*), donosnost lastniškega kapitala (angl. *Return on Equity*, *ROE*) in donosnost prodaje (angl. *Return on Sales*, *ROS*), tržne kazalnike (npr. donose delnic in tržno vrednost podjetja) ali kombinacijo obeh (npr. Tobinov koeficient »q« ali tržna dodana vrednost). Ker obstajajo različne metode proučevanja konstruktov družbene odgovornosti in finančne uspešnosti podjetij, je bil prvi cilj disertacije pregledati konceptualizacije, operacionalizacije in načine merjenja obeh konstruktov, uporabljene v preteklih raziskavah, ter določiti prednosti in slabosti vsakega pristopa. Na podlagi pregleda literature so tako predstavljene različne konceptualizacije, operacionalizacije in metode merjenja, pri čemer avtorica posebej analizira različne metode merjenja ter predstavi njihove prednosti in slabosti. V preglednici 1 so povzete glavne prednosti in pomanjkljivosti ugotovljenih metod merjenja družbene odgovornosti in finančne uspešnosti podjetij.

Preglednica 1: Prednosti in slabosti različnih metod merjenja

Metoda merjenja	Prednosti	Slabosti
Za družbeno odgovornost podjetij		
Indeksi	Razpoložljivost in primerljivost podatkov, upoštevanje večdimenzionalnosti	Neznanstveni, omejena pokritost podjetij (geografska lokacija, velikost, panoga)
Analiza vsebine	Omogoča fleksibilnost raziskovalcu	Subjektivnost raziskovalca, nerazkritost podatkov, upravljanje vtisov
Anketni vprašalnik	Omogoča fleksibilnost raziskovalcu	Subjektivnost raziskovalca, merske napake, neodgovori
Enodimenzionalne mere	Razpoložljivost in primerljivost podatkov	Teoretična neveljavnost
Za finančno uspešnost podjetij		
Računovodski kazalniki	Razpoložljivost in primerljivost podatkov	Stari podatki
Tržni kazalniki	Aktualni podatki	Podatki na razpolago samo za podjetja, ki kotirajo na borzi; vključeni so tudi sistematični dejavniki

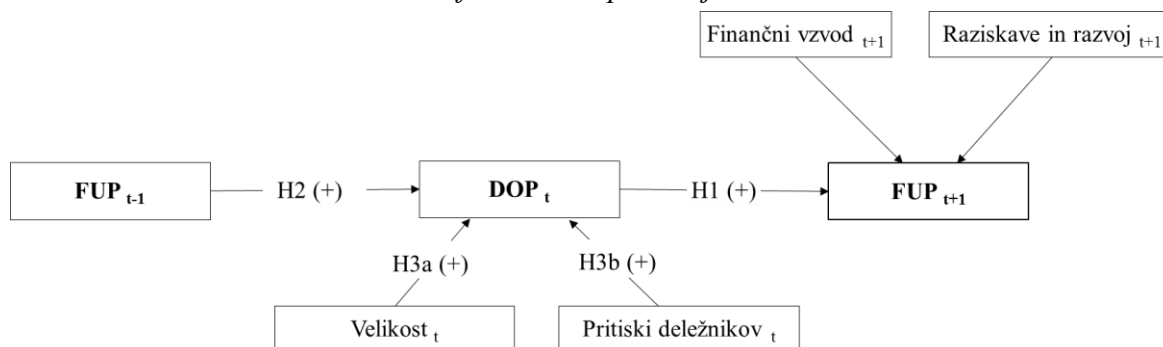
Vir: Avtoričin povzetek na podlagi pregleda literature

Jasno je, da za določanje družbene odgovornosti in finančne uspešnosti podjetij ni idealne metode. Raziskava je pokazala, da ima vsaka metoda merjenja družbene odgovornosti podjetij svoje prednosti in slabosti, izbira določene metode pa lahko potencialno vpliva na ugotavljanje razmerja med družbeno odgovornostjo in finančno uspešnostjo podjetij. Subjektivnost raziskovalca in pristranska izbira sta pogosti težavi pri večini metod (če ne vseh). Metode merjenja finančne uspešnosti podjetij so bolj razvite, kljub temu pa imajo nekatere omejitve. Avtorica nakaže možni prihodnji razvoj merjenja družbene odgovornosti podjetij, vključno s standardizacijo in večjim razkrivanjem podatkov o družbeni odgovornosti. Velik del slabosti metod merjenja družbene odgovornosti podjetij bi lahko odpravili z nadaljnjim razvojem poročanja o družbeni odgovornosti. Standardizirana poročila bi rešila problem raziskovalčeve subjektivnosti, obvezno razkrivanje podatkov pa bi rešilo problem pristranskosti odgovorov. Standardizirano in obvezno poročanje o družbeni odgovornosti podjetij bi bilo koristno tudi za mnoge deležnike pri sprejemanju ekonomskih odločitev (Henriques in Sadowsky, 1999; Hillman in Keim, 2001).

Zaradi izvajanja družbeno odgovornih dejavnosti lahko nastanejo dodatni stroški, kar lahko negativno vpliva na donosnost. Po drugi strani lahko te dejavnosti prinašajo finančne koristi in izboljšajo donosnost. Večanje vrednosti za deležnike in delničarje lahko obravnavamo kot nasprotujoča si in hkrati tudi kot dopolnjujoča se cilja. Zanimivo vprašanje s tem v zvezi je, kateri scenarij bo prevladal. Kot že prej omenjeno, literatura navaja štiri različne povezave med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo: pozitivno povezavo,

negativno povezavo, nikakršno povezavo in mešano povezavo. Čeprav je bilo o povezavi med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo opravljenih že veliko raziskav, tema ostaja kontroverzna in zahteva dodatne raziskave. Določitev mnogo jasnejše povezave je pomembno za upravo podjetij (Cochran in Wood, 1984). Čeprav družbena odgovornost podjetij po navadi velja za gonilo finančne uspešnosti, je hkrati zelo verjetno, da družbeno odgovornost podjetij poganja njihova finančna uspešnost. Ker družbena odgovornost podjetju povzroča dodatne stroške, je logično sklepati, da si lahko samo podjetja z zadostnimi finančnimi viri privoščijo izvajanje družbeno odgovornih ukrepov. Predlagani model vključuje tudi pet kontrolnih spremenljivk, za katere je zelo verjetno, da bodo vplivale na družbeno odgovornost podjetij (glej sliko 1). To so velikost podjetja in pritiski deležnikov. Velikost se upošteva zato, ker so večja podjetja opaznejša in se zato od njih pogosteje zahteva, da so družbeno odgovorna (Udayasankar, 2008). Večja podjetja imajo več razpoložljivih virov, ki jih lahko namenijo družbeno odgovornim dejavnostim (Johnson in Greening, 1999). Deležniki lahko vplivajo na prakso podjetij ali izrazijo zanimanje zanjo (Henriques in Sadorsky, 1999) v obliki konkretnih in/ali splošnih želja in preferenc (Brammer in Millington, 2003). Na zahteve deležnikov se lahko podjetja odzovejo tako, da sprejmejo različne družbeno odgovorne ukrepe, zato naj bi pritiski deležnikov pozitivno vplivali na družbeno odgovorne dejavnosti. Predlagani model vključuje tudi predpostavko o pozitivnem učinku inovativnosti (stroški raziskav in razvoja) in vzvoda za prihodnjo finančno uspešnost.

Slika 1: Konceptualni model povezave med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo



FUP: finančna uspešnost podjetij,

DOP: družbena odgovornost podjetij,

Družbeno odgovorne dejavnosti podjetij so usmerjene k različnim deležnikom. Poleg povezave med temi dejavnostmi in finančno uspešnostjo podjetij je treba upoštevati tudi heterogenost deležniških skupin, ki jih podjetje vključi v družbeno odgovorne dejavnosti. Vsi deležniki namreč ne vplivajo na finančne rezultate podjetja v enaki meri, zato lahko družbeno odgovorne dejavnosti, namenjene različnim deležnikom, različno vplivajo na finančno uspešnost podjetja. Za dejavnosti, usmerjene k transakcijskim deležnikom, je večja možnost, da bodo vplivale na donosnost, kot tiste, usmerjene k netransakcijskim deležnikom. Transakcijski deležniki (zaposleni, stranke, konkurenčna podjetja, vlada) so tisti, ki izvajajo

ekonomske transakcije s podjetjem in katerih ugodne ali neugodne ekonomske odločitve lahko sprožijo takojšnjo rast ali padec ekonomskih rent (Cadez idr., 2018). Po drugi strani so netransakcijski deležniki (nevladne organizacije, družba in prihodnje generacije) tisti, ki ne izvajajo ekonomskih transakcij s podjetjem in neposredno ne vplivajo na ekonomske rente prek ekonomskih transakcij, lahko pa vplivajo posredno prek posredovanja informacij (Henriques in Sadorsky, 1999). Poleg tega imajo lahko družbeno odgovorne dejavnosti, usmerjene k naravnemu okolju, pozitivne vplive na donosnost podjetja, saj lahko skrbno izdelana okoljska strategija, skladna s konceptom ekološke učinkovitosti (Czerny in Letmathe, 2017; Figge in Hahn, 2013), zagotavlja nižje stroške in manjšo onesnaženost (Kind in Lenox, 2002). Na podlagi možnosti izvajanja transakcij s podjetji in zagotavljanja ekološke učinkovitosti je bilo pričakovati, da družbeno odgovorne dejavnosti, usmerjene k zaposlenim, strankam, vladam, konkurenčnim podjetjem in naravnemu okolju, pozitivno vplivajo na kratkoročno donosnost, ter da dejavnosti, usmerjene k nevladnim organizacijam, družbi in prihodnjim generacijam, na kratkoročno donosnost vplivajo negativno. Naslednji cilj disertacije je bil analizirati obojestransko povezavo med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo z vidika več deležnikov. Avtorica je obojestransko povezavo proučevala na ravni podjetja in tudi na ravni različnih deležniških skupin. Za zbiranje in analizo podatkov je uporabila kombinacijo kvantitativnih in kvalitativnih metod. Kvantitativna analiza je vključevala statistično analizo anketnih in zgodovinskih podatkov 124 srednje velikih in velikih hrvaških podjetij, kvalitativna analiza pa je vključevala intervjuje s šestimi hrvaškimi podjetji in analizo pri tem zbranih podatkov. Glavni izsledki proučevanja opisane povezave na ravni podjetij in deležnikov so predstavljeni v preglednici 2.

Preglednica 2: Strnjeni izsledki proučevanja povezave med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo

Proučevani vplivi	Kratkoročna donosnost (ROE)
Vpliv skupnih družbeno odgovornih dejavnosti na prihodnjo donosnost podjetja	pozitiven
Vpliv pretekle donosnosti na skupne družbeno odgovorne dejavnosti	–
Vpliv družbeno odgovornih dejavnosti, usmerjenih k zaposlenim, na kratkoročno donosnost	pozitiven
Vpliv družbeno odgovornih dejavnosti, usmerjenih k strankam, na kratkoročno donosnost	pozitiven
Vpliv družbeno odgovornih dejavnosti, usmerjenih k vladam, na kratkoročno donosnost	–
Vpliv družbeno odgovornih dejavnosti, usmerjenih h konkurenčnim podjetjem, na kratkoročno donosnost	pozitiven
Vpliv družbeno odgovornih dejavnosti, usmerjenih k nevladnim organizacijam, na kratkoročno donosnost	pozitiven
Vpliv družbeno odgovornih dejavnosti, usmerjenih k družbi, na kratkoročno donosnost	pozitiven

Vpliv družbeno odgovornih dejavnosti, usmerjenih k naravnemu okolju in k prihodnjim generacijam, na kratkoročno donosnost	pozitiven
Vpliv velikosti podjetja na skupne družbeno odgovorne dejavnosti	–
Vpliv pritiskov deležnikov na skupne družbeno odgovorne dejavnosti	pozitiven
Vpliv finančnega vzvoda na kratkoročno donosnost	–
Vpliv intenzivnosti raziskav in razvoja na kratkoročno donosnost	–
Opomba: Raven statistične značilnosti izsledkov je bila manjša od 0.10.	

Vir: Avtorčin povzetek izsledkov

Kot je razvidno iz preglednice 2, trenutne družbeno odgovorne dejavnosti pozitivno vplivajo na prihodnjo finančno uspešnost podjetij. Analiza pa je hkrati pokazala, da pretekla finančna uspešnost ne vpliva na trenutne družbeno odgovorne dejavnosti. To kaže, da se družbena odgovornost spleta z vidika donosnosti (tj. finančne koristi družbene odgovornosti prevladajo nad njenimi stroški). Izsledki kvantitativne analize niso potrdili pozitivnih vplivov pretekle donosnosti na družbeno odgovorne dejavnosti, čeprav je večina anketirancev zatrjevala, da taka povezava obstaja v njihovem podjetju. Možna razlaga takih nasprotujočih si rezultatov kvantitativne in kvalitativne analize je, da na družbeno odgovorne dejavnosti bolj vpliva trenutna kot pa pretekla donosnost. S preoblikovanjem kvantitativnega modela so bili potrjeni pozitivni rezultati trenutne donosnosti. V kvantitativnem modelu je avtorica testirala različne kontrolne spremenljivke (velikost in pritiski deležnikov), vendar se je izkazalo, da samo pritiski deležnikov pozitivno vplivajo na družbeno odgovorne dejavnosti.

Na ravni deležniških skupin so izsledki pokazali pozitivne vplive družbeno odgovornih dejavnosti, usmerjenih k zaposlenim, strankam, konkurenci, družbi, nevladnim organizacijam, naravnemu okolju in prihodnjim generacijam, na finančno uspešnost podjetij (ROE). Samo za dejavnosti, usmerjene k vladam, se je izkazalo, da nimajo pozitivnega vpliva na finančno uspešnost. V nasprotju s pričakovanji so tudi za netransakcijske deležnike (nevladne organizacije in družbo) izsledki pokazali pozitivno povezavo, kar kaže prisotnost učinkov prelivanja (tj. družbeno odgovorne dejavnosti, usmerjene k tem deležniškim skupinam, so upoštevali transakcijski deležniki in jih vključili v svoje ekonomske odločitve). Med opisanimi petimi kontrolnimi spremenljivkami v podmodelih deležniških skupin je bilo samo za pritiske deležnikov ugotovljeno, da pozitivno vplivajo na družbeno odgovorne dejavnosti, usmerjene k vsem deležnikom. Velikost negativno vpliva na družbeno odgovorne dejavnosti, usmerjene h konkurenci, in pozitivno na dejavnosti, usmerjene k nevladnim organizacijam.

Zgoraj je bil že izpostavljen velik pomen zagotavljanja zadovoljstva deležnikov, kamor spada tudi njihovo obveščanje, saj deležniki iščejo različne informacije o finančni, okoljski in družbeni uspešnosti podjetja. Finančne informacije podjetja zagotavljajo s klasičnimi obveznimi računovodskimi izkazi, informacije o uspešnosti okoljskih in družbeno

odgovornih dejavnosti pa lahko zagotavljajo s poročili o družbeni odgovornosti. V večjem delu sveta je poročanje o družbeni odgovornosti za večino podjetij prostovoljno. Čeprav je v EU to poročanje leta 2017 s sprejetjem direktive glede razkritja nefinančnih informacij in informacij o raznolikosti nekaterih velikih podjetij in skupin (Direktiva 2014/95/EU) postalo obvezno, ta direktiva velja samo za razmeroma majhno število podjetij. Za večino podjetij bo poročanje o družbeni odgovornosti torej tudi v prihodnje ostalo prostovoljno.

Glede prostovoljne narave poročanja o družbeni odgovornosti podjetij se pojavlja več zanimivih vprašanj: kdo razkriva prostovoljna poročila o družbeni odgovornosti podjetij, kaj se razkriva in zakaj podjetja razkrivajo prostovoljna poročila o družbeni odgovornosti.

Izsledki prejšnjih raziskav so pokazali, da sta pomembna dejavnika vpliva v tem pogledu velikost in panoga podjetja. Večja podjetja pogosteje poročajo o svoji družbeni odgovornosti (npr. Tagesson idr., 2009, Fortanier idr., 2011, Michelin idr., 2015, Kiliç idr., 2015), saj so opaznejša in bolj izpostavljena javnim pritiskom glede razkrivanja tovrstnih podatkov (Fortanier idr., 2011). Večja podjetja pogosteje razkrivajo te podatke tudi zaradi večjega števila deležnikov, za katere skrbijo, pa tudi ker imajo za to na razpolago več virov (zaposlenih, finančnih sredstev itd.). Po drugi strani se lahko manjša podjetja z deležniki sporazumevajo na bolj individualni ravni in zato ne potrebujejo poročil o družbeni odgovornosti. Pomemben dejavnik, ki vpliva na tovrstno poročanje, je lahko industrijski sektor ali panoga. V različnih industrijskih panogah so pomembni različni deležniki. Na podlagi tega so poročila o družbeni odgovornosti podjetij oblikovana tako, da zadovoljijo potrebe po informacijah, ki jih imajo posamezni deležniki, pa tudi kot orodja za upravljanje odnosov z deležniki. V več raziskavah je bilo ugotovljeno, da panoga vpliva na razkrivanje poročil o družbeni odgovornosti podjetij (Holder-Webb idr., 2009; Wanderley idr., 2008). Sweeney in Coughlan (2008) sta določila ključne deležnike za različne industrijske panoge (npr. stranke za telekomunikacijsko industrijo ter naravno okolje za avtomobilsko, naftno in plinsko industrijo) in ugotovila, da podjetja razkrivajo podatke v skladu s pričakovanji ključnih deležnikov. Gamerschlag idr. (2011) so poleg tega ugotovili, da podjetja iz najbolj »onesnaževalnih panog« pogosteje pripravljajo okoljska poročila, Tagesson idr. (2009) pa navajajo, da podjetja, ki se ukvarjajo z bazično industrijo, razkrivajo več podatkov o družbeno odgovornih dejavnostih kot druga podjetja. Zaradi prostovoljne narave poročil in množice različnih standardov se vsebina poročil o družbeni odgovornosti podjetij po sektorjih (npr. Bonsón in Bednárová, 2015) in državah (npr. Chen in Bouvain, 2009) zelo razlikuje (ni standardizirana). Vsebina tovrstnih poročil je lahko odvisna od deležnikov, ki jih podjetje določi kot pomembne in katerim so podatki v poročilu namenjeni. Za različna podjetja so pomembni različni deležniki, kar pomeni, da niso vsi deležniki enako pomembni za vsa podjetja. Pomembnejši je deležnik za podjetje, bolj se bo podjetje potrudilo za to, da bo z njim ohranilo dobre odnose (Pérez idr., 2017). Sweeney in Coughlan (2008) sta ugotovila, da v poročilih o družbeni odgovornosti podjetij prevladujejo vprašanja, povezana z zaposlenimi, strankami in okoljem. Za promocijo poročanja o družbeni odgovornosti podjetij so bile razvite različne globalne pobude, pri katerih lahko podjetja sodelujejo ali

izvajajo razvite smernice in standarde. Najpomembnejše med njimi so pobuda za globalno poročanje (angl. *Global Reporting Initiative, GRI*), United Nations Global Compact, standard ISO 26000, standard AccountAbility's AA1000, smernice OECD za multinacionalna podjetja in smernice Evropske komisije za nefinančno poročanje. Glede na razlike med temi smernicami ali načeli je upravičeno mogoče pričakovati tudi razlike med poročili o družbeni odgovornosti podjetij, pripravljenimi na njihovi podlagi. Razlogi za tovrstno poročanje so različni ter so lahko povezani z ekonomsko uspešnostjo, vodstvenimi značilnostmi, pritiski deležnikov in korporativnim državljanstvom. Kot ugotavljajo Thorne idr. (2014), podjetja najpogosteje navajajo razloge, povezane z zunanjimi pritiski deležnikov. Branco in Rodrigues (2008) sta denimo ugotovila, da podjetja pripravljajo tovrstna poročila zato, da upravičijo svoje vedenje pri deležnikih in da izboljšajo svoj ugled. Searcy in Buslovich (2014) sta razloge razdelila v tri skupine: »zunanje pritiske, notranje pritiske in priložnost širiti zgodbo podjetja«. Searcy in Buslovich (2014) sta poleg tega določila glavne izzive poročanja o družbeni odgovornosti podjetij; to so zbiranje podatkov, časovni pritiski in doseganje vsebinskega ravnotežja. Na podlagi vsega opisanega je avtorica disertacije določila tretjo skupino ciljev doktorske naloge: določitev značilnosti podjetij, ki prostovoljno poročajo (kdo poroča), analiza vsebine poročil o družbeni odgovornosti podjetij (o čem se poroča), proučitev razlogov za prostovoljno poročanje in določitev izzivov pri pripravi teh poročil (zakaj podjetja o tem prostovoljno poročajo).

Avtorica je značilnosti podjetij, ki prostovoljno poročajo, vsebino poročil in razloge za poročanje proučila na vzorcu 94 podjetij iz Hrvaške, Slovenije in Srbije, ki so se prostovoljno odločila za poročanje. Podatke je zbrala na podlagi analize vsebine in anketnega vprašalnika, dobljene podatke pa je analizirala z opisno statistiko. Na podlagi opravljenih raziskav je poskušala odgovoriti na vprašanja o tem, kdo razkriva tovrstna poročila in zakaj ter kaj se razkriva.

Izsledki so pokazali, da večja podjetja pogosteje razkrivajo poročila o družbeni odgovornosti. Taka podjetja lahko vplivajo na večjo skupino deležnikov in obratno, nanje lahko vpliva večja skupina deležnikov; to pomeni, da morajo upoštevati interese večjih skupin. V industrijskem sektorju so podjetja, ki se ukvarjajo s proizvodno dejavnostjo, tista, ki najpogosteje poročajo o družbeni odgovornosti. Z razkrivanjem tovrstnih poročil lahko podjetja upravičijo delovanje v okoljsko občutljivih sektorjih (Fernandez-Feijoo idr., 2014). Ker lahko proizvodni sektor vpliva na okolje, ga lahko obravnavamo kot okoljsko občutljivega. Analiza vsebine poročil je razkrila, da so zaposleni, stranke, družba (skupnost), naravno okolje in dobavitelji najpomembnejši deležniki za podjetja, saj se najpogosteje pojavljajo v poročilih o družbeni odgovornosti. Vsi ti deležniki so pomembni za podjetje in brez njihovega upoštevanja pri vodenju podjetja je lahko prihodnost podjetja vprašljiva. Analiza vsebine je prav tako pokazala, da vsebino poročil lahko določajo smernice in standardi, ki jih podjetja uporabljajo. Poročila, pripravljena na podlagi smernic GRI, so podrobnejša (vsebujejo podatke o večjem številu deležnikov) od poročil o napredku (angl. *Communications on Progress, CoPs*), pripravljenih v okviru sodelovanja na platformi

UN Global Compact. Kot navajata Tschopp in Nastanski (2014), bi lahko glede na široko uporabo smernic GRI po vsem svetu in tudi v državah, vključenih v to raziskavo, te smernice postale globalni standardi za poročanje o družbeni odgovornosti podjetij. Analiza je poleg tega pokazala, da so glavni razlogi za pripravo tovrstnih poročil vzpostavljanje zaupanja ter obveščanje deležnikov o ekonomski, družbeni in okoljski uspešnosti podjetja in doseženem napredku. Z razkritjem poročil o družbeni odgovornosti lahko podjetja izboljšajo odnose z deležniki, kar je pomembno za njihovo preživetje na trgu. Clarkson (1995) ugotavlja, da če je katera koli skupina primarnih deležnikov nezadovoljna ali se umakne iz podjetja, to lahko ogrozi njegovo preživetje. Da bi se podjetja temu izognila, morajo poskrbeti za to, da jim deležniki zaupajo. Drugi razlog je povezan s potrebo po razkritju dodatnih informacij in ne samo tistih, predstavljenih v računovodskih izkazih. Podjetja želijo, da so njihovi zaposleni, stranke in vsi drugi deležniki obveščeni o njihovi družbeni in okoljski uspešnosti ter doseženem napredku. Na močno konkurenčnih trgih so lahko tovrstni podatki zelo pomembni in omogočijo nove posle. Poleg tega lahko razkritje tovrstnih informacij pomaga pritegniti kakovostne zaposlene, kar je uporabno v primerih, ko imajo podjetja težave s pomanjkanjem delovne sile. Izsledki raziskave so pokazali, da je zbiranje podatkov (vključno s preverjanjem podatkov, s tem povezanimi stroški, pridobivanjem podatkov od različnih deležnikov itd.) najpogostejši izziv, s katerim se podjetja soočajo. Podatki o družbeni odgovornosti podjetij so večinoma nefinančni, zaradi česar jih je težje zbrati in analizirati. Za uspešno reševanje tega izziva so potrebni nadaljnji ukrepi, ki bi olajšali zbiranje podatkov o družbeni odgovornosti podjetij.

Izsledki opravljene analize so pokazali, da imajo podjetja interes za izvajanje družbeno odgovornih dejavnosti, saj vplivajo na njihovo finančno uspešnost. Za pravilno upravljanje tovrstnih dejavnosti bi bilo treba poročanje o družbeni dejavnosti podjetij standardizirati in ga narediti zakonsko obveznega, kar bi izboljšalo kakovost podatkov. Zakonsko obvezno poročanje postaja vse pogostejše, in to bi se moralo nadaljevati tudi v prihodnje. Smernice GRI se že zdaj na splošno uporabljajo kot glavni poročevalski standard, zato bi bile lahko podlaga za standardizacijo poročanja o družbeni odgovornosti podjetij. Poročevalske smernice bi morale biti poleg tega prilagojene potrebam malih in srednje velikih podjetij, saj so pomembna za nacionalna gospodarstva po vsem svetu. Na podlagi standardiziranih in obveznih podatkov o družbeni odgovornosti podjetij bi bilo lažje primerjati rezultate različnih podjetij in spremljati vplive družbene odgovornosti na njihovo finančno uspešnost.

Prispevek disertacije je večstranski. Prvič, pregled operacionalizacij in metod merjenja družbene odgovornosti podjetij ter njihove finančne uspešnosti je razkril, da imajo vse metode prednosti in slabosti, ki lahko vplivajo na določanje povezave med obema pojmom. Glavni težavi sta raziskovalčeva subjektivnost in pristranska izbira, kar bi lahko rešili z uzakonjenjem obveznega poročanja o družbeni odgovornosti podjetij in z njegovo standardizacijo. Drugič, raziskava dopolnjuje tekoče razprave o povezavi med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo. Na podlagi proučitve več različnih deležnikov je bilo ugotovljeno, da trenutne družbene odgovorne dejavnosti pozitivno

vplivajo na prihodnjo finančno uspešnost podjetij ter da pretekla finančna uspešnost podjetja ne vpliva na trenutne družbeno odgovorne dejavnosti. Hkrati je raziskava pokazala, da trenutna donosnost pozitivno vpliva na družbeno odgovornost podjetij. Pozitiven vpliv na donosnost je bil ugotovljen pri šest od sedem deležnikov (tj. zaposlenih, strankah, konkurenčnih podjetjih, družbi, nevladnih organizacijah, naravnem okolju in prihodnjih generacijah). Družbeno odgovorno poslovanje prispeva k splošni blaginji družbe, poleg tega pa se splača tudi samim podjetjem. Tretjič, raziskava je pokazala, da večja podjetja pogosteje razkrivajo poročila o družbeni odgovornosti, da se v teh poročilih večinoma pojavljajo transakcijski deležniki, da je ustvarjanje zaupanja pri deležnikih glavni razlog za razkrivanje teh poročil in da so glavne težave pri pripravi poročil povezane z zbiranjem podatkov.

V raziskovalni vzorec so bila vključena podjetja iz jugovzhodne Evrope, kjer povezava med družbeno odgovornostjo podjetij in njihovo finančno uspešnostjo ter poročanje o družbeni odgovornosti podjetij nista pogosti temi raziskav. Dodaten prispevek te raziskave je torej tudi proučitev omenjene povezave in praks poročanja o družbeni odgovornosti v državah na prehodu, ki še nimajo veliko izkušenj s kapitalizmom.

Appendix 2: Questionnaire for CSR data, stakeholder pressure and advertising intensity

1. Indicate the level of agreement/disagreement on bellow mentioned statements regarding employees (1 - I disagree fully, 5 - I agree fully):

- a) The employees in our company receive a reasonable salary to maintain an acceptable quality of life. **(EMP1)**
- b) Our company policies provide a safe and healthy working environment to all its employees. **(EMP2)**
- c) Our company supports employees who want to acquire additional education. **(EMP3)**
- d) Our company policies encourage the employees to develop their skills and careers. **(EMP4)**
- e) Our company implements flexible policies to provide good work & life balance for its employees. **(EMP5)**
- f) The management of our company is primarily concerned with employees' needs and wants. **(EMP6)**
- g) The managerial decisions related to the employees are usually fair. **(EMP7)**
- h) I believe that our company provides equal opportunities to all its employees. **(EMP8)**

2. Indicate the level of agreement/disagreement on bellow mentioned statements regarding customers (1 - I disagree fully, 5 - I agree fully):

- a) One of the main principles of our company is to provide high-quality products to its customers. **(CUS1)**
- b) Our products comply with the national and international standards. **(CUS2)**
- c) Our company provides full and accurate information about its products to its customers. **(CUS3)**
- d) Our company respects consumer rights beyond the legal requirements. **(CUS4)**
- e) Customers' satisfaction is highly important to our company. **(CUS5)**
- f) Our company is responsive to the complaints of its customers. **(CUS6)**

3. Indicate the level of agreement/disagreement on bellow mentioned statements regarding society (1 - I disagree fully, 5 - I agree fully):

- a) Our company is known as a respected and trustworthy company. **(SOC1)**
- b) Our company emphasizes the importance of its social responsibilities to the society. **(SOC2)**
- c) Our company contributes to schools, hospitals, and parks according to the needs of the society. **(SOC3)**
- d) Our company contributes to campaigns and projects that promote the well-being of the society. **(SOC4)**
- e) Our company endeavors to create employment opportunities. **(SOC5)**

4. Indicate the level of agreement/disagreement on bellow mentioned statements regarding competitors (1 - I disagree fully, 5 - I agree fully):

- a) Our company's main principle is honesty in every business dealing. **(COM1)**
- b) Our company cooperates with its competitors in social responsibility projects. **(COM2)**
- c) Our company competes with its rivals in an ethical framework. **(COM3)**
- d) Our company always avoids unfair competition. **(COM4)**

5. Indicate the level of agreement/disagreement on bellow mentioned statements regarding government (1 - I disagree fully, 5 - I agree fully):

- a) Our company always pays its taxes on a regular and continuing basis. **(GOV1)**
- b) Our company complies with legal regulations completely and promptly. **(GOV2)**
- c) Our company tries to help the government in solving social problems. **(GOV3)**
- d) Our company acts legally on all matters. **(GOV4)**

6. Indicate the level of agreement/disagreement on bellow mentioned statements regarding natural environment and future generations (1 - I disagree fully, 5 - I agree fully):

- a) Our company implements special programs to minimize its negative impact on the natural environment. **(NE&FG1)**
- b) Our company participates in activities which aim to protect and improve the quality of the natural environment. **(NE&FG2)**
- c) Our company has the necessary equipment to reduce its negative environmental impact. **(NE&FG3)**
- d) Our company makes well-planned investments to avoid environmental degradation. **(NE&FG4)**
- e) Our company targets sustainable growth which takes into consideration future generations. **(NE&FG5)**
- f) Our company makes investments to create better life for future generations. **(NE&FG6)**
- g) Our company makes investments to create employment opportunities for future generations. **(NE&FG7)**
- h) Our company conducts research & development projects to improve the well-being of society in the future. **(NE&FG8)**

7. Indicate the level of agreement/disagreement on bellow mentioned statements regarding NGOs (1 - I disagree fully, 5 - I agree fully):

- a) Our company makes sufficient monetary contributions to charities. **(NGO1)**
- b) Our company encourages its employees to participate in voluntarily activities. **(NGO2)**
- c) Our company supports nongovernmental organizations working in problematic areas. **(NGO3)**
- d) Our company considers every warning of nongovernmental organizations. **(NGO4)**

Source: Turker; 2009b

8. Please indicate the impact of stakeholder pressure on decision related to CSR management
(1 - no influence at all, 5 - very strong influence):

- a) Employees (**ST_P EMP**)
- b) Customers (**ST_P CUS**)
- c) Society (**ST_P SOC**)
- d) Government (**ST_P GOV**)
- e) Competitors (**ST_P COM**)
- f) NGOs (**ST_P NGO**)

Source: Buysse and Verbeke; 2003

9. Estimate the level of investments in advertising activities? (1 – very low, 5 – very high)

DEMOGRAPHIC DATA

- 10. Your current job position in the company?
- 11. Years of experience on the current job position?
- 12. The highest degree or level of school You completed?
- 13. Year of birth: _____
- 14. Sex: Female/Male
- 15. Company name: _____

Appendix 3: Sample correlation matrix

	EMP mean	CUS mean	SOC mean	COM mean	GOV mean	NEFG mean	NGO mean	ST_P EMP	ST_P CUS	ST_P SOC	ST_P GOV	ST_P COM	ST_P NGO	ln TA 2016	TA 2016	ROE 2015	ROE 2016	ROE 2017	LEV 2017	R&D 2017
EMP mean	1.00																			
CUS mean	0.59	1.00																		
SOC mean	0.71	0.62	1.00																	
COM mean	0.73	0.62	0.67	1.00																
GOV mean	0.51	0.54	0.53	0.60	1.00															
NEFG mean	0.67	0.59	0.70	0.69	0.63	1.00														
NGO mean	0.62	0.54	0.63	0.60	0.52	0.61	1.00													
ST_P EMP	0.65	0.50	0.60	0.52	0.38	0.51	0.60	1.00												
ST_P CUS	0.34	0.29	0.26	0.24	0.13	0.37	0.29	0.43	1.00											
ST_P SOC	0.40	0.34	0.44	0.35	0.28	0.50	0.44	0.55	0.55	1.00										
ST_P GOV	0.03	0.01	0.04	0.11	0.16	0.24	0.17	0.16	0.41	0.40	1.00									
ST_P COM	0.28	0.22	0.21	0.22	0.17	0.29	0.21	0.24	0.53	0.35	0.50	1.00								
ST_P NGO	0.35	0.27	0.27	0.24	0.24	0.34	0.58	0.51	0.33	0.47	0.24	0.29	1.00							
ln TA 2016	-0.12	-0.10	0.06	-0.17	-0.01	0.02	0.13	0.04	0.06	-0.06	0.06	-0.13	0.08	1.00						
TA_2016	-0.02	0.02	0.06	-0.07	-0.02	-0.03	0.19	0.11	0.14	0.06	0.12	0.12	0.13	0.60	1.00					
ROE 2015	0.10	0.00	0.02	0.09	0.08	0.03	0.03	-0.08	-0.07	-0.13	-0.27	-0.20	0.02	-0.04	0.03	1.00				
ROE 2016	0.06	-0.06	0.05	-0.03	0.00	-0.07	-0.06	-0.12	-0.07	-0.14	-0.20	-0.07	-0.06	-0.02	0.03	0.66	1.00			
ROE 2017	0.09	-0.01	0.09	-0.05	-0.02	0.01	0.00	-0.09	-0.03	0.03	-0.06	0.03	0.05	0.06	0.04	0.53	0.81	1.00		
LEV 2017	-0.03	-0.08	-0.15	0.00	-0.04	-0.13	-0.02	0.00	-0.04	-0.14	-0.10	-0.08	-0.08	-0.17	0.05	-0.18	-0.21	-0.58	1.00	
R&D 2017	-0.10	0.04	-0.09	-0.07	0.09	0.02	-0.11	-0.08	0.06	0.01	0.04	0.05	0.02	0.04	-0.03	0.03	0.03	0.03	-0.03	1.00
Abbreviations: EMP: employees, CUS: customers, SOC: society, COM: competitors, GOV: governments, NGOs: non-governmental organizations, NE: natural environment, FG: future generations; ROE: return on equity, ST_P: stakeholder pressure, TA: total asset, LEV: leverage, R&D: research and development (Innovativeness)																				

Appendix 4: Questionnaire for motives and challenges of CSR reporting

For purposes of this research CSR reporting, sustainability reporting, corporate citizenship reporting, non-financial reporting will be considered as synonymous, indicating reporting on environmental, social and/or sustainability issues.

In case company is preparing integrated report, please respond the following questions having in mind integrated report.

Communication on progress (COP), issued as a result of participating in UN Global Compact platform, is also considered as CSR report.

1. Please indicate the importance of the following reasons for issuing the CSR report in Your company? (1- not at all important, 5 – very important)

ECONOMIC REASONS

1. To improve efficiency and process management
2. To manage risk
3. To attract quality employees
4. To maintain satisfied employees
5. Positive effect on company's financial performance
6. To improve competitive advantage of company

MANAGERIAL CHARACTERISTICS

7. Top management commitment
8. Progressing vision and strategy

STAKEHOLDER PRESSURE

9. Inform stakeholders that the company has a policy of corporate transparency (management that has nothing to hide)
10. Signal to stakeholders that the company is interested in social responsibility
11. To respond on stakeholder pressure
12. To inform stakeholders about company's economic, social and environmental performance and progress made
13. To stay ahead of (potential) future regulatory requirements
14. To enhance relationships with stakeholders

CORPORATE CITIZENSHIP

15. To mitigate the effects associated with a company social responsibility disaster
16. To enhance reputation
17. To build trust
18. To have all social responsibility information in one place

Source: Thorne, Mahoney and Manetti (2014), GRI initiative, n.d, Deloitte, n.d., Idowu and Papasolomou, 2007, Branco and Rodrigues, 2008

2. If there were some other reasons for issuing CSR report, please indicate it bellow? (open question)

3. Please indicate the length (approximate number of pages) of last CSR report the company has issued?

4. When did the company issued the first CSR report? Please indicate the year?

5. Below are listed possible challenges company may face while preparing a CSR report. Based on experience in preparing the CSR reports, please indicate the level of significance of each challenge listed below (1- not at all significant, 5 – very significant)

1. The overlapping timelines for CSR report preparation with preparation of financial reports.
2. Additional resources (financial, human, organizational, ...) needed for CSR reports preparation.
3. Collection of data to be included in CSR reports (including data verification, associated costs, getting data from different stakeholders)
4. Defining content of the CSR report (limited report length and stakeholders covered)
5. Final approval of the CSR report (bad news for a company may be disclosed)
6. Measurement of CSR issues to be included in CSR reports.

Source: Searcy and Buslovich, 2014

6. If there were some other challenges company has faced while preparing CSR reports please indicate bellow? (Open question)

7. Did the company use some reporting standards/guidelines while preparing the CSR report? If Yes please indicate which ones? (Open question)

8. How many months does it take for the company to prepare CSR report (from the day when decision to prepare a CSR report is made)?

- a) less than 2 months
- b) 2- 3 months
- c) 3-5 months
- d) 5-7 months
- e) more than 7 months

9. Could You please estimate the overall cost (including costs of material, data collection, employees, report design, etc.) issuing the CSR report?

- a) under 2,000 EUR
- b) 2,000 EUR – 5,000 EUR
- c) 5,000 EUR – 7,000 EUR
- d) over 7,000 EUR

10. Based on experience in CSR reporting could You make some recommendations for companies that are currently not issuing one? (Open question)

DEMOGRAPHIC DATA

11. Your current job position in the company?

12. The highest degree or level of school You completed?

14. Year of birth: _____

16. Company name (optional): _____